

Croydon Pension Scheme

Annual Report 2017/2018



Delivering for Croydon

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Foreword

As the Chair of the Pensions Committee I am delighted to be able to present to you this Annual Report of the Croydon Council Pension Fund.



Croydon's scheme has 107 employers, 27,000 members and assets of £1.14bn, up by 3.85% over the year.

Over the longer run of the past five years the Croydon Fund has secured a 9.2% growth per year with the Fund now being a Billion Pound fund and a full 273 % higher in value over the last nine years.

The Committee has been mindful of the length of the rally in global equity markets that has aided that strong Fund performance. Asset price inflation has been underpinned by central bank relaxed monetary stances expressed through Quantitative Easing, a policy only beginning to be unwound in the States and still much in place elsewhere.

Thus, the policy of the Committee is to reduce modestly the share of the Fund's heightened exposure to equities, an extra exposure which has in the past led to the Fund's overperformance during equity market rallies and underperformance by the Fund during equity market setbacks as was faced in the first quarter of 2018 (Q1 2018).

Robust economic growth in the US and improved Eurozone economy performance aided earnings results during 2017. US corporate tax changes boosted sentiment in a calm market with low volatility.

Come Q1 2018 that sentiment cooled and volatility spiked as worries over higher US interest rates prompted by that economic growth's inflationary pressures and the possible normalisation of US monetary policy under a new Federal Reserve chair troubled investors.

Higher UK inflation, higher US rates across the yield curve, uncertainties over Brexit cooling UK business sentiment, tariff barriers to trade, political uncertainties in Italy, bank exposure to Italian banking debt, tensions on the Korean peninsula and a general decline in corporate credit quality all ushered in darker clouds on the market horizon as the financial year progressed.

In these circumstances the Committee felt further assured that capital protection and income enhancement in a low yield environment was

best secured through its established policy of appropriate rebalancing of the Fund often into non-public equity assets with locked-in higher yields.

It was also felt that there was a need to include within the Fund's equity holdings emerging market investments that might capture higher growth rates in those emerging markets economies. That investment was paused during heightened tensions in Korea and during a fast run up in emerging market equity values, but a decision was made in Q1 2018 to invest in an emerging markets fund under the umbrella of the London Pension Collective Investment Vehicle with that switch of equity investments to take place in the 2018-19 financial year.

Thus, the Pension Committee takes its responsibility to discharge its fiduciary role in the best interest of the Fund seriously.

Careful monitoring and reviews of developments, diversification across assets, regions and investment styles, and sound governance arrangements have all contributed to a steadily improving outlook for the Scheme. In addition to discharging its fiduciary responsibility to stakeholders the Committee is committed to ensuring that sound Environmental, Social and Governance practices are embedded in the investment strategy employed, specifically in respect of tobacco and fossil fuels.

The Committee also ensures that the Fund operates in accordance with the Local Government Pensions Scheme Regulations and adopts thorough going policies concerning the administration of the Fund.

Pooling of assets across the London Boroughs into the London Pension Collective Investment Vehicle (London CIV) that was set up by Chancellor Osborne is well underway with over half of the Croydon fund now within the scope of the London CIV.

This year has also seen significant developments in terms of governance, including consultations on the treatment of academy trusts, the election of pensioner representatives with a vote on pension matters, compliance with the EU directive on financial instruments and the Code of Transparency on managing investment costs. This year also saw changes to the state retirement age.

Two long standing members of the Committee have taken retirement and I would like to take this opportunity to thank Mr. Isa Makumbi and Councillor Dudley Mead for their combined forty years of service. They were stalwarts of the Committee who have given great service to the Fund's members.

I would also like to thank my excellent Vice-Chair, Councillor Patricia Hay-Justice, for taking on the chairing of the Committee for Q1 2018 when my colleagues felt that I would benefit from an enforced break from the Committee.

I will conclude by also offering my thanks to the many professional officers and advisors listed within the pages of this report who have contributed to ensuring the continued success of this scheme.

Croydon is fortunate to have such professional and experienced officers in its Finance team.

Andrew Pelling
Chair, London Borough of Croydon 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 of eight voting Members of the Council, one voting Pensioner Representative and two non-voting members being a Pensioner Representative and one Staff Representative.

The members of Pensions Committee during the 2017/2018 Municipal year are listed below:

Councillors:

Chair:	Andrew Pelling to 07/12/17
Vice-Chair:	Patricia Hay-Justice to 29/01/18, Chair from 29/01/18
Members:	Simon Brew
	Robert Canning from 07/12/17
	Simon Hall
	Maddie Henson
	Yvette Hopley
	Dudley Mead
	Wayne Trakas-Lawlor from 07/12/17
	John Wentworth to 07/12/17
Reserve Members:	Jamie Audsley, Robert Canning to 07/12/17, Sherwan Chowdhury, Luke Clancy, Pat Clouder, Donald Speakman, Badsha Quadir

Other members:

Pensioners' Representatives:	Gilli Driver (Voting) 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:

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

Actuary:

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

Local Pensions Board:

c/o London Borough of Croydon (The London Borough of Croydon Pension Fund)
Finance Investment and Risk, Resources Department
5A Bernard Weatherill House
8 Mint Walk
Croydon CR0 1EA
Chair: Michael Ellsmore

Custodian of Assets:

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

Auditors:

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

Bankers:

Royal Bank of Scotland

Legal Advisers:

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

AVC Provider:

Prudential
Laurence Pountney Hill, London EC4R 0HH

Pensions and Lifetime Savings Association (PLSA):

Membership number : 3547

2. Administrators to the Fund

2.1. Fund Managers:



2.2. Independent Advisers Retained by the Fund:



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.



3. Publications

The Pension Fund publishes a number of documents on the Council's website 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 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
 Fusion Lifestyle
 Ground Control
 Kier Highways Limited
 Idverde South London Waste Partnership
 Impact Group Limited
 Interserve plc

Keyring Living Support Networks
 London Hire Services Limited
 Octavo Partnership Limited
 Olive Dining
 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
 Christchurch Primary
 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 City Academy Crystal Palace
 Harris Invictus Academy
 Harris Primary Academy Benson
 Harris Primary Academy Kenley
 Harris Primary Academy Haling Park
 Harris Academy Purley
 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
 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 Brit School
 The Collegiate Trust
 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/

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/.

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.

4.2.4. Further Information

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

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.
-

The Pensions Advisory Service (TPAS)

11 Belgrave Road
London SW1V 1RB

Telephone Number: 0300 123 1047

Website: 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.

The Pensions Ombudsman

At the same address as TPAS

Telephone Number: 020 7630 2200

Website: 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.

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

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.

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

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 1/49th. Benefits for earlier membership consist of a pension calculated as 1/60th of final pay for each year of membership accrued from 1 April 2008 to 31 March 2014. The accrual rate is 1/80th 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 2018. 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 2018/19

Band	Actual pensionable pay for an employment	Contribution rate for that employment – main scheme	Contribution rate for that employment – 50/50 scheme
1	Up to £14,100	5.5%	2.75%
2	£14,101 to £22,000	5.8%	2.90%
3	£22,001 to £35,700	6.5%	3.25%
4	£35,701 to £45,200	6.8%	3.40%
5	£45,201 to £63,100	8.5%	4.25%
6	£63,101 to £89,400	9.9%	4.95%
7	£89,401 to £105,200	10.5%	5.25%
8	£105,201 to £157,800	11.4%	5.70%
9	£157,801 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 .

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/croydon-pension-fund/about-us/forms-and-publications/>

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%
Total	100%

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%
Total	34%

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 52.1% to 50.8%. The Fund's allocation to Private Equity remained in line with the target allocation at 8.4%. The Fund appointed two new managers to manage our Infrastructure allocation. Access Infrastructure and I-Squared were appointed and with increases in allocations to existing managers, the Infrastructure allocation increased from 7.5% to 10%. It is now at our target allocation. Further drawdowns were made by our PRS manager, M&G to increase the allocation to PRS from to 1.0% to 2.2%. 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.

The Fund also transferred its Global Equity mandate with Legal & General from a segregated arrangement to a pooled one. This was to take advantage of the fee discounts negotiated by the London CIV. The Markham Rae fund was unable to make an investment, so closed at the year end.

The distribution of the Fund's assets among investment managers at 31st March 2018 is outlined below.

Investment Manager	Investment Mandate	% of Fund
Legal & General	Global Equities (pooled)	50.80%
London CIV	Global Equities (Segregated)	0.01%
Standard Life	Corporate Bond Fund and Absolute Return Global Fund (Pooled)	11.30%
Wellington	Sterling Core Bond (Pooled)	5.59%
Pantheon	Private Equity Invest in unquoted companies (Pooled FofF) (US Dollar & Euro)	5.42%
Knightsbridge	Private Equity – Venture Capital (Pooled FofF) (US Dollar)	1.84%
Access Capital	Private Equity - Co-Investment small European buyout (Euro)	1.03%
North Sea Capital	Private Equity Invest in unquoted companies (Pooled FofF) (Euro)	0.07%
Equitix	Infrastructure – PFI Projects (Pooled)	5.05%
Temporis	Infrastructure – Onshore wind farms	1.81%
Green Investment Bank	Infrastructure – Offshore wind farms	2.21%
Access Capital	Infrastructure – European projects	0.91%
M&G	Private Rental Sector UK	2.21%
Schroder	UK Property Funds	9.58%
All Fund Managers – Cash Management	Maximising short term returns prior to the investment of funds	0.88%
LB of Croydon Cash Management	Cash at bank	-0.03%
Goldman Sachs Account	AAA Rated Money Market Fund	1.32%
Total		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 2017/2018 financial year the Fund returned 3.85%, underperforming its customised benchmark of 6.44% by 2.59%. The underperformance was due to the negative performance of Global Equities in the last quarter of the year. Global Equities rebounded by 8% in the following quarter. The Pensions Committee did manage to lock in some of the gains from Global Equities in the first three quarters of the year. The Pension Fund's investments continue to perform strongly in both the medium term (shown below) and the long term.

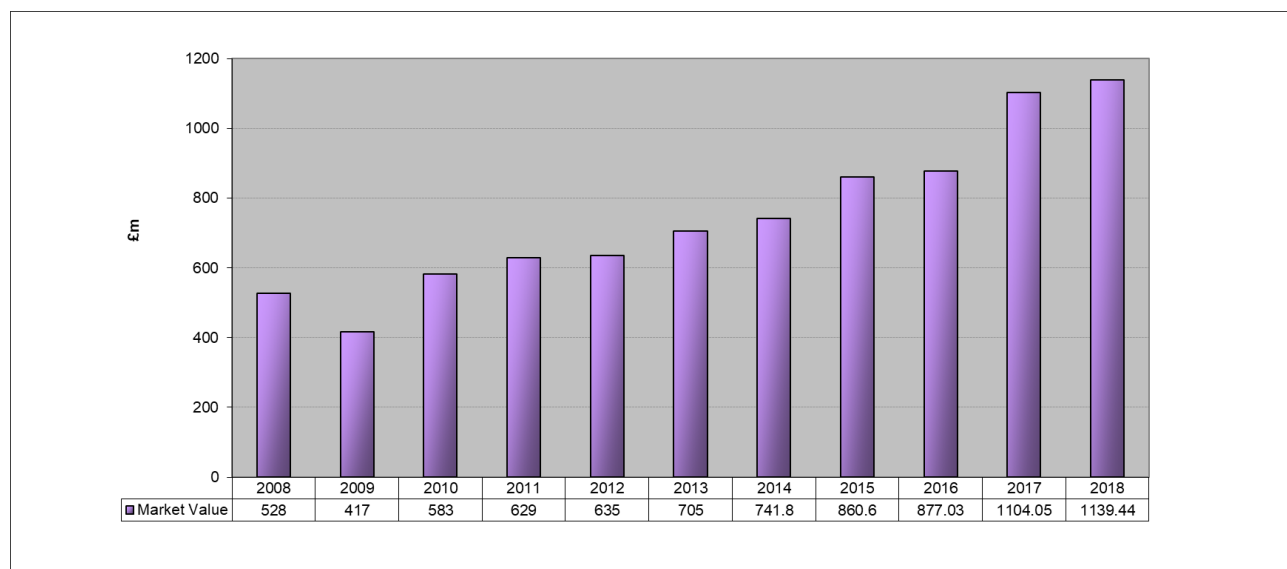
The annualised investment returns for 1, 3 and 5 years are given in the table below:

Annualised Returns	Croydon Fund	Benchmark
1 year (% per year)	3.85	6.44
3 years (% per year)	8.75	5.74
5 years (% per year)	9.2	5.36

At the 2016 Actuarial Valuation the Fund had a funding level of 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.

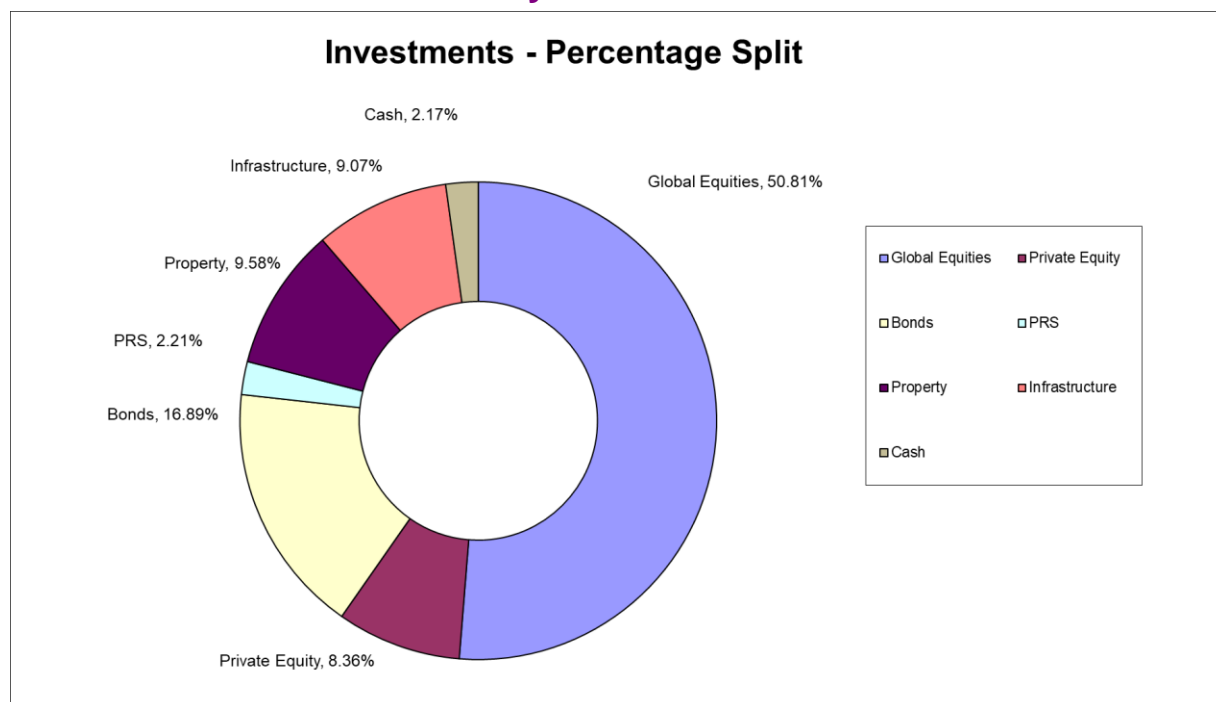
8.2. Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2018 were £1,139.4m compared with £528m at 31 March 2008. The chart below shows the growth of the Fund's assets over the past ten years.



Net Assets	2017/18 £m	%
Market Value of investments	1114.70	97.8%
Other Balances held by Fund Managers	1.47	0.1%
Cash held by Fund managers	8.60	0.8%
LBC Fund Net Current Assets	14.67	1.3%
Total at the end of the year	1139.44	100%

8.3. Distribution of Assets by Market Value



Investments	2017/18 £000s	% of Investments
Global Equities	579.0	50.8%
Private Equity	95.3	8.4%
Bonds	192.4	16.9%
PRS	25.2	2.2%
Property	109.1	9.6%
Infrastructure	113.7	10.0%
Cash	24.7	2.2%
Total at the end of the year	1139.4	100.0%

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

8.4. Top 10 Global Holdings

	Market Value at 31 March 2018 £'000	% of Total of Fund
APPLE INC	12,155	1.07%
MICROSOFT CORP	9,840	0.86%
ALPHABET	8,682	0.76%
AMAZON.COM	8,682	0.76%
BERKSHIRE HATHAWAY	5,788	0.51%
JPMORGAN CHASE & CO	5,788	0.51%
FACEBOOK CLASS A	5,209	0.46%
JOHNSON & JOHNSON	4,630	0.41%
EXXON MOBIL CORPORATION	4,630	0.41%
BANK OF AMERICA	4,052	0.36%

9. Pension Fund Annual Accounts 2017/18

NOTES TO THE PENSION FUND ACCOUNTS

1. GENERAL INFORMATION

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.

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.

The financial statements have been prepared in accordance with the 2017/18 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.

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

Admitted:

AXIS Europe plc (Housing Repairs), BRIT School, Capita Secure Information Solutions Limited, Carillion Integrated Services Limited, Churchill Services Limited, Croydon Citizen's Advice Bureau, Croydon Equipment Services Limited, Croydon Community Mediation, Croydon Voluntary Action, Eldon Housing Association Limited, Kier Highways Limited, Fusion Lifestyle, Ground Control Limited, Impact Group Limited, 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:

Meridian (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.

PENSION FUND ACCOUNTS

FUND ACCOUNT

	Notes	2017/18 £'000	2016/17 £'000
Dealings with members, employers and others directly involved in the fund			
Contributions	9	44,178	87,205
Individual Transfers in from Other Pension Funds		7,880	4,684
		52,058	91,889
Benefits			
Pensions	10	(42,381)	(40,424)
Commutation, Lump Sum Retirement and Death Benefits	10	(7,908)	(10,214)
Payments to and on Account of Leavers			
Individual Transfers Out to Other Pension Funds		(4,783)	(4,162)
Refunds to Members Leaving Service		(139)	(78)
		(55,211)	(54,878)
Net additions/(withdrawals) from dealings with members		(3,153)	37,011
Management Expenses	11	(6,845)	(6,466)
		(9,998)	30,545
RETURNS ON INVESTMENTS			
Investment Income	12	13,022	17,367
Taxes on Income (Irrecoverable Withholding Tax)	12	(361)	(795)
Profit and loss on disposal of investments and changes in the market value of investments	14	32,725	179,912
Net returns on investments		45,386	196,484
Net increase in the Fund during the year		35,388	227,029
Net assets at the start of the year		1,104,055	877,026
Net assets at the end of the year		1,139,443	1,104,055

PENSION FUND ACCOUNTS

NET ASSETS STATEMENT

	Notes	31 March 2018 £'000	31 March 2017 £'000
Investments held by the Fund Managers:			
Global equities - segregated funds	14	150	575,427
Global equities - pooled funds	14	578,812	-
Private equity funds	14	95,253	92,584
Infrastructure funds	14	113,728	83,247
Fixed Interest funds	14	192,407	191,155
Pooled Property funds	14	134,352	103,621
Derivatives	14	0	152
Total Investments held by the Fund Managers		1,114,702	1,046,186
Other Balances held by the Fund Managers			
Cash held by the Fund Managers	14	8,603	17,460
Investment income due	14	1,465	2,738
Amounts payable for purchases	14	0	(41)
Total Other Balances held by the Fund Managers		10,068	20,157
Total Assets held by the Fund Managers		1,124,770	1,066,343
Current Assets	18	21,432	39,254
Current Liabilities	19	(6,759)	(1,542)
Net Assets of the fund available to fund benefits		1,139,443	1,104,055

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial position of the fund which does take into account such obligations is dealt with in note 24.

NOTES TO THE PENSION FUND ACCOUNTS

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. The majority of the Fund's financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. Any gains and losses arising from changes in the fair value are recognised in the change in market value in the Fund Account.

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 Funds, Infrastructure Funds and Pooled Property Funds are quoted by their fund managers.

Loans and receivables consist of cash at bank, other balances investment balances and contributions receivable. They are initially recognised at fair value and subsequently at amortised cost. Impairment losses are recognised where appropriate, although no impairment has been deemed necessary.

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 term 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.

NOTES TO THE PENSION FUND ACCOUNTS

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (see Note 24).

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 23).

6. 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 24. 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.

7. 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 £172m. A 0.5% increase in the salary increase assumption would result in a £19m increase in the pension liability. A 0.5% increase in the pension increase assumption would result in a £144m increase to the pension liability.

Unquoted private equity and infrastructure investments

Due to the nature of private equity and infrastructure assets it is difficult to assess their true value until the assets are realised. Assumptions are made in the valuation of Unquoted private equities and infrastructure investments. Investment managers use the guidelines published by various bodies including the Financial Accounting Standards Board, the British Venture Capital Association and the Institutional Limited Partners Association. The value of unquoted private equities and infrastructure at 31 March 2018 was £209.0m (2017: £175.8m). There is a risk that these investments may be under or overstated in the accounts, although it is considered unlikely to have a material impact on the value of the Fund.

NOTES TO THE PENSION FUND ACCOUNTS

8. 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 2017/18) (Primary Rate from 2017/18)

	2017/18 % of pay	2018/19 % of pay	2017/18 £'000	2018/19 £'000/%	
London Borough of Croydon Pool					
London Borough of Croydon	17.6	17.6	-2.5%	-2.5%	*
Octavo Partnership Limited	16.6	16.6	-1.5%	-1.5%	plus 6

* 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	17.5	17.5	660	793
Coulsdon College	18.3	18.3	58	60
John Ruskin College	18.1	18.1	84	87

(Community) Admission Bodies

Croydon Voluntary Action	18.9	18.9	37	38
Croydon Citizens Advice Bureau	30.6	30.6	6	6
Croydon Community Mediation	18.0	18.0	4	4

Admission Bodies

Kier Highways Limited	27.2	27.2	-20.4%	-20.4%
Impact Group Limited	30.1	30.1	-10.5%	-10.5%
London Hire Services Limited	28.6	28.6	-9.4%	-9.4%
Churchill Services Limited	28.4	28.4	-8.7%	-8.7%
Veolia Environmental Services (UK) Recycling Limited (Croydon)	26	26	-4.3%	-4.3%
Fusion Lifestyle	23.6	23.6	-1.1%	-1.1%
Olympic South Limited	29.8	29.8	5	
Wallington Cars & Couriers Limited	29	29	-13.5%	-13.5%
Vinci Facilities Limited	32.3	32.3	-32.3%	-32.3%
Skanska Construction UK Limited	31.6	31.6	-10.4%	-10.4%
Sodexo Limited	29.9	29.9	-14.9%	-14.9%
Ground Control Limited	22.2	22.2	-22.2%	-22.2%
Carillion Integrated Services Limited	29	29	-8.3%	-8.3%
Quadron Services Limited	27.3	27.3	-0.2%	-0.2%
AXIS Europe plc (Housing Repairs)	27.5	27.5	-2.0%	-2.0%
Capita Secure Information Solutions Limited	28	28.0	-3.4%	-3.4%
Keyring Living Support Networks	29.4	29.4	-0.8%	-0.8%
Westgate Cleaning Services Limited	30	30.0	-	-
Veolia Environmental Services (UK) Recycling Limited (SLWP1)	25.4	25.4	-9.9%	-9.9%
Roman Catholic Archdiocese of Southwark	31.4	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)	
	2017/18	2018/19	2017/18	2018/19
	% of pay	% of pay	£'000	£'000 /%
Academies				
Harris Academy (South Norwood)	16.8	16.8	11	11
BRIT School	16.6	16.6	21	22
Harris City Academy (Crystal Palace)	15.4	15.4	-0.2%	-0.2%
St Joseph's College	18.7	18.7	30	31
St Cyprian's Greek Orthodox Primary School	18.7	18.7	7	7
Norbury Manor Business and Enterprise College	18.2	18.2	28	29
Woodcote Academy	18.8	18.8	38	39
St James the Great R.C Primary	20.0	20.0	39	40
Meridian (Addington) High Academy	18.5	18.5	28	29
Riddlesdown Collegiate	18.1	18.1	54	55
Shirley High School	18.3	18.3	32	33
Oasis Academy Byron	18.7	18.7	7	8
Robert Fitzroy Acadmey	15.5	15.5	0.3	0.3
St Thomas Becket RC Primary	19.6	19.6	14	14
Aerodome Primary Academy	17.7	17.7	11	12
Oasis Academy Coulsdon	18.0	18.0	46	47
Oasis Academy Shirley Park	18.0	18.0	79	81
Harris Academy (Purley)	17.3	17.3	34	35
The Quest Academy	17.4	17.4	31	32
ARK Oval Primary Academy	18.2	18.2	2	2
Pegasus Academy Trust	17.2	17.2	49	51
Gonville Academy	18.4	18.4	12	12
West Thornton Primary Academy	18.1	18.1	25	25
David Livingstone Academy	18.0	18.0	-0.8%	-0.8%
Applegarth Academy	18.2	18.2	10	11
Harris Primary Academy Benson	19.9	19.9	21	21
Harris Academy Kenley	18.5	18.5	7	7
Forest Academy	18.1	18.1	9	9
Castle Hill Academy	18.5	18.5	17	17
Wolsey Junior Academy	18.1	18.1	23	23
Atwood Primary School	19.1	19.1	20	20
Winterbourne Junior Boys	19.8	19.8	18	18
Oasis Academy Ryelands	18.1	18.1	30	31
Chipstead Valley Primary School	18.7	18.7	30	30
Fairchildes Primary School	17.8	17.8	58	59
Broadmead Primary Academy	18.1	18.1	53	55
Rowdown Primary School	18.9	18.9	18	19
St Mark's COE Primary School	17.8	17.8	10	11
New Valley Primary	18.5	18.5	10	10
Archbishop Lanfranc School	19.4	19.4	101	104
Harris Invictus Academy Croydon	17.4	17.4	-	-
Harris Primary Academy Haling Park	16.0	16.0	-0.8%	-0.8%
Paxton Academy	15.7	15.7	-0.7%	-0.7%
Edenham High School	18.6	18.6	111	114
St Mary's Infants School	19.1	19.1	33	34
St Mary's Junior School	18.5	18.5	16	16
Heathfield Academy	16.8	16.8	-	-
Crescent Primary Academy	16.6	16.6	15	16
Oasis Academy Arena	15.9	15.9	2	2
Good Shepherd Catholic Primary	17.5	17.5	28	29
South Norwood Academy	17.9	17.9	35	36
Chesnut Park Primary School	15.9	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 2017/18 are detailed below:

Band	2017/18 Range £	Contribution Rate %
1	0 -13,700	5.5%
2	13,701-21,400	5.8%
3	21,401-34,700	6.5%
4	34,701-43,900	6.8%
5	43,901-61,300	8.5%
6	61,301-86,800	9.9%
7	86,801-102,200	10.5%
8	102,201-153,300	11.4%
9	153,301+	12.5%

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

	2017/18	2016/17	% change
Contributing members	9,670	9,462	2.2%
Deferred pensioners	9,463	8,861	6.8%
Pensioners	7,492	7,292	2.7%
Total	26,625	25,615	3.9%

9. CONTRIBUTIONS

By Authority:

Administering Authority
Scheduled bodies
Admitted bodies

2017/18 £'000	2016/17 £'000
26,570	71,374
12,915	12,561
4,693	3,270
44,178	87,205

By Type

Employees normal contributions

Employers:

Normal contributions
Deficit recovery contributions
Augmentation contributions

2017/18 £'000	2016/17 £'000
12,038	11,263
29,132	26,915
2,253	47,839
755	1,188
44,178	87,205

10. BENEFITS

Pensions
Commutation and lump sum retirement benefits
Lump sum death benefits

2017/18 £'000	2016/17 £'000
42,381	40,424
6,731	8,779
1,177	1,435
50,289	50,638

NOTES TO THE PENSION FUND ACCOUNTS

11. MANAGEMENT EXPENSES

	2017/18 £'000	2016/17 £'000
Administration	1,417	1,340
Oversight and Governance	669	618
Investment management	4,759	4,508
	<u>6,845</u>	<u>6,466</u>

Included in oversight and governance expenses is £21k (2017: £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. 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 2018 the implicit fee was £4,027k (2017: £2,786k). Included in the investment management expenses are 286k (2017: £58k) in respect of transaction costs.

12. INVESTMENT INCOME

	2017/18 £'000	2016/17 £'000
Global equities dividends- segregated funds	9,143	13,995
Pooled Property funds income	3,842	3,343
Interest on cash deposits	37	29
Total before taxes	<u>13,022</u>	<u>17,367</u>
Taxes on income	(361)	(795)
Total	<u>12,661</u>	<u>16,572</u>

13. 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 Green Investment Group Management Limited (GIGM), Access Capital Partners, I-Squared Capital
Fixed Interest	Aberdeen Standard Investments 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 2018 was as follows

	2018		2017	
	Market £'000	Market %	Market £'000	Market %
LGIM	578,812	51.9%	575,429	55.0%
London LGPS CIV Limited (London CIV)	150	0.0%	150	0.0%
Pantheon Ventures LLP (Pantheon)	61,780	5.5%	63,400	6.1%
Knightsbridge Advisors LLC (Knightsbridge)	20,929	1.9%	18,865	1.8%
Access Capital Partners (Access)	22,160	2.0%	9,465	0.9%
North Sea Capital	781	0.1%	855	0.1%
Markham Rae LLP	---	0.0%	(1)	0.0%
Equitix Limited	57,488	5.2%	47,706	4.6%
Temporis Capital Limited (Temporis)	20,678	1.9%	9,705	0.9%
GIGM	25,165	2.3%	25,836	2.5%
Aberdeen Standard Investments (Aberdeen)	128,715	11.5%	128,077	12.2%
Wellington Management Company LLP (Wellington)	63,692	5.7%	63,078	6.0%
Schroder Investment Management Limited (Schroders)	109,123	9.8%	94,128	9.0%
M&G Investment Management Limited (M&G)	25,229	2.3%	9,493	0.9%
Total investments	<u>1,114,702</u>	<u>100.0%</u>	<u>1,046,186</u>	<u>100.0%</u>

NOTES TO THE PENSION FUND ACCOUNTS

14. RECONCILIATION IN MOVEMENT IN INVESTMENTS

	Market value 01 April 2017	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Global equities - segregated funds	575,427	242,260	(840,365)	22,828	150
Global equities - pooled funds	---	596,372	(110)	(17,450)	578,812
Private equity	92,584	14,905	(19,473)	7,237	95,253
Infrastructure	83,247	29,851	(9,925)	10,555	113,728
Fixed Interest	191,155	50,059	(50,710)	1,903	192,407
Property	103,621	30,586	(7,312)	7,457	134,352
Derivatives	152	0	(785)	633	-
	1,046,186	964,033	(928,680)	33,163	1,114,702
Cash deposits	17,460			(438)	8,603
Amounts receivable for sales	-				-
Investment income due	2,738				1,465
Amounts payable for purchases	(41)				-
Net investment assets	1,066,343	964,033	(928,680)	32,725	1,124,770

	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
Hedge funds	---	17,203	(5,956)	(57)	11,190
Property	92,431	71	(467)	474	92,509
Derivatives	74	0	0	0	74
	872,477	147,599	(153,316)	179,426	1,046,186
Cash deposits	4,310			486	17,460
Amounts receivable for sales	-				-
Investment income due	2,295				2,738
Amounts payable for purchases	(794)				(41)
Net investment assets	878,288	147,599	(153,316)	179,912	1,066,343

NOTES TO THE PENSION FUND ACCOUNTS

15. ANALYSIS OF INVESTMENTS

		2018			2017		
		UK £'000	Foreign £'000	Total £'000	UK £'000	Foreign £'000	Total £'000
Global equities-segregated funds							
LGIM	Quoted	-	-	-	54,468	520,809	575,277
London CIV	Unquoted	150	-	150	150	-	150
Total equities		150	-	150	54,618	520,809	575,427
Global equities - pooled funds							
LGIM	unit trust	-	578,812	578,812	-	-	-
Total pooled investments		-	578,812	578,812	-	-	-
Private Equity							
Pantheon	managed fund	-	61,780	61,780	-	63,400	63,400
Knightsbridge	managed fund	-	20,929	20,929	-	18,865	18,865
Access	managed fund	-	11,763	11,763	-	9,465	9,465
North Sea Capital	managed fund	-	781	781	-	855	855
Markham Rae LLP	managed fund	-	0	0	-	(1)	(1)
Total private equity		-	95,253	95,253	-	92,584	92,584
Infrastructure							
Equitix Limited	managed fund	57,488	-	57,488	47,706	-	47,706
Temporis	managed fund	20,678	-	20,678	9,705	-	9,705
GIB	managed fund	25,165	-	25,165	25,836	-	25,836
Access	managed fund	-	10,397	10,397	-	-	-
Total Infrastructure		103,331	10,397	113,728	83,247	-	83,247
Fixed Interest							
Standard Life plc	unit trust	128,715	-	128,715	128,077	-	128,077
Wellington	managed fund	-	63,692	63,692	-	63,078	63,078
Total Fixed Interest		128,715	63,692	192,407	128,077	63,078	191,155
Property							
Schroders	managed fund	109,123	-	109,123	94,128	-	94,128
M&G	managed fund	25,229	-	25,229	9,493	-	9,493
Total Property		134,352	-	134,352	103,621	-	103,621
Derivatives (Quoted)							
LGIM		-	-	-	-	152	152
Total investments		366,548	748,154	1,114,702	369,563	676,623	1,046,186

16. INVESTMENTS EXCEEDING 5% OF THE MARKET VALUE OF THE FUND

	2018		2017	
	Market £'000	% of Total investments	Market £'000	% of Total investments
Standard Life SLI Absolute Return Global Bond Strategies	65,971	5.9%	66,349	6.3%
Standard Life Corporate Bond	62,744	5.6%	61,728	6.0%
Wellington Sterling Core Bond Plus Portfolio	63,692	5.7%	63,078	6.1%
LGIM FTSE Ex Tobacco World Equity Index	578,812	51.9%	-	0.0%

NOTES TO THE PENSION FUND ACCOUNTS

17. 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. This was sold as assets were transferred to the LGIM FTSE Ex tobacco World Equity Index Fund

Type	Expires	2018		2017	
		Economic Exposure £'000	Market £'000	Economic Exposure £'000	Market £'000
Assets					
Overseas Equity	less than 1 year	----	----	3,853	152
Total value of investments		0	0	3,853	152

18. CURRENT ASSETS

	2018 £'000	2017 £'000
Cash balances	17,380	36,164
Other Local Authorities - Croydon Council	1,585	894
Other Entities and Individuals	2,467	2,196
	21,432	39,254

19. CURRENT LIABILITIES

	2018 £'000	2017 £'000
Other Local Authorities - Croydon Council	(5,666)	-
Other entities and individuals	(1,093)	(1,542)
	(6,759)	(1,542)

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

20. 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

Four 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 2018 £	Date of Payment
Cllr Hall	Wolsey Junior Academy	102,135	29,867	part paid 05/04/2018
Cllr Hall	Applegarth Academy	119,963	20,654	0 part paid 05/04/2018
Cllr Quadir	Thomas Moore School	208,363	-	
Cllr Mead	Forestdale Primary	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 £125k (2017: £123k) 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 2017/18.

21. 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.

22. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund had outstanding capital commitments of £170.4m at 31 March 2018 (2017:£164.7m) based on:

USD 86.9m at exchange rate 1.40 equals £62.0m (2017: £73.2m)
 EUR 50.0m at exchange rate 1.14 equals £43.8m (2017: £30.4m)
 GBP £64.6m (2017: £61.1m)

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.

23. 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 £220.7k for 2017/18 (£254.9k in 2016/17), are sent directly to the relevant AVC provider. The value at 31 March 2018 of separately invested additional voluntary contributions was £1.86m (£2.17m in 2016/17).

NOTES TO THE PENSION FUND ACCOUNTS

24. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

London Borough of Croydon Pension Fund ('the Fund') Actuarial Statement for 2017/18

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

- ▶ to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- ▶ to ensure that employer contribution rates are reasonably stable where appropriate;
- ▶ to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- ▶ to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- ▶ to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 22 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 70% chance that the Fund will return to full funding over 22 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £877 million, were sufficient to meet 73% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £326 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

NOTES TO THE PENSION FUND ACCOUNTS

24. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 Mar 2016
Discount rate	4.4%
Salary increase assumption	2.7%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are 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 as follows:

	Males	Females
Current Pensioners	22.3 years	24.4 years
Future Pensioners*	24.0 years	26.2 years

*Aged 45 at the 2016 Valuation

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Stacey McLean FFA
 Fellow of the Institute and Faculty of Actuaries
 For and on behalf of Hymans Robertson LLP
 20 Waterloo Street
 Glasgow
 G2 6DB

NOTES TO THE PENSION FUND ACCOUNTS

24. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2017/18 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 2018 £m	31 Mar 2017 £m
Active members	705	630
Deferred members	446	439
Pensioners	688	710
Present Value of Promised Retirement Benefits	1,839	1,779

The promised retirement benefits have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. 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

24. 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 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to increase the actuarial present value by £7m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial Assumptions

Year ended	31 Mar 2018 %p.a.	31 Mar 2017 %p.a.
Pensions Increase Rate	2.4%	2.4%
Salary Increase Rate	2.9%	3.0%
Discount Rate	2.6%	2.6%

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	24.4 years
Future Pensioners (assumed to be age 45 at the latest formal	24.0 years	26.2 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 2018	Approximate increase to pension liabilities (%)	Approximate increase to pension liabilities (£m)
0.5% increase in pensions increase rate	8%	144
0.5% increase in salary increase rate	1%	19
0.5% decrease in the discount rate	9%	172

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 2018 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:-

Stacey McLean

26 April 2018

For and on behalf of Hymans Robertson LLP

NOTES TO THE PENSION FUND ACCOUNTS

25. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period.

26. FINANCIAL INSTRUMENTS

Below is the target asset allocation agreed by Pension Committee and in force during 2017/18

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%
Total		100%

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

26. 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 by category and Net Assets Statement heading. The carrying value for Pension Funds is the same as the Fair Value.

31 March 2018

	Designated as fair value through profit and loss £'000	Loans and Receivables £'000	Financial assets and liabilities at amortised cost £'000
Financial Assets			
Fixed Interest funds	192,407	-	-
Global equities - segregated funds	150	-	-
Pooled property funds	134,352	-	-
Private equity funds	95,253	-	-
Infrastructure funds	113,728	-	-
Global equities - pooled investments	578,812	-	-
Other investment balances	-	10,068	-
Current Assets	-	21,432	-
Total Financial Assets	1,114,702	31,500	-
Financial Liabilities			
Other investment balances	-	-	-
Current liabilities	-	-	(6,759)
Total Financial Liabilities	-	-	(6,759)
Net Assets	1,114,702	31,500	(6,759)

31 March 2017

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

NOTES TO THE PENSION FUND ACCOUNTS

26. FINANCIAL INSTRUMENTS (Continued)

Net Gains and Losses on Financial Instruments

	31 March 2018 £'000	31 March 2017 £'000
Financial assets		
Designated at fair value through profit and loss	33,163	179,426
Loans and receivables	(438)	486
	32,725	179,912
Financial liabilities		
Designated at fair value through profit and loss	-	-
Financial liabilities at amortised cost	-	-
	-	-
Total	32,725	179,912

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 and quoted index linked securities.

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.

The pooled investment vehicles for global equities and fix interest funds are classified as Level 2 as the fund valuations are based on the market prices of the underlying investments using evaluated price feeds.

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, Private Equity Funds, Infrastructure Funds and Pooled Property Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity and infrastructure funds are based on valuations provided by the General Partners to the funds in which the London Borough of Croydon Pension Fund has invested.

The General Partners use a variety of methods and assumptions based on market conditions existing at the statement of financial position date which is usually at the end of December. Valuations are then rolled forward to the 31 March.

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.

Valuations in Pooled Property Funds are carried out by qualified surveyors with relevant qualifications from the Royal Institute of Chartered Surveyors. All assets have been classified as level 3 as the inputs are considered to be unobservable and developed by the valuer using best information available where there is little or no market activity at the valuation date.

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.

NOTES TO THE PENSION FUND ACCOUNTS

26. FINANCIAL INSTRUMENTS (Continued)

Values at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Fixed Interest funds		192,407		192,407
Global equities - segregated funds			150	150
Pooled property investments			134,352	134,352
Private equity funds			95,253	95,253
Infrastructure funds			113,728	113,728
Global equities - pooled investments		578,812		578,812
Other investment balances	10,068			10,068
Current Assets	21,432			21,432
Total Assets	31,500	771,219	343,483	1,146,202
Financial Liabilities				
Current liabilities	(6,759)	-	-	(6,759)
Net financial assets	24,741	771,219	343,483	1,139,443
Values at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Fixed Interest funds*		191,155		191,155
Global equities - segregated funds	575,427			575,427
Pooled property funds**			103,621	103,621
Private equity funds			92,584	92,584
Infrastructure funds			83,247	83,247
Global equities - pooled investments		-		----
Other investment balances	20,157			20,157
Current Assets	39,254			39,254
Total Assets	634,838	191,155	279,452	1,105,445
Financial Liabilities				
Current liabilities	(1,583)	-	-	(1,583)
Net financial assets	633,255	191,155	279,452	1,103,862

*Fixed Interest funds have been reclassified from Level 1 to Level 2 as the underlying asset valuations are based on market prices rather than the funds themselves being quoted.

**Pooled property funds have been reclassified from Level 2 to Level 3 assets as a significant element of the asset's valuations are based on unobservable inputs.

NOTES TO THE PENSION FUND ACCOUNTS

26. FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Fair Value Measurements within Level 3 assets

2017/2018	Market value	Transfers	Transfers out	Purchases	Sales	realised	Unrealised	Market value
	01 April 2017	to Level 3	of Level 3		gains/losses	gains/losses		31 March 2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity Funds	92,584			14,905	(19,473)	19,473	(12,236)	95,253
Infrastructure Funds	83,247			29,851	(9,925)	9,925	630	113,728
Pooled Property Funds		103,621		30,586	(7,312)	-	7,457	134,352
Unquoted Equity		150						150
Total assets	175,831	103,771	----	75,342	(36,710)	29,398	(4,149)	343,483

Pooled Property Funds and the unquoted equity were transferred from level 2 to 3 due to a reappraisal of the valuation techniques.

2016/2017	Market value	Transfers	Transfers out	Purchases	Sales	realised	Unrealised	Market value
	01 April 2016	to Level 3	of Level 3		gains/losses	gains/losses		31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity Funds	59,534			21,947	(9,174)	9,174	11,103	92,584
Infrastructure Funds	43,373			40,518	(6,672)	6,672	(644)	83,247
Total assets	102,907	----	----	62,465	(15,846)	15,846	10,459	175,831

Sensitivity analysis of Level 3 assets

The bid/offer spread of 5% for Pooled Property Funds has been used as a proxy to measure the sensitivity for all level 3 assets.

Level 3 Asset	Market value	Value on	Value on
	31 March 2018	Increase	Decrease
	£'000	£'000	£'000
Private Equity Funds	95,253	100,016	90,490
Infrastructure Funds	113,728	119,414	108,042
Pooled Property Funds	134,352	141,070	127,634
Unquoted Equity	150	158	143
Total	343,483	377,831	309,135

NOTES TO THE PENSION FUND ACCOUNTS

27. 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. A risk register is maintained and reviewed bi-annually.

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 2017	1,046,186	1,150,805	941,567
At 31 March 2018	1,106,620	1,217,282	995,958

NOTES TO THE PENSION FUND ACCOUNTS

27. 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.

Fixed interest funds, cash at bank and cash held by Fund managers are exposed to interest rate risk.

Assets exposed to interest rate risk	Value £'000	Value on Increase £'000	Value on Decrease £'000
At 31 March 2017	244,779	269,257	220,301
At 31 March 2018	218,391	240,230	196,552

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 (£GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than £GBP.

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.

Currency exposure - asset type

Currency exposure - asset type	Asset Value as at 31 March 2018 £'000
Overseas equities securities	578,812
Overseas Private Equity and Infrastructure	105,650
Overseas fixed interest	63,692
Overseas Private Equity and Infrastructure (outstanding commitments)	105,778
Total assets	<u>853,932</u>

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 2017	780,202	858,222	702,182
At 31 March 2018	853,932	939,325	768,539

NOTES TO THE PENSION FUND ACCOUNTS

27. 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 2018 was £17.4m (£36.2m at 31 March 2017). This was held with the following institutions:

Summary	Rating at 31 March 2018	Balances as at 31 March 2018 £'000	Balances at 31 March 2017 £'000
Money Market Funds	AAA		
Goldman Sachs Sterling Liquid Reserves Fund		11,313	15,019
Balance held with other Local Authorities		---	15,000
Current Account			
Royal Bank of Scotland		6,067	6,145
Total		17,380	36,164

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 2018 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

REPORT OF THE AUDITOR

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 2018 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2017/18.

In our opinion the pension fund financial statements:

- ▶ give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities,
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- ▶ have been prepared properly in accordance with the requirements of the Local Audit and Accountability Act 2014

Basis for opinion

We conducted our audit in accordance with International Standard on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standard are further described in the Auditor's responsibilities for the audit of financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtain is sufficient and appropriate to provide a basis for our opinion.

Who are we reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources and Section 151 officer's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Executive Director of Resources and Section 151 officer has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Executive Director of Resources and Section 151 officer is responsible for the other information. The other information comprises the information included in the Pension Fund Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

REPORT OF THE AUDITOR**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF CROYDON
(CONTINUED)****Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Pension Fund Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014

We have nothing to report in respect of the above matters

Responsibility of the Authority, the Director of Finance & Assets and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities on page 4, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources and Section 151 officer. The Executive Director of Resources and Section 151 officer is responsible for the preparation of the 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 2017/18 which give a true and fair view, and for such internal controls as the Executive Director of Resources and Section 151 officer determines is necessary to enable preparation of pension fund financial statement that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Executive Director of Resources and Section 151 officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decision have been made that affect the services provided by the pension fund.

The General Purpose Audit Committee is Those Charged with Governance.

Auditors responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Sarah Ironmonger

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

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