

Croydon Pension Scheme

Annual Report 2015/2016



Delivering for Croydon

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Foreword



The Pension Committee, which since May it has been my privilege to chair, steers the main policies of the Pension Fund to provide for the good governance and stewardship of the Local Government Pension Scheme.

I must begin by thanking my predecessor, Councillor John Wentworth, for his hard work and diligence in chairing the Committee over the past two years. During his time as the Chair of the Committee the Pension Fund has grown significantly by 18.2 % from March 2014. Also the highest standards of governance have been set and the basis for a sustainable and affordable future for the Local Government Scheme established.

Thanks are also very much due to officers of the Council and the Fund's advisers Aon Hewitt for their care and advice in protecting the asset value of the Fund which is valued at £877.03 million as at March 31 2016.

The Pension Scheme serves a large community of its 25,000 members, and the other 80 Scheme employers, as well as the 3,400 teachers and NHS workers in their respective schemes that the council officer team also help. The Pension Committee is keen to conduct a positive dialogue with external Scheme employers so to maintain timely payments into the Fund.

The period covered by the Annual Report saw major oil and commodity price weakness. There were strong pull backs in emerging markets values with the Fund having divested from direct emerging markets exposure in February 2015. The first significant correction in global equities in four years was weathered. The Greek crisis consumed a lot of market attention. Central bank Quantitative Easing inflated some asset prices and drove some government bond yields into negative yielding territory.

In the face of the storms that have rolled across the landscape your investments returned 1.9% over the year and that put this Fund in the top quarter of local government funds for the second year running.

Whatever the short-term vicissitudes of the markets the Pension Fund takes a long term view appropriate to its long-term liabilities.

Being very much aware of the distortion of asset values by Central Bank action and the Fund's overweight position in equities the Pension Committee conducted its periodic review

of Statement of Investment Principles to plan for a transition of re-balancing the Fund's portfolio to include new investments in property, infrastructure and private equity.

The Pension Committee has also benefited from the scrutiny and strengthening of governance from the setting up a Local Pensions Board and you can find a report of their work here. [Sam, please insert a link.]

Councillor Andrew Pelling
Chair, Pension Committee

1. Management & Advisers

Pension Committee:

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

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

The Committee comprises eight voting Members of the Council and four non-voting members: two pensioner representatives and one employee representative. The members of Pensions Committee during the 2015/2016 Municipal year are listed below:

Councillors:

Chairman:	John Wentworth (Andrew Pelling from 23/05/2016)
Vice-Chairman:	Simon Hall
Members:	Jan Buttinger Maddie Henson Yvette Hopley Humayun Kabir Dudley Mead Andrew Pelling (Chairman from 23/05/2016)

Reserve Members:	Carole Bonner, Robert Canning, Luke Clancy, Pat Clouder, Joy Prince, Donald Speakman
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Non-voting members:

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

The Committee is supported by officers and independent external advisers.

Administering Authority:

London Borough of Croydon (The London Borough of Croydon Pension Fund)
Corporate Resources, Chief Executive's Department
5A Bernard Weatherill House
8 Mint Walk
Croydon CR0 1EA

Richard Simpson
Assistant Chief Executive & S151 Officer

Investment Advisers:

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

Actuary:

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

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

National Association of Pension Funds (NAPF):

Membership number : 3547

2. Administrators to the Fund

2.1. Fund Managers:



2.2. Independent Advisers Retained by the Fund:



2.3. Frameworks

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



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



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



3. Publications

The Pension Fund publishes a number of documents on the Council's website www.croydonpensionscheme.org. 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.

Statement of Investment Principles (SIP)

Administering 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; and
- 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; 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:

Apetito	Impact Group Ltd
AXIS Europe plc	Interserve
BRIT School	Keyring
Capita Secure Information Solutions Ltd	London Hire Services Ltd
Carillion Integrated Services	Octavo
Churchill Services	Olympic (South) Ltd
Creative Environmental Networks	Quadron Services
Croydon Care Solutions	Roman Catholic Archdiocese of Southwark
Croydon Citizen's Advice Bureau	Ruskin Private Hire
Croydon Community Mediation	Skanska Construction
Croydon Voluntary Action	Sodexo Ltd
Eldon Housing Association	Turning Point
EM Highway Services Ltd	Veolia Environmental Services (UK) Ltd
Fairfield (Croydon) Ltd	Veolia South Waest London Partnership
Fusion	Vinci Facilities
Ground Control	Wallington Cars and Couriers
	Westgate Cleaning Services

4.1.2. Scheduled:

Addington High Academy	Norbury Manor Business and Enterprise
Aerodrome Primary Academy	College for Girls
Applegarth Academy	Oasis Academy Arena
ARK Oval Primary Academy	Oasis Academy Byron
Atwood Primary Academy	Oasis Academy Coulsdon
Broadmead Primary Academy	Oasis Academy Ryelands
Castle Hill Academy	Oasis Academy Shirley Park Primary
Chipstead Valley Primary School	Park Hill Junior School
Coulsdon College	Pegasus Academy
Crescent Academy	Paxton Academy
Croydon College	Riddlesdown Collegiate
David Livingstone Academy	Robert Fitzroy Academy
Edenham High School	Rowdown Primary School
Fairchildes Academy Community Trust	Shirley High School
Forest Academy	St Cyprian's Greek Orthodox Primary Academy
Gonville Academy	St James the Great RC Primary and Nursery
Good Shepherd Catholic Primary and Nursery	School
School	St Joseph's College
Harris Primary Academy Purley Way	St Mark's C of E Primary School
Harris Academy South Norwood	St Mary's Catholic Infant School
Harris Academy Upper Norwood	St Mary's Catholic Junior School
Harris City Academy Crystal Palace	St Thomas Becket Catholic Primary School
Harris Invictus Academy	The Archbishop Lanfranc School
Harris Primary Academy Benson	The Quest Academy
Harris Primary Academy Kenley	West Thornton Primary Academy
Harris Primary Academy Haling Park	Winterbourne Boys' Academy
Heathfield Academy	Wolsey Junior Academy
John Ruskin College	Woodcote High School
New Valley Primary School	

4.2. Resources for Members

4.2.1. Croydon Council Pension Website

The Scheme's Croydon 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.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 their 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

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 AVC's.

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 1st April 2015. 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 2015/16

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 £13,600	5.5%	2.75%
2	£13,601 to £21,200	5.8%	2.90%
3	£21,201 to £34,400	6.5%	3.25%
4	£34,401 to £43,500	6.8%	3.40%
5	£43,501 to £60,700	8.5%	4.25%
6	£60,701 to £86,000	9.9%	4.95%
7	£86,001 to £101,200	10.5%	5.25%
8	£101,201 to £151,800	11.4%	5.70%
9	£151,800 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 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 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 2015 was based on the increase in CPI during the 12 months to September 2014 and was set at 1.2%.

5.9. 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, signaling the need for review and potential investigation.

For nearly two decades, the NFI has enabled the participants to detect fraud, overpayment and error totaling £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 <http://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, with links to other related legislation.

6.1.3. Consultations

1. Strengthening the incentive to save: a consultation on pensions tax relief

The consultation ran from 8 July 2015 to 30 September 2015 and a summary of responses was published in March 2016.

The government consulted on whether a case existed for reforming pensions tax relief to strengthen incentives to save and offer savers greater simplicity and transparency, or whether to keep the current system.

2. Consultation on a Public Sector Exit Payment cap

The consultation ran from 31 July 2015 to 27 August 2015.

The Government consulted on a policy proposal to limit the amount of redundancy and other exit payments (excluding pensions) that can be made to individuals leaving the public sector to £95,000. In terms of local government this could include pay in lieu of notice, redundancy and other severance payments as well as the employer cost of funding redundancy and efficiency retirements.

3. Consultation proposing to revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

The consultation ran from 25 November 2015 to 19 February 2016.

The Government drafted a set of new regulations for the management and investment of LGPS funds and was seeking views on whether the proposed revisions to the investment regulations would give authorities the flexibility to determine a suitable investment strategy that appropriately takes account of risk and whether the proposals to introduce the power of intervention as a safeguard would enable the Secretary of State to intervene, when appropriate, to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

4. Consultation on Public sector exit payment recovery regulations

The consultation ran from 20 December 2015 to 25 January 2016.

The government consulted on draft regulations that would give effect to the powers enacted in the Small Business, Enterprise and Employment Act 2015, which allow for the recovery of exit payments when a high earner returns to the public sector shortly after exit.

5. Consultation on reforms to public sector exit payments

The consultation ran from 5 February 2016 to 3 May 2016.

The government consulted on options to reform public sector exit payment terms to ensure greater consistency, fairness and sustainability in the provision of public sector compensation.

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 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.

During the year a review of the asset allocation was carried out and as a result the Pensions Committee agreed a revised asset allocation at the September 2015 Pensions Committee and a revised SIP became effective from December 2015.

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

Asset Allocation

The strategic asset allocation was reviewed during the year and a revised target asset allocation became effective in December 2015. The new asset allocation is as follows:

Asset Class	Investment
Equities	42% +/- 5
Fixed Interest	23% +/- 5
Alternatives	34% +/- 5
Cash / Other	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 take time it takes to source investable opportunities. During the year progress was made towards the transition of assets to the new investment strategy. Hedge funds were fully liquidated in October 2015 and the allocations to private equity, Infrastructure and Property all increased by 1.5% over the year. The Fund remained overweight in Equities, holding 56%. The transition to the new strategic asset allocation was and will continue to be monitored by the Pension Committee on a quarterly basis.

During the year two new managers were appointed; Access Capital Partners Limited which manages a Co-Investment vehicle investing in European Smallcaps and Temporis Capital LLP which manages a fund investing in Onshore Wind Farms. Further commitments were also made to our existing infrastructure and private equity managers.

The distribution of the Fund's assets among investment managers at 31st March 2016 is outlined overleaf.

Investment Manager	Investment Mandate	% of Fund
Legal & General	Global Equities (Segregated)	49.49%
Legal & General	Global Equity (Pooled)	7.05%
Standard Life	Corporate Bond Fund and Absolute Return Global Fund (Pooled)	13.74%
Wellington	Sterling Core Bond (Pooled)	6.72%
Pantheon	Private Equity Invest in unquoted companies (Pooled FofF) (US Dollar & Euro)	4.94%
Equitix	Infrastructure – PFI Projects (Pooled)	4.30%
Temporis	Infrastructure – Onshore Wind Farms	0.64%
Knightsbridge	Private Equity – Venture Capital (Pooled FofF) (US Dollar)	1.60%
Access	Private Equity - Co-Investment Small European Buyout	0.23%
Schroder	UK Property Funds	10.51%
All Fund Managers – Cash Management	Maximising short term returns prior to the investment of funds	0.49%
LB of Croydon Cash Management	Cash at bank	0.28%
Goldman Sachs Account	AAA Rated Money Market Fund	0.00%
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, State Street Performance Services 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

APPENDIX A

New York Mellon also maintain records for all the Pension Fund investments, with the exception of internally managed cash.

8. Investment Report

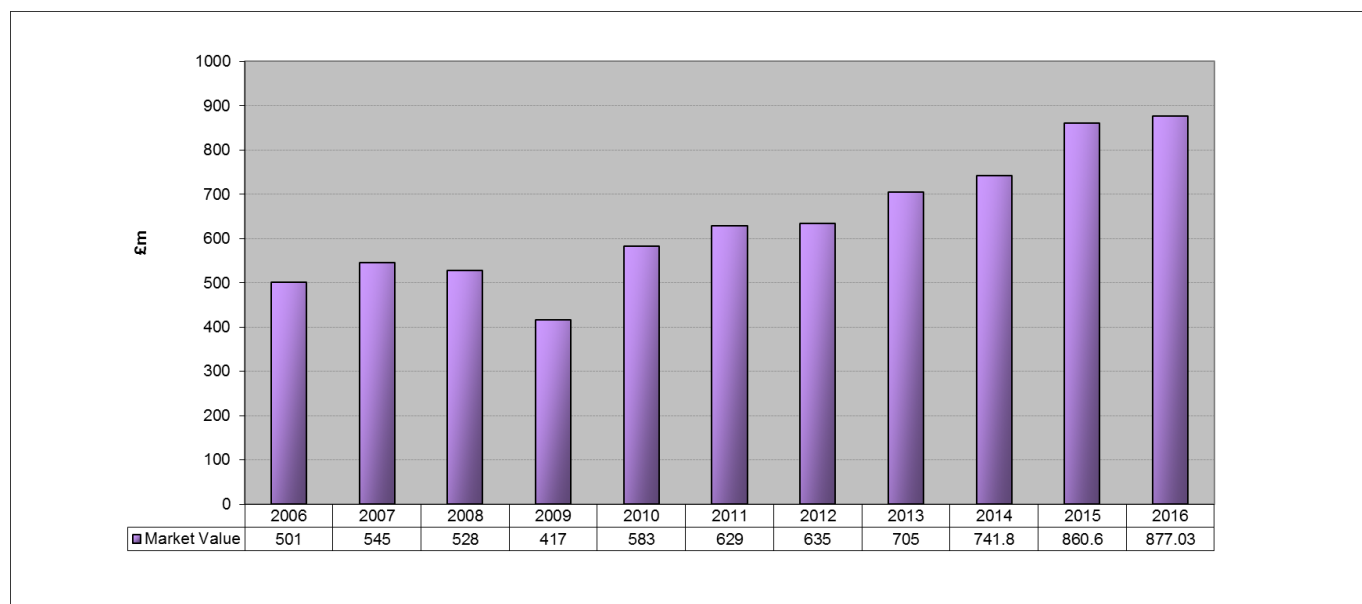
8.1. Performance

The Fund's performance is compared with the Council's own customised benchmarks and to the average return from 88 local authority pension funds, as measured by State Street Performance Services. During the 2015/16 financial year the Fund's return of 1.9% underperformed its customised benchmark of 2.1% by 0.2%. The Fund was placed in the upper quartile when compared to the other local authority pension funds outperforming the average return of 0.2% by 1.7%.

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 next Actuarial Valuation is due effective 31 March 2016 and the results will be available in February 2017.

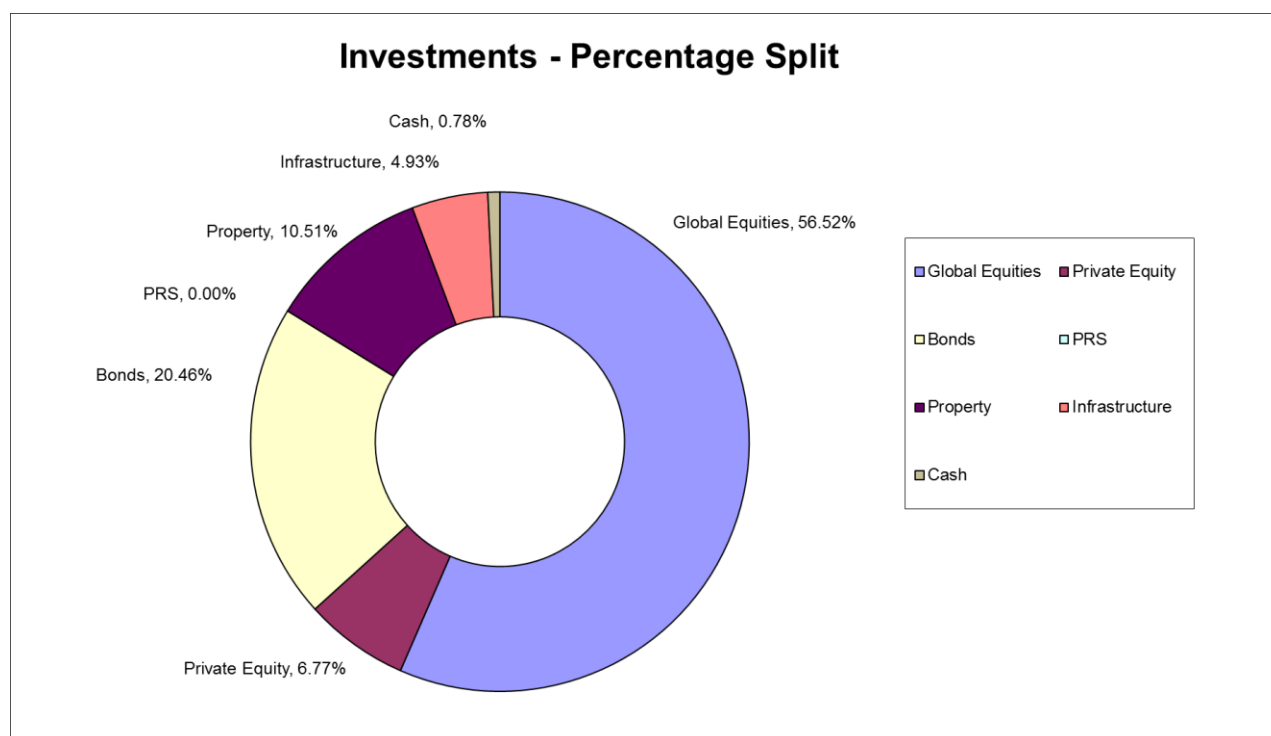
8.2. Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2016 were £877.03m compared with £501m at 31 March 2006. The chart below shows the growth of the Fund's assets over the past ten years.



Net Assets	2015/16 £m	%
Market Value of investments	872.48	99.5%
Other Balances held by Fund Managers	1.50	0.2%
Cash held by Fund managers	4.31	0.5%
LBC Fund Net Current Assets	-1.26	-0.1%
Total at the end of the year	877.03	100%

8.3. Distribution of Assets by Market Value



Investments	2015/16 £000s	% of Investments
Global Equities	497.2	56.5%
Private Equity	59.5	6.8%
Bonds	179.9	20.5%
PRS	0.0	0.0%
Property	92.4	10.5%
Infrastructure	43.4	4.9%
Cash	6.8	0.8%
Total at the end of the year	879.2	100.0%

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

8.4. Statistics 2015/2016

Annualised Returns	Croydon Fund	Average Local Authority
1 year (% per year)	1.9	0.2
3 years (% per year)	7.1	6.4
5 years (% per year)	6.7	7.1

Pension Fund Investment Distribution:	Croydon Fund	Average Local Authority
Global Equities	56.5%	60.1%
Private Equity	6.8%	4.7%
Bonds	20.5%	16.4%
Property (including PRS)	10.5%	9.1%
Other Alternatives	4.9%	1.8%
Cash	0.8%	2.9%
Hedge Funds	0.0%	2.2%
Pooled Multi Asset	0.0%	2.8%

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

8.5. Top 25 Global Holdings

	Market Value at 31 March 2016	% of Total of Fund
APPLE INC	15,502,295	1.77%
MICROSOFT CORP	10,840,032	1.24%
JOHNSON & JOHNSON	7,626,990	0.87%
WELLS FARGO & CO	6,338,919	0.72%
AT&T INC	6,206,498	0.71%
NESTLE SA	5,996,399	0.68%
ALPHABET INC	5,700,838	0.65%
PROCTER & GAMBLE CO/THE	5,668,297	0.65%
VERIZON COMMUNICATIONS INC	5,659,048	0.65%
ALPHABET INC	5,540,523	0.63%
COCA-COLA CO/THE	4,904,999	0.56%
ROCHE HOLDING AG	4,555,050	0.52%
WALT DISNEY CO/THE	4,273,138	0.49%
NOVARTIS AG	4,052,274	0.46%
INTEL CORP	3,910,591	0.45%
MERCK & CO INC	3,791,865	0.43%
TOYOTA MOTOR CORP	3,778,939	0.43%
COMCAST CORP	3,774,568	0.43%
CISCO SYSTEMS INC	3,707,280	0.42%
BANK OF AMERICA CORP	3,636,186	0.41%
UNITEDHEALTH GROUP INC	3,199,717	0.36%
CITIGROUP INC	3,168,877	0.36%
HSBC HOLDINGS PLC	3,118,080	0.36%
CVS HEALTH CORP	2,912,317	0.33%
AMGEN INC	2,888,461	0.33%
	130,752,182	14.91%

9. Pension Fund Annual Accounts 2015/16

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 Care Solutions, 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, Octavo, Olympic (South) Ltd, Quadron Services, Roman Catholic Archdiocese of Southwark, Ruskin Private Hire, Skanska Construction, Sodexo Ltd, South London Waste Partnership Ltd, Turning Point, Veolia Environmental Services (UK) Ltd, Vinci Facilities, Wallington Cars and Couriers, Westgate Cleaning.

Scheduled:

Meridan (Addington) High Academy, Aerodrome Primary Academy, Applegarth Academy, The Archbishop Lanfranc School ARK Oval Primary Academy, Atwood Primary School, Beulah Infants School, Broadmead Primary School, Castle Hill Academy, Chipstead Valley Primary School, Coulsdon College, Crescent Primary Academy, Croydon College, David Livingstone Academy, Edenham High School, Fairchildes Primary School, 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 for Girls, 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 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.

Management of the Fund

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

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

APPENDIX A

PENSION FUND ACCOUNTS			
FUND ACCOUNT	Notes	2015/16 £'000	2014/15 £'000
Dealings with members, employers and others directly involved in the fund			
Contributions	8	52,518	49,593
Individual Transfers in from Other Pension Funds		1,429	2,768
		53,947	52,361
Benefits			
Pensions	9	39,792	37,511
Commutation, Lump Sum Retirement and Death Benefits	9	10,326	8,689
Payments to and on Account of Leavers			
Individual Transfers Out to Other Pension Funds		1,727	2,139
Refunds to Members Leaving Service		127	62
		51,972	48,401
Net additions from dealings with members		1,975	3,960
Management Expenses	10	3,031	4,478
RETURNS ON INVESTMENTS			
Investment Income	11	14,460	9,150
Taxes on Income (Irrecoverable Withholding Tax)	11	(648)	(292)
		13,812	8,858
Profit and loss on disposal of investments and changes in the market value of investments	13	3,671	110,372
Net returns on investments		17,483	119,230
Net increase in the Fund during the year		16,427	118,712
Net assets at the start of the year		860,599	741,887
Net assets at the end of the year		877,026	860,599

APPENDIX A

PENSION FUND ACCOUNTS - NET ASSETS STATEMENT

NET ASSETS STATEMENT

	Notes	31 March 2016 £'000	31 March 2015 £'000
Investments held by the Fund Managers:			
Global equities - segregated funds	13	435,188	430,301
Global equities - pooled funds	13	61,962	50,438
Private equity	13	59,534	45,248
Infrastructure	13	43,373	29,485
Fixed Interest	13	179,915	178,717
Hedge funds	13	-	32,398
Property	13	92,431	77,346
Derivatives	13	74	36
Total Investments held by the Fund Managers		872,477	843,969
Other Balances held by the Fund Managers			
Cash held by the Fund Managers	13	4,310	10,118
Investment income due	13	2,295	1,205
Amounts receivable for sales	13	-	-
Amounts payable for purchases	13	(794)	(39)
Total Other Balances held by the Fund Managers		5,811	11,284
Total Assets held by the Fund Managers		878,288	855,253
Current Assets	17	6,986	12,533
Current Liabilities	18	(8,248)	(7,187)
Net Assets of the fund available to fund benefits		877,026	860,599

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 2015/16 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.

NOTES TO THE PENSION FUND ACCOUNTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Management expenses**

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

Administrative expenses

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

Oversight and Governance costs

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

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

Investment management expenses

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

Financial assets

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

NOTES TO THE PENSION FUND ACCOUNTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Additional voluntary contributions

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

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

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

Unquoted private equity and infrastructure investments

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

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

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

Actuarial present value of promised retirement benefits

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

The effects on the net pension liability can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £145m. A 0.5% increase in the salary increase assumption would result in a £39m increase in the pension liability. A 0.5% increase in the pension increase assumption would result in a £104m increase and a 1 year increase in the life expectancy would result in a £44m increase to the pension liability.

NOTES TO THE PENSION FUND ACCOUNTS

7. FUND INFORMATION

The last full triennial Actuarial Valuation was completed as at 31 March 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 next triennial valuation is due effective 31 March 2016.

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 Plus Additional Payment as a percentage of pay (surplus adjustment)			
	2015/16 % of pay	2016/17 % of pay	2015/16 £'000	2016/17 £'000
London Borough of Croydon and Grouped Scheduled Bodies				
London Borough of Croydon	14.1	15.1	11,594	11,594
Croydon College	14.1	15.1	393	393
Coulsdon College	14.1	15.1	84	84
John Ruskin College	14.1	15.1	55	55
Fairfield (Croydon) Ltd	14.1	15.1	22	22
Croydon Care Solutions	14.1	15.1	201	201
Other Grouped Bodies				
Croydon Voluntary Action	20.4	20.4	73	76
Cabrini Children's Society	20.4	20.4	239	247
Croydon Citizens Advice Bureau	20.4	20.4	6	6
Croydon Community Mediation	20.4	20.4	2	2
Creative Environmental Networks	20.4	20.4	4	5
BRIT School	17.9	17.9	36	38
Veolia	24.3	24.3	27	28
Interserve	23.2	23.2	76	78
Fusion	13.6	13.6	2	2
Eldon Housing PFI	18	18	-	-
Apetito	14.2	14.2	-	-
EM Highway Services Ltd	23	23	-	-
Mayday Travel Ltd	18.9	18.9	-	-
Impact Group	19.6	19.6	-	-
London Hire Services	19.2	19.2	-	-
Churchill Services	16.6	16.6	-	-
Olympic South Ltd	20.4	20.4	-	-
Wallington Cars	15.5	15.5	-	-
Skanska Construction UK Ltd	24.7	24.7	-	-
Ground Control	23.6	23.6	-	-
Sodexo Limited	18.2	18.2	-	-
Vinci Facilities	19.9	19.9	-	-
Carillion Integrated Services	20.7	20.7	-	-
Quadron Services	27.1	27.1	-	-
AXIS Europe plc (Housing Repairs)	25.5	25.5	-	-
Capita Secure Information Solutions Ltd	24.6	24.6	-	-
Keyring	25.6	25.6	-	-
Roman Catholic Archdiocese of Southwark	18.7	18.7	-	-
South London Waste Partnership	15.5	15.5	-	-
Westgate Cleaning	27	27.0	-	-
Octavo	24.2	24.2	-	-

NOTES TO THE PENSION FUND ACCOUNTS

	Contribution rate required as a		Plus Additional Payment	
	percentage of pay		(surplus adjustment)	
	2015/16	2016/17	2015/16	2016/17
	% of pay	% of pay	£'000	£'000
Academies				
Harris City Academy (Crystal Palace)	13	13	-	-
Harris Academy (South Norwood)	15.1	15.1	6	6
Harris Academy (Upper Norwood)	18.9	18.9	12	13
Harris Primary Academy Benson	18.4	18.4	32	33
Harris Academy Kenley	16.0	16.0	10	11
Oasis Academy Coulsdon	20.8	20.8	66	68
Oasis Academy Shirley Park	18.1	18.1	127	132
Archbishop Lanfranc Academy	23.8	23.8	120	124
Harris Academy (Purley)	17.5	17.5	51	53
St Joseph's College	20.9	20.9	56	57
St Cyprian's Greek Orthodox Primary School	17.8	17.8	15	16
Norbury Manor Business and Enterprise College for Gir	18.3	18.3	51	53
Woodcote High School	19.3	19.3	77	80
St James the Great R.C Primary	24.9	24.9	58	60
Riddlesdown Collegiate	17.3	17.3	85	88
Shirley High School	19.6	19.6	52	53
Oasis Academy Byron	18.6	18.6	16	16
Robert Fitzroy Acadmey	11.5	11.5	-	-
St Thomas Becket RC Primary	21.2	21.2	23	24
Aerodome Primary School	18.1	18.1	15	15
The Quest Academy	20.4	20.4	47	49
ARK Oval Primary Academy	15.3	15.3	7	7
Pegasus Academy Trust	18.7	18.7	40	41
Gonville Academy (STEP)	19.9	19.9	17	18
West Thornton Primary Academy	16.8	16.8	43	44
David Livingstone Academy (STEP)	16.0	16.0	1	1
Addington High School	18.5	18.5	51	52
Applegarth School	18.3	18.3	23	23
Forest Academy	16.9	16.9	11	11
Wolsey Junior Primary Academy	20.4	20.4	29	30
Castle Hill Academy	16.5	16.5	24	25
Atwood Primary Academy	17.3	17.3	17	17
Oasis Academy Ryelands	16.3	16.3	35	36
Winterbourne Junior Boys	19.1	19.1	26	27
Beulah Nursery and Infant School	19.6	19.6	54	55
Broadmead Primary School	18.8	18.8	76	79
Chipstead Valley Primary School	19.8	19.8	38	40
Fairchildes Primary Academy	15.7	15.7	73	76
Harris Invictus Academy Croydon	16.5	16.5	-	-
Harris Primary Academy Haling Park	16.5	16.5	-	-
New Valley Primary School	20.7	20.7	15	15
Rowdown Primary School	24.6	24.6	25	26
St Mark's COFE Primary School	21.2	21.2	16	17
Paxton Academy	16.1	16.1	-	-
Crescent Primary Academy	19.5	19.5	13	13
Edenham High	23.5	23.5	101	101
Good Shepherd Roman Catholic Primary	21.4	21.4	38	38
Heathfield Academy	22.1	22.1	1	1
Oasis Academy Arena	17.1	17.1	3	3
South Norwood Academy	14.1	14.1	-	-
St Mary's Infants School	24.1	24.1	52	52
St Mary's Junior School	24.1	24.1	24	24

NOTES TO THE PENSION FUND ACCOUNTS

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	2015/16 Range £	Contribution Rate %	2014/15 Range £	Contribution Rate %
1	0 -13,600	5.5%	0 -13,500	5.5%
2	13,601-21,200	5.8%	13,501-21,000	5.8%
3	21,201-34,400	6.5%	21,101-34,000	6.5%
4	34,401-43,500	6.8%	34,001-43,000	6.8%
5	43,501-60,700	8.5%	43,001-60,000	8.5%
6	60,701-86,000	9.9%	60,000-85,000	9.9%
7	86,001-101,200	10.5%	85,001-100,000	10.5%
8	101,201-151,800	11.4%	100,001-150,000	11.4%
9	151,800+	12.5%	150,000+	12.5%

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

	2015/16	2014/15	% change
Contributing members	8,757	8,180	7.1%
Deferred pensioners	8,676	7,967	8.9%
Pensioners	7,103	6,812	4.3%
Total	24,536	22,959	6.9%

8. CONTRIBUTIONS

By Authority:

	2015/16 £000	2014/15 £000
Administering Authority	37,751	35,293
Scheduled bodies	10,598	9,173
Admitted bodies	4,169	5,127
	52,518	49,593

By Type

	2015/16 £000	2014/15 £000
Employees normal contributions	10,964	10,588
Employers:		
Normal contributions	24,952	22,700
Deficit recovery contributions	14,353	15,672
Augmentation contributions	2,249	633
	52,518	49,593

9. BENEFITS

	2015/16 £000	2014/15 £000
Pensions	39,792	37,511
Commutation and lump sum retirement benefits	9,166	8,086
Lump sum death benefits	1,160	603
	50,118	46,200

NOTES TO THE PENSION FUND ACCOUNTS

10. MANAGEMENT EXPENSES

	2015/16 £000	2014/15 £000
Administration	1,323	1,080
Oversight and Governance	492	577
Investment management	1,216	2821
	3,031	4,478

Included in oversight and governance expenses is £21k (2015: £21k) in respect of audit fees. Included in the investment management expenses are £52k (2015: £698k) in respect of transaction costs.

11. INVESTMENT INCOME

	2015/16 £000	2014/15 £000
Equity dividends	11,834	6,631
Property funds	2,578	2,335
Interest on cash deposits	46	86
Other income	2	98
Total before taxes	14,460	9,150
Taxes on income	(648)	(292)
Total	13,812	8,858

12. INVESTMENTS

The Fund used the following investment managers during the year.

Asset Category	Fund Managers
Equities	Legal and General (segregated and pooled funds)
Private equity	Knightsbridge, Pantheon and Access
Infrastructure	Equitix and Temporis
Fixed Interest	Standard Life and Wellington
Hedge Fund of Funds	Bluecrest*
Property	Schroder Investment Management
Cash	Cash is invested by the in-house team

* The fund fully redeemed its investment with BlueCrest on 23 October 2015 and re-invested the proceeds with Legal and General.

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 2016 was as follows

	2016		2015	
	Market £'000	Market %	Market £'000	Market %
Legal and General	497,224	57.0%	480,775	57.0%
Pantheon Ventures	43,435	5.0%	32,188	3.8%
Knightsbridge	14,081	1.6%	13,060	1.5%
Access	2,018	0.2%	-	-
Equitix	37,779	4.3%	29,485	3.5%
Temporis	5,594	0.6%	-	-
Standard Life	120,792	13.8%	120,798	14.3%
Wellington	59,123	6.8%	57,919	6.9%
Bluecrest	-	-	32,398	3.8%
Schroder	92,431	10.6%	77,346	9.2%
Total investments	872,477	100.0%	843,969	100.0%

NOTES TO THE PENSION FUND ACCOUNTS

13. RECONCILIATION IN MOVEMENT IN INVESTMENTS

	Market value 01 April 2015	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Global equities - segregated funds	430,301	62,548	(43,105)	(14,556)	435,188
Global equities - pooled funds	50,438	40,000	(29,627)	1,151	61,962
Private equity	45,248	12,958	(4,412)	5,740	59,534
Infrastructure	29,485	11,785	(2,079)	4,182	43,373
Fixed Interest	178,717	49	-	1,149	179,915
Hedge funds	32,398	-	(32,228)	(170)	-
Property	77,346	10,765	(1,768)	6,088	92,431
Derivatives	36	298	(167)	(92)	74
	843,969	138,403	(113,386)	3,492	872,477
Cash deposits	10,118			179	4,310
Amounts receivable for sales	---				-
Investment income due	1,205				2,295
Amounts payable for purchases	(39)				(794)
Net investment assets	855,253			3,671	878,288

	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	10,628	(4,746)	8,562	45,248
Infrastructure	26,314	3,466	(5,126)	4,831	29,485
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	1,092,210	(1,067,368)	110,772	843,969
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			110,372	855,253

NOTES TO THE PENSION FUND ACCOUNTS

14. ANALYSIS OF INVESTMENTS

	2016			2015		
	UK £'000	Foreign £'000	Total £'000	UK £'000	Foreign £'000	Total £'000
Global equities-segregated funds						
Legal and General Quoted	47,805	387,233	435,038	48,763	381,538	430,301
London CIV Unquoted	150	-	150	-	-	-
Total equities	47,955	387,233	435,188	48,763	381,538	430,301
Global equities - pooled funds						
Legal and General unit trust	61,962		61,962	41,942	8,496	50,438
Total pooled investments	61,962	-	61,962	41,942	8,496	50,438
Private Equity						
Pantheon Ventures managed fund	-	43,435	43,435	-	32,188	32,188
Knightsbridge managed fund	-	14,081	14,081	-	13,060	13,060
Access managed fund	-	2,018	2,018	-	-	-
Total private equity	-	59,534	59,534	-	45,248	45,248
Infrastructure						
Equitix managed fund	37,779	-	37,779	29,485	-	29,485
Temporis managed fund	5,594	-	5,594	-	-	-
Total Infrastructure	43,373	-	43,373	29,485	-	29,485
Fixed Interest						
Standard Life unit trust	120,792	-	120,792	120,798	-	120,798
Wellington managed fund	-	59,123	59,123	-	57,919	57,919
Total Fixed Interest	120,792	59,123	179,915	120,798	57,919	178,717
Hedge Fund of Funds						
Bluecrest managed fund	-	-	-	32,398	-	32,398
Total Hedge Fund of Funds	-	-	-	32,398	-	32,398
Property						
Schroder managed fund	92,431	-	92,431	77,346	-	77,346
Total Property	92,431	-	92,431	77,346	-	77,346
Derivatives (Quoted)						
Legal and General	-	74	74	-	36	36
Total investments	366,513	505,964	872,477	350,732	493,237	843,969

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

	2016		2015	
	Market £'000	Market %	Market £'000	Market %
Standard Life SLI Absolute Return Global Bond Strategies	64,972	7.4%	64,878	7.7%
Standard Life Corporate Bond	55,820	6.4%	55,920	6.6%
Wellington Sterling Core Bond Plus Portfolio	59,123	6.8%	57,919	6.9%
Legal and General World Equity Index	61,962	7.1%	-	-
Total value of investments	241,877	27.7%	178,717	21.18%

NOTES TO THE PENSION FUND ACCOUNTS

16. ANALYSIS OF DERIVATIVES

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

Type	Expires	2016		2015	
		Economic Exposure £'000	Market £'000	Economic Exposure £'000	Market £'000
Assets					
Overseas Equity	less than 1 year	3,298	74	2,581	36
Total value of investments		3,298	74	2,581	36

17. CURRENT ASSETS

	2015/16 £'000	2014/15 £'000
Cash balances	2,522	10,174
Other Local Authorities - Croydon Council	2,357	761
Other Entities and Individuals:		
Sundry Debtors	2,107	1,598
	6,986	12,533

18. CURRENT LIABILITIES

	2015/16 £'000	2014/15 £'000
Other Local Authorities - Croydon Council	(5,976)	(5,873)
Other entities and individuals:		
Sundry expenses	(2,272)	(1,314)
	(8,248)	(7,187)

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

NOTES TO THE PENSION FUND ACCOUNTS

19. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES**Related Parties****Related parties include:**

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

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

Councillor	Fund Employer	Contributions payable by Fund Employer £	Amount Outstanding at 31 March 2016 £	Date of Payment
Cllr Buttinger	Hayes School Kenley			
Cllr Hall	Wolsey Junior Academy	133,902	29,000	07 July 2016
Cllr Hall	Applegarth Academy	154,764	-	
Cllr Mansell	Norbury Manor Primary School			
Cllr Mead	Fairfield Services Ltd	96,470	9,592	15 April 2016
Cllr Mead	Forestdale Primary			
Cllr Mead	Courtwood Primary School		-	

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 (Corporate Resources 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 2015/16.

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

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

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund had outstanding capital commitments of £113.8m at 31 March 2016 (2015:£63.5m) based on:

USD 58.8m at exchange rate 1.437 equals £40.9m
 EUR 26.9m at exchange rate 1.261 equals £21.3m
 GBP £51.5m

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

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

In accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093), there were no additional contributions included in the Pension Fund Accounts since all Additional Voluntary Contributions (AVCs), in total £265 k for 2015/16 (£260k in 2014/15), are sent directly to the relevant AVC provider.

The value at 31 March 2016 of separately invested additional voluntary contributions was £1.98m (£1.82m in 2014/15).

NOTES TO THE PENSION FUND ACCOUNTS

23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

Actuary's Statement

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

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2015/16 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 2016 £m	31 Mar 2015 £m
Active members	631	631
Deferred members	324	366
Pensioners	508	562
Present Value of Promised Retirement Benefits	1,463	1,559

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. 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.

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).

NOTES TO THE PENSION FUND ACCOUNTS

23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £137m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2016 %p.a.	31 Mar 2015 %p.a.
Inflation/Pensions Increase Rate	2.2%	2.4%
Salary Increase Rate	3.2%	3.3%
Discount Rate	3.5%	3.2%

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 2016 for IAS19 purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Sensitivity Analysis

Change in assumptions for the year ended 31 March 2016	Approximate increase to pension liabilities (%)	Approximate increase to pension liabilities (£m)
0.5% decrease in the discount rate	10%	145
1 year increase in member life expectancy	3%	44
0.5% increase in salary increase rate	3%	39
0.5% increase in pensions increase rate	7%	104



Prepared by:-

Richard Warden FFA

20 April 2016

For and on behalf of Hymans Robertson LLP

NOTES TO THE PENSION FUND ACCOUNTS

24. EVENTS AFTER THE REPORTING PERIOD

The results of the referendum, held on 23rd June 2016 on whether the UK should remain in the EU impacts on the value and management of the Pension Fund. It will take a considerable period for this decision to be fully evaluated. Immediately though, there are repercussions for the banking sector, the valuation of underlying assets, the regulatory environment governing investments and sterling valuations.

25. FINANCIAL INSTRUMENTS

During the year the Pensions Committee, having considered advice from their investment advisors agreed a new target asset allocation for the Fund.

Below is the target asset allocation agreed by Pension Committee in 2015/16.

Asset Class	Benchmark	Weighting
UK and Overseas Listed Equities	FTSE 4 Good	42% + / - 5%
Fixed Interest Securities	18% Merrill Lynch Sterling non gilts all stocks index 12% 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

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	179,915	-	-
Global equities	497,150	-	-
Pooled property investments	92,431	-	-
Private equity	59,534	-	-
Infrastructure	43,373	-	-
Derivatives	74	-	-
Other investment balances	-	6,605	-
Current Assets	-	6,986	-
Total Financial Assets	872,477	13,591	-
Financial Liabilities			
Other investment balances	-	-	(794)
Current liabilities	-	-	(8,248)
Total Financial Liabilities	-	-	(9,042)
Net Assets	872,477	13,591	(9,042)

Net Gains and Losses on Financial Instruments	31 March 2016 £'000
Financial assets	
Fair value through profit and loss	3,671
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	3,671

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	872,477	872,477
Loans and Debtors	13,591	13,591
Total Financial Assets	886,068	886,068
Financial Liabilities		
Fair value through profit and loss	(9,042)	(9,042)
Financial liabilities at amortised cost	-	-
Total Financial Liabilities	(9,042)	(9,042)

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 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through profit and loss	677,139	92,431	102,907	872,477
Loans and Debtors	13,591	-	-	13,591
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(9,042)	-	-	(9,042)
Net financial assets	681,688	92,431	102,907	877,026

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	9.79%
Total bonds plus index linked	4.21%
Alternatives	2.86%
Property	2.18%

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	497,150	9.79%	545,821	448,479
Total bonds plus index linked				
linked	179,915	4.21%	187,489	172,341
Alternatives	102,907	2.86%	105,850	99,964
Property	92,431	2.18%	94,446	90,416
Total Assets	872,403	5.84%	923,351	829,481

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 2016 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 2016
	£'000
Cash Balances	6,832
Fixed interest securities	179,915
Total	<u>186,747</u>

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 2016	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£'000	£'000	£'000
Cash Balances	6,832	68	(68)
Fixed interest securities	179,915	1,799	(1,799)
Total	<u>186,747</u>	<u>1,867</u>	<u>(1,867)</u>

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 2016
	£'000
Overseas quoted securities	387,233
Overseas quoted securities - pooled	61,962
Overseas un-quoted securities	59,534
Overseas bonds	59,123
Overseas derivatives	74
Total overseas assets	<u>567,926</u>

*The legal & General pooled fund is domiciled in the UK but the underlying assets are global and is therefore included in the above for currency exposure analysis

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 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 2016 £000	Change in net assets available to pay benefits	
		+5.34% £000	-5.34% £000
Overseas quoted securities	387,233	407,911	366,555
Overseas quoted securities - pooled	61,962	65,271	58,653
Overseas un-quoted securities	59,534	62,713	56,355
Overseas bonds	59,123	62,280	55,966
Overseas derivatives	74	78	70
Total overseas assets	<u>567,926</u>	<u>598,253</u>	<u>537,599</u>

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 £2.5m (£10.2m at 31 March 2015). This was held with the following institutions:

Summary	Rating at 31 March 2016	Balances as at 31 March 2016 £'000
Money Market Funds		
Goldman Sachs	AAA	35
Current Account		
Royal Bank of Scotland		2,487
Total		<u>2,522</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 2016 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 ON THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE PENSION FUND ANNUAL REPORT

We have examined the pension fund financial statements of the London Borough of Croydon for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the Fund Account, the Net Assets Statement and the related notes.

This statement is made solely to the Members of the London Borough of Croydon, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the Members of the Authority those matters we are required to state to them in an auditor's statement 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 work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Chief Executive (Corporate Resources and Section 151 Officer) and Auditor

As explained more fully in the Statement of Responsibilities in the administering Authority's annual Statement of Accounts, the Assistant Chief Executive (Corporate 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 applicable law and proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

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

In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the sections on: Membership and Investment Report.

We conducted our work in accordance with guidance issued by the Audit Commission. Our reports on the administering authority's annual Statement of Accounts describes the basis of our opinions on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of the London Borough of Croydon 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
Chartered Accountants
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

25 September 2015