

# Croydon Pension Scheme

## Annual Report 2016/2017



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## Foreword



Draft

Councillor Andrew Pelling  
Chair, Pension Committee

## 1. Management & Advisers

### Pension Committee:

The Council is the administrating authority for the Pension Fund and discharges its duties in respect of managing the Pension Fund through the Pensions Committee. The Committee is responsible for investments, administration and strategic management of the Council Pension Fund, including but not limited to:

- Setting the long term objectives and strategy for the Fund;
- Setting the investment strategy;
- Appointment of investment managers, advisers and custodian;
- Reviewing investment managers' performance;
- Approving the actuarial valuation; and
- Approving pension fund publications including but not limited to the Statement of Investment Principles, the Funding Strategy Statement, the Governance Compliance and the Communication Policy Statement.

The Committee comprises eight voting Members of the Council and three non-voting members: two pensioner representatives and one employee representative. The members of Pensions Committee during the 2016/2017 Municipal year are listed below:

### Councillors:

Chair:	Andrew Pelling
Vice-Chair:	Simon Hall
Members:	Simon Brew
	Patricia Hay-Justice
	Maddie Henson
	Yvette Hopley
	Dudley Mead
	John Wentworth

Reserve Members:	Jamie Audsley, Robert Canning, Pat Clouder, Jason Cummings, Mike Selva, Donald Speakman, Badsha Quadir
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### Non-voting members:

Pensioners' Representatives:	Gilli Driver
	Peter Howard
Staff Representative:	Isa Makumbi

The Committee is supported by officers and independent external advisers.

### Administering Authority:

London Borough of Croydon (The London Borough of Croydon Pension Fund)  
Finance and Assets Division, Resources Department  
5A Bernard Weatherill House  
8 Mint Walk  
Croydon CR0 1EA

Richard Simpson  
Executive Director of Resources & S151 Officer

**Investment Advisers:**

Daniel Carpenter  
AON Hewitt  
The Aon Centre, The Leadenhall Building  
122 Leadenhall Street  
London EC3V 4AN

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**Actuary:**

Richard Warden  
Hymans Robertson LLP  
20 Waterloo Street  
Glasgow G2 6DB

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**Custodian of Assets:**

Bank of New York Mellon  
160 Queen Victoria Street  
London EC4V 4LA

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**Auditors:**

Grant Thornton UK LLP (External), Mazars (Internal)

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**Bankers:**

Royal Bank of Scotland

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**Legal Advisers:**

The Fund opts to procure legal advice on a case by case basis from the Croydon Council Legal Framework.

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**AVC Provider:**

Prudential  
Laurence Pountney Hill  
London EC4R 0HH

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**National Association of Pension Funds (NAPF):**

Membership number : 3547

## 2. Administrators to the Fund

### 2.1. Fund Managers:



### 2.2. Independent Advisers Retained by the Fund:

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AON Hewitt

THE BANK OF NEW YORK MELLON

HYMANS ROBERTSON

### 2.3. Frameworks

The Croydon Fund is a Founder Member of the London CIV.



The Fund is also a Founder Member of the National LGPS Framework.



The Fund operates the Croydon Framework with 13 other administering authorities.



### 3. Publications

The Pension Fund publishes a number of documents on the Council's website [www.croydonpensionscheme.org](http://www.croydonpensionscheme.org) Below is a brief outline of the key publications.

#### Funding Strategy Statement

The funding strategy statement is prepared in collaboration with the Fund's Actuary and in consultation with the Fund's employers and investment advisers. The statement includes:

- the strategy the Pension Fund employs to ensure its liabilities are met whilst maintaining a consistent and affordable employer contribution rate;
- details of how the Fund is seeking to achieve its investment objectives and the levels of associated risks; and
- the responsibilities for key parties including employers, employees and the Actuary.

#### Governance Compliance Statement

The administering authority of a Local Government Pension Scheme (LGPS) is required to publish a Governance Compliance Statement. The statement aims to make the administration and stewardship of the scheme more transparent and accountable to stakeholders and provides the following details:

- how the Council discharges its responsibilities, as the Fund's Administering Authority, to maintain and manage the Fund in accordance with regulatory requirements;
- the structure of the decision making process;
- the frequency of Pension Committee meetings; and
- the voting rights of Committee members.

## Investment Strategy Statement (ISS)

From 1 April 2017, Administrating Authorities are required to prepare, maintain and publish a written Investment Strategy Statement. The requirement to have an ISS in place replaces the statement of the principles. The ISS includes details of the Fund's:

- investment objectives;
- asset allocation;
- risk management;
- approach to pooling of assets;
- environmental, social and governance (ESG) policy; and
- Voting policy.

## Communication Policy

Each administering authority is required to publish a statement setting out the Fund's communication policy. The statement sets out the Council's policy for:

- communicating with interested parties including members and other employers within the scheme; and
- the method and frequency of communications used such as newsletters, annual benefit statements, open days and the pensions website.

## Training Log

Each administering authority is required to log each Pension Committee Member's training.



## 4. Membership

### 4.1. Organisations

#### 4.1.1. Admitted:

Arthur Mckay  
 AXIS Europe plc  
 BRIT School  
 Capita Secure Information Solutions Limited  
 Carillion Integrated Services Limited  
 Churchill Services Limited  
 Croydon Care Solutions Limited  
 Croydon Citizens' Advice Bureau  
 Croydon Community Mediation  
 Croydon Voluntary Action  
 Fairfield (Croydon) Limited  
 Fusion Lifestyle  
 Kier Highways Limited  
 Idverde South London Waste Partnership  
 Impact Group Limited  
 Interserve plc

Keyring Living Support Networks  
 London Hire Services Limited  
 Octavo Partnership Limited  
 Olympic (South) Limited  
 Quadron Services Limited  
 Roman Catholic Archdiocese of Southwark  
 Ruskin Private Hire  
 Skanska Construction Limited  
 Sodexo Limited  
 Veolia Environmental Services (UK) Limited  
 Veolia South West London Partnership – Kingston  
 Veolia South West London Partnership – Sutton & Merton  
 Vinci Facilities Limited  
 Wallington Cars and Couriers Limited  
 Westgate Cleaning Services Limited

#### 4.1.2. Scheduled:

Aerodrome Primary Academy  
 Applegarth Academy  
 ARK Oval Primary Academy  
 Atwood Primary Academy  
 Broadmead Primary Academy  
 Castle Hill Academy  
 Chestnut Park Primary School  
 Chipstead Valley Primary School  
 Coulsdon College  
 Crescent Primary Academy  
 Croydon College  
 Davidson Primary Academy  
 David Livingstone Academy  
 Edenham High School  
 Fairchildes Primary School  
 Forest Academy  
 Gonville Academy  
 Good Shepherd Catholic Primary  
 Harris Primary Academy Purley Way  
 Harris Academy South Norwood  
 Harris Academy Upper Norwood  
 Harris City Academy Crystal Palace  
 Harris Invictus Academy  
 Harris Primary Academy Benson  
 Harris Primary Academy Kenley  
 Harris Primary Academy Haling Park  
 Heathfield Academy  
 John Ruskin College  
 Kingsley Primary School  
 Krishna Avanti Primary School  
 Meridian High School  
 New Valley Primary School

Norbury Manor Business and Enterprise College  
 Oasis Academy Arena  
 Oasis Academy Byron  
 Oasis Academy Coulsdon  
 Oasis Academy Ryelands  
 Oasis Academy Shirley Park Primary  
 Park Hill Junior School  
 Pegasus Academy  
 Paxton Academy  
 Riddlesdown Collegiate  
 Robert Fitzroy Academy  
 Rowdown Primary School  
 Shirley High School  
 South Norwood Academy  
 St Aidan's Primary School  
 St Chad's Primary School  
 St Cyprian's Greek Orthodox Primary Academy  
 St James the Great RC P & N School  
 St Joseph's College  
 St Mark's Church of England Primary School  
 St Mary's Catholic Infant School  
 St Mary's Catholic Junior School  
 St Thomas Becket Catholic Primary School  
 The Archbishop Lanfranc School  
 The Quest Academy  
 West Thornton Primary Academy  
 Winterbourne Boys' Academy  
 Wolsey Junior Academy  
 Woodcote High School  
 Woodside Academy

## 4.2. Resources for Members

### 4.2.1. Croydon Council Pension Website

The Scheme's website can be found at <http://www.croydonpensionscheme.org/>

### 4.2.2. National Local Government Pension Scheme Web Site

The web site address is [www.lgpsmember.org/](http://www.lgpsmember.org/)

The national Local Government Pension Scheme web site enables all members, potential members and beneficiaries of the Scheme to access Scheme information 24 hours a day, 365 days a year.

The site has a comprehensive range of Scheme information; it is updated regularly to ensure members have access to the latest up to date information.

### 4.2.3. Additional Voluntary Contributions

The Council has appointed Prudential as the Scheme's provider for additional voluntary contributions investment services.

Further information can be obtained by calling their helpline on 0845 434 6629 or by visiting the website [www.pru.co.uk/rz/localgov/](http://www.pru.co.uk/rz/localgov/).

Any members' additional voluntary contributions (AVCs) are held in various separate investments administered by Prudential Assurance Company Limited. The benefits arising from these contributions are additional to, and do not form part of, the benefits due under

*AVCs are an opportunity for all employees to pay additional contributions into an external scheme which will enhance income on retirement*

the Local Government Pension Scheme. They are not included in the Pension Fund Accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Pension Fund Accounts and any details within the Annual Report therefore exclude amounts for AVCs.

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#### 4.2.4. Further Information

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##### The Pensions Regulator

Napier House  
Trafalgar Place  
Brighton

East Sussex BN1 4DW

Telephone Number: 0845 600 0707 (Monday to Friday 09.00-17.00)

Website: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

The role of the Pensions Regulator has been set out by Parliament, and is to:

- Protect the benefits of members of work-based pension schemes;
  - Promote the good administration of work-based pension schemes;
  - Reduce the risk of situations arising which may lead to claims for compensation from the Pensions Protection Fund.
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##### The Pensions Advisory Service (TPAS)

11 Belgrave Road  
London SW1V 1RB

Telephone Number: 0300 123 1047

Website: [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

TPAS is available to assist members of pension schemes with any difficulties that they are unable to resolve with their scheme administrators.

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##### The Pensions Ombudsman

At the same address as TPAS

Telephone Number: 020 7630 2200

Website: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

The Pensions Ombudsman can investigate and determine any complaint or disputes between scheme members and administrators, involving maladministration, or matters of fact or law.

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##### The Pension Tracing Service

The Pension Service 9  
Mail Handling Site A

Wolverhampton WV98 1LU

Telephone Number: 0345 6002 537

Website: [www.gov.uk/find-lost-pension](http://www.gov.uk/find-lost-pension)

The Pension Tracing Service can help ex-members of pension schemes, who may have lost touch with their previous employers, to trace their pension entitlements.

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Queries relating to the Pension Fund investments can be made to:

The Pensions Section  
5A, Bernard Weatherill House  
8 Mint Walk  
Croydon, CR0 1EA

Tel: 0208 760 5768 ext: 62892

E-mail: [pensions@croydon.gov.uk](mailto:pensions@croydon.gov.uk)

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### **4.3. Members' Self Service**

Scheme members can view their pension details by logging on to our internet member self service. This service allows scheme members to check their personal details, including service history and financial information, as well as enabling members to carry out their own benefit calculations. Members can also check their record to make sure their nomination for their death grant is correct and, if applicable, that their record is up to date with their nominated co-habiting partner's details.

Members can log in to the service at: <https://croydon.pensiondetails.co.uk> and request an activation code.

## **5. Main Features of the Scheme**

### **5.1. Eligibility for membership**

Membership is generally available to employees of participating employers who have contracts of at least 3 months, are under age 75, and are not eligible for membership of other statutory pension schemes. Employees of designating bodies or admitted bodies can only join if covered by the relevant agreement.

### **5.2. Benefits on death in service**

A lump sum is payable on death in service. This is normally equivalent to three years pay. The administering authority has absolute discretion over the distribution of this lump sum among the deceased's relatives, dependants, personal representatives or nominees. Pensions may also be payable to the member's widow, widower, civil partner, nominated cohabiting partner and dependent children.

### **5.3. Benefits on retirement**

For membership from April 2014 onwards, pension benefits are based on career average revalued earnings and the accrual rate is 1/49<sup>th</sup>. Benefits for earlier membership consist of a pension calculated as 1/60<sup>th</sup> of final pay for each year of membership accrued from 1 April 2008 to 31 March 2014. The accrual rate is 1/80<sup>th</sup> of final pay for each year of membership accrued before 1 April 2008 plus a lump sum of three times the pension. Actual membership may be enhanced automatically in cases of ill health retirement. Employers may choose to increase pension. Members can normally exchange some pension to provide a bigger lump sum.

### **5.4. Benefits on death after retirement**

A death grant is payable if less than 10 years pension has been paid and the pensioner is under age 75 at the date of death, in which case the balance of 10 years of pension is paid as a lump sum. Pensions are also generally payable to the pensioner's widow, widower, civil partner, nominated cohabiting partner and dependent children.

## 5.5. Extra benefits

The scheme offers several ways for members to improve benefits:

- Payment of additional pension contributions (APCs) to buy extra pension; and
- A money purchase additional voluntary contribution (AVC) scheme which operates with the Prudential offering pension and life assurance options.

## 5.6. Employee contributions

The bands of contribution rates are as shown below for contributions taken in respect of pensionable pay received from 1 April 2017. The employee pays contributions at the appropriate band rate on all pensionable pay received in respect of that job (or at half that rate if the employee is in the 50/50 scheme).

Contribution Table 2017/18

<b>Band</b>	<b>Actual pensionable pay for an employment</b>	<b>Contribution rate for that employment – main scheme</b>	<b>Contribution rate for that employment – 50/50 scheme</b>
1	Up to £13,700	5.5%	2.75%
2	£13,701 to £21,400	5.8%	2.90%
3	£21,401 to £34,700	6.5%	3.25%
4	£34,701 to £43,900	6.8%	3.40%
5	£43,901 to £61,300	8.5%	4.25%
6	£61,301 to £86,800	9.9%	4.95%
7	£86,801 to £102,200	10.5%	5.25%
8	£102,201 to £153,300	11.4%	5.70%
9	£153,300 or more	12.5%	6.25%

## 5.7. Age of retirement

Normal retirement age is now linked to State Pension Age, but:

- Pension benefits are payable at any age if awarded due to ill health;
- Members may retire with fully accrued benefits from age 55 onwards if their retirement is on grounds of redundancy or business efficiency;
- Members who have left employment after the 1 April 2014 may request payment of benefits from age 55 onwards. Actuarial reductions may apply where benefits come into payment before the State Pension Age.

- Members who remain in employment may also ask to retire flexibly from age 55 onwards if they reduce their hours of work or grade. Employer consent is required and actuarial reductions may apply.
  
- Payment of benefits may be delayed beyond State Pension Age but only up to age 75.

## **5.8. Pensions Increases**

Pensions payable to members who retire on health grounds and to dependants in receipt of a pension in respect of a deceased member are increased annually by law in line with increases in inflation. Pensions payable to other members who have reached the age of 55 also benefit from this annual inflation proofing. Where a member has an entitlement to a Guaranteed Minimum Pension (which relates to membership up to 5 April 1997), some or all of the statutory inflation proofing may be provided by the Department for Work and Pensions through the State Pension.

LGPS pensions are increased in line with the rise in the Consumer Price Index (CPI), in accordance with the Pensions Increase Act 1971. Although pensions are increased in April, they are based on the rise in the CPI over the 12 months to the previous September. The pensions increase calculation for April 2017 was based on the increase in CPI during the 12 months to September 2016 and was set at 1.0%.

## 5.9. Pension Fund Fraud / National Fraud Initiative

This organisation is required to protect the public funds it administers. It may share information provided to it with other bodies responsible for; auditing, or administering public funds, or where undertaking a public function, in order to prevent and detect fraud.

The Cabinet Office is responsible for carrying out data matching exercises.

Data matching involves comparing computer records held by one body against other computer records held by the same or another body to see how far they match. This is usually personal information. Computerised data matching allows potentially fraudulent claims and payments to be identified. Where a match is found it may indicate that there is an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out.

We participate in the Cabinet Office's National Fraud Initiative: a data matching exercise to assist in the prevention and detection of fraud. We are required to provide particular sets of data to the Minister for the Cabinet Office for matching for each exercise, as detailed [here](#).

The use of data by the Cabinet Office in a data matching exercise is carried out with statutory authority under Part 6 of the Local Audit and Accountability Act 2014. It does not require the consent of the individuals concerned under the Data Protection Act 1998.

Data matching by the Cabinet Office is subject to a [Code of Practice](#).

View further information on the [Cabinet Office's legal powers and the reasons why it matches particular information](#). For further information on data matching at this authority contact [caft@croydon.gov.uk](mailto:caft@croydon.gov.uk) .



## 6. Changes to the Local Government Pension Scheme

### 6.1. The LGPS 2014

The LGPS 2014 came into effect on 1 April 2014.

The main elements of the LGPS 2014 scheme are as follows:

- Career Average Revalued Earnings (CARE).
- 1/49th accrual rate with revaluation based on Consumer Prices Index (CPI).
- Retirement linked to State Pension Age (SPA).
- Contributions based on actual pay (including part time employees) with the average employee contribution remaining at 6.5%. No change to the expected overall net yield from employee contributions.
- Retention of banded employee contributions, but with an extension to the number of bands with little or no increase in the employee rate at the lower bands but more significant increases at higher pay bands, even after allowing for tax relief.
- '50/50' scheme option enabling members to pay half contributions for half the pension, with most other benefits remaining as they are currently.
- Benefits for service prior to 1st April 2014 are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current retirement age.
- Outsourced scheme members will be able to stay in the scheme on first and subsequent transfers.
- Vesting period extended from 3 months back to two years.

All other terms remain as in the current scheme including death in service benefits, ill-health provision and the lump sum trade-off.

## 7. Investment Policy

As an administering pension authority, the Council discharges its duties in respect of maintaining the Pension Fund in the form of the Pension Committee. The strategic management of the assets is the responsibility of the Pension Committee that acts in consultation with the Fund's investment adviser; Aon Hewitt. Day-to-day management of the investments is carried out by investment managers, who have been appointed by the Pension Committee, acting under an agreed mandate and Council officers acting under delegated powers.

The Pension Committee has prepared an Investment Strategy Statement (ISS) in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and after taking appropriate advice.

The ISS outlines the principles and policies governing investment decisions made by or on behalf of the Fund.

As set out in the Regulations, the Committee will review the ISS from time to time and at least every three years. In the event of any material change to any matter contained within the ISS, changes will be reflected within six months of the change occurring.

The ISS can be viewed at <http://www.croydonpensionscheme.org/about-us/forms-and-publications.aspx>.

## Asset Allocation

The current strategic asset allocation came into force in December 2015. The target asset allocation is as follows:

Asset Class	Investment
Equities	42% +/- 5
Fixed Interest	23% +/- 5
Alternatives	34% +/- 5
Cash	1%
<b>Total</b>	<b>100%</b>

The Alternatives category is further broken down as follows:

Asset Class	Investment
Private Equity	8%
Infrastructure	10%
Property	10%
Private Rental Sector Property (PRS)	6%
<b>Total</b>	<b>34%</b>

The Pensions Committee recognises that it will take a period of time in order to complete the transition to the revised asset allocation. This is due to the assets included within the Alternative category being illiquid and the time it takes to source investable opportunities. During the year further progress was made towards the transition of assets to the new asset allocation strategy. The Fund reduced its overweight holding in global equities from 56.5% to 52.1%. The Fund's allocation to Private Equity increased to 8.4% to bring it in line with the target allocation and the Infrastructure allocation increased from 4.9% to 7.5%. The Fund committed to PRS managed by M&G and drawdown of funds started. The Fund is on track to meet the asset allocation by the middle of 2018/19 as planned. The transition to the new asset allocation was and will continue to be monitored by the Pension Committee on a quarterly basis.

During the year four new managers were appointed; The Green Investment Bank which manages a fund investing in Offshore Wind Farms, North Sea Capital which has been a successful Fund of Funds private equity manager, Markham Rae which has set up a fund

to invest in trade finance operations of major banks and M&G which manages a leading PRS fund. Further commitments were also made to our existing Infrastructure and Private Equity managers.

The distribution of the Fund's assets among investment managers at 31st March 2017 is outlined below.

Investment Manager	Investment Mandate	% of Fund
<b>Legal &amp; General</b>	Global Equities (Segregated)	52.12%
<b>London CIV</b>	Global Equities (Segregated)	0.01%
<b>Standard Life</b>	Corporate Bond Fund and Absolute Return Global Fund (Pooled)	11.60%
<b>Wellington</b>	Sterling Core Bond (Pooled)	5.71%
<b>Pantheon</b>	Private Equity Invest in unquoted companies (Pooled FofF) (US Dollar & Euro)	5.74%
<b>Knightsbridge</b>	Private Equity – Venture Capital (Pooled FofF) (US Dollar)	1.71%
<b>Access Capital</b>	Private Equity - Co-Investment small European buyout (Euro)	0.86%
<b>North Sea Capital</b>	Private Equity Invest in unquoted companies (Pooled FofF) (Euro)	0.08%
<b>Markham Rae</b>	Private Equity - Trade finance	0.00%
<b>Equitix</b>	Infrastructure – PFI Projects (Pooled)	4.32%
<b>Temporis</b>	Infrastructure – Onshore wind farms	0.88%
<b>Green Investment Bank</b>	Infrastructure – Offshore wind farms	2.34%
<b>M&amp;G</b>	Private Rental Sector UK	0.86%
<b>Schroder</b>	UK Property Funds	8.53%
<b>All Fund Managers – Cash Management</b>	Maximising short term returns prior to the investment of funds	1.83%
<b>LB of Croydon Cash Management</b>	Cash at bank	2.06%
<b>Goldman Sachs Account</b>	AAA Rated Money Market Fund	1.36%
<b>Total</b>		100.00%

## **7.1 Monitoring the Investment Managers**

Performance of the investment managers is reviewed formally at the quarterly Pension Committee meetings. To assist the Pensions Committee reports on Fund Managers performance were provided by the Council's officers and Aon Hewitt. Additionally, the Council's officers and advisers meet the investment managers regularly to review their actions together with the reasons for their investment performance.

## **7.2 Custody**

For the additional security of the invested assets, the Fund employs The Bank of New York Mellon as an independent custodian for its segregated global equity holdings. The Bank of New York Mellon also maintain records for all the Pension Fund investments, with the exception of internally managed cash.

## 8. Investment Report

### 8.1. Performance

The Fund's performance is compared with the Council's own customised benchmarks. During the 2016/2017 financial year the Fund returned 21.6%, outperforming its customised benchmark of 6.3% by 15.3%. The Fund benefitted from its overweight position in Global Equities which returned 32.4% over the year. The Pensions Committee has locked in some of the gains from Global Equities as the transition to the new asset allocation has involved selling part of the equity holdings.

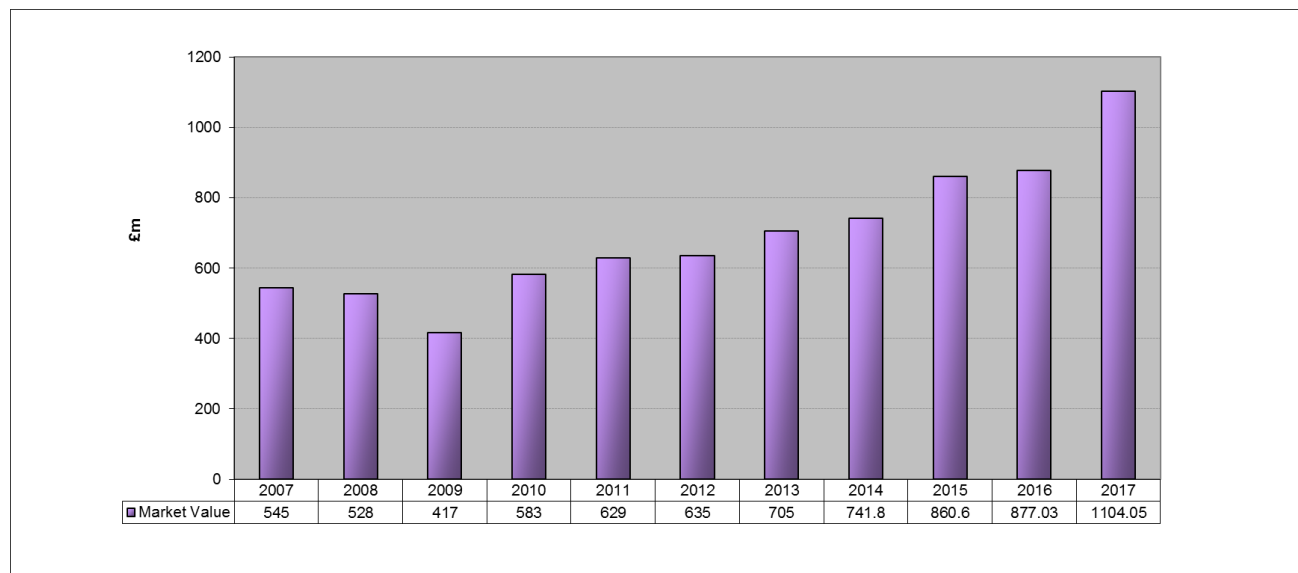
The annualised investment returns for 1, 3 and 5 years are given in the table below:

Annualised Returns	Croydon Fund	Benchmark
1 year (% per year)	21.6	6.3
3 years (% per year)	12.4	4.9
5 years (% per year)	10.6	5.4

During the year the 2016 Actuarial Valuation for the Fund was completed and this showed that the funding level had increased from 66.3% at the 2013 valuation to 73%. The Fund is making good progress towards achieving its objective of a 100% funding level. The next Actuarial Valuation is due effective 31 March 2019 and the results will be available in February 2020.

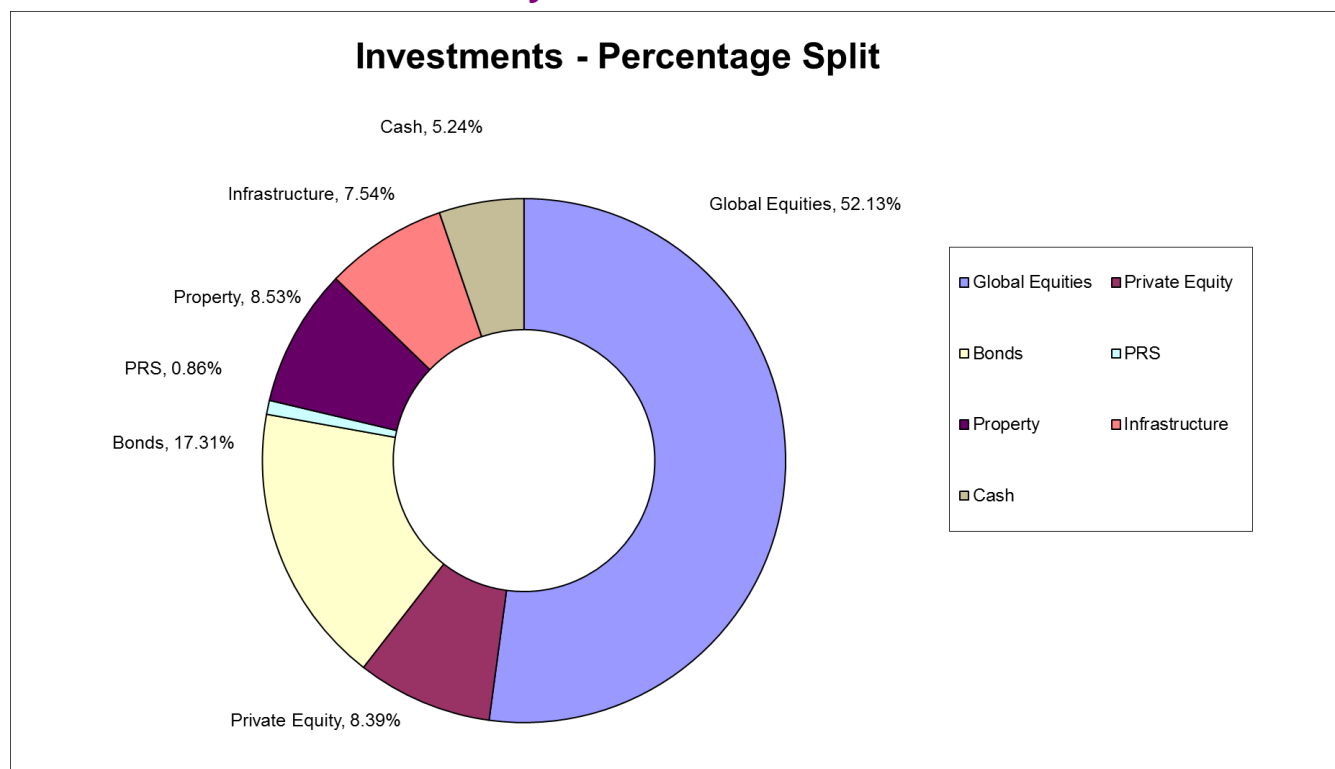
## 8.2. Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2017 were £1,104.05m compared with £545m at 31 March 2007. The chart below shows the growth of the Fund's assets over the past ten years.



Net Assets	2016/17 £m	%
Market Value of investments	1046.19	94.8%
Other Balances held by Fund Managers	2.70	0.2%
Cash held by Fund managers	17.46	1.6%
LBC Fund Net Current Assets	37.71	3.4%
<b>Total at the end of the year</b>	<b>1104.06</b>	<b>100%</b>

### 8.3. Distribution of Assets by Market Value



Investments	2016/17 £000s	% of Investments
Global Equities	575.6	52.1%
Private Equity	92.6	8.4%
Bonds	191.2	17.3%
PRS	9.5	0.9%
Property	94.1	8.5%
Infrastructure	83.2	7.5%
Cash	57.9	5.2%
<b>Total at the end of the year</b>	<b>1104.1</b>	<b>100.0%</b>

Note: percentages do not add up to 100% because of roundings



## 8.4. Top 25 Global Holdings

	Market Value at 31 March 2017	% of Total of Fund
APPLE INC	21,702,448	1.97%
MICROSOFT CORP	14,271,730	1.29%
JOHNSON & JOHNSON	9,822,693	0.89%
WELLS FARGO & CO	8,016,947	0.73%
AT&T INC	7,379,236	0.67%
ALPHABET INC-CL C	7,105,776	0.64%
ALPHABET INC -CL A	6,963,018	0.63%
BANK OF AMERICA CORP	6,841,883	0.62%
NESTLE SA	6,776,791	0.61%
PROCTER & GAMBLE CO/THE	6,570,270	0.60%
VERIZON COMMUNICATIONS INC	5,698,423	0.52%
ROCHE HOLDING AG	5,334,523	0.48%
WALT DISNEY CO/THE	5,190,745	0.47%
COMCAST CORP	5,173,288	0.47%
NOVARTIS AG	5,047,521	0.46%
MERCK & CO INC	5,046,226	0.46%
COCA-COLA CO/THE	4,996,082	0.45%
INTEL CORP	4,907,360	0.44%
CISCO SYSTEMS INC	4,886,302	0.44%
CITIGROUP INC	4,816,025	0.44%
HSBC HOLDINGS PLC	4,807,258	0.44%
VISA INC	4,779,526	0.43%
UNITEDHEALTH GROUP INC	4,484,398	0.41%
TOYOTA MOTOR CORP	4,236,315	0.38%
AMGEN INC	3,519,806	0.32%
	168,374,590	15.25%

## 9. Pension Fund Annual Accounts 2016/17

### CROYDON'S ROLE AS A PENSION ADMINISTERING AUTHORITY

In addition to acting as a Local Authority, Croydon Council administers the Local Government Pension Scheme. As a Local Authority it is accountable to the residents of the London Borough of Croydon for its stewardship of public funds. As an administering authority for the LGPS it is accountable both to employees who are members of the Pension Fund, and to past employees in receipt of a pension, for its stewardship of pension assets. The two roles, and the relevant interest groups, are significantly different. Consequently, the Pension Fund accounts are presented in an appendix to clearly demonstrate the distinction.

#### FUND'S OPERATIONS AND MEMBERSHIP

The London Borough of Croydon Pension Fund (the Fund) operates a contributory defined benefit scheme whose purpose is to provide benefits to all of the Council's employees, with the exception of teaching and NHS staff, and to the employees of admitted and scheduled bodies who are members of the Fund. These benefits include retirement pensions and lump sums, ill-health retirement benefits and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund 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.

Below is a list of the admitted and scheduled bodies contributing to the Fund:

#### Admitted:

AXIS Europe plc (Housing Repairs), BRIT School, Cabrini Children's Society, Capita Secure Information Solutions Limited, Carillion Integrated Services Limited, Churchill Services Limited, Croydon Citizen's Advice Bureau, Croydon Care Solutions Limited, Croydon Community Mediation, Croydon Voluntary Action, Eldon Housing Association Limited, Kier Highways Limited, Fairfield (Croydon) Limited, Fusion Lifestyle, Ground Control Limited, Impact Group Limited, Interserve plc, Keyring Living Support Networks, London Hire Services Limited, Octavo Partnership Limited, Olympic (South) Limited, Quadron Services Limited, Roman Catholic Archdiocese of Southwark, Skanska Construction UK Limited, Sodexo Limited, Turning Point, Veolia Environmental Services (UK) Recycling Limited (Croydon), Vinci Facilities Limited, Veolia Environmental Services (UK) Recycling Limited (SLWP1), Wallington Cars & Couriers Limited, Westgate Cleaning Services Limited.

#### Scheduled:

Meridan (Addington) High Academy, Aerodrome Primary Academy, Applegarth Academy, The Archbishop Lanfranc School, ARK Oval Primary Academy, Atwood Primary School, Beulah Infants School, Broadmead Primary Academy, Castle Hill Academy, Chesnut Park Primary School, Chipstead Valley Primary School, Coulsdon College, Crescent Primary Academy, Croydon College, David Livingstone Academy, Edenham High School, Fairchildes Primary, Forest Academy, Gonville Academy, Good Shepherd Catholic Primary, Harris Academy (Purley), Harris Academy (South Norwood), Harris Academy (Upper Norwood), Harris City Academy (Crystal Palace), Harris Primary Academy (Benson), Harris Primary Academy (Kenley), Harris Invictus Academy Croydon, Harris Primary Academy Haling Park, Heathfield Academy, John Ruskin College, New Valley Primary, Norbury Manor Business and Enterprise College, Oasis Academy Byron, Oasis Academy Arena, Oasis Academy Coulsdon, Oasis Academy Ryelands, Oasis Academy Shirley Park, Pegasus Academy, Quest Academy, Riddlesdown Collegiate, Robert Fitzroy Academy, Rowdown Primary School, Shirley High School Performing Arts College, South Norwood Academy, St Chad's Catholic Primary School, Davidson Primary Academy, Krishna Avanti Primary School, St Cyprian's Greek Orthodox Primary School Academy, St James the Great RC Primary and Nursery School, St Joseph's College, St Mark's COE Primary School, St Mary's Infants School, St Mary's Junior School, St Thomas Becket Catholic Primary School, Winterbourne Junior Boys, West Thornton Primary Academy, Wolsey Junior Academy, Paxton Academy, Woodcote High School, The Woodside Academy, Kingsley Primary Croydon, STEP Academy Trust.

#### Management of the Fund

The London Borough of Croydon has a statutory responsibility to administer and manage the London Borough of Croydon Pension Fund on behalf of all the participating employers of the Fund in Croydon and the past and present contributing members and their dependents.

The Council is also responsible for making decisions governing the way the Fund is invested. In this respect, the Council delegates responsibility for making investment decisions and monitoring arrangements to the Pension Committee. The Pension Committee's responsibilities include reviewing and monitoring the Fund's investments; selecting and deselecting investment managers and other relevant third parties and establishing investment objectives and policies. The Pension Committee is made up of eight voting Members of the Council, two non-voting pensioner representatives, one co-opted non-voting member and a non-voting employee representative. In addition, the Committee is supported by officers and external advisors.

## PENSION FUND ACCOUNTS

### FUND ACCOUNT

	Notes	2016/17 £'000	2015/16 £'000
<b>Dealings with members, employers and others directly involved in the fund</b>			
Contributions	8	87,205	52,518
Individual Transfers in from Other Pension Funds		4,684	1,429
		<b>91,889</b>	<b>53,947</b>
<b>Benefits</b>			
Pensions	9	40,424	39,792
Commutation, Lump Sum Retirement and Death Benefits	9	10,214	10,326
<b>Payments to and on Account of Leavers</b>			
Individual Transfers Out to Other Pension Funds		4,162	1,727
Refunds to Members Leaving Service		78	127
		<b>54,878</b>	<b>51,972</b>
<b>Net additions from dealings with members</b>		<b>37,011</b>	<b>1,975</b>
<b>Management Expenses</b>	10	<b>6,466</b>	<b>3,031</b>
<b>RETURNS ON INVESTMENTS</b>			
Investment Income	11	17,367	14,460
Taxes on Income (Irrecoverable Withholding Tax)	11	(795)	(648)
		<b>16,572</b>	<b>13,812</b>
<b>Profit and loss on disposal of investments and changes in the market value of investments</b>	13	<b>179,912</b>	<b>3,671</b>
<b>Net returns on investments</b>		<b>196,484</b>	<b>17,483</b>
<b>Net increase in the Fund during the year</b>		<b>227,029</b>	<b>16,427</b>
<b>Net assets at the start of the year</b>		<b>877,026</b>	<b>860,599</b>
<b>Net assets at the end of the year</b>		<b>1,104,055</b>	<b>877,026</b>

## PENSION FUND ACCOUNTS

### NET ASSETS STATEMENT

	Notes	31 March 2017 £'000	31 March 2016 £'000
<b>Investments held by the Fund Managers:</b>			
Global equities - segregated funds	13	575,427	435,188
Global equities - pooled funds	13	-	61,962
Private equity	13	92,584	59,534
Infrastructure	13	83,247	43,373
Fixed Interest	13	191,155	179,915
Property	13	103,621	92,431
Derivatives	13	152	74
<b>Total Investments held by the Fund Managers</b>		<b>1,046,186</b>	<b>872,477</b>
<b>Other Balances held by the Fund Managers</b>			
Cash held by the Fund Managers	13	17,460	4,310
Investment income due	13	2,738	2,295
Amounts payable for purchases	13	(41)	(794)
<b>Total Other Balances held by the Fund Managers</b>		<b>20,157</b>	<b>5,811</b>
<b>Total Assets held by the Fund Managers</b>		<b>1,066,343</b>	<b>878,288</b>
<b>Current Assets</b>	17	<b>39,254</b>	<b>6,986</b>
<b>Current Liabilities</b>	18	<b>(1,542)</b>	<b>(8,248)</b>
<b>Net Assets of the fund available to fund benefits</b>		<b>1,104,055</b>	<b>877,026</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Management expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

#### Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are recharged at year end from the Authority to the Pension Fund.

#### 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 to the Fund.

The cost of obtaining investment advice from the external advisors is included in oversight and governance costs.

#### Investment management expenses

All investment management 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. A proportion of the Council's costs representing management time spent by officers on investment management are recharged to the Fund.

#### Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the Fund. Quoted securities and Pooled Investment Vehicles have been valued at bid price. Quoted securities are valued by the Fund's custodian; Bank of New York Mellon. Pooled Investments, Private Equity, Infrastructure and Pooled Property Investments are as quoted by their fund managers.

#### Derivatives

Derivatives are valued at fair value on the following basis: assets at bid price and liabilities at offer price. Changes in the fair value are included in the change in market value in the Fund account. The value of open futures contracts is determined using exchange prices at the reporting date.

#### Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the year end.

#### Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### 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.

#### Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted by the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 23).

## NOTES TO THE PENSION FUND ACCOUNTS

### 1. GENERAL PRINCIPLES

The financial statements have been prepared in accordance with the provisions of Sections 6.5.1 to 6.5.5 of the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice on Local Authority Accounting in the United Kingdom is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and the net assets available to pay pension benefits. They do not take account obligations to pay pensions and benefits which fall due after the accounting year. The actuarial position of the fund which does take into account such obligations is dealt with in note 23.

### 2. INVESTMENT STRATEGY STATEMENT

This is published on the Croydon Pension Scheme web page  
<http://www.croydonpensionscheme.org/croydon-pension-fund/about-us/forms-and-publications>

### 3. BASIS OF PREPARATION

#### Going Concern

The Pension Fund Accounts have been prepared on a going concern basis. That is the accounts assume that the Fund will continue in operational existence for the foreseeable future. This means, in particular, that the accounts assume that there is no intention to curtail significantly the scale of operations.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for in accordance with the agreement under which they are being paid. Pensions 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.

#### 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. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### Investment income

- ▶ **Interest income:** Interest income is recognised in the fund account as it accrues.
- ▶ **Dividend income:** Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- ▶ **Distributions from pooled funds:** Distributions from pooled funds are recognised by our fund managers at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a financial asset.
- ▶ **Movement in the net market value of investments:** Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year

#### Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

#### 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.

## NOTES TO THE PENSION FUND ACCOUNTS

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential plc as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

### 5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

#### Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 23. This estimate is subject to significant variances based on changes to the underlying assumptions.

#### Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of many private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving factors which include the valuations of companies deemed comparable to the asset being valued, the future cash flow expectations and discount factors used.

### 6. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER SOURCES OF ESTIMATION UNCERTAINTY

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different in the forthcoming year.

#### Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the fund managers with expert advice about the assumptions to be applied.

The effects on the net pension liability can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £163m. A 0.5% increase in the salary increase assumption would result in a £26m increase in the pension liability. A 0.5% increase in the pension increase assumption would result in a £136m increase to the pension liability.

## NOTES TO THE PENSION FUND ACCOUNTS

### 7. FUND INFORMATION

The last full triennial Actuarial Valuation was completed as at 31 March 2016 which calculated the total accrued liabilities to be £1,203m (2013: £1,064m). The market value of the Fund's assets at the valuation date was £877m (2013: £705m). The Fund deficit was therefore £326m (2013: £359m) producing a funding level of 73% (2013: 66.3%). The next triennial valuation is due effective 31 March 2019.

In accordance with new Regulations and CIPFA guidance, a primary rate and secondary rate is set for the Whole Fund. The Primary Rate is the payroll weighted average of the underlying individual employer Primary Rates and the Secondary Rate is the total of the underlying individual employer Secondary Rates (before any pre-payment or capitalisation of future contributions).

The table below shows the Primary and Secondary contribution rates for the 2016 valuation:

Primary rate (%) 1 April 2017 - 31 March 2020	Secondary Rate (£)		
	2017/18	2018/19	2019/20
17.9%	£10,321,000	£10,401,000	£11,805,000

#### Contribution rate required Plus Additional Payment as a percentage of pay (Secondary rate from 17/18) (Primary Rate from 17/18)

	2016/17 % of pay	2017/18 % of pay	2016/17 £'000	2017/18 £'000/%	
<b>London Borough of Croydon Pool</b>					
London Borough of Croydon	15.1	17.6	11,594	-2.5% *	
Octavo Partnership Limited	24.2	16.6	-	-2.5%	plus 6
Fairfield (Croydon) Limited	15.1	ceased	22	ceased	
Croydon Care Solutions Limited	15.1	ceased	201	ceased	

\* The London Borough of Croydon paid a lump sum of £33,192,000 to the Fund during 16/17. This payment was sufficient to meet in full the monetary elements of £11,795,000 p.a. that were due as the Secondary Rates over three years.

#### Further Education Bodies

Croydon College	15.1	17.5	393	530
Coulsdon College	15.1	18.3	84	57
John Ruskin College	15.1	18.1	55	82

#### (Community) Admission Bodies

Croydon Voluntary Action	20.4	18.9	76	36
Croydon Citizens Advice Bureau	20.4	30.6	6	6
Croydon Community Mediation	20.4	18.0	2	4

#### Admission Bodies

Kier Highways Limited	23	27.2	-	-20.4%
Impact Group Limited	19.6	30.1	-	-10.5%
London Hire Services Limited	19.2	28.6	-	-9.4%
Churchill Services Limited	16.6	28.4	-	-8.7%
Veolia Environmental Services (UK) Recycling Limited (Croydon)	24.3	26	28	-4.3%
Fusion Lifestyle	13.6	23.6	2	-1.1%
Olympic South Limited	20.4	29.8	-	5
Wallington Cars & Couriers Limited	15.5	29	-	-13.5%
Vinci Facilities Limited	19.9	32.3	-	-32.3%
Skanska Construction UK Limited	24.7	31.6	-	-10.4%
Sodexo Limited	18.2	29.9	-	-14.9%
Ground Control Limited	23.6	22.2	-	-22.2%
Carillion Integrated Services Limited	20.7	29	-	-8.3%
Quadron Services Limited	27.1	27.3	-	-0.2%
AXIS Europe plc (Housing Repairs)	25.5	27.5	-	-2.0%
Capita Secure Information Solutions Limited	24.6	28.0	-	-3.4%
Keyring Living Support Networks	25.6	29.4	-	-0.8%
Westgate Cleaning Services Limited	27	30.0	-	-
Interserve plc	23.2	ceased	78	ceased
Veolia Environmental Services (UK) Recycling Limited (SLWP1)	15.5	25.4	-	-9.9%
Roman Catholic Archdiocese of Southwark	18.7	31.4	4	4



### NOTES TO THE PENSION FUND ACCOUNTS

	Contribution rate required as a percentage of pay (Primary Rate)		Plus Additional Payment (Secondary Rate)	
	2016/17	2017/18	2016/17	2017/18
	% of pay	% of pay	£'000	£'000 /%
<b>Academies</b>				
Harris Academy (South Norwood)	15.1	16.8	6	11
BRIT School	17.9	16.6	38	21
Harris City Academy (Crystal Palace)	13	15.4	-	-0.2%
St Joseph's College	20.9	18.7	57	30
St Cyprian's Greek Orthodox Primary School	17.8	18.7	16	7
Norbury Manor Business and Enterprise College	18.3	18.2	53	28
Woodcote Academy	19.3	18.8	80	38
St James the Great R.C Primary	24.9	20.0	60	39
Meridian (Addington) High Academy	18.5	18.5	52	28
Riddlesdown Collegiate	17.3	18.1	88	54
Shirley High School	19.6	18.3	53	32
Oasis Academy Byron	18.6	18.7	16	7
Robert Fitzroy Acadmey	11.5	15.5	-	0.3
St Thomas Becket RC Primary	21.2	19.6	24	14
Aerodome Primary Academy	18.1	17.7	15	11
Oasis Academy Coulsdon	20.8	18.0	68	46
Oasis Academy Shirley Park	18.1	18.0	132	79
Harris Academy (Purley)	17.5	17.3	53	34
The Quest Academy	20.4	17.4	49	31
ARK Oval Primary Academy	15.3	18.2	7	2
Pegasus Academy Trust	18.7	17.2	96	49
Gonville Academy	19.9	18.4	18	12
West Thornton Primary Academy	16.8	18.1	44	25
David Livingstone Academy	16.0	18.0	1	0.8%
Applegarth Academy	18.3	18.2	23	10
Harris Primary Academy Benson	18.4	19.9	33	21
Harris Academy Kenley	16.0	18.5	11	7
Forest Academy	16.9	18.1	11	9
Castle Hill Academy	16.5	18.5	25	17
Wolsey Junior Academy	20.4	18.1	30	23
Atwood Primary School	17.3	19.1	17	20
Winterbourne Junior Boys	19.1	19.8	27	18
Oasis Academy Ryelands	16.3	18.1	36	30
Chipstead Valley Primary School	19.8	18.7	40	30
Fairchildes Primary School	15.7	17.8	76	58
Broadmead Primary Academy	18.8	18.1	79	53
Rowdown Primary School	24.6	18.9	26	18
St Mark's COE Primary School	21.2	17.8	17	10
New Valley Primary	20.7	18.5	15	10
Archbishop Lanfranc School	23.8	19.4	124	101
Harris Invictus Academy Croydon	16.5	17.4	-	-
Harris Primary Academy Haling Park	16.5	16.0	-	-0.8%
Paxton Academy	16.1	15.7	-	-0.7%
Edenham High School	23.5	18.6	101	111
St Mary's Infants School	24.1	19.1	52	33
St Mary's Junior School	24.1	18.5	24	16
Heathfield Academy	22.1	16.8	1	-
Crescent Primary Academy	19.5	16.6	13	15
Oasis Academy Arena	17.1	15.9	3	2
Good Shepherd Catholic Primary	21.4	17.5	38	28
South Norwood Academy	14.1	17.9	-	35
Chesnut Park Primary School	16.4	15.9	-	-
St Chad's Catholic Primary School	26.9	26.9	-	-
St Aidan's Catholic Primary School	23.2	23.2	-	-
Davidson Primary School	26.0	26.0	-	-
Krishna Avanti Primary School	19.1	19.1	-	-
The Woodside Academy	29.4	29.4	-	-
Kingsley Primary Croydon	19.2	19.2	-	-
STEP Academy Trust	18.3	18.3	-	-

## NOTES TO THE PENSION FUND ACCOUNTS

Employees in the scheme are required by the Local Government Pension Scheme Transitional Regulations 2014 to make contributions to the Fund by deductions from earnings. The contribution rate payable is determined by the pay band applicable to each individual employee.

The pay bands for 2016/17 remained the same as 2015/16 and are detailed below:

Band	2016/17 Range £	Contribution Rate %
1	0 -13,600	5.5%
2	13,601-21,200	5.8%
3	21,201-34,400	6.5%
4	34,401-43,500	6.8%
5	43,501-60,700	8.5%
6	60,701-86,000	9.9%
7	86,001-101,200	10.5%
8	101,201-151,800	11.4%
9	151,800+	12.5%

Membership of the Fund consists of current and ex-employees not of pensionable age, retired employees and dependants.

	2016/17	2015/16	% change
Contributing members	9,462	8,757	8.1%
Deferred pensioners	8,861	8,676	2.1%
Pensioners	7,292	7,103	2.7%
<b>Total</b>	<b>25,615</b>	<b>24,536</b>	<b>4.4%</b>

### 8. CONTRIBUTIONS

#### By Authority:

	2016/17 £'000	2015/16 £'000
Administering Authority	71,374	37,751
Scheduled bodies	12,561	10,598
Admitted bodies	3,270	4,169
	<b>87,205</b>	<b>52,518</b>

#### By Type

	2016/17 £'000	2015/16 £'000
Employees normal contributions	11,263	10,964
<b>Employers:</b>		
Normal contributions	26,915	24,952
Deficit recovery contributions	47,839	14,353
Augmentation contributions	1,188	2,249
	<b>87,205</b>	<b>52,518</b>

### 9. BENEFITS

	2016/17 £'000	2015/16 £'000
Pensions	40,424	39,792
Commutation and lump sum retirement benefits	8,779	9,166
Lump sum death benefits	1,435	1160
	<b>50,638</b>	<b>50,118</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### 10. MANAGEMENT EXPENSES

	2016/17 £'000	2015/16 £'000
Administration	1,340	1,323
Oversight and Governance	618	492
Investment management	4,508	1,216
	<u>6,466</u>	<u>3,031</u>

Included in oversight and governance expenses is £21k (2016: £21k) in respect of audit fees. Some investment managers charge fees within the fund's net asset value and these (implicit) fees are not easily identifiable. For 2016/17 investment management fees have been adjusted to reflect the implicit fees charged by managers and a corresponding adjustment has been made to the change in market value. For 2016/17 the implicit fee was £3,452k and for 2015/16 the charge would have been £2,786. Included in the investment management expenses are £58k (2016: £52k) in respect of transaction costs.

### 11. INVESTMENT INCOME

	2016/17 £'000	2015/16 £'000
Equity dividends	13,995	11,834
Property funds	3,343	2,578
Interest on cash deposits	29	46
Other income	-	2
<b>Total before taxes</b>	<u>17,367</u>	<u>14,460</u>
Taxes on income	(795)	(648)
<b>Total</b>	<u>16,572</u>	<u>13,812</u>

### 12. INVESTMENTS

The Fund used the following investment managers during the year.

Asset Category	Fund Managers
Equities	Legal and General Investment Management Limited (LGIM)
Private equity	Knightsbridge Advisors LLC, Pantheon Ventures LLP, Access Capital Partners, North Sea Capital and Markham Rae LLP
Infrastructure	Equitix Limited, Temporis Capital Limited and UK Green Investment Bank
Fixed Interest	Standard Life plc and Wellington Management Company LLP
Property	Schroder Investment Management Limited and M&G Investment Management Limited
Cash	Cash is invested by the in-house team

All managers have discretion to buy and sell investments within the constraints set by the Pension Committee and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

The Pension Committee has authorised the Executive Director of Resources and Section 151 Officer to exercise delegated powers to vary the Pension Fund's target asset allocation between asset classes as is deemed necessary.

The market value and proportion of investments managed by each fund manager at 31 March 2017 was as follows

	2017		2016	
	Market £'000	Market %	Market £'000	Market %
Legal and General Investment Management Limited	575,429	55.0%	497,224	57.0%
London LGPS CIV Limited (London CIV)	150	0.0%	-	-
Pantheon Ventures LLP (Pantheon)	63,400	6.1%	43,435	5.0%
Knightsbridge Advisors LLC (Knightsbridge)	18,865	1.8%	14,081	1.6%
Access Capital Partners (Access)	9,465	0.9%	2,018	0.2%
North Sea Capital	855	0.1%	-	-
Markham Rae LLP	(1)	0.0%	-	-
Equitix Limited	47,706	4.6%	37,779	4.3%
Temporis Capital Limited (Temporis)	9,705	0.9%	5,594	0.6%
UK Green Investment Bank (GIB)	25,836	2.5%	-	-
Standard Life plc	128,077	12.2%	120,792	13.9%
Wellington Management Company LLP (Wellington)	63,078	6.0%	59,123	6.8%
Schroder Investment Management Limited (Schroders)	94,128	9.0%	92,431	10.6%
M&G Investment Management Limited (M&G)	9,493	0.9%	-	-
<b>Total investments</b>	<u>1,046,186</u>	<u>100.0%</u>	<u>872,477</u>	<u>100.0%</u>

## NOTES TO THE PENSION FUND ACCOUNTS

### 13. RECONCILIATION IN MOVEMENT IN INVESTMENTS

	Market value 01 April 2016	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Global equities - segregated funds	435,188	67,805	(56,165)	128,599	575,427
Global equities - pooled funds	61,962	0	(74,220)	12,258	-
Private equity	59,534	21,947	(9,174)	20,277	92,584
Infrastructure	43,373	40,518	(6,672)	6,028	83,247
Fixed Interest	179,915	55	(662)	11,847	191,155
Property	92,431	17,203	(5,956)	(57)	103,621
Derivatives	74	71	(467)	474	152
	<b>872,477</b>	<b>147,599</b>	<b>(153,316)</b>	<b>179,426</b>	<b>1,046,186</b>
Cash deposits	4,310			486	17,460
Amounts receivable for sales	-				-
Investment income due	2,295				2,738
Amounts payable for purchases	(794)				(41)
<b>Net investment assets</b>	<b>878,288</b>	<b>147,599</b>	<b>(153,316)</b>	<b>179,912</b>	<b>1,066,343</b>

	Market value 01 April 2015	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Global equities - segregated funds	430,301	62,548	(43,105)	(14,556)	435,188
Global equities - pooled funds	50,438	40,000	(29,627)	1,151	61,962
Private equity	45,248	12,958	(4,412)	5,740	59,534
Infrastructure	29,485	11,785	(2,079)	4,182	43,373
Fixed Interest	178,717	49	-	1,149	179,915
Hedge funds	32,398	-	(32,228)	(170)	-
Property	77,346	10,765	(1,768)	6,088	92,431
Derivatives	36	297	(167)	(92)	74
	<b>843,969</b>	<b>138,402</b>	<b>(113,386)</b>	<b>3,492</b>	<b>872,477</b>
Cash deposits	10,118			179	4,310
Amounts receivable for sales	-				-
Investment income due	1,205				2,295
Amounts payable for purchases	(39)				(794)
<b>Net investment assets</b>	<b>855,253</b>	<b>138,402</b>	<b>(113,386)</b>	<b>3,671</b>	<b>878,288</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### 14. ANALYSIS OF INVESTMENTS

		2017			2016		
		UK £'000	Foreign £'000	Total £'000	UK £'000	Foreign £'000	Total £'000
Global equities-segregated funds							
LGIM	Quoted	54,468	520,809	575,277	47,805	387,233	435,038
London CIV	Unquoted	150	-	150	150	-	150
<b>Total equities</b>		<b>54,618</b>	<b>520,809</b>	<b>575,427</b>	<b>47,955</b>	<b>387,233</b>	<b>435,188</b>
Global equities - pooled funds							
LGIM	unit trust	-	-	-	61,962	-	61,962
<b>Total pooled investments</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>61,962</b>	<b>-</b>	<b>61,962</b>
Private Equity							
Pantheon	managed fund	-	63,400	63,400	-	43,435	43,435
Knightsbridge	managed fund	-	18,865	18,865	-	14,081	14,081
Access	managed fund	-	9,465	9,465	-	2,018	2,018
North Sea Capital	managed fund	-	855	855	-	-	-
Markham Rae LLP	managed fund	-	(1)	(1)	-	-	-
<b>Total private equity</b>		<b>-</b>	<b>92,584</b>	<b>92,584</b>	<b>-</b>	<b>59,534</b>	<b>59,534</b>
Infrastructure							
Equitix Limited	managed fund	47,706	-	47,706	37,779	-	37,779
Temporis	managed fund	9,705	-	9,705	5,594	-	5,594
GIB	managed fund	25,836	-	25,836	-	-	-
<b>Total Infrastructure</b>		<b>83,247</b>	<b>-</b>	<b>83,247</b>	<b>43,373</b>	<b>-</b>	<b>43,373</b>
Fixed Interest							
Standard Life plc	unit trust	128,077	-	128,077	120,792	-	120,792
Wellington	managed fund	-	63,078	63,078	-	59,123	59,123
<b>Total Fixed Interest</b>		<b>128,077</b>	<b>63,078</b>	<b>191,155</b>	<b>120,792</b>	<b>59,123</b>	<b>179,915</b>
Property							
Schroders	managed fund	94,128	-	94,128	92,431	-	92,431
M&G	managed fund	9,493	-	9,493	-	-	-
<b>Total Property</b>		<b>103,621</b>	<b>-</b>	<b>103,621</b>	<b>92,431</b>	<b>-</b>	<b>92,431</b>
Derivatives (Quoted)							
LGIM		-	152	152	-	74	74
<b>Total investments</b>		<b>369,563</b>	<b>676,623</b>	<b>1,046,186</b>	<b>366,513</b>	<b>505,964</b>	<b>872,477</b>

### 15. INVESTMENTS EXCEEDING 5% OF THE MARKET VALUE OF THE FUND

	2017		2016	
	Market £'000	Market %	Market £'000	Market %
Standard Life SLI Absolute Return Global Bond Strategies	66,349	6.4%	64,972	7.4%
Standard Life Corporate Bond	61,728	6.0%	55,820	6.4%
Wellington Sterling Core Bond Plus Portfolio	63,078	6.1%	59,123	6.8%
LGIM World Equity Index	-	0.0%	61,962	7.1%
<b>Total value of investments</b>	<b>191,155</b>	<b>18.5%</b>	<b>241,877</b>	<b>27.7%</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### 16. ANALYSIS OF DERIVATIVES

LGIM use derivatives in South Korean markets in order to maintain equity exposure in line with the FTSE 4Good Index rather than trading directly in this market.

Type	Expires	2017		2016	
		Economic Exposure £'000	Market £'000	Economic Exposure £'000	Market £'000
<b>Assets</b>					
Overseas Equity	less than 1 year	3,853	152	3,298	74
Total value of investments		3,853	152	3,298	74

### 17. CURRENT ASSETS

	2016/17 £'000	2015/16 £'000
Cash balances	36,164	2,522
Other Local Authorities - Croydon Council	894	2,357
Other Entities and Individuals	2,196	2,107
	39,254	6,986

### 18. CURRENT LIABILITIES

	2016/17 £'000	2015/16 £'000
Other Local Authorities - Croydon Council	-	(5,976)
Other entities and individuals	(1,542)	(2,272)
	(1,542)	(8,248)

The amount due to Croydon Council relates to transactions between the Fund and the Council all of which were settled through the Pension Fund bank account after the year end.

## NOTES TO THE PENSION FUND ACCOUNTS

### 19. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES

#### Related Parties

##### Related parties include:

- a. councillors and their close families
- b. certain Officers and Managers
- c. entities controlled by, and associates and joint ventures of, the scheme itself
- d. companies and businesses controlled by the Councillors or their close families

Three members of the Pensions Committee or their close family members had positions with employers in the fund. The details of their interests are outlined below.

Councillor	Fund Employer	Contributions payable by Fund Employer £	Amount Outstanding at 31 March 2017 £	Date of Payment
Cllr Buttiger	Hayes School Kenley	Part of Council payroll	-	
Cllr Hall	Wolsey Junior Academy	125,999	-	
Cllr Hall	Applegarth Academy	130,984	23,000	11 May 2017
Cllr Wentworth	St James the Great School	143,836	66,516	£6,156 paid 19/04/17
Cllr Wentworth	STEP Academy Trust	649,815	24,030	11 May 2017
Cllr Mead	Forestdale Primary	Part of Council payroll	-	
Cllr Mead	Courtwood Primary School	Part of Council payroll	-	

#### Officers and Managers

Related parties under this heading include:

- a. key management (senior officers) of the Fund and their close families
- b. companies and businesses controlled by the key management of the Fund, or their close families.

The key management personnel of the fund are the Executive Director of Resources (Section 151 Officer), the Director of Finance (Deputy Section 151 Officer) and the Head of Pensions and Treasury. During the year a charge of £123k (2016: £103.5k) was made to the Fund for their services.

The only other financial relationship that either councillors or officers and managers have with the Fund is as prospective or actual pensioners for those who are scheme members. For further details please refer to Note 33 of the London Borough of Croydon's Statement of Accounts 2016/17.

### 20. DETAILS OF STOCK RELEASED TO THIRD PARTIES UNDER A STOCK LENDING ARRANGEMENT

There was no stock released to third parties under a stock lending arrangement.

### 21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund had outstanding capital commitments of £164.7m at 31 March 2017(2016:£113.8m) based on:

USD 91.5m at exchange rate 1.25 equals £73.2m (2016: £40.9m)  
 EUR 35.5m at exchange rate 1.17 equals £30.4m (2016: £21.3m)  
 GBP £61.1m (2016: £51.5m)

These commitments related to outstanding call payments due on Private Equity, Infrastructure and Property investments. The amounts 'called' by these funds are both irregular in size and timing over a period of usually 3 to 6 years from the date of the original commitment.

### 22. DETAILS OF ADDITIONAL CONTRIBUTIONS NOT INCLUDED IN PENSION FUND ACCOUNTS

In accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093), there were no additional contributions included in the Pension Fund Accounts since all Additional Voluntary Contributions (AVCs), in total £254.9k for 2016/17 (£265k in 2015/16), are sent directly to the relevant AVC provider. The value at 31 March 2017 of separately invested additional voluntary contributions was £2.17m (£1.98m in 2015/16).

## NOTES TO THE PENSION FUND ACCOUNTS

### 23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

#### Actuary's Statement

International Financial Reporting Standards require a disclosure of the Fund's past service liabilities in a manner consistent with International Accounting Standard 19 (IAS19), and the requirements of International Accounting Standard 26 (IAS26). It should be noted that some of the assumptions used when calculating liabilities under IAS19 are different compared to those when producing an on-going funding valuation under the Local Government Pension Scheme (Administration) Regulations 2014.

#### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Croydon Pension Fund ('the Fund').

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- ▶ showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- ▶ as a note to the accounts; or
- ▶ by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

#### Present value of promised retirement benefits

Year ended	31 Mar 2017 £m	31 Mar 2016 £m
Active members	630	631
Deferred members	439	324
Pensioners	710	508
Present Value of Promised Retirement Benefits	1,779	1,463

The promised retirement benefits have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016 (2013). The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).



## NOTES TO THE PENSION FUND ACCOUNTS

### 23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

#### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £294m. I estimate the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £19m.

#### Financial Assumptions

Year ended	31 Mar 2017 %p.a.	31 Mar 2016 %p.a.
Pensions Increase Rate	2.4%	2.2%
Salary Increase Rate	3.0%	3.2%
Discount Rate	2.6%	3.5%

#### Longevity Assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.3 years	22.3 years
Future Pensioners (assumed to be age 45 at the latest formal)	24.0 years	24.4 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

#### Commutation Assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

#### Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate increase to pension liabilities (%)	Approximate increase to pension liabilities (£m)
0.5% increase in pensions increase rate	8%	136
0.5% increase in salary increase rate	1%	26
0.5% decrease in the discount rate	9%	163

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

#### Professional Notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2016 for IAS19 purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Richard Warden FFA

8 May 2017

For and on behalf of Hymans Robertson LLP

## NOTES TO THE PENSION FUND ACCOUNTS

### 24. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period

### 25. FINANCIAL INSTRUMENTS

Below is the target asset allocation agreed by Pension Committee and in force during 2016/17

Asset Class	Benchmark	Weighting
UK and Overseas Listed Equities	FTSE 4 Good	42% + / - 5%
Fixed Interest Securities	18% Bank of America Merrill Lynch Sterling non gilts all stocks index 12% Bank of America Merrill Lynch Sterling Broad Market index	23% + / - 3%
Property	IPD All Properties index	10% + / - 3%
Private Rental Sector Property	IPD All Properties index	6%
Private Equity	CPI +5%	8%
Infrastructure	CPI +5%	10%
Cash and Short Term Deposits		1%
<b>Total</b>		<b>100%</b>

It is recognised that it may take some time to meet the new target asset allocation due to the nature of the assets.

## NOTES TO THE PENSION FUND ACCOUNTS

### 25. FINANCIAL INSTRUMENTS (Continued)

#### 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 (excluding cash) by category and Net Assets Statement heading.

	Designated as fair value through profit and loss £'000	Loans and Debtors £'000	Financial assets and liabilities at amortised cost £'000
<b>Financial Assets</b>			
Fixed interest securities	191,155	-	-
Global equities	575,427	-	-
Pooled property investments	103,621	-	-
Private equity	92,584	-	-
Infrastructure	83,247	-	-
Derivatives	152	-	-
Other investment balances	-	20,198	-
Current Assets	-	39,254	-
<b>Total Financial Assets</b>	<b>1,046,186</b>	<b>59,452</b>	<b>-</b>
<b>Financial Liabilities</b>			
Other investment balances	-	-	(41)
Current liabilities	-	-	(1,542)
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>(1,583)</b>
<b>Net Assets</b>	<b>1,046,186</b>	<b>59,452</b>	<b>(1,583)</b>

#### Net Gains and Losses on Financial Instruments

31 March 2017  
£'000

<b>Financial assets</b>	
Fair value through profit and loss	179,912
Loans and debtors	-
Financial assets measured at amortised cost	-
<b>Financial liabilities</b>	
Fair value through profit and loss	-
Loans and debtors	-
Financial liabilities measured at amortised cost	-
<b>Total</b>	<b>179,912</b>

#### Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values:

	Carrying Amount £'000	Fair Value £'000
<b>Financial Assets</b>		
Fair value through profit and loss	1,046,186	1,046,186
Loans and Debtors	59,452	59,452
<b>Total Financial Assets</b>	<b>1,105,638</b>	<b>1,105,638</b>
<b>Financial Liabilities</b>		
Fair value through profit and loss	-	-
Financial liabilities at amortised cost	(1,583)	(1,583)
<b>Total Financial Liabilities</b>	<b>(1,583)</b>	<b>(1,583)</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### 25. FINANCIAL INSTRUMENTS (Continued)

#### Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

##### Level One

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and 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 bid market quotation of the relevant stock exchange.

##### Level Two

Financial instruments at Level 2 are those whose 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 use inputs that are based significantly on observable market data.

##### Level Three

Financial instruments 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.

These instruments include various unquoted equity investments 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 the London Borough of Croydon 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 and US GAAP. 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 following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	766,734	103,621	175,831	1,046,186
Loans and Debtors	59,452	-	-	59,452
<b>Financial Liabilities</b>				
Loans and Debtors	(1,583)	-	-	(1,583)
<b>Net financial assets</b>	824,603	103,621	175,831	1,104,055

## NOTES TO THE PENSION FUND ACCOUNTS

### 26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

#### Market Risk

This is the risk that financial loss could arise as a result of fluctuations in interest rates, foreign exchange rates, credit spreads and equity and commodity prices. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

#### Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuers or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

#### Price risk - sensitivity analysis

The following table demonstrates the change in net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

Assets exposed to price risk	Value £'000	Value on Increase £'000	Value on Decrease £'000
At 31 March 2016	872,477	959,725	785,229
<b>At 31 March 2017</b>	<b>1,046,186</b>	<b>1,150,805</b>	<b>941,567</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### 26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

#### 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 risk, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's exposure to interest rate risk is monitored and assessed against the strategic asset allocation benchmark.

#### Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis points (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

Assets exposed to interest rate risk	Value £'000	Value on Increase £'000	Value on Decrease £'000
At 31 March 2016	186,747	205,422	168,072
<b>At 31 March 2017</b>	<b>244,779</b>	<b>269,257</b>	<b>220,301</b>

#### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure.

Currency exposure - asset type	Asset Value as at 31 March 2017 £'000
Overseas quoted securities	520,809
Overseas un-quoted securities	92,584
Overseas bonds	63,078
Overseas derivatives	152
<b>Total overseas assets</b>	<b>676,623</b>

#### Currency risk - sensitivity analysis

The following table demonstrates the change in value of overseas assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

Assets exposed to currency risk	Value £'000	Value on 10% weakening of pound £'000	Value on 10% strengthening of pound £'000
At 31 March 2016	567,926	624,719	511,133
<b>At 31 March 2017</b>	<b>676,623</b>	<b>744,285</b>	<b>608,961</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### 26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

#### Credit risk

Credit risk is the risk that parties in whom the Fund invests may fail to pay amounts that are due to the Pension Fund. For example an entity in which the Pension Fund invests may fail. This risk is minimised by investing in specialist fund managers across different asset classes and geographical regions. Additionally there is a risk that an admitted body will be unable to meet its contributions obligations. Contribution receipts are monitored monthly and, if necessary, remedial action is taken.

Credit risk also represents the risk that the counterparty to a transaction or a financial instrument 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.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council investments in money market funds with a AAA rating from a leading rating agency.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past six financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2017 was £36.2m (£2.5m at 31 March 2016). This was held with the following institutions:

Summary	Rating at 31 March 2017	Balances as at 31 March 2017 £'000
Money Market Funds Goldman Sachs Sterling Liquid Reserves Fund	AAA	15,019
Balance held with Local Authorities		15,000
Current Account Royal Bank of Scotland		6,145
Total		<u>36,164</u>

#### Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Council has immediate access to its Pension Fund cash holdings including cash invested in money market funds. The Fund defines liquid assets as assets that can be converted to cash within three months. Non-liquid assets are those assets which will take longer than three months to convert into cash. All financial liabilities at 31 March 2017 are due within one year.

#### Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund 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.

## 10. Pension Fund Auditors Report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF CROYDON

We have audited the pension fund financial statements of London Borough of Croydon (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

#### Respective responsibilities of the Executive Director of Resources and Section 151 Officer and auditor

As explained more fully in the Statement of Responsibilities, the Executive Director of Resources and Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Resources and Section 151 Officer; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on the pension fund financial statements

In our opinion:

- ▶ the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- ▶ the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

#### Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

Elizabeth Jackson  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP  
30 Finsbury Square  
London  
EC2P 2YU

(date)