

**PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2015/16**

*Report of the Director of Resources*

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**1 Purpose of the Report**

- 1.1. To provide the Pensions Committee with the audited Pension Fund Annual Report and Statement of Accounts for 2015/16 ("Report and Accounts"). This is attached at Appendix A.

**2 Summary**

- 2.1 The Pension Fund accounts are audited separately by Ernst & Young LLP and a separate Audit Results Report (ARR) issued for these accounts. The ARR and the Officers response to this is a separate item on this agenda.
- 2.2 During 2015/16, the value of the Pension Fund increased marginally by £3.2m. The overall investment return for the year was -0.2% net of fees which was in line with the benchmark for the year.
- 2.3 The number of members in the Pension Fund increased by 4,539 members from 91,456 at 31 March 2015 to 95,995 at 31 March 2016.
- 2.4 Following the review of the Report and Accounts by Ernst & Young, a small number of amendments were agreed and are detailed in section 6.1 to this report.
- 2.5 Extracts of the Report and Accounts will be included within the County Council's Statement of Accounts that will be submitted to the Audit Committee on 23 September 2016.

**3 Recommendations**

- 3.1 The Pensions Committee is asked to scrutinise and comment on the audited Report and Accounts for 2015/16 and to approve the revised Statement of investment Principles found on page 49 of the Report and Accounts.

#### 4 2015/16 Report and Accounts

4.1 During 2015/16, the value of the Pension Fund increased by £3.2m (0.1%) from £3,581.0m at 31 March 2015 to £3,584.2m at 31 March 2016. The overall investment return for the year was -0.2% (net of fees) which was in line with the benchmark for the year.

4.2 The table below shows how the increase of £3.2m is made up. An explanation for any significant movements between 2014/15 and 2015/16 is provided in the following sections:

£m	£m	
	165.3	Additions from contributions and other income relating to members
	-141.7	Benefits payable to members
	-10.2	Payments to and on account of leavers
<b>13.4</b>		<b>Net additions relating to members' contributions and payments</b>
	-1.6	Administrative costs
	-0.8	Oversight and governance costs
	-13.5	Investment management expenses
<b>-15.9</b>		<b>Management Expenses</b>
	-40.9	Decrease in the market value of investments and profits and losses from the sale of investments
	49.1	Investment income
	-2.5	Tax on income
<b>5.7</b>		<b>Net return on investments</b>
<b>3.2</b>		<b>Increase in the Pension Fund during 2015/16</b>

4.3 Payments to and on account of leavers decreased significantly in 2015/16 from £47.1m in 2014/15 to £10.2m in 2015/16. This is due to a large bulk transfer of £39.0m to the Greater Manchester Pension Fund in relation to the Herts Probation Service which were included in the 2014/15 figures.

4.4 Profits and losses on the disposal of investments and changes in the value of investments decreased from £391.1m in 2014/15 to -£40.9m in 2015/16. This reflects the lower investment return for the year (-0.2%) compared to 2014/15 (+13.5%). The return achieved on the Pension Fund's investments reflected general market conditions over the year and the benchmark return of -0.1%. A review of world markets is provided as part of the Investment report on page 59 of the Report and Accounts.

4.5 The table below shows the movement in the main asset classes between 31 March 2015 and 31 March 2016.

31 March 2015			31 March 2016		% Change
£000s	£000s		£000s	£000s	
1,374,534		Equities	1,091,917		(20.6%)
248,294		Property	269,692		8.6%
		Unit trusts:			
482,330		Equities	703,663		45.9%
868,711		Bonds	935,361		7.7%
		Other managed funds			
117,932		Private Equity	115,942		(1.7%)
315,451		Alternatives	369,817		17.2%
14,003		Other	13,843		(1.1%)
413		Forward foreign exchange contracts	124		(70.0%)
135,154		Cash deposits	56,642		(58.1%)
3,362		Other investment balances	9,929		195.4%
	<b>3,560,184</b>	<b>Total investment assets and liabilities</b>		<b>3,566,930</b>	<b>0.2%</b>
	3,727	Long term assets		2,956	(20.7%)
	17,128	Net Current assets		14,364	(16.1%)
	<b>3,581,039</b>	<b>Net assets of the Scheme available to fund benefits as at 31 March</b>		<b>3,584,250</b>	<b>0.1%</b>

- 4.6 Equities have reduced by £282.6m over the year from £1,374.5m at 31 March 2015 to £1,091.9m at 31 March 2016. This largely reflects the movement of funds out of the active global mandate with GTP to the passive multi-asset mandate, held in unit trusts, managed by Legal and General. The value of the Fund's equity portfolio has also been impacted by the negative returns achieved by the majority of the Fund's equity managers over the year.
- 4.7 The value of the Alternatives mandate managed by LGT increased by £54.3m over the year, an increase of 17.2%. This increase largely reflects an additional £68m investment into the portfolio at the start of 2015/16. These funds were held as cash at 31 March 2015, explaining the reduction in cash balances between 31 March 2015 and 31 March 2016.
- 4.8 The value of bond unit trusts have increased by £66.7m (7.7%). This largely reflects the implementation of the Fund's investment strategy with additional investment being made into the bond portfolio from surplus funds held by the Administering Authority and from the dismissal of GTP during the year. The value of the property funds also increased by £21.4m (8.6%), reflecting the positive return achieved by the Fund's property manager over the year.

## 5 Annual Report

5.1 The Annual Report summarises the main aspects of the Pension Fund and is split into four sections – Scheme Administration, Administering Authority Report, Financial Statements and Investment Report.

### 5.2 Scheme Administration

This section provides a background to the Scheme, describes how it is funded and details the main benefits for members.

### 5.3 Administering Authority Report

This section outlines how the Hertfordshire Pension Fund is governed and managed and includes the following statements and policies:

- Governance Compliance Statement (pages 7 – 11)
- Communication Policy Statement (pages 15-16)
- Actuarial Statement for 2015/16 (pages 17-18)

The Governance Policy and Compliance Statement was approved by the Pensions Committee on 5 February 2016 and includes the terms of reference and division of responsibility between the Pensions Committee and LGPS Pensions Board. The Communication Policy Statement was last reviewed and approved as part of 2014/15 Annual report. There were no changes to the policy during 2015/16.

An annual performance report is provided on pages 13-14 of the Annual report which provides a summary of the performance of the Administering Authority, Pensions Administration Service and employers during the year.

A summary of membership to the Scheme is provided on page 19 of the Annual report including the distribution of Scheme members across employer categories. This shows an increase in total membership of 4,539 members from 91,456 at 31 March 2015 to 95,995 at 31 March 2016. Of the overall increase, active members increased by 2,392, deferred members by 731 and pensioners by 1,416.

### 5.4 Financial Statements

This section includes the 2015/16 Pension Fund Accounts, discussed in section 4 above. This includes the Fund Account and Net Asset statement, statement of accounting policies and notes to the accounts.

### 5.5 Investment Report

This section sets out the context for investment and the background against which investments took place and includes the following:

5.5.1 **Statement of Investment Principles (SIP). Pages 49 – 56 of the Annual report** provides the updated version of the SIP which includes the revised asset allocations and benchmarks as a result of the implementation of the Fund's investment strategy and the movement of funds out of the active global mandate with GTP to the passive multi-asset mandate managed by Legal and General. The SIP will be reviewed during 2016/17 to ensure compliance with

the new Investment regulations, which are expected to come into effect from 1 April 2017.

**Members are invited to review and approve the revised Statement of Investment Principles as set out in recommendation 3.1.**

5.5.2 An analysis of investment distribution against the Fund's Investment Policy, illustrating the gradual switching out of Global Equities and into lower risk asset classes. As at 31 March 2016, the Pension Fund's allocation to UK equities and Bonds were modestly overweight relative to the benchmark allocation, with other allocations modestly underweight, particularly Private Equity.

5.5.3 The performance of the Pension Fund's investments against benchmark over 2015/16 and the longer term: Performance over 15/16 was in line with the generally diminished benchmark, with the fund returning -0.2% (net of fees) against a benchmark of -0.1%.

## **6 Post audit changes**

6.1 Following the audit by Ernst & Young, a small number of amendments were made to the draft Report and accounts which included:

- Reclassification of £11k of contributions between employee and employer contributions.
- Amendment to the value of property holdings to correct a mispricing of one of the UK property funds held by CBRE, increasing both the net return on investments in the Fund Account and the value of UK property funds in the Net Asset Statement by £8.66m.
- Revision of financial instrument valuation levels in note 6.13c to the accounts, reflecting the reclassification of £88.3m of CBRE property funds from level 2 to 3. This adjustment is based on late confirmation from CBRE of their valuation categorisation, and represents a reassessment of the valuation method due to limitations on, or lack of, market activity for the asset(s) at the measurement date.
- Correction to the value of outstanding commitments to private equity funds in note 6.19 to the Accounts as a result of a transposition error. This reduced the value of outstanding contractual commitments still to be drawn down by Private Equity funds by £5.64m, to £111.08m.
- Amendment to note 6.18a (related parties) to bring the figure for the County Council's contributions to the Fund (£53,917,610) in line with note 6.1 (analysis of contributions by type of employer). This note is a disclosure only, and there was no impact from this amendment.
- Addition of disclosure note within the Statement of Accounting Policies (page 26 of the Annual report and accounts) on the impact of the UK leaving the EU on the future valuation of the Pension Fund.