

Appendix A

WEST MIDLANDS PENSION FUND STATEMENTS FOR THE YEAR ENDING 31 MARCH 2019

Fund Account

2017/18 £m		Note	2018/19 £m
	Contributions & Benefits		
(1,205.9)	Contributions Receivable	P8	(272.7)
(25.6)	Transfers In	P9	(43.5)
(14.5)	Other Income	P10	(14.5)
(1,246.0)	Total contributions and other income		(330.7)
555.9	Benefits Payable	P11	589.7
41.0	Payments to and on account of leavers	P12	37.3
0.7	Other Payments		4.4
597.6	Total benefits and other expenditure		631.4
66.8	Management Expenses	P13	87.4
	Returns on Investments		
(248.7)	Investment Income	P14	(237.9)
7.7	Taxes on income		0.7
312.8	Changes in Value of Investments	P16	1,557.0
(615.6)	Profits and Losses on Disposal of Investments		(2,002.2)
(543.8)	Net return on investments		(682.4)
(1,125.4)	Net (Increase) in the Fund During the Year		(294.3)
14,294.4	Net Assets of the Fund at the beginning of the year		15,419.8
15,419.8	Net Assets of the Fund at the end of the year		15,714.1

Net Assets Statement

31 March 2018 £m		Note	31 March 2019 £m
	Investment Assets (at Market Value)	P15	
188.5	Bonds		339.8
1,494.2	UK Equities		40.0
6,343.5	Overseas Equities		1,301.3
5,351.9	Pooled Investment Vehicles		11,481.8
862.8	Property		980.7
-	Derivatives - Futures		20.7
44.9	Derivatives - Forward Foreign Exchange		1.0
126.0	Foreign Currency Holdings		690.6
830.1	Cash Deposits		821.8
0.4	Other Investment Assets		51.8
45.2	Outstanding Dividend Entitlement and Recoverable With-Holding Tax		0.5
15,287.5	Investment Assets		15,730.0
	Investment Liabilities (at Market Value)	P15	
-	Derivatives - Forward Foreign Exchange		(2.8)
-	Other Investment Liabilities		(152.1)
-	Investment Liabilities		(154.9)
15,287.5	Net Investment Assets		15,575.1
0.1	Long Term Investments		-
25.1	Long-Term Debtors	P19	113.7
151.4	Current Assets	P20	47.3
(44.3)	Current Liabilities	P21	(22.0)
15,419.8	Net Assets of the Fund at the end of the year		15,714.1

The accounts summarise the transactions of the Fund and deal with the net assets at its disposal. They 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 is disclosed at note 6.

The notes form part of these financial statements.

Notes to the Pension Fund Statements

Note P1 - General

The description in this note is a high-level summary of the Fund's activities and more detail is available in the Fund's Annual Report which can be found on its website at: <http://www.wmpfonline.com/article/4764/Annual-Reports>.

West Midlands Pension Fund is part of the Local Government Pension Scheme and is administered by the City of Wolverhampton Council on behalf of all local authorities in the West Midlands and other employers who have members in the Fund. Membership of the Fund is available to all local government employees including non-teaching staff of schools and further and higher education corporations in the West Midlands region together with employees of scheduled and admitted bodies. At 31 March 2019, the Fund had 673 participating employers and 323,795 members as set out in the following table. A full list of participating employers can be found in the Fund's Annual Report.

31 March 2018		31 March 2019	
No.		No.	
118,093	Active Members	121,035	
91,741	Pensioner Members	95,991	
103,565	Deferred Members	106,769	
313,399	Total	323,795	

The responsibility for administering the Fund is delegated to the Council's Pensions Committee. It meets at approximately quarterly intervals and has members from each of the seven metropolitan district councils in the West Midlands. A Pensions Board was also in operation during 2018/19. Membership of the Committee and Board can be found on the City of Wolverhampton Council website: <http://wolverhampton.moderngov.co.uk/mgListCommittees.aspx?bcr=1>

The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- (i) The Local Government Pension Scheme Regulations 2013 (as amended)
- (ii) The Local Government Pension Scheme (Transitional Provisions, Saving and Amendments) Regulations 2014 (as amended)
- (iii) The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016

The scheme is a contributory defined benefit pension scheme. Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. In addition to employee contributions, employers' contributions are paid as set based on triennial actuarial funding valuations. The valuation in relation to 2018/19 contribution rates was conducted at 31 March 2016. Employer contribution rates during 2018/19 ranged from 10.2% to 44.7% of pensionable pay.

Major changes were introduced to the LGPS from 1 April 2014, in particular the move from basing pensions on final salaries to career-average revalued earnings (CARE) with an accrual rate of 1/49th and pensions updated annually in line with the Consumer Price Index. Pension entitlements accrued prior to this date continue to be based on final salary.

Further to direction from government, local authority investment pools have been created to bring together the investment assets of local authority pension funds into eight Investment Pools. LGPS Central Limited (LGPSC), the company established to manage investments on behalf of nine LGPS funds including West Midlands Pension Fund, received authorisation from the Financial Conduct Authority in 2018 and the LGPS Central regional asset Pool went live on 1 April 2018.

The Pool's first 3 sub-funds covering passive equity assets were launched at the start of April and on 3 April 2018, following approval from Pensions Committee, West Midlands Pension Fund transitioned assets to the value of £4.886bn and cash of £247m to the LGPS Central sub-funds.

In January 2019, the Fund agreed to a commitment of £200m in the LGPS Central Limited - Private Equity Scottish Limited Liability Partnership. No investments were actually made during the 2018/19 financial year as the first call on the commitment came in April 2019.

In February, the Fund, along with five other LGPS Central Pool Partner Funds, transitioned a further £789m of assets to the LGPS Central Limited - Global Equity Active Multi-Manager sub-fund.

Work is underway to develop further LGPS Central Limited sub-funds in collaboration with LGPS Central Pool Partner Funds and the Fund will continue to review the decision to transition assets on a case by case basis dependent on the sub-fund meeting the strategic requirements of WMPF. The transition of the Fund's remaining assets into products offered by LGPS Central Limited is expected to take several years.

Following the transfer of in-house investment and finance team members to LGPS Central Limited on 1 April 2018, West Midlands Pension Fund retained LGPS Central Limited to provide advice and execution services on a number of legacy portfolios. It is likely that some of these advisory and execution mandates will continue to remain in place for some period due to the illiquid nature of the investments and the cost effectiveness of transition.

Note P2 - Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its financial position as at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* (the Code) 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 P6 of these accounts.

Note P3 - Statement of Accounting Policies

A. Fund account

In the Fund Account, income and expenditure are accounted for in the year in which they accrue by the creation of payables and receivables at the year end where necessary. Provision has not been made where the amount payable or receivable in relation to transfers was not agreed at the year end (see note P9).

B. Contribution income

Contributions receivable have been included in the accounts on the accruals basis at the rates recommended by the Fund's actuary for basic contributions. Additional contributions (including past service deficit contributions and excluding additional voluntary contributions) as notified by employers for the period have also been included. Past service deficit contributions are accounted for in the year in which they are payable under the schedule of contributions set by the scheme actuary.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset with amounts due after the following year classed as long-term financial assets.

Where employing organisations have not submitted all of the certified returns of contributions payable by the due date for preparation of these accounts, an estimate has been made based on the monthly returns actually received from these bodies.

C. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who had either transferred benefits in or out of the scheme as at 31 March 2019, calculated in accordance with the Local Government Pension Scheme Regulations (see notes to the accounts). Transfers in respect of individuals are accounted for when received or paid which is normally when the member liability is accepted or discharged. Group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

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

D. Investment Income

i) Interest Income

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

ii) Dividend Income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from Pooled Funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Property-Related Income

Property-related income (consisting primarily of rental income from operating leases) is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Changes in the Value of Investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

vi) Stock lending income

Stock lending income is accounted for on a cash basis.

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 suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.

F. Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2019. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

G. Financial assets

The LGPS Central Pool trading company, LGPS Central Limited, only became licensed to trade on 1 April 2018. The Pension Fund's view is that for 31 March 2019, cost is therefore an appropriate estimate of the fair value of shares held in this company.

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 asset are recognised in the Fund Account.

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 IFRS 13 (see note 17 to the accounts). 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).

H. Freehold and leasehold properties

These have been valued at their open market value. Property is valued by the Fund's valuers on an annual basis. The market values included in these accounts are contained in a valuation report by Savills plc (in accordance with Royal Institute of Chartered Surveyors valuation standards) as at 31 March 2019. One third of the commercial property portfolio is valued fully in March each year with the remaining two thirds being a 'desktop' valuation. Agricultural properties were valued by Browns, agricultural valuers, at the same date.

I. Foreign currencies

Investments held in foreign currencies have been valued as set out in paragraph g) above and translated at exchange rates ruling at 31 March 2019.

Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2019.

J. Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

K. Movement in the net market value of investments

Any gains or losses arising on translation of investments into sterling are accounted for as a change in the market value of investments.

L. Cash and cash equivalents

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

M. 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.

N. Management expenses

The Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses 2016.

All administrative expenses are accounted for on an accruals basis. The costs of Fund officers are recharged to the Fund along with all other costs incurred directly on Fund activities and an apportionment for corporate support services provided by the administering authority.

All investment management expenses are accounted for on an accruals basis. External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments either being managed or in safe custody. In addition, performance-related fees are negotiated with a number of managers and the amounts of such fees are provided in a note to the accounts.

Where a management fee notification has not been received by the time of preparing these accounts, an estimate based upon the market value of the relevant mandate is used for inclusion in the Fund Account.

The cost of external investment advice is included in investment management expenses as is the cost of any 'in-house' Fund investment activity.

O. 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 the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (see note P5).

P. Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential and Equitable Life as its AVC providers. AVCs are paid to the provider by employers and are specifically for providing additional benefits for individual contributors. Each contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see note P22).

Note P4 - Critical judgements in applying accounting policies

Unquoted private equity investments

The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor valuation report has not been received from the fund manager the security is valued at cost. The value of unquoted private equity at 31 March 2019 was £1,010.4 million (£1,191 million at 31 March 2018).

Pension Fund liability

The pension fund liability is calculated every three years by the appointed actuary with annual 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 P6. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note P5 - Assumptions made about the future and other major sources of estimation uncertainty

Actuarial present value of promised retirement benefits

Uncertainties

Estimation of the net liability to pay pensions depends 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. Barnett Waddingham, the Fund's consulting actuaries, are engaged to provide expert advice about the assumptions to be applied.

Effect if actual results differ from assumptions

The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability; however, an increase in assumed earnings inflation or assumed life expectancy would significantly increase the pension liability as detailed by the Fund's consulting Actuary below:

Change in assumptions – year ended 31 March 2019	Approx. % increase in liabilities	Approx. monetary value £m
0.5% p.a. decrease in discount rate	9%	2,089.6
1 year increase in member life expectancy	4%	834.5
0.5% p.a. increase in salary increase rate	1%	217.4
0.5% p.a. increase in CPI inflation	8%	1,861.5

Fair value of investments

Uncertainties

Certain types of investments are not publicly listed and, as such, there is a degree of estimation involved in their valuation.

Effect if actual results differ from assumptions

The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/under stated in the accounts. The total value of Level 3 investments is £3,401.1m at 31 March 2019 (£3,265.3m at 31 March 2018). The assets classified as Level 3 and the sensitivity of the valuation methods employed is described in note 17.

Note P6 - Actuarial valuation of the Fund

A full actuarial valuation of the Fund was made as at 31 March 2016 by the Fund's Actuary, G Muir of Barnett Waddingham LLP. The Actuary has determined the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £11,569.0 million represented 81% of the funding target of £14,219.0 million at the valuation date. The valuation also showed that a primary rate of contribution of 18.6% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

In general, the Fund applies a maximum deficit recovery period of 20 years. The aim is to achieve 100% solvency over the period and to provide stability in employer contribution rates.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report dated 31 March 2017. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

As a result of the valuation, a revised Rates and Adjustments certificate was prepared for the three years commencing 1 April 2017. For comparison purposes, the figures for the two preceding years are also shown. The minimum payable by the seven councils was certified as follows:

Future Service Rate (% of pay) plus lump sum (£)					
	2015/16	2016/17	2017/18	2018/19	2019/20
Birmingham City Council	12.9% plus £41,870,400	13.4% plus £43,724,800	15.3% plus £61,800,000 (£125.0m)	16.8% plus £61,800,000 (£124.0m)	18.3% plus £61,500,000 (£124.2m)
Coventry City Council	12.7% plus £12,395,000	13.1% plus £15,518,000	16.8% plus £12,000,000 (£31.1m)	16.8% plus £12,000,000 (£31.1m)	16.8% plus £12,000,000 (£31.1m)
Dudley MBC	12.7% plus £9,174,000	13.2% plus £10,931,000	15.4% plus £9,500,000 (£30.2m)	17.0% plus £9,700,000 (£31.3m)	18.6% plus £9,600,000 (£32.3m)
Sandwell MBC	13.1% plus £15,323,200	13.1% plus £19,227,200	14.7% plus £16,900,000 (£16.9m)	16.2% plus £17,000,000 (£17.0m)	17.7% plus £16,900,000 (£16.9m)
Solihull MBC	12.9%	13.5%	14.7% plus £5,000,000 (£15.6m)	16.5% plus £5,100,000 (£16.6m)	18.4% plus £5,100,000 (£17.4m)
Walsall MBC	13.2% plus £14,835,000	13.2% plus £15,518,000	15.4% plus £14,000,000 (£28.0m)	16.9% plus £14,800,000 (£30.2m)	18.3% plus £15,000,000 (£31.5m)
City of Wolverhampton Council	13.1% plus £9,900,000	13.5% plus £10,900,000	15.5% plus £13,300,000 (£29.2m)	16.8% plus £14,000,000	18.1% plus £14,600,000

The amounts shown in brackets are due in the year where the Council has opted to make a cash payment in advance. These amounts were received by the Fund in April 2017. The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	2016	2013
Rate of return on investments:	4.7% per annum	5.6% per annum
Rate of pay increases:	3.9% per annum	4.35% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.4% per annum	2.6% per annum

The assets were assessed at market value.

The latest triennial actuarial valuation of the Fund was completed at 31 March 2016 and this was conducted by the Fund's Actuary Barnett Waddingham. Based on the results of this valuation, the contribution rates payable by the individual employers were revised with effect from 1 April 2017. The Actuarial Valuation 2016 report can be found on the Fund's website by following the link www.wmpfonline.com/CHttpHandler.ashx?id=12682&p=0

Actuarial present value of promised retirement benefits for the purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose, the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, the following financial assumptions have been used:

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.55% per annum	2.40% per annum
Rate of pay increases	3.85% per annum*	3.90% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.35% per annum	2.40% per annum

* Includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £22,063.7 million. The effect of the changes in actuarial assumptions between 31 March 2018 and 31 March 2019 as described above is to increase the liabilities by £792.3 million. Adding interest over the year increases the liabilities by a further £557.4 million and allowing for net benefits accrued/paid over the period increases the liabilities by £273.3 million which includes any increase arising as a result of early retirements/augmentations. A change in mortality rates assumptions has decreased the liabilities by £1,265.2 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £22,421.5 million.

Note P7 - Taxation

1. Value added tax (VAT)

The Fund (as part of the City of Wolverhampton Council) pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

2. Taxation of overseas investment income

The Fund receives interest on its overseas bonds gross but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets.

In some markets, a lower-than-standard tax rate is available, either as a result of a double tax treaty in place between the UK and the investment country (e.g. Poland, Canada, Italy, Sweden) or based on favourable domestic legislation (e.g. Australia, Czech Republic, Singapore). Where this is the case, relief may be granted at source based on documentation already on file (e.g. USA, Belgium, Australia, Finland, France and Norway), or ex post via reclaim forms submitted to the local tax authorities (e.g. Austria, Denmark, Germany, Netherlands, Switzerland and Spain).

There are also markets where relief is not possible - either no double taxation agreement exists (e.g. Brazil, Colombia, Lebanon), or a 'subject to tax' clause prevents UK pension funds from benefiting from treaty rates (e.g. Israel, Malaysia, Portugal). In such cases, the full amount of tax is withheld and is final.

Note P8 - Contributions receivable

Contributions receivable by type

2017/18 £m		2018/19 £m	
		From employers	
619.3	Contributions		105.3
440.0	Past service deficit		40.2
0.4	Augmented membership		-
34.6	Additional cost of early retirement		24.2
1,094.3			169.7
		From members	
111.0	Basic contributions		102.3
0.6	Additional contributions		0.7
111.6			103.0
1,205.9	Total contributions		272.7

Following the actuarial valuation as at 31 March 2016, some employers chose to pay their full three-year future service and past service deficit contributions as a lump sum in 2017/18. The lump sums paid by the seven councils and accounted for last year are shown in the table in note 6. Additionally, having paid £5.5m on account in January 2018, City of Wolverhampton Council paid the balance of its 2018/19 and 2019/20 future service and past service deficit contributions by lump sum payment of £57.3m on 30 April 2018. The additional contributions above represent the purchase of added membership or additional benefits under the pension scheme.

Contributions receivable by type of employer

2017/18 £m		2018/19 £m	
55.8	Administering authority		54.8
1,113.9	Scheme Employers		190.0
36.2	Admitted employers		27.9
1,205.9	Total		272.7

Note P9 - Transfers in

2017/18 £m		2018/19 £m	
	Group transfers		14.9
25.6	Individual transfers		28.6
25.6	Total		43.5

Note P10 - Other income

2017/18 £m		2018/19 £m	
	Benefits recharged to employers		
7.8	Compensatory added years		(7.7)
6.7	Pensions increases		(6.8)
14.5	Total		(14.5)

Note P11 - Benefits payable

Benefits payable by type

2017/18 £m		2018/19 £m	
	Pensions		
410.3	Retirement pensions		434.7
28.5	Widows' pensions		29.2
1.0	Children's pensions		1.0
5.1	Widowers' pensions		5.5
0.2	Ex-spouse		0.2
0.2	Equivalent pension benefits		0.2
0.2	Co-habiting partners		0.3
445.5	Total pensions		471.1
	Lump sum benefits		
98.8	Retiring allowances		106.0
11.6	Death grants		12.6
110.4	Total lump sum benefits		118.6
555.9	Total benefits payable		589.7

Benefits payable by type of employer

2017/18 £m		2018/19 £m	
45.0	Administering authority		49.8
469.7	Other scheduled employers		490.6
41.2	Admitted employers		49.3
555.9	Total		589.7

Note P12 - Payments to and on account of leavers

2017/18 £m		2018/19 £m	
36.4	Individual transfers		32.7
-	Group transfers		
1.7	Refunds of contributions		1.9
0.1	State scheme premiums		0.1
2.8	Bulk pension transfer increases		2.6
41.0	Total		37.3

Note P13 - Management expenses

2017/18 £m		2018/19 £m	
3.8	Administrative costs		5.1
58.9	Investment management expenses, comprising:		79.9
44.6	- Management fees	47.5	
11.4	- Performance-related fees	13.0	
2.3	- Transaction costs	15.2	
0.6	- Custody fees	0.4	
-	- LGPS Central Limited	3.8	
2.8	Oversight and governance costs		2.4
1.3	LGPS Central		-
66.8	Total management costs		87.4

Included in administrative costs of £5.1m above are external audit fees of £50,438 (2017/18: £48,618). The charge for 2018/19 comprises the current year audit fee of £37,438 and £13,000 invoiced by Grant Thornton for additional audit work required in 2017/18.

Performance related fees are negotiated with a number of managers. Included in external management of investments are performance related fees of £15.2 million in 2018/19 and £11.4 million in 2017/18.

The guidance requires that external investment management fees that are deducted from asset values (rather than invoiced and paid directly) are shown gross. Wherever possible, the figures are based on actual costs disclosed by the manager; where actual costs were not available, best estimates have been made using other available information.

Note P14 - Investment Income

2017/18 £m		2018/19 £m	
	Dividends and Interest		
	<u>Bonds</u>		
7.7	UK private sector – quoted		7.5
	<u>Equities</u>		
58.0	UK private sector – quoted		9.2
142.9	Overseas		51.9
	<u>Pooled Investment Vehicles</u>		
14.9	UK private sector – quoted		103.1
0.3	Overseas equities		7.0
2.9	Interest on cash deposits		5.2
2.9	Stocklending		0.9
0.9	Other investment income		0.5
230.5	Total dividends and interest		185.3
23.8	Property management income		62.5
(5.6)	Property management expenses		(9.9)
18.2	Total property management		52.6
248.7	Total investment income		237.9

Stocklending

The stock lending programme provides for direct equity investments to be lent. At the year end the value of quoted equities on loan was £215.8m (2018: £353m) in exchange for which the custodian held collateral worth £238.6m (2018: £394.8m) representing 111% of stock lent (2018: 112%). These equities continue to be recognised in the Fund's financial statements and the collateral consists of acceptable securities and government debt.

During the period the stock is on loan, the voting rights on the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

Other investment income

Other investment income includes the following; Class action income, liquidation proceeds and tax refunds.

Note P15 - Net investment assets

31 March 2018 £m		31 March 2019 £m
	Bonds	
188.5	UK companies – segregated (external)	187.9
	Overseas Sovereign - Index Linked	151.9
188.5		339.8
	UK equities	
1,492.2	Quoted	38.0
2.0	Unquoted	2.0
1,494.2		40.0
	Overseas equities	
4,627.8	Quoted	27.5
1,715.7	Quoted – segregated (external)	1,273.8
6,343.5		1,301.3
	Pooled investment vehicles	
	Managed funds	
563.1	UK fixed interest	584.8
820.1	Other fixed interest	1,112.3
872.3	UK quoted, index linked	920.6
	UK quoted equities (pooled assets)	1,244.1
-	Overseas quoted equities (pooled assets)	4,723.9
610.0	Infrastructure	818.5
1,191.0	Private equity	1,010.4
553.2	UK absolute returns	530.4
48.3	Overseas absolute returns	61.0
51.4	UK property	60.0
170.6	Overseas property	167.5
	Unit trusts	
162.1	UK quoted equities	162.8
302.7	Overseas equities	85.3
7.1	Overseas property	0.2
5,351.9		11,481.8
	Property	
806.8	UK freehold	934.2
56.0	UK leasehold*	46.5
862.8		980.7
	Derivative contracts	
-	Futures	20.7
44.9	Forward currency contracts	1.0
44.9		21.7
	Foreign currency holdings	
2.2	Australian dollars	0.5
0.5	Canadian Dollars	0.6
0.5	Czech Koruna	1.0
0.7	Danish Kroner	0.5
11.5	Euro	208.8
0.6	Hong Kong Dollars	239.4
0.6	Hungarian Forints	0.5
1.1	Japanese Yen	5.4
0.6	New Zealand Dollars	0.5
0.6	Norwegian Kroner	0.5
0.5	Polish Zloty	0.5
0.6	Singapore Dollars	0.8
3.5	Swedish Kroner	2.9
4.1	Swiss Francs	3.1
0.6	Turkish Lira	0.6
97.8	United States Dollars	225.0
126.0		690.6
	Cash deposits	
830.1	UK	488.0
-	US	333.8
830.1		821.8
	Other investments	
0.4	Broker balances	51.8
45.2	Outstanding dividend entitlement and recoverable with-holding tax	0.5
45.6		52.3
15,287.5	Total investment assets	15,730.0
	Investment liabilities	
	Derivative contracts	
-	Forward currency contracts	(2.8)
-		(2.8)
	Other liabilities	
-	Amounts payable for purchases	(152.1)
-		(152.1)
-	Total investment liabilities	(154.9)
15,287.5	Net investment assets	15,575.1

* All leasehold properties are held on long leases

Segregated accounts are held separately from the main account by the global custodian and contain assets managed by some of the Fund's external managers.

The following investments represent more than 5% of the net assets of the Fund. All of these companies are registered in the UK.

31 March 2018			31 March 2019		
Market value	% of total market value		Market value	% of total market value	
£m	%		£m	%	
		Security			
-	-	LGPS Central Global Ex UK Passive Equity Fund	3,649.8	23.5	
-	-	LGPS Central Global UK Passive Equity Fund	1,244.1	8.0	
-	-	LGPS Central Global Equity Active Multi-Manager Fund	791.2	5.1	
773.9	5.1	Legal & General - All Stocks Index-Linked Gilts Fund	920.6	5.9	

The proportion of the market value of investment assets managed in the regional asset pool and by each external manager at the year-end is set out below.

31 March 2018			31 March 2019		
Market value	% of total market value		Market value	% of total market value	
£m	%		£m	%	
Investments managed by LGPS Central Limited regional asset pool:					
-	-	Global equities	4,723.9	30.4	
-	-	UK equities	1,244.1	8.0	
-	-		5,968.0	38.4	
Investments managed outside of LGPS Central Limited regional asset pool:					
7,986.2	52.4	In-house	2,579.3	16.6	
162.1	1.1	Managers: UK quoted	162.8	1.0	
1,232.0	8.1	Managers: emerging markets	1,273.8	8.2	
786.4	5.2	Managers: global equities	85.3	0.5	
2,444.0	16.0	Managers: fixed interest	2,805.6	18.2	
229.1	1.5	Managers: indirect property	227.7	1.5	
610.0	4.0	Managers: infrastructure funds	818.5	5.3	
601.5	3.9	Managers: absolute return	591.4	3.8	
1,191.0	7.8	Managers: private equity	1,010.4	6.5	
15,242.3	100.0		9,554.8	61.6	
45.2		Outstanding dividend entitlement and recoverable with-holding tax	52.3		
15,287.5		Net investment assets	15,575.1		

ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

During the year the Fund approved the use of both forward foreign currency hedging and exchange traded futures contracts for the purpose of hedging exposures to reduce risk in the Fund and to gain exposure to assets more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

a) Futures

During the year, the Fund made a decision to transition assets out of an internal global equity portfolio and into a new sustainable global equities mandate. Recognising that there would be some lead time in implementing this strategy, as and when the existing portfolio was realised, proceeds were invested in global equity futures pending transition to the sustainables mandate. The Fund has also invested in gilt futures to help align the weighting in this area with its strategic target and as a tool for risk management. The use of futures enables the Fund to invest cash in higher returning assets at relatively lower cost whilst retaining flexibility to switch money cheaply into the income assets that the Fund may be targeting. The Fund will continue to use futures to manage transitions, ensuring efficient portfolio management and potentially manage active currency risk not covered by the passive hedging strategy. The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

b) Forward foreign currency

To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place. The Fund commenced its currency hedging programme in September 2017 following approval by Committee to amend the Strategic Investment Allocation Benchmark to reflect the passive currency management programme. The Fund's hedging programme aims to protect returns in sterling terms and reduce currency risk by targeting a 50% hedge ratio based on the strategic weight of each region with a rebalancing taking place on a monthly basis to reflect changing market values.

c) Open forward currency contracts

Settlement	Currency Bought	Local value m	Currency Sold	Local value m	Asset value £m	Liability value £m
One to six months	GBP		700.1 EUR		809.3	1.0
One to six months	GBP		354.5 JPY		51,202.0	-
One to six months	GBP		1,992.0 USD		2,607.2	-
Open forward currency contracts at 31 March 2019						1.0
Net forward currency contracts at 31 March 2019						(1.8)

Prior year comparative

Open forward currency contracts at 31 March 2018		44.9	-
Net forward currency contracts at 31 March 2018		44.9	-

d) Open exchange traded futures contracts

Type	Expires	Economic exposure £m	Market value 31 March 2018 £m	Economic exposure £m	Market value 31 March 2019 £m
Assets					
UK equity	Under one year	-	-	59.9	1.1
Overseas equity	Under one year	-	-	730.4	19.3
UK bond	Under one year	-	-	150.0	0.3
Total assets					20.7

Note P16 - Investment market value movements analysis

	Value as at 31 March 2018	Purchases at cost	Sales at book value	Investment management fees deducted	Change in market value	Value at 31 March 2019
	£m	£m	£m	£m	£m	£m
Bonds	188.5	151.3				339.8
UK equities	1,494.2	0.2	(1,091.0)	(0.8)	(362.6)	40.0
Overseas equities	6,343.5	13.9	(3,545.7)	(2.1)	(1,508.3)	1,301.3
Pooled investment vehicles	5,351.9	7,820.1	(1,861.4)	(59.3)	230.5	11,481.8
Property	862.8	120.5	(18.1)		15.5	980.7
	14,240.9	8,106.0	(6,516.2)	(62.2)	(1,624.9)	14,143.6
Derivative contracts						
Futures	-	51.7	(4.2)	-	(26.8)	20.7
Forward foreign exchange	44.9	167.0	(308.4)		94.7	(1.8)
	14,285.8	8,324.7	(6,828.8)	(62.2)	(1,557.0)	14,162.5
Broker balances	0.4					51.8
Outstanding dividend entitlement and recoverable with-holding tax	45.2					0.5
Amounts payable for purchases of investments						(152.1)
Foreign currency	126.0					690.6
Cash deposits	830.1					821.8
Total investments	15,287.5					15,575.1

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year.

Purchases also include transfers in of investments, take-over of shares etc. and invested income. Sales proceeds include all receipts from sales of investments, transfers out of investments, take-over proceeds etc. and reductions in cash deposits including profits or losses realised on the sale.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £15.2 million (2017/18: £2.3 million). In addition to the transaction costs disclosed below, indirect costs are incurred through the bid-offer spread of investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

31 March 2018		31 March 2019
£m		£m
2.3	Equities - Overseas Quoted	15.2
2.3		15.2

The volatility of investment markets is an ever-present and longstanding feature of pension fund management and valuations may vary, either up or down, throughout each day when exchanges are open.

The change in the value of investments during 2017/18 is set out below:

	Value as at 31 March 2017	Purchases at cost	Sales at Book Value	Investment Management Fees Deducted at Source	Change in Market Value	Value at 31 March 2018
	£m	£m	£m	£m	£m	£m
Bonds	192.4	-	-	-	(3.9)	188.5
UK Equities	1,368.4	329.2	(134.2)	-	(69.2)	1,494.2
Overseas Equities	5,920.3	983.1	(512.0)	-	(47.9)	6,343.5
Pooled Investment Vehicles	5,574.4	1,797.5	(1,657.0)	(46.2)	(316.8)	5,351.9
Property	756.4	75.6	(25.8)	(1.5)	58.1	862.8
	13,811.9	3,185.4	(2,329.0)	(47.7)	(379.7)	14,240.9
Derivative Contracts						
Futures	-	1,394.5	(1,413.0)	-	18.5	-
Forward Foreign Exchange	-	15,453.6	(15,457.1)	-	48.4	44.9
	13,811.9	20,033.5	(19,199.1)	(47.7)	(312.8)	14,285.8
Broker Balances	0.2					0.4
Outstanding dividend entitlement and recoverable With-holding tax	24.7					45.2
Foreign Currency	111.8					126.0
Cash Deposits	304.1					830.1
Total Investments	14,252.7					15,287.5

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year. The profits and losses on the sale of investments shown in the Fund Account include an additional £616.3 million which represents profit realised on sale of the Fund's assets.

16 i) Property Holdings

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

2017/18		2018/19
£m		£m
756.4	Opening balance	862.8
75.6	Additions	120.5
(27.1)	Disposals	(18.1)
57.9	Net change in market value	15.5
862.8	Closing balance	980.7

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligation to purchase, construct or develop any of these properties nor does it have any responsibility for any repairs, maintenance or enhancements.

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

31 March 2018		31 March 2019
£000		£000
50,031	Within one year	40,056
192,879	Between one and five years	142,444
223,218	Later than five years	164,249
466,128	Total future lease payments due under existing contracts	346,749

The receivables above have been reduced by a credit loss allowance of 1% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This deduction is based on advice from the Fund's property letting agents.

Note P17 - Fair value - basis of valuation

The basis of the valuation of each class of investment assets is detailed below. There has not been any 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.

Asset type	Valuation level	Basis of valuation	Observable and unobservable inputs	Key sensitivity
Market quoted investments	1	Published bid market price ruling on 31 March 2019.	n/a	n/a
Quoted bonds	1	Market bid price based on current yields	n/a	n/a
Futures	1	Published exchange prices at 31 March 2019	n/a	n/a
Unquoted bonds	2	Average of broker prices	Evaluated price feeds	n/a
Pooled Investments- overseas unit trusts and property funds	2	PIV are stated at the bid price quoted or the closing single market prices.	Net asset value (NAV) based pricing set on a forward pricing basis	n/a
Forward foreign exchange derivatives	2	Market forward exchange rates at 31 March 2019	Exchange rate risk	n/a
Freehold and leasehold properties	3	Valued at fair value at the year-end using the investment valuation reports of Savills Plc. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. Agricultural properties are valued by Browns at the year end.	Existing lease terms and rentals, independent market research, tenant covenant strength, estimated vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or discount rate could affect valuations
Unquoted equity (includes Private Equity, Infrastructure and Absolute Return/Diversified Growth Funds)	3	Value is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports.	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability.	Could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Sensitivity of level 3 assets

The table below details the Fund's review of financial information as provided by independent advisors. The valuation methods detailed above are likely to be accurate to within the ranges and, as set out below, the consequent potential impact on the closing value of investments at 31 March 2019.

Level 3 assets	Valuation range	Valuation at 31 March 2019	Valuation Increase	Valuation Decrease
	% (+/-)	£m	£m	£m
Freehold and Leasehold Property	14.3	980.7	1,120.9	840.5
Private Equity	28.3	1010.4	1,296.3	724.5
Infrastructure	20.1	818.5	983.0	654.0
Absolute Return/Diversified Growth	12.5	591.5	665.4	517.6
Total		3401.1	4,065.6	2,736.6

17 i) Fair value hierarchy

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values. Criteria utilised in the instrument classifications are detailed below:

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 interest securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

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 and where these techniques use inputs that are based significantly on observable market data.

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 unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in the determining appropriate assumptions.

The values of the investments in private equity, infrastructure and absolute return/diversified growth funds are based on the latest investor reports and financial statements provided by the fund managers of the underlying funds. Valuations are undertaken quarterly and an adjustment is made to roll forward the latest available valuation to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which fair value is observable.

Value at 31 March 2019	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	7,576.0	3,188.2	2,420.4	13,184.6
Non-financial assets at fair value through profit and loss			980.7	980.7
Financial liabilities at fair value through profit and loss		(2.8)		(2.8)
Net financial assets	7,576.0	3,185.4	3,401.1	14,162.5

Value at 31 March 2018	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	9,172.8	1,802.8	2,402.5	13,378.1
Non-financial assets at fair value through profit and loss			862.8	862.8
Net financial assets	9,172.8	1,802.8	3,265.3	14,240.9

Note 17 ii) - Reconciliation of fair value measurements within level 3

Period 2018/19	Market value 1 April 2018 £'000	Transfers into Level 3	Transfers out of level 3 £'000	Purchases during the year £'000	Sales during the year £'000	Unrealised gains / losses £'000	Realised gains/losses £'000	Market value 31 March 2019 £'000
Freehold and Leasehold Property	862.8	-	-	120.5	-18.1	8.1	7.4	980.7
Private Equity	1,191.0	-	-	220.1	(247.8)	(356.7)	203.8	1010.4
Infrastructure	610.0	-	-	239.6	(30.5)	(10.8)	10.2	818.5
Absolute Return/Diversified Growth	601.5	-	-	285.8	(261.3)	27.0	-61.5	591.5
Total	3,265.3	0.0	0.0	866.0	(557.7)	(332.4)	159.9	3401.1

Note P18 - Investment capital commitments

Investment commitments at the end of the financial year in respect of future payments were:

31 March 2018 £m		31 March 2019 £m
907.6	Non-publicly quoted equities and infrastructure	814.6
107.1	Property	103.9
1,014.7		918.5

These amounts relate to outstanding commitments due on funds held in the private equity, fixed interest, absolute return and alternative investment portfolios.

Note P19 - Long term debtors

31 March 2018 £m		31 March 2019 £m
-	Private equity consolidation proceeds	82.6
25.1	Early retirement costs	28.9
	Reimbursement of lifetime tax allowances	2.2
25.1	Total	113.7

As part of a consolidation exercise, the Fund sold a number of small limited partnership private equity holdings in the secondary markets for the total sum of £184.6m. £102m of the proceeds were received by 31 March 2019 and the balance is receivable in two instalments of £29.3m due by 28 August 2020 and £53.3m due by 29 September 2020. The total outstanding of £82.6m is therefore included as long term debtors.

The Fund has agreed for certain employers to defer payment of amounts due to meet early retirement costs and £28.9m is due after the following financial year (2017/18: £25.1m). The instalments due in 19/20 are reported in current assets

Note P20 - Current Assets

	Receivables and prepayments	
	Contributions Receivable	
98.0	- Employers' future service	11.8
20.2	- Employers' past service deficit	4.7
11.7	- Members	9.6
24.8	Other Receivables	19.0
154.7	Total Receivables and Prepayments	45.1
(3.3)	Cash	2.2
151.4	Total Current Assets	47.3

Note: Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it was calculated by Mercer Limited that the Fund is due to receive a total of £27.7 million. This is to be paid in 10 equal and annual instalments commencing on 15 April 2011 and finishing on 15 April 2020 together with interest payments resulting in annual income of £3.3 million. The balance due included in Other Receivables at 31 March 2019 is £3 million (31 March 2018: £6.3 million).

Note P21 - Current liabilities

31 March 2018 £m		31 March 2019 £m
	Payables and receipts in advance	
(2.0)	Pensions and lump sum benefits	(5.9)
(42.3)	Other payables	(16.1)
(44.3)	Total	(22.0)

Investment risk

In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by investing with regard to liabilities through the triennial actuarial valuation followed by an appropriate asset allocation. During the year, the Fund targeted an 86% exposure to return seeking assets such as equities, property, other alternatives with equity-like returns, including emerging market debt and higher return fixed interest investments. The remaining 14% is allocated to stabilising assets, such as UK Government bonds or gilts, both index linked and conventional.

Risks in return-seeking assets include market risk (the greatest risk), issuer risk and volatility, which are partly mitigated by diversification across asset classes, global markets and investments funds. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of return-seeking assets would increase the costs of funding. Stabilising assets backed by the UK Government are considered low risk. However, corporate bonds carry some additional issuer risk.

Counterparty risk

In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

Credit risk

The Fund's deposits with financial institutions as at 31 March 2019 totalled £821.8 million in respect of temporary loans and treasury management instruments (31 March 2018: £830.1 million). The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the Compliance Manual. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by Fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Proposed counterparties are assessed using an amalgamation of credit ratings and market research with the resulting 'score' determining the suitability and individual limit in each case. Due diligence is conducted on potential money market funds with criteria such as AAA rating, same day access and minimum assets under management being prerequisite. A credit rating sensitivity analysis as at 31 March 2019 is shown overleaf.

Credit rating sensitivity analysis			
Summary	Long term Fitch rating*	Value at 31 March 2018 £m	Value at 31 March 2019 £m
Money market funds			
HSBC Sterling Liquidity Fund	Aaa-mf	100.0	157.4
HSBC USD Liquidity Fund Class H	Aaa-mf	-	333.8
LGIM Liquidity Fund	Aaa-mf	230.0	111.0
Insight Liquidity Fund	AAAmf	250.0	0.9
Aberdeen Liquidity Fund (Lux)	Aaa-mf	153.2	-
Short-term deposits			
Principality Building Society	BBB+	25.0	-
Nottingham Building Society	Baa1	10.0	-
Leeds Building Society	A-	-	-
Barclays	A	-	-
Skipton Building Society	A-	-	-
Coventry Building Society	A	15.0	-
Northamptonshire County Council		-	-
Mid Suffolk County Council		-	-
Swindon City Council		-	-
The City of Liverpool Council		10.0	-
London Borough of Barking & Dagenham		10.0	-
Reading Borough Council		10.0	-
London Borough of Haringey		10.0	-
Bank deposit accounts			
NatWest Corporate Cash Manager Account			129.9
CBRE Client Account West Midlands Met Authority			15.7
GBP Current Accounts	AA-	2.9	-
HSBC Global Active	AA-	4.0	73.1
Total		830.1	821.8

* Moody's rating used if no Fitch rating available

Liquidity risk

The Fund has a comprehensive daily cash flow management procedure which seeks to ensure that cash is available as needed. Due to the cashflow management procedures and the liquidity of certain asset types held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities. The Fund actually uses this liquidity risk to its benefit, taking advantage of the illiquidity premium found in investments such as private equity.

Foreign exchange risk

The Fund's exposure to foreign exchange risk is managed through the diversification of portfolios across sectors, countries and geographic regions, along with continuous monitoring and management of holdings. In addition, the Fund's currency exposure is managed in line with the daily cash management policy.

Securities lending

As at 31 March 2019, £215.8 million of stock was on loan to an agreed list of approved borrowers through the Fund's custodian in its capacity as agent lender (31 March 2018: £353 million). The loans were covered by non-cash collateral in the form of equities, gilts, DBVs and G10 sovereign debt, totalling £238.6 million, giving a margin of 10.6% (2017/18, £394.8 million, margin of 11.8%).

Collateral is marked to market, adjusted daily and held by a tri-party agent on behalf of the Fund. Net income from stocklending amounted to £0.9 million during the year (2017/18: £2.9 million) and is detailed in note 12 to the accounts. The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation. There is, however, an obligation to return collateral to the borrowers; therefore, its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

Reputational risk

The Fund's prudent approach to the collective risks listed above and compliance with best practice in corporate governance, ensures that reputational risk is kept to a minimum.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), 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, which arises from investments held by the Fund for which the future price is uncertain. The Fund mitigates price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's performance advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period (overleaf):

Market risk - Other price risk

Asset Type	Value as at 31 March 2019 £m	% Change	Value on increase £m	Value on decrease £m
UK equities	1,446.9	16.6%	1,687.1	1,206.7
Global equities (ex UK)	6,110.5	16.9%	7,143.2	5,077.8
Property	227.7	14.3%	260.3	195.1
Fixed interest*	2,957.5	8.3%	3,203.0	2,712.0
Private equity	1,010.4	28.3%	1,296.3	724.5
Alternatives**	1,409.9	16.8%	1,646.8	1,173.0
Total Fund (See note below)	13,162.9		15,236.7	11,089.1

*includes exposure to fixed interest gilts, index-linked gilts, corporate bonds, cash, high yield debt, emerging market debt, mezzanine debt, convertibles and senior loans.

**includes exposure to absolute return (£591.4m) and infrastructure (£818.5m)

The total Fund volatility taking into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory is 10.5%. On this basis, the total value on increase is £14,545 million and the total value on decrease is £11,780.8 million. Due to the approach taken to determine the total Fund volatility (in which the beneficial impact of diversification is recognised), the monetary impact on the total Fund assets is determined using the total Fund volatility, which is lower than the sum of the monetary impact for each asset class.

Asset Type	Value as at 31 March 2018 £m	% Change	Increase £m	decrease £m
UK equities	1,656.3	16.8%	1,934.6	1,378.0
Global equities (ex UK)	6,646.2	17.9%	7,835.9	5,456.5
Property	1,091.9	14.3%	1,248.0	935.8
Fixed interest*	2,444.0	8.3%	2,646.9	2,241.1
Private equity	1,191.0	28.3%	1,528.1	853.9
Alternatives**	1,211.5	16.2%	1,407.8	1,015.2
Total Fund (See note below)	14,240.9		16,601.3	11,880.5

*includes exposure to fixed interest gilts, index-linked gilts, corporate bonds, cash, high yield debt, emerging market debt, mezzanine debt, convertibles and senior loans.

**includes exposure to absolute return (£601.5m) and infrastructure (£610.0m)

Currency risk - sensitivity analysis

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 functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK. The following tables summarise the Fund's currency exposure as at 31 March 2019 and 31 March 2018:

Currency risk by asset class

Asset Type	Value at 31 March 2019 £	% Change	Value on Increase £	Value on Decrease £
Global equities (ex UK)	6,110.5	10.0%	6,721.6	5,499.5
Private equity	1,010.4	10.0%	1,111.4	909.4
Fixed interest	2,957.5	10.0%	3,253.3	2,661.8
Alternatives	1,409.9	10.0%	1,550.9	1,268.9
Property funds	167.5	10.0%	184.3	150.8
Liquid assets	1,074.0	10.0%	1,181.4	966.6
Total	12,729.8		14,002.9	11,457.0

Asset Type	Value at 31 March 2018 £	% Change	Value on Increase £	Value on Decrease £
Global equities (ex UK)	6,646.2	10.0%	7,310.8	5,981.6
Private equity	1,191.0	10.0%	1,310.1	1,071.9
Fixed interest	2,444.0	10.0%	2,688.4	2,199.6
Alternatives	1,211.5	10.0%	1,332.7	1,090.4
Property funds	229.1	10.0%	252.0	206.2
Liquid assets	126.0	10.0%	138.6	113.4
Total	11,847.8		13,032.6	10,663.1

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Interest rate risk - sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The Fund's consulting actuary has advised that the assumed interest rate volatility is 100 basis points (BPS) per annum.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/-100 BPS change in interest rates:

Asset Type	Carrying amount as at 31	Change in year in the net assets	
	March 2019	+100BPS	-100BPS
	£m	£m	£m
Index-linked Gilts	920.6	(203.5)	203.5
Gilts	172.7	(20.0)	20.0
Corporate Bonds	585.1	(49.6)	49.6
Gilt Future*	150.3	(13.1)	13.1
US TIPS	151.9	(18.5)	18.5
Total	1,980.6	(304.7)	304.7

* Economic exposure

Asset Type	Carrying amount as at 31	Change in year in the net assets	
	March 2018	+100BPS	-100BPS
	£m	£m	£m
Index-linked Gilts	872.3	(183.2)	183.2
Gilts	166.6	(17.3)	17.3
Corporate Bonds	585.1	(50.1)	50.1
Total	1,624.0	(250.6)	250.6

Note P26 - Impairment for bad and doubtful debts

The following additions and write offs of pension payments were reported in this financial year, in line with the Fund's policy:

Individual Value	Additions analysis	
	Number	Total £
Less than £100	8	206.40
£100 - £500	1	106.71
Over £500	2	2,297.30
TOTAL	11	2,610.41

Write off analysis		
Individual Value	Number	Total £
Less than £100	2	150.56
£100 - £500	52	11,319.38
Over £500	21	66,268.39
TOTAL	75	77,738.33

Note P27 - Related parties

Pensions administration and certain investment functions are performed by the City of Wolverhampton Council and the costs shown in Note P13 above are recharged to the Fund. Contributions of £64.1 million were receivable from the City of Wolverhampton Council for 2018/19 (2017/18: £35.8 million). Having paid £5.5m on account in January 2018, City of Wolverhampton Council paid the balance of its 2018/19 and 2019/20 future service and past service deficit contributions by lump sum payment of £57.3m on 30 April 2018. Balances owed by and to the Council at the year end are shown in Notes P19, P20 and P21.

Pensions Committee

Eight members of the Pensions Committee are also members of the Fund as set out below:

Pensioner:	Councillors Bagri, Butt, Inston, Mutton and Underhill
Active:	Councillor Hevican
Deferred:	Councillors Brookfield and Simkins

Each member of the Pensions Committee is required to declare any interests relevant to the matters being discussed at each meeting.

There are five employing bodies of the Fund in which a member of the Committee has declared an interest for 2018/19. Contributions from each of these are set out below.

Contributions receivable 2017/18 £000		Contributions receivable 2018/19 £000
5,730	West Midlands Fire and Rescue Service	-
4,497	Wolverhampton Homes	4,890
174	Wolverhampton Girls High School	218
18	Kingswood Trust	21
-	Wolverhampton City Council	64,100
-	Birmingham Museums Trust	175

LGPS Central Limited

LGPS Central Limited has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the LGPS Central Pool, of which Wolverhampton City Council, as the administering authority for West Midlands Pension Fund, is one of the shareholders. Each authority has one Class A voting share in LGPS Central Limited.

The West Midlands Pension Fund paid £0.355m of set-up costs in relation to LGPS Central Limited in 2018/19 bringing the Pension Fund's total share of set-up costs to £0.502m. These set up costs have been reimbursed by LGPS Central Limited in full to the Pension Fund in 2018/19.

LGPS Central Limited launched its first products on 3 April 2018, a range of passive equity funds which the Fund has invested in from launch. Additionally, the Fund has agreed a number of advisory agreements covering a range of asset classes within the fixed income portfolio and wider illiquid portfolios. LGPS Central Limited has also provided the Fund with execution only services in the management of forward currency hedging positions. The charges in respect of these services totalled £1.699m in 2018/19 (2017/18: £nil). The amount outstanding in respect of these services at 31 March 2019 was £0.202m (2017/18: £nil).

The Pension Fund was invoiced £2.071m in respect of Governance, Operator Running and Product Development costs by LGPS Central Limited for 2018/19 (2017/18: £nil). The amount outstanding in respect of these services at 31 March 2019 was £0.370m (2017/18: £nil).

LGPS Central Limited has let office space from Wolverhampton City Council since 1 April 2018 on a sub leasing arrangement. The rental income and rates receivable by Wolverhampton City Council from LGPS Central Limited in 2018/19 totalled £81,798 and the reimbursement of associated utilities and maintenance charges for 2018/19 totalled £8,021. In addition, West Midlands Pension Fund provided graphic design services to LGPS Central Limited for a fee of £11,770.

LGPS Central Limited is an admitted body and employs staff that are active members of the West Midlands Pension Fund. Consequently, LGPS Central Limited paid contributions to the Fund on behalf of staff totalling £274,764 (2017/18: £8,582).

Wolverhampton City Council, via the Pension Fund, has invested £1.315m in LGPS Central Limited class B shares and £0.685m in class C shares in 2017/18 and these are both balances at this year end.

Key management personnel

The Fund's current senior management comprises six individuals: the Director of Pensions, Assistant Director (Finance & Investments), the Head of Operations, the Head of Pensions, the Head of Governance and Corporate Services and the Head of Finance. The total salary paid to the senior management team in 2018/19 was £458,000 (2017/18: £481,000). In addition to this, employer's pension contributions of £138,000 (2017/18: £130,000) were met from the Fund in respect of these individuals.