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DATE: 5 February 2020

To: Members of the

PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Keith Onslow (Chairman)
Councillor Gareth Allatt (Vice-Chairman)
Councillors Simon Fawthrop, Simon Jeal, David Jefferys, Christopher Marlow and Gary Stevens

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **THURSDAY 13 FEBRUARY 2020 AT 7.00 PM**

Members of the Local Pension Board are also invited to attend this meeting

MARK BOWEN
Director of Corporate Services

Copies of the documents referred to below can be obtained from http://cds.bromley.gov.uk/

A G E N D A

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

2 DECLARATIONS OF INTEREST

3 QUESTIONS FROM MEMBERS OF THE PUBLIC

In accordance with the Council's Constitution, questions that are not specific to reports on the agenda must have been received in writing 10 working days before the date of the meeting - by 5pm on Thursday 30th January 2020.

Questions specifically relating to reports on the agenda should be received within two working days of the normal publication date of the agenda. Please ensure that questions specifically on reports on the agenda are received by the Democratic Services Team by **5pm on Friday 7th February 2020.**

4 MINUTES OF THE SPECIAL MEETING HELD ON 30TH JANUARY 2020

(To follow)

5 PENSION FUND PERFORMANCE Q3 2019/20 (Pages 3 - 28)

6 PENSION FUND INVESTMENT STRATEGY STATEMENT (Pages 29 - 78)

(Appendix 1 to follow)

7 PENSION FUND ASSET ALLOCATION STRATEGY REVIEW - FOLLOW UP REPORT (Pages 79 - 96)

8 LONDON COLLECTIVE INVESTMENT VEHICLE (CIV) - PENSION GUARANTEE AND PENSION RECHARGE ARRANGEMENTS (Pages 97 - 144)

9 UPDATES FROM THE CHAIRMAN AND/OR DIRECTOR OF FINANCE

10 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000

The Chairman to move that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

	Items of Business	Schedule 12A Description
11	**LONDON COLLECTIVE INVESTMENT VEHICLE (CIV) - PENSION GUARANTEE AND PENSION RECHARGE ARRANGEMENTS - APPENDIX C** (Pages 145 - 146)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
12	**UPDATES FROM THE CHAIRMAN AND/OR DIRECTOR OF FINANCE ON ANY EXEMPT MATTERS**	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

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Report No.
FSD20027

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker: **Pensions Investment Sub-Committee**

Date: **13th February 2020**

Decision Type: Non-Urgent Non-Executive Non-Key

Title: **PENSION FUND PERFORMANCE Q3 2019/20**

Contact Officer: Katherine Ball, Principal Accountant
Tel: 020 8313 4792 E-mail: Katherine.Ball@bromley.gov.uk

Chief Officer: Director of Finance

Ward: All

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1. Reason for report

1.1 This report provides a summary of the investment performance of Bromley's Pension Fund in the 3rd quarter of 2019/20. More detail on investment performance is provided in a separate report from the Fund's external advisers, MJ Hudson Allenbridge, which is attached as Appendix 5. The report also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

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2. RECOMMENDATION

2.1 The Pensions Investment Sub-Committee is asked to:

(a) note the contents of the report.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,141m total fund market value at 31st December 2019)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), LGPS (Management and Investment of Funds) Regulations 2016

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,140 current employees; 5,852 pensioners; 5,576 deferred pensioners as at 31st December 2019.

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 Fund Value

3.1.1 The market value of the Fund ended the December quarter at £1,141.3m, up from £1,117.7m as at 30th September. The comparable value as at 31st December 2018 was £963.7m. Historic data on the value of the Fund are shown in a table and in graphical form in Appendix 1.

3.2 Performance Targets and Investment Strategy

3.2.1 Historically, the Fund's investment strategy was broadly based on a high level 80%/ 20% split between growth-seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). Between 1998 and 2012 Baillie Gifford and Fidelity managed balanced mandates along these lines and a comprehensive review of the Fund's investment strategy in 2012 confirmed this high-level strategy. It concluded that the growth element would, in future, comprise a 10% allocation to Diversified Growth Funds (DGFs) and a 70% allocation to global equities with a 20% protection element remaining in place for investment in corporate bonds and gilts.

3.2.2 The asset allocation strategy was reviewed again during 2016/17, mainly to address the projected cash flow shortfall in future years, and a revised strategy was agreed on 16th May 2017. The revised strategy introduced allocations to Multi Asset Income Funds (20%) and Property Funds (5%), removed Diversified Growth Funds, and reduced the allocations to Global Equities (to 60%) and Fixed Income (to 15%). In order to implement the revised strategy, it was agreed to sell all of the Diversified Growth Funds and the Blackrock Global Equities assets.

3.2.3 At the meetings on 21st November and 14th December 2017 the Sub-Committee appointed Schroders (60%) and Fidelity (40%) to manage the MAI fund mandates and Fidelity to manage a UK pooled property fund mandate. The Fidelity MAI and initial drawdown of the property fund were completed in February 2018 and the Schroders MAI investment completed in May 2018. A further drawdown of the Fidelity property fund was completed in August 2018. The final drawdown of the Fidelity property was completed in December 2018. The sale of the balance of the Blackrock fund was completed in May 2019 and transferred to Fidelity's MAI Fund, as agreed at this Committee on 15th May 2019.

3.2.4 The asset allocation strategy was reviewed again during 2019/20, and a revised strategy is currently being finalised. The revised strategy has amended the allocations as follows: Equities (58%), Multi Asset Income Funds (20%), Fixed Income (13%), UK Real Estate (4%) and International Property or US Property (TBC at this meeting) (5%).

3.3 Summary of Fund Performance

3.3.1 Performance data for 2019/20 (short-term)

A detailed report on fund manager performance in the quarter ended 31st December 2019 is provided by the fund's external adviser, MJ Hudson Allenbridge, in Appendix 5. The total fund return for the third quarter was +2.3% against the benchmark of +0.76%. Further details of individual fund manager performance against their benchmarks for the quarter, year to date, 1, 3 and 5 years and since inception are provided in Appendix 2.

3.3.2 Medium and long-term performance data

The Fund's medium and long-term returns have remained very strong overall, with returns of 8.0% for 2018/19 and 6.7% for 2017/18 against the benchmark of 8.3% and 3.1% respectively.

The overall Fund ranked eleventh against the 64 funds in the PIRC LGPS universe for the year to 31st March 2019, first over 3 years, second over 5 years and first over 10, 20 and 30 years.

The following table shows the Fund's long-term rankings in all financial years back to 2005/06 and shows the medium to long-term returns for periods ended 31st March. The medium to long-term results have been good and have underlined the fact that the Fund's performance has been consistently strong over a long period.

Year	Whole Fund Return	Benchmark Return	Local Authority Average*	Whole Fund Ranking*
	%	%	%	
Financial year figures				
2018/19	***8.0***	***8.3***	***6.6***	***11***
2017/18	6.7	3.1	4.5	3
2016/17	26.8	24.6	21.4	1
2015/16	0.1	0.5	0.2	39
2014/15	18.5	16.4	13.2	7
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4
3 year ave to 31/3/19	***13.5***	***11.6***	***10.5***	***1***
2015/16	10.6	8.9	8.3	1
2014/15	14.6	13.4	11.2	1
2013/14	8.4	7.5	6.4	6
2012/13	14.2	12.1	11.1	5
2011/12	2.2	2.0	2.6	74
2010/11	9.0	8.0	8.2	22
5 year ave to 31/3/19	***11.6***	***10.3***	***8.8***	***2***
2013/14	11.5	9.8	8.8	2
2012/13	13.6	12.0	10.7	1
2011/12	8.8	7.6	7.1	6
2010/11	10.7	9.2	8.8	11
2009/10	48.7	41.0	35.2	2
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
10 year ave to 31/3/19	***13.7***	***n/a***	***10.7***	***1***
20 year ave to 31/3/19	***7.9***	***n/a***	***6.4***	***1***
30 year ave to 31/3/19	***9.2***	***n/a***	***8.4***	***1***

*The most recent LA averages and ranking as at 31/03/19 are based on the PIRC LA universe containing 64 of the 89 funds.

3.3.3 In addition to winning the LGPS Investment Performance of the Year in 2017, the LGPS Fund of the Year (assets under £2.5bn) in 2018, Bromley also recently won the Pensions, Treasury and Asset Management Award at CIPFA's Public Finance Awards 2019, recognising the consistent high performance of the Fund as well as top decile performance in treasury management.

3.3.4 Performance Measurement Service

As previously reported in April 2016, the Council was informed that WM Company (State Street) would cease providing performance measurement services to clients to whom they do

not act as custodian with effect from June 2016. There are currently no providers offering a like for like service so the Council is using its main custodian, BNY Mellon, to provide performance measurement information and the 3rd quarter summary of manager performance is provided at Appendix 2. PIRC currently provide LA universe comparator data and, at the time of writing, has 64 of the 89 LGPS funds (72%) signed up to the service including the London Borough of Bromley.

3.4 Early Retirements

3.4.1 Details of early retirements by employees in the Fund are shown in Appendix 3.

3.5 Admission agreements for outsourced services

3.5.1 As reported to this Sub-Committee in January 2019, Mytime Active ceased to be an admission body on 31st March 2019, at which point it had 4 active members remaining in the scheme. The cessation debt and deficit repayment plan are still being finalised and will be agreed by the Director of Finance, in consultation with the Chairman of this Sub-Committee and the Chairman of General Purposes & Licensing Committee under delegated authority from General Purposes & Licensing Committee. Final details will be reported to a later meeting of this Sub-Committee.

3.5.2 The final transfer payment for GS Plus is still being considered by the Actuaries and an update will be provided to this Sub-Committee once this has been finalised.

3.5.3 There are currently three admission agreements being arranged relating to Academies that have outsourced services, and one in relation to Liberata, but these have not yet been finalised. There are also ongoing discussions regarding a possible admission agreement following the transfer of the Council's adoption service to Coram.

3.5.4 The admission agreement in relation to the Spring Partnership Trust outsourcing cleaning services to Ecocleen has been finalised. There are no other updates at this point but the position will continue to be monitored and updates provided to future meetings.

3.6 Fund Manager attendance at meetings

3.6.1 Meeting dates have been set for 2019/20, with MFS having been postponed from attending this meeting. Whilst Members reserve the right to request attendance at any time if any specific issues arise, the order of attendance for subsequent meetings is as follows (dates to be confirmed):

- MFS (global equities)
- Baillie Gifford (global equities and fixed income)
- Fidelity (fixed income, multi-asset income and property)
- Schroders (multi-asset income)

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc., and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 Details of the final outturn for the 2018/19 Pension Fund Revenue Account and the position after the third quarter of 2019/20 are provided in Appendix 4 together with fund membership numbers. A net surplus of £12.1m occurred during 2018/19 and total membership numbers rose by 512. In the first three quarters of 2019/20, a net surplus of £13.3m has arisen, and membership numbers increased by 136.

5.2 It should be noted that the net surplus of £12.1m in 2018/19 includes investment income of £10.3m which was re-invested in the funds so, in cashflow terms, there would have been a £1.7m cash surplus for the year. Similarly, the £13.3m surplus in the three quarters of 2019/20 would be a cash surplus of £3.5m excluding reinvested income.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended). The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Monthly and quarterly portfolio reports of Baillie Gifford, Blackrock, Fidelity, MFS and Schroders.

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford					Fidelity					Blackrock	MFS	Standard Life	Schroders	CAAM	
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Total	Global Equities	Global Equities	DGF	MAI	LDI Investment	**GRAND TOTAL**
	£m	£m	£m	£m	£m	£m	£m			£m	£m	£m	£m	£m	£m	£m
31/03/2002	113.3				113.3	112.9				112.9						226.2
31/03/2003	90.2				90.2	90.1				90.1						180.3
31/03/2004	113.1				113.1	112.9				112.9						226.0
31/03/2005	128.5				128.5	126.7				126.7						255.2
31/03/2006	172.2				172.2	164.1				164.1						336.3
31/03/2007	156.0				156.0	150.1				150.1					43.5	349.6
31/03/2008	162.0				162.0	151.3				151.3					44.0	357.3
31/03/2009	154.4				154.4	143.0				143.0						297.4
31/03/2010	235.4				235.4	210.9				210.9						446.3
31/03/2011	262.6				262.6	227.0				227.0						489.6
31/03/2012	269.7				269.7	229.6				229.6						499.3
31/03/2013#	315.3	26.5			341.8	215.4				215.4			26.1			583.3
31/03/2014@	15.1	26.8	45.2	207.8	294.9		58.4			58.4	122.1	123.1	27.0			625.5
31/03/2015		45.5	51.6	248.2	345.3		66.6			66.6	150.5	150.8	29.7			742.9
31/03/2016		44.8	51.8	247.9	344.5		67.4			67.4	145.5	159.2	28.3			744.9
31/03/2017		49.3	56.8	335.3	441.4		74.3			74.3	193.2	206.4	28.5			943.8
31/03/2018$&			58.0	380.0	438.0		75.6	79.2	15.9	170.7	155.2	206.8				970.7
31/03/2019£^*			59.2	416.5	475.7		78.7	78.8	48.6	206.1	11.4	230.2		115.8		1,039.2
30/06/2019"			60.6	448.2	508.8		80.6	92.5	48.2	221.3	0	247.3		116.6		1,094.0
30/09/2019			63.1	451.3	514.4		84.4	93.4	48.2	226.0	0	261.0		116.3		1,117.7
31/12/2019			62.5	474.9	537.4		82.8	92.8	47.7	223.3	0	262.0		118.6		1,141.3

£50m Fidelity equities sold in Dec 2012 to fund Standard Life and Baillie Gifford DGF allocations.

@ Assets sold by Fidelity (£170m) and Baillie Gifford (£70m) in Dec 2013 to fund MFS and Blackrock global equities.

$ £32m Blackrock global equities sold in July 2017 to pay group transfer value re Bromley College.

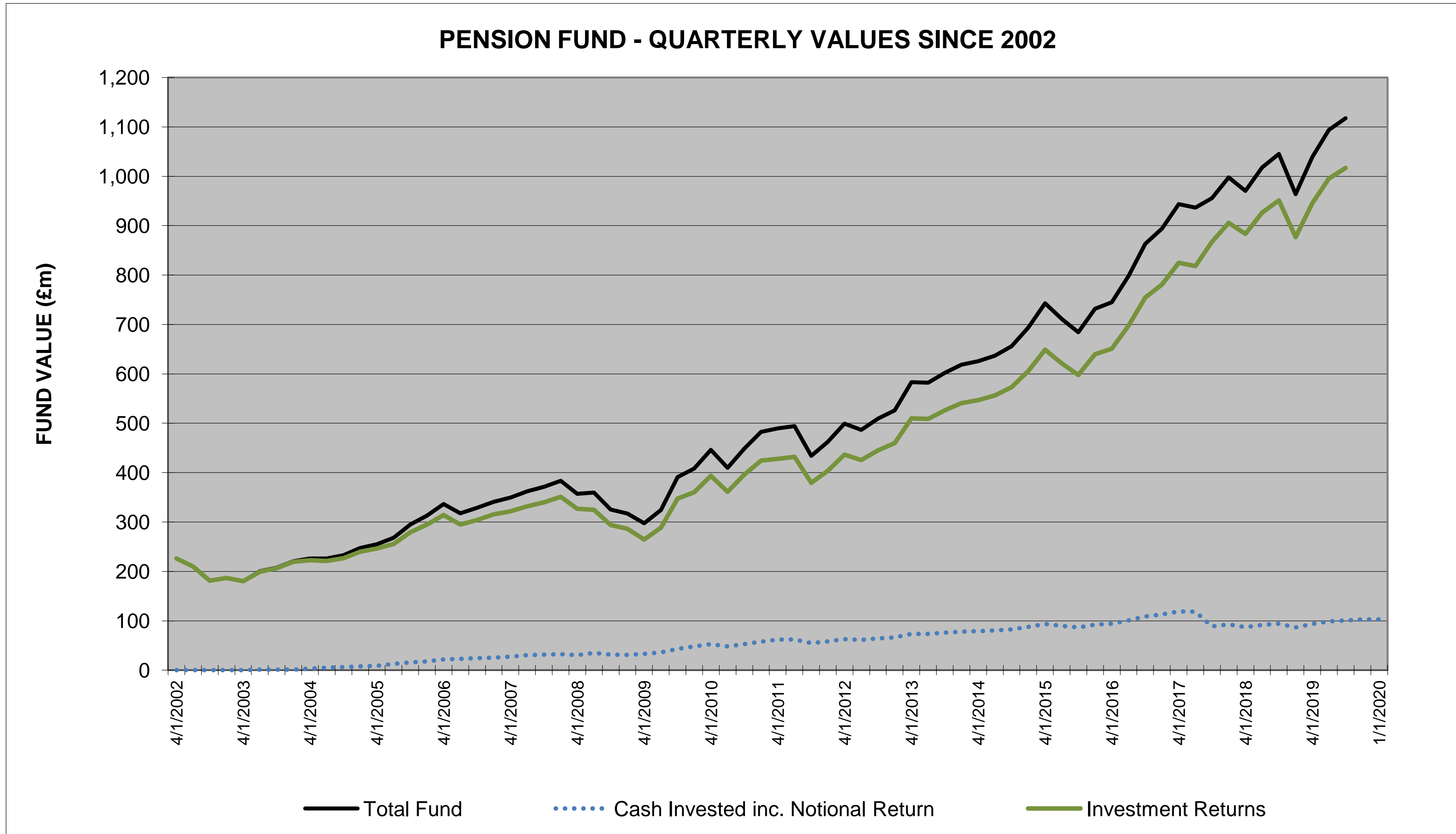
& Assets sold by Baillie Gifford (£51m), Standard Life (£29m) and Blackrock (£19m) in Feb 2018 to fund Fidelity MAI and Property funds.

£ Assets sold by Blackrock (£120m) in May 2018 to fund Schroder MAI fund.

^ Assets sold by Blackrock (£20m) in August 2018 to fund Fidelity Property fund.

* Assets sold by Blackrock (£13.7m) in December 2018 to fund Fidelity Property fund.

" Assets sold by Blackrock (£11.6m) in May 2019 to fund Fidelity MAI.


PENSION FUND - QUARTERLY VALUES SINCE 2002
FUND VALUE (£m)
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
0
4/1/2002
4/1/2003
4/1/2004
4/1/2005
4/1/2006
4/1/2007
4/1/2008
4/1/2009
4/1/2010
4/1/2011
4/1/2012
4/1/2013
4/1/2014
4/1/2015
4/1/2016
4/1/2017
4/1/2018
4/1/2019
1/1/2020
Total Fund
Cash Invested inc. Notional Return
Investment Returns

PENSION FUND MANAGER PERFORMANCE TO DECEMBER 2019

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	1.83	5.16	13.91	28.61	15.30	15.86	8.99
Benchmark	1.12	1.46	11.47	22.38	10.45	12.61	7.93
Excess Return	0.71	3.71	2.44	6.22	4.85	3.26	1.05
Baillie Gifford Fixed Income	-0.27	-1.24	5.50	9.54	3.92	4.35	5.71
Benchmark	-0.50	-2.11	4.61	8.39	3.65	4.41	5.55
Excess Return	0.23	0.87	0.89	1.15	0.27	-0.07	0.17
Fidelity Fixed Income	-0.79	-1.81	5.36	9.34	4.51	5.24	6.61
Benchmark	-0.82	-2.46	4.25	8.22	3.57	4.31	5.77
Excess Return	0.04	0.65	1.11	1.13	0.93	0.93	0.83
Fidelity MAI	1.14	0.78	6.26	11.00			4.61
Benchmark	0.37	1.12	3.40	4.57			4.50
Excess Return	0.77	-0.34	2.86	6.43			0.11
Fidelity Property	0.35	0.54	2.01	2.23			2.05
Benchmark	0.30	0.49	2.57	2.93			3.98
Excess Return	0.05	0.05	-0.56	-0.70			-1.93
MFS Global Equity	0.61	0.35	13.85	24.88	10.05	13.45	13.66
Benchmark	1.08	1.35	11.01	21.71	9.86	12.00	11.97
Excess Return	-0.47	-1.00	2.84	3.16	0.18	1.45	1.69
Schroder MAI	1.66	2.38	4.87	10.08			3.18
Benchmark	0.41	1.23	3.73	5.00			5.00
Excess Return	1.25	1.15	1.14	5.08			-1.82
Total Fund	1.10	2.30	10.56	20.16	10.43	11.63	8.98
Benchmark	0.65	0.76	8.30	15.45	8.09	9.93	
Excess Return	0.45	1.54	2.26	4.71	2.34	1.70	
PIRC Universe Average *		0.50	n/a	13.2	7.30	8.9	n/a

N.B. returns may differ to fund manager reports due to different valuation/return calculation methods
* the PIRC Local Authority Universe is currently comprised of 64 Funds

Appendix 3

EARLY RETIREMENTS

A summary of early retirements and early release of pension on redundancy by employees in Bromley's Pension Fund in the current year and in previous years is shown in the table below. With regard to retirements on ill-health grounds, this allows a comparison to be made between their actual cost and the cost assumed by the actuary in the triennial valuation. If the actual cost of ill-health retirements significantly exceeds the assumed cost, the actuary will be required to consider whether the employer's contribution rate should be reviewed in advance of the next full valuation. In the last valuation of the Fund (as at 31st March 2016) the actuary assumed a figure of 1.2% of pay (approx. £1.2m p.a from 2017/18) compared to £1m in the 2013 valuation and £82k p.a. in the 2010 valuation. In 2015/16 there were nine ill-health retirements with a long-term cost of £1,126k, in 2016/17 there were six with a long-term cost of £235k, in 2017/18 there were five with a long-term cost of £537k and in 2018/19 there were five with a long-term cost of £698k. Provision has been made in the Council's budget for these costs and contributions have been and will be made to reimburse the Pension Fund as result of which the level of costs will have no impact on the employer contribution rate.

The actuary does not make any allowance for other (non-ill-health) early retirements or early release of pension, however, because it is the Council's policy to fund these in full by additional voluntary contributions. In 2015/16 there were 14 non ill-health retirements with a total long-term cost of £734k, in 2016/17 there were 22 with a total cost of £574k, in 2017/18 there were ten with a long-term cost of £245k, and in 2018/19 there were eight with a long-term cost of £392k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been and will be made to the Pension Fund to offset these costs. The costs of non-LBB early retirements are recovered from the relevant employers.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Apr 19 - Dec 19 - LBB	-	-	6	283
- Other	2	54	6	101
- Total	2	54	12	384
Actuary's assumption - 2016 to 2019		1,200 p.a.		N/a
- 2013 to 2016		1,000 p.a.		N/a
- 2010 to 2013		82 p.a.		N/a
Previous years – 2018/19	5	698	8	392
– 2017/18	5	537	10	245
– 2016/17	6	235	22	574
– 2015/16	9	1,126	14	734
– 2014/15	7	452	19	272
– 2013/14	6	330	26	548
– 2012/13	2	235	45	980
- 2011/12	6	500	58	1,194

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2018/19 £'000	Estimate 2019/20 £'000	Actuals to 31/12/19 £'000
INCOME			
Employee Contributions	6,604	6,800	5,024
Employer Contributions			
- Normal	22,406	22,900	15,238
- Past-deficit	2,578	2,600	2,020
Transfer Values Receivable	2,655	2,700	4,072
Investment Income			
- Re-invested	10,337	10,500	9,743
- Distributed to Fund	10,290	11,300	7,556
Total Income	54,870	56,800	43,653
EXPENDITURE			
Pensions	27,531	28,200	21,792
Lump Sums	6,590	6,700	4,173
Transfer Values Paid	3,616	3,600	2,428
Administration			
- Manager fees	3,807	3,900	1,154
- Other (incl. pooling costs)	1,111	1,200	746
Refund of Contributions	152	300	83
Total Expenditure	42,807	43,900	30,376
Surplus/Deficit (-)	12,063	12,900	13,277

MEMBERSHIP	**31/03/2019**	**31/12/2019**
Employees	6,316	6,140
Pensioners	5,370	5,576
Deferred Pensioners	5,746	5,852
	17,432	17,568

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MJ HUDSON
Allenbridge

London Borough of Bromley

Quarterly Report

Q4 2019

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Performance Summary

It was only 12 months ago that we ended 2018 with a very poor investment market. All risk assets fell in Q4 2018 with global equities down 13.5% and the only positive contribution coming from Government Bonds and Gold. At the end of 2018 central banks, led by the US Federal Reserve (US Fed), responded to the poor market conditions and weakening economic data by softening their rhetoric and reverting to a more accommodative monetary policy. The US Fed eventually cut rates three times in 2019 starting in Q3. The result has been a much more benign 2019 than was forecast at the start of that year with all risk assets producing strongly positive returns. Global equity markets rose 28% in local currency led by the US market, with returns only slightly less in sterling terms due to a partial recovery in the UK currency as some daylight was shed on the BREXIT process by the general election. Government Bonds returned high single digit figures as loose monetary conditions pushed bond yields down and all forms of credit also produced strongly positive returns. It has been a year when it was difficult to lose money!

With inflation continuing to surprise on the downside, what we have learnt from the past year is that whilst central banks would like to be able to raise interest rates into a recovering economy, they will revert to a more accommodative stance at the first signs of market nervousness. This means that, with inflation remaining subdued, central banks are increasingly taking their lead from markets.

With central banks, led by the US Fed, underpinning markets, we expect 2020 to provide a lower return than 2019 but again be a benign investment market with much noise, particularly political, and some volatility but outright recessions and market collapses do not seem to be on the cards at present.

Nonetheless, we must be towards the end of a prolonged economic cycle globally, political rhetoric and disharmony are at levels not seen since the 1960's, liquidity in investment markets has deteriorated and climate change and environmental issues look set to affect all aspects of life going forward. They say 'bull' markets climb a wall of worry and this one certainly fits that description.

In the last investment report, I questioned whether the economic slowdown being experienced at that time was a) a mid-cycle adjustment; b) a longer-term stagnation or c) the onset of a recession? During the fourth quarter we saw the effect of the three US rate cuts and other central banks' easing policies begin to take effect and the economic data stabilised and showed some minor signs of improvement. This was helped by the initial stages of a resolution to the US- China trade disputes and the UK Election result lifting some of the uncertainty over BREXIT (temporarily).

This minor economic improvement resulted in a sell-off in Government bonds in Q4 across the developed world as investors took on more investment risk given the more stable economic outlook, but the sell-off was minor and higher yielding bonds still produced positive returns for the period.

The Fund finished the quarter with a valuation of £1.141bn a rise of 2.3% over the quarter. This was above the rise in the total Fund benchmark which returned 0.8% over the quarter. The outperformance was driven by Baillie Gifford in their global equity portfolio where they added 1.5% at the total Fund level through their strong performance relative to the index. The rise at the total Fund level may appear muted given the strong investment returns at the asset class level in local currencies was much of this performance was offset by a strong Sterling, driven by some momentary clarity over the Brexit process. Over the last year the Fund has returned an exceptional 20.2%, 4.7% above the index. This has been driven by three factors

- The strong performance of the underlying asset managers in Bonds and Equities
- The strong performance of asset markets in general which allows the Multi Asset Income funds to deliver a strong return against their cash plus benchmarks
- The tactical decision to be overweight Equities against the Strategic Asset Allocation

The Fund has still returned a very impressive 9% per annum over the last 32 years and as yet this shows no sign of slowing with the Fund's one-year return at 20.2%% and five year return 11.6% per annum. The Fund continues to show a strong relative outperformance of its benchmark over all longer time periods.

ASSET ALLOCATION

With the strong performance by the Baillie Gifford global equity portfolio over the quarter, the exposure to equities has risen further

Asset Class	Fund weight (30/6/19)	Strategic B/M weight	Difference
Equities	64.6%	60%	+4.6%
Fixed Interest	12.7%	15%	-2.3%
Property	4.2%	5%	-0.8%
Multi Asset Income	18.5%	20%	-1.5%

Percentage figures may not add up due to rounding.

My recommendation is to rebalance back to the Strategic Asset Allocation as part of the Strategic Asset Allocation Review currently being undertaken by MJ Hudson.

Executive Summary

- Overall, 2019 was a much stronger performance year for most asset classes than 2018, as the significant volatility that weighed heavily on returns in Q4 2018 dissipated early in the year and markets subsequently remained buoyant.
- Whilst the US Fed cut rates for the third time in the year by 25bps in October, none of the other major central banks followed suit, nor did the US Fed have much appetite for further cuts in 2019 or 2020 with an expressed unwillingness to cut rates further given the current economic outlook. Central bank policies may diverge during the next year, as loose monetary policy remains key for the European Central Bank (ECB) and the Bank of Japan (BoJ) whilst the data in the US remains more balanced.
- During the quarter, US stock market performance was buoyed by better than expected economic data and strengthening indications that an initial trade deal with China would be secured soon. Towards the end of the quarter, this culminated with official confirmation from both countries that a deal would be signed in mid-January albeit this was more about avoiding further escalation than a real rolling back of current tariffs. The S&P 500 ended the quarter up 9.1%, bringing year to date returns to an impressive 31.5%.
- UK stock market performance was modestly positive in Q4 with the FTSE All-Share gaining 4.2%. This subdued performance (in comparison to other equities indices) came as no-deal Brexit uncertainty fluctuated upon Boris Johnson's attempt at a new withdrawal deal and his decisive election win in mid-December. Even though UK indices rose mildly over the quarter, the returns for the whole of 2019 were still solid at 19.1% for the FTSE All-Share.

- European stocks also produced modest gains over the quarter, held down by geopolitical concerns, including the US-China trade tensions, Brexit and unstable governments in Italy and Spain. The Euro STOXX 50 index gained 5.2% over Q4.
- Emerging markets fared well compared to other markets in Q4, although performance was slightly more muted on a year-to-date basis, as US-China trade tensions and civil unrest dragged down returns. These were counter-balanced by a generally improving outlook, the announcement of an initial trade deal to be signed by the US and China and a weakening dollar. The MSCI Emerging Markets Index was up 11.7% for Q4.
- Volatility dropped over the course of Q4, due to a more benign market environment, with the VIX index, which is a measure of stock market volatility, declining to 13.8 from 16.2 in Q3. This is at the low end of longer-term data.
- With the US Fed cutting rates and all developed world central banks in dovish mood, the scope for a gentle economic reacceleration increased leading government bond yields to rebound, as investors increased their risk appetite. US Treasuries held their value best of all government bonds, with a loss of -0.8% cumulative total return over Q4. UK Gilts were the worst performing developed world government bonds and returned -4.2% with UK index linked bonds falling by -9.4% over the period. These falls underline how sensitive all government bond yields are to any sign of improvement in economic fundamentals.
- The higher yield available further down the credit curve enabled High Yield Credit to withstand the pull back with US Corporate High Yield bonds returning 2.6% over the quarter.
- Sterling experienced a strong final quarter, as investor fears of a no-deal Brexit and a Corbyn government faded with the results of the general election, although Brexit remains the core influence on Sterling. Sterling rose in value against the Euro by 4.9% in Q4 and against the dollar by 7.9%. This will have negated much of the return from international equities for an unhedged portfolio.
- The Dollar weakened in Q4, with the Dollar Spot Index falling by -3.0%. This was due to a combination of US Central Bank policy, the unfolding of the trade war and muted domestic economic data. Of the major free-floating currencies, only the Japanese Yen was down against the Dollar in Q4, as investors with an increased risk appetite left the safe-haven currency in favour of other currencies.
- For the first time in the past 12 months, the UK property market saw a rise in house prices of over 1%. The average house price rose to £215,282, representing an increase from last quarter of 1.4% on a seasonally adjusted basis. Meanwhile, commercial property prices only increased by 1.0% over the last quarter, with office values remaining flat.
- Commodity markets generally fared well in Q4, with some notable exceptions. Soft commodities performed well all around and metals (gold, copper, silver and palladium) all performed strongly. Energy saw mixed performance, with Brent prices up 8.6%, contrasting with a fall in the price of natural gas of -6.1%.

Global Outlook

As we consider markets for 2020, we recall how the past year has been a record year for risk assets, and, in particular, the US equity market which stood out by reaching all-time highs and delivered returns which will be hard to match in the coming year.

However, we remain constructive on markets for the current year as we expect modest economic growth and do not currently anticipate a US recession, a global recession or a major macro-economic shock, although, by its nature, the latter tends to arrive with little warning. Political uncertainty will continue, with the backdrop of the upcoming 2020 US election, so we expect volatility to be more elevated in the coming year. Investor positioning continues to be driven by a desire to mitigate risk yet achieve high returns resulting in a somewhat bar-bell approach to investing with record inflows in passive investments but also into more complex alternatives and illiquid private markets. We expect continued growth in alternative investments going forward.

We are constructive on equities. Whilst US valuations are high, we expect Equities to outperform Bonds as moderate economic growth continues. Exposure to defensive stocks, in particular, will be beneficial in the late-cycle environment. Emerging markets equities should continue to benefit from easy monetary policy, especially as the US Dollar is less likely to strengthen as interest rate differentials have been reduced by the recent US rate cuts.

We expect monetary policy to continue to be accommodative, although the scale of central bank interventions may be reduced. The US Fed is unlikely to cut rates further unless economic data deteriorates sharply but will stay 'lower for longer', as other central banks (ECB and BoJ) should continue in their current easing mode. We would hope to see central banks, particularly in Europe where they have more limited monetary firepower, adopt greater fiscal stimulus to accompany the monetary stimulus. The theme of monetary and fiscal combination is likely to become more prominent over the coming year. This may help support markets and delay a recession. In particular, Mme Lagarde has started her presidency of the ECB by pressing governments to loosen fiscal policy. This may take some time to feed through. In the eurozone, ECB actions are likely to benefit peripheral European countries. In terms of impact on currencies, FX volatility is expected to be lower within Europe due to the reduced policy and economic divergence across the region.

The trade war between US and China will continue to effect macro-economic growth. We expect the rhetoric to continue on both sides, with the eventual trade deal being negotiated in phases. Despite the delays the long-term prospects for a successful US-China deal have improved. A second trade thread is likely to be around the taxation of internet and technology companies, the majority of whom are US domiciled. The requirement is for a global agreement on how to tax these entities but with most global institutions under threat and this US administration adopting a self-centred approach in many policy areas, such agreement appears unlikely and the use of trade tariffs to coerce 'opponents' remains a possible outcome.

It is therefore likely that geopolitical risks will remain high and, by focusing on trade, do have the ability to directly influence the outlook for the global economy and hence be disruptive for markets. This may be the 'new normal'. The tensions between the US and Iran may add volatility to markets, particularly oil markets and, unfortunately, an escalation here may suit Trump's re-election hopes in the short term. However, as some commentators have noted, as much as the potential for escalation, there is perhaps a greater chance for peace going forward.

The substantial liquidity injections into money markets (repo markets) conducted by the US Fed through the latter half of 2019 are likely to continue to provide some shorter-term support to markets; however, the need for intervention is also indicative of deeper liquidity issues. We expect more consequences of these liquidity problems going forward and this remains an area of concern.

In terms of political outlook, in the near-term, the ongoing impeachment process of the US President could add uncertainty to markets, as the many twists and turns during the House investigation process, could find an echo in the trial in the Senate. The timelines for the trial are more likely to be more extended given the rhetoric on both sides. It is less the impeachment process which will impact markets but the President's response and his desire to be re-elected for a second term which will be more influential in market sentiment.

Following the clear mandate in the UK election the risks on the path to Brexit have reduced from the turmoil of the previous year. We expect continued uncertainty on the prospects for trade deals, however, with limited clear sight of the future trading relationship with the EU at the current time, although the path to a deal with the US may become easier. Providing talks with the EU remain constructive we would expect that Sterling will rally further over the course of the year but longer-term prospects are as unclear as the country's future trading relationships at present.

Performance report

Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£475m Segregated Fund; 41.6% of the Fund
Benchmark/ Target	MSCI All Countries World Index +2-3% p.a over a rolling 5 years
Adviser opinion	Manager continues to meet their performance target
Last meeting with manager	No meeting this quarter
Fees	0.65% on first £30m; 0.5% on next £30m; 0.35% thereafter

The portfolio finished off the year with a flourish returning 5.2% over the fourth quarter against 1.5% for the index. This took the one-year return to an exceptional 28.6% which is an equally exceptional 6.2% ahead of the index return. The portfolio has outperformed its benchmark by 3.3% over 5 years which is ahead of its performance target and by 1.1% since inception in December 1999. Importantly, the portfolio continues to have a high Active Share which means it deviates significantly from the benchmark index. It also shows low turnover, with an average holding period of 7 years or more for each investment.

It is this long-term focus and belief in building a relationship with the companies they invest in through the thorough analysis of each business that is a core part of their investment process. Because they know each company well and are highly likely to be invested over the long-term they are in a position to aid corporate management to make long term decisions and invest in the future of the business rather than just achieving the next quarterly earnings report. This long-term commitment also means they are in a position to have meaningful conversations with management about the way they invest and their impact on the environment, society and the wider group of stake-holders in the business. It is obviously in the Fund's interests for its asset managers to act in this way.

The performance of this portfolio since the Global Financial Crisis in 2008/9 has been quite remarkable. However, whilst I have a very high regard for the manager and the investment philosophy and process behind this portfolio, I would note that, with interest rates falling over this period and the world moving to a slower pace of economic growth, investors have increasingly put a premium on stocks which can continue to deliver growth in this environment which has played to Baillie Gifford's strengths. I continue to back this manager to deliver strong returns into the future but do see this recent strong performance as exceptional.

Asset Class/ Manager	**Global Equities/MFS**
Fund AuM	£262m Segregated Fund; 23.0% of the Fund
Benchmark/ Target	MSCI World Index
Adviser opinion	
Last meeting with manager	23/1/20 Daniel Blass; David Holding/ John Arthur
Fees	0.6% on first £25m; 0.45% on next £25m; 0.4% thereafter

MFS returned 0.4% in the third quarter, 1.0% behind their benchmark. Their one-year performance is strong with a return of 24.9% against 21.7% for the index. Over the long-term the portfolio has performed well, outperforming its benchmark by 1.7% since inception in December 2013. Over the quarter much of the negative performance impact came from the technology sector and Apple in articular where the portfolio is under-weight in an area of the market which performed well over the period.

Similar to the Baillie Gifford portfolio discussed above, MFS invest over the long term and the portfolio has a high Active Share which means it deviates significantly from the index in its holdings. Rather than focusing on growth as Baillie Gifford do, MFS look for high quality, sustainable companies with a defendable business franchise. Because the outlook for this type of stock is more stable, they carry less investment risk than the Bailie Gifford portfolio and so the MFS portfolio will struggle to keep up with a rapidly rising market in the short term. (Remember that despite the return for the benchmark over this quarter being only 1.4%, this was in Sterling terms. In local currency, global markets were up 7% plus.) Much of the outperformance achieved over the last year was during the summer months when the overall performance of the market was muted but it is notable that this year the market was not led by just a small group of high tech stocks but by a rerating of a range of high quality, dependable companies which suited MFS's investment philosophy and process better.

The two global equity portfolios continue to balance each other well in terms of investment risk whilst still both adding to the long-term performence of the Fund.

Asset Class/Manager	Fixed Interest/ Fidelity
Fund AuM	£83m Unit Trust; 7.3% of the Fund
Performance target	50% Sterling Gilts; 50% Sterling Non-Gilts; +0.75 p.a rolling 3 year
Adviser opinion	Manager continues to meet long term performance targets
Last meeting with manager	8/7/19 John Arthur/Paul Harris/Suzy Fredjohn
Fees	0.35% on first £10m; 0.3% on next £10m; 0.21% on next £30m; 0.18% thereafter

In the first three quarters of 2019 both equity prices and bond prices rose. Bond prices because central banks across the globe were cutting interest rates into what appeared to be an economic slowdown; equity prices because this central bank activity was pumping more liquidity into markets, much of which found its way into financial assets. The fourth quarter was different in that small signs of a stabilisation in economic data, coupled with the actions that central banks have now taken to boost economic demand, plus progress in US-China trade talks, all gave a stronger outlook for risk assets including equities but reduced the prospect of further interest rate cuts into the future, pushing bond prices down (yields higher). In the UK the Conservative election victory temporally cleared the Brexit air and thereby also aided the markets interpretation of the domestic UK economic outlook which pushed UK Government Gilt prices down. Because this fall in bond prices was quite muted and was driven by an improving economic outlook, the cost of credit fell so that corporate bonds and higher yielding bonds were still able to produce positive returns as the higher yield outweighed the fall in the Gilt price.

The Fidelity portfolio fell -1.8% over the quarter which was better than the benchmark which fell 2.5%. Over the last year the portfolio returned 9.3%, outperforming its benchmark by 1.1%. Over all longer time periods, including since inception in May 1998, this portfolio has outperformed its benchmark and is slightly ahead of its performance target.

The yield on this portfolio is now 1.8% with a duration of just over 10 years. I believe it to be unlikely that we will see a further sustained period of strong returns for both equities and bonds going forward as any further strength in bond prices requires signs of an outright economic recession which would be negative for equities.

Asset Class/Manager	Fixed Interest/ Baillie Gifford
Fund AuM	£62m Unit Trust; 5.5% of the Fund
Performance target	44% Sterling Gilts; 44% Sterling Non-Gilts; 6% Emerging Market debt; 6% High Yield. Index +0.75 p.a rolling 3 year
Adviser opinion	Manager continues to meet long term performance targets
Last meeting with manager	8/7/19 John Arthur/Paul Harris/Suzy Fredjohn
Fees	0.35% on first £10m; 0.3% on next £10m; 0.21% on next £30m; 0.18% thereafter

With UK Government Gilt and investment grade corporate bond prices falling over the quarter it was a difficult period for fixed interest assets and, similarly to above, this portfolio produced a negative return over the quarter falling by -1.2%. This was better that the benchmark return, however, as this fell 2.1%.

The performance of this portfolio has been strong over the last year and the portfolio has matched the outperformance of the Fidelity portfolio commented on above over this time period. This portfolio has also now outperformed its benchmark since inception in 2013 but is below its performance target of benchmark +0.75% per annum. Bailie Gifford have strengthened the investment team responsible for this mandate over the past few years, appointing a fixed income strategist to aid in making the broader market direction calls and it is in this area where returns appear to have improved as evidenced by the last quarter where the portfolio was adequately positioned to add value as high quality bonds fell, reversing the direction of the previous three quarters. The selection of individual bonds to hold in the portfolio continues to add value suggesting credit analysis and selection remains strong. I see this as an improvement but require this to be maintained over the long term to give full confidence in the manager's abilities.

Asset Class/Manager	Multi Asset Income / Schroders
Fund AuM	£119m Pooled Fund; 10.4% of the Fund
Performance target	LIBOR +5% including a yield of 4% per annum
Adviser opinion	Too early to make any assessment
Last meeting with manager	16/1/20 John Arthur/ Geoff Day
Fees	0.35% of fund value

With strongly rising equity markets globally, offset in the UK by a rise in the value of Sterling, accompanied by falling Government and Investment Grade Bond prices, it was a complex quarter for a Multi Asset Income manager. Schroders made a strong call early in the quarter to increase risk assets, particularly equities, at the expense of investment grade credit and this aided returns over the quarter. The portfolio returned 2.4% in the fourth quarter and has returned 10% over one year. This includes the income distributed back to the Fund. The last year has been a strong period for all asset classes and I would not expect the portfolio to deliver such high returns going forward. The manager believes the portfolio has captured 40-45% of equity market upside but has a volatility of only one third that of the equity market. This portfolio is perhaps less diversified than the equivalent Fidelity portfolio commented on below but is achieving its aims in terms of return, yield and low volatility.

Asset Class/Manager	Multi Asset Income / Fidelity
Fund AuM	£93m Pooled Fund; 8.1% of the Fund
Performance target	LIBOR +4% including a yield of 4% per annum
Adviser opinion	Too early to make any assessment
Last meeting with manager	31/1/20 John Arthur/ Paul Harris
Fees	0.4% on first £20m; 0.3% on next £30m; 0.25% on next £100m; 0.18% thereafter

The portfolio returned 0.8% over the quarter which was below that achieved by the similar Schroders' portfolio commented on above. The manager had less exposure to equities and more exposure to investment grade bonds as well as a slightly lower exposure to Sterling based assets, each of which was detrimental to performance. Nonetheless Fidelity have returned 11% over the past year which is above the Schroders' portfolio return of 10.1% and this is a good performance as it has been achieved with a low level of volatility and significant diversification across asset classes. The yield on the portfolio matches the similar Schroders' portfolio at 4.2%.

The manager remains defensive in mindset and has built a diversified portfolio with a long-term mindset to protect the assets within the portfolio, whilst maintaining the yield. I expect the portfolio to be slightly less volatile than the similar Schroders' portfolio and it may lag that portfolio under strong market conditions but I believe it to be well constructed to fulfil the investment mandate it has been given.

Asset Class/Manager	UK Commercial Property / Fidelity
Fund AuM	£48m Pooled Fund; 4.2% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	Too early to make any assessment
Last meeting with manager	No meeting this quarter
Fees	0.75% of fund value

The UK Property portfolio returned 0.5% over the quarter, in line with the benchmark. This is a further slowdown against previous quarters and brings the one-year return to 2.2%. The portfolio has lagged its benchmark since inception in March 2018 but this is to be expected given the high cost of investing into this asset class. Whilst the returns from this portfolio have been low against the returns of equities and bonds, our forecast returns looking forward are similar over the next 10 years and any clarity on the Brexit process will aid UK commercial property assets. The portfolio remains under-exposed to retail assets against its benchmark and still believes this to be an area of extended market weakness. Progress on the two major refurbishments in the portfolio are continuing as planned.

Global Economy

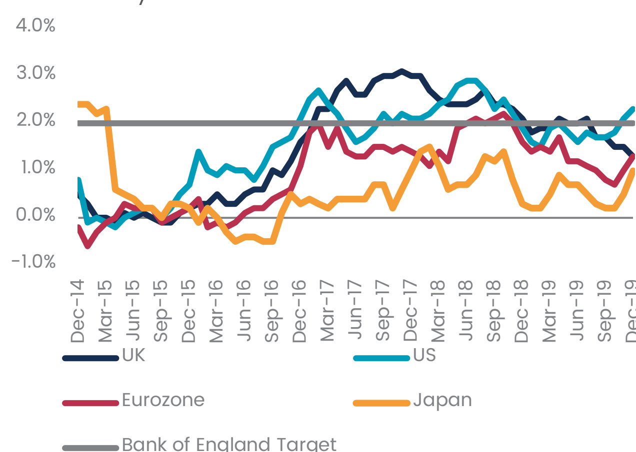
Running into Q4, expectations for Global economic data were poor. In the event the data was not as bad as expected. Aside from the US Fed, which cut interest rates for the third time in the year, the other major central banks remained committed to lose monetary policy but declined to cut rates. Meanwhile, pressure is mounting on governments to loosen fiscal policies, most notably in the Eurozone, where extended quantitative easing and the continued slowing of the economy have raised questions over what room is left for monetary policy to stimulate growth. The announcement of an initial US-China trade deal and a new majority government in the UK helped to ease global political uncertainty.

Table 1: Quarterly GDP Growth Rate

	US GDP	UK GDP	Eurozone GDP	Japan GDP
Q4 2019*	2.2%	0.1%	0.2%	0.4%
Q3 2019	2.1%	0.4%	0.2%	1.8%
Q2 2019	2.0%	-0.2%	0.2%	1.3%
Q1 2019	3.1%	0.5%	0.4%	2.2%

Source: Bloomberg. *Forecasts based on leading indicators.
Notes: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: EHGDUS Index),

Chart 1: 5-year CPI to December 2019



Source: Bloomberg.
Notes: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index).

	CPI		
	October	November	December
UK	1.50	1.50	1.30
US	1.80	2.10	2.30
Eurozone	1.70	1.00	1.30
Japan	0.20	0.50	0.99*

GDP: US GDP is expected to grow 2.2% in Q4, whilst last quarter's GDP was revised up from 1.9% to 2.1%. The US consumer confidence index grew from 125.1 in August to 126.5 in December; however this was a decrease from 126.8 in November. US-China trade tensions continued to cause concern.

In the UK, Q4 GDP growth is expected to be around 0.1%, due to continuing long-term Brexit uncertainty, the running down of supplies ordered by businesses as part of no-deal Brexit contingencies and political uncertainty leading up to the December election. The British Chamber of Commerce Quarterly Economic survey pointed to a worsening service sector; continuing negative indicators for manufacturing and export orders; and the lowest manufacturing investment for eight years. In the Eurozone, GDP growth is predicted to be 0.2% for Q4, as growth in the region continued to remain weak, especially in Germany.

CPI: In Q4, inflation levels in the US rose from 1.7% at the end of the previous quarter, to 2.3%. The majority of price rises were due to housing, medical care and gasoline, whilst used cars and trucks, household furnishings and operations and airline fares declined in price.

In the UK, the consumer price index fell from 1.7% at the end of Q3 to 1.3%; this is below the 2.0% target set by the Bank of England (BoE). The decline was driven primarily by accommodation services and clothing, while the greatest increases in prices came from water, electricity, gas and other fuels.

Central Banks: In Q4, central banks continued with dovish policies, but the pace of interest rate cuts slowed. Whilst the US Fed cut rates once more, the BoE, ECB and BoJ all held rates steady. The US Fed stated that it does not plan to reduce rates further in the near future unless the outlook changes materially. This was shown with its involvement in the Repo market at the end of Q4, with the aim of stopping a repeat of September's Repo interest rate spikes. In her first months as ECB president, Mme Lagarde reiterated Draghi's loose stance on monetary policy and continued to press for governments to loosen fiscal policy. It was also announced that Andrew Bailey, head of the FCA, will take over from Mark Carney as Governor of the Bank of England on 16th March 2020.

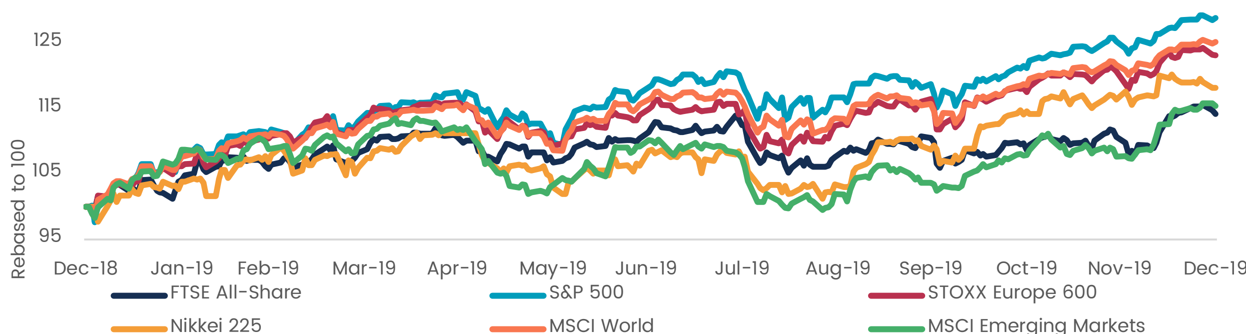
Political Headlines: In the UK, Boris Johnson was elected as Prime Minister with a significant majority. In the US, the main headline was the impeachment of President Donald Trump, with the Senate yet to vote on his removal. The new team of EU Commissioners took power on 1 December. In Germany, the new SDP leadership unexpectedly announced that they would keep their party in its coalition with Angela Merkel's CDU. Meanwhile, in France, Macron was under pressure as protests against his proposed pension reforms set him in conflict with French unions.

Equities

Over the course of Q4 2019, equity markets performed well: as political uncertainty and concerns regarding the global economy subsided so investors' risk appetite increased and, thus, so did allocations to equities. Concerns over the trade war continued to weigh on markets, with mixed messages throughout the quarter. Whilst an initial trade deal was agreed in December, alleviating some uncertainty, the trade war endures. Nonetheless, continued central bank support helped markets globally. Fears of a recession calmed, as economic data improved marginally.

According to the MSCI ACWI factor indices, Quality stocks performed strongest in absolute terms in Q4, with returns of 10.0%. Momentum stocks outperformed Value stocks. Meanwhile, Low-Volatility stocks performed the worst with a return of 7.2% which is not unusual in a rapidly rising market.

Chart 2: Global Equity Markets Performance



Source: Bloomberg. All in local currency.

FTSE All-Share Index (Ticker: ASX Index) S&P 500 Index (Ticker: SPX Index) STOXX Europe 600 (Ticker: SXXP Index)

Nikkei 225 Index (Ticker: NKY Index) MSCI World Index (Ticker: MXWO Index) MSCI Emerging Markets (Ticker: MXEF Index)

UK: UK markets were slightly up in Q4 with the FTSE All-Share rising by 4.2%, bringing year to date returns to 19.1%. However, the UK was the worst performing major equity market. Domestic stocks and economically sensitive areas of the market outperformed; however, oil and gas lagged despite increasing crude oil prices. The UK small and mid-cap stocks performed well over the quarter, whilst the retail sector performed poorly.

Japan: The Japanese equity market had a very strong quarter; the Nikkei 225 was up 8.9% during Q4, pushing returns to 23.5% over the course of 2019. Japan had a good start to the quarter in October, with textiles & apparels the only sector on the Tokyo Stock Exchange to decline. 'Abenomics' restarted and the BoJ continued with loose monetary policies. However, the Japan-South Korea trade war, the typhoon and the consumption tax weighed on the economy.

China: The MSCI China Index rose by 14.0% over the quarter. The Chinese government continued to support its economy as its growth slows amid the trade war, although a Phase One deal is expected to be signed in mid-January. Despite continued instability in Hong Kong, the Hang Seng (Hong Kong's stock exchange) increased by 8.4% over the quarter.

US: The US stock market made strong gains over the quarter. The S&P 500 index reached record highs in Q4, finishing the quarter up 9.1%. Over the year, the S&P 500 rose 31.5% and was the strongest performing equity index that we track. Well-performing sectors included energy stocks, which rose as the oil price increased, whilst real estate and industrials performed below market average. S&P500 earnings in Q4 are expected to fall, on a per share basis, by -4.7%. Q3 results were a -2.2% decline on Q2.

EU: The Euro STOXX 50 increased by 5.2% in Q4. Like other developed markets, the EU region made strong positive gains over the quarter, boosted by the ECB's re-start of quantitative easing. Sectors that performed well included IT, consumer discretionary and materials.

Emerging Markets: The MSCI Emerging Markets Index was up 11.7% for Q4, bringing returns in 2019 to 18.6%, which whilst strong, is at the lower end of returns for the indices that we track. Civil unrest across some emerging markets held down equity returns, along with continued uncertainty over the US-China trade war. The increase in oil prices helped the stock market returns of some emerging markets, including Russia

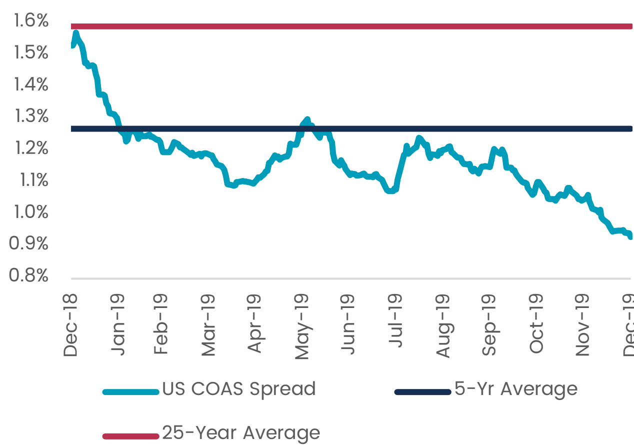
Fixed Income

In Q4, bond yields rebounded from their Q3 lows, as investor sentiment swung to be more "risk-on" in response to a decrease in global uncertainty, accommodative central bank policies and better than expected (although still weak) economic data. Overall, this has meant that government bond prices fell across the board, and corporate bond indices generally (with some exceptions) had a worse quarter than in Q3.

Government Bonds: In Q4, bond yields rose as the impact of accommodative central bank policies was felt and progress was made in US-China trade deal talks. The 10-year US Treasury yield rose by 25 bps and the US yield curve steepened. This was driven by optimism over a potential end to the trade war and better than expected US economic data.

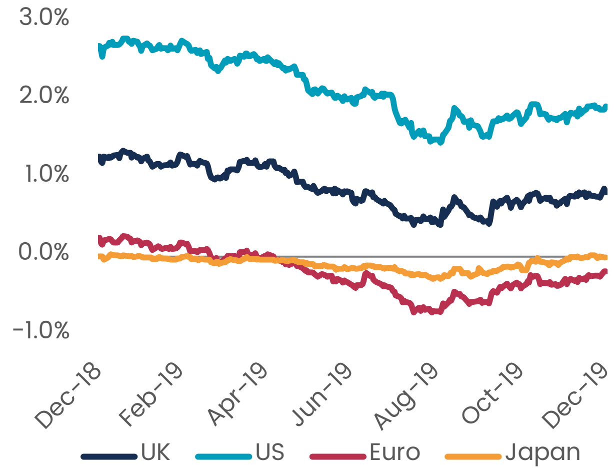
While the leadership of the ECB has changed, policy has not so far. Loose monetary policy continues, although bond yields are rising throughout the Eurozone. French government 10-year yields turned positive, whilst 10-year German bond yields rose from -0.6% to -0.2% Japanese government bond yields also rose but remained negative. In Britain, increased confidence in a Brexit deal was balanced with increased spending proposals by the new government, but overall the UK 10-year yield rose by only 33 bps.

Chart 4: US Corporate Bond Spreads



High Yield Credit: Better than expected economic data allayed fears of a recession; and reduced global tensions helped to propel US High Yield bonds to outperform developed market government bonds, as well as US IG Corporate Bonds. The Bloomberg Barclays US Corporate High Yield TR Index Unhedged returned 2.6% in Q4. US high yield spreads continue to be tighter than the historical average, tightening 27bp over Treasuries.

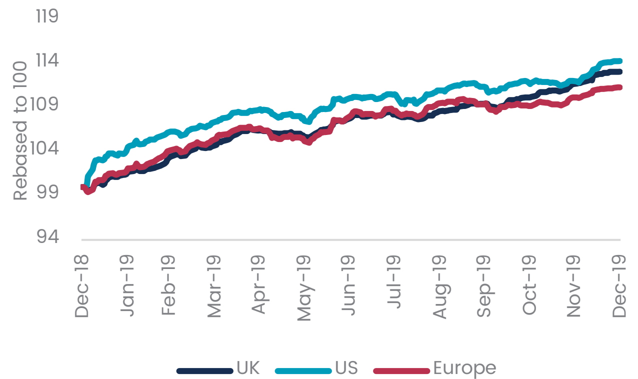
Chart 3: Government Bond Yields



Investment Grade Corporate Bonds: In Q4, IG corporate bonds outperformed government bonds but underperformed US High Yield Bonds. US Investment Grade Corporate Bonds outperformed both pan-European, and UK Corporate Investment Grade Bonds.

The Bloomberg Barclays US Corporate Investment Grade TR Index Unhedged returned 1.2%, bringing the year to date return up to 14.5%. US Corporate Bond spreads tightened due to strong foreign and domestic demand.

Chart 5: High Yield Corporate Bonds Indices



Source: Bloomberg. Notes: Bloomberg Barclays Pan-European High Yield: Sterling Total Return Unhedged GBP (Ticker: I05892GB Index)
Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged US (Ticker: LF98TRUU index)
Bloomberg Barclays Pan-European High Yield (Euro) TR Index Value Unhedged EUR (Ticker: LP02TREU Index)

Currencies

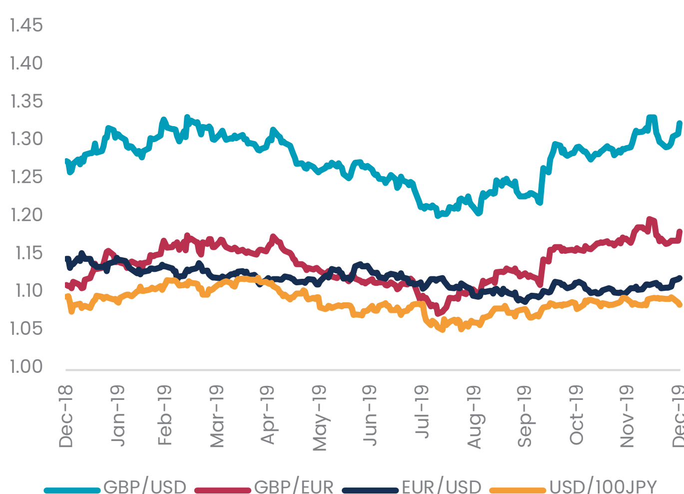
Sterling experienced a volatile quarter as investor concerns shifted from Brexit to the election and then back to Brexit to finish strongly up +7.8%. The Dollar index was down 3.0% due to dovish US central bank policy, the announcement of a potential trade deal and poor domestic economic data. In response, the Euro rose 2.9% against the Dollar. However, the Dollar rose slightly against the Japanese Yen, as investors favoured the Dollar over the Yen. Renminbi held at c.7:1USD due to continued trade war uncertainty and weakening (although still strong) Chinese economic data, balanced by Chinese Government stimulus. The Dollar was also down against the Swiss Franc by -3.2%, reflecting the more general weakness of the Dollar in Q4.

Table 2: Currency Rates as at December 2019

	Quarter-end Value	% Quarter Change
GBP/EUR	1.18	4.65%
GBP/USD	1.33	7.78%
EUR/USD	1.12	2.87%
USD/JPY	108.61	0.49%
USD/CNY	6.96	-2.59%
USD/CHF	0.97	-3.16%

Source: Bloomberg.
Notes:
GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency)
GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency)
EURUSD Spot Exchange Rate (Ticker: EURUSD Currency)
USDJPY Spot Exchange Rate (Ticker: USDJPY Currency)

Chart 6: One-Year Currency Rates of Major Currency Pairs



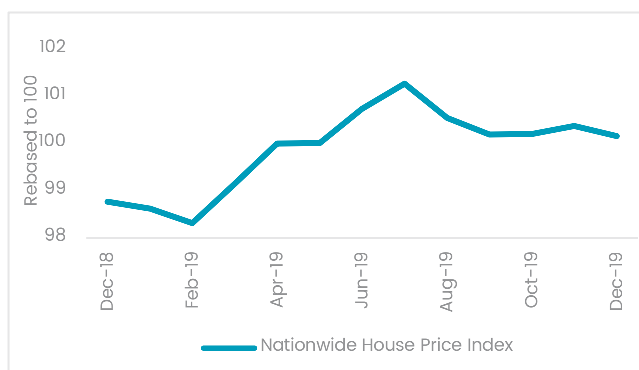
Property

In the UK, property price growth remained subdued but ahead of expectations, with the average UK house price rising by 1.4% (seasonally adjusted) to £215,282 in Q4 2019. UK property funds experienced a turbulent year, with a record £2.2 billion of outflows, the rate of which rose sharply in December, following the suspension of redemptions from M&G's Property Portfolio.

Commercial Property: Greenstreet figures show that commercial property prices rose by 1.0% in Q4 and by 3.0% in 2019. Office property values, in particular, stayed flat across the quarter, which contrasts with industrial property values, which were the best performing in Q4 and rose by 4%.

Residential Property: UK house price growth reached 1.4% in December 2019, according to Nationwide, representing the first time in the past 12 months that growth was higher than 1%. Scotland had the strongest growth in Q4, with the annual change for the quarter standing at 2.8%, up from 0.8% last quarter. Meanwhile, in London, prices fell for the tenth consecutive quarter, resulting in an annual change for the quarter of -1.8%. This is approximately 5% below the Q1 2017 all-time high and around 50% higher than London's 2007 price levels.

Chart 7: 1-Year UK House Price Index



Source: Bloomberg. Nationwide

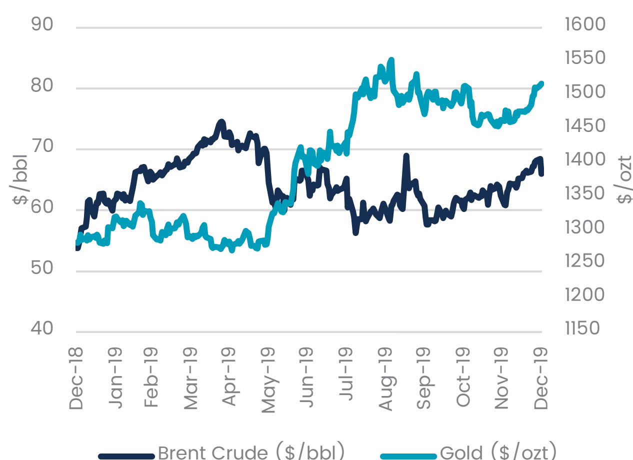
Commodities

Commodities experienced a strong fourth quarter, with gains across much of the spectrum. Soft commodities, oil and precious metals all performed well. Indeed, Brent crude led the energy sector with a rise of 8.6%. However, this contrasts with the -6.1% reduction in natural gas prices. Gold had a mixed quarter, but ultimately ended with a 3.0% increase in price, while silver and palladium gained 5.0% and 16.1% respectively. Copper was up 8.5%, while nickel (used in the production of stainless steel and batteries) reversed course compared to Q3 and declined by -19.0% due to falling demand for stainless steel, with global production mirroring this decline (down -7% YoY), except in China, where production increased by 12.6% in the first nine months of 2019.

Oil: Brent prices rose 8.6% from $60.8 to $66.0 in Q4, as fears of a recession were soothed by stronger than expected economic data and the confirmation of a US-China Phase One trade deal at the end of the quarter. The decision by OPEC+ to cut production by 500,000 bpd pushed prices almost 2% higher. Geopolitical tensions in the Middle East remain and the US-China trade war continues, with no timeline on a full trade deal.

Gold: While Gold ended the quarter up 3.0%, it entered the quarter with a sharp drop in price and stayed in the $1450-$1475/ounce region for most of Q4. It was only in late December, that a sustained rally caused gold prices to recover, with the US Fed announcement that it would not increase interest rates, as well as reduced trading volume. However, it must be highlighted that the price levels in Q3 were the highest they had been since 2013.

Chart 8: Gold and Brent Crude Oil Prices



Source: Bloomberg, US EIA.
Notes:
Gold United States Dollar Spot (Ticker: XAU Currency)
Generic 1st Brent Crude Oil (Ticker: CO1 Commodity)

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Report No.
FSD20028

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**13th February 2020**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**PENSION FUND INVESTMENT STRATEGY STATEMENT**		
Contact Officer:	Katherine Ball, Principal Accountant Tel: 020 8313 4792 E-mail: katherine.ball@bromley.gov.uk		
Chief Officer:	Director of Finance		
Ward:	All		

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1. Reason for report

1.1 This report seeks approval of the new Investment Strategy Statement (ISS) for the Pension Fund as required under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and a revised Funding Strategy Statement (FSS) to reflect the outcome of the 2019 actuarial valuation.

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2. RECOMMENDATIONS

2.1 The Pensions Investment Sub-Committee is asked to:

(a) consider the Investment Strategy Statement included at Appendix 1 (to be circulated separately);

(b) approve the Funding Strategy Statement included at Appendix 2;

(c) agree that any final changes are undertaken by the Director of Finance with the agreement of the Chairman and Vice Chairman.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,141m total fund market value at 31st December 2019)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013, LGPS (Management and Investment of Funds) Regulations 2016

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,140 current employees; 5,852 pensioners; 5,576 deferred pensioners as at 31st December 2019

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 Background

3.1.1 In November 2015, the Department for Communities and Local Government commenced a consultation on the proposed regulations governing the investments of LGPS Pension Funds. This resulted in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which came into force on 1st November 2016, and which revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

3.2 Investment Strategy Statement

3.2.1 The 2016 regulations require administering authorities to have published an Investment Strategy Statement (ISS) by 1st April 2017, and then to keep it under review and revised at least every three years.

3.2.2 The ISS must include the following:

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

3.2.3 The new regulations remove some of the requirements that were previously included in the Statement of Investment Principles to provide authorities more flexibility in securing a diversified investment strategy. This includes removing the requirement to report on compliance with the Myners principles, and limits (as a percentage of the Fund) on certain investment categories. It is proposed that these are retained, other than a limit restricting investments in unit trusts or OIECs as this could impact on any transfer to the London CIV, and are listed under 'Other restrictions imposed by the authority' within the ISS.

3.2.4 MJ Hudson Allenbridge is currently updating the ISS for the fund, to reflect the impact of the revised asset allocation strategy, as well as other relevant changes. The updated draft strategy was not available at the time of writing this report and will be circulated separately.

3.2.5 In accordance with the regulations, and subject to the addition of any retained investment limits above, the Pensions Investment Sub-Committee is asked to approve the ISS attached as Appendix 1.

3.2.6 Under the regulations, the ISS must be kept under review and revised from time to time, but at least every three years. The ISS is submitted for approval as part of the Pension Fund Annual Report along with the Funding Strategy Statement, Governance Policy Statement and Communications Policy Statement.

3.3 **Other changes under the regulations**

3.3.1 In addition to the requirement for an ISS, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provide the Secretary of State for Communities and Local Government with powers to issue a direction if satisfied that an administering authority failed to act in accordance with the guidance. The requirements would help control Local Authorities not making investment decisions in the best interests of pension members. Directions may be made on the following areas:

- Make changes to the fund's investment strategy;
- Require investment of assets as specified by the Secretary of State;
- Transfer investment functions to another organisation;
- Require funds to comply with any specific instructions given by the Secretary of State in relation to investment functions.

3.3.2 The MHCLG Guidance on Preparing an ISS also reaffirms that "schemes should make the pursuit of a financial return their predominant concern" and should not pursue policies that are contrary to UK foreign policy or UK defence policy.

3.4 **Funding Strategy Statement**

3.4.1 The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.

3.4.2 The FSS must also be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement. Following the completion of the 2019 triennial valuation, the FSS has been updated and the Sub-Committee is asked to approve the revised FSS attached as Appendix 2.

3.5 **Changes to the FSS**

3.5.1 The FSS at Appendix 2 incorporates the following updates:

- Update to allow for the latest Regulations i.e. to reflect the introduction of Exit Credits which were introduced in 2018.

- Review of the discount rate – consideration has been given, taking into account the current and potential investment strategy, as to what the appropriate discount rate should be for the 2019 valuation. The discount rate is expressed as the "real" expected asset return above CPI. Following a period of strong investment returns, the outlook is now for lower returns in the future. Therefore, following discussions between the Actuary, Officers and Members, it will be proposed to reduce the expected level of real return above CPI for past service from CPI +2 % p.a. at the 2016 valuation to CPI+1.25% p.a., to maintain an appropriate level of prudence in the discount rate. It will also be proposed to reduce the discount rate for future service from CPI +2.65% p.a. at the 2016 valuation to CPI+2.25% p.a.

- Updates to the life expectancy assumptions following analysis performed on the Fund's membership. The analysis indicates that whilst life expectancy is still increasing, the rate of increase experienced in the short-term since the 2016 valuation was less than was built into the assumptions. This has been incorporated into the assumptions for the 2019

valuation along with an adjustment to the longer-term projection to reflect current views.

- The maximum period over which deficits will be recovered will be maintained at 12 years i.e. the same as the 2016 deficit recovery plan. This would apply to all employers, subject to covenant and affordability considerations, and has been incorporated into the assumptions. For those employers with a limited length of participation in the Fund, any surplus will be recovered over a 12 year period too.

- Updates to the FSS and the Fund policies included within it (e.g. admission and termination) to allow for the potential Regulation and guidance changes. The key changes which have been incorporated are as follows as indicated by drafting notes in certain places:

  - The Cost Management Process - the cost management process was set up by HM Treasury, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions. The outcomes of the cost management process were expected to be implemented from 1 April 2019. However, this has now been put on hold due to the McCloud case discussed below.

  - McCloud judgment - these are age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other public sector schemes). It is not known how these cases will affect the LGPS or the cost management process at this time and is almost certainly not going to be known by the time the valuation is signed off. The potential impact of McCloud/the cost management process will need to be quantified as reasonably as possible based on the information available. This is in line with the guidance from the Scheme Advisory Board.

    The potential impact of the McCloud judgment on contribution outcomes will be communicated to employers as part of the consultation on the FSS to ensure that they are aware of the budget risk and are able to make provisions accordingly.

3.5.2 Further updates on the progress of these Regulatory issues will be provided to the Committee in due course.

3.6 Next Steps

3.6.1 The full draft FSS will be issued as part of the consultation with employers, which will begin shortly. Subject to the finalisation of the Regulations/guidance, the outcome of the consultation with the employers, the final FSS incorporating the final assumptions and policies (including any changes post consultation) will be agreed by the S151 officer and communicated thereafter to the Sub-Committee.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external

investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 There are no direct financial implications arising from the updates to the Investment Strategy Statement and Funding Strategy Statement.

5.2 Details of Pension Fund performance and position are set out in a report elsewhere on this agenda.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Pension Fund Annual Report 2018/19, Pensions Investment Sub-Committee, 3rd December 2019 Investment Strategy Statement (Appendix 1 – to follow) Funding Strategy Statement (Appendix 2)

LONDON BOROUGH OF BROMLEY PENSION FUND
INVESTMENT STRATEGY STATEMENT (ISS)

(TO BE CIRCULATED SEPARATELY)

LONDON BOROUGH OF BROMLEY PENSION FUND
FUNDING STRATEGY STATEMENT (FSS)

This Funding Strategy Statement has been prepared by London Borough of Bromley (the Administering Authority) to set out the funding strategy for the London Borough of Bromley Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1. EXECUTIVE SUMMARY

Ensuring that the London Borough of Bromley Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (London Borough of Bromley). The Funding Strategy adopted by the London Borough of Bromley Pension Fund will therefore be critical in achieving this. The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the London Borough of Bromley Pension Fund.

THE FUND'S OBJECTIVE

The Administering Authority's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next to meet the primary objective. This in turn means that contributions will be subject to change from one valuation to another.

The objective is considered on an employer specific level where appropriate, including when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members' accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included.

This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long-term cost efficiency objectives.

SOLVENCY AND LONG-TERM COST EFFICIENCY
Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long-term cost efficiency. Long-term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long-term cost efficiency" of the Local Government Pension Scheme (the "LGPS") so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS
The solvency level of the Fund is 110% at the valuation date (i.e. the assets of the Fund are more than the liabilities). At an individual employer level, there will be instances where the assets allocated are lower than the liabilities and therefore a shortfall will exist. In such cases, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

For those employers where a shortfall exists, deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) or as a % of pay, as deemed appropriate by the Administering Authority, and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish.

Subject to affordability considerations (and any changes emerging in the Primary Rate) a key principle will be to maintain contributions at least at the expected monetary levels from the preceding valuation. Full details are set out in this FSS.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed.

The target recovery period for the Fund as a whole is 12 years at this valuation which is the same as the corresponding target for the 2016 valuation. Individual employer recovery periods will be considered depending on their own circumstances.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could

emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary.
Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they will need to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation.

[Drafting Note – This paragraph has been added following the guidance issued by the Scheme Advisory Board on 14 May 2019 concerning how to deal with the potential additional liabilities arising from the Cost Cap process and the McCloud and Sargeant age discrimination case (McCloud) (found here: http://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf).

This may need further adaptation once the outcome of the consultation is known. The Actuary will look at the potential cost to employers as part of the 2019 valuation process.]

ACTUARIAL ASSUMPTIONS
The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the “Secondary” rate) are set out in Appendix A and Appendix B to this FSS.

When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). The discount rate in excess of CPI inflation (the “real discount rate”) has been derived based on the expected return on the Fund’s assets based on the long-term strategy set out in its Investment Strategy Statement (ISS).

The assumption for long-term expected future real returns has reduced since the last valuation. This is due to a combination of a fall in the total expectation of the return on the Fund’s assets and the higher expected level of inflation in the long-term. Taking this into account, and the improvements in funding level, the discount rate has been adjusted from the previous valuation so that, in the Actuary’s opinion, when allowing for the resultant employer contributions emerging from the valuation, the Fund can still be reasonably be expected to meet the Solvency and Long-term Cost Efficiency objectives.

The Fund Actuary is proposing that the real discount rate assumption for determining the baseline past service liabilities should be 1.25% per annum, and for determining the future service (“primary”) contribution rate, 2.25% per annum. This compares to 2% per annum and 2.65% per annum respectively at the last valuation.

Where warranted by an employer’s circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Sub-Committee.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant. For those employers terminating participation in the Fund, a more prudent mortality assumption will apply (see further comments below).

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share may be re-stated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include under-funding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long-term will be considered when determining its funding strategy.

Following the valuation, where appropriate, the Fund may assess (and monitor if required) employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in Appendix D to this statement.

Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Mandatory Scheme Employers - for example new academies (see later section);
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

The key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible. The different employers pose different risks to the Fund.

Certain employers will be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to government bond yields and a more prudent longevity assumption will be used for assessing liabilities on termination. Any resulting exit payments due should normally be paid immediately, although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 3 months of completion of the cessation assessment by the Actuary. The Administering Authority may seek to modify this approach on a case by case basis if circumstances warrant it (for example, it may work with the outsourcing scheme employer to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers).

This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

Where there is a guarantor who would subsume the assets and liabilities of the exiting employer, the policy is that any deficit or surplus would be subsumed into the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate agreements that have been put in place between the exiting employer and the outsourcing scheme employer.

If all parties do not agree then any surplus will be paid directly to the exiting employer within 3 months of cessation (despite any other agreements that may be in place). To maintain a consistent approach, the Fund will seek to recover any deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor and all remaining assets and liabilities will then be subsumed by the guarantor.

The Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However, the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

In the event of parties unreasonably seeking to crystallise an exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities the basis of assessment on termination will assume the liabilities are orphaned and thus the minimum risk basis will apply.

Drafting note – Regulation changes are expected to clarify the treatment of exit credits (backdated accordingly) under a risk sharing arrangement i.e. no exit credit would be payable to an outgoing employer if a guarantor is underwriting the risk. This means the current policy will become a regulatory position.]

2. INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- Following consultation with such persons as it considers appropriate to the London Borough of Bromley Pension Fund (the "Fund"), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
    - the guidance issued by CIPFA for this purpose; and
    - the Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long-term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full Fund benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for each employer is specified in the rates and adjustments certificate.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

The Secondary rate for each employer is specified in the rates and adjustments certificate.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

3. PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long-term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

4. AIMS AND PURPOSE OF THE FUND

The aims of the fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, exit credits, charges and expenses as defined in the Regulations.

5. RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and in particular the Pensions Investment Sub-Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key parties to the FSS:

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund’s actuary
- prepare and maintain both an FSS and an ISS after proper consultation with interested parties;
- monitor all aspects of the Fund’s performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a Fund employer
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator’s relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees’ pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- undertake such administration duties as are required in accordance with the Pension Administration Strategy (once implemented)
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, or early retirement strains
- have regard to the Pensions Regulator’s focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill-health retirement costs etc.
- provide advice and valuations on the termination of admission agreements including in relation to exit credit payments
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

6. SOLVENCY FUNDING TARGET

Securing the “solvency” and “long-term cost efficiency” is a regulatory requirement. To meet these requirements, the Administering Authority’s long-term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long-term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG-TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long-term cost efficiency. Long-term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long-term cost efficiency" of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering the funding target and deficit recovery plan the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful, including potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

- Individual employer contributions will be expressed and certified as two separate elements:
  - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill-health benefits (where appropriate).

  - the **Secondary rate**: a schedule of lump sum monetary amounts or contribution rates expressed as a percentage of pensionable payroll over 2020/23 in respect of an employer's surplus or deficit

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from 1 April 2023 based on the results of the 2022 actuarial valuation.

DEFICIT RECOVERY PLAN

Where deficits remain, as a general rule, a maximum recovery period of 12 years will be adopted. The Fund does not believe, where an employer is in deficit, it to be appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable on deficit contributions) unless there is a specific reason to do so.

By number, academies form the largest group of employers in the Fund. For those academies in deficit, the target total contribution rate for each academy will be broadly set to be same as the target adopted at the 2016 valuation.

Recovery periods will be adjusted on an individual basis to achieve this, subject to a maximum recovery period of 12 years being applied. Where the maximum recovery period does apply, higher contributions will be payable by those individual academies

For other employers, as a general rule, subject to the consideration of affordability and stabilisation of contribution rates, the deficit recovery period will remain the same for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan over a shorter period if they so wish. Taking into account affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B).**

For those employers assessed to be in surplus at the valuation date, the surplus will be either retained to act as a margin against adverse experience in order to the objective of long-term cost efficiency. For those employers assessed to be in surplus with a limited time period of participation in the Fund, the surplus may be removed over a maximum recovery period of 12 years, subject to the agreement of the Administering Authority (see Deficit Recovery Plan in **Appendix B).**

In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the

Fund as a whole (see further comment below). Any employer affected will be notified separately.

EMPLOYERS EXITING THE FUND

Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the employer, the Fund will review the employer's certified contribution in order to target a fully funded position at exit. The costs of the contribution rate review will be payable by the employer or the outsourcing scheme employer (where necessary).

On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

The policy for employers who have a guarantor participating in the Fund:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree then any surplus will be paid directly to the exiting employer within 3 months of completion of the cessation by the Actuary (despite any other agreements that may be in place). To maintain a consistent approach, the Fund will seek to recover any deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor and all remaining assets and liabilities will then be subsumed by the guarantor.

The Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However, the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

In the event of parties unreasonably seeking to crystalise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the basis of assessment on termination will assume the liabilities are orphaned and the minimum risk basis of termination will apply.

The policy for employers who do not have a guarantor participating in the Fund:

In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of completion of the cessation assessment by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

Where an employer with no guarantor leaves the Fund and leaves liabilities with the Fund which the Fund must meet without further recourse to that employer, the valuation of the termination payment will be calculated using the minimum risk basis.

Further details are set out in the termination policy is set out in **Appendix C**.

FUNDING FOR NON-ILL-HEALTH EARLY RETIREMENT COSTS

Unless allowance is built into the Employers contribution rate, Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund.

FUNDING FOR DEATH BENEFITS

The financial impact of the benefits that become payable on the death of a member differ depending on whether the member dies before or after retirement.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

In the event of a member dying whilst in active service, it is not certain that a funding profit would emerge. Whilst the Fund would no longer have to pay the accrued benefits at retirement for the deceased member, a lump sum death grant and benefits for eligible dependants would become payable instead. The dependants' benefits would also be based on the pensionable service that the member could have accrued had they remained in service until retirement.

Typically, the death of a young member with low pensionable service and eligible dependants is likely to result in a large funding strain for the employer. However, the death of an older/long serving member with no dependants could result in a funding profit. Any funding strain or profit will emerge at the next actuarial valuation through increased/reduced deficit, except where the employer is in the termination process when it will be taken into account when the Actuary determines the termination position.

7. LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for asset returns above those provided by the minimum risk portfolio, resulting in a negative real return in current market conditions. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 73%

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is:

	Benchmark %
Global Equities	58
Multi Asset Income	20
Fixed Income	13
UK Property	4
International Property or US Property (to be updated at the meeting on 13th February 2020)	5
Total	100

For the purposes of setting a funding strategy, and taking into account the Regulations and guidance, the Administering Authority believes that it is appropriate to take a margin for prudence on the overall expected return in excess of CPI inflation as at 31 March 2019 that the above strategy is expected to provide taking into account the individual return expectations on the above asset classes (see further comment in Appendix A).

[Drafting Note – an investment strategy review is currently being undertaken by the Fund's investment advisors – the strategy set out above and the supporting wording are therefore subject to change depending on the outcomes of this review although this has been taken into account already when considering the relevant margins of prudence when setting the funding strategy.]

8. IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long-term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

FINANCIAL
The financial risks are as follows: -

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC
The demographic risks are as follows: -

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- Deteriorating pattern of early retirements (including those granted on the grounds of ill-health) over and above what is allowed for in the valuation assumptions
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill-health retirements can be costly for employers, particularly small employers where one or two costly ill-health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill-health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk.

Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the Fund's cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS
The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

REGULATORY
The key regulatory risks are as follows: -

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE
The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows: -

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements;
- Changes in the Pensions Investment Sub-Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

LOCAL PENSION BOARD
The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

The Board seeks to assist the London Borough of Bromley to maintain effective and efficient administration and governance. The LPB comprises Fund members, both retired and active, together with employer representatives.

It meets on an annual basis (but can meet up to four times a year if required) and all Board Members have undertaken training and have established a work programme that will enable them to meet their obligations to ensure that the Fund complies with the relevant codes of practice and current legislation.

9. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.
- has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances. Any amendments will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

COST MANAGEMENT AND THE MCCLOUD JUDGMENT

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill-health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes ('the McCloud judgment'), relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other schemes).

It is not known how these cases will affect the LGPS or the cost management process at this time. The Scheme Advisory Board has issued guidance on how the McCloud judgment should be allowed for within the 2019 valuation.

The potential impact of the McCloud judgment (based on the information currently available) has been quantified and communicated to employers as part of the 2019 valuation. Employers

will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, if they choose not to do this, they will need to make allowance within their budgets for the potential costs and note that backdated contributions could become payable if the remedy becomes known before the next valuation.

[Drafting Note – This paragraph has been added following the guidance issued by the Scheme Advisory Board on 14 May 2019 concerning how to deal with the potential additional liabilities arising from the Cost Cap process and the McCloud and Sargeant age discrimination case (McCloud) (found here: http://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf).
This may need further adaptation once the outcome of the case is known. The Actuary will look at the potential cost to employers as part of the 2019 valuation process.]

ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET AND COST OF FUTURE ACCRUAL

Investment return (discount rate) – Solvency Funding Target

The discount rate has been derived based on the expected return on the Fund assets based on the long-term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 1.25% per annum above CPI inflation, i.e. a total discount rate of 3.65% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Investment return (discount rate) – Cost of Future Accrual

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has been assumed. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.25% per annum above the long-term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.65% per annum.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index.

The overall reduction to RPI inflation at the valuation date is 1.0% per annum. The CPI inflation assumption at the valuation date is 2.4% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, and to allow for any final salary 'underpin' applying to benefits earned after that date, the assumption for real salary increases (salary increases in excess of price inflation) will be 1.5% p.a. over the CPI inflation assumption as described above. This includes allowance for promotional increases and represents the long-term salary increase assumption.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions are based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. A separate mortality assumption has also been adopted for current members who retire on the grounds of ill-health. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections and a long-term improvement trend of 1.75% per annum.

The mortality before retirement has also been reviewed based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for an additional lump sum is based on a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the married/civil partnership assumption, rates of ill-health retirement (for some employers) and withdrawal from active service assumption have been retained from the last valuation. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.7% of pensionable pay to the contributions required from participating employers.

This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits
The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share may be re-stated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE “PRIMARY RATE”) FOR THE 2019 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.40% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	3.65% p.a.
CPI price inflation	2.40% p.a.
Long-term Salary increases	3.90% p.a.
Pension increases/indexation of CARE benefits*	2.40% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.65% p.a.
CPI price inflation	2.40% p.a.
Long-term Salary increases	3.90% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.

* for those members reaching State Pension Age between 6 April 2016 and 5 April 2021, full CPI increases on Guaranteed Minimum Pensions have been assumed once in payment. Otherwise statutory increases on Guaranteed Minimum Pension will apply e.g. nil on Guaranteed Minimum Pensions accrued prior to 6 April 1988 and in line with CPI (subject to a maximum of 3% p.a.) for Guaranteed Minimum Pensions accrued after 5 April 1988.

Life expectancy assumptions
The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

-Post retirement mortality tables

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	96% S3PMA_CMI_2018 [1.75%] 88% S3PFA_M_CMI_2018 [1.75%]
	Dependant	143% S3PMA_CMI_2018 [1.75%] 85% S3DFA_CMI_2018 [1.75%]
	Ill-health	118% S3IMA_CMI_2018 [1.75%] 121% S3IFA_CMI_2018 [1.75%]
	Future Dependant	121% S3PMA_CMI_2018 [1.75%] 105% S3DFA_CMI_2018 [1.75%]
Active	Normal Health	98% S3PMA_CMI_2018 [1.75%] 89% S3PFA_M_CMI_2018 [1.75%]
	Ill-health	115% S3IMA_CMI_2018 [1.75%] 138% S3IFA_CMI_2018 [1.75%]
Deferred	All	123% S3PMA_CMI_2018 [1.75%] 103% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Dependant	129% S3PMA_CMI_2018 [1.75%] 111% S3DFA_CMI_2018 [1.75%]

-Life expectancies at age 65

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.7	25.6
Actives aged 45 now	24.6	27.6
Deferreds aged 45 now	22.9	26.5

Other demographic assumptions are set out in the Actuary’s formal report.

EMPLOYER DEFICIT RECOVERY / SURPLUS OFFSET PLANS

For certain employers, as the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will either be expressed as £s amounts (flat or increasing year on year) or as a percentage of pay, as deemed appropriate by the Administering Authority, and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement with employers free to select any shorter deficit recovery period and higher contributions if they wish.

The determination of the recovery periods is summarised in the table below:

Category	***Default Deficit Recovery Period***
Fund Employers	Lower of 12 years and period required to target stability of overall contributions.
Open Admitted Bodies	Lower of 12 years and period required to target stability of overall contributions.
Closed Employers	Lower of 12 years and the future working lifetime of the membership
Employers with a limited participation in the Fund	Determined on a case by case basis

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period) taking into account any changes in the primary rate contribution requirements.

For those admitted bodies assessed to be in surplus at the valuation date, at the discretion of the administering authority, the surplus will be removed over a maximum recovery period of 12 years, unless agreed otherwise with the administering authority.

For other employers assessed to be in surplus at the valuation date, unless agreed otherwise with the administering authority, the surplus will be retained to act as a margin against the impact on past service liabilities of the McCloud judgment, and also as a margin against investment risk and other potential adverse experience over 2020/23. In such cases the employer will pay Primary Contributions only to the Fund over 2020/23.

Other factors affecting the Employer Deficit Recovery Plans
As part of the process of agreeing funding plans with individual employers, the Administering Authority may consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2020/23. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and the receipt of appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the ongoing interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, will also consider whether any exceptional arrangements should apply in particular cases.

ADMISSION AND TERMINATION POLICY

This document details the London Borough of Bromley Pension Fund's (LBBPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers LBBPF's policy on admissions into the Fund and sets out the considerations for current and former admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

A list of all current employing bodies participating in the LBBPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the LBBPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

ENTRY TO THE FUND

MANDATORY SCHEME EMPLOYERS

Certain employing bodies are required to join the scheme under the Regulations. These bodies include tax-raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Academies also fall under this category.

DESIGNATING BODIES

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the Regulations to provide a guarantee. These bodies usually have tax-raising powers and include Parish and Town Councils.

ADMISSION BODIES

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the Administering Authority, it will then have an "admission agreement". In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if:

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies);
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are "not for profit" organisations (formerly known as Community Admission Bodies).

In general, admitted bodies may only join the Fund if they are guaranteed by a scheme employer. However, there may be exceptional circumstances whereby, subject to the agreement of the Administering Authority, an admitted body joins the Fund with an alternative form of guarantee. When the agreement or service provision ceases, the Fund's policy is that in all cases it will look to recover any outstanding deficit from the outgoing body unless appropriate instruction is received from the outsourcing employer or guaranteeing employer, in

which case the assets and liabilities of the admission body will revert to the outsourcing scheme employer or guaranteeing employer.

CONNECTED ENTITIES

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are "Designating Bodies" under the Regulations, they have similar characteristics to admitted bodies (in that there is an "outsourcing employer"). However, the Regulations do not strictly require such bodies to have a guarantee from a scheme employer. To limit the risk to the Fund, the Fund will require that the scheme employer provides a guarantee for their connected entity, in order that the ongoing funding basis will be applied to value the liabilities.

RISK ASSESSMENTS

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a suitable bond or guarantor that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the actuary to the LBBPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the LBBPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund's general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the LBBPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the LBBPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy, a notional investment strategy will be assumed as a match to the liabilities. In particular, the employing body's notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

EXITING THE FUND

Termination of an employer's participation
When an employer's participation in the Fund comes to its end, or is prematurely terminated for any reason (e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation), employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund either as deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

Where the Fund obtains advance notice that an employer's participation is coming to an end, the Regulations enable the Fund to commission a funding assessment leading to a revised contribution certificate which is designed to eliminate, as far as possible, any surplus or deficit by the cessation date.

Whether or not an interim contribution adjustment has been initiated once participation in the Fund has ceased, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of

benefits of the exiting employer's current and former employees along with a revision of the rates and adjustment certificate showing any contributions due from the admission body.

When an employer exits the Fund, as an alternative to requiring an immediate payment in full, the Regulations give power to the Fund to set a repayment plan to recover the outstanding debt over a period at the sole discretion of the Administering Authority. Whether this will be permitted will depend on the affordability of the repayments and financial strength of the exiting employer. Once any such repayment plan is set the payments would not be reviewed for changes in the funding position due to market or demographic factors.

The Fund's policy for termination payment plans is as follows:

- The default position is for exit payments and exit credits to be paid immediately in full with the relevant parties.
- At the discretion of the Administering Authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.
- Any costs associated with the exit valuation will be paid by the employer by either increasing the exit payment or reducing the exit credit by the appropriate amount. In the case of an employer where the exit debt/credit is the responsibility of the original employer through a risk sharing agreement the costs will be charged directly to the employer unless the original employer directs otherwise.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

BASIS OF TERMINATION

The LBBPF's policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

Details of the minimum risk funding basis are shown below.

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the LBBPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the LBBPF otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases, no termination assessment is required as there will no longer be any orphan liabilities in the LBBPF. Therefore, a separate assessment of the assets to be transferred will be required.

IMPLEMENTATION

Admission bodies participating by virtue of a contractual arrangement

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit. This is subject to the agreement of all parties involved (i.e. the Fund, the exiting employer and the guarantor) who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree then any surplus will be paid directly to the exiting employer within 3 months of completion of the by the Actuary (despite any other agreements that may be in place). To maintain a consistent approach, the Fund will also seek to recover any deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor and all remaining assets and liabilities will then be subsumed by the guarantor.

The Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However, the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

In the event of parties unreasonably seeking to crystalise an exit credit on termination the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the termination assessment will assume the liabilities are orphaned and the minimum risk basis of termination will be applied.

As the guarantor will absorb the residual assets and liabilities, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious minimum risk basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs the exiting employer would then be treated as if it had no guarantor as per the policy below.

Non contract based admission bodies with a guarantor in the Fund

The approach for these will be the same as for contract based admission bodies above and will depend on whether the guarantor is prepared to accept responsibility for residual

liabilities. Indeed, it may be that Fund is prepared to accept that no actual termination payment is needed (even if one is calculated) and that all assets/liabilities can simply be absorbed by the guarantor.

Admission bodies with no guarantor in the Fund
These are the cases where the residual liabilities would be orphaned within Fund. It is possible that a bond would be in place. The termination calculation would be on the more cautious "minimum risk" basis.
The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of completion of the cessation by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it, based on the advice of the Actuary.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

Connected Entities
In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers).
In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

RELEVANT REGULATIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013 (AS AMENDED BY THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018)

Regulation 64 sets out special circumstances where revised actuarial valuations and certificates must be obtained including Regulation 64 (2) where an admission agreement ceases to have effect, the Administering Authority who made it must obtain:

- an actuarial valuation as at the date it ceases the liabilities in respect of current and former employees of the admission body which is a party to that admission agreement ("the outgoing admission body");

- a revision of any rates and adjustments certificate for any Pension Fund which is affected, showing the exit payment due from the exiting body or exit credit payable to the exiting body. Where it is not possible for any reason to obtain revised contributions from the exiting body, or from an insurer or any person providing an indemnity or bond on behalf of the body, the Administering Authority may obtain a further revision of any rates and adjustment certificate for the Pension Fund, showing:
  - a) in the case where the exiting body falls within paragraph 1(d) of Part 3 of Schedule 2 the revised contributions due from the body which is the related employer in relation to that admission body; and
  - b) in any other case, the revised contributions due from each employing authority who contributes to the Fund.

If the Administering Authority becomes aware, or is of the opinion of a scheme employer becoming an exiting employer, Regulation 64 (4) provides that it may obtain from an actuary a certificate specifying, in the case of an admission body, the percentage or amount by which, in the actuary's opinion:

- the contribution at the primary rate should be adjusted; or

- any prior secondary rate adjusted should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will fall due from the Scheme employer are provided to the Fund by the likely exit date or, where the scheme employer is unable to meet the liability by that date, over such period of time thereafter as the Administering Authority considers reasonable.

Minimum Risk Termination basis

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Least risk assumptions	***31 March 2019***
Discount Rate	1.5% p.a.
CPI price inflation	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the long-term rate of improvement in

mortality rates to 2% p.a. from 1.75% p.a. as used in the 2019 valuation for ongoing funding and contribution purposes.

[Drafting Note – in the light of recent mortality trends emerging, and also the September announcement on the change in RPI inflation (and consequently the RPI/CPI gap), the assumptions applying in the minimum risk termination basis will be reassessed in due course.]

COVENANT ASSESSMENT AND MONITORING POLICY

An employer’s covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer’s industry
- Employer’s competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer’s credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer’s operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund’s exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least annually, unless the Administering Authority determines a more frequent review period will be necessary in the circumstances e.g. bi-annually, quarterly etc.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

- Parental Guarantee and/or Indemnifying Bond
- Transfer to a more prudent actuarial basis (e.g. the termination basis)
- Shortened recovery periods and increased cash contributions
- Managed exit strategies
- Contingent assets and/or other security such as escrow accounts.

GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deficit: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities: shares in a company which are bought and sold on a stock exchange.

Equity Protection: an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit: the amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Fund / Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also

dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer's long-term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary, if permissible in the Rates and Adjustments Certificate. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation.

This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time (“the recovery period”), as set out in the Funding Strategy Statement.

Scheduled bodies: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary’s Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer’s contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund’s investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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Report No.
FSD20029

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**13th February 2020**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND ASSET ALLOCATION STRATEGY REVIEW – FOLLOW UP REPORT**
Contact Officer:	Katherine Ball, Principal Accountant Tel: 020 8313 4792 E-mail: Katherine.Ball@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

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1. Reason for report

1.1 As requested at the last meeting of the Pensions Investment Sub-Committee, further input was requested from third parties in relation to the choice between investing in International Property Funds and investing in US Property Funds for the as yet unallocated 5% remaining. This will be provided at the meeting.

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2. RECOMMENDATION

2.1 The Pensions Investment Sub-Committee is asked to:

(a) note the content of the report;

(b) agree final changes to the asset allocation strategy considering the proposals detailed in MJ Hudson Allenbridge's report (attached at Appendix B), as well as additional input from third parties at the meeting, and

(c) consider arrangements for implementing the strategy.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: ££43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,141m total fund market value at 31st December 2019)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), LGPS (Management and Investment of Funds) Regulations 2016

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,140 current employees; 5,852 pensioners; 5,576 deferred pensioners as at 31st December 2019

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 Asset Allocation Review – January 30th 2020

3.1.1 At its meeting on January 30th 2020, the Pensions Investment Sub-Committee considered further information on the asset allocation options, specifically in relation to Private Equity and US Real Estates compared with Global Property Funds but requested that – if possible – there should be input from and/ or attendance by relevant third parties to provide some outline information on International Property funds at the next meeting of the Pensions Investment Sub-Committee.

3.1.2 The asset allocation report considered at the 30th January meeting has been attached for reference as Appendix A.

3.1.3 A verbal update will be provided at the meeting, and additional information will also be circulated at the meeting.

3.2 Asset Allocation Review – International Property Funds compared to US Property Funds

3.2.1 MJ Hudson Allenbridge's report that was submitted to the meeting on 30th January is attached as Appendix B. At the last meeting of this Sub-Committee the Director of Finance agreed to seek views from Fidelity & Mercers that may assist in considering final options for property fund investment.

3.2.2 The Council's advisor from MJ Hudson Allenbridge suggested the attendance of a property investment 'expert' that could assist in finalising options.

3.2.3 The representative from MJ Hudson Allenbridge will be present at the meeting to answer any questions on their report and proposals.

3.3 Next Steps

3.3.1 Subject to a decision on approval of the unallocated 5%, work will then begin on how to implement this. Members are asked to agree that a report detailing the implementation of the proposed changes be brought to the next meeting of the Sub-Committee.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 There are none directly arising from this report, however there will be procurement costs arising from any new asset investment class, which will be reported at the meeting.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013.

The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Pension Fund Asset Allocation Strategy Review – Follow Up Report, Pensions Investment Sub-Committee, January 30th 2020 (Appendix A) MJ Hudson Allenbridge asset allocation strategy report (Appendix B)

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Report No.
FSD20023

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**30th January 2020**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**PENSION FUND ASSET ALLOCATION STRATEGY REVIEW – FOLLOW UP REPORT**		
Contact Officer:	Katherine Ball, Principal Accountant Tel: 020 8313 4792 E-mail: Katherine.Ball@bromley.gov.uk		
Chief Officer:	Director of Finance		
Ward:	All		

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1. Reason for report

1.1 As requested at the last meeting of the Pensions Investment Sub-Committee, this follow-up report presents further information and recommends options for the future asset allocation strategy for the Pension Fund, specifically on the choice between investing in International Property Funds and investing in US Property Funds for the as yet unallocated 5% remaining.

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2. RECOMMENDATION

2.1 The Pensions Investment Sub-Committee is asked to:

(a) note the content of the report;

(b) agree final changes to the asset allocation strategy considering the updated proposals detailed in MJ Hudson Allenbridge's report (attached at Appendix A), and

(c) consider arrangements for implementing the strategy.

APPENDIX A

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,118m total fund market value at 30th September 2019)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), LGPS (Management and Investment of Funds) Regulations 2016

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,072 current employees; 5,502 pensioners; 5,828 deferred pensioners as at 30th September 2019

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 Asset Allocation Review – December 17th 2019

3.1.1 At its meeting on 17th December 2019, the Pensions Investment Sub-Committee considered further information on the asset allocation options, specifically in relation to Private Equity and US Real Estates compared with Global Property Funds.

3.1.2 Members requested further information detailing the options for investing in International Property Funds compared to US Property Funds for the unallocated 5%, as well as arrangements for implementing the strategy and any procurement timescales**.**

3.1.3 A supplementary note from MJ Hudson Allenbridge will be submitted separately outlining arrangements for the procurement of the chosen type of property fund.

3.1.4 The asset allocation report considered at the 17th December meeting has been attached for reference as Appendix B.

3.2 Asset Allocation Review – International Property Funds compared to US Property Funds

3.2.1 MJ Hudson Allenbridge's updated report is attached as Appendix A, and provides further information.

3.2.2 Representatives from MJ Hudson Allenbridge will be present at the meeting to answer any questions on their report and proposals.

3.3 Next Steps

3.3.1 Subject to a decision on approval of the unallocated 5%, work will then begin on how to implement this. Members are asked to agree that a report detailing the implementation of the proposed changes be brought to the next meeting of the Sub-Committee.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 There are none directly arising from this report, however there will be procurement costs arising from any new asset investment class, which will be reported at the meeting.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013.

The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	MJ Hudson Allenbridge asset allocation strategy reports (Appendices A & B)

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Strategic Asset Allocation
A Review of Options - International Property
London Borough of Bromley Pension Fund

FEBRUARY 2020

Background

MJ Hudson Allenbridge were mandated to conduct a review into the Fund's Strategic Asset Allocation ("SAA"), which was considered at the recent PISC meeting on 3rd December 2019. This report made a number of recommendations based on the Fund's current funding level and cash flow requirements. Of these recommendations, the committee asked for further details on two potential areas for investment and a recommendation on where, if any, assets should be sold to finance these. At a further meeting on the 17th December the committee agreed the major asset weightings for an updated SAA, as detailed in the table below and requested a report focused on an investment into International Property, particularly a comparison between accessing this asset class directly against investing in US REITs. This paper looks to cover these issues.

Summary of Recommendations

- To alter the current SAA to include a new investment of 5% of the Fund into International Property to be financed by reducing the allocation in the existing SAA to global equities by 2% and Fixed Interest by 3%. The intention of the move is to further diversify the Fund whilst not reducing the targeted return. Detail of the proposed SAA is given in the table below.
- To rebalance the Fund towards the new SAA. Because the Fund is currently over weight Global Equities against the existing SAA, the entire money for the new International Property investment could be taken from global equities. Alternatively, a full rebalancing towards the new SAA could be undertaken.

MJ Hudson Allenbridge would recommend accessing International Property via a Global Property manager using a value-add strategy (explained later) and most commonly accessed via a close-ended fund of 10-15-year duration with leverage of around 50%.

Asset Class	Existing SAA	Recommended SAA	Existing TAA (30/09/19)	Assets transitioned (Estimated)
Global Equities	60%	58%	63.75%	-£64m
Investment Grade Fixed Income	15%	12%	13.20%	-£13m
Multi-Asset Income	20%	20%	18.75%	+£14m
UK Property	5%	5%	4.30%	+£7m
International Property	n/a	5%	n/a	+£56m

The transition figures in the last column are based on the Funds value at 30/9/19 and will be updated for asset movements in the fourth quarter when these figures are available.

In reality, the Committee manages the Tactical Asset Allocation (TAA) which can differ from the SAA to reflect shorter term investment views and will alter as assets move in value over time. Whilst I would not put too much weight on anyone's ability to call short term market moves, in the interest of simplicity, it may be worth realising £13m from the Baillie Gifford Fixed Interest portfolio (currently valued at £63m) and ony £57m from the two global equity portfolios and not to finance the £7m into UK property at the current time but leave this asset class marginally underweight against the new SAA with global Equities correspondingly overweight.

We would note that International Property as an asset class is illiquid and, as such, it will take time to deploy the capital. Current investments will therefore need to be realised as and when required, unless there is a sufficient reason to pre-

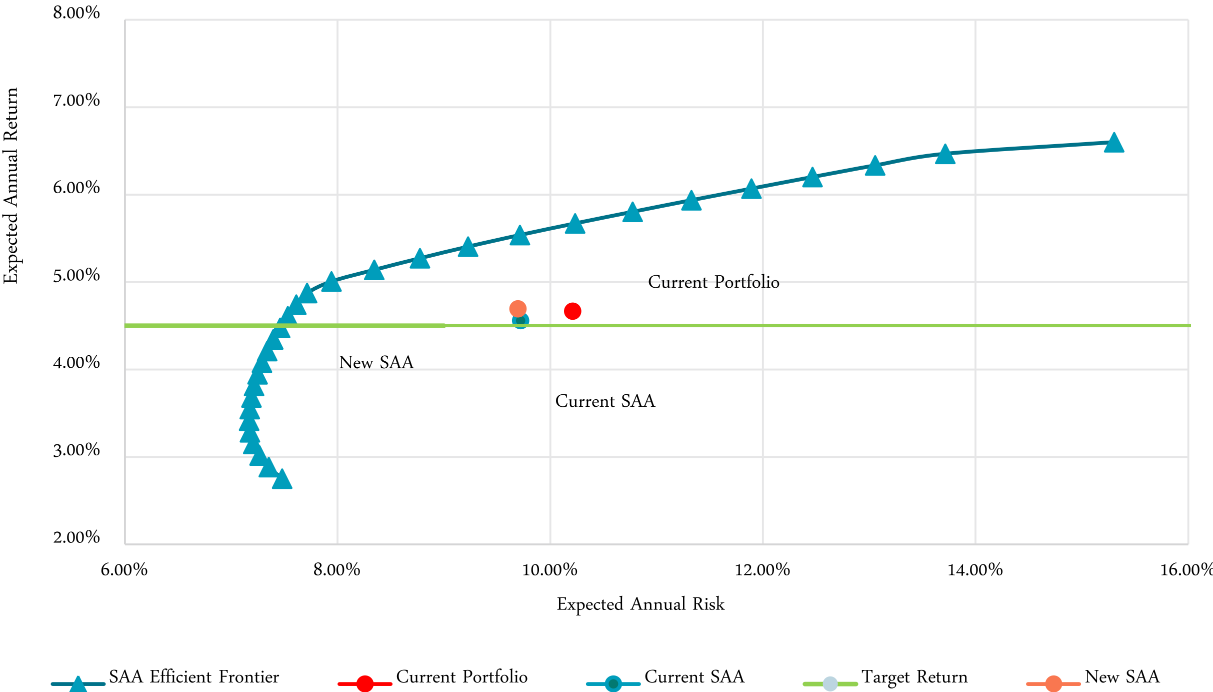
MJ HUDSON Allenbridge

fund any purchases. We would also note that these changes involve investing into more complex asset structures, which will increase the governance burden and cost in terms of manager fees for the Fund. However, we believe the resulting SAA would add to the diversification of the Fund and better position it to deliver the required investment return and cash flows into the future.

SAA Modelling

As before, this was conducted via a mean variance optimisation model developed by MJ Hudson Allenbridge using return and volatility data from the forecasts of a number of asset managers, including those used by the Fund.

The efficient frontier shown in the chart below is the same as that used in the initial SAA report constraining global equities to a minimum of 50% of total assets but otherwise allowed to allocate freely to all asset classes.



The dots on the chart correspond to the following options:

1) Existing SAA
2) TAA as at 30/9/19
3) Proposed SAA

The current TAA is substantially overweight equities against the existing SAA and as such a rebalancing back to the existing SAA does much to reduce risk at minimal cost to forecast returns.

You will note that the risk and return of the new proposed SAA are very similar to the existing SAA suggesting limited advantage in making this move. Whilst this may be true from a modelling perspective, this quantitative approach does have its limitations, in a partial reliance on past data and, as such, we would still recommend making this change. In particular, increasing the Fund's exposure to real assets (those that should keep their value in real terms) is a consideration given some concern over a recovery in inflation over the medium term.

Our modelling calculates a Value at Risk (VaR) figure for each portfolio, this calculation uses the volatility assumptions for each asset class and the weightings of each proposed asset allocation to calculate the potential loss of value from a 2 standard deviation market event in any one-year period. This equates to a one year in twenty event. Please note that

because these figures are based on historic data the one certainty will be that the figures will be wrong but they do act as an indication of the potential scale of downside risk.

The table below details the forecast return, risk and VaR for the existing SAA, proposed SAA and current TAA portfolios.

Portfolio	Return	Risk	VaR(£)
Existing SAA	4.56%	9.7%	£128m
Recommended SAA	4.69%	9.7%	£126m
Current TAA	4.67%	10.2%	£136m

Rebalancing back to the existing SAA would mean investing more into the Fund's two existing Fixed Interest portfolios. Given the very low level of current yields in these portfolios and low return assumptions we do not recommend this as a course of action. It is because of this and a desire to reduce the concentration of the Fund's risk in equities that an alternative asset class in being recommended.

International Property

This asset class provides a good forecast investment return with some diversification from Global Equities and strong cashflow characteristics.

Whilst property will always be affected by the state of the global economy and, as an illiquid asset, can see a marked fall in value in turbulent market conditions, each individual property, by its nature, is driven primarily by local factors. Property has no known price mechanism unless it is in the process of being traded, relying on valuers to make an informed but somewhat subjective decision on the value for the majority of the time. Because of this and the inherent illiquidity of the asset class, all property investment should be considered as a long-term commitment.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Australia 18.4%	Canada 3.7%	UK 3.5%	UK 15.1%	Canada 15.5%	Canada 14.2%	USA 11.4%	UK 17.8%	Australia 14.0%	Australia 11.9%
France 17.8%	Germany 2.8%	Germany 2.0%	USA 14.8%	USA 14.5%	USA 10.8%	Canada 10.7%	USA 11.2%	UK 13.1%	France 7.8%
Canada 15.9%	Australia 0.1%	Canada -0.3%	Canada 11.2%	Australia 10.3%	Australia 9.5%	UK 10.7%	Australia 10.6%	USA 12.1%	Germany 7.8%
USA 14.4%	France -0.9%	France -1.4%	France 10.0%	France 8.4%	France 6.3%	Australia 9.6%	Japan 7.8%	France 9.0%	Japan 7.6%
Japan 11.3%	Japan -0.9%	Australia -2.4%	Australia 9.4%	UK 7.8%	Germany 4.2%	Japan 6.0%	Canada 7.3%	Japan 9.0%	USA 7.5%
Germany 4.5%	USA -7.4%	Japan -6.1%	Germany 4.2%	Germany 5.3%	Japan 3.6%	Germany 5.2%	France 6.3%	Germany 8.1%	Canada 5.7%
UK -3.4%	UK -22.1%	USA -17.5%	Japan 0.6%	Japan 3.2%	UK 3.4%	France 5.1%	Germany 6.0%	Canada 8.0%	UK 3.9%

The table below shows the investment returns for various property markets over the 10 years to 2016.

This chart is for illustrative and discussion purposes only. Returns are shown in local currency. Source: MSCI, Pension Real Estate Association data as of 31 December 2016.

Whilst there will be wide variation around the average figure for each market, the table does show that each market has its own performance cycle reflecting more local, country specific factors. However, the low level of returns across all property markets in 2008/9 illustrates that each property market will be influenced by the global economic outlook.

Whilst investment into UK Commercial Property is often seen as a 'core' or 'core-plus' strategy, we would recommend investing into International Property via a 'value-add' strategy. This specifically targets the acquisition of assets to which the manager can add value, either by improving the quality or quantity of the rental book. This increases the focus on the local, idiosyncratic nature of each property, adding further diversification and avoids the investor making a long-term commitment to a specific geographical region which may enter a period of poor investment returns not foreseen at the present time. It is also difficult to find an institutional property manager who has truly global resources to cover all markets on a buy and hold basis. 'Value-add' does not mean taking on greenfield development risk but could involve a property requiring an element of investment post-acquisition, in order to get the best rental value going forward.

Regarding investing in the US or internationally, we would recommend the latter. As can be seen from the table, market returns will differ by country and thus having the flexibility to invest where the best medium (3-5 years) return is forecast should help maximise returns.

Whilst the US on its own encompasses a wide variety of individual, local, property markets, it will be influenced by the overall economic outlook for that country's economy. The US is later in the economic cycle than the rest of the world, having recovered earlier from the Global Financial Crisis of 2008/9 and seems to have a relatively high level of political uncertainty at present. Whilst the US may be a beneficiary of a global trade war, we are not convinced that a major breakdown in global trade is the new reality, more that global trade relations will remain more fractious even if President Trump reaches an accord with China in the run up to the US presidential elections next year. The era of outsourcing to low labour cost countries may now have passed its peak, as the level of added complexity from a global supply chain outweighs the cost savings.

There are a number of asset managers offering Global property mandates with a 'Value-add' approach, these funds tend to work with a gearing level of around 50% and are close-ended with initial investment periods followed by the return of capital over the ensuing harvesting period.

Broad categories of Property fund

Commercial property can be broadly grouped into four main categories depending on the type of asset and security of the cash flows. It is also possible to invest in a fund of funds or one targeting real estate debt. Most property funds will target one of these groupings to make up the majority of their fund and thus appeal to a particular type of investor. All real estate funds are likely to include an element of debt (leverage), either at the fund level or at the individual property level:

1) Core

The least risky category. Core real estate investments are fully operational buildings with high levels of occupancy usually in prime locations. Such buildings require minimal investment and management from the owner, only needing day-to-day upkeep and rent collection. The rental income from these investments generate stable ongoing cashflows. The expectation is for the assets to be held over the long term with properties revalued at least annually by an independent valuer. The price of these properties is likely to move in line with other similar assets and as such the valuer can ascribe a value to each property with some certainty. As a rough guide, at sale you would expect the realised sale price to be within 10% of the valuer's estimates under most market conditions. Bromley's existing investment via the Fidelity fund into UK commercial property is predominately of this type.

2) Core-Plus

Slightly riskier than the above, core-plus assets are similar to core assets but the nature of the cashflows may be slightly less predictable – for example the asset could have a low occupancy level at the time of acquisition or there may be some minor investment and alteration needed to improve the asset. Because of this, the asset can be bought at a price potentially below market and hence generate an above market capital return over the time needed to improve the property. The valuation of each property is slightly less 'known' as there may not be other properties nearby in a similar condition or with the same opportunity to add value and so the valuer will act with an element of caution. Again, each

property would be independently valued annually but the valuer may not give much value to the potential improvement in the property until this has been completed and the resulting higher rental levels achieved.

3) Value-Add

Value-add assets require substantial investment from the new owner and are considered riskier as a result. Such assets could be partly vacant or run-down at the time of acquisition; an unusual or unique purchase from a distressed seller or require change of use permits and so need a well-executed investment strategy to achieve the targeted value. Yields may be lower due to high vacancy rates and the majority of the returns will come from capital growth once the required investments have been made. Again, the independent valuer is unlikely to take into account the potential of the asset until remedial work has been completed and higher rental income achieved.

4) Opportunistic

Opportunistic property assets cover the widest variety of situations and therefore values have greatest uncertainty but can provide the greatest upside and, with each property having its own specific dynamics, the most idiosyncratic risk and least correlation to the global property market. For example, it could be purchasing a building that isn't fully constructed and then managing the asset all the way through to eventual letting and onward sale. Alternatively, these assets could be the amalgamation of a number of smaller adjacent assets where the combination is worth more than the sum of the parts.

5) **Fund of Funds**

A fund of funds (FoF) will offer exposure to multiple property managers and strategies as well as a far greater number of underlying assets than a direct vehicle would but come with additional costs due to the dual layer of fees charged by the FoF manager and the underlying managers. Typical total expense ratios for management fees for such strategies come to around 3% per annum before a performance related fee is also applied at both levels. Fee structures are difficult to compare effectively between FoF managers because they often charge different levels of fees depending on the type of transaction (primary, secondary, co-investment, etc.) and don't know the final composition of the portfolio and what kind of fees they can negotiate with underlying funds in advance. We would regard this as an expensive way of accessing the asset class albeit one that can provide instant access and immediate diversification within the asset class.

6) Real Estate Debt

Most real estate assets are acquired with a degree of debt in the transaction. Therefore, some managers invest with both equity and debt into target assets whilst there are some that just focus on debt. Real estate debt has the advantage of greater security against the asset but has consequentially lower returns. We do not see the returns from investing only in real estate debt as sufficiently attractive to justify an allocation on their own merit at the current time.

My recommendation to invest via a value-add fund rather than a core or core-plus fund may appear slightly at odds with the requirements of the Bromley Fund in that it is relying more on manager ability to add value and is higher risk without the security of a strong cash flow and yield.

This is partly due to the late stage of the economic cycle we are in which is reducing the number of under-priced assets and partly because I am not convinced that any manager can truly cover the global property market in the depth required to select strong assets in each individual property market (i.e. each major city in each major developed country). I would rather use a manager who has strong contacts with local property agents and can react to opportunities as they arise. They are not driven by a benchmark weighting to each property market or by the view that an individual property market is good value but rather by their appraisal of each individual asset.

Liquidity

As you move from core to opportunistic property funds the focus moves from yield to total return. Hence a core fund is more suitable for an investor looking for a regular income, albeit total return is likely to be lower. It is important to remember though that this income is not instantaneous as portfolios in new closed-ended funds take several years to build. There will be the 'J-curve' effect where capital is called during the investment period and little/no income is paid out before investments start to mature and the fund can return income to investors. During this initial period, investors will be covering acquisition costs, hence the 'J-curve' of a short period of negative returns as the portfolio is being acquired.

To mitigate this problem, the alternative is to invest in an open-ended fund rather than closed-ended. I.e. purchasing shares in a fund with a fully invested portfolio already in place. The advantages of this are that income is accrued immediately and these funds are supposedly more liquid than a closed-ended fund enabling investors to divest at short notice. However, to meet this liquidity requirement, such funds hold considerably more cash and even then, redemptions could be suspended if the fund is unable to sell assets fast enough to meet redemption requests. This has happened to various funds twice recently in the UK market alone – once immediately after the 2016 Brexit referendum and then in late 2019 due to further uncertainty around Brexit negotiations.

Another important factor to consider is the base currency of the fund. For example, commitments and calls could have to be made in dollars/euros rather than sterling, leaving an investor exposed to the currency risk over several years unless the fund has the ability to also receive and hedge sterling commitments.

Portfolio of US Real Estate Investment Trusts (REITs)

A REIT is an incorporated investment trust which holds a portfolio of property assets and distributes a high proportion of its income to shareholders (a minimum of 90% for a UK REIT). As an investment trust it is a closed-ended fund and so does not suffer the illiquidity issues of an open-ended fund. The shares trade at a discount or premium to the underlying NAV (Net Asset Value) depending on investor demand. REITS are available in most developed property markets and there are a number of credible managers who offer global REIT funds (20 or so we believe).

Given the above, a manager selection mandate would still be required although the costs of this may be slightly below that of a direct property mandate due to the simplicity of the approach and relatively small number of credible providers.

Regarding management costs, a REIT fund looks cheap as the management fees only relate to the management of the portfolio of REITs and most often do not cover the underlying cost of managing the individual properties within each REIT which is born within the REIT fund. This gives a low level of transparency on costs and challenges the commonly held view that REIT funds have low management charges.

There is also the question of whether REITs perform as well as direct property funds. Over the longer term the answer is that they do reflect the performance of the underlying assets. Over the shorter term, however, because they are traded, closed-ended funds, they will be more volatile and more closely correlated with the performance of the equity market they are listed on. As an example, the correlation between a US REIT and the US equity market is usually around 0.6-0.8 over a one year period, i.e. if the US market raises 10% the US REIT rise 6-8% purely due to the rise in the US equity market with any further performance, positive or negative, relating to the attractiveness of the property assets held within the REIT.

In some markets, such as the US, REITS are not required to publish a NAV, this reduces transparency. The price is set purely by investor supply and demand with the REIT price trading at a premium or discount to the assumed NAV at any one time. At present it would seem that most US REITS are trading at a premium to their assumed NAV. This is not surprising given the strong US equity market over recent years and the late stage of the economic cycle. European REITs look to be trading on small discounts on average.

Similar to the issue above with fund base currencies, investing in US REITs would expose Bromley to the sterling-dollar risk unless they went for a hedged mandate (with its associated hedging costs) or were comfortable with investing unhedged.

I am not recommending investing via a US REITS or Global REITS fund because:

- I do not believe they provide the same level of diversification compared to a direct property fund given their higher correlation to equity markets which is the major component of the Bromley Fund. Diversification from equities is a major part of the rational for this investment decision.
- I am not convinced that they offer a cheaper investment vehicle than direct property, it is more that they are less transparent and more of the fees are hidden.
- I do not see the US market as more attractive than other global property markets and given the strength of the US economy over the recent past see it as potentially later in the economic cycle. I would prefer to invest via a global property mandate rather than purely US.

- Whilst we are forecasting a return of 5% over the long term on International Property which is similar to Global Equities, I would hope a value-add international property fund of the type detailed above to be able to achieve a higher return, potentially towards 10% per annum, I do not see the same potential for a holding in US REITS.

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Report No.
FSD20030

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**13th February 2020**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**London Collective Investment Vehicle (CIV) – Pension Guarantee and Pension Recharge Agreements**		
Contact Officer:	Katherine Ball, Principal Accountant Tel: 020 8313 4792 E-mail: Katherine.Ball@bromley.gov.uk		
Chief Officer:	Director of Finance		
Ward:	All		

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1. Reason for report

1.1 This report seeks formal agreement of the Committee to sign the London Collective Investment Vehicle (CIV) Pension Guarantee and Pension Recharge Agreements, having considered further legal advice provided under Part 2 of this agenda.

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2. RECOMMENDATION

2.1 The Pensions Investment Sub-Committee is asked to:

(a) note the content of the report;

(b) consider the advice from the Director of Corporate Services to ensure that robust safeguards are in place in finalising the guarantee and recharge agreements;

(c) subject to (b) above, agree to sign the guarantee and recharge agreements on the basis that the LGPS scheme is closed to new starters and remains closed

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: ££43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,141m total fund market value at 31st December 2019)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), LGPS (Management and Investment of Funds) Regulations 2016

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,140 current employees; 5,852 pensioners; 5,576 deferred pensioners as at 31st December 2019

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 London CIV Pension Recharge and Guarantee Agreement

3.1.1 At its meeting on 30th January 2020, the Pensions Investment Sub-Committee received a report requesting them to sign the London Collective Investment Vehicle (CIV) Pension Guarantee and Pension Recharge Agreements, on the basis that the LGPS scheme is closed to new starters and remains closed. This previous report is attached at Appendix A and the Pension Guarantee and Pension Recharge Agreements are attached at Appendix B).

3.1.2 At the meeting on 30th January 2020, Members requested more details on how the Council will include adequate legal protection to ensure that the Council can withdraw the recharge and guarantee arrangement if the scheme were to be re-opened in the future. In addition, Members asked for clarification of what the status of Bromley's guarantee and recharge agreements would be if the Council withdrew from the CIV.

3.1.3 The additional clarifications requested from the Director of Corporate Services will be provided under Part 2 of this agenda – this is attached at Appendix C.

3.2 Next Steps

3.2.1 The Sub-Committee will receive further updates on the progress of the London CIV at further meetings.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 These are no direct financial implications arising from the recommendation in this report.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

6.2 Following a request at the last meeting the Director of Corporate Services' comments on ensuring necessary safeguards are in place in signing any recharge and guarantee are presented in Appendix C in Part 2 of this agenda

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	London Collective Investment Vehicle (CIV) – Pension Guarantee and Pension Recharge Agreements, Pensions

	Investment Sub-Committee, January 30th 2020 (Appendix A) Pension Guarantee and Pension Recharge Agreements (Appendix B) Additional advice from the Director of Corporate Services (Appendix C)

APPENDIX A

Report No.
FSD20019

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**30th January 2020**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**London Collective Investment Vehicle (CIV) – Pension Guarantee and Pension Recharge Agreements**		
Contact Officer:	Katherine Ball, Principal Accountant Tel: 020 8313 4792 E-mail: Katherine.Ball@bromley.gov.uk		
Chief Officer:	Director of Finance		
Ward:	All		

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1. Reason for report

1.1 This report seeks formal agreement of the Committee to sign the London Collective Investment Vehicle (CIV) Pension Guarantee and Pension Recharge Agreements.

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2. RECOMMENDATION

2.1 The Pensions Investment Sub-Committee is asked to:

(a) note the content of the report;

(b) agree to sign the guarantee and recharge agreements on the basis that the LGPS scheme is closed to new starters

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,118m total fund market value at 30th September 2019)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), LGPS (Management and Investment of Funds) Regulations 2016

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,072 current employees; 5,502 pensioners; 5,828 deferred pensioners as at 30th September 2019

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 London CIV Pension Recharge and Guarantee Agreement

3.1.1 At its meeting on 3rd December 2019, the Pensions Investment Sub-Committee received an update from the Director of Finance about progress on the London CIV and how work was underway to include additional wording in the guarantee, confirming that the staff defined benefit scheme will be closed to new members.

3.1.2 The London CIV has written to London Boroughs confirming that the CIV Board has agreed to close the schemes to new hires, but reiterating that this decision can only be implemented once all of the 32 signed guarantees and recharge agreements have been received by the CIV, and that until all guarantees and recharge agreements have been signed the scheme remains open to new hires.

3.1.3 The Committee has previously indicated support for the closure of the LGPS scheme for new starters used by the CIV, as this will reduce potential additional liability costs from continuing with the scheme which ultimately will be met by member authorities.

3.1.4 The Sub-Committee is requested to agree to sign both the Pension Guarantee and Pension Recharge Agreement and return these to the London CIV. The Guarantee and Agreement are attached at Appendix A.

3.1.5 A verbal update will be given at the meeting of how many authorities to date have signed the Pension Guarantee and Pension Recharge Agreements.

3.2 Next Steps

3.2.1 The Sub-Committee will receive further updates on the progress of the London CIV at further meetings.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 These are no direct financial implications arising from the recommendation in this report.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Pension Guarantee and Pension Recharge Agreements (Appendix A)

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EVERSHEDS SUTHERLAND

APPENDIX B

Dated: 2018

(1) LONDON LGPS CIV LIMITED

(2) EACH OF THOSE ENTITIES SPECIFIED IN SCHEDULE 1

(3) THE MAYOR AND COMMONALTY AND CITIZENS OF THE CITY OF LONDON

Pension Guarantee Agreement

CONTENTS

Clause **Page**

1 INTERPRETATION 3
2 GUARANTEE 4
3 CHANGE IN STATUS 5
4 EXPIRY DATE 5
5 NOTICES 6
6 AMENDMENT 6
7 MORE THAN ONE COUNTERPART 6
8 ASSIGNMENT 6
9 LAWS 6
10 WARRANTY OF AUTHORITY 6

Schedule

List of Shareholders 24

THIS AGREEMENT is made on the day of 2018

BETWEEN

(1) **LONDON LGPS CIV LIMITED**, a company incorporated in England and Wales (registered number 09136445) whose registered office is at Eversheds House, 70 Great Bridgewater Street, Manchester M1 5ES (the **"Admission Body"**);

(2) **EACH OF THOSE ENTITIES LISTED IN SCHEDULE 1** (together the **"Shareholders"**); and

(3) **THE MAYOR AND COMMONALTY AND CITIZENS OF THE CITY OF LONDON** of Guildhall, PO Box 270, London, EC2P 2EJ acting in its capacity as the administering authority of the City of London Corporation Pension Fund (the "**Administering Authority**")

BACKGROUND

(A) The Administering Authority administers and maintains the Fund.

(B) The Admission Body is an admission body within the meaning of paragraph 1(e) of Part 3 of Schedule 2 to the 2013 Regulations and is admitted to the Fund under the terms of the Admission Agreement.

(C) The Admission Body has been formed as an entity to act as an alternative investment fund manager to run and operate one or more collective investment vehicles to allow Shareholders in their respective capacities as administering authorities within the Scheme to pool some or all of their respective Scheme investments.

(D) The Shareholders are the current sole shareholders of the Admission Body following the merger of the pension fund maintained by the London Borough of Richmond upon Thames into the pension fund maintained by the London Borough of Wandsworth pursuant to The Local Government Pension Scheme (Wandsworth and Richmond Fund) Regulations 2016 (SI 2016/1241).

(E) If the Admission Body was to cease to employ any active members in the Fund or if the Admission Agreement was to terminate then the Administering Authority must, in accordance with Regulation 64(2) of the 2013 Regulations, obtain an actuarial valuation as at the exit date of the liabilities of the Fund in respect of benefits in respect of the Admission Body's current and former employees and a revised rates and adjustments certificate showing the exit payment due from the Admission Body in respect of those benefits. This payment is referred to as the Exit Payment in this Agreement.

(F) Subject to the provision of a guarantee in the form of this Agreement, the Administering Authority and the Admission Body have entered into the Admission Agreement.

(G) At the request of the Admission Body, the Shareholders have agreed to enter into this Agreement as a guarantee in a form acceptable to the Administering Authority.

NOW IT IS AGREED as follows:

1. **Interpretation**

This Clause sets of the definitions which apply to the Agreement.

1.1 The following expressions have the following meanings:

"2013 Regulations"	The Local Government Pension Scheme Regulations 2013.
"Actuary"	the actuary appointed from time to time by the Administering Authority in relation to the Fund.

"Admission Agreement"	the admission agreement made between the Administering Authority and the Admission Body to allow the Admission Body to be admitted to the Scheme and to participate in the Fund.
"Business Day"	any day other than a Saturday or a Sunday or a public or bank holiday in England.
"Exit Payment"	a payment required by the Administering Authority in accordance with Regulation 64(2) of the 2013 Regulations.
"Fund"	the City of London Corporation Pension Fund.
"Proportionate Share"	means the fraction X/Y where X equals one and Y equals the number of authorities listed from time to time in **Schedule 1**.
"Rates and Adjustments Certificate"	means the rates and adjustments certificate put in place in respect of the Admission Body pursuant to Regulation 67 of the 2013 Regulations.
"Regulations"	the 2013 Regulations and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.
"Scheme"	the Local Government Pension Scheme established by the Regulations made by the Secretary of State under Sections 7 and 12 of the Superannuation Act 1972.
"Shareholders' Agreement"	the agreement dated 6 November 2015 made between certain of the Shareholders and the Admission Body to record the terms of the Shareholders' relationship with each other in relation to the Admission Body and to regulate certain aspects of their affairs and dealings with the Admission Body (as amended or varied from time to time).

1.2 Expressions have the same meaning as in the Regulations except where the context otherwise requires.

1.3 This Agreement includes a heading and a box at the start of each Clause which outlines its provisions. These are included for information only.

1.4 Any reference in this Agreement to any statute or statutory provision will include any subordinate legislation made under it and will be construed as references to such statute, statutory provision and/or subordinate legislation as modified, amended, extended, consolidated, re-enacted and/or replaced and in force from time to time.

2. Guarantee

This Clause sets out the terms of the guarantee given by the Shareholders to the Fund.

2.1 The Admission Body will pay the Administering Authority for credit to the Fund such employer contributions as are required from time to time pursuant to the Regulations in accordance with the Rates and Adjustments Certificate in force from time to time.

2.2 If for whatever reason the Admission Body fails to pay an Exit Payment (in whole or in part) to the Administering Authority, each Shareholder (other than the Administering Authority) shall on a several basis be responsible for paying to the Administering

Authority its Proportionate Share of such sum as the Administering Authority claims in respect of the unpaid Exit Payment.

2.3 Any claim by the Administering Authority shall be made by the service of a written demand and shall be accepted by the Shareholders as conclusive evidence for all purposes that the amount claimed is due to the Administering Authority.

2.4 Each Shareholder shall pay the sum so demanded of it within 20 Business Days of receipt of the demand (or such longer period as may be agreed in writing with the Administering Authority).

2.5 All sums paid by each Shareholder in accordance with **clause 2.2** shall be held and applied by the Administering Authority for the purpose of paying and discharging the Exit Payment.

2.6 Any payment to be made by a Shareholder shall be made in sterling free, clear of and without any deduction for taxes, levies, duties, charges, fees and deductions or withholdings for or on account of any set-off or counterclaim.

2.7 Following payment in full by the Shareholders, the Administering Authority shall provide the Shareholders with a written account showing how the payments have been applied to the Fund within 30 Business Days of receipt of payment. If the payments exceeds the amount required to discharge the Exit Payment, the Administering Authority shall refund any overpayment to the Shareholders in the same proportions as they contributed.

2.8 The Shareholders' obligations and liabilities under this **clause 2** shall not be reduced, discharged, impaired or affected by the giving of time or any other indulgence, forgiveness or forbearance by the Administering Authority.

2.9 The Administering Authority as a shareholder shall be responsible for its Proportionate Share of the unpaid Exit Payment as a shareholder and shall discharge its obligations by transferring assets equal to the value of its Proportionate Share of the unpaid Exit Payment from its own notional allocation of assets within the Fund as a Scheme employer to the Admission Body's notional allocation of assets within the Fund.

3. **Change in Status**

This Clause deals with issues relating to changes in the status of the Admission Body and what happens if a Shareholder ceases to be a shareholder in the Admission Body.

3.1 This Agreement shall remain in operation notwithstanding any variation made in the terms of the Admission Agreement or the Regulations and notwithstanding the insolvency, winding-up or liquidation of the Admission Body (compulsory or otherwise) or it otherwise ceasing to exist or function. This Agreement shall not be affected by any disclaimer of the Admission Body's contracts or liabilities by a liquidator.

3.2 The obligations and liabilities of a Shareholder under this Agreement shall continue even if the Shareholder ceases to hold the legal and/or beneficial entitlement in any or all of its shares in the Admission Body notwithstanding any provision in the Shareholders' Agreement. A Shareholder shall only cease to be liable under this Agreement if the Shareholder is removed from the list at **Schedule 1** of this Agreement in accordance with **clause 6**.

4. **Expiry Date**

This Clause sets out the circumstances in which this Agreement shall expire.

This Agreement shall expire (and the obligations and liabilities of the Shareholders shall cease and determine absolutely) on the full payment of the Exit Payment by the Admission Body (or by the Shareholders under **clause 2**) which fully discharges the Admission Body's obligations and liabilities to the Fund.

5. **Notices**

This Clause sets out how any written notices are to be served.

All notices under this Agreement shall be in writing and shall be served by sending the same by first class post, facsimile or by hand or leaving the same at the registered office or headquarters address (as appropriate) of the Admission Body, the Shareholders or the Administering Authority.

6. **Amendment**

This Clause sets out how the Agreement may be amended.

6.1 The parties to this Agreement may, with the agreement of all of them in writing, amend this Agreement by deed.

6.2 This Agreement may be amended by the Administering Authority alone to add or remove shareholders in the Admission Body to or from **Schedule 1** where the addition or removal of that shareholder for the purposes of this Agreement has been agreed in writing by the Shareholders and notified to the Administering Authority.

7. **More than one Counterpart**

This Clause sets out how the Agreement can be executed in counterparts.

This Agreement may be executed in more than one counterpart, which together constitute one agreement. When each signatory to this agreement has executed at least one part of it, it will be as effective as if all the signatories to it had executed all of the counterparts. Each counterpart Agreement will be treated as an original.

8. **Assignment and Restructuring**

This Clause sets out when the Agreement may be assigned.

8.1 No party shall assign the benefit or burden of the whole or any part of this Agreement without the prior written consent of the other parties (such consent not to be unreasonably withheld or delayed).

9. **Laws**

This Clause sets out the legal framework which governs the Agreement.

9.1 This Agreement shall be governed by and interpreted in accordance with the laws of England and Wales.

9.2 Any rights that a third party may have under the Contracts (Rights of Third Parties) Act 1999 are excluded.

10. **Warranty of Authority**

This Clause confirms that the Shareholders have the relevant authority power and capacity to enter into this Agreement.

10.1 Each Shareholder separately warrants and represents to each other and to the Admission Body that it has all necessary authority, power and capacity to enter into and perform its obligations under this Agreement, that all necessary actions have been taken to enter into this Agreement properly and lawfully, and that this Agreement constitutes obligations binding on it in accordance with its terms.

EXECUTED as a deed and delivered on the date stated at the beginning of this Agreement.

EXECUTED as a deed by **LONDON LGPS CIV LIMITED** acting by a director

Signature of Director

in the presence of:

Witness signature: ....

Witness Name: ....

Witness Address: ....

Witness Occupation: ....

EXECUTED as a deed when the seal of **THE MAYOR AND COMMONALTY AND CITIZENS OF THE CITY OF LONDON** (in its capacity as a shareholder) was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BARNET** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BARKING AND DAGENHAM** was affixed

in the presence of:

Being an officer of the Council of the said London Borough duly authorised to attest the common seal thereof

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BEXLEY** was affixed

in the presence of:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BRENT** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BROMLEY** was affixed

in the presence of:

Mayor/Councillor

Director of Corporate Services/Senior Solicitor

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF CAMDEN** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF CROYDON** was affixed

in the presence of:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF EALING** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF ENFIELD** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HACKNEY** was affixed

in the presence of:

Authorised Signatory

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HARINGEY** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HARROW** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HAVERING** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

The Common Seal of **THE MAJOR AND BURGESSES** of **THE LONDON BOROUGH OF HAMMERSMITH AND FULHAM** was hereunto affixed by order in the presence of:

Authorised Officer

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HOUNSLOW** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF ISLINGTON** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF LAMBETH** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF LEWISHAM** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF MERTON** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF NEWHAM** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

The Corporate Seal of **THE MAJOR AND BURGESSES** of **THE LONDON BOROUGH OF REDBRIDGE** was hereunto affixed in the presence of:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF SOUTHWARK** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF SUTTON** was affixed

in the presence of:

Authorised Signatory:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF TOWER HAMLETS** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF WALTHAM FOREST** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF HILLINGDON** was affixed

in the presence of:

Member of the Council:

Authorised Officer:

EXECUTED as a deed when the seal of the **ROYAL BOROUGH OF GREENWICH** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

The Common Seal of **THE MAYOR AND BURGESSES** of **THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA** was hereunto affixed to this deed in the presence of:

Authorised Officer

The Common Seal of **THE MAJOR AND BURGESSES** of **THE ROYAL BOROUGH OF KINGSTON UPON THAMES** was hereunto affixed to this deed in the presence of:

Major

Corporate Solicitor

EXECUTED as a deed when the seal of the **WANDSWORTH LONDON BOROUGH COUNCIL** was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

The Common Seal of **THE LORD MAYOR AND CITIZENS OF THE CITY OF WESTMINSTER** was hereunto affixed by order in the presence of:

Authorised Officer

EXECUTED as a deed when the seal of **THE MAYOR AND COMMONALTY AND CITIZENS OF THE CITY OF LONDON** (in its capacity as administering authority) was affixed

in the presence of:

Witness signature:

Witness Name:

Witness Address:

Witness Occupation:

SCHEDULE

List of Shareholders

1. City of London Corporation
2. London Borough of Barnet
3. London Borough of Barking and Dagenham
4. London Borough of Bexley
5. London Borough of Brent
6. London Borough of Bromley
7. London Borough of Camden
8. London Borough of Croydon
9. London Borough of Ealing
10. London Borough of Enfield
11. London Borough of Hackney
12. London Borough of Haringey
13. London Borough of Harrow
14. London Borough of Havering
15. London Borough of Hammersmith and Fulham
16. London Borough of Hounslow
17. London Borough of Islington
18. London Borough of Lambeth
19. London Borough of Lewisham
20. London Borough of Merton
21. London Borough of Newham
22. London Borough of Redbridge
23. London Borough of Southwark
24. London Borough of Sutton
25. London Borough of Tower Hamlets
26. London Borough of Waltham Forest
27. London Borough of Hillingdon
28. Royal Borough of Greenwich
29. Royal Borough of Kensington and Chelsea
30. Royal Borough of Kingston upon Thames

31. Wandsworth London Borough Council

32. Westminster City Council

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EVERSHEDS SUTHERLAND

APPENDIX B

Dated: 2018

(1) LONDON LGPS CIV LIMITED

(2) THE LONDON BOROUGH OF BROMLEY

Pension Cost Recharge Agreement

CONTENTS

Clause **Page**

1 INTERPRETATION 2
2 PENSION COST REIMBURSEMENT 4
3 GUARANTEE AGREEMENT 5
4 EFFECTIVE AND EXPIRY DATES 5
5 CHANGE IN STATUS 5
6 NOTICES 5
7 AMENDMENT 6
8 MORE THAN ONE COUNTERPART 6
9 ASSIGNMENT 6
10 LAWS 6
11 WARRANTY OF AUTHORITY 6

Schedules

1 List of Shareholders 9
2 Specimen Payment Notice 11

THIS AGREEMENT is made on the day of 2018

BETWEEN

(1) **LONDON LGPS CIV LIMITED**, a company incorporated in England and Wales (registered number 09136445) whose registered office is at Eversheds House, 70 Great Bridgewater Street, Manchester M1 5ES (the **"Admission Body"**); and

(2) **THE LONDON BOROUGH OF BROMLEY** (the **"Authority"**)

BACKGROUND

(A) The Admission Body is an admission body within the meaning of paragraph 1(e) of Part 3 of Schedule 2 to the 2013 Regulations and is admitted to the Fund under the terms of the Admission Agreement.

(B) The Admission Body has been formed as an entity to act as an alternative investment fund manager to run and operate one or more collective investment vehicles to allow Shareholders in their respective capacities as administering authorities within the Scheme to pool some or all of their respective Scheme investments.

(C) The Authority is a shareholder in the Admission Body. The Shareholders (as defined below) are the current sole shareholders in the Admission Body following the merger of the pension fund maintained by the London Borough of Richmond upon Thames into the pension fund maintained by the London Borough of Wandsworth pursuant to The Local Government Pension Scheme (Wandsworth and Richmond Fund) Regulations 2016 (SI 2016/1241).

(D) Under the 2013 Regulations, the Administering Authority must obtain:

(i) an actuarial valuation of the assets and liabilities of the Fund as at 31st March 2016 and on 31st March in every third year afterwards;

(ii) a report by the Actuary in respect of the valuation; and

(iii) a rates and adjustments certificate prepared by the Actuary.

(E) A rates and adjustments certificate must specify the Admission Body's primary and secondary rate of employer contributions as defined in the Regulations.

(F) The primary rate is effectively the cost of future accruals in the Fund expressed as a percentage of the pay of employees who are active members of the Fund.

(G) The secondary rate of the Admission Body is any percentage or amount by which, in the Actuary's opinion, contributions at the primary rate should, in the case of the Admission Body, be increased or reduced by reason of any circumstances peculiar to the Admission Body. For example the secondary rate could include percentage or amount to fund any deficit revealed in respect of the Admission Body by the last actuarial valuation of the Fund.

(H) A rates and adjustments certificate may be revised between triennial valuations in circumstances prescribed in Regulation 64 of the 2013 Regulations.

(I) The Admission Body must contribute to the Fund in each year covered by a rates and adjustment certificate. During each of those years the Admission Body must make payments to the Fund on account of the amount required for the whole year. These contributions are referred to as Regular Employer Contributions in this Agreement.

(J) If the Admission Body was to cease to employ any active members in the Fund or if the Admission Agreement was to terminate then the Administering Authority must, in accordance with Regulation 64(2) of the 2013 Regulations, obtain an actuarial valuation as at the exit date of the liabilities of the Fund in respect of benefits in respect of the Admission Body's current and former employees and a revised rates and adjustments certificate showing the exit payment due from the Admission Body in respect of those benefits. This payment is referred to as the Exit Payment in this Agreement.

(K) The Admission Body's annual financial statements are prepared in accordance with Financial Reporting Standard 102. In applying the general recognition principle in paragraph 28.3 of the Standard to defined benefit plans such as the Scheme, the Admission Body shall recognise a liability for its obligations under the Fund net of its share of Fund assets. For this purpose, liabilities are calculated on a different basis to the basis used by the Actuary to carry out Fund valuations.

(L) Under paragraph 28.28 of Financial Reporting Standard 102 if the Admission Body is virtually certain that another party or parties will reimburse some or all of the expenditure required to settle a defined benefit obligation, the Admission Body shall recognise its right to reimbursement as a separate asset in the annual financial statements and shall treat that asset in the same way as Scheme assets.

(M) The Authority has agreed to reimburse the Admission Body in connection with its participation in the Fund in accordance with the terms of this Agreement.

(N) This Agreement is intended to act as an asset for the purposes of paragraph 28.28 of Financial Reporting Standard 102.

(O) The Shareholders may also be required to pay a separate annual service charge in accordance with clause 3.1 of the Shareholders' Agreement. Both the estimated Regular Employer Contribution and the annual service charge may be invoiced at the same time. There shall be no double payment of the same pension costs by Shareholders under this Agreement and the annual service charge.

(P) This Agreement shall have effect on and from the Effective Date (even if it is dated after that date).

NOW IT IS AGREED as follows:

1. **Interpretation**

This Clause sets out the definitions which apply to the Agreement.

1.1 The following expressions have the following meanings:

"2013 Regulations"	The Local Government Pension Scheme Regulations 2013.
"Actuary"	the actuary appointed from time to time by the Administering Authority in relation to the Fund.
"Additional Employer Contributions"	additional employer contributions other than Regular Employer Contributions or an Exit Payment that the Admission Body is required to pay to the Fund under the Admission Agreement or the Regulations.
"Administering Authority"	the City of London Corporation as the administering authority of the Fund.
"Admission Agreement"	the admission agreement made between the Administering Authority and the Admission Body to allow the Admission Body to be admitted to the Scheme and to participate in the Fund.
"Business Day"	any day other than a Saturday or a Sunday or a public or bank holiday in England.
"Effective Date"	31 March 2018.
"Exit Payment"	a payment required by the Administering Authority in accordance with Regulation 64(2) of the 2013 Regulations.

"Fund"	the City of London Corporation Pension Fund.
"Guarantee Agreement"	the guarantee agreement to be made between the Administering Authority, the Shareholders and the Admission Body pursuant to which the Shareholders will provide a guarantee to the Administering Authority in connection with the Admission Body's participation in the Fund.
"Payment Notice"	a notice substantially in the form of the notice of **Schedule 2** (Specimen Payment Notice).
"Proportionate Share"	means the fraction X/Y where X equals one and Y equals the number of authorities listed from time to time in **Schedule 1** (List of Shareholders).
"Rates and Adjustments Certificate"	means the rates and adjustments certificate put in place in respect of the Admission Body pursuant to Regulation 67 of the 2013 Regulations.
"Regular Employer Contributions"	the contributions the Admission Body is required to pay to the Fund in accordance with the Rates and Adjustments Certificate comprising of contributions at both the primary and secondary rates.
"Regulations"	the 2013 Regulations and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.
"Scheme"	the Local Government Pension Scheme established by the Regulations made by the Secretary of State under Sections 7 and 12 of the Superannuation Act 1972.
"Shareholders"	each of those authorities listed from time to time in **Schedule 1** (List of Shareholders).
"Shareholders' Agreement"	the agreement dated 6 November 2015 made between certain of the Shareholders and the Admission Body to record the terms of the Shareholders' relationship with each other in relation to the Admission Body and to regulate certain aspects of their affairs and dealings with the Admission Body (as amended or varied from time to time).

1.2 Expressions have the same meaning as in the Regulations except where the context otherwise requires.

1.3 This Agreement includes a heading and a box at the start of each Clause which outlines its provisions. These are included for information only.

1.4 Any reference in this Agreement to any statute or statutory provision will include any subordinate legislation made under it and will be construed as references to such statute, statutory provision and/or subordinate legislation as modified, amended, extended, consolidated, re-enacted and/or replaced and in force from time to time.

2. Pension Cost Reimbursement

This Clause sets out how pension costs will be reimbursed to the Admission Body.

2.1 Reimbursement of Regular Employer Contributions

2.1.1 The Admission Body will pay the Administering Authority for credit to the Fund such Regular Employer Contributions as are required from time to time pursuant to the Regulations in accordance with the Rates and Adjustments Certificate in force from time to time. For the avoidance of doubt this shall cover employer contributions at the primary rate for future membership in the Fund and employer contributions at the secondary rate for circumstances peculiar to the Admission Body, including deficits in the Fund relating to accrued membership.

2.1.2 The Admission Body will invoice the Authority annually in advance for the Authority's Proportionate Share of the estimated Regular Employer Contributions payable for the next financial year (commencing 1 April to the following 31 March). There shall be a corresponding adjustment in the following year's invoice to the extent that the estimated Regular Employer Contributions for the year in question prove to be higher or lower than the actual Regular Employer Contributions for that year. This may be invoiced at the same time as the annual service charge the Authority is required to pay in accordance with clause 3.1 of the Shareholders' Agreement.

2.1.3 The Authority undertakes to the Admission Body that it will pay the Admission Body the amount invoiced to it in accordance with **clause 2.1.2**.

2.1.4 The Authority will ensure that any payment made to the Admission Body pursuant to **clause 2.1.2** is made within no more than 10 Business Days of commencement of the financial year in question so that the Admission Body is able to pay the first monthly instalment of the relevant Regular Employer Contribution to the Fund on or before the first due date.

2.2 Reimbursement of Additional Employer Contributions

2.2.1 The Admission Body will provide the Authority with a Payment Notice for the Authority's Proportionate Share of any Additional Employer Contributions that the Admission Body is required to pay to the Fund (together with the due date(s) for payment in accordance with the demand).

2.2.2 The Authority undertakes to the Admission Body that it will pay the Admission Body an amount equal to its Proportionate Share of the Additional Employer Contributions notified to it by the Admission Body pursuant to **clause 2.2.1**.

2.2.3 The Authority will ensure that any payment made to the Admission Body pursuant to **clause 2.2.2** is made at least 5 Business Days in advance of the due date for payment so that the Admission Body is able to pay the relevant Additional Employer Contribution to the Fund on or before the due date.

2.3 Reimbursement of Exit Payment

2.3.1 The Admission Body will provide the Authority with a Payment Notice for the Authority's Proportionate Share of any Exit Payment that the Admission Body is required to pay to the Fund (together with the due date(s) for payment in accordance with the demand).

2.3.2 The Authority undertakes to the Admission Body that it will pay the Admission Body an amount equal to its Proportionate Share of the Exit Payment notified to it by the Admission Body pursuant to **clause 2.3.1**.

2.3.3 The Authority will ensure that any payment made to the Admission Body pursuant to **clause 2.3.2** is made at least 5 Business Days in advance of the due date for payment so that the Admission Body is able to pay the Exit Payment to the Fund on or before the due date.

2.4 **Service of Invoice or Payment Notice**

The service of an invoice under **clause 2.1.2** or a Payment Notice by the Admission Body shall be accepted by the Authority as conclusive evidence for all purposes that the amount claimed is due to the Admission Body.

2.5 **Obligations and Liabilities**

The Authority's obligations and liabilities under this Agreement shall not be reduced, discharged, impaired or affected by the giving of time or any other indulgence, forgiveness or forbearance by the Admission Body.

3. **Guarantee Agreement**

This Clause refers to the Guarantee Arrangement to be entered into between the Administering Authority, the Shareholders and the Admission Body.

The Authority and the Admission Body acknowledge and agree that they (together with the other Shareholders and the Administering Authority) shall enter into the Guarantee Agreement.

4. **Effective and Expiry Dates**

This Clause sets out the circumstances in which this Agreement shall be effective from and shall expire.

4.1 This Agreement shall have effect on and from the Effective Date. Where the Agreement is dated after the Effective Date it shall be deemed to have retrospective effect on and from the Effective Date.

4.2 This Agreement shall expire (and the obligations and liabilities of the Authority shall cease and determine absolutely) on the full payment of the Exit Payment by the Admission Body (or by the Shareholders under the Guarantee Agreement) which fully discharges the Admission Body's obligations and liabilities to the Fund.

5. **Change in Status**

This Clause deals with issues relating to changes in the status of the Admission Body and what happens if a Shareholder ceases to be a shareholder in the Admission Body.

5.1 This Agreement shall remain in operation notwithstanding any variation made in the terms of the Admission Agreement or the Regulations and notwithstanding the insolvency, winding-up or liquidation of the Admission Body (compulsory or otherwise) or it otherwise ceasing to exist or function. This Agreement shall not be affected by any disclaimer of the Admission Body's contracts or liabilities by a liquidator.

5.2 The obligations and liabilities of the Authority under this Agreement shall continue even if the Authority ceases to hold the legal and/or beneficial entitlement in any or all of its shares in the Admission Body notwithstanding any provision in the Shareholders' Agreement. The Authority shall only cease to be liable under this Agreement if the Authority is removed from the list at **Schedule 1** (List of Shareholders) of this Agreement in accordance with **clause 7**.

6. **Notices**

This Clause sets out how any written notices are to be served.

All notices under this Agreement shall be in writing and shall be served by sending the same by first class post, facsimile or by hand or leaving the same at the registered office or headquarters address (as appropriate) of the Admission Body or the Authority.

7. Amendment

This Clause sets out how the Agreement may be amended.

7.1 The parties to this Agreement may, with the agreement of all of them in writing, amend this Agreement by deed.

7.2 This Agreement may be amended by the Admission Body alone to add or remove shareholders in the Admission Body to or from **Schedule 1** (List of Shareholders) where the addition or removal of that shareholder for the purposes of this Agreement has been agreed in writing by the Shareholders and notified to the Admission Body.

8. More than one Counterpart

This Clause sets out how the Agreement can be executed in counterparts.

This Agreement may be executed in more than one counterpart, which together constitute one agreement. When each signatory to this agreement has executed at least one part of it, it will be as effective as if all the signatories to it had executed all of the counterparts. Each counterpart Agreement will be treated as an original.

9. Assignment and Restructuring

This Clause sets out when the Agreement may be assigned.

No party shall assign the benefit or burden of the whole or any part of this Agreement without the prior written consent of the other parties (such consent not to be unreasonably withheld or delayed).

10. Laws

This Clause sets out the legal framework which governs the Agreement.

10.1 This Agreement shall be governed by and interpreted in accordance with the laws of England and Wales.

10.2 Any rights that a third party may have under the Contracts (Rights of Third Parties) Act 1999 are excluded.

11. Warranty of Authority

This Clause confirms that the Authority has the relevant authority power and capacity to enter into this Agreement.

The Authority warrants and represents to the Admission Body that it has all necessary authority, power and capacity to enter into and perform its obligations under this Agreement, that all necessary actions have been taken to enter into this Agreement properly and lawfully, and that this Agreement constitutes obligations binding on it in accordance with its terms.

EXECUTED as a deed and delivered on the date stated at the beginning of this Agreement.

EXECUTED as a deed by **LONDON LGPS CIV LIMITED** acting by a director

Signature of Director

in the presence of:

Witness signature: ....

Witness Name: ....

Witness Address: ....

Witness Occupation: ....

EXECUTED as a deed when the seal of the **LONDON BOROUGH OF BROMLEY** was affixed

in the presence of:

Mayor/Councillor

Director of Corporate Services/Senior Solicitor

SCHEDULE 1

List of Shareholders

1. City of London Corporation
2. London Borough of Barnet
3. London Borough of Barking and Dagenham
4. London Borough of Bexley
5. London Borough of Brent
6. London Borough of Bromley
7. London Borough of Camden
8. London Borough of Croydon
9. London Borough of Ealing
10. London Borough of Enfield
11. London Borough of Hackney
12. London Borough of Haringey
13. London Borough of Harrow
14. London Borough of Havering
15. London Borough of Hammersmith and Fulham
16. London Borough of Hounslow
17. London Borough of Islington
18. London Borough of Lambeth
19. London Borough of Lewisham
20. London Borough of Merton
21. London Borough of Newham
22. London Borough of Redbridge
23. London Borough of Southwark
24. London Borough of Sutton
25. London Borough of Tower Hamlets
26. London Borough of Waltham Forest
27. London Borough of Hillingdon
28. Royal Borough of Greenwich
29. Royal Borough of Kensington and Chelsea

30. Royal Borough of Kingston upon Thames

31. Wandsworth London Borough Council

32. Westminster City Council

SCHEDULE 2

Specimen Payment Notice

To: **[Shareholder]**

From: **[Admission Body]**

[DATE**]**

PENSION COST REIMBURSEMENT AGREEMENT REF: [ ]

We refer to the Agreement and certify that [Additional Employer Contributions]/[an Exit Payment] is/are due to the Fund. We attach a copy of [INSERT] confirming that these contributions/payments are due and the due date(s) for payment.

The sum of **[ ]** pounds sterling (£) is properly due in respect of your Proportionate Share (x%) of the above contributions/payments.

We demand payment of the above amount at least within 5 (Business Days) in advance of the due date(s).

The above amount should be paid to us by transfer to the following account:

Account Number **[ ]**

Sort Code **[ ]**

Account Name **[ ]**

Bank **[ ]**

Bank Address **[ ]**

....

Duly authorised for and on behalf of the Admission Body

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

Agenda Item 11

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