

7.0 FUNDING AND INVESTMENTS

In accordance with [Regulation 12](#)¹ of the [LGPS \(Management and Investment of Funds\) Regulations 2009 \(as amended\)](#)² the administering authority has produced and published its [Statement of Investment Principles](#)³. It contains a compliance statement as regards the Government Code of Investment Principles and provides information on all the Fund's service providers and the nature of services they provide.

7.1 Pension Fund service providers

Investment managers

In accordance with [Regulation 7 to 10](#)⁴ of the LGPS (Management and Investment of Funds) Regulations 2009 (S.I. 2009 No. 3093) the administering authority has appointed a number of investment managers who it believes to meet the requirements of those regulations. The day to day management of the Pension Fund's investment portfolios is delegated to a wide ranging and diverse set of investment managers as appointed by the Pension Fund Panel having due regard to the input of the Pension Fund Advisory Panel, the Pension Fund Manager and the Pension Fund's independent advisor. The investment managers' duties include:

- Purchase and sale of the assets of the Pension Fund;
- Preparation of quarterly reporting including a review of investment performance;
- Reporting as required to the Pension Fund Panel and Pension Fund Advisory Panel;
- Providing administrative and accounting data concerning the investment portfolio and investments.

Further details regarding investment managers and stock selection can be found in paragraph 4.5 of the Statement of Investment Principles.

Table 4 – Asset Allocation (1 April 2014)

| ASSET CLASS | % OF WHOLE FUND |
|---|-----------------|
| BONDS | 14.56 |
| Index Linked Bonds | 0.99 |
| Private Fixed Interest | 8.25 |
| Convertible Bonds | 5.32 |
| EQUITIES | 56.34 |
| Developed World | 17.30 |
| Emerging Markets | 13.60 |
| Private Equity | 9.11 |
| Grosvenor Absolute Return Portfolio | 16.33 |
| INFRASTRUCTURE | 3.83 |
| COMMODITIES | 8.43 |
| PROPERTY | 11.23 |
| BLUE SWAN GLOBAL INVESTMENTS (Cash and Accruals) | 0.12 |
| CASH | 5.34 |
| CURRENCY CONTRACTS | 0.15 |
| TOTAL | 100.00 |

¹ <http://www.legislation.gov.uk/uksi/2009/3093/regulation/12/made>

² <http://www.legislation.gov.uk/uksi/2009/3093/contents/made>

³ http://www3.rbwm.gov.uk/bpf/downloads/download/1/pension_fund_policies

⁴ <http://www.legislation.gov.uk/uksi/2009/3093/crossheading/investment-managers/made>

Custodian

Currently the Pension Fund operates with JP Morgan Worldwide Securities Services as its Custodian. They are responsible for safeguarding the Fund's securities including the settlement of all investment transactions, collection of income, dividends and overseas tax reclaims and corporate action administration.

Pension Fund Actuary

The appointed Pension Fund Actuary is Barnett Waddingham LLP. They are responsible for:

- Undertaking the [triennial valuation](#)⁵ of the Pension Fund's assets and liabilities in accordance with [Regulation 62](#)⁶ of the LGPS Regulations 2013;
- Setting the scheme employer contribution rates as part of the triennial valuation process;
- Undertaking [FRS17](#)⁷ and [IAS19](#)⁸ (accounting standards) valuations annually for each scheme employer as requested;
- Providing actuarial advice and guidance as required.

The Actuary attends the Pension Fund's annual meeting and annual employer meeting and meets with the Pension Fund Panels as required but in particular to discuss the results of the triennial valuation.

The last triennial valuation date was 31 March 2013 (subsequent valuations will be on the 3-year anniversary of that date i.e. 31 March 2016, 31 March 2019 etc.). The [rates and adjustments certificate](#)⁹ issued by the Actuary as part of the valuation report sets out the common employer contribution rate across the Fund and the adjusted rate payable by each scheme employer (some employers are pooled together). Although the valuation date will be 31 March 2013, for example, the rates certified by the Actuary will not take effect until the April a year later, 1 April 2014.

The Actuary may also be required to issue revised actuarial valuations and certificates under special circumstances outlined in [Regulation 64](#)¹⁰ of the LGPS Regulations 2013. This deals mainly with exiting employers and the requirement for the Actuary to undertake a cessation valuation in order to identify any exit payment required of the exiting employer to meet their liabilities at the point they are no longer classed as a scheme employer.

Independent strategy advisors

The Pension Fund has appointed two independent strategy advisors who give advice on the asset allocation of the Pension Fund to the Investment Working Group.

Independent advisor to Pension Fund Panel

An Independent advisor has been appointed to give general advice and guidance to members of the Pension Fund Panel and Pension Fund Advisory Panel.

⁵ http://www3.rbwm.gov.uk/bpf/downloads/download/2/pension_fund_reports

⁶ <http://www.legislation.gov.uk/uksi/2013/2356/regulation/62/made>

⁷ <http://www.hmrc.gov.uk/manuals/intmanual/INTM523420.htm>

⁸ http://webarchive.nationalarchives.gov.uk/+/http://www.hmrc.gov.uk/practitioners/int_accounting.htm

⁹ http://www.berkshirerensions.org.uk/bpf/info/2/employers/36/contributions_-_employers

¹⁰ <http://www.legislation.gov.uk/uksi/2013/2356/regulation/64/made>

7.2 Funding objectives

The primary objective of the Pension Fund is to provide scheme members with payment of the correct retirement benefits and the correct benefits payable to their surviving dependants upon death on the correct date. The Pension Fund sets out how it will achieve its objectives along with its investment philosophy as part of its [Statement of Investment Principles](#)¹¹ (SIP) published in accordance with [Regulation 12](#)¹² of the LGPS (Management and Investment of Funds) Regulations 2009 (S.I. 2009 No. 3093).

7.3 Funding Strategy Statement

The administering authority has produced and published a [Funding Strategy Statement](#)¹³ (FSS) in accordance with [Regulation 58](#)¹⁴ of the LGPS Regulations 2013. The FSS is to be read in conjunction with the Statement of Investment Principles (SIP).

The key objectives of the FSS are to seek to achieve:

- As stable scheme employer contribution rates as practical; and
- A funding level of 100% as assessed by the Pension Fund's appointed Actuary, triennially, in accordance with scheme regulations.

The Pension Fund endeavours to achieve its key objectives via management of the contributions paid by both scheme members and scheme employers and the investment returns realised on those contributions.

7.4 Being 100% funded

Whilst the amount that employees have to pay by way of contributions is set out in the scheme regulations, the amount that scheme employers pay is set every three years by an independent Actuary who undertakes a health check of the Pension Fund known as a valuation. As part of the valuation process, the Actuary will set employer contributions rates for the forthcoming valuation period.

It is very important that contributions are paid to the Pension Fund by scheme employers in a timely manner and by the very latest within the regulatory timescale of the 19th of the month following the month in which the contributions were deducted from pay (see paragraph 9.3).

All contributions, whether employee standard contributions, employee additional contributions or employer contributions, should be paid as soon as possible to the Pension Fund to ensure the best possible investment returns.

As mentioned previously, the amount of contribution that an employee pays into the LGPS is set out in regulation. So the only variable at present is the employer contribution and the investment returns. It could, therefore, be said that all of the risk falls upon the employer and to a certain extent this is true as at times when the Pension Fund is in deficit the employer is statutorily obliged to contribute more into the Fund to ensure that the level of benefits payable to their current and former employees is maintained.

¹¹ http://www3.rbwm.gov.uk/bpf/downloads/download/1/pension_fund_policies

¹² <http://www.legislation.gov.uk/uksi/2009/3093/regulation/12/made>

¹³ http://www3.rbwm.gov.uk/bpf/downloads/download/1/pension_fund_policies

¹⁴ <http://www.lgpsregs.org/index.php/strategies?showall=&start=1>

This is why it is so important for scheme employers to ensure that they deduct the correct rate of employee and employer contributions through their payrolls. Failure to do so can result in employers facing higher contribution rates in the future.

In accordance with the Pension Fund's '[Pension Administration Strategy](#)¹⁵' a scheme employer will be held to account for late payment of contributions and will be issued with a written notice of unsatisfactory performance and may be charged interest where that performance does not improve. An employer who continues to fail to meet the statutory requirement to pay contributions over to the Pension Fund within prescribed deadlines could be at risk of being reported to the Pensions Regulator who has the power to issue fines.

7.5 Employer cost cap

Regulation 115 of the Local Government Pension Scheme Regulations 2013 was inserted by [The Local Government Pension Scheme \(Amendment\) \(Governance\) Regulations 2015 \(S.I. 2015 No. 57\)](#)¹⁶ and sets an employer cost cap for the Scheme as 14.6% of the pensionable earnings of members of the Scheme for future service.

This cost cap refers to the overall employer cost across all of the LGPS funds in England & Wales and the method by which, in accordance with [section 11](#)¹⁷ and [section 12](#)¹⁸ of the Public Service Pensions Act 2013, those costs will be maintained in line with Treasury Directions.

In accordance with Regulation 114 of the Local Government Pension Scheme Regulations 2013 as inserted by [The Local Government Pension Scheme \(Amendment\) \(Governance\) Regulations 2015 \(S.I. 2015 No. 57\)](#)¹⁹ the Secretary of State has appointed the Government Actuary to carry out valuations of the Scheme and the administering authority is required to provide to the Scheme Actuary any data that the Scheme Actuary reasonably requires in order to carry out the valuation and report on the results of the valuation.

In line with Regulation 116 of the Local Government Pension Scheme Regulations 2013 as inserted by [The Local Government Pension Scheme \(Amendment\) \(Governance\) Regulations 2015 \(S.I. 2015 No. 57\)](#)²⁰ the Scheme Advisory Board will review the Scheme Actuary's valuation report and where the overall cost is above or below the target cost by a variance of 2%, the Board may make recommendations to the Secretary of State as to the steps to be taken to bring the overall cost back within target. This could result in either the increase or decrease of members' benefits or contributions.

The overall target cost of the Scheme is 19.5% of the pensionable earnings of members of the Scheme and the target proportion is that scheme employers should meet two-thirds of the overall cost with scheme members meeting one-third of the overall cost.

¹⁵ http://www3.rbwm.gov.uk/bpf/downloads/download/1/pension_fund_policies

¹⁶ <http://www.legislation.gov.uk/uksi/2015/57/contents/made>

¹⁷ <http://www.legislation.gov.uk/ukpga/2013/25/section/11>

¹⁸ <http://www.legislation.gov.uk/ukpga/2013/25/section/12>

¹⁹ <http://www.legislation.gov.uk/uksi/2015/57/contents/made>

²⁰ <http://www.legislation.gov.uk/uksi/2015/57/contents/made>