Pension Committee Agenda

To: Councillor Andrew Pelling (Chair);
Councillor Patricia Hay-Justice (Vice-Chair);
Councillors Simon Brew, Simon Hall , Maddie Henson, Yvette Hopley, Dudley Mead, and John Wentworth

Reserve Members: Councillors Jamie Audsley, Robert Canning, Sherwan Chowdhury, Luke Clancy, Pat Clouder, Badsha Quadir and Donald Speakman.

Staff Side Representative; Mr Isa Makumbi
Pensioner Representatives: Ms Gilli Driver and Mr Peter Howard

A meeting of the **PENSION COMMITTEE** which you are hereby summoned to attend, will be held on **Tuesday 19th September 2017** at **10:00am** in **the Council Chamber, the Town Hall, Katharine Street, Croydon CR0 1NX**

JACQUELINE HARRIS-BAKER
Director of Law and Monitoring Officer
London Borough of Croydon
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12 September 2017

AGENDA - PART A

1. Apologies for absence

To receive any apologies for absence from any members of the Committee

2. Minutes (Page 1)

To approve the Part A minutes of the last meeting held on Tuesday 20 June 2017

3. Disclosure of Interest

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. Urgent Business (if any)

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency

5. Exempt Items

To confirm the allocation of business between Part A and Part B of the Agenda

6. Progress Report for Quarter Ended 30 June 2017 (Page 7)

7. Scheme Advisory Board Consultations (Page 17)

8. Changes to State Retirement Age (Page 21)

9. Implementation of the Markets in Financial Instruments Derivative

(MiFID II) (Page 25)

10. Annual Report and Local Pension Board Report (Page 55)

11. Election of Pensioner Representatives to the Pension Committee (Page 85)

12. The Local Government Pension Scheme Advisory Board Code of Transparency (Page 91)

13. Local Government Pension Scheme Investment Pooling: Spring 2017 Progress Review (Page 99)

14. Exclusion of the Press & Public

The following motion is to be moved and seconded as the “camera resolution” where it is proposed to move into part B of a meeting:
"That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended"

AGENDA - PART B

B1. Minutes (Page 107)

To approve the Part B minutes of the last meeting held on Tuesday 20 June 2017

B2. Progress Report for Quarter Ended 30 June 2017 (Page 109)

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Pension Committee

Meeting held on Tuesday 20 June 2017 at 10:00am in the Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

DRAFT
MINUTES - PART A

Present:	Councillor A Pelling (Chair) Councillor P Hay-Justice (Vice-Chair) Councillor S Brew, Councillor S Hall, Councillor, Councillor M Henson, Councillor Y Hopley, Mr. P Howard.
Also present:	Matthew Hallett (Pension Fund Investment Manager), Nigel Cook (Head of Pensions and Treasury), Freda Townsend (Governance and Compliance Manager), Daniel Carpenter (Aon Hewitt), Dave Lyons (Aon Hewitt), Lisa Taylor (Director of Finance, Investment and Risk), Richard Simpson (Executive Director, Resources).
Apologies:	Apologies were received from Councillor Wentworth, Councillor Dudley Mead, Gilli Driver and Isa Makumbi. Apologies were also received from Mike Ellsmore (Chair of Pension Board).

MINUTES - PART A

A1 Minutes

Councillor Henson stated that her apologies to the last meeting had been omitted from the minutes.

The Committee **RESOLVED** that, with the addition of the apologies stated above, the minutes be approved as a correct record of that meeting.

A2 Disclosure of Interest

There were no disclosures.

A3 Urgent Business (if any)

There was no urgent business.

A4 **Exempt Items**

The allocation of the meeting between Part A and Part B was agreed as stated in the agenda.

A5 **Communications Strategy**

The Head of Pensions and Treasury introduced the report and stated that the only significant change that had been made to the strategy was the removal of the annual Open Day event. Beyond this, the Committee were informed that the strategy remained unchanged.

The Committee **RESOLVED** to approve the Communication Policy Statement.

A6 **Administration Strategy**

The Head of Pensions and Treasury introduced the report and drew the Committee's attention to paragraph 3.5, which contained the main change from the previous iteration of the strategy. In response to a question from the Committee it was confirmed that the cohabitation period was defined as a minimum of two years.

The Committee **RESOLVED** to approve the updated Administration Strategy Statement.

A7 **Progress Report for Quarter Ended 31 March 2017**

The Head of Pensions and Treasury introduced the report, noting that the Fund had now reached £1.1bn in value and drew the Committee's attention to paragraph 3.6 of the report which detailed the progress towards meeting the asset allocation targets.

The representatives from Aon Hewitt confirmed that the Fund was in a queue for M&G property investments due to the high demand for the fund manager's portfolio. The Committee's attention was also drawn to page 65 of the report, which illustrated that the past quarter had seen good returns from the Fund's assets.

The Committee **NOTED** the contents of the report.

A8 **Currency Hedging**

The Chair moved the item to the end of the Part A agenda, to allow for transition into Part B if it were required.

The Head of Pensions and Treasury introduced the report on currency hedging which had been considered for a number of years by officers and Committee Members to address the risks associated with the weakening of sterling. The question for the Committee to address was what proportion of the exposure should be hedged and when such products should be purchased.

The representatives from Aon Hewitt delivered a presentation (found at Appendix 1 of the report) on the broader context and trends of currency markets and the role of hedging – which in the Croydon Fund context was to crystallise the gains made from a weaker sterling over the previous three years. In response to questions from the Committee it was stated that currency hedging was on the agenda of most local authority pension funds, with many actively implementing such hedging.

The Committee asked officers detailed questions related to the hedging process and the risks associated therein. Members were informed that the fund manager currently used, L&G, were able to provide a currency hedging product in-house, and at a considerably low cost. The Committee discussed the benefits and drawbacks of such a scheme and came to a consensus that, in the principle, the low costs associated with currency hedging made it a prudent step to take.

The Committee **RESOLVED** that:

1. The foreign currency denominated equity component of the portfolio should be hedged, with an upper limit of no more than 50% of the value of foreign currency denominated listed equities;
2. The execution of any decision relating to currency hedging, including timing, be delegated to the Executive Director of Resources in consultation with the Chair of the Pensions Committee and the Cabinet Member for Finance and Treasury.

A9 **Appointment of Actuary**

The Head of Pensions and Treasury stated that the report confirmed the conclusion of the procurement process for the scheme actuary. The contract had been split into three lots, as detailed within the report, and two providers had been chosen. The process had been undertaken through the National Framework which ensured good quality control and value for money.

The Committee **RESOLVED** to note the award under the National Local Government Pension Scheme Framework of the following Lots by the Executive Director of Resources (Section 151 officer):

Lot 1: Actuarial Services, to Hymans Robertson;
Lot 2: Benefits Consultancy, to Hymans Robertson; and
Lot 3: Governance Consultancy, to AON Hewitt.

Each contract to run for a period of four years.

A10 Schedule of Visits

The Head of Pensions and Treasury drew the Committee's attention to two paragraphs within the report. Paragraph 3.5 detailed the new fund managers and investments engaged with over the preceding period and paragraph 3.7 identified the calendar of proposed visit dates. Members were encouraged to attend the visits where possible as a useful opportunity to ask detailed questions of fund managers.

Following questions from the Committee it was confirmed that the fund managers regularly flew their senior staff around the world to meet with investors. Officers also committed to providing Members with a summary of each fund manager prior to the meetings.

The Committee **NOTED** the contents of the report.

A11 Training Policy

The Head of Pensions and Treasury informed the Committee that the training log formed part of the annual report that would be submitted for approval at the September Pension Committee meeting. Members were invited to review the information provided in the log and submit any changes or amendments to the data contained therein.

In response to a question from the Committee it was confirmed that Pension Committee Members could access the Pension Regulator's free online training courses which had been provided to Pension Board Members.

The Committee **NOTED** the contents of the report.

A12 [The following motion is to be moved and seconded as the "camera resolution" where it is proposed to move into part B of a meeting]

Councillor: Pelling proposed, and Councillor: Henson seconded, to move the Camera resolution and take the remainder of the meeting into Part B.

The Committee **RESOLVED** to move into Part B of the agenda and thus exclude members of the press and public.

The meeting ended at 11.40am.

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Croydon Council

REPORT TO:	**PENSION COMMITTEE 19 September 2017**
AGENDA ITEM:	**6**
SUBJECT:	**Progress Report for Quarter Ended 30 June 2017**
LEAD OFFICER:	**Richard Simpson** **Executive Director of Resources**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments are in line with their benchmark and in line with the assumptions made by the Actuary.

FINANCIAL SUMMARY:

This report shows that the market value of the Pension Fund (the Fund) investments as at 30 June 2017 was £1,102.1m compared to £1,091.5m at 31 March 2017, an increase of £10.6m and a return of 1.22% over the quarter. The performance figures in this report have been compiled from data provided by each fund manager and are quoted net of fees. Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor AON Hewitt.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1 RECOMMENDATIONS

1.1 The Committee are asked to consider and note the contents of this report.

2 EXECUTIVE SUMMARY

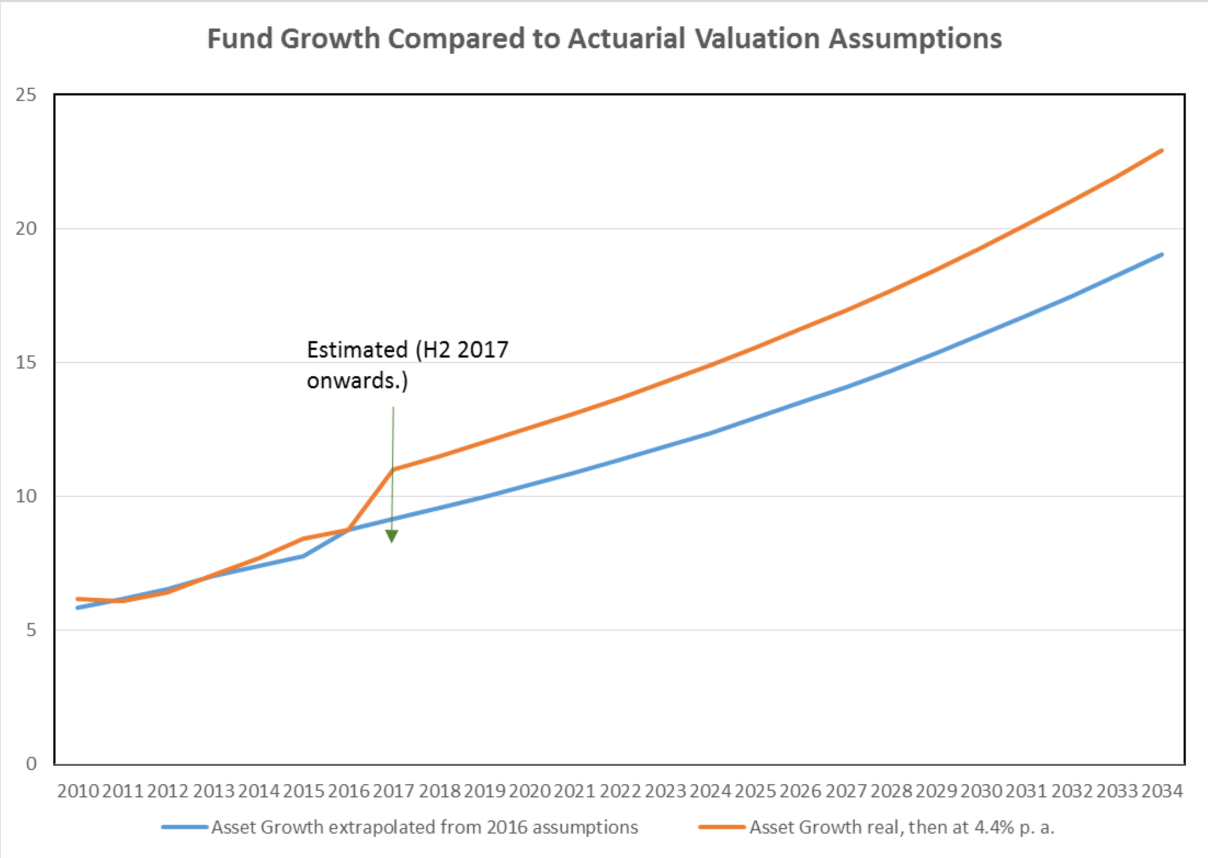
2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 30 June 2017. The report falls into three parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied. The third section deals with risk management and the fourth and final section summarises the recent investment manager site visit. Detailed numeric data and commentary from the Fund's advisors is included as appendices to this report for readers who are interested in that deeper analysis.

3 DETAIL

Section 1: Performance

3.1 The 2016 Triennial Actuarial Valuation has recommended an asset outperformance assumption of 2.2% over gilt yields, meaning an asset return assumption, otherwise described as the discount rate, of 4.4%. The valuation also assumes that the funding gap will be closed over a 22 year period. However, as a risk based model has been adopted, the recovery period is less critical. In setting the Pension Fund's investment strategy, performance is measured against a benchmark return of CPI + 4% for the whole fund. Achieving this benchmark return will ensure the investments achieve a higher return than as calculated in the valuation and assuming other assumptions remain constant, the funding gap will reduce.

3.2 The following graph has been compiled from this information. The blue line shows the expected track of the value of assets growing in line with the 2016 valuation assumptions. This will be adjusted after subsequent valuations. The orange line shows the actual value of the Fund to date and plots the course of growth over subsequent years using the same assumptions. This is a simplistic measure of the success of the strategy which does not take account of other variables, such as changes in demographic factors, wage inflation forecasts and other assumptions and that does not reflect changes in cash contributions nor movements in the gilt yield curve. However it is valuable as a tool to help track whether the direction of travel is in the right direction.



3.3 Details of the performance of individual components of the portfolio are summarised in Appendix A. The returns for L&G, Standard Life, Wellington and Schroders are calculated on a time series basis. This basis negates the effect of any cash flows made to and from a manager's portfolio (the reason being that the timing of investments and disinvestments is not the manager's decision) and so allows the performance of those managers to be compared fairly with their benchmarks and peers. The returns for Equitix, Temporis, GIB, Knightsbridge, Pantheon, Access and M&G are calculated using the Internal Rate of Return (IRR). Using the IRR considers the effect of cash flows and this is deemed appropriate for these managers as the timing of investments is determined by the manager. Due to the nature of these investments, little attention should be paid to the performance for immature investments; Temporis, GIB, Access and M&G, and more attention should be made to the performance since inception for the more mature investments; Equitix, Knightsbridge and Pantheon. The whole of fund return uses the IRR as this is in line with the Actuary when calculating the valuation. It should be noted that the portfolio has been built on the premise that diversification mitigates the impact of return volatility, the performance of individual investments is less important than the return of the Fund in aggregate and certainly cannot be assessed over less than a full cycle, and the duration of the cycle will vary from asset to asset.

Section 2: Asset Allocation Strategy

3.4 A new asset allocation strategy was approved at the Committee meeting held on 8 September 2015 (Minute .A29/15 refers). Recognising that there are a number of factors dictating the delivery timeframe for the asset allocation, namely: the selection process and time taken to undertake due diligence; the revision of the LGPS investment regulations; and the role of the London CIV; delivering the revised asset allocation remains a work in progress.

3.5 This asset allocation will give rise to a portfolio which can be broken down as follows:

Equities including allocation to emerging markets.		42%	+/- 5%
Fixed interest		23%	+/- 5%
Alternates		34%	+/- 5%
Comprised of:			
Private Equity	8%		
Infrastructure	10%		
Traditional (Commercial) Property	10%		
Private Rental Sector (Residential Property)	6%		
Cash		1%	
		100%	

3.6 **Progress towards revised asset allocation**

Since the revised asset allocation was agreed £54.2m has been disinvested from global equities and £32.2m from hedge funds. This along with new cash to the fund has been invested; £19.9m in private equity, £46m in infrastructure, £25m in PRS and £6.4m in property.

3.6.1 **Private Equity –** Net distributions of £1m were paid to the fund by our existing private equity managers. Strong positive returns over the quarter meant the allocation increased from 7.8% to 8.1%. No further new commitments are currently required in private equity portfolio. The allocation is considered on target.

Allocation: achieved target allocation early.

3.6.2 **Infrastructure –** During the quarter a net investment of £0.6m was drawn and positive contribution to returns meant the allocation percentage increased from 7.5% to 7.7%. Two new funds have been identified and legal due diligence is being carried out in order to commit a further £50m. This together with further drawdown from Equitix and Temporis will enable the Fund to meet the target asset allocation well ahead of the original timetable.

Allocation: on target to meet allocation before the original planned date of 31 December 2019.

3.6.3 **Traditional Property –** The target allocation has slipped 1% below the target allocation. During August £10m was transferred to Schroders, who have identified opportunities to deploy the capital. This should bring the allocation back towards the 10% target by the end of September 2017.

Allocation: Below target, but action taken to rebalance back towards target.

3.6.4 **Private Rental Sector -** The Fund signed a commitment of £25m to the M&G UK Residential Fund in January 2016 and during the quarter ending 31 December 2016 signed a commitment for a further £35m with M&G. The first tranche of £25m has now been fully drawn and the allocation increased from 1.8% to 2.2% over the quarter. We anticipate the second tranche drawn over the second half of 2018.

Allocation: on target to meet allocation by 31 December 2018 as planned.

3.6.5 **Global Equities –** The Fund's allocation to equities remained overweight at 53.0% when compared to the previous quarter of 53.2%, a movement of 0.2 %. Equities provided positive gains over the quarter, although these have been much lower than experienced over the previous year. Members will be aware that the asset allocation strategy recognized that moving from the previous asset allocation would be a gradual process, driven by the availability of opportunities. It is also recognized that the preservation of returns is important. Consequently the current over-weight position in equities represents a positive benefit to the Fund. This must intentionally be a short-term position and the transfer of funds to other alternate asset classes, as described above, is part of the process of locking in some of the recent returns.

3.6.6 **Allocation to emerging markets –** At the start of 2016 Officers ran a search process through bfinance in order to select an emerging markets fund to manage 5% of the Fund's allocation earmarked for emerging markets. The initial search process resulted in 77 offerings and officers spent considerable time in selecting Wells Fargo Asset Management. The strategy is based on investing in companies in Emerging Markets that have a sustainable dividend yield 100 basis points above the average yield of the MSCI Emerging Markets Index at the time of purchase. One of the main reasons for selecting the strategy was that it offers considerable protection compared to other strategies, when emerging markets are on a downward cycle. Since the selection Wells Asset Management have enhanced their ESG credentials to be in line with our views which is a great benefit to the Fund. Wells Fargo bank has received negative press over the course of the year, but Officers have been assured that action has been taken to address the issues. It must also be stressed that no issues have been raised in the asset management arm of their business. AON Hewitt currently rate this strategy "Qualified" following the quantitative screening their research team carry out on the peer group. While the screening has not identified any significant concerns or any material flags, their research team have not formally reviewed the strategy as it historically has not passed our screening tests due to its size.

3.6.7 **Fixed Interest –** The Fund has moved to below the lower end of the target range in its fixed income allocation and this is largely due to outperformance of other assets. Officers are exploring alternate opportunities to our traditional bond portfolio including debt managers. The London CIV is currently in the process of putting together a Fixed Interest offering which Officers are following closely.

3.7 The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

London Borough of Croydon Pension Fund
Fund valuation and asset allocation for the quarter ending 30 June 2017

	Valuation at 31/03/2017 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 30/06/2017 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
Equities					**53.0%**	**42%**
Legal & General FTSE4Good	580,793	-	3,727	584,521		
Fixed Interest					**17.3%**	**23%**
Standard Life	128,077	-	579	128,656		
Wellington	63,079	-	- 541	62,538		
Infrastructure					**7.7%**	**10%**
Temporis	9,848	-	- 144	9,705		
Equitix	46,758	1,151	959	48,869		
Green Investment bank	24,722	- 529	1,642	25,836		
Private Equity					**8.1%**	**8%**
Knightsbridge	17,766	734	402	18,903		
Pantheon	57,316	- 2,105	4,599	59,810		
Access	9,410	306	306	10,023		
North Sea	855		-	855		
Markham Rae	- 2	49	- 49	- 1		
Property					**9.0%**	**10%**
Schroders	96,772	-	2,172	98,944		
Property PRS					**2.2%**	**6%**
M&G	19,981	4,812	- 399	24,394		
Cash					**2.6%**	**1%**
Cash	36,164	- 7,179	23	29,008		
Fund Total	**1,091,541**	**- 2,759**	**13,278**	**1,102,060**	**100%**	**100%**

3.8 At the time of drafting this report the Fund remains over-weight to equities and under-weight to fixed interest to the extent that the proportion in these asset classes is outside the allowable variance. Officers believe that this over-weight position continues to benefit the Fund and this scenario will persist in the short- to medium-term. However this position is not consistent with the Fund investment strategy. Officers estimate that the opportunities in Infrastructure and PRS outlined above will result in an extra £60-70m being transitioned from equities to alternatives over the next 18 months and the pension fund will have a net cash outflow of approximately £18m as a result of the advance payment of .deficit contributions. The London CIV is being considered in order to correct the under-weight position in fixed interest.

Section 3: Risk Management

3.9 The principle risk addressed by the Funding Strategy is that returns on investment will fall below the target asset outperformance assumption to ensure that the Pension Fund matches the value of liabilities in the future. Dependent upon that are of course a number of issues.

3.10 The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. As each asset class, investment strategy and characteristic will be impacted differently by any number of macroeconomic scenarios it is critical to ensure that the portfolio is sufficiently diversified. This will ensure that opportunities can be exploited and downside volatility reduced as far as possible.

3.11 In terms of the Pension Fund investment strategy in relation to the global picture, officers believe:

- The domestic US economy will continue to grow at a healthy rate.

- China will also continue to demonstrate strong growth and this will be critical in stoking the continued expansion of emerging markets. By and large emerging market revenue account issues have been resolved.

- The European economy is showing positive signs of growth, especially when compared to the UK.

- While the Brexit negotiations are ongoing sterling will remain at depressed levels. Officers are continually considering the merits of currency hedging.

3.12 However there are equally many opportunities that can be exploited by very focused fund managers. The wave of elections culminating in the German Chancellor in October 2017 will create conditions of volatility that can be opportunities to capture returns.

3.13 The role of Central Banks in guiding local economies and that specific impact on the global economy remains an area for concern. Interest rates and inflation both represent significant headwinds impacting on the valuation of liabilities and the investments designed to match them. Specifically Officers are concerned by the increasing threat of inflation and all infrastructure investments the Fund has committed to have an inflation linkage built into the return profile.

3.14 Concentration risk is a particular concern, especially considering the extent to which the Fund is over-weight in equities. 9% of the value of the portfolio is invested in the top 10 stocks and arguably these are heavily correlated.

3.15 The portfolio term Brexit encompasses a number of risks. Immediate concerns that the UK economy would register a shock have not materialised. However, the outcome of the snap election has done little to quieten concerns. The fall in the relative value of sterling has masked a long term issue around productivity and actually benefitted the portfolio. Other concerns may manifest themselves in the future. One issue that seems certain to impact the fund is that of passporting and the cost of accessing investment opportunities. Although it is unlikely that performance will suffer there is a greater risk that costs, incurred by fund managers, as a function of being a custodian, and officer time, will increase. It is unlikely that these costs could be mitigated by negotiation or the use of pooling arrangements.

3.16 AON Hewitt, the Fund’s investment advisor, have drafted a Manager Monitoring Report, a Market Review for the 3 months to 30 June 2017 and a Quarterly Investment Outlook which provides context for this risk analysis. These reports are included in the closed part of this Committee agenda.

Section 4: Investment Manager Visit

3.17 On 26 July the Committee attended a site visit to Legal & General to gain more of an insight into how the Global Equity passive mandate delivers market returns and the inclusion criteria for the FTSE4Good mandate in which we are currently invested. Their currency manager provided training on the subject of currency hedging. Subsequent to the meeting Legal & General advised officers that in the Fund’s current format, being a segregated mandate, Legal & General will not be able to offer a currency hedging service from January 2018 due to new requirements, to be brought in under legislation, involving the need to hold collateral for forward currency contracts. Officers are looking to change the fund structure to a pooled arrangement to enable Legal & General to carry out currency hedging.

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The solicitor to the Council comments that there are no legal considerations arising from the recommendations within this report beyond those already highlighted in relation to the previous report to members on 6 December 2016.

(Approved for and on behalf of Jacqueline Harris Baker, Director of Law, Council Solicitor and Monitoring Officer.)

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report contains only information that can be publicly disclosed. The confidential information is reported in the closed part of the agenda.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

Quarterly reports from each fund manager (circulated under separate cover)

Appendices

Appendix A: Fund Returns

The following appendices are considered commercially sensitive:

Appendix B: AON Hewitt Manager Monitoring Report

Appendix C: AON Hewitt Market Review: 3 months to 30 June 2017

Appendix D: AON Hewitt Quarterly Investment Outlook

Appendix A

London Borough of Croydon fund returns for the period ending 30 June 2017

EQUITIES					
L&G FTSE 4GOOD	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.6%	24.4%			10.3%
Benchmark	0.7%	24.4%			10.3%
FIXED INTEREST					
Standard Life	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.5%	3.6%	3.9%	4.5%	4.9%
Benchmark	0.3%	2.7%	4.3%	4.5%	5.0%
Wellington	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	-0.9%	-0.2%	6.9%	4.7%	6.8%
Benchmark	-0.8%	0.9%	7.2%	5.1%	6.5%
INFRASTRUCTURE					
Equitix	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	2.1%	9.5%	14.6%	15.2%	15.3%
Benchmark	1.4%	7.7%	6.0%	6.6%	7.1%
Temporis	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.0%	0.00%			-0.4%
Benchmark	1.4%	7.66%			7.3%
GIB	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	7.4%				5.0%
Benchmark	1.4%				4.2%
PRIVATE EQUTIY					
Knightsbridge	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	2.3%	13.3%	23.8%	17.2%	14.5%
Benchmark	1.4%	7.7%	6.0%	6.6%	7.1%
Pantheon	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	9.3%	22.1%	18.6%	17.2%	13.2%
Benchmark	1.4%	7.7%	6.0%	6.6%	7.2%
Access	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	3.4%	0.5%			8.3%
Benchmark	1.4%	7.7%			7.3%
Markham Rae	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.0%				
Benchmark	1.4%				
North Sea Capital	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	0.0%				
Benchmark	1.4%				
PROPERTY					
Schroders	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	2.2%	5.9%	9.0%		10.1%
Benchmark	2.3%	6.0%	9.5%		9.4%
PROPERTY PRS					
M&G	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**
Fund	-1.93%				-6.06%
Benchmark	2.25%				5.94%
Total Fund					
	Quarter	**1 year**	**3 year**	**5yr**	**inception**
Fund	1.22%	16.18%	11.97%	11.14%	8.13%
CPI + 4%	1.18%	6.66%	5.02%	5.57%	6.33%

Returns are net of fees and annualised apart from for the last quarter

Returns for Equity, Fixed Interest and Property Funds are calculated on a time weighted basis.

Returns for Infrastructure, Private Equity ,Property PRS funds and the Total return are calculated on an Internal rate of return basis.

Croydon Council

REPORT TO:	**Pension Committee** **19 September 2017**
AGENDA ITEM:	**7**
SUBJECT:	**Scheme Advisory Board Consultations**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report considers proposals relating to an important component group of scheme employers.	
FINANCIAL SUMMARY: Academies represent a large group of scheme employers and are important stakeholders within the Croydon Scheme.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

This report recommends that the Committee:

1.1 Agrees that the objectives set out in paragraph 3.4 should be those adopted by the project that the Board will undertake;
1.2 Agrees the arrangements relating to the forum set out in paragraph 3.8 and
1.3 Agrees that a session, such as set out in paragraph 3.9, would be helpful.

2. EXECUTIVE SUMMARY

2.1 The Local Government Pension Scheme Advisory Board is consulting on objectives for a project to develop options to address issues relating to the Government's policy to convert all schools to academies.

3 DETAIL

3.1 The Local Government Pension Scheme Advisory Board (SAB) is part of the governance apparatus for the Local Government Pension Scheme (the Scheme).

It is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113. The purpose of the Board is to encourage best practice, increase transparency and coordinate technical and standards issues. It considers items passed to it from the Department of Communities and Local Government ("DCLG"), the Board's sub-committees and other stakeholders as well as items formulated within the Board. Its recommendations may be passed to the DCLG or other bodies.

3.2 On 17 July the Board launched two consultations of particular interest and relevance to this Committee.

3.3 The first consultation relates to Academies. The Board acknowledges that the Government's policy is for all schools to convert to academies and has stated that it is interested in developing a better understanding of what this means for LGPS Pension Funds and their host authorities. To achieve this understanding the Board intends to investigate the issues associated with this policy and develop options to address those issues.

3.4 The Board is consulting on the objectives that these options should aim to meet. These are the draft objectives:

- Protect the benefits of scheme members through continued access to the LGPS;
- Ring fence local tax payers and other scheme employers from the liabilities of the academy trust sector;
- Improve the efficiency and effectiveness of administrative practices; and
- Increase the accuracy and reliability of data.

Furthermore, in achieving these objectives any option for change should not:

- Significantly alter cash flows at the fund level; nor
- Significantly alter assets at the pool level.

3.5 The consultation simply asks whether the Committee agrees that these should be the Board's objectives for this academies project, or not. This consultation is addressed to LGPS managers and Pension Committees.

3.6 Whilst broadly agreeing with these objectives it is worth noting that these objectives effectively exclude the option to ring-fence part of the Pension Fund for academies which might be a way of reflecting their different maturity profile, risk appetite or funding period guarantee. It also marks a sea-change in the approach to under-writing academies; at present the Council has been asked to rely upon certain central government assurances. This approach would represent a significant shift in that approach.

3.7 The second consultation relates to the establishment of an elected member led Cross Pool Information Forum and is addressed to Chairs of LGPS pension committees. The consultation is in two parts.

3.8 The first part considers the establishment of an elected member led Cross Pool Information Forum, designed to share and disseminate information on the pooling of LGPS assets. The consultation asks whether this should be the remit for the forum and proposes that each pool nominate three elected members to join the forum. These members could be elected members or others, including direct representation of scheme members. Finally the consultation proposes that the forum should meet at least quarterly. The consultation also addresses questions of governance and administration, suggesting that the forum's chair should be selected from amongst the forum's membership; that there does not need to be any arrangement for voting as the forum is not a decision-making body; and that the Board's secretariat should support the administration of the forum.

3.9 The second part of the consultation proposes a session for chairs of Pensions Committees and Local Pensions Boards on the progress achieved towards pooling.

3.10 The deadline for responses to these consultations is 29th September 2017.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Solicitor to the Council comments that there are no legal considerations arising from the recommendations within this report.

6.2 (Approved for and on behalf of Jacqueline Harris-Baker, Director of Law and Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

Consultations issued by the Local Government Pension Scheme Advisory Board, July 2017.

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Croydon Council

REPORT TO:	**Pension Committee** **19 September 2017**
AGENDA ITEM:	**8**
SUBJECT:	**Changes to State Retirement Age**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report considers proposals relating to the State Retirement Age and the impact of any changes on the Local Government Pension Scheme.	
FINANCIAL SUMMARY: Any change that relates to the calculation of benefits will impact upon the cost, sustainability and affordability of the Local Government Pension Scheme.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 The Committee is asked to note this report.

2. EXECUTIVE SUMMARY

2.1 The Government have reviewed the State Retirement Age. This report attempts an initial assessment of the impact of this change on the liabilities of the Croydon Local Government Pension Scheme.

3 DETAIL

3.1 The Pensions Act 2014 requires the government to review State Pension age every 6 years. The Department for Work and Pensions (DWP) published a report following the first such review, July 2017. It explains the government's plans for changes to the State Pension age from 2028. The review is informed by 2 reports published in March 2017: the Government Actuary's report on how State Pension age timetables might need to change based on life expectancy projections and an independent report by John Cridland which also considered wider factors associated with changes in State Pension age

3.2 Any changes to the State Pension age will still require primary legislation and will be subject to the full scrutiny of Parliament.

3.3 The Secretary of State for Work and Pensions has announced that the rise in State Pension Age (SPA) to 68 will now happen in 2039 rather than 2046, affecting those currently aged between 39 and 47. This is in line with the recommendation in John Cridland's review.

3.4 Changes in SPA automatically feed through into the Normal Retirement Age for post 2014 LGPS pension benefits, via the Pensions Act 1995 (as amended by the Pensions Act 2011 and Pensions Act 2014). Therefore if this change is brought into legislation, it will have a positive impact on the liabilities and contribution rates in respect of LGPS Funds.

3.5 Hymans Robertson, our Scheme Actuary, estimate that this will have a minimal impact on the past service liabilities but that it could reduce the future service rate by around 0.1% - 0.2% of pay. For just the Council's payroll this could be the equivalent of £100,000 to £200,000 per annum. However, the impact may vary for individual employers depending on their maturity and membership profile.

3.6 The DWP report explains that the Government has decided to raise State Pension age on a regular, planned basis in the future, because the population trend is to live longer. The Government have stated its intention to keep the State Pension sustainable whilst maintaining it above the basic level of the means test. The Government plans to do this by maintaining a given proportion of time in receipt of State Pension as life expectancy increases in line with experience over the last 20 to 30 years. The report proposes an increase to the State Pension age from 67 to 68 in 2037–39, seven years earlier than its currently legislated date of 2044–46.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Solicitor to the Council comments that there are no legal considerations arising from the recommendations in this report

6.2 (Approved for and on behalf of Jacqueline Harris-Baker, Director of Law and Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

Government Actuary’s report on how State Pension age.
John Cridland’s report on the State Pension age

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Croydon Council

REPORT TO:	**Pension Committee** **19 September 2017**
AGENDA ITEM:	**9**
SUBJECT:	**Implementation of the Markets in Financial Instruments Derivative (MiFID II)**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report sets out the process by which the Pension Fund should react to changes in the regulated financial environment as it relates to Pension Fund Investments.	
FINANCIAL SUMMARY: These changes go to the heart of the investment process and therefore have the potential to significantly impact upon the viability of the local government pension scheme.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 This report recommends that the pensions committee:

1.2 Notes the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018;

1.3 Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy;

1.4 In electing for professional clients status, the committee acknowledges and agrees to forgo the protections available to retail clients attached as Appendix A;

1.5 Delegates to the Executive Director of Resources (Section 151 Officer) the authority to make applications for elected professional client status on the authority's behalf and to determine the nature of the application on either full or single service basis.

2. EXECUTIVE SUMMARY

2.1 This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018 and recommends that the committee agree that elections for professional client status should be made on behalf of the authority immediately.

3 DETAIL

Context

3.1 The Markets in Financial Instruments Directive (MiFID) is the EU legislation that regulates firms who provide services to clients linked to ‘financial instruments’ (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded. The new MiFID II environment is set to commence on 3rd January 2018, having been delayed by a year due to slower than anticipated progress in a number of key areas.

3.2 This new directive introduces a key change affecting Local Authorities. Under the new regime, Local Authorities will be deemed “Retail” clients by default. They will have the option to “opt-up” to “Professional” client status, or remain as “Retail”. In order to opt-up, clients will need to meet qualitative and quantitative test criteria. These criteria have been relaxed, following lobbying on behalf of local government, to recognise the status of the local government pension scheme.

3.3. Under the current UK regime, local authorities are automatically categorised as ‘per se professional’ clients in respect of non-MiFID scope business and are categorised as ‘per se professional’ clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain ‘opt-up criteria’.

3.4. Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (“local authority”) as a ’per se professional client’ or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as “retail clients” unless they are opted up by firms to an ’elective professional client’ status.

3.5 Furthermore, the Financial Conduct Authority (the FCA) has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

Potential impact

3.6. A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer’s needs, and that all the risks and features have been fully explained.

This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

3.7 Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

3.8 Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under FCA rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

Election for professional client status

3.9. MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.

3.10 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

3.11. The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as Appendix B.

3.12. The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.

3.13. The SAB and the LGA have worked with industry representative bodies including the Investment Association, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.

3.14. A flowchart of the process is attached as Appendix C and the letter and information templates are attached as Appendices D and E.

3.15. Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

3.16. Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience, or if the relationship with the authority's investment advisor was terminated.

LGPS pools

3.17. LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.

3.18. In some circumstances, in particular where the pool only offers access to fund structures such as ACS, the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.

3.19. Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

Next steps

3.20. In order to continue to effectively implement the authority's investment strategy after 3rd January 2018, applications for election to be treated as a professional clients should be submitted to all financial institutions with whom the authority has an existing or potential relationship in relation to the investment of the pension fund.

3.21. This process should commence as soon as possible in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments.

3.22. In light of the above, it is recommended that the Executive Director of Resources (Section 151 Officer) is given delegated authority to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis.

4 FINANCIAL CONSIDERATIONS

4.1 The implementation of MiFID II (Markets in Financial Instruments Directive) reclassifies local and public authorities as retail investors from 3rd January 2018. Such a reclassification would severely limit both the financial instruments and providers available to authorities for pensions purposes which could be both costly and reduce the potential for returns.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6 COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Solicitor to the Council comments that there are no additional legal considerations arising from the recommendations beyond those set out in the report and appendices

6.2 (Approved for and on behalf of Jacqueline Harris-Baker, Director of Law and Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

APPENDICES:

Appendix A – Retail client protections
Appendix B – Summary of FCA policy statement
Appendix C – Opt up process flowchart
Appendix D – Opt up letter template
Appendix E – Opt up information template

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Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

   (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

   (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

   (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**

   For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document https://www.fca.org.uk/publication/policy/ps17-14.pdf

Highlights (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions

2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment

3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test

4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion

5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions

6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.

7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged

8. Changed the portfolio size threshold to £10m

9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term ‘financial sector’ in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.
2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.47

While a local authority’s ability to borrow extra funds to ‘game’ this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

Page 74 Our response on transitional arrangements

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take “appropriate action”. Neither MiFID II, nor our rules specify what ‘appropriate action’ is, which will depend on the facts of the case and what would be in the client’s best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

UK Local Authority Client Opt-Up Process

STAGES	TIMELINE	GUIDANCE
Preparatory Stage Finalise standard opt-up process	End July 2017	(i) Finalise industry standard quantitative and qualitative questionnaire; (ii) Finalise request and consent letter from Local Authority to be opted-up; and (iii) Finalise response letter from investment firms agreeing to the opt-up.
Stage 1 Local authorities to complete letter and questionnaire and send to investment firms	August – September 2017	Local authorities to complete and send investment firms: (i) request and consent letter to be opted-up to professional client status; and (ii) completed quantitative and qualitative questionnaire (to allow investment firms to satisfy themselves that the local authority passes the qualitative test).
Stage 2 Investment Firms to validate the information and run the client status assessment	September – October 2017	Investment firms to validate information received from local authorities to determine information is (i) sufficient; and (ii) appropriate. Assess the information received by the local authority and confirm that it: (i) has provided the request and consent letter to be treated as a professional client; and (ii) passes (i) the quantitative test and (ii) the qualitative test Log and store the local authority information and the results of the internal assessment.
Stage 3 Dispatch the confirmation letter to LA clients confirming professional client status	October 2017	If a local authority has provided the request and consent letter and has satisfied the requirements for both: (i) the quantitative test; and (ii) the qualitative test, send a letter confirming the classification of the client as a professional client.
Stage 4 Client re-categorisation	3 January 2018	Once the steps above are complete, as of 3 January 2018, the firm may continue to treat the local authority as a professional client.

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Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear [●]

Request to be treated as a professional investor

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by NAME OF AUTHORITY (the "Local Authority") to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

(a) any and all investment service(s) which it receives from you (the "Services"); and/or

(b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the "Fund Promotions/Investments").

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client ("Professional Client"). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client ("Retail Client") as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administrating authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

(a) its request to be categorised as a Professional Client, in its capacity as an administrating authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.

(b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority's request to be categorised as a Professional Client) is true, accurate and complete.

(c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.

(d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.

(e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.

(f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

………………………………………………

[insert name and position] [Authority]

Schedule 1

Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

Part 1 – Loss of protections as a Professional Client when receiving Services

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

   (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;

   (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

4. **Appropriateness**

   For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions

1. **Fund promotion**

   It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

2. **Non-mainstream pooled investments**

   For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an "unregulated collective investment scheme". The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

3. **Communicating with clients, including financial promotions**

   Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

4. **Financial Ombudsman**

   The services of the Financial Ombudsman Service may not be available to you as a Professional Client

5. **Investor compensation**

   Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

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Elective Professional Client - Status Assessment

NAME OF LOCAL AUTHORITY:____

CAPACITY: **As administering authority of the local government pension scheme**

NAME OF OFFICIAL COMPLETING QUESTIONNAIRE:_____________________________

DATE:___________________

QUANTITATIVE TEST

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

Please answer question (a) with a "Yes" / "No" answer	
(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme **exceed GBP 10,000,000**? Portfolio size_______ as at date: …………………………………………………	☐ Yes ☐ No
(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?	☐ Yes ☐ No
If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases	
(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least **10 per quarter** for the **previous four quarters** (i.e. at least 40 investments on the relevant market in the last year)? Transaction total: ………………………………………………………………..	☐ Yes ☐ No ☐ N/A
(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged? Details of role: ………………………………………………………………	☐ Yes ☐ No ☐ N/A

QUALITATIVE TEST

The "qualitative test" requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions** and **understanding the risks involved**[1].

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which one of the models below is used for investment decisions in the administering authority.

a	All decisions delegated to committee or sub-committee. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
c	All decisions delegated to an officer or officers.	YES NO	☐ ☐
d	Other	YES NO	☐ ☐

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed Link	☐ ☐

3.	If you have selected model "d - other" above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions. Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

[1] COBS 3.5.3R (1)

Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee? (*Please tick whether you have enclosed or provided a link to a copy of an example of the briefing*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Are members provided with training on investment matters? (*Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.	hours offered hours delivered	
3	Is the attendance of members at training monitored and recorded?	YES NO	☐ ☐
4	Please state the average number of hours of training committee members have attended over the last 12 months.	hours	
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.	hours	
6	Are members required to complete a self-assessment with regard to their knowledge of investments? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
7	Please state the number of years served on the committee (or other such investment committees) on average for each member	years	
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Index-linked securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Listed equities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property PIVs	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Private equity funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Exchange traded derivatives (ETDs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Over-the-counter derivatives (OTCs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commodities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Cash deposits	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commercial paper	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Floating rate notes	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Money market funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement (England and Wales) or Statement of Investment Principles (Scotland) .	Enclosed Link	☐ ☐
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES NO	☐ ☐

Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	Does the authority have a risk framework and/or risk management policy in place in relation to investments? (*Please tick whether you have enclosed or provided a link to a details of the framework/policy*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?	YES NO	☐ ☐
	If yes, please provide the name of the advisor:		
3	Is the risk framework/policy reviewed on a regular basis?	YES NO	☐ ☐
	If YES please state the frequency of the review.		
	(*Please tick whether you have enclosed or provided a link to details of the last review*)	Enclosed Link	☐ ☐
4	Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments? (*Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
5	Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each officer providing support to the committee or sub-committee please provide the following information.

Job title	Relevant qualifications	Years experience in role[2]

2.	For each officer with delegated investment powers please provide the following information (these may be the same officers as above).

Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers? (*Please tick whether you have enclosed or provided a link to details of the succession plan*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

4.	For each individual investment advisor used by the authority please provide the following information *only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below)*.

Name	Relevant qualifications	Years experience in role[3]

[2] Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.
[3] Or similar role which would provide knowledge of the provision of the services envisaged.

5.	For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6.	For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below)*.

Name	Relevant qualifications	Years experience in role[4]

7.	For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8.	Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities.	YES ☐ NO ☐

[4] Or similar role which would provide knowledge of the provision of the services envisaged.

Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment? (*If yes please tick whether you have enclosed or provided a link to a details of the breach*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

2.	Please use the box below to provide any further information which may be useful in the support of your application.

Croydon Council

REPORT TO:	**Pension Committee** **19 September 2017**
AGENDA ITEM:	**10**
SUBJECT:	**Annual Report and Local Pension Board Report**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report relates to the draft Croydon Council Pension Fund 2016/2017 Annual Report and the report for the Croydon Local Pension Board for the same period.	
FINANCIAL SUMMARY: There are no direct financial consequences associated with this report although the Annual Report does incorporate the financial statements for the Pension Fund.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 The Committee is asked to comment on Croydon Council's draft 2016/2017 Pension Fund Annual Report as attached at Appendix A to this report and, subject to any amendments then required, approve it for publication on the Croydon Pension Fund's website.

1.2 The Committee is asked to note the contents of the Audit Findings Report from the Fund's auditors, which is attached as Appendix B to this report.

1.3 The Committee is invited to note the Annual Report prepared by the Chair of the Croydon Local Pensions Board. This is attached as Appendix C to this report.

2. EXECUTIVE SUMMARY

2.1 This report asks the committee to approve the draft 2016/2017 Croydon Pension Fund Annual Report (Appendix A), the Audit Findings Report, (Appendix B) and to note the Croydon Local Pension Board Annual Report (Appendix C).

3 DETAIL

3.1 A draft of the 2016/2017 Croydon Pension Fund Annual Report (the Annual Report) is attached at Appendix A to this report. The draft includes the final statement of accounts for the Pension Fund (the Fund). The Audit Findings Report, prepared by the Fund's external auditors, commenting on the final statement of accounts is shown separately in Appendix B.

3.2 The Annual Report includes links to other publications including the Statement of Investment Principles and the Funding Strategy Statement.

3.3 Members are invited to comment on the content and presentation of the draft Annual Report. Following Committee's approval of this draft, subject to any amendments required, the Annual Report will be published on the Croydon Pension Fund's website.

3.4 This report also highlights the Annual Report drafted by the Chair of the Croydon Local Pensions Board. This report sets out the work of the Board in its first year. The Pension Committee is invited to note this report.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Solicitor to the Council comments that there are no legal considerations arising from the recommendations within the report beyond those already set out in Appendix A-C.

6.2 (Approved for and on behalf of Jacqueline Harris-Baker Director of Law and Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

Appendices

Appendix A: Draft 2016/2017 Croydon Pension Fund Annual Report – *to be tabled at the meeting*

Appendix B: Audit Findings Report

Appendix C: Annual Report of the Croydon Local Pensions Board

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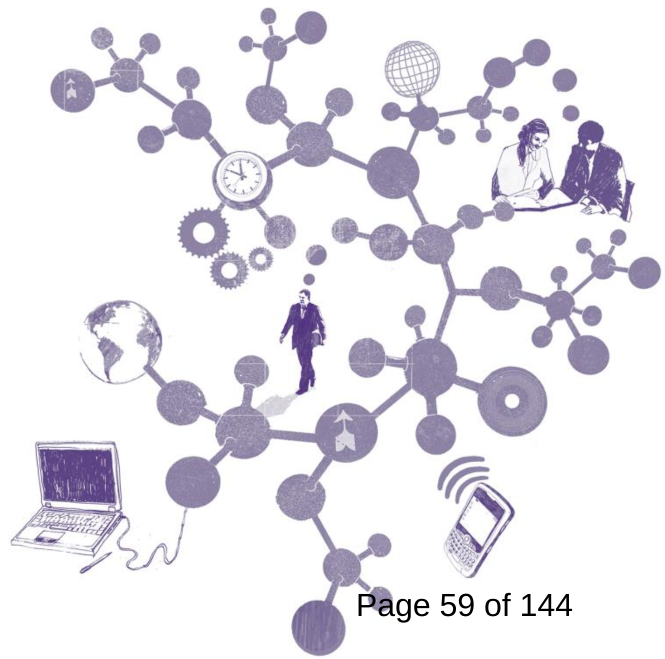
Grant Thornton

APPENDIX B

The Audit Findings for London Borough of Croydon Pension Fund

Year ended 31 March 2017

20 September 2017



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20 September 2017

Dear Sirs

Audit Findings for the London Borough of Croydon Pension Fund for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of the London Borough of Croydon Pension Fund, the General Purposes and Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents will be discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Elizabeth Jackson

Engagement lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Croydon Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 22 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the Pension Fund Annual Report
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work in line with the agreed timetable. Working papers were of a good quality and officers were responsive to our audit requests for additional information. This enabled us to complete the audit in a timely manner and gives us assurance that the pension fund finance team is ready for the early closedown and opinion deadline in 2018.

Key audit and financial reporting issues

Financial statements opinion

We have identified one adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net assets of £1,094m; the audited financial statements show net assets of £1,103m. The change relates to an understatement of infrastructure and private equity investments which officers made us aware of before submitting the draft financial statements for audit. The level 3 investment year end final valuation figures were not made available to officers until after the draft financial statements were completed. Officers expect to receive the information by the end of June and by mid July at the latest so they do not envisage this being a problem for the early opinion deadline of 31 July in 2018. Officers will continue to liaise with the fund managers to ensure information is received in line with the deadlines next year.

We have also recommended a small number of adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

The way forward

Matters arising from the financial statements audit of the Fund have been discussed with the Executive Director of Resources and Section 151 Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Executive Director of Resources and Section 151 Officer and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £8,770k (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and identified the value of the fund had increased to £1.094 billion at the year end that led us to revise our overall materiality to £10,949k (being 1% of net assets).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £547k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As reported in our audit plan, we did not identify any specific items at that stage where we decided that separate materiality levels were appropriate. However, following receipt of the draft financial statements we have identified management expenses as an item where we have set a lower materiality level.

Balance/transaction/disclosure	Explanation	Materiality level
Management expenses	Due to public interest in these disclosures	£547k

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the London Borough of Croydon Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the London Borough of Croydon Council as the administering body, mean that all forms of fraud are seen as unacceptable.	Although we have rebutted this risk, our audit work performed on material revenue streams has not identified any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	Work performed: • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions.	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

We have also identified the following significant risk of material misstatement from our understanding of the entity. We set out below the work we have completed to address this risk.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Level 3 Investments (Valuation is incorrect) Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	• Updated our understanding of the processes and control in place to estimate the valuation of these assets. • For a sample of investments we tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. • We reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuation provided for these type of investments. • Reviewed the competence, expertise and objectivity and objectivity of management experts used. • Reviewed the qualifications of the fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.	We are currently finalising our review of the assumptions used by management and the fund managers to value the level 3 investments. Our audit testing of the figures in the accounts identified that infrastructure and private equity investments are understated in the financial statements by £9,155k. This is due to the audited final valuation data not being available at the time of compiling the draft financial statements This is purely a timing issue for the finance team receiving the information. No other significant issues were identified in our testing.

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Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment purchases and sales **AND** **Investment values – Level 2 investments**	Investment activity not valid. Investment valuation not correct (Accuracy) AND Valuation is incorrect (Valuation net)	• We have undertaken a walkthrough of the controls in place over investments. • We have reviewed the reconciliation between information provided by the fund managers, the custodian and the Fund's own records and investigated any variances. • For unquoted investments we have critically assessed the assumptions used in the valuation and checked valuations to the latest audited financial statements of the respective investment fund. • We have confirmed the existence of investments directly to relevant documentation. • We have tested a sample of purchases and sales during the year back to detailed information provided by the fund managers. • We have completed a predictive analytical review for the different types of investments.	Our audit work has not identified any significant issues in relation to the investment risks.
Contributions	Recorded contributions not correct (Occurrence)	• We have undertaken a walkthrough of the controls in place over contributions. • We substantively tested contribution deductions from the Administering Authority. • We also reviewed contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends are satisfactorily explained.	Our audit work has not identified any significant issues in relation to contributions.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefits payable	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	• We have confirmed through walkthrough testing the existence of controls operated by the Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded. • We have tested a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and test them by reference to member files. • We have completed a rationalisation of pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.	Our audit work has not identified any significant issues in relation to benefits payable.
Member Data	Member data not correct. (Rights and Obligations)	• We have performed walkthrough testing over the controls that are in place over member data. • We conducted controls testing of changes to member data made during the year to source documentation. • We performed a reconciliation of the member data as at year end to the accounts note.	Our testing of member data found that the draft figure used for deferred pensioners included in the accounts was incorrect and related to the prior year. The impact is the deferred pensioners membership is under recorded by 62 pensioners see page 19 of this report. Our work has not identified any further significant issues in relation to the risk identified.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there are no issues arising for the Fund in 2016/17.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Income to the fund is accounted for on an accruals basis	• The Fund's accounting policies are appropriate under IAS 18 Revenue and the Code of Practice on Local Authority Accounting. • Accounting policies are adequately disclosed in the financial statements. • The revenue recognition policies are considered to be in line with other Local Government Pension Funds.	Green
Judgements and estimates	• Key estimates and judgements include: – Valuation of level 3 investments – Valuation of fund	We reviewed the key estimates and judgements made by management within the material notes to the accounts. For the disclosures listed, we concluded they appear to be consistent in all material aspects with the guidance set out in the Code of Practice of Local Authority Accounting.	Green
Going concern	The Executive Director of Resources and Section 151 officer has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	Green
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice.	We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. The Fund's accounting policies are appropriate and consistent with previous years.	Green

Assessment
- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the General Purpose and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed. Two declarations have not been received at the time of writing the report but we have reviewed the declarations from 2015/16 and do not believe that there are missing disclosures from the note.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Fund, which is included in the General Purpose and Audit Committee papers.
5.	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to the fund managers, custodian and banks where the Fund holds the accounts. This permission was granted and the requests were sent. All confirmations requested have been received.
6.	**Disclosures**	• Our review found no material omissions in the financial statements
7.	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2017 but officers have decided to prepare this alongside the financial statements. We have received the draft Annual Report and will be able to issue the separate opinion at the same time as the opinion on the financial statements.

Adjusted misstatements

One adjustment to the draft accounts has been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustment arising from the audit which has been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported total net assets for the year.

	Detail	Pension Fund Account £'000	Net Asset Statement £'000
1	Our testing confirmed that infrastructure and private equity investments are understated in the financial statements. This is due to audited final valuation data not being available at the time of compiling the draft financial statements and this is purely a timing issue. Officers made us aware of the delay in receiving final information for these investments before submitting the draft financial statements for audit. The level 3 investment year end final valuation figures were not made available to officers until after the draft financial statements were completed. Officers expect to receive the information by the end of June and by mid July at the latest so they do not envisage this being a problem for the early opinion deadline of 31 July in 2018. Officers will continue to liaise with the fund managers to ensure information is received in line with the deadlines next year.	Cr Changes in the market value of investments 9,155	Dr Investments held by Fund Managers (Private Equity and Infrastructure) 9,155
	Overall impact	**(£9,155)**	**£9,155**

Unadjusted misstatements

There are no adjustments identified during the audit which we request be processed, but which have not been made within the final set of financial statements.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Presentation and disclosure	N/A	N/A	We have made a small number of suggested presentational and disclosure changes to aid users' understanding of the financial statements.
2	Presentation and disclosure	N/A	Fund membership numbers	We have amended the number of deferred pensioners from 8,799 to 8,861 to reflect the fund membership as at 31 March 2017.

Section 3: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Final fee £
Pension fund audit	21,000	21,000
Total audit fees (excluding VAT)	**21,000**	**21,000**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to London Borough of Croydon Pension Fund and confirm that no non-audit or audited related services have been undertaken for the Fund.

Section 4: Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Fund's key risks when reaching our conclusions under the Code.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Audit Opinion

A: Audit opinion

We anticipate we will provide the Fund with an unmodified audit report

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

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

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

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

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

Scope of the audit of the pension fund financial statements

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

Opinion on the pension fund financial statements

In our opinion:

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

Opinion on other matters

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

Elizabeth Jackson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
30 Finsbury Square
London
EC2P 2YU

September 2017

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REPORT TO:	**LOCAL PENSION BOARD** **6 July 2017**
AGENDA ITEM:	**10**
SUBJECT:	**Local Pension Board Annual Report**
LEAD OFFICER:	**Richard Simpson, Executive Director of Resources (Section 151 Officer)**
LEAD MEMBER:	**Councillor Andrew Pelling, Chair of Pension Committee**
PERSON LEADING AT THE BOARD MEETING:	**Nigel Cook, Head of Pensions and Treasury**

1. EXECUTIVE SUMMARY

1.1 Local Pensions Boards (LPB) were established under the 2013 Pensions Act. The Croydon Council Board was established on the 1st April 2015. All Boards are required under the regulation to produce an annual report to explain the work that has been carried out during the year.

2. REPORT

2.1 This report explains the work and training the LPB has undertaken during the year 16/17.

2.2 The LPB is developing in its role and has commissioned a report from an independent provider to carry out a review of the governance of the Pension Fund and will be following up on the recommendations in the coming months.

2.3 This report covers the second year of the operation of the Local Pension Board. The Board has begun to establish itself as part of Croydon's governance structure in relation to the pension fund. Board members take their responsibilities seriously and readily engage in the training programme in order to develop their skills and knowledge.

2.4 The Board's core function is to provide an oversight of the governance and administration of the Fund. A key task in fulfilling the Board's core function was the commissioning of a governance review during our first year. The Board has continued to monitor the review's Action Plan and are pleased with the progress made. The Board also monitored the actuarial valuation process, and regularly received reports on the Pensions Committee's business plan and the Fund's Risk Register.

2.5 The Board also met with the Pensions Regulator who outlined their role in the governance of the LGPS.

2.6 Looking ahead, 2017/18 will see further transfers of assets to the 8 pools which are in the process of being established across England and Wales. The Board will continue to monitor this initiative. There is also a growing interest in the cost transparency of asset managers' fees and the Board will be interested to see how this develops and will follow closely the work of CIPFA and the Scheme Advisory Board.

3. RECOMMENDATIONS

3.1 To agree the content of the Annual Report.

CONTACT OFFICER: James Haywood,
Members Services Manager (Scrutiny).
020 8726 6000 x63319

Croydon Council

REPORT TO:	**Pension Committee** **19 September 2017**
AGENDA ITEM:	**11**
SUBJECT:	**Election of Pensioner Representatives to the Pension Committee**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: The appointment of representatives from the current pensioners will ensure that the Pension Fund complies with its governance requirements.

FINANCIAL SUMMARY: The additional cost of this exercise, beyond staff costs, is £10,155. This will be charged to the Pension Fund.

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FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1. RECOMMENDATIONS

1.1 The Committee is asked to formally endorse the result of the ballot and to co-opt the two candidates with the greatest number of votes onto the Committee as members for a period of three years.

2. EXECUTIVE SUMMARY

2.1 This report seeks the Committee's endorsement of the recent ballot of Local Government Pension Scheme pensioners and the co-option of two pensioner representatives with the greatest number of votes onto the Pension Committee. As per the Committee's Terms of Reference, Members are reminded that the representative who received the greatest number of votes will be entitled to vote on decisions taken by the Pension Committee. The two successful candidates are Ms Gilli Driver and Mr Peter Howard with Ms Driver entitled to vote on decisions taken by the Pension Committee.

3 DETAIL

3.1 Since September 2008 the Pension Committee has included two pensioner representatives, elected by pensioners in the Local Government Pension Scheme. These representatives are elected by secret postal ballot for three-year periods, i.e. 2008 – 2011, 2011 – 2014, and 2014 to September 2017. This report sets out the results of the most recent ballot, held over this summer. Note that the process took rather longer than anticipated because of the General Election and the impact of the period of purdah.

3.2 The process followed was as has now been well established:

- All UK based pensioners were invited to self-nominate. Nominations were accompanied by a statement of up to 250 words.
- Ballot papers were sent to all pensioners, UK domiciled and overseas, inviting scheme members to vote for two of the candidates on the ballot paper.
- Ballots were counted publicly by the Council's Counting Officer in the Town Hall on 24th July.

3.3 The declaration of results is as follows:

Name of candidate	**Number of Votes**
Jorn G Cooper	368
Gilli Driver	1541 (Elected)
Peter Howard	1234 (Elected)
Earl G J Thompson	192
Rejected ballots	48

A number of ballots were received after the deadline for receipt of completed ballots. These were not counted.

3.4 Therefore Gilli Driver and Peter Howard are elected.

3.5 Members are asked to endorse this result and invite Ms Driver and Mr Howard to join the Committee for a period of three years. Each representative will be expected to attend at least 75% of meetings (subject to any health or disability considerations), and this has been clearly communicated to them. This result will be published on the Croydon LGPS web-site.

3.6 Following a review of the Council's Constitution, the voting arrangements for the Committee have been amended thus:

"Two representatives of Pensioners of the Fund elected by ballot of Pensioners of the Fund, one of whom shall be a voting member and one of whom shall be a non-voting member. The representative with the most votes following the ballot of Pensioners of the Fund shall be the voting member. The other representative of the Pensioners of the Fund shall be non-voting however is permitted to exercise a vote only in the absence of, and on behalf of, the voting representative."

3.7 Thus Ms Driver is the voting representative.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Solicitor to the Council comments that there are no additional legal implications arising from the recommendations in this report, beyond those already set out in the body of the report.

6.2 (Approved for and on behalf of Jacqueline Harris-Baker, Director of Law and Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

Appendices

Appendix A: Declaration of Result of Poll.

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DECLARATION OF RESULT OF POLL

Election of Pensioners Representatives

on

Monday 24 July 2017

I, Lea Goddard, as Counting Officer at the above election, do hereby give notice that the number of votes recorded for each Candidate is as follows:

Name of Candidate	Number of Votes*
Jorn G Cooper	368
Gilli Driver	1541 (Elected)
Peter Howard	1234 (Elected)
Earl G J Thompson	192

* If elected the word 'Elected' appears against the number of votes.

The number of votes rejected was as follows:		Number of votes
A	voting for more candidates than voter was entitled to	2
B	no NI number	31
C	no signature or name on ballot paper slip	2
D	being unmarked or wholly void for uncertainty	13
	Total	48

And I do hereby declare that Gilli Driver **and** Peter Howard **are duly elected.**

Dated Monday 24 July 2017

Lea Goddard
Counting Officer

Printed and published by the Counting Officer, Town Hall, Katharine Street, Croydon, CR9 1DE

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Croydon Council

REPORT TO:	**Pension Committee** **19 September 2017**
AGENDA ITEM:	**12**
SUBJECT:	**The Local Government Pension Scheme Advisory Board Code of Transparency**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report introduces the LGPS Code of Transparency which is intended to assist LGPS administering authorities in obtaining detailed investment fee data.	
FINANCIAL SUMMARY: This initiative should assist administering authorities in understanding and controlling investment fees.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 The Committee is asked to note this report and comment on the application of the Code as appropriate.

2. EXECUTIVE SUMMARY

2.1 The Local Government Pension Scheme Advisory Board has launched its Code of Transparency. This should prove to be a valuable tool in understanding costs of managing investments.

3 DETAIL

3.1 The Local Government Pension Scheme Advisory Board (the Board) is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113. It has been established to encourage best practice, increase transparency and coordinate technical and standards issues.

3.2 The move toward investment fee transparency and consistency is seen by the

Board as an important factor in the LGPS being perceived as a value led and innovative scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and included in the government's criteria for pooling investments. To assist LGPS funds in obtaining the data they require in order to report costs on a transparent basis the Board has developed a voluntary Code of Transparency for LGPS asset managers.

3.3 The full text of the Code is appended to this report (Appendix A: Code of Transparency).

3.4 To assist LGPS administering authorities in obtaining the more detailed investment fee data they require, the Board has worked with key stakeholders including investment managers, CIPFA and LGPS administering authorities to develop the Code. The Code is voluntary and covers the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities. An Investment Manager who signs up to the Code in respect of the investment types covered by the Code, i.e. listed assets, agrees that within a period of twelve months of signing up it will put in place the systems necessary to allow the completion and automatic submission of the template to each Administering Authority that the Investment Manager is appointed by. There are separate templates for segregated portfolio management and for pooled funds.

3.5 The template lists a series of broad headings for reporting costs and expenses and in its initial form will concentrate on those areas which should already be available but may not have been supplied by asset managers either proactively or in a format easily useable by LGPS funds.

3.6 As this phase of the rollout of the Code only applies to listed assets, for the Croydon Fund the impacted asset classes are limited to equities, fixed interest and commercial property. At the time of writing LGIM and Markham Rae had adopted the Code.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Solicitor to the Council comments that there are no direct legal implications arising from the recommendations within this report.

6.2 (Approved for and on behalf of Jacqueline Harris-Baker, Director of Law and Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

Appendices

Appendix A: The Local Government Pension Scheme Advisory Board Code of Transparency, May 2017

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LGPS Investment Code of Transparency ("the Code")

Date of Publication: 18th May 2017

Definitions

For the purpose of this Code the following definitions shall apply:

Administering Authority	means the administering authority of a pension fund within the LGPS. For the purposes of the Code only this term shall also apply to the operator of any LGPS investment pool
Board	means the Local Government Pension Scheme Advisory Board
Investment Manager	means an investment manager appointed by an Administering Authority in accordance with the Investment Regulations
Investment Regulations	means The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as from time to time amended or replaced)
LGPS	means the Local Government Pension Scheme for England and Wales
Template	means the template information form for the relevant investment types provided by the Board as updated from time to time and made available on the Board's website

A Introduction

1. The Board is a body established under the Local Government Pension Scheme Regulations 2013. The function of the Board is to provide advice to the Secretary of State on the desirability of making changes to the LGPS. The Board also has the function of providing advice to Administering Authorities and local pension boards in relation to the effective and efficient administration and management of the LGPS and their pension funds. The Board has the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

2. The Board views the move toward investment cost transparency and consistency as an important factor in the LGPS being perceived as a value-led and innovative pension scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and is included in the government's investment reform guidance and criteria for LGPS pooling.

3. To assist LGPS administering authorities in obtaining the more detailed investment fee data they require, the Board has worked with key stakeholders including investment managers, CIPFA and LGPS administering authorities to develop the Code.

4. The Administering Authority and the Board recognise their obligations pursuant to the Freedom of Information Act and the Section 45 FoIA Code of Practice and will engage with Investment Managers appropriately in that respect.

B Application of the Code

5. The Code is a voluntary code and covers the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities.

6. An Investment Manager may sign up to the Code in writing in the form agreed by the Board. By doing so the Investment Manager is demonstrating its commitment to the transparent reporting of LGPS investment costs and fees to administering authorities.

7. An Investment Manager who signs up to the Code in respect of the investment types covered by the Code agrees that within a period of twelve months of signing up to the Code (or such longer period as the Board may in its discretion agree) it will put in place the systems necessary to allow the completion and automatic (i.e. without the client having to make a request) submission of the Template(s) to each Administering Authority that the Investment Manager is appointed by (whether at the time of signing up to the Code or in the future).

8. The Template(s) must be submitted automatically (i.e. without the client having to make a request) each year to each Administering Authority (if required by the Administering Authority) and to any independent third party appointed by the Board in accordance with paragraph 12. Administering Authorities may also request such submissions on a quarterly basis.

9. There are separate Templates for segregated portfolio management and for pooled funds. Where an Investment Manager operating a segregated mandate invests in a pooled fund as part of that mandate, the reporting will be done via the Investment Manager's own Template.

10. The Investment Manager will not vary the Templates except with the written agreement of the Board and the relevant Administering Authority.

11. The current Templates only apply in relation to listed asset classes. Templates for unlisted asset classes such as private equity will be developed in due course. It is envisaged that the Templates will develop over time to encompass other more challenging areas of cost transparency and will remain flexible to enable changes to meet the rapidly developing market for investment products. The listed asset Template may be amended from time to time to keep in line with the Investment Association's Disclosure Code.

12. The Board may appoint an independent third party to audit Templates provided in accordance with the Code and general compliance of the Code by Investment Managers. The third party may also be asked by the Board to collate, analyse and publish generic, non-attributable information obtained from the Templates at a national level. The Investment Manager shall co-operate with the Board and/or appointed third party and provide such information and explanations as the third party may reasonably require within a reasonable period of request.

13. The third party shall report the findings of any audit direct to the Board, including any recommended actions or improvements. The Investment Manager shall co-operate and work with the Board to address and implement any recommended actions or improvements.

14. The Investment Manager may, subject to any overarching legal or reporting requirements, require an Administering Authority to sign up to a reasonable confidentiality agreement not to disclose the information contained in the Template to any third parties (excluding any third party appointed by the Board).

15. The Board agrees that when an Investment Manager signs up to the Code in the agreed form it will, as soon as reasonably practicable, list the Investment Manager on its website and allow the Investment Manager to use the Code's logo on its marketing literature in accordance with the Code Logo Use and Guidance (available from the Board website and amended from time to time). The Code Logo Use and Guidance can be downloaded from the Board website.

16. The Board owns the Code logo and will retain all intellectual property rights and any other rights in the Code logo. An Investment Manager will not acquire any rights, title or interest in the Code logo and will not use the Code logo except as expressly specified in the Code and the Code Logo Use and Guidelines.

17. An Investment Manager will be permitted to use the Code logo on a non-exclusive basis to communicate their compliance with the Code. The Code logo will convey to stakeholders that the Investment Manager is compliant with the Code and committed to the transparent reporting of LGPS investment costs and fees.

18. An Investment Manager will not use the Code logo for any other purpose nor for the benefit of any other person and will not alter or change the Code logo in any way – ownership of any modifications in the Code logo will vest in the Board.

19. The Board may revoke use of the Code logo and remove an Investment Manager from the list on its website at any time if an Investment Manager is reported by an Administering Authority to be in breach of the Code.

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Croydon Council

REPORT TO:	**Pension Committee** **19 September 2017**
AGENDA ITEM:	**13**
SUBJECT:	**Local Government Pension Scheme Investment Pooling: Spring 2017 Progress Review and London Collective Investment Vehicle update**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report suggests a response to the Spring Review of progress on the Local Government Pension Scheme investment pooling project in London.	
FINANCIAL SUMMARY: The Local Government Pension Scheme investment pooling is designed to achieve savings for the Scheme.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 The Committee is asked to note this report.

2. EXECUTIVE SUMMARY

2.1 .This report relates to the contents of a letter from the Minister for Local Government addressed to all Pension Funds and investment pools. The report then then provides an update on the London Collective Investment Vehicle's (CIV) plans to open additional sub-funds.

3 DETAIL

3.1 In August the Department for Communities and Local Government wrote to the Chairs of each Local Government Pension Scheme (LGPS) Pension Funds and investment pools. That letter was signed by Elizabeth Truss, Chief Secretary to the Treasury, Marcus Jones, Minister for Local Government, and Caroline Nokes, Parliamentary Secretary, Minister for Government Resilience and Efficiency at the Cabinet Office. A copy of this correspondence is at Appendix A.

3.2 The letter acknowledges progress made following submission of reports by pools on progress in March 2017. However, the letter expresses concern that, *'in some areas we have not yet received the assurance we require*.' The correspondence goes on to express the view that in order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. The correspondence makes clear the intention to continue to engage with funds and pools where there are outstanding issues however it makes clear that failure to ensure that there is '*a clear path and timetable for delivery*' would trigger a consultation on further action, including the DCLG making use of the Secretary of State's reserve powers. These reserve powers allow the Secretary of State to direct a fund to make changes to its investment strategy, force it to invest in specific assets and transfer the investment functions of the administering authority to the secretary of state or a nominated person. As the letter is addressed to all funds and pools it is difficult to know the focus of these concerns. At the time of writing it is understood that all funds have signed up to one of the pooling arrangements and only one pool, the Local Pensions Partnership, comprising the Lancashire County Pension Fund, the London Pensions Fund Authority and the Royal County of Berkshire Pension Fund, does not meet the criteria for size.

3.3 Before stating their continued commitment to what is described as *'this vital long term change programme*' DCLG sets out that they expect:

- A further progress report from the pools in October;
- Further details of savings achieved and planned;
- Plans for reporting, including on fees and net performance by asset class; and
- Plans to increase infrastructure investment.

<u>London CIV:</u>

3.4 Further to this point above about reporting and fees, for the London CIV reporting will be facilitated through an internet based portal which is currently being piloted. This will provide investing funds with the same level of detail as is expected from other fund managers about performance, risk, fees and so forth.

3.5 The London CIV reported on savings in April 2017. That position statement is summarized here:

Saving (estimated)	**£ millions**
Sub-funds opened by April 2017	1.38
Forecast for rest of the year	2.16
Passive fee negotiations	1.76
Further passive fee negotiations	1.0
Total	**6.3**

The CIV reviewed these forecasts recently; by July fee savings were estimated to be in a range of £11.58m (low) to £27.68m (high). Estimated annualised fee savings based on current plans for opening sub-funds amount to between 54% (low estimate) or 22% (high estimate) of those projected in the July position statement.

3.6 The London CIV's policy on infrastructure is as follows:

- The policy notes that allocations to infrastructure across London remain relatively low at less than 1%.
- Where funds had indicated an interest in allocating to infrastructure then their target allocations are between 3-10%; this is a local asset allocation decision.
- The CIV is trying to better understand London funds' future strategic asset allocation, and where there is increased demand for investment opportunities in infrastructure, it will aim to provide these in a timely manner.
- LCIV continues to have discussions with a range of external infrastructure managers to ensure that essential background research has been completed and is available for investment at such time as the London Funds are ready to invest in infrastructure platforms.
- The London CIV continues to engage with the Cross Pools Infrastructure Group and to explore opportunities for collaborative working.
- Their business plan includes opening two infrastructure specific funds in the summer of 2019.

3.7 The CIV's Investment Advisory Committee has a number of working groups, looking at: Fixed Income and Cashflow; Global Equities; Stewardship; Low Carbon; Reporting and Transparency; and Infrastructure. The policy relating to infrastructure is sketched out above. The work on Fixed Income is complex and quite specialised. The policy relating to sub-funds is summarised below. Appendix B provides a flavour of the activities currently in train.

Strategy	**Expected Launch**
Global Bonds	
Buy and Maintain	December 2017
Active	June 2018
Credit Cash-flow Driven Investment	To be confirmed
Sovereign Debt	
Rates and foreign exchange	To be confirmed
Emerging Market Debt	
Blended Emerging Market	April 2018
Hard Currency Emerging Market Debt	To be confirmed
Local Currency Emerging Market Debt	To be confirmed
UK Government	
Liability Driven Investment	April 2018
Private Debt	
Liquid Loans	December 2017
Illiquid Direct Lending	May 2018
Multi Asset Credit	

Liquid Multi Asset Credit	December 2017
Illiquid Multi Asset Credit	May 2018

Until more detail is available it is difficult to see how this structure maps onto Croydon’s investment strategy.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Solicitor to the Council comments that there are no direct legal considerations arising from the recommendations within this report.

6.2 (Approved for and on behalf of Jacqueline Harris-Baker, Director of Law and Monitoring Officer.)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: Letter from the DCLG, 22nd August, 2017
Appendix B: Investment Advisory Committee Action Log - 2017

Department for Communities and Local Government

Marcus Jones MP
Minister for Local Government

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www.gov.uk/dclg

Chairs of LGPS pension funds
Chairs of LGPS investment pools

22 AUG 2017

LOCAL GOVERNMENT PENSION SCHEME (LGPS) INVESTMENT POOLING: SPRING 2017 PROGRESS REVIEW

Thank you for your reports on progress to 31 March and updates to our officials on developments since then. We have been pleased to see that most pools in development have been moving at pace towards becoming operational, including launching procurements for pool operators and, where new operators are being established, making key senior appointments and preparing applications for Financial Conduct Authority (FCA) authorisation. We have also been pleased to note progress in some pools towards your ambitions on infrastructure investment, with some significant new funding committed this year. We are well aware of the substantial demands on your staff and resources required to deliver the progress already made and the challenges still to be overcome in order to deliver, and we are grateful to all those involved.

However in some areas we have not yet received the assurance we require. We have made clear that all funds must fully participate in a pool and all pools must have an FCA authorised operator. In order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. Our officials will of course continue to engage with funds and pools where there are outstanding issues over the summer. But if we are not satisfied that there is a clear path and timetable for delivery, the Department for Communities and Local Government will consult on further action, including use of the powers available.

We will expect a further report on progress to 30 September from all pools in October. At that time we will want to see further details of savings achieved and planned, as well as plans for reporting, including on fees and net performance by asset class, and for increasing your infrastructure investment in line with your ambition.

We remain committed to this vital long term change programme in order to deliver improved net investment performance and capacity to invest in infrastructure, and to protect the sustainability of the LGPS for the benefit of its members. We look forward to working with you to bring the first stage of the reform to a successful conclusion with the establishment of pools across the LGPS.

CHIEF SECRETARY TO THE TREASURY **MARCUS JONES MP** **CAROLINE NOKES MP**

CIV - INVESTMENT ADVISORY COMMITTEE ACTION LOG - 2017 OUTSTANDING ACTIONS - AUGUST 2017

Date	Action	Owner	Completion Due/Completed	Priority	Update
26/07/17	IAC to feedback on client portal following soft launch	IAC	August	1	Limited responses received
26/07/17	Working Group List to be updated	JD	August	2	Circulated with IAC papers
26/07/17	Infrastructure Working Group Meeting Date to be agreed	JP/JD	August	1	In progress
26/07/17	IAC to feedback on Quarterly Investment Manager Summary Sheets	IAC	August	1	No feedback to date
26/07/17	Low Carbon Workshop - Save the Date to be issued for 19th September	JD	August	1	Completed
14/06/17	IAC members to feedback on additional requirements for information days	IAC	July	2	No feedback to date
14/06/17	Global equity survey to be issued and include low carbon options	JD/CC	July	2	Delayed to August
14/06/17	Stewardship Working Group meeting to be arranged	JD	June	1	Meeting 23/08/17
27/04/17	Low Carbon Survey	JD	July	2	Combined with Global Equity Survey
23/03/17	LCIV to develop a Communications strategy	JD	May	2	Work in progress - for summer 2017
25/08/16	Discussion paper on CIV Investment Operating Model	JP/JD	October	2	C/F to 2017 - Currently being worked on by MA (June 2017)
28/07/16	Allocations Policy agreed, formal approval by Board	CIV Board	December	2	Allocations Policy being updated June 2017

Priority

1	High
2	Medium
3	Low

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