Merseyside Pension Fund

Report & Accounts 2018/19

Draft for Pensions Committee 16 July 2019

Contents

Management Structure At 31 March 2019

Administering Authority - Wirral Council

Pension Fund Management Committee

Chair:

Cllr Paul Doughty	Wirral

Vice Chair:

Cllr George Davies	Wirral
Cllr Pat Cleary	Wirral
Cllr Andrew Gardner	Wirral
Cllr Pat Hackett	Wirral
Cllr Kathy Hodson	Wirral
Cllr Tony Jones	Wirral
Cllr Brian Kenny	Wirral
Cllr Cherry Povall, JP	Wirral
Cllr Irene Williams	Wirral
Cllr Jayne Aston	Knowsley
Cllr Ian Byrne	Liverpool
Cllr Pauline Lappin	Sefton
Cllr John Fulham	St Helens

Employee Representatives (Non-voting)

Roger Bannister	UNISON
Sarah Brunskill	UNISON

Officers of the Fund

Yvonne Caddock	**Head of Pensions Administration**
Shaer Halewood	**Director of Finance & Investments**
Colin Hughes	**Group Solicitor**
Donna Smith	**Head of Finance & Risk**
Peter Wallach	**Director of Pensions**

Advisors to Investment Monitoring Working Party
Director of Pensions
Senior Portfolio Manager
Aon Hewitt
Noel Mills
Rohan Worrall

Local Pension Board
Independent Chair:
John Raisin

Employer Representatives:
Kerry Beirne
Geoff Broadhead
Mike Hornby
Lynn Robinson

Member Representatives:
Roger Irvine
Patrick Moloney
Donna Ridland
Paul Wiggins

Advisors to Governance & Risk Working Party
Director of Pensions
Head of Pensions Administration
Head of Finance & 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
CBRE Capital Advisors

Property Managers
CBRE Asset Services

Property Valuers
Savills

Performance Measurement
Northern Trust

Solicitor
Wirral Council

AVC Providers
Equitable Life Assurance Society
Standard Life
Prudential

LGPS Investment Pool
Northern LGPS (with GMPF and WYPF)

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 2019. 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 Overall 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.

Investments and Performance

Robust global growth supported the investment climate over the year; however volatility was a prominent feature. Changing perceptions over US interest rate policy, uncertainty around the resolution of trade tensions, ongoing Brexit concerns and other global political events all worked to influence investors' appetite for risk. Looking across the year to the end of March 2019, the major asset classes on the whole delivered a positive performance with the Fund gaining 5.64% overall. More detail is provided in the ***Investment Report*** including information on the distribution of assets and performance.

Sustainability continues to be a very important investment consideration. The Fund has been evolving its Responsible Investment policy in order to bring it into line with the goals set out in the 2015 Paris Agreement on climate change. We are now implementing the next stage of our Climate Risk Strategy which entails reducing exposure to investments that are connected to climate change. In January 2019, the Fund joined forces with global index, data and analytics providers, FTSE Russell, to develop a more sustainable and environmentally-equitable investment strategy. This collaboration resulted in the creation of a bespoke index; the FTSE All-World Climate Balanced Comprehensive Factor Index, which sits within FTSE's Smart Sustainability Index series. £400 million was invested into this new strategy.

As part of the review of our investment strategy, the Fund is using climate scenario analysis to further articulate its investment beliefs on climate and to shape these into investment strategy goals. We welcome the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) (recently presented formally to the G20) and have committed to including a TCFD statement in our financial reporting.

Merseyside Pension Fund continues to engage appropriately with the fossil fuel companies in its ownership to require that they adequately review and align their business models towards transition to a low carbon economic future. The engagement is carried out collaboratively, and informed and shaped by Carbon Tracker and the Transparency Pathway Initiative.

The Fund continues to deploy capital at scale into renewable energy, primarily through its investments in Infrastructure and has more than £200 million invested in wind, solar, hydro and energy-from-waste projects in the U.K. and overseas.

Actuarial Valuation

A triennial valuation commenced at 31 March 2019. Whilst calculations of the Fund's liabilities are still being finalised by the actuary, initial indications are that the funding level has improved significantly from the March 2016 level of 84.8%. The Fund's assets have increased in value to £8.88 billion. Strategies to 'lock in' some of gains that have been achieved are being implemented.

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.

We have offered a variety of courses to members and employers during the year in addition to regular newsletters for employers, employees, deferred members and pensioners. The Fund's websites continue to be updated regularly and we are encouraging greater use of electronic media to enhance security and efficiency of information exchange.

The Annual Employers' Conference was held at Aintree Racecourse in November 2018. The event was well attended and featured speakers from the Scheme Advisory Board, the actuary 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 LGPS. In January, the Ministry of Housing, Communities & Local Government informally consulted on new draft guidance which will now be the subject of a formal consultation.

Pooling is a significant undertaking, and will result in fundamental changes to the oversight of LGPS assets. It is essential that appropriate governance arrangements are in place.

LGPS Amendment Regulations became operational on 14 May 2018. One principal provision afforded members with deferred benefits, solely related to the former final salary scheme, early access to their benefits from age 55. Another permits the payment of exit credits to 'exiting employers' in certain, specified circumstances.

In September, the government announced proposals to align the existing LGPS triennial Scheme valuation cycle with the quadrennial valuations of other public service pension schemes, which is the mechanism used to assess and manage the costs of pensions. Significantly, the Treasury's cost management process has been 'paused' whilst an application to appeal the McCloud case to the Supreme Court is considered. If the government fails in its appeal, appropriate remedies will need to be offered which will increase the cost of benefits.

Further details of current and proposed legislative changes are provided in the ***Scheme Administration Report***.

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.

Pat Cleary

Councillor Pat Cleary
Chair, Pensions Committee
June 2019

Management Report

Management of the Fund

The overall responsibility for the management of the Fund rests with the Pensions Committee chaired by Councillor Pat Cleary who succeeded Councillor Paul Doughty when he relinquished the role at the May 2019 elections.

In 2018/19, 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 Director of Finance & Investment, the Director of Pensions 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 four 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 Director of Pensions 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, pension 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:

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

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 the 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 once a year 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, the 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.

The 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 Fund has been evolving its Responsible Investment policy in order to bring it into line with the goals set out in the 2015 Paris Agreement on climate change. It also undertook surveys of its stakeholders including members of the Pensions Committee and the Pension Board to inform revisions to its Investment Beliefs and development of its Climate Risk Strategy. Climate change and climate risk were identified as areas of development and Members received a range of presentations and briefings on the topic including from FTSE Russell, Aon and the internal UK equity manager. Presentations were also received on Liability Driven Investment in preparation for the implementation of a bespoke LDI mandate for a Scheme employer.

Bespoke training includes the LGE Trustee Fundamentals training and other conferences and seminars as detailed in ***Appendix B***.

The Fund is a member of the Local Authority Pension Fund Forum and the Chair of the Pensions Committee has traditionally been a member of the Executive Board, attending regular meetings covering many aspects of responsible investment.

Training opportunities provided during the year were as follows:

Month	Event
June	FTSE Russell Carbon Risk Management
June	CEM Performance, Risk & Cost Measurement
September	Climate Change
November	Liability Driven Investment
November	Climate Risk - Decarbonisation
March	Aon – RI survey feedback/investment strategy review process

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 (TPR) 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 TPR. 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 four times in a 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 at:
mpfund.uk/lpbterms

Executive Summary

The Board has worked with officers to provide Wirral Council with additional assurance regarding the operation of the Fund. As evidenced in the Board's work plan, 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 TPR and to scrutinise the performance of the Fund, particularly in relation to its administrative functions.

The Chair made a presentation on the Board's activities to the Pensions Committee.

Three meetings were held during the year. In addition, a detailed training programme was undertaken involving internal and external training. Board members have attended Working Parties to gain greater familiarity with the activities and procedures of the Pensions Committee in managing the governance and structural arrangements of the Fund. Details are set out in the tables below.

Board Changes

Post the financial year end, both Ms Kerry Beirne and Mr Mike Hornby decided to step down from the Board. Both made a significant contribution to the effectiveness of the Board and we would want to record our thanks to them.

Issues considered by the Pension Board 2018-19

Agenda Item	13 June	16 October	27 Mar
LGPS Update	•	•	•
Administration KPI Report	•	•	•
Pooling Update	•	•	•
Draft Funding Strategy Statement		•	
Member Development Programme			•
Pension Fund Budget		•	•
Interim Actuarial Valuation		•	
Treasury Management Strategy			•
Treasury Management Annual Report		•	
Working Party minutes	•	•	•
Fair Deal Consultation			•
Draft Annual Board Report	•		
Liability Risk Management			•
Audit Findings Report, Annual Report & Accounts		•	•
Management of Carbon Risk		•	•
Draft Communications Strategy	•		
Audit Plan	•		•
Draft Data Protection Policy & GDPR Update	•		
Engagement with the Pensions Regulator	•		
Gifts & Hospitality	•		
Monitoring of Investment Mandates & Governance	•		
Property Arrears	•		
Audit Programme	•		
Pension Board revised Terms of Reference			•

A work plan for 2019/20 has identified a number of key areas where the Board will provide assurance to the Administering Authority as to compliance with regulations and policies.

Pension Board Work Plan 2019-20

Agenda Item	17 Jul	12 Nov	5 Feb	1 Apr
LGPS Update	•	•	•	•
Administration KPI report	•	•	•	•
Pooling Update	•	•	•	•
Audit Plan				•
Member Development Programme			•	
Pension Board Development Programme			•	
Working Party minutes	•	•	•	•
Pension Board Annual Report		•		
Investment Performance		•		
Audit Findings Report	•			
Annual Report & Accounts	•			
Pension Fund Budget	•		•	
Actuarial Valuation (outcome)				•
Revised Funding Strategy Statement				•
Business Plan	•			
Governance Statement				•
Internal Audit Annual Report	•			

Attendance & Training record

	Pension Regulator Public Sector	LGPS Trustee Training Day	Trustee Steps Training	PLSA Conference	Trustee Training Birmingham	LGPS Local Pensions Board Conference	Trustees Knowledge Seminar	Celtic Manor LGC Investment Summit	PLSA Annual Conference & Exhibition 2018	Local Authority Update	CIPFA Annual Pension Conference	MPF Annual Conference	LGPS Governance Conference	RI Event Aintree	Investment Conference	Pension Board Meetings		
		Oct/Nov Dec	17 May	21-23 May	15 Jun	27 Jun	4 Sep	6-7 Sep	17-19 Oct	6 Nov	22 Nov	29 Nov	17-18 Jan	23 Jan	6 Mar	13 Jun	16 Oct	27 Mar
John Raisin	•					•					•	•		•		•	•	•
Geoff Broadhead	•											•				•		•
Kerry Beirne	•						•					•				•	•	
Mike Hornby	•							•				•		•		•	•	•
Roger Irvine	•		•	•	•		•		•	•		•			•	•	•	•
Pat Moloney	•	•							•			•	•	•		•	•	•
Donna Ridland	•			•					•			•	•	•		•	•	•
Lyn Robinson	•	•														•	•	•
Paul Wiggins	•											•				•		•
*Retired																		

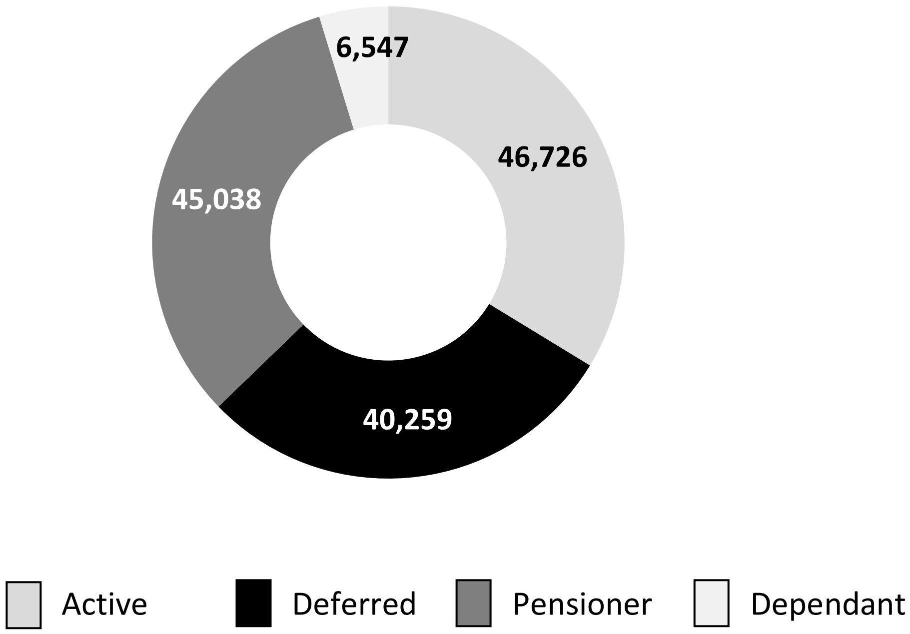
Costs of Operation

	2018/19
	£
Conference	3,712
Travel	1,589
Allowances	13,309
Other	1,019
Total	**19,629**

There have been no matters of concern to raise with Wirral Council, 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 3 February 2020.

Membership Statistics

Membership as at 31 March 2019



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				367	1,666	2,985	3,759	4,641	4,797	6,850	8,352
Deferred				9	287	1,641	3,735	4,652	4,711	6,619	8,927
Pensioner							4	14	28	177	422
Dependant	2	12	53	95	66	7	18	15	24	73	150

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	7,778	4,385	963	183							**46,726**
Deferred	7,413	1,949	254	53	9						**40,259**
Pensioner	3,227	9,119	10,520	9,285	5,712	3,749	1,938	688	143	12	**45,038**
Dependant	318	445	660	947	999	1,099	939	481	130	14	**6,547**
										Total	**138,570**

Key Membership Statistics 2014 - 2018

Year	Active	Deferred	Pensioner	Dependant	Total
31 March 2019	46,726	40,259	45,038	6,547	**138,570**
31 March 2018	49,151	38,376	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**

Scheme Administration Report

The Administration Team

The main focus over the year has been to engage with our stakeholders in order to comply with regulatory requirements, adhere to principles of industry best practice, and to increase operational capacity to improve outcomes for the membership and employer base.

A number of advances have been made to our digital transformation programme to deliver efficiencies and improve customer experience in accessing Fund services. This has been achieved through the further development of bulk information exchanges and investment in our online 'My Pension' portal to assist the internal administration team and the Fund's employers to comply with the Pensions Administration Strategy.

Aligned with the objective of improving customer experience, work has been scheduled to review our customer surveys and the Fund's website to ensure we provide the information and support necessary to meet customer needs.

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, leading to changes in service delivery models. We have worked closely with a number of employers on change initiatives such as mergers and significant outsourcing/insourcing. Our employer base is now in excess of 200, with the number growing further as academisation of schools and outsourcing continues at pace.

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 Administration team is accountable to the Pensions Committee, the Pension Board, participating employers and Scheme members with regard to the effectiveness and demonstrable value for money of the administrative function.

Statutory Framework of LGPS

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 - Scheme Design

On 1 April 2014, the career average revalued earnings (CARE) scheme was implemented and replaced the final salary scheme in respect of future accrual of pension benefits.

The LGPS:

- has a normal pension age equal to State Pension Age (minimum age 65)
- gives a pension for each year at a rate of $1/49^{th}$ of pensionable pay received 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 inflation-proofed in line with 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 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' in regard a member's benefits if they voluntarily retire between age 55-60.

Legislative Change

During 2018, two sets of amendment regulations were issued to update a number of technical provisions, extend automatic access of deferred benefits and to improve survivor benefits as a result of challenges in the Supreme Court. In addition the regulations introduced a number of changes with regard to the management, governance and funding of employers.

The Local Government Pension Scheme (Amendment) Regulations 2018

The Amendment Regulations came into force on 14 May 2018 with the key revisions relating to the administration of members' benefits as follows:

- The extension of automatic entitlement to deferred benefits from age 55 for members who left the Scheme between 1 April 1998 and 1 April 2014 in parity with those who left the Scheme on or after 1 April 2014.

- The harmonisation of AVC contracts entered into before 1 April 2014 with those entered into post April 2014, excluding AVC provisions where the member left the Scheme prior to April 2014.

- The technical amendments include provisions to clarify the definition of local government service and the calculation of assumed pensionable pay in accordance with the policy intent.

The **main** change relating to Fund employers is:

- The potential for payment of an exit credit where an employer ceases participation of the Scheme and the final actuarial assessment results in a funding surplus. Consequently there will need to be greater engagement with employers accessing the Scheme by virtue of an outsourced service relating to the terms of the commercial arrangements and attribution of pension risk.

The Local Government Pension Scheme (Miscellaneous Amendment) Regulations 2018

The Miscellaneous Amendment regulations came into force on 10 January 2019 and provided measures to:

- introduce a general power for the Secretary of State to issue statutory guidance
- make a technical amendment to allow early access to benefits from age of 55 for deferred members who left before 1 April 1998
- address the challenges in the Supreme Court relating to the inequitable payment of survivors' benefits to registered civil partnerships or same sex marriages and uprate benefits in relevant cases to replicate those provided to widows.

Cost Management and Review of Benefit Structure

Following the Hutton Review of public sector pensions, a cost management mechanism was implemented in all public sector schemes to ensure the cost of providing pensions is retained within an agreed range of costs.

The Scheme Advisory Board (SAB) is responsible for facilitating the review of the cost of the Local Government Pension Scheme and for advising the Secretary of State on any proposed changes to the benefit structure to maintain the ongoing sustainability of the Scheme.

The review of the 2016 Valuation Results by the Government Actuary Department determined that the cost of the LGPS is now below the 19.5% future service target cost. In line with the process, changes were proposed to the benefit structure which would take effect from 1 April 2019.

It is expected that the proposals will result in an increase to the average employer contribution rate across the Scheme of approximately 0.9% of payroll costs, although the impact on individual employers will vary and will be dependent on the 2019 valuation process.

On 30 January 2019 the government announced a pause in the HM Treasury cost cap process within the public sector due to uncertainty caused by a court ruling on transitional protections given to members of the Schemes who in 2012 were within 10 years of their normal retirement age (McCloud case). Following this, the SAB paused the LGPS cost management process pending the outcome of the case. As a result, there are currently no benefit changes planned in respect of the cost cap and the situation will be reviewed once McCloud is resolved, which is not expected to be for some months.

Impending Changes

Further Scheme-wide change is imminent due to the introduction of the £95k ‘exit cap’ and the outcome of the SAB review of the LGPS cost management process. In addition, the result of the Board’s review of the merits in standardising the administration and funding of academies, along with the appropriate arrangements for the risk management of Tier 3 employers, is expected shortly. The Fund will continue to plan and adapt to changes as they are introduced, keeping members and employers updated through a program of regular briefings and customer engagement.

Scheme Consultations

Over the year the Fund continued to respond to consultations on policy matters relating to the amendment of the Scheme’s design, including the most recent consultation on the Fair Deal provisions, along with the implementation of new late retirement factors.

New Fair Deal

Originally introduced in 1999, New Fair Deal proposes to protect the rights of public sector employees on transfer to a private sector employer as a result of the outsourcing of services. In January 2019, a further consultation was issued on the assimilation of New Fair Deal policy into the LGPS. The proposals present significant change including a new category of employee known as a “protected transferee” whereby the contracting employer will be required to enter into an admission agreement with the LGPS Fund, along with a new status of a “deemed employer” as an alternative to an admission body.

The Fund’s response highlighted its agreement with the intent to provide guaranteed access to the LGPS for members transferred under TUPE, but noted the need for prescriptive guidance to deal with the administrative, funding and accounting implications in order that decisions reached by employers can be implemented effectively.

Late Retirement Factors

MHCLG launched a short consultation on the implementation of new late retirement factors and methodology during March 2019.

The Fund responded to the consultation, raising concern that the formula was overly complex and would pose a challenge in communicating the additional benefit in remaining in the Scheme after normal pension age.

In addition, it was highlighted that, if the formula is retained, the implementation date should be arranged to ensure system providers have had enough time to deliver software updates to avoid the necessity of manual calculations.

Key Projects & Developments

Statutory Disclosure Exercise

In compliance with statutory disclosure requirements, a bulk communication was issued mid-July to all deferred beneficiaries informing members of the material change in the Amendment Regulations permitting early access rights for deferred benefits built up in the final salary scheme, from 14 May 2018; along with information relating to the amendments to equalise pre and post 2014 AVC arrangements.

The letter raised awareness that the 2018 Deferred Annual Benefit statement was available on My Pension online and encouraged members to register for access to the system.

Interim Valuation Position

In the years between full actuarial valuations, the Fund's actuary is asked to undertake interim valuations to assess the approximate financial position of the Fund. As part of the interim assessment, key factors such as asset values, and liabilities based on current market conditions, are updated from the last full Valuation.

The estimated funding level at 31 August 2018 was 96**%** which is materially ahead of the declared funding position of 85% at 31 March 2016. The improved position is largely due to the upward trend in equity markets since 31 March 2016. However as the future market outlook is less certain there is a strong likelihood of a higher future service rate being certified at the 2019 valuation.

The analysis undertaken by the actuary revealed a number of data anomalies and a collaborative exercise between the Fund and employers commenced in year to resolve the data gaps. This activity will reduce the requirement for the actuary to take conservative margins when certifying the contribution schedules for the 2019 triennial valuation.

Data Quality and Preparation for Triennial Valuation

The Fund's data team has worked closely with the actuary, Mercer, to undertake comparative analysis on how both parties evaluate data held at the Fund, to identify any data gaps which would have an adverse impact on the robustness of the final valuation extract and the production of statutory statements.

This partnership proved highly beneficial for the Fund and highlighted areas where working practices could be improved, along with further measures to introduce greater robustness in reporting practice and engagement with employers on data matters, including improvement plans.

A data reconciliation exercise was undertaken in September, providing all employers with a snapshot of active memberships, an overview of outstanding queries and documentation identified by the Fund.

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.

In parallel to requesting outstanding data, the Fund is addressing the high number of outstanding deferred cases and death cases without contingent benefits to ensure the liability position is accurate at the Valuation date.

Annual Return Process and Statutory Annual Benefit Statements

A key objective during the year was to ensure the timely receipt of employer contribution returns and the production of Annual Benefit Statements within the 31 August deadline.

As a result of proactive engagement between the Fund and employers there was a significant increase in the number of employers submitting timely annual return files. Although ten employers were subject to financial penalties for failing to submit a completed year-end return in accordance with timescales documented within the Pensions Administration Strategy.

The Annual reconciliation of member data makes it difficult to achieve the 31 August deadline to produce benefit statements. This is due to the processing of large volumes of data within a limited timeframe and the need to identify gaps in information provided by employers.

Unfortunately, following instruction by the Pension Board in October 2018, it was necessary to file a report with the The Pensions Regulator (TPR) as we only issued 90% of annual benefit statements to active members.

In engaging with the Regulator we shared the ongoing work streams being undertaken to improve data quality and to demonstrate our commitment to meet the statutory deadline to issue all members with a statement in the future. As a result, TPR was satisfied with the measures being undertaken and decided to take no further regulatory action at this time.

To overcome the challenges of annual data returns and to maximise future benefit statement production, the Fund has commenced partnership working with its largest employers on a two-year staged project, to transition data collection from an annual to a monthly basis, along with the attendant quality assurance procedures.

The Pension Regulator Compliance Programme and Oversight of Administration Function

The Public Service Pensions Act 2013 placed the external scrutiny function of the LGPS under the remit of TPR with effect from 1 April 2015. The objective was to enhance the governance framework 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 of the Fund and ensure compliance with statutory requirements including TPR Code of Practice for Public Service Pension Schemes.
- Administering Authority's Internal and external auditors.

During September 2018,TPR launched a new operating model to regulate workplace pension schemes and drive-up standards. As the pensions landscape no longer supports the former "educate, enable and enforce" approach, the new model is scheduled to take effect over the next twelve to eighteen months.

The link to the publication outlining the new operating model is: **mpfund.uk/tprfuture**

The key to the new approach is the introduction of a supervision regime to monitor schemes more closely, which will include higher and lower intensity interventions depending on the risks identified.

The four key elements of the new operating model are to;

- set clear expectations and measurable standards
- identify risk early to prevent escalation by early proactive intervention
- drive compliance through supervision and enforcement leading to behavioral change
- work with regulatory partners to achieve a consistent regulatory framework.

LGPS Cohort Working with The Pensions Regulator (TPR)

TPR's 2018-2021 Corporate Plan includes a project to engage with cohorts of LGPS administrators and in partnership with the Metropolitan Pension Fund Group (Mets) the Fund has proactively approached TPR to understand their key concerns and receive guidance from TPR to develop best practice amongst the group.

An initial meeting with TPR took place in February 2019 to discuss the proposal for engagement and potential outcomes. The intent is to inform TPR of the operational challenges in administering the Scheme, explore ideas and gauge the direction of travel for the increasing scrutiny of the LGPS.

It is envisaged that this engagement will continue on a six-monthly basis with interim discussions and exchange of information as required.

In operating as a collective, the aim will be to increase consistency and efficiency amongst the individual Funds and to provide assurances to those charged with governance that the Fund is operating within the industry wide legislative framework and standards set by TPR.

One measure to achieve this aim is to form a Peer Review Framework amongst the group, whereby there would be a systematic review of individual fund's procedures, documentation and control mechanisms to ensure a consistent basis in demonstrating compliance against Code of Practice 14.

Collaboration with Peer Funds, Scheme Employers and National Bodies

During 2018/19 officers worked closely with a number of other LGPS Funds on specific projects via the LGA informally sharing ideas and best practice on various matters. We have committed to be a founder member of the National LGPS Framework, which streamlines and improves procurement within the public sector, and have participated in the review of many existing and new frameworks for services.

In addition, we have engaged at a national level with the LGPS Scheme Advisory Board, the Chartered Institute of Public Finance and Accountancy and the Government Actuary on administration and funding matters. This engagement has enabled us to keep pace with LGPS and pensions industry practice and represent the Fund's views and those of its stakeholders in the wider arena.

Our large employer Pension Liaison Officer Group forums have provided valuable feedback during the year and served as a useful resource to the Fund in establishing realistic operational procedures when introducing service improvements and regulatory change.

These employer forums are important as they enable Fund officers to cover topical issues and share information on planned activity and service developments.

Updated GAD Factors

During the year we have updated systems to respond to changes in actuarial factors and calculation specifications covering early retirements, transfers, pension debits and trivial commutation following changes to the government's SCAPE discount rate in the autumn budget.

Review of Fund Policies

<u>Funding Strategy Statement</u>

Following the revisions to the regulations in May 2018, the Funding Strategy Statement (FSS) was updated to reflect the new provision to refund a surplus to an outgoing employer, with effect from 14 May 2018. As this is a material change in funding arrangements it was necessary to review the impact on the termination policy and consult with employers.

A four week consultation opened on 9 July 2018 and an explanatory letter detailing the background to the consultation, together with a draft copy of the 2018 FSS, was shared with employers.

As the prospect of a funding surplus emerging when an employer exits the Fund would likely be as a result of an outsourced contract, the objective of the policy revision is to achieve consistency between an employer's commercial arrangement, the termination policy and the new regulations.

The Pension Committee approved the revisions to the policy at its meeting dated 29 October, taking full consideration of the Scheme employer and Pension Board responses to the consultation exercise.

The Communications Policy

The Communications Policy was updated in July 2018 to reflect the move to electronic communications and the increase in use of technology by members and employers. The Pension Board recommended the revised policy should be presented to Pension Committee for approval in order to deliver the efficiencies outlined in the Fund's business plan to continually drive improvement through our digital transformation plan.

Operational Improvements

Immediate Payment Processing-Transfers and Refunds

The project to extend the immediate payment facility to Transfer and Refund payments to realise the efficiencies being achieved in processing retirement benefits and to reduce the use of supplementary systems, was completed in year. A work stream was assigned to configure and install the appropriate updates to the pension benefit system, along with a period of staff training, testing and acceptance of the software processes.

Internal Audit carried out an audit of the proposed process and was satisfied there would be no significant risk involved and the immediate payments for Transfer and Refund payments went live during August with an agreed weekly payment schedule.

New Facility for Notification of Death

A new webform has been designed and placed on the members' website; this allows a relative or person dealing with the estate of a deceased person, to electronically inform the Fund of a death. This development of death notification reduces some of the emotional stress of verbal communication and also the potential for overpayment of pension.

Pension Administration System Migration

The Fund continued with the large project to migrate over eight million documents from the Civica document management system into an integrated system provided by Aquila Heywood.

The extraction of documents took place during Autumn 2018, with a phased migration into the Aquila Heywood 'Altair' system during February and March 2019. In parallel, Fund IT officers continued to work with business area managers to create new operational workflow processes in the integrated 'Altair' system. A final document extract and migration is scheduled at the end of May just prior to going live with the new solution in June 2019.

Office Rationalisation

Within the reporting period, the Fund completed the refurbishment of the office space in Castle Chambers. Whilst the main reception area remains on the 7^{th} Floor, there has been a consolidation of administration teams from the 4^{th} and 7^{th} Floor to reflect the new job roles and structures. The finance and investment teams were moved to the 6^{th} floor with the Fund now occupying only two floors of the building. The IT and electrical cabling was replaced with improved connectivity to Wirral Council, the administering authority.

Strategic Focus, Planning and Operational Cost

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 (GRWP) 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 the officers and there is a direct link with the performance appraisal process of staff.

Restructure Staff Training and Development

The administration team has a solid LGPS knowledge base. This collective expertise, together with the high quality administration systems and record keeping improvement plans, enables us to deliver an effective and efficient service to our members and employers

As we continue to evolve our operational design and advance service delivery, we ensure we develop our staff to support the changes to working practices.

The Fund's restructure and re-designation of roles was finalised last year in order to retain, train and recruit additional staff to increase our capacity, to deliver the ever-increasing statutory and governance requirements, along with the complexities of the LGPS.

The new staff joined the team this year. Following an internal training programme, the new recruits were tasked to eliminate backlogs as well as setting up systems to improve data quality and deal with new casework as a result of the amendments to the Regulations.

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 enabling greater cross-function working with other LGPS Funds.

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 Report & Accounts.

The 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 2017-18 'SF3' statistical return was £18.76 per member.

In the coming year, we will be participating in a new benchmarking initiative with other large LGPS Funds to not only provide a comparative Cost per Member but also a service quality assessment. This will present, in the future, a metric of 'value for money' relative to a comparative peer group of Funds.

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.

Member Communications

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 (ABS) and electronic versions have been available electronically since 2013 via the Fund's online 'MyPension' service.

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	6	116
Mid-Life Planning Course Hosted at employer premises	1	18
Presentations about the LGPS Hosted at employer premises	19	456
Total	**26**	**590**

Employer Communications

We continue to deliver 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 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 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.

Performance Standards

Results of performance against targets are shown below:

Performance Targets	Target	Within Target %
1. Payment of Retirement Benefits	7 days	**93**
2. Payment of Monthly Pensions	100%	**100**
3. Payment of Transfer Values	7 days	**98**
4. Provision of Inward Transfer Quotes	10 days	**94**
5. Notification of Deferred Benefits	22 days	**99**
6. Provide Valuation in Divorce Cases	10 days	**100**
7. Respond to Members' Enquiries	10 days	**83**

(Details given in respect of 12 month period to 31 March 2019)

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 a 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 a 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
Sefton Award of ill health tier	1	Upheld
Wirral Award of ill health tier	1	Dismissed
Total	**2**	

Appeals against Fund Decisions

Reason for Appeal	Number	Fund Decision
GAD Late retirement factors	1	Dismissed
Total	**1**	

Appeals to the Pensions Ombudsman

Reason for Appeal	Number	Fund Decision
Recovery of pension paid in error	1	Dismissed
Total	**1**	

The decision upheld by the Pensions Ombudsman was that the Fund must recover the incorrectly paid pension and that the Fund’s proposed recovery plan was reasonable.

Investment Report

Year ended 31 March 2019

Robust global growth supported the investment climate over the fiscal year ending March 2019; however volatility was a prominent feature. Changing perceptions over US interest rate policy, uncertainty around the resolution of trade tensions, ongoing Brexit concerns and other global political events all worked to influence investors' appetite for risk through the 12 month period.

In the US, the fiscal stimulus enacted by President Trump in late 2017 became visible in 2018, with solid employment numbers and strong economic growth which was a boon to corporate earnings. Economic data out of Europe was more mixed, but in June the European Central Bank (ECB) was confident enough to declare an end to its own version of quantitative easing, effectively winding up its historic €2.4 trillion bond-buying programme. Sentiment around Emerging Markets was more cautious however. China experienced a slowdown in activity as the monetary authorities successfully curtailed the activities of the shadow banking sector. This area of the economy, if left unchecked, is a potential threat to the country's long-term financial stability. In addition, the strengthening US dollar and higher US interest rates had the effect of raising funding costs for Emerging Market regions providing a headwind to growth.

Politics and Geopolitical risk dominated the headlines throughout the period. UK and Eurozone equity markets were hit by continuing unease over Brexit as well as concerns over Europe's exposure to the slowing Emerging Markets region and worries over the Italian budget. Trade tensions intensified and in the third quarter of 2018 the US imposed 10% tariffs on $200 billion worth of Chinese goods; China in turn retaliated with their own tariffs on US goods amounting to $60 billion, China did make efforts to support economic growth by making cuts to the Required Reserve Ratio (RRR) which effectively reduces funding costs for Chinese companies, but investors held their cautious approach to the region up until the 1st quarter of 2019.

Despite some of the negative headlines developed market equities extended their march upwards through the third quarter of 2018 reaching an all-time high in September, with US stocks leading the way. The 4th quarter however saw some sharp negative movements, particularly in developed markets. Concerns had been growing over the Federal Reserve's hawkish rhetoric on interest rates and following the interest rate hike out of the US in late September the angst spilled over into outright fear that the central bank was about to make a policy mistake by tightening interest rates aggressively when economic activity was about to slow. Developed market equities lost around 11% in the 4th quarter, but early 2019 saw as strong rebound thanks to a more dovish stance taken by central banks and some easing of trade concerns.

Looking across the year to the end of March 2019 the major asset classes on the whole delivered a positive performance. Within equities the dispersion of returns across the regions was sizable, with the standout performer being North America. Here strong corporate earnings and an appreciation of the US dollar against Sterling helped deliver a return of 17.5% to UK based investors. Asia Pacific equities also performed well delivering +12.7% and UK equities returned +6.4%. Japan equities lost value over the period with a return of -0.9%. Japanese corporate earnings tend to be the most sensitive to global growth and the slowdown experienced, particularly in Asia, weighed on investor sentiment.

Returns from the property sector were more muted compared to the prior year, but were still respectable at +5.1%. The prevalence of Company Voluntary Arrangements (CVAs) in the retail sector has hurt sentiment and depressed valuations in that area of the market.

Government bonds achieved above-trend returns, reversing the poor performance delivered in the prior year. The Fed's dovish shift in the 4th quarter saw 10-year Treasury yields falling to their lowest level since late-2017, which in turn drove bond yields lower (and bond prices higher) in the UK and Europe. In corporate bond markets, whilst overall returns were positive a deterioration of risk sentiment led to broad-based underperformance across investment grade credit sectors relative to government bonds.

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 3.7% over the period. UK Index Linked bonds, which offer investors protection against inflation, delivered a very robust +5.5% return.

The 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	5.64%	9.99%	8.68%
Benchmark	5.14%	8.34%	7.04%
Relative Return	0.48%	1.52%	1.53%

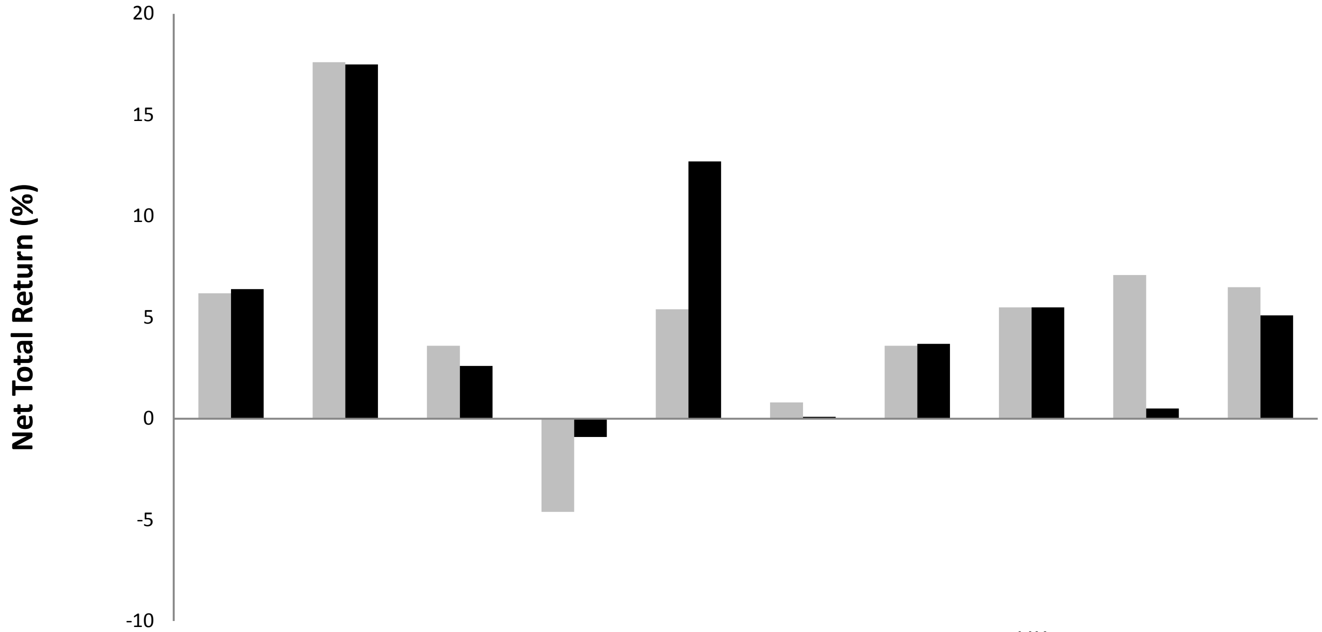
Source: Northern Trust

Merseyside Pension Fund returned 5.6% in the financial year to the end of March 2019 compared to its bespoke benchmark return of 5.1%; an outperformance of 0.5%. This was ahead of the Consumer Price Index and the increase in Average Earnings which advanced by 1.9% and 3.3% respectively.

Alternatives contributed significantly to the outperformance driven by strong performance in Private Equity and Infrastructure assets. The relative performance of the Fund's property assets relative to the benchmark also helped to deliver out-performance.

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

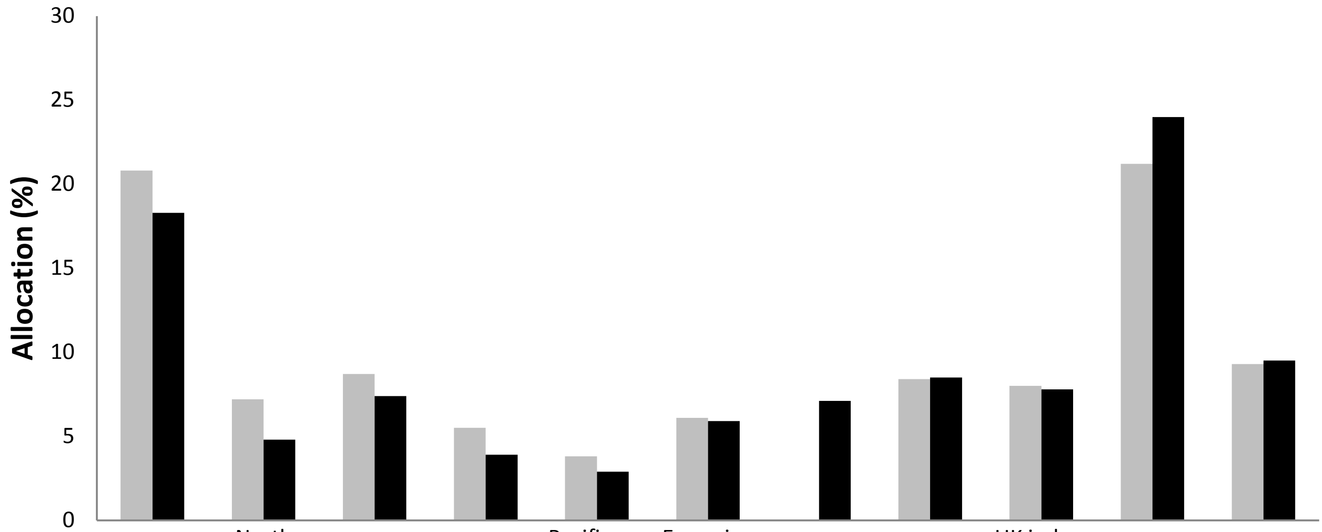
Figure 1: Net Total return by Asset Class for Year Ending 31 March 2019



	UK equities	North America equities	Europe equities	Japan equities	Pacific ex-Japan equities	Emerging markets equities	UK bonds	UK index-linked bonds	Cash/alts	Property
Fund	6.2	17.6	3.6	-4.6	5.4	0.8	3.6	5.5	7.1	6.5
Benchmark	6.4	17.5	2.6	-0.9	12.7	0.1	3.7	5.5	0.5	5.1

Figure 2 illustrates the asset allocation of the Fund on 31 March 2019 compared to 31 March 2018:

Figure 2: Asset allocation change 2019 vs. 2018



	UK equities	North America equities	Europe equities	Japan equities	Pacific ex-Japan equities	Emerging markets equities	World equities	UK bonds	UK index-linked bonds	Cash/alts	Property
2018	20.8	7.2	8.7	5.5	3.8	6.1	0	8.4	8	21.2	9.3
2019	18.3	4.8	7.4	3.9	2.9	5.9	7.1	8.5	7.8	24	9.5

World equities were introduced in Q1 of 2019 with the launch of two new strategies. The first being a multifactor investment portfolio which aims to out-perform the FTSE Developed World Index with the use of a systematic method of selecting stocks that have attractive valuations, high quality earnings and strong price momentum. The second strategy again adopts a systematic approach to stock selection, but with decarbonisation as a feature, and was designed with the goals of the 2015 Paris climate accord in mind.

Largest Property Holdings as at 31 March 2019

Holding	Market Value £'000
Fort Halstead	58,500
Tunsgate Shopping Centre, Guildford	46,150
Telegraph Road, Heswall	31,400
129-132 North Street, Brighton	30,000
Mitre Bridge Industrial Estate, Mitre Way, London	24,100

Largest Infrastructure Holdings as at 31 March 2019

Holding	Market Value £'000
Iona Capital – bio energy	94,000
Clyde Wind Farm	43,000
Anglian Water Group	41,000
Forth Ports Group	24,000
Rolling Stock (East Anglia, South Western, Moorgate)	17,000

Strategic Asset Structure

Asset Class	Strategic Benchmark %	Detail %
UK Equities	**18.70**	
Overseas Equities	**34.30**	
US		5.30
Europe (ex UK)		8.00
Japan		4.00
Asia Pacific		4.00
Emerging Markets		6.00
World		7.00
Fixed Interest	**18.00**	
UK Gilts		4.00
UK Index-Linked Gilts		10.00
Corporate Bonds		4.00
Property	**8.00**	
Alternatives	**21.00**	
Private Equity		5.00
Hedge Funds		4.00
Opportunities		5.00
Infrastructure		7.00
Cash		0.00
Total	**100.00**	

In response to the Government's pooling initiative the 'Northern LGPS was established by the local government pension funds for Greater Manchester, Merseyside and West Yorkshire. It is expected that the Northern LGPS will achieve significant cost savings and economies of scale through the pooling of assets. Merseyside Pension Fund's share of the Northern LGPS set up costs was £ 172k, with £65k in legal costs and £107k in other costs.

Merseyside Pension Fund is a member of GLIL (GMPF & LPFA Infrastructure LLP), an infrastructure investment vehicle initially set up a joint venture between the Greater Manchester Pension Fund and London Pensions Fund Authority. GLIL targets core infrastructure assets predominantly in the United Kingdom. On joining, Merseyside Pension Fund made a commitment to invest £125 million and as at the end of March 2019 around 80% of this amount had been invested. On 1 October 2018 the Fund increased its commitment to GLIL to £250 million. Total committed capital to GLIL from its existing investors stands at £1.825 billion as at 31 March 2019. In 2018 changes were made to the structure of GLIL to facilitate wider participation by pension funds. GLIL moved to an open-ended fund structure that allowed for the admission of new members.

In May 2018, Merseyside Pension Fund, Greater Manchester Pension Fund and West Yorkshire Pensions Fund established a collective private equity investment vehicle (NPEP). As at end May 2019 commitments of around £550 million had been made to private equity funds, of which c£115 million came from Merseyside Pension Fund. The private equity funds provide a diversified exposure to private companies across the globe, from small-cap growth names to large established companies with strong business models that can support the higher levels of debt that are associated with the private equity model.

The Northern LGPS has appointed Northern Trust to provide a broad range of custodial and administration services, including private equity fund administration, compliance monitoring and carbon reporting. The appointment underlines the combined LGPS group's commitment to ensuring the highest levels of asset safety, governance and transparency in reporting. Pooling remains a key focus and expectations are that more asset classes will be managed under this pooled approach in the years ahead.

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 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.

Asset Class	31 March 2018 Management Fee £000	31 March 2018 Performance Related Fee £000	31 March 2019 Management Fee £000	31 March 2019 Performance Related Fee £000
Private Equity	7,780	5,599	5,331	10,101
Infrastructure	5,354	44	4,938	0
Property	4,012	664	4,662	4,160
Opportunities & Hedge Funds	5,043	2,414	5,868	4,355
Total	**22,190**	**8,721**	**20,799**	**18,615**

The increase in performance fees has been driven the strong returns delivered by private market assets. For Private Equity, Property and Opportunities more funds are maturing and entering into their harvest phase and these mature funds are more likely to have met the hurdle rate of return (generally 8%), and for a period when profits are above that level more of the distributions will make their way to the General Partner rather than the investor. Included in the Infrastructure and Private Equity management fee numbers for 2018/2019 are £261,551 for GLIL and £31,618 for NPEP. Additional Northern LGPS set up costs in relation to legal and tax advice amounted to £142,051. The total private market costs of £39.4 million for 2018/2019 can be compared with around £182 million of net value add that these assets delivered to the Fund over that period. Investment Management figures of £16.7 million for March 2019 and £11.6 million for March 2018 (in Note 11b to the Report and Accounts) are included in the Management Fee figures of £39.4 million and £30.9 million respectively.

Merseyside Pension Fund has a Responsible Investment (RI) policy 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 to PRI on its activities to implement the Principles over the 2018 calendar year. The Fund's most recently available PRI Transparency Report can be viewed at: **unpri.org/signatories**

The Fund works with corporate governance specialists PIRC to vote on all of its eligible shareholdings in public listed companies, in line with PIRC's recommendations (based upon PIRC's annually updated Shareholder Voting Guidelines). Full disclosure (by company and year) of those recommendations is accessible at the Fund's website at: **mpfund.uk/voting**

Northern LGPS has committed to co-ordinating activity on proxy voting across listed equity holdings. In addition to public reporting on voting activity through the Northern LGPS website**,** the pool's RI Policy commits it to pre-disclosing voting intentions and to ensuring vote maximisation by restricting its securities lending programme around 'proxy voting season'. Northern LGPS has appointed PIRC as its RI Adviser to ensure that the pool's voting policy is consistent across the partner Funds.

Addressing the systemic 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) provides a global framework to translate non-financial information into financial metrics. The TCFD has been endorsed by over 500 organisations and companies, representing a combined market capitalisation of over US$7.9 trillion and including financial firms with US$100 trillion assets under management. The Fund is 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.

In preparing the TCFD statement for inclusion in this Investment Report, the Fund has referred to the guidance in the PRI publication, Implementing the Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations: A Guide for Asset Owners (PRI, 2018). While the Fund considers that the evolution of its TCFD reporting is a multi-year endeavour, as a benchmark of progress it can be noted that the PRI's priority actions for asset owners in the near term (set out on page 7 of the PRI guidance) are all addressed by the Fund's approach to climate risk.

Merseyside Pension Fund – TCFD statement as at 31 March 2019

Governance

The Pensions Committee (as the Fund's governing body) has mandated that Fund's investment strategy be brought into line with the goals of the 2015 Paris Climate Accord. It has delegated authority to the Director of Pensions to develop and implement the climate risk strategy (as informed by relevant guidance especially from partner organisations such as IIGCC, PRI and the LAPFF) and receives regular reports on progress.

The Pensions Committee has reviewed its investment beliefs through a sustainability lens and through a deliberative process involving a representative stakeholder panel. The findings and summary of the Fund's Responsible Investment (RI) Beliefs have been published on the Fund's website and reaffirms the Committee's view that a robust RI policy should be seen within the context of long-term goals and as an integral part of future-proofing the Fund.

Strategy

The Fund'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 strategic review process (linked to the triennial actuarial valuation of the Fund's liabilities) has been initiated and will conclude in Q3 2019. This will utilise climate scenario analysis (working with climate models developed by Aon Hewitt, the Fund's investment strategy adviser) to test the resilience of proposed asset allocation models in four climate change scenarios versus a base case scenario (which will assume that asset returns will move in line with what currently appears to be priced into the market).

Risk Management

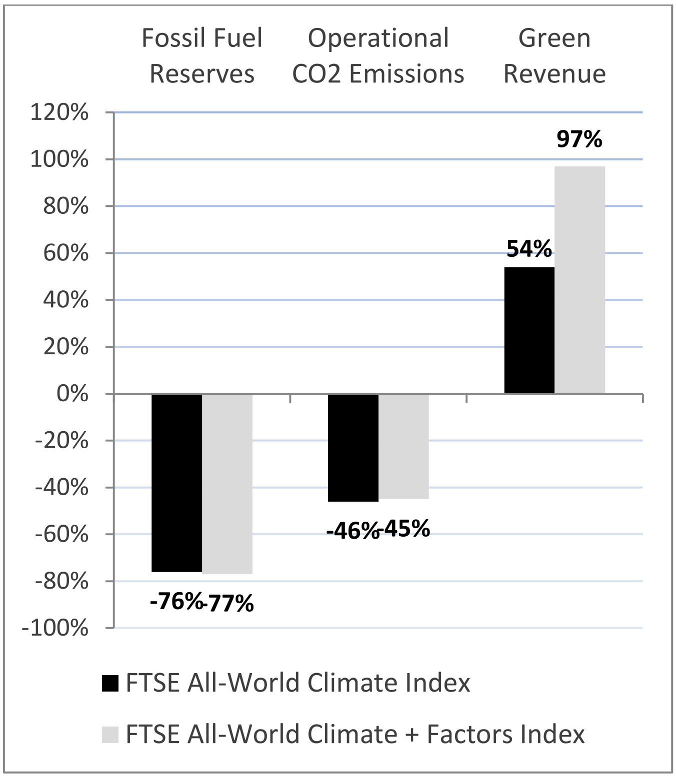
The Fund acknowledges the description of climate risk provided by TCFD, as comprising transition and physical risks. The focus of risk management has been on the mitigation of transition risk through enacting a decarbonisation policy in respect of the public equities portfolio (the Fund's largest risk asset allocation).

One-third of the passive equities portfolio (£428 million or approximately 10% of total equities) is now invested in a low carbon index strategy that tilts away from stocks with higher CO_2e emissions intensity or significant fossil fuel reserves, but also introduces a tilt in favour of stocks with 'green revenues' (companies engaged in the transition to a green economy as expressed by their financial reporting). The strategy also moves away from using 'traditional' market capitalisation weighting methodology (with its high concentration in the most carbon-intensive sectors and industries) to a multi-factor weighting approach. On this basis, the decarbonisation strategy used in the passive equities allocation targets a climate risk-efficient return that provides exposure to the market's equity risk premium, while providing a hedge against the market's mispriced climate risk.

Targets and Metrics

The decarbonisation target of moving one-third of passive equities into a low carbon index strategy (as reported in Merseyside Pension Fund's 2018 TCFD statement) was accomplished in January 2019 by £400 million of funding into the All-World Climate Balanced Factor Index Fund (established by a partnership of Merseyside Pension Fund, FTSE Russell and State Street Global Advisers). The fund is accessible to other qualifying UK pension fund investors.

This index has a reduced carbon footprint compared to its cap-weighted 'parent' index, the FTSE All-World:



The Fund will continue to allocate to the low carbon economy through the unlisted, illiquid segment of its strategic benchmark: primarily, via the 8% allocation to infrastructure where renewable energy and other low carbon aligned areas offer significant opportunity. The Fund has significant capital deployed in the Energy & Utilities sector, comprising of renewable energy generating assets (on-shore & off-shore wind, hydro, solar and energy-from-waste) as well as energy distribution networks and waste collection.

On an invested capital basis, Merseyside Pension Fund has £220m invested in renewable energy projects, both directly through the GLIL platform (of which, the Fund is a co-owner) and indirectly through fund investments.

Climate Stewardship

As active members of the global Climate Action 100+ initiative, Merseyside Pension Fund has been supporting a number of prominent engagements with 'high carbon' companies with the objective of driving strategic change in these businesses to align them with the goals of the Paris Agreement.

Most notably, the Fund has co-filed a shareholder resolution at the 2019 AGM of BP, calling on the company to accelerate its change programme with respect to its capital expenditure and commit to setting relevant science-based targets in line with Paris. The Fund's co-filing (along with others in the CA100+ group & co-ordinated by the CofE Pension Fund) was crucial in getting the resolution onto the ballot for the AGM and securing the support of BP's management for the resolution: **climateaction100.org/**

Financial Performance

Key Financials for 2018/19

	£000	£000	£000
Fund Value at 31 March 2018			**8,563,441**
Contributions & Benefits			**(137,359)**
Employer Contributions	155,155		
Employee Contributions	55,422		
		210,577	
Pensions Paid	(265,886)		
Lump Sums Paid	(74,812)		
		(340,698)	
Net Transfers		(7,238)	
Management Expenses			**(44,434)**
Administration	(2,778)		
Investment Management	(39,708)		
Oversight & Governance	(2,269)		
		(44,755)	
Other Income		321	
Investments			**501,090**
Income	216,248		
Change in Market Value	284,842		
Fund Value at 31 March 2019			**8,882,738**

The table below describes the Fund's performance for key financial variables against forecasts (forecast January and July 2018) for the 12 months to 31 March 2019.

2018/19 or at 31 March 2019	**Predicted £000**	**Actual £000**
Fund Size 2018	**8,563,441**	**8,563,441**
Fund Size 2019	**8,995,909**	**8,882,738**
Pensions Paid	(323,049)	(340,698)
Contributions Received	207,068	210,577
Net Transfers	0	(7,238)
Net Cash Flow from Members	**(115,981)**	**(137,359)**
Net management expenses	**(42,429)**	**(44,434)**
Investment Income	206,777	216,248
Change in valuation of assets	384,101	284,842
Return from Investments	**+590,878**	**+501,090**
Net Change Overall	**+432,468**	**319,297**

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 2018/19 are lower 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 are 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 2019	Budget £000	Actual £000
Employees	3,630	3,032
Premises	191	191
Transport	55	33
Investment fees – operating budget	14,236	11,205
Supplies and Services	2,677	1,770
Third Party	880	1,011
Recharges	364	348
Total	**22,033**	**17,590**

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 2018/19 was £17.6 million, lower than the original budget of £22.0 million approved by the Pensions Committee in July 2018, this is largely due to investment market volatility and budgeted projects and areas of work being deferred to 2019/20.

The 2019/20 Fund budget, along with the 3 year forecast as approved by the Pensions Committee in July 2019 is detailed in the table below.

	2019/20 £000	2021/21 £000	2021/22 £000
Employees	3,799	3,875	3,953
Premises	197	201	206
Transport	54	55	56
Investment fees	14,044	15,013	16,049
Supplies and Services	2,750	2,808	2,867
Third Party	1,114	1,137	1,161
Recharges	360	360	360
Total	**22,318**	**23,449**	**24,652**

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. 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 budget for 2019/20 at £22.3 million reflects a number of budgeted projects and areas of work originally budgeted in 2018/19 carried forward to the next financial year.

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

	2019/20 £000	2020/21 £000	2021/22 £000
Fund Size Start of Year	**8,882,738**	**9,315,192**	**9,971,658**
Fund Size End of Year	**9,315,192**	**9,971,658**	**10,531,530**
Pensions Paid	(347,853)	(355,158)	(362,616)
Contributions Received	214,999	419,514	288,324
Net Transfers	-	-	-
Net Inflow from members	**(132,854)**	**64,356**	**(74,292)**
Net management expenses	**(47,601)**	**(50,638)**	**(53,880)**
Investment Income	231,169	247,120	264,171
Change in valuation of assets	381,740	395,628	423,873
Return from Investments	**612,909**	**642,748**	**688,044**
Net change overall	**432,454**	**656,466**	**559,872**

The contributions predicted for 2019/20 reflect the higher contributions received in 2017/18, where a number of employers opted to pay their three year deficits calculated by the actuary in year 1 (2017/18), 2019/20 contributions are reduced accordingly. It has been predicted that employers will again opt to pay their 3 year deficits upfront in 2020/21 following the 2019 valuation with the sequent year contributions reduced.

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 2019

FUND ACCOUNT For the year ended 31 March 2019	Note	2018/19 £'000	2017/18 £'000
Dealing with members, employers and others directly involved in the fund			
Contributions receivable	7	210,577	407,068
Transfers in	8	11,797	12,174
		222,374	**419,242**
Benefits payable	9	(340,698)	(314,556)
Payments to and on account of leavers	10	(19,035)	(14,804)
		(359,733)	**(329,360)**
Net additions/(withdrawals) from dealing with members		**(137,359)**	**89,882**
Management Expenses	11	**(44,434)**	**(40,027)**
Net additions/(withdrawals) including fund management expenses		**(181,793)**	**49,855**
Return on Investments:			
Investment Income	12	220,626	197,008
Profit and losses on disposal of investments and change in market value of investments	13	284,842	141,671
Taxes on income	12	(4,378)	(3,578)
Net Return on Investments		**501,090**	**335,101**
Net increase/(decrease) in the Fund during the year		319,297	384,956
Net Assets of the Fund at the start of the year		8,563,441	8,178,485
Net Assets of the Fund at the end of the year		**8,882,738**	**8,563,441**

NET ASSETS STATEMENT For the year ended 31 March 2019	Note	2018/19 £'000	2017/18 £'000
Investment Assets	13		
Equities		2,795,439	2,768,408
Bonds		665,610	-
Pooled Investment Vehicles		4,695,505	5,074,479
Derivative Contracts		-	218
Direct Property		521,750	519,750
Short Term Cash Deposits		86,098	53,226
Other Investment Balances		104,196	99,613
		8,868,598	**8,515,694**
Investment Liabilities	18	(8,445)	(13,736)
Total Net Investment Assets		**8,860,153**	**8,501,958**
Long Term Assets	19	4,146	5,013
Current Assets	20	35,413	79,909
Current Liabilities	20	(16,974)	(23,439)
Net Assets of the Fund as at 31 March		**8,882,738**	**8,563,441**

Notes to the Accounts

1. Description of Fund

Merseyside Pension 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 2018/19 included 10 councillors from Wirral Council, the Administering Authority, and one councillor from each of the 4 other Merseyside 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 the Local Pension Board was introduced in accordance with the Public Service Pensions legislation and regulations. The Board's aim is to assist the Administrating 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 2018/19 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the LGPS Regulations.

a) General

The Scheme is governed by the Public Services 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 administrated 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 208 employer organisations within Merseyside Pension Fund including Wirral Council itself, the Fund also has 138,570 members as detailed below:

	31-Mar-19	31-Mar-18
Number of employers with active members	**208**	**194**
Number of employees in scheme	46,726	49,151
Number of pensioners	45,038	43,495
Number of dependants	6,547	6,665
Number of deferred pensioners	40,259	38,176
Total number of members in the Scheme	**138,570**	**137,487**

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, 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 3 x 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 uprated 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 at**: mpfmembers.org.uk**

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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, is shown within the ***Consulting Actuary's Statement,*** which is published as an addendum to the accounts.

The accounts have been prepared on a going concern basis.

3a. 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 and Management Costs".

<u>Administration Costs</u>

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.

<u>Investment Management Costs</u>
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 do 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 Bonds, 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 recognised on a straight-line basis over the term of the lease, rent is accounted for in the period it relates to 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 had 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 2019 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 Fund 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.

3b. Changes to Accounting Policy and Presentation

The following accounting standards have been issued and are applicable 2018/19:

IFRS 9 Financial Instruments this has introduced changes to the classification and measurement of financial assets, financial assets reported as "loans and receivables" in 2017/18 are reclassified as "assets as amortised cost". Impairment is recognised on an expected loss basis rather than when objective evidence of impairment has been identified.

IFRS15 Revenue from Contracts with Customers the core principal is for revenue to be recognised in an amount that reflects the consideration to which the fund expects to be entitled for transferring promised goods and services to the service recipient/customer. This accounting standard has minimal impact on the Fund.

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 2019 was £4,221 million (£4,603 million at 31 March 2018).

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 2019, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions Receivable

	2018/19 £'000	2017/18 £'000
Employers		
Normal	127,865	119,408
Pension Strain	9,274	10,426
Deficit Funding	18,016	223,096
Total Employers	**155,155**	**352,930**
Employees		
Normal	55,422	54,138
	210,577	**407,068**
Relating to:		
Administering Authority	24,581	57,357
Statutory Bodies	160,776	319,948
Admission Bodies	25,220	29,763
	210,577	**407,068**

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 2019. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2018/19 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 2018/19 the Fund has received additional and upfront payments period until the next actuarial valuation in 2019, totalling £2.2 million, (in 2017/18, a number of employers opted to pay their three years deficit as a lump sum payment in year 1 totalling £141.2 million).

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2018/19 no such charges were levied.

8. Transfers in

	2018/19	2017/18
	£'000	**£'000**
Individual transfers	11,797	12,174
	11,797	**12,174**

There were no group transfers to the Fund during 2018/19.

9. Benefits Payable

	2018/19 £'000	2017/18 £'000
Pensions	265,886	252,874
Lump sum retiring allowances	66,173	56,141
Lump sum death benefits	8,639	5,541
	340,698	**314,556**
Relating to:		
Administering Authority	46,919	43,387
Statutory Bodies	240,601	222,117
Admission Bodies	53,178	49,052
	340,698	**314,556**

10. Payments to and on Account of Leavers

	2018/19 £'000	2017/18 £'000
Refunds to members leaving service	538	447
Payment for members joining State scheme	8	37
Income for members from State scheme	-	(1)
Group transfers to other schemes	-	-
Individual transfers to other schemes	18,489	14,321
	19,035	**14,804**

There were no group transfers out of the Fund during 2018/19.

11. Management Expenses

	2018/19 £'000	2017/18 £'000
Administration costs	2,778	2,587
Investment management costs	39,708	35,922
Oversight and governance costs	2,269	1,727
Other Income	(321)	(209)
	44,434	**40,027**

11a. Administration Costs

	2018/19 £'000	2017/18 £'000
Employee costs	1,867	1,665
IT costs	616	611
General costs	255	276
Other costs	40	35
	2,778	**2,587**

11b. Investment Management Costs

	2018/19 £'000	2017/18 £'000
External Investment Management Fees	27,652	22,707
External Investment Management Performance Fees	544	1,546
External Services	799	565
Internal Investment Management Fees	713	614
Property Related Expenses	6,334	6,377
Transaction Costs	3,666	4,113
	39,708	**35,922**

11c. Oversight and Governance Costs

	2018/19 £'000	2017/18 £'000
Employee Costs	520	475
External Services	1,179	767
Internal Audit	49	34
External Audit	31	39
Other Costs	490	412
	2,269	**1,727**

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 2018/19 is £259,917 relating to recharged Actuarial fees (2017/18 £195,994).

External Audit fees for 2018/19 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

	2018/19 £'000	2017/18 £'000
Dividends from Equities	99,895	84,247
Income from Bonds	69	-
Income from Pooled Investment Vehicles	54,612	52,333
Rents from Properties	30,512	26,754
Interest on Short Term Cash Deposits	712	267
Income from Private Equity	33,877	32,422
Other	949	985
	220,626	**197,008**
Irrecoverable Withholding Tax	(4,378)	(3,578)
	216,248	**193,430**

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 £6.3 million (2017/18 £4.8 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, repayments received in 2018/19 £20,981 (2017/18 £nil).

12a. Property Income

	2018/19 £'000	2017/18 £'000
Rental income	30,512	26,754
Direct operating expenses	(6,334)	(6,377)
Net rent from properties	**24,178**	**20,377**

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	2018/19 £'000	2017/18 £'000
No later than one year	5,195	1,302
Between one and five years	11,208	8,114
Later than five years	11,635	17,540
Total	**28,038**	**26,956**

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

2018/19	Market Value 31.3.2018 £'000	Purchases at cost & Derivative Payments £'000	Sale Proceeds & Derivative Receipts £'000	Change in Market Value * £'000	Market Value 31.3.2019 £'000
Equities	2,768,408	1,635,758	(1,634,730)	26,003	2,795,439
Bonds	-	689,963	-	(24,353)	665,610
Pooled Investment Vehicles	5,074,479	1,077,179	(1,740,461)	284,308	4,695,505
Derivative Contracts	218	613,961	(614,344)	165	-
Direct Property	519,750	3,636	-	(1,636)	521,750
	8,362,855	**4,020,497**	**(3,989,535)**	**284,487**	**8,678,304**
Short term cash deposits	53,226				86,098
Other investment balances	99,613			355	104,196
	8,515,694			**284,842**	**8,868,598**

2017/18	Market Value 31.3.2017 £'000	Purchases at cost & Derivative Payments £'000	Sale Proceeds & Derivative Receipts £'000	Change in Market Value * £'000	Market Value 31.3.2018 £'000
Equities	2,728,658	1,272,950	(1,225,858)	(7,342)	2,768,408
Bonds	-	-	-	-	-
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**

*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

	2018/19 £'000	2017/18 £'000
Equities (segregated holdings)		
UK Quoted	1,150,144	1,261,630
Overseas Quoted	1,645,295	1,506,778
	2,795,439	**2,768,408**
Bonds		
UK Public Sector Quoted	**665,610**	**-**
	665,610	**-**
Pooled Investment Vehicles		
UK Managed Funds:		
Property	53,948	43,961
Equities	138,487	130,528
Private Equity	286,359	311,657
Hedge Funds	41,772	44,079
Corporate Bonds	354,726	343,277
Infrastructure	353,669	252,983
Opportunities	343,556	324,309
Overseas Managed Funds:		
Equities	494,233	486,772
Private Equity	279,333	251,754
Hedge Funds	221,975	226,624
Infrastructure	192,604	175,233
Opportunities	209,989	136,854
UK Unit Trusts:		
Property	116,426	107,949
Overseas Unit Trusts:		
Property	124,120	96,448
Other Unitised Funds	1,484,308	2,142,051
	4,695,505	**5,074,479**
Derivative Contracts	**-**	**218**
UK Properties		
Freehold	387,820	394,100
Leasehold	133,930	125,650
	521,750	**519,750**
Balance at 1 April	519,750	431,150
Additions	3,636	71,899
Disposals	-	-
Net gain/(loss) on fair value	-	-
Other changes in fair value	(1,636)	16,701
Balance at 31 March	**521,750**	**519,750**

As at 31 March 2019 there were no restrictions on the realisability of investment property or of the remittance of income or proceeds of disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

	2018/19 £'000	2017/18 £'000
Short term cash deposits		
Sterling	86,098	53,226
	86,098	**53,226**

	2018/19 £'000	2017/18 £'000
Other investment balances		
Outstanding trades	7,439	9,486
Outstanding dividends entitlements and recoverable withholding tax	22,275	17,566
Cash deposits	74,482	72,561
	104,196	**99,613**

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 one month	GBP 20,080	EUR 23,389	0	(91)
			0	(91)
Net forward currency contracts at 31 March 2019				**(91)**
Prior year comparative				
Open forward currency contracts at 31 March 2018			218	-
Net forward currency contracts at 31 March 2018				**218**

13c Summary of Managers' Portfolio Values at 31 March 2019

	2018/19		2017/18	
Externally Managed	**£million**	**%**	**£million**	**%**
JP Morgan (European equities)	260	2.9	252	3.0
Nomura (Japan)	353	4.0	461	5.4
Schroders (fixed income)	355	4.0	343	4.0
Legal & General (fixed income)	382	4.3	369	4.3
Unigestion (European equities and pooled Emerging Markets)	337	3.8	319	3.8
M&G (global emerging markets)	188	2.1	183	2.1
TT International (UK equities)	249	2.8	249	2.9
Blackrock (UK equities)	272	3.1	252	3.0
Blackrock (Pacific Rim)	158	1.8	152	1.8
Blackrock (QIF)	91	1.0	87	1.0
Newton (UK equities)	281	3.2	263	3.1
Amundi (global emerging markets)	187	2.1	186	2.2
Maple-Brown Abbot (Pacific Rim equities)	177	2.0	166	1.9
State Street Global Advisor (Passive Manager)	1,104	12.3	1,773	20.9
State Street Global Advisor (Bonds Manager)	666	7.5	-	-
Blackrock Transition Manager	1	-	195	2.3
	5,061	**56.9**	**5,250**	**61.7**
Internally Managed				
UK equities	450	5.1	401	4.7
European equities	247	2.8	246	2.9
Property (direct)	522	5.9	520	6.1
Property (indirect)	316	3.6	270	3.2
Private equity	566	6.4	563	6.6
Hedge funds	264	3.0	271	3.2
Infrastructure	546	6.2	428	5.0
Opportunities	580	6.5	486	5.7
Global Equities Internal Factor	201	2.3	-	-
Short term deposits & other investments	116	1.3	80	0.9
	3,808	**43.1**	3,265	**38.3**
	8,869	**100.0**	8,515	**100.0**

As at 31 March 2019 no single investment represented more than 5% of the net assets of the Fund, the table below shows the position as at 31 March 2018:

	2018/19		2017/18	
	£'million	**%**	**£'million**	**%**
SSGA Pooled UK Index Linked Gilts	-	-	682	8.0
SSGA USA Equity Tracker	396	4.5	613	7.2

13d Stock Lending

As at 31 March 2019, £275.1 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £301.2 million. Collateral is marked to market, and adjusted daily. Income from Stock Lending amounted to £926,260 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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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 the Fund'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 2019. 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.

	Value 31 March 2019 £'000	Potential variance %	Value on increase £'000	Value on decrease £'000
Property	846,330	10.0	930,963	761,697
Unquoted UK equity	109,288	15.0	125,681	92,895
Unquoted overseas equity	84,709	15.0	97,415	72,003
Hedge funds	223,678	10.0	246,046	201,310
Infrastructure	530,218	15.0	609,751	450,685
Private equity	656,899	15.0	755,434	558,364
Total	**2,451,122**			

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.

For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in “Practical Guidance on Investment Disclosures (PRAG/Investment Association 2016)”.

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 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets				
Financial assets at fair value through profit and loss	4,457,295	1,769,887	1,929,372	8,156,554
Non-financial assets at fair value through profit and loss			521,750	521,750
Financial Liabilities		(91)		(91)
Net investment assets	**4,457,295**	**1,769,796**	**2,451,122**	**8,678,213**

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	2,411,082	1,671,734	7,843,105
Non-financial assets at fair value through profit and loss			519,750	519,750
Net investment assets	**3,760,289**	**2,411,082**	**2,191,484**	**8,362,855**

* The values at 31 March 2018 have been restated, £63.6 million has moved from Level 2 to Level 3.

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

	2018/19 £'000	**2017/18 £'000**
Opening balance	2,191,484	1,884,029
Acquisitions	372,555	357,280
Disposal proceeds	(232,512)	(179,809)
Transfer into Level 3	-	63,571
Total gain/(losses) included in the fund account:		
On assets sold	(7,717)	2,487
On assets held at year end	127,312	63,926
Closing balance	**2,451,122**	**2,191,484**

* The information for 2017/18 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 2019		
	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss
	£'000	£'000	£'000
Financial Assets			
Equities			2,795,439
Bonds			665,610
Pooled Investment Vehicles			4,695,505
Derivatives			-
Cash deposits	86,098		
Other investment balances	104,196		
Long term and current assets	39,559		
Total financial assets	**229,853**	**-**	**8,156,554**
Grand total	**8,386,407**		
Financial Liabilities			
Derivatives			**(91)**
Other investment balances		(8,354)	
Current Liabilities		(16,974)	
Total financial liabilities	**-**	**(25,328)**	**(91)**
Grand total	**(25,419)**		
Grand net total	**8,360,988**		

	31 March 2018		
	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss
	£'000	£'000	£'000
Financial Assets			
Equities			2,768,408
Bonds			-
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**		

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

	2018/19 £'000	2017/18 £'000
Financial Assets		
Fair Value through profit and loss	286,123	129,691
Total financial assets	**286,123**	**129,691**
Financial Liabilities		
Total financial liabilities		
Net	**286,123**	**129,691**

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 on page 54 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 2019	Value £m	Potential Variance	Value on increase £m	Value on decrease £m
UK Equities (all equities including pooled vehicles)	1,496	19.0%	1,780	1,211
US Equities	569	21.0%	689	450
Canadian Equities	9	24.0%	11	7
European Equities	841	22.5%	1,030	652
Japan Equities	379	20.5%	456	301
Emerging Markets Equities inc Pac Rim	876	28.0%	1,121	630
Global Equities (all equities including pooled vehicles)	428	19.5%	512	345
UK Fixed Income Pooled Vehicles	735	11.0%	816	655
UK Index Linked Pooled Vehicles	-	9.0%	-	-
UK Bonds	666	9.0%	726	606
Pooled Property	294	12.5%	331	258
Private Equity	566	27.5%	721	410
Hedge Funds	264	9.5%	289	239
Infrastructure	546	18.5%	647	445
Other Alternative Assets	488	14.1%	557	419
Short term deposits & other investment balances	204	0.0%	204	204
	8,361			

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
Japan Equities	461	20.5%	556	367
Emerging Markets Equities inc Pac 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 & other investment balances	201	0.0%	201	201
	8,044			

16b Credit Risk

The Fund does not hold any Fixed Interest Securities directly and the Managers of the 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 2019 was £86.1 million (31 March 2018 £53.2 million). This was held in instant access accounts with the following institutions:

	Rating (S&P)	Balances as at 31 March 2019	Balances as at 31 March 2018
		£'000	£'000
Lloyds Bank	Long A Short A-1	22,717	33,226
Invesco	AAAm	15,000	10,000
Santander	Long A Short A-1	-	10,000
Svenska Handelsbanken	Long AA- Short A-1+	20,000	-
Northern Trust	AAAm	28,381	-
Total		**86,098**	**53,226**

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 £86.1 million. The Fund has £6,249 million in assets which could be realised in under 7 days’ notice, £822 million in assets which could be realised in under 90 days’ notice and £1,290 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. Whilst the Fund had a net withdrawal for 2018/19 in its dealing with members of £137 million and management expenses of £44 million, this is offset by investment income of £221 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 Funding Strategy Statement (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
Long Term Yields	**% p.a.**
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

	2018/19 £'000	2017/18 £'000
Derivative Contracts	91	-
Amounts due to stockbrokers	8,354	13,736
	8,445	**13,736**

19. Long Term Assets

	2018/19 £'000	2017/18 £'000
Assets due in more than one year	4,146	5,013
	4,146	**5,013**

Assets due in more than one year include future payments of pension strain and reimbursement of lifetime tax allowances.

20. Current Assets and Liabilities

	2018/19 £'000	2017/18 £'000
Assets		
Contributions due	17,270	17,431
Amounts due from external managers	417	41,296
Accrued and outstanding investment income	344	1,152
Sundries	14,192	14,889
Provision for credit losses	(157)	(118)
Cash at bank	3,347	5,259
	35,413	**79,909**
Liabilities		
Amounts due to external managers	165	966
Transfer values payable	-	-
Retirement grants due	2,177	3,467
Provisions	494	432
Miscellaneous	14,138	18,574
	16,974	**23,439**
Total current assets and liabilities	**18,439**	**56,470**

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

"Provision for credit losses" relates to general debtors and property rental income, and is based on an assessment of all individual debts as at 31 March 2019.

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-imbursement.

21. Contractual Commitments

Commitments for investments amounted to £1,064 million as at 31 March 2019. (2017/18 £534.86 million). These commitments relate to Private Equity £494.08 million, Infrastructure £276.54 million, Opportunities £72.46 million, Indirect Property £221.13 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 Administrating 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 £3.7 million. (2017/18 £3.3 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 £10.3 million (2017/18 £9.1 million) and a creditor of £341,033 as at 31 March 2019 (2017/18 £254,502).

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme (LGPS) Regulations. Contributions for the year are shown in note 7 and in respect of March 2019 payroll are included within the debtors figure in note 20.

A specific declaration has been received from the 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, St Helens Borough Council, Wirral Council, Knowsley Youth Mutual, Whiston Town Council, Rainhill Parish Council, 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 five investment bodies in which the Fund has an interest, Eclipse (£14.5 million), Standard Life (£14.7 million), F&C (£20.4 million), GLIL (£111.1 million) and NPEP.

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 (£14.7 million), BBH Capital (£13.5 million), TEO Plc (£15.3 million), GCM Grosvenor Co-Investment Fund (£8.9 million) and F&C (£20.4 million).

Susannah Friar, Property Manager acts in an un-remunerated board advisory capacity on eleven investment bodies in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£5.3 million), Bridges Property Alternatives IV (£2.1 million), Century Bridge China Real Estate Fund II (£3.5 million), Phoenix Asia Secured Debt Fund (£6.1 million) Alma Property Partners (£9.4 million), Barwood Property (£12.5 million), Chenavari Real Estate III (£3.0 million), Newcore Strategic Situations IV (£5.0 million), Hearthstone Residential Fund I (£5.5 million), European Student Housing Fund II (£3.2 million) and Locust Point Private Credit Fund (£4.0 million).

Adil Manzoor Portfolio Manager, acts in an un-remunerated board advisory capacity on five investment bodies in which the Fund has an interest, Standard Life Infrastructure Fund I (£8.8 million), Blackrock GRP Fund I (£19.3 million) and AMP GIF II (£12.1 million), Industrial Strategies Fund – Waybill UK Ltd (£21.5 million) and Impax New Energy Investors III LP (£1.1 million).

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

Key management personnel

The Fund's senior management during 2018/19 was comprised of six individuals: the Director of Pensions, the Head of Pensions Administration, three Senior Portfolio Managers and Head of Finance & Risk. The remuneration paid to the senior management during 2018/19 was £402,649 (2017/18 £421,487). In addition, employer contributions of £58,063 (2017/18 £56,995) was also met from the Fund and charged to the Fund Account. The post of Senior Investment Manager was deleted during the year 2017/18.

24. Additional Voluntary Contribution Investments

	2018/19 £000	2017/18 £000
The aggregate amount of AVC investments is as follows :		
Equitable Life	1,985	2,015
Standard Life	5,286	5,988
Prudential	8,739	7,930
	16,010	**15,933**
Changes during the year were as follows:		
Contributions	3,394	3,432
Repayments	3,685	2,441
Change in market values	368	383

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 Section 151 Officer;

- to manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

Section 151 Officer Responsibilities

The Section 151 Officer 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 2019.

In preparing this statement of accounts, the Section 151 Officer has:

- selected suitable accounting policies and then applied them consistently;

- made judgments and estimates that were reasonable and prudent;

- complied with the Code.

The Section 151 Officer 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 Section 151 Officer's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the Fund at 31 March 2019, and its income and expenditure for the year then ended.

Shaer Halewood Section 151 Officer
July 2019

Audit Report

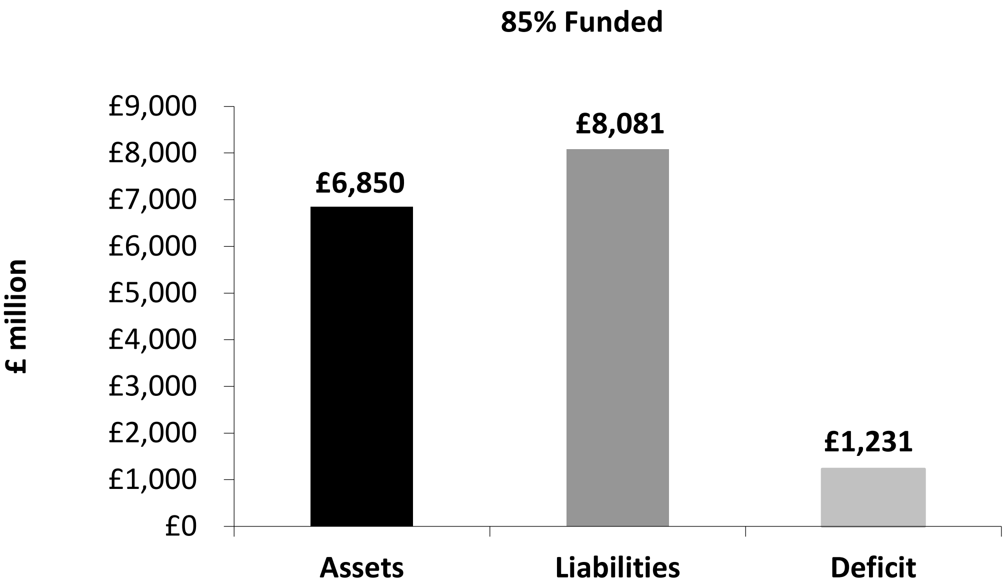
Consulting Actuary's Statement

Accounts for the Year Ended 31 March 2019
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 Funding Strategy Statement (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 2019/20 is approximately £52.8 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 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 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018 per annum	31 March 2019 per annum
Rate of return on investments (discount rate)	2.6%	2.4%
Rate of CPI Inflation / CARE Benefit revaluation	2.1%	2.2%
Rate of pay increases*	3.6%	3.7%
Rate of increases in pensions in payment (in excess of GMP)/Deferred Revaluation	2.2%	2.3%

**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 decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £11,285 million. Interest over the year increased the liabilities by c£293 million, and allowing for net benefits accrued/paid over the period decreased the liabilities by c£18 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £78 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was an increase in liabilities of £627 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 2019 is therefore £12,265 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

We have carried out some costings of the potential effect of McCloud as at 31 March 2019, based on the individual member data as supplied to us for the 2016 actuarial valuation, and this results in an additional liability of £78 million using the IAS26 assumptions outlined above. The approach to the calculations is as instructed by the administering authority after consideration of the categories of members potentially affected, but in very broad terms calculates the cost of applying a "final salary underpin" (on a member by member basis) to those active members who joined the Fund after 1 April 2012 and who would not otherwise have benefited from the underpin.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs.

Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits.

Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage.

However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2019

Clive Lewis
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2019

Appendix A

Scheme employers with active members as at 31 March 2019

	Contributions Received		
	Employers (£000)	**Deficit/Surplus (£000)**	**Employees (£000)**
Scheduled Bodies (34)			
Billinge Chapel End Parish Council	4	0	1
Carmel College	249	0	105
Chief Constable (CC)	7,508	4,044	3,684
Cronton Parish Council	2	0	0
Eccleston Parish Council	4	0	1
Edsential SLE	241	73	76
Halewood Town Council	22	11	7
Hugh Baird College	610	296	261
Knowsley M.B.C.	10,519	0	4,710
Knowsley Town Council	28	0	9
LCRCA - Liverpool City Region Combined Authority	341	0	181
Liverpool City Council	27,102	0	12,226
Liverpool John Moores University	5,	3,478	2,820
Liverpool Streetscene Services Ltd	1,019	0	296
Maghull Town Council	36	0	12
Merseyside Fire & Rescue Authority	1,383	0	604
Merseyside Passenger Transport Executive (MPTE)	3,291	0	1,532
Merseyside Waste Disposal Authority	149	141	76
Office of the Police and Crime Commissioner (OPCCM)	90	36	54
Prescot Town Council	10	3	7
Rainford Parish Council	10	2	3
Rainhill Parish Council	3	0	1
School Improvement Liverpool Ltd	804	0	378
Sefton M.B.C.	14,538	0	6,155
Shared Education Services Ltd	403	53	136
Southport College	399	231	153
St. Helens College	936	689	379
St. Helens M.B.C.	11,143	0	4,832
The ACC Liverpool Group Ltd	615	0	440
The City of Liverpool College	506	848	219
Whiston Town Council	29	9	11
Wirral Council	15,922	0	7,068
Wirral Evolutions Ltd	554	0	145
Wirral Metropolitan College	660	375	251
Scheduled Bodies (Academies) (100)			
Academy of St Francis of Assisi	120	10	53
Bellerive FCJ Catholic College	76	42	27
Birkdale High School	70	56	26
Birkenhead 6th Form College (Academy)	208	93	92
Birkenhead High School Academy	149	17	54
Bishop Martin CE Primary	26	15	9
Blacklow Brow School (Academy)	36	19	13
Blue Coat School (Academy)	106	69	48
Calday Grange Grammar School	172	38	61
Chesterfield High School	118	71	42
Childwall Sports & Science Academy	72	98	33
Christ Church Moreton Primary (Academy)	15	8	6
Church Drive Primary	6	0	2
Churchtown Primary (Academy)	25	16	8
Co-op Academy Portland	18	9	5
Co-op Academy Woodslee	14	0	4

	Contributions Received		
	Employers (£000)	Deficit/Surplus (£000)	Employees (£000)
Cronton C of E Primary (Academy)	44	19	14
Croxteth Community Primary School (Academy)	14	5	5
De La Salle Academy	44	39	18
Deyes High School	177	96	75
Egremont Primary School (Academy)	90	30	31
Emslie Morgan Academy	35	22	17
Everton Free School	21	0	19
Finch Woods Academy	38	17	15
Formby High School	110	0	41
Garston C of E Primary School (Academy)	46	14	15
Great Meols Primary School (Academy)	52	24	18
Greenbank High School	128	64	48
Halewood Academy Centre for Learning	133	153	54
Halewood C of E Primary (Academy)	41	23	14
Halsnead Primary School (Academy)	57	29	21
Harmonize Academy	32	2	13
Hawthornes Free School	65	18	22
Heygreen Community Primary (Academy)	41	20	21
Hilbre High School (Academy)	173	103	67
Hillside High School (Academy)	117	139	45
Holy Trinity CE Primary (Academy)	56	31	18
Hope Academy	145	95	58
Huyton with Roby CE Primary (Academy)	77	31	22
Kings Leadership Academy (Liverpool)	79	22	33
Kirkby High School	120	137	53
Knowsley Lane Primary School (Academy)	31	28	14
LDST - Liverpool Diocesan Schools Trust (Academy)	28	0	21
Litherland High School (Academy)	91	94	41
Litherland Moss Primary (Academy)	22	10	8
Liverpool College (Academy)	82	0	28
Liverpool Life Science UTC	66	1	30
Lord Derby Academy	145	90	52
Maghull High School	79	87	33
New Park Primary (Academy)	146	78	64
North Liverpool Academy	205	44	120
Nutgrove Methodist Aided Primary	17	8	7
Oldershaw Academy	123	70	50
Our Lady of Pity (Academy)	78	30	22
Parish CE Primary (Academy)	40	22	15
Park View Academy	50	40	18
Poulton Lancelyn Primary School (Academy)	52	23	17
Prenton High School for Girls	123	0	49
Rainford High School (Academy)	128	56	58
Rainhill High School	136	72	62
Rainhill St Anns CE Primary School (Academy)	74	27	24
Range High School	158	96	59
Roscoe Primary (Academy)	57	29	20
Shoreside Primary School	17	7	5
St Andrews CE Primary (Academy)	41	21	13
St Anselm's College	91	21	33
St Edward's College	102	66	42
St Francis Xavier's College (Academy)	142	79	54
St James' Primary School (Academy)	12	4	5
St John Plessington Catholic College	205	76	73
St Joseph's Primary (Academy)	34	19	11
St Margaret's Church of England Academy	116	59	42
St Mary & St Thomas CE Primary School (Academy)	67	30	24
St Mary's Catholic College	192	118	61
St Michael's C of E High School (Academy)	105	87	47

	Contributions Received		
	Employers (£000)	Deficit/Surplus (£000)	Employees (£000)
St Silas C of E Primary School (Academy)	87	29	30
St Thomas C of E Primary (Academy)	51	19	19
Stanley High School (Academy)	91	62	31
Stanton Road Primary School (Academy)	49	19	16
Studio @ Deyes Academy	23	0	7
Sylvester Primary Academy	32	10	9
The Academy of St Nicholas	116	160	47
The Beacon C E Primary School (Academy)	51	26	21
The Belvedere Academy	117	21	51
The Birkenhead Park School	84	118	37
The Prescot School (Academy)	111	75	39
The Studio (Academy)	15	0	8
The Sutton Academy	124	106	60
Town Lane Infant School (Academy)	46	20	15
Townfield Primary	102	34	45
Upton Hall School	92	39	31
Weatherhead High School	175	90	77
West Derby School (Academy)	143	41	50
West Kirby Grammar School	79	49	32
Whiston Willis Primary (Academy)	50	21	14
Willow Tree Primary	2	1	1
Wirral Grammar Boys (Academy)	83	47	32
Wirral Grammar School for Girls	90	41	29
Woodchurch High School	331	142	120
Yew Tree Primary Academy	34	22	13

Admission Bodies (Community) (27)

Age Concern – Liverpool	21	-21	8
Arriva North West	875	3,092	217
Association of Police and Crime Commissioners	114	16	69
Berrybridge Housing Ltd	41	48	15
Birkenhead School (2002)	30	-10	8
Care Quality Commission	31	87	10
Catholic Children's Society	31	26	5
CDS Housing	550	142	176
Citizens Advice Liverpool	34	0	6
Cobalt Housing Ltd	86	0	29
Commutual	35	0	12
Glenvale Transport Ltd/Stagecoach.	114	-22	32
Greater Hornby Homes	11	10	4
Greater Merseyside Connexions (Career Connect)	819	-741	228
Lee Valley Housing Association Ltd	37	35	12
Liverpool Hope University	59	96	9
Local Government Association	934	1,155	662
Merseyside Lieutenancy	13	0	4
North Huyton Communities Future	16	0	9
One Vision Housing Ltd.	1,071	225	385
Partners Credit Union	85	0	25
Port Sunlight Village Trust	23	0	8
South Liverpool Housing Ltd	96	185	29
Torus 62 Ltd	582	0	221
Welsh Local Government Association	314	0	177
Wirral Autistic Society (Autism Together)	633	-296	129
Wirral Partnership Homes Ltd (Magenta Living)	1,819	-253	796

Admission Bodies (Transfer) (47)	Contributions Received Employers (£000)	Deficit/Surplus (£000)	Employees (£000)
Absolutely Catering (Longmoor)	8	0	2
Absolutely Catering (St Oswald's)	9	0	2
Addaction (Sefton)	19	0	6
Agilisys Limited	21	3	7
Agilisys Ltd (Sefton)	192	0	63
Balfour Beatty PFI SEN School	15	0	4
Balfour Beatty Workplace Limited	75	-6	23
Bouygues E & S FM UK Ltd	22	0	5
Castlerock Recruitment Group Ltd (CRG)	8	0	4
Caterlink Ltd.	17	7	4
Change Grow Live	13	0	3
Compass (Scolarest) Liverpool Schools	6	1	1
Compass (Scolarest) Wirral Schools	35	-2	8
Compass Contract Services (UK) Ltd	15	12	3
CWP (NHS)	391	0	138
Friends of Birkenhead Council Kennels	8	0	3
Fun 4 Kidz	3	0	1
Geraud Markets (Liverpool Markets)	12	27	4
Glendale (Liverpool Parks Services) Ltd	81	-81	25
Graysons Education Limited	3	0	1
Hochtief Liverpool Schools	29	1	7
Hochtief Wirral Schools	43	-4	10
Interserve (Facilities Mgmt.) Ltd	19	5	5
Kingswood Colomendy Ltd.	0	12	0
Knowsley Youth Mutual Ltd	119	0	48
L&T FM (Chroda)	16	0	5
Liverpool Vision Limited	238	-85	130
Mellors Catering - Birkdale	16	-1	4
Mellors Catering - St Anns	6	2	1
Mellors Catering - St Mary & St Thomas	2	1	1
Mellors Catering - St Paul & St Timothy	4	0	1
Orian Solutions	33	0	8
Sanctuary Home Care Ltd	37	0	12
Sefton New Directions Ltd.	596	-267	183
Shap Ltd	7	0	3
Siemens Mobility Ltd	6	0	2
SSE Contracting Limited	67	9	22
Tarmac Trading Ltd.	32	0	11
Taylor Shaw - Great Meols	6	0	1
Taylor Shaw - Hugh Baird	6	0	2
Taylor Shaw - Raeburn	6	0	1
Taylor Shaw - Range	10	0	2
Taylor Shaw - St Andrews	2	0	0
Veolia ES Merseyside & Halton	110	12	33
Volair Ltd	351	0	121
WCFT (NHS)	935	0	318
WIRED Ltd	20	0	7

Scheme Employers where contributions have been received during 2018/19 but they had no Active Scheme Members as at 31 March 2019

	Contributions Received		
	Employers (£000)	Deficit/Surplus (£000)	Employees (£000)
arvato Public sector Services Ltd.	486	-486	198
BAM Nuttall Limited	43	0	13
Birkenhead Market Services	35	5	12
City Healthcare Partnership CIC	4	0	1
Elite Cleaning and Environmental Services	1	0	0
Enterprise Liverpool Neighbourhoods	8	0	2
Helena Partnerships Ltd	1,464	120	327
Liverpool Mutual Homes Ltd	509	0	192
Mack Trading	6	0	2
Mersey Waste	0	254	0
Mosscroft Childcare Limited	1	0	0
Sefton Education Business Partnership	38	-9	9
Taylor Shaw Grange	3	1	1
The Kingsway Academy	15	41	6
Wirral Chamber of Commerce	2	0	0
Totals	**127,865**	**18,016**	**55,422**

Appendix B

Pensions Committee Items

16 July 2018

Audit Findings Report
Statement of Accounts / Letter of Representation
Draft Annual Report and Accounts
Budget Outturn 16/17, Final Budget 17/18
Pension Board Annual Report
LGPS Update
Data Protection Policy & GDPR Update
Treasury Management Annual Report
Revised Pension Board Terms of Reference
Communications Policy
Fundamentals Training
PLSA Annual Conference
LGC Investment Summit
GLIL Update
Pooling Update
Working Party Minutes

29 October 2018

LGPS Update
Draft Funding Strategy Statement
Responsible Investment Event
Pooling Update
LAPFF Conference
Annual Employers' Conference
Pension Board Minutes 13/06/18
LGPS Governance Conference
Interim Valuation
Admission Body Application
Write-off Pension Overpayments
Write-off Rent Arrears
Working Party Minutes 12/07/18 & 11/09/18

21 January 2019

Northern LGPS Draft Responsible Investment Policy
LGPS Update
Pension Fund Budget
Member Development Programme
Treasury Management Strategy
Update on Investment Strategy
LGC Investment Seminar
Pension Board Minutes
Pooling Update
Contractual Arrangements
Liability Risk Management
Working Party Minutes

25 March 2019

Audit Plan
LGPS Update
Fair Deal Consultation
PLSA Local Authority Conference
Risk Management
Pooling Update

Attendance Record 2018 – 2019

	PENSIONS COMMITTEE				GRWP		IMWP			
	16 Jul	29 Oct	21 Jan	25 Mar	12 Jul	12 Mar	14 Jun	11 Sep	15 Nov	12 Mar
Cllr Paul Doughty (Chair)	•	•	•	•	•	•	•			•
Cllr George Davies (Vice Chair)	•	•	•	•					•	
Cllr Pat Cleary	•	•	•	•			•		•	•
Cllr Andrew Gardner	•	•		•				•		•
Cllr Pat Hackett	•	•	•	•						
Cllr Kathy Hodson	•	•	#	•						
Cllr Tony Jones	•	•	•	•			•			
Cllr Brian Kenny	•	•	•	•			•		•	•
Cllr Cherry Povall, JP	•	•	•	•				•	•	
Cllr Irene Williams	•	#	•	#						
Cllr Nick Crofts (Liverpool City Council Co-Optee)	•									
Cllr Ian Byrne (Liverpool City Council Co-Optee)*			•	•						
Cllr John Fulham (St Helens MBC Co-Optee)	•	•		•						
Cllr Jayne Aston (Knowsley MBC Co-Optee)				•						
Cllr Paulette Lappin (Sefton MBC Co-Optee)	•	•					•		•	•
Patrick Cleary (UNISON Co-Optee)	•									
Roger Bannister (UNISON Co-Optee)**	•	•		•	•	•	•	•	•	•
Sarah Brunskill (UNISON Co-Optee)			•							

[#] ***Deputy Attended***

***Replaced Cllr. Nick Crofts**

****Replaced Patrick Cleary**

Conferences

	PLSA	LGC Newport	PLSA	MPF Annual Conference	LAPFF Annual Conference	RI Event Aintree	LGC Investment Seminar	PLSA Edinburgh
	21-23 May	5-7 Sep	17-19 Oct	29 Nov	5-7 Dec	23 Jan	28 Feb - 1 Mar	6 Mar
Cllr Paul Doughty (Chair)	•	•	•	•	•	•	•	•
Cllr Andrew Gardner			•				•	
Cllr Brian Kenny			•	•	•		•	
Cllr Tony Jones			•					
Cllr Cherry Povall, JP		•	•	•			•	
Cllr Paulette Lappin (Sefton MBC Co-Optee)								
Roger Bannister (UNISON Co-Optee)	•		•	•		•		
Cllr Pat Cleary						•		

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 & 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 & 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	Section 151 Officer	0151 666 3407

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	Andrea Williams	0151 691 8585

Report & Accounts 2018/19

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Administering Authority Wirral Council