

LONDON BOROUGH OF REDBRIDGE
PENSION FUND INVESTMENT PANEL

ANNUAL REVIEW
2013 - 2014

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Executive Summary

The management of the Authority's Pension Fund investments is delegated to the Director of Finance and Resources in conjunction with the Pension Fund Investment Panel.

During 2013/14 the Pension Fund Investment Panel considered a variety of issues including the monitoring of the fund managers' performance and investment decisions. The Pension Fund Investment Panel continued working towards meeting the higher standards of best practice and the statutory requirements as set out in the Principles for Investment Decision Making in the Local Government Pension Scheme in the UK published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Pension Fund Investment Panel's work programme for 2013/14 included the following investment management issues:

- Performance reviews of the Pension Fund and Investment Managers.
- Approving the Business Plan for Pension Fund issues for 2014/15.
- Received updates on implementation of the 2014 LGPS Scheme.
- Reviewed and revised the Pension Fund's policy statements.
- Agreed to become a shareholder in the Authorised Contractual Scheme Operator of the Collective Investment Vehicle (CIV).
- Received regular updates on the developments being considered by the Local Government Pension Scheme Advisory Board.
- Received training on various topical issues in accordance with the Training & Development Programme.

Volatility remained within global markets, although by the end of the year equity markets were generally higher than at the start of the year as investor confidence grew.

2013/14 continued to provide challenges for investors as markets reacted to government interventions and political unrest in the Middle East. As at 31 March 2014 the Pension Fund's investments achieved a return of 4.2% for the year.

The draft Pension Fund Accounts are shown at Appendix 5 which shows that the net value of the Pension Fund has increased by 4.28% to £556.6 million. Income exceeded expenditure by £13 million. The Pension Fund continues to generate additional income as part of the phased approach towards achieving a fully funded position.

INTRODUCTION

The Pension Fund Investment Panel deals with the management of the Pension Fund investments in accordance with regulations set down in statute. The role of the Investment Panel is explained in Appendix 1.

Five Council Members sit on the Pension Fund Investment Panel and are advised by the Director of Finance and Resources. Advice is also provided by the Fund's Actuary, Hymans Robertson, Investment Consultants, Mercer Ltd who were appointed during 2013/14; and other pension fund management specialists as required. The Pension Fund Investment Panel meets at least four times per annum.

This annual review sets out the work of the Pension Fund Investment Panel up until the May 2014 meeting, and the performance of the Pension Fund for the financial year ending 31 March 2014. It highlights the main changes that have occurred in the Pension Fund and its membership.

PENSION FUND MEMBERSHIP

The Pension Fund (the Fund) is a defined benefit scheme operated under the provision of the Local Government Pension Scheme Regulations (LGPS) to provide pensions and other benefits for employees of the Authority.

All the Authority's employees, except those covered by the Teachers' Pension Scheme Regulations or the NHS Regulations, can join the Authority's Pension Scheme. New employees join the scheme automatically but have the option to opt-out of the scheme. In May 2004, membership of the LGPS was extended to Councillors under the age of 70. However, following a consultation the Government determined that LGPS membership for Councillors would cease after the local election that was held in May 2014.

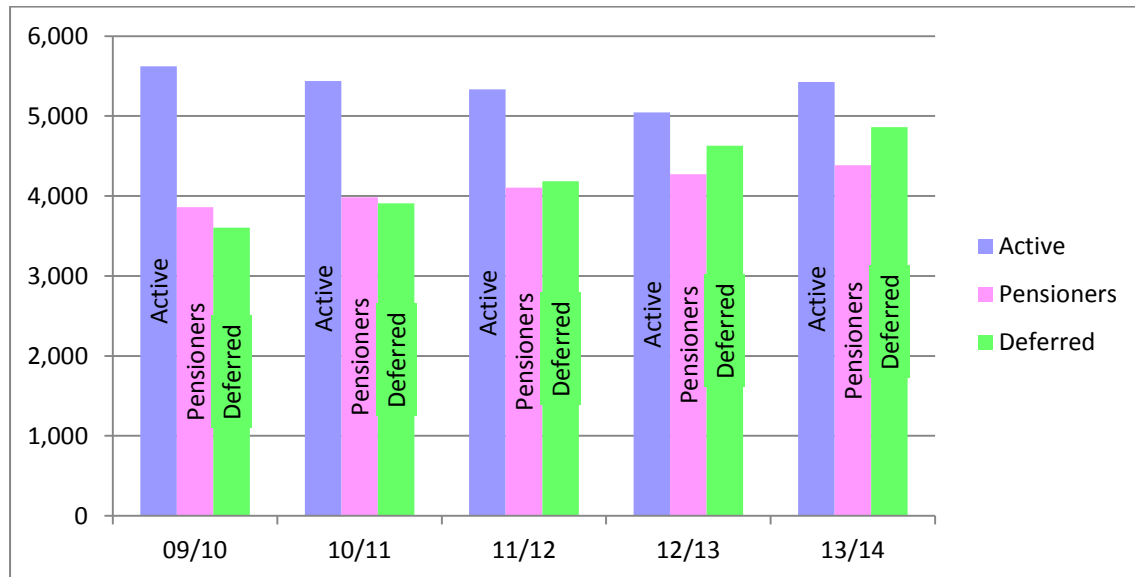
The LGPS regulations also provide for specified bodies (employers) to be admitted into the Fund. The table below shows the admitted and scheduled bodies participating in the Fund as at 30 June 2014:

ADMITTED BODIES	SCHEDULED BODIES
Redbridge Theatre Company Ltd	Redbridge College
Redbridge Vision Culture & Leisure Ltd	Chadwell Heath Academy
Morrison Facilities Services Ltd	Ursuline Academy
Imagine Independence Ltd	Loxford Academy
Ground Control Ltd	Beal Academy Trust
	Forest Academy
	St Aidan's Academy
	Palmer Academy
	Isaac Newton Academy
	Aldborough Free School
	Mayfield School
	Little Heath School

During 2013/14 Housing 21 expressed an interest in ceasing to be an employer in the scheme. As a result a cessation valuation was undertaken and subsequently Housing 21 paid the deficit due to the Fund thereby terminating their status as an employer in the Fund.

The Fund is financed from contributions from the Authority, other employers in the scheme, participating employees and by investment income as well as the capital growth of the Fund's assets.

The following graph shows the membership of the Pension Fund over the past five financial years. The number of contributing employees in the scheme has decreased by 3.5% over this period, although membership increased during 2013/14.



During 2013/14, the number of pensioners increased 13.5% (4.1% in 2012/13) whilst the number of deferred members increased by 38.4% (10.6% in 2012/13).

Pensioners and deferred members account for 63% of the total Fund membership which is marginally lower than in 2012/13. Over recent years, the percentage of active and deferred members of the Fund has been gradually increasing as the Fund matures.

Additional Voluntary Contributions

The provision of an additional voluntary contribution (AVC) facility is a statutory obligation on the Authority. It provides the means for members of the Pension Fund to pay contributions into a policy that will be used to buy additional pension benefits when the member retires. The Authority, as employer, does not make contributions to the AVC scheme. The Authority has appointed Clerical Medical and Standard Life as joint AVC providers. They offer a range of investment fund options, which contributors can choose from.

FUND PERFORMANCE

Market Review

UK Bank base rate remained at 0.5% throughout 2013/14.

During the year the US Federal Reserve announced its intention to taper its bond purchase programme (quantitative easing) as the economy became strong enough for the Fed to reduce the level of stimulus. This announcement initially created volatility in the global markets, but as investors became more comfortable with the reduction of quantitative easing markets stabilised.

Global markets were also influenced by the situation in Syria as well as by political interventions by China. The volatility of the global markets is shown at in the graphs at Appendix 2.

Investment Strategy

The Authority holds cash balances on behalf of the Pension Fund which are invested via the money markets until alternative investment opportunities are identified. As part of the phased implementation of increasing the Fund's investment in property, the decision was taken to transfer £1.5 million to Schroder for investment in the property unit trusts.

The performance of the investment managers was reviewed by the Pension Fund Investment Panel each quarter and over the year. At the May meeting, it was agreed to retain the services of all the Fund Managers.

Fund Management

- The Global Equity mandate is invested in index-tracking units managed by State Street Global Advisors.
- The Asia Pacific (excluding Japan) Equity mandate is managed by BlackRock.
- The Emerging Markets Equity mandate is managed by Schroder Investment Management (Schroder).
- Standard Life manages the Active Bond mandate.
- Newton manages the High Alpha/Unconstrained mandate.
- The Fund is invested in Property Unit Trusts, which are managed by Schroder and BlackRock.

Fund Monitoring

State Street Analytics (formerly the WM Company) are employed by the Authority to provide detailed analysis of the Investment Managers performance. For each Manager, and the Fund as a whole, State Street Analytics produces quarterly, annual and three yearly returns for comparison against each Fund Manager's customised benchmark. During 2013/14, returns were assessed in accordance with the performance objectives set out in Appendix 1.

Each year a representative of State Street Analytics gives a presentation to the Pension Fund Investment Panel on the overall returns achieved by the Fund and by each Fund Manager. Asset class returns and the reasons for over/under performance in relation to market returns are also discussed. At the presentation State Street Analytics reported that the Redbridge Pension Fund had achieved positive returns without having exposed the Fund to a high level of risk.

2013/14 Annual Returns

As at 31 March 2014, the Pension Fund's investments produced a return for the year of 4.2%. Individual Fund Managers' returns were as follows:

- State Street Global Advisors' annual return was 9.7% compared to its benchmark of 9.7%.
- BlackRock's equity annual return was minus 11.7% compared to its benchmark of minus 6.7%.
- Schroder's equity annual return was minus 10.6% compared to its benchmark of minus 10.2%.
- Newton's annual return was 1.7% compared to its customised benchmark of 4.5%.

- Standard Life's annual return was minus 0.2% compared to its customised benchmark of minus 1.0%.
- Schroder's annual return for the property portfolio was 13.5% compared to its benchmark of 11.9%.
- BlackRock's annual return for the property portfolio was 11.2% compared to its benchmark of 11.9%.

The Pension Fund Investment Panel monitors performance of the Fund on a quarterly basis and regularly meets with the Fund Managers to discuss their performance and investment strategy.

Three Year Returns

Most Fund Managers have an out-performance objective, as compared to an agreed benchmark, set over a rolling three-year period. As Newton's performance is measured in absolute terms, their performance objectives are set over a rolling five year period.

Over three years, the Redbridge Pension Fund return was 7.3% which was 0.4% below the benchmark. The fund management arrangements for the majority of the Fund have been in place since May 2006 although the equity portfolio has been managed by State Street Global Advisors, BlackRock and Schroder since November 2011.

Fund returns by asset class are shown at Appendix 3. Fund and Fund Managers' performance details are at Appendix 4.

The Pension Fund Accounts

The draft net asset statement for 2013/14 is attached at Appendix 5 and shows that the overall value of the Fund stands at £556.6 million as at 31 March 2014 (£533.7m in 2012/13).

Extract from Revenue as at 31 March 2014	2013/14 £'millions	2012/13 £'millions
INCOME		
Employee Contributions	6.7	6.7
Employer Contributions	23.9	27.2
Investment Income	12.4	12.1
Transfers from other Funds	3.0	2.5
EXPENDITURE		
Pension Benefits	(27.8)	(26.6)
Transfers to other Funds and refunds	(2.9)	(1.4)
Investment & Administration Expenses	(2.3)	(2.2)
Income exceeded expenditure	13.0	18.3

Included within the employer's contributions are the Authority's lump sum payments of £0.3 million to the Pension Fund in respect of non-ill-health early retirement costs (£0.5m in 212/13). Also included is a cessation payment of £0.115 million from Housing 21.

At the Pension Fund's 2010 valuation, the Pension Fund's Actuary determined the employer contribution rate remain unchanged at 23.1% until 31 March 2014. At the 2013 valuation, the Actuary determined that the Authority's contribution rate should increase to 24.1% with effect

from 1 April 2014 so that the Authority meets its statutory requirement to build up the Fund to meet 100% of the Pension Fund's accrued liabilities over a period of 20 years.

Overall the value of the Fund increased by £22.9 million (increased by £65.3m in 2012/13) due to improved global equity market prices.

The complete set of accounts are included within the Pension Fund Annual Report as well as published in the Council's Statement of Accounts.

Other Issues

During the year the Panel has also considered the following issues:

Business Plan for Pension Fund Issues 2014/15

Within Principle 1 – Effective Decision Making from the “Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom” published by CIPFA, there is a requirement for the Director of Finance and Resources to prepare and submit an annual Business Plan for the Pension Fund, for consideration by the Pension Fund Investment Panel. The annual Business Plan has been formulated from the decisions and discussions of the Pension Fund Investment Panel on how Members move forward with the Pension Fund review, respond to new regulations, the increasing liabilities on the Fund and market volatility. The Business Plan outlines the operation of the Pension Fund, sets out key tasks in respect of Pension Fund issues and how these will be addressed and includes details on the provision of training and development. The Business Plan includes a draft agenda timetable for the forthcoming cycle of Pension Fund Investment Panel meetings up until its annual meeting in July 2015. A copy of the annual Business Plan is attached at Appendix 6.

Current Issues relating to the Local Government Pension Scheme

The Pension Fund Investment Panel received regular updates from the Director of Finance and Resources on the changes being implemented or to be implemented in respect of the LGPS. With effect from 1 April, the 2014 Scheme was introduced the main change being the move from a pension benefit based on final salary to one that is based on career average earnings.

Other changes affecting the LGPS was the impact of the 2013 Pension Bill which set out new governance arrangements that are required, including the introduction of a new board to assist with securing compliance with regulations and other legislation. As a member of the Local Government Pension Scheme Advisory Board, Councillor Bond was able to provide regular briefings to the Pension Fund Investment Panel on the work being undertaken by this Shadow Board, such as the introduction of a national LGPS annual report.

Policy Statements

The Pension Fund Investment Panel reviewed and revised the various policy statements to reflect the changes in regulations and current working practices. The policies reviewed were Statement of Investment Principles, Funding Strategy Statement and the Governance Compliance Statement.

Collective Investment Vehicle

The Pension Fund Investment Panel supported the introduction of a Collective Investment Vehicle (CIV) that London Councils are seeking to establish. The Pension Fund Investment Panel received a report detailing the analysis work undertaken by London Councils that concluded that participation in the CIV should remain voluntary to ensure that investment decisions are retained at local level. The Pension Fund Investment Panel agreed to become a shareholder in the Authorised Contractual Scheme Operator of the CIV. Council agreed that the Chair of the Pension Fund Investment Panel act on behalf of the Council in exercising its rights as a shareholder.

Conclusion

Volatility remained within global stock markets although generally all markets finished the year higher than at the start. The Fund continues to strive towards implementing its strategic asset allocation as investment opportunities arise and when market conditions are deemed suitable. In 2013/14 this equated to an increase of £1.5 million into the property portfolio held by Schroder. The Fund's asset allocation remains within the parameters of the Strategic Investment Strategy.

The Pension Fund Investment Panel continues to:

- work towards implementing best practice and new regulatory requirements. The effectiveness of the Fund's investment strategy is kept under review and the Pension Fund Investment Panel meets quarterly to monitor investment returns and challenge decisions where appropriate with the relevant fund manager.
- consider collaborative ways of working that will deliver savings and enhance the overall performance of the Fund.
- review all the policy statements for the Fund to ensure that the Fund remains compliant with legislation and adopts procedures that comply with best practice.

Publication

This report will be made available on the Authority's internet, and to all employers participating in the Pension Fund and to Council Members as appropriate.

The Role of the Pension Fund Investment Panel

The role of the Pension Fund Investment Panel is to deal with the management of the Pension Fund investments in accordance with regulations laid down in statute and the Fund's Statement of Investment Principles.

Certain duties, which the Authority must have regard to in respect of investments, are discharged through the formal appointment of Investment Managers, namely:

- i. The diversification of investments
- ii. The suitability of investments and types of investment
- iii. Proper advice

The Investment Managers are given individual performance objectives, which are used to assess their performance and determine their continued employment. These are:

For State Street Global Advisors Ltd

- To track various equity market indices

For BlackRock Investments

- To achieve 3% per annum above their customised benchmark over three-year rolling period

For Schroder Investment Management Ltd

- To achieve 3% per annum above their customised benchmark over three-year rolling period

For Newton Investment Management Limited.

- To achieve 4.0% per annum above the sterling 1 month London Inter-Bank Offer rate (LIBOR) over a five-year rolling period.

For Standard Life Investment Limited

- To achieve 0.75% per annum above annum above their customised benchmark over a three-year rolling period.

For BlackRock Investments

- To achieve 1% above the IPD All Balanced Property Fund weighted average over a three-year rolling period

For Schroder Investment Management Limited

- To achieve 1% above the IPD All Balanced Property Fund weighted average over a three-year rolling period

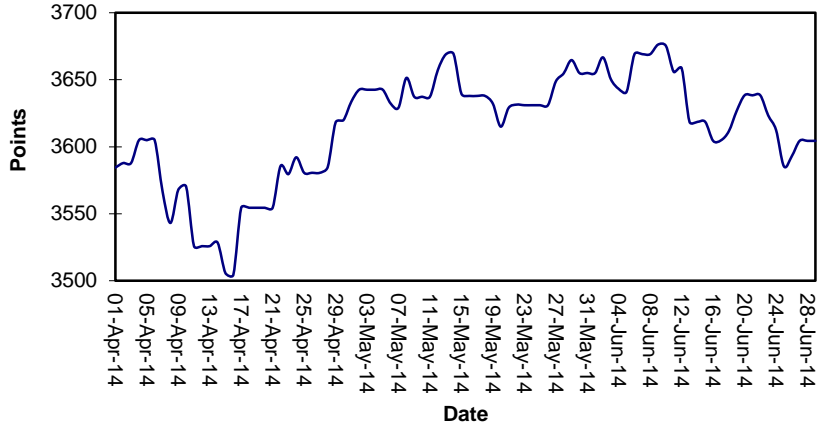
The main role of the Pension Fund Investment Panel therefore is to carry out the following functions to ensure that the duties delegated to the Managers are properly discharged:

- i. To review, at least quarterly the activities of the Fund Manager
- ii. To periodically consider whether to continue the Fund Managers employment

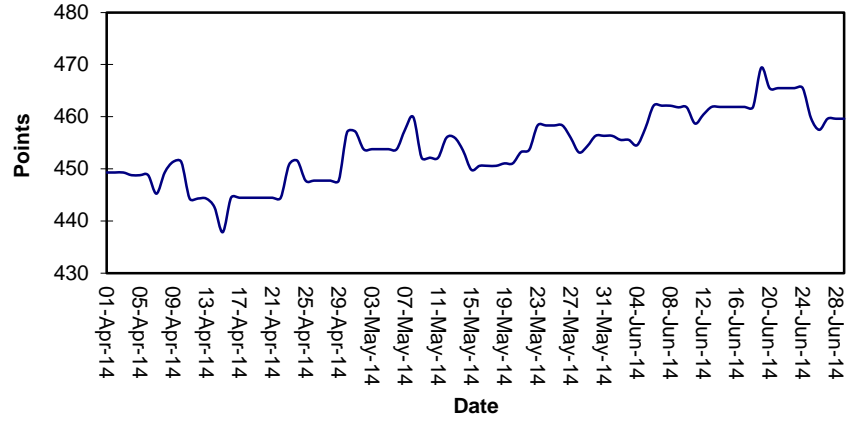
The Managers and the State Street Analytics Company produce quarterly reports, which are reviewed by the Director of Finance and Resources. Generally each Fund Manager meets the Investment Panel annually and is normally visits the Director of Finance and Resources regularly throughout the year when performance and transactions are discussed with them.

The continued employment of Fund Managers is considered annually by the Pension Fund Investment Panel, when a representative of the State Street Analytics presents a detailed analysis of each Fund Manager's performance.

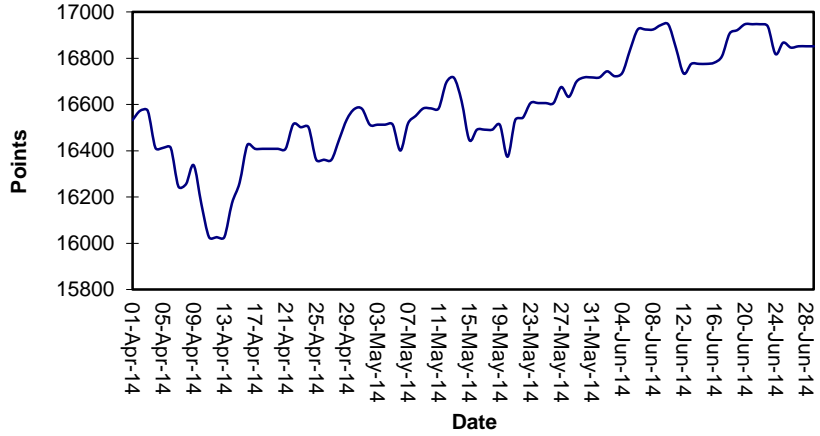
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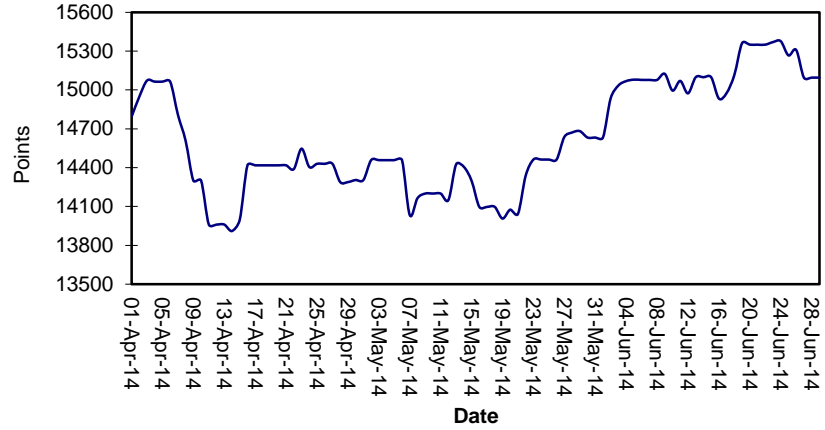
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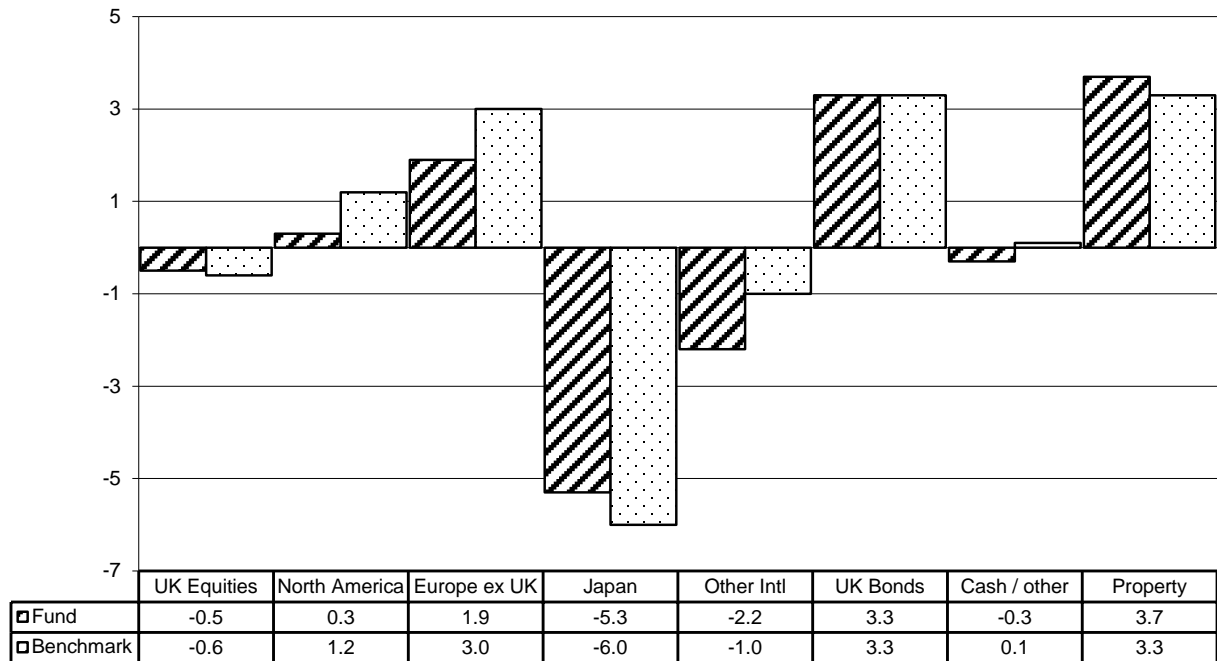
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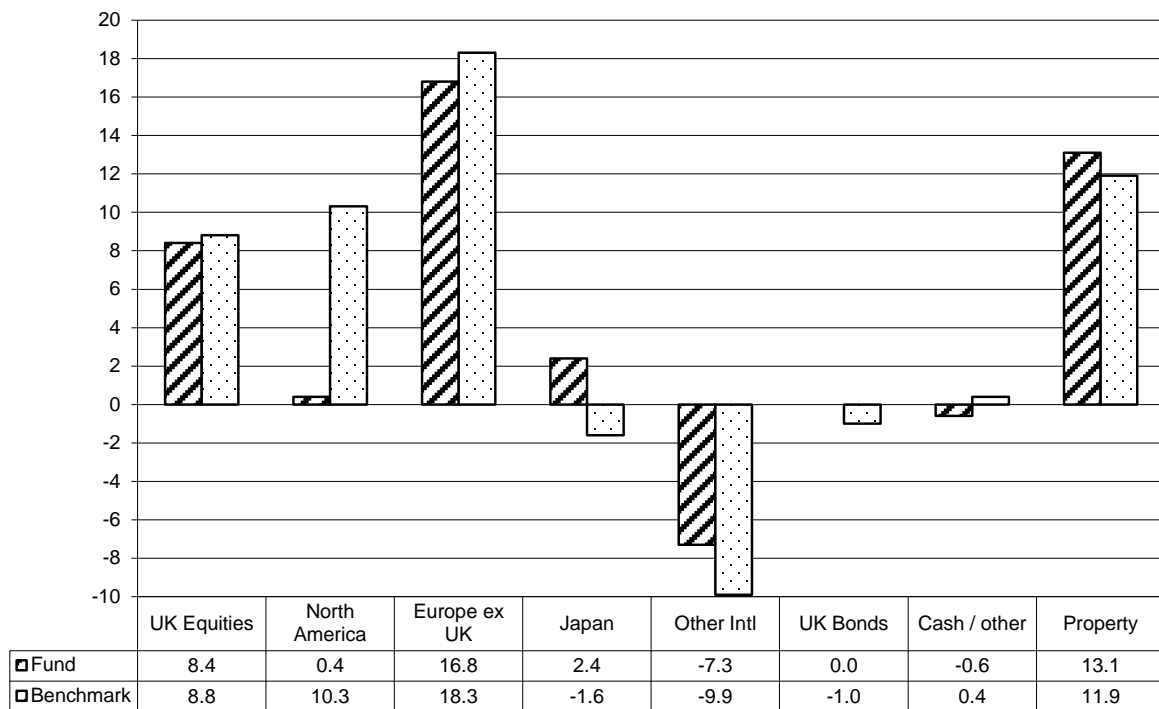
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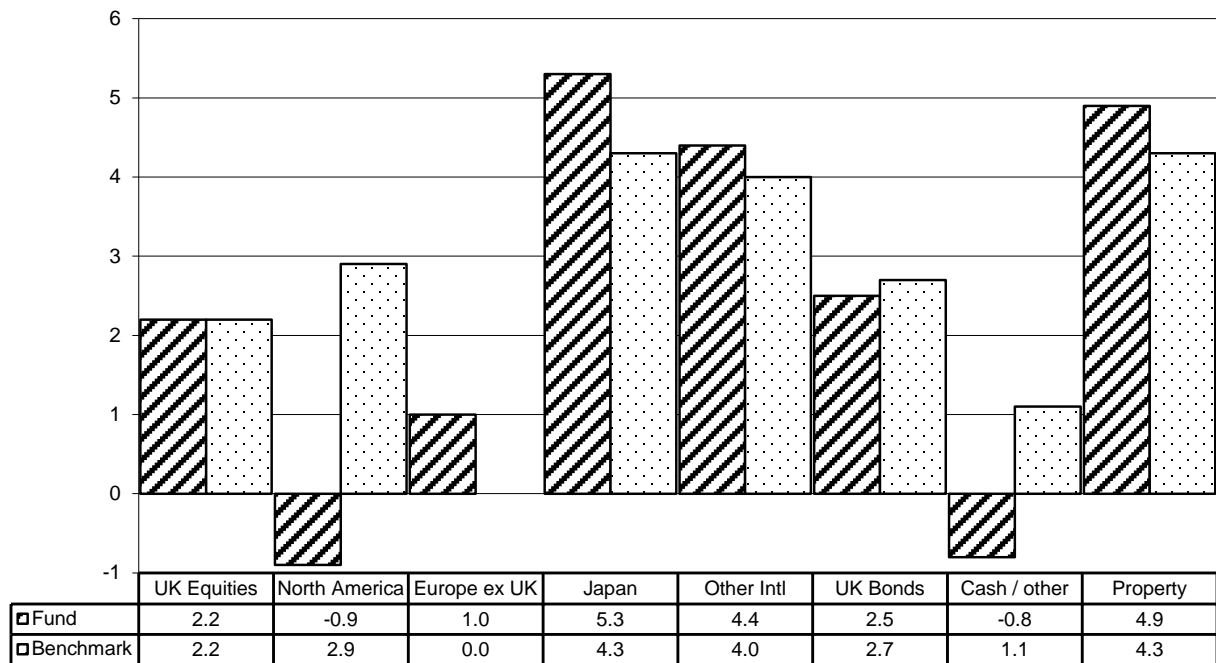
Total Fund Returns for the Quarter to 31st March 2014



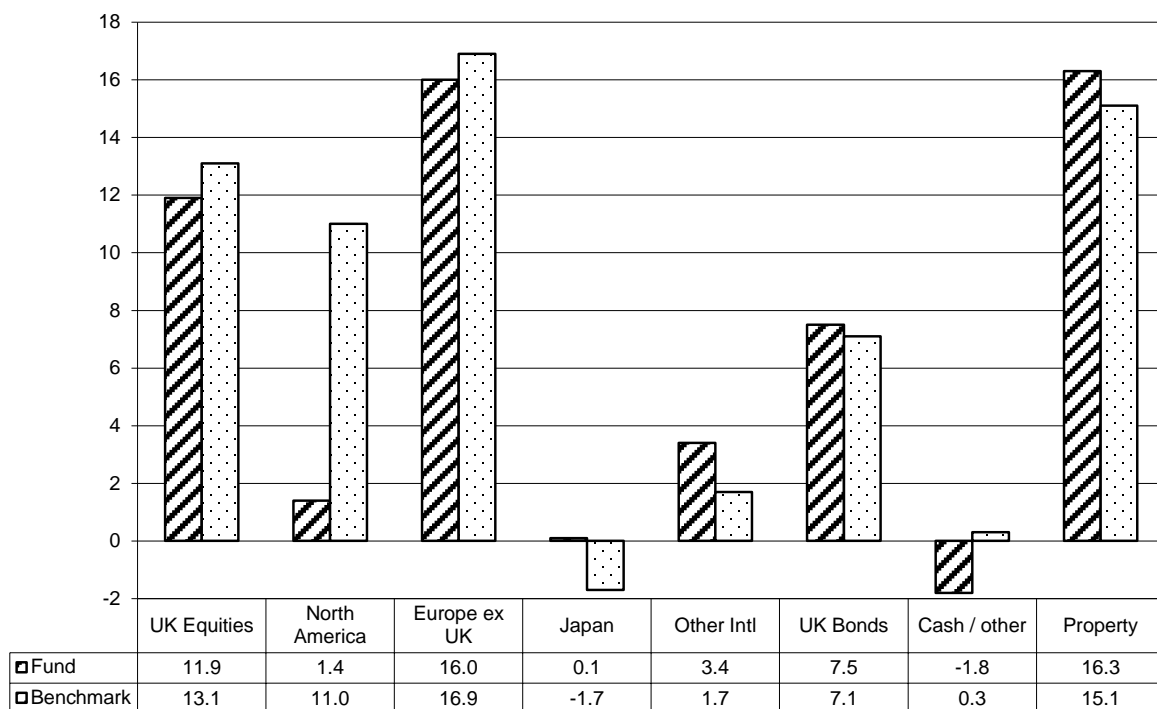
Total Fund Returns for the Year to 31st March 2014



Total Fund Returns for the Quarter to 30th June 2014



Total Fund Returns for the Year to 30th June 2014



Pension Fund Investment Performance as at 31 March 2014

	2013-14	3 Year Annualised
Combined Fund	4.2%	7.3%
Benchmark	4.8%	7.7%
Newton Investment Management	1.7%	4.3%
Benchmark	4.5%	4.6%
Standard Life	(0.2)%	9.2%
Benchmark	(1.0)%	8.9%
State-Street Global Advisors	9.7%	*
Benchmark	9.7%	*
BlackRock (Asia Pacific ex Japan)	(11.7)%	*
Benchmark	(6.7)%	*
Schroder (Emerging Markets)	(10.6)%	*
Benchmark	(10.2)%	*
Schroder (Property)	13.5%	8.5%
BlackRock (Property)	11.2%	5.8%
Benchmark	11.9%	5.7%

* - These managers were appointed in November 2011 and therefore 3 year figures will not be available until 2015.

Pension Fund Account for the Year Ended 31 March 2014

2012/13 £'000		Notes	2013/14 £'000
	Contributions and Benefits		
33,956	Contributions receivable	6	30,578
2,539	Transfers in	7	2,994
36,495			33,572
	<i>Less:</i>		
(26,658)	Benefits payable	8	(27,845)
(1,436)	Leavers	9	(2,860)
(511)	Administrative expenses	10	(555)
(28,605)			(31,260)
7,890	Net additions from dealings with members		2,312
	Returns on Investments		
12,680	Investment income	11	12,978
(532)	Irrecoverable withholding tax	11	(547)
48,268	Change in market value of investments	12(b)	9,847
(1,716)	Investment management expenses	16	(1,721)
58,700	Net returns on Investments		20,557
66,590	Net increase in the Fund during the year		22,869
467,138	Net Assets of the scheme at 1 April 2013		533,728
533,728	Net Assets of the scheme at 31 March 2014		556,597

Net Assets Statement as at 31 March 2014

2012/13 £'000		Notes	2013/14 £'000
537,290	Investment Assets	12	560,345
(3,085)	Investment Liabilities	12	(3,351)
181	Current Assets	17	236
(658)	Current Liabilities	17	(633)
533,728	Net Assets of the Scheme at 31 March 2014		556,597

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

I certify that the Pension Fund Account and Net Assets Statement presents a true and fair view of the income and expenditure in 2013/14 and the Pension Fund's financial position as at 31 March 2014.

G. Pearce BA, CPFA
Director of Finance and Resources
23 September 2014

Notes to the Pension Fund Account

1. Introduction

The Pension Fund is a funded, defined benefit occupational pension scheme set up under the Superannuation Act 1972 and is administered in accordance with the Local Government Pension Scheme (LGPS) Regulations by the London Borough of Redbridge. The scheme is a contributory defined benefit pension scheme that provides pensions and other benefits to former Authority employees (except teachers, who have a separate scheme) and to various admitted and scheduled bodies.

During 2013/14 Loxford, Beal and St Aidan's converted to Academies and therefore became separate employers in the scheme. In addition Imagine Independence and Ground Control Ltd became admitted bodies in the scheme. Also during 2013/14 Housing 21 ceased to be an employer in the scheme.

The scheduled bodies in the scheme as at 31 March 201 were: Redbridge College, Chadwell Heath Academy, Mayfield School, Ilford Ursuline Academy, Little Heath School, Forest Academy, Palmer Academy, Isaac Newton Academy, Aldborough Free School, Loxford Academy, St Aidan's Academy and Beal Academy.

The admitted bodies in the scheme as at 31 March 2014 were: Redbridge Theatre Company Limited, Morrison Facility Management Limited, Redbridge Vision Culture & Leisure, Imagine Independence Ltd and Ground Control Ltd.

As at 31 March 2014 the membership of the scheme was as follows:

Active Members	As at 31 March 2013	As at 31 March 2014
Redbridge Council	4,475	4,654
Scheduled Bodies	338	535
Admitted Bodies	231	237
TOTAL	5,044	5,426

Pensioners	As at 31 March 2013	As at 31 March 2014
Redbridge Council	4,060	4,243
Scheduled Bodies	82	92
Admitted Bodies	131	48
TOTAL	4,273	4,383

Deferred Members	As at 31 March 2013	As at 31 March 2014
Redbridge Council	4,315	4,520
Scheduled Bodies	238	294
Admitted Bodies	75	47
TOTAL	4,628	4,861

Since May 2004, Councillors under the age of 70 have been entitled to join the Pension Scheme. 27 Councillors contribute to the scheme. However, following amendments to the scheme regulations effective from 1 April 2014 Councillors will not be eligible to join the scheme.

The Fund is financed by contributions as well as interest, dividends and profits from realised investments. The contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay. Employee contributions are matched by employers' contributions which are set on triennial actuarial funding valuations. The funding policy is to ensure that over time the assets held by the Fund are adequate to meet future pension scheme liabilities.

Five Councillors are appointed annually by the Authority to the Pension Fund Investment Panel, which has the role of dealing with the management of the Pension Fund's investments in accordance with regulations laid down in statute and the Fund's Statement of Investment Principles.

The administration of the scheme is managed in-house by the London Borough of Redbridge.

The Pension Fund's financial statements provide a stewardship report on the Fund, together with a statement of the assets position at the financial year-end.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed at Note 46 of the accounts of the London Borough of Redbridge.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

- A) **Contribution Income** – Normal contributions, both from members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.
- B) **Transfers to and from other schemes** – 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. Individual transfers in/out are accounted for when received/paid.
- C) **Investment Income** –
 - (i) **Interest Income** – Interest income is recognised in the Fund account as it accrues.
 - (ii) **Dividend Income** – Dividends have been accounted for on an accrual basis. Investment income on overseas investments has been converted into sterling at the rate of exchange on settlement date. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current asset.
 - (iii) **Distributions from pooled equity funds** – Pooled investment vehicles are accumulation funds and as such the change in market value includes income, net of withholding tax which is re-invested in the fund.
 - (iv) **Distributions from pooled property funds** – Income distributions from the pooled property fund investments have been accounted for on an accrual basis.
 - (v) **Movement in the net market value of investments** – Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

- D) **Benefits Payable** – pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.
- E) **Taxation** – the fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments incurs

withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

- F) **VAT** – VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.
- G) **Administration Expenses** – all administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with the Authority's policy.
- H) **Investment Management Expenses** – all investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointment. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the Authority's in-house fund management team are charged direct to the fund and a proportion of the Authority's costs representing management time spent by officers on investment management are also charged to the fund.

Net assets statement

- I) **Financial Assets** – financial 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 assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

- i) Market quoted investments – the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
 - ii) Fixed Interest Securities – are recorded at net market value based on their bid price.
 - iii) Pooled Investment Vehicles – these are valued at either the closing bid price where a bid price exists or on the single unit price provided by the investment managers.
 - iv) Cash – the cash held in the Pension Fund current account is invested by the Authority in accordance with its Treasury Management policy.
- J) **Foreign Currency Transactions** – dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value any cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.
- K) **Derivatives** – the fund uses derivative financial instruments to manage its exposure to specific risk arising from its investment activities. The fund does not hold derivatives for speculative purposes. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivatives contracts are included in change in market value.
- K) **Cash and cash equivalents** – cash comprises of cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Cash that is invested for longer than an overnight deposit is recognised as an investment asset.
- L) **Financial Liabilities** – the Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.
- M) **Actuarial present value of promised retirement benefits** – the actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 21).

- N) **Additional Voluntary Contributions** – AVCs are not included in the accounts which is in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, but are disclosed as a note only (Note 22).

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Pension fund liability – the pension fund liability is calculated every three years by the appointed actuary, with updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 20. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Events after the Year End Date

There have been no events since 31 March 2014 and up to the date when these accounts were authorised that require any adjustment to these accounts.

6. Contributions Receivable

Contributions represent those amounts receivable from the various employing bodies in respect of their own contributions and those of their contributing employees. Under the provisions of the scheme, employees' rates are based on pay bandings and range from 5.5% to 7.5% of pensionable pay. The Fund's Actuary determines employer contribution rates (as a percentage of pensionable pay) which currently range from 12.5% to 23.1% plus any additional lump sum contributions required in respect of funding shortfalls at the time of the triennial actuarial valuation.

Early retirement - All capital costs, such as employee and employer contributions foregone, and the cost of making pension payments early in respect of non-ill-health early retirements, are met by the employer that approved the early retirement.

		2012/13	2013/14
		£'000	£'000
Employers			
	LBR	21,660	21,366
	Scheduled Bodies	1,270	1,363
	Admitted Bodies	4,310	1,130
		27,240	23,859
Members			
	LBR	5,911	5,925
	Scheduled Bodies	422	441
	Admitted Bodies	383	353
		6,716	6,719
		33,956	30,578

Contributions split between normal, deficit funding and augmentation are outlined below:

	2012/13 £'000	2013/14 £'000
Normal Employer Contributions	15,503	15,537
Deficit Payments *	8,239	7,887
Cessation Payment	3,007	115
Augmentation (Early Retirements)	491	320
	27,240	23,859

* The deficit recovery policy is set out the Scheme's Funding Strategy Statement

7. Transfers In

Sums received for scheme members from other pension schemes that relate to periods of previous pensionable employment.

	2012/13 £'000	2013/14 £'000
Individual Transfers from other schemes – LBR	2,539	2,994
	2,539	2,994

8. Benefits Payable

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme regulations.

	2012/13 £'000	2013/14 £'000
Pensions - LBR	19,422	20,158
- Scheduled Bodies	449	483
- Admitted Bodies	614	659
Commutation of Pensions and Lump Sum Retirement Benefits	5,432	5,014
Lump Sum Death Benefit	693	1,495
Interest	48	36
	26,658	27,845

9. Payments to and on Account of Leavers

Regulations permit a refund of employee contributions to be made to new members with less than three months initial scheme membership. Individual transfers are payments of accrued pension benefits in respect of scheme members who have left the scheme and joined a pension scheme elsewhere.

	2012/13 £'000	2013/14 £'000
Refunds to members	2	5
Individual Transfers to other Schemes	1,434	2,855
	1,436	2,860

10. Administrative Expenses

In accordance with the regulations, all administrative expenses are chargeable to the Fund. The London Borough of Redbridge carries out the administrative function in-house.

	2012/13 £'000	2013/14 £'000
Administration and processing	474	473
Actuarial fees	18	61
Audit fees	19	21
	511	555

11. Investment Income

Interest, dividends and other income shown in the Fund Account have been broken down as follows:

	2012/13 £'000	2013/14 £'000
Fixed interest securities	6,998	7,180
Index Linked	118	42
Equities	3,703	3,377
Pooled Equity Unit Trusts	0	0
Property Unit Trusts	1,569	2,198
Cash Deposits	29	14
Other Investment Income	263	167
	12,680	12,978
Less irrecoverable withholding tax	(532)	(547)
	12,148	12,431

12. Investments

The table below shows the Fund's investments by asset class:

	2012/13 £'000	2013/14 £'000
Investment Assets		
Fixed interest securities (including Index Linked)	155,269	166,730
Equities	99,883	95,610
Pooled Investments	211,968	227,190
Pooled Property Investments	42,511	49,281
Derivatives	923	617
Futures	0	611
Commodities	5,152	3,902
Cash Deposits	18,272	13,923
Investment Income Due	2,298	2,223
Amounts Receivable for sales	1,014	258
Total Investment Assets	537,290	560,345
Investment Liabilities		
Derivative Contracts	(1,385)	(527)
Futures	(1,151)	0
Amounts Payable for purchases	(549)	(2,824)
Total Investment Liabilities	(3,085)	(3,351)
Net Investment Assets	534,205	556,994

The table below shows a detailed analysis of the investments held by the Fund as at 31 March 2014 with comparison table showing detailed analysis of the investments held by the Fund as at 31 March 2013.

	Value at 31/03/13 £'000	Purchases at cost £'000	Sales Proceeds £'000	Change in Fair value £'000	Cash movement £'000	Value at 31/03/14 £'000
Equities	99,883	47,732	(53,137)	1,132	0	95,610
Fixed Interest Securities	153,334	82,093	(60,548)	(10,604)	0	164,275
Index Linked	1,935	899	(637)	258	0	2,455
Pooled Equity Unit Trusts	211,968	3	(82)	15,301	0	227,190
Property Unit Trusts	42,511	3,345	0	3,425	0	49,281
Commodities	5,152	149	0	(1,399)	0	3,902
	514,783	134,221	(114,404)	8,113		542,713
Derivative Contracts						
Derivatives	(462)	6,596	(3,382)	(2,662)	0	90
Currency Futures	(1,151)	508,543	(508,543)	5,063	(3,301)	611
	513,170	649,360	(626,329)	10,514	(3,301)	543,414
Other Balances						
Cash Deposits	18,272			(667)	(3,682)	13,923
Receivable – Sales	1,014				(756)	258
Receivable - Investment					(75)	2,223
Income	2,298					
Payable - Purchases	(549)				(2,275)	(2,824)
	534,205	649,360	(626,329)	9,847	(10,089)	556,994

	Value at 31/03/12 £'000	Purchases at cost £'000	Sales Proceeds £'000	Change in Fair value £'000	Cash movement £'000	Value at 31/03/13 £'000
Equities	73,888	43,840	(26,861)	9,016	0	99,883
Fixed Interest Securities	156,557	82,488	(97,025)	11,314	0	153,334
Index Linked	5,937	322	(4,603)	279	0	1,935
Pooled Equity Unit Trusts	178,807	4,457	0	28,704	0	211,968
Property Unit Trusts	27,810	15,574	0	(873)	0	42,511
Commodities	5,342	3,317	(3,353)	(154)	0	5,152
	448,341	149,998	(131,842)	48,286		514,783
Derivative Contracts						
Derivatives	(521)	6,082	(7,626)	1,603	0	(462)
	447,820	156,080	(139,468)	49,889		514,321
Other Balances						
Cash Instruments	1			(1)	0	0
Cash Deposits	17,370			(469)	1,371	18,272
Currency Futures	0			(1,151)	0	(1,151)
Receivable – Sales	59				955	1,014
Receivable - Investment					(26)	2,298
Income	2,324					
Payable - Purchases	(630)				81	(549)
	466,944	156,080	(139,468)	48,268	2,381	534,205

The change in fair value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investments and changes in the sterling value of assets caused by changes in exchange rates. In the case of the pooled investment vehicles changes in market value also includes income, net of withholding tax, which is reinvested in the Fund.

The cost of purchases and the sales proceeds are inclusive of transaction costs, such as broker fees and taxes, amounting to £0.2 million (£0.2 million in 2012/13). In addition to transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

Cash balances invested by the Authority on behalf of the Pension Fund are included within cash deposits. As at 31 March 2014 the Authority invested cash amounting to £1.4 million (£1.8 million at 31 March 2013).

The Fund Manager, Newton, seeks to benefit from the potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements. During the year the Fund bought a number of option contracts that helps protect against the volatility of the stock markets.

	2012/13 £'000	2013/14 £'000
Equities		
UK Quoted	21,362	20,351
Overseas Quoted	78,521	75,259
	99,883	95,610
Fixed Interest Securities		
UK – Public Sector	58,164	65,249
Overseas – Public Sector	17,199	24,707
UK - Other	38,734	38,521
Overseas- Other	39,237	35,798
	153,334	164,275
Index Linked Securities		
UK – Public Sector	1,935	1,851
Overseas – Other	0	604
	1,935	2,455
Pooled Investment Vehicles		
Unit trusts – UK	120,093	130,731
Unit trusts – Overseas	91,875	96,459
	211,968	227,190
Property Unit Trusts		
UK	42,511	49,281
	42,511	49,281
Cash		
Sterling Deposits	18,272	13,923
	18,272	13,923
Commodities		
Commodities	5,152	3,902
	5,152	3,902
Derivatives		
Call Options	(837)	(527)
Put Options	375	617
	(462)	90
Investment Balances		
Investment Income Due	2,298	2,223
Outstanding Sales	1,014	258
Outstanding Purchases	(549)	(2,824)
	2,763	(343)

A summary of individual investments exceeding 5% of the Fund's total net assets is set out below:

Investment	31 March 2013	% of net assets
UK Equity Index Unit Trust	128,736	23.2%
North America Equity Index Unit Trust	34,616	6.2%
Europe ex UK Equity Index Unit Trust	30,918	5.6%

A summary of the options held at the year-end is set out below:

Notional Holding	Market Value as at 31.03.13		Asset	Expiring	Put/Call	Market Value as at 31.03.14	
	£'000	£'000				Notional Holding	£'000
0	0		S&P 500 Index	One Month	Put	139	7
0	0		S&P 500 Index	Two Month	Put	124	102
389	18		CBOE SPX Index	Two Month	Call	0	0
1,119	146		CBOE SPX Index	Three Month	Put	0	0
0	0		S&P 500 Index	Three Month	Put	184	508
116	50		FTSE 100	Three Month	Put	0	0
696	82		CBOE SPX Index	Four Month	Call	0	0
184	140		S&P 500 Index	Six Month	Put	0	0
116	128		FTSE 100	Six Month	Put	0	0
184	359		S&P 500 Index	Six Month	Put	0	0
	923					617	

Notional Holding	Market Value as at 31.03.13		Liability	Expiring	Put/Call	Market Value as at 31.03.14	
	£'000	£'000				Notional Holding	£'000
0	0		S&P 500 Index	Two Month	Put	(124)	(41)
(116)	(49)		FTSE 100	Three Month	Call	0	0
(116)	(24)		FTSE 100	Three Month	Put	0	0
(184)	(85)		S&P 500 Index	Three Month	Put	0	0
(184)	(374)		S&P 500 Index	Three Month	Call	(184)	(486)
(116)	(76)		FTSE 100	Six Month	Put	0	0
(116)	(71)		FTSE 100	Six Month	Call	0	0
(184)	(264)		S&P 500 Index	Six Month	Put	0	0
(184)	(442)		S&P 500 Index	Six Month	Call	0	0
	(1,385)					(527)	
	(462)	NET				(90)	

Asset Value at 31/03/13	Liability Value at 31/03/13	Currency	Asset Value at 31/03/14	Liability Value at 31/03/14
£'000	£'000		£'000	£'000
55,733		Sterling	56,818	
	(8,096)	US Dollars		(17,937)
	(3,035)	Canadian Dollars		(2,323)
	(519)	Swiss Franc		(1,441)
	(6,943)	Australian Dollars		(6,742)
	(5,549)	Japanese Yen		(2,526)
	(6,303)	Norwegian Krone		(1,979)
4,108		Singapore Dollar	3,379	
	(4,043)	Swedish Kroner		(3,407)
	(1,853)	Danish Krone		(1,711)
	(24,651)	Euro		(21,520)
59,841	(60,992)		60,197	(59,586)

12(a) Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

2012/13			2013/14		
Designated as fair value through profit & loss £'000	Loans & receivables £'000	Financial Liabilities at amortised cost £'000	Designated as fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000
Financial Assets			Financial Assets		
153,334			164,275		
1,935			2,455		
99,883			95,610		
211,968			227,190		
42,511					
5,152			49,281		
923			3,902		
0			576		
	18,272		611		
	3,493			13,923	
				2,717	
515,706	21,765	0	543,900	16,640	0
Financial Liabilities			Financial Liabilities		
(1,385)			(486)		
(1,151)					
		(549)			(2,824)
		(658)			(633)
(2,536)	£0	(1,207)	(486)	0	(3,457)
513,170	21,765	(1,207)	543,414	16,640	(3,457)
TOTAL			TOTAL		
GRAND TOTAL			GRAND TOTAL		

12 (b) Net Gains and Losses on Financial Instruments

31.03.13 £'000	Financial Assets	31.03.14 £'000
48,738	Fair value through profit & loss	25,179
0	Loans and receivables	(667)
48,738		24,512
Financial Liabilities		
(470)	Fair value through profit & loss	(14,665)
0	Loans and receivables	0
48,268	TOTAL	9,847

12 (c) Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair value.

Carrying Value £'000	Fair Value £'000		Carrying Value £'000	Fair Value £'000
		Financial Assets		
435,701	515,706	Fair value through profit & loss	464,663	543,900
21,661	21,765	Loans and Receivables	16,639	16,640
457,362	537,471	Total Financial Assets	481,302	560,540
		Financial Liabilities		
(1,385)	(2,536)	Fair value through profit & loss	(486)	(486)
(1,207)	(1,207)	Financial Liabilities at amortised cost	(3,457)	(3,457)
(2,592)	(3,743)	Total Financial Liabilities	(3,943)	(3,943)

12 (d) Valuation of Financial Instruments carried at fair value

The valuation of financial instruments has been classified into two 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 comprise quoted equities, quoted fixed securities, quoted index-linked securities and 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 the fair value and where these techniques use inputs that are based significantly on observable market data.

	Level 1 £'000	Level 2 £'000	TOTAL £'000
Values as at 31 March 2014			
Financial Assets			
Financial Assets at fair value through profit & loss	245,646	298,254	543,900
Loans and receivables	16,640	0	16,640
Total Financial Assets	262,286	298,254	560,540
Financial Liabilities			
Financial liabilities at fair value through profit & loss	(486)	0	(486)
Financial liabilities at amortised cost	(3,457)	0	(3,457)
Total Financial Liabilities	(3,943)	0	(3,943)
Net Financial Assets	258,343	298,254	556,597
Assets as at 31 March 2013			
Financial Assets			
Financial Assets at fair value through profit & loss	241,262	274,444	515,706
Loans and receivables	21,765	0	21,765
Total Financial Assets	263,027	274,444	537,471
Financial Liabilities			
Financial liabilities at fair value through profit & loss	(1,385)	(1,151)	(2,536)
Financial liabilities at amortised cost	(1,207)	0	(1,207)
Total Financial Liabilities	(2,592)	(1,151)	(3,743)
Net Financial Assets	260,435	273,293	533,728

12(e) Risk and Risk Management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the fund's forecast cash-flows. The Authority manages these investment risks as part of its overall pension fund risk management programme.

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, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sector and individual securities. To mitigate market risk, the Authority and the Fund's investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Exchange traded option contracts on individual securities are used periodically to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

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

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments and other financial instruments is monitored by the Authority to ensure it is within limits specified in the fund's investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected instrument return movements during the financial year, in consultation with the fund's performance monitoring advisers, the Authority has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period.

Asset Type:	Potential Market movement (+/-)
UK Equities	11.32%
Overseas Equities	9.79%
UK Government Bonds	8.64%
UK Corporate Bonds	7.46%
Overseas Bonds	6.81%
Index-Linked	9.66%
Property	1.72%
Commodities	18.92%
Cash	0.02%

If the market price of the fund investments had increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

Price Risk:

Asset Type	Value £'000	% Change *	Value on Increase £'000	Value on Decrease £'000
UK Equities	151,082	11.32%	168,184	133,980
Overseas Equities	171,719	9.79%	188,530	154,908
UK Government Bonds	65,249	8.64%	70,887	59,611
UK Corporate Bonds	38,520	7.46%	41,394	35,646
Overseas Bonds Inc. Hedging	60,505	6.81%	64,625	56,385
Index Linked	2,455	9.66%	2,692	2,218
Property	49,281	1.72%	50,129	48,433
Commodities	3,992	18.92%	4,747	3,237
Cash	13,794	0.02%	13,797	13,791

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 that are denominated in any currency other than the base currency of the fund, i.e. £Sterling.

A 4.88% fluctuation in the currency is considered reasonable based on the Fund's performance monitoring adviser's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

A 4.88% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency Risk (by asset class):

Asset Type	Value £'000	% Change *	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	171,719	4.88%	180,099	163,339
Overseas Bonds	54,707	4.88%	57,377	52,037
Overseas Alternatives	3,992	4.88%	4,187	3,797

- % change has been rounded to 0.01 decimal point

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument 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.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Authority therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments.

The pension fund has immediate access to its cash holdings that are invested by the Authority. The levels of cash held are reviewed by the Authority as part of the periodic cash-flow forecasting and form part of the fund's investment strategy. The fund's investment strategy ensures that the majority of the fund is invested in assets that can be sold at short notice to avoid any liquidity risk.

13. Fund Management

As at 31 March 2014, the fair value of assets under management was £557 million. The Fund has undertaken work in conjunction with the Fund's external adviser to implement a long-term strategy to match the objective of being fully funded. The structure of the Fund resulted in a strategic benchmark of 80% equities (including property and cash) and 20% bonds. As set out in the Pension Fund's Statement of Investment Principles, the asset allocation may be varied and rebalancing may be suspended at the discretion of the Pension Fund Investment Panel. As at 31 March 2014, the Fund was allocated as shown in the table below:

Manager	Mandate	Value of Portfolio £'000	% of the Fund %
Standard Life	Fixed Income Mandate	125,528	22.55%
Newton	High Alpha Mandate	141,694	25.46%
SSgA	Global Equity Index Tracking Mandate	205,544	36.93%
BlackRock	Asia Pacific Equity Mandate	13,503	2.43%
Schroders	Emerging Markets Equity Mandate	19,652	3.53%
BlackRock	Property	19,838	3.56%
Schroders	Property	29,787	5.35%
LBR	Cash	1,051	0.19%
		556,597	100%

14. Investments as at 31 March 2014

Investments: the Fund's asset mix was as follows:

	2012/13	2013/14
Equities	58%	57%
Bonds	29%	30%
Property	8%	9%
Cash and other investments	5%	4%
	100%	100%

15. Statement of Investment Principles

The Authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement sets out the Fund's policy on a range of matters relating to the investments and management of the Pension Fund and is regularly reviewed and updated. A copy of the SIP can be found on the Authority's website www.redbridge.gov.uk.

16. Investment Management Expenses

The fees in respect of the Fund's general investment management have been accounted for on the basis contained within the appropriate management agreements. A proportion of relevant Authority officers' salaries, including on-costs, have been charged to the Fund in respect of time spent on investment related business.

	2012/13	2013/14
	£'000	£'000
Fund Manager Fees	1,623	1,626
Custodian Fees	72	78
Performance Management Services	17	17
Other Advisory & Investment Fees	4	0
	1,716	1,721

17. Current Assets and Liabilities

	2012/13	2013/14
	£'000	£'000
Contributions due	181	193
Prepaid Expenses	0	43
Total of Current Assets	181	236
Accrued benefits	(220)	(49)
Accrued expenses	(438)	(584)
Total of Current Liabilities	(658)	(633)

18. Stock Lending

The Fund does not participate in stock lending arrangements.

19. Related Party Transactions

During the year no Councillors or Chief Officers with direct responsibility for Pension Fund issues have undertaken any declarable transactions with the Pension Fund, other than the following.

- Administrative services undertaken by the Authority of the Pension Fund were £420,309 (£375,900 in 2012/13).
- Investment services undertaken by the Authority of the Pension Fund were £115,900 (£116,000 in 2012/13)
-

20. Actuarial Valuation

In 2013/14, the contribution paid by the Authority as an employer was determined following an actuarial valuation of the Fund as at the 31 March 2010. The valuation as at 31 March 2010 set the employer's contribution rates for the years 2011/12, 2012/13 and 2013/14. The actuarial method used by the Actuary is known as the "projected unit method". The key feature of this method is that in assessing the future service cost, the Actuary calculates the contribution rate, which meets the cost of benefits accruing in the year after the valuation date. This is the same method adopted at the previous valuation and is an appropriate method for a fund which is open to new members.

For this valuation the actuary adopted a market value approach whereby assets were valued initially on a market value basis and liability assumptions were derived from gilt yields. Those assumptions, which have the most significant effect on the results of the valuation, are:

Assumption

The rate of increase in pensionable earnings
 The rate of return on investments
 "Gilt-based" discount rate
 The level of increase in earnings growth

Rate

2.8%
 4.8%
 4.5%
 4.6%

The result of the 2010 valuation was that the value of the Fund's assets was actuarially assessed as £397 million, which was sufficient to meet 71% of its accrued liabilities. The employer's contribution rate required as a result of the valuation incorporates a phased increase in the balance of the Fund to meet 100% of future benefit liabilities, as required by Pension Fund regulations. As a result of the 2010 valuation, those employers within the Fund that have funding shortfalls are required to make repayment over an agreed period in accordance with the policies set out in the Pension Fund's Funding Strategy Statement (available on the Authority's web site www.redbridge.gov.uk), and certified by the Actuary in the Actuarial Report. The new employer contribution rates and shortfall payments commenced from 1 April 2011.

21. Actuarial Present Value of Promised Retirement Benefits

The Fund's Actuary prepares reports for the purposes of IAS19 for the Authority and other employers participating in the Pension Fund upon request. Further information pertaining to the Authority is included at note 42 of the Notes to the Core Financial Statements on pages 73 to 77 of the Authority's accounts.

The Actuary has calculated that the liabilities at 31 March 2014 for the entire Fund comprises of:

Type of Member	2012/13 Liability £'millions	2013/14 Liability £'millions
Employees	469	388
Deferred Members	135	150
Pensioners	258	327
Total	862	865

The net liability of the Fund in relation to the actuarial present value of promised retirement benefits and the net assets available to fund these benefits is as follows (based upon IAS19 information).

	31 March 2013 £'millions	31 March 2014 £'millions
Present value of funded obligations	(862)	(865)
Fair value of Fund Assets	534	557
Net Liability for the whole Fund	(328)	(308)

These calculations have been determined using the following financial assumptions:

Year Ended	31 March 2013 % p.a.	31 March 2014 % p.a.
Inflation / Pension Increase Rate	2.8	2.6
Salary Increase Rate	4.6	3.4
Discount Rate	4.5	4.1

22. Additional Voluntary Contributions (AVC's)

The Authority has a statutory obligation to provide an additional voluntary contribution (AVC) facility. This facility provides the means for members of the Pension Fund to pay contributions into a policy, which will be used to buy additional pension benefits when the member retires. The Authority has appointed Clerical Medical and Standard Life as joint AVC providers to provide a range of AVC fund options. A residual arrangement remains with the Authority's previous provider, Equitable Life, specifically for pension fund members who were contributing to this fund and wished to continue to do so. A total of 24 members of the Pension Fund contribute to the AVC schemes. In 2013/14 £49,139 of contributions were made to the AVC Scheme (£46,348 in 2012/13).

The Authority, as employer, does not make any contribution to the AVC scheme and these funds do not form part of the Authority's Pension Fund accounts.

23. Contingent Liabilities

There were no material contingent liabilities or contractual commitments at the year-end (2013 - Nil).

**PENSION FUND
INVESTMENT PANEL**

**BUSINESS PLAN
FOR
PENSION FUND ISSUES
2014/15**



INVESTOR IN PEOPLE

1. Introduction

The publication of the Myners Report and the subsequent statutory requirement to comply with CIPFA's "Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" (CIPFA's Investment Code of Practice) requires the Director of Finance and Resources to prepare and submit to the Pension Fund Investment Panel an annual Business Plan for the Pension Fund.

This is the Pension Fund's twelfth Business Plan. It continues to build on the foundations set out in the previous Business Plan approved by the Pension Fund Investment Panel in May 2013, and sets out the key tasks for the Pension Fund Investment Panel in respect of Pension Fund issues for 2014/15. These reflect the Pension Fund Investment Panel's commitment to put into action the investment strategy and to monitor procedures for the future to ensure that it meets the Fund's objectives and complies with best practice.

The Business Plan outlines the operation of the Pension Fund, reviews progress in 2013/14 and includes provision for training and development, which will equip the Pension Fund Investment Panel's Members with the necessary skills to make decisions on the Pension Fund's Investments.

2. Background

Legal Framework

The 1972 Superannuation Act empowers the Secretary of State for Communities and Local Government to make regulations to provide for the pension arrangements of Local Government employees. The scheme is open to all employees with the exception of teachers who have separate arrangements.

Redbridge Council as an administering Authority is required by the Local Government Pension Scheme Regulations to maintain a Pension Fund. The Fund provides benefits for employees including: retirement pensions; spouses, nominated cohabiting partner or civil partner and dependent pensions; death grants and other lump sum payments.

The scheme is funded by contributions from employees as a percentage of pensionable pay (set by statute), contributions from employers (set by the Actuary), dividends, interest, and profits from the Pension Fund's investments. The Local Government Pension Scheme is known as a "defined benefit scheme", which means that employees' pension entitlements are currently based on their final salary, and are guaranteed, whatever the financial position of the Pension Fund. Any deficit on the Pension Fund is made up through employer contributions.

Contributions to the Pension Fund are invested until they are required to pay pension benefits. Regulations in respect of Pension Fund investment management are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and any amendments thereto.

3. Redbridge Framework

The Pension Fund Investment Panel, which meets at least four times a year, oversees the management of the Pension Fund's investments. The Pension Fund Investment Panel consists of five Members who are appointed annually by the Council. Under the Council's Constitution, the term of reference for the Pension Fund Investment Panel is as follows:

- "To deal with the management of Superannuation Fund Investments in accordance with Regulations issued by the Secretary of State under Section 7 of the Superannuation Act 1972"

The Director of Finance and Resources has overall operational responsibility for the financial management of the Pension Fund and the administration of the pension scheme.

4. Size of the Pension Fund

The value of the Pension Fund as at 31st December 2013 was approximately £550.9 million. Final Accounts for the year ending 31 March 2014 will be completed and signed off by the Director of Finance & Resources at the end of June 2014. The accounts will go to the Policy and Resources Committee for approval in September 2014 after being audited by external auditors. The Pension Fund accounts are subject to a separate audit from the audit carried out for Redbridge Council. Final Accounts are to be published by 30 September 2014.

The following bodies are employers within the Fund: Redbridge College, Mayfield School, Ursuline Academy, Little Heath School, Chadwell Heath Academy, Palmer Academy, Forest Academy, Aldborough Free School, Isaac Newton Academy, Loxford Academy, St. Aidan's Academy, Beal Academy, Avanti Court School, Housing 21, Morrison Facility Services, Vision – Redbridge Culture & Leisure, Redbridge Theatre Company, Imagine Independence Ltd and Ground Control Ltd.

5. Management of the Pension Fund Investments

The current key objectives, as set out in the Pension Fund's Statement of Investment Principles, are to:

- maximise investment returns over the long term within an appropriate level of risk and volatility; in order to:
- secure and maintain an investment rate of return, which will count towards meeting the Council's current and future obligations and liabilities to make pension payments; which will
- contribute towards keeping the burden on the Council's General Fund and therefore the council taxpayer as low as possible.

In order to achieve these objectives, the Pension Fund Investment Panel has appointed external investment management firms to manage the Pension Fund's assets. Each Investment Manager has been set investment objectives and targets as follows:

StateStreet Global Advisors

- Global Equity Mandate - To track the FTSE All Share for UK equity investments and the FTSE All-World for overseas equity investments.

Newton Investment Management Limited

- Unconstrained Mandate - An absolute return of Sterling 1 month London Inter-Bank Offer Rate ("LIBOR") plus 4.0% per annum on a five year rolling basis.

Standard Life Pension Funds Limited

- Fixed Income Mandate - To outperform their customised benchmark by 0.75% pa net of fees on a three year rolling basis.

Schroder Investment Management

- Emerging Market Equity Mandate - To outperform the MSCI Emerging Markets Index by 3.0% pa net of fees on a three year rolling basis.
- Property Mandate - To outperform their customised benchmark by 1% on a rolling three year basis

BlackRock Investment Management

- Asia Pacific Equity Mandate - To outperform the MSCI Asia Pacific ex Japan by 3.0% pa net of fees on a three year rolling basis.
- Property Mandate - To outperform their customised benchmark by 1% on a rolling three year basis

In order to monitor whether the Investment Managers are meeting these objectives, the WM Company, a performance measurement firm, measures the performance of the Pension Fund's assets. The Pension Fund Investment Panel meet quarterly with the investment managers on a rotational basis to discuss performance and related investment issues. During times of market volatility the asset allocation may differ from the strategic allocation and therefore the Pension Fund Investment Panel may suspend rebalancing the fund.

6. Review of the Business Plan 2013/14

The Pension Fund Investment Panel approved the Pension Fund's Business Plan in May 2013. It set out the key tasks that the Pension Fund Investment Panel would seek to undertake during the year. These included pension fund management, performance monitoring, corporate governance activities and other standard investment issues.

Progress in 2013/14: The Pension Fund Investment Panel met four times during 2013/14 and the following matters were considered:

- **Prepared the Pension Fund Annual Report.** Following changes in legislation, the Pension Fund was required to publish an Annual Report by 1 December 2013. The Annual Report was published on 1 October and is available on Redbridge i.
- **Considered the Pension Fund Audit Plan.** Since 2008/09, the Pension Fund has been required to be audited separately from the Authority.
- **Monitored and reviewed the performance of the Fund and Investment Managers.** In accordance with the investment strategy and as opportunities arose additional investments were made into the property portfolio. These

investments were funded from the cash balances held by the Authority on behalf of the Pension Fund.

- **Reviewed votes cast by Fund Managers at annual general and extraordinary company meetings.**
- **Member development on a number of topical investment issues.** Members received training from the Fund's Actuary, Performance Monitoring company, and Investment Managers on a number of topical issues.
- **Review the Independent Investment Advisory Arrangements.** A review of the independent investment advisory contract has commenced using the National Framework for Investment Consultancy Services, which was set up by Norfolk County Council. The six consultancy firms within the framework have been invited to tender for the Redbridge Pension Fund and the objective will be to have appointed an adviser by 1 April 2014.

7. Key Tasks for 2014/15

The following key tasks have been identified for 2014/15. They will continue to build on the good foundations previously established.

Pension Fund Management

To review the current investment strategy to ensure that the strategy continues to meet the Fund's funding objectives.

Performance Management

- Review and monitor the performance of the Pension Fund Investments and the Investment Managers.
- Publish the annual review of the work undertaken by the Investment Panel, which is provided to Cabinet following approval at the Panel's September meeting.

Corporate Governance

- Review the Fund's voting policy.
- Review the engagement undertaken by Fund Managers with investment companies.
- Review the ethical position with regards to the Fund's investment decisions

Other Investment Issues

- Review the Statement of Investment Principles to ensure that it remains up to date and meets best practice.
- Review the Fund's policy statements to ensure that they remain up to date and meet best practice.
- Review the governance structure of the Pension Fund Investment Panel to ensure compliance with the changes in regulations.

Training and Development

- To ensure each Member of the Pension Fund Investment Panel has access to training resources on Pension Fund Investment issues.
- To work towards meeting the recommendations of the CIPFA Knowledge and Skills Framework.

Accounting and Audit of the Pension Fund

- Publish the Pension Fund Annual Report in accordance with the regulations
- To consider the audit plan as produced by the Pension Fund's external auditors, PwC.

8. Undertaking the Key Tasks

Pension Fund Management

The independent investment advisory contract will be re-let with the aim of appointing an adviser by 1 April 2014. Following the subsequent appointment of an adviser, a review of the investment strategy will be undertaken to ensure it continues to meet the Fund's long term investment objectives.

Performance Monitoring

Monitoring of the returns on Pension Fund Investments will continue to be undertaken by the WM Company who will provide quarterly, annual, and three-yearly investment returns. Each quarter, the Director of Finance and Resources will submit to the Pension Fund Investment Panel a report on the investment performance of the Investment Managers which will compare the actual returns achieved against their agreed investment benchmarks and targets. The Pension Fund Investment Panel and the Director of Finance and Resources have the opportunity to discuss performance with the Investment Managers and any other related investment issues that may arise. In times where performance is poor the Pension Fund Investment Panel will request that the Investment Manager sets out their strategy for improving performance and meeting agreed targets. These arrangements will be reviewed to incorporate the additional performance monitoring requirements of the investment strategy.

To put in place a process of review on a 3 year rolling basis to assess the outcome of strategic decisions taken and advice given.

Corporate Governance

Voting carried out by fund managers will be reviewed periodically. A review will be undertaken in respect of the ethical position of the Fund with regards to its investment decisions.

Other Investment Issues

The Regulations require that the Pension Fund's "Statement of Investment Principles" reflects the agreed policies and procedures which govern the operation of the Pension Fund. The appointment of any new Investment Managers and any other changes that the Pension Fund Investment Panel makes to current procedures will need to be incorporated in the Statement. In any event, the Pension Fund Investment Panel will review the Statement annually, to ensure compliance with best practice.

The Pension Fund Investment Panel will undertake a review of its governance structure to ensure compliance with regulations which are expected to be revised in line with the Pension Act.

The Regulations also require the Pension Fund to maintain other policy statements, including the Funding Strategy Statement. These policy statements are reviewed periodically to ensure that they continue to ensure compliance with best practice.

Audit of the Pension Fund

The Regulations require that the Pension Fund be audited separately from the administering authority. The external auditors will therefore produce an Audit Plan that will be presented to the Pension Fund Investment Panel for information.

Suggested Timetable

Appendix 1 provides indicative agenda items that are likely to be debated during this year. In addition other items on topical issues may be debated as appropriate.

9. Training and Development

One of the requirements of CIPFA's Principles for Investment Decision Making is that all Members of the Pension Fund Investment Panel have sufficient knowledge to make investment decisions and challenge the advice that they are given. This requires the Pension Fund Investment Panel to have gained a familiarity with pension issues through a programme of training and development. CIPFA has also produced, in consultation with the CLG, a Skills & Knowledge Framework that provides recommendations on the levels of knowledge required by the Members and Officers charged with the responsibility for dealing with pension matters.

The Pension Fund Investment Panel has received training and development in conjunction with each of the key decisions made in 2013/14 and this will continue throughout 2014/15. This will have the advantage of co-ordinating training and development with the key tasks contained within this business plan and ensure that it meets the Members' requirements. Training will be commissioned as and when required in order to achieve the levels of knowledge recommended in the CIPFA Framework. Training is available from a variety of sources such as:

- External courses;
- Training sponsored by the Investment Managers;
- Training delivered by Investment Consultants;
- Training included as part of the service received from our Performance Measurement provider and Actuary;
- Partnership arrangements with other Local Authorities to deliver training on common themes;
- E-learning;
- National conferences.

In addition, the Pension Fund Investment Panel will be kept abreast of current investment issues and topical events by receiving articles and other relevant literature provided by external Pension Professionals, Government and Regulatory bodies, and in-house Officers. Information will be provided in both paper and electronic format.

The combination of the training and development methods detailed above will provide Members with the necessary skills to make decisions on Pension Fund investment issues. Training and development is a legitimate expense, chargeable to the Pension Fund.

APPENDIX 1

KEY TASKS - DRAFT TIMETABLE 2014/2015

DATE	AGENDA ITEMS	TRAINING and DEVELOPMENT
<p>May 2014 Quarterly Meeting</p>	<ul style="list-style-type: none"> • Pension Fund Management To review the advice provided by the Pension Fund’s Advisers. Report on the annual and longer term performance of the Pension Fund and Investment Managers from The WM Company • Performance Monitoring Quarterly performance report of the Pension Fund and Investment Managers Report from the Fund Manager • Other Issues Pension Fund Audit Plan 	<p>Topical Issues</p>
<p>September 2014 Quarterly Meeting</p>	<ul style="list-style-type: none"> • Pension Fund Management Review of Fund Performance • Performance Monitoring Quarterly performance report of the Pension Fund and Investment Managers Report from the Fund Manager • Other Issues Annual Review of 2013/14 Review of the Annual Report and Accounts 2013/14 	<p>Topical Issues</p>
<p>November 2014 Quarterly Meeting</p>	<ul style="list-style-type: none"> • Pension Fund Management Review of Fund Performance. • Performance Monitoring Quarterly performance report of the Pension Fund and Investment Managers Report from the Fund Manager 	<p>Topical Issues</p>

	<ul style="list-style-type: none"> • Other Issues Review of the Governance Structure Review of the ethical position in relation to the Fund's investments. Review of Knowledge and Skills Framework 	
February 2015 Quarterly Meeting	<ul style="list-style-type: none"> • Pension Fund Management Review of Fund Performance • Performance Monitoring Quarterly performance report of the Pension Fund and Investment Managers Report from the Fund Manager • Other Issues Annual Business Plan for 2015/16 Review of Statement of Investment 	Topical Issues

Members of the Pension Fund Investment Panel and their Advisers 2013-14

Chair:	Councillor E Norman	
Vice Chair:	Councillor J O'Shea	
Conservative Members:	Councillor J O'Shea Councillor J Fairley-Churchill	
Labour Member:	Councillor E Norman Councillor R Hatfull	
Liberal Democrat Member:	Councillor I Bond	
Substitute Members:	Councillor A Phillips	Conservative
	Councillor K Prince	Conservative
	Councillor T Rashid	Labour
	Councillor T Jeyaranjan	Labour
	Councillor R Hoskins	Liberal Democrat

Officers Who Have Supported The Pension Fund Investment Panel

Finance Service:	Geoff Pearce – Director of Finance and Resources Jan Grant – Group Finance Manager Hilary Taylor – Principal Finance Officer
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Fund Managers, Consultants And Other External Advisers

State Street Global Advisors	Fund Manager
Standard Life Investments	Fund Manager
Newton Investment Managers	Fund Manager
Schroder Investment Management	Fund Manager
BlackRock	Fund Manager
Mercer Ltd	Investment Consultant
Hymans Robertson	Fund Actuary
State Street Analytics	Performance Measurement Provider

Pension Fund Investment Panel Reports Received 2013-14

5 September 2013

- Pension Fund Investment Panel Annual Review 2012/13.
- Pension Fund Annual Report 2012/13.
- Report from the Local Government Pension Scheme Advisory Board.
- Pension Fund Performance – Quarter Ending 30 June 2013.
- Performance Report From The Investment Manager – presentation from Standard Life Investment Ltd.

29 November 2013

- Report on current issues affecting the Local Government Pension Scheme.
- Pension Fund Performance – Quarter Ending 30 September 2013.
- Performance Report From The Investment Manager - presentation from Newton Investment Management Ltd.

28 February 2014

- Business and Training Plan for Pension Fund Issues 2014-15.
- Update of the Statement of Investment Principals.
- Update to the Funding Strategy Statement and Governance Compliance Statement
- Report on the Collective Investment Vehicle for London Pension Funds.
- Report on current issues including the preliminary results of the triennial valuation.
- Pension Fund Performance - Quarter Ending 31 December 2013
- Performance Report From The Investment Manager – presentation from Schroder Investment Management Ltd.

2 May 2014

- Report on current issues including the appointment of Mercer Ltd for investment advisory services.
- Report from the Pension Fund's Actuary.
- Report from the Performance Monitoring Advisors.
- Pension Fund Performance – Quarter ending 31 March 2014.
- Performance Report From The Investment Manager – presentation from BlackRock.

OTHER PUBLICATIONS

The Pension Fund published the following documents on the Council's website www.redbridge.gov.uk within the section "The Council" : "Our Finance" : "Pension Fund"

Communication Statement

This statement is produced by the Pension Administration Team and is reviewed periodically to ensure that it remains consistent with recommended practices. The statement sets out the Council's policy for:

- communicating with interested parties including members and other employers within the scheme,
- the method & frequency of communications used such as newsletters, fact sheets & booklets,
- promoting the LGPS to seek to increase membership within the scheme,
- performance objectives for administering the scheme.

Fund Strategy Statement

This statement is prepared in collaboration with the Fund's Actuary and after consultation with the Fund's employers and investment advisers and sets out:

- the strategy for the Pension Fund to show how the pension liabilities are to be met whilst seeking to achieve a constant and affordable employer contribution rate,
- shows details as to how the Fund is seeking to achieve its objectives and the risk associated with the strategy,
- details of the responsibilities for each key party, including the employers, employees and actuary.

The Funding Strategy Statement is reviewed to coincide with the valuation.

Governance Statement

The objective of this statement is to make the administration and stewardship of the scheme more transparent and accountable to its stakeholders. It therefore provides details of:

- how the Council, as Administering Authority maintains and manages its pension fund function in accordance with regulatory requirements,
- the structure for the decision making process, which includes details of the various responsibilities for administering the Pension Fund,
- the frequency of Investment Panel meetings,
- the voting rights of the Panel members,
- accessibility to information and training.