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10 FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS

10.1 THE FINANCIAL STATEMENTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2019

	Notes	2017/18		2018/19	
		£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		110,986		64,102
Transfers in from other pension funds	4		5,668		3,000
			116,654		**67,102**
Benefits	5		(80,228)		(83,204)
Payments to and on account of leavers / employer exit	6		(4,795)		(4,889)
Net additions / (deductions) from members			**31,631**		**(20,991)**
Management expenses	7 & 8		(11,393)		(20,381)
Net additions / (deductions) including fund management expenses			**20,238**		**(41,372)**
Returns on investments					
Investment Income		57,481		52,667	
Taxes on Income		(239)		(233)	
Net investment income	9	57,242		52,434	
Profit / (losses) on disposal of investments and changes in the market value of investments	10(d)	62,651		128,241	
Net return on investments			**119,893**		**180,675**
Net increase in the net assets available for benefits during the year			**140,131**		**139,303**
Net assets at the start of the year			**2,423,326**		**2,563,457**
Net assets at the end of the year			**2,563,457**		**2,702,760**

NET ASSETS STATEMENT AS AT 31st MARCH 2019

	Notes	31 March 2018 £'000	31 March 2019 £'000
Investment assets	10	2,547,532	2,706,212
Investment liabilities	10	(4,547)	(8,611)
Total net investment assets		**2,542,985**	**2,697,601**
Long term assets	12a	657	328
Current assets	12b	22,287	7,056
Long term liabilities	13a	(87)	-
Current liabilities	13b	(2,385)	(2,225)
Net assets of the Fund available to fund benefits at the period end		**2,563,457**	**2,702,760**

10.2 NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 (a): DESCRIPTION OF THE FUND AND BASIS OF PREPARATION

The Cumbria Local Government Pension Scheme (Cumbria LGPS) is a contributory defined benefit scheme administered by Cumbria County Council to provide pensions and other benefits for all members of the Fund.

The Purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Through balancing the strategic investment of the Fund's assets to the liability profile of the membership, the aims of the Cumbria LGPS are to:-

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes; and
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

Membership to the Cumbria LGPS is open to:-

- all eligible employees of scheduled bodies (local government, academies, colleges) within the county who are not covered by alternative pension arrangements (the main categories of employees covered by alternative arrangements are teachers, fire service uniformed personnel and police officers); and
- other eligible employees of admitted employers of the Fund (usually this includes employers to whom contracts have been awarded for the provision of public services within the county).

All eligible local government employees are automatically entered into the scheme. Employees may choose to opt out at any point in time.

As at 31st March 2019 the total membership of the Fund was 57,840 (2017/18: 57,266) and consisted of 16,453 contributors/actives (2017/18: 17,034), 25,202 deferred members (2017/18: 24,436) and 16,185 pensioners (2017/18: 15,796).

At 31st March 2019 there were 127 (31st March 2018: 127) employer bodies in the Cumbria LGPS (for the full list see Note 25). Whilst the number of employers was 127 at both the start and end of the year, 2 Academy employers joined the Fund and 1 left during the year; whereas in respect of Admitted bodies, 1 employer joined the Fund and 2 left the Fund during the year. Whilst there has been no change in the number of employers in the Scheme during 2018/19, it is expected that the continued growth in academies and outsourcing of local government services to other providers will see an increase in the number of employers within the Scheme in future years.

Basis of Preparation:

The Statement of Accounts for the Cumbria Local Government Pension Scheme (LGPS) is presented in its entirety and separately from the General Fund in Cumbria County Council's Accounts. Although the County Council is the Administering Authority, the Fund covers both County Council employees and those of other scheduled, resolution and admitted bodies. These Accounts (financial statements and certain sections) are summarised to form part of Cumbria County Council's Annual Accounts.

The Accounts for the Cumbria LGPS summarise the Fund transactions for the financial year 2018/19 and the position at the year-end date, 31st March 2019. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

They do not take account of obligations to pay pensions, lump sums or other benefits which fall due after the financial year end. IAS26 'Retirement Benefit Plans' requires the actuarial present value of promised retirement benefits to be disclosed and this information can be found in Note 23 'Actuarial Position of the Fund'.

The main change to the CIPFA Code accounting guidance in 2018/19 was the adoption of IFRS 9 Financial Instruments, which introduced the following (none of which require a restatement of comparative data):

- new financial instrument classification, with new categories of Fair Value Through Comprehensive Income (FVOCI);
- new requirement for an expected loss allowance should there be any potential material impairments (prospective – looking forward); and
- the option of additional disclosures for hedging (should it be assessed as adding to the readability of the accounts).

In addition, there were minor changes related to:

- separate disclosures required should there be any de-recognition of assets at amortised costs,
- a move away from a prescriptive list of accounting policies,

- the option to remove the analysis of debtors and creditors across the public sector.

These changes have not caused any significant changes to the compilation of the accounts for 2018/19 primarily because the Financial Instruments held are already valued at Fair Value Through Profit & Loss (FVTPL), and because the proposed detail was at a level that the Cumbria LGPS accounts already met or exceeded. Therefore there have been no substantial changes to, or any additional notes or disclosures made to the accounts for 2018/19.

These changes do not represent a significant change to existing accounting policies and consequently have not required a restatement of 2017/18 comparatives.

NOTE 1 (b): INVESTMENT MARKET ACTIVITY DURING 2018/19

For the twelve month period to March 2019, the majority of markets in which the Fund holds investments showed positive returns. Whilst there was significant volatility during the year with a low point in December 2018, markets recovered in the final quarter of the financial year to March 2019.

The ongoing uncertainty posed by Brexit has contributed to the volatility in UK financial markets, and also impacted on sterling which experienced devaluation against most other currencies, whereas there has been a marginal recovery against the euro over the year.

The Global Equities markets have shown a rise overall in 2018/19 of 11.0%, although there were variations by region. North America showed the strongest performance at 17.5% with the UK, Asia Pacific and Europe growing by 6.4%, 4.7% and 2.7% respectively. UK equities hit a low for the year in December 2018 when the FTSE100 was priced at 6,585, this was followed by a recovery during spring, and this replicated similar developments in the US markets. Levels of volatility in equity markets were seen throughout the year, as a result of market sentiment around the trade tensions between the United States and China and the move of central banks away from quantitative easing to interest rate increases.

In 2018/19 the Pension Fund entered into a suite of derivative (Equity Protection) options which are designed to protect the value of the Fund's UK, US and European equity portfolios from a significant fall in the value of the equity market indices being mindful of the upcoming triennial actuarial valuation as at 31st March 2019. These derivative option contracts are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle, with Cumbria LGPS being the sole investor. Further information on these options is included in note 10(c).

In simple terms, the contracts LGIM have entered into on behalf of the Fund generate a nominal return based on the current value of the index plus any increase up to a certain level, irrespective of the actual value expected at the end of the contract term and these values have a nominal impact on the quarterly and annual performance of the Fund whilst they are in place. The duration of the contracts is until 31st March 2020, which is the date that the triennial valuation is signed off by the Actuary and therefore any significant adverse market movement could still affect the valuation outcomes up to this point.

For further information on Investment Performance refer to Section 4.5 of the Annual Report.

NOTE 1 (c): FUND PERFORMANCE 2018/19

During the year to 31st March 2019 the Cumbria LGPS value increased by £139.303m from £2,563.457m (31/03/18) to £2,702.760m (31/03/19). The Fund returned 6.6% (net of fees) for the year which was marginally below the Fund's bespoke index performance benchmark for the year of 6.8%. Positive performance in the year was attributable to both global equity managers and the alternatives portfolio.

The main detractor was the negative movement on the equity protection overlay as a result of an increase in equity value over the period. This equates to the notional cost of selling out of the equity protection at the end of the March 2019. It is not expected that this will be a realised cost at the end of the contract (31st March 2020). The movement in equity protection overlay effectively reduces the Fund's asset value at year-end by £14m, or around 0.5%. Excluding the effect of equity protection, the fund return would have been 7.4% (0.6% above the benchmark for the year).

The Fund performed well over the medium to longer term with the three-year return of 9.8% (net of fees) outperforming the bespoke hedged benchmark of 9.4% (per year) by 0.4%. The five year Fund return was 9.3% (net of fees), 1.2% above the benchmark of 8.1% (per year). The ten year Fund return was 10.7% (net of fees), 0.7% above the benchmark of 10.0% (per year). These longer term performance figures include the overall Fund's net of fees position (i.e. including equity protection); whilst this is a marginally lower performance, the impact of the equity protection products on performance over these longer term time horizons is negligible.

The Fund's Investment Strategy (including the core investment objectives and asset allocations) must be sufficiently flexible to meet longer term prevailing market conditions and address any short term cash flow requirements. To ensure these goals are achieved a full Strategic Investment Review will normally be undertaken by the Fund every three to five years by specialist professional advisors.

The Fund underwent a Strategic Investment Review in 2017/18 and the key conclusion of this review was that "the Fund's investment strategy is in good shape with no material changes required". An interim review undertaken during 2018/19 echoed this conclusion whilst also recommending that a full review of the Strategy be undertaken in 2019/20 following the results of the Triennial Actuarial Valuation of the Fund. A full review of the Investment Strategy has therefore been incorporated within the Fund's business plan for 2019/20.

The targeted investment asset allocation is specified in the Fund's Investment Strategy Statement, which has been agreed by the Pensions Committee, includes a section detailing the Fund's Investment Beliefs.

The process of implementing changes in asset allocation to enable the Fund to reach its allocation targets in alternative assets has progressed steadily, with the following changes being made this year:-

- The selection of suitable investments for the infrastructure and opportunistic portfolios, including new investment commitments made to Pantheon Private Equity, Healthcare Royalty Partners, SL Capital, and the first Border to Coast private markets fund to be launched in 2019/20 - Border to Coast Private Equity 2019;

- The selection of suitable investments to the defensive asset allocation (income seeking with capital preservation), with new investment commitments made to Barings Global Private Loan Funds, and the use of cash as a strategic holding; and

- The liquidation of the BlackRock alternatives portfolio has continued, with the Fund's assets held by BlackRock reducing (from £21.7m at 31/03/18 to £19.0m at 31/03/19) as funds are released for new investment into infrastructure and opportunistic products.

NOTE 1 (d): BUSINESS PLAN ACHIEVEMENTS AND LOOKING FORWARD

All targets set within the 2018/19 Business Plan have been achieved during the year with key tasks either completed, or are ongoing work that is on track for completion and these have been delivered within the approved budget.

In addition to continual improvement activities and the major annual pieces of work, e.g. preparation of the Annual Report and Accounts, the core additional activities planned and delivered through the 2018/19 Business Plan were:-

- **Prepare for transition of assets from Cumbria LGPS to Border to Coast.**

  Border to Coast Pensions Partnership Limited ('Border to Coast') was formed in 2017 to enable the pooling of assets of twelve Administering Authorities of the Local Government Pension Scheme ('Partner Funds'), including Cumbria ('the Fund'). This was in response to government requirements for LGPS Funds in England and Wales to "pool" investments to achieve economies of scale with the aim of reducing investment costs and in turn improve asset return.

  Throughout the year the Fund has been actively engaging with Border to Coast and Partner Funds on the development and build of a range of investment capabilities ('sub-funds'). The aim of this work is to design and build sub-funds which enable Partner Funds to efficiently and effectively fulfil their strategic asset allocations and deliver the required returns within appropriate risk parameters.

  Key developments include:

  - In September 2018 the Cumbria Pensions Committee agreed in principle to transfer the 10% of the Fund's investments allocated to UK Equity to Border to Coast. Following the completion of due diligence work on the investment, the transition of these assets was effected in December 2018.

  - The Investment Sub Group agreed in November 2018 to invest £50m in the Private Equity Fund of Border to Coast and it is anticipated that this will be drawn down by Border to Coast over the next 2 to 3 years.

  - Additionally, Pensions Committee agreed in principle in December 2018 to transfer the 20% of the Fund's investments allocated to actively managed Global Equity to Border to Coast. Due diligence work on this investment is now in its final stages and, subject to its satisfactory conclusion, it is anticipated that the assets will transition during 2019.

- **Implementation of Equity Protection solutions within the Fund.**

  The purchase of Equity Protection was approved by the Investment Sub Group on 20th February 2018 and the products were purchased on 4th April 2018 providing protection against significant falls in the value of equity until 31st March 2020, when the triennial valuation is signed off by the Actuary.

- **Review data quality held by the Fund in preparation for the 2019 Actuarial Valuation.**

  During 2018/19 the Fund developed a Data Improvement Plan with progress against this plan reported to Pensions Committee and the Local Pension Board at each meeting.

  Whilst the action to review data quality in preparation for the Actuarial Valuation is now complete, the Fund will continue to monitor and aim to enhance data quality on an on-going basis.

- **Gross Minimum Pension Reconciliation**.

  Following the cessation of National Insurance contracting out, all Public Sector pension funds have been required by Government to undertake a Scheme Gross Minimum Pension (GMP) reconciliation and implement corrective action accordingly.

  Good progress continues to be made on the Cumbria Fund reconciliation exercise (GMP reconciliation) with regular reporting on progress presented to the Pensions Committee. Where underpayments have been identified, these have been immediately rectified in line with Government guidance. Where overpayments have been identified, on-going monthly payments have been amended. The Fund is awaiting further national guidance in respect of the treatment of the accrued overpayments to date.

- **Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level.**

  All contracts are regularly reviewed to ensure that performance is appropriate.

Officers reviewed the performance of all investment managers on a quarterly basis and reported this performance to the Investment Sub group.

Officers met regularly with Mercer Ltd to review the contractual obligations of the Actuary and to consider future workloads e.g. triennial valuation.

New contracts are commissioned through the national LGPS Framework where appropriate. During the year the Fund used the framework to contract for:

- a Transition Manager to support the transition of UK equities to Border to Coast as approved by Pensions Committee in September; and
- scheme member data tracing.

Officers met at least quarterly with the Deputy Director of Your Pensions Service (YPS), the Fund's pensions' administration provider, to review performance standards. These meetings were more frequent between April and December 2018 due to performance issues as regularly reported to Pensions Committee throughout the year.

- **Assess the impact of and respond to consultations that will have an impact on the structure and performance of the Fund.**

The Fund responds to relevant consultations that have the potential to have an impact on the structure and performance of the Fund.

During 2018/19 the Fund responded to the following consultations:

- CIPFA LGPS Annual Report Guidance – Dec 2018
- MHCLG Consultation on Asset Pooling – March 2019

In addition to the 2018/19 Business Plan, the Fund has delivered against a number of additional activities during the year. These included:

- Increasing the frequency of Local Pension Board meetings from two to four meetings per year.

- Engagement with the Pensions Regulator through its cohort review of the LGPS.

- Increased management oversight on Your Pensions Service (YPS), the Fund's pensions' administration provider. YPS experienced performance issues following a restructure in the first quarter of 2018/19. In response to this the Fund increased its management oversight of this service and worked closely with YPS to understand the issues and challenge the recovery plans proposed and implemented by YPS. Performance recovered to pre-restructure performance levels in the third quarter of 2018/19, however officers continued with their enhanced monitoring of the quality of YPS performance throughout the remainder of the year.

These activities, which were unforeseen when the business plan was approved in March 2018, have required significant resource from the officers involved. However, these have been delivered within the approved budget for the year.

Looking forward to 2019/20, the proposed key deliverables (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) include:

Pensions Administration

- Undertake the Triennial Actuarial Valuation as at 31st March 2019.
- Implement action plan from the Pensions Regulator's cohort review of the Fund.
- Continue to improve pension administration arrangements for the benefit of all members and employers of the Fund.
- Continue to monitor and improve employer communication and employer data submission issues.
- Continue communication and liaison with Fund employers to meet the data requirements of the Pensions Regulator.
- Continual improvement programme for the quality of data held by the Fund.

Investment Management

- Undertake a full Investment Strategy Review, to consider the key outcomes of the 2019 actuarial valuation and their implications for the Fund going forwards.
- Continue to investigate investment options for the Fund's 'underweight' positions in asset allocations (subject to outcomes of the strategy review).
- Continue the transition of assets from the Fund to Border to Coast.
- Consideration of options to address negative cash flow position at a contributions level of the Fund.
- Continual monitoring of the Equity Protection solutions held within the Fund.

Oversight & Governance

- Undertake the election process for membership of the Local Pension Board.
- Review and update of Fund risks, policies and strategies.
- Continue to influence the development and maintenance of robust Governance arrangements in respect of the relationships between the Pension Fund and Border to Coast.
- Review, measure and deliver training to Members and Officers as outlined in the Training Plan.

- Compliance with contract review processes and performance monitoring at both Committee and Officer level.

- Assess the impact of and respond to consultations that will have an impact on the structure and performance of the Fund.

- Review of governance arrangements in response to financial, regulatory and structural changes.

The Cumbria LGPS Annual Report and Accounts gives further details of the Fund's performance, management structure and investment news. The Annual Report and Accounts 2018/19 will be published on-line when finalised (and at the latest by the statutory deadline of 1st December 2019) on the Cumbria LGPS website under 'Key Cumbria LGPS Documents' where the previous year's report is also available.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies have been reviewed in line with good practice. There have been no significant changes to accounting policies in 2018/19.

Fund account – revenue recognition

2.1. Contribution Income

Normal contributions, both from the members and from the employers within the Fund, are accounted for on an accruals basis at the rate recommended by the Fund Actuary for the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Fund Actuary or on receipt if earlier than the due date.

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 will be classed as a current debtor. Amounts not due until future years are classed as long-term debtors. Where an employer leaves the scheme, any contribution required on closure is accrued for in the year of departure. (See Note 3 for further details).

2.2. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year. These are calculated in accordance with the Local Government Pension Scheme Regulations (see **Notes 4 and 6**).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see **2.15**) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (see **Note 4**).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

2.3. Investment income (Note 9)

a) ***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. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

b) ***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.

c) ***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.

d) ***Property-related income***: consists primarily of rental income. This is recognised on an accruals basis.

e) ***Movements in the net market value of investments***: changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised gains/losses during the year. Realised gains/losses have been classified where a purchase or sale of investments has occurred. Gains/losses on transfers of investments within the portfolio of an individual manager have been classified as unrealised gains/losses (i.e. where no cash transactions have taken place). (See **Note 10(d)**).

Fund account – expense items

2.4. Benefits payable (Note 5)

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

2.5. Taxation

The Scheme 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 is subject to withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises, and is shown on the Fund Account as 'Taxes on income'.

2.6. Administrative expenses (Note 7)

All administrative expenses are accounted for on an accruals basis. All staff costs of the County Council's Pensions Finance team are charged direct to the Fund, with management, accommodation and other overheads apportioned to the Fund in accordance with general Council practices. Staff and on-costs related to administration are apportioned to this heading.

2.7. Investment management expenses (Note 7)

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Transaction costs and pooled fund fees/expenses are also included as investment management expenses. No employees are currently employed solely on in-house investment management.

The majority of the Fund's investment managers have signed up to the cost transparency code (the voluntary code which covers the provision of transparent and consistent investment cost and fee information between investment managers and Funds). The Fund has reviewed the first submissions of cost transparency templates received from those managers and has incorporated additional disclosures of investment costs in the Fund's 2018/19 Annual Report (section 4.5.4). It is anticipated going forwards that the recently issued, updated cost transparency template for 2019/20 will provide greater consistency and completeness in reporting by managers; this will enable the Fund to further enhance the reporting of 'hidden' investment costs in future years.

2.8. Oversight and Governance costs (Note 7)

All oversight and governance costs are accounted for on an accruals basis. All staff costs of the County Council's Pensions Finance team are charged direct to the Fund. Staff and on-costs apportioned to this activity are charged as oversight and governance expenses.

The cost of Elected Members expenses (e.g. training travel and allowances) relating to Pension Fund activities and obtaining investment advice from external investment consultants and advisors is included in oversight and governance costs, as are transition management costs, actuarial fees, legal fees and shareholder voting services.

Net assets statement

2.9. Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund.

Investment Assets
State Street Bank and Trust, as independent Custodian to the Fund, values the assets other than direct property and unquoted investments. This is done on a daily basis by a series of data quality verifications. All discrepancies outside a tolerance level (zero tolerance for equities and 5% tolerance for bonds) are researched with a secondary source and resolved. This additional scrutiny provides an extra level of independence. The values on investment assets as shown in the net assets statement have been determined as follows:

a) Market-quoted investments: The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

b) Fixed interest securities: Fixed interest securities are recorded at net market value based on their current yields.

c) Unquoted investments: The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs. There were no such investments at 31st March 2019.

- Directly held investments include investment in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools of directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement. (See **Note 14**).

- In the case of the unquoted equity shares for Cumbria LGPS's ownership of share capital in Border to Coast Pensions Partnership Ltd, as no market or comparable market exists, and as there are no financial accounts or published trading results for the newly formed company, the shares are valued at cost (£833,334).

- Investments in private equity funds and unquoted limited partnerships **(Note 14)** are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

d) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. The General Partner is responsible for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards and applicable laws. Fund officers review the Annual Reports of the partnerships which have been independently audited.

e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March 2019. Unquoted pooled investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. For further information on Pooled investment vehicles see **Note 10(a).**

f) Freehold and leasehold properties: The properties are valued at fair value at 31st March 2019 by an independent valuer, CBRE Ltd, Chartered Surveyors, Henrietta House, Henrietta Place, London W1G 0NB, in accordance with the Royal Institution of Chartered Surveyors' Valuation - Global Standards 2017 (incorporating the International Valuation Standards) and the UK national supplement 2018 ("the Red Book").

- The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

- Each valuation has been prepared on the basis of "Fair Value", which is defined as: "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in International Financial Reporting Standard (IFRS) 13.

- "Fair Value", for the purpose of financial reporting under International Financial Reporting Standards and UK GAAP (FRS 102), is effectively the same as "Market Value", which is defined as: "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion."

- The valuation represents the figure that would appear in a hypothetical contract of sale at the valuation date.

  i. No allowances have been made for any expenses of realisation or for taxation which might arise in the event of a disposal.

  ii. The properties are valued individually and no account has been taken of any discount or premium that may be negotiated in the market if all or part of the portfolio was to be marketed simultaneously, either in “lots” or as a whole.

  iii. Acquisition costs have not been included in the valuation.

  iv. No account has been taken of any inter-company leases or arrangements, or of any mortgages, debentures or other charges.

  v. No account has been taken of the availability or otherwise of capital based Government or European Community grants.

For further detail on Investment Properties see Note 10(b).

g) Loans and receivables: these are non-derivative financial assets which have fixed or determinable payments and are not quoted in an active market. Investment Assets represented by loans and receivables are carried in the Net Assets Statement at amortised cost basis i.e. principal amount adjusted for any interest payable / receivable at the year-end date.

Long-Term Assets

Revenue transactions are recorded on a system of receipts and payments. Income accruals (debtors) and expense accruals (creditors) have been introduced in respect of major items of income due but not received, and significant amounts owed, at 31st March. In accordance with IAS39, long-term debtors owed for a period of more than one year have been calculated using the effective interest method, discounting to present value, with a corresponding long-term creditor for the discount to be unwound.

2.10. Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. State Street Bank and Trust value all overseas securities and foreign currency balances outstanding at year end in local currency then convert to sterling using the WM Reuters 4pm exchange rates at 29th March 2019.

2.11. Derivatives

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

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract. The contracts are valued using the WM/Reuters 4pm closing spot/forward foreign exchange rates.

Fair value of Exchange Traded Futures contracts is determined based on market quoted prices as at the reporting date. Fair value is the unrealised profit or loss at the market quoted price of the contract.

Over-the-counter (OTC) derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary. Legal and General utilise the industry standard Black-Scholes method of valuing these contracts as detailed in Note 10(c).

Derivatives are covered in more detail in Note 10(c).

2.12. 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.

2.13. 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.

2.14. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund Actuary in accordance with the requirements of IAS 26 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see Note 23).

2.15. Additional voluntary contributions

Cumbria LGPS provides an additional voluntary contributions (AVC) scheme for its members. The Fund currently has three appointed AVC providers: Prudential, Standard Life and Scottish Widows. The previous AVC scheme on offer to employees was operated by Equitable Life Assurance Society but in December 2000 it closed to new business.

Employees / contributors AVCs are paid over to one of the three providers by the Fund employers. These contributions are specifically for the purpose of providing additional benefits for individual contributors. Each AVC contributor receives an annual statement (from their provider) showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 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 15).**

2.16. Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

2.17. Stock Lending

Securities on loan at the 31st March are included in the net assets statement to reflect the Fund’s continuing economic interest in the securities.

2.18. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct material errors.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Fund’s financial position or financial performance. Where a change is made, it is applied retrospectively by

adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.
Where the basis for measurement of an amount is uncertain, the Fund will use a suitable estimation technique determined by the Director of Finance (Section 151 Officer). Where a reasonable estimate has been made, but is subsequently identified as being insufficiently accurate, the Director of Finance (Section 151 Officer) will amend the Accounts accordingly. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change.

Material errors discovered in prior period figures would be corrected retrospectively by amending opening balances and comparative amounts for the prior period. However, no such amendments have been necessary for the opening balance of the 2018/19 accounts.

NOTE 3: CONTRIBUTIONS

Benefits (see **Note 5**) are funded by contributions and investment earnings. Contributions are received both from active members and employers of the Fund. Contributions from active members are made in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) while individual employers' contribution rates are based on triennial actuarial funding valuations (see Note 23).

Contribution rates for 2018/19 are as follows:

- Employees - range from 5.5% to 12.5% of pensionable pay dependent on the full-time salary of the member.

- Employers - range from 11.1% to 29.1% of pensionable pay, plus a lump sum payment for deficit recovery contributions. Individual employer rates are set by the Actuary on a three-yearly cycle, taking into account the employer's own attributes and particular circumstances. This includes the maturity profile of the membership, if the Admission is open or closed to new members, and the maximum deficit recovery period as determined by the Fund Actuary in relation to the employer's covenant and membership profile.

The following table analyses the amount of total contributions receivable in the year, by category and by employer type:

By Category	2017/18 £'000	2018/19 £'000
Employee contributions to the fund	16,581	17,272
Employer contributions to the fund:		
Normal contributions	42,887	43,270
Deficit recovery contributions	51,518	3,560
Total Employer contributions	94,405	46,830
Total Contributions receivable	**110,986**	**64,102**
By Employer Type	**2017/18 £'000**	**2018/19 £'000**
Administering Authority	62,996	36,040
Other Scheduled bodies	35,493	26,317
Admitted bodies	12,497	1,745
	110,986	**64,102**

As shown in the above table the administering authority contributions (Cumbria County Council) were £36.040m (£62.996m 2017/18). The value for 2017/18 was inclusive of £27.575m which related to historic deficit contributions for three financial years from 2017/18 to 2019/20.

In April 2017, Cumbria County Council, Allerdale Borough Council, Carlisle City Council, Copeland Borough Council, South Lakeland District Council and the Lake District National Park Authority all paid additional lump sum contributions to offset their historic deficit contribution for the years 2017/18 to 2019/20, totalling £37.806m. These additional payments in 2017/18 explain the significantly higher contributions in 2017/18 in the table above.

In addition to normal contributions and capital payments from employers, the contributions figure also includes the costs of pension strain arising from non-ill-health early retirements and, where applicable, ill-health early retirements:

Non ill-health early retirements: Employers can make lump sum contributions toward pension strain costs or pay an additional employer contribution rate (as calculated by the Actuary). These contributions are recognised in line with the agreement with the employer; if there is no agreement, they are recognised when the Fund receives them.

Ill-health early retirements: Cumbria County Council also has a voluntary arrangement whereby part of the actuarial strain of ill-health retirements is paid immediately. Details of this are contained in the full Actuarial Valuation Report as at 31st March 2016, and all other Cumbria LGPS employer policies that are relevant to the 2018/19 financial year are available on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

NOTE 4: TRANSFERS IN FROM OTHER PENSIONS

Transfers in to the Fund have been made by individual members, where they decide to bring pensions benefits accrued from previous employment into their LGPS pension.

	2017/18 £'000	2018/19 £'000
Individual transfers	5,668	3,000
	5,668	**3,000**

NOTE 5: BENEFITS

Pension benefits under the LGPS are based on final pensionable pay or career average, and length of pensionable service. Members have access to the schemes depending upon the period their active membership in the LGPS covers, i.e. whether their employment was previous to 1st April 2008, during the period 1st April 2008 to 31st March 2014, and employed post 1st April 2014. Details of the main benefits of membership of these schemes are summarised in the following table:

	Service Pre 1 April 2008	Service 1.04.08 to 31.03.14	Service Post 1 April 2014
Basis	Final salary	Final Salary	Career Average Revalued Earnings (CARE)
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked accrues 1/49th x pensionable salary.
Lump sum	Each year worked is worth 3/80 x final pensionable salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

The following table analyses the amount of total benefits paid in the year, by category and by employer type:

By Category	2017/18 £'000	2018/19 £'000
Net pensions paid	67,266	70,525
Net lump sum on retirement	11,334	11,324
Net lump sum on death	1,628	1,355
	80,228	**83,204**
By Employer Type	**2017/18 £'000**	**2018/19 £'000**
Administering Authority	45,168	46,615
Scheduled bodies	28,124	29,499
Admitted bodies	6,936	7,090
	80,228	**83,204**

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2018/19 were £46.615m (£45.168m 2017/18).

NOTE 6: PAYMENTS TO AND ON ACCOUNT OF LEAVERS / EMPLOYER EXIT

	2017/18 £'000	2018/19 £'000
Refund of member contributions	163	139
Individual transfers out to other Schemes	4,632	4,750
Group transfer out to other Schemes	-	-
	4,795	**4,889**

NOTE 7: MANAGEMENT EXPENSES

Officers employed by the County Council undertake the day to day management and administration of the Fund. Employee time spent working on the Fund and their associated costs e.g. office space and information technology are charged to the Fund. In addition the cost of maintaining the employee and employer contribution records, paying benefits and provision of other pension's administration services, provided by delegation of function to Lancashire County Council, Your Pension Service (YPS), are charged to the Fund. This is in accordance with the government regulations on the management of local government pension schemes.

Further details of management expenses are as follows:

	2017/18 £'000	2018/19 £'000
Administrative costs	1,152	1,268
Investment management costs	9,364	18,394
Oversight and governance costs	877	719
	11,393	**20,381**

The Code of Practice does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency and comparability, the Council opted from 2015/16 to disclose its pension fund management expenses in accordance with best practice outlined in the CIPFA guidance on LGPS management costs (July 2016). To further aid comparison a detailed breakdown for 2018/19 is provided for information in the next note.

Administration costs were £0.116m higher in 2018/19 than the previous year. This was primarily due to an increased staffing allocation to this section of the team to allow focus on administration aspects of the Fund together with the costs of the scheme member tracing exercise.

Investment management costs were £9.030m higher in 2018/19 than the previous year, for further details refer to Note 8.

Oversight and governance costs were £0.158m lower in 2018/19 than the previous year, for further details refer to Note 8.

NOTE 8: MANAGEMENT EXPENSES ADDITIONAL INFORMATION

The Code of Practice does not require any breakdown of pension fund management expenses. However for information only, to further aid comparison using the disclosure into the three headings suggested by CIPFA guidance, a detailed breakdown for 2018/19 is provided below.

	2017/18 £'000	2018/19 £'000
Administrative costs:		
Pensions Administration	1,016	1,038
Employee costs	127	198
Legal advice	9	5
Other	-	27
	1,152	1,268
Investment Management costs:		
Fund management fees	3,584	4,719
Custody fees	93	107
Pooled fund costs including entry fees*	5,445	13,266
Transaction costs	242	302
	9,364	18,394
Oversight and governance costs:		
Employee costs	352	361
Pension fund committee	26	10
Pension Board	9	10
Investment consultancy fees	140	94
Performance monitoring service	27	30
Shareholder voting service	14	17
Actuarial fees	60	72
Audit fees	27	21
Legal and tax advice	29	21
Border to Coast Pensions Partnership	169	77
Other (including bank charges)	24	6
	877	719
	11,393	**20,381**

*Pooled fund costs including entry fees shown above are not invoiced costs, instead they are charged to the individual pooled fund, as such these costs have been estimated when required and adjusted from the change in market value and net income.

Variations on spend between years include:-

- Employee costs (including staff training and travel) – in 2018/19 the Fund reallocated staff from the oversight and governance section to the administration section to allow them to focus on administration aspects of the fund. Although there was no increase in staff time overall, the increased spend in year relates to two things; 2017/18 included a rebate of staff time and expenses received from the other Partner Funds for work undertaken during the early stages of the creation of the pool and in 2018/19 there is a necessary increase in travel and associated costs required to support the ongoing development and transition of assets to Border to Coast.

- Fund Management fees – fees are paid based on the size of the Fund's portfolio and its performance. As the Fund's investments have returned 7.4% growth (net of fees and the impact of the nominal equity protection products) from March 2018, Fund management fees in 2018/19 have increased from the fees paid in 2017/18.

- Pooled fund costs and entry fees – key drivers of the increase in costs between 2017/18 and 2018/19 were:

    - Equity Protection: In April 2018, the Fund implemented an Equity Protection policy assisting the Fund in mitigating the risk of employer contributions increasing due to a significant downturn in equity markets before the 2019 Fund Valuation is completed. The premium paid for these products (£8.360m) is the primary explanation for the increase in costs between 2017/18 and 2018/19.

    - Fees on investments in alternatives: The objective of the Fund's strategic investment allocation to alternatives is to select a portfolio of alternative assets which aids cash flow and increases diversification and stability. Returns are indicating positive performances net of fees and this is anticipated to continue in the longer term. The growth of the portfolio of alternative pooled funds is ongoing and the resulting increased portfolio size has led to increased management fees of £3.493m in 2018/19 (£3.322m 2017/18) and the result of the positive investment returns has required the accrual of performance fees of £1.396m in 2018/19 (£1.668m 2017/18). By their nature, these pooled funds often carry an entry cost for a second stage investor into a live fund. In 2018/19 entry costs of £0.017m were incurred (£0.455m 2017/18), however as the valuation of the investments by March 2018 exceeded the price paid, the costs of entry had been recouped within a matter of months. These funds are viewed as long-term illiquid investments.

- Transaction costs – these costs occur on trades of shares and bonds and are payable to third party agents as brokerage fees; they are variable depending on investment manager purchases and sales. There were more of these transactions in 2018/19 than 2017/18, partially due to the transition of the UK equity portfolio to Border to Coast (approximately 500 transactions), resulting in a higher cost than paid in 2017/18.

- Investment consultancy fees – there has been a reduced need for the Fund to seek additional advice from external advisors to supplement resources to respond to the LGPS Pooling agenda due to the senior manager being in post for the full year. Additionally in the prior year there were increased costs associated with the Investment Strategy Review completion and advice related to the purchase of equity protection products.

- Border to Coast Pensions Partnership – there have been reduced costs in year that were related solely to the creation of the pooling company. The costs shown relate to the set up and development of the Fund's LGPS pooling company, up to the point at which the company began to transition investments into the pool; thereafter costs are included in Fund Management fees under the 'Investment Management costs' heading.

The Fund has reviewed the first submissions of cost transparency templates received from its investment managers and has incorporated additional disclosures of investment costs in the Fund's 2018/19 Annual Report (section 4.5.4). It is anticipated going forwards that the recently issued updated cost transparency template for 2019/20 will provide greater consistency and completeness in reporting by managers; this will enable the Fund to further enhance the reporting of 'hidden' investment costs in future years.

NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £52.434m (2017/18 £57.242m) net of £0.233m (2017/18: £0.239m) irrecoverable tax on dividends, and including stock lending income of £0.090m (2017/18: £0.068m), can be analysed as follows:

	2017/18 £'000	2018/19 £'000
Interest from fixed interest securities (corporate bonds)	6,970	7,030
UK equities dividends	12,067	10,570
Overseas equities dividends	9,940	9,684
Distributions from pooled investment vehicles	20,134	16,675
Net rental income from investment properties (see note 10b)	7,741	7,848
Interest on cash deposits	390	627
	57,242	**52,434**

In December 2018 the Fund transitioned from Schroders (UK equity segregated portfolio manager) to the Border to Coast Authorised Contractual Scheme (ACS) pooled UK equity fund. The Fund does not receive investment income on investments of pooled equity as the income received by the pooled fund instead increases the value of the unitised holdings, hence the reduction in UK equity dividends between 2017/18 and 2018/19.

‘Distributions from pooled investment vehicles’ relates to income earned from the Fund’s alternatives portfolio. The £16.675m received in relation to 2018/19 consisted of income from infrastructure funds £7.393m (2017/18 £6.951m), pooled property funds £2.651m (2017/18 £2.942m), private loan and multi asset credit funds £2.442m (2017/18 £1.698m), opportunistic investments £4.168m (£8.278m) and other pooled investments £0.021m (2017/18 £0.265m). The decrease in amounts received between 2017/18 and 2018/19 was primarily due to the timing of distributed income from the opportunistic investments; this timing is often dependent on the investment stage of the underlying investments with higher returns later in the investment cycle.

NOTE 10: INVESTMENT ASSETS

	Notes	31 March 2018 UK £'000	31 March 2018 Overseas £'000	31 March 2018 Total £'000	31 March 2019 UK £'000	31 March 2019 Overseas £'000	31 March 2019 Total £'000
Investment Assets							
Equities							
Equities - quoted		311,732	503,151	**814,883**	36,781	574,520	**611,301**
Equities - unquoted					833		**833**
		311,732	503,151	**814,883**	37,614	574,520	**612,134**
Fixed interest securities							
Corporate bonds - quoted		154,734	6,377	**161,111**	164,494	6,417	**170,911**
		154,734	6,377	**161,111**	164,494	6,417	**170,911**
Pooled investment vehicles							
Pooled investments - quoted		6,539	4,005	**10,544**	-	4,829	**4,829**
Pooled investments - unquoted		728,472	574,967	**1,303,439**	1,053,858	647,642	**1,701,500**
	10(a)	735,011	578,972	**1,313,983**	1,053,858	652,471	**1,706,329**
Investment properties							
Freehold		137,800	-	**137,800**	125,180	-	**125,180**
Long leasehold		27,875	-	**27,875**	36,100	-	**36,100**
	10(b)	165,675	-	**165,675**	161,280	-	**161,280**
Derivative contracts	10(c)	2,332	-	**2,332**	268	-	**268**
Cash Deposits		40,694	40,155	**80,849**	22,798	21,562	**44,360**
Amounts receivable for sales *		2,642	-	**2,642**	5,820	-	**5,820**
Investment income accrued *		5,409	-	**5,409**	4,330	-	**4,330**
Property rental debtors *		648	-	**648**	780	-	**780**
		51,725	40,155	**91,880**	33,996	21,562	**55,558**
Subtotal investment assets		1,418,877	1,128,655	**2,547,532**	1,451,242	1,254,970	**2,706,212**
Investment liabilities							
Derivative contracts	10(c)	(58)	-	**(58)**	(5,437)	-	**(5,437)**
Amounts payable for purchases *		(1,982)	-	**(1,982)**	(708)	-	**(708)**
Property creditors *		(2,507)	-	**(2,507)**	(2,466)	-	**(2,466)**
Subtotal investment liabilities		(4,547)	-	**(4,547)**	(8,611)	-	**(8,611)**
Total Net Investments		1,414,330	1,128,655	**2,542,985**	1,442,631	1,254,970	**2,697,601**

* These current and long term assets / liabilities are not valued at 'Fair Value through profit and loss' and are therefore excluded from **Note 10(h)** - Fair Value Hierarchy.

Note 10(a) details the pooled investments including index-tracking funds, unit trusts and alternatives funds.

Note 10(b) details the Fund's property portfolio.

Note 10(c) details the derivative contracts above. These are forward foreign exchange contracts and futures held at 31st March, shown as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31st March 2019.

2018/19 has seen the transition of the Schroders UK equity segregated portfolio to transfer into the Border to Coast Authorised Contractual Scheme (ACS) pooled UK equity fund, hence the reduction in quoted UK equity, and increase in pooled investment vehicles since 2017/18.

NOTE 10(a): POOLED INVESTMENT VEHICLES

The Fund's largest holding is the unitised insurance policies with Legal and General totalling £915.226m, shown in the following table categorised into the underlying asset types. These unitised, index-tracking funds are used as an efficient low-risk method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity.

In April 2018 the Fund entered into a suite of Equity Protection options which are designed to protect the value of the Fund's UK, US and European equity portfolios from a significant fall in the value of the equity market indices. These options are derivatives however, as they are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle (with Cumbria LGPS being the sole investor), they are included within unitised insurance policies in the table below. Further information on these options is included in note 10(c).

Border to Coast Pensions Partnership Ltd, the company created for the pooling of LGPS investment assets by twelve partner funds including Cumbria LGPS, launched its first investment funds in 2018/19. Cumbria LGPS transitioned from its actively managed UK equity portfolio with Schroders Investment Management into units in the Border to Coast UK Equity Fund in December 2018. As a pooled unquoted investment, this is shown in the following table as UK equities managed by the Border to Coast Pool.

The investment managers may also choose to invest in managed funds, such as unit trusts or REIT's, as a preferred method of investing in smaller asset classes or less easily accessed markets.

	2017/18 £'000	2018/19 £'000
Pooled investment vehicles - managed by Border to Coast Pool		
UK equities	-	268,002
	-	**268,002**
Unitised insurance policies - unquoted		
UK equities	27,097	28,839
Overseas equities	360,035	387,003
UK index-linked securities	468,128	494,170
UK sterling liquidity fund	58,469	22,939
Equity protection derivatives	-	(14,243)
Equity protection cash balance	-	812
Equity protection accruals	-	(4,294)
	913,729	**915,226**
Unit trusts		
UK - quoted	6,539	-
	6,539	**-**
Other Managed funds		
Pooled property REIT's - quoted	4,005	4,829
Pooled property funds - unquoted	76,216	78,372
Other managed funds - unquoted	313,494	439,900
	393,715	**523,101**
Total	**1,313,983**	**1,706,329**

The Fund is increasing its investment into infrastructure and other alternatives (unquoted pooled investments) with the objective of generating diversification and more stable and / or inflation protected income streams. These investments are included in the Other Managed Funds category in the table above.

NOTE 10(b): INVESTMENT PROPERTIES

The Fund invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31st March 2019 the portfolio valued at £161.280m included 25 properties ranging from £1.150m to £16.800m each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland. The intention of this diversification is to mitigate risk by enhancing the diversification within this asset class.

Property holdings do not fall into the definition of a financial instrument, therefore are not covered in **note 11(a)** 'Valuation of Financial Instruments carried at fair value'.

However as these assets are illiquid and prices are not readily quantifiable. In this regard they are level 3 assets in the Fair Value analysis in **Notes 10(g) to (i).**

‘Net rental income from investment property’ has been accounted for in the Fund Account under ‘Net Investment Income’ and is analysed as follows:

	2017/18 £'000	2018/19 £'000
Rental income from investment property	8,093	8,308
Direct operating expenses arising from investment property	(352)	(460)
	7,741	**7,848**

There are no restrictions on the Fund’s ability to realise the value inherent in its investment property or on the Fund’s right to the remittance of income and the proceeds of disposal. The properties are held by a wholly-owned nominee company on behalf of the Fund and the Fund is entitled to all income and capital proceeds. The Fund has no contractual obligation to purchase, construct or develop, and the Fund has its normal obligations in respect of repairing and maintaining properties where the costs are generally passed onto the tenants where a lease is in place.

The following table summarises the movement in the fair value of investment properties over the year:

	2017/18 £'000	2018/19 £'000
Balance at the start of the year	**161,190**	**165,675**
Additions:		
Purchases	-	8,089
Subsequent expenditure	69	-
Disposals	(3,220)	(11,229)
Net gains/(losses) from fair value adjustments	7,636	(1,255)
Balance at the end of the year	**165,675**	**161,280**

The Fund’s property investments are commercial leased out properties, all of which are operating leases. The future minimum lease payments receivable under non-cancellable leases for these	2017/18 £'000	2017/18 Restated £'000	2018/19 £'000

land and buildings in future years are shown as follows (in addition to the figures published in the 2017/18 accounts we have restated those figures to take account of the non-cancellable lease periods only):			
Not later than one year	8,167	8,155	7,796
Later than one year and not later than five years	27,862	26,748	24,500
Later than five years	26,763	20,672	17,731
Total future lease payments due under existing contracts	**62,792**	**55,575**	**50,027**

To satisfy the requirements of IFRS9 Credit Losses, an individual targeted assessment has been performed to quantify possible credit losses (or bad debt provisions) on rental income, rather than adopting a matrix based collective assessment. Historical loss rates have been assessed to adjust forward looking information. A combination of the assessment of historic rental payment trends for individual occupiers by the managing agents, with the use of a credit check risk score based on company accounts, payment information and up to date news reports, gives an individual assessment of balances. Where a provision is recommended, it is for 100% of the arrear rather than on a probability-adjusted basis.

In comparison to an annual rental income figure of £8.308 million, and outstanding arrears of £0.430m (as at 31st March 2019), the approach has given rise to an allowance for credit loss for one former tenant which is 0.62% of the annual rental income). This targeted approach has resulted in no adjustments to the future minimum lease disclosure. We are comfortable that the level of provisioning is appropriately prudent in the context of the financial statements.

NOTE 10(c): DERIVATIVES

A derivative is a permitted investment under LGPS Investment Regulations. It is a contract between two or more parties whose value is derived from the performance of the underlying asset, for example a currency or an equity index such as the FTSE 100.

One way for pension funds to reduce the volatility from their foreign currency exposures is to convert these exposures back to the domestic currency – this process is known as currency hedging. As open funds with a long term focus it is common for investors in LGPS to hedge 50% of their foreign currency exposure. This mitigates the worst effect that any adverse currency movements would have at the time of the realisation of the investment.

Cumbria LGPS has 50% of the investments denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay programme. The purpose is to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This is carried out using derivatives called forward foreign exchange contracts.

The corporate bond mandate managed by Aberdeen Standard Investments (was Standard Life) also uses derivatives in the form of exchange traded futures contracts to hedge overseas duration risk, in particular US$. Futures could also be used to manage the overall duration of the portfolio to ensure it stays within the limits set out in the Guidelines of the mandate. The economic exposure represents the notional value of stock purchased under future contracts and is therefore subject to market movements.

The derivatives held by Cumbria LGPS (shown in Note 10) can be summarised as follows:

	31 March 2019		
Reconciliation to Note 10	**Investment Asset / Unrealised Gain £'000**	**Investment Liability / Unrealised Loss £'000**	**Net Market Value £'000**
Total Derivatives			
Forward currency contracts	106	(5,351)	**(5,245)**
Futures	162	(86)	**76**
Derivative Contracts Gain/(Loss)	**268**	**(5,437)**	**(5,169)**

The open forward foreign exchange contracts can be summarised as follows:

Currency Bought		**Currency Sold**		**2018/19**	
Currency	**Local Value 000's**	**Currency**	**Local Value 000's**	**Unrealised Gain Sterling £'000**	**Unrealised Loss Sterling £'000**
Settlement within one month					
GBP	2,470	EUR	2,777	75	
GBP	4,075	USD	5,275	31	
Settlement one to six months					
GBP	330,343	USD	437,807		(4,304)
GBP	41,808	JPY	6,120,900		(731)
GBP	74,027	EUR	85,946		(316)
				106	**(5,351)**
Net forward currency contracts at 31 March 2019					**(5,245)**

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market Value at 31 March 2018 £'000	Economic exposure	Market Value at 31 March 2019 £'000
Assets					
UK Fixed Interest	Less than one year	11,422	216	9,832	162
Overseas Fixed Interest	Less than one year	-	-	-	-
			216		**162**
Liabilities					
Overseas Fixed Interest	Less than one year	(4,621)	(56)	(3,548)	(86)
			(56)		**(86)**
		Net Futures	**160**		**76**

Equity Protection Overlay Derivatives

A way for pension funds to reduce the risk of loss of value through adverse equity price movements is to purchase equity option contracts; this process is known as 'Equity Protection'.

In April 2018 the Fund entered into a suite of Equity Protection options which are designed to protect the value of the Fund's UK, US and European equity portfolios from a significant fall in the value of the equity market indices. These options are derivatives however, as they are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle (with Cumbria LGPS being the sole investor), they are included within unitised insurance policies in note 10(a). The details are therefore disclosed below as a note only.

In simple terms, the contracts LGIM have entered into on behalf of the Fund generate a nominal return based on the current value of the index plus any increase up to a certain level, irrespective of the actual value expected at the end of the contract term and these values are reflected in the last of the following tables. The duration of the contract is until 31st March 2020.

The basis of valuing the options (which are "over-the-counter" derivatives) is the Black-Scholes model. Black-Scholes is a pricing model used to determine the fair price or theoretical value for a derivative option based on six variables such as volatility, type of option, underlying stock price, time, strike price, and risk-free rate.

Outstanding Over-the-counter options held in the bespoke equity protection pooled fund are as follows:

Type	Expires	Put / call	Notional Holding £'000	Market Value at 31 March 2019 £'000
Assets				
UK Equity	31st March 2020	Put	409,986	9,017
Overseas Equity	31st March 2020	Put	806,617	17,635
				26,652
Liabilities				
UK Equity	31st March 2020	Put	(556,352)	(1,713)
UK Equity	31st March 2020	Call	(409,986)	(8,646)
Overseas Equity	31st March 2020	Put	(1,094,579)	(4,228)
Overseas Equity	31st March 2020	Call	(806,617)	(26,308)
				(40,895)
			Net purchased / written	**(14,243)**

When an entity buys an **options** contract, it grants them the right, but not the obligation to buy or sell an underlying asset at a set price on or before a certain date. A **call option** gives the holder the right to buy stock, and a **put option** gives the holder the right to sell stock.

NOTE 10(d): PROFIT AND LOSSES ON DISPOSAL OF INVESTMENTS AND CHANGES IN THE MARKET VALUE OF INVESTMENTS

During the financial year the following purchases and sales of investments were made. Purchases and sales also include transfers of investments if appropriate, and cash transfers from and to the Administering Authority.

2018/19 has seen the transition of the Schroders UK equity segregated portfolio to transfer into the Authorised Contractual Scheme (ACS) pooled UK equity fund with Border to Coast, hence increasing both sales and purchases within UK equity, and purchase of pooled vehicles.

The table below reconciles the movements in investments and derivatives (‘Total net investments’) for the current year.

2018/19:

Asset Class	Value at 1 April 2018 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Value at 31 March 2019 £'000
Fixed interest securities (Corporate Bonds)	161,111	23,502	(13,359)	(1,276)	933	170,911
Equities						
UK equities	311,732	427,040	(687,835)	27,965	(41,288)	37,614
Overseas equities	503,151	182,893	(176,603)	26,388	38,691	574,520
	814,883	609,933	(864,438)	54,353	(2,597)	612,134
Pooled investment vehicles	913,729	352,028	(162,313)	18,230	61,554	1,183,228
Unit Trusts	6,539	-	(6,443)	3,809	(3,905)	-
Managed funds	393,715	150,427	(49,588)	11,446	17,101	523,101
Property (See Note 10b)	165,675	8,089	(11,229)	4,517	(5,772)	161,280
Derivatives (forward foreign exchange contracts, futures)	2,274	47,483	(25,964)	(21,518)	(7,444)	(5,169)
	2,457,926	**1,191,462**	**(1,133,334)**	**69,561**	**59,870**	**2,645,485**
Cash	80,849			(1,275)	85	44,360
Amounts receivable for sales	2,642					5,820
Investment income accrued	5,409					4,330
Property rental debtors	648					780
Amounts payable for purchases	(1,982)					(708)
Property creditors	(2,507)					(2,466)
Total Net Investments	**2,542,985**			68,286	59,955	**2,697,601**

Analysis of gains/(losses) for the year	**2018/19 £'000**
Realised - Profit and losses on disposal of investments	68,286
Unrealised - Changes in the market value of investments	59,955
	128,241

The following table reconciles the movements in investments and derivatives for the previous year.

2017/18:

Asset Class	Value at 1 April 2017 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Value at 31 March 2018 £'000
Fixed interest securities (Corporate Bonds)	158,742	17,441	(9,402)	(270)	(5,400)	161,111
Equities						
UK equities	304,023	54,306	(37,632)	11,737	(20,702)	311,732
Overseas equities	493,020	147,746	(156,657)	42,834	(23,792)	503,151
	797,043	202,052	(194,289)	54,571	(44,494)	814,883
Pooled investment vehicles	880,426	60,197	(40,000)	14,798	(1,692)	913,729
Unit Trusts	8,959	11	(3,129)	695	3	6,539
Managed funds	327,546	104,790	(52,513)	15,275	(1,383)	393,715
Property (See Note 10b)	161,190	69	(3,220)	(247)	7,883	165,675
Derivatives (forward foreign exchange contracts, futures)	8,023	16,996	(55,572)	38,575	(5,748)	2,274
	2,341,929	**401,556**	**(358,125)**	**123,397**	**(50,831)**	**2,457,926**
Cash	72,283			(5,929)	(3,986)	80,849
Amounts receivable for sales	2,382					2,642
Investment income accrued	5,044					5,409
Property rental debtors	619					648
Amounts payable for purchases	(2,754)					(1,982)
Property creditors	(2,768)					(2,507)
Total Net Investments	**2,416,735**			117,468	(54,817)	**2,542,985**

Analysis of gains/(losses) for the year	**2017/18 £'000**
Realised - Profit and losses on disposal of investments	117,468
Unrealised - Changes in the market value of investments	(54,817)
	62,651

NOTE 10(e): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

Manager	Asset Class	31 March 2018		31 March 2019	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast UK Equity	Equities	-	0.0%	268,002	9.9%
	Managed by Pool	**-**	**0.0%**	**268,002**	**9.9%**
Investments Managed outside Border to Coast Pensions Partnership Ltd					
Legal & General Policy No. 1	Equities, bonds, cash	398,195	15.7%	401,853	15.0%
Legal & General Policy No. 2	Index-linked bonds	389,209	15.3%	388,496	14.4%
Legal & General Policy No. 3	Global equities	126,325	5.0%	124,877	4.6%
Legal & General Passive Currency	Currency overlay	2,018	0.1%	(5,352)	-0.2%
Loomis Sayles	Global equities	288,047	11.3%	333,604	12.4%
Nordea	Global equities	261,195	10.3%	294,517	10.9%
Aberdeen Standard Investments	UK corporate bonds	171,400	6.7%	178,252	6.6%
Aberdeen Standard Investments	Direct property	169,169	6.7%	163,091	6.0%
JP Morgan	Infrastructure	96,787	3.8%	121,907	4.5%
Insight Investments	Fixed income/cash	-	0.0%	60,029	2.2%
Partners Group	Infrastructure	39,410	1.6%	49,954	1.9%
Barings	Private Loan Fund	34,238	1.3%	42,130	1.5%
M&G	Property Fund	38,657	1.5%	39,867	1.5%
Aviva	Property Fund	36,809	1.4%	37,960	1.4%
Unigestion	Secondary Funds	30,110	1.2%	31,144	1.2%
Strategic cash allocation	Cash	56,836	2.2%	28,197	1.0%
SL Capital	Infrastructure	23,883	0.9%	26,538	1.0%
Partners Group MAC	Private Market Credit	26,148	1.0%	24,298	0.9%
SL Capital	Secondary Funds	17,957	0.7%	20,286	0.8%
BlackRock	Alternatives	21,744	0.9%	19,475	0.7%
Healthcare Royalty Partners	Royalties Fund	9,647	0.4%	17,788	0.7%
Pantheon	Private Equity Funds	-	0.0%	13,913	0.5%
M&G	Real Estate Debt	15,043	0.6%	12,897	0.5%
Sales outstanding receivable	Infrastructure	-	0.0%	2,370	0.1%
Border to Coast Ltd	Share capital	-	0.0%	833	0.0%
Aberdeen Asset Management	Indirect property	750	0.0%	546	0.0%
Schroders Investment Management	UK equities	289,398	11.4%	84	0.0%
Transition residual	Overseas/UK equities	10	0.0%	45	0.0%
	Outside Pool	**2,542,985**	**100.0%**	**2,429,599**	**90.1%**
Total Net Investments		**2,542,985**	**100.0%**	**2,697,601**	**100.0%**

Since 2012, actions to implement the Fund's strategic asset allocation have resulted in increasing its investment into infrastructure and other alternatives. The drivers for this change are intended to reduce risk by improving diversification and to generate more stable and / or inflation protected income streams.

Cumbria LGPS transitioned from its actively managed UK equity portfolio with Schroders Investment Management to receive units in the Border to Coast UK Equity Fund in December 2018, a pooled unquoted investment, managed by the Border to Coast Pool.

NOTE 10(f): INVESTMENTS REPRESENTING MORE THAN 5% OF THE NET ASSETS OF THE FUND

It is a requirement of the Pensions SORP and the CIPFA Code of Practice on Local Authority Accounting to declare if an investment accounts for more than 5% of the Fund. The only occurrences of this within the Cumbria Fund are the three unitised insurance policies held with Legal and General, and the Fund's first investment with the Border to Coast Pensions Partnership pool.

The Legal and General holdings are unitised, index-tracking funds and are used as an efficient liquid method of investing in the underlying asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity and as such are easily and readily convertible if required.

In December 2018, Cumbria LGPS purchased units in the Border to Coast UK Equity Fund, a pooled unquoted investment managed internally by the Border to Coast Pool.

Holding	31 March 2018 £'000	% of Total Net Investments	31 March 2019 £'000	% of Total Net Investments
Border to Coast Pension Partnership Ltd - UK Equity	-	0.0%	268,002	9.9%
Investments managed by Border to Coast	**-**	**0.0%**	**268,002**	**9.9%**
Policy 1 Legal and General North America Index	151,261	5.9%	177,996	6.6%
Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index	87,620	3.4%	92,636	3.4%
Policy 1 Legal and General UK Equity Index	27,096	1.1%	28,839	1.1%
Policy 1 Legal and General Europe(Ex UK)Equity Index	38,664	1.5%	39,693	1.5%
Policy 1 Legal and General Japan Index	24,320	1.0%	24,100	0.9%
Policy 1 Legal and General Other Pacific Basin Index	19,465	0.8%	20,338	0.8%
Policy 1 Legal and General Sterling Liquidity Fund	49,769	2.0%	18,251	0.7%
Policy 1 Total	398,195	15.7%	401,853	15.0%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	238,521	9.4%	155,433	5.8%
Policy 2 Legal and General Bespoke Equity Protection	150,688	5.9%	233,063	8.6%
Policy 2 Total	389,209	15.3%	388,496	14.4%
Policy 3 Legal and General FTSE World Equity Index	126,325	5.0%	124,877	4.6%
Investments managed by Legal and General	**913,729**	**36.0%**	**915,226**	**34.0%**
	913,729	**36.0%**	**1,183,228**	**43.9%**

Investments managed by external investment managers shown in Table 10(e) that exceed 5% and are not shown above, relate to segregated mandates where no one underlying holding is in excess of 5% of the total net assets of the fund.

NOTE 10(g): 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.

Description of Asset/Liability	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	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds*	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives*	Level 2	Market forward exchange rates at the year-end.	Exchange rate risk	Not required
UK and Overseas equity and bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments - UK & overseas equity, overseas unit trusts and 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
Pooled investments - hedge funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Investment Properties: Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by independent valuers CBRE Ltd in accordance with the *RICS Valuation Global Standards 2017* (incorporating the International Valuation Standards) and the UK national supplement 2018 ("the Red Book").	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.
Private/Unquoted equity (Pooled funds in Alternative Assets)	Level 3	Investments in private equity funds and unquoted limited partnerships are valued based on the Fund’s share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.	Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occuring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

* Futures, Derivatives and Options can be either Assets or Liabilities

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above for the Level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of Level 3 investments held at 31 March 2019.

Fair Value – Sensitivity of Assets values at Level 3

	Assessed valuation range (+/-)	Value at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Alternatives - Infrastructure	5%	198,398	208,120	188,677
Alternatives - Other	12%	319,874	358,898	280,849
Freehold and leasehold property	9%	161,280	175,795	146,765
Total		**679,552**	**742,813**	**616,291**

NOTE 10(h): FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair value. Transfers between levels are recognised in the year in which they occur.

To show the liquidity of the assets the Fund holds, under IFRS the valuation of investments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The aim being to show how much can be easily liquidated and thereby readily made available as cash if required with level 1 representing the most liquid and level 3 the most illiquid. This illiquidity assessment is subjective. As with any assessed additional investment risk investors should expect to be rewarded for illiquidity through higher investment returns.

The actuarial valuation of the Fund projects that liabilities exceed assets (note 23), therefore there is a need to generate excess returns on investments at an acceptable level of risk. To do this the Fund diversifies across asset classes, managers and products, making use of its strong covenant as an open Public Sector Pension Scheme. As such it can take advantage of the potentially higher returns offered for investing in more illiquid asset classes such as private equity and infrastructure. Thus the liquidity or how easily a financial asset can be quantified at a point in time does not automatically equate to the benefit of it to the Fund, merely how readily it can be realised as cash if required.

Level 1: 31% of Total Investments (2017/18: 42%)
Assets and liabilities 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 are mainly quoted equity shares, quoted fixed interest securities,

quoted index linked securities, cash and unit trusts that can be freely traded in active markets.

These are considered the most reliably quantifiable and easily liquidated i.e. converted into cash, assets carrying the lowest valuation and liquidity risk.

The proportion of assets at level 1 has decreased in 2018/19 following the transition of the Schroders UK equity segregated portfolio into the Border to Coast Authorised Contractual Scheme (ACS) pooled UK equity fund. This transition reduced quoted UK equity (level 1), and increased pooled investment vehicles (level 2).

Level 2: 44% of Total Investments (2017/18: 36%)
Assets and liabilities 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, the techniques used are based significantly on observable market data.

While these assets are not usually convertible into cash immediately they are still considered to be relatively liquid with easily verified and relatively certain asset pricing of the underlying stocks if not the pooled fund itself.

This includes pooled funds where the underlying assets are quoted assets such as equity and fixed interest bonds. Though the funds themselves are not traded on active markets, they have pre-set, often weekly trading dates, such that liquidation is relatively easy with a short lead-in time.

Level 3: 25% of Total Investments (2017/18: 22%)
Assets and liabilities at level 3 are those where quoted market prices are not available and at least one input that could have a significant effect on the valuation is not based on observable market data.

For many of these assets prices are not readily quantifiable and they often prove to be the most illiquid. As such they hold both the highest liquidity and valuation risk.

Such investments include unquoted equity investments, limited partnerships and property, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. These estimation techniques are referred to in Note 2 paragraph 2.9 (c), (d) and (f). The investment may be tied in for some time (in particular with private equity) and withdrawal would take longer than levels 1 or 2. The values of hedge funds are based on the net asset value provided by the fund manager. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund.

The following tables provide an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable. Those current & long term assets/liabilities detailed in Note 10 -

Investment Assets which are not measured at ‘fair value through profit and loss’ have not been included in this or the following table.

	31 March 2018				31 March 2019			
	Quoted market price	Using observable inputs	With significant unobservable inputs		Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss								
Equities - quoted	814,883	-	-	814,883	611,301	-	-	611,301
Equities - unquoted	-	-	-	-	-	-	833	833
Fixed interest securities-Corporate bonds - quoted	161,111	-	-	161,111	170,911	-	-	170,911
Pooled investments - quoted	10,544	-	-	10,544	4,829	-	-	4,829
Pooled investments - unquoted	-	913,729	389,710	1,303,439	-	1,183,228	518,272	1,701,500
Derivative contracts	-	2,332	-	2,332	-	268	-	268
Cash Deposits	98,587	-	-	98,587	47,124	-	-	47,124
Total Financial assets at fair value through profit and loss	**1,085,125**	**916,061**	**389,710**	**2,390,896**	**834,165**	**1,183,496**	**519,105**	**2,536,766**
Investment properties (Non-financial assets) at fair value through profit and loss	-	-	165,675	165,675	-	-	161,280	161,280
Financial liabilities (Derivative contracts) at fair value through profit and loss	-	(58)	-	(58)	-	(5,437)	-	(5,437)
Total Investments at Fair Value	**1,085,125**	**916,003**	**555,385**	**2,556,513**	**834,165**	**1,178,059**	**680,385**	**2,692,609**
Percentage of Total Investments	**42%**	**36%**	**22%**	**100%**	**31%**	**44%**	**25%**	**100%**

NOTE 10(i): RECONCILIATION OF FAIR VALUE MEASUREMENT WITHIN LEVEL 3

The following table sets out the reasons for movement in the valuations within the Fund’s assets categorised at level 3. More information regarding transfers is provided below the table as appropriate. Unrealised and realised gains and losses are recognised in the 'profit and losses on disposal and changes in market value of investments' line of the Fund Account.

Period 2018/19	Market value 1 April 2018 £'000	Transfers into level 3 £'000	Transfers out of level 3 £'000	Purchases during the year and derivatives payments £'000	Sales during the year and derivatives receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Market value 31 March 2019 £'000
Unquoted Equities	-	-	-	833	-	-	-	833
Private/Unquoted equity (Pooled funds in Alternative Assets)	389,710	-	-	147,552	(46,627)	11,281	16,356	518,272
Investment Properties	165,675	-	-	8,089	(11,229)	4,517	(5,772)	161,280
	555,385	-	-	156,474	(57,856)	15,798	10,584	680,385

NOTE 11: FINANCIAL INSTRUMENTS

Accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses, including fair gains and losses, are recognised. Investment property is not a financial instrument and as such does not feature in any but the first of the following tables. The following table analyses the fair value amounts of financial assets and liabilities by category, and the net gains and losses. No financial assets were reclassified during the accounting period.

The Net Assets of the Fund can be classified as Financial Instruments and Investment Property as follows:

	31 March 2018 £'000	31 March 2019 £'000
Financial Instruments	2,393,712	2,538,341
Statutory debts / liabilities & provisions	4,070	3,139
Investment Property	165,675	161,280
Net Assets of the Fund	**2,563,457**	**2,702,760**

NOTE 11(a): CLASSIFICATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The following table analyses the carrying amount of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period to 31st March 2019.

	31 March 2018				31 March 2019			
	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Total	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CLASSIFICATION								
Financial Assets								
Investments								
Equities	814,883	-	-	814,883	612,134	-	-	612,134
Fixed interest securities (corporate bonds)	161,111	-	-	161,111	170,911	-	-	170,911
Pooled investment vehicles	1,313,983	-	-	1,313,983	1,706,329	-	-	1,706,329
Derivative contracts	2,332	-	-	2,332	268	-	-	268
Cash deposits	-	98,587	-	98,587	-	47,124	-	47,124
Investment receivables/debtors	-	8,699	-	8,699	-	10,930	-	10,930
Current & long-term assets	-	319	-	319	-	691	-	691
	2,292,309	**107,605**	**-**	**2,399,914**	**2,489,642**	**58,745**	**-**	**2,548,387**
Financial Liabilities								
Derivative contracts	(58)	-	-	(58)	(5,437)	-	-	(5,437)
Investment payables/creditors	-	-	(4,489)	(4,489)	-	-	(3,174)	(3,174)
Current/long-term liabilities	-	-	(1,655)	(1,655)	-	-	(1,435)	(1,435)
Total Financial Instruments	**2,292,251**	**107,605**	**(6,144)**	**2,393,712**	**2,484,205**	**58,745**	**(4,609)**	**2,538,341**
ANALYSIS OF NET GAINS AND LOSSES FOR YEAR ENDED 31st MARCH								
Financial Assets	55,073	-	-	55,073	134,933	-	-	134,933
Financial Liabilities	(58)	-	-	(58)	(5,437)	-	-	(5,437)
Total Net Gains/(Losses)				55,015				129,496

The values shown in the above table for ‘Assets at amortised cost’ and ‘Financial liabilities at amortised cost’ are equivalent to the fair value.

NOTE 12(a): LONG TERM ASSETS

Revenue transactions are recorded on a system of receipts and payments. Capital and income accruals (debtors) have been introduced in respect of major items of income due but not received at 31st March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2018 £'000	31 March 2019 £'000
Long Term Debtors		
Long term debtors - contributions	-	-
Long term debtors - employer exit	657	328
Total Long Term Assets	**657**	**328**

‘Long-term debtors – employer exit’ is the debt due from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government, and as these payments are received in ten annual instalments which began in April 2011, the next instalment of £0.329m is shown within ‘Employer exit from the scheme due < 1 year’ (see Note 12(b)) and the remainder of £0.328m shown above as 'Long Term Debtors – Employer exit'.

NOTE 12(b): CURRENT ASSETS

Revenue transactions are recorded on a system of receipts and payments. Capital and income accruals (debtors) have been introduced in respect of major items of income due but not received at 31st March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2018 £'000	31 March 2019 £'000
Cash balances	**17,738**	2,764
Current Debtors		
Contributions due	3,449	2,796
Employer exit from scheme due < 1 year	329	329
Miscellaneous	771	1,167
Total Current Debtors	**4,549**	**4,292**
Total Current Assets	**22,287**	**7,056**

Cash balances held by the Administering Authority are variable as the need arises to have cash available for deployment into new investments.

Contributions due at 31st March vary from year to year, depending on the actual dates that payments are made by employers in respect of contributions and in settlement of invoices.

NOTE 13(a): LONG TERM LIABILITIES

Payments during the year have been converted to an expenditure basis by the introduction of capital and expense accruals (creditors), to record significant amounts owed at 31st March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2018 £'000	31 March 2019 £'000
Long term Creditors		
Interest provision on long-term debt	87	-
Total Long term Liabilities	**87**	**-**

The long-term interest provision liability ended in 2018/19, being related to a debt received in ten annual instalments from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government. The payments end in April 2020.

NOTE 13(b): CURRENT LIABILITIES

Payments during the year have been converted to an expenditure basis by the introduction of capital and expense accruals (creditors), to record significant amounts owed at 31st March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2018 £'000	31 March 2019 £'000
Current Creditors		
Investment Managers fees	927	900
Tax payable	651	703
Interest provision on long-term debt	79	87
Miscellaneous	728	535
Total Current Liabilities	**2,385**	**2,225**

NOTE 14: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk. These risks are a function of investing and cannot be completely avoided. They are however closely monitored and where possible appropriate mitigation methods are used to limit the Fund’s exposure.

The following table presents a summary of financial risks to provide an overview of the different types of risks that apply to the assets categories held by the Fund, with the corresponding values of those assets to provide context. The darkness of each marker against the asset categories indicates the varying degree to which the respective risk affects the different assets and thereby allow for comparison.

Summary of Financial Risks	**Credit Risk**	**Market Risk**				**2017/18 £'000**	**2018/19 £'000**
		Foreign Exchange	**Interest rate**	**Liquidity**	**Other risks**		
UK Equities	◐	◐	◐	○	◐	345,368	334,455
Overseas Equities	◐	●	◐	○	◐	867,191	966,352
UK Bonds	◐	◐	●	○	◐	154,734	164,494
Overseas Bonds	◐	●	●	○	◐	6,377	6,417
Index Linked Gilts	○	○	◐	○	◐	468,128	494,170
Property *	◐	○	◐	●	◐	165,675	161,280
Alternative Investments	◐	◐	◐	●	◐	389,710	518,272
Derivatives**	◐	●	○	○	◐	2,274	(23,706)
UK Cash	◐	○	◐	○	◐	116,901	49,313
Overseas Cash	◐	●	◐	○	◐	40,155	21,562
Total Investments at Fair Value						**2,556,513**	**2,692,609**

In the above table the risks noted effect the asset class either:

○ Minimally ◐ Partially ● Significantly

* Property is not a Financial instrument, it has been included above to provide a complete picture of investment assets.

** Derivatives shown above include Equity protection options detailed in Note 10c together with associated accruals.

Overall Procedures for Managing Risk

The principal powers under which an LGPS invests are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016[1] and require an Administering Authority to invest any pension scheme money that is not needed immediately to make payments from the Fund. These regulations require the Fund to formulate a policy for the investment of its Fund money. Cumbria LGPS practices are outlined in the Fund Policy Document and can be found on-line on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

With regards to investing, to minimise risks in this area the Administering Authority's risk management procedures focus on the unpredictability of financial markets, implementing operating restrictions on managers and diversification across the managers and asset classes within the portfolio.

The Fund annually reviews its policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. These are detailed in the Fund's Investment Strategy Statement which was last reviewed in March 2019.

The Investment Strategy Statement (ISS) and the Cash Investment Policy can both be found in the Fund Policy Document published on-line, on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

[1] Implemented in November 2016 to update the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009.

The Fund keeps its Investment Strategy under continual review. Local Government Pension Schemes have a long term liability profile, and their investment strategy should be undertaken with a view to matching this. Switching asset allocations is expensive, resource intensive and time consuming. While annual review to keep abreast of trends in market conditions and liability profiles (e.g. discounted future pensions payments) is appropriate, a more detailed review, leading to material changes in asset classes should only be undertaken every 3-7 years.

The Fund underwent a Strategic Investment Review in 2017/18, the main conclusion of this review was that “the Fund’s investment strategy is in good shape with no material changes required”. A further recommendation was made to consider options for banking some of the funding level improvements, and following significant work in 2017/18, an ‘equity protection’ overlay was in place from early April 2018. This brings the Fund protection from falls of more than 5% in the value of its equity from 4th April 2018 (the date the protection was purchased) until 31st March 2020 – the date at which the 2019 Actuarial Valuation is required to be formally completed. This protection is aimed at mitigating the risk of significant increases in employer contribution rates increasing for the period of April 2020 to March 2023.

A full Strategic Investment Review will be undertaken in 2019/20 following the results of the Triennial Actuarial Valuation of the Fund.

The Pensions Committee review the total Fund investment performance against its bespoke total benchmark return. Individual managers’ performance is monitored by the Investment Sub Group and reported by exception to the Pensions Committee quarterly, enabling Committee time to focus on more strategic issues such as risk and wider governance. Performance of the external Investment Managers is compared to both benchmark and target returns, and against a wider set of metrics. The Investment Sub Group and associated governance processes have been developed and strengthened over the 6 years it has been in place. The process continues to evolve and allows the Fund to enhance its governance and monitoring while nimbly taking investment decisions facilitating the continued move towards new asset classes.

As a further control, a substantial amount of due diligence is performed at the appointment stage both by Officers and the Fund’s independent investment advisors and / or consultants to ascertain managers’ risk control, audit and monitoring procedures.

Credit Risk

Credit Risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into. In essence the Fund’s entire investment portfolio is exposed to some form of credit risk. The market values of investments generally reflect an assessment of credit in their pricing. Consequently the risk of loss is implicitly provided for in the carrying values of the Fund’s financial assets and liabilities. In addition to this, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The Fund has had no experience of default or uncollectable deposits over recent years.

Through review of annual internal control reports from the Fund's external Investment Managers the Fund monitors its exposure to credit and counterparty risk. This review is aimed at ensuring that Managers exercise reasonable care and due diligence in its activities on behalf of the Fund.

All derivative transactions incorporate a degree of credit risk. The longer the term of a transaction, the greater the potential for change in market value, and the greater the credit risk. In relation to forward currency contracts and the stock lending programme there are two elements to this: counterparty risk and settlement risk.

The Fund's cash and cash-like holdings as at 31st March 2019 were £2.764m (2017/18: £17.738m) within current assets (see Note 12(b)), and £44.360m (2017/18: £80.849m) shown as cash within investments (see Note 10). In addition to this, in 2018/19 £22.939m (2017/18: £58.469m) of the Fund's holding in unitised insurance policies shown in Note 10a under pooled investments together with £0.812m (2017/18: £nil), relating to the Equity protection cash balance, was ultimately held in the passive manager's money market fund (Legal and General) and as such is included below. These funds were held in cash awaiting drawdowns for new investments and as collateral for the equity protection overlay. The credit ratings of the accounts and funds were as follows:

Cash and Cash Equivalents	Rating at 31 March 2019	Balances as at 31 March 2018	Balances as at 31 March 2019
Money Market Funds			
SSGA GBP Liquidity Fund	AAA	28,582	15,708
SSGA EUR Liquidity Fund	AAA	20,575	15,862
SSGA USD Liquidity Fund	AAA	14,884	2,409
Legal & General Sterling Liquidity Fund	AAA	58,469	22,939
Aberdeen Standard Sterling Liquidity Fund	AAA	8,905	1,502
Federated Short Term Prime Fund	AAA	-	1,003
Goldman Sachs Sterling Reserves Fund	AAA	8,602	-
Standard Life Euro Liquidity Fund	AAA	131	111
Bank deposit accounts			
National Westminster Bank	A+	231	259
Bank current accounts			
State Street Bank & Trust	AA-	4,795	3,475
Barclays Bank	A+	5,353	3,497
Northern Trust	AA-	-	812
Short Term Deposit			
Cash Collateral Swaps		(131)	(110)
The Bank of New York Mellon call account	AA	6,660	3,408
Total		**157,056**	**70,875**

Market Risk

Market value risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk reflects interest rate risk, currency risk and other price risks.

The Fund is exposed to the risk of financial loss from a change in the value of its investments. This may result in the Fund’s assets failing to deliver the returns required to match the underlying liabilities of the Fund over the longer term.

To mitigate against market value risk, the Fund has set restrictions on the type of investment it can hold. These restrictions are subject to investment limits, in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. Details can be found in the Fund’s Investment Strategy Statement (ISS). The Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic / political regions within each asset class.

Mitigation against market risk is also achieved by diversifying across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Mandates and ensure that the agreed limit on maximum exposure to any issuer or class is not breached.

To increase diversification across the Fund and among other things further reduce the Fund’s overall market risk, the Investment Strategy includes alternative asset classes (e.g. infrastructure, real estate debt, secondaries, royalties) which the Fund is now investing in. In addition to mitigate against the impact of equity market falls, the Fund implemented an ‘equity protection’ overlay in April 2018 to be in place until March 2020.

Market Risk – Sensitivity Analysis

The Fund’s funding position is sensitive to changes in equities (which affect the net assets available to pay benefits) and the Consumer Price Index (CPI) (which affect the value placed on the Fund’s liabilities). It should be noted that, the valuation of liabilities was based on a CPI+ model in the 2016 actuarial valuation. Prior to this, projected bond yield was used to assess the value of the Fund’s liabilities.

Potential price changes are determined based on the observed historical volatility of asset class returns. Historical evidence suggests that ‘riskier’ assets such as equities are expected to display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This volatility can be applied to the investment assets of the Fund at the period end in the following table to show the potential increase and decrease of value.

Market Risk - Sensitivity Analysis	2018/19 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	334,455	9%	364,556	304,354
Overseas Equities	966,352	10%	1,062,987	869,717
Fixed interest securities (corporate bonds)	170,911	6%	181,166	160,656
Index Linked Gilts	494,170	12%	553,470	434,870
Alternatives - Infrastructure	198,398	5%	208,318	188,479
Alternatives - Other	319,874	12%	358,258	281,489
Property	161,280	3%	166,118	156,442
Cash	70,875	1%	71,584	70,166
	2,716,315		**2,966,457**	**2,466,173**

Foreign Exchange Risk

The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31st March 2019, the Fund had overseas investments (excluding forward foreign exchange contract) of £1,233.408m and £21.562m cash denominated in currencies other than sterling. The impact of a 9% movement in the value of foreign currencies against sterling is summarised in the table below and would be to increase (or decrease) the fund value by approximately £112.970m, or 4.2% of the Fund’s total value. To assess the risk the Fund is exposed to as a result of holding these currencies, taking into account information provided by the Fund’s performance monitoring advisor (State Street Investment Analytics), it is considered that a 9% movement is a reasonable measure to apply across the basket of currencies.

Foreign Exchange - Sensitivity Analysis	2018/19 £'000	% Change	Value on Increase	Value on Decrease
US Dollar denominated assets	824,994	9%	899,243	750,745
European currency denominated assets	228,530	9%	249,098	207,962
Other currency denominated assets	201,447	9%	219,577	183,317
	1,254,971		**1,367,918**	**1,142,024**

Foreign Exchange – Derivative Contracts

One way for pension schemes to reduce the volatility from their foreign currency exposures is to convert these exposures back to the domestic currency – this process is known as currency hedging. It is common for LGPS’s to hedge 50% of their foreign currency exposure to minimise potential losses due to adverse currency movements between the purchase and sale of an asset.

The Cumbria Fund, in line with common practice across the LGPS, has 50% of the investments denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay program. The purpose is to reduce the Fund’s exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This is carried out using derivatives called forward foreign exchange contracts.

As at 31st March 2019, the Fund had both open over-the-counter forward foreign exchange contracts, and exchange traded futures contracts. See Note 10(c) for an analysis of these contracts.

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. Interest rates increased in November 2017 from their historic low of 0.25% to 0.50% and subsequently increased to 0.75% in August 2018, the pace and rate of change over the past few years has been slow and measured. The real interest rate risk is that rates will rise further, causing the value of bonds and bond funds to fall. Interest rates changes if they occur would be expected to continue to be infrequent and minor in nature and we would expect it to take several months for a rate change to work its way through into prices.

The Fund's direct exposure to interest rate movements as at 31st March 2019 and 31st March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Assets exposed to interest rate risk	31 March 2018 £'000	31 March 2019 £'000
Fixed interest securities (including pooled investments)	629,239	665,081
Cash and cash equivalents	16,908	11,341
Money market funds and pooled cash vehicles	140,148	59,534
	786,295	**735,956**

Liquidity Risk

Liquidity Risk is the risk that the Fund will not be able to meet its financial obligations when they fall due.

The main liquidity risk for the Fund is not having monies available to meet commitments to make pension payments to members as they fall due. The Administering Authority, with the Actuary, frequently reviews the overall cash flow position of the Fund to ensure its obligations can be covered.

As part of both the Triennial Valuation and the investment reviews, Fund membership and projected maturity profiles are reviewed. Currently the Fund is cash positive (i.e.

it collects more in annual income from contributions and investment than it requires to fulfil all obligations).

In 2018/19, as in past years, the Fund experienced a contribution cash deficit, i.e. the income received from contributions from members and employers was less than payments paid to members, this is expected in years that are not at the start of the valuation cycle where ‘up-front’ contributions are often made by some of the larger employers.

In 2017/18 the Fund had a surplus of £6.671m, which is net of the £24.959m prepayment for the following years (2018/19 and 2019/20). This was primarily due to a number of employers paying historic pension deficits early as detailed in Note 3.

On advice from the Fund’s Actuary it is projected that the Fund will remain cash positive (including yield from investments) for the medium term. However in the medium term, in light of the continual pressure on local government budgets and the resultant workforce reductions, this will be kept under active review and reassessed in the Triennial Actuarial Valuation.

Note 10(h) explains the Fair Value hierarchy and how the Fund holds a large value of very liquid securities which could be promptly realised if required (levels 1 and 2). As at 31st March 2019 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £2,012.224m, i.e. 75% of net assets (31st March 2018 £2,001.128m, 78%). The value of the illiquid assets including investment properties was £680.385m which represented 25% of net assets (31st March 2018 £555.385m, 22%).

External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. The Fund’s investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable.

A maturity analysis for investment liabilities (all of which are derivatives) is shown in Note 10(c). The current liabilities of the Fund (see Note 13(b)) are all due within 12 months from the Net Assets Statement date. The long term liabilities of the Fund (see Note 13(a)) consist of the interest provision on the long term debtor – employer exit. This matures as outlined in the table below:

Maturity Risk - Long term liabilities	**31 March 2018 £'000**	**31 March 2019 £'000**
Due 1 to 2 years	87	-
Due 2 to 5 years	-	-
Due 5 to 10 years	-	-
Total Long term liabilities	**87**	-

Counterparty Risk

The principal mitigation of the counterparty risk on a foreign currency trade is the rigour of the counterparty selection and monitoring process. Trades are only executed with approved counterparties, who have satisfied requirements in terms of market capability and credit standing. The list of potential counterparties is subject to approval and monitoring by the managers' as part of their oversight of risks. Subject to overriding requirements as our fiduciary agent to demonstrate best execution, they will assess and choose the preferred counterparty from the list for any particular trade against the following criteria:

- previous dealing experience of the counterparty,
- level of confidence in the counterparty's ability to absorb a trade of that size, based on ongoing research into the capabilities of the main counterparty banks,
- the bank's position in the market for sourcing PFI, corporate, utility and other non-government sources of inflation-linked debt.

Neither the investment manager nor any of its related companies would act as counterparty.

As part of the managers credit and counterparty risk framework, the creditworthiness of all counterparties is reviewed on a regular basis. In addition, more formal review takes place via quarterly meetings which can be convened at very short notice to meet any particular demands (as was the case, for example, in the Lehman crisis, when it met daily).

Settlement Risk

If the counterparty fails on the settlement date itself, and more specifically if it fails after the Fund has delivered payment but before the counterparty has delivered its payment then there would be a small time-limited risk of payment versus non-payment. This occurs when a party faces possible loss between the time a settlement payment is made and a payment is received on the same business day. This risk is more frequent in exchange of different currencies. The manager applies operational settlement netting, thus allowing clients to reduce their settlement exposures by having smaller amounts due to or from them.

There is no movement of principal capital; the credit exposure to either party is represented by the profit or loss on the positions at that point in time i.e. £5.169m loss on the currency derivatives at 31st March 2019 (see note 10c).

As currency movements can be quite volatile positions can change from day to day quite significantly. It is difficult to approximate the size of the risk using historical currency movements, as these cannot be relied upon as a guide to future movements.

Unquoted Investments

The Fund holds significant amounts of unquoted securities. This is mainly due to the fact that the unitised insurance policy held by the passive manager, Legal and General, is invested in unquoted, unitised, index-tracking funds, used as an efficient liquid method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as bonds and equity. As indicated in **Note 9** the Fund is increasing its allocation to unquoted pooled investment vehicles including infrastructure, pooled property funds, private loan funds, opportunistic investments and other pooled investments. These provide an efficient method of accessing exposure to these assets for a fund of Cumbria's size.

Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March. Unquoted pooled investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. The valuations are audited for each investment manager by their respective auditors and reported to the Fund as clients.

The unquoted investments held at 31st March 2019 are as follows:

Asset Class	2017/18 £'000	2018/19 £'000	Manager	Holding Details
Pooled investment vehicles				
Managed by Pool	-	268,002	Border to Coast	UK equity fund.
Unitised insurance policies	913,729	915,226	Legal and General	Index tracking funds.
Other managed funds	96,787	121,907	JP Morgan	Infrastructure fund.
	-	60,029	Insight	Fixed Income funds.
	39,410	49,954	Partners Grp	Infrastructure fund.
	34,238	42,130	Barings	Global private loan fund.
	38,657	39,867	M&G	Long-lease property fund.
	36,809	37,960	Aviva	Long-lease property fund.
	30,110	31,144	Unigestion	Secondary private equity funds
	23,883	26,538	SL Capital	Infrastructure fund.
	26,148	24,298	Partners Grp	Multi Asset Credit
	17,957	20,286	SL Capital	Secondary private equity funds
	20,270	19,015	BlackRock	BlackRock in-house funds.
	9,647	17,788	HRP	Healthcare Royalties Partners Fund.
		13,913	Pantheon	Private Equity funds.
	15,043	12,897	M&G	Real estate debt funds.
	750	546	Aberdeen	Overseas property funds (ex-BlackRock).
UK equity unquoted	-	833	Border to Coast	Company share capital.
	1,303,438	**1,702,333**		

NOTE 15: ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Fund operates an additional voluntary contribution scheme. Employees are allowed to pay voluntary contributions to one of three independent AVC scheme providers. To comply with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the transactions are treated separately to the Fund's accounts and therefore do not form part of these accounts.

The three providers offered are Prudential, Standard Life and Scottish Widows. The Fund gives no guarantee of investment performance of the providers and makes no contribution to the employees' funds. The previous scheme on offer to employees was the Equitable Life Assurance Society but in December 2000 it stopped accepting new business. The values of the three schemes for Cumbria LGPS, along with the value of Equitable Life, are shown below:

	2017/18 £'000	2018/19 £'000
Standard Life	958	1,003
Scottish Widows	1,146	1,128
Equitable Life	684	671
Prudential	936	1,235
Total AVCs	**3,724**	**4,037**

AVC contributions of £0.685m were paid directly from employees pay to the providers during the year (2017/18: £0.504m).

Members have the option of contributing to the various Schemes offered by their chosen provider. The purpose of contributions paid by a member is the securing of a pension at retirement, usually by buying an annuity or transferring the investment into the main Scheme. The investment could be realisable earlier in the event of a member's death before retirement.

NOTE 16: RELATED PARTY TRANSACTIONS

In day-to-day operations the Fund has many transactions with Cumbria County Council as the Administering Authority of the Fund, including the pension contributions as an employer, payments on the Fund's behalf for manager fees and administration, and recharges for services provided. There are no material transactions in respect of related parties requiring separate reporting. The Fund has not, for example, invested in schemes of economic regeneration sponsored by any `of the employing bodies including Cumbria County Council.

There are normal transactions with all the employers who have members in the Fund, who may be regarded as related parties, predominantly relating to employee and employer contributions. These transactions are reported as part of the income and expenditure statements.

Border to Coast Pension Partnership Ltd (Border to Coast)

As detailed in section 1 (d) of the accounts, in 2017/18 the Fund became a partner in Border to Coast as its chosen route to pool investment assets across the LGPS. Border to Coast is the organisation set up to run pooled LGPS investments for the Fund and 11 other Pension Funds. The company is a private limited company limited by shares and its company number is 10795539. Border to Coast was incorporated in May 2017 and issued 12 £1 A Ordinary shares. The shares have full voting rights, dividend and capital distribution rights. Cumbria County Council as Administering Authority for the Cumbria Local Government Pension Scheme holds £1 of A Ordinary share capital. For accounting purposes this holding is included and reported within the Cumbria LGPS Annual Report and Accounts.

There are no material transactions in respect of related parties requiring separate reporting for 2018/19.

Senior employees of the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS), Members of the Cumbria Pensions Committee and Cumbria Local Pensions Board, and senior officers with significant influence on the Fund were asked to complete a declaration on related parties. An examination of the returns for 2018/19 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Fund. Each member of the Pension Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. Any transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

Related parties returns are sent to the main employer organisations, and the aim is for receipt of returns to cover 85% of the active membership. This target has been achieved in 2018/19.

Key Management Personnel

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in Section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit (England) Regulations 2015) satisfy the key management personnel disclosure requirements of paragraph 17 of IAS 24. This applies equally to the accounts of Cumbria Local Government Pension Scheme.

The Fund does not employ any staff directly. Cumbria County Council employs the staff involved in providing the duties of the Administering Authority (excluding the pensions administration service which is provided by 'YPS') for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Cumbria County Council Annual Financial Report 2018/19 (see Note 12 to those statements).

In the interests of transparency the Fund has incorporated disclosure of the remuneration of Senior Officers employed by Cumbria County Council and elected Members who have responsibility of the management of the Fund to the extent that they have power to direct or control the major activities of the Fund (in particular activities involving the expenditure of money) whether solely or collectively with other persons.

Notes on below table

- Salary - includes salary in respect of the post and other payments received by the officer, for example, allowances for special duties.

- Benefits in Kind – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2018/19 the Council's mileage rate was at or below the HMRC rate so there is deemed to be no benefit received. There were no benefits in kind in 2018/19

- Cumbria County Council's Employer's Future Service Rate – LGPS 14.9% (current service cost).

- Time spent on LGPS – as noted above no officers are employed by Cumbria LGPS. The Fund is therefore charged by Cumbria County Council for the time spent by officers undertaking Scheme work. These percentages are the time spent by Senior Officers during 2018/19 on Cumbria LGPS specific work.

- During 2018/19, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (1FTE) (2017/18:1FTE) received remuneration in the £55,000 - £59,999 range however the remuneration of this Officer in respect of work undertaken on behalf of the Fund was less than £50,000 during the year.

- From May 2017, the Chair of the Cumbria Pensions Committee has been entitled to a special responsibility allowance. In 2018/19 this allowance was £7,018. This cost is charged to Cumbria LGPS.

- Other Members of the Pensions Committee and Local Pension Board are not remunerated for their attendance.

2018/19 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	Salary recharged to Cumbria LGPS	Total Remuneration excluding pension contributions recharged to Cumbria LGPS	Employer's Pension contributions recharged to Cumbria LGPS	Total Remuneration including pension contributions recharged to Cumbria LGPS
	£	£	£	£
Director of Finance (s.151 Officer) (previously Assistant Director of Finance)	12,469	12,469	1,858	14,327
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS)	48,135	48,135	7,172	55,307
	60,604	**60,604**	**9,030**	**69,634**

2017/18 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	Salary recharged to Cumbria LGPS	Total Remuneration excluding pension contributions recharged to Cumbria LGPS	Employer's Pension contributions recharged to Cumbria LGPS	Total Remuneration including pension contributions recharged to Cumbria LGPS
	£	£	£	£
Director of Finance (s.151 Officer) (previously Assistant Director of Finance)	11,706	11,706	1,744	13,450
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS):				
1st April 2017 - 31st December 2017	35,937	35,937	5,355	41,292
5th March 2018 - 31st March 2018	3,545	3,545	528	4,073
Senior Manager total	39,482	39,482	5,883	45,365
	51,188	**51,188**	**7,627**	**58,815**

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There are no outstanding contractual commitments at 31st March 2019.

NOTE 18: CONTINGENT ASSETS

Tax Reclaims

Cumbria Pension Fund has potential claims against HM Revenue and Customs and some European countries for tax withheld on foreign income dividends. A leading professional services firm, acting on behalf of the Cumbria Fund, has continued to pursue these claims during 2018/19. The estimated value of claims still outstanding is £4.002m (value in GBP at 31st March 2019, including MOD claim of £0.914m as mentioned below).

These claims are made on the basis that within the European Union all member states should enjoy the same status. In respect of tax, resident investors should not be treated differently from non-residents. There have been some notable court cases such as Manninen and Fokus, *EU Commission v Germany, Santander, and EU Commission v Portugal* that have added to the strength of the argument. There were no repayments during 2018/19 and progress has slowed for Fokus Bank (withholding tax) claims in France, Germany and Italy and for Foreign Income (FID) and Tax Credit (Manninen) Group Litigation whilst the application of and appeal against time limit decisions are debated. Whilst it is prudent for the Cumbria Fund not to make any assumptions, the settlements previously received from other European countries such as the Netherlands in 2009, the Norwegian settlement received in 2010 and 2015, the Austrian settlement received in 2012 and the repayments received from the Spanish Tax Authorities in 2013 and 2014 lend some optimism as to the success of recovering additional income for the Fund in the near future.

Claims have also been registered in the High Court for potential tax recovery from HMRC in respect of manufactured overseas dividends (MOD's) on equity stock lent out through the stock lending programme. The total claim value is in excess of £0.914m, although no accrual has been put in the accounts as the outcome is uncertain.

The fees incurred to date for all the above tax claims regardless of the outcome total £0.471m, and have been charged as expenditure to the fund account in the appropriate accounting period.

Class Actions

Where shareholder value has been eroded by wrongful action by company directors, sometimes it is possible for monies to be recovered via the courts by a shareholder class action against the company or its directors. The Fund uses Institutional Protection Services Ltd to monitor these class actions. The Fund will seek to recover any significant monies due where professional advice has been received detailing that the probability of success is believed to outweigh the additional cost of doing so.

NOTE 19: IMPAIRMENT LOSSES

All outstanding debts for non-recovery of pension overpayments and all other debts raised during 2018/19 are considered to be recoverable with no further impairment beyond the existing provision for credit losses or bad and doubtful debts.

There were no impairments of investments during 2018/19.

Financial Assets That Are Past Due As At 31st March But Not Impaired:

The Fund generally allows a payment period of 30 days. Included within current debtors (see Note 12(b)) are £0.034m of debtors aged between two and six months (£0.002m 2017/18). Debtors aged greater than six months totalled £0.040m as at 31st March 2019 (£0.017m 31st March 2018).

NOTE 20: STOCK LENDING

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). A programme is in place through the custodian, State Street Bank and Trust, to earn additional income for the Fund from stock lending. The limit on how much can be on loan is 33%.

The value of securities on loan as at 31st March 2019 has reduced in comparison to prior years primarily following the transition of assets away from a segregated mandate with Schroders where the Fund is the asset owner and can therefore stock lend; to a unitised holding of UK Equity with Border to Coast where the Investments Manager is the asset owner. Within the Border to Coast UK equity sub-fund that the Fund has subscribed to, Border to Coast do actively participate in stock lending and the income from this forms part of the return on that holding.

Securities on loan at the 31st March 2019 of £9.232m (2017/18: £54.618m) are included in the net assets statement to reflect the Fund's continuing economic interest in the securities, and consist of £0.150m UK equities and £9.082m overseas equities (2017/18: £45.657m UK equities, £5.568m overseas equities and £3.393m UK corporate bonds). The related collateral totalled £9.483m (2017/18: £57.651m), consisting £9.326m overseas bonds and £0.157m UK equities (2017/18: £32.327m overseas bonds, £22.753m UK equities and £2.571m UK bonds).

For the year to 31st March 2019, the Fund earned income of £0.090m (2017/18 £0.068m) through stock lending of the various assets (as detailed in **Note 9**).

NOTE 21: EVENTS AFTER THE REPORTING DATE

In light of the progression, during July 2019, of the McCloud/Sargeant Court case (relating to the transitional provisions of the new Firefighters and Judicial Pension Schemes) and the possible future effect of the judgement on other public service schemes (including the LGPS) the Fund's liabilities have been re-assessed. At this stage the full details of the implications for the LGPS are unclear. However, in recognition of the importance of the judgement and the anticipated retrospective application of any related remedy, it is considered prudent to include an estimate of the impact on the present value of past service liabilities of the Fund in the amounts disclosed in Note 23.

There have been no other material events after the reporting date that are required to be taken into account in the financial statements.

The Fund's Investment Strategy is positioned to absorb downside risk as well as being targeted at achieving long-term stability and asset growth. This is achieved by diversification across the portfolio (e.g. between asset classes, sectors, risk appetite and geographic regions).

NOTE 22: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND THE USE OF ESTIMATES AND UNCERTAINTIES

In applying the policies, the Fund has had to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the wider Local Government Pensions Scheme and specifically the Cumbria Fund will continue in operational existence for the foreseeable future as a going concern;
- No investments are impaired (further detail on the investment strategy and approach to managing risk in Note 14).

Any judgements made in relation to specific assets and liabilities, in addition to information stated in the relevant notes, can also be found in Note 2: Summary of Significant Accounting Policies, and Fair Value narrative in notes 10(g) and 10 (h).

Compliance with IFRS requires the assumptions and uncertainties contained within figures in the accounts and the use of estimates to be explained. Pension Fund Accounts contain estimated figures, taking into account historical experience, current trends and other relevant factors, as detailed in the following table:

Item	Uncertainties	Effect if actual differs from assumptions
Market Value of Investments	Investments at Level 1 & 2 - Valuations depend on market forces impacting the current price of stocks, shares and other investment instruments. Investments have been valued at the IFRS accepted method of 'Fair Value' since 2008/09, this being the 'bid price' where possible.	For every 1% increase in market value, the value of the Fund will increase by approx. £27.028m, with a decrease having the opposite effect. Level 3 investments – often income will be inflation linked e.g. RPI uplifts, based on throughput e.g. power

	Investments Level 3 – the hardest to value holdings often do not depend on market forces, but are subject to uncertainties unique to each holding. Valuations are mostly based on future cash flow so will depend on the expectations of the specific income streams and inflation linkage. Property – Fair Value (IFRS 13) valuations use the expected cashflow streams from current leases with reference also to the value of the property on the open market.	production or infrastructure usage, or underlying company performance in the case of private equity. If actual outcomes for these variables differ greatly from expectations, valuations can be lower than expected and also higher too. Manager skill and experience is essential in predicting the variables, planning and controlling the outcomes. Property – when properties are marketed for sale, the bids received from interested buyers can be above or below valuation due to market reasons. For each case the underlying factors would be considered before acceptance or otherwise of the sale.
Pensions Liability	Assumptions such as mortality expectations, future inflation, returns on investments, and rate of pay increases.	The effects on the funding level of changes in the individual assumptions can be measured, but interact in complex ways. For instance, a 1 year increase in life expectancy would result in a £53m increase in deficit shortfall as identified in the 2016 valuation. The Actuarial Valuation at March 2016 contains further information.
Long-term Debt	Income received in instalments over many years is time discounted to reflect the time value of money.	A discount rate of 3.5% was used, with every 1% reduction reducing the income recognised.
Allowance for credit losses / bad debt provision	Assumptions about ability of debtor to pay and likelihood of debt recovery.	Less income is recovered than predicted. Alternatively, debt can be recovered after being written off.

Investment in our asset pooling company – Border to Coast Pensions Partnership Ltd

Border to Coast is the organisation set up to run pooled LGPS investments for 12 Pensions Funds including Cumbria LGPS. The company is a private limited company limited by shares and its company number is 10795539. Border to Coast was incorporated in May 2017 and issued 12 £1 'A Ordinary' shares. The shares have full voting rights, dividend and capital distribution rights. Cumbria County Council, as Administering Authority for the Cumbria Local Government Pension Scheme, holds £1 of 'A Ordinary' share capital. For accounting purposes this holding is included and reported within the Cumbria LGPS Annual Report and Accounts.

This investment has been valued at cost on the basis that fair value as at 31st March 2019 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership Ltd became licensed to trade in May 2018;
- No published trading results are as yet available, which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company's business plan to be assessed with confidence;

- There is no intention for the company to be profit making and therefore no dividend to shareholders has been declared.

Directly held property

The Fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants with a variety of rental periods. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by IAS 7 and the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on a accruals basis, over the life of the lease, even if this does not match the pattern of payments (eg if there is a premium paid at the commencement of the lease).

NOTE 23: ACTUARIAL POSITION OF THE FUND

The Fund Actuary assesses the valuation of the Cumbria Local Government Pension Scheme as at 31st March 2016 to determine the contribution rates with effect from 1st April 2017 to 31st March 2020. A valuation estimate based on similar actuarial assumptions was also carried out at 31st March 2018 and 31st March 2019.

The full Actuarial Valuation Report as at 31st March 2016 is available on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'. Once published the new Actuarial Valuation Report 2019 will also be made available on the Council's website.

The Scheme Actuary is also required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) to present a statement detailing both the actuarial valuation result and the actuarial value of the Fund's past service liabilities calculated in a manner consistent with International Accounting Standard 19 (IAS 19). The statement also complies with the requirements of IAS 26.

The calculation of the liabilities in compliance with IAS 19 uses different, and more prudent, assumptions than that used for the valuation basis. The table below details the valuation of the assets and liabilities of the Fund using both the valuation basis and the IAS 19 methodology.

	31 March 2018 £'m	31 March 2019 £'m
Valuation Basis		
Present value of past service liabilities	(2,618)	(2,745)
Net assets of the Fund	2,563	2,703
Net liability (Valuation Basis)	**(55)**	**(42)**
IAS 19 Basis		
Present value of past service liabilities	(3,245)	(3,553)
Net assets of the Fund	2,563	2,703
Net liability (IAS 19 Basis)	**(682)**	**(850)**

The statement from the Scheme Actuary as required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) and in compliance with IAS 26 and on the basis of IAS19 is presented below.

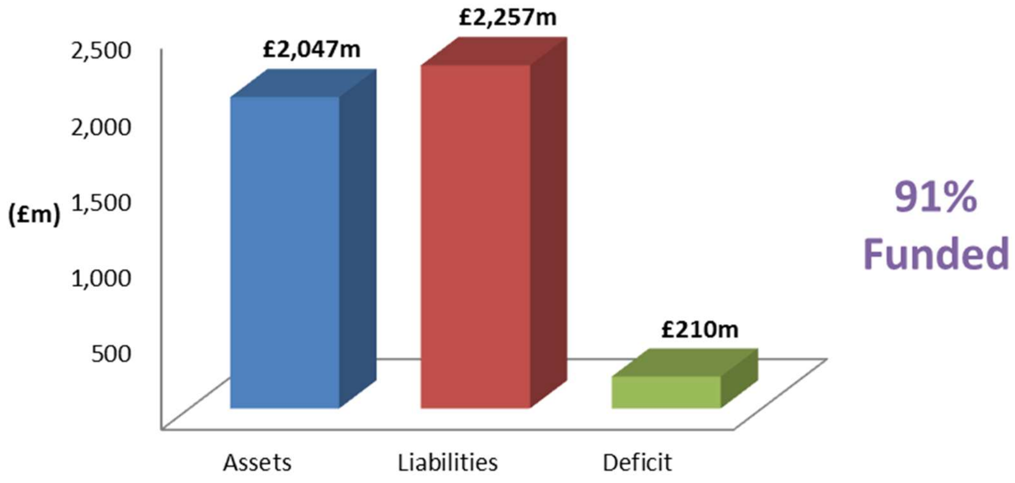
CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Cumbria Local Government Pension Scheme was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £2,047 million represented 91% of the Fund's past service liabilities of £2,257 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £210 million.



At 31 March 2016

The valuation also showed that a Primary contribution rate of 15.3% of pensionable pay per annum was required from employers. The Primary 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.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At the most recent actuarial valuation the average deficit recovery period was 15 years, and the total initial recovery payment (the “Secondary rate”) for 2019/20 is approximately £16.0 million (this allows for some employers to phase in any increases). For all employers, the Secondary rate will increase at 2.2% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers could also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

In practice, each individual employer’s position is assessed separately and the contributions required are set out in the report. 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). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.2% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

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, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.2% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.3% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £3,245 million. Interest over the year increased the liabilities by c£85 million, and net benefits accrued/paid over the period also increased the liabilities by c£20 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £18 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was an increase in liabilities of £185 million due to "actuarial gains" (i.e. the effects of the changes in actuarial assumptions used, referred to above).

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 £3,553 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is unclear what the extent of any potential remedial action might be.

We have carried out some costings of the potential effect of McCloud as at 31 March 2019, based on the individual member data as supplied to us for the 2016 actuarial valuation, and this results in an additional liability of £18 million using the IAS26 assumptions outlined above. The approach to the calculations is as instructed by the administering authority after consideration of the categories of members potentially affected, but in very broad terms calculates the cost of applying a "final salary underpin" (on a member by member basis) to those active members who joined the Fund before 1 April 2012 and who would not otherwise have benefited from the underpin.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

John Livesey
Fellow of the Institute and Faculty of Actuaries

Mark Wilson
Fellow of the Institute and Faculty of Actuaries

Mercer Limited
July 2019

NOTE 24: ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The Fund is required to disclose information relating to the impact of Accounting Standards that have been issued but have not yet been adopted.

There have been no such accounting standards issued that would materially impact on the 2018/19 financial statements.

NOTE 25: PARTICIPATING EMPLOYERS OF THE FUND

As at 31st March 2019 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

Employers of the Fund as at 31 March 2019 (total 127)

Scheduled Scheme Employers (13)

- Cumbria County Council
- Allerdale Borough Council
- Barrow Borough Council
- Carlisle City Council
- Copeland Borough Council
- Eden District Council
- South Lakeland District Council
- Cumbria Chief Constable
- Cumbria Police & Crime Commissioner
- Furness College
- Kendal College Further Educ
- Lake District National Park Authority
- Lakes College (West Cumbria)

Scheduled Resolution Bodies (15)

- Aspatria Town Council
- Cleator Moor Town Council
- Cockermouth Town Council
- Cumbria Waste Management
- Egremont Town Council
- Grange Town Council
- Kendal Town Council
- Keswick Town Council
- Maryport Town Council
- Orian Solutions
- Penrith Town Council
- Ulverston Town Council
- Whitehaven Town Council
- Wigton Town Council
- Workington Town Council

Scheduled Bodies - Academy employers (43)
(number of academies 57)

- Appleby Grammar Academy
- Arnside National CofE Academy
- Bassenthwaite Academy (New)
- Broughton Primary Academy
- Burton Morewood Primary Academy
- Caldew Academy
- Cartmel Priory Academy
- Castle Carrock Academy
- Chetwynd School Academy
- Cockermouth Academy
- Crosby on Eden Academy
- Dallam Academy
- Dearham Primary Academy
- Eaglesfield Paddle Academy
- Energy Coast UTC
- Fairfield Primary Academy
- Flimby Academy (New)
- Furness Academy
- George Hastwell School Academy
- Ghyllside Academy
- Gilsland Academy

Scheduled Bodies - Academies (cont)

- Great Corby Academy
- James Rennie Academy (New)
- Kendal MAT - Castle Park Academy
- Keswick Academy
- Kirkbie Kendal Academy
- Kirkby Stephen Academy
- Northside Academy
- Penny Bridge Academy
- Queen Elizabeth Grammar Academy
- Richard Rose Academies
- Seaton Academy
- Settlebeck High Academy
- Stanwix School Academy
- Stramongate Academy
- The Queen Katherine School Academy
- Trinity Academy
- Walney Academy
- West Lakes Academy

Inspired Learning MAT (one employer):

- Parkside GGI Academy
- Victoria Primary Academy
- Yarlside Primary Academy

The Good Shepherd MAT (one employer):

- Ambleside Primary Academy
- Braithwaite Primary Academy
- Dean Academy (New)
- Lazonby Academy
- Lorton Academy
- Whitfield Academy

Cumbria Education Trust (one employer)

- Longtown Academy
- Tebay Academy
- The Workington Academy
- Whitehaven Academy
- William Howard Academy
- Yanwath Academy
- Yewdale Academy

Lunesdale MAT (one employer)

- Queen Elizabeth Academy
- Queen Elizabeth Studio School

Scheduled Bodies No Actives (12)

- Brampton Parish Council
- Charlotte Mason College
- Cumbria Institute of the Arts
- Cumbria Primary Teacher Training
- Cumbria Sea Fisheries
- Dept Constit Affairs (Cumbria Magistrates)
- Health Authority
- Millom Town Council
- Port of Workington
- Practical Alternatives to Custody (Ltd)
- Seaton Parish Council
- Water Authority

Admitted Bodies Transferee (18)

- Bulloughs - Solway
- Carlisle Leisure Ltd
- Carlisle Leisure Allerdale
- Carlisle Mencap - Huntley Ave
- Carlisle Mencap - Hart St
- Caterlink - W/Lakes
- Caterlink - WHT
- FCC Environment
- Greenwich Leisure (Copeland)
- Greenwich Leisure (South Lakes)
- Life Leisure (New)
- Mellors Catering - Appleby
- Mellors Catering - Kirkby Stephen
- Mellors Catering Services - Rockcliffe
- People First
- SLS (Cumbria) Ltd - QK
- SLS (Cumbria) Ltd - StH
- Tullie House Trust

Admitted Bodies Community (16)

- Commission for Social Care Inspection
- Cumbria Cerebral Palsy
- Cumbria Deaf Vision
- Eden Housing Association
- Glenmore Trust
- Harraby Community Centre
- Higham Hall
- Home Group (Copeland)
- Kendal Brewery Arts Centre Trust Ltd
- Longtown Memorial Hall Community Centre
- Morton Community Centre
- Oaklea Trust
- Soundwave
- South Lakes Housing
- West House
- Wigton Joint Burial Committee

Admitted Bodies No Actives (10)

- Cumbria Training Partnership
- Direct Training Services
- Egremont & District Pool Trust
- Henry Lonsdale Trust
- Kendal Citizens Advice
- Lake District Cheshire Homes
- Lakeland Arts Trust
- NRCS Ltd (Neighbourhood Revitalisation)
- Project Homeless
- Troutbeck Bridge Swimming Pool

APPENDIX B: GLOSSARY

Active Management – Approach to investment management which aims to outperform a particular market index or benchmark through asset allocation and/or stock selection decisions. *(Also see Passive Management).*

Actuary – An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

Actuarial Valuation – An actuary formally reviews the assets and liabilities of the pension Fund and produces a report on the Fund's financial position.

Admitted Body – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain. These bodies can be categorised as Transferee or Community Admission bodies.

Alternatives – Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure; property; art, wine etc., and financial assets such as commodities, private equity, hedge funds, venture capital; royalties / patents and derivatives.

Asset Allocation – Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.

Auto Enrolment - UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria. The law on workplace pensions has now changed and every employer must comply.

Benchmark – A yardstick against which the investment policy or performance of a fund manager can be compared, usually the index relating to the particular assets held. *(Also see Target).*

Bid price – Price at which a security or unit in a pooled fund can be sold.

Black-Scholes – Is a pricing model used to determine the fair price or theoretical value for an 'over-the-counter' derivative option based on six variables such as volatility, type of option, underlying stock price, time, strike price, and risk-free rate.

Bonds – Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Buy and Hold Credit - An approach to bond investment that is very different to an index-tracking or traditional active approach. In the case of "buy and hold" investing, the starting point of the portfolio construction process is not the index weight of the bonds, but a basket of bonds that the manager believes have a high probability of honouring the payment obligations due. As such the investor's return expectation has a "margin of safety" and is not dependant on a change in sentiment in credit markets. The intention is typically to hold the bonds until maturity (and to be prepared to sell bonds if the default risk increases). Constant duration portfolios are also available.

Call option – see Options contract**.**

Career Average Revalued Earnings (CARE) Scheme – The pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

CIPFA – Chartered Institute of Public Finance & Accountancy.

Class Action – An action where an individual represents a group in a court claim. The judgment from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own law suit.

Conflicts of Interest - Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Consumer Price Index (CPI) - The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

Corporate Governance - The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Counterparty - The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

Custodian – Organisation which is responsible for the safekeeping of asset, income collection and settlement of trades for a portfolio, independent from the asset management function.

DCLG – Department for Communities and Local Government. In January 2018 this was renamed the Ministry of Housing, Communities and Local Government ("MHCLG").

Defined Benefit – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, were defined benefit prior to the introduction of the Career Average Revalued Earnings (2014) Scheme.

Defined Contribution – A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

Derivative – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

Diversification – Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

Divestment or divestiture – The reduction of some kind of asset for financial, ethical, or political objective. A divestment is the opposite of an investment. For investors, divestment can be used as a social tool to protest particular corporate policies.

EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation – is a measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments.

Emerging Markets – Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

Engagement - A series of actions investors can take to reduce environmental, social and governance risks. This can include raising concerns or making proposals about company practices directly to its directors via correspondence, face-to-face meetings, attendance and voting at shareholder meetings.

Equities – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Equity Protection – Is a product which is designed to protect the value of an equity portfolio, from significant falls in the value of specific equity market indices. These products can cover equities held in more than one country e.g. UK, US and Europe and often utilise derivatives options.

ESG (Environmental, Social and Corporate Governance) - A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. Socially responsible investing is among several related concepts and approaches that influence and, in some cases govern, how asset managers invest portfolios. See also Socially Responsible investing.

Exchange Traded Fund (ETF) - Fund that tracks an index, but can be traded like a stock.

Fiduciary Duty - A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

Final Salary – Another term for the defined benefit pension schemes where employee benefits are based on the person's final salary when they retire. The LGPS 2014 Scheme has moved from this to a CARE (career average) scheme.

Fixed Interest Securities – Investments mainly in government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

Funding Level – The ratio of a pension fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

Futures Contract – A contract that is traded on an organised exchange and subject to rules of the exchange. It is an obligation that the buyer and seller settle the contract through purchase or sale of an underlying asset at the future date.

Gilts – These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

Governance - The procedures and practice associated with decision-making, performance and control, which provide structures and satisfy expectations of accountability in large, mainly commercial, organisations.

IFRS – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

Index-linked Gilts – UK government stock where the interest payments and the final redemption proceeds are linked to the Retail Price Index. Such stocks provide protection against inflation.

Index-Tracking Fund (Managed Fund) – Pooled investment vehicle which aims to match the returns on a particular market index. The fund may hold all stocks in the index or select a sample that will perform closely to the index. Investors can buy and sell units of the fund on an on-going basis.

Infrastructure - The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment Strategy – Investor's long-term distribution of assets among various asset classes taking into consideration, for example, goals of the investor, attitude to risk and timescale etc.

Liabilities – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.

Market Value – The price at which an investment can be bought or sold at a given date.

MHCLG – The Ministry of Housing, Communities and Local Government. Prior to January 2018 this was Department for Communities and Local Government ("MHCLG").

Myners Review – Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review, published in March 2001, investigated the challenges facing institutional investment decision making.

Options contract – this grants to the entity the right, but not the obligation to buy or sell an underlying asset at a set price on or before a certain date. The two terms used to identify the type of option are:

- Call option – gives the holder the right but not obligation to buy an underlying asset
- Put option – gives the holder the right but not obligation to sell an underlying asset

Over-the-Counter (OTC) - A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

Passive Management – Portfolio which aims to replicate a particular market index or benchmark and does not attempt to actively manage the portfolio. *(Also see Active Management).*

PIRC – Pensions & Investment Research Consultants

Pooled Investment Fund – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

Pooling – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale thereby, as requested by DCLG: 'significantly reducing costs whilst maintaining investment performance'.

Portfolio – Block of assets generally managed under the same mandate.

Private Equity – Shares in unquoted companies. Usually high risk, high return in nature.

Private Equity Secondaries – Shares in unquoted companies that were pre-existing investor commitments to private equity which have since been sold in a secondary market. Usually high risk, high return in nature.

Put option – see Options contract.

Retail Price Index – Measure of price inflation in the UK used as a guide for pensions updating. A basket of representative goods in the market is priced on a regular basis to monitor the rate of inflation. (The Government is also publishing details of the Consumer Prices Index).

Real Estate Debt – Commercial property loans; the debt is secured against commercial property or portfolios of property, eg. hotels, shopping centres, offices.

Resolution Body – Employers who, under Schedule 2 Part 2 of the Local Government Pension Scheme Regulations 2013 (as amended), have the automatic right but not the requirement to be an employer within the LGPS (also referred to as a Designated body).

Return – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

Risk – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

Scheduled Body – Public sector employers or resolution bodies that have an automatic right and requirement to be an employer within the LGPS.

Scheme Employers – employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations (as amended)) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

Settlement – Payment or collection of proceeds after trading a security. Settlement usually takes place sometime after the deal and price are agreed.

Shareholder Voting - Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

Shareholders have the right to vote on matters of 'corporate policy' at the underlying company's AGM (Annual General Meeting). UK shareholders have the most favourable set of rights in the world in their ability to control directors of corporations. UK company law gives shareholders the ability to;

- remove the board of directors with a simple majority of votes ;
- change the company constitution with a three quarter vote (unless a higher figure is in the constitution);
- wind up (i.e. liquidate) the company with a three quarter vote; and
- veto any sale of a significant percentage of company assets.

The number of votes corresponds to the number of shares owned. The shareholder does not need to be present at the meeting, and many shares are voted 'by proxy'. Managers invariably hand over the process of voting to proxy voting agencies.

In practice many shareholders delegate the voting function to Investment Managers (who have stewardship of their assets).

Resolutions which are voted upon include:-
Approval of Annual Report and Accounts
Approval of Remuneration Policy, and Remuneration Report
Election/Re-election of Directors
Appointment/Re-appointment of auditors
Approve dividend
Approve political donations

Voting is the key to exercising ownership rights, and influencing investee company policy

Socially Responsible Investing – An investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts. See also ESG.

Stewardship - The active and responsible planning and management of entrusted resources now and in the longer term, so as to hand them on in better condition.

Stock Lending – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Target – Managers are set a target for investment performance such as 1% above benchmark per year over three year rolling periods.

Triennial Actuarial Valuation – Every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Fund and produces a report on the Fund's financial position.

Unit Trust – A specific type of pooled investment fund.

Unquoted (Unlisted) Stock – A company share that is not available for purchase or sale through the stock market.

Venture Capital – Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

Independent auditor's report to the members of Cumbria County Council on the pension scheme financial statements of Cumbria Local Government Pension Scheme

Opinion

We have audited the financial statements of Cumbria Local Government Pension Scheme (the 'pension scheme') administered by Cumbria County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Pension Fund Account for the year ended 31 March 2019, the Net Assets Statement as at 31 March 2019 and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension scheme during the year ended 31 March 2019 and of the amount and disposition at that date of the scheme's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension scheme's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the pension scheme's financial statements is not appropriate; or
- the Director of Finance has not disclosed in the pension scheme's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension scheme for a period of at least twelve months from the date when the pension scheme's financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the Pension Scheme Annual Report and information included in the Cumbria County Council Statement of Accounts and Annual Governance Statement, other than the Cumbria Local Government Pension Scheme Financial Statement, our auditor's report thereon and our auditor's report on the Administering Authority's financial statements. Our opinion on the pension scheme's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension scheme's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension scheme's financial statements or our knowledge of the pension scheme obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension scheme's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension scheme's financial statements and our knowledge of the pension scheme, the other information published together with the pension scheme's financial statements in the Pension Scheme Annual Report, the Cumbria County Council Statement of Accounts and the Cumbria County Council Annual Governance Statement for the financial year for which the pension scheme financial statements are prepared is consistent with the pension scheme financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance (S151 Officer) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 26 to 27, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance.

The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension scheme's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension scheme's financial statements, the Director of Finance is responsible for assessing the pension scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension scheme will no longer be provided.

The Audit and Assurance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension scheme's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Gareth Kelly

Gareth Kelly, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Glasgow

30 July 2019