

Pension Fund Accounts

Fund Account

2022/23 £000	Fund Account	Notes	2023/24 £000
	Dealings with members, employers and others directly involved in the scheme		
(27,663)	Contributions	7	(28,422)
(4,113)	Transfers in	8	(3,343)
(31,776)	Total Income		(31,765)
29,915	Benefits	9	34,247
4,991	Payments to and on account of leavers	10	4,692
34,906	Total Expenditure		38,939
3,130	Net (additions)/withdrawals from dealings with members		7,174
4,377	Management expenses	11	4,118
7,507	Net (additions)/withdrawals including Fund management expenses		11,292
	Returns on investments		
(18,601)	Investment income	12	(28,095)
72,596	(Profit) and losses on disposal of investments and changes in the market value of investments	16.2	(45,142)
53,995	Net returns on investments		(73,237)
61,502	Net (increase)/decrease in the net assets available for benefits during the year		(61,945)
(926,993)	Opening net assets of the scheme		(865,491)
(865,491)	Closing net assets of the scheme		(927,436)

Net Assets Statement

2022/23 £000	Fund Account	Notes	2023/24 £000
841,304	Investment assets	14.1	892,204
841,304	Total Investments		892,204
25,154	Current assets	20	36,441
(967)	Current liabilities	21	(1,209)
865,491	Net assets of the Fund available to Fund benefits at period end		927,436

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19.

Notes to the Pension Fund Accounts

1. Description of Fund

Merton Pension Fund (the Fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Merton.

a) General

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

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a defined benefit pension scheme administered by London Borough of Merton to provide pensions and other benefits for pensionable employees of Merton Council, and a range of other scheduled and admitted bodies within the borough. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Merton Pension Fund Committee, which is the full decision-making Sub-Committee of Merton Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. New local government employees will be automatically enrolled in the scheme and have the option to opt-out.

Organisations participating in the Merton Pension Fund include the following:

- scheduled bodies, which are automatically entitled to be members of the Fund.
- admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable, and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership details are set out below:

Admitted Bodies	Scheduled Bodies
	<ul style="list-style-type: none"> • Harris Academy Merton • Harris Academy Morden • Harris Academy Primary • Harris Wimbledon • St Mark's Academy • Benedict Academy • Park Community School • Beecholme Academy • Aragon Academy • Stanford Primary Academy • Wimbledon and Putney Commons Conservators

The following table summarises the membership numbers of the scheme.

2022/23		2023/24
	Active Members	
3,996	London Borough of Merton	4,141
366	Scheduled bodies	341
35	Admitted bodies	0
4,397		4,482
	Pensioners	
4,032	London Borough of Merton	4,125
186	Scheduled bodies	195
137	Admitted bodies	138
4,355		4,458
	Deferred Pensioners	
5,949	London Borough of Merton	6,021
486	Scheduled bodies	532
113	Admitted bodies	151
6,548		6,694

c) Funding

The scheme is financed by contributions from employees and employers, together with income and proceeds from investment of the Pension Fund.

Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2024.

The employee contributions are matched by the employer contributions which are set based on triennial actuarial Funding valuations. The last valuation was carried out in March 2022 (came into effect from April 2023).

Currently, employer contribution rates range from 12.0% to 26.4%. Some employers pay an additional monetary contribution towards their past service costs.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service,

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Normal Pension Age is no longer assumed to be 65, but rather the State Pension Age, which is subject to change. This would affect survivor benefits and ill health provision.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2023/24 financial year and its financial position at year-end as at 31 March 2024. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements summarises the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is disclosed in Note 19.

The Fund was 109% funded at the 31 March 2022 Triennial valuation and this is an increase from the 103% at the 2019 Triennial valuation. The Fund is a mature fund and pays out more benefits compared to the month contribution income. However, with careful cashflow management and taking into account the investment income any deficit in cash flow is managed effectively.

The majority of the investment income is reinvested into the respective investment for added growth, with the exception of the fixed income buy and maintain investment. The income from this investment is used to manage the operational cashflow needs.

2.1 Going Concern

The accounts have been prepared on a going concern basis. The Fund is an open scheme with a strong covenant from the participating employers and therefore able to take a long-term outlook when considering the general funding implications of external events.

The majority of employers in the Fund after the administering Authority are scheduled bodies and have secure public sector funding and as a result are more able to continue to make their pension contributions.

To address the current operating cash flow shortfall and in recognition of the mature nature of the Fund, (with the increasing number of retired and deferred Fund members relative to active Fund members), the investment strategy of the Fund is now to target

to invest in income generating assets and have started to receive returns from some of these investments.

Given the above, the Fund considers it appropriate to prepare the financial statements on a going concern basis.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 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.

Each individual employers' deficit funding contributions (if applicable) are accounted for on the due date on which they are payable as calculated by the Fund actuary. Their purpose is to finance the recovery of past service deficiencies over an agreed period (currently twelve years).

Refund of contributions have been brought into the accounts based on all valid claims paid during the year rather than the date of leaving or date of retirement.

Where members of the pension scheme have no choice but to receive a refund or single cash sum on retirement, these accounts have included any material amounts as accruals.

3.2 Transfers to and from other schemes

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These are included on the basis of payments made or receipts received in the case of individual transfers and on an accrual's basis for bulk transfers, which are considered material to the accounts.

3.3 Investment income

Investment income is reported gross of taxation, regardless of whether tax may be payable on a portion of that income. Tax paid is reported separately if applies.

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.

The figure shown as investment income is made up of different types of income (dividend income for equity, interest income for bond and distributions for pooled investments).

Revenue account – expense items

3.4 Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

3.5 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 a Fund expense as it arises.

By virtue of London Borough of Merton being the Administering Authority, VAT input tax is generally recoverable on all Fund activities.

3.6 Management Expenses

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. They are deducted from Fund assets managed by the Fund Managers. Custodian fees are paid via the custodian cash account.

A proportion of the Administering Authority's costs representing management time spent by officers on investment management are charged to the Fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accrual basis. All staff costs associated with governance and oversight are charged direct to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

3.7 Administrative Expenses

All administrative expenses are accounted for on an accrual's basis. Pension administration has been carried out by the London Borough of Wandsworth as part of the Pension shared services arrangement since 1st December 2013.

Net Asset Statement

3.8 Investment Assets

All investment assets are included in the financial statements 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 16). 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).

3.9 Movement in the net market value of investment

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.

3.10 Foreign currency

Dividends, interest income, purchases, and sales of investments are accounted for at the spot market rates at the date of transaction. End of year spot rate is used to calculate the closing cash balances held in foreign currency, overseas investments and purchases and sales outstanding at the end of the reporting period.

3.11 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.

3.12 Cash and cash equivalents

Cash equivalents are short term, highly liquid investments that are readily convertible to cash and subject to minimum risk of changes in value.

The cash balance includes cash held by the Fund managers, custodian and within the Funds' bank account.

3.13 Financial Liabilities

A financial liability is recognised in the net asset statement on the date the Fund becomes legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest

due not yet paid is accounted for on an accruals basis and included in administration costs.

3.14 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 IAS19 and relevant actuarial standards.

As permitted under IAS26, 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 19).

3.15 Additional Voluntary Contributions

Merton Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund with Prudential. 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 for information in Note 22.

3.16 Contingent Assets and Contingent Liabilities

A contingent assets or liabilities arises where an event has taken place prior to the year-end giving rise to a possible asset or financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

No contingent assets or liabilities recognised as at 31 March 2024 that need to be disclosed in the statement of Accounts.

4. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 3 above, the Administering Authority has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

4.1 Pension Fund Liability

Actuarial valuation of the Fund is carried out every three years and there are annual updates in the intervening years. These valuations determine the Pension Fund liability at a given date. There are various assumptions used by the actuary that underpin the valuations, therefore the valuations are subject to significant variances dependent on the assumptions used.

*Please see Notes 18 and 19 for more detail.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The main item in the Fund's Net Asset Statement at 31 March 2024 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age.	<p>The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £12.3m and a -0.1% reduction would increase the obligation by £12.6m. An adjustment to the mortality age rating assumption of -1 yr would decrease the obligation by £32.6m.</p> <p>McCloud - the actuary has included the impact of the McCloud as part of the 2022 Triennial valuation.</p>
Unquoted Investments	The Pension Fund contains investments in un-listed pooled property, private debt and infrastructure funds that are classified within the financial statements as level 3 investments (as detailed in note 15). These funds are valued according to non-exchange-based market valuations.	<p>As a result of this, the final realised value of those pooled units may differ slightly from the valuations presented in the accounts.</p> <p>There is a risk that these investments may be under- or overstated in the accounts by up to 10% i.e. an increase or decrease of £21.3m.</p>

6. Events After the Reporting Date

There were no events to disclose.

7. Contributions Receivable

2022/23 £000	By Category	2023/24 £000
19,570	Employers	20,298
8,093	Members	8,124
27,663	Total	28,422

2022/23 £000	By Type	2023/24 £000
23,924	Administering	25,662
2,977	Scheduled	2,337
732	Admitted	423
27,633	Total	28,422

2023/24 £000	By Type	2023/24 £000
19,100	Employers normal	19,902
8,093	Employees normal	8,124
30	Deficit Funding	178
441	Employers additional	218
27,663	Total	28,422

8. Transfers In From Other Pension Funds

2022/23 £000		2023/24 £000
4,113	Individual Transfers	3,343
4,113	Total	3,343

9. Benefits Payable

2022/23 £000	By Category	2023/24 £000
25,235	Pensions	28,068
4,075	Commutations and lump sum retirement benefits	5,469
605	Lump sum death benefits	710
29,915	Total	34,247

2022/23 £000	By Authority	2023/24 £000
27,558	Administering	31,497
1,400	Scheduled	1,508
957	Admitted	1,242
29,915	Total	34,247

10. Payments to and on Account of Leavers

2022/23 £000		2023/24 £000
4,782	Individual transfers	4,525
210	Refunds of contribution	167
(1)	State scheme premiums	0
4,991	Total	4,692

11. Management Expenses

2022/23 £000		2023/24 £000
567	Administrative costs	755
3,550	Investment management expenses	3,177
260	Oversight and governance costs	186
4,377	Total	4,118

11a. Investment Management Expenses

2023/24	Total £000	Management Fees £000	Performance Costs £000	Transaction Fees £000
Bonds	85	85	0	0
Pooled Investments	478	478	0	0
Pooled Property Investments	397	397	0	0
Private Debt	556	556	0	0
Infrastructure	1,647	1,647	0	0
	3,163	3,163	0	0
Custody Fees	13	0	0	0
Pooled Fees deducted at source	2,099	2,089	10	0
Total	5,275	5,252	10	0

Note: Fees deducted at source were calculated and deducted as part of the portfolio's daily Net Asset Value calculation.

2022/23	Total £000	Management Fees £000	Performance Costs £000	Transaction Fees £000
Bonds	73	73	0	0
Pooled Investments	(21)	(21)	0	0
Pooled Property Investments	681	681	0	0
Private Debt	551	551	0	0
Infrastructure	2,252	2,252	0	0
	3,536	3,536	0	0
Custody Fees	14	0	0	0
Pooled Fees deducted at source	2,176	2,164	12	0
Total	5,726	5,700	12	0

12. Investment Income

2022/23 £000		2023/24 £000
(251)	Bonds	3,342
3,503	Pooled equity investments	4,215
5,276	Pooled investments (Other)	6,438
826	Pooled property investments	819
4,669	Infrastructure	6,033
4,285	Private Debt	5,688
293	Other	1,561
18,601	Total	28,095

13. External Audit Cost

2022/23 £000		2023/24 £000
25	Payable in respect of external audit	25
36	Payable in respect of other services	57
61	Total	82*

* As per PSAA audit appointments and fees scale

14. Investment

14.1 Asset management arrangements

The management of Fund assets is delegated to external investment managers directly and via the LCIV pool, who are authorised to conduct investment management business in the UK by the Financial Conduct Authority (FCA). The table below shows the market value and the proportion of the assets (including accrued dividends) managed by each manager as at 31 March 2024.

Market Value 31 March 2023		Fund Manager	Market Value 31 March 2024	
£000	%		£000	%
		Investments managed by LCIV regional asset pool		
104,844	12.5	Blackrock	135,640	15.2
35,030	4.2	JPM Emerging Markets	34,563	3.9
99,487	11.8	Baillie Gifford	67,641	7.6
61,680	7.3	Ruffer	57,976	6.5
84,274	10.0	RBC	71,389	8.0
73,276	8.7	CQS	81,716	9.2
150	0.0	LCIV Subscription	150	0.0
		Investments managed outside the LCIV regional asset pool		
113,766	13.5	UBS Asset Management	52,814	5.9
30,166	3.6	Henley Investment Management	46,649	5.2
20,937	2.5	Macquarie	22,089	2.5
27,746	3.3	Quinbrook	28,791	3.2
64,966	7.7	JPM Infrastructure	65,277	7.3
18,708	2.2	Churchill	14,936	1.7
32,914	3.9	Permira	35,882	4.0
65,999	7.9	Allsprings	169,814	19.0
7,361	0.9	Blackrock property	6,877	0.8
841,304	100	Total	892,204	100

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2024 is shown in the following table.

Market Value 31 March 2023 £000		Market Value 31 March 2024 £000
	Investment Assets	
53,689	Bonds	158,426
395,273	Pooled equity investments	345,854
159,676	Pooled investments (other)	139,692
54,215	Pooled property investments	69,541
51,622	Private Debt	50,818
112,898	Infrastructure	115,217
2,341	Derivatives	(45)
10,689	Cash held with fund managers	11,026
751	Investment income due	1,525
841,154	Total Investment Assets	892,054
0	Investment Liabilities	0
150	LCIV Subscription	150
841,304	Net investment assets	892,204

14.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2023/2024. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown.

	Market Value 1 April 2023 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the Year £000	Market Value 31 March 2024 £000
Bonds	53,689	214,421	(119,970)	10,286	158,426
Pooled Equity Investments	395,273	49,900	(144,986)	45,667	345,854
Pooled Investments Other	159,676	0	(24,106)	4,122	139,692
Private Debt	51,622	4,555	0	(5,359)	50,818
Infrastructure	112,898	12,343	0	(10,024)	115,217
Pooled Property	54,215	18,182	0	(2,856)	69,541
	827,373	299,401	(289,062)	41,836	879,548
Derivative Contracts					
Forward Currency Contracts	2,341	0	(2,341)	(45)	(45)
	829,714	299,401	(291,403)	41,791	879,503
Other Investment Balances					
Cash with Fund Managers	10,689	0	0	0	11,026
Custody account balances (1)	0	0	0	1,773	0
Henley 22/23 b/f balance (2)	0	0	0	1,616	0
Balancing item (3)	0	0	0	(38)	0
Investment Income Due	751	0	0	0	1,525
LCIV Subscription	150	0	0	0	150
	11,590			3,351	12,701
Net Investment Assets	841,304			45,142	892,204

Notes:

1. Northern Trust custody adjustment on the USD Money Market balance and movement.
2. Henley Property Fund was understated in the ledger for 22/23 and adjusted in 23/24. The SOA in 22/23 accounted for the correct NAV.
3. This is an unreconciled amount.

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2022/2023.

	Market Value 1 April 2022 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the Year £000	Market Value 31 March 2023 £000
Bonds	98,413	73,668	(76,011)	(42,381)	53,689
Pooled Equity Investments	418,527	77,252	(81,752)	(18,754)	395,273
Pooled Investments Other	252,337	0	(77,900)	(14,761)	159,676
Private Debt	40,359	10,798	(1,140)	1,605	51,622
Infrastructure	81,543	51,884	(26,522)	5,993	112,898
Pooled Property	29,040	31,818	(36)	(6,607)	54,215
	920,219	245,420	(263,361)	(74,905)	827,373
Derivative Contracts					
Forward Currency Contracts	(4,705)	0	4,705	2,341	2,341
	915,514	245,420	(258,656)	(72,564)	829,714
Other Investment Balances					
Cash with Fund Managers	8,371	0	0	0	10,689
Spot FX	0	0	0	(34)	0
Investment Income Due	177	0	0	0	751
LCIV Subscription	150	0	0	0	150
Balancing item	0	0	0	2	0
	8,698			(32)	11,590
Net Investment Assets	924,212			(72,596)	841,304

14.4 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2024.

15. Fair Value – Basis of Valuation

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Market value based on current yields	Not required	Not required
Pooled investments - Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equities	Level 3	The development, pre-construction and construction-stage assets are held at cost	Not required	Not required

15a Fair Value Hierarchy

The valuation of financial instruments can be classified into three levels, according to the quality and reliability of information used to determine fair values. All the financial instruments of the Fund are classified as level 1, 2 and 3, as follows:

- Level 1 – Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trust.
- Level 2 – Where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.
- Level 3 – Where at least one input that could have a significant effect on the Instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

31 March 2023				31 March 2024		
Quoted market price Level 1 £000	Quoted market price Level 2 £000	Quoted market price Level 3 £000		Quoted market price Level 1 £000	Quoted market price Level 2 £000	Quoted market price Level 3 £000
618,490	16,688	194,686	Financial assets	650,954	16,015	212,681
11,440	0	0	Fair value through profit and loss	12,551	0	0
			Loans and Receivables			
			Financial liabilities			
00	0	0	Fair value through profit and loss	0	0	0
629,930	16,688	194,686	Total	663,505	16,015	212,684

16. Financial Instruments

16.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement heading.

31 March 2023			31 March 2024			
Designated at fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised costs		Designated at fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial Assets			
53,689	0	0	Bonds	158,426	0	0
554,949	0	0	Pooled Investments	485,546	0	0
54,215	0	0	Pooled Property Investments	69,541	0	0
164,520	0	0	Private Debt & Infrastructure	166,035	0	0
0	150	0	LCIV Subscription	0	150	0
2,341	0	0	Derivatives	(45)	0	0
0	10,689	0	Cash With Fund Managers	0	11,026	0
751	0	0	Other Investment Balances	1,525	0	0
0	1,058	0	Sundry Debtors	0	972	0
0	23,970	0	Cash	0	33,274	0
830,465	35,867			881,028	45,422	
			Financial Liabilities			
		(967)	Sundry Creditors			(1,209)
830,465	35,867	(967)	Total	881,028	45,422	(1,209)
		865,365	Grand Total			925,241

16.2 Net gains and losses on financial instruments

The table below shows net gains on financial assets at fair value through profit and loss.

31 March 2023 £000	Financial Assets	31 March 2024 £000
72,596	Fair Value through profit and loss	(45,142)
72,596	Total	(45,142)

17. Nature and Extent of Risks Arising from Financial Instruments

17.1 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 opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's

forecast cash flows. The Fund manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Administering Authority's pensions operations. The Investment Strategy Statement and Risk Register are reviewed regularly to reflect changes in the Fund's strategy, activity and in market conditions. The Fund also ensures authorised investment managers are used through its rigorous Fund manager selection process. In addition, the Fund employs an adviser, Hymans Robertson, who provides advice on investment issues.

17.2 Market risk

The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. Riskier assets in the Fund such as equities display greater potential price volatility than bonds and other asset classes. The Fund investment managers mitigate this price risk through diversification and the selection of securities. Other financial instruments are monitored by the Administering Authority to ensure they are within limits specified in the Fund investment strategy.

Asset Type	Value at 31 March 2024 £000	% Change*	Value on Increase £000	Value on Decrease £000
Bonds	158,426	13.5	179,814	137,038
Equities & Emerging Markets	345,854	11.0	383,898	307,810
Diversified Growth	57,976	4.8	60,759	55,193
Multi Asset Credit	81,716	13.5	92,748	70,684
Pooled Property	69,541	6.5	74,061	65,021
Private Debt & Infrastructure	166,035	3.8	172,344	159,726
Cash	11,026	1.0	11,136	10,916
Derivatives	(45)	0	(45)	(45)
Income Due	1,525	0	1,525	1,525
LCIV Subscription	150	0	150	150
Total Assets	892,204	7.3	976,390	808,018

Asset Type	Value at 31 March 2023 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	53,689	13.4	60,883	46,495
Equities & Emerging Markets	395,273	13.2	447,449	343,097
Diversified Growth	86,400	5.3	90,979	81,821
Multi Asset Credit	73,276	13.4	83,095	63,457
Pooled Property	54,215	6.4	57,685	50,745
Private Debt & Infrastructure	164,520	4.0	171,101	157,939
Cash	10,689	0.7	10,764	10,614
Derivatives	2,341	0	2,341	2,341
Income Due	751	0	751	751
LCIV Subscription	150	0	150	150
Total Assets	841,304		925,198	757,410

Note: The % change for total assets includes the impact of correlation across asset classes

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over three years. This was applied to the 31 March 2024 asset mix as shown in the following table (Note 17.4):

17.4 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 individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

The following table shows the volatility between the asset classes invested in.

Asset Type	Potential market movements (+/-) %*
Bonds and Index Linked	13.5
Equities	11.0
Diversified Growth	4.8
Multi Asset Credit	13.5
Property	6.2
Private Debt and Infrastructure	3.8
Cash	1.0

17.5 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 cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

17.6 Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the GBP. The majority of foreign equities in the UBS portfolio are priced in GBP thereby reducing currency risk fluctuations. The % change has been derived from the measurement of volatility of the Fund over three years.

The table below shows the currency exposure by asset type as at 31 March 2024.

Asset Type	Value at 31 March 2024	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	18,107	5.6	19,121	17,093
Private Debt & Infrastructure	130,153	5.6	137,442	122,864
Total Overseas Assets	148,260		156,563	139,957

The table below shows the currency exposure by asset type as at 31 March 2023

Asset Type	Value at 31 March 2023	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	17,625	6.3	18,735	16,515
Private Debt & Infrastructure	131,606	6.3	139,897	123,315
Total Overseas Assets	149,231		158,632	139,830

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2024. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

Asset Type	Value at 31 March 2024	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds (US Dollar)	18,107	8.3	19,610	16,604
Private Debt & Infrastructure (US Dollar)	130,153	8.3	140,956	119,350
Total Overseas Assets	148,260		160,566	135,954

Asset Type	Value at 31 March 2023	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds (US Dollar)	17,625	9.1	19,229	16,021
Private Debt & Infrastructure (US Dollar)	131,606	9.1	143,582	119,630
Total Overseas Assets	149,231		162,811	135,651

17.7 Credit risk

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

The average long-term credit rating in the bond portfolio is AA as at 31 March 2024. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

The table below shows the credit quality for the Bond portfolio.

Value at 31 March 2023 £000		Value at 31 March 2024 £000
9,975	AAA	10,849
53,686	AA	27,280
63,661	Total	38,129

17.8 Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it always has adequate cash balance to meet its commitments. The Fund's cash and cash equivalent holding as at 31 March 2024 was £34m (31 March 2023: 24m).

17.9 Refinancing risk

This is the risk that the Administering Authority will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavorable interest rates. The Administering Authority does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

18. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund actuary undertakes a Funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2022 (effective from April 2023) and the next valuation will take place as at 31 March 2025.

The key elements of the Funding policy are:

1. To ensure the long-term solvency of the Fund, i.e. that sufficient Funds are available to meet pension liabilities as they fall due for payment;
2. To ensure that employer contribution rates are as stable as possible.

3. To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
4. To reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so, and;
5. To use reasonable measures to reduce the risk to other employers and ultimately to the Council taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 12 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the Funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

As at the 2022 actuarial valuation, the Fund was assessed as 109% funded. This corresponded to a surplus of £75m at that time of the valuation.

The table below shows the Funding level and deficit for the past three triennial valuations.

	2016 Valuation	2019 Valuation	2022 Valuation
Funding Level %	94.0	103.0	109
Funding (Deficit)/Surplus £m	(32.7)	20	75

The assessed value of assets held by the Fund at 31 March 2022 was £914.m (2019 valuation: £718m), whilst the liabilities accrued in respect of pensionable service were £840m (2019 valuation: £698m).

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement, or withdrawal from service. The principal assumptions were as follows.

Financial Assumptions

Financial Assumption	31-Mar-22	31-Mar-19
Discount rate	4.20%	4.80%
Pay increase	3.90%	3.60%
Consumer price inflation (CPI)	2.90%	2.60%
Pension increases	2.90%	2.60%
Pension increases on Guaranteed Minimum Pension (GMP)	Funds will pay limited increases for members reaching SPA by 6 April 2016, and full increases for others	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date, we have assumed that Funds are required to pay the entire inflationary increase.
Demographic Assumptions		
Current Pensioners Retiring age 65		
Male	21	23.4
Female	23.47	24.8
Current Pensioners Retiring age 65		
Male	22.26	25
Female	24.91	26.6

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose, the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for Funding purposes. In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2024, using a valuation methodology that is consistent with IAS19.

The financial assumptions used for the purposes of the calculations are as follows:

Financial Assumptions	Assumptions as at 31 March 2024 %
Inflation/Pension Increase Rate	2.90
Salary Rate Increase	3.90
Discount Rate	4.90

The value of the Fund's promised retirement benefits as at 31 March 2024 was:

31 March 2023 £m		31 March 2024 £m
850	Present value of promised retirement benefits	849

20. Current Assets

31 March 2023 £000	Current Assets	31 March 2024 £000
126	Contributions Due	2,195
1,058	Sundry Debtors	972
23,970	Cash	5,556
0	Cash & Cash Equivalents	27,718
25,154	Total	36,441

Analysis of Debtors

31 March 2023 £000	Current Debtors	31 March 2024 £000
44	Administering Body	2,107
82	Admitted and Scheduled Bodies	88
1,058	Sundry Debtors	972
1,185	Total	3,167

21. Current Liabilities

31 March 2023 £000	Creditors	31 March 2024 £000
(515)	Sundry	(718)
(452)	Payroll	(491)
(967)	Total	(1,209)

22. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No: 3093), AVCs are not included in the Pension Fund accounts but are paid over by the Administering Authority's shared payroll service and invested by a specialist AVC provider, Prudential PLC, independently of the London Borough of Merton Pension Fund.

The amount of additional voluntary contributions paid by members during 2023/24 to AVC schemes outside the Administering Authority's responsibility is yet to be received. (0.245m on 31 March 2023). The total value of accumulated AVC's at 31 March 2024 is also yet to be received. (£2.24m at 31 March 2023).

23. Related Parties

The Merton Pension Fund is administered by the London Borough of Merton. During the reporting period, the Council incurred costs of £0.24m (2022/23 £0.21m) in relation to the management of the Fund and was reimbursed by the Fund for these expenses. Additionally, the Fund reimbursed £0.27m (2022/23 £0.24m) to Wandsworth Council for the administration of the Fund.

The Council is also the single largest employer of members of the pension Fund. All monies owing to and due from the Fund were paid in year.

Out of the four local Pension Board members three are active members of the Pension Fund.

Each member of the Pension Fund Committee is required to declare their interests at each meeting. No other declarations were made during the year.

Key Management Personnel

The key management personnel of the Fund are the Executive Director of Finance and Digital, the Assistant Director of Finance and Digital and the Head of Treasury and Pensions. Total remuneration payable to key management personnel is shown below:

	31 March 2023 £	31 March 2024 £
Short-term benefits	78,719	101,739
Total remuneration	78,719	101,739

24. Contingent Liabilities & Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2024 were £33.2m (31 March 2023 £37.9m).

These commitments relate to outstanding call payments due on private debt and infrastructure investments. The amounts 'called' by these investments are irregular in both size and timing over a period of between one and three years from the date of each original commitment.