



CITY OF
LONDON

Annual Report for the City of London Corporation Pension Fund

Year ended 31 March 2022

Scheme Registration No. PSTR00330366RQ

Annual Report for the City of London Corporation Pension Fund*Year ended 31 March 2022*

Management and Financial Performance	3
Management and Financial Performance Report.....	4
Scheme Administration Report.....	11
Actuarial Report	16
Actuarial Report on Fund	17
Pension Fund Accounts	20
Statement of Responsibilities for the Statement of Accounts.....	21
Adoption of the Pensions Fund Accounts.....	22
Independent Auditor's Report to the City of London.....	23
Fund Account and Net Assets Statement	24
Investment Performance and Pooling	49
Investment Performance Report	50
Pooling and Investment Management Costs Report.....	54
Responsible Investment Report.....	57
Appendices	58
Policy and Governance Statement.....	59
Funding Strategy Statement	65
Investment Strategy Statement.....	82
Communication Policy Statement	94
Glossary of Terms	96

For further copies or for more information please contact: The Chamberlain, City of London Corporation, Guildhall, PO Box 270, London EC2P 2EJ



Management and Financial Performance

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT**For the year ended 31 March 2022**

Scheme Registration Number:	PSTR00330366RQ
Administering Authority:	City of London Corporation Guildhall, P.O. Box 270 London EC2P 2EJ
Scheme Administrator:	Pensions Administration Service
Responsible Officers:	Caroline Al-Beyerty, CPFA LLB (Hons) Chamberlain of London Kate Limna Corporate Treasurer Matt Mott (until November 2021) Pensions Manager - Administration Graham Newman (from February 2022) Pensions Manager - Administration James Graham Group Accountant - Pensions & Treasury Management
Actuary:	Barnett Waddingham LLP 163 West George Street Glasgow G2 2JJ

Financial Investment Board Members: (Responsible for investment matters up to 31 March 2022)

Member	Attendance (5 meetings)
Nicholas Michael Bensted-Smith (Chairman)	5/5
Henry Nicholas Almroth Colthurst (Deputy Chairman)	5/5
Anne Helen Fairweather	4/5
Prem Goyal (Alderman)	3/5
Robert Picton Seymour Howard (Alderman)	2/5
Robert Charles Hughes-Penney (Alderman)	5/5
Jamie Ingham Clark, Deputy	5/5
Clare James, Deputy	5/5
Robert Allan Merrett	3/5
Tim Levene	3/5
Andrien Gereith Dominic Meyers	4/5
John Petrie	4/5
James Henry George Pollard, Deputy	2/5
James de Sausmarez	4/5
Ian Christopher Norman Seaton	3/5
Philip Woodhouse, Deputy	4/5

Secretary to the Committee: Joseph Anstee

Local Government Pensions Board (Advisory Board)

Member	Attendance (4 meetings) *
James Richard Tumbridge (Chairman)	4/4
Martin Newnham (Deputy Chairman)	2/4
Jon Averbs	4/4
Yvette Dunne	1/1
Christina McLellan	4/4
Mark Raymond Peter Henry Delano Wheatley	3/4

Secretary to the Committee: Chris Rumbles

*One meeting took place to elect the Chairman and Deputy Chairman, no other business was conducted.

Establishment Committee (Responsible for personnel and establishment matters up to 31 March 2022)

Member	Attendance# (10 meetings)
Tracey Graham (Chair)	10/10
Edward Lord, Deputy (Deputy Chairman)	10/10
Randall Keith Anderson	10/10
Keith David Forbes Bottomley, Deputy	9/10
Sir Charles Edward Beck Bowman (Alderman)	7/10
Kevin Malcolm Everett, Deputy	7/10
The Revd Stephen Decatur Haines	7/10
Sheriff Christopher Michael Hayward	9/10
Jamie Ingham Clark, Deputy	9/10
Jeremy Mayhew	7/9
Henry Nicholas Almroth Colthurst	4/10
Karina Dostalova	7/10
Brian Desmond Francis Mooney, Deputy	10/10
Tom Sleigh, Deputy	7/10
Deputy Richard David Regan	6/10
Elizabeth Rogula, Deputy	7/10
Ruby Sayed	8/10
Philip Woodhouse, Deputy	9/10

Secretary to the Committee: John Cater

One meeting took place to elect the Chairman and Deputy Chairman, no other business was conducted.

Investment Managers:

Artemis Investment Management LLP
Cassini House, 57 St James's Street, London
SW1A 1LD

Aviva Investors Global Services Limited
St Helens, 1 Undershaft, London, EC3P 3DQ

C WorldWide Fund Management SA
Dampfaergevej 26 · DK-2100 Copenhagen

IFM Global Infrastructure (UK) LP
3rd Floor, 60 Gresham Street, London EC2V 1BB

Lindsell Train Ltd
66 Buckingham Gate, London, SW1E 6AU

London LGPS CIV Ltd
4th floor, 22 Lavington Street, London, SE1 0NZ

Liontrust Asset Management Plc *
2 Savoy Court, London, WC2R 0EZ

M&G Investment Management Limited
10 Fenchurch Avenue, London EC3M 5AG

Natixis International Funds (Harris Associates)
One Carter Lane, London, EC4V 5ER

Veritas Asset Management LLP
90 Long Acre, London WC2E 9RA

Pyrford International Plc
79 Grosvenor Street, London W1K 3JU

Ruffer LLP
80 Victoria Street, London SW1E 5JL

Ares Management LLC
2000 Avenue of the Stars 12th Floor Los
Angeles California 90067

Coller International Partner VII LP
33 Cavendish Square, London W1G 0TT

Crestview Partners LLC
667 Madison Avenue, New York, NY 10065

DIF Infrastructure IV Cooperatief U.A
WTC Schipol Airport, Tower D, 10th Floor
Schipol Boulevard 269, 1118 BH Schipol,
Netherlands

Environmental Technologies Fund Manager
LLP
20 Berkeley Square, London W1J 6EQ

Exponent Private Equity LLP,
12 Henrietta Street, London WC2E 8LH

Frontier Capital
1111 Metropolitan Avenue - Suite 1050 -
Charlotte, NC 28204

New Mountain Capital, LLC
Seventh Avenue, 49th Floor, New York NY
10019

SL Capital Partners LLP 1 George Street,
Edinburgh EH2 2LL

Warburg Pincus LLC
450 Lexington Avenue, New York NY10017-
3911

YFM Equity Partners Ltd
4 Cavendish Square, London, W1G OPG

*Formally Majedie Asset Management Ltd

Custodian & Performance Measurement:

Bank of New York Mellon
The Bank of New York Mellon Centre
One Canada Square
London EC14 5AL

Investment Consultant:

Mercer Ltd
Quartermile One, 15 Lauriston Place,
Edinburgh EH3 9EP

Bankers:

Lloyds Bank
3rd Floor, 23 Gresham Street,
London EC2V 7HN

Legal Advisor:

Comptroller and City Solicitor
City of London Corporation, Guildhall, P.O. Box 270, London EC2P 2EJ

AVC Providers:

The Prudential Assurance Company Limited,
Laurence Pountney Hill, London, EC4R 0HH

Standard Life Assurance Ltd.
Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH

Utmost Life and Pensions
Walton Street, Aylesbury, Buckinghamshire, HP21 7QW

Independent Auditor:

Grant Thornton UK LLP
30 Finsbury Square,
London EC2A 1RR

Financial Performance

Introduction

The Fund account includes details of the contributions receivable by the Scheme and benefits payable. During 2021/22 there was a net inflow from dealings with members of £0.1m (2020/21: net outflow of £1.8m). Net returns on investments amounted to a gain of £97.8m (2020/21: gain of £283.3m) before investment management fees of £9.8m (£8.2m in 2020/21). Investment performance is discussed in the Investment Performance Report on page 50.

The net assets of the Fund as at 31 March 2022 amounted to £1,388.1m (31 March 2021: £1,301.1m). Within this figure, total investment assets were £1,368.9m (31 March 2021: £1,294.6m). Current assets were £20.4m (31 March 2021: £7.4m) whilst current liabilities amounted to £1.4m (31 March 2021: £0.9m). Further details are shown in the Pension Fund Accounts on page 24.

The Fund received contributions totalling £51.4m from employers and members during 2021/22 (2020/21: £47.3m). All contributions were received on time. The Pension Fund Accounts contain further details of the contributions received from employers and members (page 30).

The Pension Fund's financial performance against expectations (excluding profits and losses on the disposal of investments and changes in the value of investments) is shown in the next table. Net expenditure for the year was £6.4m higher than originally expected and this was driven by a lower amount of transfers into the Fund compared to recent years and higher expenditure on benefits than anticipated. The Fund also incurred additional performance-related fees within its management expenses due to better than expected investment performance.

	2021/22	2021/22	2021/22
	Estimate £m	Actual £m	Variance £m
Income			
Employer Contributions	(36.1)	(39.3)	(3.2)
Employee Contributions	(12.5)	(12.1)	0.4
Transfers In	(6.0)	(3.5)	2.5
	(54.6)	(54.9)	(0.3)
Expenditure			
Pensions payable	42.1	43.1	1.0
Retirement and death benefits	7.2	9.7	2.5
Payments to and on account of leavers	2.1	1.9	(0.2)
Management expenses	9.1	10.9	1.8
	60.5	65.6	5.1
Investment income	(5.6)	(4.0)	1.6
Net (Income)/Expenditure	0.3	6.7	6.4

The most recent full triennial valuation into the financial position of the Fund was carried out as at 31 March 2019, in accordance with regulation 77(1) of the Local Government Pension Scheme Regulations 1997. The funding level of the Fund increased from 84% at March 2016 (the previous full triennial valuation) to 90% at March 2019. A summary of the funding position is provided on page 46.

The City of London Corporation invests the Fund in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Fund's Investment Consultant is Mercer Ltd.

The Fund has undrawn investment commitments in property, infrastructure and private equity totalling £45/5m, or approximately 3.3% of the total Fund value at 31 March 2022. As at 31 March 2022, twenty-three external Managers managed the Fund's investments as follows:

- Artemis Investment Management Ltd (UK Equity)
- Lindsell Train Ltd (UK Equity)
- Liontrust Asset Management Plc (UK Equity)*
- C WorldWide Fund Management SA (Global Equity)
- London LGPS CIV Ltd (Global Equity and Multi Asset Credit Funds)#
- Natixis International Funds (Harris Associates – Global Equity)
- Veritas Asset Management LLP (Global Equity)
- Pyrford International Plc (Multi Asset)
- Ruffer LLP (Multi-Asset)
- Aviva Investors Global Services Limited (Property)
- M&G Investment Management Limited (Property)
- IFM Global Infrastructure (UK) LP (Infrastructure)
- DIF Infrastructure IV Cooperatief U.A (Infrastructure)
- Ares Management LLC (Private Equity)
- Collier International Partners (Private Equity)
- Crestview Partners LLC (Private Equity)
- Environmental Technologies Fund Manager LLP (Private Equity)
- Exponent Private Equity LLP (Private Equity)
- Frontier Capital (Private Equity)
- New Mountain Capital LLC (Private Equity)
- SL Investments Private Equity Ltd (Private Equity)
- Warburg Pincus PE (Private Equity)
- YFM Partners (Private Equity)

*Formally Majedie Asset Management Ltd

Any surplus cash holding within the Pension Fund is managed internally.

#A proportion of the Pension Fund's investment assets are pooled with other London LGPS funds and managed by the London CIV, the regional pool operator for London. As at 31 March 2022 the Pension Fund had investments in two funds operated by the London CIV: the 'LCIV Global Alpha Growth Fund' (global equities) and the 'LCIV ACF' (Alternative Credit Fund). The Pension Fund is also a shareholder in London LGPS CIV Ltd.

Tax Status

The Scheme is a 'registered pension scheme' for tax purposes.

Membership of Outside Bodies

The City is a member of the Pensions & Lifetime Savings Association (formerly the National Association of Pension Funds), the Local Authority Pension Fund Forum, and the Pension Fund Investment Forum, meetings and conferences of which are usually attended by officers and/or Members. The City has been a signatory to the Principles for Responsible Investment since December 2018.

Risk Management

Risks in relation to the Pension Fund are included within the overall consideration of risk within the Chamberlain's Department in accordance with the City of London Corporation's risk management framework. The risks relating to the Pension Fund's investments and administration are monitored and mitigated for separately, investment related risks were documented in the Financial Investment Board's Risk Register along with the City of London Corporation's other financial instruments, whilst risks pertaining to the administration of the fund were documented in the Local Governments Pensions Board's Risk Register.

The Pension Fund makes use of third-party investment managers. Assurance over third party operations is also sought through the monitoring of annual internal control reports provided by investment managers. Officers maintain reconciliations to ensure information provided by investment managers is accurate and the Pension Fund's Investment Consultant continually reviews the activity of appointed investment managers.

Internal assurance is obtained through regular oversight from the Corporation's internal audit function. The most recent internal audit of the Pension Fund's investment arrangements was undertaken in 2019/20 which provided a rating of "substantial assurance" indicating that there is a sound control environment with risks to system objectives being reasonably managed.

SCHEME ADMINISTRATION REPORT

The City of London Pension Fund is part of the national Local Government Pension Scheme. The Fund is administered in-house by the City of London Corporation on behalf of the participating employers.

As at the end of March 2022 the City of London Pension Fund had:

- 11 active employers
- 4,565 pensioner members
- 4,6729 active members
- 5,118 deferred members

The eleven active employers include the administering authority, the City of London Corporation; two scheduled bodies (the Museum of London and the City of London Multi Academy Trust); and seven admitted bodies (the Irish Society, the City Academy Southwark, the London CIV, Turning Point, Agilisys, Cook & Butler, Skanska and Veolia).

There were 286 new pensioner members in 2021/22 including 129 normal retirements, 62 flexible retirements, 9 early retirements and 3 ill health retirements.

Teachers, Judges and Police Officers have their own pension schemes and are not included in the Fund.

The Pensions Team

All aspects of the pensions administration service is contained within one team comprised of 9 full time equivalent staff, entirely focused on pensions matters. The team structure delivers benefits as experience and skills are widely shared within the team, extending resilience and breadth of knowledge.

Investment in the team has continued via internal and external courses and qualifications, formal training, mentoring and support.

The cost of administration in 2021/22, including IT costs and actuarial fees, was £743k.

A standard appraisal process is operated across the team, linked into the Chamberlain's Department Business Plan. The team produces its own regular newsletter for pensioners.

Pensions Administration Manager: Graham Newman Tel: 07864 959 555

Pensions email: pensions@cityoflondon.gov.uk

Pensions Payroll email: pensionspayroll@cityoflondon.gov.uk

Website: <https://www.cityoflondonpensions.org>

Administration Key Performance Indicators – 2021/22

Task	Target	CoL Result 2021/22	CoL Result 2020/21
Initial Payment of actual retirement benefit	5 days	98.61%	97.58%
Process refund and make payment	5 days	98.44%	100.00%
Statement notifying estimate of retirement benefit	20 days	96.17%	97.78%
Letter detailing transfer-in credit	20 days	100.00%	100.00%
Transfer-out payment	20 days	100.00%	100.00%
Answer general correspondence	10 days	96.83%	96.41%
Payment of Death Grant	5 days	100%	95.45%
Letter notifying amount of dependant's benefits	5 days	94.44%	100.00%

The performance indicators are derived from the in-house pension's system software, which has a workflow measurement facility included.

The Local Government Pension Scheme

The Local Government Pension Scheme (or the LGPS) is a statutory pension scheme. This means that it is very secure as its benefits are defined and set out in law. The LGPS in brief:

- provides salary related defined benefits not dependent upon investment performance – ultimately the local authority, and local tax payers, are the final guarantors;
- is regulated by Parliament;
- is administered through 89 regional pension funds in England & Wales; and
- has over 6 million members nationally.

Scheme Benefits

The main provisions of the LGPS scheme are as follows:

- The scheme provides a guaranteed pension. From the 1st April 2014 the Scheme became a Career Average Revalued Earnings (CARE) scheme with benefits building at a rate of 1/49th of pay plus an annual revaluation in line with increase in CPI. The Final Salary link was retained for all benefits prior to 31 March 2014 (1/60th of final pay for each year of membership in the scheme after 31 March 2008 and membership to 31 March 2008 calculated as 1/80th final pay pension plus 3/80^{ths} lump sum).
- Up to 25% of the capital value of benefits can be taken as a lump sum by commutation using the 12:1 commutation rate, i.e. for every £1 of pension given up the member gets £12 lump sum on retirement.
- Benefits prior to 31 March 2014 continue to be calculated on final pay, being the best one of the last three years' pay.
- Retirement age for future benefits is now State Pension Age, with protections for older members, but with the right to take pension from age 55 with a reduction for early payment.
- Flexible retirement with employer consent is permitted from age 55.
- Immediate payment of pension benefits following redundancy / efficiency retirement on or after age 55.
- A three-tier ill health benefits system.
- A death grant of three times pay for death in service; five times pension if a deferred beneficiary dies; and 10 times pension less pension already paid if a pensioner dies within ten years of retirement and before age 75.
- Spouses' and Civil Partners pensions are generally based on a 1/160th accrual rate. Co-habiting partners pension will also be based on a 1/160th accrual rate but on post 5 April 1988 membership only.

- Members can buy extra scheme pension up to a maximum of £7,352 or they can pay into an Additional Voluntary Contribution (AVC) plan.
- Employers can grant extra pension of up to £7,352.
- Trivial pensions may be commuted into a single lump sum payment in accordance with HMRC rules.

Membership

Employees must normally have a contract of employment for three months or more in order to be eligible for membership. Membership of the Scheme is then compulsory but eligible employees are free to choose whether to remain in the Scheme or make their own personal pension arrangements outside the Scheme.

Contributions

Employees and employers contribute to the scheme.

Employees:

Members of the LGPS pay a contribution rate dependant on the salary band they fall in to.

The contribution rate employees pay depends on their salary. The bands and contribution rates for 2021/22 are set out in the table below.

Band Range Contribution Rates:

Band	Range	Contribution Rate
1	Up to £14,600	5.5%
2	£14,601 to £22,900	5.8%
3	£22,901 to £37,200	6.5%
4	£37,201 to £47,100	6.8%
5	£47,101 to £65,900	8.5%
6	£65,901 to £93,400	9.9%
7	£93,401 to £110,000	10.5%
8	£110,001 to £165,000	11.4%
9	£165,001 or more	12.5%

There is also a 50/50 section of the scheme where members can elect to pay half the above contributions for a return of half the normal benefit accrual.

Employers:

The contribution rates paid by employers are variable and are determined by the Pension Fund's Actuary.

Communications during the Year

- Annual Benefits Statements were issued to all active and deferred members.
- Newsletters
- Pre-retirement seminars were presented to scheme members approaching retirement
- Information, forms and useful links to websites providing further information on the LGPS were maintained on the City of London's pension's website.
- "Insight" lunches were suspended during 2021-22 due to pandemic-related restrictions but the team hopes to resume these events in future.

Appeals

A problem or question about LGPS membership or benefits should initially be addressed to the Pensions Administration Manager at the address stated on page 4. The Pensions Administration team then seeks to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible.

If an employee or ex-employee is still dissatisfied with any decision made in relation to the Scheme, they have the right to have their complaint independently reviewed under the Internal Disputes Resolution Procedure (IDRP).

Internal Dispute Resolution Procedure (IDRP)

The dispute procedure is in two stages. Each stage must be completed before moving on to the next:

First Stage

This involves referring the case to the specified person within six months of a decision. This is a person appointed by the employer - but he/she will have had no previous involvement in the case. If he/she feels the complaint is justified, he/she will issue a new decision, which will be binding on the scheme administrators. However, he/she can only overturn the original decision if in his/her opinion it was legally incorrect.

Second Stage

If the individual is not satisfied with the specified person's decision, the second stage is to make a written appeal, within six months, to the administering authority. Like the specified person, the administering authority can only correct legal errors. The decision would normally be made within two months and once again it would be binding on the scheme.

In 2021/22 there was 0 IDRP appeal cases.

If an appellant remains dissatisfied, they can refer their case to the Pensions Ombudsman, whose address is 10 South Colonnade Canary Wharf E14 4PU. The Ombudsman is less restricted in his powers and can consider wider issues than the strictly legal ones, such as whether a case has been handled fairly or reasonably. However, all stages of the IDRP must be dealt with before the Ombudsman would consider a case.

No appeals were made to the Ombudsman.

Further Assistance

The Money and Pensions Service (MaPS) is a free and independent advisory service specifically designed to help people with their pension problems. TPAS may be contacted directly at Holborn Centre, 120 Holborn, London, EC1N 2TD, telephone [0800 138 7777](tel:08001387777).

The Pensions Regulator is the regulator of work-based pension schemes. The Pensions Regulator has powers to protect members of work-based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. The Pensions Regulator can be contacted at Napier House, Trafalgar Place, Brighton BN1 4DW, telephone 0345 600 5666.

The Pensions Ombudsman: In cases where a complaint or dispute cannot be resolved after the intervention of MaPS or TPR, an application can be made, within three years of the event, to the Pensions Ombudsman for adjudication. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the Scheme or matters of fact or law and his or her decision is final and binding. Matters where legal proceedings have already started cannot be investigated. The Pensions Ombudsman can be contacted at 10 S Colonnade, Canary Wharf, London E14 4PU, telephone 0207 630 2200.

The Pension Tracing Service holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants), who have lost touch with previous employers. All occupational and personal pension schemes have to register if the pension scheme has current members contributing into their scheme or people expecting benefits from the scheme. The Pension Service has a website for members to trace their pension benefits: <https://www.gov.uk/find-pension-contact-details>. The tracing service can be contacted at: The Pension Tracing Service, Boothem Old Rd, Unit 6 - 7 Glebe House, Stoke-on-Trent ST4 4EZ, telephone 0800 122 3170.



Actuarial Report

Introduction

The last full triennial valuation of the City of London Corporation Pension Fund (“the Fund”) was carried out as at 31 March 2019 as required by Regulation 62 of the Local Government Pension Scheme Regulations 2013 and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2019.

2019 valuation results

The 2019 valuation certified an average primary contribution rate of 15.0% of pensionable pay to be paid by each employing body participating in the City of London Corporation Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer’s contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Contribution rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The annual accrual of benefits allowing for future increases to accrued pensions and pensions in payment when these fall due;
- Plus an amount to reflect each participating employer’s notional share of the Fund’s assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Asset value and funding level

The smoothed market value of the Fund’s assets as at 31 March 2019 for valuation purposes was £1,062.9m which represented 90% of the Fund’s accrued liabilities at that date, allowing for future increases in pay and pensions in payment. The market value of the Fund’s assets as at 31 March 2019 was £1,063.1m.

Assumptions

The assumptions used to value the benefits at 31 March 2019 are summarised below:

Assumption	31 March 2019
Discount rate	5.1% p.a.
Pension increases (CPI)	2.6% p.a.
Salary increases	3.6% p.a.
Mortality	S3PA tables with a multiplier of 110% for males and 105% for females with projected improvements in line with the 2018 CMI model allowing for a long term rate of improvement of 1.25% p.a., a smoothing parameter of 7.5, and an initial addition to improvements of 0.5% p.a.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Updated position since the 2019 valuation

Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the value of the Fund assets was slightly higher than projected based on the previous valuation.

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

Please note that we have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

Overall position

On balance, we estimate that the funding position has improved slightly when compared on a consistent basis to 31 March 2019 (but allowing for the update to the CPI inflation assumption) due to the strong assets returns which were partially offset by the fall of the real discount rate and the resulting increase in liabilities.

The change in the real discount rate since 31 March 2019 is likely to place a higher value on the cost of future accrual which results in a higher primary contribution rate. Deficit contributions would be slightly lower as a result of the improved funding position but the total contribution rate would overall be slightly higher.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends.

There is also continued uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

We will continue to monitor the funding level on a quarterly basis as requested by the administering authority.

Graeme D Muir FFA
Partner, Barnett Waddingham LLP



Pension Fund Accounts

Bin it for a
#CleanerThames

STATEMENT OF RESPONSIBILITIES for the STATEMENT OF ACCOUNTS

The City of London's Responsibilities

The City of London is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. This officer is the Chamberlain.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts

The Chamberlain of London's Responsibilities

The Chamberlain is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

In preparing this Statement of Accounts, the Chamberlain has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the local authority code.

The Chamberlain has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chamberlain's Certificate

I certify that the Statement of Accounts present fairly the financial position of the Pension Fund of the City of London at 31 March 2022 and its income and expenditure for the year then ended.

TBC

Caroline Al-Beyerty
Chamberlain and CFO

Adoption of the Pension Fund Accounts

The Pension Fund Accounts were approved by the Finance Committee on (TBC) and signed on its behalf by:

TBC

Henry Nicholas Almroth Colthurst, Depu

Chairman of the Finance Committee

TBC

Randall Keith Anderson, Deputy

Deputy Chairman of the Finance Committee

DRAFT

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF CITY OF LONDON CORPORATION PENSION FUND

TBC

DRAFT

FUND ACCOUNT AND NET ASSET STATEMENT

for the year ended 31 March 2022

[Pension Fund Accounts and Explanatory Notes](#)

Fund Account for the year ended 31 March 2022

2020-21	Notes	2021-22
£m		£m
	Dealings with members, employers and others directly involved in the Fund	
(47.3)	Contributions	(51.4)
(2.6)	Transfers in from other pension funds	(3.4)
(49.9)		(54.8)
49.8	Benefits	52.8
1.9	Payments to and on account of leavers	1.9
51.7		54.7
1.8	Net (additions)/withdrawals from dealings with members	(0.1)
9.1	Management expenses	10.9
10.9	Net withdrawals including fund management expenses	10.8
	Returns on investments	
(3.4)	Investment income	(4.0)
(279.9)	Profit and losses on disposal of investments and changes in the value of investments	(93.8)
(283.3)	Net return on investments	(97.8)
(272.4)	Net (increase)/decrease in the net assets available for benefits during the year	(87.0)
(1,028.7)	Opening net assets of the scheme	(1,301.1)
(1,301.1)	Closing net assets of the scheme	(1,388.1)

Net Asset Statement as at 31 March 2022

2020-21	Notes	2021-22
£m		£m
0.2	Long-term investments	0.2
1,294.4	Investment assets	1,368.9
1,294.6	Total net investments	1,369.1
7.4	Current assets	20.4
(0.9)	Current liabilities	(1.4)
1,301.1	Net assets of the Fund available to fund benefits at the end of the reporting period	1,388.1

1. Description of the City of London Pension Fund

a) General

The City of London Pension Fund is part of the LGPS and is administered by the City of London. The City of London is the reporting entity for this pension fund.

The City of London Pension Fund is a funded defined benefits scheme established in accordance with statute. With the exception of serving police officers, teachers and judges who have their own schemes, all City of London staff are eligible for membership of the Local Government Pension Scheme (LGPS).

Benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is administered internally by the City of London. The Fund's investments are managed externally by several fund managers with differing mandates determined and appointed by the City of London.

b) Membership of the Fund

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the City of London Pension Fund include:

- Scheduled bodies, which are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership numbers of the scheme:

	31 March 2022			31 March 2021	
	Current contributors	Beneficiaries in receipt of pension	Deferred members	Total	Total
	No.	No.	No.	No.	No.
ADMINISTERING AUTHORITY					
City of London Corporation	4,332	4,232	4,282	12,846	12,521
	4,332	4,232	4,282	12,846	12,521
SCHEDULED BODIES:					
Museum of London	258	268	636	1,162	1,140
Magistrates Court	0	18	13	31	31
Multi Academy Trust	12	0	1	13	4
	270	286	650	1,206	1,175
ADMITTED BODIES:					
Irish Society	4	10	2	16	16
City Arts Trust	0	0	0	0	1
Parking Committee for London	0	6	6	12	12
Guildhall Club	0	4	4	8	8
City Academy - Southwark	95	11	134	240	218
Sir John Cass (Brookwood)	0	1	0	1	1
AMEY (Enterprise)	0	6	3	9	9
Eville and Jones	0	0	1	1	1
London CIV	14	1	15	30	29
Turning Point	1	0	1	2	2
Agilysis	5	5	14	24	24
Agilysis (police)	0	1	2	3	3
Bouygues (EDTE)	0	0	1	1	1
Cook & Butler	1	0	1	2	2
1SC Guarding Limited	0	0	1	1	1
Skanska	4	1	0	5	5
Veolia	3	1	1	5	5
	127	47	186	360	338
TOTAL	4,729	4,565	5,118	14,412	14,034

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2022. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. For 2021/22, employer contribution rates range from 15.0% to 21.0% of pensionable pay.

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 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.

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

2. Basis of preparation

The statement of accounts summarises the Fund's transactions for the 2021/22 financial year and its financial position at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to

recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS 16 is not expected to have a material impact on the Pension Fund because it does not hold any assets as a lessee.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 18.

The accounts have been prepared on a going concern basis. The administering authority is confident that the Fund will have sufficient resources to meet obligations as they fall due over the foreseeable future.

3. Accounting policies

- i. The pension fund accounts are accounted for on an accruals basis for income and expenditure, with the exception of transfer values in and out, which are accounted for on a cash basis.
- ii. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.
- iii. Investment assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.
- iv. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 13). 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).

- v. Acquisition costs are included in the purchase costs of investments.
- vi. Assets and liabilities in overseas currencies are translated into sterling at the exchange rates ruling at the net asset statement date. Transactions during the year are translated at rates applying at the transaction dates. Surpluses and deficits arising on conversion are dealt with as part of the change in market values of the investments.
- vii. The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis as follows:

Administration expenses	All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
Oversight and governance	All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
Investment management expenses	Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

- viii. Income from investments is accounted for on an accruals basis. Investment income arising from the underlying investments of the Pooled Investment Vehicles is typically reinvested within the Pooled Investment Vehicles and reflected in the unit price.

- ix. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profit and losses realised on sales of investments and unrealised changes in market value.
- x. Normal contributions, both from members and employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such agreement, when received.
- xi. Under the rules of the Scheme, members may receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised.
- xii. Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.
- xiii. Where an investment manager’s fee note has not been received by the balance sheet date, an estimate based upon the most recent available equivalent trailing reporting period is used for inclusion in the fund account.

4. Critical judgements in applying accounting policies

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 18.

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.

5. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made considering historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 18)	Estimation of the net liability to pay pensions depend on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. This uncertainty relates solely to the disclosures made in Note 18 and does not impact on the Net Asset Statement or Pension Fund Account.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: <ul style="list-style-type: none"> a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £47m a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £4m a one-year increase in assumed life expectancy would increase the liability by approximately £100m.
Private equity investments (Note 13)	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018) and use valuation techniques that rely on unobservable inputs.	Private equity investments are valued at £34m in the accounts. There is a risk that this investment may be under or overstated significantly if the underlying valuation assumptions change.
Infrastructure and pooled property investments (Note 13)	Infrastructure and pooled property investments are valued at fair value using valuation techniques that rely on unobservable inputs.	Infrastructure and pooled property investments are valued at £69m and £101m, respectively in the accounts. There is a risk that this investment may be under or overstated significantly if the underlying valuation assumptions change.

6. Events after the reporting date

There are no events occurring after the reporting date that necessitate adjustments (adjusting events) or disclosure (non-adjusting events).

7. Contributions receivable

By Category

2020-21		2021-22	
£m		£m	
(12.1)	Employees' contributions	(12.1)	
	Employers' contributions		
(24.6)	Normal contributions	(24.3)	
(9.0)	Deficit recovery contributions	(9.0)	
(1.6)	Pensions strain contributions	(6.0)	
(35.2)	Total employers' contributions	(39.3)	
(47.3)		(51.4)	

By type of employer

2020-21		2021-22	
£m		£m	
(44.0)	Administering authority	(48.2)	
(2.2)	Scheduled bodies	(2.2)	
(1.1)	Admitted bodies	(1.0)	
(47.3)		(51.4)	

8. Benefits payable

By Category

2020-21		2021-22	
£m		£m	
40.9	Pensions	43.1	
7.7	Lump sum retirement benefits	8.8	
1.2	Lump sum death benefits	0.9	
49.8		52.8	

By type of employer

2020-21		2021-22	
£m		£m	
46.7	Administering authority	49.9	
2.8	Scheduled bodies	2.5	
0.3	Admitted bodies	0.4	
49.8		52.8	

9. Payments to and on account of leavers

2020-21		2021-22	
£m		£m	
1.8	Individual transfers out	1.8	
0.1	Refunds to members leaving service	0.1	
1.9		1.9	

10. Management expenses

2020-21		2021-22
£m		£m
0.6	Administration expenses	0.7
8.2	Investment management expenses	9.8
0.3	Oversight and governance*	0.4
9.1		10.9

*Includes audit fees of £21,500 that have been charged to the Pension Fund (2020/21: £25,300).

a. Investment management expenses

2020-21				2021-22				
Management Fees	Performance Related Fees	Transaction Costs	Total		Management Fees	Performance Related Fees	Transaction Costs	Total
£m	£m	£m	£m		£m	£m	£m	£m
0.7	0.0	0.0	0.7	Infrastructure funds	0.6	2.1	0.0	2.7
4.4	0.9	0.3	5.6	Pooled investments**	4.7	0.3	0.0	5.0
0.5	0.0	0.0	0.5	Pooled property investments	0.5	0.0	0.0	0.5
0.4	1.0	0.0	1.4	Private equity	0.4	1.2	0.0	1.6
6.0	1.9	0.3	8.2	Total	6.2	3.6	0.0	9.8

**Included £1.1m charged to the Pension Fund by the London CIV regional asset pool (£1.1m in 2020/21).

11. Income from investments

2020-21		2021-22
£m		£m
(0.8)	Infrastructure funds	(0.5)
(0.1)	Interest	(0.0)
(2.4)	Pooled property investments	(2.3)
(0.1)	Private equity	(1.2)
(3.4)	Total	(4.0)

The Pension Fund's investment policies are focussed on capital accumulation in pooled vehicles and private equity investments. Dividends and interest are typically retained at pool level. Where any shortfall of the Net Deductions on Contributions and Benefits Paid was previously covered by investment income, it is intended that the Fund will sell holdings in the pooled vehicles, as necessary, to cover any shortfalls. There are no limitations imposed by the fund managers on the selling of these pooled vehicle funds.

12. Investments

Market Value 31-03-2021		Market Value 31-03-2022
£m		£m
	Investment assets	
	Pooled funds	
243.2	Diversified growth funds	257.3
562.4	Global equity	590.3
117.3	Multi asset credit	120.2
182.3	UK equities	197.2
1,105.2		1,165.0
	Other investments	
62.8	Infrastructure funds	68.7
88.2	Pooled property investments	101.1
38.0	Private equity funds	34.1
189.0		203.9
0.2	Investment income due	0.0
1,294.4	Total investment assets	1,368.9
	Long-term investments	
0.2	Equities	0.2
1,294.6	Net investment assets	1,369.1

a. Reconciliation of movements in investments

The table below shows the movement in market values by asset type

	Market Value 31-03-2021	Purchases During the Year	Sales During the Year	Change in Value	Market Value 31-03-2022
	£m	£m	£m	£m	£m
Infrastructure funds	62.8	0.3	(7.9)	13.5	68.7
Long-term investments	0.2	0.0	0.0	0.0	0.2
Pooled investments	1,105.2	121.6	(126.5)	64.7	1,165.0
Pooled property investments	88.2	6.6	(0.6)	6.9	101.1
Private equity funds	38.0	0.2	(12.8)	8.7	34.1
	1,294.4	128.7	(147.8)	93.8	1,369.1
Investment income due	0.2				0.0
Net investment assets	1,294.6				1,369.1

	Market Value 31-03-2020	Purchases During the Year	Sales During the Year	Change in Value	Market Value 31-03-2021
	£m	£m	£m	£m	£m
Infrastructure funds	62.3	0.1	(0.9)	1.3	62.8
Long-term investments	0.2	0.0	0.0	0.0	0.2
Pooled investments	848.3	40.0	(52.7)	269.6	1,105.2
Pooled property investments	66.1	22.3	(0.6)	0.4	88.2
Private equity	34.7	1.4	(6.7)	8.6	38.0
	1,011.6	63.8	(60.9)	279.9	1,294.4
Cash deposits	11.9				0.0
Investment income due	0.1				0.2
Net investment assets	1,023.6				1,294.6

b. Investments analysed by fund manager

Market value 31-03-2021		Market value 31-03-2022
£m		£m
	Investments managed by the London CIV	
183.9	LCIV Global Alpha Growth Fund*	171.7
117.3	LCIV MAC Fund	0.0
0.0	LCIV Alternative Credit Fund*	120.2
0.2	London CIV	0.2
301.4		292.1
	Investments managed outside the London CIV	
58.7	Alternative assets	51.7
94.4	Artemis Institutional Equity Income Fund*	104.3
29.5	Aviva Lime Property Fund	32.6
140.9	C Worldwide Global Equities*	156.6
106.6	Harris Associates Global Equity Fund*	113.4
42.1	IFM Global Infrastructure (UK)	51.1
48.3	Lindsell Train UK Equity Fund	50.9
29.0	M&G UK Residential Property Fund	36.3
29.7	M&G Secured Property Income Fund	32.2
39.6	Liontrust UK Equity Fund	42.0
136.7	Pyrford Global Total Return Fund*	142.8
106.5	Ruffer Absolute Return Fund*	114.5
131.0	Veritas Global Focus Fund*	148.6
993.0		1,077.0
1,294.4	Total	1,369.1
0.2	Investment income due	0.0
1,294.6	Net investment assets	1,369.1

*These investments each singularly represent over 5% of the net assets of the Fund.

Alternative assets comprise of private equity and infrastructure investments managed through eleven separate investment managers.

13. Fair value - basis for valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Item	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key Sensitivities affecting the valuations provided
Pooled investments - equity funds (UK and Global)	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments – multi-asset funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled property investments	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by significant changes in rental growth, vacancy levels, and the discount rate applied to future cash flows as well as more general changes in market conditions.
Private equity funds	Level 3	Comparable valuation of similar companies in accordance with international private equity valuation guidelines.	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability.	Valuations include assumptions based on non-observable market data, such as discounts applied either to reflect changes in the fair value of financial assets or to adjust earnings multiples.
Infrastructure funds	Level 3	Discounted cashflows applied to equity and debt instruments. The Funds determine fair value for these securities by engaging external valuation services.	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability.	Valuations include assumptions based on non-observable market data, such as discounts applied either to reflect changes in the fair value of financial assets or to adjust earnings multiples.

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, 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 2022.

	Assessed valuation range	Market value 31-03-2022	Value on increase	Value on decrease
	(+/-)	£m	£m	£m
Private equity funds	10%	34.1	37.5	30.7
Pooled property investments	10%	101.1	111.2	91.0
Infrastructure funds	10%	68.7	75.6	61.8
		203.9	224.3	183.5

a. Fair value hierarchy

Assets have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments 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 must be traded in active markets, this includes quoted equities, quoted fixed securities, quoted index linked securities and exchange traded unit trusts.

Level 2

Financial instruments 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. Products classified as level 2 comprise open ended pooled investment vehicles which are not exchange traded, unquoted bonds and repurchase agreements.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include private equity investments and infrastructure funds which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of pooled property investments are based on valuations provided by the fund managers which in turn represent estimates by independent professional valuers of the open market value of those investment as at the reporting date.

The values of the investment in private equity and infrastructure funds are based on valuations provided by the general partners to the private equity funds in which City of London Pension Fund has invested.

These valuations are prepared in accordance with the international private equity and venture capital valuation guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Guidance released by the Pensions Research Accountants Group (PRAG) in 2016 provides further clarification on the classification of pooled investment vehicles as level 1, 2 and 3. Pooled funds that are not quoted on an exchange are classed as level 2, as these do not meet the definition of level 1 investment: *The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.* The table that follows provides an analysis of the assets of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values as at 31 March 2021				Values as at 31 March 2022				
Quoted market price	Using observable inputs	With significant unobservable inputs			Quoted market price	Using observable inputs	With significant unobservable inputs	
Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
£m	£m	£m	£m		£m	£m	£m	£m
				Financial assets at fair value through profit and loss				
0.0	0.0	62.8	62.8	Infrastructure funds	0.0	0.0	68.7	68.7
0.0	0.0	0.2	0.2	Long-term investments	0.0	0.0	0.2	0.2
0.0	1,105.2	0.0	1,105.2	Pooled investments	0.0	1,165.0	0.0	1,165.0
0.0	0.0	88.2	88.2	Pooled property investments	0.0	0.0	101.1	101.1
0.0	0.0	38.0	38.0	Private equity funds	0.0	0.0	34.1	34.1
0.0	1,105.2	189.2	1,294.4	Total investment assets	0.0	1,165.0	204.1	1,369.1
0.2	0.0	0.0	0.2	Investment income due	0.0	0.0	0.0	0.0
0.2	1,105.2	189.2	1,294.6	Net investment assets	0.0	1,165.0	204.1	1,369.1

b. Reconciliation of fair value measurements within level 3

The table below shows the movements in level 3 disclosures for 2021/22

Disclosures for level 3	Market value at 31-03-2021	Transfers into level 3	Transfers out of level 3	Purchases at cost	Sales	Unrealised gains / (losses)	Realised gains / (losses)	Market value at 31-03-2022
	£m	£m	£m	£m	£m	£m	£m	£m
Private equity	38.0	0.0	0.0	0.2	(12.8)	6.1	2.6	34.1
Pooled property investments	88.2	0.0	0.0	6.6	(0.6)	6.9	0.0	101.1
Infrastructure	62.8	0.0	0.0	0.3	(7.9)	11.4	2.1	68.7
Long term investment	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Total level 3	189.2	0.0	0.0	7.1	(21.3)	24.4	4.7	204.1

14. Financial Instruments

a. Classification of financial instruments

at 31 March 2021				at 31 March 2022				
Fair Value through profit and loss	Assets held at amortised cost	Financial liabilities at amortised cost	Total		Fair Value through profit and loss	Assets held at amortised cost	Financial liabilities at amortised cost	Total
£m	£m	£m	£m		£m	£m	£m	£m
				Financial assets				
62.8	0.0	0.0	62.8	Infrastructure funds	68.7	0.0	0.0	68.7
0.0	0.2	0.0	0.2	Long-term investments	0.0	0.2	0.0	0.2
1,105.2	0.0	0.0	1,105.2	Pooled investments	1,165.0	0.0	0.0	1,165.0
88.2	0.0	0.0	88.2	Pooled property investments	101.1	0.0	0.0	101.1
38.0	0.0	0.0	38.0	Private equity funds	34.1	0.0	0.0	34.1
0.0	7.2	0.0	7.2	Cash	0.0	19.9	0.0	19.9
0.0	0.2	0.0	0.2	Investment income due	0.0	0.0	0.0	0.0
0.0	0.1	0.0	0.1	Other debtors*	0.0	0.0	0.0	0.0
1,294.2	7.7	0.0	1,301.9		1,368.9	20.1	0.0	1,389.0
				Financial liabilities				
0.0	0.0	(0.1)	(0.1)	Creditors*	0.0	0.0	(0.1)	(0.1)
1,294.2	7.7	(0.1)	1,301.8	Total	1,368.9	20.1	(0.1)	1,388.9

*The table above excludes debtors valued at £0.5m (31 March 2021: £0.1m) and creditors valued at £1.3m (31 March 2021: £0.8m) which are non-contract based transactions and balances and therefore do not meet the criteria of financial instruments. Further information on current assets and current liabilities outstanding at the reporting date is detailed in notes 19 and 20 below.

b. Net (Gains) and Losses on Financial Instruments

2020-21		2021-22	
£m		£m	
	<u>Financial Assets</u>		
279.9	Fair value through profit and loss	93.8	
279.9		93.8	

15. Risk and risk management

The Pension Fund's primary long-term risk is that its 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's investments are actively managed by twelve main external fund managers who are charged with the responsibility to increase asset values, whilst maintaining market risk to acceptable levels. They achieve this mainly through diversification of stock portfolios across several geographical locations, various industrial sectors and asset classes. The managers' investing practices are controlled by pre-defined levels of tolerance.

Concentration risk is also controlled and monitored with a maximum proportion cap over the levels held in individual stocks as a set percentage of each manager's overall portfolio of stocks.

As part of each of the external fund managers' investing there is also a strict adherence to the principles of liquidity risk management in order to ensure cash flow requirements are met as and when they fall due.

All of the investing policies and practices are reviewed regularly after thorough consideration of economic and market conditions, and overall care is taken to identify, manage and control exposure to the price movements of several categories of investments

16. Market risks

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors, asset classes and individual securities. To mitigate market risk, the Pension Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk

In consultation with its investment consultant, Mercer Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for 2021/22, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Asset type	Value as at 31 March 2022	Change	Value on increase	Value on decrease
	£m	%	£m	£m
Developed market global equities	745.6	18.9%	886.5	604.7
Emerging market global equities	42.1	28.6%	54.1	30.1
Diversified growth funds	257.3	11.8%	287.7	226.9
Multi asset credit	120.2	10.8%	133.2	107.2
UK property (proxy for residential property)	36.3	9.9%	39.9	32.7
Long lease UK property	64.8	16.5%	75.5	54.1
Private equity	34.1	24.8%	42.6	25.6
Unlisted infrastructure	68.7	16.2%	79.8	57.6
Total	1,369.1		1,599.3	1,138.9

Asset type	Value as at 31 March 2021	Change	Value on increase	Value on decrease
	£m	%	£m	£m
Developed market global equities	688.3	18.7%	817.0	559.6
Emerging market global equities	56.6	28.6%	72.8	40.4
Diversified growth funds	243.2	11.6%	271.4	215.0
Multi asset credit	117.3	10.5%	129.6	105.0
UK property (proxy for residential property)	29.0	16.4%	33.8	24.2
Long lease UK property	59.2	9.7%	64.9	53.5
Private equity	38.0	24.7%	47.4	28.6
Unlisted infrastructure	62.8	16.1%	72.9	52.7
Total	1,294.4		1,509.8	1,079.0

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. The pooled multi-asset investments are indirectly subject to interest rate risks, as underlying holdings include fixed income instruments, and this represent the risk that the fair value of these financial instruments will fluctuate because of changes in market interest rates. Fund managers have the discretion to manage interest risk exposure through the use of derivatives.

The Fund's indirect exposure to interest rate movements as at 31 March 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value. Bonds and cash balances are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

Value as at 31 March 2021	Change	Value on increase	Value on decrease	Assets exposed to interest rate risk	Value as at 31 March 2022	Change	Value on increase	Value on decrease
£m	%	£m	£m		£m	%	£m	£m
7.2		7.2	7.2	Cash and cash equivalents	19.9		19.9	19.9
231.5	1.00%	230.2	240.2	Bonds	245.9	1.00%	241.2	250.7
238.7		237.4	247.4	Total	265.8		261.1	270.6

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments owned directly or through a pooled structure, that are denominated in any currency other than the functional currency of the Fund (UK sterling).

Currency	As at 31 March 2022			
	Value	Change	Value on increase	Value on decrease
	£m	%	£m	£m
United States Dollar	417.7	2.41%	427.8	407.6
Euro	123.2	1.54%	125.1	121.3
Japanese Yen	37.7	2.67%	38.7	36.7
Australian Dollar	31.1	2.32%	31.8	30.4
Swiss Franc	17.1	2.00%	17.4	16.8
Hong Kong Dollar	14.9	2.37%	15.3	14.5
Taiwanese Dollar	11.4	2.08%	11.6	11.2
Indian Rupee	10.7	3.11%	11.0	10.4
Swedish Krona	10.3	1.97%	10.5	10.1
Indonesian Rupiah	10.1	2.18%	10.3	9.9
Other overseas	57.1	1.85%	58.2	56.0
Overseas total	741.3		757.7	724.9
Sterling	627.8			
Net investment assets	1,369.1			

The table above summarises the position as at 31 March 2022, and the comparable position as at 31 March 2021 is shown below. The analysis uses historical currency volatility data sourced from the fund custodian, BNY Mellon.

Currency	As at 31 March 2021			
	Value	Change	Value on increase	Value on decrease
	£m	%	£m	£m
United States Dollar	376.1	2.35%	384.9	367.3
Euro	120.0	1.56%	121.9	118.1
Japanese Yen	35.0	2.74%	36.0	34.0
Australian Dollar	20.8	2.27%	21.3	20.3
Swiss Franc	17.5	2.24%	17.9	17.1
Hong Kong Dollar	16.4	2.34%	16.8	16.0
Chinese Yuan	13.3	2.38%	13.6	13.0
Taiwanese Dollar	10.8	2.00%	11.0	10.6
Indian Rupee	10.8	2.61%	11.1	10.5
Swedish Krona	10.3	2.28%	10.5	10.1
Other overseas	70.1	2.40%	71.8	68.4
Overseas total	701.1		716.8	685.4
Sterling	593.5			
Net investment assets	1,294.6			

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Officers monitor cash flows and take steps to ensure that there are adequate cash resources to meet the Fund's commitments. The Fund has immediate access to its cash holdings.

Liquid assets are those that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2022, liquid investment assets were £1,165.0m representing 85% of total fund assets (£1,105.4m at 31 March 2021 representing 85% of the Fund at that date). These investments can in fact be liquidated within a matter of days

Credit Risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high-quality counterparts, brokers and financial institutions minimises credit risk that may occur through the failure of third parties to settle transactions in a timely manner.

17. Funding arrangements

In accordance with statutory regulations a triennial valuation of the Pension Fund was completed by the City's independent consulting actuaries, Barnett Waddingham LLP, as at 31 March 2019 using the projected unit method and the resulting employers' contribution were implemented for the three financial years commencing 1 April 2020.

The main funding assumptions which follow were incorporated into the funding model used in the 31 March 2019 valuation (Consumer Price Inflation has been used as basis to reflect the actuarial assumption in real terms):

	March 2019	
	% p.a.	Real % p.a.
Financial assumptions		
Discount rate	5.1	2.5
Retail Price Inflation	3.6	1.0
Consumer Price Inflation	2.6	-
Pension increases	2.6	-
Pay increases	3.6	1.0

The discount rate reflects the asset allocation embedded in Fund's long-term strategy; the below table outlines how these assumptions translate into an overall discount rate assumption as at 31 March 2019.

Future assumed returns at 31 March 2019	Percentage of Fund	Return Assumption	Real (relative to CPI)
	%	%	%
Equities	55.0	6.7	4.1
Property and infrastructure	15.0	6.1	3.5
Absolute return fund - inflation plus 3.7%	30.0	6.3	3.7
Expenses (deduction)		(0.2)	(0.2)
Neutral estimate of discount rate based on long-term investment strategy		6.3	3.7
Prudence allowance		(1.2)	(1.2)
Discount rate		5.1	2.5

Demographic assumptions

The assumed life expectancy from age 65 is show below for the 31 March 2019 valuation.

Life expectancy from age 65		31 March 2019
Retiring today	Males	21.7
	Females	24.3
Retiring in 20 years	Males	23.1
	Females	25.8

Commutation assumption

As part of the 31 March 2019 valuation the actuary assumed that members on average exchanged pension to get approximately 50% of the maximum available cash on retirement.

50:50 membership

The actuary has assumed that existing members will continue to participate in their current section.

Funding Position at Valuation date

The valuation at 31 March 2019 revealed that the relationship between the values placed on the assets held by the Fund and the liabilities accrued in respect of pensionable service at that date was as follows:

March 2019	
Past service liabilities	£m
Active members	(383.7)
Deferred pensioners	(236.7)
Pensioners	(555.3)
Total	(1,175.7)
Assets	1,062.9
Deficit	(112.8)
Funding level	90%

Based on the above data the derivation of the basic rate of employer's contribution is set out below.

March 2019	
	Contribution rate %
Future service funding rate	15.0
Past service adjustment	5.5
Total contribution rate	20.5

The secondary rate contributions agreed with individual employers were set at the 31 March 2019 valuation to restore the Fund to a funding position of 100% over a recovery period of no longer than 14 years.

Whilst the Fund level contribution rate is now 20.5% per annum, within this individual employer contribution rates vary. Having considered the basic rate of employer's contributions above, the City of London Corporation set contribution rates applicable to its employees of 21.0% for each of the financial years 2020/21 to 2022/23. Exceptions are City Academy and the Multi Academy Trust who both pay 17.1% p.a., the London CIV (15.0%), Veolia (17.6%) and the Museum of London (16.1%).

18. Funded Obligation of the Overall Pension Fund

31 March 2021		31 March 2022
£m		£m
(2,304.4)	Present Value of the defined benefit obligation*	(2,292.7)
1,301.1	Fair Value of Fund Assets (bid value)	1,388.1
(1,003.3)	Net Liability	(904.6)

*The present value of the funded obligation consists of £2,253.1m in respect of vested obligations and £39.6m in respect of non-vested obligations (2020/21: £2,262.4m and £42.0m respectively).

The above figures show the total net liability of the Fund as at 31 March 2022 and have been prepared by the fund actuary (Barnett Waddingham LLP) in accordance with IAS26. In calculating the disclosed numbers, the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019 have been rolled forward, using financial assumptions that comply with IAS19.

at 31 March 2021		Assumptions	at 31 March 2022	
% p.a.	Real % p.a.*		% p.a.	Real % p.a.*
2.85	-	CPI increase	3.25	-
3.85	1.00	Salary increase	4.25	1.00
2.85	-	Pension increase	3.25	-
2.00	-	Discount Rate	2.60	-

* Consumer Price Inflation has been used as basis to reflect the actuarial assumption in real terms.

Life expectancy from age 65		31 March 2021	31 March 2022
Retiring today	Males	21.6	21.6
	Females	24.3	24.3
Retiring in 20 years	Males	22.9	23.0
	Females	25.7	25.8

McCloud and Sargeant judgments

The Government reformed public service pension schemes in 2014 and 2015 and introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. The present value of the defined benefit obligation includes an allowance for the impact of any amendments that may be required to the Local Government Pension Scheme as a result of the Court of Appeal judgement on the McCloud and Sargeant cases on the basis that there is a constructive obligation as at 31 March 2022.

Guaranteed Minimum Pension (GMP) Equalisation

On 22 January 2018, the Government published the outcome of its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. The present value of the defined benefit obligation assumes that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the calculation assumes that the Fund will be required to pay the entire inflationary increase.

19. Current assets

Current assets include cash balances of £19.9m at 31 March 2022 (£7.2m at 31 March 2021) and accruals for contributions of £0.5m (£0.2m at 31 March 2021).

20. Current liabilities

Current liabilities represent accruals for investment management expenses, custodian fees and benefits payable.

21. Additional voluntary contributions

Market Value at 31 March 2021		Market Value at 31 March 2022
£m		£m
2.1	Prudential	2.1
0.6	Standard Life Investments	0.6
0.2	Utmost Life and Pensions	0.1
2.9		2.8

Additional voluntary contributions (AVCs) are managed externally and independently from the rest of the Pension Fund. They are paid by members to the Corporation and transferred directly to the relevant fund managers – Prudential, Standard Life Investments and Utmost Life and Pensions (formerly Equitable Life). AVCs of £0.40m were paid in 2021/22 (2020/21: £0.44m).

In accordance with Regulation 4(1) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid, and the assets of these investments are not included in the Fund's accounts.

22. Related party transactions

The City of London Pension Fund is administered by the City of London Corporation. Consequently, there is a strong relationship between the local authority and the Pension Fund.

During the reporting period, the administering authority incurred salary expenses amounts to £0.6m (2020/21: £0.6m) which were recharged to the Pension Fund.

The Corporation is also the single largest employer of members of the Pension Fund and the employer contributions paid by it was £31.2m in 2021/22 (2020/21: £31.3m).

23. Key management personnel

The key management personnel of the Fund as at 31 March 2022 were the Chamberlain, Corporate Treasurer, Pensions Manager (Administration) and Group Accountant for Pensions and Treasury Management. Total remuneration payable from the Pension Fund to key management personnel is set out below and has been apportioned based on an estimate of management personnel's time attributable to the Pension Fund.

2020-21		2021-22	
£m		£m	
0.2	Short-term benefits	0.2	
0.2		0.2	

24. Contingent liabilities and contractual commitments

The Fund had external outstanding capital commitments relating to property amounting to £38.6m as at 31 March 2022 (31 March 2021: £0m), which are expected to be called down in the next 12-18 months. Further outstanding capital commitments at 31 March 2022 totalled £6.9m (31 March 2021: £8.0m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.



Investment Performance

INVESTMENT PERFORMANCE REPORT

Performance Overview

The Fund's primary long-term investment objective is to achieve and maintain a funding level at, or close to 100% of the Fund's estimated liabilities and within this, to endeavour to maintain low and stable employers' contribution rates.

To achieve its objective, the Pension Fund is invested across a diverse array of asset classes, on a global basis, which includes exposure to publicly listed equities, fixed income, multi-asset funds, infrastructure, property and private equity. The Fund accesses these asset classes through pooled fund vehicles, managed by specialist appointed fund managers in each case.

The pooling of assets for the Local Government Pension Schemes (LGPS) is now mandatory. The London CIV is the asset pool operator for London LGPS Funds. As at 31 March 2022, 21% of the Pension Fund's assets are invested in funds on the London CIV's platform. The proportion of pooled assets is expected to increase over time in line with statutory guidance as and when sub-fund products that meet the Pension Fund's needs are available.

The year to 31 March 2022 has been reflective of a challenging investment environment characterised in Quarter 1 by sharp increases in inflation and commodity prices, changing interest rate expectations and the Russian invasion of Ukraine. Under these circumstances the portfolio's equity mandates detracted overall while, in contrast, the Fund benefitted from its allocations to multi asset and to infrastructure (which has inflation-hedging properties). The property allocations also helped to moderate the negative performance contribution from equities of -2.8% for the quarter.

Over the longer term the Fund continues to outperform its absolute return target over one, three and five years, although the Fund now trails its asset allocation benchmark over all time horizons. The Pension Fund's investments generated an annual return of +6.3% in the year to 31 March 2021, which compares favourably to the Fund's actuarially assessed absolute return target of +5.2% per annum..

The City of London Corporation sets out to maintain a diversified asset allocation strategy to seek broad exposure to different sources of risk and return via the Pension Fund's investment strategy, and this approach has delivered robust returns over the past year and the longer term.

Asset Allocation

The planned asset allocation for 2021/22 as per the Investment Strategy Statement (page 82) against the actual asset allocation as at 31 March 2022 was as follows:

Asset Class	Position as at 31/03/2022	Strategic target as at 31/03/2022	Range
	%	%	%
<i>Equities</i>	57	50	35-65
<i>Multi asset</i>	27	30	20-40
<i>Property</i>	7	10	5-15
<i>Infrastructure</i>	5	5	0-10
<i>Private equity</i>	3	5	0-10
<i>Cash (internal)</i>	1	0	
Total	100	100	

The values for infrastructure and private equity as at 31 March 2022 do not include outstanding commitments that represent approximately 3.3% of the total Fund value.

Pension Fund Investment Performance

The investment performance of the Pension Fund is subject to regular monitoring by the City of London's custodian BNY Mellon, City officers, the Investment Consultant and, until 31 March 2022, the Financial Investment Board. Following the 2019 actuarial review the administering authority undertook an investment strategy review in 2020/21 and the Financial Investment Board set an absolute return

target of 5.2% p.a. effective from 1 April 2020 (previously 5.7% p.a.). Performance against this measure is shown in the table underneath.

	2021/22 %	Last 3 Years % p.a.	Last 5 Years % p.a.
Pension Fund Returns			
Fund Return*	+6.3	+9.2	+7.2
Return Benchmark (5.2% p.a.)	+5.2	+5.4	+5.8
Relative Return	+1.1	+3.8	+1.4

*The above table only reflects the returns on financial assets monitored by the Pension Fund's custodian and therefore does not include holdings in Private Equity, DIF Infrastructure IV or the Pension Fund's shareholding in the London CIV Ltd, which combined represents over 5% of the Pension Fund's overall value.

Individual fund manager performance on an absolute basis and relative to an assigned benchmark is shown overleaf.

Individual Fund Manager Performance

The table below shows the performance of the individual fund managers that managed Pension Fund assets for the entirety of 2021/22.

Manager		2021/22 %	Last 3 Years % p.a.	Last 5 Years % p.a.
UK Equities	Artemis			
	Absolute	10.4	6.5	5.5
	Benchmark (FTSE All Share)	13.0	5.3	4.7
	Relative	(2.6)	1.2	0.8
	Lindsell Train			
	Absolute	5.4	4.6	7.0
	Benchmark (FTSE All Share)	13.0	5.3	4.7
	Relative	(7.6)	(0.7)	2.3
	Liontrust (formally Majedie)			
	Absolute	6.2	3.8	2.6
	Benchmark (FTSE All Share)	13.0	5.3	4.7
	Relative	(6.9)	(1.5)	(2.1)
Overseas Equities	LCIV Global Alpha Growth Fund (managed by Baillie Gifford)			
	Absolute	(6.6)	12.9	
	Benchmark (MSCI AC World)	12.4	13.4	
	Relative	(19.1)	(0.4)	
	C-Worldwide			
	Absolute	11.2	15.5	12.8
	Benchmark (MSCI AC World)	12.4	13.4	10.5
	Relative	(1.3)	2.2	2.3
	Harris			
	Absolute	6.5	12.0	7.7
	Benchmark (MSCI World)	15.4	14.6	11.3
	Relative	(8.9)	(2.5)	(3.6)
	Veritas			
	Absolute	13.4	13.1	10.8
	Benchmark (MSCI World)	15.4	14.6	11.3
Relative	(2.0)	(1.5)	(0.4)	

	Manager (continued)	2021/22	Last 3 Years	Last 5 Years
		%	% p.a.	% p.a.
Multi-asset	LCIV ACF (managed by CQS – formally MAC Fund)			
	Absolute	2.5	3.4	
	Benchmark (SONIA + 4%)	4.2	4.4	
	Relative	(1.7)	(1.0)	
	Pyrford			
	Absolute	4.4	3.6	2.4
	Benchmark (CPI + 4%)	11.0	7.0	6.9
	Relative	(6.6)	(3.4)	(4.5)
	Ruffer			
	Absolute	7.5	10.5	5.9
	Benchmark (CPI + 4%)	11.0	7.0	6.9
	Relative	(3.5)	3.4	(1.0)
UK Property	Aviva Lime			
	Absolute	14.2		
	Benchmark (Gilts + 1.5%)	(4.3)		
	Relative	18.5		
	M&G SPIF			
	Absolute	12.2		
	Benchmark (RPI + 3%)	12.0		
	Relative	0.3		
	M&G UK Residential			
	Absolute	1.9		
Benchmark (6%)	6.0			
Relative	(4.2)			
Infra	IFM			
	Absolute	21.4	10.5	11.5
	Benchmark (CPI + 4%)	11.0	7.0	6.9
	Relative	10.4	3.4	4.6

POOLING AND INVESTMENT MANAGEMENT COSTS REPORT

In 2015, the UK Government initiated a major reform of the Local Government Pension Scheme (LGPS) when it invited administering authorities in England and Wales to develop regional asset pools for investment. The City of London Corporation joined other London local authorities in creating the London Collective Investment Vehicle (CIV), a regional pool operator for the capital. The London CIV has £13.2bn of LGPS assets under management as at 31 March 2022. It is currently developing its fund range to meet the investment needs of London's LGPS pension funds.

The Fund's policy in relation to pooling is to look to transition assets as and when appropriate to do so once the relevant investment strategies are available to meet the Fund's asset allocation and investment strategy needs. More information on the Fund's approach to pooling can be found in the Investment Strategy Statement, which starts at page 82.

Pooled Investment Assets

The Pension Fund has transitioned two investment mandates to the London CIV (global equities and multi-asset credit) which are invested in the LCIV Global Alpha Growth Fund and the LCIV Alternative Credit Fund (ACF), formally invested in LCIV MAC Fund.

As agreed by the Financial Investment Board at its meeting on 9 February 2022, the Pension Fund's investment in the LCIV MAC Fund has now been transferred in full to the LCIV ACF. Up until Q1, the LCIV MAC Fund had been invested entirely in CQS' multi credit asset strategy. The London CIV had resolved to add a second multi asset

credit manager to the LCIV MAC Fund but created the ACF to enable existing investors to retain their existing position vis-à-vis CQS.

As at the 31 March 2022, these investments were valued at £172m and £120m, respectively (which represented 21% of the Pension Fund's total investment assets).

Pool set-up and ongoing management costs

The below table summarise pooling costs incurred by the City of

	2021/22 £'000	Cumulative £'000
Set up costs		
- Shareholding at cost	-	200
- Development funding costs	85	425
Ongoing management costs		
- Annual service charge	25	175
- Investment Management costs	1,118	3,333
Total	1,228	3,975

London Corporation during 2021/22 and to date.

The City of London Corporation has contributed a total of £425k towards the development of the London CIV as at 31 March 2022, including £85k in 2021/22. The Pension Fund also has a shareholding in the London CIV valued at £200k at cost.

In addition to these set up costs, the Corporation has also incurred ongoing management costs from the London CIV, which can broadly be categorised as follows:

- An annual service charge of £25k which has been payable since 2015/16; and
- Investment management costs which commenced in 2018/19 when the Pension Fund initiated investments in the LCIV MAC Fund and the LCIV Global Alpha Growth Fund. The Pension Fund initiated investments in the LCIV Alternative Credit Fund on 31/01/2022. This expenditure amounted to £1,118k in 2021/22 (2020/21: £1,099k).

Responsible Investment

The London CIV has adopted a responsible investment policy which is available from the organisation's website at the following address:

<https://londonciv.org.uk/responsible-investment>

London CIV Annual Review

The London CIV's Annual Review for 2021/22 can be obtained from the following address: <https://londonciv.org.uk/reports-and-regulatory-information>

Contact Details

The contact details for the London LGPS CIV Ltd are as follows:

Email: pensionsCIV@londonciv.org.uk

Tel: 0208 036 9000

Website: <https://londonciv.org.uk>

Investment management costs

Investment management costs totalled £9,788k in 2021/22 (£8,207k in 2020/21) as disclosed in the Pension Fund Accounts above. A breakdown of pooled and non-pooled investment management costs for the year by asset class and by fee type is provided below.

2021/22	Pooled assets	Non-pooled assets	Total
	£'000	£'000	£'000
Asset Class			
- Infrastructure	-	2,626	2,626
- Pooled investments	1,118	3,951	5,069
- Pooled property investments	-	501	501
- Private equity	-	1,592	1,592
TOTAL	1,118	8,670	9,788
Fee type			
- Management fees	1,118	4,983	6,101
- Performance related fees	-	3,581	3,581
- Transaction costs	-	106	106
TOTAL	1,118	8,670	9,788

RESPONSIBLE INVESTMENT REPORT

The City of London Corporation (the Corporation) is committed to being a responsible investor and the long term steward of the assets in which it invests. It expects this approach to protect and enhance the value of assets over the long term.

Our approach is grounded in the recognition that poor management of environmental, social and governance (“ESG”) issues can cause material harm. We therefore believe that it is consistent with our fiduciary duties to manage ESG risks proactively. Accordingly, we seek to integrate ESG issues throughout the investment decision making process and to execute our stewardship responsibilities effectively. Indeed, as active asset owners we wish to use our influence to engage for change. We understand that our chances of success are greatly enhanced through collaboration with others and thus set high expectations amongst our appointed external investment managers and advisors.

Annual Overview

Climate action

We recognise the material threat posed by climate change to almost every activity. In 2020, the Corporation published its [Climate Action Strategy](#), which commits the organisation to achieving net zero carbon emissions across the organisation and set out specific targets for our financial investments, including aligning investments with the Paris climate accord. Work has already begun on this ambition. We have completed a deep dive dialogue round with our current external managers and the London CIV to understand and map their preparedness for the climate transition as well as to offer encouragement and engender progress amongst our key partners. As a culmination of this initial phase of work, the Financial Investment Board agreed a revised [Responsible Investment Policy](#) in February 2021, consistent with the Climate Action

Strategy which raises expectations amongst our external partners and advisors. During October 2021, we release a climate transition pathway which sets out, in greater detail and with interim targets, a clear roadmap to net zero for our financial investments. We also completed the first detailed climate scenario analysis of our financial investments and delivered our inaugural TCFD reporting.

Stewardship

In other areas of responsible investment activity, the Corporation conducted an annual review of its appointed asset managers’ stewardship capabilities. This year’s exercise took place in the context of the new Stewardship Code, and as such we sought to establish progress in building compliance with the enhanced standard, as well as understanding readiness towards TCFD reporting.

Next Steps

Work will continue over the near future to advance further the Corporation’s responsible investment practices. We recognise the significant level of work required to realise our ambitious climate commitments. We will implement a comprehensive engagement strategy and intensively work with managers to accelerate their integration of climate risk into the investment process and evaluate changes to asset allocations, including determining an appropriate approach to increase exposure to climate solutions. This will be taken forward as part of our Strategic Asset Allocation reviews in 2022/23.



Appendices

POLICY AND GOVERNANCE COMPLIANCE STATEMENT

The Scheme

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund's governance arrangements. Information on the extent of the Fund's compliance with guidance issued by the Secretary of State for Levelling Up, Housing and Communities is also a requirement of this regulation.

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees. The LGPS is a funded scheme, with employee contribution rates ranging from 5.5% to 12.5% and employer rates being variable depending on the funding level assessed every three years by the fund actuary. Benefits are defined in law and inflation-proofed in line with increases in the Consumer Price Index (CPI) for September. The scheme is operated by designated administering authorities - each maintains a fund and invests monies not needed immediately. The Court of Common Council is a designated administering authority.

The Financial Investment Board (to 31 March 2022)

The Court of Common Council and the Investment Committee have delegated the investment management of the scheme to the Financial Investment Board which decides on the investment policy most suitable to meet the liabilities of the scheme and has ultimate responsibility for the investment strategy. The Court of Common Council is responsible for appointing Members to serve on the Investment Committee, which at the start of each financial year makes appointments to its Financial Investment Board. The Financial Investment Board comprises twelve to fourteen Members of the Investment Committee.

The Financial Investment Board operates under a framework of corporate governance and undertakes its responsibilities with reference to the Standing Orders and Financial Regulations adopted by the Court of Common Council which prescribe all activities relating to the conduct of its business.

The Board's responsibilities with regard to the Pension Fund are:

- to approve the appointment of and to monitor the performance of Investment Managers;
- to review the investment strategy for the securities investments;
- to authorise investments and approve the overall parameters within which the Investment Fund Managers will be authorised to operate;
- to invest all new monies;
- to invest such other sums as are from time to time allocated for this purpose; and

All meetings of the Board are open to the public, although they are excluded when confidential matters on the agenda are discussed.

Currently, the Board meets five to seven times a year. Additional special meetings of the Board can be held if the need arises. The minutes of the Financial Investment Board are presented to the following meeting of the Investment Committee and are posted on the City of London Corporation's website.

The principal officers of the City of London Corporation have certain statutory and formal responsibilities. The Financial Investment Board obtains and considers advice from the Chamberlain and other Corporation Officers, and as necessary from the Fund Actuary, the independent investment adviser and its Investment Managers. The Board has delegated the management of the Pension Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

The composition of the Financial Investment Board does not include representatives of Scheduled Bodies, Admitted Body employers, Unions or Employees, or Pensioners. The Board contains an appropriate level of experience and expertise and its Members undertake relevant training.

An assessment of the City of London Corporation's Compliance with best practice principles as set out by the Department for Levelling Up, Housing and Communities follows this statement at page 1

The Pensions Board

With effect from 1 April 2015, all administering authorities are required by the Public Services Pensions Act 2013 to establish a Pensions Board to assist them. The City of London Corporation Pensions Board was established by the Court of Common Council on 5 March 2015.

The role of the Pensions Board is to assist the administering authority with scrutinising the adequacy of arrangements in place to meet the

requirements of scheme regulations and the extent to which local policy and guidance is fit for purpose. The Board does not have a decision-making role in relation to management of the Fund, but is able to make recommendations to the Financial Investment Board. In line with the requirements of the Public Services Pensions Act 2013 for the management of the City of London Corporation's Pension Scheme, the Board will be responsible for assisting the Scheme Manager (the City of London Corporation) in the following matters:

- a) Securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that it is connected to;
- b) Securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and
- c) Other such matters as the scheme regulations may specify.

The membership of the Board is as follows:

- Three employer representatives comprising two officers and one Common Councilman
- Three scheme member representatives for the Pension Fund.

All Members of the Board will be eligible to stand as Chairman and Deputy Chairman and to vote on the election to these positions. To allow reports on the work of the Committee to be made to the Court of Common Council, either the Chairman or Deputy Chairman must be a Member of the Court of Common Council. The quorum of the Board will consist of three Members, including one employer representative and one scheme member representative. The Board will meet a minimum of twice a year.

The Pensions Committee

On 21 April 2022, the Pensions Committee was formally appointed to undertake statutory functions on behalf of the LGPS and ensure compliance with the Local Government Pensions Scheme Regulations, relevant legislation and best practice as advised by the Pensions regulator.

With effect from the date of appointment, the Pensions Committee oversees all matters in relation the Pensions. This includes responsibilities previously covered by the Financial Investment Board and Finance Committee.

No member of the Pension Committee may be a Member of the Local Government Pensions Board or be the Chair/Deputy Chair of the Corporate Services Committee, Finance Committee or the Policy & Resources Committee simultaneously. The membership of the Committee is as below:

- Up to eight Members elected by the Court of Common Council, at least one of whom shall have fewer than five years' service on the Court at the time of their appointment
- Up to three independent members co-opted to the Committee on the advice of the Chamberlain, with voting rights.

The quorum consists of any three elected members and the Committee will meet a minimum of four times a year.

Compliance with Statutory Guidance

It is a regulatory requirement that the Fund publishes the extent to which it complies with statutory guidance issued by the Secretary of State for Levelling Up, Housing and Communities. This statement will be kept under review and updated as required

CITY OF LONDON CORPORATION PENSION FUND
ASSESSMENT OF COMPLIANCE WITH DLUHC BEST PRACTICE PRINCIPLES

	Principle	Narrative from Guidance Note	Compliance?
A	Structure	<i>(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.</i>	Full compliance. There is a split committee responsibility: management and administration of benefits rests with Establishment Committee; investment management is the responsibility of the Financial Investment Board. From 1 st April 2022, the newly formed Pensions Committee will oversee all management.
		<i>(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</i>	Partial compliance. Representatives of scheduled bodies, admitted body employers, unions, employees or pensioners are not included on either Establishment or Financial Investment Board. However, the Pensions Board has three employer representatives and three scheme member representatives.
		<i>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i>	Not applicable. Reports and decisions are communicated between Committees as appropriate (either by minutes or resolution).
		<i>(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</i>	Not applicable as no secondary committee or panel exists.

	Principle	Narrative from Guidance Note	Compliance?
B	Representation	<i>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</i>	
		<i>(i) employing authorities (including non-scheme employers, e.g. admitted bodies)</i>	Partial compliance. Representatives of scheduled or admitted bodies, scheme members or pensioners are not included in committee structure but do have equal access to all non-confidential papers and meetings.
		<i>(ii) scheme members (including deferred and pensioner scheme members)</i>	
		<i>(iii) where appropriate, independent professional observers</i>	The Pension Fund does not currently have independent professional observers
		<i>(iv) expert advisers</i>	Full compliance. The investment consultant, Mercer Ltd, attended all meetings of the Financial Investment Board and will attend all meetings of the Pensions Committee.
C	Selection and Role of Lay Members	<p><i>(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. (It is the role of the administering authority to make places available for lay members (i.e. non-elected members representing other employers or stakeholders) and for the groups to nominate the representatives. The lay members are not there to represent their own local, political, or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all times.)</i></p> <p><i>(b) that at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</i></p>	<p>Not applicable. Lay members are not currently included in the composition of either the Establishment Committee (now known as the Corporate Services Committee) or the Financial Investment Board. The Pensions Committee can appoint up to three independent Members.</p> <p>Full compliance. This is standard practice at all Committee meetings.</p>

	Principle	Narrative from Guidance Note	Compliance?
D	Voting	<i>(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</i>	Full compliance. Each member holds one vote on the respective committee. No other bodies or groups are represented.
E	Training / Facility Time / Expenses	<p><i>(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</i></p> <p><i>(b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i></p> <p><i>(c) that the administering authority considers the adoption of annual training plans for Committee members and maintains a log of all such training undertaken.</i></p>	<p>Partial compliance. For the Financial Investment Board, Members are generally well versed in investment matters and there is no formal training policy, although individual sessions are conducted on request.</p> <p>Members of the Pensions Committee are expected to undertake the Pension Regulator's online training (public sector pension scheme modules)</p>
F	Meetings - Frequency	<i>(a) that an administering authority's main committee or committees meet at least quarterly.</i>	Full compliance. The Financial Investment Board met at least five times per year. The Pensions Committee will meet at least 4 times per year.
		<i>(b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</i>	Not applicable. No secondary committee or panel exists.
		<i>(c) that an administering authority who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</i>	Not applicable. No outside forum exists.

	Principle	Narrative from Guidance Note	Compliance?
G	Access	<i>(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main Committee.</i>	Full compliance. Agenda papers, etc., provided to the relevant Committee Members and available to all Members.
H	Scope	<i>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	Partial compliance. Whilst the Fund does not currently use independent professional observers, officers monitor and advise on governance issues and report to the appropriate committee
I	Publicity	<i>(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</i>	Partial compliance. Governance Statements and Annual Accounts are posted on the City of London website and policy documents and information is circulated to scheme members on a regular basis.

FUNDING STRATEGY STATEMENT

Introduction

This is the Funding Strategy Statement for the City of London Corporation Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes the City of London Corporation's strategy, in its capacity as administering authority, for the funding of the City of London Corporation Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition*) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6)(b) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and

- Take a prudent longer-term view of funding those liabilities.

Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is City of London Corporation.

The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
 - Notify the administering authority of any new Scheme members and any other membership changes promptly;
 - Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
 - Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
 - Pay any exit payments due on ceasing participation in the Fund
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc.;
 - Provide advice and valuations on the exiting of employers from the Fund;
 - Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
 - Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
 - Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
 - Advise on other actuarial matters affecting the financial position of the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Department for Levelling Up, Housing and Communities (DLUHC).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. The results of the 2019 valuation are set out in the table below:

2019 valuation results	
Surplus (Deficit)	(£113m)
Funding level	90%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 15.0% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

Valuation assumptions and funding model

In completing the actuarial valuation, it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is adopted may depend on the funding target adopted for each Scheme employer.

The standard discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	5.1% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, they do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019, the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section below.

At the time of drafting this FSS, we still await the Government's response to the 2020 consultation and so it is still not totally clear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than 0.05% of the discount rate assumption.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In

addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found [here](#).

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found [here](#).

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 14 years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

Where the valuation for an employer discloses a significant surplus then the level of required employer contribution may include an adjustment to amortise the surplus over a number of years.

The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The funding pools adopted for the Fund at the 2019 valuation are summarised in the table below:

Pool	Type of pooling	Notes
City of London	Past and future service pooling	All employers in the pool pay the same total contribution rate
Academies	Past and future service pooling	All academies in the pool pay the same total contribution rate. New academies are expected to join the pool and pay the pool rate.

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that

dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

Risk-sharing

Employers may participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

For example, employers may participate in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for

example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis). However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

Risk-sharing

Although a full risk transfer (as set out above) is most common, subject to agreement with the administering authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and

- redundancy and early retirement decisions.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will become part of the academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations, the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

Exit credit policy

Under advice from DLUHC, administering authorities should set out their exit credit policy in their Funding Strategy Statement. Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of pass-through arrangements. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.
- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- Any exit credit payable may be subject to a maximum of the actual employer contributions paid into the Fund.
- As detailed above, the Fund Actuary may adopt differing approaches depending on the specific details surrounding the employer's cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the administering authority is satisfied that there is another employer willing to take on responsibility for the

liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.

- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example, if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and

liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors,

including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Financial Investment Board regularly monitors the investment returns achieved by the fund managers and receives advice from investment consultant and officers on investment strategy.

The Board may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has

commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meet its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk.

More information on this can be found in the regulatory risks section below.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015.

Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the full effect on the current and future LGPS benefits will be.

[Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk](#)

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;

- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

[Timing of future actuarial valuations](#)

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

The next Fund valuation will be at 31 March 2022. It remains to be seen if the subsequent Fund valuation will be in 2024 in line with the Scheme valuation or will be in 2025 in accordance with the current Regulations.

[Managing employer exits from the Fund](#)

The consultation covers:

- Proposals for flexibility on exit payments. This includes:

- Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
- Allowing employers with no active employees to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).
- Proposals for further policy changes to exit credits. DLUHC issued a partial response to this part of the consultation on 27 February 2020 and an amendment to the Regulations comes into force on 20 March 2020, although have effect from 14 May 2018. The amendment requires Funds to consider the exiting employer's exposure to risk in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations) and to have a policy to exit credits in their FSS which has been included earlier in this version.

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Given the lack of significance of these types of employers in the Fund,

this is not likely to impact on the level of maturity of the Fund and the cashflow profile.

Employer risks

Several employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on

accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

CITY OF LONDON CORPORATION PENSION FUND

INVESTMENT STRATEGY STATEMENT

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and publish a statement of their investment strategy, taking into account guidance issued from time to time by the Secretary of State.

The City of London Corporation is the administering authority of the City of London Pension Fund (the 'Fund') and it has a duty to invest any fund monies that are not needed immediately to pay benefits from the Fund. The purpose of this Investment Strategy Statement (the 'ISS') is to document the principles, policies and beliefs by which the Corporation manages the Fund's investment assets.

The ISS as has links with two other key strategic documents, namely:

- The Funding Strategy Statement (the 'FSS'), which sets out the main aims of the Fund and explains how employers' contribution rates are set to achieve those aims.
- The Governance Compliance Statement which sets out the structure of delegations of responsibilities for the Fund.

Both statements are incorporated into the Pension Fund Annual Report.

In formulating this statement the Corporation has consulted with, and received advice from, the Fund's investment consultant, Mercer (the 'Investment Consultant'). The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy.

This statement was approved by the Financial Investment Board on 23 September 2020.

2. Scope

Regulation 7(2) states that the following matters must be addressed within the ISS:

- (a) a requirement to invest fund money in a wide variety of investments;
- (b) the authority's assessment of the suitability of particular investments and types of investments;
- (c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
- (d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) the authority's policy on how social, environmental and corporate governance considerations are taken into account

in the selection, non-selection, retention and realisation of investments; and

- (f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

These requirements are dealt with in turn below, following an overview of the Fund's governance arrangements and the links between the ISS and the Funding Strategy Statement.

3. Governance

The City of London Corporation's Court of Common Council and Finance Committee have delegated the investment management responsibility of the Fund to the Investment Committee which in turn has charged the detailed investment arrangements to the Financial Investment Board (hereafter, the "Board"). The main areas of investment responsibility include:

- determination of strategic asset allocation;
- determination of portfolio structure; and
- on-going monitoring and evaluation of the investment arrangements.

The Board is made up of between 12-14 Members of the Investment Committee, comprising elected Members.

The Board is empowered to co-opt people with relevant expertise or experience, including non-Members of the Court of Common Council, to assist in its deliberations.

There is provision within Standing Orders to enable the Chairman of the Financial Investment Board to report on and speak on their activities and responsibilities in the Court of Common Council and to ensure that any decisions are taken without undue delay.

Members of the Board recognise that they have a duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are considered to be the Fund's members and employers together with local taxpayers.

The Fund, in preparing and reviewing its Investment Strategy Statement, will consult with interested stakeholders including, but not limited to employers, investment managers, the Local Pensions Board, advisers to the Fund and other parties that it deems appropriate to consult with.

4. Link to the Funding Strategy Statement

The FSS aims to establish a clear and transparent strategy that will identify how participating employers' pension liabilities are best met going forward. To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Thus the main link between the FSS and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in this document.

5. Investment Objectives

The Fund's primary long term investment objective is to achieve and maintain a funding level at or close to 100% of the Fund's estimated liabilities; and in conjunction with the funding strategy, to minimise the cost and variability of cost to employers.

6. Regulation 7(2)(a) - Investment of fund money in a wide variety of investments

The administering authority is exposed to significant risks in discharging its duties. In particular, the Board is conscious of the risk of failing to provide sufficient investment returns to achieve the targeted funding level and the risk of failing to maintain stable employer contributions by producing excessive volatility in investment returns.

The Board recognises that diversification is essential to managing portfolio risks and makes use of a full range of investment opportunities. Assets are invested across different asset classes and distinct investment management styles are combined with the aim of securing sufficient and stable returns and reducing volatility. The Board will also make use of illiquid investments (such as property, private equity and infrastructure), recognising that investors are

expected to be rewarded over the long term (i.e. there is a liquidity premium).

The Board regards its choice of strategic asset allocation as the decision that has most influence on the likelihood of achieving the investment objective. The Board reviews its strategic asset allocation via periodic investment strategy reviews. In order to ensure that its asset allocation policy remains appropriate, reviews will normally take place every three years. However, if there is a significant change in capital markets, in the circumstances of the Fund or in governing legislation, then an earlier review may be conducted.

The Fund's appointed Investment Consultant supports the Board in deciding on its asset allocation policy through the provision of professional advice. The Board further considers the legality of all investments for compliance with the LGPS.

The Board reviewed the Fund's investment strategy in 2020 following its 2019 actuarial valuation and agreed the target asset allocation strategy set out in the table below.

Asset Class	Position as at 31/03/2022 %	Strategic target %	Control range** %
Equities	57	50	35 – 65 (+/- 15)
UK Equities	15	17	
Global Equities	42	33	
Multi Asset	27	30	20 – 40 (+/- 10)
Property	7	10	5 – 15 (+/- 5)
Infrastructure	5*	5	0 – 10 (+/- 5)
Private Equity	3*	5	0 – 10 (+/- 5)
Cash (internal)	1	0	
Total	100	100	

*This does not include outstanding commitments that represent approximately 3.3% of the total Fund value as at 31 March 2022.

**The Regulations also require the Board to set out in this document the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. The control range indicates the maximum level to be held in each asset class. The actual asset allocation will be monitored on a regular basis and any movement outside of these ranges will trigger a discussion on whether rebalancing should be carried out.

Treasury Management Policy

In accordance with Regulation 6, the administering authority holds a separate bank account for the exclusive use of the Pension Fund. The

Pension Fund does not have a strategic asset allocation to cash, and the bank account is used to hold sufficient fund monies to manage the operational requirements of the Pension Fund. In accordance with Regulation 6(2), the account is kept by Lloyds Bank, an authorised deposit taker under the Financial Services and Markets Act 2000.

The Board monitors liquidity to ensure that sufficient cash is available at all times to meet the obligation to pay pension benefits as they fall due and to manage other operational requirements.

The Board monitors the financial standing and creditworthiness of Lloyds Bank to ensure it continues to qualify as an authorised deposit taker.

Under Regulation 5(1) the administering authority must not borrow money excepted as provided in the Regulations. Regulation 5(2) provides for very specific and limited circumstances where the Fund is permitted borrow monies.

7. Regulation 7(2)(b) - Assessment of suitability of particular investments and types of investments

The Board considers the suitability of particular investments in the context of its investment objectives and in relation to the funding strategy for the Fund's liabilities as calculated by the Fund Actuary.

When assessing suitability, the Board will assess the likely return prospects for particular investments alongside their risk characteristics and liquidity properties. Furthermore, the Board

considers the contribution of particular investments towards overall portfolio performance.

In forming its views on the suitability of particular investments the Board is supported by advice from the Fund's appointed Investment Consultant. The most recent investment strategy review utilised the following expectations for annualised returns and volatility which are based on the Investment Consultant's long-term capital market assumptions at the time of the most recent actuarial valuation (31 March 2019):

Asset class	Arithmetic mean (% p.a.)	Multi-year standard deviation (% p.a.)
Fixed interest gilts (>15 years)	1.5	6.7
Index-linked gilts (>5 years)	1.6	9.7
Sterling non-gilts (all stocks)	2.8	4.2
Absolute return fixed income	4.0	7.4
Developed global equity	6.7	20.2
Conventional property	5.2	15.8
High lease value property	3.9	9.5
Multi asset funds (diversified growth funds)	5.7	11.2
Multi asset funds (multi asset credit)	5.7	10.0
Infrastructure unlisted equity	6.4	16.5
Private equity	9.1	26.5

The current strategic asset allocation target is expected to deliver an annualised return of 5.2% over the long term on a best estimates basis. The Board judges that the current asset allocation strategy is compatible with the Fund's solvency target.

The Board also considers liquidity, and the suitability of particular investments in the context of the Fund's requirement to meet pension obligations as they fall due. The Fund remains open to new members and new accruals. Contributions are received from both active members and employing authorities. Active members contribute on a tiered system. Employing authorities' contributions are determined by advice from the Fund Actuary; based on the triennial valuation. The maturity profile is such that pension payments from the Fund now exceed contribution income paid into the Fund and investment income is required to meet the annual net cash shortfall from the Fund. At some stage there may be a requirement to realise assets in order to meet pension payments and the Fund Actuary keeps this position under review. The Fund's current strategic asset allocation provides sufficient liquidity to meet pension obligations as they fall due.

The asset allocation strategy is implemented via external fund managers with clear performance targets aligned to the Fund's requirements. The Board believe the use of active management within the Fund will increase the likelihood that its objectives will be met. The Board has appointed multiple investment managers in order to access appropriate specialisms and achieve diversification by both asset class and style. The Board's current investment managers are set out in Appendix A.

The activities of each manager are governed through written contracts such as policy documents or Investment Management Agreements. This includes details on the portfolio performance objectives, past performance and risk limits, as well as information on permissible investments.

The Board meets five to six times per year to review and monitor the ongoing suitability of the Fund’s investments in the context of performance and developments in its investment environment. Each investment mandate has a performance benchmark against which performance is measured. The Board also maintains both an asset allocation and an absolute return performance benchmark at Fund level to monitor the aggregate impact of investment performance and progress against the investment objectives. The Board also receives annual funding updates from the Fund Actuary.

8. Regulation 7(2)(c) - Approach to risk, including the ways in which risks are to be assessed and managed

The Board recognises that risk is an inherent feature of investment activity and it has identified several risks that may impact on the investment strategy and the Fund’s overall funding level. Key risks are listed below alongside the measures taken to counter and mitigate those risks.

Risk	Mitigation
Asset-liability mismatch risk	A critically important risk is that assets fail to grow in line with the Fund’s evolving liabilities. This risk is managed by periodic valuations of the Fund’s liabilities and investment strategy reviews which

	include assessments of the outlook for its funding level and investment strategy. These exercises are mutually constitutive and are supported by appropriate professional advice from the Fund Actuary and the Investment Consultant.
Cash flow risk	The risk that the Fund fails to meet its pension obligations as they fall due is mitigated through the maintenance of adequate liquidity in the portfolio and the monitoring of cash flow requirements.
Active management risk	The risk that investment manager performance is inadequate is managed through establishing clear performance expectations (including allowances for tolerable deviations) against which actual performance is continually measured and monitored. Where performance deviates from expectations, the Board acts quickly to seek to understand the causes and is decisive where it lacks conviction in a manager’s ability to recover adequate performance. The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that class for taking on active risk. Active risk is then diversified through the use of different investment managers and pooled funds.
Investment and concentration risk	The Fund is exposed to risk of being excessively concentrated within particular asset classes, sectors, regions, currency and investment styles. The Board manages this risk through a diversified asset allocation strategy. Actual allocation against

	the strategic target is monitored on a continual basis and rebalancing within the portfolio is undertaken where excessive concentration becomes evident.
ESG risks	The Board acknowledges that environmental, social and governance (ESG) factors pose material financial and non-financial risks to the Fund. The Board’s approach to ESG factors is set out in Section 10 below.
Currency risk	The Board considers currency risk (the risk of fluctuations in foreign currency rates) as a risk which is difficult to predict. In light of this, and given that investment via pooled funds makes implementing a currency hedging programme operationally complex, the Board does not hedge its currency exposure. As a long-term investor, the Board can tolerate short term fluctuations in currency prices. Certain fund managers have been granted authority to hedge the currency risks attached to their investment portfolios when they consider this to be desirable.
Counterparty risk	The risk of a counterparty being unable to meeting contractual obligations is managed through appropriate due diligence at the selection stage and the ongoing monitoring of counterparty standing.
Custody risk	The Board carries out appropriate due diligence when selecting a global custodian and monitors the incumbent’s creditworthiness. As the Fund’s assets are increasingly invested through pooled

	vehicles this function largely resides with individual investment managers.
Inflation risk	The Fund’s liabilities are impacted by changes in inflation. A significant proportion of the strategic asset allocation is therefore targeted towards asset classes which provide indirect protection against inflation (such as equities, property and infrastructure).
Transition risks	When transitioning assets, the Fund is subject to various risks including out-of-market exposure, as well as operational and trade execution risks. The Board will assess transition risks whenever it undertakes material portfolio changes and will enlist professional transition management expertise whenever necessary.

The Board is aware that these, investment-related, risks are not the only risks that may impact on the funding level and stability of employer contributions. There are significant demographic and regulatory risks that could impact on the size and profile of the Fund’s liabilities, which are set out in more detail in the Funding Strategy Statement.

The Board maintains a key risk register to maintain oversight of the most significant risk it faces and to identify emerging key risks. The risk register is reviewed at least twice per year and more frequently if there is a material change in the risk environment between reviews.

The identification and management of risks is supported by the provision of professional advice from the Investment Consultant.

9. Regulation 7(2)(d) - Approach to Pooling Investments, including the use of collective investment vehicles and shared service

Under the Government's pooling agenda, administering authorities must pool their assets in order to deliver benefits of scale and collaboration including reduced investment costs and other superior investment outcomes.

The City of London Corporation, along with 31 other London local authorities, is part of the London Collective Investment Vehicle (CIV). The London CIV is operational and has created a platform of sub-funds which span several asset classes. The London CIV is still in the process of developing its sub-fund offering to meet the needs of member Funds.

The London CIV is an FCA Regulated fund manager that represents the pooled investments of 32 London Local Authority Pension Funds (including the City of London Corporation Pension Fund) who are the sole shareholders. Executive operations are carried out by the LCIV Company Board which has a duty to act in the best interests of the shareholders. The Chairman of the City of London Corporation's Financial Investment Board is a member of the Shareholder Committee which is responsible for scrutinising the actions of the Board amongst other matters. The London CIV also holds a twice-yearly AGM (open to all 32 members) where shareholders can exercise their shareholder powers, review the annual budget and hold the London CIV Company Board to account.

As at 31 March 2022, circa 21% of the Fund's assets were invested via the London CIV. The Board will look to transition more assets as and when appropriate to do so and once the relevant investment strategies are available to meet the Fund's asset allocation and investment strategy needs.

The Fund has investments in infrastructure, private equity and property valued as at 31/03/2022 at £68m, £34m and £101m, respectively (excluding outstanding commitments). The cost of exiting these strategies early is prohibitive and would have a negative financial impact on the Fund. These investments will be held as legacy assets until such time as they mature and proceeds are re-invested through pooling, (assuming that the London CIV has appropriate strategies available at that time), or until the Board changes its asset allocation and makes a decision to disinvest. The Board will continue to review the appropriateness of holding these assets outside of the pool at regular investment strategy reviews.

10. Regulation 7(2)(e) - Policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

The Board has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund's beneficiaries. The Board seeks to deliver long-term sustainable returns and recognises that it is consistent with its fiduciary duty to manage environmental, social and corporate governance ('ESG') issues that may be financial material.

Consequently the Board has developed a Responsible Investment Policy, which can be found at Appendix B.

The Board is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term.

The Board requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all Fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund, including ESG factors.

Effective monitoring and identification of these issues can enable engagement with investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Board recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes. The Corporation is a signatory to the Principles for Responsible Investment and is a member of the Local Authority Pension Fund Forum. In this way it joins with other investors in the LGPS and beyond to magnify its voice and maximise the influence of investors as asset owners. The Board through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Board seeks to identify sustainable investment opportunities where aligned with its broader investment objectives.

In making investment decisions, the Board seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

11. Regulation 7(2)(f) - Policy on the exercise of the rights (including voting rights) attaching to investments

The Board recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promote corporate responsibility in the underlying companies in which its investments reside. The Board recognises that ultimately this approach protects the financial interests of the Fund and its beneficiaries. The Board has a commitment to actively exercise the

ownership rights attached to its investments. This reflects the Board's conviction that responsible asset owners should maintain oversight of the companies in which they ultimately invest, recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The Board seeks to exercise its voice through engagement with its investment managers (and consequently portfolio companies) as part of its active ownership, or stewardship, duties to its beneficiaries.

The Board aims to exercise its voting rights in all markets and its investment managers are required to vote at all company meetings where practicable.

The Board expects its investment managers (including the London CIV) to comply with the UK Stewardship Code (2020) and it monitors this compliance on an annual basis. Non-UK managers will be expected to sign up to an equivalent code in their country of origin.

The Board delegates voting and engagement to its investment managers and monitors how its investment managers undertake voting and engagement activities in comparison to relevant codes of practice.

Any investments made by the Fund through the London CIV are covered by the voting policy of the London CIV. Voting is delegated to the external managers and monitored on a quarterly basis. The London CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum

(LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

Investment Managers

As at 31 March 2022, the Fund assets were invested in portfolios managed by the external investment managers shown in the table below. They are benchmarked against the indicated indices.

Investment Manager	Asset Class	Comparator Index
Artemis Investment Management Ltd	UK equities	FTSE All Share
Lindsell Train Ltd	UK equities	FTSE All Share
Liontrust Asset Management Plc**	UK equities	FTSE All Share
C Worldwide Asset Managers	Global equities	MSCI AC World
Natixis International Funds (Harris Associates)	Global equities	MSCI World
Veritas Asset Management	Global equities	MSCI World
London CIV (Baillie Gifford)*	Global equities	MSCI AC World
Pyrford International	Multi-asset	CPI +4%
Ruffer LLP	Multi-asset	CPI +4%
London CIV (CQS)*	Multi-asset credit	3 Month SONIA+4%
IFM Global Infrastructure (UK) LP	Infrastructure	CPI +4%
DIF Infrastructure IV Cooperatief UA	Infrastructure	CPI + 4%
Aviva Investors Global Services Limited (Lime Property Fund)	Property	Gilts + 1.5%
M&G Investment Management Limited (Secured Property Income Fund)	Property	RPI + 3%
M&G Investment Management Limited (UK Residential Fund)	Property	+6%
Ares Special Situations Fund IV	Private equity	Broad public equities index
Coller International Partners VII	Private equity	Broad public equities index
Crestview Partners III LP	Private equity	Broad public equities index
Exponent Private Equity Partners III, LP	Private equity	Broad public equities index
Frontier Fund IV	Private equity	Broad public equities index
Environmental Technologies Fund Managers LLP	Private equity	Broad public equities index
New Mountain Capital LLC	Private equity	Broad public equities index
SL Investments Private Equity Ltd	Private equity	Broad public equities index
YFM Equity Partners	Private equity	Broad public equities index
Warburg Pincus PE XII	Private equity	Broad public equities index

*The Pension Fund is invested in two funds available on the London CIV pooling platform: the LCIV Global Alpha Growth Fund, currently invested with Baillie Gifford, and the LCIV ACF Fund (formally LCIV MAC Fund), currently invested with CQS.

** Formally Majedie Asset Management Ltd

The table below shows the actual asset allocation versus the strategic target as at 31 March 2022.

Asset class	Current position		Strategic target
	%	%	%
UK equities		15	17
Artemis	8		
Lindsell Train	4		
Liontrust	3		
Global equities		42	33
C WorldWide	11		
Harris	8		
London CIV (Baillie Gifford)	12		
Veritas	11		
Multi asset		27	30
London CIV (CQS)	9		
Pyrford	10		
Ruffer	8		
Property		7	10
Aviva	2		
M&G SPIF	2		
M&G UK Residential	3		
Infrastructure		5	5
IFM	4		
DIF	1*		
Private equity	3*	3	5
Cash (internal)	1	1	0
Total		100	100

*This does not include outstanding commitments that represent approximately 3.3% of the total Fund value as at 31 March 2022.

COMMUNICATIONS POLICY STATEMENT

Effective communication between the City of London as the Administering Authority and its stakeholders is essential to the delivery of the pensions service. This document sets out the aims and the target audiences of the policy and the method of delivery (application) of the policy. The Local Government Pensions Board reviews all communications with scheme members on an on-going basis.

AIMS

Accuracy & Timeliness	Information needs to be compliant with legislation and supplied at an appropriate time.
Effective Information	Messages need to be clear and understood by target audience.
Accessible	Communication should be available to all and should meet the needs of a wide range of recipients.

AUDIENCES

- Scheme Members and Potential Members.
- Pensioners and Deferred Members.
- City of London Departmental Personnel and Administration.
- Other Employers Within the Fund
- Establishment Committee
- Pensions Board

- Staff

APPLICATION

Scheme Members and Potential Members

Scheme Guides	Available to all eligible employees via website, direct mail or email.
Forms and leaflets	Available on our website and appropriate forms supplied to all new employees and leavers via personnel/administration officers.
Newsletters	Produced as appropriate and in particular as scheme changes occur.
Annual Benefit Statements	Pension Statements supplied to those scheme members who are active at year end (31 st March) as soon as possible after year end.
Presentations	One-off seminars, regular pension “top-up” sessions, insight lunches and pre-retirement courses.
Induction	Supply support to the Employers Induction courses as appropriate.
Intranet & Internet	Provide news on scheme changes, develop and maintain internet with links to relevant sites. Publicise website updates and newsletters via the Intranet.

Pensioners and Deferred Pensioners

Pensioners should be supplied with monthly payslips as appropriate, Newsletters and annual pensions increase letters. Deferred Pensions will be provided with an annual benefit statement. Both will be supplied with information on scheme changes as they affect the appropriate category of ex-scheme member.

City of London Personnel and Payroll

Guides on technical, legislative and general day-to-day administration requirements and responsibilities issued as and when required and as scheme changes affect procedures, including links to centrally produced guides.

Presentations – Personnel Group meeting updates and individual departmental sessions as appropriate.

Other Employers within the fund

Guides on technical, legislative and general day-to-day administration requirements and responsibilities issued as and when required and as scheme changes affect procedures, including links to centrally produced guides.

Presentations for appropriate personnel staff, committees & groups of employees.

Committee and Pensions Board

Reports Update Committee and Pensions Board on scheme changes and developments and provide reports in a clear and accurate manner in order that appropriate responses and actions follow.

Presentations Provide Committee and Pensions Board with updates where appropriate.

Staff

Provide updates and information on scheme and legislative changes.

Team Meetings – Maintain staff's awareness and knowledge via monthly meetings and one-off sessions as appropriate.

General Communication

Letters, emails and phone calls answered clearly, accurately and timely.

If you wish to contact the City of London Pensions Office:

Write: Pensions Manager, City of London, Guildhall, London EC2P 2EJ

Telephone: 07864 959 555

Email: Pensions@cityoflondon.gov.uk

Website: <https://www.cityoflondonpensions.org/>

This Policy Statement Will Be Kept Under Review.

GLOSSARY OF TERMS

Actuarial Valuation - a review of the Pension Fund by a qualified Actuary, which takes place every three years to ensure that employers' contributions are sufficient to maintain the solvency of the Fund in the long term.

Actuarial gains and losses - for a defined benefit pension, changes in actuarial deficits or surpluses that arise because:

- a. events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- b. the actuarial assumptions have changed.

Actuary - an independent qualified consultant who carries out the Actuarial Valuation and who assesses risks and costs, in particular those relating to life assurance and investment policies, using a combination of statistical and mathematical techniques.

Administering Authority - a local authority required to maintain a pension fund under LGPS regulations.

Asset allocation - the apportionment of a fund's assets between asset classes and/or markets.

Benchmark - a 'notional' fund or model portfolio which is developed to provide a standard against which a manager's performance is measured.

Bond - a certificate of debt, paying a fixed rate of interest, issued by companies, governments or government agencies.

Career Average Revalued Earnings (CARE) Scheme – A defined benefit pension scheme with benefits based on earnings and membership. Pension is based on a proportion of actual earnings in any year (1 April to 31 March) and annually adjusted for inflation.

Current asset - an asset held which will be consumed or cease to have value within the next financial year; examples are stock and debtors.

Current liability - an amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

Current service cost (pensions) - the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailment (pensions) - for a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- a. termination of employees' services earlier than expected, for example as a result of discontinuing an activity; and
- b. termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Custodian - safekeeping of securities by a financial institution. The custodian will keep a register of holdings and will collect income and distribute monies according to client instructions.

Defined benefit scheme - a pension or other retirement benefit scheme other than a defined contribution scheme. Usually the scheme rules define the benefits, most commonly by pay and period of membership. This is independent of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme - a pension or other retirement benefit scheme into which an employer (and usually the employee) pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Equities - ownership positions (shares) in companies that can be traded on public markets, often producing income that is paid in the form of dividends.

Expected rate of return on pensions assets - for a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Final Salary Scheme – A defined benefit pension scheme with benefits based on earnings and membership. Pension is based on a proportion of final salary.

Fund Managers - appointed by the Investment Sub Finance Committee to carry out day-to-day investment decisions for the Fund within the terms of their Investment Management Agreement.

Index - a benchmark for the performance of a group of shares or bonds.

Interest cost (pensions) - for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investment adviser - a professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals.

Investment properties - interest in land or buildings that are held for investment potential.

Local Government Pension Scheme (LGPS) is a public service statutory Defined Benefit (DB) pension scheme

Local Government Pensions Board is a board of equal numbers of employer and employee members representatives created as part of the Public Service Pensions Act 2013 to assist the scheme manager in the administration of the LGPS

Mandate - a set of instructions given to the Fund Manager by the client as to how a fund is to be managed (e.g. targets for performance or the Manager may be prohibited from investing in certain stocks or sectors).

Outperformance / underperformance - the difference in returns gained by a particular fund against the 'average' fund or an index or benchmark over a specified time period.

Past service cost (pensions) - for a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Performance - a measure, usually expressed in percentage terms, of how well a fund has done over a particular time period - either in absolute terms or as measured against the benchmark.

Portfolio - term used to describe all investments held.

Private equity - investments in new or existing companies and enterprises which are not publicly traded on a recognised stock exchange.

Projected unit method - an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- a. the benefits for pensions and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- b. the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

Risk - generally taken to mean the variability of returns.

Scheme liabilities - the liabilities of a defined benefits pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Securities - investment in company shares, fixed interest or index-linked stocks.

Vested rights - in relation to a defined benefit pension scheme, these are:

- a. for active members, benefits to which they would unconditionally be entitled to on leaving the scheme;
- b. for deferred pensioners, their preserved benefits; and
- c. for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouse.