

# Merseyside Pension Fund Report & Accounts 2019/20



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# Management Structure

At 31 March 2020

## Administering Authority

Wirral Council

## Pension Fund Management Committee

Chair:

Cllr Pat Cleary

Vice Chair:

Cllr George Davies

Cllr Chris Carubia  
Cllr Andrew Gardner  
Cllr Tony Jones  
Cllr Brian Kenny  
Cllr Cherry Povall, JP  
Cllr Geoffrey Watt  
Cllr Stuart Whittingham  
Cllr Jane Aston  
Cllr Ian Byrne  
Cllr Pauline Lappin  
Cllr John Fulham

## Employee Representatives (Non-voting)

Roger Bannister

## Officers of the Fund

Peter Wallach  
Yvonne Murphy

Colin Hughes  
Donna Smith  
Shaer Halewood

## Advisors to Investment Monitoring Working Party

Director of Pensions  
Senior Portfolio Manager  
Aon Hewitt  
Mr R Worrall

## Local Pension Board

Independent Chair:  
John Raisin

## Employer Representatives:

Geoff Broadhead  
Peter Fieldsend  
Lynn Robinson

## Member Representatives:

Roger Irvine  
Donna Ridland  
Patrick Moloney  
Paul Wiggins

## Advisors to Governance and Risk Working Party

Director of Pensions  
Head of Pensions Administration  
Head of Finance and Risk

## Others

**Auditor**  
Grant Thornton

## Bankers

Lloyds Banking Group

## Consultant Actuary

Mercer HR Consulting

## Strategic Investment Consultant

Aon Hewitt

## Custodian of Assets

Northern Trust

## Responsible Investment Advisors

Pensions and Investment Research Consultants Ltd

## Property Advisors

CBRE Capital Advisors

## Property Managers

CBRE Asset Services

## Property Valuers

Savills

## Performance Measurement

Northern Trust

## Solicitor

Wirral Council

## AVC Providers

Utmost Life (transfer from Equitable Life)  
Standard Life  
Prudential

## LGPS Investment Pool

Northern LGPS (with GMPP 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 2020. 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 and local Pension Board 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

Growth in the global economy helped financial markets continue their rise throughout 2019. However, the opening quarter of 2020 was dominated by the emergence and spread of the COVID-19 pandemic. As cases of infections and deaths rose, government actions to contain the spread hit economic activity and dealt a blow to investors' risk appetites.

The impact on asset markets was severe with some equity markets falling by over 30% before stabilising. Corporate credit spreads also widened significantly, as fears of insolvency mounted. In tandem with the carnage in equity markets, the price of crude oil collapsed with the breakdown in OPEC-Russia negotiations, resulting in Saudi Arabia pledging to flood the market with cheap oil at a time when demand was falling sharply. On the positive side, bond markets rose, reflecting investor preferences for defensive assets, with government bonds rallying amid policy rate cuts and pledges for bond purchases by Central Banks.

While the backward-looking nature of economic data has yet to fully capture the impact of measures taken to contain the virus, the effect will be immense. A common reaction of countries was to issue stay at home directives, close

restaurants and hotels, ground flights and send non-essential workers home. This may turn out to be the worst but also the shortest recession for several generations.

The Fund has been moving its investment strategy in a more defensive direction and had also put in place some derivative strategies which helped to limit the effect of the market falls. For the twelve months, the Fund fell in value by just over 2%.

Since the first quarter, markets have rebounded strongly, as unprecedented liquidity injections were provided by major central banks and huge fiscal support from governments.

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

We continue to make progress on sustainability matters. This year's report provides information on the carbon footprint of the Fund's investments, consistent with the Taskforce on Climate Related Financial Disclosure (TCFD) requirements. 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.

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

During the year, the provision of data for the actuarial valuation (as at 31 March 2019) and working through the outcomes has been an area of significant focus. Our overall funding position has shown a significant improvement from 84.8% in March 2016 to 101% at 31 March 2019. This is principally due to stronger than forecast investment returns, but changes in demographic assumptions have also been helpful. Although each employer's results will differ, for most, this has translated into a significant reduction in deficit payments.

The remedy for the McCloud case has yet to be determined. In November 2019, the Scheme Advisory Board confirmed that the LGPS will be dealt with separately to other public service schemes and that the remedy is likely to involve an extension of some form of the 'underpin'. As the remedy will be applied retrospectively, the Fund has communicated to employers the possibility that data such as part-time hours, service breaks and the pre-2014 definition pensionable pay may need to be provided at a future date.

Governance continues to be a matter of priority. The Pensions Regulator undertook a review of governance and administration risks in November 2019 and the Scheme Advisory Board is in the latter phases of its Good Governance review. We are working hard to ensure our arrangements embody best practice.

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

## 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 2019. 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 through the development of the Northern LGPS is developing well. We have introduced a separate report on the Pool in this year's report.

The Pension Board continues its activities in support of the Administering Authority which are set out in the separate Pension Board report.

We continue to seek suitable local opportunities for investment. At present, we are providing funding of around £40m to three investments which will support the regeneration of the City Region. We are also signatories to the Homelessness Charter; a collaborative arrangement with local businesses to alleviate homelessness on Merseyside.

Our internal investment management capabilities continue to develop, which has enabled us to launch an internally managed global equity multi-factor portfolio in March 2019. We see this trend continuing to deliver cost savings and efficiencies.

In mid-March, in response to the pandemic, the Fund's staff moved to homeworking. This has been disruptive but we have been able to keep all of our services available and are striving to maintain service levels.

As we look ahead, we are preparing for the impact of Brexit on financial markets and, more immediately, the ramifications of the pandemic for all of us in every aspect of life.

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 Pension Board, the Scheme employers and their staff, the financial advisors, the external investment managers and all of the Fund's staff for their considerable work in delivering the service to Scheme members.

## Preparation of Report

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



Councillor Pat Cleary  
Chair, Pensions Committee  
June 2020

# 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.

In 2019/20, the Committee comprised Councillors from the Wirral Labour group (4), Conservatives (3), Green Party (1), Liberal Democrats (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 four 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 portfolio 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. The Working Party comprises representatives from the Pensions Committee, two independent advisors, Aon Hewitt and members of the in-house investment team.

The Fund uses a combination of internal and external management and active and passive strategies across the various asset classes in which it invests. Investment managers have

specific benchmarks against which performance is measured and monitored. 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.

Comprehensive details of the Fund's investment managers, mandates and advisors are set out in its Investment Strategy Statement.

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

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
- Data Protection Policy

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

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

These documents are all subject to regular scrutiny by Pensions Committee, Pensions Board 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 and Pension Board, 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 acquired, maintained and developed. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

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

## **Activity in Year**

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

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

This year, the Fund has been working with its actuary and advisors on the Fund's triennial valuation and review of investment strategy. Investment strategy was identified as an area for learning and development, and Members received a range of presentations and briefings on the topic particularly at the quarterly working parties and the two LGC conferences.

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

The Fund is a member of the Local Authority Pension Fund Forum and the Chair of the Pensions Committee attends the business meetings covering many aspects of responsible investment.

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In addition to regular Committee meetings and Working Parties, training opportunities provided during the year were as follows:

<b>Month</b>	<b>Event</b>
May	PLSA LGPS Conference
September	LGC Investment Summit
October	PLSA Annual Conference
Oct-Dec	Fundamentals Training
December	LAPFF Annual Conference
January	LGPS Governance Conference
February	LGC Investment Seminar

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 Pension Regulator in relation to the Scheme and;
- ensure the effective and efficient governance and administration of Merseyside Pension Fund.

The Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

There is also the necessity to provide information to the Scheme Manager to demonstrate that board representatives do not have a conflict of interest.

The Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively, but not less than 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](http://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 the Pensions Regulator 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 Pensions Committee.

Four meetings were to be held during the year, but the meeting scheduled for March 2020 was cancelled due to the pandemic. 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 Pensions Committee in managing the governance and structural arrangements of the Fund. Details are set out in the tables below.

## **Board Changes**

In November, Mr Fieldsend joined the Board and, subsequent to the financial year end, Mr Van Arendsen; both as employer representatives.

I am very sorry to advise that in June of this year, Paul Wiggins passed away after a prolonged illness. He fulfilled his role in an exemplary manner, acting with integrity and enthusiasm and was admired both as a person and for his positive and thoughtful contributions. He will be sadly missed.

## Issues considered by the Pension Board 2019 - 2020

Agenda Item	17 Jul	12 Nov	5 Feb	31 Mar <sup>#</sup>
LGPS Update	•	•	•	•
Administration KPI Report	•	•	•	•
Pooling Update	•	•		•
Funding Strategy Statement			•	
Member Development Programme			•	
Pension Fund Budget	•		•	
Actuarial Valuation			•	
Treasury Management Policy			•	
Treasury Management Annual Report	•			
Working Party Minutes	•	•	•	•
Scheme Pays Policy	•			
Draft Annual Board Report		•		
Risk Register	•	•	•	•
Audit Findings Report, Annual Report & Accounts	•			
Catalyst Fund Update		•		
The Pension Regulator Engagement Report		•		
Audit Plan				•
Training & Development Opportunities	•	•		
Compliance Manual			•	
Gifts & Hospitality				•
Governance Statement			•	
Property Arrears				•
Internal Audit Plan and Report	•			
Pension Board Revised Terms of Reference			•	
Wirral Council Motion		•		
Good Governance Project				•
Internal Management				•
CEM Benchmarking				•
Admission Body Application				•
Write-off of Irrecoverable Pension Payments				•

<sup>#</sup> Meeting cancelled due to CV-19

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 2020 - 2021

Agenda Item	8 Jun (Briefing)	14 Sep	10 Nov	30 Mar
LGPS Update	•	•	•	•
Administration KPI Report		•		•
Pooling Update	•	•	•	•
Audit Plan	•			•
Employer Covenant Review	•			
CEM Benchmarking	•			•
Supreme Court Ruling	•			
Member Development Programme				•
Pension Board Development Programme			•	
Risk Register	•	•	•	•
Working Party Minutes	•	•	•	•
Pension Board Annual Report		•		
Investment Performance		•		
Audit Findings Report			•	
Annual Report & Accounts			•	
Pension Fund Budget				•
Business Plan		•		
Gifts and Hospitality Register			•	
Revised Pooling Guidance			•	
Catalyst Fund Update			•	
Revised Investment Strategy Statement			•	
Compliance Manual			•	
Bond Review			•	
Customer Service Charter				•

## Pension Board Attendance Record 2019-20

PENSION BOARD	DATE OF APPOINTMENT/ DECLARATION OF INTEREST	PENSION BOARD MEETINGS 2019 - 2020			
		17 JUL	12 NOV	5 FEB	31 MAR
John Raisin (Chair)	11 March 2015	•	•	•	
Geoff Broadhead	13 March 2015	•		•	
Donna Ridland	12 March 2015	•	•	•	
Paul Wiggins	5 March 2015	•		•	
Roger Irvine	27 February 2017	•	•	•	
Patrick Moloney	9 March 2015	•		•	
Lyn Robinson	3 January 2018		•	•	
Peter Fieldsend	27 June 2019	•	•		

CANCELLED

## Training & Events Record 2019-20

ATTENDANCE RECORD	LGPS Local Pension Board Summer Seminar	LGPS Local Pension Board Autumn Seminar	LGPS Members Autumn Seminar	PISA Annual Conference	PISA Local Authority Update	CIPFA Pensions Network Conference	MPF Annual Conference	LAPFF Bournemouth	LGPS Governance Conference	LGPS Local Pension Board Spring Seminar	LGPS Local Pension Board Members Spring Seminar	PISA Investment Conference
	26 JUN	7 OCT	9 OCT	16-18 OCT	12 NOV	13 NOV	28 NOV	4-6 DEC	23 JAN	17 FEB	20 FEB	11-13 MAR
John Raisin (Chair)	•	•				•	•			•		
Geoff Broadhead												
Donna Ridland			•	•			•	•	•	•		
Paul Wiggins												
Roger Irvine					•	•	•	•	•			•
Patrick Moloney					•	•	•	•				
Lyn Robinson												
Peter Fieldsend												

## IMWP & GRWP Attendance Record 2019-20

IN ATTENDANCE	IMWP	GRWP	IMWP	GRWP
	14 NOV		25 FEB	
John Raisin (Chair)		•	•	
Donna Ridland	•	•		
Patrick Moloney		•	•	

## Costs of Operation

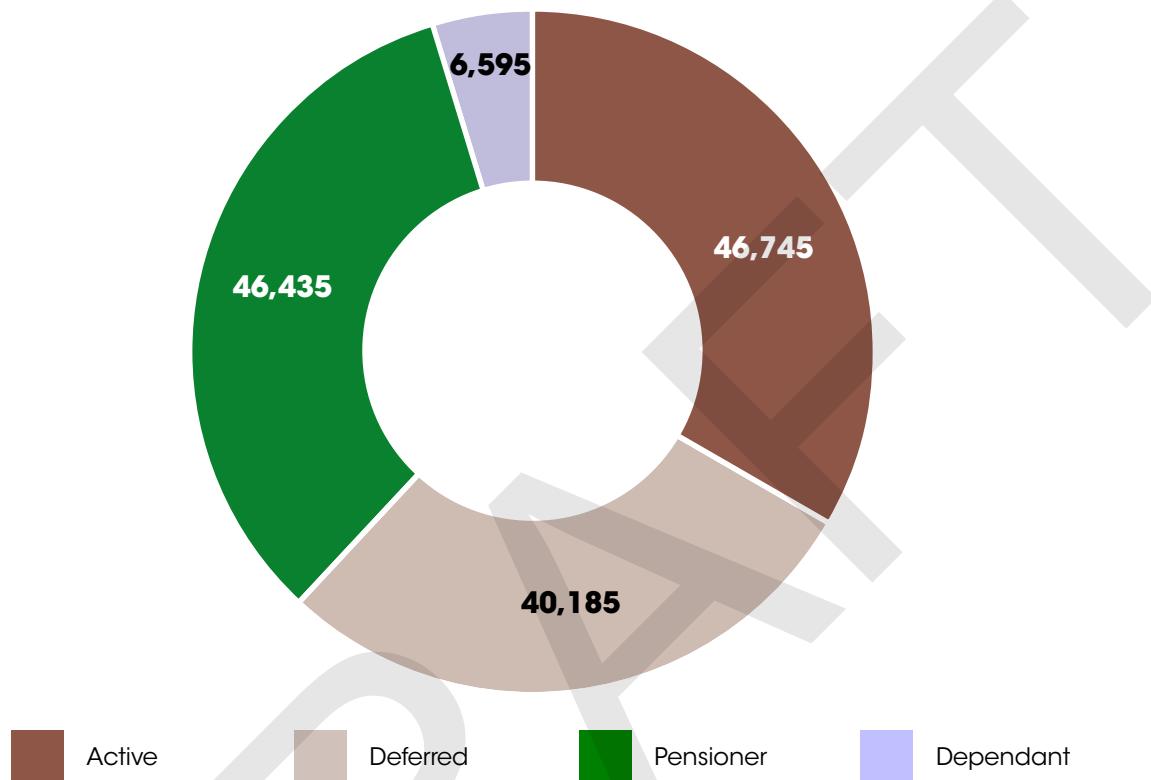
	2019/20
	£
Conference	1,535
Travel	2,316
Allowances	18,506
Other	642
<b>Total</b>	<b>22,999</b>

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 2 November 2020.

# Membership Statistics

Membership as at 31 March 2020



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				348	1,741	2,906	3,683	4,561	4,819	6,437	8,060
Deferred				3	283	1,530	3,599	4,767	4,759	6,405	8,621
Pensioner						4	12	26	128	411	
Dependant	2	21	47	94	44	8	17	17	30	61	147
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	8,039	4,773	1,166	212							46,745
Deferred	7,464	2,369	324	54	7						40,185
Pensioner	3,341	8,993	10,868	9,783	6,010	3,932	2,028	735	149	15	46,435
Dependant	307	433	654	963	1,029	1,081	963	515	138	24	6,595
											Total 139,960

Key Membership Statistics 2016 - 2020

Year	Active	Deferred	Pensioner	Dependant	Total
31 March 2020	46,745	40,185	46,435	6,595	139,960
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



# Scheme Administration Report

## The Administration Team

The Administration Team's core purpose is to ensure that our members receive their pension benefits as they fall due, and to provide clear information about the benefit options available so they can plan for their retirement.

The Administration Team is accountable to the Pensions Committee, the Pension Board, participating employers and Scheme members in terms of overall effectiveness and value for money. The Pension Regulator (tPR) also has an overriding scrutiny role to ensure the Fund's compliance with the LGPS Regulations and the overriding provisions of the Pensions Act 2004.

The administration function covers a wide range of activities; from processing member benefits, maintenance of the administration system to improve processing capabilities, data quality and regulatory compliance, through to the onboarding of our employers and engagement with our customers.

The team is constantly evolving to comply with regulatory requirements, adhere to industry best practice and service the needs of both our membership and employer base.

Extraordinarily, during March and in the space of a few weeks, the COVID-19 pandemic led to the forced transformation and flexing of working practices to enable staff to deliver effective remote services to members and employers. Given the challenges faced across the pensions industry, the Fund has adapted to comply with the multitude of operational guidance issued by tPR and the Pension Administration Standards Association. We have demonstrated resilience by undertaking the full range of statutory duties in addition to those directed by the regulator.

2019/20 has been a busy year for the team with the migration of its core administration system to an integrated benefit calculation and document management solution, alongside the collaborative work programme between the Fund, the Actuary and employers to complete the 2019 triennial valuation.

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.

## 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.

Employees of all local authorities and many other public bodies in Merseyside have automatic access to the LGPS via the Fund and a wide range of other bodies, providing a public service or undertaking a contract, are also eligible to join the Fund via a resolution or admission agreement.

## Employer Base

Our employer base is now in excess of 200, with the number growing further as the academisation of schools and the outsourcing of facility management 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 of complexity to the processing and provision of data. A list of the participating employers is shown at [Appendix A](#).

## Value for Money

To ensure the effectiveness of the administration services, the Fund is monitored through internal and external audits and, as covered later in the report, during 2019/20 the Fund engaged in a benchmarking exercise with other local government, public and private pension funds which provides a comparison of administration cost and service score.

The Fund continues to invest in resources and technology as detailed throughout the report and this demonstrates the commitment to ensure value for money for our stakeholders.

## **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 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**

To assist Funds in the management of employer risk, the principal regulations were amended during the year by the following statutory instrument:

### **The Local Government Pension Scheme (Amendment) Regulations 2020**

The above regulations clarify the intent of the previous regulations, introducing the requirement to pay exit credits in relevant funding scenarios where an employer leaves the Fund from 14 May 2018.

The change in provisions provide Funds with discretion regarding the amount of any exit credit payment due to an outgoing employer. In applying its discretion, the Fund must consider any risk sharing arrangements in place between the sponsoring employer and the contractor, and consistently apply its policy and governance requirements documented in the Funding Strategy Statement.

The regulatory changes came into force on 20 March 2020 with retrospective effect to 14 May 2018.

### **Changes to The Tapered Annual Allowance from 6 April 2020**

In the Budget on 11 March, it was announced that the tapered Annual Allowance will be amended such that it only applies to individuals with 'adjusted income' (broadly total taxable income from all sources plus the value of pension accrual) of over £240,000; this is compared to the 2019/20 tax year where it applied to individuals with adjusted income over £150,000.

The minimum level to which the Annual Allowance can taper down will reduce from £10,000 to £4,000, which will only impact people with an adjusted income in excess of £300,000. This means that the tapered Annual Allowance is expected to affect fewer people than previously.

In addition, as set out in the current legislation, the Lifetime Allowance (LTA) increased to £1,073,100 from 6 April 2020 (in line with the increase in CPI to September 2019 of 1.7%).

## Cost Cap Process and McCloud Update

The review of the 2016 Scheme Valuation by the Government Actuary Department determined that the cost of the LGPS has fallen below the 19.5% future service target cost. Therefore, a number of changes, in-line with the cost cap process, were proposed to improve the benefit structure with effect from 1 April 2019.

However, the cost cap process was pended in January 2019 as a result of the highly publicised McCloud case. Consequently, no benefit changes will be implemented until a remedy has been agreed to extend protections to all active members of the Scheme at a prescribed date yet to be agreed.

Despite the challenges that funds are facing, evidence suggests that the McCloud remedy is continuing to progress.

A McCloud Q&A was released for Administering Authorities on 30 March 2020, that:

- Outlined the potential timescales, outcomes, and the impact on the cost cap process. As part of this, the next steps include deciding which members will be protected, the extent of the protection, the effect on other benefits (e.g. transfers, spouses etc.) and ensuring that the remedy is robust and comprehensive for the LGPS.
- Confirmed the setup of two working groups to assist with the development of the remedy; a policy group to assist MHCLG and a larger implementation group (which will include member representatives, actuaries and software providers) to consider the steps of implementing the remedy.
- The main challenge for both the Fund and employers, once the remedy is confirmed, will be the level of input required by administrators. The potential burden on administrators will be material, as they will be required to gather member data, update records, complete calculations, uplift pensions in payment and contact affected members to inform them of any changes.

MHCLG's consultation and amendment regulations on the revisions to the statutory underpin are still awaited at the time of writing this report.

## Scheme Consultations

During the year, the Fund responded to the consultation on the £95k 'exit cap' and changes to the Local Valuation Cycle and the Management of Employer Risk. The Fund response to both consultations focused on the policy objectives, technical provisions and ease of application.

### £95k Exit Cap

For some time now, the Government have been planning to introduce a £95,000 (£95k) cap to exit payments for public sector bodies. The original Government proposals were issued in summer 2015 and finally on 10 April 2019, the Government announced a final consultation, which closed on 3 July 2019.

The cap limits the exit payments made to employees of public sector bodies. The proposed cap of £95k will cover the total value of exit payments made by an employer and includes the strain cost of early payment of pension and redundancy payments, plus any other compensation or severance payments (e.g. pay in lieu of notice, enhanced employer compensation, lump sum payments etc.).

The Fund highlighted that the draft regulations contained several technical inconsistencies and do not provide details of the impact on the LGPS. As such, it is the Fund's view that a further consultation is required to amend the LGPS provisions in regards accessing benefits on redundancy grounds and to introduce a standard approach to calculate the strain payments across the public sector.

The Government response to the consultation was still awaited at the time of writing this report.

## **Changes to the Local Valuation Cycle and the Management of Employer Risk**

The consultation contained proposals to amend the LGPS regulations 2013 in the following areas:

- Amendments to the local fund valuation from a triennial to a quadrennial cycle to align with the Scheme revaluation
- A number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- Proposals to introduce flexibility for exit payments
- Proposals for further policy changes to exit credits
- Proposals to remove the requirement for further education corporations, sixth form college corporations and higher education corporations to offer LGPS membership to new employees.

In general the Fund response supported the overall intent of the proposals, as the changes appear sensible and introduce flexibility for employers in managing their exits from the Scheme, with two significant exceptions in regard to the increase in the valuation cycle and the proposed discretion for higher and further education corporations not to offer access to the LGPS for new employees.

Specifically, the Fund does not agree with the transition to a four-year valuation cycle as this will weaken the ability to manage risk effectively. Extending the cycle is counter to the agile strategies the Fund has implemented to reduce volatility in funding during the inter-valuation period. That said, it recognises the Government's intention to align all public sector scheme valuations on a four-year cycle. Therefore, whilst we do not agree with the four years, the proposal to allow interim valuations is acceptable as this would provide the flexibility required in managing funding, investment, and covenant risk.

As the pandemic is likely to result in acute short-term financial pressures on employers, with the potential for long-term stressors on covenant, the Fund is currently engaging with MHCLG to provide evidence of the requirement to expedite the parliamentary scheduling to implement the proposals with regard to the deferred debt arrangements and the flexibility to vary employer contribution rates, mid-valuation.

The Fund will continue to plan and adapt to changes as they are introduced, keeping members and employers updated through a programme of regular briefings and customer engagement.

## **Key Projects and Developments**

### **2019 Triennial Valuation**

The collaborative work between the Fund and employers to improve membership data took priority over the first quarter of 2019/20 to ensure the valuation data submissions were as clean, complete and accurate as possible.

Resources were redirected across the administration team to process all early leaver, death and aggregation casework in-order to inform the valuation calculations and to provide assurance to employers that the final results reflect the membership status of their current and former employees.

Following this activity to resolve data gaps, the valuation data extract was provided to the actuary within the scheduled deadline of 30 June 2019.

The actuary confirmed that this focused data quality activity, undertaken by the Fund and employers, reduced liabilities in the region of £127m at a whole Fund level.

A key focus during the latter part of 2019 was to discuss individual valuation numbers with Scheme employers and reach agreement on affordable three-year contribution plans, in line with statutory solvency and long-term cost efficiency requirements.

A number of employer forums were arranged to explain the valuation approach and to open the consultation on the Funding Strategy Statement. The purpose of the forums was to assist employers in presenting an informed response to the consultation to explore variants to the actuarial assumptions and provisional employer contributions schedules.

Discussions with employers regarding funding plans continued until the end of February 2020, allowing officers to inform employers of the final numbers and the actuary to sign-off the rates and adjustment certificate by 31 March 2020.

In tandem with the valuation work and as part of the Fund's wider risk management strategy, an exercise was undertaken to identify and monitor the covenants of employers that potentially pose a high risk of default. The results of the covenant analysis fed into the setting of the contribution rates and the investment strategy for each employer.

#### **Data Quality and Annual Benefit Statement Activity**

The Fund continues to develop its monitoring and reporting capabilities for measuring the quality of member data for a number of purposes; including valuation, pensions increase and for statutory reporting on common and Scheme specific data required by the Pensions Regulator (tPR).

Work continues at a national level to develop standardised Scheme data requirements for LGPS Funds and Fund Officers are feeding into the debate on the development of standardised measures and reporting metrics.

As documented in last year's Administration Report, the Fund self-reported to tPR our inability to produce annual benefit statements for all active and deferred members. This inability was linked to gaps in data held by the Fund as well as the performance of employers in delivering timely data files, together with the quality of those files.

In 2018/19 the Fund was only able to produce active benefit statements for 90% of its active membership by the 31 August 2018 deadline, increasing to 98% at the end of the rolling programme of production in March 2019.

To increase the number of statements issued and improve compliance against Code of Practice No 14, a further programme of focused data management and engagement with employers took place during 2019/20. This activity resulted in 97% of actives and 98% of deferred benefit statements being produced by 31 August 2019.

Timely employer data submissions and positive responses to data improvement plans have aided improvement over the last year, with work ongoing to identify and address the cases where the Fund is still unable to issue a statement.

#### **Integrated Pension Administration System Migration**

In the summer of 2018, the Fund started a project to migrate over eight million documents from the Civica document management system into an integrated system provided by Aquila Heywood. The project completed in June 2019 and internal audit conducted a review of the migration controls and provided a conclusive report to provide stakeholders with reasonable assurances that the data migration had been effectively completed.

Alongside the document migration, a substantial review of the day-to-day management of the business was undertaken to ensure the operational and workflow processes, across the disparate service areas, were compliant with statutory requirements and effective in delivering good outcomes for members accessing the service.

In February 2020, the IT Team started a project to update the internet-based member self-service system, 'MyPension', to an improved version that is more adaptable to mobile phone usage. The launch of the new 'MyPension' upgrade is expected to take place during 2020/21 with increased functionality for members as part of the Fund's ongoing Digital Transformation Programme.

#### **The Pension Regulator Single Modular Code**

As part of the Regulator's clearer, quicker, tougher campaign, it has been working to develop clarity on its expectations in the management of pension schemes through the development of a single code of practice.

The Regulator will shortly begin the process of merging its fifteen codes of practice into a single code and will issue a consultation with a focus on developing the supervisory regime across all UK pension schemes.

With Code of Practice No 14 being incorporated into the new single code, it will be necessary for Funds to assess their compliance with this new code, including any new requirements this may place on Scheme Managers or the Pension Board. This will include how compliance will need to be demonstrated along with the expected requirements of the Good Governance review.

### **Collaboration with Peer Funds, Scheme Employers and National Bodies**

During 2019/20 the Fund has worked closely with a number of other LGPS Funds on national groups to drive improvements to administration procedures, share best practice and develop initiatives as follows:

- Develop communications for the wider LGPS, in conjunction with the Local Government Association (LGA), to include the design of annual benefit statements and production of member videos
- A longstanding founder member of the LGPS National Frameworks, we have supported in the rolling-out of a number of new frameworks, as well as revisiting existing ones, to enable more efficient and effective procurement within the LGPS.

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 process 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.

## **Review of Fund Policies**

### **Funding Strategy Statement**

A detailed review of the Fund's funding strategy (FSS) has been undertaken during the year in conjunction with the 2019 triennial valuation. The potential impact on the costs of scheme benefits following any remedy of the McCloud ruling was a key consideration in setting funding parameters. Overall improvements in the funding level has created an opportunity to review investment risk and the attendant actuarial assumptions to reduce volatility in contribution schedules.

The Pension Committee approved the updated policy at its meeting dated 3 February 2020, taking full consideration of the Scheme employer and Pension Board responses to the consultation exercise.

## **Operational Improvements**

### **Project Towards Monthly Data Collection**

In October 2019, the Fund procured the iConnect service as part of the integrated pensions administration offering from Aquila Heywood.

The iConnect service is a secure, cloud-based platform which accepts employer data submissions on a monthly basis with the appropriate straight-through processing to the Fund's pensions administration system. We are working in partnership with a small number of early adopter employers in developing the documentation, scenarios and required process and governance changes that will be of benefit to all other employers within the Fund. Preliminary work started in December 2019 and will continue during 2020. It is expected that the COVID-19 pandemic will affect the delivery of this early adopter work, but the Fund will share progress, lessons learned and an adoption plan with the rest of the employer base, once it has been developed.

## Digital Transformation Programme

Work continues to develop our systems through digital transformation, to drive business efficiencies and cost savings, whilst improving the service we provide to our members.

During the year, the Fund introduced the use of barcodes on its outgoing forms relating to retirements, deferred benefits into payment and transfers. On being returned to the Fund, the process of scanning the document will read the barcode and index it to the member's computerised record, for pension officers to progress the case to the next stage of the process.

## Streamlining of TUPE Operational Processes

The ECM team has modified the administration procedure for TUPE transfers to streamline the process, gain efficiencies and reduce manual input. The member communications and option forms have also been updated to permit immediate access to retirement benefits for those over age 55 or the option to keep benefits separate from the ongoing employment - in compliance with the regulations.

## Mortality Screening and Deferred Member Tracing

The Fund has utilised the National LGPS Framework to procure a mortality screening service for pensioner and deferred members; to assist in reducing processing times at retirement, potential data breaches and risks of overpayments.

The deferred member screening activity involves an evaluation of address contact information ahead of normal retirement dates, with a mortality screen against key death registers. This will minimise any delay in processing pension payments in the event of a member's death.

## Customer Engagement

In line with its Business plan, the Fund has expanded the customer feedback surveys related to specific life events (joiner, transfer, divorce, retirement, etc).

The purpose is to understand how information is received by our members, how it can be improved to enable members' understanding and to evaluate their experience in engaging with the Fund.

This feedback will provide valuable insight into service quality and highlight areas for improvement and development to make our members' journey as smooth and effective as possible.

## 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 Pension Board and 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.

### 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 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's 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 2018-19 'SF3' statistical return was £19.61 per member.

In 2019, the Fund participated in a new administration benchmarking initiative by the company CEM. With eight other large LGPS Funds, the exercise produced a comparative report between the participating LGPS Funds and six large public or private schemes in the UK. This report not only provides a comparative cost per member but also a service quality assessment. The Fund was assessed as offering 'median member service at a low cost' by CEM when considering our cost effectiveness against the thirteen other peers.

It is anticipated that the Fund and others will continue to participate in the CEM initiative as the process is refined further during 2020. In the meantime, the officers are using the report to identify areas for improving its service delivery to members.

## Equality and 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
<b>Retirement Planning Course</b> Hosted at Employer Premises	8	165
<b>Presentations about the LGPS</b> Hosted at Employer Premises	23	573
<b>Total</b>	<b>31</b>	<b>738</b>

## 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 or a Wirral Council authorised device)
- Where person identifiable data has to be transferred off-site, the Fund uses secure means, be it Transport Layer Security (TLS) email or encrypted data containers.

### Performance Standards

Results of performance against targets are shown below:

Performance Targets	Target	Within Target %
1. Payment of Retirement Benefits	7 days	94
2. Payment of Monthly Pensions	100%	100
3. Payment of Transfer Values	7 days	96
4. Provision of Inward Transfer Quotes	10 days	95
5. Notification of Deferred Benefits	22 days	97
6. Provide Valuation in Divorce Cases	10 days	95
7. Respond to Members' Enquiries	10 days	84

*(Details given in respect of 12 month period to 31 March 2020)*

### 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**

<b>Employer</b>	<b>Number</b>	<b>Appeal Decision</b>
<b>Merseytravel</b> Release of deferred benefits on ill health	1	Upheld
<b>Wirral</b> Award of ill health Pension	1	Dismissed
Award of ill health Tier	1	Dismissed
<b>Liverpool</b> Release of deferred benefits on ill health	1	Dismissed
<b>Total</b>	<b>4</b>	

**Appeals Against Fund Decisions**

<b>Reason for Appeal</b>	<b>Number</b>	<b>Appeal Decision</b>
CETV Freedom & Choice	1	Partially Upheld
<b>Total</b>	<b>1</b>	

**Appeals to the Pensions Ombudsman**

<b>Reason for Appeal</b>	<b>Number</b>	<b>Appeal Decision</b>
Changes to late retirement actuarial increases	1	Dismissed
<b>Total</b>	<b>1</b>	

The Pensions Ombudsman upheld the Funds decision that the Fund was not statutorily required to inform members of a change in the Government Actuaries Department factors.

# Investment Report

**Year ended 31 March 2020**

The global economy experienced a slower pace of growth in 2019 as the introduction of tariffs by the US and the inevitable response from China had a sizable impact on global trade. The bigger hit was taken by China as both their imports and exports fell substantially. So, whilst economic momentum was supported by domestic activity, the rate of expansion for China during the second quarter of the year was at the slowest pace since 1992. Knock on effects of the dispute reverberated through to other regions, particularly those most open to trade, such as Japan, South Korea and Singapore. In Europe, Germany narrowly avoided a recession as their manufacturing sector felt the strain. Fortunately, the demand for services across developed countries, particularly in the US, remained robust being sustained by high employment levels and real wage growth.

Somewhat perversely President Trump's trade war with China worked to drive financial markets higher through 2019. The slower global growth was the spur for a significant change in policy from the US Federal Reserve and it was this element that lifted the spirits of equity and bond investors. In early 2018 expectations were set for a continuation of interest rate hikes that would have taken the US Federal Funds rate beyond the 2% - 2.25% range that prevailed at the beginning of the year, but as global growth slowed into the Spring of 2019, the US Federal Reserve hinted towards a looser monetary stance. On 1 August it implemented the first of three 0.25% cuts. To the delight of investors this more accommodative stance was followed by easing measures elsewhere as the European Central Bank acted by cutting its official interest rate into even deeper negative territory and Central Banks across Asia and Latin America made cuts to their key lending rates.

For UK markets, investors had to contend with the additional uncertainties brought on by the UK's decision to leave the European Union. Boris Johnson replaced Theresa May as Prime Minister in July and brought back a renegotiated Brexit deal. However, parliamentarians were unable to agree on which way to move forward; be it through the revised deal, a no-deal option or a cancellation of Brexit. Eventually the government won support for a general election and the nation went to the polls on 12 December. The result was a resounding victory for the Conservative Party and UK markets were able to breathe a sigh of relief in that not only had some certainty around Brexit been restored, but

the prospect of a less capital market friendly government had been removed.

The biggest shock to the markets, however, came during the opening quarter of 2020 when the world's attention moved firmly to the emergence and spread of the Covid-19 pandemic. As infection rates and deaths spread across the globe governments took drastic action to contain the virus causing economic activity to virtually stall. All of this had a crushing effect on investor risk appetite and global equities, which had reached new a new high only on the 17 January, fell by over 30% in Sterling terms in the period of a month.

Thankfully, governments and monetary authorities across the globe responded quickly to the crisis. The US Federal Reserve cut interest rates by 150 bps in March and announced plans to restart asset purchases and support market liquidity. US Congress passed a \$2.2 trillion spending bill to help firms and individuals impacted by shutdown measures. In the UK, the Bank of England cut rates from 0.75% to 0.10%. Meanwhile, the Government announced a huge fiscal package, stating that it would pay temporarily laid-off employees up to 80% of their salaries (capped at £2,500 per month). Sterling briefly dropped to a low against the dollar that was last seen in the 1980's.

Given the macro environment it is unsurprising that equity markets across all regions delivered negative returns for the one-year period to the end of March 2020. Japan and North America fared better than other regions as both equity markets have large exposures to technology companies which in some instances are beneficiaries of an economy in lockdown. The other end of the performance table is occupied by UK equities, Asia Pacific equities and Emerging Market equities, which fell by 18.7%, 19.4% and 13.2% respectively. These regions have greater exposure to cyclical sectors of the economy where the Covid-19 impact was most acutely felt such as Energy, Commodities, Banking and Airlines.

Bond markets reflected investor preference for defensive assets and UK government bonds (Gilt) provided returns to investors of 9.9% over the period. Corporate bond performance, whilst positive at +1.5%, was not quite so stellar as credit spreads over government bonds widened in Q1 of 2020 and some borrowers, such as Ford, Lufthansa and Heinz had their debt downgraded to below investment grade.

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

	<b>1 Year</b>	<b>3 Year (Annualised)</b>	<b>5 Year (Annualised)</b>
Merseyside Pension Fund	-2.13%	2.35%	5.68%
Benchmark	-5.89%	0.52%	3.57%
Relative Return	3.76%	1.82%	2.11%

(Source - Northern Trust)

Merseyside Pension Fund returned a negative 2.1% in the financial year to the end of March 2020 compared to its bespoke benchmark return of minus 5.9%; an outperformance of 4%. This was behind the Consumer Price Index and the increase in Average Earnings which advanced by 1.5% and 2.4% respectively. Over 3-year and 5-year periods the Fund returned 2.4% and 5.7% respectively. The longer-term, 5-year performance number is ahead of both the CPI Inflation number (1.7% annualised) and Average Earnings number (2.5% annualised).

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



**Figure 1.**  
**Net Total Return by Asset Class for Year Ending 31 March 2020**

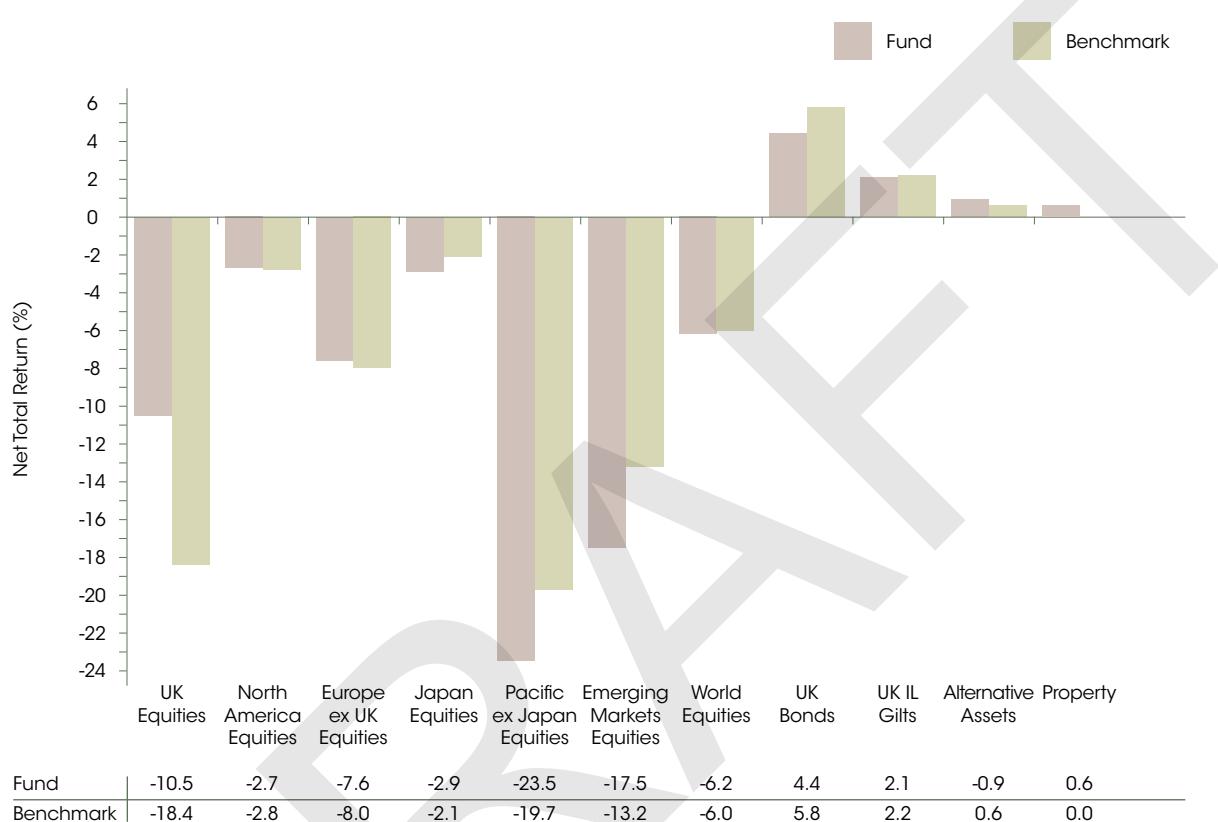
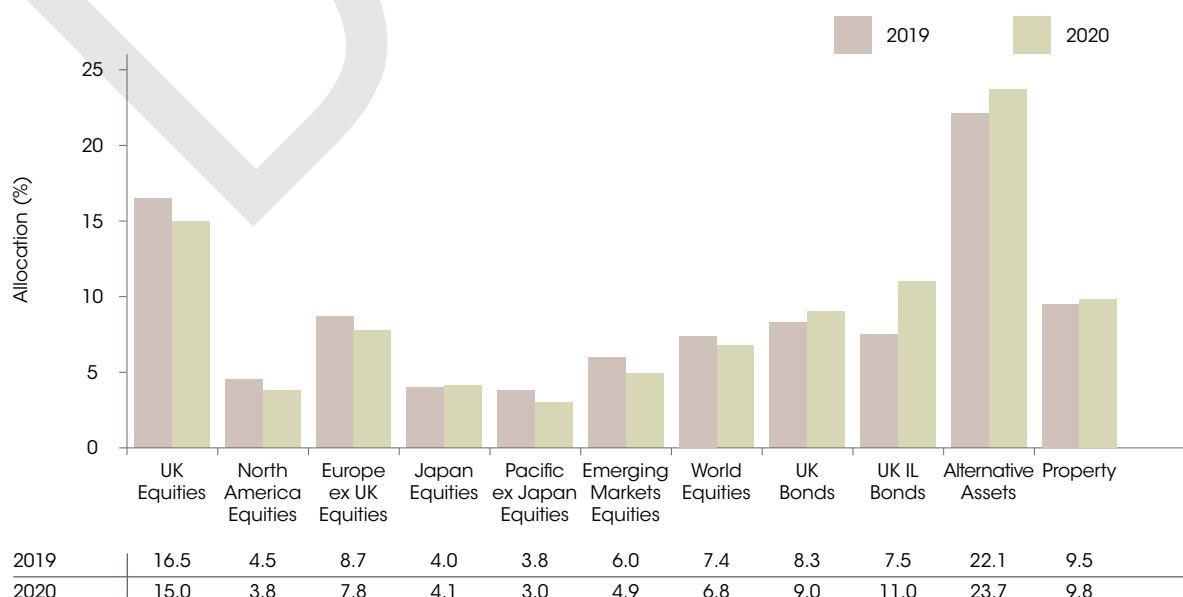


Figure 2 illustrates the asset allocation of the Fund on 31 March 2020 compared to 31 March 2019.

**Figure 2.**  
**Asset Allocation Change 2019 vs 2020**



On 15 April 2019, the Fund implemented the first of a series of derivative trades aimed at protecting the equity portfolio in the event of a significant market downturn. The trades were implemented at a most opportune time given the sharp corrections experienced through February and March of 2020 and this strategy was the main contributor to the strong overall performance of the Fund against its benchmark. The derivative strategy delivered profits of £215.5m over the period, going some way to offset losses experienced in the Fund's equity positioning.

Within equities, whilst the UK market was a laggard, the UK managers employed by the Fund performed well against the benchmark. Disappointment did come however from the active managers covering Asia Pacific ex Japan and the Emerging Markets where returns trailed their respective benchmarks.

An over-weight to Property and Alternatives Assets contributed to the outperformance.

Property returned 0.6%, compared with the benchmark performance of 0.0 %. Returns from property funds were solid, but the direct portfolio accounts for around two thirds of our property assets and here there was some pain experienced with properties having exposure to retail and leisure. Total income return for the direct portfolio was 6.4% which is higher than the benchmark of 4.5%.

Private Equity and Infrastructure led the returns within Alternatives Assets; being highly illiquid assets, they tend not to be sold off in periods when investors take fright. Opportunistic Credit and Hedge Funds however did fall in value over the period as the asset exposures within these areas more often have a higher immediate correlation with equity markets than Private Equity and Infrastructure.

Private Equity in particular will have some correlation with equities, but this will come with a lag.

### Largest UK Property Holdings as at 31 March 2020

Holding	Market Value £'000
Fort Halstead	58,750
Tunsgate Square Shopping Centre, Guildford	35,000
Telegraph Road, Heswall	32,650
Mitre Bridge Industrial Estate, Mitre Way, London	25,800
Premier Park, Winsford Industrial Estate	24,500

### Largest Infrastructure Holdings as at 31 March 2020

Holding	Market Value £'000
Iona Capital - bio energy	91,000
Clyde Wind Farm	42,000
Anglian Water Group	37,000
Fourth Ports Group	25,000
P3P - Hoddesdon & Belfast	23,000

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 £29k, with £16k in legal costs and £13k 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 £125m, which was subsequently increased to £250m on 1 October 2018 and as at the end of March 2020 around 44% of this amount had been invested. Total committed capital to GLIL from its existing investors stands at £1.825bn, as at 31 March 2020.

## Strategic Asset Structure

Asset Class	Strategic	Benchmark %	Detail %
<b>UK Equities</b>	<b>18.7</b>		
<b>Overseas Equities</b>	<b>34.3</b>		
US		5.3	
European (ex UK)		8	
Japan		4	
Asia Pacific		4	
Emerging Markets		6	
World		7	
<b>Fixed Income</b>	<b>18</b>		
UK Gilts		4	
UK Index-Linked Gilts		10	
Corporate Bonds		4	
<b>Property</b>	<b>8</b>		
<b>Alternatives</b>	<b>21</b>		
Private Equity		5	
Hedge Funds		4	
Opportunities		5	
Infrastructure		7	
Cash		0	
<b>Total</b>	<b>100</b>		

In 2018, Merseyside Pension Fund, Greater Manchester Pension Fund and West Yorkshire Pensions Fund established a collective private equity investment vehicle (NPEP). The initial close of NPEP occurred upon its creation in July 2018 with £1,020m of funding capacity. A first "Subsequent Closing" was held on 16 December 2019 which added a further £585m of funding, bringing the total to £1,605m. As at end December 2019 commitments of around £670m had been made to private equity funds, of which c£140m came from Merseyside Pension Fund.

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 2019		31 March 2020	
	Management Fee £'000	Performance Related Fee £'000	Management Fee £'000	Performance Related Fee £'000
Private Equity	6,751	5,379	7,825	2,388
Infrastructure	4,938	0	5,175	0
Property	4,662	1,501	4,763	460
Opportunities and Hedge Funds	5,868	4,355	5,777	596
<b>Total</b>	<b>22,219</b>	<b>11,235</b>	<b>23,540</b>	<b>3,444</b>

The increase in overall management fees has been driven by the uptick in fees paid to Private Equity and Infrastructure managers. Targeted exposure to Infrastructure has increased over the year and for Private Equity, Merseyside Pension Fund has moved away from investing in Fund of Funds vehicles. Fund of Funds often appear to have lower fees when data is collected, but managers here generally report on the top layer of fees omitting the underlying fund fees which if incorporated would take the all-in management fee to a number more than three times the original. Included in the Infrastructure and Private Equity management fee numbers for 2019/2020 are £164,151 for GLIL and £894,471 for NPEP. Investment Management figures of £17.2m for March 2020 and £16.9m for March 2019 (in Note 11b to the Report and Accounts) are included in the Management Fee figures of £26.9m and £33.5m, respectively.

## Responsible Investment

Merseyside Pension Fund has a Responsible Investment 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 2019 calendar year. The Fund's most recently available PRI Transparency Report can be viewed at: [unpri.org/signatories](http://unpri.org/signatories)

The Fund works with corporate governance specialists PIRC to vote on all 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: [mpfund.uk/voting](http://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.

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)'.

## **Merseyside Pension Fund - TCFD Statement as at 31 March 2020**

### **Governance**

The Pensions Committee (as the Fund's governing body) has mandated that MPF'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.

### **Strategy**

MPF's strategy is based on the view that climate change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations. The Fund has completed work on reviewing its investment beliefs and strategic framework (including asset allocation policy) to ensure that climate risk considerations are appropriately integrated.

Climate scenario analysis was undertaken by Aon (the Fund's strategic adviser) to model the resilience of MPF's investment strategy in four scenarios, as described in Aon's Climate Change Challenges paper. Under Aon's No Mitigation scenario (+4 degrees of warming), the severity of the risk was starkly illustrated:

- in 20 years, MPF's assets could be worth £9.5 billion less than assumed in the base case, equivalent to 26 years of projected 2020 pensioner out-go;
- 6% p.a. under-performance of the equity portfolio relative to the base case equity return over 20 years, equivalent to a 3.7% p.a. hit to overall expected returns over 20 years.

### **Risk Management**

MPF acknowledges the description of climate risk provided by TCFD, as comprising transition and physical risks. The focus of risk management activity has been primarily on the mitigation of transition risk via ongoing decarbonisation efforts.

### **Targets and Metrics**

Analysis of the equity portfolio, undertaken as at 31 December 2019, showed moderate carbon risk exposure measured at 6.8% lower than the portfolio's strategic benchmark (Scope 1 & 2 emissions):

Portfolio carbon foot-print - 172.0 tonnes of CO2E/\$M sales

Benchmark carbon foot-print - 184.5 tonnes of CO2E/\$M sales

Source: Aon/MSCI

The Fund will continue to allocate to the low carbon economy through the unlisted, illiquid segment of its strategic benchmark: primarily, via the allocation to infrastructure where renewable energy and other low carbon aligned areas offer significant opportunity. The allocation to infrastructure is set to increase significantly (from 7 to 11% approx.) as part of the Fund's revised strategic asset allocation.

### **Climate stewardship**

As active members of the global Climate Action 100+ initiative, MPF 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. In addition to this, MPF was a co-filer of a climate resolution at a leading European bank's AGM that called for its lending practices to be brought into line with a net zero carbon pathway and increase the pace at which the financing of future carbon emissions will come to an end.

# Northern LGPS Report

As Chairman of the Northern LGPS Pool Joint Committee I am delighted to be introducing this summary annual report for the Northern LGPS Pool. This was my first year as Chair of the Pool having taken over from Cllr Paul Doughty. I would like to thank my predecessor for the excellent job he did as chair and I hope going forward we can continue to build on the progress made under his tenure.

2019-2020 was a busy year for the Pool, which continues to evolve to meet the investment needs of its partner funds, employers and members. During the year GMPF and WYPF moved custody of their assets to Northern Trust, meaning that over £40bn of pool assets are now under a collective custodial arrangement. This has greatly enhanced the scope and timeliness of reporting and our ability to exercise shareholder rights.

Responsible Investment and Environmental Social and Governance continue to be at the top of our agenda. In conjunction with ShareAction and Barclays plc, we supported a successful climate resolution at Barclays' AGM requesting that the bank set and disclose targets to phase out the provision of financial services to the energy sector and gas and utility companies that are not aligned with the Paris Agreement. The proposal was the first to refer to the 'Just Transition' wording in the Agreement, which says that tackling climate change requires the transformation of sectors and economies with important implications for the global workforce.

In the last quarter of 2019-2020 alone we engaged with 90 different companies regarding issues across the environmental, social and governance spectrum, and we voted at 300 distinct meetings. We abstained or opposed shareholder votes on increased remuneration in 71% of shareholder meetings to avoid unfair remuneration practices. We have also filed shareholder resolutions for several large international companies where we felt labour rights and environmental concerns were not being properly addressed.

Northern LGPS also launched a thematic review of the housebuilding sector and conducted engagement with listed companies in the sector. The findings of the review are summarised in a report on the Northern LGPS website.

The Pool's direct infrastructure platform, GLIL, has recently secured a major new investment in Cubico, a leader in sustainable investments in the wind and solar power industries. Our pooled private equity vehicle, NPEP, made several fund commitments and has developed a co-investment arrangement with a leading manager to further enhance returns and reduce investment management costs.

This Pool prides itself on being cost efficient and we obtain independent benchmarking to understand our investment costs relative to global peers. The most recent benchmarking exercise placed the pool within the lowest cost 25% of its international peer group (which consists of 21 global pension funds ranging from £11 billion to £68 billion). This is a tremendous result which shows the value that economies of scale and a constancy of purpose can deliver.

The end of the year saw extreme volatility in most financial markets as governments around the world responded to the Covid-19 pandemic and 2020-2021 therefore promises to be a year of both great challenge and opportunity. Planned activity for the year includes taking further steps towards pooling property investments by progressing our property management framework and further deployment of capital to our existing direct infrastructure and collective private equity vehicles.

I would like to thank my colleagues on the Joint Committee and also the pensions committees, local pension boards and officers from each of the partner funds for their support and hard work over the year. I look forward to helping ensure the Pool's continuing progress over the forthcoming year. We believe we are the most cost-effective and efficient LGPS investment pool, with a simple, democratic governance structure that delivers sustainable financial returns to the benefit of members, employers and taxpayers.

## Background

The Northern LGPS Pool is a partnership between the Greater Manchester (GMPF), Merseyside (MPF) and West Yorkshire (WYPF) LGPS funds (the 'partner funds'). The combined assets of the funds stood at approximately £44bn as of 31 March 2020, which is invested on behalf of over 800,000 members and 1,100 contributing employers.

The Northern LGPS Pool's purpose is to facilitate via a simple and democratic governance structure, the pooling of assets and the sharing of services in order to achieve sustainable improved net investment returns for the partner funds.

## History

The Northern LGPS Pool was formed in response to the Government's LGPS pooling agenda, which was first announced in 2015. The Government sought to increase the scale of LGPS investment mandates in order to reduce investment management costs and facilitate infrastructure investment to help drive growth in the UK economy.

Due to the existing scale of the three partner funds, the vast majority of the benefits of pooling for the funds are in respect of alternative assets where there is greatest scope to generate further economies of scale and to combine resources to make increasingly direct investments.

Therefore, the focus of the Pool has been on establishing vehicles which can make collective investments in alternative assets, in particular infrastructure and private equity.

The partner funds are the major investors in the GLIL direct infrastructure vehicle and also established a vehicle (known as 'NPEP') in 2018 to make collective private equity investments.

The Pool selected Northern Trust as its FCA regulated custodian to ensure the assets of the pool are held within a single permanent FCA regulated entity. The custodian acts as 'master record-keeper' for all assets of the partner funds and manages the calls and distributions in the Pool private equity vehicle.

## Governance

The Northern LGPS Pool is not a standalone legal entity. It is a Local Government Joint Committee structure supported administratively by a Host Authority (currently Tameside MBC), which provides all administrative resources and facilities that may be necessary, such as preparing the annual budget and clerking services for the Joint Committee meetings.

The Pool is governed by an inter-authority agreement signed by the three constituent Administering Authorities. The agreement sets out the terms of reference for the Northern LGPS Joint Committee, which is the decision-making body for the Pool. The Joint Committee has been appointed under S102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the pooling of pension fund assets.

The Joint Committee may delegate certain functions to the Officer Working Group which is composed of the Directors of the partner funds. The Officer Working Group has the necessary technical skills to advise the Joint Committee on technical investment matters and is a central resource for advice, assistance, guidance and support for the Joint Committee.

The Administering Authorities retain full control of their individual funds' asset allocations and nominate members to the Joint Committee. Employee representatives are also being sought to join the Joint Committee.

## Northern LGPS Pool 31 March 2020 position at a glance

Fund	Assets Value £bn
GMPF	22,035
WYPF	13,214
MPF	8,602
<b>Total Assets</b>	<b>43,851</b>

### Pool Set-up Costs

The set-up costs incurred by the pool during 2019-20 and from inception are set out in the table below. The costs are split equally amongst the 3 Funds.

Set up Costs	2019 - 2020			
	Direct £'000	Indirect £'000	Total £'000	Cumulative £'000
Recruitment	0	0	0	0
Legal	49	0	49	244
Procurement	35	0	35	125
Other support costs	0	0	0	0
Share purchase/subscription costs	0	0	0	0
Other working capital provided	0	0	0	0
Staff costs	0	0	0	0
Other costs	4	0	4	235
<b>Total</b>	<b>88</b>	<b>0</b>	<b>88</b>	<b>604</b>

### Northern LGPS Pool - Total costs and savings

The table below sets out the total costs and savings of the Northern LGPS Pool up to 31 March 2020.

	Up to 31 March 2108 £m	2018-19 £m	2019-20 £m	Total to 31 March 2020 £m
Annual running costs	0	0	0.16	0.16
Other service provider fees	0	0.13	0.13	0.26
Transition costs	0	0	0	0
Set up costs	0.22	0.18	0.09	0.49
<b>Total costs</b>	<b>0.22</b>	<b>0.31</b>	<b>0.38</b>	<b>0.91</b>
Investment management fee savings	7.63	12.21	22.24	42.08
Service provider savings	0	0	0	0
<b>Total savings</b>	<b>7.63</b>	<b>12.21</b>	<b>22.24</b>	<b>42.08</b>
<b>Total savings net of costs</b>	<b>7.41</b>	<b>11.90</b>	<b>21.86</b>	<b>41.17</b>
<b>Total costs (including set up, transition and running costs) as at 31 March 2020</b>				<b>£0.91m</b>
<b>Total savings, net of costs, as at 31 March 2020</b>				<b>£41.17m</b>

## Responsible Investment Activity

Responsible Investment (RI) is a central aspect of how NLGPS operates, and environmental, social and governance (ESG) issues are discussed at every meeting.

ESG factors can be financially material and, as such, should be part of the assessment and monitoring of investments in all asset classes. Achieving sustainable, long-term financial returns underpins the ability to pay pensions. A focus on ESG issues helps reduce risks to the Pool and its beneficiaries. These risks might be financial, such as the underperformance or failure of an investee company, or reputational, resulting from poor corporate behaviour. NLGPS has appointed PIRC as our responsible investment adviser to undertake voting, engagement and other RI activity on our behalf and we published our collective RI policy in early 2019.

The three member funds co-ordinate their voting activity and all votes are disclosed online in a searchable database two days ahead of company meetings. We believe that we are the only asset owner in the UK that currently discloses voting ahead of meetings.

In the table below we show voting and engagement statistics over the year to 31 March 2020.

### Voting and engagement statistics

Quarter	Meetings Where NLGPS voted	Meeting-related engagements (PIRC)
Q2 2019	1863	269
Q3 2019	318	122
Q4 2019	339	91
Q1 2020	416	99

## Voting decisions

Quarter	Director Election		Remuneration Report		Remuneration Policy		Auditor Appointment	
	For %	Oppose %	For %	Oppose %	For %	Oppose %	For %	Oppose %
Q2 2019	68	24	35	47	14	66	22	60
Q3 2019	77	20	43	31	31	50	33	49
Q4 2019	70	24	29	51	26	51	34	43
Q1 2020	70	20	59	26	27	54	39	42

## RI Highlights

We have prioritised a number of themes in our RI activity including the Just Transition, as part of our work in relation to climate change, public sector risk and employment standards and employee voice.

NLGPS was a panel participant at the launch of the Investor Roadmap Just Transition in October which was headlined by Lord Stern. The NLGPS RI policy, which identified the Just Transition as a priority, is featured in the report. NLGPS also participated in a Just Transition related engagement with Drax early in 2020, which included a visit to its power station near Selby.

We have been active in supporting shareholder resolutions in the UK and elsewhere. NLGPS funds co-filed resolutions addressing issues such as climate risk, lobbying activity and employee rights and representation. These have included companies such as Barclays, Delta Airways and Amazon.

As an additional aspect of our engagement activity we have sought to meet with and attend the annual meetings of a number of companies where we have a significant holding. These have included companies where we have identified public sector risk as a factor.

NLGPS funds have participated in a number of collaborative initiatives. We are active members of the Local Authority Pension Fund Forum and are also involved in collective engagement projects such as Climate Action 100+, Workforce Disclosure Initiative and the Human Capital Management Coalition.

We have initiated a thematic project on the housebuilding sector with the support of PIRC. This has involved engagement with a number of the key firms where NLGPS holdings are significant, alongside research into practice across the sector and engagement with stakeholders. An initial report on the project was published in 2019.

## GLIL Direct Infrastructure Vehicle

In April 2015, GMPF and the London Pensions Fund Authority formed a joint venture to invest directly in infrastructure assets, with a focus on the UK. The joint venture is structured as a limited

liability partnership and has been named GLIL Infrastructure LLP (GLIL). As part of their respective pooling arrangements, West Yorkshire, Merseyside and Lancashire County Council pension funds joined GLIL in December 2016. In March 2018 GLIL was re-structured as an open-ended fund to facilitate potential new members. Additional commitments made by existing members in October 2018 mean GLIL now has committed capital in excess of £1.8 billion.

GLIL began investing in October 2015 and has completed nine transactions with a total value in excess of £1.1 billion.

One of GLIL's earliest transactions was the purchase from SSE of a 21.7 per cent stake in Clyde wind farm for £150 million. GLIL invested an additional £30 million in September 2017 with a further £88 million invested in the summer of 2018. Clyde now has a total generation capacity of 522MW, making it one of the largest onshore windfarms in Europe.

GLIL's most recent transaction, which was completed in January, is the £93 million acquisition of a 49 per cent stake in Cubico's portfolio of 250MW of solar and wind assets across the UK. Combined with Clyde and other assets, GLIL now has exposure to over 800MW of renewable energy.

GLIL's remit includes investment in new build ('so-called 'greenfield') infrastructure projects. Alongside GLIL's partnership with Iona to construct £130 million of bioenergy plants around the UK, it has also financed two joint ventures for the build and commissioning of more than a thousand new rail vehicles across two rail franchises in the south of England. The first of these fleets is already entering service on the Greater Anglia network.

At 31 March 2020, Northern LGPS's share of GLIL had net assets valued at £883.4 million. GLIL's internal rate of return (IRR) since inception is 6.0% per annum with a 3.4% per annum cash yield.

GLIL's direct approach has generated costs savings of over £21 million for the Pool over the year and over £30 million since inception compared to a global benchmark cost for infrastructure investment via a typical fund structure.

## Northern Private Equity Pool LP

Northern LGPS established the Northern Private Equity Pool in May 2018; an investment joint venture structured as an English Limited Partnership. The partnership operates as a single legal entity through which the three Northern LGPS funds can invest collectively and collaboratively in private equity assets.

The Northern Private Equity Pool draws on the combined expertise and experience of the internal teams at each of the respective Northern LGPS funds, and the administration capabilities of Northern LGPS's pool-wide external custodian. The combined scale and resources of the Northern Private Equity Pool enables the partner funds to invest in private equity through lower cost implementation approaches than have been the case historically.

Investment pace since inception has been consistent with targets, with £850 million committed to 15 investment funds. In addition, a substantial agreement was signed at the end of 2019 that will see the partner funds, through Northern Private Equity Pool, access a lower cost implementation method for the private equity asset class through co-investment alongside preferred managers.

At 31 December 2019, NPEP had net assets valued at £53 million and undrawn commitments of £599 million to private equity funds and \$500 million to co-investment. Replacing investment via a fund of funds structure with NPEP's implementation approach has generated savings of approximately £1m over the year, with cumulative savings of approximately £17m forecast by 31 March 2023.

## Objectives for 2020/21

The Pool's key objectives for 2020/21 are to:

- Complete the establishment of a pool property framework to deliver efficiencies in the management of property investments and related services
- Further enhance the impact of our responsible investment activities

**Councillor Gerald Cooney  
Chair of Northern LGPS Pool**

# Financial Performance

## Key Financials for 2019/20

	£'000	£'000	£'000
<b>Fund Value at 31 March 2019</b>			<b>8,882,738</b>
<b>Contributions and Benefits</b>			<b>(104,468)</b>
Employer Contributions	189,130		
Employee Contributions	58,396		
Pensions Paid	(278,801)		
Lump Sums Paid	(73,306)		
Net Transfers	247,526		
			<b>(352,107)</b>
			113
<b>Management Expenses</b>			<b>(47,569)</b>
Administration	(3,022)		
Investment Management	(42,442)		
Oversight and Governance	(2,552)		
Other Income	(48,016)		
			447
<b>Investments</b>			<b>(97,792)</b>
Income	210,018		
Change in Market Value	(307,810)		
<b>Fund Value at 31 March 2020</b>			<b>8,632,909</b>

The table below describes the Fund's performance for key financial variables against forecasts (forecast January and July 2019) for the 12 months to 31 March 2020.

2019/2020 or at 31 March 2020	Predicted £'000	Actual £'000
<b>Fund Size 2019</b>	<b>8,882,738</b>	<b>8,882,738</b>
<b>Fund Size 2020</b>	<b>9,315,192</b>	<b>8,632,909</b>
Contributions Received	214,999	247,526
Pensions Paid	(347,853)	(352,107)
Net Transfers	-	113
<b>Net Cash Flow From Members</b>	<b>(132,854)</b>	<b>(104,468)</b>
<b>Net Management Expenses</b>	<b>(47,601)</b>	<b>(47,569)</b>
Investment Income	231,169	210,018
Change in Valuation of Assets	381,740	(307,810)
<b>Return from Investments</b>	<b>+612,909</b>	<b>(97,792)</b>
<b>Net Change Overall</b>	<b>+432,454</b>	<b>(249,829)</b>

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 and as explained throughout the report, were seen in the final quarter of the financial year, due to the COVID-19 pandemic.

The contributions received in 2019/20 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. However, the Fund did receive additional and upfront payments in 2019/20, totalling £22.4 million.

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

<b>12 months to 31 March 2020</b>	<b>Budget £'000</b>	<b>Actual £'000</b>
Employees	3,799	3,344
Premises	197	197
Transport	54	29
Investment Fees - operating budget	14,044	13,419
Supplies and Services	2,750	1,683
Third Party	1,114	1,183
Recharges	360	331
<b>Total</b>	<b>22,318</b>	<b>20,186</b>

*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.*

Overall the actual out-turn for 2019/20 was £20.2 million, lower than the original budget of £22.3 million approved by the Pensions Committee in July 2019, this is largely due to investment market volatility and budgeted projects and areas of work being deferred to 2020/21.

The 2020/21 Fund budget, as approved by the Pensions Committee in February 2020 is detailed in the table below:

	<b>2020/21 £'000</b>
Employees	3,736
Premises	199
Transport	36
Investment Fees - operating budget	14,908
Supplies and Services	2,560
Third Party	1,250
Recharges	360
<b>Total</b>	<b>23,049</b>

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 2020/21 at £23 million reflects a number of budgeted projects and areas of work originally budgeted in 2019/20 carried forward to the next financial year.

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

	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>
<b>Fund Size Start of Year</b>	<b>8,632,909</b>	<b>8,980,328</b>	<b>9,182,588</b>
<b>Fund Size End of Year</b>	<b>8,980,328</b>	<b>9,182,588</b>	<b>9,388,804</b>
Contributions Received	324,862	171,600	175,032
Pensions Paid	(358,093)	(364,180)	(370,371)
Net Transfers	-	-	-
<b>Net Inflow From Members</b>	<b>(33,231)</b>	<b>(192,580)</b>	<b>(195,339)</b>
<b>Net Management Expenses</b>	<b>(50,995)</b>	<b>(54,176)</b>	<b>(57,574)</b>
Investment Income	126,010	210,000	224,490
Change in Valuation of Assets	305,635	239,016	234,639
<b>Return from Investments</b>	<b>431,645</b>	<b>449,016</b>	<b>459,129</b>
<b>Net Change Overall</b>	<b>347,419</b>	<b>202,260</b>	<b>206,216</b>

The contributions predicted for 2020/21 reflect a number of employers paying their normal employer contributions and deficit contributions upfront, covering up to a 3 year period. Consequently, year 2 (2021/22) and year 3 (2022/23) have been reduced accordingly.

It is predicted that investment income will be reduced during 2020/21 as a result of the economic downturn.

The material variable in these assumptions is investment returns. If returns over the next few years are different from the predicted long-term average, 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 2020

	Note	2019/20 £'000	2018/19 £'000
<b>Dealing with Members, Employers and Others Directly Involved in the Fund</b>			
Contributions Receivable	7	247,526	210,577
Transfers In	8	18,152	11,797
		<b>265,678</b>	<b>222,374</b>
Benefits Payable	9	(352,107)	(340,698)
Payments to and on Account of Leavers	10	(18,039)	(19,035)
		<b>(370,146)</b>	<b>(359,733)</b>
<b>Net Additions/(Withdrawals) from Dealing with Members</b>		<b>(104,468)</b>	<b>(137,359)</b>
Management Expenses	11	(47,569)	(44,434)
<b>Net Additions/(Withdrawals) including Fund Management Expenses</b>		<b>(152,037)</b>	<b>(181,793)</b>
<b>Return on Investments:</b>			
Investment Income		214,882	220,626
Profit and Losses on Disposal of Investments and Change in Market Value of Investments		(301,967)	284,842
Taxes on Income		(4,864)	(4,378)
<b>Net Return on Investments</b>		<b>(91,949)</b>	<b>501,090</b>
Net Increase/(Decrease) in the Fund During the Year		(243,986)	319,297
Net Assets of the Fund at the Start of the Year		8,882,738	8,563,441
<b>Net Assets of the Fund at the End of the Year</b>		<b>8,638,752</b>	<b>8,882,738</b>

## Net Assets Statement - for year ended 31 March 2020

	Note	2019/20 £'000	2018/19 £'000	Restated
<b>Investment Assets</b>				
Equities	13	2,483,568	2,795,439	
Bonds		696,229	665,610	
Pooled Investment Vehicles		4,432,443	4,621,558	
Derivative Contracts		171,194	-	
Direct Property		471,925	521,750	
Loans		86,076	73,947	
Short-term Cash Deposits		105,010	86,098	
Other Investment Balances		181,507	104,196	
		<b>8,627,952</b>	<b>8,868,598</b>	
<b>Investment Liabilities</b>	18	<b>(21,063)</b>	<b>(8,445)</b>	
<b>Total Net Investment Assets</b>		<b>8,606,889</b>	<b>8,860,153</b>	
Long-term Assets	19	6,337	4,146	
Current Assets	20	41,621	35,413	
Current Liabilities	20	(16,095)	(16,974)	
<b>Net Assets of the Fund as at 31 March</b>		<b>8,638,752</b>	<b>8,882,738</b>	

# Notes to the Accounts

## 1. Description of Fund

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

The overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2019/20 included 9 councillors from Wirral Council, the Administering Authority, and one councillor from each of the four 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 Public Service Pensions legislation and regulations. The Board's aim is to assist the Administering Authority with ensuring compliance and the effective governance and administration of the Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2019/20 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 Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

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

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

### b. Membership

Membership of the LGPS is voluntary and employees are free to choose whether to 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 207 employer organisations within Merseyside Pension Fund including Wirral Council itself, the Fund also has 139,960 members as detailed below:

	31/3/20	31/3/19
Number of Employers with Active Members	<b>207</b>	<b>208</b>
Number of Employees in Scheme	46,745	46,726
Number of Pensioners	46,435	45,038
Number of Dependants	6,595	6,547
Number of Deferred Pensioners	40,185	40,259
<b>Total Scheme Members</b>	<b>139,960</b>	<b>138,570</b>

### c. Funding

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

#### d. Benefits

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

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

From 1 April 2014, the Scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of  $1/49^{\text{th}}$ . 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](http://mpfmembers.org.uk)

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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.

Restatements for 2018/19 are a change in presentation only, the requirements of the code were previously met, but now additional information is being provided.

The accounts have been prepared on a going concern basis.

## 3. Summary of Significant Accounting Policies

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

### Contributions and Benefits

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

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

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

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

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

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

#### **Transfers to and from other Schemes**

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

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

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

#### **Management Expenses**

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

#### Administration Costs

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

#### Investment Management Costs

All investment expenses are accounted for on an accruals basis.

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

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

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

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

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

#### 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 Loans and 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

All financial assets, apart from loans, are included in the Net Asset Statement on a fair value basis as at the reporting date. Loans are included in the Net Asset Statement on an amortised cost basis. 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 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 2020 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). This valuation has been prepared in accordance with the RICS Valuation - Global Standards (incorporating the IVSC International Valuation Standards) effective from 31 January 2020 together, where applicable, with the UK National Supplement effective 14 January 2019, together the 'Red Book'. The valuations were arrived at predominantly by reference to market evidence for comparable property

- 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 Utmost Life (transferred from Equitable Life 1 January 2020), Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year.

## **4. Critical Judgements in Applying Accounting Policies**

The Fund has not applied any critical judgements.

## **5. Estimation and Uncertainty**

The outbreak of COVID-19, declared by the World Health Organisation as a 'Global Pandemic' on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity has been impacted in many sectors.

### **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 procedures in place 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 2020 was £4,289 million (£4,221 million at 31 March 2019).

Private Equity investments are valued at fair value in accordance with International Private Equity and British Venture Capital Association guidelines. These investments are not publicly listed and, as such, there is a degree of estimation involved in the valuation. The IPEV Board issued additional guidance as at 31 March 2020 given the magnitude of the COVID-19 crisis, accompanied by the significant uncertainty.

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.

For 2019/20 there is additional uncertainty regarding the valuations of illiquid assets, due to the uncertainties in the financial markets and the time it will take to fully realise the impact of COVID-19 on such assets. There is an increased level of risk that the estimated valuations may be mis-stated. The valuations have been updated based upon the available information as at 31 March 2020 and maybe subject to variations as further information becomes available. Note 14 sets out a sensitivity analysis of such assets valued at level 3.

For 2019/20, also due to COVID-19, the property valuation has been reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA10 of the RICS Red Book Global and stated consequently, less certainty, and a higher degree of caution should be attached to their valuation than normally would be the case. The value of direct property as at 31 March 2020 is reported as £471.9 million, using the potential variance of 10% (provided by the Fund's investment consultants for note 14), there is a risk that these investments may be misstated in the accounts by up to £47 million.

## 6. Events After the Reporting Date

There have been no events since 31 March 2020, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

### Non-Adjusting Event - COVID-19

There have been a number of material factors which make it difficult to quantify what the outcome could be on financial markets. How long will the pandemic last? How many waves will there be? How deep will its economic impacts be?

There has been unprecedented government support through stimulus policies including support via the furlough scheme, central banks have reacted by immediately reducing the base rate and have embarked on substantial asset purchase programs.

Both the short and long-term implications of the shut down and the affect it will have on companies remain uncertain and longer-term performance will ultimately be impacted by how long the recovery takes.

As a result of COVID-19, the future investment values may be more volatile, at least over the short to medium term, until a vaccine or other successful cure is found for COVID-19. However, to date, although there has been significant variation to individual fund values (both upwards and downwards) as at the end of September 2020, the investments are valued overall at a higher value than they were at 31 March 2020 (as reported in these financial statements).

With regards to the Fund's level 3 investments, these are well diversified between sectors and also vintage year (year in which first influx of investment capital is delivered to a project or company) meaning that there will be a wide dispersion between the potential valuation effects. Some of the underlying level 3 investment assets could have seen positive uplifts to their valuations (e.g. broadband/telecommunications infrastructure providers) as well as those which will have seen negative (e.g. transport sectors due to short-term demand shocks).

## 7. Contributions Receivable

	2019/20 £'000	2018/19 £'000
<b>Employers</b>		
Normal	137,903	127,865
Pension Strain	9,726	9,274
Deficit Funding	41,501	18,016
<b>Total Employers</b>	<b>189,130</b>	<b>155,155</b>
<b>Employees</b>		
Normal	58,396	55,422
<b>247,526</b>	<b>210,577</b>	
Relating to:		
Administering Authority	27,826	24,581
Statutory Bodies	175,241	160,776
Admission Bodies	44,459	25,220
<b>247,526</b>	<b>210,577</b>	

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 2020. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2019/20 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 2019/20 the Fund has received additional and upfront payments, totalling £22.4 million, (in 2018/19 £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 2019/20 no such charges were levied.

## 8. Transfers In

	2019/20 £'000	2018/19 £'000
Group Transfers	-	-
Individual Transfers	18,152	11,797
	<b>18,152</b>	<b>11,797</b>

There were no group transfers to the Fund during 2019/20.

## 9. Benefits Payable

	2019/20 £'000	2018/19 £'000
Pensions	278,801	265,886
Lump Sum Retiring Allowances	66,288	66,173
Lump Sum Death Benefits	7,018	8,639
	<b>352,107</b>	<b>340,698</b>
Relating to:		
Administering Authority	48,313	46,919
Statutory Bodies	246,651	240,601
Admission Bodies	57,143	53,178
	<b>352,107</b>	<b>340,698</b>

## 10. Payments to and on Account of Leavers

	2019/20 £'000	2018/19 £'000
Refunds to Members Leaving Service	568	538
Payment for Members Joining State Scheme	-	8
Income for Members From State Scheme	(239)	-
Group Transfers to Other Schemes	-	-
Individual Transfers to Other Schemes	17,710	18,489
	<b>18,039</b>	<b>19,035</b>

There were no group transfers out of the Fund during 2019/20.

## 11. Management Expenses

	2019/20 £'000	2018/19 £'000
Administration Costs	3,022	2,778
Investment Management Costs	42,442	39,708
Oversight and Governance Costs	2,552	2,269
Other Income	(447)	(321)
	<b>47,569</b>	<b>44,434</b>

## 11c. Oversight and Governance Costs

	2019/20 £'000	2018/19 £'000
Employee Costs	585	520
External Services	1,405	1,179
Internal Audit	49	49
External Audit	46	31
Other Costs	467	490
	<b>2,552</b>	<b>2,269</b>

### 11a. Administration Costs

	2019/20 £'000	2018/19 £'000
Employee Costs	2,075	1,867
IT Costs	667	616
General Costs	248	255
Other Costs	32	40
	<b>3,022</b>	<b>2,778</b>

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 2019/20 is £374,145 relating to recharged Actuarial fees (2018/19 £259,917).

The external Audit fee for 2019/20 is £34,049, additional fees of £2,000 are in relation to work for 2018/19 and an additional £9,800 relates to services in respect of IAS 19 assurances for admitted body auditors, which are recharged to those admitted bodies.

### 11b. Investment Management Costs

	2019/20 £'000	2018/19 £'000
	Restated*	
External Investment Management Fees	11,592	10,661
External Investment Management Performance Fees	1,826	544
External Private Market Fees and Expenses	17,214	16,991
External Services	684	799
Internal Investment Management Fees	774	713
Property Related Expenses	6,259	6,334
Transaction Costs	4,093	3,666
	<b>42,442</b>	<b>39,708</b>

\*Note: 2018/19 has been restated to show separately fees and expenses paid for private market assets, this was previously included within external investment management fees.

## 12. Investment Income

	2019/20 £'000	2018/19 £'000	Restated
Dividends from Equities	101,798	99,895	
Income from Bonds	4,664	69	
Income from Pooled Investment Vehicles	43,827	49,798	
Rents from Properties	30,938	30,512	
Interest on Short-term Cash Deposits	1,208	712	
Income from Private Equity	16,183	33,877	
Interest from Loans	14,793	4,814	
Other	1,471	949	
	<b>214,882</b>	<b>220,626</b>	
Irrecoverable Withholding Tax	(4,864)	(4,378)	
	<b>210,018</b>	<b>216,248</b>	

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

Interest on loans has been accrued up to 31 March 2020, interest on loans for 2018/19 is interest received during the period (previously shown within income from pooled investment vehicles).

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £9.0 million (2018/19 £6.3 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 2019/20 £nil (2018/19 £20,981).

## 12a. Property Income

	2019/20 £'000	2018/19 £'000
Rental Income	30,938	30,512
Direct Operating Expenses	(6,259)	(6,334)
<b>Net Rent from Properties</b>	<b>24,679</b>	<b>24,178</b>

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	2019/20 £'000	2018/19 £'000
No later than one year	4,584	5,195
Between one and five years	5,147	11,208
Later than five years	14,386	11,635
<b>Total</b>	<b>24,117</b>	<b>28,038</b>

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 has been entered into, such as adjustments following rent reviews.

## 13. Investments

2019/20	Market Value 31/3/19	Purchases at Cost and Derivative Payments	Sale Proceeds and Derivative Receipts	Change in Market Value**	Market Value 31/3/20
	£'000	£'000	£'000	£'000	£'000
Equities	2,795,439	1,252,204	(1,124,083)	(439,992)	2,483,568
Bonds	665,610	50,749	(31,827)	11,697	696,229
Pooled Investment Vehicles	4,621,558	625,588	(752,749)	(61,954)	4,432,443
Derivative Contracts	-	725,413	(781,934)	227,715	171,194
Direct Property	521,750	21,943	(35,483)	(36,285)	471,925
Loans	73,947	45,252	(33,123)	-	86,076
	<b>8,678,304</b>	<b>2,721,149</b>	<b>(2,759,199)</b>	<b>(298,819)</b>	<b>8,341,435</b>
Short-Term Cash Deposits	86,098				105,010
Other Investment Balances	104,196			(3,148)	181,507
	<b>8,868,598</b>			<b>(301,967)</b>	<b>8,627,952</b>

2018/19 Restated*	Market Value 31/3/18	Purchases at Cost and Derivative Payments	Sale Proceeds and Derivative Receipts	Change in Market Value**	Market Value 31/3/19
	£'000	£'000	£'000	£'000	£'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	5,030,518	1,028,347	(1,721,615)	284,308	4,621,558
Derivative Contracts	218	613,961	(614,344)	165	-
Direct Property	519,750	3,636	-	(1,636)	521,750
Loans	43,961	48,832	(18,846)	-	73,947
	<b>8,362,855</b>	<b>4,020,497</b>	<b>(3,989,535)</b>	<b>284,487</b>	<b>8,678,304</b>
Short-Term Cash Deposits	53,226				86,098
Other Investment Balances	99,613			355	104,196
	<b>8,515,694</b>			<b>284,842</b>	<b>8,868,598</b>

\*Note: 2018/19 has been restated to show loans, these were previously shown under pooled investment vehicles.

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

Direct transaction costs 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

	2019/20 £'000	2018/19 £'000		2019/20 £'000	2018/19 £'000
		Restated			Restated
<b>Equities (Segregated Holdings)</b>					
UK Quoted	1,014,305	1,150,144			
Overseas Quoted	1,469,263	1,645,295			
	<b>2,483,568</b>	<b>2,795,439</b>			
<b>Bonds</b>					
UK Public Sector Quoted	679,699	665,610			
UK Corporate Quoted	400	-			
Overseas Corporate Quoted	16,130	-			
	<b>696,229</b>	<b>665,610</b>			
<b>Pooled Investment Vehicles</b>					
<b>UK Managed Funds:</b>					
Equities	75,913	138,487			
Private Equity	108,663	286,359			
Hedge Funds	172,358	41,772			
Corporate Bonds	384,588	354,726			
Infrastructure	299,982	353,669			
Opportunities	216,442	323,557			
	<b>564,600</b>	<b>494,233</b>			
<b>Overseas Managed Funds:</b>					
Equities	518,898	279,333			
Private Equity	102,410	221,975			
Hedge Funds	62,884	-			
Corporate Bonds	251,592	192,604			
Infrastructure	68,655	209,989			
Opportunities	72,111	116,426			
	<b>214,805</b>	<b>124,120</b>			
<b>UK Unit Trusts:</b>					
Property	1,318,542	1,484,308			
	<b>4,432,443</b>	<b>4,621,558</b>			
<b>Derivative Contracts</b>	<b>171,194</b>	-			
<b>UK Properties</b>					
Freehold	345,825	387,820			
Leasehold	126,100	133,930			
	<b>471,925</b>	<b>521,750</b>			
Balance at 1 April	521,750	519,750			
Additions	21,943	3,636			
Disposals	(35,483)	-			
Net Gain/(Loss) on Fair Value	11,583	-			
Other Changes in Fair Value	(47,868)	(1,636)			
<b>Balance at 31 March</b>	<b>471,925</b>	<b>521,750</b>			
<b>Loans</b>				<b>86,076</b>	<b>73,947</b>
<b>Short-Term Cash Deposits</b>				<b>105,010</b>	<b>86,098</b>
<b>Other Investment Balances</b>					
Outstanding Trades				55,729	7,439
Outstanding Dividend				22,589	22,275
Entitlements and Recoverable					
Withholding Tax					
Cash Deposits				103,189	74,482
				<b>181,507</b>	<b>104,196</b>
<b>Total Investments</b>				<b>8,627,952</b>	<b>8,868,598</b>

As at 31 March 2020 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.

## 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 15,027	EUR 16,536	389	
Up to one month	EUR 6,949	GBP 6,211		(60)
Up to one month	SGD 331	GBP 189		(1)
Up to three months	GBP 182,415	EUR 200,000	5,126	
Up to three months	GBP 169,991	USD 200,000	8,924	
			<b>14,439</b>	<b>(61)</b>
<b>Net Forward Currency Contracts at 31 March 2020</b>				<b>14,378</b>
<b>Prior Year Comparative</b>				
Open Forward Currency Contracts at 31 March 2019				-
<b>Net Forward Currency Contracts at 31 March 2019</b>				<b>(91)</b>

### Purchased/Written Options

Options are contracts between two parties that gives the purchaser the right, but not the obligation to either buy (call) or sell (put) at a price at a specific date. The purchaser pays immediately, a non-returnable premium (price) to secure the option. To minimise the risk of loss of value through adverse equity price movements,

during 2019/20 the Fund bought a number of equity option contracts that protect it from falls in value in its main investment markets, principally the UK, USA and Europe.

There were no purchased or written options as at 31 March 2019.

Underlying Option Contract	Expires	Put/Call	Notional Holding £'000	Market Value 31/3/20 £'000
<b>Assets</b>				
Overseas equity purchased	One to three months	Put	306	<b>214,158</b>
Overseas equity purchased	Over three months	Put	36	<b>9,452</b>
Overseas equity purchased	Over three months	Put	72	<b>6,227</b>
<b>Total Assets</b>				<b>229,837</b>
<b>Liabilities</b>				
Overseas equity written	One to three months	Put	(356)	<b>(62,832)</b>
Overseas equity written	One to three months	Call	(307)	<b>(3,724)</b>
Overseas equity written	Over three months	Call	(36)	<b>(12,309)</b>
<b>Total Liabilities</b>				<b>(78,865)</b>
<b>Net Purchased/Written Options</b>				<b>150,972</b>

## Swaps

<b>Assets</b>	<b>Expires</b>	<b>Notional Holding £'000</b>	<b>Market Value 31/3/20 £'000</b>
Total Return Swaps	Up to one year	6,999	<b>878</b>
Total Return Swaps	Up to one year	123,000	<b>5,252</b>
<b>Total Assets</b>			<b>6,130</b>
<b>Liabilities</b>			
Total Return Swaps	Up to one year	6,000	<b>(287)</b>
<b>Total Liabilities</b>			<b>(287)</b>
<b>Net Swaps</b>			<b>5,843</b>

There were no Swaps as at 31 March 2019.

A swap is an over the counter contractual obligation to exchange cash flows, the amount of which is determined by reference to an underlying asset, index, instrument or notional amount, according to terms which are agreed at the outset of the swap. MPF uses swaps to raise or lower the Fund's exposure in certain regions, to manage risks.

As at 31 March 2020, the Fund held cash and non-cash collateral of £223.6 million to mitigate the risk of loss and credit risk. As the Fund has an obligation to return the collateral, it is excluded from the Fund valuation.

### 13c. Summary of Managers' Portfolio Values at 31 March 2020

	2019/20 £'m	2019/20 %	2018/19 £'m	2018/19 %
<b>Externally Managed</b>				
JP Morgan (European Equities)	225	2.6	260	2.9
Nomura (Japan)	344	4.0	353	4.0
Schroders (Fixed Income)	385	4.5	355	4.0
Legal & General (Fixed Income)	391	4.5	382	4.3
Unigestion (European Equities and Pooled Emerging Markets)	274	3.2	337	3.8
M&G (Global Emerging Markets)	145	1.7	188	2.1
TT International (UK Equities)	211	2.4	249	2.8
Blackrock (UK Equities)	243	2.8	272	3.1
Blackrock (Pacific Rim)	129	1.5	158	1.8
Blackrock (QIF)	-	-	91	1.0
Newton (UK Equities)	244	2.8	281	3.2
Amundi (Global Emerging Markets)	169	2.0	187	2.1
Maple-Brown Abbot (Pacific Rim Equities)	130	1.5	177	2.0
State Street Global Advisor (Passive Manager)	929	10.8	1,104	12.3
State Street Global Advisor (Bonds Manager)	892	10.3	666	7.5
Blackrock (Transition Manager)	1	-	1	-
	<b>4,712</b>	<b>54.6</b>	<b>5,061</b>	<b>56.9</b>
<b>Internally Managed</b>				
UK Equities	439	5.1	450	5.1
European Equities	228	2.6	247	2.8
Property (Direct)	472	5.5	522	5.9
Property (Indirect)	371	4.3	316	3.6
Private Equity	628	7.3	566	6.4
Hedge Funds	411	4.8	264	3.0
Infrastructure	585	6.8	546	6.2
Opportunities	415	4.8	580	6.5
Global Equities Internal Factor	184	2.1	201	2.3
Short-Term Deposits and Other Investments	183	2.1	116	1.3
	<b>3,916</b>	<b>45.4</b>	<b>3,808</b>	<b>43.1</b>
<b>Total</b>	<b>8,628</b>	<b>100.0</b>	<b>8,869</b>	<b>100.0</b>

As at 31 March 2020 no single investment represented more than 5% of the net assets available for benefits.

### 13d. Stock Lending

As at 31 March 2020, £543.9 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £588.9 million. Collateral is marked to market, and adjusted daily. Income from Stock Lending amounted to £751,064 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.

<b>Description of Asset</b>	<b>Valuation Hierarchy</b>	<b>Basis of Valuation</b>	<b>Observable and Unobservable Inputs</b>	<b>Key Sensitivities Affecting the Valuations Provided</b>
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
Derivatives - OTC Options and OTC Swaps	Level 2	Option and Swaps pricing models.	Not required	Not required
Direct Property	Level 3	Valued at fair value at the year end using independent external Valuers in accordance with 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 the Fund's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.
Pooled Investments - Hedge Funds and Infrastructure	Level 3	The funds are valued in accordance with International Financial Reporting Standards (IFRS). The valuation basis, determined by the relevant Fund Manager, may be any of quoted market prices, broker or dealer quotations, transaction price, third party transaction price, industry multiples and public comparables, transitions in similar techniques, third party independent appraisals or pricing models.	NAV - based pricing set on a forward pricing basis.	Material events occurring between the date of the financial statements provided and MPF's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.

### Sensitivity of assets valued at Level 3

The table below sets out the assets classified as level 3 assets. The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges (as provided by the Fund's investment consultants), and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020. 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.

<b>31 March 2020</b>	<b>Value £'000</b>	<b>Potential Variance %</b>	<b>Value on Increase £'000</b>	<b>Value on Decrease £'000</b>
Property	635,056	10.0	698,562	571,550
Unquoted UK Equity	82,668	15.0	95,068	70,268
Unquoted Overseas Equity	9,330	15.0	10,730	7,931
Hedge Funds	209,528	10.0	230,481	188,575
Infrastructure	565,189	15.0	649,967	480,411
Private Equity	1,031,773	15.0	1,186,539	877,007
<b>Total</b>	<b>2,533,544</b>			

## 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.

<b>Values at 31 March 2020</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	4,052,916	1,668,899	2,061,619	7,783,434
Non-Financial Assets at Fair Value through Profit and Loss	-	-	471,925	471,925
Financial Liabilities at Fair Value through Profit and Loss	-	-	-	-
<b>Net Investment Assets</b>	<b>4,052,916</b>	<b>1,668,899</b>	<b>2,533,544</b>	<b>8,255,359</b>

<b>Values at 31 March 2019*</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	4,457,295	1,769,887	1,855,425	8,082,607
Non-Financial Assets at Fair Value through Profit and Loss	-	-	521,750	521,750
Financial Liabilities at Fair Value through Profit and Loss	-	(91)	-	(91)
<b>Net Investment Assets</b>	<b>4,457,295</b>	<b>1,769,796</b>	<b>2,377,175</b>	<b>8,604,266</b>

\* The financial assets at fair value through profit and loss values as at 31 March 2019 have been restated, £74 million related to loans and have been removed from the table.

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

	<b>2019/20</b> £'000	<b>2018/19*</b> £'000
Opening Balance	2,377,175	2,191,484
Acquisitions	458,262	329,127
Disposal Proceeds	(274,441)	(217,316)
Transfer into Level 3	-	-
Total Gains/(Losses) Included in the Fund Account:		
On Assets Sold	83,618	(7,717)
On Assets Held at Year End	(111,070)	81,597
<b>Closing Balance</b>	<b>2,533,544</b>	<b>2,377,175</b>

\*The information for 2018/19 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.

<b>31 March 2020</b>	<b>Assets at Amortised Cost £'000</b>	<b>Liabilities at Amortised Cost £'000</b>	<b>Fair Value Through Profit and Loss £'000</b>	<b>Total £'000</b>
<b>Financial Assets</b>				
Equities			2,483,568	2,483,568
Bonds			696,229	696,229
Pooled Investment Vehicles			4,432,443	4,432,443
Derivatives			171,194	171,194
Loans	86,076			86,076
Cash Deposits	105,010			105,010
Other Investment Balances	181,507			181,507
Long-Term and Current Assets	47,958			47,958
<b>Total Financial Assets</b>	<b>420,551</b>	-	<b>7,783,434</b>	<b>8,203,985</b>
<b>Financial Liabilities</b>				
Derivatives				
Other Investment Balances		(21,063)		(21,063)
Current Liabilities		(16,095)		(16,095)
<b>Total Financial Liabilities</b>	-	<b>(37,158)</b>	-	<b>(37,158)</b>
<b>Total Net Assets</b>	<b>420,551</b>	<b>(37,158)</b>	<b>7,783,434</b>	<b>8,166,827</b>

<b>31 March 2019 Restated</b>	<b>Assets at Amortised Cost £'000</b>	<b>Liabilities at Amortised Cost £'000</b>	<b>Fair Value Through Profit and Loss £'000</b>	<b>Total £'000</b>
<b>Financial Assets</b>				
Equities			2,795,439	2,795,439
Bonds			665,610	665,610
Pooled Investment Vehicles			4,621,558	4,621,558
Derivatives			-	-
Loans	73,947			73,947
Cash Deposits	86,098			86,098
Other Investment Balances	104,196			104,196
Long-Term and Current Assets	39,559			39,559
<b>Total Financial Assets</b>	<b>303,800</b>	-	<b>8,082,607</b>	<b>8,386,407</b>
<b>Financial Liabilities</b>				
Derivatives			(91)	(91)
Other Investment Balances		(8,354)		(8,354)
Current Liabilities		(16,974)		(16,974)
<b>Total Financial Liabilities</b>	-	<b>(25,328)</b>	<b>(91)</b>	<b>(25,419)</b>
<b>Total Net Assets</b>	<b>303,800</b>	<b>(25,328)</b>	<b>8,082,516</b>	<b>8,360,988</b>

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**

	<b>2019/20 £'000</b>	<b>2018/19 £'000</b>
<b>Financial Assets</b>		
Fair Value Through Profit and Loss	(262,534)	286,123
<b>Total Financial Assets</b>	<b>(262,534)</b>	<b>286,123</b>
<b>Financial Liabilities</b>		
	-	-
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>
<b>Net</b>	<b>(262,534)</b>	<b>286,123</b>

### **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 use of equity downside protection strategies
- 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 following tables 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.

<b>31 March 2020</b>	<b>Value £'m</b>	<b>Potential Variance %</b>	<b>Value on Increase £'m</b>	<b>Value on Decrease £'m</b>
UK Equities (all Equities including Pooled Vehicles)	1,240	19.0	1,475	1,004
US Equities	427	21.0	516	337
Canadian Equities	9	24.0	11	7
European Equities	759	22.5	929	588
Japanese Equities	368	20.5	443	292
Emerging Markets Equities including Pacific Rim	691	28.0	884	497
Global Equities (all Equities including Pooled Vehicles)	557	19.5	666	448
UK Fixed Income Pooled Vehicles	837	11.0	929	745
UK Index-Linked Gilts	680	9.0	741	619
Corporate Bonds	17	9.0	18	15
Pooled Property	287	12.5	323	251
Private Equity	628	28.5	806	449
Hedge Funds	275	9.0	299	250
Infrastructure	552	18.5	654	450
Other Alternative Assets	285	9.5	312	258
Loans, Short-Term Deposits and Other Investment Balances	555	0	555	555
<b>Total</b>	<b>8,167</b>			

<b>31 March 2019</b>	<b>Value £'m</b>	<b>Potential Variance %</b>	<b>Value on Increase £'m</b>	<b>Value on Decrease £'m</b>
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
Japanese Equities	379	20.5	456	301
Emerging Markets Equities including Pacific 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 Bonds	666	9.0	726	606
Pooled Property*	260	12.5	293	228
Private Equity	566	27.5	721	410
Hedge Funds	264	9.5	289	239
Infrastructure	546	18.5	647	445
Other Alternative Assets*	448	14.1	511	385
Loans, Short-Term Deposits and Other Investment Balances	278	-	278	278
<b>Total</b>	<b>8,361</b>			

\* 2018/19 values have been restated to reclassify loans

### **Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent that the fair value on future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

### **Currency Risk**

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency on any cash balances and investment assets not denominated in UK sterling.

## **16b. Credit Risk**

Credit risk represents that the counterparty to a financial transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

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 2020, was £105.0 million (31 March 2019 £86.1 million). This was held on instant access accounts with the following institutions:

## **16c. Liquidity Risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. 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 always ensures it has adequate cash resources to meet its commitments. The Fund has a cash balance at 31 March of £105 million. The Fund has £5,841 million in assets which could be realised in under 7 days' notice, £780 million in assets which could be realised in under 90 days' notice and £1,546 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 has a net withdrawal for 2019/20 in its dealing with members of £104 million and management expenses of £48 million, this is offset by investment income of £215 million.

### **Refinancing Risk**

Refinancing risk represents the risk that the Fund will need to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

	<b>Rating S&amp;P</b>	<b>Balances as at 31 March 2020 £'000</b>	<b>Balances as at 31 March 2019 £'000</b>
Lloyds Bank	Long A Short A-1	41,078	22,717
Northern Trust	AAAm	63,932	28,381
Invesco	AAAm	-	15,000
Svenska Handelsbanken	Long AA- Short A-1+	-	20,000
<b>Total</b>		<b>105,010</b>	<b>86,098</b>

## 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 17% 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 2019. The next valuation will take place as at 31 March 2022.

The most recent Triennial Valuation by the actuary was as at 31 March 2019, when the funding level was 101% of projected actuarial liabilities (2016 85%). The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The FSS specifies that for the majority of the statutory employers, the recovery period is 16 years, taking account of all the employer specific factors, the implied average period across the Fund is 13 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 2019 % p.a.
<b>Long-Term Yields</b>	
Market Implied RPI Inflation	3.40
<b>Solvency Funding Target Financial Assumptions</b>	
Investment Return (Higher Risk Bucket)	4.15
CPI Price Inflation	2.40
Short-term Salary Increases	Varies by employer
Long-term Salary Increases	3.90
Pension Increases/Indexation of CARE Benefits	2.40
<b>Future Service Accrual Financial Assumptions</b>	
Investment Return/Discount Rate (Higher Risk Bucket)	4.65
CPI Price Inflation	2.40
Short-term Salary Increases	Varies by employer
Long-term Salary Increases	3.90
Pension Increases/Indexation of CARE Benefits	2.40

## 18. Investment Liabilities

	2019/20 £'000	2018/19 £'000
Derivative Contracts	-	91
Amounts Due to Stockbrokers	21,063	8,354
	<b>21,063</b>	<b>8,445</b>

## 19. Long-Term Assets

	2019/20 £'000	2018/19 £'000
Assets due in more than one year	6,337	4,146

Assets due in more than one year include future payments of pension strain and accrued loan interest.

## 20. Current Assets and Liabilities

	2019/20 £'000	2018/19 £'000
<b>Assets</b>		
Contributions Due	17,666	17,270
Amounts Due from External Managers	-	417
Accrued and Outstanding Investment Income	7,431	344
Sundries	15,402	14,192
Provision for Credit Losses	(90)	(157)
Cash at Bank	1,212	3,347
	<b>41,621</b>	<b>35,413</b>
<b>Liabilities</b>		
Amounts Due to External Managers	-	165
Retirement Grants Due	3,222	2,177
Provisions	511	494
Miscellaneous	12,362	14,138
	<b>16,095</b>	<b>16,974</b>
<b>Net Current Assets and Liabilities</b>	<b>25,526</b>	<b>18,439</b>

'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 2020.

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 £1,154 million as at 31 March 2020. (2018/19 £1,064 million). These commitments relate to Private Equity £580.80 million, Infrastructure £229.52 million, Opportunistic Credit £87.21 million, Indirect Property £229.76 million and Other Alternatives (£26.93 million). As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

## 22. Contingent Assets

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

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

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

## 23. Related Party Transactions

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

Management expenses include charges by Wirral Council in providing services in its role as Administering Authority to the Fund, which amount to £4.0 million. (2018/19 £3.7 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 £8.9 million

(2018/19 £10.3 million) and a creditor of £337,020 as at 31 March 2020 (2018/19 £341,033).

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 7 and in respect of March 2020 payroll are included within the debtor's figure in note 20.

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

Liverpool City Council, Knowsley Council, Sefton Council and St Helens Borough Council, Wirral Council, Knowsley Youth Mutual, 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 (£11.5 million), Aberdeen Standard Secondary Opportunities Funds (£14.8 million), BMO Asset Management (£22.4 million), GLIL (£119.1 million) and NPEP (£21.0million).

Linda Desforges, Senior Portfolio Manager acts in an un-remunerated board advisory capacity on eleven investment bodies in which the Fund has an interest, Aberdeen Standard Secondary Opportunities Funds (£14.8 million), BBH Capital (£14.5 million), TEO Plc (£16.1 million), GCM Grosvenor Co-Investment Fund (£8.2 million), BMO Asset Management (£22.4 million), Capital Dynamics (£239.9 million), Key Capital Partners (£1.7million), Palatine (£17.2 million), Shard Credit (£8.5 million), Silver Street Capital (£7.5 million) and HarbourVest Co-investment Fund V part of NPEP.

Susannah Friar, Property Manager acts in an un-remunerated board advisory capacity on fourteen investment bodies in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£4.0 million), Bridges Property Alternatives IV (£1.2 million), Century Bridge China Real Estate Fund II (£8.0 million), Phoenix Asia Secured Debt Fund (£5.3 million), Alma Property Partners (£10.4 million), Barwood Property (£11.7 million), Chenavari Real Estate Fund III (£9.4 million), Newcore Strategic Situations IV (£11.7 million), Hearthstone Residential Fund I (£15.0 million), European Student Housing Fund II (£12.8 million), Locust Point Private Credit Fund (£7.5 million), Barwood Regional Growth IV (£2.0 million), Alma Property Partners II (£3.2 million) and Deutsche Finance International Fund I (£6.9 million).

Adil Manzoor Portfolio Manager, acts in an un-remunerated board advisory capacity on nine investment bodies in which the Fund has an interest, Standard Life Infrastructure Fund I (£11.5 million), Blackrock GRP Fund I (£15.0 million) and AMP GIF II (£11.2 million), Virtus (£29.2 million), Impax New Energy Investors III LP (£3.2 million), AMP GIF I (£39.4 million), P3P Hoddesdon LP (£6.3 million), P3P NI LP (£16.7 million) and MEIF6 (£3.3 million).

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

#### **Key Management Personnel**

The Fund's senior management during 2019/20 was comprised of six individuals: the Director of Pensions, the Head of Pensions Administration, Senior Portfolio Managers (x3) and Head of Finance & Risk, the remuneration paid to the senior management during 2019/20 was £418,149 (2018/19 £402,649). In addition, employer contributions of £64,481 (2018/19 £58,063) was also met from the Fund and charged to the Fund Account.

#### **24. Additional Voluntary Contribution Investments**

	<b>2019/20 £'000</b>	<b>2018/19 £'000</b>
<b>The Aggregate Amount of AVC Investments is as follows:</b>		
Utmost Life*	2,003	1,985
Standard Life	5,061	5,286
Prudential	9,312	8,739
	<b>16,376</b>	<b>16,010</b>
<b>Changes During the Year were as follows:</b>		
Contributions	5,134	3,394
Repayments	4,531	3,685
Change in Market Values	(237)	386

\* The Equitable Life Scheme transferred to Utmost Life on 1 January 2020.

# 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 2020.

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.

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 2020, and its income and expenditure for the year then ended.



Shaer Halewood  
Section 151 Officer  
November 2020

# Audit Report

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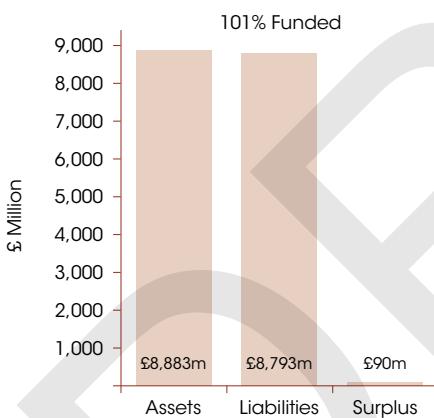
# Consulting Actuary's Statement

## Accounts for the Year Ended 31 March 2020 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 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £8,883 million represented 101% of the Fund's past service liabilities of £8,793 million ('the Solvency Funding Target') at the valuation date. The surplus at the valuation was therefore £90 million.



The valuation also showed that a Primary contribution rate of 17.2% 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 FSS is to achieve and 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. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 13 years, and the total initial recovery payment ('the Secondary rate' for 2020-2023) is an addition of approximately £0.2m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

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

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

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

	<b>For Past Service Liabilities (Solvency Funding Target) per annum</b>	<b>For Future Service Liabilities (Primary rate of contribution) per annum</b>
Rate of return on investments (discount rate)	4.15%	4.65%
Rate of pay increases (long-term)*	3.9%	3.9%
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4%	2.4%

\* 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 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

### The McCloud Judgment

The 'McCloud judgment' refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £65 million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum. To the extent that employers have opted to pay additional contribution over 2020/23 in relation to the McCloud judgment, these emerge in the Secondary Contribution Rates figures quoted above.

### Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

## 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 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019 per annum	31 March 2020 per annum
Rate of return on investments (discount rate)	2.4%	2.4%
Rate of CPI Inflation / CARE Benefit revaluation	2.2%	2.1%
Rate of pay increases*	3.7%	3.6%
Rate of increases in pensions in payment (in excess of GMP) / Deferred Revaluation	2.3%	2.2%

\*This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £12,265 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£294 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£64 million (this includes any increase in liabilities arising as a result of early retirements/augmentations and the potential impact of GMP Indexation - see comments elsewhere in this statement). There was also a decrease in liabilities of £860 million due to 'actuarial gains' (i.e. the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £11,763 million.

## GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £41 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.



Paul Middleman  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
July 2020



Clive Lewis  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
July 2020



# Appendix A

Scheme employers with active members as at 31 March 2020

## Scheduled Bodies (34)

## Contributions Received

	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Billinge Chapel End Parish Council	4	0	1
Carmel College	262	190	110
Chief Constable (CC)	7,979	4,044	3,924
Cronton Parish Council	3	0	1
Eccleston Parish Council	4	0	1
Edsential SLE	224	44	70
Halewood Town Council	29	11	9
Hugh Baird College	636	365	276
Knowsley M.B.C.	11,291	0	5,013
Knowsley Town Council	29	(6)	9
LCRCA - Liverpool City Region Combined Authority	780	0	402
Liverpool City Council	31,558	0	13,485
Liverpool John Moores University	5,814	5,110	2,917
Liverpool Streetscene Services Ltd	1,064	0	309
Maghull Town Council	49	0	15
Merseyside Fire & Rescue Authority	1,416	0	621
Merseyside Passenger Transport Executive (MPTE)	3,374	0	1,569
Merseyside Waste Disposal Authority	144	147	73
Office of the Police and Crime Commissioner (OPCCM)	87	37	52
Prescot Town Council	11	3	8
Rainford Parish Council	11	3	3
Rainhill Parish Council	3	0	1
School Improvement Liverpool Ltd	812	0	388
Sefton M.B.C.	16,577	0	6,591
Shared Education Services Ltd	361	37	122
Southport College	397	240	151
St. Helens College	831	714	333
St. Helens M.B.C.	12,083	0	5,064
The ACC Liverpool Group Ltd	615	0	437
The City of Liverpool College	540	748	233
Whiston Town Council	30	10	11
Wirral Council	18,015	0	7,505
Wirral Evolutions Ltd	487	0	148
Wirral Metropolitan College	658	389	251

**Scheduled Bodies (Academies) (102)****Contributions Received**

	<b>Employers</b> £'000	<b>Deficit/(Surplus)</b> £'000	<b>Employees</b> £'000
Academy of St Francis of Assisi	130	11	57
Bellerive FCJ Catholic College	93	44	34
Birkdale High School	75	58	28
Birkenhead 6th Form College (Academy)	229	98	101
Birkenhead High School Academy	159	18	59
Bishop Martin CE Primary	31	20	10
Blacklow Brow School (Academy)	37	20	14
Blue Coat School (Academy)	119	72	51
Calday Grange Grammar School	191	40	69
Chesterfield High School	127	81	44
Childwall Sports & Science Academy	77	102	35
Christ Curch Moreton Primary (Academy)	51	25	19
Church Drive Primary	88	37	29
Churchtown Primary (Academy)	155	96	50
Co-op Academy Bebington	134	84	55
Co-op Academy Portland	27	18	10
Co-op Academy Woodslee	40	18	15
Cronton CE Primary (Academy)	45	20	14
Croxteth Community Primary School (Academy)	60	22	22
De La Salle Academy	59	40	25
Deyes High School	170	99	69
Egremont Primary School (Academy)	69	31	24
Everton Free School	22	0	20
Finch Woods Academy	62	17	16
Formby High School	116	78	43
Garston CE Primary School (Academy)	46	14	15
Great Meols Primary School (Academy)	60	25	20
Greenbank High School	139	65	53
Halewood Academy Centre for Learning	135	159	55
Halewood CE Primary (Academy)	46	24	16
Halsnead Primary School (Academy)	58	30	21
Harmonise Academy	38	0	15
Hawthornes Free School	72	19	24
Heygreen Community Primary (Academy)	44	21	22
Hilbre High School (Academy)	180	107	70
Hillside High School (Academy)	106	144	40
Holy Trinity CE Primary (Academy)	43	27	14
Hope Academy	148	99	60
Huyton with Roby CE Primary (Academy)	69	27	21

### Contributions Received

	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Kew Woods	71	34	24
Kings Leadership Academy (Liverpool)	83	23	35
Kirkby High School	131	142	58
Knowsley Lane Primary School (Academy)	32	29	14
LDST - Liverpool Diocesan Schools Trust (Academy)	29	0	22
Litherland High School (Academy)	99	97	45
Litherland Moss Primary (Academy)	42	20	15
Liverpool College (Academy)	119	0	39
Liverpool Life Science UTC	64	1	29
Lord Derby Academy	160	93	57
Maghull High School	86	90	34
New Park Primary (Academy)	142	74	62
North Liverpool Academy	211	45	125
Nutgrove Methodist Aided Primary	30	14	12
Oldershaw Academy	152	70	61
Our Lady of Pity (Academy)	79	31	23
Parish CE Primary (Academy)	39	18	16
Park View Academy	54	42	19
Poulton Lancelyn Primary School (Academy)	55	24	18
Prenton High School for Girls	121	0	49
Rainford High School (Academy)	140	58	62
Rainhill High School	144	81	66
Rainhill St Anns CE Primary School (Academy)	70	29	23
Range High School	158	100	59
Roscoe Primary (Academy)	61	28	21
Shoreside Primary School	38	18	12
St Andrews CE Primary (Academy)	46	24	14
St Anselm's College	93	22	34
St Edward's College	106	68	44
St Francis Xavier's College (Academy)	147	82	55
St Gabriel's CE Primary	19	9	8
St James' Primary School (Academy)	33	9	12
St John Plessington Catholic College	193	79	66
St Joseph's Primary (Academy)	57	26	21
St Margaret's Church of England Academy	119	61	44
St Mary & St Thomas CE Primary School (Academy)	73	30	26
St Mary's Catholic College	194	123	64
St Michael's CE High School (Academy)	112	90	50
St Silas CE Primary School (Academy)	87	30	30

### Contributions Received

	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
St Thomas CE Primary (Academy)	23	19	6
Stanley High School (Academy)	90	64	31
Stanton Road Primary School (Academy)	58	20	18
Studio @ Deyes Academy	17	0	5
Sylvester Primary Academy	38	11	11
The Academy of St Nicholas	126	160	51
The Beacon CE Primary School (Academy)	50	20	21
The Belvedere Academy	112	21	49
The Birkenhead Park School	80	125	36
The Prescot School (Academy)	111	77	39
The Studio (Academy)	15	0	8
The Sutton Academy	135	110	66
Town Lane Infant School (Academy)	60	25	19
Townfield Primary	106	36	47
Upton Hall School	113	41	39
Weatherhead High School	180	93	80
West Derby School (Academy)	155	43	55
West Kirby Grammar School	80	50	33
Whiston Willis Primary (Academy)	53	24	15
Willow Tree Primary	27	15	11
Wirral Grammar Boys (Academy)	77	49	31
Wirral Grammar School for Girls	91	42	29
Woodchurch High School	334	147	125
Yew Tree Primary Academy	52	38	19

**Admission Bodies (Community) (26)****Contributions Received**

	<b>Employers</b> £'000	<b>Deficit/(Surplus)</b> £'000	<b>Employees</b> £'000
Age Concern - Liverpool	17	(17)	7
Arriva North West	695	3,092	176
Association of Police and Crime Commissioners	137	16	81
Berrybridge Housing Ltd	30	50	14
Birkenhead School (2002)	35	(10)	8
Care Quality Commission	22	90	8
Catholic Children's Society	35	26	5
CDS Housing	572	147	184
Citizens Advice Liverpool	18	0	3
Cobalt Housing Ltd	87	0	29
Communal	37	0	13
Glenvale Transport Ltd/Stagecoach	102	(22)	29
Greater Hornby Homes	11	11	4
Greater Merseyside Connexions (Career Connect)	716	(640)	199
Lee Valley Housing Association Ltd	30	36	10
Liverpool Hope University	51	100	8
Local Government Association	1,013	1,198	718
Merseyside Lieutenancy	13	0	4
North Huyton Communities Future	16	0	9
Partners Credit Union	94	0	25
Port Sunlight Village Trust	23	0	8
South Liverpool Housing Ltd	91	192	29
Torus 62 Ltd	2,168	120	806
Welsh Local Government Association	330	0	182
Wirral Autistic Society (Autism Together)	612	(308)	127
Wirral Partnership Homes Ltd (Magenta Living)	1,763	(268)	768

**Admission Bodies (Transfer) (45)****Contributions Received**

	<b>Employers</b> £'000	<b>Deficit/(Surplus)</b> £'000	<b>Employees</b> £'000
Absolutely Catering (Longmoor)	5	0	1
Absolutely Catering (St Oswald's)	3	0	1
Addaction (Sefton)	12	0	4
Agilisys Limited	11	3	4
Agilisys Ltd (Sefton)	287	0	93
Balfour Beatty PFI SEN School	14	0	3
Balfour Beatty Workplace Ltd	71	(7)	21
Bouygues E&S FM Uk Ltd	19	0	5
Castlerock Recruitment Group Ltd (CRG)	8	0	3
Caterlink Ltd	18	7	4
Change Grow Live	13	0	3
City Health Care (St Helens)	98	18	35
Compass (Scolarest) Liverpool Schools	3	1	1
Compass (Scolarest) Wirral Schools	31	(2)	8
Compass Contract Services (UK) Ltd	15	12	3
CWP (NHS)	622	0	209
Dolce Ltd	2	0	1
Friends of Birkenhead Council Kennels	8	0	3
Fun 4 Kidz	4	0	1
Graysons Education Limited	13	0	3
Hochtief Liverpool Schools	19	1	4
Hochtief Wirral Schools	38	(5)	9
Interserve (Facilities Management) Ltd	9	5	2
Kingswood Colomendy Ltd	8	13	2
Knowsley Youth Mutual Ltd	80	0	31
L&T FM (Chroda)	15	0	4
Mellors Catering - Birkdale	14	(1)	4
Mellors Catering - St Anns	6	3	2
Mellors Catering - St Mary & St Thomas	2	1	1
Mellors Catering - St Paul & St Timothy	4	0	1
Orian Solutions	18	0	4
Sanctuary Home Care Ltd	27	0	8
Sefton New Directions Ltd	540	(277)	167
Siemens Mobility Ltd	18	9	5
SSE Contracting Ltd	61	0	19
Tarmac Trading Ltd	33	0	11
Taylor Shaw - Great Meols	5	0	1
Taylor Shaw - Hugh Baird	5	0	1
Taylor Shaw - Raeburn	6	0	1
Taylor Shaw - Range	10	0	1

	Contributions Received		
	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Taylor Shaw - St Andrews	2	0	1
Veolia ES Merseyside & Halton	98	(98)	29
Volair Ltd	326	0	113
WCFT (NHS)	927	0	325
WIRED Ltd	20	0	7
 <b>Sceme Employers where contributions have been received during 2019/20 but they had no Active Scheme Members as at 31 March 2020</b>			
Emslie Morgan	14	9	7
Geraud Markets	1	2	
Mersey Waste		264	
One Vision Housing	6	20,691	1
Shap Ltd	3		1
 <b>Totals</b>	<b>137,903</b>	<b>41,501</b>	<b>58,396</b>

# Appendix B

## Pensions Committee Items

### 16 July 2019

- Audit Findings Report
- Statement of Accounts / Letter of Representation
- Draft Annual Report and Accounts
- Budget Outturn 18/19, Final Budget
- Wirral Council Motion
- LGPS Update
- Scheme Pays Policy
- Systematic Investment
- Authorised Signatories
- Treasury Management Annual Report
- Pool Operating Agreement
- Training & Development Opportunities
- Working Party Minutes
- Pension Board Minutes 13/06/18
- Pooling Update

### 4 November 2019

- LGPS Update
- Catalyst Fund Update
- Governance Statement
- The Pension Regulator Engagement Report
- Pension Board Terms of Reference
- Training & Development Opportunities
- Pension Board Minutes 17/07/2019
- Compliance Manual
- Pooling Update
- Working Party Minutes

### 3 February 2020

- Pension Board Review
- LGPS Update
- Actuarial Valuation
- Funding Strategy Statement
- Revised Investment Strategy
- Treasury Management Strategy
- Pension Fund Budget
- Member Development Programme
- Good Governance Project
- Pension Board Minutes
- Working Party Minutes
- Property Arrears

### 30 March 2020

- Meeting Cancelled

## Attendance Record 2019 - 2020

	PENSIONS COMMITTEE				GRWP		IMWP			
	16 JUL	4 NOV	3 FEB	30 MAR	14 NOV	25 FEB	6 JUN	18 SEP	14 NOV	25 FEB
Cllr Pat Cleary (Chair)	•	•	•	*	•	•	•	•	•	•
Cllr Geoffrey Watt (Spokesperson)	•	•	•	*	•	•	•	•	•	•
Cllr George Davies (Spokesperson)	•	•	•	*	•	•	•	•	•	•
Cllr Chris Carubia			•	*	•	•	•			
Cllr Andrew Gardner	•	•		*			•			
Cllr Tony Jones	•	#	•	*	•	•	•	•	•	•
Cllr Brian Kenny	•	•	•	*				•		
Cllr Cherry Povall, JP	#	•	•	*		•	•	•		
Cllr Stuart Wittingham			•	*			•	•		
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)				*						
Roger Bannister (UNISON Co-Optee)				*						

# Deputy Attended

\* Meeting Cancelled

## Conferences

	LGC Celtic Manor	PLSA	MPF Annual Conference	LAPFF Annual Conference	LGPS Governance Conference	LGC Investment Seminar	PLSA Gloucestershire	Fundamentals Training
	5 - 6 SEP	16 - 18 OCT	29 NOV	4 - 6 DEC	23 - 24 JAN	27 - 28 FEB	18 - 20 MAY	17 OCT - 6 NOV
Cllr Pat Cleary (Chair)	•					•		•
Cllr Geoffrey Watt (Spokesperson)	•							
Cllr Chris Carubia	•	•			•	•		
Cllr Andrew Gardner			•				•	
Cllr Brian Kenny		•					•	
Cllr Cherry Povall, JP	•	•		•		•		
Roger Bannister (UNISON Co-Optee)		•					•	

# Appendix C

## Information Contacts

### **Position**

Director of Pensions  
Head of Pensions Administration

### **Name**

Peter Wallach  
Yvonne Murphy

### **Telephone number**

0151 242 1390  
0151 242 1390

### **Area**

Accounts  
(Compliance, Financial Control and Management)  
Investments  
(Fund Assets' Management)  
Employer Compliance and Membership  
(Transfers, Divorce, Admissions, Data quality assurance)  
Benefits/Payroll  
(Retirement Calculations and Payments)  
Operations (IT/Communications)  
(Systems Support, MyPension, Website, Events)

### **Name**

Donna Smith

### **Telephone number**

0151 242 1390

Linda Desforges

0151 242 1390

Sue Roberts/Paula Heaton

0151 242 1390

Barbara King/Keith Higgins

0151 242 1390

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  
Knowsley MBC  
Liverpool City Council  
Liverpool John Moores University  
Merseyside Fire & Rescue Service  
Merseytravel (MPTE)  
Merseyside Waste Disposal Authority  
Office of the Police and Crime Commissioner  
for Merseyside (OPCCM)  
Sefton MBC  
St. Helens MBC  
Wirral Council

Alison Ashcroft

07855 104975

Jaci Dick

0151 443 5161

Richard Arnold

0151 233 0375

Jayne Brown

0151 231 8756

Mike Rea

0151 296 4245

Sue Highton

0151 330 1199

Jane Nolan

0151 255 2537

Karen Blake

0151 777 8189

Lynn Abbott

0151 934 4126

Sarah Myers

0174 467 6627

Matthew Slater

0151 691 8529



## **Report & Accounts 2019/20**

### **Merseyside Pension Fund**

Castle Chambers  
43 Castle Street  
Liverpool  
L2 9SH

Tel: 0151 242 1390  
Email: [mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)  
[www.merseysidepensionfund.org.uk](http://www.merseysidepensionfund.org.uk)

Administering Authority Wirral Council

