

Croydon Pension Scheme

Annual Report 2014/2015

4



Bernard Weatherill House

Contents Page

Foreword	3
1. Management & Advisers	4
2. Administrators to the Fund	6
2.1. Fund Managers:	6
2.2. Independent Advisors Retained by the Fund:	6
3. Publications	7
4. Membership	9
4.1. Organisations	9
4.1.1. Admitted:	9
4.1.2. Scheduled:	9
4.2. Resources for Members	10
4.2.1. Croydon Council Pension Website	10
4.2.2. National Local Government Pension Scheme Web Site	10
4.2.3. Additional Voluntary Contributions	10
4.2.4. Further Information	11
4.3. Members Self Service	12
5. Main Features of the Scheme	13
5.1. Eligibility for membership	13
5.2. Benefits on death in service	13
5.3. Benefits on retirement	13
5.4. Benefits on death after retirement	13
5.5. Extra benefits	14
5.6. Employee contributions	14
5.7. Pensions Increases	15
5.8. Pension Fund Fraud / National Fraud Initiative	16
6. Changes to the Local Government Pension Scheme	17
6.1. The New LGPS 2014	17
6.1.1. LGPS 2014 – Communications	18
6.1.2. Payroll and HR Specifications	18
6.1.3. Consultations	18
7. Investment Policy	20
7.1. Monitoring the Investment Managers	22
7.2. Custody	22
8. Investment Report	23
8.1. Performance	23
8.2. Movement in the Market Value of the Fund	24
8.3. Distribution of Assets by Market Value	25
8.4. Statistics 2014/2015	26
8.5. Top 25 Global Holdings	27
9. Pension Fund Annual Accounts 2014/15	28
10. Pension Fund Auditors Report	50

Foreword



Welcome to this 2014/2015 Annual Report on the Croydon Pension Fund. I write this foreword in my capacity as Chair of the Pensions Committee, the body comprising elected members from both political groups, supported by pensioner and staff representatives, professional advisers and officers of the Council, responsible for guiding the future direction for the Fund. I must preface my comments on the past year by acknowledging our debt for the hard work of these people.

The world today is an uncertain place and this is particularly true for global economics. The last year has seen a tumultuous geo-political environment which has presented many challenges to institutional investors. The Greek crisis threatened the future of the Eurozone; the collapse of oil prices surprised the markets; growth of the Chinese economy continues to perplex observers, and possibly the Chinese state; and Russia remains an unpredictable factor in the global equation.

Despite these, and many other headwinds the UK economy continues to show positive signs of continued, although uneven, recovery. The US economy is helpfully strong, and there are many interesting investment opportunities in many countries.

The Pension Fund was able to take advantage of many of these openings and consequently showed strong growth, ending the year within the top 30 performing UK local government schemes.

Management of the Pension Fund is about more than just chasing returns though. This year has seen the Fund move to a more ethically responsible stance: today no Croydon Pension cash is invested in tobacco production. The year also saw many changes in the governance of the Scheme – moving towards the introduction of a Local Pension Board to assist in ensuring good governance and seeing local government come under the remit of the Pensions Regulator.

To the down side there are still many unresolved issues relating to the Scheme and its future. Whitehall is lobbied by groups who lack the appropriate perspective and understanding to put the interests of pensioners and tax-payers first. Too often this draws focus away from our excellent governance record and good performance.

Looking forward to the coming year I hope we can maintain this excellent scheme for current, past and future employees with a focus on protecting all Scheme employers.

I have pleasure in commending this report to you.

A handwritten signature in black ink, appearing to read 'John Wentworth'. The signature is fluid and cursive, with a large loop at the end.

Councillor John Wentworth
Chairman of the Pension Committee

1. Management & Advisers

Pension Committee:

The Council is the administrating authority for the Pension Fund and discharges it's duties in respect of maintaining the Pension Fund in the form of 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 custodians
- Reviewing investment managers' performance
- Approving the actuarial valuation
- 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 includes eight voting Members of the Council and four non-voting members: two pensioner representatives and one employee representative. The members of Pensions Committee during the 2014/2015 Municipal year are listed below:

Councillors:

Chairman:	John Wentworth
Vice-Chairman:	Simon Hall
Members:	Jan Buttinger
	Maddie Mansell
	Yvette Hopley
	Humayun Kabir
	Dudley Mead
	Andrew Pelling

Reserve Members:	Carole Bonner, Robert Canning, Luke Clancy, Gerry Ryan
------------------	---

Non-voting members:

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

The Committee is supported by officers and independent external advisers.

Administering Authority:

The London Borough of Croydon Pension Fund
Finance and Assets, Chief Executive's Department
London Borough of Croydon
11A Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

Richard Simpson
Assistant Chief Executive & S151 Officer

Investment Advisors:

Ian Bailey - AON Hewitt

Actuary:

Hymans Robertson
20 Waterloo Street
Lanarkshire
Glasgow G2 6DB

Custodian of Assets:

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

Auditor:

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

Bank:

Royal Bank of Scotland

Legal Advisors:

Wragge & Co.
3 Waterhouse Square
142 Holborn
London EC1N 2SW

Pinsent Masons LLP
30 Crown Place
Earl Street
London EC2A 4ES

AVC Provider:

Prudential
Laurence Pountney Hill
London EC4R 0HH

National Association of Pension Funds (NAPF):

Membership number : 3547

2. Administrators to the Fund

2.1. Fund Managers:

BlueCrest
BlueCrest Capital Management LLP

e **equitix**
Infrastructure Equity Partnerships

KNIGHTSBRIDGE

PANTHEON
PRIVATE EQUITY

STANDARD LIFE INVESTMENTS

 **Schroders**

WELLINGTON[®]
MANAGEMENT


Legal & General
INVESTMENT MANAGEMENT

2.2. Independent Advisors Retained by the Fund:

AON Hewitt


THE BANK OF NEW YORK MELLON

HYMANS  **ROBERTSON**

WM PERFORMANCE SERVICES
A State Street Business

3. Publications

The Pension Fund publishes a number of documents on the Council's website www.croydonpensionscheme.org. Below is a brief outline of a number of those publications.

Funding Strategy Statement

The funding strategy statement is prepared in collaboration with the Fund's Actuary and consultation with the Fund's employers and investment advisors. 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
- 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
- the voting rights of Committee members.

Statement of Investment Principles (SIP)

Administrating Authorities are required to prepare, maintain and publish a written statement of the principles governing their decisions about investments. The statement includes details of:

- the investment objective and style
- the Fund's investment managers and the terms of their mandates
- the Fund's compliance with the Myners' Investment Principles.

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
- the method and frequency of communications used such as newsletters, annual benefit statements, open days and the pension's 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:

Apetito	Interserve
BRIT School	London Hire Services Ltd
Cabrini Children's Society	Mayday Travel Ltd
Carillion Integrated Services	Olympic (South) Ltd
Churchill Services	Quadron Services
Creative Environmental Networks	Roman Catholic Archdiocese of Southwark
Croydon Community Mediation	Ruskin Private Hire
Croydon Voluntary Action	Skanska Construction
Eldon Housing Association	Sodexo Ltd
EM Highway Services Limited	Veolia Environmental Services (UK) Ltd
Fairfield (Croydon) Ltd	Vinci Facilities
Fusion	Wallington Cars and Couriers
Ground Control	
Impact Group Ltd	

4.1.2. Scheduled:

Addington High Academy	Oasis Academy Byron
Aerodrome Primary Academy	Oasis Academy Coulsdon
Applegarth Academy	Oasis Academy Shirley Park
ARK Oval Primary Academy	Pegasus Academy
Atwood Primary School	Riddlesdown Collegiate
Castle Hill Academy	Robert Fitzroy Academy
Coulsdon College	Shirley High School Performing Arts College
Croydon Care Solutions	St Cyprian's Greek Orthodox Primary School Academy
Croydon College	St James the Great RC Primary and Nursery School
David Livingstone Academy	St Joseph's College
Forest Academy	St Thomas Becket Catholic Primary School
Gonville Academy	The Quest Academy
Harris Academy Purley	West Thornton Primary Academy
Harris Academy South Norwood	Wolsey Junior Academy
Harris Academy Upper Norwood	Woodcote High School
Harris City Academy Crystal Palace	
Harris Primary Academy Benson	
Harris Primary Academy Kenley	
John Ruskin College	
Norbury Manor Business and Enterprise College for Girls	

4.2. Resources for Members

4.2.1. Croydon Council Pension Website

We launched our new website this year, it was designed and created by Hymans Robertson and can be found at <http://www.croydonpensionscheme.org/>

4.2.2. National Local Government Pension Scheme Web Site

The web site address is www.lgps.org.uk and the address for the new 2014 scheme is www.lgps2014.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 the helpline on 0845 607 0077 or by visiting the website www.pru.co.uk/rz/localgov/.

Any members' additional voluntary contributions (AVC's) 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

the Local Government Pension Scheme. They are therefore not required to be 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 AVC's.

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

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
11A, 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 has recently been upgraded and provides various member data displays, 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, normally equivalent to three years pay. The administering authority has absolute discretion over the distribution of this lump sum among the deceased's relatives, dependants, personal representatives or nominees. Pensions may also be payable to the member's widow, widower, civil partner, nominated cohabiting partner and dependent children.

5.3. Benefits on retirement

For membership from April 2014 onwards, pension benefits are based on career average revalued earnings and the accrual rate is $1/49^{\text{th}}$. Benefits for earlier membership consist of a pension calculated as $1/60^{\text{th}}$ of final pay for each year of membership accrued from 1 April 2008 to 31 March 2014. The accrual rate is $1/80^{\text{th}}$ 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
- 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 1st April 2014. 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 section).

Contribution Table 2014/15

Band	Actual pensionable pay for an employment	Contribution rate for that employment – main section	Contribution rate for that employment – 50/50 section
1	Up to £13,500	5.5%	2.75%
2	£13,501 to £21,000	5.8%	2.90%
3	£21,101 to £34,000	6.5%	3.25%
4	£34,001 to £43,000	6.8%	3.40%
5	£43,001 to £60,000	8.5%	4.25%
6	£60,001 to £85,000	9.9%	4.95%
7	£85,001 to £100,000	10.5%	5.25%
8	£100,001 to £150,000	11.4%	5.70%
9	£150,000 or more	12.5%	6.25%

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 full accrued benefits from age 55 onwards if their retirement is on grounds of redundancy or business efficiency
- Members who have left employment may request payment of benefits from age 55 onwards, Actuarial reductions may apply where benefits come into payment before age 65
- 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.

5.7. 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 2014 was based on the increase in CPI during the 12 months preceding September 2013 and was set at 2.7%.

5.8. Pension Fund Fraud / National Fraud Initiative

Following closure of the Audit Commission on 31 March 2015, The National Fraud Initiative (NFI), became the responsibility of the Cabinet Office. The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information that indicate a fraud, an error or an overpayment may have taken place, signalling the need for review and potential investigation.

For nearly two decades, the NFI has enabled the participants to detect fraud, overpayment and error totalling £1.17 billion. This includes £152 million detected in Scotland, Wales and Northern Ireland.

The use of data for NFI purposes continues to be controlled to ensure compliance with data protection and human rights legislation. A revised [Code of data matching practice](#) was published and laid before Parliament on 21 July 2008 and replaced the previous Code published by the Commission in 2006. The existing code of data matching practice will continue in effect until the Minister for the Cabinet Office issues a new code.

6. Changes to the Local Government Pension Scheme

6.1. The New LGPS 2014

The new 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.

6.1.1. LGPS 2014 – Communications

The Local Government Pensions Committee (LGPC) have produced a wealth of guides, leaflets and publications for scheme administrators, employers, payroll sections and scheme members to assist with understanding and communicating the new scheme.

6.1.2. Payroll and HR Specifications

Following meetings with interested stakeholders, a payroll specification to assist employers and their software suppliers when developing payroll systems for April 2014 was published. In addition an HR specification has also been produced which contains information on the processes required to administer the scheme from April 2014.

Both specifications are available online from a new website www.lgpsregs.org. This new website will be the home of all employer and administering authority related information on the LGPS from April 2014. As well as the guidance noted above it contains the timeline regulations for the new scheme, access to statutory and GAD guidance, links to other related legislation.

6.1.3. Consultations

1 Consultation - LGPS: Opportunities for collaboration, cost savings and efficiencies

The Department for Communities and Local Government (DCLG) issued a consultation entitled 'Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies' on the 2 May 2014.

2 LGPS (Amendment) Regulations Consultation - Governance

On the 23 June 2014, DCLG commenced a consultation on the draft LGPS (Amendment) Regulations 2014 which cover the establishment and operation of local pension boards and the Scheme Advisory Board, as required by the Public Service Pension Scheme Act 2013.

3 LGPS (Amendment) Regulations Consultation - Governance and Cost Management

On the 10 October 2014, the Department for Communities and Local Government (DCLG) commenced a consultation on draft LGPS (Amendment) Regulations 2014. These draft regulations include a second iteration of the regulations issued for consultation this summer covering the new governance arrangements from next April including the establishment and operation of Local Pension Boards and the Scheme Advisory Board (as required by the

Public Service Pension Scheme Act 2013). In addition draft regulations for the new cost control mechanism are included.

4 Pensions Act 2014

On 14 May 2014 the Pensions Bill 2013/14 received Royal Assent becoming the Pensions Act 2014. The Act legislates for a fundamental change to the provision of state pension in the UK alongside a number of significant changes for private pensions.

From 6 April 2016 the state pension system in the UK will change with the introduction of a new single-tier state pension. The new system will apply to individuals who reach their State Pension Age (SPA) on or after 6 April 2016. The new full state pension about will be set in the Autumn of 2015 and will be no less than £148.40 per week. At SPA an individual will need to have built-up 35 qualifying years to get a full new state pension.

5 Shadow Scheme Advisory Board England and Wales SSAB publishes guidance on Local Pension Boards

Each Administering Authority must establish its Local Pension Board by 1 April 2015. The Shadow Scheme Advisory Board (SSAB) of the LGPS in England and Wales issued guidance for Administering Authorities on the creation and operation of local pension boards on 28 January 2015. It was accompanied by a response to the consultation on the guidance held in autumn 2014 as well as a template 'terms of reference' for a local pension board. All documents are available on the Board's website.

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 who act in consultation with 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 a Statement of Investment Principles (SIP) in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and after taking appropriate advice.

The SIP outlines the principles and policies governing investment decisions made by or on behalf of the Fund. It also reflects compliance with the 'Myners Principles'.

As set out in the Regulations, the Pensions Committee will review the SIP from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change in relation to any matter contained in the SIP, changes will be reflected within six months of the change occurring.

The SIP can be viewed at

<http://www.croydonpensionscheme.org/themes/croydon/scheme%20documents/Statement%20of%20Investment%20Principles.pdf>

Asset Allocation

The strategic asset allocation effective for the year ended 31 March 2015 was as follows:

Asset Class	Investment
Equities	50% +/- 3
Bonds	25% +/- 3
Property	10% +/- 3
Private Equity	5%
Infrastructure	5%
Fund of Hedge Funds	4%
Cash / Other	1%
Total	100%

During the year the Fund was overweight in Equities, holding 56% and slightly underweight in Bonds, holding 21% and Infrastructure investments, holding 4%. The divergence from the strategic asset allocation was constantly monitored by Pension Committee and the position was maintained pending the completion of the strategic asset allocation review which was started at the year end.

During the year the Pension Committee made a decision to exclude equity holdings in the tobacco industry and also transfer all equity assets from active management to passive management. All equity assets were transitioned from Global Thematic Partners, Fidelity and Franklin Templeton to Legal & General who were given the mandate to track the FTSE4 Good Index.

The distribution of the Fund's assets among investment managers at 31st March 2015 is outlined below.

Investment Manager	Investment Mandate	% of Fund
Legal & General	Global Equities (Segregated)	49.89%
Legal & General	Global Equity (Pooled)	5.85%
Standard Life	Corporate Bond Fund and Absolute Return Global Fund (Pooled)	14.01%
Wellington	Sterling Core Bond (Pooled)	6.72%
Pantheon	Private Equity Invest in unquoted companies (Pooled F of F) (US Dollar & Euro)	3.61%
Equitix	Infrastructure – PFI Projects (Pooled)	3.37%
Knightsbridge	Private Equity – Venture Capital (Pooled F of F) (US Dollar)	1.48%
Bluecrest	Fund of Hedge Funds (Pooled F of F)	3.76%
Schroder	UK Property Funds	8.97%
All Fund Managers – Cash Management	Maximising short term returns prior to the investment of funds	1.17%
LB of Croydon Cash Management	Cash at bank	0.20%
Goldman Sachs Account	AAA Rated Money Market Fund	0.98%
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 are provided by the Council's officers, World Markets (WM) Company 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 act as fund accountants for all the Pension Fund investments, with the exception of internally managed cash.

8. Investment Report

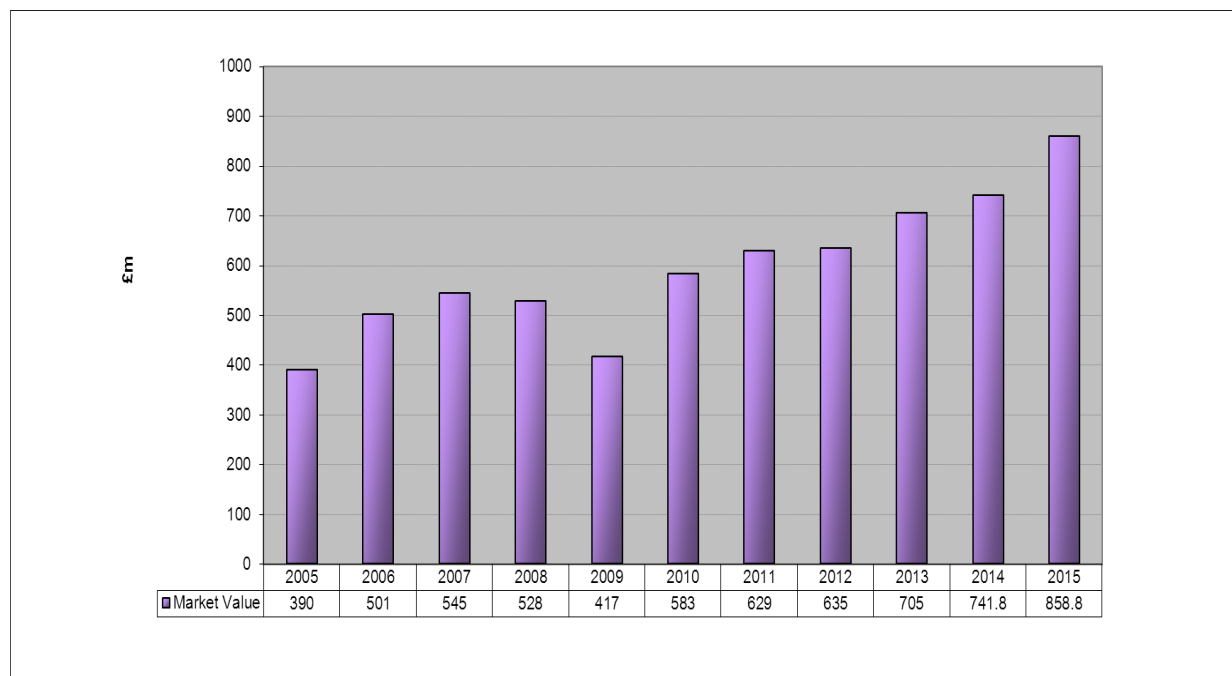
8.1. Performance

The Fund's performance is compared with the Council's own customised benchmarks and to the average return from 85 local authority pension funds, as measured by WM Company. During the 2014/15 financial year the Fund's return of 14.6% underperformed its customised benchmark of 15.1% by 0.5%. The Fund outperformed the average return for local authorities of 13.2% by 1.4%.

As at the 2013 Actuarial Valuation the Fund's funding level was 66.3%, a marginal increase from the 66% funding level as calculated at the 2010 Actuarial Valuation. The 2013 triennial valuation contribution rates took effect from 1 April 2014.

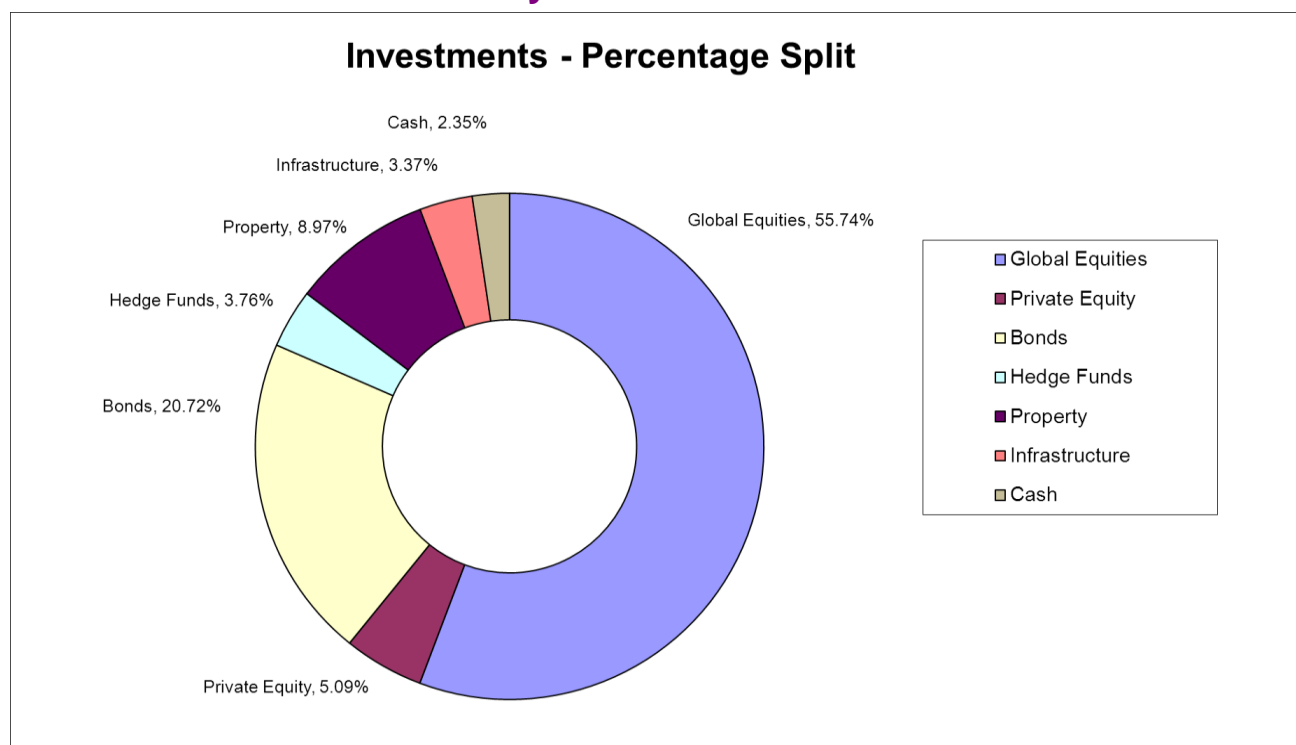
8.2. Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2015 were £858.8m compared with £390m at 31 March 2005. The chart below shows the growth of the Fund's assets over the past ten years.



Net Assets	2013/14	
	£m	%
Market Value of investments	842.1	98.1%
Other Balances held by Fund Managers	1.2	0.1%
Cash held by Fund managers	10.1	1.2%
LBC Fund Net Current Assets	5.4	0.6%
Total at the end of the year	858.8	100%

8.3. Distribution of Assets by Market Value



Investments	2014/15 £000s	% of Investments
Global Equities	480.7	55.7%
Private Equity	43.9	5.1%
Bonds	178.7	20.7%
Hedge Funds	32.4	3.8%
Property	77.3	9.0%
Infrastructure	29.0	3.4%
Cash	20.3	2.4%
Total at the end of the year	862.4	100.0%

8.4. Statistics 2014/2015

Annualised Returns	Croydon Fund	Average Local Authority
1 year (% per year)	14.6	13.2
3 years (% per year)	10.2	11
5 years (% per year)	7.7	8.7

Pension Fund Investment Distribution:	Croydon Fund	Average Local Authority
Global Equities	55.7%	61.5%
Private Equity	5.1%	4.3%
Bonds	20.7%	17.1%
Hedge Funds	3.8%	2.2%
Property	9.0%	8.1%
Other Alternatives	3.4%	4.1%
Cash	2.4%	2.7%

8.5. Top 25 Global Holdings

	Market Value at 31 March 2015	% of Total of Fund
APPLE INC	18,114,370	2.11%
MICROSOFT CORP	7,509,420	0.87%
WELLS FARGO & CO	7,027,700	0.82%
JOHNSON & JOHNSON	6,918,383	0.81%
NESTLE SA	6,051,206	0.70%
NOVARTIS AG	5,764,086	0.67%
PROCTER & GAMBLE CO/THE	5,596,082	0.65%
VERIZON COMMUNICATIONS INC	5,017,391	0.58%
ROCHE HOLDING AG	4,833,403	0.56%
TOYOTA MOTOR CORP	4,656,440	0.54%
WALT DISNEY CO/THE	4,410,245	0.51%
AT&T INC	4,290,131	0.50%
COCA-COLA CO/THE	4,225,722	0.49%
BANK OF AMERICA CORP	4,095,824	0.48%
MERCK & CO INC	4,084,249	0.48%
HSBC HOLDINGS PLC	4,024,216	0.47%
GOOGLE INC	4,009,384	0.47%
CITIGROUP INC	3,918,988	0.46%
GOOGLE INC	3,876,123	0.45%
INTEL CORP	3,660,981	0.43%
CISCO SYSTEMS INC	3,511,140	0.41%
BAYER AG	3,114,342	0.36%
COMCAST CORP	3,043,312	0.35%
CVS HEALTH CORP	2,936,114	0.34%
QUALCOMM INC	2,900,885	0.34%
	127,590,137	14.86%

9. Pension Fund Annual Accounts 2014/15

CROYDON'S ROLE AS A PENSION ADMINISTERING AUTHORITY

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

FUND'S OPERATIONS AND MEMBERSHIP

The London Borough of Croydon Pension Fund (the Fund) operates a defined benefit scheme whose purpose is to provide benefits to all of the Council's employees, with the exception of teaching staff, and to the employees of admitted and scheduled bodies who are members of the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds 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 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

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

Admitted:

Apetito, AXIS Europe plc (Housing Repairs), BRIT School, Cabrini Children's Society, Capita Secure Information Solutions Ltd, Carillion Integrated Services, Churchill Services, Creative Environmental Networks, Croydon Citizen's Advice Bureau, Croydon Community Mediation, Croydon Voluntary Action, Eldon Housing Association, EM Highway Services Ltd, Fairfield (Croydon) Ltd, Fusion, Ground Control, Impact Group Ltd, Interserve, Keyring, London Hire Services Ltd, Mayday Travel Ltd, Olympic (South) Ltd., Roman Catholic Archdiocese of Southwark, Quadron Services, Skanska Construction, Sodexo Ltd, Veolia Environmental Services (UK) Ltd, Vinci Facilities, Wallington Cars and Couriers.

Scheduled:

Addington High Academy, Aerodrome Primary Academy, Applegarth Academy, ARK Oval Primary Academy, Archbishop Lanfranc Academy, Atwood Primary School, Beulah Nursery and Infant School, Broadmead Primary, Castle Hill Academy, Chipstead Valley Primary School, Coulsdon College, Croydon Care Solutions, Croydon College, David Livingstone Academy, Fairchildes Primary Academy, Forest Academy, Gonville Academy, 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, John Ruskin College, New Valley Primary School, Norbury Manor Business and Enterprise College for Girls, Oasis Academy Byron, Oasis Academy Coulsdon, Oasis Academy Ryelands, Oasis Academy Shirley Park, Paxton Academy, Pegasus Academy, Quest Academy, Riddlesdown Collegiate, Robert Fitzroy Academy, Rowdown Primary School, Shirley High School Performing Arts College, St Cyprian's Greek Orthodox Primary School Academy, St James the Great RC Primary and Nursery School, St Joseph's College, St Thomas Becket Catholic Primary School, St Mark's COFE Primary School, Winterbourne Junior Boys, West Thornton Primary Academy, Wolsey Junior Academy, Woodcote High School.

Management of the Fund

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

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

PENSION FUND ACCOUNTS

FUND ACCOUNT

	Notes	2014/15 £'000	2013/14 £'000
Dealings with members, employers and others directly involved in the fund			
Contributions	8	49,593	49,589
Individual Transfers in from Other Pension Funds		2,768	2,729
		52,361	52,318
Benefits			
Pensions	9	37,511	35,714
Commutation, Lump Sum Retirement and Death Benefits	9	8,689	8,535
Payments to and on Account of Leavers			
Individual Transfers Out to Other Pension Funds		2,139	2,568
Refunds to Members Leaving Service		62	6
		48,401	46,823
Net additions from dealings with members		3,960	5,495
Management Expenses	10	4,478	4,236
RETURNS ON INVESTMENTS			
Investment Income	11	9,150	7,096
Taxes on Income (Irrecoverable Withholding Tax)	11	(292)	(768)
		8,858	6,328
Profit and loss on disposal of investments and changes in the market value of investments	13	108,553	29,008
Net returns on investments		117,411	35,336
Net increase in the Fund during the year		116,893	36,595
Net assets at the start of the year		741,887	705,292
Net assets at the end of the year		858,779	741,887

PENSION FUND ACCOUNTS - NET ASSETS STATEMENT

NET ASSETS STATEMENT

	Notes	31 March 2015 £'000	31 March 2014 £'000
Investments held by the Fund Managers:			
Global equities - segregated funds	13	430,301	284,739
Global equities - pooled funds	13	50,438	107,866
Private equity	13	43,886	30,804
Infrastructure	13	29,027	26,314
Fixed Interest	13	178,717	164,037
Hedge funds	13	32,398	29,567
Property	13	77,346	65,028
Derivatives	13	36	-
Total Investments held by the Fund Managers		842,149	708,355
Other Balances held by the Fund Managers			
Cash held by the Fund Managers	13	10,118	6,477
Investment income due	13	1,205	688
Amounts receivable for sales	13	0	2,162
Amounts payable for purchases	13	(39)	(1,736)
Total Other Balances held by the Fund Managers		11,284	7,591
Total Assets held by the Fund Managers		853,433	715,946
Current Assets	17	12,533	32,549
Current Liabilities	18	(7,187)	(6,608)
Net Assets of the fund available to fund benefits		858,779	741,887

NOTES TO THE PENSION FUND ACCOUNTS

1. GENERAL PRINCIPLES

The financial statements have been prepared in accordance with the provisions of Sections 6.5.1 to 6.5.5 of the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice on Local Authority Accounting in the United Kingdom is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

2. STATEMENT OF INVESTMENT PRINCIPLES

This is published on the Croydon Pension Scheme web page <http://www.croydonpensionscheme.org/>

3. BASIS OF PREPARATION

Going Concern

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for in accordance with the agreement under which they are being paid. Pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in.

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

Investment income

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

Benefits payable

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

Taxation

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

Management expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs. The comparator figures for 2013/14 have been restated to reflect the implementation of the CIPFA guidance.

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.

NOTES TO THE PENSION FUND ACCOUNTS

Oversight and Governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged to the Fund.

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

Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. A proportion of the Council's costs representing management time spent by officers on investment management are recharged to the Fund.

Financial assets

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

Derivatives

Derivatives are valued at fair value on the following basis: assets at bid price and liabilities at offer price.

Changes in the fair value are included in the change in market value in the Fund account.

The value of open futures contracts is determined using exchange prices at the reporting date.

Foreign currency transactions

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

Cash and cash equivalents

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

Financial liabilities

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

Actuarial present value of promised retirement benefits

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

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 as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

NOTES TO THE PENSION FUND ACCOUNTS

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

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

Unquoted private equity and infrastructure investments

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

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

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

Actuarial present value of promised retirement benefits

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

The effects on the net pension liability can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £87m. A 0.5% increase in the salary increase assumption would result in a £21m increase in the pension liability. A 0.5% increase in the pension increase assumption would result in a £73m increase and a 1 year increase in the life expectancy would result in a £32m to the pension liability.

NOTES TO THE PENSION FUND ACCOUNTS

7. FUND INFORMATION

The last full triennial Actuarial Valuation was completed as at 31 March 2013 which calculated the total accrued liabilities to be £1,064m (2010: £884m). The market value of the Fund's assets at the valuation date was £705m (2010: £583m). The Fund deficit was therefore £359m (2010: £301m) producing a funding level of 66.3% (2010: 66%).

The recommended common contribution rate effective 1 April 2014 was 31.4% (2010: 23.0%). The common contribution rate payable is the average future service rate for Fund employers plus an additional amount to recover the deficit and bring the funding level back to 100% over a period of 22 years, as set out in the Funding Strategy Statement. This does not represent the rate which any one employer is actually required to pay, nor is it the average of the actual employer rates.

The actual minimum employer rates are given below:

	Contribution rate required as Plus Additional Payment			percentage of pay (surplus adjustment)		
	2014/15 % of pay	2015/16 % of pay	2016/17 % of pay	2014/15 £'000	2015/16 £'000	2016/17 £'000
London Borough of Croydon and Grouped Scheduled Bodies						
London Borough of Croydon	13.1	14.1	15.1	11,594	11,594	11,594
Croydon College	13.1	14.1	15.1	393	393	393
Coulsdon College	13.1	14.1	15.1	84	84	84
John Ruskin College	13.1	14.1	15.1	55	55	55
Fairfield (Croydon) Ltd	13.1	14.1	15.1	22	22	22
Croydon Care Solutions	13.1	14.1	15.1	201	201	201
Other Grouped Bodies						
Croydon Voluntary Action	20.4	20.4	20.4	71	73	76
Cabrini Children's Society	20.4	20.4	20.4	232	239	247
Croydon Citizens Advice Bureau	20.4	20.4	20.4	6	6	6
Croydon Community Mediation	20.4	20.4	20.4	2	2	2
Creative Environmental Networks	20.4	20.4	20.4	4	4	5
BRIT School	17.9	17.9	17.9	35	36	38
Veolia	24.3	24.3	24.3	26	27	28
Interserve	23.2	23.2	23.2	73	76	78
Fusion	13.6	13.6	13.6	2	2	2
Eldon Housing PFI	18	18	18	-	-	-
Apetito	14.2	14.2	14.2	-	-	-
EM Highway Services Ltd	23	23	23	-	-	-
Mayday Travel Ltd	18.9	18.9	18.9	-	-	-
Impact Group	19.6	19.6	19.6	-	-	-
London Hire Services	19.2	19.2	19.2	-	-	-
Churchill Services	16.6	16.6	16.6	-	-	-
Olympic South Ltd	20.4	20.4	20.4	-	-	-
Wallington Cars	15.5	15.5	15.5	-	-	-
Skanska Construction UK Ltd	24.7	24.7	24.7	-	-	-
Ground Control	23.6	23.6	23.6	-	-	-
Sodexho Limited	18.2	18.2	18.2	-	-	-
Vinci Facilities	19.9	19.9	19.9	-	-	-
Carillion Integrated Services	20.7	20.7	20.7	-	-	-
Quadron Services	27.1	27.1	27.1	-	-	-
AXIS Europe plc (Housing Repairs)	25.5	25.5	25.5	-	-	-
Capita Secure Information Solutions Ltd	24.6	24.6	24.6	-	-	-
Keyring	25.6	25.6	25.6	-	-	-
Roman Catholic Archdiocese of Southwark	18.7	18.7	18.7	-	-	-

NOTES TO THE PENSION FUND ACCOUNTS

	Contribution rate required as a percentage of pay			Plus Additional Payment (surplus adjustment)		
	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17
	% of pay	% of pay	% of pay	£'000	£'000	£'000
Academies						
Harris City Academy (Crystal Palace)	13	13	13	-	-	-
Harris Academy (South Norwood)	15.1	15.1	15.1	6	6	6
Harris Academy (Upper Norwood)	18.9	18.9	18.9	12	12	13
Harris Primary Academy Benson	18.4	18.4	18.4	31	32	33
Harris Academy Kenley	16.0	16.0	16.0	10	10	11
Oasis Academy Coulsdon	20.8	20.8	20.8	64	66	68
Oasis Academy Shirley Park	18.1	18.1	18.1	123	127	132
Archbishop Lanfranc Academy	23.8	23.8	23.8	116	120	124
Harris Academy (Purley)	17.5	17.5	17.5	50	51	53
St Joseph's College	20.9	20.9	20.9	54	56	57
St Cyprian's Greek Orthodox Primary School	17.8	17.8	17.8	15	15	16
Norbury Manor Business and Enterprise Colle	18.3	18.3	18.3	49	51	53
Woodcote High School	19.3	19.3	19.3	75	77	80
St James the Great R.C Primary	24.9	24.9	24.9	57	58	60
Riddlesdown Collegiate	17.3	17.3	17.3	83	85	88
Shirley High School	19.6	19.6	19.6	50	52	53
Oasis Academy Byron	18.6	18.6	18.6	15	16	16
Robert Fitzroy Acadmey	11.5	11.5	11.5	-	-	-
St Thomas Becket RC Primary	21.2	21.2	21.2	23	23	24
Aerodome Primary School	18.1	18.1	18.1	14	15	15
The Quest Academy	20.4	20.4	20.4	46	47	49
ARK Oval Primary Academy	15.3	15.3	15.3	6	7	7
Pegasus Academy Trust	18.7	18.7	18.7	39	40	41
Gonville Academy (STEP)	19.9	19.9	19.9	17	17	18
West Thornton Primary Academy	16.8	16.8	16.8	41	43	44
David Livingstone Academy (STEP)	16.0	16.0	16.0	1	1	1
Addington High School	18.5	18.5	18.5	49	51	52
Applegarth School	18.3	18.3	18.3	22	23	23
Forest Academy	16.9	16.9	16.9	11	11	11
Wolsey Junior Primary Academy	20.4	20.4	20.4	28	29	30
Castle Hill Academy	16.5	16.5	16.5	23	24	25
Atwood Prmiary Academy	17.3	17.3	17.3	16	17	17
Oasis Academy Ryelands	16.3	16.3	16.3	34	35	36
Winterbourne Junior Boys	19.1	19.1	19.1	25	26	27
Beulah Nursery and Infant School	19.6	19.6	19.6	52	54	55
Broadmead Primary School	18.8	18.8	18.8	73	76	79
Chipstead Valley Primary School	19.8	19.8	19.8	37	38	40
Fairchildes Primary Academy	15.7	15.7	15.7	71	73	76
Harris Invictus Academy Croydon	16.5	16.5	16.5	-	-	-
Harris Primary Academy Haling Park	16.5	16.5	16.5	-	-	-
New Valley Primary School	20.7	20.7	20.7	14	15	15
Rowdown Primary School	24.6	24.6	24.6	25	25	26
St Mark's COFE Primary School	21.2	21.2	21.2	16	17	17
Paxton Academy	16.1	16.1	16.1	-	-	-

Employees in the scheme are required by the Local Government Pension Scheme Regulations 1997 as amended in April 2007 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 are detailed below:

Band	2014/15 Range £	Contribution Rate %	2013/14 Range £	Contribution Rate %
1	0 -13,500	5.5%	0 -13,700	5.5%
2	13,501-21,000	5.8%	13,701-16,100	5.8%
3	21,101-34,000	6.5%	16,101-20,800	5.9%
4	34,001-43,000	6.8%	20,801-34,700	6.5%
5	43,001-60,000	8.5%	34,701-46,500	6.8%
6	60,000-85,000	9.9%	46,501-87,100	7.2%
7	85,001-100,000	10.5%	87,100+	7.5%
8	100,001-150,000	11.4%		
9	150,000+	12.5%		

NOTES TO THE PENSION FUND ACCOUNTS

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

	2014/15	2013/14	% change
Contributing members	8,180	7,605	7.6%
Deferred pensioners	7,967	7,600	4.6%
Pensioners	6,812	6,578	3.5%
Total	22,959	21,783	5.3%

8. CONTRIBUTIONS

	2014/15 £'000	2013/14 £'000
By Authority		
Administering Authority	35,293	40,499
Scheduled bodies	9,173	6,652
Admitted bodies	5,127	2,438
	49,593	49,589

	2014/15 £'000	2013/14 £'000
By Type		
Employees normal contributions	10,588	9,809
Employers:		
Normal contributions	22,701	22,243
Deficit recovery contributions	15,672	16825
Augmentation contributions	632	712
	49,593	49,589

9. BENEFITS

	2014/15 £'000	2013/14 £'000
Pensions	37,511	35,714
Commutation and lump sum retirement benefits	7,991	7,490
Lump sum death benefits	698	1045
	46,200	44,249

10. MANAGEMENT EXPENSES

	2014/15 £'000	2013/14 £'000
Administration	1,080	1,454
Oversight and Governance	577	615
Investment management	2,821	2167
	4,478	4,236

Included Oversight and Governance expenses is £21k (2014: £23k) in respect of audit fees.

Included in the investment management expenses are £698k (2014: £487k comparative has been restated and adjustment made to change in market value) in respect of transaction costs.

11. INVESTMENT INCOME

	2014/15 £'000	2013/14 £'000
Equity dividends	6,631	5,413
Property funds	2,335	1159
Interest on cash deposits	86	513
Other income	98	11
Total before taxes	9,150	7,096
Taxes on income	(292)	(768)
Total	8,858	6,328

NOTES TO THE PENSION FUND ACCOUNTS

12. INVESTMENTS

The Fund used the following investment managers during the year.

Asset Category	Fund Managers
Equities	DB Advisors, Fidelity and Franklin Templeton (segregated funds)*; Legal and General (segregated and pooled funds)
Private equity	Knightsbridge and Pantheon
Infrastructure	Equitix
Fixed Interest	Standard Life and Wellington
Hedge Fund of Funds	Bluecrest
Property	Henderson Global Investors ** and Schroder Investment Management
Cash	Cash is invested by the in-house team

* The fund fully redeemed its investment with DB Advisors, Fidelity and Franklin Templeton on 23 March 2015 and transitioned the proceeds to Legal and General.

**The fund completed the transfer of funds from Henderson Global Investors to Schroder Investment Management.

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 Assistant Chief Executive 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 dynamics which drove this process from late 2007 were the volatility in equity markets and the availability of investment opportunities tied into temporary market inefficiencies. The objective was to achieve a more consistent level of return aligned with the (then) 25 year recovery plan for the Fund but with a much lower aggregate level of risk.

The market value and proportion of investments managed by each fund manager at 31 March 2015 was as follows

	2015		2014	
	Market £'000	Market %	Market £'000	Market %
DB Advisors	-	-	86,628	12.2%
Fidelity	-	-	125,047	17.7%
Franklin Templeton	-	-	90,342	12.8%
Legal and General	480,775	57.2%	90,587	12.8%
Pantheon Ventures	31,111	3.7%	22,948	3.2%
Knightsbridge	12,775	1.5%	7,856	1.1%
Equitix	29,027	3.4%	26,314	3.7%
Standard Life	120,798	14.3%	113,513	16.0%
Wellington	57,919	6.9%	50,524	7.1%
Bluecrest	32,398	3.8%	29,567	4.2%
Henderson Global Investors	-	-	11,041	1.6%
Schroder	77,346	9.2%	53,987	7.6%
Total investments	842,149	100.0%	708,355	100.0%

NOTES TO THE PENSION FUND ACCOUNTS

13. RECONCILIATION IN MOVEMENT IN INVESTMENTS

	Market value 01 April 2014	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2015
	£'000	£'000	£'000	£'000	£'000
Global equities - segregated funds	284,739	840,209	(745,039)	50,392	430,301
Global equities - pooled funds	107,866	218,764	(298,304)	22,112	50,438
Private equity	30,804	10,627	(4,746)	7,201	43,886
Infrastructure	26,314	3,466	(5,126)	4,373	29,027
Fixed Interest	164,037	45	-	14,635	178,717
Hedge funds	29,567	-	-	2,831	32,398
Property	65,028	19,025	(13,140)	6,433	77,346
Derivatives	-	73	(1,013)	976	36
	708,355	1,092,209	(1,067,368)	108,953	842,149
Cash deposits	6,477			(400)	10,118
Amounts receivable for sales	2,162				-
Investment income due	688				1,205
Amounts payable for purchases	(1,736)				(39)
Net investment assets	715,946			108,553	853,433

	Market value 01 April 2013	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2014
	£'000	£'000	£'000	£'000	£'000
Global equities - segregated funds	264,296	202,615	(200,160)	17,988	284,739
Global equities - pooled funds	102,649	93,230	(91,725)	3,712	107,866
Private equity	22,492	8,147	(749)	914	30,804
Infrastructure	22,403	3,500	(3,137)	3,548	26,314
Fixed Interest	205,413	883	(42,100)	(159)	164,037
Hedge funds	13,334	15,000	-	1,233	29,567
Property	37,480	32,206	(6,209)	1,551	65,028
	668,067	355,581	(344,080)	28,787	708,355
Cash deposits	7,830			221	6,477
Amounts receivable for sales	2,570				2,162
Investment income due	713				688
Amounts payable for purchases	(3,282)				(1,736)
Net investment assets	675,898			29,008	715,946

NOTES TO THE PENSION FUND ACCOUNTS

14. ANALYSIS OF INVESTMENTS

	2015			2014		
	UK £'000	Foreign £'000	Total £'000	UK £'000	Foreign £'000	Total £'000
Global equities-segregated funds (Quoted)						
DB Advisors	-	-	-	6,366	78,919	85,285
Fidelity	-	-	-	23,027	87,558	110,585
Franklin Templeton	-	-	-	9,145	79,724	88,869
Legal and General	48,763	381,538	430,301	-	-	-
Total equities	48,763	381,538	430,301	38,538	246,201	284,739
Global equities - pooled funds						
DB Advisors managed fund	-	-	-	-	1,343	1,343
Fidelity managed fund	-	-	-	-	14,463	14,463
Franklin Templeton managed fund	-	-	-	-	1,473	1,473
Legal and General unit trust	41,942	8,496	50,438	-	90,587	90,587
Total pooled investments	41,942	8,496	50,438	-	107,866	107,866
Private Equity						
Pantheon Ventures managed fund	-	31,111	31,111	-	22,948	22,948
Knightsbridge managed fund	-	12,775	12,775	-	7,856	7,856
Total private equity	-	43,886	43,886	-	30,804	30,804
Infrastructure						
Equitix managed fund	29,027	-	29,027	26,314	-	26,314
Total Infrastructure	29,027	-	29,027	26,314	-	26,314
Fixed Interest						
Standard Life unit trust	120,798	-	120,798	113,513	-	113,513
Wellington managed fund	-	57,919	57,919	-	50,524	50,524
Total Fixed Interest	120,798	57,919	178,717	113,513	50,524	164,037
Hedge Fund of Funds						
Bluecrest managed fund	32,398	-	32,398	29,567	-	29,567
Total Hedge Fund of Funds	32,398	-	32,398	29,567	-	29,567
Property						
Henderson managed fund	-	-	-	-	11,041	11,041
Schroder managed fund	77,346	-	77,346	53,987	-	53,987
Total Property	77,346	-	77,346	53,987	11,041	65,028
Derivatives (Quoted)						
Legal and General	36	-	36	-	-	-
Total investments	350,310	491,839	842,149	261,919	446,436	708,355

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

	2015		2014	
	Market £'000	Market %	Market £'000	Market %
Standard Life SLI Absolute Return Global Bond Strategies	64,878	7.7%	64,182	9.1%
Standard Life Corporate Bond	55,920	6.6%	49,528	7.0%
Wellington Sterling Core Bond Plus Portfolio	57,919	6.9%	90,342	12.7%
Legal and General North America Equity Index	-	0.0%	48,782	6.9%
Total value of investments	842,149	21.2%	708,356	35.7%

NOTES TO THE PENSION FUND ACCOUNTS

16. ANALYSIS OF DERIVATIVES

During the transition of fund managers from Fidelity, DB Advisors and Franklin Templeton to Legal and General derivatives were used to maintain equity exposure and reduce risk.

Type	Expires	2015		2014	
		Economic Exposure £'000	Market £'000	Economic Exposure £'000	Market £'000
Assets					
Overseas Equity	less than 1 year	2,581	36	-	-
Total value of investments		2,581	36	-	-

17. CURRENT ASSETS

	2014/15 £'000	2013/14 £'000
Cash balances	10,174	30,832
Other Local Authorities - Croydon Council	761	473
Other Entities and Individuals:		
Sundry Debtors	1,598	1,244
	12,533	32,549

18. CURRENT LIABILITIES

	2014/15 £'000	2013/14 £'000
Other Local Authorities - Croydon Council	(5,873)	(5,215)
Other entities and individuals (prepaid Contributions):		
Sundry expenses	(1,314)	(1,393)
	(7,187)	(6,608)

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.

19. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES

Related Parties

Related parties include:

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

Three members of the Pensions Committee 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 2015 £	Date of Payment
Cllr Hopley	Advisory Board Member Atwood Primary	77,670	5,313	17 April 2015
Cllr Mead	Director Fairfield (Croydon) Ltd	55,224	15,875	01 April 2015
Cllr Bonner	Wolsey Junior School	100,820	-	

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 Assistant Chief Executive and Section 151 Officer, and the Head of Pensions and Treasury. During the year a charge of £103.5k was made to the Fund for their services.

The only other financial relationship that either councillors or officers and managers have with the Fund is as prospective or actual pensioners for those who are scheme members. For further details please refer to Note 33 of the London Borough of Croydon's Statement of Accounts 2014/15.

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

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

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There were no contingent liabilities at 31 March 2015. The Fund had outstanding capital commitments of £63.5m at 31 March 2015 (2014:£57.1m) based on:

USD 60.2m at exchange rate 1.485 equals £40.5m
 EUR 10.8m at exchange rate 1.382 equals £7.8m
 GBP £15.2m

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

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

In accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093), there were no additional contributions included in the Pension Fund Accounts since all Additional Voluntary Contributions (AVCs), in total £260k for 2014/15 (£255k in 2013/14), are sent directly to the relevant AVC provider.

The value at 31 March 2015 of separately invested additional voluntary contributions was £1.82m (£1.75m in 2013/14).

23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

Actuary's Statement

International Financial Reporting Standards require a disclosure of the Fund's past service liabilities in a manner consistent with International Accounting Standard 19 (IAS19), and the requirements of International Accounting Standard 26 (IAS26). It should be noted that some of the assumptions used when calculating liabilities under IAS19 are different compared to those when producing an on-going funding valuation under the Local Government Pension Scheme (Administration) Regulations 2008.

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2014/15 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.

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.

I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Croydon Pension Fund, which is in the remainder of this note.

Balance Sheet

Year ended	31 Mar 2015 £m	31 Mar 2014 £m
Present Value of Promised Retirement Benefits	1,559	1,321

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2015 comprises £631m in respect of employee members, £366m in respect of deferred pensioners and £562m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

NOTES TO THE PENSION FUND ACCOUNTS

23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £194m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2015 %p.a.	31 Mar 2014 %p.a.
Inflation/Pensions Increase Rate	2.4%	2.8%
Salary Increase Rate	3.3%	3.6%
Discount Rate	3.2%	4.3%

Longevity Assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 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 *	24.4 years	26.7 years

* Future pensioners are assumed to be currently aged 45.

Please note that the assumptions identical to the previous IAS26 disclosure for the Fund.

Commutation Assumption

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.

Professional Notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 11 May 2015. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.



Prepared by:-

Richard Warden FFA

15 May 2015

For and on behalf of Hymans Robertson LLP

NOTES TO THE PENSION FUND ACCOUNTS

24. EVENTS AFTER THE REPORTING PERIOD

An admitted body, Cabrini was placed in to liquidation on 21 May 2015

All late payers of contributions have been reported to the Pensions Regulator.

25. FINANCIAL INSTRUMENTS

Below is the investment strategy agreed by Pension Committee in 2014/15.

Asset Class	Benchmark	Weighting
UK and Overseas Listed Equities	FTSE 4 Good	50% + / - 3%
Fixed Interest Securities	18% Merrill Lynch Sterling non gilts all stocks index 12% Merrill Lynch Sterling Broad Market index	25% + / - 3%
Property	IPD All Properties index	10% + / - 3%
Funds of Hedge Funds	3 month LIBOR plus 5% / plus 10%	4%
Private Equity	MSCI AC World Index / Absolute Return of 12%	5%
Infrastructure	Absolute Return of 12%	5%
Cash and Short Term Deposits		1%
Total		100%

NOTES TO THE PENSION FUND ACCOUNTS

25. FINANCIAL INSTRUMENTS (Continued)

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading.

	Designated as fair value through profit and loss £'000	Loans and Debtors £'000	Financial assets and liabilities at amortised cost £'000
Financial Assets			
Fixed interest securities	178,717	-	-
Global equities	480,739	-	-
Pooled property investments	77,346	-	-
Hedge Funds	32,398	-	-
Private equity	43,886	-	-
Infrastructure	29,027	-	-
Derivatives	36	-	-
Other investment balances	-	11,323	-
Current Assets	-	12,533	-
Total Financial Assets	842,149	23,856	-
Financial Liabilities			
Other investment balances	-	-	(39)
Current liabilities	-	-	(7,187)
Total Financial Liabilities	-	-	(7,226)
Net Assets	842,149	23,856	(7,226)

Net Gains and Losses on Financial Instruments

31 March 2015
£'000

Financial assets

Fair value through profit and loss	108,555
Loans and debtors	-
Financial assets measured at amortised cost	-

Financial liabilities

Fair value through profit and loss	-
Loans and debtors	-
Financial liabilities measured at amortised cost	-

Total

108,555

Fair Value of Financial Instruments and Liabilities

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

	Carrying Amount £'000	Fair Value £'000
Financial Assets		
Fair value through profit and loss	842,149	842,149
Loans and Debtors	23,856	23,856
Total Financial Assets	866,005	866,005
Financial Liabilities		
Fair value through profit and loss	-	-
Financial liabilities at amortised cost	(7,226)	(7,226)
Total Financial Liabilities	(7,226)	(7,226)

NOTES TO THE PENSION FUND ACCOUNTS

25. FINANCIAL INSTRUMENTS (Continued)

Valuation of financial instruments carried at fair value

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

Level One

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

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

Level Two

Financial instruments at Level 2 are those whose quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data.

Level Three

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

These instruments include various unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

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

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

Values at 31 March 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through profit and loss	659,492	109,744	72,913	842,149
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-	-	-	-
Net financial assets	659,492	109,744	72,913	842,149

NOTES TO THE PENSION FUND ACCOUNTS

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

Market Risk

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

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

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

Other price risk

Other 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.

Other price risk - sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. "Riskier" assets such as equities will display greater potential volatility than bonds, so the overall outcome will depend largely on the Funds' asset allocation. An example is provided below.

Asset type	Potential market movements (+/-)
Global Equities	9.13%
Total bonds plus index linked	4.26%
Alternatives	3.30%
Property	8.37%

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset type	Value	Percentage	Value on	Value on
	£'000	Change	Increase	Decrease
		%	£'000	£'000
Global Equities	480,775	9.13%	524,670	436,880
Total bonds plus index linked	178,717	4.26%	186,330	171,104
Alternatives	105,311	3.30%	108,786	101,836
Property	77,346	8.37%	83,820	70,872
Total Assets	842,149	4.92%	883,583	800,715

The % change for Total Assets includes the impact of correlation across asset classes

NOTES TO THE PENSION FUND ACCOUNTS

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

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	As at 31 March 2015 £'000
Cash Balances	20,326
Fixed interest securities	178,717
Total	199,043

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.

Asset type	Carrying amount as at 31 March 2015 £'000	Change in year in the net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Cash Balances	20,326	203	(203)
Fixed interest securities	178,717	1,787	(1,787)
Total	199,043	1,990	(1,990)

Currency risk

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

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

The following table summarises the Fund's currency exposure.

Currency exposure - asset type	Asset Value as at 31 March 2015 £'000
Overseas quoted securities	381,538
Overseas quoted securities - pooled	8,496
Overseas un-quoted securities	43,886
Overseas bonds	57,919
Overseas derivatives	36
Total overseas assets	491,875

Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the Fund's performance management provider (WM Company), the Council considers the likely volatility associated with foreign exchange rate movements to be 5.34% (as measured by one standard deviation).

A 5.34% fluctuation in the currency is considered reasonable based on the WM Company's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

NOTES TO THE PENSION FUND ACCOUNTS

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

A 5.34% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset Value as at 31 March 2015	Change in net assets available to pay benefits	
		+5.34%	-5.34%
	£000	£000	£000
Overseas quoted securities	381,538	401,912	361,164
Overseas quoted securities - pooled	8,496	8,950	8,042
Overseas un-quoted securities	43,886	46,230	41,542
Overseas bonds	57,919	61,012	54,826
Overseas derivatives	36	38	34
Total overseas assets	491,875	518,142	465,608

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 2015 was £10.2m (£30.8m at 31 March 2014). This was held with the following institutions:

Summary	Rating at 31 March 2015	Balances as at 31 March 2015 £'000
Money Market Funds		
Goldman Sachs	AAA	8,451
Current Account		
Royal Bank of Scotland		1,723
Total		<u>10,174</u>

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Council has immediate access to its Pension Fund cash holdings including cash invested in money market funds. The Fund defines liquid assets as assets that can be converted to cash within three months. Non-liquid assets are those assets which will take longer than three months to convert into cash. All financial liabilities at 31 March 2015 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

10. Pension Fund Auditors Report

Independent auditor's statement to the Members of the London Borough of Croydon Council on the Pension Fund Financial Statements

We have examined the pension fund financial statements for the year ended 31 March 2015, which comprise the Fund Account, the Net Assets Statement and the related notes. This report is made solely to the Members of the London Borough of Croydon Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and Assets and Section 151 officer and the auditor

As explained more fully in the Statement of the Director of Finance and Assets and Section 151 officer Responsibilities, the Director of Finance and Assets and Section 151 officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of the London Borough of Croydon Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only the sections on: Membership, Management of the Assets, Investment Report, and the Actuarial Statement.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of the London Borough of Croydon Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Grant Thornton UK LLP

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP
30 September 2015