

# West Sussex Pension Fund

## Annual Report

2018/19



## Key Facts

### Members and Employers

There are **201 active employers** in the Pension Fund and **75,191 members** (contributors, pensioners and deferred).

### Funding level

The Pension Fund was **95% funded** at the most recent formal valuation (March 2016). It is estimated that at 31 March 2019 the West Sussex Pension Fund was fully funded.

### Administrative performance

Administration performance against Key Performance Indicators (KPI's) during the year has been set out below.

	Target	2017/18 Actual	2018/19 Actual
<b>Payment of pension benefits</b> within 10 working days of receipt of all required information.	97.00%	91.62%	78.75%
<b>Provision of pension estimates to members of the scheme and to employers</b> within 10 working days of request, and the provision of information on deferred benefits to people who are leaving the pension scheme within 20 working days from receipt of all required information.	97.50%	73.51%	74.15%
<b>Calculation of Deferred Benefits</b> within 20 working days of the request being submitted	97.50%	52.88%	81.36%

### Investment Performance

The Pension Fund invests in equities, bond, property and private equity as shown below.

	2017/18 £m	2018/19 £m
Equities	1,977	2,165
Bonds	1,514	1,557
Property (direct)	344	377
Alternatives	121	108
Cash or equiv.	102	99
<b>Total</b>	<b>4,058</b>	<b>4,306</b>

Return of the Fund's assets is summarised below compared to a market benchmark.

	12 months	3 years pa	10 years pa	15 years pa
Fund	7.06%	13.12%	12.83%	9.35%
Benchmark	7.68%	11.19%	11.67%	8.69%
<i>Difference</i>	-0.62%	1.93%	1.16%	0.66%

The Pensions Panel has instructed the fund managers to be active stakeholders. In addition to engaging with companies, **the fund managers voted at 99% of domestic and 95% of overseas meetings during the year.**

## Policy Documents

The latest policy documents can be downloaded and can be made available on request.

Policy Document	Description
<a href="#">Administration Strategy<sup>1</sup></a>	<p>The Strategy is a statement outlining the policies and performance standards aimed at providing high quality pensions and administration service.</p> <p>The Strategy is effective from 4 March 2019.</p>
<a href="#">Administration Authority Discretions</a>	<p>This Policy sets out how the Pension Fund applies provisions of the Scheme that are discretionary. Employers will maintain their own Discretions policy which relates to decisions which they can make under the Scheme.</p> <p>Please Note: The Local Government Pension Scheme (LGPS) is a statutory scheme. The rules and regulations governing the scheme are laid down under Act of Parliament.</p>
<a href="#">Breaches Policy</a>	<p>This Policy sets out the Fund's procedures for the identification and reporting of breaches of statutory requirements to the Pensions Regulator.</p>
<a href="#">Business Plan</a>	<p>This Annual Plan considers performance against the Fund's objectives during the year and out the future priorities.</p>
<a href="#">Communications Strategy Statement</a>	<p>This Statement sets out how the Fund will communicate with members, representatives of members, prospective members and employing authorities.</p>
<a href="#">Funding Strategy Statement</a>	<p>This Strategy identifies how employers' pension liabilities are best met going forward (whilst maintaining as near as possible constant employer contribution rates) and sets out how the Fund will take a prudent long term view of funding those liabilities.</p>
<a href="#">Governance Policy and Governance Compliance Statement</a>	<p>These two Statements detail the Fund's governance and stewardship arrangements and report the extent of compliance against a set of best practice governance principles.</p>
<a href="#">Investment Strategy Statement</a>	<p>This Strategy outlines how investment decisions are made, the types of investment held, fees paid, risk and corporate governance</p>

<sup>1</sup> To be added on publication

## The Scheme and Benefit Structure

The Local Government Pension Scheme (LGPS) is a valuable part of the pay and reward package for employees. Benefits are set nationally, and key features are described below.

The Scheme is paid for by member contribution, which are set nationally and range from 5.5% of pay to 12.5% of pay, employer contribution rates, which are determined locally by the Fund Actuary and range from 0% of pay to 42.7% of pay, and investment returns.

- **A funded Scheme**  
Unlike other public sector Schemes the Local Government Pension Scheme is funded, which means that it pays for benefits out of assets held by the Pension Fund
- **Secure pension**  
The Scheme is known as 'defined benefits' which means each year 1/49th of a members pensionable pay is put into your pension account; at the end of the year the total amount of pension in your account is adjusted to take into account the cost of living. It is not dependent on the returns achieved on the Fund's assets.
- **Flexibility to pay more or less contributions**  
A member can boost their pension by paying more contributions and have the option to pay half normal contributions in return half the normal pension (the 50/50 section).
- **Tax efficient now and in the future**  
Members receive tax relief on the contributions paid plus the option on retirement to exchange part of a member's pension for tax-free cash.
- **Freedom to choose when to take a pension**  
The Pension is usually payable from a member's normal pension age which is linked to a members State Pension age (with a minimum of 65). However a member can choose to retire and take their pension at any time between the age of 55 and 75, with adjustments.
- **Flexible Retirement**  
If a member reduces their hours or moves to a less senior position at or after age 55 they can, with an employers' consent (and provided they have met the two years vesting period), draw some or all of the benefits built up. Benefits may be reduced for early payment.
- **Redundancy and efficiency retirement**  
If a member is made redundant or retired in the interests of business efficiency at or after age 55 they will (provided they have met the two years vesting period) receive immediate payment of the main benefits built up, with adjustments.

## Scheme Management

Although the Local Government Pension Scheme (LGPS) is a national statutory Scheme, it is managed by 89 Administering Authorities in England and Wales. The Administering Authority is responsible for managing and administering the LGPS in relation to for its local area. West Sussex County Council (WSCC) is the Administering Authority for the West Sussex LGPS. To fulfil its role WSCC has set up the following governance arrangements:

- Scheme Manager**  
 The Scheme Manager has responsibility for managing and administering the Scheme. For the purpose of West Sussex LGPS the Scheme Manager is WSCC. Its functions are discharged in accordance with the [Scheme of Delegation](#) by Governance Committee and the Director of Finance and Support Services (formerly known as Director of Finance, Performance & Procurement) and the Director of Law and Assurance.

- Pensions Panel**  
 The Pension Panel is a sub-committee of WSCC's Governance Committee has [delegated] and has responsibility for the Pension Fund's investment policy and its performance, appointment of advisers and managers, key scheme governance, funding and administration matters and communication with stakeholders.

The Pensions Panel comprises seven County Councillors, one representative from the district councils, one representative from the other major employers (currently vacant) and a representative for members. The Panel is supported by the Director of Finance and Support Services and an Investment Adviser.

- Pension Advisory Board**  
 The Board is responsible for assisting the Scheme Manager in matters of governance and administration including compliance with Regulations, guidance and other legislation and securing effective and efficient governance and administration.

The Board comprises seven members (including an independent chair) with equal representation of employers and scheme members. The Board is supported by the Director of Finance and Support Services.

The current Pension Panel and Pension Advisory Board membership, their attendance and training is shown on the following pages.

Those responsible for the management of the Fund have a fiduciary responsibility to act in the best interest of employers, taxpayers and scheme beneficiaries at all times, rather than to represent their own local, political or private interest. Members and officers working in relation to the Scheme are invited to make any declaration of personal or prejudicial interests that they may and are reminded to make a declarations at any stage during meetings if it becomes apparent that this may be required when a particular item or issue is considered. A Register of Interest can be found [here](#).

For further information about the Pension Fund's Governance arrangements, please see the Fund's [Governance Policy Statement and Governance Compliance Statement](#).

**Pension Panel  
2018/19**

	Meeting	Fundamental			Internal			External					
		Attend.	Day # 1	Day # 2	Day # 3	Financial Statement	Infra and private debt	Club Vita Longevity	Baillie Gifford Conf	SPS Invest Strategies	CIPFA Pensions Conf	LGA Governance Conf	LAPP Strategic Investment
Jeremy Hunt Chairman County Councillor 	4/4		2017			✓	✓	✓					✓
David Bradford County Councillor 	4/4					✓	✓			✓			✓
Joy Dennis County Councillor 	3/4	2017	2017	2017	✓		✓		✓			✓	
Brian Donnelly District Councillor 	4/4		2015	2015	✓	✓	✓						
Roger Elkins County Councillor 	3/4				✓	✓							
Nigel Jupp County Councillor 	4/4	2017	2017	2017	✓	✓	✓					✓	
Judith Taylor Member Rep 	4/4	2016	2016	2016	✓	✓	✓			✓	✓		
Deborah Urquhart County Councillor 	4/4		2013			✓	✓						
James Walsh County Councillor 	3/4	2012	2012	2012	✓	✓	✓					✓	

**Pension Advisory  
Board 2018/19**

		Meeting	Online	Internal				External		
		Attend.	Pension Regulator toolkit	Financial Statement	Risk Framework	Actuarial Matters	Induction	CIPFA Local Pension Board Conf	CIPFA Local Pension Board Sem	CIPFA Local Pension Board Sem
Peter Scales <i>Chairman Independent</i>		4/4	All	✓	✓	✓	✓		✓	✓
Becky Caney <i>Member Rep</i>		2/2	All			✓	✓			
Richard Cohen <i>Employer Rep</i>		4/4	All	✓	✓	✓	✓			
Miranda Kadwell <i>Employer Rep</i>		2/2	All			✓	✓			✓
Kim Martin <i>Employer Rep</i>		2/4	All	✓		✓	✓			
Christopher Scanes <i>Member Rep</i>		4/4	All	✓	✓	✓	✓	✓		✓
Tim Stretton <i>Member Rep</i>		3/4	All			✓	✓	✓		

## Scheme Advisors

As Administering Authority West Sussex County Council (WSCC) is required to undertake a number of functions, including administration of the Local Government Pension Scheme (LGPS) benefits on behalf of its members, invest contributions received from members and employers and undertake assessments To fulfil these requirements, WSCC has appointed a number of external service providers, who are listed below:

### Pension Administration

Responsibility for administration of the Scheme was transferred to Hampshire County Council with effect from 4 March 2019. Prior to this the administrative function was undertaken by Capita. The benefits available to members are unchanged and will continue to build up in the same way.



### Investment Managers

The Pension Fund invests money not required immediately to pay benefits into a portfolio of equities, bonds, property and private equity via external managers.

Cash is also managed by WSCC's Treasury Management Team in accordance with the Treasury Management Strategy, which can be found on the [website](#).



### LGPS Asset Pool

As part of the summer Budget in 2015, the Chancellor announced that administering authorities were required to pool LGPS investments, to deliver significantly reduced costs while maintaining overall investment performance. In response WSCC joined with ten other authorities to create the ACCESS LGPS Asset Pool.

Link Fund Solutions have been appointed as Operator to the ACCESS Pool - providing the sub-funds available for authorities to invest.



### Fund Actuary

Employee contributions are fixed by Central Government. However the Actuary is required to set employer contribution rates to ensure benefits under the Scheme are properly funded. The County Council has appointed Hymans Robertson as Fund Actuary.



### Independent Adviser

Caroline Burton has been appointed to support the Pensions Panel through reviewing investment activity, giving advice on general investment matters, assisting in the selection of new managers and



offering a practical approach to address and control risk. Caroline was an executive director at Investment Guardian Royal Exchange for a number of years and is currently a non-executive director at three invest related companies.

### Internal Auditor

Southern Internal Audit Partnership (SIAP) provides our internal audit service to assist WSCC in ensuring it has appropriate risk management processes, control systems, accounting records and governance arrangements in place.



### External Auditor

Ernst & Young have been appointed as external auditors for WSCC to give a view of the financial transactions of the Pension Fund and the amounts and dispositions of the fund's assets and liabilities.



### Custodian

A global custodian arranges for the safekeeping of the Fund's assets (excluding property, private equity, pooled investments and some cash), settlement of transactions effected by fund managers, timely collection of income and other administrative actions. BNP Paribas were appointed by the County Council to provide global custody services, stock lending facilities and performance measurement service from May 2017.



### Legal Adviser

Orbis Legal Services Partnership (WSCC's legal services team working in partnership with Brighton and Hove City Council, East Sussex County Council and Surrey County Council) for advice covering conveyancing, investment and employer issues.



### AVC Provider

All LGPS's have an Additional Voluntary Contribution (AVC) arrangement in which employees can invest money deducted directly from pay. This is arranged through an AVC provider, often an insurance company or building society. These schemes provide members with a flexible and tax-efficient way of topping up their retirement benefits. The current provider is Standard Life, although some members retain paid up plans with Equitable Life, the previous provider.



### Subscriber

The Pension Fund was a member of Pensions & Lifetime Savings Association and Pensions Research Accountants Group (PRAG) in 2018/19.

## Risk Management

### Key Risks

The Pension Fund maintains a risk register to identify key risks, consider and assess the significance, likelihood of occurrence and potential impact of the risk. The 2018/19 key risks and actions taken to mitigate these have been set out below:

Risk	Mitigation
Insufficient funds to meet pension obligations.	<ul style="list-style-type: none"> <li>An Actuary has been appointed who adopts prudent assumptions.</li> <li>Investment performance and strategic asset allocation is reviewed alongside changes in liabilities.</li> </ul>
Fund Managers adopt inappropriate strategic asset allocation or has inadequate processes in place.	<ul style="list-style-type: none"> <li>A customised benchmark based on the Fund's assets, liabilities and awareness of risk, return and liquidity requirements has been set based on appropriate advice.</li> <li>Agreements with fund managers are clear in respect of contractual requirements and any discretions.</li> </ul>
Failure to comply with expectations on asset pooling or arrangements does not meet the needs of the Fund.	<ul style="list-style-type: none"> <li>Active engagement in the work of the ACCESS pool (Joint Committee and officer).</li> <li>Clear investment strategy requirements set.</li> </ul>
Employer contribution rates fluctuate between actuarial valuations due to membership experience	<ul style="list-style-type: none"> <li>Stability of contribution rates is an objective within the Funding Strategy and implemented through pooling certain employers to help manage fluctuations in contribution rates, phasing or stabilisation of some contribution rates and requiring that employers pay the strain cost associated with certain decisions, such as early retirements.</li> </ul>
Employer have a declining membership or are no longer in the Scheme but liabilities remain e.g. if employer goes bust, or employer unable to meet liabilities.	<ul style="list-style-type: none"> <li>Certain employers are required to have a bond or guarantee in place.</li> <li>Membership numbers are monitored regularly and employers with low membership numbers are actively managed via a cessation flightpath.</li> </ul>
Pension Fund accounts not accurately maintained	<ul style="list-style-type: none"> <li>Regular reconciliation work between accounting and administration systems.</li> <li>Appropriate knowledge, understanding and training.</li> </ul>
Failure to comply with changes to LGPS Regulations and/or Inland Revenue Rules	<ul style="list-style-type: none"> <li>All consultation papers issued by the relevant Government departments are responded to where appropriate.</li> <li>Appropriate advice sought from experts and advisers.</li> </ul>
The quality of the information provided to members in terms of accuracy, timeliness and clarity falling short of expectations and requirements.	<ul style="list-style-type: none"> <li>Data quality work undertaken and training/guidance is provided to employers.</li> <li>The Fund's Communication Strategy seeks to ensure membership well informed of benefits.</li> <li>Appropriate advice sought from experts and advisers.</li> </ul>
Inaccurate and/or incomplete data retained.	<ul style="list-style-type: none"> <li>New employers participating in the Scheme are provided with clear guidance.</li> <li>Where employers fail to supply the correct data or do not follow the correct process, this is escalated.</li> </ul>
Knowledge and understanding of the Board and Panel members may not comply with the requirements.	<ul style="list-style-type: none"> <li>Develop a training strategy.</li> <li>Monitor training register.</li> </ul>
Board and Panel members may have a conflict of interest.	<ul style="list-style-type: none"> <li>Declarations of interest are required at the start of and during each meeting as appropriate.</li> <li>A clear conflict of interest and disclosure policy is maintained in line with WSCC overriding policies.</li> </ul>
Compliance with Data Protection to ensure no breaches	<ul style="list-style-type: none"> <li>Data is managed securely.</li> <li>All staff, including temporary or contract staff, complete information management training.</li> </ul>

## Internal Audit

The internal audit team are responsible for evaluating the effectiveness of the risk management, control and governance processes to support the risk framework and undertook the following audits during 2018/19 audit plan.

Title	Comments
<ul style="list-style-type: none"> <li>○ National Fraud Initiative <i>January 2019</i></li> </ul>	<p>The biennial Cabinet Office's National Fraud Initiative provides information on potential inappropriate payment as a result of a member being deceased. Data is provided by the internal audit team and compared against national databases.</p> <p>The results from the 2018/19 report identified 139 potentially deceased members. This has been run by audit and the results are being investigated by Hampshire Pension Service.</p>
<ul style="list-style-type: none"> <li>○ Pension Fund – Externally Managed Investments <i>January 2019</i></li> </ul>	<p>This audit gave an opinion on the extent to which assurance can be placed upon the effectiveness of the Controls in place, focusing on those designed to mitigate risk in achieving the following key objectives:</p> <ul style="list-style-type: none"> <li>• All holdings are held securely to the ownership / exclusive entitlement of the Pension Fund.</li> <li>• There are adequate mechanisms for ensuring that all investment income due is identified and collected.</li> <li>• The performance of the Investment Fund is subjected to review.</li> </ul> <p>The auditors concluded that Adequate Assurance can be placed on the effectiveness of the overall control environment. There is a sound framework of internal control with some opportunities for improvement. No significant risks to the achievement of system objectives have been identified.</p>
<ul style="list-style-type: none"> <li>○ Pensions Administration – Processes and Systems <i>March 2019</i></li> </ul>	<p>This audit gave an opinion on the extent to which assurance can be placed upon the effectiveness of internal controls in place, focusing on those designed to mitigate risk in the following areas:</p> <ul style="list-style-type: none"> <li>• Authorisation regarding the addition of a new Pensioner to the payroll</li> <li>• Lump sum payments</li> <li>• Transfers In and Out</li> <li>• The Hartlink system</li> <li>• Reconciliations between administration and accounting IT systems</li> </ul> <p>It was recognised that administration of the LGPS transferred to Hampshire County Council on 4 March 2019.</p> <p>The auditor concluded that Adequate Assurance can be placed on the effectiveness of controls. There is a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of systems objectives have been identified.</p>
<ul style="list-style-type: none"> <li>○ Pension Fund - Governance and Strategy <i>March 2019</i></li> </ul>	<p>This Audit has been undertaken however the results are not yet available.</p>

This internal audit work is in addition to the external audit which takes place annually and focuses on the Pension Funds Financial Statements and ensuring that they are prepared in line with CIPFA's code of practice.

## Financial Performance

### Cashflow

The Fund needs continued cashflows from contributing members and employers to allow it to invest over the long term and pay benefits from income received, rather than by selling its investment assets.

The table below compares actual income and expenditure during the year to the assumptions made by the Actuary during his most recent valuation.<sup>2</sup> Estimates by their nature contain a degree of uncertainty. Restructuring activity by employers, changes to the working patterns of members, members taking the option to transfer to the 50/50 Scheme and changes to Regulations can all have an impact.

The Pension Fund maintains an account for each employer participating in the Scheme showing its contributions received, the benefits paid to its members and its share of investment income, administration and investment costs and investment assets.

	2017/18	2018/19		2019/20
	Actual	Estimate	Actual	Estimate
	£m	£m	£m	£m
Contributions (members and employer)	124.3*	127.9	127.5**	133.7
Income on pension fund investments	51.6	53.1	61.4	62.0
Pensions paid	(107.2)	(109.5)	(113.8)	(116.2)
Net Transfers in /(out)	29.4	8.6	(4.3)	7.3
Administration and Governance Costs	(1.6)	(1.7)	(2.3)	(2.1)
Investment Management Costs	(15.7)	(12.2)	(15.5)	(15.8)

\* This figure includes £0.4m refunds in contributions paid back to members in 2017/18

\*\* This figure includes a £2.4m payment relating to the exit credit due to an exiting employer and £0.4m refunds in contributions paid back to members in 2018/19

### Contribution Receipts

Employers deduct member contributions as part of their payroll and are required to pay this, along with their own contribution, by the 19th of the month following the deduction – for example 19 May for April's payroll.

In total, the Pension Fund received 2,271 contribution payments during the year. Of these, 99.7% were received on time.

Whilst the Pension Fund reserves the right to charge interest on persistent late payments, no charges were made for the year.

<sup>2</sup> Pensions based on 2016 Actuarial Valuation pensions paid figure (£101.2m) increased by 2.1% per annum. Contributions based on 2016 Actuarial Valuation pensionable pay figure (£379.9m) increased by 2.9% per annum and the employer certified rates as set out for the relevant year in the Actuary's Rates and Adjustment Certificate. Transfers based on average from previous three years. Investment Management costs estimate for 2019/20 based on 2018/19 actual plus 2%.

## Recovery of Overpayments

Overpayments mainly occur when pension payments have continued after a pensioner has died. This is analysed over a five year period below: <sup>3</sup>

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
<b>Brought Forward</b>	<b>(15)</b>	<b>(22)</b>	<b>(32)</b>	<b>(51)</b>	<b>(88)</b>
Overpayment	(47)	(60)	(67)	(111)	(73)
Recovered	36	50	48	67	49
Credit	3	0	0	5	0
Written Off	1	0	0	2	15
<b>Carry Forward</b>	<b>(22)</b>	<b>(32)</b>	<b>(51)</b>	<b>(88)</b>	<b>(97)</b>

## Administration and Management Costs

Each of the 89 LGPS Administering Authorities vary significantly in respect of size, use of in-house and external services and structure.

Notwithstanding this, each Administering Authority is required to provide the Ministry of Housing, Communities and Local Government (MHCLG) with information about its administration and fund management for inclusion in the National Accounts (the SF3 Return) and this information can be used as a benchmark.

This SF3 benchmark comparator is available a year in arrears. Therefore the table below compares the Pension Fund's costs for 2017/18 against other Local Authorities SF3 Return alongside comparative information for WSCC only for 2018/19. <sup>4</sup>

	2017/18		2018/19
	Total SF3	WSCC	WSCC
	£	£	£
Administrative, oversight, governance and investment management	205.24	231.78	237.20
Administrative, oversight and governance costs only (ex investment management)	29.8	22.29	31.13

During 2018/19 the unit cost excluding investment management costs have increased compared to the previous year as a result of the one-off costs associated with the pension administration transfer and the ongoing additional investment to improve the Pension Administration Service to benefit its stakeholders.

<sup>3</sup> A revised report has been used to calculate the overpayments and as a consequence the figures have been restated for all the 5 years.

<sup>4</sup> The 2017/18 information can be found on the [Gov.uk website](http://www.gov.uk).

## Administration

### Employers and Members

Membership of the LGPS is automatic to all Council employees and employees of certain specified employers (such as colleges, academies, and those who are providing a service transferred from a local authority). Employers are grouped into two categories:

**Scheduled:** This includes the town, parish, district, borough and county councils, as well as academies, the Police and Crime Commissioner and Office of the Chief Constable where membership is automatic to all employees who have contracts of employment for more than three months or (in the case of town and parish councils) where a resolution has been passed to specify who should be admitted.

**Admitted:** This includes employers who have contracts for services with a Scheduled employer (above) or who have joined the Scheme due to a community of interest with a Scheduled employer such as quasi-governmental organisations. Membership is normally limited to those employees who originally transferred from the local authority. However some admission arrangements are 'open' so new members are able to join the Scheme.

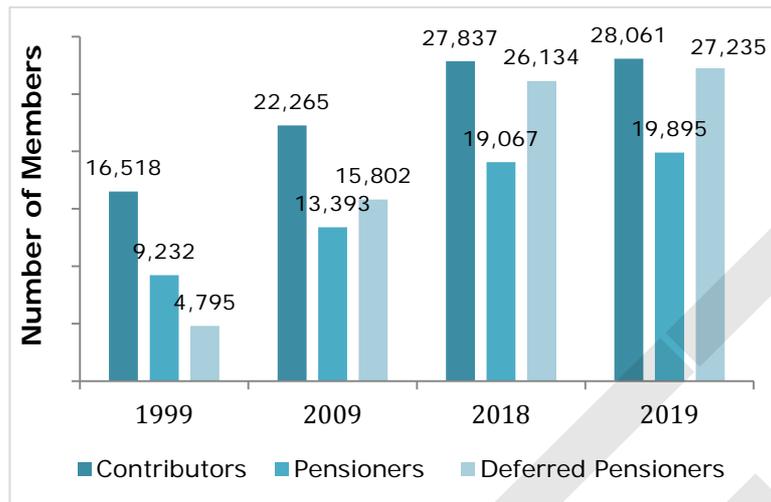
The table below sets out the number of employers at 31 March 2019 who either have members participating in the Scheme and actively contributing to the Pension Fund or those who still have members who are in receipt of benefits (or eligible for receipt of benefits in the future) but who are not contributing (ceased).

During the year, 13 new employers joined the Fund and five became ceased employers.

Further details of the participating employers can be found in Appendix 2.

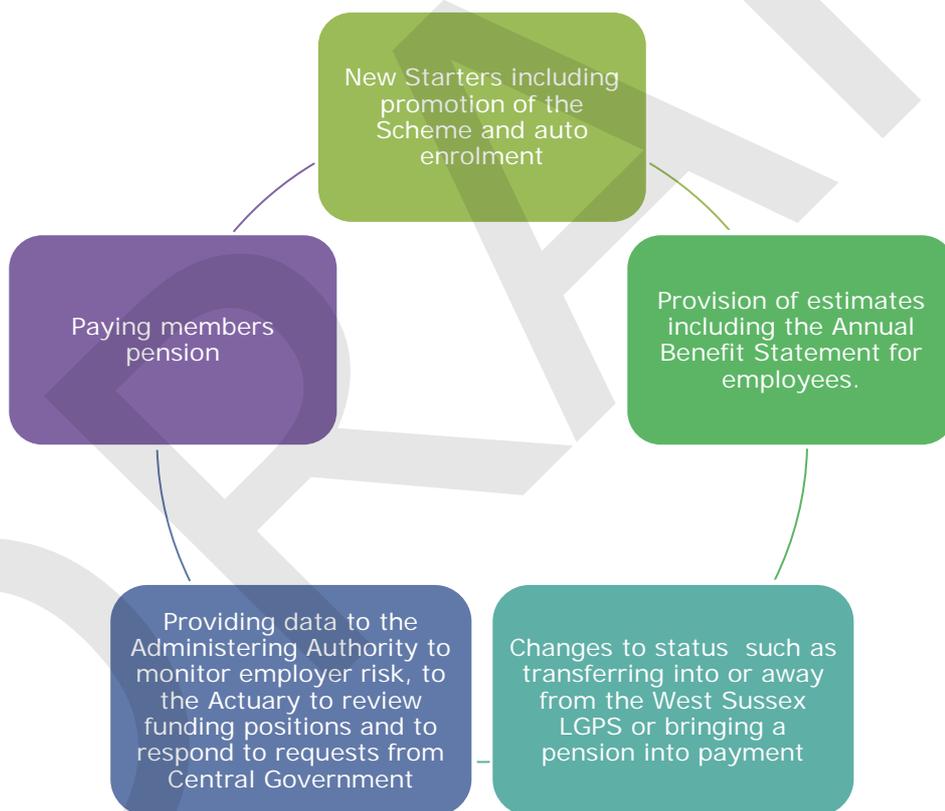
	<b>Active</b>	<b>Ceased</b>	<b>Total</b>
<b>Scheduled</b>	150	49	199
<b>Admitted</b>	51	27	78
<b>Total</b>	201	76	277

Membership of the Scheme is split between active members (contributors), deferred members (former employees who have a deferred pension right to be paid at a point in the future) and pensioners (those receiving pension benefits). Total membership has increased by 146% over the last 20 years and the mix of membership between contributors and pensioners (deferred and active) has flipped from being 54:46 in favour of contributors in 1999, to being dominated by pensioners in 2019 (37:63). This is illustrated below:



## Administration Performance

The Pension Administration broadly covers the following events:



The administration of members benefits in the Scheme moved to the Fund's new administration partners, Hampshire County Council during the year. This followed the Cabinet Member for Finance's decision in May 2018 intended to improve the customer service experience and strengthen resilience. From 4 March the Hampshire team were able to progress new cases on behalf of members and complete any in progress cases and focused on delivering a high-quality, customer-focused service to members.

As part of the new service, members are able to register to a user-friendly Member Portal which allows current active members to view the personal details, membership information and the

nominations held by the pension administration team. Member can also update certain information directly which helps ensure that their records are up to date. This is the link to the [member portal](#).

The transfer was solely in relation to pension administration.

As a result of the change to administration, only part year performance figure are available. New performance indicators will be reported against for 2019/20.

The top ten most requested administration cases for the year to 31 January 2019 have been listed on the following page alongside a measure of timeliness. The target for all case types is ten working days from receipt of all required paperwork, with the exception of Deferred Benefits which has a 20 working day target.

	Description	No. Requests	Met Target
<b>1</b>	<b>Maintenance requests from members / employers</b> Updates to pension records including change of address/hours/details, nomination form and new starter creation which should be input onto the admin system	9,293	94.62%
<b>2</b>	<b>Deferred processing</b> Change to membership status from active to deferred for members with more than three months membership following notification of leaving.	7,016	73.54%
<b>3</b>	<b>Retirement (all types)</b> Retirement estimates and actual retirements (early, normal, late)	2,998	86.24%
<b>4</b>	<b>Transfers</b> Actuals for members who want to transfer in/out service to or from the West Sussex LGPS.	2,788	53.47%
<b>5</b>	<b>Refunds</b> Repayments of contributions for members with less than 3 months membership.	2,133	52.84%
<b>6</b>	<b>Death cases (all variants)</b> Relating to death grants and spouse/child pensions set-ups	1,813	94.28%
<b>7</b>	<b>General member enquiries</b> Via the website, phone, email and post	1,788	87.21%
<b>8</b>	<b>Guaranteed Minimum Pension &amp; Abatement</b> Adjustments were made to member records relating to Guaranteed Minimum Pension for Deferred and Pensioner members.	1,235	55.87%
<b>9</b>	<b>Divorce</b> Estimates/actuals and pension sharing orders were provided during the year.	241	48.69%
<b>10</b>	<b>AVCs</b> Starter information, processing application forms and notification to relevant employer and AVC provider.	144	37.44%

### Compliments and Complaints

Members and employers of the Fund can let us know about their experiences of dealing with the Fund, to enable any errors to be corrected and help with improving the service.

The Pension Fund has a Compliments and Complaints process, which is available from its [website](#). During the period to 31 December 2018, 76 formal complaints were received. These mainly related to delays in responding to queries. 35 formal compliments were received.

## **Data Quality**

Good quality member data is essential to the successful working of the Fund including the following key aspects:

- Keeping track of each employer's share of assets
- Collecting contributions
- Investing those contributions
- Paying benefits to members as and when they fall due

The Pension Regulator requires that the Fund carries out checks against the presence of "common data" which is necessary for basic pension administration (e.g. surname, National Insurance number, date of birth). The Fund is required to analyse data based on the date it is created. The target varies in recognition that historic data is harder to rectify. The results are shown below:

	Target	Actual 31/01/2019
<b>Legacy</b> Data created before June 2010	95%	88.3%
<b>Current</b> Data created after June 2010	100%	97.8%

The Pension Regulator requires that the Fund carries out checks against the presence of "conditional data" which is specific for the administration of the LGPS (e.g. employment records and history).

The Fund has received a report for our data quality for conditional data and is considering the recommendations raised.

The County Council is developing its Data Improvement Plan.

The Pensions Regulators website can be found [here](#).

## Investment Assets, Policy & Performance

### Investment Assets

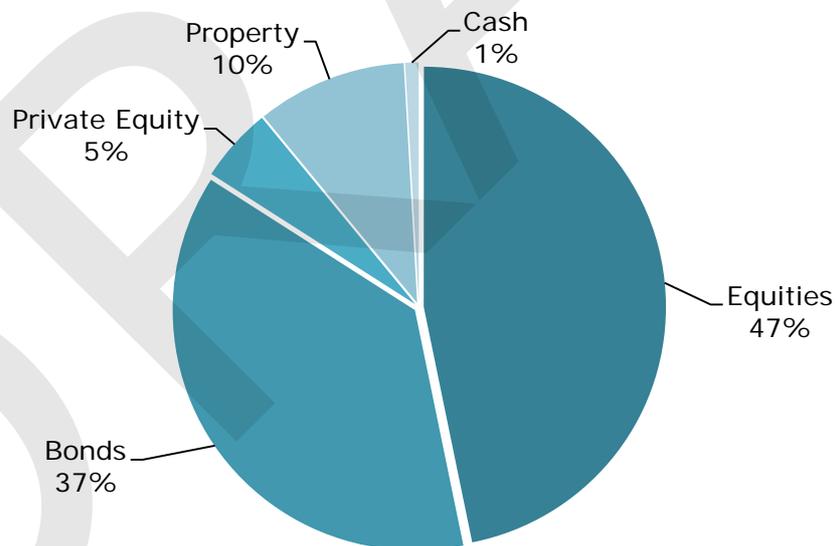
The Fund's primary investment objective is to ensure that over the long term it will have sufficient assets to meet all pension liabilities as they fall due. In order to meet this overriding objective the Panel maintains an investment policy so as to:

- Maximise the returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met;
- Contribute towards achieving and maintaining a future funding level of 100%;
- Enable employer contribution rates to be kept as stable as possible.

These objectives have been used to develop the Pension Fund's customised benchmark.

An investment strategy of lowest risk, but not necessarily the most cost effective in the long term, would be 100% investment in index linked government bonds.

Although it has reduced over recent years as part of the Fund's de-risking as a result of its strong funding position, the Fund's benchmark includes a significant holding in 'growth' assets, specifically equities, reflecting the relatively immature liabilities of the Fund and the secure nature of most employer covenants. This allows the Fund to benefit from higher returns than from government bonds in the long term to help reduce the cash contribution from employers, whilst providing some stability to employer contribution rates.



Overall transactions are summarised below.

	UK £m	Non-UK £m	Global £m	Total £m
Equities	71.7	(25.3)	-	46.4
Bonds	(11.6)	-	-	(11.6)
Property (direct)	27.6	-	-	27.6
Private Equity	-	-	(28.2)	(28.2)
Cash or equiv.	-	-	-	-
Total	87.7	(25.3)	(28.2)	34.2

Note: The sales for private equity include return of capital, income and realised gain

The table below shows the Pension Fund's assets as at 31 March 2018 and 31 March 2019. Movements between the two years will be a result of transactions and investment returns.

	31 March 2018				31 March 2019			
	UK	Non-UK	Global	Total	UK	Non-UK	Global	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Equities	381.9	1,594.7	-	1,976.6	441.5	1,723.1	-	2,164.6
Bonds <sup>^</sup>	988.0	-	503.5	1,491.5	895.1	-	661.8	1,556.9
Property (direct)	344.6	-	-	344.6	377.0	-	-	377.0
Private Equity	-	-	121.1	121.1	-	-	108.0	108.0
Cash or equiv. <sup>*</sup>	65.9	3.1	55.5	124.4	66.3	3.1	29.9	99.3
<sup>^</sup>								
Total	1,780.4	1,653.2	624.6	4,058.2	1780.0	1756.0	769.8	4,305.8

The above figures do not include investment income, property rent receipts and contributions due to the Fund, amounts receivable from sales or payable for purchases, debtors or tax. These net investment assets amount to £4.9m for 2018/19 (£2.3m for 2017/18).

Within the balanced portfolios, £1,469bn is held in the managers' internal pooled funds (£923m by Baillie Gifford and £546m by UBS) which have been included against the appropriate asset class. Pooled funds aggregate investors' money and invest in a portfolio of assets such as equities and bonds.

\* Cash includes the UBS Currency Absolute Return Strategy (CARS) investment.

<sup>^</sup> These figures have been re-categorised in the Financial accounts and so have been restated here.

None of the investments shown below have been transferred to the ACCESS pool.

## Investment Performance

To maximise the return from investments, the Fund has appointed active managers to generate excess performance relative to the broad market from the stocks that they hold through the choice of investments they hold. Performance can be generated from:

- Stock Selection for example the shares in a particular sector or market the fund managers hold or sell in comparison to others which can be driven by a managers philosophy, style or research,<sup>5</sup> or which property is held by the Fund.

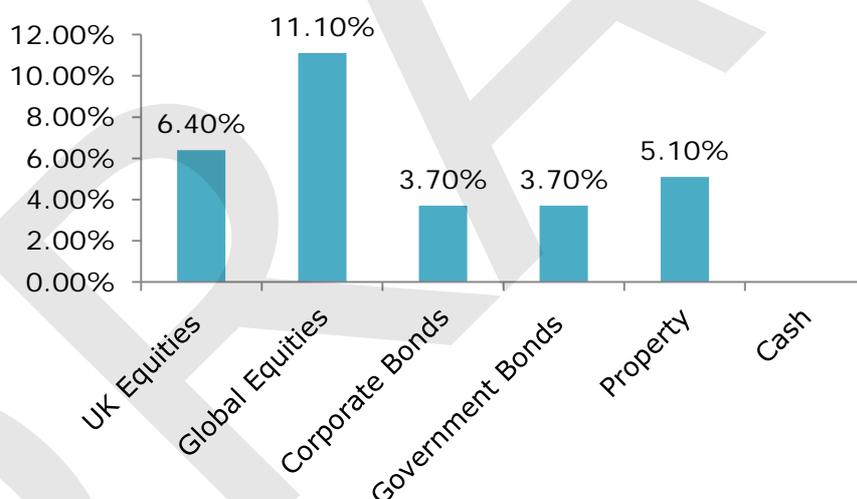
<sup>5</sup> The two main investment managers have complementary styles which should reduce volatility for the pension fund. Baillie Gifford is classified as a 'growth' manager (which means they buy stocks that typically sell at relatively high price-to-earnings ratios due to high earnings growth, with the expectation of continued high or higher earnings growth) whilst UBS have a value bias (select stocks that they believe to have potential not reflected in the current share price and have a relatively low price-to-earnings ratio). The investment 'style' is the philosophy behind the way in which a manager manages the fund and picks long term stocks.

- Asset Allocation which can be driven by explicit decisions by the fund managers as to whether to hold equities or bonds within the Fund's two large balanced mandates or unintentional asset allocation due to the long term nature of the investment portfolios and illiquidity of an asset class such as the relative holdings in property and private equity portfolios versus the strategic benchmark.

Equity market participants have had a turbulent ride in global stock markets over the 12-month period. Whilst the more positive mood across markets for risky assets was seen early in the New Year and continued throughout the last three months of the period, this was not sufficient to make up for the sharp sell-off in the final quarter of 2018 resulting from tightened financial conditions, uncertainties of Brexit and trade tensions.

Within bond markets, UK government bond yields fall during the period, generating a positive return. The Bank of England raised interest rates in August 2018, but expectations of future rate rises have been curtailed more recently and signals from central banks are that monetary policy will be more supportive than previously expected. Corporate profitability remains high and default rates on riskier companies have been below average. This should be supportive for corporate bonds, but they have been volatile along with equity markets more generally. Despite performing well in the first quarter of 2019, they have performed in line with government bonds over the full 12-month period.

The graph below shows benchmark returns across markets for the 12 months to 31 March 2019:



Short term performance has been behind benchmark.

UBS have underperformed relative to the benchmark during the year as a result of their choice of stocks within the UK and Global Equity portfolio. The portfolios allocation to UK equities has negatively impacted relative returns, whilst Health Care and IT stock selection added value in the last quarter of the year, following underperformance in the prior quarters.

The outperformance from corporate bond selection within the fixed interest portfolio was modest.

Within the Baillie Gifford portfolio, the portfolio has an active share of 89% (it only holds 11% in common with the market benchmarks). Several UK and European equity holdings detracted from performance during the year as a result of uncertainties surrounding Brexit and US-China trade conflict.

The bond portfolio has remained underweight in UK government bonds, where yields are low against international comparisons – but recently this has detracted from returns, relative to the benchmark, with yields falling along with other global markets. Individual bond selection within corporate bonds has been a positive contributor to returns.

Performance over the year has been slightly behind the market due to void levels within the portfolio and costs associated with purchases. As a result of active management, the funds void (3.8%) is now well below benchmark (7.4%) which in a low capital return environment should help the funds return as income becomes a larger part of total return.

The Fund's private equity portfolio is now maturing which means that the managers are returning capital and realised gains on the underlying companies. However too much emphasis should not be placed on short term performance of private equity - the investment horizon is much longer than quoted equities and therefore it makes more sense to analyse over at least a five to seven year period.

The Pension Fund is a long term investor. This means the managers seek to identify and holding a diversified portfolio of businesses which are likely to support above average performance over the next five years or longer.

The investment performance over the short, medium and long term is shown below. Performance has been reported net of fees since April 2005.

	12 months	3 years pa	10 years pa	15 years pa
Fund	7.06%	13.12%	12.83%	9.35%
Benchmark	7.68%	11.19%	11.67%	8.69%
<i>Difference</i>	-0.62%	1.93%	1.16%	0.66%
By fund manager				
<i>UBS</i>	5.84%	12.16%	12.23%	8.33%
<i>UBS Benchmark</i>	7.36%	11.07%	11.50%	8.61%
<i>Difference</i>	-1.52%	1.09%	0.73%	-0.28%
<i>Baillie Gifford</i>	6.84%	14.79%	14.73%	10.72%
<i>Baillie Gifford Benchmark</i>	8.06%	11.92%	11.91%	8.86%
<i>Difference</i>	-1.22%	2.87%	2.83%	1.86%
<i>Aberdeen Standard</i>	4.95%	7.57%		
<i>Aberdeen Standard Benchmark</i>	5.12%	6.42%		
<i>Difference</i>	-0.18%	1.15%		
<i>Private Equity</i>	35.71%	18.63%	13.39%	19.94%
<i>Private Equity Benchmark</i>	11.09%	14.83%	13.78%	10.69%
<i>Difference</i>	24.62%	3.80%	-0.39%	9.25%

## Investment Risk

Whilst looking at return it is important to be aware of the risks being taken to achieve this. Risk-adjusted measures (such as relative risk and information ratios) are therefore useful metrics of achieved performance and as covered above the Fund must consider the risk in each of the portfolios and at total Fund level as part of setting its asset allocation.

The relative risk, relative return and information ratio for each of the Fund's largest (balanced) portfolios is set out in the following table for the three years ending 31 March 2019.

The IR achieved over a period gives an indication of how the Fund has implemented its actively managed assets to deliver outperformance of its strategic benchmark through showing that it converted each unit of risk taken into 0.73 units of excess return. Market convention is to consider an IR above 0.50 as "good," above 0.75 as "very good," and above 1.0 as "exceptional".

It is not appropriate to show relative risk or information ratios for the alternative asset classes (private equity and property) as these are relatively illiquid and not valued on a monthly basis.

	UBS	Baillie Gifford	Total Fund <sup>6</sup>
<b>Relative Risk:</b> 'Relative Risk' is 'tracking error' or the volatility in the Fund's returns versus its benchmark over several consecutive time periods. The measure most commonly used to represent volatility is the standard deviation of monthly returns. (3 Years Annualised)	2.17	3.52	2.41
<b>Relative Return:</b> The return achieved by the Fund relative to the benchmark return. (3 Years Annualised)	1.09	2.87	1.93
<b>Information Ratio (IR):</b> Funds expect that benchmark relative risk will be rewarded with benchmark relative excess return. The 'Information Ratio' brings together the benchmark relative risk and return results and measures a fund's success in converting active investment risk into excess return. The observed risk and return are a function of a number of underlying factors including the investment strategy, flexibility around the strategy, choice of manager, their degree of discretion and, by no means least, the condition of the investment markets. Given the number of variables the IR (3 Yrs Annualised) needs careful interpretation.	0.50	0.82	0.80

<sup>6</sup> It should be noted that returns are additive i.e. the two returns can be added and averaged. Volatility is not additive because of correlation. A correlation of 1 would mean that Baillie Gifford and UBS outperformed and underperformed in tandem. Risk would add under these circumstances.

## Environmental, Social and Governance

### **Responsible Investment Policy**

Corporate Governance considers issues relating to the way in which a company ensures that it is attaching maximum importance to the interest of its shareholders and how shareholders can influence management.

The Pensions Panel is mindful of its legal duty to obtain the best possible financial return on Pension Fund investments, within an appropriate risk profile. However, good practice in terms of social, environmental and ethical issues is likely to have a favourable effect on companies' financial performance.

The Fund's portfolio managers, whilst acting in the best financial interests of the West Sussex Scheme, will consider factors including the effects of social, environmental and ethical issues on the performance of a company when selecting an asset to purchase, retain or sell. The Pension Fund does not have an exclusion policy for any company or sector.

The investment managers take their governance responsibilities seriously. As long term investors they are committed to performing their stewardship role actively to support the investment process that is looking to identify and generate long term sustainable corporate growth.

This is achieved through dialogue with companies throughout the year on a variety of environmental, social and governance (ESG) issues such as strategy, performance, business ethics, corporate governance, climate change, human capital and supply chain management. and by building long relationship with management and board members in order to understand and influence less tangible aspects of a company, such as corporate culture.

By way of an example, as part of its engagement with a building construction suppliers company's CEO, Baillie Gifford has focused on governance and sustainability issues including firm-wide environmental data and carbon emissions disclosure. As a result, the CEO has agreed to take steps to begin reporting in 2019 and the firm has hired an executive who will oversee environmental issues.

The Fund's Investment Managers have adopted the Institutional Shareholder Committee's (ISC's) Code of Responsibilities of Institutional Investors, which aims to enhance the quality of the dialogue of institutional investors with companies to help improve long-term returns to shareholders, reduce the risk of catastrophic outcomes due to bad strategic decisions, and help with the efficient exercise of governance responsibilities, and have signed up to the United Nations Environment Programme Finance Initiatives (UNEP FI) Principles of Responsible Investment (UNPRI). Details of the Investment Managers governance principles can be found on their websites:

- [Baillie Gifford](#)
- [UBS and UBS climate change strategy](#)
- [Aberdeen Standard](#)
- [Pantheon](#)
- [Partners Group](#)

The Pensions Panel wishes to remain an active shareholder and exercise its voting rights to promote and support good corporate governance and the investment managers will exercise voting rights on behalf of the Fund.

All voting decisions are made by the investment managers with the long term prospects of companies and the best interest of clients in mind.

In exceptional circumstances the managers will attend meetings, where they have large holdings, where there is a contentious issue or where attendance in person rather than voting by proxy is in the best interest of clients.

During the year, the Fund managers on behalf of the Fund had votes placed at 99% of domestic meetings at which they were entitled to vote and 95% of foreign meetings. The Funds record over the recent five years is shown below:

	2015	2016	2017	2018	2019
Number of domestic meetings voted at as % of total meetings	99%	100%	100%	100%	99%
Number of foreign meetings voted at as % of total meetings	92%	94%	95%	94%	95%

It is normal for there to be a lower number of votes cast in foreign markets. Voting practices and the mechanisms of voting vary significantly globally. Issues faced by investors wishing to vote abroad include share blocking, powers of attorney, re-registration of shares into the name of the ultimate beneficial owner, a requirement for wet signatures, the need for physical attendance at the meeting, different format of voting cards, local agent costs, stock lending, voting deadlines and lack of confirmation that the vote has been received and cast.

Where the Fund did not vote during the year, this was due to local documentation requirements not being in place.

In line with the UK Stewardship Code both managers recognise the benefits of working alongside other like-minded investors on policy and company specific matters to increase influence.

For example, UBS has worked with Climate Action 100+ to secure a commitment from Shell to anchor its Net Carbon Footprint (NCF) ambitions to short-term targets and executive pay and in March 2019. The company announced its first three year target - a reduction in its NCF of 2-3% from 2016 – and has immediately linked the pay of the top 150 executives to delivery of the target with the intention to integrate the same target into the remuneration packages of the top 16,000 staff.

## Stock Lending and Compliance

### Stock Lending

To maximise the returns it can achieve on its investments, the Pension Fund has implemented a stock lending programme.

Stock lending is a market practice where securities are temporarily transferred by one party (in this case the Pension Fund) to another (the borrower).<sup>7</sup>

During the period of the loan the Pension Fund retains rights to corporate actions that would have arisen had the stock not been lent, and the borrower is obliged to pay the Pension Fund all cash benefits, such as dividends, arising during the period of the loan and is obliged to return the securities to the lender either on demand or at the end of the agreed term. The Pension Fund does not retain voting rights when lending a stock.

In return, a rate of commission is agreed between the lender and the borrower to run for the full length of the loan.

The amount of stock on loan and the rate of commission will vary depend on market requirements, the length of the loan, the security required by the Fund and the maturity of the programme.

The table below analyses the Fund's stock lending programme against a benchmark comparator (where available).

	2017/18	2018/19	Benchmark
<b>Stock available to market at year end</b>	£1,640m	£3,668m	
<b>Stock on loan</b>			
Average amount on loan	£57m	£258m	
Amount on loan as at 31 March	£144m	£303m	
Percentage on loan as at 31 March	8.8%	8.5%	
Utilisation	3.9%	9.2%	10.3%
<b>Income</b>			
Gross	£0.200m	£0.736m	
Net	£0.142m	£0.147m	
Net Return in Basis Points	19.2	20.5	24.1

For the period of the loan the Pension Fund retains security (collateral) against the borrower defaulting. The Pension Fund will accept the following non cash collateral:

	Collateral	
	£m	%
Obligations issued or guaranteed by the United States and United Kingdom	0.0	0.0
Obligations issued by other OECD member states or their local government agencies, instrumentalities or authorities provided they have a long term rating of AA- or higher	24.6	7.5
Obligations issued by supranational entities provided they have a long term rating of AA- or higher	-	-
Corporate debt securities including commercial paper and convertible securities issued by US and non US corporations provided they have a short term rating in the highest rating category	-	-
Equity from major indices	303.9	92.5
Total	328.5	100

<sup>7</sup> Borrowers for the Pension Fund are limited to UK authorised persons and EEA regulated entities.

## Custodian Performance

Amaces, an independent custodian monitoring firm, review the service provided by the Fund's custodian. The benchmark figures shown represent the average experience of other Pension Funds using a range of different custodians.

- **Trade Activity**

In 2018/19, the average monthly activity was 216 trades with a value of £103m (2017/18: 199 trades £169m). On a monthly basis the number and value of trades that settle after the Contractual Settlement Date are monitored. Particular focus is placed on the value of any late settling transactions as this represents the biggest operational risk to the Fund. The main reason for trades failing to settle was the counterparty having insufficient securities but other reasons include counterparty not matching our instruction, broker's instruction was late in the market, broker had insufficient stock and broker sent the wrong instruction. However, the custodian offer contractual settlement in 51 markets, meaning that when trades settle late, BNP would claim for late settlement from brokers and reflect this in the Fund's accounting record. Should a trade be reversed, any market exposure risk is borne by the Fund.

Whilst the percentage of late settlements has improved compared to 2017/18 the average figure of late trades as shown below is still above the benchmark figure.

Indicator	2018	2019	
	Fund	Fund	B'mark
Value of late settlement as % of monthly trades	14.03%	10.18%	4.76%
Value of outstanding settlement as % of average monthly trades	0.00%	0.00%	0.23%

- **Income**

Income relates to dividend and interest payments on securities held in the Baillie Gifford and UBS portfolio. Income from direct and indirect property and private equity investments are treated separately. Over the year, the fund received 594 income receipts with a total value of £42.2 million. West Sussex benefits from the custodian's contractual income policy whereby all income due and maturity proceeds are credited on payment date. However, this information is custody-based rather than from an accounting perspective.

Indicator	2018	2019	
	Fund	Fund	B'mark
Value of late income as % of monthly income	15.55%	12.89%	6.52%
Value of outstanding income as % of average monthly income	2.85%	0.00%	1.28%

- **Tax**

The number of tax reclaims as a percentage of total average monthly tax reflects the restrictions with regard to when tax claims can be filed and the time period that it takes to file and receive tax refunds

Indicator	2018	2019	
	Fund	Fund	B'mark
Value of tax outstanding as % of average monthly tax	2700%	3,788%	4,607%
Number of tax reclaims outstanding as % of average monthly tax	2,476%	3,349%	4,848%

- **Foreign Exchange (FX)**

The three main sources of revenue for custodians over and above fees charged are FX, interest and stock lending. Amaces measures small FX deals such as dividend payments which are less than \$200,000 on the basis that the larger trade related deals are normally transacted on a negotiated basis, where rates are agreed before the trade is placed, in an attempt to ensure preferable rates of conversion.

Indicator	2018	2019	
	Fund	Fund	B'mark
FX cost in basis points <sup>8</sup>	0	8	16

- **Credit interest rate for GBP, Euro and US Dollar**

Over the year under review, cash balances on the UBS and Baillie Gifford part of the fund were swept on a daily basis to BNP's Liquidity Fund. Both managers monitor the rates received on a regular basis. The average credit balance during the year was £46.1m. The custodian also holds fractional balances in foreign currency on behalf of the Fund for short periods. The interest rates received for these balances together with the sterling rate are shown below.

Indicator	2018	2019	
	Fund	Fund	B'mark
Credit interest rate % for GDP	0.13%	0.42%	0.38%
Credit interest rate % for EUR	-0.39%	-0.61%	-0.47%
Credit interest rate % for USD	0.73%	0.76%	1.22%

<sup>8</sup> Basis points are used to measure movement of less than 1%. One hundred basis points equal 1%, or put another way, one basis point equals one hundredth of a percent.

## Transaction Costs

It is considered good practice that the Panel should have a full understanding of the transaction related costs they incur and since 2003 the Fund has commissioned a trading cost analysis which shows commissions, fees and market impact costs incurred by the Fund over the year against an institutional average.<sup>9</sup> This has been summarised in the table below.

Variances are affected by volatility and liquidity in the various markets traded in, and so costs vary year on year.

In sterling terms, the Fund has made a cost 'saving' of £16.8m against the institutional average over the fifteen years that the Elkins/McSherry report has been produced in full through efficient trading

	Fund £	Fund BP	Universe BP
<b>Commission</b> Paid by managers to brokers at the time of the stock trade. Managers are required to report commissions between trade execution and research, rather than reporting a single commission charge.	339,312	3.4	7.7
<b>Fees</b> Mandatory costs such as stamp duty and local taxes.	804,159	8.0	6.3
<b>Market Impact</b> The difference between the trade execution price and the Volume Weighted Average Price (VWAP) of the stock on trade date.	303,784	3.0	3.4
<b>Trading Cost</b> Commission plus market impact and fees.	1,447,255	14.4	17.4
2017/18	1,034,991	7.7	23.4
2016/17	2,380,483	14.7	28.3
2015/16	1,658,689	18.4	30.9
2014/15	931,226	9.7	32.1

<sup>9</sup> The Elkins/McSherry Universe is a compilation of actual trade data from hundreds of institutions. They provide trading efficiency analyses that determine the relative cost to trade on various stock exchanges globally and the effectiveness of trades and brokers. This trading data is used to create an institutional average universe of commissions, fees and market impact costs. During the year to 31 March 2018, Elkins McSherry monitored £999.83m in global equities transactions across 2159 trades (2017/18: £1.34bn / 2097 trades).

## Asset Pooling – ACCESS Summary

### Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire County Council; East Sussex County Council; Essex County Council; Hampshire County Council; Hertfordshire County Council; Isle of Wight County Council; Kent County Council; Norfolk County Council; Northamptonshire County Council; Suffolk County Council and West Sussex County Council in response to the Governments pooling agenda across the LGPS.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with a clear set of objectives and principles that drives the decision making process.

Collectively as at 31 March 2019, the pool has assets of £46 billion serving 3,000 employers with over 1 million members including 290,000 pensioners.

### Governance

The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The Inter Authority Agreement sets out the terms of reference and constitution of ACCESS.

The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee.

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the Officer Working Group and the ACCESS Support Unit (ASU).

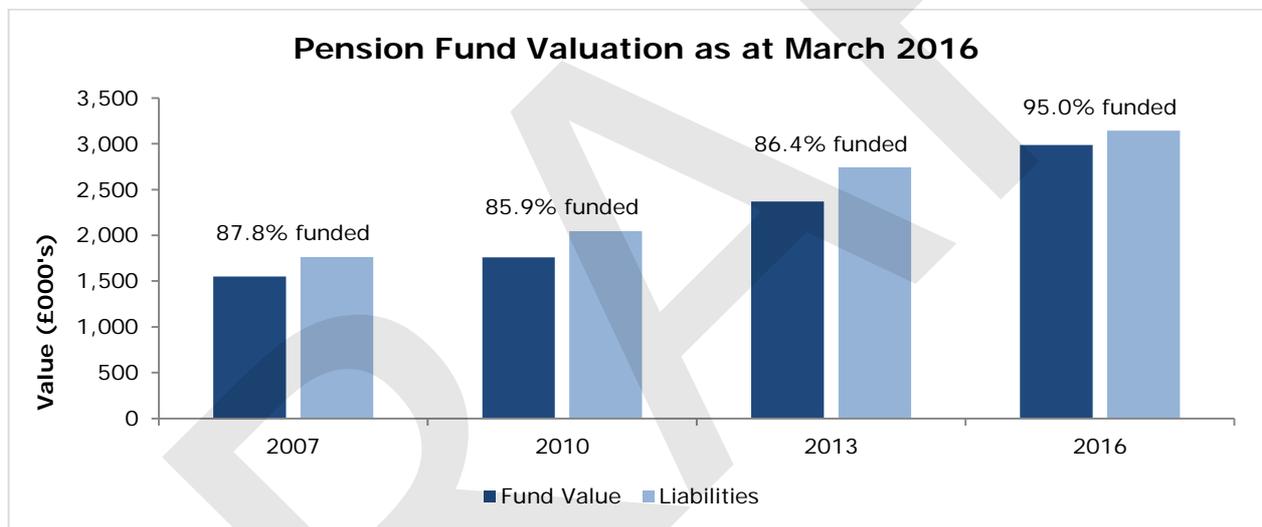
Appendix 3 provides further details on the ACCESS pool.

## Actuarial Report on Fund

### Fund valuation

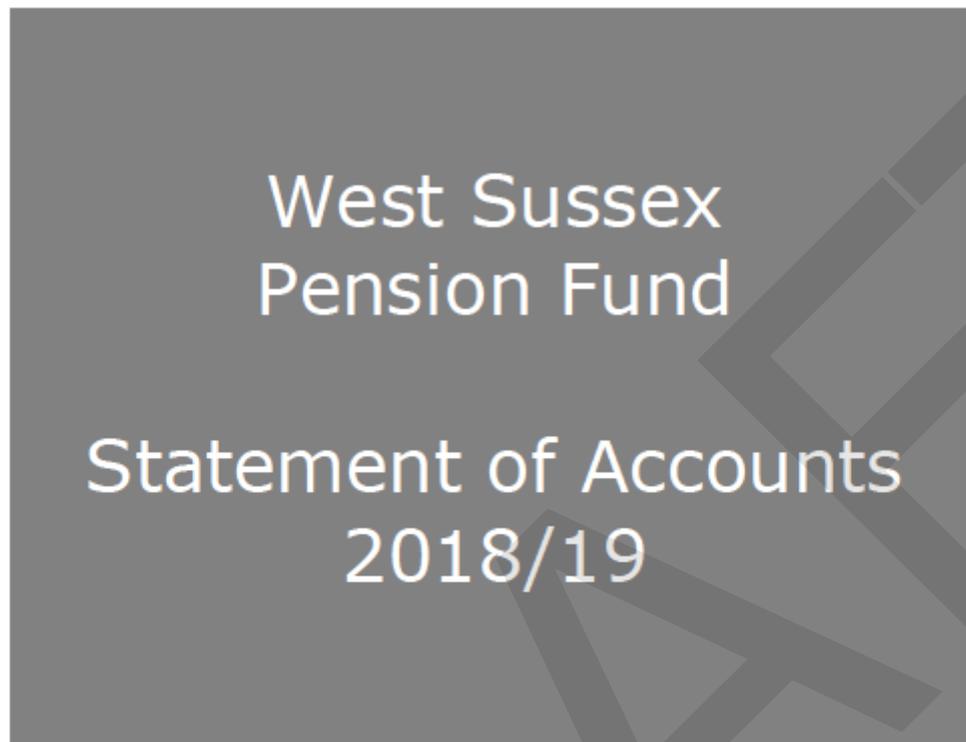
A valuation of the Fund is carried out by the Fund's actuary every three years to test future funding or current solvency of the value of the Pension Fund's assets against its liabilities and to set the employer contribution rates for the next three year period to ensure that sums are put aside on a regular and managed basis to meet liabilities in the future. Interim valuations are undertaken from time to time to take account of significant factors affecting assumptions made at the time of the last triennial valuation.

The Fund is currently undertaking a valuation based on assets and liabilities as at 31<sup>st</sup> March 2019; however the results will not be available until 31<sup>st</sup> March 2020. This will set the employer contribution rates from 1 April 2020 to 31 March 2023. The results of previous valuations are illustrated below as a comparator.



Further information is included in the Fund's Funding Strategy Statement and its Actuarial Valuation report.

Appendix 1 – West Sussex Pension Fund Statement of Accounts 2018/19



West Sussex  
Pension Fund  
Statement of Accounts  
2018/19

**Declaration**

Under Regulation 9 of the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts set out in the following pages presents a true and fair view of the West Sussex Pension Fund as at 31 March 2019.

**Katharine Eberhart**  
The Director of Finance and Support Services

**Notes:** The West Sussex Pension Fund is a defined benefit scheme and the following accounts do not take account of liabilities to pay pensions and other benefits after 31 March 2019 year end. Further information relating to these liabilities and other benefits is contained in the Valuation Report. The full valuation report can be found on the West Sussex County Council website [www.westsussex.gov.uk/pensions](http://www.westsussex.gov.uk/pensions)

## Financial Report and Accounts 2018/19

The Local Government Pension Fund Scheme  
Pension Fund Account

2017/2018 £000		Notes	2018/2019 £000
	<b>Dealings with members, employers and others directly involved in the scheme</b>		
124,719	Contributions received	7	130,312
36,921	Transfers in from other Pension Funds	8	4,317
<b>161,640</b>			<b>134,629</b>
(107,235)	Benefits paid	9	(113,811)
(8,288)	Payments to and on account of leavers	10	(11,375)
<b>(115,523)</b>			<b>(125,186)</b>
<b>46,117</b>	<b>Net additions/(withdrawals) from dealings with members</b>		<b>9,443</b>
(17,334)	Management Expenses	11	(17,835)
<b>28,783</b>	<b>Net additions/(withdrawals) including Fund management expenses</b>		<b>(8,392)</b>
	<b>Returns on investments</b>		
51,571	Investment income	12	61,375
(1,158)	Taxes on income	13A	(1,211)
169	Other income		5
226,622	Profit and (losses) on disposal of investments and changes in the market value of investments	14A	218,068
<b>277,204</b>	<b>Net return on investments</b>		<b>278,237</b>
<b>305,987</b>	<b>Net increase in net assets available for benefits during the year</b>		<b>269,845</b>
3,798,289	Add opening net assets of the scheme		4,104,276
<b>4,104,276</b>	<b>Closing net assets of the scheme</b>		<b>4,374,121</b>

## Financial Report and Accounts 2018/19

## Net Asset Statement

At 31 March 2018 £000		Notes	At 31 March 2019 £000
4,066,693	Investment assets	14	4,322,996
(6,154)	Investment liabilities	14	(9,660)
<b>4,060,539</b>	<b>Net investment assets / (liabilities)</b>		<b>4,313,336</b>
51,379	Current assets	21	72,266
(7,642)	Current liabilities	22	(11,481)
<b>4,104,276</b>	<b>Net assets of the scheme available to fund benefits at the end of the reporting period</b>		<b>4,374,121</b>

Note: the Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2019. The actuarial present value of promised retirement benefits is disclosed at Note 20.

## Financial Report and Accounts 2018/19

## Notes to the Accounts

## NOTE 1: DESCRIPTION OF THE FUND

The West Sussex Pension Fund ('the Fund') is part of the LGPS and is administered by West Sussex County Council

a. General

The LGPS is a national defined benefit funded pension scheme governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The West Sussex Pension Fund is administered locally by West Sussex County Council to provide pensions and other benefits for pensionable employees of West Sussex County Council, the District and Borough Councils in West Sussex and a range of other scheduled and admitted bodies.

b. Membership

Membership of the LGPS is open to all local government employees who have contracts of employment for more than three months. Employees of certain specified employers (such as Colleges, Academies and those who are providing a service transferred from a local authority) can also join the Scheme. Organisations participating in the Fund include:

- **Scheduled Bodies, Resolution Bodies and Academies:** Regulations allow employees of certain specified bodies to join the Scheme (including the County Council, District and Borough Councils, non-uniformed personnel employed by the Police and Crime Commissioner for Sussex or the Office of the Chief Constable, employees within Town and Parish Councils as well as non-teaching staff employed by Colleges and Academies).
- **Admitted Bodies:** Other organisations that participate in the Scheme under an admission agreement between the administering authority, Fundorganisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Police officers, teachers and fire-fighters have their own unfunded statutory arrangements.

## Financial Report and Accounts 2018/19

Membership details are set out below:

	31 March 2019	31 March 2018
Number of employers with active members	201	193
<b>Number of active members</b>		
County Council	14,578	14,755
Other employers	13,483	13,082
<b>Total</b>	<b>28,061</b>	<b>27,837</b>
<b>Number of pensioners</b>		
County Council	10,547	10,111
Other employers	9,348	8,956
<b>Total</b>	<b>19,895</b>	<b>19,067</b>
<b>Number of deferred pensioners</b>		
County Council	16,181	15,734
Other employers	11,054	10,400
<b>Total</b>	<b>27,235</b>	<b>26,134</b>
<b>Total number of members in scheme</b>	<b>75,191</b>	<b>73,038</b>

c. **Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by:

- Active members in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019.
- Employers in accordance with the rate calculated by the Fund actuary at the triennial valuation exercise, or on admission between valuations. The employer contribution rates range from 0% to 42.7% of pensionable pay for the financial year ending 31 March 2019.

d. **Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a Career Average Revalued Earnings scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index (CPI).

A range of other benefits are also provided including early retirement, disability pensions and death benefits as explained on the LGPS website.

## Financial Report and Accounts 2018/19

### **NOTE 2: BASIS OF PREPARATION**

The accounts have been prepared in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which is based upon International Financial Reporting Standards (IFRS), as amended for UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

The accounts summarise the transactions and net assets of the Fund. They do not take account of future liabilities to pay pensions and other benefits after 31 March 2019 reporting period. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) basis, is disclosed at Note 20.

The accounts have been prepared on a going concern basis.

## Financial Report and Accounts 2018/19

### NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Fund Account – Revenue recognition

a. Contribution income

Normal contributions, both from members and employers, are accounted for on an accruals basis. Member contributions are accrued at the percentage rate in accordance with the LGPS Regulations 2013. Employer contributions are accrued at the percentage rate set by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in line with the payment schedule. Any amount due in year but unpaid will be classed as a current financial asset.

b. Transfers to and from other Schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in or out are accounted for when received or paid, i.e when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are also accounted for on a receipts basis and are included in transfers in.

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

c. Investment income

i. Interest income is recognised as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii. Stock lending income is recognised as it accrues.

iii. Dividend income is recorded on the date that the shares are quoted as ex-dividend. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a current financial asset.

iv. Private equity income is recognised on the date paid. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a current financial asset.

v. Property income consists primarily of rental income and is accounted for on an accruals basis.

vi. Changes in the value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profit or loss during the year.

## Financial Report and Accounts 2018/19

**Fund Account - Expense items****d. Benefits payable**

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Asset Statement as current liabilities, providing that payment has been approved.

**e. Taxation**

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

**f. Management expenses**

The Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)* as set out below:

- i. Administrative expenses are accounted for on an accruals basis representing the annual charge relating to the pensions and payroll administration and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
- ii. Oversight and governance expenses are accounted for on an accruals basis representing the Fund's external advisors, audit and actuary fees and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
- iii. Investment management expenses (including transaction costs) are accounted for on an accruals basis. Fees of the external managers and custodian are agreed in the respective mandates governing their appointment and are mainly based on the market value of the investments under management.
- iv. The Fund has negotiated that an element of Baillie Gifford's fee is performance related. Baillie Gifford's performance related fees were £5.7m in 2018/19 (£5.4m in 2017/18).
- v. The cost of the County Council's in-house treasury management team is charged to the Fund based on a proportion of time spent by officers on treasury management. Associated management, accommodation and other overheads are also apportioned to this activity.

## Financial Report and Accounts 2018/19

### Net Asset Statement

g. Financial assets

Financial assets are shown at market value at the reporting date and are recognised in the Net Asset Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised. The values of investments have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016). See Note 16.

h. Freehold and leasehold properties

Freehold and leasehold properties have been valued at the reporting date by independent external valuers, on the basis of fair value as required by the International Financial Reporting Standards (IFRS). See Note 16.

i. Foreign currency transactions and balances

Dividends, interest and purchases and sales of investments in foreign currency have been recorded at the spot exchange rate and translated into sterling at the rate ruling at the date of the transaction.

End of year spot market exchange rates are used to value cash balances in foreign currency, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j. Cash and cash equivalents

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

k. Financial liabilities

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

l. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. The Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement. See Note 20.

m. Additional voluntary contributions

Some members of the Scheme have made additional voluntary contributions (AVC) to increase the value of their pensions. These have been invested separately with Standard Life and Equitable Life and are therefore disclosed as a note and not included in the Fund accounts. See Note 23.

## Financial Report and Accounts 2018/19

n. Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the Net Asset Statement but are disclosed by way of narrative in the notes. See Note 25 & Note 26.

### NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

The net Pension Fund liability is recalculated every three years by the Fund actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary. See Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Directly held property

The Fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants with rental periods between one and thirty-five years. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by IAS 17 and the Code, therefore the properties are retained on the Net Asset Statement at fair value. Rental income is recognised in the Fund account on an accruals basis.

## Financial Report and Accounts 2018/19

**NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The table below describes items for which there is a significant risk of material adjustment the following year.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	<p>Estimation of the net liability to pay pensions depends on a number of assumptions relating to the discount rate used, salary and pension increases, retirement age, mortality rates and investment returns.</p> <p>The Fund actuary has been appointed to provide advice about the assumptions applied.</p>	<p>Actual experience relative to the assumptions over time. For example:</p> <p>A 0.5% decrease in discount rate at year ended 31 March 2019 would result in an approximate 11% increase to employer liability (£519m).</p> <p>A one year increase in member life expectancy at year ended 31 March 2019 would result in an approximate increase in employer liability of between 3 and 5%.</p> <p>A 0.5% increase in the salary increase rate at year ended 31 March 2019 would result in an approximate increase in employer liability of 2% (£75m).</p> <p>A 0.5% increase in the pension increase rate at year ended 31 March 2019 would result in an approximate 8% increase in employer liability (£413m).</p>
Private equity	<p>Private equity investments are valued at fair value in accordance with industry guidelines, based on the fund manager report as at the end of the reporting period or the latest fund manager report adjusted for net cash flows.</p> <p>These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private equity investment in the financial statements is £110.7m. There is a risk that this investment may be under or overstated in the accounts.</p>

## Financial Report and Accounts 2018/19

Freehold and leasehold property	<p>Independent valuation for freehold and leasehold investment property has been provided at 31 March 2019 by Savills (UK) Ltd in accordance with Royal Institution of Chartered Surveyors Red Book.</p> <p>This takes into account observable and unobservable pricing inputs including existing lease terms, independent market research, the nature of tenancies and tenant covenant strength, void levels and estimated rental growth.</p>	<p>Investment properties have been valued on the basis of fair value. "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".</p> <p>Changes in rental growth, void levels and general changes in property market prices could affect the valuation. There is a risk that this investment may be under or overstated in the accounts.</p>
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## Financial Report and Accounts 2018/19

### NOTE 6: EVENTS AFTER THE BALANCE SHEET DATE

In December 2018, the Court of Appeal upheld a ruling ("McCloud/Sargeant") that transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the Local Government Pension Scheme (and other public service schemes) as well.

The UK Government requested leave to appeal to the Supreme Court, but this was denied at the end of June 2019.

The Fund recognises this denial of leave to appeal as a post balance sheet event and has adjusted Note 20 as a result showing a revised estimate of the net pension liability to provide for the potential obligations arising from this ruling.

The additional potential obligations relate to the potential need for LGPS benefits accrued from 2014 needing to be enhanced so that all eligible members, regardless of age, will benefit from the transitional protections. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections.

### NOTE 7: CONTRIBUTIONS RECEIVED

By Category

2017/18		2018/19
£000		£000
98,279	Employers	102,858
<u>26,440</u>	Members	<u>27,454</u>
<u><b>124,719</b></u>		<u><b>130,312</b></u>

By Authority

2017/18		2018/19
£000		£000
54,873	Administering authority	57,497
61,891	Scheduled bodies	65,473
<u>7,955</u>	Admitted bodies	<u>7,342</u>
<u><b>124,719</b></u>		<u><b>130,312</b></u>

### NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

By Category

2017/18		2018/19
£000		£000
8,454	Individual transfers	4,317
<u>28,467</u>	Bulk transfers	<u>-</u>
<u><b>36,921</b></u>		<u><b>4,317</b></u>

## Financial Report and Accounts 2018/19

**NOTE 9: BENEFITS PAID**

## By Category

2017/18		2018/19
£000		£000
88,389	Pensions	94,127
16,032	Commutation and lump sum retirement benefit	16,938
2,814	Lump sum death benefit	2,746
<u>107,235</u>		<u>113,811</u>

## By Authority

2017/18		2018/19
£000		£000
48,871	Administering authority	51,697
49,885	Scheduled bodies	52,995
8,479	Admitted bodies	9,119
<u>107,235</u>		<u>113,811</u>

**NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

2017/18		2018/19
£000		£000
407	Refunds of contributions	2,769
7,556	Individual transfers	6,866
325	Bulk transfers	1,740
<u>8,288</u>		<u>11,375</u>

Refund of contributions includes a £2.4m payment relating to the exit credit due to an exiting employer made under regulations 74, 75 and 15(3) of the Local Government Pension Scheme (Administration) Regulations 2008 and regulation 64 of the Local Government Pension Scheme (Amendment) Regulations 2018. At the year-end there are further potential liabilities of £0.3m relating to possible transfers out of the pension scheme where the Fund is awaiting final decisions from members. See Note 25.

**NOTE 11: MANAGEMENT EXPENSES**

2017/18		2018/19
£000		£000
668	Administrative costs	1,224
999	Oversight and governance costs	1,117
15,667	Investment management expenses	15,494
<u>17,334</u>		<u>17,835</u>

**NOTE 11a: INVESTMENT MANAGEMENT EXPENSES**

2017/18		2018/19
£000		£000
9,120	Management fees	8,346
5,360	Performance related fees	5,723
140	Custody fees	185
1,045	Transaction costs	1,238
2	Treasury management expenses	2
<u>15,667</u>		<u>15,494</u>

## Financial Report and Accounts 2018/19

**NOTE 12: INVESTMENT INCOME**

2017/18		2018/19
£000		£000
34,613	Income from equities	40,321
3,461	Income from bonds	3,652
1,320	Private equity income	2,088
11,698	Property income	14,019
279	Interest on cash deposits	686
200	Income from stock lending	609
<u>51,571</u>		<u>61,375</u>

**NOTE 12a: PROPERTY INCOME**

2017/18		2018/19
£000		£000
13,193	Rental income	16,479
(1,495)	Direct operating expenses	(2,460)
<u>11,698</u>		<u>14,019</u>

No contingent rents have been recognised as income during the period.

**NOTE 13: OTHER FUND ACCOUNT DISCLOSURES**

2017/18		2018/19
£000		£000
23	Pension Advisory Board	24
102	ACCESS pool	117
<u>125</u>		<u>141</u>

ACCESS is a collaboration of eleven Central, Eastern and Southern Shires, who are working together to collectively invest assets to reduce investment costs whilst maintaining investment performance. The costs incurred for 2018/19 reflect the Fund's contribution towards the pool's establishment and business as usual activities. These costs are included within oversight and governance costs in Note 11.

**NOTE 13a: TAXES ON INCOME**

2017/18		2018/19
£000		£000
1,717	Tax paid on dividend payments	1,844
(559)	Tax recoverable	(633)
<u>1,158</u>		<u>1,211</u>

**NOTE 13b: EXTERNAL AUDIT COSTS**

2017/18		2018/19
£000		£000
26	Payable in respect of external audit	37
<u>26</u>		<u>37</u>

2018/19 costs include £17,000 relating to prior year charges (of which £11,000 has been recharged to employers in respect of IAS19 protocol work). These costs are included within oversight and governance costs in Note 11.

## Financial Report and Accounts 2018/19

## NOTE 14: INVESTMENTS

Market value 2017/18 £000		Market value 2018/19 £000
	<b>Investment assets</b>	
1,976,634	Equities	2,164,653
155,462	Bonds	118,002
1,391,573	Pooled investments	1,468,720
121,051	Private equity	110,727
344,585	Property	376,950
68,936	Cash deposits	69,405
4,930	Investment income due	6,733
3,522	Amounts receivable for sales	7,806
<u>4,066,693</u>	<b>Total investment assets</b>	<u>4,322,996</u>
	<b>Investment liabilities</b>	
(6,149)	Amounts payable for purchases	(9,296)
(5)	Property income received in advance	(364)
<u>(6,154)</u>	<b>Total investment liabilities</b>	<u>(9,660)</u>
<u>4,060,539</u>	<b>Net investment assets</b>	<u>4,313,336</u>

## Financial Report and Accounts 2018/19

## NOTE 14a: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Current Year				
	Market Value at 1 April 2018	Purchases during the year	Sales during the year	Change in market value during the year	Market Value at 31 March 2019
	£000	£000	£000	£000	£000
Bonds	155,462	39,661	(77,915)	794	118,002
Equities	1,976,634	573,201	(526,802)	141,620	2,164,653
Pooled investments	1,391,573	26,700	-	50,447	1,468,720
Private equity	121,051	3,859	(32,063)	17,880	110,727
Property	344,585	27,599	-	4,766	376,950
	<u>3,989,305</u>	<u>671,020</u>	<u>(636,780)</u>	<u>215,507</u>	<u>4,239,052</u>
Derivatives	-	-	-	-	-
<b>Sub total</b>	<u>3,989,305</u>	<u>671,020</u>	<u>(636,780)</u>	<u>215,507</u>	<u>4,239,052</u>
Other investment balances					
Cash deposits	68,936			2,561	69,405
Amount receivable for sales	3,522				7,806
Investment income due	4,930				6,733
Amount payable for purchases	(6,149)				(9,296)
Property income received in advance	(5)				(364)
<b>Total assets</b>	<u>4,060,539</u>			<u>218,068</u>	<u>4,313,336</u>

## Financial Report and Accounts 2018/19

	Previous Year				
	Market Value at 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market Value at 31 March 2018
	£000	£000	£000	£000	£000
Bonds	113,765	61,039	(17,860)	(1,482)	155,462
Equities	2,176,840	549,372	(922,499)	172,921	1,976,634
Pooled investments	917,746	456,000	(4,000)	21,827	1,391,573
Private equity	157,870	4,148	(52,114)	11,147	121,051
Property	285,820	38,674	(100)	20,191	344,585
	<b>3,652,041</b>	<b>1,109,233</b>	<b>(996,573)</b>	<b>224,604</b>	<b>3,989,305</b>
Derivatives	-	235,290	(234,790)	(500)	-
<b>Sub total</b>	<b>3,652,041</b>	<b>1,344,523</b>	<b>(1,231,363)</b>	<b>224,104</b>	<b>3,989,305</b>
Other investment balances					
Cash deposits	105,999			2,518	68,936
Amount receivable for sales	1,436				3,522
Investment income due	7,070				4,930
Amount payable for purchases	(786)				(6,149)
Rental receipts in advance	(6)				(5)
<b>Total assets</b>	<b>3,765,754</b>			<b>226,622</b>	<b>4,060,539</b>

## Financial Report and Accounts 2018/19

## NOTE 14b: ANALYSIS OF INVESTMENTS

31 March 2018 £000		31 March 2019 £000
	<b>Bonds</b>	
	UK	
155,462	Government	118,002
<u>155,462</u>		<u>118,002</u>
	<b>Equities (quoted)</b>	
	UK	
381,898	Overseas	441,531
<u>1,594,736</u>		<u>1,723,122</u>
<u>1,976,634</u>		<u>2,164,653</u>
	<b>Pooled funds</b>	
	UK	
459,403	Government bonds	401,956
373,164	Corporate bonds	375,092
	Overseas	
123,051	Government bonds	132,766
380,439	Corporate bonds	529,035
55,516	Cash	29,871
<u>1,391,573</u>		<u>1,468,720</u>
	Private equity	
121,051	Property	110,727
<u>344,585</u>		<u>376,950</u>
<u>465,636</u>		<u>487,677</u>
68,936	Cash deposits	69,405
4,930	Investment income due	6,733
3,522	Amounts receivable for sales	7,806
<u>77,388</u>		<u>83,944</u>
<u>4,066,693</u>	<b>Total investment assets</b>	<u>4,322,996</u>
	<b>Investment liabilities</b>	
(6,149)	Amounts payable for purchases	(9,296)
(5)	Property income received in advance	(364)
<u>(6,154)</u>	<b>Total investment liabilities</b>	<u>(9,660)</u>
<u>4,060,539</u>	<b>Net investment assets</b>	<u>4,313,336</u>

Pooled fund analysis has been restated for 2017/18 due to increased accuracy in the reporting of underlying investments in these funds. The pooled fund totals have not been restated.

## Financial Report and Accounts 2018/19

## NOTE 14c: INVESTMENTS ANALYSED BY FUND MANAGER

31 March 2018			31 March 2019	
%	£000		£000	%
<b>Share of market value held by fund managers</b>				
37.7	1,532,607	UBS Global Asset Management	1,622,145	37.6
50.8	2,061,385	Baillie Gifford & Co	2,202,350	51.1
1.7	67,469	Pantheon Ventures	60,924	1.4
1.3	53,582	Partners Group	49,803	1.2
8.5	344,585	Aberdeen Asset Management	376,950	8.7
0.0	911	Other investments	1,164	0.0
<b>100.0</b>	<b>4,060,539</b>		<b>4,313,336</b>	<b>100.0</b>

Table above amended and 2017/18 restated to include all investment balances.

No individual investment exceeded 5% of the total value of the Fund's net assets. The Fund does hold investments in bond and currency funds, each of these funds is made up of multiple underlying assets. The values of each fund, shown as a percentage of the total Fund value, have been set out in the following table.

31 March 2018			31 March 2019	
%	£000		£000	%
<b>Baillie Gifford managed funds</b>				
21.9	890,923	Sterling Aggregate Bond Fund	922,631	21.1
<b>UBS managed funds</b>				
0.8	32,789	Currency Allocation Return Fund	32,468	0.7
11.5	467,861	UK Corporate Bond UK Plus Fund	513,621	11.7
<b>34.2</b>	<b>1,391,573</b>		<b>1,468,720</b>	<b>33.5</b>

## Financial Report and Accounts 2018/19

### NOTE 14d: STOCK LENDING

The Fund's Investment Strategy Statement (ISS) sets out the parameters for the Fund's stock-lending programme. As at 31 March 2019, the value of quoted equities on loan was £302.6m (31 March 2018: £144.0m).

Counter-party risk is managed through holding collateral at the Fund's custodian bank. At year end the Fund held collateral (via the custodian) at fair value of £328.5m (31 March 2018: £159.4m).

Stock-lending commissions are remitted to the Fund via its custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

### NOTE 14e: DIRECT PROPERTY HOLDINGS

The Fund's investment property portfolio comprises a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows.

31 March 2018		31 March 2019
£000		£000
285,820	Opening balance	344,585
	Additions	
29,063	Purchase of existing property	25,541
6,757	New construction	1,512
2,854	Subsequent expenditure	546
(100)	Disposals	-
<u>20,191</u>	Net increase in market value	<u>4,766</u>
<u>344,585</u>	Closing balance	<u>376,950</u>

The future minimum lease payments receivable by the Fund under existing contracts are as follows:

31 March 2018		31 March 2019
£000		£000
13,999	Within one year	16,434
52,042	Between one and five years	58,882
<u>100,959</u>	Later than five years	<u>104,501</u>
<u>167,000</u>	Total future lease payments due under existing contracts	<u>179,817</u>

The above disclosures have been reduced by a credit loss allowance of 0.2% per annum reflecting the fund's assessment on the credit risk of tenants, applied on an individual basis. This has been based on the fund's own historic experience. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.

## Financial Report and Accounts 2018/19

**NOTE 15: ANALYSIS OF DERIVATIVES**

The Fund does not invest directly in derivatives.

**NOTE 16: FAIR VALUE - BASIS OF VALUATION**

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

- a. **Market quoted investments** (Level 1)  
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- b. **Quoted bonds** (Level 1)  
Bonds are recorded at net market value based on their current yield.
- c. **Pooled investment vehicles** (Level 2)  
Pooled investment vehicles are valued at closing bid price at the closing date. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- d. **Freehold and leasehold properties** (Level 3)  
Freehold and leasehold properties are included on the basis of fair value. A full independent valuation of the Fund's direct property portfolio was carried out by Savills (UK) Ltd, Chartered Surveyors, in accordance with the RICS Valuation – Professional Standards (January 2014) Global and UK Edition, issued by the Royal Institution of Chartered Surveyors. The properties have been valued at the reporting date on the basis of fair value as required by the International Financial Reporting Standards (IFRS). The definition of fair value is set out in IFRS 13 and is adopted by the International Accounting Standards Board as follows: "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.". The RICS Red Book considers that fair value is consistent with the concept of market value, the definition of which is set out in Valuation Practice Statement (VPS) 4 1.2 of the Red Book as follows: "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

The observable inputs include the existing lease terms and rentals; the nature of the tenancies; assumed vacancy levels and estimated rental growth.

Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

## Financial Report and Accounts 2018/19

### e. Private equity (Level 3)

Private equity investments are recorded as detailed below. Because of the uncertainty associated with the valuation of such investments and the absence of a liquid market, the fair values of these assets may differ from their authorised values.

- The valuation of Partners Group portfolio is taken from the unaudited 31 December 2018 fund-of-fund reports and adjusted for net cash flows.

Partners Group performs independent valuations of its underlying investments through a fair market valuation process, which is in accordance with International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP). This process was implemented in 2003 and has been refined based on feedback received from PricewaterhouseCoopers (PwC), the auditor of most of the firm's programmes and mandates. On an annual basis, the monitoring and valuation process based on fair valuation principles (sample selection, valuation methodologies, etc.) is discussed and approved by the auditors of the programs managed by Partners Group.

Partners Group complies with the defined process and applies it as the basis for the year-end valuation and subsequent quarterly Net Asset Value determinations of the programs they manage. Partners Group gather the valuation-relevant information by systematically screening a broad set of sources for valuation-relevant information about portfolio companies which are held directly or indirectly by Partners Group's programs and mandates. This includes information supplied by the firm's due diligence and monitoring professionals, underlying fund managers and information published in industry journals and/or other publications.

The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information; to date, the audited accounts for Partners Group have been given an unqualified opinion.

- The valuation of Pantheon's portfolio is taken from the unaudited 31 December 2018 fund-of-fund reports and adjusted for net cash flows.

Pantheon's quarterly valuation is produced in accordance with US GAAP and UK GAAP. Fund investments are carried at "fair value". Pantheon ensures that the valuation methodologies employed by underlying fund managers fulfil the measurement criteria of the International Private Equity and Venture Capital Valuation Guidelines (IPEV).

The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information; to date, the audited accounts for Pantheon Ventures have been given an unqualified opinion.

## Financial Report and Accounts 2018/19

### Sensitivity of assets valued at Level 3

Having consulted with independent investment advisors and fund managers on historical data and current market trends, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed valuation range (+/-)	Value at 31 March 2019 £000	Value on increase £000	Value on decrease £000
Freehold and leasehold property (a)	10%	376,950	414,645	339,255
Private equity (b)	15%	110,727	127,336	94,118
		<b>487,677</b>	<b>541,981</b>	<b>433,373</b>

a) Actual realised returns will depend on factors including independent market research, the nature of tenancies, tenant covenant strength, void levels and estimated rental growth.

b) Actual realised returns will depend on factors including future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs, and the timing and manner of sale.

## Financial Report and Accounts 2018/19

**NOTE 16a: FAIR VALUE HIERARCHY**

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

**Level 1**

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

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

**Level 2**

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based largely on observable market data.

**Level 3**

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

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

The valuation of both private equity portfolios have been prepared in accordance with industry guidelines.

The table on the following page provides an analysis of the financial assets and liabilities of the Fund grouped by and based on the level at which the fair value is observable.

## Financial Report and Accounts 2018/19

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	2,282,655	1,468,720	110,727	3,862,102
Non-financial assets at fair value through profit and loss			376,950	376,950
<b>Net investment assets</b>	<b>2,282,655</b>	<b>1,468,720</b>	<b>487,677</b>	<b>4,239,052</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	2,132,096	1,391,573	121,051	3,644,720
Non-financial assets at fair value through profit and loss			344,585	344,585
<b>Net investment assets</b>	<b>2,132,096</b>	<b>1,391,573</b>	<b>465,636</b>	<b>3,989,305</b>

**NOTE 16B: TRANSFER BETWEEN LEVELS 1 AND 2**

There were no transfers between levels 1 and 2 during the year.

**NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3**

	Market Value 1 April 2018	Transfers into / (out of) Level 3	Net purchases / (sales) during the year	Unrealised gains / (losses)	Realised gains / (losses)	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000
Private equity	121,051	-	(28,203)	(4,131)	22,010	110,727
Property	344,585	-	27,599		4,766	376,950
	<b>465,636</b>	<b>-</b>	<b>(604)</b>	<b>(4,131)</b>	<b>26,776</b>	<b>487,677</b>



## Financial Report and Accounts 2018/19

**NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND OTHER ASSETS**Risk and risk management

The primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund, and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification by assets and fund managers, to reduce exposure to market risk (price risk, currency risk and interest rate risk). In addition, the Fund manages its liquidity risk to ensure there are sufficient resources to meet the forecast cash requirement. The Pensions Panel reviews the Fund's funding strategy, in consultation with the actuary and investment adviser, based on the Fund's funding position and performance objective and taking into consideration factors including interest rates, inflation, liquidity and collateral. Prudent assumptions are used both in the strategy modelling work and when setting employer contribution rates. Performance is monitored by the Pensions Panel.

The Fund's Investment Strategy Statement (ISS) identifies the risks managed by its investment managers, sets appropriate risk limits and monitors adherence to those limits. The ISS is reviewed regularly to reflect changes in approaches to the Fund's activities.

Responsibility for the Fund's risk management strategy rests with the Pensions Panel. The Panel receives regular reports from each of the managers on the nature of the investments made on the Fund's behalf and the associated risks. Divergence from benchmark asset allocations and the composition of each portfolio is monitored by the Panel. Consideration of the Fund's investment strategy is on-going.

**a. Market risk**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Fund's income or the value of its assets.

The object of market risk management is to identify, manage and control market risk exposures within acceptable parameters while optimising returns.

Market risk is inherent in the investments that the Fund makes, particularly through its equity holdings, and is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. A customised benchmark has been adopted which includes maximum exposures to individual investments, and risk associated with the strategy and investment return are regularly monitored and reviewed by the Pensions Panel.

Each manager has to adhere to investment guidelines that specify the managers' investment powers and restrictions.

## Financial Report and Accounts 2018/19

### Other price risks

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

The Fund is exposed to share price risk and derivative price risk during periods of transition. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate price risk through diversification and the selection of securities. Exposure is monitored to ensure it is within limits specified in the Fund's investment strategy.

### Other price risks – sensitivity analysis

The Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period. This data has been provided by the Fund's actuary, Hymans Robertson, and is based on historical data.

Had the market price of the Fund investments increased/decreased as per the table below, the change in the net assets available to pay benefits in the market price would have been as follows. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. (The prior year comparator is also shown).

Asset type	Current year			
	Value at 31 March 2019 £000	Change %	Value on Increase £000	Value on Decrease £000
	UK equities	441,531	16.60%	514,825
Overseas equities	1,723,122	16.90%	2,014,330	1,431,915
Bonds	118,002	9.10%	128,740	107,264
Bond funds	1,436,253	10.53%	1,587,490	1,285,015
Cash	69,405	0.50%	69,752	69,058
Property	376,950	14.30%	430,854	323,046
Private equity	110,727	28.30%	142,063	79,391
Currency fund	32,468	10.00%	35,715	29,221
<b>Total</b>	<b>4,308,458</b>		<b>4,923,769</b>	<b>3,693,147</b>

Asset type	Previous year			
	Value at 31 March 2018 £000	Change %	Value on Increase £000	Value on Decrease £000
	UK equities	381,898	16.80%	446,056
Overseas equities	1,594,736	17.90%	1,880,194	1,309,278
Bonds	155,462	8.50%	168,676	142,248
Bond funds	1,358,784	8.73%	1,477,406	1,240,162
Cash	68,936	0.50%	69,281	68,591
Property	344,585	14.30%	393,861	295,309
Private equity	121,051	28.30%	155,308	86,793
Currency fund	32,789	10.00%	36,067	29,510
<b>Total</b>	<b>4,058,241</b>		<b>4,626,849</b>	<b>3,489,630</b>

## Financial Report and Accounts 2018/19

b. Credit risk

Credit risk is the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. Credit risk is related to the potential return of any investment, the most obvious being that the yields on bonds are strongly correlated to the perceived credit risk. Therefore, the risk of loss is implicit in the carrying value of the Fund's financial assets and liabilities.

The Fund is exposed to credit risk. However, this risk is minimised by selecting high quality counterparties, brokers and financial institutions.

Deposits are made only with banks and financial institutions that are rated independently and meet the Fund's credit criteria. The Fund has also set out in its Treasury Management Policy the limits of exposure to any one financial institution.

The Fund has not had any experience of default or uncollectable deposits. The fund managers held £69.4m in cash (31 March 2018: £68.9m) and cash internally managed by WSCC at 31 March 2019 was £53.6m (31 March 2018: £35.3m). This was held by institutions with the following credit ratings :

	Nominal amount 31 March 2018 £000	Nominal amount 31 March 2019 £000
AAA rated counterparties	15,000	42,200
AA- rated counterparties	-	-
A rated counterparties	89,268	80,809
<b>TOTAL</b>	<b>104,268</b>	<b>123,009</b>

The Fund's total exposure to credit risk cannot be assessed generally as the risks of default will be specific to each financial institution. At 31 March 2019, there was no evidence that such risks were likely to materialise.

c. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, without incurring unacceptable losses or risking damage to the Fund's reputation. Cash is required to pay benefits, fund acquisitions and settle various other commitments. The Fund maintains a working cash balance held in instant access money market and bank accounts. A cash flow forecast is maintained to ensure sufficient funds are available. The Fund manages liquidity risk by:

- giving careful consideration to the anticipated income and expenditure required for the administration of the Fund and the payment of benefits and by maintaining in-house managed cash balances sufficient to meet day-to-day cash flows.
- keeping a significant proportion of the Fund's assets in highly liquid investments such as actively traded equities, bonds and unit trusts.

The Fund is currently cash flow positive.

The Fund's strategic allocation to property and private equity, which are relatively illiquid, is limited to 15% of the total portfolio. As the Fund is not mature, i.e. it does not need to sell assets in order to pay benefits, it is considered appropriate to hold such investments to increase diversification, minimise risk and improve long-term investment performance.

Under the regulations, the Fund is authorised to borrow in its own right to fund cash flow deficits on a short term basis.

## Financial Report and Accounts 2018/19

d. **Refinancing risk**

The key risk is that the Fund is bound to replenish its investments at a time of unfavourable interest rates. The Fund does not hold any financial instruments that have a refinancing risk as part of its treasury management or investment strategies.

e. **Counterparty risk**

The Fund's global custodian, BNP Paribas has responsibility for safeguarding the assets of the Fund. Its duties include maintaining a repository of underlying information on the Fund's assets and arranging settlement of transactions, income collection and cash management. The Fund monitors BNP Paribas's performance and is in regular contact with the custodian. Monthly reconciliations are performed between the custodian's and the investment managers' records.

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2016. Reports on manager performance are monitored by the Pensions Panel on a quarterly basis. The Fund makes use of a third party performance measurement service. In addition to presenting to the Pensions Panel, managers also meet with Fund officers and advisers regularly to review activity and results.

### NOTE 19: FUNDING ARRANGEMENTS - ACTUARIAL STATEMENT

**Description of funding policy**

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purposes of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key funding principles are as follows:

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

The Funding Strategy Statement (FSS) sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

## Financial Report and Accounts 2018/19

### Funding position as at the last formal funding valuation

At the 2016 actuarial valuation, the Fund was assessed as 95% funded (86.4% at the March 2013 valuation). This corresponded to a deficit of £158m (2013 valuation: £371m) at that time.

Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal actuarial assumptions and method used to value the liabilities

#### Method:

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

#### Assumptions:

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

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

	31 March 2016 %
Discount rate	3.8
Salary increase assumption	2.9
Benefit increase assumption (CPI)	2.1

### Demographic assumptions

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's bespoke longevity analysis (VitaCurves) with improvements in line with the CMI 2013 model, assuming the current rate of improvements have not peaked and will converge to long term rate of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	23.6 years	25.0 years
Future Pensioners	26.0 years	27.8 years

Copies of the 2016 valuation report and FSS are available on the Funds website or on request from West Sussex County Council.

### Experience over the period since April 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. However, strong asset returns have more than offset the increase in liabilities. Therefore the overall impact has been an improvement in the funding level since the previous valuation.

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

## Financial Report and Accounts 2018/19

**NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS**

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund's liabilities on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (Note 19). The actuary has also valued ill health and death benefits in line with IAS 19. This includes an estimate for the McCloud impact (based on the Government Actuary Department's Guidance dated 10 June 2019) and the Actuary's estimate of the potential impact of GMP equalisation.

The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Actuary has adjusted GAD's estimate to reflect the Fund's local assumptions around salary increases and withdrawal rates.

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£m</b>		<b>£m</b>
(1,973)	Active members	(2,442)
(902)	Deferred pensioners	(1,012)
<u>(1,530)</u>	Pensioners	<u>(1,507)</u>
<u><b>(4,405)</b></u>	Present value of promised retirement benefits	<u><b>(4,961)</b></u>
4,104	Fair value of scheme assets (bid value)	4,374
<u><b>(301)</b></u>	Net liability	<u><b>(587)</b></u>

As noted above, the liabilities above are calculated on an IAS 19 basis and will therefore differ from the results of the 2016 triennial funding valuation (Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the aggregate liability appears to be a reasonable estimate of the actuarial present value of benefit promises.

No allowance has been made for unfunded benefits.

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

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

## Financial Report and Accounts 2018/19

### IAS 19 Assumptions used

The assumptions used are those adopted for the administering authority's IAS 19 report and are different as at 31 March 2019 and 31 March 2018.

The Fund actuary estimates that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £375m. There is no impact from any change in demographic and longevity assumptions because they are identical to the previous period.

	31 March 2018	31 March 2019
	% p.a.	% p.a.
Inflation / pensions increase rate	2.4	2.5
Salary increase rate	3.1	3.2
Discount rate	2.7	2.4

### Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model assuming long term improvements of 1.5% p.a., with allowance for short term rates of improvement and declining mortality for the over 90s.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	23.6 years	25.0 years
Future pensioners *	26.0 years	27.8 years

\* Future pensioners are assumed to be currently aged 45 at the latest formal valuation

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

### Commutation assumption

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

### GMP equalisation

The Fund's actuary has estimated the impact that the GMP indexation changes will have on the pension fund liabilities. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution to all members reaching state pension age from 6 April 2016 onwards.

## Financial Report and Accounts 2018/19

### NOTE 21: CURRENT ASSETS

31 March 2018		31 March 2019
£000		£000
	Debtors:	
2,220	Contributions due - members	2,473
7,794	Contributions due - employers	8,730
1	Prepayments	1,290
1,460	Other debtors	1,238
4,572	Taxation	4,931
<u>16,047</u>		<u>18,662</u>
<u>35,332</u>	Cash balances	<u>53,604</u>
<u>51,379</u>		<u>72,266</u>

#### Analysis of debtors

31 March 2018		31 March 2019
£000		£000
5,982	Central government bodies	6,443
6,663	Other local authorities	6,954
1,792	Educational establishments	2,512
1,609	Other entities and individuals	2,753
<u>16,046</u>		<u>18,662</u>

### NOTE 22: CURRENT LIABILITIES

31 March 2018		31 March 2019
£000		£000
3	Contributions	-
327	Benefits payable	1,215
7,312	Other current liabilities	10,266
<u>7,642</u>		<u>11,481</u>

#### Analysis of creditors

31 March 2018		31 March 2019
£000		£000
1,124	Central government bodies	1,021
131	Other local authorities	184
228	Educational establishments	1,239
6,159	Other entities and individuals	9,037
<u>7,642</u>		<u>11,481</u>

The Pension Fund has made a provision for £2.4m relating to the exit credit due to an exiting employer which is payable under the LGPS (Amendment) Regulations 2018.

## Financial Report and Accounts 2018/19

**NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS**

<b>Market Value</b>		<b>Market Value</b>	
<b>31 March 2018</b>		<b>31 March 2019</b>	
<b>£000</b>		<b>£000</b>	
2,102	Standard Life	2,139	
435	Equitable Life	403	
<u>2,537</u>		<u>2,542</u>	

AVC Contributions of £349,873 were paid directly to Standard Life during the year (2017/18: £305,339). The Equitable Life contributions ceased in 2001. AVCs are separately invested and are therefore not included in the Pension Fund accounts in accordance with regulations 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) regulations 2016.

**NOTE 24: RELATED PARTY TRANSACTIONS**West Sussex County Council

The West Sussex Pension Fund is administered by West Sussex County Council. Therefore, there is a strong relationship between the Council and the Pension Fund.

During the reporting period, the Council incurred costs of £1.1m (2017/18: £1.1m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £57.5m to the Fund in 2018/19 (2017/18: £54.9m). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the Treasury Management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2019, the Fund had a daily average investment balance of £50.0m held in Sterling (31 March 2018: £49.7m) earning interest of £0.31m (2017/18: £0.13m) in these funds at a rate of return of 0.62% (2017/18: 0.27%). Additionally, the Fund has earned interest of £0.13m on investments held in foreign currency (2017/18: £0.03m).

Governance

No members of the Pensions Panel are in receipt of pension benefits from the West Sussex Pension Fund.

Each member of the Pensions Panel is required to declare their interests at each meeting.

## Financial Report and Accounts 2018/19

### NOTE 24a: KEY MANAGEMENT PERSONNEL

The Director of Finance and Support Services (formerly Director of Finance, Performance and Procurement) and S151 officer has responsibility for the proper financial administration of the Fund under the Local Government Act 1972. This Officer is employed by the Administering Authority but spent a proportion of time on the financial management of the Fund. These costs comprise an element of the recharge from the Fund to the County Council in 2018/19 of £1.1m. The total Pension Fund contribution relating to Key Management Personnel is set out below:

31 March 2018		31 March 2019
£000		£000
16	Total apportioned remuneration	16

### NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

A contingent liability arises where an event has taken place that gives the Fund a possible obligation, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Fund. Contingent liabilities also arise in circumstances where a provision would otherwise be made but the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

Estimates provided to members indicate that at year-end there are potential liabilities of £0.3m in respect of members who have enquired about transferring benefits out of the scheme and on whom the Fund is awaiting a final decision.

Outstanding commitments in private equity at 31 March 2019 totalled £27.6m (31 March 2018 £30.3m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the period of investment.

### NOTE 26: CONTINGENT ASSETS

There were no contingent assets at the period end.

## Appendix 2 – Contributing employers during the year

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Adur/Worthing Joint Committee	3378.82	1097.19	4476.01
Angmering Parish Council	27.45	7.89	35.34
Ansty and Staplefield Parish Council	3.93	1.05	4.98
Ardingly Parish Council	0.80	0.20	1.00
Arun District Council	3319.22	685.64	4004.87
Ashington Parish Council	3.34	0.85	4.19
Ashurstwood Village Council	5.97	1.58	7.55
Aspire Sussex Ltd	115.75	28.28	144.03
Balcombe Parish Council	2.64	0.67	3.31
Baldwins Hill Primary School	43.72	10.64	54.36
Balfour Beatty	137.74	35.25	172.99
BAM	3.48	3.97	7.45
Barnham Primary School	66.42	16.29	82.70
Bersted Parish Council	10.66	3.07	13.73
Bewbush Academy	142.94	35.50	178.45
Billingshurst Parish Council	33.18	9.32	42.51
Bishop Luffa School	211.88	56.49	268.37
Blackthorns Primary School	47.74	10.80	58.54
Bognor Regis Town Council	57.83	18.39	76.22
Bohunt Worthing Academy	70.03	19.82	89.85
Bolney Parish Council	1.86	0.47	2.33
Broadbridge Heath Parish Council	3.65	0.98	4.62
Broadfield Primary Academy	136.26	32.52	168.78
Burgess Hill Academy	168.26	39.79	208.06
Burgess Hill Town Council	93.57	32.88	126.45
Capita (SSO)	795.53	241.18	1036.71
Capita IT	438.15	143.27	581.42
Care Quality Commission	0.00	2.87	2.87
Carers Support	12.83	3.62	16.45
Caterlink (Shoreham Academy)	7.34	1.75	9.09
Central CofE Junior School	46.36	12.63	58.99
Change, Grow, Live	19.56	4.32	23.89
Chichester City Council	40.57	16.00	56.57

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Chichester College	2555.91	835.84	3391.75
Chichester District Council	2717.37	873.11	3590.48
Chichester Free School	129.82	39.43	169.25
Chichester Harbour Conservancy	139.26	43.26	182.52
Chichester High School	207.27	55.12	262.39
Churchill - Balcombe Primary School	0.18	0.04	0.23
Churchill - Bersted Green Primary School	4.36	0.97	5.33
Churchill - Bognor Regis Nursery School	0.34	0.07	0.41
Churchill - Coastal Enterprises	0.87	0.22	1.09
Churchill - Northolmes Junior School	0.22	0.05	0.27
Churchill - Nyewood Jnr Sch	2.36	0.57	2.93
Churchill - West Chiltington	1.36	0.35	1.71
Churchill -The Forest	29.56	8.94	38.50
Colgate Parish Council	1.59	0.40	1.99
Collyers College	305.18	85.13	390.32
Crawley Borough Council	3233.10	1012.61	4245.71
Cuckfield Parish Council	18.80	5.17	23.97
Desmond Anderson Primary Academy	135.85	31.11	166.96
Donnington Parish Council	1.33	0.34	1.67
Downsbrook Primary School	52.58	12.77	65.36
Downview Primary School	80.31	19.75	100.06
Durrington High School	299.44	73.01	372.45
Earnley Parish Council	1.42	0.39	1.81
Easebourne Parish Council	2.29	0.58	2.88
East Grinstead Town Council	94.68	31.68	126.36
East Preston Junior School	41.97	10.34	52.30
East Preston Parish Council	9.61	2.76	12.37
East Wittering & Bracklesham Parish Council	4.94	1.48	6.43
Eastbrook Primary	97.48	23.90	121.38
Eastergate Parish Council	3.25	1.24	4.49
Edward Bryant Primary	102.98	25.13	128.11
Essex Cares Ltd	135.00	19.65	154.65
Fernhurst Primary School	40.81	9.58	50.39
Fire Service Charity	20.91	1.69	22.61

Employer	Employer Contributions	Employee Contributions	Total
	£'000	£'000	£'000
Fittleworth Parish Council	2.07	0.52	2.59
Forge Wood Academy	15.85	4.98	20.83
Freedom Leisure (Ex 6 Villages)	1.45	0.43	1.88
Freedom Leisure Arun Leisure	122.48	28.26	150.74
Gossops Green Primary School	86.91	24.67	111.58
Grace Eyre Northern	18.11	4.48	22.59
Grace Eyre Western	25.16	7.12	32.29
Greater Brighton Metropolitan College	2094.36	504.33	2598.69
Greenway Academy	41.02	11.85	52.87
Groundworks South Trust	1.13	0.32	1.45
Halsford Park Primary School	84.15	20.85	105.00
Harlands Educational Trust	53.44	12.02	65.46
Hassocks Parish Council	21.83	6.35	28.18
Haywards Heath Town Council	46.35	13.21	59.56
Hazelwick Academy	253.21	72.57	325.78
Hilltop Academy	108.00	29.27	137.27
Holmbush Primary School	57.16	13.16	70.33
Homes & Communities Agency	241.61	41.23	282.83
Horsham District Council	2330.32	789.43	3119.76
Hunston Parish Council	2.98	0.80	3.78
Hurstpierpoint Parish Council	18.96	5.41	24.38
Impact Initiatives	1.34	0.35	1.69
Impulse Leisure	46.54	17.98	64.52
ISS Facilities Services	1.99	0.64	2.64
Kingsham Primary School	70.16	15.39	85.55
Lancing Parish Council	28.35	8.92	37.27
Lindfield Parish Council	9.74	2.76	12.51
Lindfield Primary School	84.31	19.00	103.30
Lindfield Rural Parish Council	5.79	1.47	7.27
Littlegreen School	16.80	3.97	20.77
Littlehampton Academy	257.30	77.62	334.92
Littlehampton Harbour Board	30.16	11.17	41.33
Littlehampton Town Council	84.58	25.67	110.25
Martlet Homes	442.13	134.67	576.81
Mears Ltd	26.21	7.50	33.71
Medisort	3.42	0.96	4.38

Employer	Employer Contributions	Employee Contributions	Total
	£'000	£'000	£'000
Midhurst Rother College	168.32	48.00	216.32
Midhurst Town Council	10.04	2.65	12.68
Mid-Sussex District Council	2646.88	570.92	3217.80
Mitie Ltd	45.95	13.13	59.09
Muntham House School	285.20	88.90	374.09
New Horizons Multi Academy Trust	4.94	1.27	6.21
North Horsham Parish Council	44.09	13.59	57.67
North Mundham Parish Council	2.21	0.60	2.81
Northlands Wood Primary Academy	66.10	16.11	82.21
NSL LTD	8.57	3.13	11.70
Office of the Chief Constable	13324.56	3913.20	17237.76
Orchards Junior School	84.42	21.92	106.34
Ormiston Six Village Academy	99.08	29.01	128.09
Pagham Parish Council	2.88	0.73	3.61
Peabody South East Limited	1.15	0.23	1.38
Petworth Town Council	6.49	21.95	28.44
Places for People	176.54	41.79	218.33
Plaistow & Ifold Parish Council	2.03	0.51	2.54
Police & Crime Commission	211.93	76.60	288.53
Portfield Academy	78.36	18.26	96.62
Pound Hill Infant School	65.07	14.86	79.93
Pulborough Parish Council	15.93	4.52	20.45
Pyecombe Parish Council	0.75	0.19	0.94
Ridge Crest Cleaning Ltd Littlehampton Academy	16.38	2.59	18.97
Ridge Crest Cleaning Ltd Sir Robert Woodard	26.12	4.06	30.17
River Beach Primary	155.13	38.43	193.57
Rose Green Junior School	60.31	14.87	75.18
Royal Society for the Protection of Birds	6.95	1.81	8.76
Royal Town Planning Institute	27.68	8.66	36.34
Rudgwick Parish Council	5.41	1.43	6.85
Rustington Community Primary School	77.50	18.60	96.10
Rustington Parish Council	39.09	12.93	52.02
Saxon Weald Homes	951.39	323.37	1274.76
Schoolsplus	1.95	0.44	2.40
Schoolsworks Multi Academy Trust	62.75	22.51	85.26

Employer	Employer Contributions	Employee Contributions	Total
	£'000	£'000	£'000
Seal Primary Academy	82.45	18.75	101.19
Seaside Primary School	101.48	23.20	124.68
Selsey Academy	70.94	16.36	87.30
Selsey Town Council	34.14	9.55	43.68
Seymour Academy	85.88	21.80	107.68
Shaw Homes	154.22	35.24	189.46
Shermanbury Parish Council	1.65	0.42	2.06
Shipley Parish Council	2.25	0.57	2.83
Shoreham Academy	262.36	75.03	337.39
Shoreham Port Authority	684.27	166.63	850.90
Singleton Parish Council	1.54	0.39	1.93
Sir Robert Woodard Academy	193.72	60.72	254.44
Slaugham Parish Council	5.52	1.65	7.17
Slinfold Parish Council	3.49	1.05	4.53
SLM Community	143.87	34.97	178.84
SLM Food & Beverage	15.83	3.76	19.60
SLM Health & Fitness	37.21	8.32	45.54
Sodexo Chichester High School	18.21	3.05	21.26
South Downs Leisure	444.64	100.97	545.61
South Downs National Parks Authority	813.21	295.50	1108.71
Southgate Primary School	87.35	20.49	107.85
Southwater Infants	56.15	14.41	70.56
Southwater Juniors	60.96	18.27	79.24
Southwater Parish Council	59.55	17.42	76.97
Southway Academy	123.17	32.07	155.24
St Lawrence Primary	91.63	23.82	115.45
St Mary's Catholic Primary School	59.24	13.84	73.08
St Philip Howard Catholic High School	194.89	47.58	242.47
Steyning Parish Council	16.40	5.04	21.45
Storrington & Sullington Parish Council	11.31	3.39	14.70
Tangmere Parish Council	3.04	0.79	3.83
Tangmere Primary	45.45	10.83	56.29
Tascor Services Ltd	0.00	1.96	1.96
The Gatwick School	99.97	28.46	128.43
The Globe Primary Academy	117.31	27.23	144.54
The Laurels Primary School	49.60	11.15	60.75

Employer	Employer Contributions	Employee Contributions	Total
	£'000	£'000	£'000
The March C of E Primary School	12.34	2.77	15.11
The Mill Primary School	80.29	22.83	103.11
The Music Trust	45.05	16.95	62.01
The Oaks Academy	95.50	20.71	116.21
The Regis Academy	423.30	118.24	541.54
Thomas Bennett Community College	162.20	40.46	202.65
Turners Hill Parish Council	7.09	1.86	8.95
Twineham Parish Council	0.81	0.21	1.02
University College Chichester	1945.22	641.00	2586.22
Upper Beeding Parish Council	8.69	2.50	11.19
Viridor Waste Management	0.00	1.66	1.66
Warden Park Academy	303.66	81.31	384.96
Warden Park Primary Academy	84.61	28.29	112.91
Waterfield Primary School	88.16	20.39	108.55
West Chiltington Parish Council	5.26	1.58	6.84
West Grinstead Parish Council	4.39	1.16	5.55
West Hoathly Parish Council	3.60	0.91	4.52
West Itchenor Parish Council	1.77	0.45	2.21
West Sussex County Council	45655.85	11840.80	57496.65
Westbourne Parish Council	3.35	0.85	4.20
White Meadows Primary Academy	140.45	38.52	178.97
Worthing 6th Form College	379.69	89.51	469.20
Worthing Borough Council	2110.61	87.40	2198.00
Worthing High School	180.07	51.92	231.99
<b>Total</b>	<b>102,858.24</b>	<b>27,454.09</b>	<b>130,312.34</b>

## Appendix 3 – ACCESS POOL

### Governance

The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.

The Officer Working Group are officers identified by the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration and technical support services. The permanent staff roles within the ASU are employed by the Host Authority (Essex) with additional technical support from Officers within the ACCESS Pension Funds.

The Section 151 Officer of each Pension Fund provide advice to the Joint Committee and in response to decisions made by the joint Committee ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as does all decision making on their individual Funds asset allocation and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.

### The Operator

Link Fund Solutions Ltd are appointed to provide a pooled operator service. Link are responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds to meet the needs of the investing authorities enabling them to execute their asset allocation strategies and the appointment of the investment managers to those sub-funds.

### Progress

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing and moving assets into the pool and has regularly submitted progress reports to Government. These are all published on the Pool's website ([www.accesspool.org](http://www.accesspool.org)).

Included in the proposal is an indicative timeline of when assets will be pooled and ACCESS has made excellent progress against the first milestone of having £27.2 billion assets pooled and estimated savings of £13.6 million by March 2021.

## Pooled Assets

As at 31 March 2019 ACCESS has pooled the following assets:

	£ billion
Index tracking investments	11.431
UK Equity Funds	2.323
Global Equity Funds	5.853
<b>Total Pooled Investments</b>	<b>19.607</b>

The passive investments funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies which cannot be held within an authorised contractual scheme.

## Key milestones achieved in 2018/19

- Establishment of the ACCESS Support Unit and recruitment of a contract manager and support officer to provide day to day support for the Pool. The unit was further strengthened by the appointment of technical leads from existing officers to lead and progress specific areas of work.
- Development of a Governance Manual to reflect decision making principles, communications strategy, policies and procedures.
- Approval and launch of the first two tranches of sub-funds.
- Establishment and implementation of the Stock Lending programme.
- Providing updates of progress to Government and responding to consultations.

## Objectives for 2019/20

Following the launch of a number of sub-funds, progress will continue apace with significant rationalisation of the existing range of mandates. The Operator will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the Funds and facilitate a significant move of the assets to be pooled.

Whilst establishing and developing the ACCESS Pool, the initial focus has been on pooling the most liquid assets, mainly equities and fixed income bonds. The next step is to formulate an approach to pooling and managing illiquid assets such as private equity and infrastructure. This will involve reviewing various structures and platforms and assessing these to identify the best fit to meet with the Funds current and future requirements.

## Financial Management

### Pool Set-Up Costs

The set-up costs incurred by the pool include professional and legal advice received in relation to establishing the pool and procuring the operator, and advice and support in the development of good governance. A breakdown of the total costs from inception is as below. The costs are split equally amongst the 11 Funds.

	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Strategic & Technical Advice	38	295	281
Legal	1	95	313
Project Management	20	379	189
ACCESS Support Unit			3
Other	1	108	101
<b>Total Set Up Costs</b>	<b>60</b>	<b>877</b>	<b>877</b>

### Fee Savings

The ACCESS pool has sought out fee savings based on economies of scale with investment mandates in common and by consolidating its index tracking investments with one investment manager. The management fee savings received by the pool are as below:

	2015/16	2016/17	2017/18	2018/19	Total
	£'000	£'000	£'000	£'000	£'000
Set Up Costs	60	877	887	-	1,824
Ongoing Operational Costs	-	-	149	1,248	1,397
Transition Costs	-	-	-	674	674
<b>Total Costs</b>	<b>60</b>	<b>877</b>	<b>1,036</b>	<b>1,922</b>	<b>3,895</b>
Fee Savings	-	-	681	6,378	7,059
<b>Net Savings Realised/(Costs)</b>	<b>(60)</b>	<b>(877)</b>	<b>(355)</b>	<b>4,456</b>	<b>3,164</b>

## Expected v Actual Costs and Savings

The table below compares actual costs and savings for 2017-18 and 2018-19 compared to the Business case submission to MHCLG.

	2017/2018		2017/18	
	Actual	Budget	Actual	Budget
	In Year	In Year	Cumulative to date	Cumulative to date
	£'000	£'000	£'000	£'000
Set Up Costs	887	800	1,824	1,400
Ongoing Operational Costs	149	-	149	-
Transition Costs	-	-	-	-
<b>Total Costs</b>	<b>1,036</b>	<b>800</b>	<b>1,973</b>	<b>1,400</b>
Pool Fee Savings	(681)	(950)	(681)	(950)
<b>Net Savings Realised/(Costs)</b>	<b>(355)</b>	<b>(150)</b>	<b>(1,292)</b>	<b>(450)</b>

	2018 – 2019		2018 – 2019	
	Actual	Budget	Actual	Budget
	In Year	In Year	Cumulative to date	Cumulative to date
	£'000	£'000	£'000	£'000
Set Up Costs	-	-	1,824	1,400
Ongoing Operational Costs	1,248	1,266	1,397	1,266
Transition Costs	674	2,499	674	2,499
<b>Total Costs</b>	<b>1,922</b>	<b>3,765</b>	<b>3,895</b>	<b>5,165</b>
Pool Fee Savings	6,378	3,800	7,059	4,750
<b>Net Savings Realised/(Costs)</b>	<b>4,456</b>	<b>35</b>	<b>3,164</b>	<b>(415)</b>

The original budget for setting up the ACCESS Pool was £1 million which was 0.3 bps based on the value of the Funds of £33.5 billion as at 31 March 2015. The Fund value has risen in the intervening years and 0.3 bps on the current value is £1.4 million. The additional expense has been incurred in securing technical and legal advice in setting up the Pool and procuring the Operator.

Ongoing operational costs were included in the submission at 1.5bps of pooled assets excluding the passive investments. These are the costs for running the ACCESS Pool and procuring the Operator.

Significant additional savings have also been achieved through negotiating a reduction in investment management fees in pooled aligned investments. These savings have not been included in the table above.

The ACCESS Pool has worked hard to minimise the costs of transition for pooled holdings wherever possible. Transition costs for the passive investment mandate were met by the appointed investment manager.

## **Environmental, Social and Governance**

The Pension Funds in ACCESS believe in making long term sustainable investments whilst integrating environment and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

ACCESS acknowledges its responsibilities as an investor and has considered how environmental, social and governance issues can be taken into account when managing investment portfolios. It believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole

The ACCESS pool has a single voting policy for pooled assets and seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies. The voting policy sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies.