



Merseyside Pension Fund Report & Accounts 2017/18



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Management Structure At 31 March 2018

Pension Fund Management Committee

Chair:

Cllr P Doughty

Wirral

Vice Chair:

Cllr G Davies

Wirral

Cllr P Cleary

Wirral

Cllr K Hodson

Wirral

Cllr A Jones

Wirral

Cllr T Jones

Wirral

Cllr B Kenny

Wirral

Cllr B Mooney

Wirral

Cllr C Povall

Wirral

Cllr GCJ Watt

Wirral

Cllr T Byron

Knowsley

Cllr N Crofts

Liverpool

Cllr P Lappin

Sefton

Cllr J Fulham

St Helens

Employee Representatives (Non-voting)

Mr P Cleary

UNISON

Mr R Bannister

UNISON

Mr D Walsh

Unite

Officers of the Fund

Joe Blott

Managing Director, Delivery

Peter Wallach

Director of Pensions

Yvonne Caddock

Head of Pensions

Colin Hughes

Administration

Group Solicitor

Advisors to Investment Monitoring Working Party

Managing Director, Delivery

Director of Pensions

Senior Portfolio Manager

Aon Hewitt

Mr N Mills

Mr R Worrall

Advisors to Governance and Risk Working Party

Director of Pensions

Managing Director, Delivery

Head of Pensions Administration

Head of Finance and Risk

Others

Auditor

Grant Thornton

Bankers

Lloyds Banking Group

Consultant Actuary

Mercer HR Consulting

Strategic Investment Consultant

Aon Hewitt

Custodian of Assets

Northern Trust

Responsible Investment Advisors

Pensions and Investment Research

Consultants Ltd

Property Advisors

C B Richard Ellis

Property Managers

C B Richard Ellis

Property Valuers

Savills

Performance Measurement

Northern Trust

Solicitor

Wirral Council

AVC Providers

Equitable Life Assurance Society

Standard Life

Prudential

Local Pension Board

Independent Chair:

John Raisin

Employer Representatives:

Geoff Broadhead

Merseyside Police

Mike Hornby

Wirral Council

Kerry Beirne

One Vision Housing

Member Representatives:

Roger Irvine

Active Members

Donna Ridland

Active Members

Patrick Moloney

Deferred Members

Paul Wiggins

Pensioner Members

Chair's Introduction

As Chair of Pensions Committee, I am pleased to present Merseyside Pension Fund's Annual Report for the year ended 31 March 2018. The aim of the report is to highlight the important issues affecting the Fund over the last twelve months, as well as providing general information regarding the pension scheme. The Local Government Pension Scheme is a public sector, contributory, defined benefit scheme regulated by statute through the Ministry of Housing, Communities and Local Government (MHCLG).



The Aim of the Fund

The principal aim of the Fund is to provide secure pensions, effectively and efficiently administered at the lowest cost to contributing employers. This requires the Fund to strike a balance between achieving the most from its investments and the need to exercise prudence and caution in considering its future liability profile. The Pensions Committee reviews the Fund's investments, administration, strategies and policies at regular intervals, with the help of its various professional advisors, to ensure that they remain appropriate.

Investment Performance

Looking back over the twelve months up to 31 March 2018, markets have made little headway. In the second quarter of 2017, politics arguably dominated the narrative but, from an investment perspective, they did not interrupt the positive tone for risk assets, and global equity markets were largely supported by strong first-quarter corporate earnings and receding geopolitical risks.

The subsequent quarter was a broadly positive period for the world's financial markets, with a narrative of healthy economic data and strong corporate profitability underpinning equity gains. Against this backdrop, the prospects for tighter monetary policy increased amid hawkish central bank signals, ensuring government bond gains were largely vanquished by the end of September.

From both an economic and financial perspective, 2017 finished on a relatively high note. Solid economic data enabled some of the major central banks to tighten monetary policy and taper asset purchases. Central banks played a key role during this quarter: in October, the European Central Bank (ECB) announced that it would taper its asset purchases from January 2018, halving monthly purchase to €30bn and extending them until at least September this year. In November, the Bank of England hiked rates to 0.50% and US President Donald Trump appointed Jerome Powell to replace Janet Yellen as Fed Chair. In December, as expected by markets, the Fed hiked rates by 0.25%.

The first quarter of 2018 saw investors react to tighter monetary policy and fears of rising inflation with financial markets giving back most of the progress made in 2017. Nonetheless, economic growth globally, is proving robust and continues to be supportive of markets.

More detail is provided in the Investment Report on page 21 including information on the distribution of assets and performance.

Actuarial Valuation

The most recent triennial valuation was undertaken at 31 March 2016 and the position showed a funding level of 84.8% with assets of £6.85bn and liabilities calculated to be £8.08bn. Subsequent interim valuations indicate a further improvement in funding levels to around 100%, which is pleasing. Ways to 'lock in' some of the gains achieved are being assessed.

Communication with Fund Employers and Members

Effective communication continues to be very important to the Fund as it seeks to deal with issues arising from new legislation and the ever evolving Scheme.

With numbers of members affected by early retirement and redundancy programmes, we have offered a variety of courses to members and employers during the year, in addition to regular news items for employers, employees, pensioners and deferred members. The Fund's websites continue to be updated regularly and we are encouraging greater use of electronic media to enhance efficiency.

The Annual Employers' Conference was held at Aintree Racecourse in November 2017. The event was well attended and featured speakers from the Pensions Regulator, the Chair of the Pension Board and officers of the Fund.

Past Changes and the Future

Investment Pooling remains a primary focus for the Fund. Good progress has been made in the development of the Northern Pool. The Joint Committee which provides oversight of the Pool is, at the time of writing, still in shadow form, but the three administering authorities are close to formalising governance arrangements.

In parallel with this, a custodian for the assets of the Pool was appointed by the April 2018 deadline. Arrangements for collective investment in private equity are well advanced and GLIL, the collective infrastructure investment vehicle, of which MPF is a founder member, now has more than £600m invested in UK infrastructure projects.

Pooling is a significant undertaking, and the resources and costs required to deliver the required changes should not be underestimated. It will also result in fundamental changes to the oversight of LGPS assets and it is essential that appropriate governance arrangements are in place.

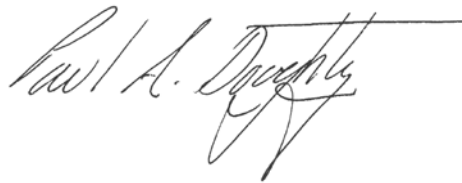
A review and restructuring of the Fund's staffing arrangements was completed to reflect future requirements, system changes and to deliver further efficiencies.

The Fund has ensured it is suitably prepared for the General Data Protection Regulations coming into effect in May of this year.

As ever, the continued success of the Fund depends on the combined efforts of all those concerned with its operation. In conclusion, I should like to thank the Committee, the Scheme employers and their staff, the financial advisors, the external investment managers and all of the Fund's staff for their considerable work in delivering the service to Scheme members.

Preparation of Report

This Annual Report has been produced in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013. In preparing and publishing the Pension Fund Annual Report, the Administering Authority must have regard to guidance issued by the Secretary of State.



Councillor Paul Doughty
Chair, Pensions Committee
June 2018

Management Report

Management of the Fund

The overall responsibility for the management of the Fund rests with the Pensions Committee chaired by Councillor Paul Doughty.

In 2017/18, the Committee comprised Councillors from the Wirral Labour group (6), Conservatives (3), Green Party (1), representatives of the four other District Authorities (Liverpool, St. Helens, Knowsley and Sefton) and employee representatives (3). The Managing Director, Delivery and other officers of the Fund also attend Committee, which meets around five times a year to review the administrative and investment issues affecting the Fund.

The Committee ensures the administration of the Fund accords with the statutory framework within which the LGPS operates. The Fund publishes a Governance Compliance Statement confirming that it complies fully with best practice guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG). Committee also ensures that the management of the Fund's assets falls within the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require the Fund to have regard to both diversification and suitability of investments and stipulate the requirement to take proper advice when making investment decisions. The Fund's Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) provide further information on the Fund's investment philosophy and investment framework.

The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party (IMWP). The IMWP meets at least six times a year to review investment strategy and to receive reports on investment activity undertaken in the prior period. The Working Party comprises representatives from the Pensions Committee, two independent advisors, Aon Hewitt and members of the in-house investment team.

Another of its important tasks is to monitor the performance of the Fund's external and internal investment managers, which is undertaken in conjunction with professional advisors and Fund officers. External and internal investment managers have been given specific benchmarks

against which performance is measured and monitored quarterly. In addition, internal investment managers report to the Managing Director, Delivery through regular Fund Operating Group meetings and follow procedures laid down in an internal Compliance Manual.

With regard to its investment management activities, the Fund uses a combination of internal and external management and active and passive strategies across the various asset classes in which it invests. More comprehensive details of the Fund's investment managers, mandates and advisors are set out in its ISS.

Governance, pensions administration and policies, risk management and related matters are scrutinised by the Governance and Risk Working Party (GRWP) which meets twice a year.

An additional source of assurance is provided by the Local Pension Board. The purpose of the Board is to assist the Administering Authority in its role as a Scheme Manager of the Scheme in securing compliance with legislation and ensuring the effective governance and administration of the Fund. A separate report on the Board's activities is contained in this report.

Risk Management

The Fund's governance arrangements, set out in the preceding section, ensure that the management of Fund administrative, management and investment risk is undertaken at the highest levels.

The Fund recognises that risk is inherent in many of its activities and makes extensive use of external advisors and industry best practice in assessing and establishing policies to identify and mitigate those risks.

The principal Fund documents relating to risk management and control are:

- Admissions Policy
- Breaches Policy
- Communications Policy
- Funding Strategy Statement
- Governance Policy
- Health & Safety Policy
- Investment Monitoring Policy
- Investment Strategy Statement

Copies of these documents are available from the Fund and are published on the Fund website at: mpfund.uk/risk

In addition, the Fund maintains a risk register and a compliance manual for its employees.

These documents are all subject to regular scrutiny by Pensions Committee and officers, and provide details of the key risks and explanations of the policies and controls adopted to mitigate them. These arrangements are assessed at least annually by the Fund's external and internal auditors.

Additionally, and where applicable, the Fund adheres to the Administering Authority's constitution in managing its operations. Legal opinion and advice is provided by Wirral Council's legal team and from external sources where appropriate.

Knowledge and Skills

Merseyside Pension Fund recognises the importance of ensuring that all staff and members charged with the financial management and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities assigned to them. It therefore seeks to appoint individuals who are both capable and experienced and provides/arranges training for staff and members of the Pensions Committee, to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Our training plan sets out how we intend the necessary pension finance knowledge and skills are to be acquired, maintained and developed. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Pensions Committee has designated the Director of Pensions to be responsible for ensuring that policies and strategies are implemented.

Activity in Year

Merseyside Pension Fund has conducted a training needs assessment and, based on the outcome, formulated a training plan. This plan is reported to, and approved by, Pensions Committee. The Fund develops its Pensions Committee members and officers, through training and education. This includes regular meetings, ad hoc seminars and conferences, bespoke training and e-learning.

Pensions Committee receives updates on legislative changes, benefit administration changes, procurement, actuarial and investment matters. These are supplemented by regular working parties. The IMWP includes a minimum of two presentations which cover all aspects of investment; asset allocation, asset classes, economics, performance measurement, risk management and responsible investment. The GRWPs enable matters relating to other risks, governance and pensions administration to be covered in greater depth, as necessary.

This year, the potential for the Fund to implement equity protection strategies was identified as an area of development. Members received various presentations and briefings on the topic. Similar arrangements were made in relation to investment pooling which remained an area of focus for officers and Members.

Training opportunities provided during the year and attendances are set out on page 65.

The Fund is a member of the Local Authority Pension Fund Forum and the Chair of the Pensions Committee is a member of the Executive Board, attending regular meetings dealing with all aspects of responsible investment.

Bespoke training includes the LGE Trustee Fundamentals training and other conferences and seminars as follows:

| Month | Event |
|--------------|----------------------------------|
| April | IMWP |
| May | PLSA LA Conference |
| June | IMWP |
| June | GRWP |
| July | Pensions Committee |
| September | IMWP |
| September | Pensions Committee |
| September | LGC Investment Summit |
| October | IMWP |
| October | LGE Fundamentals |
| October | PLSA Annual Conference |
| November | IMWP |
| November | Pensions Committee |
| November | LGE Fundamentals |
| November | MPF Annual Employers' Conference |
| December | Annual LAPFF Conference |
| December | LGE Fundamentals |
| January | Pensions Committee |
| January | GRWP |
| February | IMWP |
| March | LGC Investment Conference |
| March | Pensions Committee |

As the officer nominated by the Pensions Committee responsible for ensuring that the Fund's training policies and strategies are implemented, the Director of Pensions can confirm that the officers and members charged with the financial management of, and decision making for, the pension scheme, collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

Pension Board Report

Local Pension Boards (LPB) were established across the Local Government Pension Scheme with a requirement to become operational from 1 July 2015 to assist Administering Authorities in their role as managers of the Scheme.

Statement of Purpose for the Merseyside Local Pension Board

The purpose of the Board is to assist the Administering Authority in its role as a Scheme Manager of the Scheme. Such assistance is to:

- secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
- ensure the effective and efficient governance and administration of Merseyside Pension Fund.

The Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pensions Regulator. There is also the necessity to provide information to the Scheme Manager to demonstrate that board representatives do not have a conflict of interest.

The Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively, but not less than twice in any year. There is also the provision for special meetings to be convened at notice.

Constitution/Management Arrangements

The Pension Board consists of nine members and is constituted of:

- four employer representatives: two nominated from Local/Police/Fire/Transport authorities or Parish Councils; one from Academies/Further/Higher Education bodies; one from Admitted bodies;
- four scheme member representatives; two representing active members; two representing deferred and pensioner members;
- one independent, non-voting Chair who has responsibility for the co-ordination and operation of the Board.

Additional information is included in the Board's Terms of Reference, available on the Fund's website.

Executive Summary

The Board has worked with officers to provide Wirral Council with additional assurance regarding the operation of the Fund. As evidenced by the issues considered by the Board during 2017-18, the Board has undertaken a rigorous assessment of pooling developments and its implications for the Administering Authority. It continues to remain abreast of regulatory developments, the activities of the Pensions Regulator and to scrutinise the performance of the Fund, particularly in relation to its administrative functions.

The Chair made presentations on the Board's activities to Pensions Committee and the Annual Employers' Conference.

Three meetings were held during the year. In addition, a detailed training programme was undertaken involving internal and external training, which notably included a tour of the Fund's offices, during which Board members were introduced to staff members and heard a presentation by the Director of Pensions. Board members have attended Working Parties to gain greater familiarity with the activities and procedures of Pensions Committee in managing the governance and structural arrangements of the Fund. Details are set out in the tables below.

Board Changes

Mr Robin Dawson stepped down from the Board following his retirement in April 2017. We appreciate his contribution to the Board during his tenure as an employer representative. Ms Lyn Robinson will be replacing him on the Board and we look forward to working with her.

Issues considered by the Pension Board 2017 - 2018

| Agenda Item | 27/6/17 | 10/10/17 | 20/3/18 |
|---|---------|----------|---------|
| LGPS Update | • | • | • |
| LGPS Investment Performance | | | • |
| Administration KPI Report | • | • | • |
| Pooling Update | • | • | • |
| Review of Actuarial Valuation | • | | |
| Draft Pensions Administration Strategy | • | • | |
| Member/Pension Board Development Programme | | | • |
| Pension Fund Budget | | | • |
| Compliance Manual | • | | |
| Investment Strategy Statement | • | | |
| ISS Guidance Update | | • | |
| Transparency Code | • | | |
| Treasury Management Strategy | | • | • |
| Treasury Management Annual Report | | • | |
| IMWP/GRWP minutes | • | • | • |
| Pension Board Annual Report | • | | • |
| LGPS Investment Performance | | | • |
| †PR Self-assessment | • | | |
| GDPR Briefing | | • | |
| Audit Findings Report, Annual Report & Accounts | | • | |
| Management of Carbon Risk | | | • |
| Contracts Timetable | | | • |
| Bond Review | | | • |
| MIFID II Opt Up | | • | |
| Annual Employers' Conference | | • | |
| Records Management Policy | | • | |

A work plan for 2018/19 has identified a number of key areas where the Board will provide assurance to the Administering Authority as to compliance with regulations and policies. Not all board meeting dates have yet been set.

Pension Board Work Plan 2018 - 2019

| Agenda Item | 13/6/18 | 16/10/18 | 2019 |
|--------------------------------------|---------|----------|------|
| LGPS Update | • | • | • |
| Administration KPI Report | • | • | • |
| Pooling Update | • | • | • |
| Audit Plan | • | | |
| Member Development Programme | | | • |
| Pension Board Development Programme | | | • |
| Working Party Minutes | • | • | • |
| Monitoring of Investment Mandates | • | | |
| Pension Board Annual Report | | • | |
| Investment Performance | | • | |
| Audit Findings Report | | • | |
| Annual Report and Accounts | | • | |
| Management of Carbon Risk | | • | |
| Briefing on 2019 Actuarial Valuation | | | • |
| Cost Transparency and Savings | | | • |

Attendance & Training Record

| ATTENDANCE RECORD 2017-18 | Pension Regulator Public Sector | Fundamentals Training | PLSA Conference | LGPS Trustees Conference | CIPFA Local Pension Boards 2 Years On | LGPS Pension Board Seminar | Introduction to the LGPS | PLSA | LGPS Investment Forum | LGPS Local Pension Board Autumn Seminar | Cross Pool Open Seminar | MPF Annual Conference | IMWP/GRWP Attendance | | Pension Board Meeting | |
|---------------------------|---------------------------------|-----------------------|-----------------|--------------------------|---------------------------------------|----------------------------|--------------------------|----------------|-----------------------|---|-------------------------|-----------------------|----------------------|--------|-----------------------|--------|
| | | OCT/NOV/DEC 2017 | 16 MAY 2017 | 29 JUN 2017 | 6-7 JUN 2017 | 19 SEP 2017 | 27 SEP 2017 | 18-20 OCT 2017 | 11 OCT 2017 | NOV 2017 / FEB 2018 | MAR 2018 | 30 NOV | 2017/18 | 27 JUN | 10 OCT | 20 MAR |
| John Raisin (Chair) | • | | • | | • | | | | • | • | | • | • | • | • | • |
| Geoff Broadhead | • | | | | | | | | | | | • | | | | |
| Kerry Beirne | • | • | | | | | | • | | | | | • | • | • | |
| Roger Irvine | • | • | | | | • | • | | | | | | | • | • | • |
| Mike Hornby | • | | | | | | | | | | | • | • | • | • | • |
| Pat Moloney | • | | | • | | | | • | | • | | • | • | • | • | • |
| Donna Ridland | • | | | • | | | | | | • | • | • | | • | • | • |
| Paul Wiggins | • | | | | | | | | | • | | | | | • | |
| Robin Dawson* | • | | | • | | | | | | | | | • | | | |

* Retired

Costs of Operation

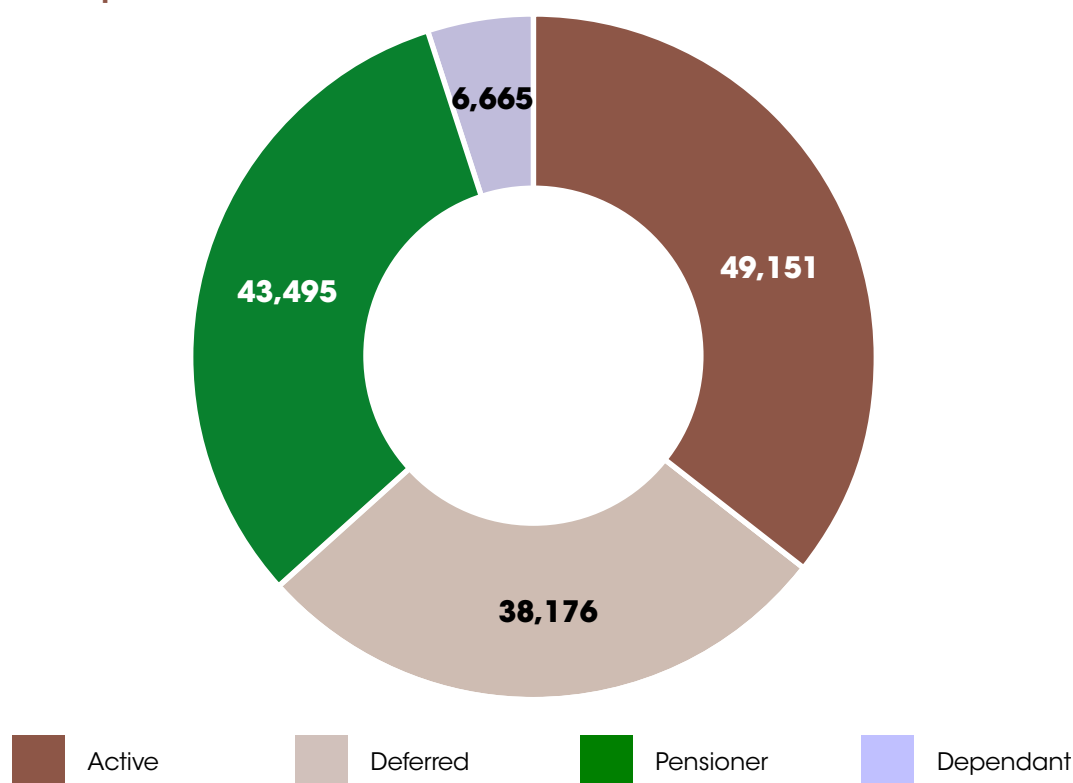
| | 2017/18 |
|--------------|---------------|
| | £ |
| Training | 6,729 |
| Transport | 2,652 |
| Allowances | 11,264 |
| Other | 290 |
| Total | 20,935 |

There have been no matters of formal concern to raise with Wirral, the Administering Authority.

A detailed review of the activities of the Pension Board will be undertaken by the Independent Chair and reported to Pensions Committee on 16 July 2018.

Membership Statistics

Membership as at 31 March 2018



Number of Members by Age Band

| Status (age in years) | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 |
|-----------------------|-----|-----|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Active | | | | 382 | 1,834 | 3,455 | 4,126 | 4,938 | 5,240 | 7,632 | 8,984 |
| Deferred | | | | 2 | 191 | 1,564 | 3,370 | 4,160 | 4,320 | 6,557 | 8,576 |
| Pensioner | | | | | | | 6 | 8 | 38 | 220 | 498 |
| Dependant | 2 | 18 | 56 | 104 | 69 | 15 | 15 | 15 | 31 | 74 | 154 |

| Status (age in years) | 55-59 | 60-64 | 65-69 | 70-74 | 75-79 | 80-84 | 85-89 | 90-94 | 95-99 | 100+ | Total |
|-----------------------|-------|-------|--------|-------|-------|-------|-------|-------|-------|------|----------------|
| Active | 7,539 | 4,050 | 785 | 186 | | | | | | | 49,151 |
| Deferred | 7,663 | 1,551 | 178 | 42 | 2 | | | | | | 38,176 |
| Pensioner | 2,635 | 9,211 | 10,331 | 8,807 | 5,408 | 3,610 | 1,918 | 654 | 140 | 11 | 43,495 |
| Dependant | 312 | 465 | 634 | 940 | 1,028 | 1,139 | 915 | 514 | 147 | 18 | 6,665 |
| Total | | | | | | | | | | | 137,487 |

Key Membership Statistics 2014 - 2018

| Year | Active | Deferred | Pensioner | Dependant | Total |
|---------------|--------|----------|-----------|-----------|----------------|
| 31 March 2018 | 49,151 | 38,176 | 43,495 | 6,665 | 137,487 |
| 31 March 2017 | 47,206 | 38,368 | 42,194 | 6,571 | 134,339 |
| 31 March 2016 | 46,221 | 37,136 | 41,136 | 6,588 | 131,081 |
| 31 March 2015 | 45,420 | 36,237 | 39,915 | 6,682 | 128,254 |
| 31 March 2014 | 45,583 | 35,786 | 39,094 | 6,725 | 127,188 |



Scheme Administration Report

The Administration Team

The Administration team is accountable to the Pensions Committee, the Pension Board, participating employers and Scheme members. The team is fully committed to providing a quality service to meet the needs of the Fund's various stakeholders and to deliver excellent customer care.

Over the reporting period the Fund has experienced an increase to its employer base, as many employers continue to undergo organisational change and restructure their workforces in response to financial pressures and changes to service delivery models. In addition, the number of schools choosing to convert to Academy status has continued to increase following the introduction of the 2010 Academies Act.

Furthermore, the increase in the number of third-party HR and payroll providers, favoured by a number of local education authority schools, has added a further layer to the processing and provision of data.

A list of the participating employers is shown at **Appendix A**.

The Scheme is a public service pension scheme regulated by statute through the Ministry of Housing, Communities and Local Government (MHCLG). It is a contributory defined benefit scheme which is exempt approved for tax purposes, providing pensions and lump sums for members and their dependants; along with ill health, redundancy and death cover.

The Scheme was formerly contracted out of the additional State Pension until the introduction of the new single-tier State Pension on 6 April 2016, which as a matter of course, resulted in the ending of the Scheme's contracted out status and an increase in National Insurance costs for both employers and members.

LGPS2014 - New Scheme Design

On 1 April 2014, the new Local Government Pension Scheme (LGPS) came into effect in the form of a career average revalued earnings (CARE) scheme and replaced the final salary scheme in respect of future accrual of pension benefits.

The LGPS now:

- has a normal pension age equal to state pension age (minimum age 65)
- gives a pension for each year at a rate of 1/49 of pensionable pay in that year
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (although benefits build up at a slower rate)
- provides for previous years' CARE benefits to be adjusted according to changes in the Consumer Prices Index while the member is still paying in
- requires members to have at least 2 years' membership to qualify for pension benefits.

Additionally, protection is given to members who were contributing prior to 1 April 2014 including the following key provisions:

- preserve member benefits accrued under the former LGPS regulations
- retain the final salary benefits and normal pension age of 65 in respect of pre-2014 membership
- provide an 'underpin' for people born before 1 April 1957 to ensure that they do not suffer any detrimental loss from the introduction of the new Scheme
- carry forward the member protections under the '85 Year Rule' for voluntary retirement from age 60
- The ability for employers to switch on the '85 Year Rule' protections in regard to members' benefits if they voluntarily retire between age 55-60.

Legislative Change

During the reporting period, there has been no material regulatory change affecting administration of the Fund, although the Government has published responses to the consultations which were reported in last year's administration report, relating to Pension Scams and Indexation of Guaranteed Minimum Pensions (GMPs).

Pension Scams Consultation

The response confirms that the following measures will be introduced to:

- ban cold calling, including electronic communications, as well as traditional telephone contact
- limit the statutory right to transfer where a genuine employment link to the receiving occupational scheme can be evidenced
- restrict registration of Pension Schemes with HMRC for active companies.

The Financial Guidance and Claims Bill, included provisions to legislate for the implementation of the cold calling ban.

Indexation of GMP Consultation

There were 62 responses to the consultation, all of which were broadly in favour of the government's objective to price protect the GMP and to provide a simple solution to assist with members' financial planning.

The outcome of the consultation was to extend the current interim solution for public sector employers, to inflation-proof GMP values for members reaching State Pension Age from 6 April 2016 to 5 April 2021.

A revised Ministerial Direction under Section 59A (2) of the Social Security Act 1975 will be published by HMT to permit the public service pension schemes to assume the additional liability.

Thereafter, the government will investigate the possibility of converting the GMP values into ordinary Scheme benefits.

Key Projects and Developments

This Scheme year has seen a number of key initiatives delivered to support the cost effective administration of the Fund. We have worked closely with our employers to enhance membership data and provide greater information and support to our members in compliance with the Pension Regulator's Code of Practice requirements for public sector pension schemes.

During the year we have continued to respond to LGPS-wide changes and updates to calculation specifications, evolving systems to optimise the use of technology to deliver an efficient pension administration service.

The Pension Regulator Compliance Programme and Internal Audit Assurance

The Public Service Pensions Act 2013 and the LGPS Governance Regulations 2015 provide a robust framework to support sound decision-making and increase the transparency of the Administering Authority's accountability for the management and administration of the Scheme. This is influenced, regulated and monitored respectively by the:

- Local Pension Board who assist the Administering Authority to manage the effective governance and administration of the Fund
- The extension of the work of the Pensions Regulator (tPR) to the LGPS
- Administering Authority's Internal and external auditors.

Assessment against Monitoring Framework

In response to the Regulator's new remit to ensure the effective administration of public service pension schemes, the Code of Practice No 14 was introduced in April 2015 setting out the legal requirements and standards of conduct in exercising functions in relation to Scheme administration and governance.

The Regulator subsequently issued a monitoring programme against the code, and in order to stress test compliance, the Fund has undertaken a number of assessments of its administrative and operational processes using a traffic light based model.

The outcome of a prior assessment indicated there were no areas of significant concern but an amber rating in relation to record keeping and communicating with members, indicated room for improvement.

In conducting a further review this year it emerged that there have been significant advances over the last twelve months in these areas. To demonstrate assurances to stakeholders of the Fund's commitment to continually improve member engagement and record keeping, a Record Management and Data Quality policy was drafted by officers, critiqued by the Pension Board and formally approved by Pensions Committee in November 2017.

Internal Audit of Fund's Retirement Benefit Payments, Monitoring of Employer Covenants and Governance Framework

The Administering Authority's Internal Audit team has undertaken a number of in-depth reviews during the year of systems and controls in relation to the calculation and payment of retirement benefits, the Fund's governance arrangements and the effectiveness of employer covenant assessments.

The audit opinion was extremely positive for each exercise, providing clear assurances to the Fund's external auditor and stakeholders that robust controls exist in respect of:

- accurate financial transactions in processing retirement calculations
- diligent management of an integrated risk management framework covering investments, funding and employer covenant
- effective compliance with the principles of good governance as defined by CIPFA 'Delivering Good Governance' (2016) guidance.

Pension Administration Strategy

The Pensions Administration Strategy (PAS) sets out the policy for administering the Fund, the standard of service to be delivered and the roles and responsibilities of employers.

The primary objective of the PAS is to ensure that the Fund can continue to deliver a high-quality

cost-effective pension service at a time when the operating environment is becoming more complex.

The PAS incorporates performance targets for both the Fund and employers, and performance is monitored monthly by the Fund's Operating Group.

The PAS has been updated during the year, following a widely publicised consultation exercise with employers. The revisions to the strategy were informed by the findings from iPR's 2016 Public Service Governance and Administration survey, which confirmed a heightened focus on record keeping, along with a clearer, quicker and tougher policy on poor administration practices.

The revisions to the PAS also align with the Fund's strategic business plan to conduct more operational processes and stakeholder communications using online systems and secure portals for the exchange of electronic data.

In harmony with the national LGPS agenda to streamline operational functions to reduce costs, the schedule of charges contained within the PAS has been extended. The charges now incorporate non-statutory administrative services and permit recovery of costs incurred by the Fund as a consequence of an employer's unsatisfactory performance.

The Pension Board assisted officers in formulating the PAS and recommended it for approval by Pensions Committee in November 2017, in preparation for its implementation in April 2018.

Annual Return Process and Data Quality

During the Scheme year, the focus of administrative activity was to ensure the timely receipt of employer annual contribution returns. As a result of the Fund's earlier engagement with employers and proactive intervention in resolving any employer issues, there has been a significant increase in the number of employers submitting timely annual return files.

The administration team has continued to work with employers on outstanding data items and has maintained its programme of active engagement by scoping two data reconciliation exercises during the year. All employers were provided with a snapshot of active memberships,

together with an overview of outstanding queries, along with a summary of documents in progress within the Fund's systems. Work has been carried out to improve the identification of inaccurate records, the documentation of queries and the streamlining of procedures to request outstanding data from employers within defined timescales and a transparent auditable process.

Feedback from employers has been positive and overall there has been a continued reduction in the number of outstanding data items, particularly in terms of outstanding leavers, joiners and casual employment returns.

Action plans have been agreed with large employers in regard any material data gaps, and Fund Officers have committed to support employers in aligning their systems to electronically interface with the Fund's pension administration system.

Statutory Annual Benefit Statements

Annual Benefit statements were produced and posted on members online accounts in advance of the 31 August statutory deadline, with members potentially impacted by additional pension tax charges receiving pension saving statements by 5 October.

Auto Enrolment and Ending of Transitional Delay

Despite Auto Enrolment duties being outside of the Pension Fund's administrative responsibility; where necessary, staff will offer guidance and support to employers in relation to compliance with their statutory duties.

Over the year, the Fund has provided direction to employers with regard to the ending of transitional delay which has been complicated by the exception clauses contained within the Automatic Enrolment Amendment Regulations 2015.

Procurement of Actuarial Contract

In conjunction with Wirral Council's Corporate Procurement and Legal departments, a review of the Actuarial and Benefits Consultancy Services contract was undertaken this year, utilising the National LGPS Framework administered by Norfolk County Council.

The services were procured as two separate lots and were individually assessed, but given the inter-relationship of the service requirements it would be impractical to appoint different suppliers; therefore the provider with the highest score was awarded both contracts.

Following robust evaluation of the tenders, Mercer Limited was the successful bidder as they demonstrated the right expertise, in depth knowledge of the Fund's publically available policies and capacity to provide the services at the best price.

The new contract took effect from 1 March 2018 for a seven year period ending on 28 February 2025.

Staffing Restructure

The Fund's management team has expended significant resource over the year, supported by the administering authority's HR department, to progress the staffing restructure across administration, accounts and the investment team.

The fundamental objective of the restructure was to recruit, train, nurture and retain highly motivated staff with the necessary professionalism and skills to deliver the ever-increasing complexities of the LGPS.

All job descriptions have been updated to reflect tasks and responsibilities in administering the new benefit structure, governance procedures and reporting requirements as a consequence of legislative change.

A number of roles have been re-designated with additional new roles created across the administration service areas demonstrating the Administering Authority's positive response to the Scheme Advisory Board's directive to ensure the LGPS is sufficiently resourced to meet its statutory obligations.

Pension Administration System Migration

As part of its new contractual arrangements for an IT system to support pensions' administration, the Fund has been preparing a migration plan to migrate over eight million documents from the current document management system into an integrated system provided by Aquila Heywood.

The specification for the migration has been agreed between both current suppliers, and the process to transfer the documents will be started in the summer of 2018. In parallel, Fund IT Officers are working with business area managers to create new operational workflow processes following the in-year review of existing processes.

Operational Improvements

Immediate Payment Processing

A project has been scoped to extend the processing of immediate payments to include the work activity of transfers; to reduce the use of supplementary systems and to realise the efficiencies currently being achieved through the immediate payment facility for payment of retirement benefits.

There have been a number of meetings with the IT system supplier to assess the changes required to the software to allow the independent processing of the respective payments outside of the main pensioner payroll system.

'Straight Through Processing' of New Member data

Work is being undertaken to introduce a process to digitally import amendments to active member records as supplied from the largest employers directly into the pension administration system. The work is focusing on the alignment of data fields and the quality of the supplied data.

It is expected that this will result in a significant reduction of manual data inputting and resource efficiencies which can be channelled into supporting employers to address data quality deficiencies.

Strategic Focus, Planning and Operational Costs

Service Planning

The Fund's Management team maintains an annual 'Business Plan' which is shared with, and monitored by, the Governance and Risk Working Party, a sub-group of Pensions Committee. This working party meets twice a year to review officer progress against documented objectives and commitments.

The contents of the 'Business Plan' are shared with all of the officers and there is a direct link with the performance appraisal process of staff.

Staff Training and Development

The Fund provides a comprehensive training programme for its staff and a number have made good progress with their Chartered Institute of Payroll Professional qualification during the year. Training opportunities have also been provided to expand technical knowledge within the team.

The Fund keeps abreast of best practice by participating in collaborative groups, such as the Local Government Association Communications Group, the Shrewsbury Pensions Officer Group and the Metropolitan Pension Fund Group. These groups all offer opportunities to discuss topical pension issues and to share best practice and innovations.

Operational Costs

The Fund's operational costs are reviewed by the Pensions Committee, which approves the annual operational budget. Actual spend is monitored throughout the year by the Fund Management team and overall spend is reported in the Annual Accounts.

The Ministry for Housing, Communities and Local Government (MHCLG) surveys funds annually, to collect administration and fund management costs in the LGPS - this is referred to as the 'SF3' statistical return. Submitted under Section 168 of the Local Government Act 1972, the data provides the government with a benchmark of scheme costs, and is also used in compiling the National Accounts, showing the role of pension funds in the economy.

The administration costs reported in the 2016-17 'SF3' statistical return was £18.24 per member.

Equality & Diversity

The Fund aims to deliver accessible, high-quality, value for money services to all of our customers, without discriminating against any social grouping by age, gender, race, disability, sexual orientation or religious belief.

All necessary and reasonable adjustments are made to ensure that members with additional needs can access our communications.

Communications Policy

Excellent communication is fundamental to ensuring both employers and members are kept fully informed of the benefit package and changes to the Scheme.

The Fund is reviewing the Policy in view of its migration to a digital operating model, the current policy can be found on our website at: mpfund.uk/comms18

Member Communications

Our Membership base remains stable and the team have been agile in responding to changes in volumes of work throughout the year continuing to adapt to change and meet the expectations of our members. Our member services programme and events continue to provide increasing face-to-face help and support across the employer base, presenting courses/ surgeries as requested at employer workplaces.

The principal communication issued to active and deferred members each year is the Annual Benefit Statement and electronic versions have been available electronically since 2013 via the Fund's online 'MyPension' service.

The Fund has previously communicated to members that statements will only be available electronically from 2016 - although paper copies are available on request and alternative versions are produced for members with additional needs.

Fund officers continue to work with employers in promoting the 'MyPension' service, to further encourage active members to register. The Fund provided employers with suitable text for staff newsletters, briefings, intranet sites and broadcast emails. On production of the statements, employers were asked to utilise the same communication channels to inform members of their availability online.

Presentations for Scheme Members

| | Events | Approx. Attendees |
|--|-----------|-------------------|
| Retirement Planning Course Hosted at Employer Premises | 5 | 101 |
| Mid-Life Planning Course Hosted at Employer Premises | 1 | 21 |
| Presentations about the LGPS Hosted at Employer Premises | 11 | 383 |
| Total | 17 | 505 |

Employer Communications

We continue to deliver and develop our Practitioner workshops to support new employers, those with staff changes or a need for refresher training. These workshops help to increase the understanding of employer responsibilities and how the Fund and employers work together to deliver benefits to members.

The Pension Liaison Officer group has provided valuable feedback during the year and assisted in the development of the Fund's processes taking account of operational constraints facing employers.

The Fund has a secure Employers' Website where employers can obtain forms, guidance notes and access payroll and HR administration guides. The Fund does not publish a periodic employer newsletter, but uses the employers' website to announce news, revisions to forms and other pertinent information. Each registered user receives an email notification of any news update or change to the administration of the Scheme.

The Fund has continued to update the comprehensive administration information to employers in the HR and Payroll Guides. Based on national guidance, these Fund-specific documents provide detailed information on administrative and operational practice. Practitioner training sessions are provided by Fund Officers, to provide guidance on employer duties, operational practice and direction in completing Fund forms.

Data Security

In administering the Scheme, the Fund collects, records and maintains personal data on members, former members, pensioners and beneficiaries.

The following arrangements are in place to safeguard this data:

- All staff are regularly made aware of the corporate policies in respect of Confidentiality, Data Protection & Information Security, and are required to undertake Information Governance training.
- New staff, as part of their induction, have the responsibilities and policies explained, and their understanding verified by the successful undertaking of an online test.
- All administration data is stored electronically and any paper records are securely destroyed.
- Staff who work away from the office as part of their role, can only access data by secure means (two-factor authentication).
- Where person-identifiable data has to be transferred off-site, the Fund uses secure means; using either the 'Government Connect' network or via secure email/websites.

In preparation for the introduction of the General Data Protection Regulations in May 2018, the Fund worked in collaboration with the Local Government Association and West Midlands Pension Fund in the development of an LGPS specific Privacy Notice for members; detailing the legal basis for Funds to collect, store and process personal data, including the rights of individuals in requesting access, correction and erasure of their data. The final Privacy Notice was prepared by legal counsel (Squire Patton Boggs) to ensure it met the necessary compliance with the regulations.

In addition, the Fund worked with the LGA and legal counsel in preparing a 'Memorandum of Understanding' between LGPS Funds and their constituent Scheme employers. The aim is to set out that participating employers in the LGPS are able to share data with the LGPS administering authority without a data sharing agreement being in place (i.e. that there is no legal

requirement for employers to have a data sharing agreement with LGPS administering authorities as they are both data controllers).

Performance Standards

Results of performance against targets are shown below:

| Performance Targets | Target | Within Target % |
|--|---------|-----------------|
| 1. Payment of Retirement Benefits | 7 days | 94 |
| 2. Payment of Monthly Pensions | 100% | 100 |
| 3. Payment of Transfer Values | 7 days | 100 |
| 4. Provision of Inward Transfer Quotes | 10 days | 99 |
| 5. Notification of Deferred Benefits | 22 days | 98 |
| 6. Provide Valuation in Divorce Cases | 10 days | 100 |
| 7. Respond to Members' Enquiries | 10 days | 86 |

(Details given in respect of 12 month period to 31 March 2018)

Internal Dispute Resolution Cases

Members who disagree with decisions taken by their employer or the Administering Authority may appeal using the Internal Dispute Resolution Procedure (IDRP) under the LGPS regulations. The IDRP is a formal appeals procedure which contains two stages. The first stage allows the member to ask the body who originally made the decision to review it, that is, either the employer or the Administering Authority. The second stage allows the member, if they are not satisfied with the outcome at the first stage, to ask the Appeals Officer at the Administering Authority to review the disagreement.

Appeals Against Employer Decisions

| Employer | Number | Employer Decision |
|--|---------------|--------------------------|
| Liverpool | | |
| Refusal to Release Deferred Benefits on Ill Health | | Granted |
| Award of Ill Health Tier | 3 | Granted |
| Provision of Incorrect Estimate | | Dismissed |
| Wirral | | |
| Refusal to Release Deferred Benefits on Ill Health | 1 | Dismissed |
| Arvato | | |
| Refusal to Release Deferred Benefits on Ill Health | 1 | Dismissed |
| Total | 5 | |

Appeals Against Fund Decisions

| Reason for Appeal | Number | Fund Decision |
|---------------------------------|---------------|----------------------|
| Provision of Incorrect Estimate | 1 | Dismissed |
| Total | 1 | |

Appeals to the Pensions Ombudsman

| Reason for Appeal | Number | Fund Decision |
|-----------------------------|---------------|----------------------|
| Refusal to Compound Pension | 1 | Dismissed |

The decision upheld by the Pensions Ombudsman agreed the Fund's compliance with the LGPS regulations as the member had no entitlement to compound the pension under the deminimis provisions.

Investment Report

Year ended 31 March 2018

The global economy provided a broadly positive backdrop for financial markets over the 12 months ending March 2018. In the US, investors were cheered by strong job creation which was partnered with subdued inflationary pressures and a large cut to taxation. Other regions of the world also delivered healthy economic data with improving corporate profitability levels and an acceleration of global trade. In the 1st quarter of 2018 there was some evidence of softening in the pace of economic activity in Europe, although the data remains supportive of steady growth.

The developed world's central banks continued on their path of gradual monetary policy normalisation, but as their tightening moves were well flagged, markets generally took them in their stride. The US Federal Reserve hiked interest rates three times, with the Bank of England and the Bank of Canada also raising rates. The European Central Bank and the Bank of Japan kept their quantitative easing programmes (QE) going, but both managed to taper their purchases of bonds during the period.

Markets were generally unperturbed by the ongoing political noise which hit the headlines over the year. In the UK, the snap election in June 2017 saw the ruling Conservative Party lose its majority, resulting in the formation of a coalition government with Northern Ireland's Democratic Unionist Party. In the US there were initially doubts over the ability of the US government to push through its fiscally expansive policies, although investors were later cheered as it became evident that President Trump's tax reform bill would be enacted in Q1 of 2018. Elsewhere, in Europe, markets responded positively to the outcome of the French presidential election while German and Italian elections (held in September 2017 and March 2018 respectively) yielded inconclusive results. Germany has since formed a new government with Angela Merkel as Chancellor.

Market volatility was remarkably low for most of the period, but in the first quarter of 2018 we finally saw an interruption to what was a prolonged rally as worries about global trade and potentially higher US interest rates unnerved investors. Looking across the major asset classes, equities on the whole delivered a positive performance with a notable dispersion of returns across the regions. Bonds however delivered below trend returns, which is reflective of where we are in the market cycle and that inflationary pressures are on the rise.

The standout performer amongst equities was Emerging Markets which delivered returns to UK based investors of 10.6%, with China and South Korea contributing the most to returns. This was followed by Japan, which delivered +5.9% and Europe ex UK at +5.0%. The returns from the UK and North America were more subdued at +1.3%. The Pacific ex Japan region delivered a negative 3.2% to UK investors. The MSCI Pacific ex Japan Index has a high exposure to Australia which was an unusually large laggard over the period in part due to weakness in the Australian dollar.

The property market sector continued to deliver strong returns rising over 10% during the year with capital value growth contributing 5.0% and income 4.8%.

The Fund's benchmark for UK bonds is a 50:50 combination of UK Gilts and Sterling denominated investment grade corporate bonds. This benchmark advanced by 0.9% over the period. UK government bond yields followed their counterparts in the US higher when growth and inflation expectations in the US moved higher (prices fall when yields move higher), but corporate bonds returned around 1.6% as investors remained confident that default rates would remain low for large corporates.

The annualised performance of the Fund against its benchmark for 1, 3, and 5 year periods is shown below.

| | 1 Year | 3 Year (Annualised) | 5 Year (Annualised) |
|-------------------------|---------------|--------------------------------|--------------------------------|
| Merseyside Pension Fund | 3.70% | 8.43% | 8.79% |
| Benchmark | 2.68% | 6.41% | 6.84% |
| Relative Return | 0.99% | 1.90% | 1.82% |

(Source - Northern Trust)

Merseyside Pension Fund returned 3.70% in the financial year to the end of March 2018 compared to its bespoke benchmark return of 2.68%; an outperformance of 0.99%. This was ahead of the Consumer Price Index and the increase in Average Earnings, which advanced by 2.30% and 2.90% respectively.

Alternatives contributed significantly to the outperformance driven by strong performance in Private Equity and Infrastructure assets.

The Fund's 1 year investment performance against its benchmarks across all asset classes is illustrated in Figure 1.

Figure 1.
Net Total Return by Asset Class for Year Ending 31 March 2018

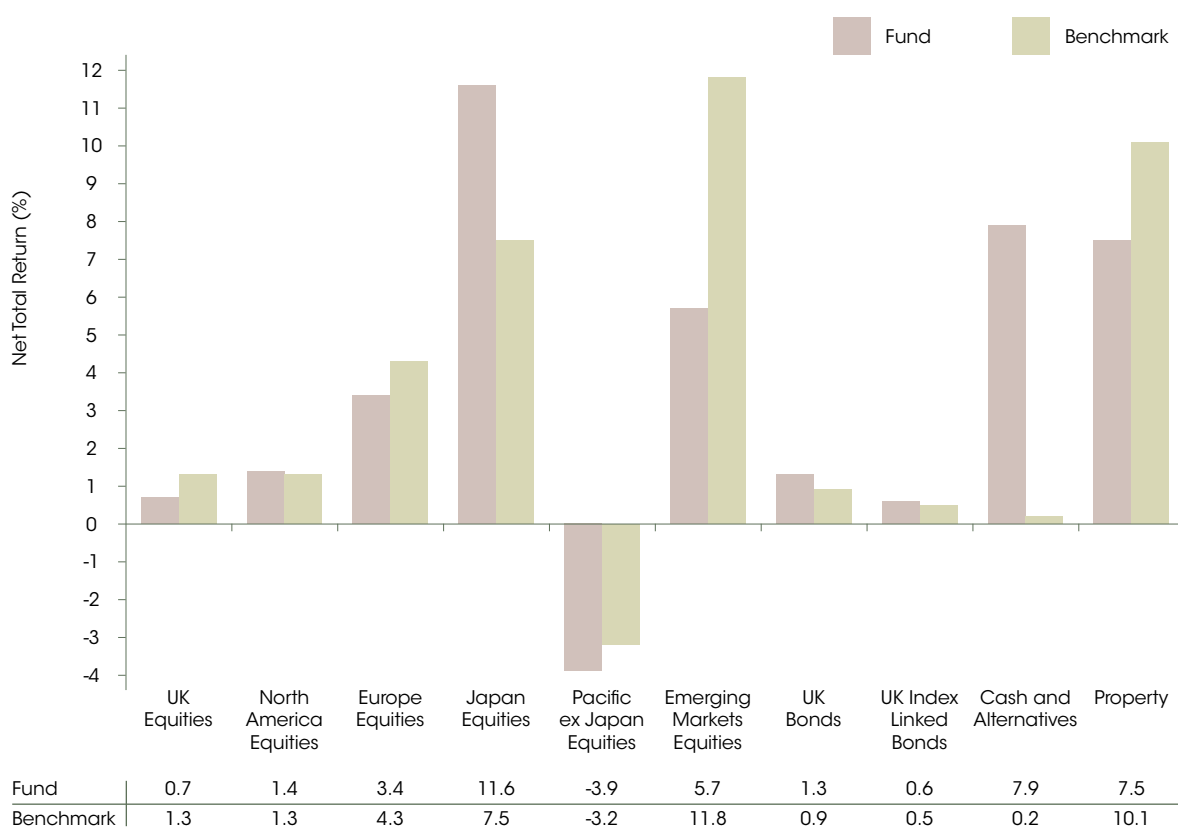
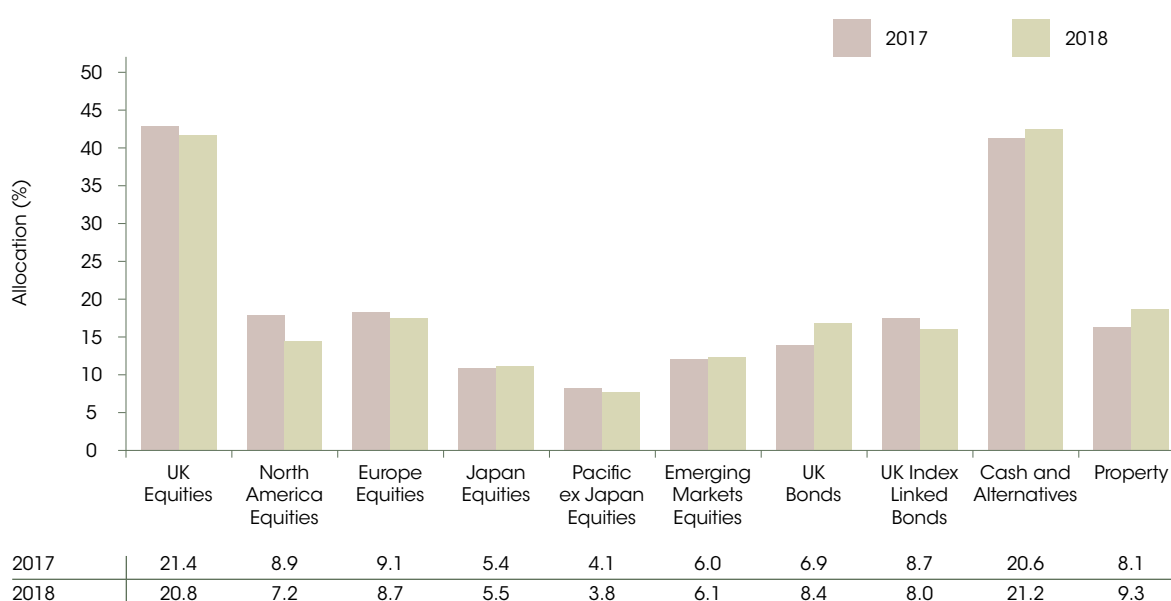


Figure 2 illustrates the asset allocation of the Fund on 31 March 2018 compared to 31 March 2017.

Figure 2.
Asset Allocation Change 2017 vs 2018



Largest UK Property Holdings as at 31 March 2018

| Holding | Market Value £'000 |
|---|--------------------|
| Fort Halstead | 51,500 |
| Tunsgate Square Shopping Centre, Guildford | 47,850 |
| 129-132 North Street, Brighton | 31,700 |
| Telegraph Road, Heswall | 30,500 |
| Premier Park, Winsford Road Industrial Estate, Winsford | 23,750 |

Largest Infrastructure Holdings as at 31 March 2018

| Holding | Market Value £'000 |
|--|--------------------|
| Iona Capital - bio energy | 75,000 |
| P3P - energy from waste | 30,000 |
| Anglian Water Group | 29,000 |
| Clyde Wind Farm | 27,000 |
| Rolling Stock (East Anglia, South Western, Moorgate) | 10,500 |

Strategic Asset Structure

| Asset Class | Strategic Benchmark % | Detail % |
|--------------------------|-----------------------|----------|
| UK Equities | 23 | |
| Overseas Equities | 30 | |
| US | | 8 |
| European (ex UK) | | 8 |
| Japan | | 4 |
| Asia Pacific | | 4 |
| Emerging Markets | | 6 |
| Fixed Income | 18 | |
| UK Gilts | | 4 |
| UK Index-Linked Gilts | | 10 |
| Corporate Bonds | | 4 |
| Property | 8 | |
| Alternatives | 21 | |
| Private Equity | | 5 |
| Hedge Funds | | 4 |
| Opportunities | | 5 |
| Infrastructure | | 7 |
| Cash | | 0 |
| Total | 100 | |

In response to the government's pooling initiative, the 'Northern Pool' was established by the local government pension funds for Greater Manchester, West Yorkshire and Merseyside. It is expected that the 'Northern Pool' will achieve significant cost savings and economies of scale through the pooling of assets. Progress has been made towards this goal in the areas of Infrastructure and Private Equity and the pooled approach will be expanded to cover more asset classes in the years ahead.

In December 2016, Merseyside Pension Fund joined the GMPF & LPFA Infrastructure LLP (GLIL), an infrastructure investment vehicle which was initially a joint venture between the Greater Manchester Pension Fund and the London Pensions Fund Authority. The Fund, on joining, made a commitment to invest £125m and as at the end of March 2018, around half of this amount had been invested, predominantly into UK assets.

Merseyside Pension Fund, Greater Manchester Pension Fund and West Yorkshire Pension Fund, have established a collective private equity investment vehicle (NPEP), which will make commitments of around £720m to private equity funds in 2018 and 2019, £160m of which will likely be from Merseyside Pension Fund.

The Markets in Financial Instruments Directive II (MiFID II) became effective in January of this year. Its potentially serious implications for the Fund, in removing its automatic status as a 'per se' professional investor, have been addressed. It also introduced the unbundling of research and dealing costs which has helped to improve transparency.

Merseyside Pension Fund is acting with the Local Government Pension Scheme Advisory Board to promote the 'Code of Cost Transparency'. The Fund is committed to obtaining more detailed investment cost and fee data, ensuring transparency and consistency of reporting from our external asset managers. The Code is currently being applied to listed assets and it is anticipated that data collection templates for unlisted asset classes, such as private equity, will be developed in due course.

Private market assets generally have costs that are met within the vehicle rather than through an explicit charge paid directly by Merseyside Pension Fund. These costs are not charged directly to the Fund Account, but are included in the fair value adjustments applied to the assets concerned within the Fund Account, with performance reported on a net basis. The Fund aims to be both transparent and value-led in its investment approach, and the table below shows costs associated with both management fees and performance fees during the current and previous financial year. The performance related fees relate to monies that have been paid out and do not include any accrued performance fee estimates. Industry standard fees have been used in the small number of cases where the actual amount charged is not available. Investment Management figures of £11.6m for March 2018 and £9.6m for March 2017 (in Note 11b to the Report and Accounts) are included in the Management Fee figures of £22.2m and £16.4m respectively.

| Asset Class | 31 March 2017 | | 31 March 2018 | |
|-------------------------------|-------------------------|----------------------------------|-------------------------|----------------------------------|
| | Management Fee £'000 | Performance Related Fee £'000 | Management Fee £'000 | Performance Related Fee £'000 |
| Private Equity | 4,068 | 1,483 | 7,780 | 5,599 |
| Infrastructure | 4,605 | 404 | 5,354 | 44 |
| Property | 3,239 | 3,544 | 4,012 | 664 |
| Opportunities and Hedge Funds | 4,560 | 1,783 | 5,043 | 2,414 |
| Total | 16,471 | 7,214 | 22,190 | 8,721 |

Private Market Assets, along with Japanese equities were the strongest performing asset classes over the 12 months to the end of March 2018. The total private market costs of £30.9m for 2017/2018 can be compared with around £182m of net value add that these assets delivered to the Fund over that period.

Merseyside Pension Fund has a Responsible Investment strategy that has continued to be developed in partnership with like-minded investors committed to integrating sustainability into investment decision-making and acting as stewards of the assets we own. The Fund is a member of the Principles for Responsible Investment (PRI) and has submitted reporting on its activities over the 2017 calendar year. The Fund works with corporate governance specialists PIRC to vote on its shares in public listed companies, in line with PIRC's Shareholder Voting Guidelines.

Further information about the Fund's responsible investment activity can be found on our website mpfund.uk/respinv, including details of voting activity and reporting on climate risk.

Climate Risk

Addressing the challenges of climate risk has been at the forefront of the Fund's responsible investment work over the year. The Financial Stability Board's Taskforce on Climate-Related Financial Disclosures (TCFD) provide a global framework to translate non-financial information into financial metrics. The TCFD has been endorsed by over 238 companies, including 150 financial institutions representing a combined market capitalisation of over US\$6 trillion and US\$81.7 trillion assets under management. The Fund has committed to reporting on its approach to climate risk using the TCFD framework (as recommended for asset owners) and, over the course of the year, has partnered with other asset owners to promote TCFD reporting in the entities in and through which we invest.

Merseyside Pension Fund TCFD Report as at 31 March 2018

| | |
|----------------------------|---|
| Governance | The Pensions Committee (as the governing body) has mandated that MPF's investment strategy be brought into line with the goals of the 2015 Paris Agreement. It has delegated authority to the Director of Pensions to develop and implement the climate risk strategy and receives quarterly reports on progress. |
| Strategy | MPF's strategy is based on the view that climate change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations. The Fund has initiated work on reviewing its investment beliefs and strategic framework (including asset allocation policy) to ensure that climate risk considerations are appropriately integrated. |
| Risk Management | MPF acknowledges the description of climate risk provided by TCFD, as comprising transition and physical risks. Presently, the focus of risk management has been on the mitigation of transition risk. |
| Targets and Metrics | <p>Carbon foot-print analysis of the Fund's listed equities has been obtained from Northern Trust (the Fund's global custodian and asset servicing provider). The analysis shows that the Fund's portfolio of equities has a carbon intensity of 198.24 (tonnes of scope 1 & 2 carbon emissions generated per year per US\$ million of sales) versus 201.68 equivalent figure for the benchmark.</p> <p>The analysis further indicates that the Fund has significant concentrations of climate risk (emissions intensity and ownership share of fossil fuel reserves) within the UK and North American segments of its equity portfolio.</p> <p>A decarbonisation target of switching one-third of the Fund's passive equities into a low carbon benchmark tracking strategy has been set and further progress will be made over 2018 on the completion of this target. The decarbonisation goals will be to mitigate transition risk in UK and North American passive equities by reducing emissions intensity (by 1/3 approx), reducing exposure to fossil fuel reserves (by 1/2 approx) and by introducing a positive tilt to earnings from the burgeoning low carbon economy.</p> <p>The Fund will continue to allocate to the low carbon economy through the unlisted, illiquid segment of its strategic benchmark: primarily, via the 7% allocation to infrastructure where renewable energy and other low carbon aligned areas offer significant opportunity. The Fund expects to have invested over £250 million in renewables by 2020.</p> |

Financial Performance

Key Financials

| | £'000 | £'000 | £'000 |
|------------------------------------|-----------|-----------|------------------|
| Fund Value at 31 March 2017 | | | 8,178,485 |
| Contributions and Benefits | | | 89,882 |
| Employer Contributions | 352,930 | | |
| Employee Contributions | 54,138 | | |
| | | 407,068 | |
| Pensions Paid | (252,874) | | |
| Lump Sums Paid | (61,682) | | |
| | | (314,556) | |
| Net Transfers | | (2,630) | |
| Management Expenses | | | (40,027) |
| Administration | (2,579) | | |
| Investment Management | (35,922) | | |
| Oversight and Governance | (1,526) | | |
| Investments | | | 335,101 |
| Income | 193,430 | | |
| Change in Market Value | 141,671 | | |
| Fund Value at 31 March 2018 | | | 8,563,441 |

The table below describes the Fund's performance for key financial variables against forecasts (forecast January and July 2017) for the 12 months to 31 March 2018.

| 2017/2018 or at 31 March 2018 | Predicted £'000 | Actual £'000 |
|--------------------------------------|----------------------------|-------------------------|
| Fund Size 2017 | 8,178,485 | 8,178,485 |
| Fund Size 2018 | 8,815,511 | 8,563,441 |
| Pensions Paid | (315,188) | (314,556) |
| Contributions Received | 428,513 | 407,068 |
| Net Transfers | - | (2,630) |
| Net Cash Flow From Members | 113,325 | 89,882 |
| Net Management Expenses | (40,614) | (40,027) |
| Investment Income | 178,233 | 193,430 |
| Change in Valuation of Assets | 386,082 | 141,671 |
| Return from Investments | +564,315 | +335,101 |
| Net Change Overall | +637,026 | +384,956 |

The key variance between the forecast and the actual performance, was the return on investments, the change in the valuation of assets; this is largely out of the control of the Fund.

The contributions received in 2017/18 are higher than in previous years, due to a number of employers opting to pay their three year deficits calculated by the actuary in year 1 (2017/18), therefore the following 2 years will be reduced accordingly.

The Fund monitors its costs closely. The table below shows the out-turn against the budget approved at Pensions Committee for the year:

| 12 months to 31 March 2018 | Budget £'000 | Actual £'000 |
|------------------------------------|-------------------------|-------------------------|
| Employees | 3,388 | 2,718 |
| Premises | 280 | 280 |
| Transport | 51 | 35 |
| Investment Fees - operating budget | 14,131 | 12,609 |
| Supplies and Services | 1,955 | 1,464 |
| Third Party | 710 | 576 |
| Recharges | 350 | 336 |
| Total | 20,865 | 18,018 |

Note: Premises' expenditure is agreed as a notional charge based on market rates, as MPF owns the building. For the purposes of the operating budget, Investment fees above refers to invoiced investment costs only and is therefore lower than the figure disclosed in the Fund Account.

Overall the actual out-turn for 2017/18 was £18.0 million, lower than the original budget of £20.9 million approved by Pensions Committee in July 2017.

The 2018/19 Fund budget as approved by Pensions Committee in January 2018 is detailed in the table below:

| 2018/19 Budget | £'000 |
|-----------------------|---------------|
| Employees | 3,640 |
| Premises | 247 |
| Transport | 55 |
| Investment Fees | 14,236 |
| Supplies and Services | 2,677 |
| Third Party | 840 |
| Recharges | 350 |
| Total | 22,045 |

The assumptions that underpin this budget are that investment performance follows long-term trends and that the Fund follows the long-term trends in mortality and other factors assumed within the actuarial valuation. The budget also allows for some growth in staffing and IT costs for the changes in Scheme administration. Investment fees shown above are for invoiced investment management costs only and do not include any fees for private market assets, any property related expenditure nor any investment changes associated with pooling.

The predictions for key financial variables over the next 3 years are detailed in the table below:

| | 2018/19 £'000 | 2019/20 £'000 | 2020/21 £'000 |
|--------------------------------|------------------|------------------|-------------------|
| Fund Size Start of Year | 8,563,441 | 9,080,766 | 9,633,822 |
| Fund Size End of Year | 9,080,766 | 9,633,822 | 10,225,178 |
| Pensions Paid | (323,049) | (331,771) | (340,729) |
| Contributions Received | 207,068 | 213,280 | 219,678 |
| Net Transfers | - | - | - |
| Net Inflow From Members | (115,981) | (118,490) | (121,051) |
| Net Management Expenses | (42,429) | (44,974) | (47,673) |
| Investment Income | 206,777 | 221,044 | 236,296 |
| Change in Valuation of Assets | 384,101 | 405,529 | 428,437 |
| Return from Investments | 590,877 | 626,573 | 664,734 |
| Net Change Overall | 517,325 | 553,056 | 591,356 |

As stated earlier, the contributions received in 2017/18 were higher due to a number of employers opting to pay their three year deficits calculated by the actuary in year 1 (2017/18), consequently, year 2 (2018/19) and year 3 (2019/20) have been reduced accordingly.

The material variable in these assumptions is investment returns. If returns over the next few years are different from the predicted long-term average (7% per annum), then the out-turn will be significantly different. The other key variable is the pattern of membership of the Scheme. If the employers make significant changes which affect the number of active members or deferred

members and pensioners, then the cash-flows of the Scheme can change materially. Both of these factors are largely outside the influence of Merseyside Pension Fund.



Financial Statements

Fund Account - for year ended 31 March 2018

| | Note | 2017/18 £'000 | 2016/17 £'000 |
|--|------|------------------|------------------|
| Dealing with Members, Employers and Others Directly Involved in the Fund | | | |
| Contributions Receivable | 7 | 407,068 | 208,513 |
| Transfers In | 8 | 12,174 | 11,568 |
| | | 419,242 | 220,081 |
| Benefits Payable | 9 | (314,556) | (306,902) |
| Payments to and on Account of Leavers | 10 | (14,804) | (19,292) |
| | | (329,360) | (326,194) |
| Net Additions/(Withdrawals) from Dealing with Members | | 89,882 | (106,113) |
| Management Expenses | 11 | (40,027) | (38,315) |
| Net Additions/(Withdrawals) including Fund Management Expenses | | 49,855 | (144,428) |
| Return on Investments: | | | |
| Investment Income | 12 | 197,008 | 167,672 |
| Profit and Losses on Disposal of Investments and Change in Market Value of Investments | 13 | 141,671 | 1,306,428 |
| Taxes on Income | 12 | (3,578) | (943) |
| Net Return on Investments | | 335,101 | 1,473,157 |
| Net Increase/(Decrease) in the Fund During the Year | | 384,956 | 1,328,729 |
| Net Assets of the Fund at the Start of the Year | | 8,178,485 | 6,849,756 |
| Net Assets of the Fund at the End of the Year | | 8,563,441 | 8,178,485 |

Net Assets Statement - for year ended 31 March 2018

| | Note | 2017/18 £'000 | 2016/17 £'000 |
|---|------|------------------|------------------|
| Investment Assets | | | |
| Equities | 13 | 2,768,408 | 2,728,658 |
| Pooled Investment Vehicles | | 5,074,479 | 4,804,297 |
| Derivative Contracts | | 218 | 224 |
| Direct Property | | 519,750 | 431,150 |
| Short Term Cash Deposits | | 53,226 | 75,222 |
| Other Investment Balances | | 99,613 | 117,550 |
| | | 8,515,694 | 8,157,101 |
| Investment Liabilities | 18 | (13,736) | (4,490) |
| Total Net Assets | | 8,501,958 | 8,152,611 |
| Long Term Assets | 19 | 5,013 | 7,110 |
| Current Assets | 20 | 79,909 | 34,358 |
| Current Liabilities | 20 | (23,439) | (15,594) |
| Net Assets of the Fund as at 31 March 2018 | | 8,563,441 | 8,178,485 |

Notes to the Accounts

1. Description of the Fund

Merseyside Pension Fund (MPF/the Fund) is part of the Local Government Pension Scheme (LGPS) and Wirral Council is the Administering Authority. Wirral Council is the reporting entity for this pension fund.

The overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2017/18 included 10 councillors from Wirral Council, the Administering Authority, and one councillor from each of the 4 other Borough Councils. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party, which includes two external advisers and a consultant. The more detailed consideration of governance and risk issues is considered by the Governance and Risk Working Party.

In 2015/16 a local Pension Board was introduced in accordance with the Public Service Pensions legislation and regulations. The Board's aim is to assist the Administering Authority with ensuring compliance and the effective governance and administration of the Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a. General

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

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

The Fund is a contributory defined benefit pension scheme administered by Wirral Council to provide pensions and other benefits for pensionable employees of the Merseyside Local Authorities and a range of other scheduled and admitted bodies. Teachers, Police Officers and Fire Fighters are not included as they come within other national pension schemes.

b. Membership

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

Organisations participating in Merseyside Pension Fund include:

- Scheduled bodies, which are Local Authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

There are 194 employer organisations within Merseyside Pension Fund including Wirral Council itself. The Fund also has 137,487 members, as detailed below:

| | 31/3/18 | 31/3/17 |
|---|----------------|----------------|
| Number of Employers with Active Members | 194 | 182 |
| Number of Employees in Scheme | 49,151 | 47,206 |
| Number of Pensioners | 43,495 | 42,194 |
| Number of Dependants | 6,665 | 6,571 |
| Number of Deferred Pensioners | 38,176 | 38,368 |
| Total | 137,487 | 134,339 |

c. Funding

Benefits are funded by employee and employer contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS and are matched by employers' contributions which are set based on triennial actuarial funding valuations.

d. Benefits

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

| | Service pre-1 April 2008 | Service post-31 March 2008 |
|-----------------|---|--|
| Pension | Each year worked is worth 1/80 x final pensionable salary. | Each year worked is worth 1/60 x final pensionable salary. |
| Lump Sum | Automatic lump sum of 3x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

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

There are a range of other benefits provided under the Scheme, for more details please refer to the Fund's website.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are shown within the statement by the Actuary, which is published as an addendum to the accounts.

3. Summary of Significant Accounting Policies

The financial statements have been prepared on an accruals basis, unless otherwise stated.

Contributions and Benefits

Contributions are accounted for on an accruals basis. Contributions are made by active members of the Fund in accordance with LGPS Regulations and employers contributions are based on triennial actuarial valuations.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Scheme Actuary, or on receipt if earlier than the due date.

Employers' pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year, but unpaid, will be classed as a current financial asset. Amounts not due until future years, are classed as long-term financial assets.

Benefits payable represent the benefits paid during the financial year and include an estimated accrual for lump sum benefits outstanding as at the year end. Benefits payable includes interest on late payment. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Estimates for post year end outstanding items have been used for payments of retirement grants and death grants:

- Retirement grants due for payment, but not paid by 31 March: using actual figures as far as possible, and assuming maximum commutation to be taken, where the knowledge of the individual member's choice is still outstanding.
- Death grants due for payment, but not paid by 31 March, for example, awaiting Probate.

Transfers to and from other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined, or left the Fund, during the financial year, and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Management Expenses

The Fund discloses its management expenses analysed into three categories, administration costs, investment management costs and oversight and governance costs, in accordance with CIPFA 'Accounting for Local Government Management Costs'.

Administration Costs

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

Investment Management Costs

All investment expenses are accounted for on an accrual basis.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market values of the investments under their management, and therefore increase or reduce as the value of these investments change.

Costs in respect of the internal investment team are classified as investment expenses.

Estimates for post year end outstanding items have been used for external Investment Management fees using the Fund's valuations as at 31 March.

In accordance with CIPFA 'Accounting for Local Government Management Costs' guidance, transaction costs and property related expenses are shown under investment expenses.

For certain unquoted investments including Private Equity, Hedge Funds, Opportunities and Infrastructure, the Fund does not charge costs for these to the Fund Account because the Fund Manager costs are not charged directly to the Fund. They are instead deducted from the value of the Fund's holding in that investment, or from investment income paid to the Fund. If the Fund has been charged directly for Fund Manager costs, they are shown as external investment management fees.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

The cost of obtaining investment advice from external consultants is included in governance and oversight expenses.

Investment Income

Income from Equities is accounted for when the related investment is quoted ex-dividend. Income from Pooled Investment Vehicles and interest on Short-Term Deposits has been accounted for on an accruals basis. Distributions from Private Equity are treated as return of capital until the book value is nil then treated as income on an accruals basis.

Rental income from properties is taken into account by reference to the periods to which the rents relate and is shown gross of related expenses. The Fund accrues rent up to 24 March each year. Rent received on the Quarter Day, 25 March, is accounted for in full in the following year.

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

Taxation

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

Valuation of Investments

Financial assets are included in the Net Asset Statement on a fair value basis as at the reporting date. The values of investments as shown in the Net Asset Statement are determined as follows:

- Listed securities are valued at quoted bid market prices on the final day of the accounting period. The bid price is the price which the Fund would have obtained should the securities have been sold at that date.
- For unlisted investments wherever possible valuations are obtained via the Independent Administrator. Valuations that are obtained direct from the Manager are verified against the latest available audited accounts adjusted for any cash flows up to the reporting date.
- Hedge Funds and Infrastructure are recorded at fair value based on net asset values provided by Fund Administrators, or using latest financial statements published by respective Fund Managers adjusted for any cash flows.
- Private Equity valuations are in accordance with the guidelines and conventions of the British Venture Capital Association/International Private Equity guidelines or equivalent.
- Indirect Property is valued at net asset value or capital fair value basis provided by the Fund Manager. For listed Funds the net asset value per unit is obtained through data vendors.
- The freehold and leasehold interests in the properties held within the Fund were independently valued as at 31 March 2018 by Savills (UK) Limited, acting in the capacity of External Valuers as defined in the RICS Red

Book (but not for the avoidance of doubt as an External Valuer of the Fund as defined by the Alternative Investment Fund Managers Regulations 2013). The valuations accord with the requirements of IFRS 13, SSAP 19 and the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards 2017 incorporating the IVSC International Valuation Standards issued June 2017 and effective from 1 July 2017 (the 'RICS Red Book').

- Pooled Investment Vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of Pooled Investment Vehicles that are Accumulation Funds, change in market value also includes income which is reinvested by the Manager of the vehicle in the underlying investment, net of applicable withholding tax.

Translation of Foreign Currencies

Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign income received during the year is translated at the rate ruling at the date of receipt. All resulting exchange adjustments are included in the revenue account.

Derivatives

The Fund uses derivative financial assets to manage exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices, and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from, or owed to, the broker, are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date.

The future value of forward currency contracts is based on market forward exchange rates at the year end date, and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

Short-Term Deposits

Short-term deposits only cover cash balances held by the Fund. Cash held by Investment Managers awaiting investment is shown under 'Other Investment Balances'.

Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Additional Voluntary Contributions

The Committee holds assets invested separately from the main Fund. In accordance with regulation 4 (1) (b) of the Pensions Schemes (Management and Investment of Funds) Regulations 2016, these assets are excluded from the Pension Fund accounts.

The Scheme providers are Equitable Life, Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year.

4. Critical Judgements in Applying Accounting Policies

The Fund has not applied any critical judgements.

5. Estimation**Unquoted Investments**

The Fund has significant unquoted investments within Private Equity, Infrastructure, Property and other Alternative investments. These are valued within the financial statements using valuations from the Managers of the respective assets. There are clear accounting standards for these valuations and the Fund has in place procedures for ensuring that valuations applied by Managers comply with these standards and any other relevant best practice. The value of unquoted assets as at 31 March 2018 was £4,603 million (£4,350 million at 31 March 2017).

Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Hedge Funds are valued at the sum of the fair values provided by the Administrators of the underlying Funds plus adjustments that the Hedge Fund Directors or Independent Administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Direct property and pooled property funds use valuation techniques to determine the carrying amount. Where possible these valuations are based on observable data, but where this is not possible, management uses the best available data.

6. Events After Reporting Sheet Date

There have been no events since 31 March 2018, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

7. Contributions Receivable

| | 2017/18 £'000 | 2016/17 £'000 |
|-------------------------|------------------|------------------|
| Employers | | |
| Normal | 119,408 | 111,926 |
| Pension Strain | 10,426 | 11,808 |
| Deficit Funding | 223,096 | 31,541 |
| Total Employers | 352,930 | 155,275 |
| Employees | | |
| Normal | 54,138 | 53,238 |
| | 407,068 | 208,513 |
| Relating to: | | |
| Administering Authority | 57,357 | 35,305 |
| Statutory Bodies | 319,948 | 145,159 |
| Admission Bodies | 29,763 | 28,049 |
| | 407,068 | 208,513 |

Contributions are made by active members of the Fund in accordance with the LGPS and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2017/18 contributions above were calculated at the valuation dated 31 March 2016. The 2016 actuarial valuation calculated the average primary employer contribution rate of 15.4% (2013 13.3%).

'Pension Strain' represents the cost to employers when their employees retire early to compensate the Fund for the reduction in contribution income and the early payment of benefits. Payments to the Fund for such costs are made over agreed periods. An accrual has been made for agreed future payments to the Fund.

'Deficit Funding' includes payments by employers for past service deficit and additional payments by employers to reduce a deficit. During 2017/18 the Fund has received additional and upfront payments covering a three year period until the next actuarial valuation in 2019, totalling £141.2 million, (2016/17 £1.6 million).

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2017/18 no such charges were levied.

8. Transfers In

| | 2017/18 £'000 | 2016/17 £'000 |
|----------------------|------------------|------------------|
| Group Transfers | - | - |
| Individual Transfers | 12,174 | 11,568 |
| | 12,174 | 11,568 |

There were no group transfers to the Fund during 2017/18.

9. Benefits Payable

| | 2017/18 £'000 | 2016/17 £'000 |
|------------------------------|------------------|------------------|
| Pensions | 252,874 | 247,865 |
| Lump Sum Retiring Allowances | 56,141 | 52,632 |
| Lump Sum Death Benefits | 5,541 | 6,405 |
| | 314,556 | 306,902 |
| Relating to: | | |
| Administering Authority | 43,387 | 41,873 |
| Statutory Bodies | 222,117 | 217,741 |
| Admission Bodies | 49,052 | 47,288 |
| | 314,556 | 306,902 |

10. Payments to and on Account of Leavers

| | 2017/18 £'000 | 2016/17 £'000 |
|--|------------------|------------------|
| Refunds to Members Leaving Service | 447 | 465 |
| Payment for Members Joining State Scheme | 37 | 289 |
| Income for Members From State Scheme | 1 | (32) |
| Group Transfers to Other Schemes | - | 1,226 |
| Individual Transfers to Other Schemes | 14,319 | 17,344 |
| | 14,804 | 19,292 |

There were no group transfers out of the Fund during 2017/18.

11. Management Expenses

| | 2017/18 £'000 | 2016/17 £'000 |
|--------------------------------|------------------|------------------|
| Administration Costs | 2,587 | 2,673 |
| Investment Management Costs | 35,922 | 33,887 |
| Oversight and Governance Costs | 1,727 | 1,978 |
| Other Income | (209) | (223) |
| | 40,027 | 38,315 |

11a. Administration Costs

| | 2017/18 £'000 | 2016/17 £'000 |
|----------------|------------------|------------------|
| Employee Costs | 1,665 | 1,686 |
| IT Costs | 611 | 639 |
| General Costs | 276 | 329 |
| Other Costs | 35 | 19 |
| | 2,587 | 2,673 |

11b. Investment Management Costs

| | 2017/18 £'000 | 2016/17 £'000 |
|---|------------------|------------------|
| External Investment Management Fees | 22,707 | 20,607 |
| External Investment Management Performance Fees | 1,546 | 3,076 |
| External Services | 565 | 545 |
| Internal Investment Management Fees | 614 | 609 |
| Property Related Expenses | 6,377 | 4,889 |
| Transaction Costs | 4,113 | 4,161 |
| | 35,922 | 33,887 |

11c. Oversight and Governance Costs

| | 2017/18 £'000 | 2016/17 £'000 |
|-------------------|------------------|------------------|
| Employee Costs | 475 | 468 |
| External Services | 767 | 838 |
| Internal Audit | 34 | 32 |
| External Audit | 39 | 37 |
| Other Costs | 412 | 603 |
| | 1,727 | 1,978 |

Actuarial fees included within External Services above (note 11c) are shown gross of any fees that have been recharged to employers. Included within Other Income for 2017/18 is £195,994 relating to recharged Actuarial fees (2016/17 £173,224).

External Audit fees for 2017/18 also include £2,180 relating to additional services in respect of IAS19 assurances for admitted body auditors, which are recharged to those admitted bodies.

12. Investment Income

| | 2017/18 £'000 | 2016/17 £'000 |
|--|------------------|------------------|
| Dividends from Equities | 84,247 | 69,880 |
| Income from Pooled Investment Vehicles | 52,333 | 49,885 |
| Rents from Properties | 26,754 | 23,498 |
| Interest on Short Term Cash Deposits | 267 | 306 |
| Income from Private Equity | 32,422 | 22,856 |
| Other | 985 | 1,247 |
| | 197,008 | 167,672 |
| Irrecoverable Withholding Tax | (3,578) | (943) |
| | 193,430 | 166,729 |

Rental income is shown gross of any property related expenses, with related expenses shown under investment expenses (note 11b).

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £4.8 million (2016/17 £4.1 million).

The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, there were no repayments received in 2017/18 (2016/17 £nil).

12a. Property Income

| | 2017/18 £'000 | 2016/17 £'000 |
|---------------------------------|------------------|------------------|
| Rental Income | 26,754 | 23,498 |
| Direct Operating Expenses | (6,377) | (4,889) |
| Net Rent from Properties | 20,377 | 18,609 |

No contingent rents have been recognised as income during the period.

12b. Property Operating Leases

The Fund's property portfolio comprises a variety of units which are leased to organisations with the objective of generating appropriate investment returns.

These leases are all categorised as operating leases due to the relatively short length of the agreements i.e. relative to the overall life of the asset and proportion of the assets overall value. The leases do not meet the assessment criteria for finance leases, and the risks and rewards of ownership of the leased assets are retained by the Fund and reflected in the Net Assets Statement.

The properties comprise a mix of office, retail and industrial buildings. These leases vary in length from short-term to over 25 years.

The future minimum lease payments receivable under non-cancellable leases in future years are:

| Age Profile of Lease Income | 2017/18 £'000 | 2016/17 £'000 |
|-----------------------------|------------------|------------------|
| No later than one year | 1,302 | 1,277 |
| Between one and five years | 8,114 | 6,774 |
| Later than five years | 17,540 | 13,834 |
| Total | 26,956 | 21,885 |

With regards to the properties owned and leased by the Fund, all are leased to the tenants under contracts that have been assessed as operating leases and which may include periodic rent reviews etc. The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease entered into, such as adjustments following rent reviews.

13. Investments

| 2017/18 | Market Value 31/3/17 | Purchases at Cost and Derivative Payments | Sale Proceeds and Derivative Receipts | Change in Market Value* | Market Value 31/3/18 |
|----------------------------|-------------------------|--|--|-------------------------------|-------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Equities | 2,728,658 | 1,272,950 | (1,225,858) | (7,342) | 2,768,408 |
| Pooled Investment Vehicles | 4,804,297 | 550,657 | (414,391) | 133,916 | 5,074,479 |
| Derivative Contracts | 224 | 979,418 | (982,541) | 3,117 | 218 |
| Direct Property | 431,150 | 71,899 | - | 16,701 | 519,750 |
| | 7,964,329 | 2,874,924 | (2,622,790) | 146,392 | 8,362,855 |
| Short-Term Cash Deposits | 75,222 | | | | 53,226 |
| Other Investment Balances | 117,550 | | | (4,721) | 99,613 |
| | 8,157,101 | | | 141,671 | 8,515,694 |

| 2016/17 | Market Value 31/3/16 | Purchases at Cost and Derivative Payments | Sale Proceeds and Derivative Receipts | Change in Market Value* | Market Value 31/3/17 |
|----------------------------|-------------------------|--|--|-------------------------------|-------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Equities | 2,020,418 | 1,232,039 | (1,016,978) | 493,179 | 2,728,658 |
| Pooled Investment Vehicles | 4,264,626 | 323,279 | (608,771) | 825,163 | 4,804,297 |
| Derivative Contracts | 254 | 279,162 | (272,286) | (6,906) | 224 |
| Direct Property | 377,000 | 79,885 | (18,638) | (7,097) | 431,150 |
| | 6,662,298 | 1,914,365 | (1,916,673) | 1,304,339 | 7,964,329 |
| Short-Term Cash Deposits | 40,031 | | | | 75,222 |
| Other Investment Balances | 114,660 | | | 2,089 | 117,550 |
| | 6,816,989 | | | 1,306,428 | 8,157,101 |

* Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation.

Transaction costs had previously been added to purchases and netted against sales proceeds; however, they are no longer shown in the above tables and instead are shown under investment management costs in note 11b in accordance with CIPFA guidance.

Indirect costs are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

13a. Analysis of Investments

| | 2017/18 £'000 | 2016/17 £'000 |
|---------------------------------------|------------------|------------------|
| Equities (Segregated Holdings) | | |
| UK Quoted | 1,261,630 | 1,193,697 |
| Overseas Quoted | 1,506,778 | 1,534,961 |
| | 2,768,408 | 2,728,658 |
| Pooled Investment Vehicles | | |
| UK Managed Funds: | | |
| Property | 43,961 | 17,569 |
| Equities | 130,528 | 107,630 |
| Private Equity | 311,657 | 294,048 |
| Hedge Funds | 44,079 | 53,491 |
| Corporate Bonds | 343,277 | 267,082 |
| Infrastructure | 252,983 | 159,687 |
| Opportunities | 324,309 | 301,012 |
| Overseas Managed Funds: | | |
| Equities | 486,772 | 456,946 |
| Private Equity | 251,754 | 251,013 |
| Hedge Funds | 226,624 | 218,664 |
| Infrastructure | 175,233 | 163,601 |
| Opportunities | 136,854 | 131,052 |
| UK Unit Trusts: | | |
| Property | 107,949 | 99,026 |
| Overseas Unit Trusts: | | |
| Property | 96,448 | 87,157 |
| Other Unitised Funds | 2,142,051 | 2,196,319 |
| | 5,074,479 | 4,804,297 |
| Derivative Contracts | 218 | 224 |
| UK Properties | | |
| Freehold | 394,100 | 322,800 |
| Leasehold | 125,650 | 108,350 |
| | 519,750 | 431,150 |
| Balance at 1 April | 431,150 | 377,000 |
| Additions | 71,899 | 79,885 |
| Disposals | - | (18,638) |
| Net Gain/Loss on Fair Value | - | (11,945) |
| Other Changes in Fair Value | 16,701 | 4,848 |
| Balance at 31 March | 519,750 | 431,150 |

As at 31 March 2018 there were no amounts of restrictions on the realisability of investment property or of income and proceeds of disposal.

There were no obligations to purchase new properties.

| | 2017/18 £'000 | 2016/17 £'000 |
|---------------------------------|------------------|------------------|
| Short-Term Cash Deposits | | |
| Sterling | 53,226 | 75,222 |
| Foreign Currency | - | - |
| | 53,226 | 75,222 |

| | 2017/18 £'000 | 2016/17 £'000 |
|---|------------------|------------------|
| Other Investment Balances | | |
| Outstanding Trades | 9,486 | 4,509 |
| Outstanding Dividend Entitlements and Recoverable Withholding Tax | 17,566 | 17,304 |
| Cash Deposits | 72,561 | 95,737 |
| | 99,613 | 117,550 |

13b. Analysis of Derivatives

Forward Currency Contracts

The Fund's forward currency contracts are exchange traded and are used by a number of our external Investment Managers to hedge exposures to foreign currency back into sterling.

| Settlement Date | Currency Bought '000 | Currency Sold '000 | Asset £'000 | Liability £'000 |
|--|-------------------------|-----------------------|----------------|--------------------|
| Up to 1 month | GBP 19,363 | EUR 21,282 | 218 | - |
| | | | 218 | - |
| Net Forward Currency Contracts at 31 March 2018 | | | | 218 |
| Prior Year Comparative | | | | |
| Open Forward Currency Contracts at 31 March 2017 | | | 174 | (13) |
| Net Forward Currency Contracts at 31 March 2017 | | | | 161 |

Futures

| Type of Contract | Expires | Economic Exposure £'000 | Market Value 31/3/18 £'000 | Economic Exposure £'000 | Market Value 31/3/17 £'000 |
|-----------------------------|---------|----------------------------|----------------------------------|----------------------------|----------------------------------|
| Assets | | | | | |
| EURO STOXX 50 Index Futures | Jun-17 | - | - | 500 | 50 |
| Total Assets | | | - | | 50 |
| Liabilities | | | | | |
| Total Liabilities | | | - | | - |
| Net Futures | | | - | | 50 |

A Futures contract is the obligation under a legal agreement to make or take delivery of a specified instrument at a fixed future date, at a price determined at the time of dealing. Merseyside Pension Fund's Index Futures Contracts are externally managed and their objective is to hedge overseas investment positions against

adverse index movements. Futures dealing requires the posting of margin. Initial margin which must be posted before you can trade and variation margin, the mark-to-market value of the futures contracts you hold. Variation margin is exchanged daily and exists to reduce counterparty credit exposure.

13c. Summary of Managers' Portfolio Values at 31 March 2018

| | 2017/18 | | 2016/17 | |
|--|--------------|--------------|--------------|--------------|
| | £'m | % | £'m | % |
| Externally Managed | | | | |
| JP Morgan (European Equities) | 252 | 3.0 | 258 | 3.2 |
| Nomura (Japan) | 461 | 5.4 | 433 | 5.3 |
| Schroders (Fixed Income) | 343 | 4.0 | 267 | 3.3 |
| Legal & General (Fixed Income) | 369 | 4.3 | 298 | 3.7 |
| Unigestion (European Equities and Pooled Emerging Markets) | 319 | 3.8 | 318 | 3.9 |
| M&G (Global Emerging Markets) | 183 | 2.1 | 177 | 2.2 |
| TT International (UK Equities) | 249 | 2.9 | 237 | 2.9 |
| Blackrock (UK Equities) | 252 | 3.0 | 249 | 3.1 |
| Blackrock (Pacific Rim) | 152 | 1.8 | 157 | 1.9 |
| Blackrock (QIF) | 87 | 1.0 | 70 | 0.9 |
| Newton (UK Equities) | 263 | 3.1 | 260 | 3.2 |
| Amundi (Global Emerging Markets) | 186 | 2.2 | 168 | 2.1 |
| Maple-Brown Abbot (Pacific Rim Equities) | 166 | 1.9 | 173 | 2.1 |
| State Street Global Advisor (Passive Manager) | 1,773 | 20.9 | 1,900 | 23.0 |
| State Street (Transition Manager) | - | - | 194 | 2.4 |
| Blackrock (Transition Manager) | 195 | 2.3 | - | - |
| | 5,250 | 61.7 | 5,159 | 63.2 |
| Internally Managed | | | | |
| UK Equities | 401 | 4.7 | 404 | 4.9 |
| European Equities | 246 | 2.9 | 238 | 2.9 |
| Property (Direct) | 520 | 6.1 | 431 | 5.3 |
| Property (Indirect) | 270 | 3.2 | 226 | 2.8 |
| Private Equity | 563 | 6.6 | 545 | 6.7 |
| Hedge Funds | 271 | 3.2 | 272 | 3.3 |
| Infrastructure | 428 | 5.0 | 323 | 4.0 |
| Opportunities | 486 | 5.7 | 462 | 5.7 |
| Short-Term Deposits and Other Investments | 80 | 0.9 | 97 | 1.2 |
| | 3,265 | 38.3 | 2,998 | 36.8 |
| | 8,515 | 100.0 | 8,157 | 100.0 |

The following holdings each represent more than 5% of the net assets of the Fund:

| | 2017/18 | | 2016/17 | |
|-----------------------------------|---------|-----|---------|-----|
| | £'m | % | £'m | % |
| SSGA Pooled UK Index-Linked Gilts | 682 | 8.0 | 708 | 8.7 |
| SSGA USA Equity Tracker | 613 | 7.2 | 729 | 8.9 |

13d. Stock Lending

As at 31 March 2018, £352.4 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £381.1 million. Collateral is marked to market, and adjusted daily. Income from Stock Lending amounted to £978,508 and is included within 'Other' Investment Income. As the Fund retains its economic interest in stock on loan, their value remains within the Fund valuation. As the Fund has an obligation to return collateral to the borrowers, collateral is excluded from the Fund valuation. The Fund used its Custodian as agent lender, lending only to an agreed list of approved borrowers. An indemnity is in place which gives the Fund further protection against losses.

14. Fair Value - Basis of Valuation

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

| Description of Asset | Valuation Hierarchy | Basis of Valuation | Observable and Unobservable Inputs | Key Sensitivities Affecting the Valuations Provided |
|--|----------------------------|--|--|--|
| Market Quoted Investments | Level 1 | Published bid market price ruling on the final day of the accounting period. | Not Required | Not Required |
| Quoted Bonds | Level 1 | Fixed interest securities are valued at a market value based on current yields. | Not Required | Not Required |
| Derivatives - Futures and Options | Level 1 | Published exchange prices at year end. | Not Required | Not Required |
| Exchange Traded Pooled Investments | Level 1 | Closing bid value on published exchanges. | Not Required | Not Required |
| Unquoted Bonds | Level 2 | Average of broker prices. | Evaluated Price Feeds | Not Required |
| Derivatives - Forward Currency Contracts | Level 2 | Market forward exchange rates at the year end. | Not Required | Not Required |
| Pooled Investments - Overseas Unit Trusts and Property Funds | Level 2 | Closed bid price where bid and offer prices are published - closing single price where single price is published. Valuation for property funds are provided by fund managers and where available closing bid prices are used. | NAV - based pricing set on a forward pricing basis. | Not Required |
| Direct Property | Level 3 | Valued at fair value at the year end using independent external Valuers in accordance with FRS 13, SSAP 19 and the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards (the 'RICS Red Book'). | Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength of existing tenants, assumed vacancy levels, estimated rental growth, discount rate. | Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices. |
| Unquoted Equity | Level 3 | Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines or equivalent. | EBITDA multiple, revenue multiple, discount for lack of marketability, control premium. | Material events occurring between the date of the financial statements provided and MPF's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts. |
| Pooled Investments - Hedge Funds and Infrastructure | Level 3 | The funds are valued in accordance with International Financial Reporting Standards (IFRS). The valuation basis, determined by the relevant Fund Manager, may be any of quoted market prices, broker or dealer quotations, transaction price, third party transaction price, industry multiples and public comparables, transitions in similar techniques, third party independent appraisals or pricing models. | NAV - based pricing set on a forward pricing basis. | Material events occurring between the date of the financial statements provided and MPF's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts. |

Sensitivity of assets valued at level 3

The table below sets out the assets classified as level 3 assets. The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges (as provided by the Fund's investment consultants), and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018. There are various factors that affect the complexity of valuation and the realisable value of assets and certain asset specific issues may lead to realisable valuations falling outside the stated range.

| 31 March 2018 | Value £'000 | Potential Variance % | Value on Increase £'000 | Value on Decrease £'000 |
|--------------------------|------------------------|-------------------------------------|--|--|
| Property | 773,163 | 10.0 | 850,479 | 695,847 |
| Unquoted UK Equity | 74,171 | 15.0 | 85,297 | 63,045 |
| Unquoted Overseas Equity | 58,599 | 15.0 | 67,389 | 49,809 |
| Hedge Funds | 223,240 | 10.0 | 245,564 | 200,916 |
| Infrastructure | 353,266 | 15.0 | 406,256 | 300,276 |
| Private Equity | 645,474 | 15.0 | 742,295 | 548,653 |
| Total | 2,127,913 | | | |

14a. Fair Value Hierarchy

Assets valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

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

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

Level 2

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

Level 3

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

Such investments would include unquoted equity investments and Hedge Fund of Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in Private Equity are based on valuations provided by the general partners to the Private Equity funds in which Merseyside Pension Fund has invested.

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

The values of the investment in Hedge Funds are based on the net asset value provided by the Fund Manager. Assurances over the valuation are gained from the independent audit of the value.

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

| Values at 31 March 2018 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|--|------------------|------------------|------------------|------------------|
| Financial Assets | | | | |
| Financial Assets at Fair Value through Profit and Loss | 3,760,289 | 2,474,653 | 1,608,163 | 7,843,105 |
| Non-Financial Assets at Fair Value through Profit and Loss | | | 519,750 | 519,750 |
| Total Financial Assets | 3,760,289 | 2,474,653 | 2,127,913 | 8,362,855 |

| Values at 31 March 2017* | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|--|------------------|------------------|------------------|------------------|
| Financial Assets | | | | |
| Financial Assets at Fair Value through Profit and Loss | 3,614,529 | 2,465,771 | 1,452,879 | 7,533,179 |
| Non-Financial Assets at Fair Value through Profit and Loss | | | 431,150 | 431,150 |
| Total Financial Assets | 3,614,529 | 2,465,771 | 1,884,029 | 7,964,329 |

* Following a further review of levels 1, 2 and 3 categories against PRAG guidance, the values at 31 March 2017 have been restated, £121.7 million has moved from level 1 to level 2, £2.1 million from level 1 to 3 and £20.3 million has moved from level 3 to level 1.

A reconciliation of fair value measurements in Level 3 is set out below:

| | 2017/18 | 2016/17* |
|--|------------------|------------------|
| | £'000 | £'000 |
| Opening Balance | 1,884,029 | 1,627,606 |
| Acquisitions | 340,755 | 240,240 |
| Disposal Proceeds | (179,809) | (123,699) |
| Transfer into Level 3 | 2,574 | - |
| Total Gains/(Losses) Included in the Fund Account: | | |
| On Assets Sold | 2,487 | (11,071) |
| On Assets Held at Year End | 77,877 | 150,953 |
| Closing Balance | 2,127,913 | 1,884,029 |

* The information for 2016/17 has been restated.

15. Financial Instruments

15a. Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured,

and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

| 31 March 2018 | Loans and Receivables £'000 | Financial Liabilities at Amortised Cost £'000 | Fair Value Through Profit and Loss £'000 |
|------------------------------------|-----------------------------------|---|--|
| Financial Assets | | | |
| Equities | | | 2,768,408 |
| Pooled Investment Vehicles | | | 5,074,479 |
| Derivatives | | | 218 |
| Cash Deposits | 53,226 | | |
| Other Investment Balances | 99,613 | | |
| Long-Term and Current Assets | 84,922 | | |
| Total Financial Assets | 237,761 | - | 7,843,105 |
| Grand Total | 8,080,866 | | |
| Financial Liabilities | | | |
| Other Investment Balances | | (13,736) | |
| Current Liabilities | | (23,439) | |
| Total Financial Liabilities | - | (37,175) | - |
| Grand Total | (37,175) | | |
| Grand Net Total | 8,043,691 | | |

| 31 March 2017 | Loans and Receivables £'000 | Financial Liabilities at Amortised Cost £'000 | Fair Value Through Profit and Loss £'000 |
|------------------------------------|-----------------------------------|---|--|
| Financial Assets | | | |
| Equities | | | 2,728,658 |
| Pooled Investment Vehicles | | | 4,804,297 |
| Derivatives | | | 224 |
| Cash Deposits | 75,222 | | |
| Other Investment Balances | 117,550 | | |
| Long-Term and Current Assets | 41,468 | | |
| Total Financial Assets | 234,240 | - | 7,533,179 |
| Grand Total | 7,767,419 | | |
| Financial Liabilities | | | |
| Other Investment Balances | | (4,490) | |
| Current Liabilities | | (15,594) | |
| Total Financial Liabilities | - | (20,084) | - |
| Grand Total | (20,084) | | |
| Grand Net Total | 7,747,335 | | |

To allow reconciliation to the Net Asset Statement and for ease to the reader all long-term & current assets and current liabilities have been included in the above note, although not all are classified as financial instruments, the amounts that are not financial instruments are considered immaterial.

15b. Net Gains and Losses on Financial Instruments

| | 2017/18 £'000 | 2016/17 £'000 |
|---|------------------|------------------|
| Financial Assets | | |
| Fair Value Through Profit and Loss | 129,691 | 1,311,436 |
| Total Financial Assets | 129,691 | 1,311,436 |
| Financial Liabilities | | |
| Financial Liabilities at Amortised Cost | (4,721) | 2,089 |
| Total Financial Liabilities | (4,721) | 2,089 |
| Net | 124,970 | 1,313,525 |

15c. Fair Value of Financial Instruments

There is no material difference between the carrying value and fair value of financial instruments. The majority of financial instruments are held at fair value, and for those which aren't, their amortised cost is considered to be equivalent to an approximation of fair value.

16. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective.

Over the long term, the Fund's objective is to set policies that will seek to ensure that investment returns achieved, will at least match, the assumptions underlying the actuarial valuation, and therefore be appropriate to the liabilities of the Fund.

Having regard to its liability profile, the Fund has determined that adopting a bespoke benchmark should best enable it to implement an effective investment strategy. This strategic benchmark is reviewed every three years, at a minimum, at the time of the actuarial valuation, but will be reviewed as required, particularly if there have been significant changes in the underlying liability profile or the investment environment.

The Fund has carefully considered the expected returns from the various permitted asset classes and has concluded that in the longer term the return on equities will be greater than from other conventional assets. Consequently, the benchmark is biased towards equities and skewed towards active management, particularly in less developed markets.

The Fund is also cognisant of the risk that the shorter term returns may vary significantly from one period to another and between the benchmark and actual returns. Diversification of assets is seen as key to managing this risk, and the risk/return characteristics of each asset, and their relative correlations are reflected in the make-up of the strategic benchmark.

The Fund believes that, over the long term, a willingness to take on volatility and illiquidity is likely to be rewarded with outperformance. The Fund considers that its strong employer covenant, maturity profile and cash flows enable it to adopt a long-term investment perspective. A mix of short-term assets such as bonds and cash, is maintained to cover short-term liabilities while equities (both passive and active), private equity and direct property are held to benefit from the potential rewards arising from volatility and illiquidity risks. The Fund recognises that risk is inherent in investment activity and seeks to manage the level of risk that it takes in an appropriate manner.

The Fund manages investment risks through the following measures:

- Broad diversification of types of investment and Investment Managers.
- Explicit mandates governing the activity of Investment Managers.
- The use of a specific benchmark, related to liabilities of the Fund for investment asset allocation.
- The appointment of Independent Investment Advisors to the Investment Monitoring Working Party.
- Comprehensive monitoring procedures for Investment Managers including internal officers and scrutiny by elected Members.

16a. Market Risk

The Fund is aware that its key risk is market risk i.e. the unpredictability of market performance in the future. The general practice to quantify these risks is to measure the volatility of historical performance. The tables below show the Fund's exposure to asset classes and their reasonable

predicted variance (as provided by the Fund's investment consultants) and the resulting potential changes in net assets available to pay pensions. The figures provided are a forward-looking assumption of future volatility based on analysis of previous performance and probability.

| 31 March 2018 | Value £'m | Potential Variance % | Value on Increase £'m | Value on Decrease £'m |
|--|----------------------|-------------------------------------|--------------------------------------|--------------------------------------|
| UK Equities (all Equities including Pooled Vehicles) | 1,801 | 19.0 | 2,143 | 1,459 |
| US Equities | 652 | 21.0 | 789 | 515 |
| European Equities | 777 | 22.5 | 952 | 603 |
| Japanese Equities | 461 | 20.5 | 556 | 367 |
| Emerging Markets Equities including Pacific Rim | 819 | 28.0 | 1,049 | 590 |
| UK Fixed Income Pooled Vehicles | 712 | 11.0 | 790 | 634 |
| UK Index-Linked Pooled Vehicles | 682 | 9.0 | 743 | 620 |
| Pooled Property | 248 | 12.5 | 279 | 217 |
| Private Equity | 563 | 27.5 | 718 | 408 |
| Hedge Funds | 271 | 9.5 | 296 | 245 |
| Infrastructure | 428 | 18.5 | 507 | 349 |
| Other Alternative Assets | 429 | 14.0 | 489 | 369 |
| Short-Term Deposits and Other Investment Balances | 201 | 0.0 | 201 | 201 |
| Total | 8,044 | | | |

| 31 March 2017 | Value £'m | Potential Variance % | Value on Increase £'m | Value on Decrease £'m |
|--|----------------------|-------------------------------------|--------------------------------------|--------------------------------------|
| UK Equities (all Equities including Pooled Vehicles) | 1,692 | 19.0 | 2,013 | 1,370 |
| US Equities | 787 | 21.0 | 952 | 622 |
| European Equities | 790 | 22.5 | 968 | 612 |
| Japanese Equities | 438 | 20.5 | 527 | 348 |
| Emerging Markets Equities including Pacific Rim | 812 | 31.0 | 1,064 | 561 |
| UK Fixed Income Pooled Vehicles | 566 | 11.0 | 628 | 503 |
| UK Index-Linked Pooled Vehicles | 708 | 9.0 | 772 | 644 |
| Pooled Property | 204 | 12.5 | 229 | 178 |
| Private Equity | 545 | 27.5 | 695 | 395 |
| Hedge Funds | 272 | 9.0 | 297 | 248 |
| Infrastructure | 323 | 18.5 | 383 | 263 |
| Other Alternative Assets | 396 | 14.2 | 452 | 340 |
| Short-Term Deposits and Other Investment Balances | 214 | 0.0 | 214 | 214 |
| Total | 7,747 | | | |

16b. Credit Risk

The Fund does not hold any Fixed Interest Securities directly and the Managers of the Pooled Fixed Income Vehicles are responsible for managing credit risk, section 16a of this note covers the market risks of these holdings.

The Fund's arrangements for derivatives, securities lending and impaired items are dealt with in other notes to the accounts.

The short-term cash deposits and other investment balances are diversified with investment grade financial institutions. The Fund has a treasury management policy that is compliant with current best practice.

The Fund's cash holding under its treasury management arrangements as at 31 March 2018 was £53.2 million (31 March 2017 £75.2 million). This was held in instant access accounts with the following institutions:

| | Rating S&P | Balances as at 31 March 2018 £'000 | Balances as at 31 March 2017 £'000 |
|-----------------------|---------------------|--|--|
| Lloyds Bank | Long A Short A-1 | 33,226 | 40,222 |
| Invesco | AAAm | 10,000 | 20,000 |
| Santander | Long A Short A-1 | 10,000 | - |
| Svenska Handelsbanken | Long AA- Short A-1+ | - | 15,000 |
| Total | | 53,226 | 75,222 |

16c. Liquidity Risk

The Fund's key priority is to pay pensions in the long-term and in the short-term and the asset allocation is the key strategy in ensuring this. The earlier sections have dealt with the longer term risks associated with market volatility.

The Fund has a cash balance at 31 March of £53.2 million. The Fund has £6,157 million in assets which could be realised in under 7 days' notice, £913 million in assets which could be realised in under 90 days' notice and £974 million in assets which could not be realised within a 90 day period.

The Fund has no borrowing or borrowing facilities.

The management of the Fund also prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Fund has a net addition for 2017/18 in its dealing with members of £89 million, management expenses of £40 million, and investment income of £197 million.

16d. Outlook for Real Investment Returns

The expectation of future real investment returns can affect the Fund's liabilities as they may impact on the discount rate used by the actuary to discount the liabilities; the Fund's actuary has calculated that the Fund has sensitivity to this discount rate of 20% per 1% change in real investment returns. The Fund considers both the liabilities and assets together, and assesses the funding ratio and the implications for investment strategy on a quarterly basis at the IMWP.

17. Funding Arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The most recent Triennial Valuation by the actuary was as at 31 March 2016, when the funding level was 85% of projected actuarial liabilities (2013 76%). The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The FSS specifies a maximum period for achieving full funding of 19 years.

The funding method adopted is the projected unit method, which implicitly allows for new entrants replacing leavers.

The key elements of the funding policy 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, designating 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.

Summary of Key whole Fund assumptions used for calculating funding target

| | 31 March 2016 % p.a. |
|--|---------------------------------------|
| Long-Term Yields | |
| Market Implied RPI Inflation | 3.20 |
| Solvency Funding Target Financial Assumptions | |
| Investment Return | 4.20 |
| CPI Price Inflation | 2.20 |
| Salary Increases | 3.70 |
| Pension Increases | 2.20 |
| Future Service Accrual Financial Assumptions | |
| Investment Return/Discount Rate | 4.95 |
| CPI Price Inflation | 2.20 |
| Salary Increases | 3.70 |
| CARE | 2.20 |

18. Investment Liabilities

| | 2017/18 £'000 | 2016/17 £'000 |
|-----------------------------|--------------------------------|--------------------------------|
| Derivative Contracts | - | 13 |
| Amounts Due to Stockbrokers | 13,736 | 4,477 |
| | 13,736 | 4,490 |

19. Long-Term Assets

| | 2017/18 £'000 | 2016/17 £'000 |
|---|------------------|------------------|
| Assets due in more than one year | 5,013 | 7,110 |
| | 5,013 | 7,110 |
| Relating to: | | |
| Central Government Bodies | 922 | 1,845 |
| Other Local Authorities | 3,777 | 4,717 |
| Public Corporations and Trading Funds | 142 | 280 |
| Bodies External to General Government | 172 | 268 |
| | 5,013 | 7,110 |

Payments are being received in respect of pensioner and deferred members of the Magistrates Courts, which was previously an active employer in the Fund. Year 1 is shown as a current asset, but years 2 onwards are included above. Also included are future payments of pension strain to be paid by employers in 2019/20 onwards.

20. Current Assets and Liabilities

| | 2017/18 £'000 | 2016/17 £'000 |
|---|------------------|------------------|
| Assets | | |
| Contributions Due | 17,431 | 19,273 |
| Amounts Due from External Managers | 41,296 | 144 |
| Accrued and Outstanding Investment Income | 1,152 | 664 |
| Sundries | 14,889 | 12,749 |
| Provision for Bad Debts | (118) | (167) |
| Cash at Bank | 5,259 | 1,695 |
| | 79,909 | 34,358 |
| Relating To: | | |
| Central Government Bodies | 1,868 | 1,863 |
| Other Local Authorities | 11,988 | 13,828 |
| NHS | 1 | 1 |
| Public Corporations and Trading Funds | 140 | 73 |
| Bodies External to General Government | 65,912 | 18,593 |
| | 79,909 | 34,358 |
| Liabilities | | |
| Amounts Due to External Managers | 966 | - |
| Transfer Values Payable | - | 1,226 |
| Retirement Grants Due | 3,467 | 1,944 |
| Provisions | 432 | 294 |
| Miscellaneous | 18,574 | 12,130 |
| | 23,439 | 15,594 |
| Relating To: | | |
| Central Government Bodies | 2,795 | 3,895 |
| Other Local Authorities | 3,016 | 1,881 |
| Public Corporations and Trading Funds | 26 | 2 |
| Bodies External to General Government | 17,602 | 9,816 |
| | 23,439 | 15,594 |
| Total Current Assets and Liabilities | 56,470 | 18,764 |

'Sundries' mainly covers general debtors, property arrears due, agents' balances and recoverable taxation.

'Provision for Bad Debt' relates to general debtors and property rental income, and is based on an assessment of all individual debts as at 31 March 2018.

The main components of 'Miscellaneous Liabilities' are the outstanding charges for Investment Management fees, payable quarterly in arrears, Custodian and Actuarial fees, plus income tax due, pre-paid rent and Administering Authority re-imburement.

21. Contractual Commitments

Commitments for investments amounted to £534.86 million as at 31 March 2018 (2016/17 £606.12 million). These commitments relate to Private Equity £209.46 million, Infrastructure £128.37 million, Opportunities £31.07 million, Indirect Property £165.96 million. As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

22. Contingent Assets

When determining the appropriate Fund policy for employers, the different participating characteristics as either a contractor or community body or whether a guarantor of sufficient financial standing agrees to support the pension obligations is taken into consideration when setting the fiduciary strategy.

It is the policy to actively seek mechanisms to strengthen employer covenants by engaging 'contingent assets' in the form of bonds/ indemnity insurance, local authority guarantors, parent company guarantors or charge on assets to mitigate the risk of employers exiting the Fund leaving unrecoverable debt.

These financial undertakings are drawn in favour of Wirral Council, as the Administering Authority of Merseyside Pension Fund and payment will only be triggered in the event of employer default.

23. Related Party Transactions

There are three groups of related parties: transactions between Wirral Council, as Administering Authority, and the Fund, between employers within the Fund and the Fund, and between Members and Senior Officers and the Fund.

Management expenses include charges by Wirral Council in providing services in its role as Administering Authority to the Fund, which amount to £3.3 million. (2016/17 £3.6 million). Such charges principally relate to staffing required to maintain the pension service. Central, Finance and IT costs are apportioned to the Fund on the basis of time spent on Fund work by Wirral Council. There was a debtor of £9.1 million (2016/17 £11.9 million) and a creditor of £254,502 as at 31 March 2018 (2016/17 £293,110).

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 7, and in respect of March 2018, payroll are included within the debtors figure in note 20.

A specific declaration has been received from Pensions Committee Members, Pension Board Members and principal officers regarding membership of, and transactions with, such persons or their related parties. A number of Members act as Councillors or Board members of particular Scheme employers, listed below, who maintain a conventional employer relationship with the Fund:

Liverpool City Council, Knowsley Council, Sefton Council and St Helens Borough Council, Wirral Council, Knowsley Youth Mutual, Helena Housing, Whiston Town Council, Rainhill Parish Council, Knowsley Housing Trust, One Vision Housing, CDS Housing, Greater Hornby Homes and Wirral Partnership Homes (also known as Magenta Living). The value of the transactions with each of these related parties, namely the routine monthly payments to the Fund of employers' and employees' contributions, is determined by the LGPS Regulations, and as such no related party transactions have been declared.

Peter Wallach, Director of Pensions acts in an un-remunerated board advisory capacity on four investment bodies in which the Fund has an interest, Eclipse (£13.8 million), Standard Life (£15.8 million), F&C (£21.5 million) and GLL (£65.9 million).

Linda Desforges, Senior Portfolio Manager acts in an un-remunerated board advisory capacity on five investment bodies in which the Fund has an interest, Standard Life (£15.8 million), BBH Capital (£9.1 million), TEO Plc (£14.3 million), GCM Grosvenor Co-Investment Fund (£6.9 million) and F&C (£21.5 million).

Susannah Friar, Property Manager acts in an un-remunerated board advisory capacity on six investment bodies in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£7.3 million), Bridges Property Alternatives IV (£1.1 million), Century Bridge China Real Estate Fund II (£5.5 million), Phoenix Asia Secured Debt Fund (£3.5 million), Alma Property Partners (£6.6 million) and Barwood Property.

Adil Manzoor, Portfolio Manager acts in an un-remunerated board advisory capacity on four investment bodies in which the Fund has an interest, Standard Life Infrastructure Fund I (£7.9 million), Blackrock GRP Fund I (£25.8 million) and AMP GIF II (£35.3 million) and Impax New Energy Investors III LP.

Each member of the Pension Fund Committee and Pension Board Members formally considers conflicts of interest at each meeting.

Key Management Personnel

The Fund's senior management during 2017/18 was comprised of 7 individuals: the Director of Pensions, the Head of Pensions Administration, Senior Portfolio Managers (x3), Head of Finance & Risk and Senior Investment Manager, the remuneration paid to the senior management during 2017/18 was £421,487 (2016/17 £416,301). In addition, employer contributions of £56,995 (2016/17 £56,042) was also met from the Fund and charged to the Fund Account. The post of Senior Investment Manager was deleted during the year.

24. Additional Voluntary Contribution Investments

| | 2017/18 £'000 | 2016/17 £'000 |
|---|------------------|------------------|
| The Aggregate Amount of AVC Investments is as follows: | | |
| Equitable Life | 2,015 | 2,089 |
| Standard Life | 5,988 | 6,139 |
| Prudential | 7,930 | 6,331 |
| | 15,933 | 14,559 |
| Changes During the Year were as follows: | | |
| Contributions | 3,432 | 2,473 |
| Repayments | 2,441 | 2,964 |
| Change in Market Values | 383 | 1,303 |

Statement of Responsibilities

The Authority's Responsibilities

The Council as Administering Authority of Merseyside Pension Fund is required:

- to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance & Investment (S151);
- to manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

Director of Finance & Investment (S151) Responsibilities

The Director of Finance & Investment (S151) is responsible for the preparation of the Fund's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in Great Britain (the Code), is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2018.

In preparing this statement of accounts, the Director of Finance & Investment (S151) has:

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

The Director of Finance & Investment (S151) has also:

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

The Director of Finance & Investment's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the Fund at 31 March 2018, and its income and expenditure for the year then ended.



Shaer Halewood
Director of Finance & Investment (S151)
July 2018

Audit Report

Independent auditor's report to the members of Merseyside Pension Fund on the consistency of the pension fund financial statements included in the Pension Fund Annual Report.

Opinion

The Merseyside Pension Fund financial statements of Wirral Council (the 'Authority') for the year ended 31 March 2018 which comprise the Fund Account, the Net Assets Statement and the Notes to the Accounts, including a summary of significant accounting policies, of Merseyside Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2018 included in the Authority's Statement of Accounts (the 'Statement of Accounts').

In our opinion, the accompanying Merseyside Pension Fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18 and applicable law.

Pension Fund Annual Report - Pension Fund Financial Statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's reports thereon.

Who we are Reporting To

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

The Audited Financial Statements and our Report Thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 31 July 2018.

Director of Finance and Investment (S151) Officer Responsibilities for the Pension Fund Financial Statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority [in this authority, that officer is the Director of Finance and Investment (S151)] is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Grant Patterson

For and on behalf of Grant Thornton UK LLP,
Appointed Auditor
Royal Liver Building
Liverpool
L3 1PS

31 July 2018

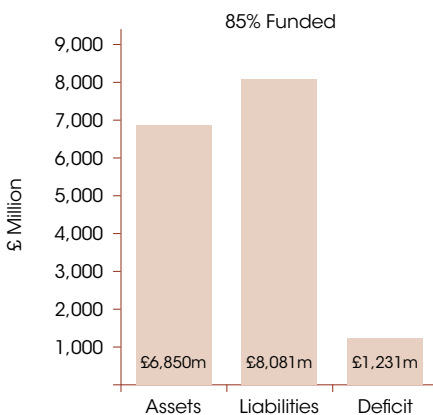
Consulting Actuary's Statement

Accounts for the Year Ended 31 March 2018 Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £6,850 million represented 85% of the Fund's past service liabilities of £8,081 million (the 'Funding Target') at the valuation date. The deficit at the valuation was therefore £1,231 million.



The valuation also showed that a Primary contribution rate of 15.4% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve, and then maintain, a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation, a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation, the average deficit recovery period is 19 years, and the total initial recovery payment (the 'Secondary rate') for 2018/19 is approximately £49 million (this allows for some employers to phase in any increases or to make a prepayment in April 2017). For all employers, the Secondary rate will increase at 3.7% per annum, except where phasing has been applied. With the agreement of the Administering Authority, employers may also opt to pay some of their deficit contributions early (after suitably agreed reductions) with either all three years being paid in April 2017, or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

| | For past Service Liabilities (Funding target) per annum | For future Service Liabilities (Primary rate of contribution) per annum |
|---|--|--|
| Rate of return on investments (discount rate) | 4.2% | 4.95% |
| Rate of pay increases (long term)* | 3.7% | 3.7% |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) | 2.2% | 2.2% |

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

| | 31 March 2017 per annum | 31 March 2018 per annum |
|---|------------------------------------|------------------------------------|
| Rate of return on investments (discount rate) | 2.5% | 2.6% |
| Rate of CPI Inflation / CARE Benefit revaluation | 2.3% | 2.1% |
| Rate of pay increases* | 3.8% | 3.6% |
| Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation | 2.3% | 2.2% |

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £11,418 million. Interest over the year increased the liabilities by c£286 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£27 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £446 million due to 'actuarial gains' (i.e. the effect of the changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £11,285 million.



Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2018



Clive Lewis
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2018



Appendix A

Scheme employers with active members as at 31 March 2018

Scheduled Bodies (34)

Billinge Chapel End Parish Council
 Carmel College
 Chief Constable (CC)
 Cronton Parish Council
 Eccleston Parish Council
 Edsential SLE
 Halewood Town Council
 Hugh Baird College
 Knowsley M.B.C.
 Knowsley Town Council
 Liverpool City Region Combined Authority (LCRCA)
 Liverpool City Council
 Liverpool John Moores University
 Liverpool Streetscene Services Ltd
 Maghull Town Council
 Merseyside Fire & Rescue Authority
 Merseyside Passenger Transport Executive (MPTE)
 Merseyside Waste Disposal Authority
 Office of the Police and Crime Commissioner (OPCCM)
 Prescot Town Council
 Rainford Parish Council
 Rainhill Parish Council
 School Improvement Liverpool Ltd
 Sefton M.B.C.
 Shared Education Services Ltd
 Southport College
 St. Helens College
 St. Helens M.B.C.
 The ACC Liverpool Group Ltd
 The City of Liverpool College
 Whiston Town Council
 Wirral Council
 Wirral Evolutions Ltd
 Wirral Metropolitan College

Scheduled Bodies (Academies) (82)

Academy of St Francis of Assisi
 Bellerive FCJ Catholic College
 Birkdale High School
 Birkenhead 6th Form College (Academy)
 Birkenhead High School Academy
 Blacklow Brow School (Academy)
 Blue Coat School (Academy)
 Calday Grange Grammar School
 Chesterfield High School
 Childwall Sports & Science Academy
 Cronton CE Primary (Academy)
 De La Salle Academy
 Deyes High School
 Egremont Primary School (Academy)
 Emslie Morgan Academy
 Everton Free School
 Finch Woods Academy
 Formby High School
 Garston CE Primary School (Academy)
 Great Meols Primary School (Academy)
 Greenbank High School
 Halewood Academy Centre for Learning
 Halewood CE Primary (Academy)
 Halsnead Primary School (Academy)
 Harmonize Academy
 Hawthornes Free School
 Heygreen Community Primary (Academy)
 Hilbre High School (Academy)
 Hillside High School (Academy)
 Hope Academy
 Kings Leadership Academy (Liverpool)
 Kirkby High School

Knowsley Lane Primary School (Academy)
 Liverpool Diocesan Schools Trust (LDST) (Academy)
 Litherland High School (Academy)
 Liverpool College (Academy)
 Liverpool Life Science UTC
 Lord Derby Academy
 Maghull High School
 New Park Primary (Academy)
 North Liverpool Academy
 Oldershaw Academy
 Our Lady of Pity (Academy)
 Park View Academy
 Poulton Lancelyn Primary School (Academy)
 Prenton High School for Girls
 Rainford High School (Academy)
 Rainhill Learning Village Multi Academy Trust
 Rainhill St Anns CE Primary School (Academy)
 Range High School
 Roscoe Primary (Academy)
 St Anselm's College
 St Edward's College
 St Francis Xavier's College (Academy)
 St John Plessington Catholic College
 St Margaret's Church of England Academy
 St Mary & St Thomas CE Primary School (Academy)
 St Mary's Catholic College
 St Michael's CE High School (Academy)
 St Silas CE Primary School (Academy)
 St Thomas CE Primary (Academy)
 Stanley High School (Academy)
 Stanton Road Primary School (Academy)
 Studio @ Deyes Academy

| | | |
|---|---|---|
| Sylvester Primary Academy | Local Government Association | Glendale |
| The Academy of St Nicholas | Merseyside Lieutenancy | (Liverpool Parks Services) Ltd |
| The Beacon CE Primary School (Academy) | North Huyton Communities Future | Graysons Education Limited |
| The Belvedere Academy | One Vision Housing Ltd | Hochtief Liverpool Schools |
| The Birkenhead Park School | Partners Credit Union | Hochtief Wirral Schools |
| The Kingsway Academy | Port Sunlight Village Trust | Interserve |
| The Prescot School (Academy) | Sefton Education Business Partnership | (Facilities Management) Ltd |
| The Studio (Academy) | South Liverpool Housing Ltd | Kingswood Colomendy Ltd |
| The Sutton Academy | Vauxhall Neighbourhood Council | Knowsley Youth Mutual Ltd |
| Town Lane Infant School (Academy) | Welsh Local Government Association | Liverpool Vision Limited |
| Townfield Primary | Wirral Autistic Society | Mack Trading |
| Upton Hall School | Wirral Partnership Homes Ltd | Mellors Catering - Birkdale |
| Weatherhead High School | | Mellors Catering - St Anns |
| West Derby School (Academy) | | Mellors Catering - St Mary & St Thomas |
| West Kirby Grammar School | | Mellors Catering - St Paul & St Timothy |
| Wirral Grammar Boys (Academy) | | Mosscroft Childcare Ltd |
| Wirral Grammar School for Girls | | Orian Solutions |
| Woodchurch High School | | Sanctuary Home Care Ltd |
| | Admission Bodies (Transfer) (49) | Sefton New Directions Ltd |
| | Addaction (Sefton) | Shap Ltd |
| | Agilisys Limited | SSE Contracting Ltd |
| | Amey Services Ltd - Highways | Tarmac Trading Ltd |
| | arvato Public Sector Services Ltd | Taylor Shaw - Grange |
| | Balfour Beatty PFI SEN School | Taylor Shaw - Great Meols |
| | Balfour Beatty Workplace Ltd | Taylor Shaw - Raeburn |
| | BAM Nuttall Limited | Taylor Shaw - Range |
| | Birkenhead Market Services Ltd | Taylor Shaw - St Andrews |
| | Bouygues E & S FM Uk Ltd | Veolia ES Merseyside & Halton |
| | Castlerock Recruitment Group Ltd (CRG) | Volair Ltd |
| | Caterlink Ltd | WCFT (NHS) |
| | Change Grow Live | WIRED Ltd |
| | City Healthcare Partnership CIC | Wirral Chamber of Commerce |
| | Compass (Scolarest) Liverpool Schools | |
| | Compass (Scolarest) Wirral Schools | |
| | Compass Contract Services (UK) Ltd | |
| | Elite Cleaning and Environmental Services Ltd | |
| | Friends of Birkenhead Council Kennels | |
| | Geraud Markets Liverpool Ltd | |
| | | |
| Admission Bodies (Community) (29) | | |
| Age Concern - Liverpool | | |
| Arriva North West | | |
| Association of Police and Crime Commissioners | | |
| Berrybridge Housing Ltd | | |
| Birkenhead School (2002) | | |
| Care Quality Commission | | |
| Catholic Children's Society | | |
| CDS Housing | | |
| Cobalt Housing Ltd | | |
| Glenvale Transport Ltd/ Stagecoach | | |
| Greater Hornby Homes | | |
| Greater Merseyside Connexions | | |
| Helena Partnerships Ltd | | |
| Lee Valley Housing Association Ltd | | |
| Liverpool Hope University | | |
| Liverpool Housing Trust | | |
| Liverpool Mutual Homes Ltd | | |

Appendix B

Pensions Committee Items

17 July 2017

Audit Findings Report
 Statement of Accounts 2016/17 and Letter of Representation
 Draft Annual Report and Accounts
 Budget Outturn 16/17, Final Budget 17/18
 LGPS Update
 Pooling Update
 Transparency Code
 Pension Board Annual Report
 ISS Guidance Update
 Pensions Administration Strategy
 Treasury Management Annual Report
 PLSA Conference
 Fundamentals Training
 LGC Investment Summit
 MTAA Update Report
 Monitoring of Investment Mandates
 TPR Compliance Report
 IMWP Minutes 6/4 and 16/6/17

18 September 2017

LGPS Update
 Pooling Update and Joint Committee Representation
 Investment Performance 16/17
 MIFID II Opt Up
 General Data Protection Regulations
 Training Policy
 LAPFF Conference
 Annual Employers' Conference
 Pension Board Minutes 27/6/2017
 Systematic Investment
 GRWP Minutes 6/7/2017

13 November 2017

LGPS Update
 Pensions Administration Strategy
 Records Management and Data Improvement Policy
 Pension Board Minutes 10/10/2017
 LGPS Performance 2016/17
 Pooling Update
 IMWP Minutes 12/10/2017

22 January 2018

LGPS Update
 Pension Fund Budget
 Authorised Signatory List
 Member Development Programme 2018
 Treasury Management Strategy
 LGC Investment Seminar
 Management of Carbon Risk
 Update to Compliance Manual
 Pooling Update
 Systematic Investment Strategies
 Bond Review
 Contracts Timetable
 IMWP Minutes 16/11/2017

26 March 2018

Audit Plan
 LGPS Update
 Management of Carbon Risk
 PLSA Local Authority Conference
 Trustee Knowledge Seminar
 Trustee Training
 Trustee Steps Training
 Gifts & Hospitality Declarations
 Pooling Update
 Monitoring Policy
 Property Arrears
 Working Party Minutes

Attendance Record 2017 - 2018

| | PENSIONS COMMITTEE | | | | | GRWP | | IMWP | | | | | |
|---|--------------------|--------|--------|--------|--------|-------|--------|-------|--------|--------|--------|--------|-------|
| | 17 JUL | 18 SEP | 13 NOV | 22 JAN | 26 MAR | 6 JUL | 30 JAN | 6 APR | 16 JUN | 21 SEP | 12 OCT | 16 NOV | 8 MAR |
| Clr Paul Doughty (Chair) | • | • | • | • | • | • | | • | • | • | • | • | |
| Clr Ann McLachlan (retired May 2017) | | | | | | | | • | | | | | |
| Clr George Davies | • | • | • | • | • | | • | | | | • | | |
| Clr Adrian Jones | • | • | | • | # | | | • | | | | | |
| Clr Brian Kenny | • | | • | • | • | • | • | • | • | | | • | |
| Clr Geoffrey Watt (Spokesperson) | • | • | • | • | • | | • | • | • | • | • | • | |
| Clr Cherry Povall, JP | • | • | • | • | • | | | | | | | | |
| Clr Pat Cleary | • | • | • | • | • | | | • | | • | | • | • |
| Clr Tony Jones | • | • | • | • | • | • | • | | | | | | • |
| Clr Bernie Mooney | • | | | • | • | | | | | | | | |
| Clr Kathy Hodson | • | • | • | # | • | | | | | | | | |
| Clr Terry Byron (Knowsley Council)* | | | • | | | • | • | • | | | | | |
| Clr Nick Crofts (Liverpool City Council)* | | | | | | | | | | | | | |
| Clr John Fulham (St. Helens Council)* | | • | | | • | | | | | | • | | |
| Clr Paulette Lappin (Sefton Council)* | • | | • | • | • | | • | | | • | | • | |
| Patrick Cleary (UNISON)* | | | | | | | | | | | | | |
| Roger Bannister (UNISON)* | | • | • | • | | | • | | | • | • | • | |

Deputy Attended * Co-Optee

Conferences

| | LGC Investment Seminar | # PLSA Edinburgh | PLSA | # 3rd Annual UK Wide Infrastructure | # LGPC Bournemouth |
|---------------------------------------|------------------------|------------------|-------------|-------------------------------------|--------------------|
| | 1 - 2 MAR | 8 - 10 MAR | 15 - 17 MAY | 6 - 7 JUN | 29 JUN |
| Clr Paul Doughty (Chair) | • | • | • | • | • |
| Clr Adrian Jones | | | | | |
| Clr Brian Kenny | • | | • | | |
| Clr Geoffrey Watt (Spokesperson) | • | | | | |
| Clr Cherry Povall, JP | • | | | | |
| Clr Paulette Lappin (Sefton Council)* | | | | | |
| Roger Bannister (UNISON)* | • | | | | |

Chair attendance only * Co-Optee

| | LGC Newport | PLSA | MPF Annual Conference | LAPFF Annual Conference | Fundamental Training Days |
|---------------------------------------|-------------|-------------|-----------------------|-------------------------|---------------------------|
| | 6 - 8 SEP | 18 - 20 OCT | 30 NOV | 6 - 7 DEC | OCT/NOV/DEC |
| Clr Paul Doughty (Chair) | • | • | • | • | |
| Clr Adrian Jones | • | • | | | |
| Clr Brian Kenny | | • | | | |
| Clr Geoffrey Watt (Spokesperson) | • | • | | • | |
| Clr Cherry Povall, JP | • | • | | | |
| Clr Paulette Lappin (Sefton Council)* | | | | | • |
| Roger Bannister (UNISON)* | | | | | • |

* Co-Optee

Appendix C

Information Contacts

| Position | Name | Telephone number |
|--|---|-------------------------|
| Director of Pensions | Peter Wallach | 0151 242 1390 |
| Head of Pensions Administration | Yvonne Caddock | 0151 242 1390 |
| Area | Name | Telephone number |
| Accounts (Compliance, Financial Control and Management) | Donna Smith | 0151 242 1390 |
| Investments (Fund Assets' Management) | Linda Desforges | 0151 242 1390 |
| Employer Compliance and Membership (Transfers, Divorce, Admissions, Data quality assurance) | Sue Roberts/Paula Heaton | 0151 242 1390 |
| Benefits/Payroll (Retirement Calculations and Payments) | Barbara King/Keith Higgins | 0151 242 1390 |
| Operations (IT/Communications) (Systems Support, MyPension, Website, Events) | Guy Hayton | 0151 242 1390 |
| Resolution of Disputes | | |
| Employer Decisions | Head of Pensions Administration | 0151 242 1390 |
| Fund Decisions | Director of Finance & Investments (\$151) | 0151 691 8688 |
| Scheme Employers' Contacts | | |
| Arriva North West | Tina Edwards | 0151 522 2807 |
| Knowsley MBC | Jaci Dick | 0151 443 5161 |
| Liverpool City Council | Richard Arnold | 0151 233 0375 |
| Liverpool John Moores University | Jayne Brown | 0151 231 8756 |
| Merseyside Fire & Rescue Service | Julie Murdoch | 0151 296 4245 |
| Merseytravel (MPTE) | Lynne Gogerty | 0151 330 1213 |
| Merseyside Waste Disposal Authority | Paula Pocock | 0151 255 2539 |
| Office of the Police and Crime Commissioner for Merseyside (OPCCM) | Karen Blake | 0151 777 8189 |
| Sefton MBC | Lynn Abbott | 0151 934 4126 |
| St. Helens MBC | Sarah Myers | 0174 467 6627 |
| Wirral Council | Helen Watkins | 0151 691 8529 |



Report & Accounts 2017/18

Merseyside Pension Fund

Castle Chambers
43 Castle Street
Liverpool
L2 9SH

Tel: 0151 242 1390

Email: mpfadmin@wirral.gov.uk

www.merseysidepensionfund.org.uk

Administering Authority Wirral Council

