

PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2017/18

Report of the Director of Resources

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1. Purpose of the Report

- 1.1. To provide the Pension Committee with the audited Pension Fund Annual Report and Statement of Accounts for 2017/18 ("Report and Accounts"). This is attached at Appendix A.

2. Summary

- 2.1 The Pension Fund accounts are audited separately by Ernst & Young (EY) LLP and a separate Audit Results Report (ARR) issued for these accounts. The ARR and the Authority's response to this are included as separate items on this agenda. There were no recommendations arising from the audit of the Pension Fund's accounts.
- 2.2 During 2017/18 the value of the Pension Fund increased by £255.6m, the significant majority of this increase relating to return on investments. The overall investment return for the year was 5.5% (net of fees) which was in excess of the benchmark (3.5%) for the year.
- 2.3 The number of members in the Pension Fund increased by 4,867 members from 99,210 at 31 March 2016 to 104,077 at 31 March 2017.
- 2.4 During the external audit review of the Report and Accounts by Ernst & Young (EY) there were a small number of amendments made to the accounts regarding minor presentational and disclosure corrections, but EY determined that these did not require any comment in their 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 18 July 2018.

3. Recommendation

- 3.1 The Pensions Committee is asked to note and comment on the audited Report and Accounts for 2017/18.

4. 2017/18 Report and Accounts

- 4.1 During 2017/18 the value of the Pension Fund increased by £255.6m, the significant majority of this increase relating to return on investments. The overall investment return for the year was 5.5% (net of fees) which was in excess of the benchmark (3.5%) for the year.
- 4.2 The fund continued to be cash flow positive (describing a position whereby contributions received from employers and members outweighs benefits paid to pensioners). Committee have received reports previously that outline how, as the fund matures, the position reverses and cash flows out of the fund become greater.
- 4.3 The table below shows how the increase of £255.6m is comprised:

£m	£m	
189.5		Additions from contributions and other income relating to members
(148.1)		Benefits payable to members
(13.9)		Payments to and on account of leavers
	27.5	Net additions relating to members' contributions and payments
(1.5)		Administrative costs
(1.2)		Oversight and governance costs
(12.0)		Investment management expenses
	(14.6)	Management Expenses
203.3		Increase in the market value of investments and profits and losses from the sale of investments
39.7		Investment income
(0.2)		Tax on income
	242.7	Net return on investments
	255.6	Increase in the Pension Fund during 2017/18

- 4.4 An explanation for any significant movements within the Fund Account (Appendix A, p23) between 2016/17 and 2017/18 is provided below.
- 4.5 Following the implementation of the employer contribution rate from the 2016 valuation, employers contributions increased from £131.2m in 16/17 to £136.4m in 17/18.

- 4.6 Management expenses fell marginally from £14.7m to £14.6m. Whilst returns on the fund's investments were lower than 16/17, investments outperformed the benchmark in 17/18, whereas they were in line with the benchmark in 16/17.
- 4.7 Transfers to other schemes or funds increased from (£9.0m) in 16/17 to (£13.2m) in 17/18 as a result of the number of transfers out of the fund increased to 277 from 195.
- 4.8 Profits on the disposal of investments and changes in the value of investments decreased from £609.9m in 16/17 to £203.3m in 17/18. This reflects the lower investment return for the year (5.5%) compared to 2016/17 (17.8%). The return achieved on the Pension Fund's investments outperformed the market, as the benchmark return was 3.5%. A review of world markets is provided as part of the Investment report on page 61 of the Report and Accounts.
- 4.9 The table below summarises the Net Asset Statement (Appendix A, p24), and highlights the movement in the main asset classes between 31 March 2017 and 31 March 2018.

31 March 2017			31 March 2018		% Change
£000s	£000s		£000s	£000s	
1,148,718		Equities	815,111		(29.0%)
		Pooled investment vehicles:			
286,375		Pooled property investments	295,919		3.3%
1,365,648		Unitised insurance policies	1,844,181		35.0%
598,057		Unit trusts	606,178		1.4%
131,052		Private equity	116,026		(11.5%)
605,223		Other managed funds	685,216		13.2%
1,703		Derivative contracts	(660)		(138.8%)
67,496		Cash deposits	101,564		50.5%
3,881		Other investment balances	7,647		97.0%
	4,208,151	Total Investment Assets & Liabilities		4,471,181	6.3%
2,217		Long term assets	1,478		(33.3%)
33,003		Net Current Assets	26,358		(20.1%)
	4,243,371	Net assets of the Fund available to fund benefits as at 31st March		4,499,017	6.0%

- 4.10 The fund carried out some significant movements between assets classes in year, as summarised below;
- £326m (equities) and £8m (unit trust) disinvested from Jupiter and moved to Legal & General (unitised insurance policies) in a transition arrangement before being moved to UBS under the same asset class.
 - £70m moved from Allianz (equities) to Legal & General, as above.
 - £30m investment from in-house cash to LGT (Other managed fund).

- 4.11 Equities performed well in 17/18, producing a net gain in asset value of £57m. Investments with Allianz provided the largest return for this asset class with a net gain of £39m mostly due to large gains when selling assets.
- 4.12 The Baillie Gifford global managed fund (other managed funds) produced large returns totalling £50m.
- 4.13 The decrease in private equity assets is as a result of distributions returned to the fund following the sale of assets totalling £52m, and commitments drawn down by Fund Managers totalling £28m.
- 4.14 Derivative contracts are held to protect the Fund's assets against fluctuation in foreign exchange. CBRE manage the Fund's property asset portfolio, of which £147m is held in global funds. Derivative contracts show as a decrease in the Funds value, but are held to protect against larger losses from holding assets in foreign currencies. In 16/17, derivative contracts produced a gain of £1.7m.
- 4.15 Cash deposits increased from £67.5m in 16/17 to £101.6m in 17/18. The main movements in cash deposits are due to;
- Distributions from private equity fund managers resulted in an increase in cash deposits of £21m,
 - Sales of property assets awaiting reinvestment of £17m, and
 - £8m held by Jupiter in 16/17 which was reinvested in 17/18.
- 4.16 The increase in other investment balances from £3.9m to £7.8m results from sales and purchases which were pending completion as at 31st March 2018.

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 (p3)

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 (p6 – 20)

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 2016/17 (pages 17-18)

An annual performance report is provided on pages 14 - 15 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 4,867 members from 99,210 at 31 March 2017 to 104,077. Of the overall increase, active members increased by 1,312, deferred members by 1,505 and pensioners by 1,004.

5.4 Financial Statements (p21 – 49)

This section includes the 2016/17 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 (p50 – 65)

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

5.5.1 Investment Strategy Statement (ISS) (p51 – 58)

This section sets out the investment strategy that was in place for the period covered by the Annual Report and Accounts.

5.5.2 The performance of the Pension Fund's investments against benchmark over 2016/17 and the longer term. Performance over 17/18 was in line with the general benchmark, with the fund returning 5.5% (net of fees) against a benchmark of 2.5%.

6. Post audit changes

6.1 During the audit by Ernst & Young, a small number of minor amendments and corrections were highlighted and made to the Annual Report and Accounts 2017/18, however EY did not determine that any of these were material enough to require disclosure.