10 THE PENSION FUND ACCOUNTS

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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 2020

		2018/19		2019/20	
	Notes	£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		64,102		68,709
Transfers in from other pension funds	4		3,000		6,160
			67,102		**74,869**
Benefits	5		(83,204)		(91,117)
Payments to and on account of leavers / employer exit	6		(4,889)		(7,017)
Net additions / (deductions) from members			**(20,991)**		**(23,265)**
Management expenses	7 & 8		(20,381)		(12,727)
Net additions / (deductions) including fund management expenses			**(41,372)**		**(35,992)**
Returns on investments					
Investment Income		52,667		47,623	
Taxes on Income		(233)		(206)	
Net investment income	9	52,434		47,417	
Profit / (losses) on disposal of investments and changes in the market value of investments	10(d)	128,241		(140,307)	
Net return on investments			**180,675**		**(92,890)**
Net increase (decrease) in the net assets available for benefits during the year			**139,303**		**(128,882)**
Net assets at the start of the year			**2,563,457**		**2,702,760**
Net assets at the end of the year			**2,702,760**		**2,573,878**

NET ASSETS STATEMENT AS AT 31st MARCH 2020

	Notes	31 March 2019 £'000	31 March 2020 £'000
Investment assets	10	2,706,212	2,568,403
Investment liabilities	10	(8,611)	(5,397)
Total net investment assets		**2,697,601**	**2,563,006**
Long term assets	12a	328	-
Current assets	12b	7,056	12,586
Long term liabilities	13a	-	-
Current liabilities	13b	(2,225)	(1,714)
Net assets of the Fund available to fund benefits at the period end		**2,702,760**	**2,573,878**

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, "the Fund") 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:-

- ensure that sufficient resources are available to meet all liabilities as they fall due;

- manage employers' liabilities effectively and enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the scheduled, resolution and admitted bodies;

- achieve and maintain Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future; 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.

10. THE PENSION FUND ACCOUNTS

As at 31st March 2020 the total membership of the Fund was 58,396 (2018/19: 57,840) and consisted of 16,989 contributors/actives (2018/19: 16,453), 24,420 deferred members (2018/19: 25,202) and 16,987 pensioners (2018/19: 16,185).

At 31st March 2020 there were 126 (31st March 2019: 127) employer bodies in the Cumbria LGPS (for the full list see Note 25). The number of employers reduced by one during the year, this was as a result of one Academy employer joining the Fund and two Academies merging with others already in the Fund.

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 2019/20 and the position at the year-end date, 31st March 2020. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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. IAS 26 '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 accounts have been prepared on a going concern basis.

NOTE 1 (b): INVESTMENT MARKET ACTIVITY DURING 2019/20

The first nine months of the year-ended 31st March 2020 saw positive returns in most investment markets. In particular, global equity markets ended 2019 with gains and the best calendar year performance in a decade. Ongoing uncertainty posed by Brexit contributed to the volatility in UK financial markets during the first few months of the year. Sterling rallied by the end of 2019 with the revised Withdrawal Agreement and General Election result, although there was a dampening of share price gains of large UK-based companies with significant non-sterling revenues.

The first quarter of 2020 was dominated by the emergence and global spread of the COVID-19 pandemic. Actions taken by governments to contain the spread of the virus impacted upon economic activity and led to significant turbulence in investment markets during March.

This was particularly apparent in listed equities where, despite historic levels of fiscal and monetary policy stimulus (such as governments introducing spending and revenue measures and central banks lowering interest rates), the MSCI AC World Index recorded a negative return of -16.0% for the three months, and the UK FTSE All Share recorded a negative return of -25.1%, its biggest quarterly loss since 1987. Over the twelve months to 31st March 2020 the MSCI AC World Index and UK FTSE All Share recorded negative returns of -6.7% and -18.5% respectively.

The impact of the pandemic on other asset classes was varied. Government bonds benefited as a safe-haven as investors sought out assets perceived to be lower risk with index-linked gilts showing a positive 2.4% return for the year. Credit markets were not immune to the impact, with returns varying significantly depending on the market perception of the likelihood of defaults. In currency, sterling hit multi-decade lows against the dollar as investors sought safety in cash, particularly favouring US dollars.

NOTE 1 (c): FUND PERFORMANCE 2019/20

As at 31st March 2020 the unaudited value of the Fund's net assets was £2,573.878m (a decrease of £128.882m (4.77%) from £2,702.760m as at 31st March 2019). The Fund's Actuary has estimated that the Cumbria LGPS was approximately 91.1% funded as at 31st March 2020, (based on assumptions per the valuation as at 31st March 2019).

In order to protect Fund solvency and the affordability of employer contribution rates, the Fund seeks to dampen investment risk and deliver stable investment returns over the longer-term by investing in a diverse portfolio of assets. The Fund's long-term approach to investment and its diverse portfolio of investment assets meant that, whilst it was affected by the significant market movements described at 1(b) above, the impact on performance was not as extreme as that experienced in the aforementioned equity markets. Overall, the Fund returned on its investments -2.8% (net of fees) for the year-ended 31st March 2020.

The Fund is primarily focussed on longer-term performance and, whilst the Fund underperformed against its 3 year benchmark (delivering a return of 2.6% p.a. (net of fees) against a benchmark of 3.2%) it outperformed both its 5 and 10 year benchmarks (5 year: 5.6% p.a. (net of fees) against a benchmark of 5.2% and 10 year: 7.7% p.a. against a benchmark of 7.1% (net of fees)).

Performance to 31st March 2020 in relation to the Fund's bespoke benchmark over these timeframes is summarised in the table below.

	Cumbria Performance	Bespoke Benchmark	Variance to Benchmark
1 year performance	-2.8%	-1.2%	-1.6%
5 year performance	5.6%	5.2%	0.4%
10 year performance	7.7%	7.1%	0.6%

As shown above, the Fund's return of -2.8% for the year was below the Fund's bespoke index performance benchmark of -1.2% for the same period. The main detractors from performance included the passive currency hedge, the invested alternatives being underweight to the benchmark, the property portfolio, and (during the final quarter) the Border to Coast global listed equity fund. Above benchmark performance in the year was attributable to the UK equity fund run by Border to Coast, the alternatives portfolio, and the global equity portfolios during 2019.

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 full review of the Investment Strategy in 2019/20 following the completion of the Triennial Actuarial Valuation of the Fund. The key principles for the revised Investment Strategy agreed by the Pensions Committee in December 2019 were:

- <u>Return generation</u> - at a 98.9% funding level (as at 31st March 2019) the Fund was in a good funding position. However, this funding level represents a snapshot in time i.e. Cumbria LGPS is an open fund which is continuing to accrue liabilities and therefore needs to continue to generate sufficient return to meet those liabilities. As such the revised strategy was designed to continue to deliver a similar expected return as the old strategy.

- <u>Stability for employers</u> - stability of the funding level is also important to help protect Fund employers from sudden and potentially significant fluctuations in contribution levels. In recognition of this the review sought to design a strategy which delivers both a return in line with the funding strategy and reduced volatility to help protect those employers with lower funding levels and are more vulnerable to sudden changes in employer contributions.

- <u>Inflation risk</u> – the Fund's inflation-linked discount rate means that it is largely protected against day to day inflation volatility, however there is a risk that, if inflation was to rise sharply and asset values do not keep pace with any increase, the Fund's strong funding position would potentially weaken and impact employer contributions. In order to mitigate some of this risk, the Strategy increased the percentage of assets held by the Fund that are more closely linked to inflation e.g. long lease property, index-linked gilts and (to an extent) infrastructure equity/debt.

- <u>Volatility risk</u> - equities are expected to produce good returns over the long term and provide a good source of liquidity. As such they play an important role in the Strategy. However, equities are volatile and, at the time of the review, dominated the Fund's risk exposure. In recognition of this the strategy reduced the allocation to public and private equity in favour of assets with a similar expected return but less volatility.

- <u>Illiquidity premium</u> – the Fund is long-term and can lock up capital for longer to take advantage of the additional premium this offers. The Strategy seeks to increase the Fund's exposure to less liquid assets in order to benefit from the illiquidity premium, whilst also ensuring that it is able to meet its cashflow requirements.

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

The process of implementing changes in asset allocation to enable the Fund to reach its revised allocation targets commenced immediately following Committee approval, with the following changes being made in the period to 31st March 2020:-

- The selection of suitable investments for the alternatives portfolio, including new investment commitments made to Border to Coast private markets funds launched in the year (Border to Coast Infrastructure 2019, Border to Coast Private Equity 2020 and Border to Coast Infrastructure 2020) and Partners Group Private Market Credit Fund V;

- The continuation of capital drawdowns to previously agreed commitments to infrastructure, private equity and private debt funds;

- The reduction of the listed equity allocation and ending of the equity protection product; and

- The selection of suitable investments to a new 12% allocation to Multi-Asset Credit funds.

Ongoing implementation of changes towards the revised Investment Strategy has been incorporated within the Fund's business plan for 2020/21.

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

<u>2019/20 Business Plan</u>:

All targets set within the 2019/20 Business Plan have been achieved during the year with key tasks either completed, or ongoing work that is on track for completion and these have been delivered within the approved budget.

In addition to continual improvement activities (such as data quality) 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 2019/20 Business Plan and new issues arising during the year were:-

- **Continuing the transition of assets from Cumbria LGPS to Border to Coast.**

  Throughout the year, the Fund has continued to actively engage with the company and Partner Funds on the range and design of sub-funds that Border to Coast Ltd provides. Key developments during the year include:

  - The transition of the 20% of the Fund's portfolio allocated to Global Equity to Border to Coast; and

- Commitments totalling £190m into Border to Coast's Private Equity and Infrastructure Sub Funds.

These investments, together within investments transferred to Border to Coast in 2018/19, bring the total invested with, or committed to, Border to Coast to approximately 1/3 of the value of the Fund.

- **Completion of the 2019 Actuarial Valuation.**

During 2019/20 the Fund worked with its appointed actuary, Mercer Ltd, to undertake the 2019 valuation. This concluded that Cumbria LGPS had a solvency funding level of 98.9% as at 31st March 2019 compared to 91% at the 2016 valuation. The Fund has set an average period of 12 years to recover this deficit. The valuation also set individual employer contribution rates for the period April 2020 - March 2023 for the future service element of pension contributions.

In 2019, the Government announced that an age discrimination cost referred to as "the McCloud judgement" would impact on all public sector pension schemes including the LGPS. This is likely to result in increased costs for some employers. Further information is set out in Note 23.

- **Ensuring compliance with the Council-wide contract review procedures and performance monitoring at both Committee and Officer level.**

All contracts were regularly reviewed during the year to ensure that performance was appropriate and in line with expectations.

Officers reviewed the performance of all investment managers on a quarterly basis and reported on 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.

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

Officers met at least quarterly with the Deputy Director of Your Pensions Service (YPS), the Fund's pensions' administration provider, to review performance standards.

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

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

During 2019/20 the Fund responded to the following consultations:
- Restricting exit payments in the public sector: consultation on implementation of regulations; and
- Local Government Pension Scheme: Changes to the local valuation cycle and the management of employer risk.

- **Undertaking the election process for membership of the Local Pension Board**

  Throughout 2019/20, the majority of vacant posts to the Local Pension Board were recruited to including the appointment of substitutes.

<u>Looking forwards to 2020/21</u>:

Given the unprecedented measures being taken around the world to manage the trajectory of the COVID-19 pandemic and the uncertainties surrounding the nature of the virus itself, it is not possible to accurately predict the longevity and severity of its impact on the global economy, working practices and society as a whole. As such, the following key deliverables for 2020/21 (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) as set out below, are focused on the principal activities of the Fund as currently anticipated. As the impact of COVID-19 becomes clearer, the Fund's work plan will be reviewed and amended where appropriate to ensure it addresses any relevant issues arising as a result of the pandemic.

<u>Pensions Administration</u>

- Appraising the impact of any revised regulations arising from the resolution to the McCloud age discrimination case and the re-running of the cost cap process and implementing any required changes to the scheme;
- Continuing to improve pension administration arrangements for the benefit of all members and employers of the Fund;
- Continual improvement programme for the quality of data held by the Fund;
- Continuing to monitor and improve employer data submission issues;
- Maintaining effective communication and liaison with Fund employers to meet the data requirements of the Pensions Regulator; and
- Continuing with implementing Guaranteed Minimum Pension (GMP) reconciliations in accordance with HMRC guidelines.

<u>Investment Management</u>

- Investigating suitable investment options to implement the revised Investment Strategy approved by Pensions Committee in December 2019;
- Liaising with Border to Coast Pensions Partnership Ltd to ensure that suitable opportunities are available within the pool for the Fund to transition to its amended investment strategy; and

- Retendering for the Custodian and Performance Monitoring contract.

Oversight & Governance

- Completion of the 2019/20 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes;
- Assessing the impact of and respond to consultations that will have an impact on the structure and performance of the Fund. This will specifically include the SAB's review into Good Governance in the LGPS;
- Reviewing governance arrangements in response to financial, regulatory and structural changes;
- Reviewing and updating Fund risks, policies and strategies;
- Reviewing, measuring and delivering training to Members and Officers as outlined in the Training Plan; and
- Retendering for the legal services contract.

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 2019/20 will be published on-line when finalised (and at the latest by the statutory deadline of 1st December 2020) 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 2019/20.

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 or exit credit payable 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)**).

<u>Fund account – expense items</u>

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 2019/20 submissions of cost transparency templates received and, where appropriate, used these to inform the Management Fees disclosed in the Accounts; the remaining cost transparency templates will assessed as they are received and will inform additional disclosures of investment costs in the Fund's 2019/20 Annual Report (section 4.5.4). It is anticipated that in future years the templates received 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 coming 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, 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 2020.

- 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.

- 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, there is no intention for the company to be profit making and as the financial accounts for the Company show the shareholder funds to be equivalent to the regulatory capital invested (at cost), the shares are therefore 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 2020. 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 2020 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 (incorporating the International Valuation Standards) and the UK national supplement ("the Red Book") current as at the valuation date.

- 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.

As previously noted, the COVID-19 pandemic had a material impact upon economic activity in March 2020. In recognition of this, CBRE has been directed by the Royal Institution of Chartered Surveyors (the RICS) to include a ‘Material Uncertainty’ clause in all property valuation reports as at 31st March 2020. Further details of this are set out in **note 22** to the Accounts (Critical judgements in applying accounting policies and the use of estimates and uncertainties).

In addition to this, further detail on Investment Properties is set out in **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 31st March 2020.

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.

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. The stock lending program is being wound down following the transition of the Fund’s active global equity to Border to Coast and the planned exit from the Fund’s corporate bond portfolio.

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 2019/20 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 2019/20 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:

10. THE PENSION FUND ACCOUNTS

By Category	2018/19 £'000	2019/20 £'000
Employee contributions to the fund	17,272	18,106
Employer contributions to the fund:		
Normal contributions	43,270	47,002
Deficit recovery contributions	3,560	3,601
Total Employer contributions	46,830	50,603
Total Contributions receivable	**64,102**	**68,709**
By Employer Type	**2018/19 £'000**	**2019/20 £'000**
Administering Authority	36,040	38,941
Other Scheduled bodies	26,317	28,007
Admitted bodies	1,745	1,761
	64,102	**68,709**

As shown in the above table the administering authority contributions (Cumbria County Council) were £38.941m (£36.040m 2018/19).

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 2019, and all other Cumbria LGPS employer policies that are relevant to the 2019/20 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. These are variable year to year depending on choices made by individual members.

	2018/19 £'000	2019/20 £'000
Individual transfers	3,000	6,160
	3,000	**6,160**

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	2018/19 £'000	2019/20 £'000
Net pensions paid	70,525	74,270
Net lump sum on retirement	11,324	14,355
Net lump sum on death	1,355	2,492
	83,204	**91,117**
By Employer Type	**2018/19 £'000**	**2019/20 £'000**
Administering Authority	46,615	51,387
Scheduled bodies	29,499	31,352
Admitted bodies	7,090	8,378
	83,204	**91,117**

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2019/20 were £51.387m (£46.615m 2018/19).

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

Transfers out from the Fund have been made by individual members, where they decide to take pensions benefits accrued from previous employment within the Fund to a pension elsewhere. These are variable year to year depending on choices made by individual members.

	2018/19 £'000	2019/20 £'000
Refund of member contributions	139	236
Individual transfers out to other Schemes	4,750	6,781
Group transfer out to other Schemes	-	-
	4,889	**7,017**

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:

	2018/19 £'000	2019/20 £'000
Administrative costs	1,268	1,306
Investment management costs	18,394	10,661
Oversight and governance costs	719	759
	20,381	**12,727**

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 2019/20 is provided for information in the next note.

Administration costs were £0.038m (3.0%) higher in 2019/20 than the previous year, for further details refer to **Note 8**.

Investment management costs were £7.733m (42.0%) lower in 2019/20 than the previous year, for further details refer to **Note 8**.

Oversight and governance costs were £0.040m (5.6%) higher in 2019/20 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 2019/20 is provided below.

10. THE PENSION FUND ACCOUNTS

	2018/19 £'000	2019/20 £'000
Administrative costs:		
Pensions Administration	1,038	1,047
Employee costs	198	257
Legal advice	5	-
Other	27	2
	1,268	1,306
Investment Management costs:		
Fund management fees	4,719	3,925
Custody fees	107	77
Pooled fund costs including entry fees*	13,266	6,541
Transaction costs	302	118
	18,394	10,661
Oversight and governance costs:		
Employee costs	361	318
Pension fund committee	10	22
Pension Board	10	15
Investment consultancy fees	94	130
Performance monitoring service	30	41
Shareholder voting service	17	10
Actuarial fees	72	109
Audit fees	21	32
Legal and tax advice	21	39
Border to Coast Pensions Partnership	77	-
Other (including bank charges)	6	44
	719	760
	20,381	**12,727**

*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 – 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. The overall increase in employee costs across the two aspects of the Pensions team is £0.016m, which relates in part to annual uplifts and to additional training costs for members of the team undertaking new roles.

- Fund Management fees – fees are paid based on the size of the Fund's portfolio and its performance, which up until December 2019 had shown growth and increased fees. The move from active segregated portfolios to pooled funds with Border to Coast has led to a reduction in direct fees. Overall, Fund management fees in 2019/20 have decreased from the fees paid in 2018/19.

- Pooled fund costs and entry fees – key drivers of the decrease in costs between 2018/19 and 2019/20 were:

  - Equity Protection: Between April 2018 and March 2020, the Fund had in place 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 was completed. The premium paid for these products (£8.360m in 2018/19) is the primary explanation for the decrease in costs between 2018/19 and 2019/20.

  - 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 in the portfolio together with additional investments into alternative pooled funds has resulted in an increased portfolio size that has led to increased management fees of £4.818m in 2019/20 (£3.493m in 2018/19) and the result of the positive investment returns has required the accrual of performance fees of £1.723m in 2019/20 (£1.396m in 2018/19).

- 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 2019/20 hence the reduction in cost from £0.302m to £0.118m.

- Investment consultancy fees – there have been increased costs associated with the Investment Strategy Review completion, review and selection of new products for the multi-asset credit allocation.

- Border to Coast Pensions Partnership – there have no costs this year related solely to the creation of the pooling company. The costs shown in 2018/19 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.

It is anticipated that cost transparency templates received from its investment managers 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. The Fund has incorporated additional disclosures of investment costs in the Fund's Annual Report (section 4.5.4)

NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £47.417m (2018/19 £52.434m) net of £0.206m (2018/19: £0.233m) irrecoverable tax on dividends, and including stock lending income of £0.012m (2018/19: £0.090m), can be analysed as follows:

	2018/19 £'000	2019/20 £'000
Interest from fixed interest securities (corporate bonds)	7,030	7,045
UK equities dividends	10,570	355
Overseas equities dividends	9,684	7,319
Distributions from pooled investment vehicles	16,675	24,295
Net rental income from investment properties (see note 10b)	7,848	8,043
Interest on cash deposits	627	360
	52,434	**47,417**

In October 2019 the Fund transitioned from Loomis Sayles and Nordea, the Fund's global equity segregated portfolio managers; to the Border to Coast Authorised Contractual Scheme (ACS) pooled Global Equity Alpha fund. The Fund does not receive investment income directly 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 equity dividends between 2018/19 and 2019/20.

'Distributions from pooled investment vehicles' relates to income earned from the Fund's alternatives portfolio. The £24.295m received in relation to 2019/20 consisted of income from infrastructure funds £15.060m (2018/19 £7.393m), pooled property funds £3.330m (2018/19 £2.651m), private loan and multi-asset credit funds £3.049m (2018/19 £2.442m), private equity £2.723m (2018/19 £4.168m) and other pooled investments £0.133m (2018/19 £0.021m). The increase in amounts received between 2018/19 and 2019/20 is in line with expectations as the Fund is committed to more alternative investment; however timing of income is often dependent on the investment stage of the underlying investments with higher returns later in the investment cycle. The Fund invests in these assets with the objective of generating stable and / or inflation protected income streams to support payment of pensions.

NOTE 10: INVESTMENT ASSETS

	Notes	31 March 2019			31 March 2020		
		UK	Overseas	Total	UK	Overseas	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets							
Equities							
Equities - quoted		36,781	574,520	**611,301**	-	-	**-**
Equities - unquoted		833	-	**833**	833	-	**833**
		37,614	574,520	**612,134**	833	-	**833**
Fixed interest securities							
Corporate bonds - quoted		164,494	6,417	**170,911**	166,503	6,860	**173,363**
		164,494	6,417	**170,911**	166,503	6,860	**173,363**
Pooled investment vehicles							
Pooled investments - quoted		-	4,829	**4,829**	-	-	**-**
Pooled investments - unquoted		1,053,858	647,642	**1,701,500**	1,272,223	921,328	**2,193,551**
	10(a)	1,053,858	652,471	**1,706,329**	1,272,223	921,328	**2,193,551**
Investment properties							
Freehold		125,180	-	**125,180**	121,625	-	**121,625**
Long leasehold		36,100	-	**36,100**	34,075	-	**34,075**
	10(b)	161,280	-	**161,280**	155,700	-	**155,700**
Derivative contracts	10(c)	268	-	**268**	452	-	**452**
Cash Deposits		22,798	21,562	**44,360**	20,147	17,579	**37,726**
Amounts receivable for sales *		5,820	-	**5,820**	1,525	-	**1,525**
Investment income accrued *		4,330	-	**4,330**	3,326	-	**3,326**
Property rental debtors *		780	-	**780**	1,927	-	**1,927**
		33,996	21,562	**55,558**	27,377	17,579	**44,956**
Subtotal investment assets		1,451,242	1,254,970	**2,706,212**	1,622,636	945,767	**2,568,403**
Investment liabilities							
Derivative contracts	10(c)	(5,437)	-	**(5,437)**	(2,369)	-	**(2,369)**
Amounts payable for purchases *		(708)	-	**(708)**	(47)	-	**(47)**
Property creditors *		(2,466)	-	**(2,466)**	(2,981)		**(2,981)**
Subtotal investment liabilities		(8,611)	-	**(8,611)**	(5,397)	-	**(5,397)**
Total Net Investments		1,442,631	1,254,970	**2,697,601**	1,617,239	945,767	**2,563,006**

* 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 2020.

2019/20 saw the transition of the Loomis Sayles and Nordea Global equity segregated portfolios to transfer into the pooled Border to Coast Authorised Contractual Scheme (ACS) Global Equity Alpha fund, hence the reduction in quoted Global equity, and increase in pooled investment vehicles since 2018/19.

NOTE 10(a): POOLED INVESTMENT VEHICLES

In response to government requirements in relation to the pooling of LGPS assets, Cumbria LGPS along with 11 other partner LGPS funds, set up the Border to Coast Pensions Partnership Ltd. The company, formed to enable the pooling of LGPS investment assets by the twelve partner funds, launched its first investment funds in 2018/19. Cumbria LGPS transitioned from its actively managed UK equity into units in the Border to Coast UK Equity Fund in December 2018, followed by its actively managed global equity allocation into units in the Border to Coast Global Equity Alpha Fund in October 2019. As pooled unquoted investments, these are shown in the following table managed by the Border to Coast Pool, totalling £696.327m.

The Fund's largest holding is the unitised insurance policies with Legal and General totalling £744.874m, 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 gilts and equity.

In April 2018, the Fund entered into a suite of Equity Protection options which were designed to mitigate the risk of increased employer contributions at the 2019 valuation by protecting 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 were 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). The options were exited in February 2020 in conjunction with a planned reduction of the Fund's listed equity holdings.

The Fund holds a portfolio of alternative investments (infrastructure, private equity, long-lease property, private debt and multi-asset credit funds) which are investment vehicles for collective investment such as limited partnerships and are shown as 'Other Managed funds' in the table below. The Fund is increasing its investment into alternatives with the objective of generating diversification and more stable and / or inflation protected income streams. This portfolio totals £752.350m at 31st March 2020.

A global equity manager had chosen to invest in REIT's, shown as pooled property funds in 2018/19 only.

10. THE PENSION FUND ACCOUNTS

	2018/19 £'000	2019/20 £'000
Pooled investment vehicles - managed by Border to Coast Pool		
UK equities	268,002	223,894
Global equities	-	472,433
	268,002	**696,327**
Unitised insurance policies - unquoted		
UK equities	28,839	-
Overseas equities	387,003	144,303
UK index-linked securities	494,170	495,549
UK sterling liquidity fund	22,939	105,022
Equity protection derivatives	(14,243)	-
Equity protection cash balance	812	-
Equity protection accruals	(4,294)	-
	915,226	**744,874**
Unit trusts		
UK - quoted	-	-
	-	**-**
Other Managed funds		
Pooled property REIT's - quoted	4,829	-
Pooled property funds - unquoted	78,372	78,928
Other managed funds - unquoted	439,900	673,422
	523,101	**752,350**
Total	**1,706,329**	**2,193,551**

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 2020 the portfolio valued at £155.700m included 24 properties ranging from £0.750m to £17.500m 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, they are valued at fair value (as detailed in **note 2.9(f)**). As these assets are illiquid and prices are not readily quantifiable, they are categorised as level 3 assets in the Fair Value analysis in **Notes 10(g) to (i).** As previously noted, the COVID-19 pandemic had a material impact upon economic activity in March 2020. In recognition of this, CBRE has been directed by the Royal Institution of Chartered Surveyors (the RICS) to include a 'Material Uncertainty' clause in all property valuation reports as at 31st March 2020. Further details of this are set out in **note 22** to the Accounts (Critical judgements in applying accounting policies and the use of estimates and uncertainties).

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

	2018/19 £'000	2019/20 £'000
Rental income from investment property	8,308	8,390
Direct operating expenses arising from investment property	(460)	(347)
	7,848	**8,043**

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:

	2018/19 £'000	2019/20 £'000
Balance at the start of the year	**165,675**	**161,280**
Additions:		
Purchases	8,089	12,408
Subsequent expenditure	-	-
Disposals	(11,229)	(5,712)
Net gains/(losses) from fair value adjustments	(1,255)	(12,276)
Balance at the end of the year	**161,280**	**155,700**

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 land and buildings in future years are shown as follows:

	2018/19 £'000	2019/20 £'000
Not later than one year	7,796	7,594
Later than one year and not later than five years	24,500	25,760
Later than five years	17,731	18,018
Total future lease payments due under existing contracts	**50,027**	**51,372**

To satisfy the requirements of IFRS 9 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 light of the significant disruption and exceptional circumstances in global markets as a result of COVID-19 (Coronavirus), several payment plans including rent deferments were negotiated with tenants. These were taken into consideration in this targeted assessment.

The full potential rental income receivable for the properties going forward is currently £8.165m per year, and due to the above targeted and prudent approach to the certainty of payment and bad debt provision, the future lease payments are reduced by an allowance for expected credit losses to those shown in the above table, i.e. by £0.571m to £7.594m for the forthcoming year. To provide context to this, it is worth noting that as at 31st March 2020 the Fund held £0.702m of deposits paid by tenants which help to mitigate loss to the Fund should rents not be paid.

As at 31st March 2020, an allowance of £0.023m for expected credit loss on outstanding rent arrears (which totalled £1.249m as at 31st March 2020), is recognised within the ‘Property rental creditors’ figure of £2.981m at Note 10. This represents approximately 0.29% of the 2019/20 net rental income. Of the £0.023m allowance for expected credit loss, £0.012m related to a current live lease (approximately 0.15% of the annual rental income). The above disclosures have therefore been adjusted accordingly to remove this lease in full. It is considered 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.

10. THE PENSION FUND ACCOUNTS

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 equity 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 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 2020		
Reconciliation to Note 10	**Investment Asset / Unrealised Gain £'000**	**Investment Liability / Unrealised Loss £'000**	**Net Market Value £'000**
Total Derivatives			
Forward currency contracts	301	(2,095)	**(1,794)**
Futures	151	(274)	**(123)**
Derivative Contracts Gain/(Loss)	**452**	**(2,369)**	**(1,917)**

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

Currency Bought		Currency Sold		2019/20	
Currency	Local Value 000's	Currency	Local Value 000's	Unrealised Gain Sterling £'000	Unrealised Loss Sterling £'000
Settlement within one month					
GBP	4,757	USD	6,216	2	(255)
GBP	2,464	EUR	2,893	-	(98)
USD	889	GBP	729	6	(19)
EUR	212	GBP	192	1	(5)
Settlement one to six months					
GBP	196,251	USD	245,819	-	(1,718)
GBP	25,196	JPY	3,359,100	51	-
GBP	40,796	EUR	45,751	241	-
				301	**(2,095)**
Net forward currency contracts at 31 March					**(1,794)**

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market Value at 31 March 2019 £'000	Economic exposure	Market Value at 31 March 2020 £'000
Assets					
UK Fixed Interest	Less than one year	9,832	162	9,261	151
Overseas Fixed Interest	Less than one year	-	-		-
			162		**151**
Liabilities					
Overseas Fixed Interest	Less than one year	(3,548)	(86)	(4,082)	(274)
			(86)		**(274)**
		Net Futures	**76**		**(123)**

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’.

From April 2018 to February 2020, the Fund held a suite of Equity Protection options designed to mitigate the risk of increased employer contributions at the 2019 valuation by protecting 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 were 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). They are shown in the 2018/19 table only as they were no longer held as at 31st March 2020 (the options were exited in conjunction with a planned reduction of the Fund's listed equity holdings). The details are therefore disclosed below as a note only.

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	Notional Holding £'000	Market Value at 31 March 2020 £'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.

2019/20 has seen both the Nordea and Loomis Sayles global equity segregated portfolios transfer into the pooled Border to Coast Authorised Contractual Scheme (ACS) Global Equity Alpha fund. The Fund has also made strategic moves away from passive equity holdings, funding a higher allocation to defensive assets such as index-linked gilts and multi-asset credit (MAC) funds. Hence the year shows a high volume of sales from UK and Overseas equity, and the corresponding purchase of pooled vehicles.

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

10. THE PENSION FUND ACCOUNTS

2019/20:

Asset Class	Value at 1 April 2019 £'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 2020 £'000
Fixed interest securities (Corporate Bonds)	170,911	13,481	(5,400)	(1,035)	(4,594)	173,363
Equities						
UK equities	37,614	3,147	(43,040)	6,774	(3,662)	833
Overseas equities	574,520	62,540	(700,016)	208,965	(146,009)	-
	612,134	65,687	(743,056)	215,739	(149,671)	833
Pooled investment vehicles	1,183,228	1,158,369	(731,960)	66,634	(235,070)	1,441,201
Unit Trusts	-	-	-	-	-	-
Managed funds	523,101	309,640	(80,213)	10,025	(10,203)	752,350
Property (See Note 10b)	161,280	12,408	(5,712)	3,108	(15,384)	155,700
Derivatives (forward foreign exchange contracts, futures)	(5,169)	97,960	(73,853)	(24,107)	3,252	(1,917)
	2,645,485	**1,657,545**	**(1,640,194)**	**270,364**	**(411,670)**	**2,521,530**
Cash	44,360			104	895	37,726
Amounts receivable for sales	5,820					1,525
Investment income accrued	4,330					3,326
Property rental debtors	780					1,927
Amounts payable for purchases	(708)					(47)
Property creditors	(2,466)					(2,981)
Total Net Investments	**2,697,601**			270,468	(410,775)	**2,563,006**

Analysis of gains/(losses) for the year	**2019/20 £'000**
Realised - Profit and losses on disposal of investments	270,468
Unrealised - Changes in the market value of investments	(410,775)
	(140,307)

10. THE PENSION FUND ACCOUNTS

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

NOTE 10(e): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

Manager	Asset Class	31 March 2019		31 March 2020	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast UK Equity Fund	Equities	268,002	9.9%	223,894	8.7%
Border to Coast Global Equity Alpha Fund	Equities	-	-	472,433	18.4%
Border to Coast Cumbria LP	Infrastructure Funds	-	-	6,480	0.3%
Border to Coast Cumbria LP	Private Equity Funds	-	-	4,742	0.2%
	Managed by Pool	**268,002**	**9.9%**	**707,549**	**27.6%**
Investments Managed outside Border to Coast Pensions Partnership Ltd					
Legal & General Policy No. 1	Equities, bonds, cash	401,853	15.0%	103,227	4.0%
Legal & General Policy No. 2	Index-linked bonds	388,496	14.4%	497,344	19.4%
Legal & General Policy No. 3	Global equities	124,877	4.6%	144,303	5.6%
Legal & General Passive Currency	Currency overlay	(5,352)	-0.2%	(1,426)	-0.1%
Aberdeen Standard Investments	UK corporate bonds	178,252	6.6%	179,370	7.0%
Aberdeen Standard Investments	Direct property	163,091	6.0%	156,758	6.1%
JP Morgan	Infrastructure	121,907	4.5%	121,897	4.8%
CQS	Multi Asset Credit	-	-	100,000	3.9%
Apollo	Multi Asset Credit	-	-	90,195	3.5%
Partners Group	Private Market Credit	24,298	0.9%	52,133	2.1%
Partners Group	Infrastructure	49,954	1.9%	52,025	2.0%
Barings	Private Loan Fund	42,130	1.5%	45,746	1.8%
M&G	Property Fund	39,867	1.5%	40,022	1.6%
Aviva	Property Fund	37,960	1.4%	38,861	1.5%
Insight Investments	Fixed income/cash	60,029	2.2%	37,690	1.5%
Unigestion	Secondary Funds	31,144	1.2%	37,204	1.5%
Aberdeen SL Capital	Infrastructure	26,538	1.0%	33,398	1.3%
Strategic cash allocation	Cash	28,197	1.0%	29,354	1.1%
Aberdeen SL Capital	Secondary Funds	20,286	0.8%	22,262	0.9%
Pantheon	Private Equity Funds	13,913	0.5%	23,499	0.9%
Healthcare Royalty Partners	Royalties Fund	17,788	0.7%	21,564	0.8%
BlackRock	Alternatives	19,475	0.7%	17,130	0.7%
M&G	Real Estate Debt	12,897	0.5%	9,714	0.4%
Sales outstanding receivable	Infrastructure	2,370	0.1%	1,510	0.1%
Border to Coast Ltd	Share capital	833	0.0%	833	0.0%
Transition residual	Overseas/UK equities	45	0.0%	799	0.0%
Aberdeen Asset Management	Indirect property	546	0.0%	45	0.0%
Schroders Investment Management	UK equities	84	0.0%	-	-
Loomis Sayles	Global equities	333,604	12.4%	-	-
Nordea	Global equities	294,517	10.9%	-	-
	Outside Pool	**2,429,599**	**90.1%**	**1,855,457**	**72.4%**
Total Net Investments		**2,697,601**	**100.0%**	**2,563,006**	**100.0%**

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. As shown above, the pool manages 27.6% of Cumbria's investments; i.e. the Border to Coast UK Equity Fund and the Border to Coast Global Equity Alpha Fund, and the pool also manages the Border to Coast

Cumbria Limited Partnership for alternative investments in infrastructure and private equity.

Cumbria LGPS transitioned from its actively managed global equity portfolios with Nordea and Loomis Sayles to receive units in the Border to Coast Global Equity Alpha Fund in October 2019.

Since 2012, the Fund has been increasing its investment into infrastructure and other alternatives in its strategic asset allocation. The drivers for this change are intended to reduce risk by improving diversification and to generate more stable and / or inflation protected income streams. Following a full Strategic Investment Review in 2019, the Fund has also introduced investments in multi-asset credit.

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 occurrences of this within the Cumbria Fund are the three unitised insurance policies held with Legal and General, and the Fund’s investments 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 October 2019, Cumbria LGPS purchased units in the Border to Coast Global Equity Alpha Fund, a pooled unquoted investment managed internally by the Border to Coast Pool.

Holding	31 March 2019 £'000	% of Total Net Investments	31 March 2020 £'000	% of Total Net Investments
Border to Coast Pension Partnership Ltd - UK Equity	268,002	9.9%	223,894	8.7%
Border to Coast Pension Partnership Ltd - Global Equity Alpha	-	-	472,433	18.4%
Investments managed by Border to Coast	**268,002**	**9.9%**	**696,327**	**27.1%**
Policy 1 Legal and General North America Index	177,996	6.6%	-	-
Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index	92,636	3.4%	94,860	3.7%
Policy 1 Legal and General UK Equity Index	28,839	1.1%	-	-
Policy 1 Legal and General Europe(Ex UK)Equity Index	39,693	1.5%	-	-
Policy 1 Legal and General Japan Index	24,100	0.9%	-	-
Policy 1 Legal and General Other Pacific Basin Index	20,338	0.8%	-	-
Policy 1 Legal and General Sterling Liquidity Fund	18,251	0.7%	8,367	0.3%
Policy 1 Total	401,853	15.0%	103,227	4.0%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	155,433	5.8%	150,075	5.9%
Policy 2 Legal and General Bespoke	233,063	8.6%	347,269	13.5%
Policy 2 Total	388,496	14.4%	497,344	19.4%
Policy 3 Legal and General FTSE World Equity Index	124,877	4.6%	144,303	5.6%
Investments managed by Legal and General	**915,226**	**34.0%**	**744,874**	**29.0%**
	1,183,228	**43.9%**	**1,441,201**	**56.1%**

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 and unit trusts	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 and property funds	Level 3	The properties are 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* (incorporating the International Valuation Standards) and the UK national supplement ("the Red Book") current as at the valuation date.	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 2020.

Fair Value – Sensitivity of Asset values at Level 3

	Assessed valuation range (+/-)	Value at 31 March 2020 £'000	Value on increase £'000	Value on decrease £'000
Alternatives - Infrastructure	4.0%	213,800	222,352	205,248
Alternatives - Other	12.1%	538,550	603,715	473,385
Freehold and leasehold property	3.6%	155,700	161,305	150,095
Total		**908,050**	**987,372**	**828,728**

As previously stated at **Note 2.9 f)** in relation to Freehold and Leasehold property the COVID-19 pandemic had a material impact upon economic activity in March 2020. In recognition of this, CBRE has been directed by the Royal Institution of Chartered Surveyors (the RICS) to include a 'Material Uncertainty' clause in all property valuation reports as at 31st March 2020. Further details of this are set out in **note 22** to the Accounts (Critical judgements in applying accounting policies and the use of estimates and uncertainties).

Potential price changes are determined based on the observed historical volatility of the Fund's own asset class returns. The potential volatilities represent a one standard deviation movement in the change in value of the assets over the latest three years (i.e. 68% of the observed values were within these ranges). The use of actual data, means that the period between January and March 2020 which included a significant portion of the volatility related to COVID-19 has been included in the 3 year period being assessed, to develop the volatility percentages. This volatility can be applied to the investment assets of the Fund at the period end in the above table to show the potential increase and decrease of value.

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: 9% of Total Investments (2018/19: 31%)
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 2019/20 following the transition of the Nordea and Loomis global equity segregated portfolios into the Border to Coast Authorised Contractual Scheme (ACS) pooled Global Equity Alpha fund. This transition reduced quoted global equity (level 1), and increased pooled investment vehicles (level 2).

Level 2: 56% of Total Investments (2018/19: 44%)
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: 35% of Total Investments (2018/19: 25%)
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 2019				31 March 2020			
	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	611,301	-	-	611,301	-	-	-	-
Equities - unquoted	-	-	833	833	-	-	833	833
Fixed interest securities-Corporate bonds - quoted	170,911	-	-	170,911	173,363	-	-	173,363
Pooled investments - quoted	4,829	-	-	4,829	-	-	-	-
Pooled investments - unquoted	-	1,183,228	518,272	1,701,500	-	1,441,201	752,350	2,193,551
Derivative contracts	-	268	-	268	-	452	-	452
Cash Deposits	47,124	-	-	47,124	45,372	-	-	45,372
Total Financial assets at fair value through profit and loss	**834,165**	**1,183,496**	**519,105**	**2,536,766**	**218,735**	**1,441,653**	**753,183**	**2,413,571**
Investment properties (Non-financial assets) at fair value through profit and loss	-	-	161,280	161,280	-	-	155,700	155,700
Financial liabilities (Derivative contracts) at fair value through profit and loss	-	(5,437)	-	(5,437)	-	(2,369)	-	(2,369)
Total Investments at Fair Value	**834,165**	**1,178,059**	**680,385**	**2,692,609**	**218,735**	**1,439,284**	**908,883**	**2,566,902**
Percentage of Total Investments	**31%**	**44%**	**25%**	**100%**	**9%**	**56%**	**35%**	**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 2019/20	Market value 1 April 2019 £'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 2020 £'000
Unquoted Equities	**833**	-	-	-	-	-	-	**833**
Private/Unquoted equity (Pooled funds in Alternative Assets)	**518,272**	-	-	308,205	(74,085)	9,926	(9,968)	**752,350**
Investment Properties	**161,280**	-	-	12,408	(5,712)	3,108	(15,384)	**155,700**
	680,385	**-**	**-**	**320,613**	**(79,797)**	**13,034**	**(25,352)**	**908,883**

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 2019 £'000	31 March 2020 £'000
Financial Instruments	2,538,341	2,414,568
Statutory debts / liabilities & provisions	3,139	3,610
Investment Property	161,280	155,700
Net Assets of the Fund	**2,702,760**	**2,573,878**

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 2020.

10. THE PENSION FUND ACCOUNTS

	31 March 2019				31 March 2020			
	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	612,134	-	-	612,134	833	-	-	833
Fixed interest securities (corporate bonds)	170,911	-	-	170,911	173,363	-	-	173,363
Pooled investment vehicles	1,706,329	-	-	1,706,329	2,193,551	-	-	2,193,551
Derivative contracts	268	-	-	268	452	-	-	452
Cash deposits	-	47,124	-	47,124	-	45,372	-	45,372
Investment receivables/debtors	-	10,930	-	10,930	-	6,778	-	6,778
Current & long-term assets	-	691	-	691	-	637	-	637
	2,489,642	**58,745**	**-**	**2,548,387**	**2,368,199**	**52,787**	**-**	**2,420,986**
Financial Liabilities								
Derivative contracts	(5,437)	-	-	(5,437)	(2,369)	-	-	(2,369)
Investment payables/creditors	-	-	(3,174)	(3,174)	-	-	(3,028)	(3,028)
Current/long-term liabilities	-	-	(1,435)	(1,435)	-	-	(1,021)	(1,021)
Total Financial Instruments	**2,484,205**	**58,745**	**(4,609)**	**2,538,341**	**2,365,830**	**52,787**	**(4,049)**	**2,414,568**
ANALYSIS OF NET GAINS AND (LOSSES) FOR YEAR ENDED 31st MARCH								
Financial Assets	134,933	-	-	134,933	(125,662)	-	-	(125,662)
Financial Liabilities	(5,437)	-	-	(5,437)	(2,369)	-	-	(2,369)
Total Net Gains/(Losses)				129,496				(128,031)

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 2019 £'000	31 March 2020 £'000
Long Term Debtors		
Long term debtors - contributions	-	-
Long term debtors - employer exit	328	-
Total Long Term Assets	**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 were received in ten annual instalments, the final instalment of £0.328m (received in April 2020) is shown within ‘Employer exit from the scheme due < 1 year’ (see Note 12(b)).

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 2019 £'000	31 March 2020 £'000
Cash balances	**2,764**	7,646
Current Debtors		
Contributions due	2,796	3,649
Employer exit from scheme due < 1 year	328	328
Miscellaneous	1,168	963
Total Current Debtors	**4,292**	**4,940**
Total Current Assets	**7,056**	**12,586**

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

The Fund had no long term liabilities in 2018/19 or 2019/20.

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 2019 £'000	31 March 2020 £'000
Current Creditors		
Investment Managers fees	900	376
Tax payable	703	693
Interest provision on long-term debt	87	-
Miscellaneous	535	645
Total Current Liabilities	**2,225**	**1,714**

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: Foreign Exchange	Market Risk: Interest rate	Market Risk: Liquidity	Market Risk: Other risks	2018/19 £'000	2019/20 £'000
UK Equities	◉	◉	◉	○	◉	334,455	224,727
Overseas Equities	◉	●	◉	○	◉	966,352	616,736
UK Bonds	◉	◉	●	○	◉	164,494	166,503
Overseas Bonds	◉	●	●	○	◉	6,417	6,860
Index Linked Gilts	○	○	◉	○	◉	494,170	495,549
Property *	◉	○	◉	●	◉	161,280	155,700
Alternative Investments	◉	◉	◉	●	◉	518,272	752,350
Derivatives**	◉	●	○	○	◉	(23,706)	(1,917)
UK Cash	◉	○	◉	○	◉	49,313	132,815
Overseas Cash	◉	●	◉	○	◉	21,562	17,579
Total Investments at Fair Value						**2,692,609**	**2,566,902**

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 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 2020.

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'.

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 had an 'equity protection' overlay in place from early April 2018. This was designed to mitigate the risk of increased employer contributions at the 2019 valuation. This objective was achieved and the protection was exited at the end of February 2020 in conjunction with a planned reduction of the Fund's listed equity holdings.

A full Strategic Investment Review was undertaken in 2019/20 following the results of the Triennial Actuarial Valuation of the Fund, which reported a 98.9% funding level (as at 31st March 2019). Undertaking this review ensures the Fund fully considers the risk being taken within the investment portfolio, and therefore challenges its ability to meet the Actuarial objectives of the Fund.

The other key elements considered in the Strategy Review, and in the design of the Fund's strategic asset allocation, were:

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

- Return generation – the Fund needs to continue to generate sufficient return to meet its liabilities.

- Stability for employers - a strategy needs to deliver both a return in line with the funding strategy and reduced volatility to help protect those employers with lower funding levels and are more vulnerable to sudden changes in employer contributions.

- Inflation risk – the Fund's inflation-linked discount rate means that it is largely protected against day to day inflation volatility, however the Fund requires assets that are linked to inflation e.g. long lease property, index-linked gilts and infrastructure equity/debt, to maintain its strong funding position.

- Volatility risk - equities are expected to produce good returns over the long term and provide a good source of liquidity, but are volatile and so the Fund favours assets with a similar expected return but less volatility.

- Illiquidity premium – the Fund is long-term and can lock up capital for longer to take advantage of the additional premium this offers. The Strategy seeks to increase the Fund's exposure to less liquid assets in order to benefit from the illiquidity premium.

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

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 7 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 2020 were £7.646m (2018/19: £2.764m) within current assets (see **Note 12(b)**), and £37.726m (2018/19: £44.360m) shown as cash within investments (see **Note 10**). In addition to this, in 2019/20 £105.022m (2018/19: £22.939m) of the Fund's holding in unitised insurance policies shown in **Note 10a** under pooled investments. These funds were held in cash awaiting drawdowns for new investments. The credit ratings of the accounts and funds were as follows:

Cash and Cash Equivalents	Rating at 31 March 2020	Balances as at 31 March 2019	Balances as at 31 March 2020
Money Market Funds			
SSGA GBP Liquidity Fund	AAA	15,708	14,099
SSGA EUR Liquidity Fund	AAA	15,862	234
SSGA USD Liquidity Fund	AAA	2,409	15,018
Legal & General Sterling Liquidity Fund	AAA	22,939	105,022
Aberdeen Standard Sterling Liquidity Fund	AAA	1,502	3,703
Federated Short Term Prime Fund	AAA	1,003	3,403
Standard Life Euro Liquidity Fund	AAA	111	-
Bank deposit accounts			
National Westminster Bank	A+	259	541
Bank current accounts			
State Street Bank & Trust	AA-	3,475	2,864
Barclays Bank	A+	3,497	2,112
Northern Trust	AA-	812	-
Short Term Deposit			
Cash Collateral Swaps		(110)	600
The Bank of New York Mellon call account	AA	3,408	2,798
Total		**70,875**	**150,394**

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, amongst other things, further reduce the Fund's overall market risk, the Investment Strategy includes alternative asset classes (e.g. infrastructure, real estate debt, private equity secondary funds, royalties, private market loans) which the Fund is now investing in. In addition, to mitigate the risk of increased employer contributions at the 2019 valuation, the Fund implemented an 'equity protection' overlay in April 2018 as a temporary measure. The protection was exited before 31st March 2020 in conjunction with a planned reduction of the Fund's listed equity holdings.

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). The valuation of liabilities is based on a CPI+ model in the 2019 actuarial valuation.

Potential price changes are determined based on the observed historical volatility of the Fund's own 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 represent a one standard deviation movement in the change in value of the assets over the latest three years (i.e. 68% of the observed values were within these ranges). The use of actual data, means that the period between January and March 2020 which included a significant portion of the volatility related to COVID-19 has been included in the 3 year period being assessed, to develop the volatility percentages. 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	2019/20 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	224,727	14.0%	256,189	193,265
Overseas Equities	616,736	12.9%	696,295	537,177
Fixed interest securities (corporate bonds)	173,363	5.9%	183,591	163,135
Index Linked Gilts	495,549	17.8%	583,757	407,341
Alternatives - Infrastructure	213,800	4.0%	222,352	205,248
Alternatives - Other	538,550	12.1%	603,715	473,385
Property	155,700	3.6%	161,305	150,095
Cash	150,394	0.6%	151,296	149,492
	2,568,819		**2,858,500**	**2,279,138**

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 2020, the Fund had overseas investments (excluding forward foreign exchange contract) of £928.188m and £17.579m cash denominated in currencies other than sterling.

To assess the risk the Fund is exposed to as a result of holding these currencies, taking into account information provided by Pensions & Investment Research Consultants Ltd (PIRC), it is considered that the movements shown below are a reasonable measure to apply to the currencies. The potential volatilities represent a one standard deviation movement in the volatility of currencies over the latest three years (i.e. 68% of the observed values were within these ranges). The use of actual data, means that the period between January and March 2020 which included a significant portion of the volatility related to COVID-19 has been included in the 3 year period being assessed to develop the volatility percentages.

The impact of these movements in the value of foreign currencies against sterling would be to increase (or decrease) the fund value by approximately £68.948m, or 2.7% of the Fund’s total value.

Foreign Exchange - Sensitivity Analysis	2019/20 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
US Dollar denominated assets	568,040	8.5%	616,324	519,756
European currency denominated assets	210,324	6.3%	223,575	197,074
Other currency denominated assets	100,189	7.4%	107,602	92,775
UK assets within Global equity funds	67,214		67,214	67,214
	945,767		**1,014,715**	**876,819**

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 2020, 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 to 0.75% in August 2018, until, March 2020 when it became clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. The real interest rate risk is that rates will rise further, causing the value of bonds and bond funds to fall.

The Fund's direct exposure to interest rate movements as at 31st March 2020 and 31st March 2019 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 2019 £'000	31 March 2020 £'000
Fixed interest securities (including pooled investments)	665,081	668,912
Cash and cash equivalents	11,341	8,915
Money market funds and pooled cash vehicles	59,534	141,479
	735,956	**819,306**

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 2019/20, 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.

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 this will be kept under active review and reassessed in the next 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 2020 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £1,658.019m, i.e. 65% of net assets (31st March 2019 £2,012.224m, 75%). The value of the illiquid assets including investment properties was £908.883m which represented 35% of net assets (31st March 2019 £680.385m, 25%).

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)**) consisted of the interest provision on the Ministry of Justice 'long term debtor – employer exit' until it matured in April 2020. The Fund has no long term liabilities over 12 months.

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. £1.917m loss on the currency derivatives at 31st March 2020 (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, and has increased since the pooling of investment assets in the LGPS and the creation of the Border to Coast Pensions Partnership pool to do so. It is also 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 has been 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 2020 are as follows:

Asset Class	2018/19 £'000	2019/20 £'000	Manager	Holding Details
Pooled investment vehicles				
Managed by Pool	268,002	696,327	Border to Coast	UK equity fund.
Unitised insurance policies	915,226	744,874	Legal and General	Index tracking funds.
Other managed funds	121,907	121,897	JP Morgan	Infrastructure fund.
	-	100,000	CQS	Multi Asset Credit
	-	90,195	Apollo	Multi Asset Credit
	24,298	52,025	Partners Grp	Private Market Credit
	49,954	52,133	Partners Grp	Infrastructure fund.
	42,130	45,746	Barings	Global private loan fund.
	39,867	40,022	M&G	Long-lease property fund.
	37,960	38,861	Aviva	Long-lease property fund.
	60,029	37,690	Insight	Fixed Income funds.
	31,144	37,204	Unigestion	Secondary private equity funds
	26,538	33,398	Aberdeen SLC	Infrastructure fund.
	20,286	22,262	SL Capital	Secondary private equity funds
	13,913	23,499	Pantheon	Private Equity funds.
	17,788	21,564	HRP	Healthcare Royalties Partners Fund.
	19,015	14,873	BlackRock	BlackRock in-house funds.
	12,897	9,714	M&G	Real estate debt funds.
	-	6,480	Border to Coast	Infrastructure Funds
	-	4,742	Border to Coast	Private Equity Funds
	546	45	Aberdeen	Overseas property funds (ex-BlackRock).
UK equity unquoted	833	833	Border to Coast	Company share capital.
	1,702,333	**2,194,384**		

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. From January 2020, the Equitable Life AVC closed with investments transferring to Utmost Life.

The values of the three active schemes for Cumbria LGPS, along with the value of Equitable Life and Utmost Life, are shown below:

	2018/19 £'000	2019/20 £'000
Standard Life	1,003	895
Scottish Widows	1,128	919
Equitable Life	671	-
Utmost Life	-	577
Prudential	1,235	1,386
Total AVCs	**4,037**	**3,777**

AVC contributions of £0.528m were paid directly from employees pay to the providers during the year (2018/19: £0.685m).

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 taking a lump sum payment, 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 2019/20.

Senior employees of the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS), Members of the Cumbria Pensions Committee and Cumbria Local Pension 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 2019/20 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 2019/20.

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 2019/20 (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 2019/20 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 2019/20

- 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 2019/20 on Cumbria LGPS specific work.

- During 2019/20, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (1FTE) (2018/19:1FTE) 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 2019/20 this allowance was £7,158. This cost is charged to Cumbria LGPS.

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

2019/20 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)	12,855	12,855	1,915	14,770
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS)	49,853	49,853	7,428	57,281
	62,708	**62,708**	**9,343**	**72,051**

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)	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**

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund has given termination notice to end the Investment Management Agreement with Aberdeen Standard Investments for the Fund's corporate bonds portfolio. The exit from the portfolio will be underway following the year-end. There are no other outstanding contractual commitments at 31st March 2020.

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 2019/20. The estimated value of claims still outstanding is £4.029m (value in GBP at 31st March 2020, 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 2019/20 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. Following a recommendation from the professional services firm acting on our behalf, the Cumbria Fund took action to refresh the Italian claims to avoid the claim lapsing on a technicality after ten years with no response from the Italian Tax authorities, the refresh was successfully completed in February 2020. Whilst it is prudent for the Cumbria Fund not to make any assumptions, settlements previously received from other European countries lend some optimism as to the success of recovering additional income for the Fund in the 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. Work was undertaken during 2019/20 to protect the Fund's MOD claims from being invalidated in the event of a "no deal" Brexit. The claim value is now protected should the UK fail to negotiate a deal with the European Union before 31 December 2020.

The fees incurred to date for all the above tax claims regardless of the outcome total £0.500m, 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 2019/20 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 2019/20.

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 the £4.940m (£4.292m at 31st March 2019) of current debtors (see **Note 12(b)**) is £0.016m of debtors aged between two and six months (£0.034m at 31st March 2019) and £0.075m of debtors aged greater than six months (£0.040m 31st March 2019).

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). The stock lending program is being wound down following the transition of the Fund’s active global equity to Border to Coast and the planned sale of the Fund’s corporate bond portfolio.

The value of securities on loan as at 31st March 2020 has reduced in comparison to prior years primarily following the transition of assets away from segregated mandates with Loomis Sayles and Nordea (where the Fund is the asset owner and can therefore stock lend) to a unitised holding of Global Equity with Border to Coast (where the Investment Manager is the asset owner). Within the Border to Coast UK and Global equity sub-funds 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 2020 of £0.773m (2018/19: £9.230m) are included in the net assets statement to reflect the Fund’s continuing economic interest in the securities, and consist of £0.043m UK corporate bonds and £0.730m overseas corporate bonds (2018/19: £0.150m UK equities, £9.082m overseas equities). The related collateral totalled £0.812m (2018/19: £9.483m), consisting £0.745m overseas corporate bonds and £0.067m UK corporate bonds (2018/19: £9.326m overseas bonds, £0.157m UK equities).

For the year to 31st March 2020, the Fund earned income of £0.012m (2018/19 £0.090m) through stock lending of the various assets (as detailed in **Note 9**).

NOTE 21: EVENTS AFTER THE REPORTING DATE **TBC as final**

The valuation of assets held within the Fund continued to be volatile after the end of the 2019/20 financial year as global markets responded to the on-going COVID-19 pandemic. This remains an ongoing issue and the impact on the Fund will continue to be assessed up until the publication of the audited accounts.

In May 2020, the merger of Northumberland Pension Fund and Tyne and Wear Pension Fund, two of the twelve partners in Border to Coast Pensions Partnership, was approved by Government (following a consultation issued by the Ministry of Housing, Communities & Local Government (MHCLG)). The statutory instrument to implement the changes was laid before Parliament on 14th May 2020 and came into force on 3rd June 2020. The merger has required a number of actions by partner funds and by Border to Coast, including the repayment of share capital to Northumberland and the request for the remaining eleven shareholders (including Cumbria) to provide additional regulated capital. Work to complete this is currently underway. Pensions Committee were last updated on the progress of the merger in March 2020 and future significant updates will continue to be reported to Members.

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**); and
- The impact of the COVID-19 pandemic on the valuation of the Fund's 'level 3' assets (as defined in **note 10(h)**).

10. THE PENSION FUND ACCOUNTS

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. 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.	For every 1% increase in market value, the value of the Fund will increase by approx. £25.630m, 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 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 £75m increase in deficit shortfall as determined at the 2019 valuation.
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 2020 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership Ltd became licensed to trade in May 2018;
- The first year of financial accounts for the Company show the shareholder funds to be equivalent to the regulatory capital invested (at cost);
- There is no intention for the company to be profit making and therefore no dividend to shareholders has been declared and there is no expectation of a future dividend being projected.

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 an accruals basis, over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a premium paid at the commencement of the lease).

Impact of COVID-19 on the valuation of 'level 3' assets

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Market activity is being impacted in many sectors, including property.

In response to this, the Fund's property valuer (CBRE Ltd) has been directed by the Royal Institution of Chartered Surveyors (the RICS) to include a 'Material Uncertainty' clause in all property valuation reports. This is the approach that is being directed nationally by the professional body responsible for promoting and enforcing the standards for property valuations for 2019/20.

10. THE PENSION FUND ACCOUNTS

The following explanatory narrative has been summarised from the CBRE Cumbria LGPS Valuation Report 31 March 2020:

> *As at the valuation date, we [CBRE] consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.*
>
> *Our valuations are therefore reported on the basis of 'material valuation uncertainty' … Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. …*
>
> *The RICS have directed that the above 'Material Uncertainty' clause be included with all property valuation reports. These are only adopted when market circumstances at the date of the valuation have changed from the period when the comparable transactions on which the valuation is based were concluded. At present we have a situation where some transactions, agreed earlier in the month, are continuing, suggesting that the evidence they offer remains valid. Conversely, there are many transactions that have been either suspended, delayed or abandoned. There is very little indication of any new property being offered for sale in the latter part of March from which the market reaction and pricing can be gauged, hence the adoption of the 'Clause'.*
>
> *The downward trajectory of the stock market, the closure of most retail outlets and the general effect on the economy are leading some commentators to predict a global recession. Short term effect or a deeper malaise is unknown. What we can say however, is that with investors increasingly cautious, property cannot remain unaffected. Although there is no evidence of a fall in values there is sufficient circumstantial evidence for us to consider that the yield, and perhaps rental levels reached earlier [in March 2020] will not be replicated for some time. After consulting widely amongst our clients and competitors, a consensus view was reached that property valuations will need adjusting compared to the evidence as it stood earlier in the month. In the individual valuations … we have deducted one quarter's rent in respect of all retail and leisure properties, extended current and future void periods and adjusted most equivalent or initial yields.*

Valuations for Private Equity investments are usually received a quarter in arrears, but in recognition of the potential significance of market impact from the global pandemic, the Fund has taken steps to ensure these investment are valued at an estimate to the fair value at 31st March, as best as is available at the time of preparation. In light of the impact on economic activity of the lockdown position in many countries, the private equity funds have, where possible, sourced indicative estimates from the underlying fund managers, to produce a provisional March 2020 valuation for investors. Some underlying investments are by the nature of their revenues more resilient than others, e.g. healthcare versus consumer spending. Where estimates have not been available for underlying investments, the relevant managers (Aberdeen Standard and Pantheon) have provided investors with an estimated decrease in valuation due to COVID-19 reflecting an impact similar to that in the public market sector indices. All such estimated decreases are subject to a degree of uncertainty; it is a highly fluid situation and, whilst May saw a recovery of much of the decline in the public markets, returns are still volatile and the economic outlook remains uncertain.

Infrastructure investments have been impacted overall to a lesser degree by the global pandemic, as these include operational assets in renewable and contracted energy, power distribution and utilities. The largest private market investment held by the Fund, £121.897m in JPM Infrastructure Fund, has confirmed its valuation for March 2020 including audited valuations for each underlying portfolio company.

NOTE 23: ACTUARIAL POSITION OF THE FUND

The Fund Actuary assesses the valuation of the Cumbria Local Government Pension Scheme as at 31st March 2019 to determine the contribution rates with effect from 1st April 2020 to 31st March 2023.

The full Actuarial Valuation Report as at 31st March 2019 is available on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

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 assumptions than those used for the valuation basis. For example;

- The IAS 19 valuation calculates growth on the basis of bond yields at balance sheet date. The actuarial valuation, whilst also based on bond yields at balance sheet date, will generally look to dampen the effect of any perceived short term market volatility on yields (i.e. it takes a 'smoothing' approach).
- The IAS 19 valuation calculation requires that all entities assume their pension Fund grows at a standard rate, whereas the actuarial valuation considers the expected investment return of the assets actually held by the Fund, (e.g. IAS 19 requires that all funds use a generic discount rate whereas the discount rate used by the Fund in the actuarial valuation basis reflects the expected investment return based on the unique combination of assets it holds).

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 2019 £'m	31 March 2020 £'m
Valuation Basis		
Present value of past service liabilities	(2,745)	(2,827)
Net assets of the Fund	2,703	2,574
Net liability (Valuation Basis)	**(42)**	**(253)**
IAS 19 Basis		
Present value of past service liabilities	(3,553)	(3,478)
Net assets of the Fund	2,703	2,574
Net liability (IAS 19 Basis)	**(850)**	**(904)**

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

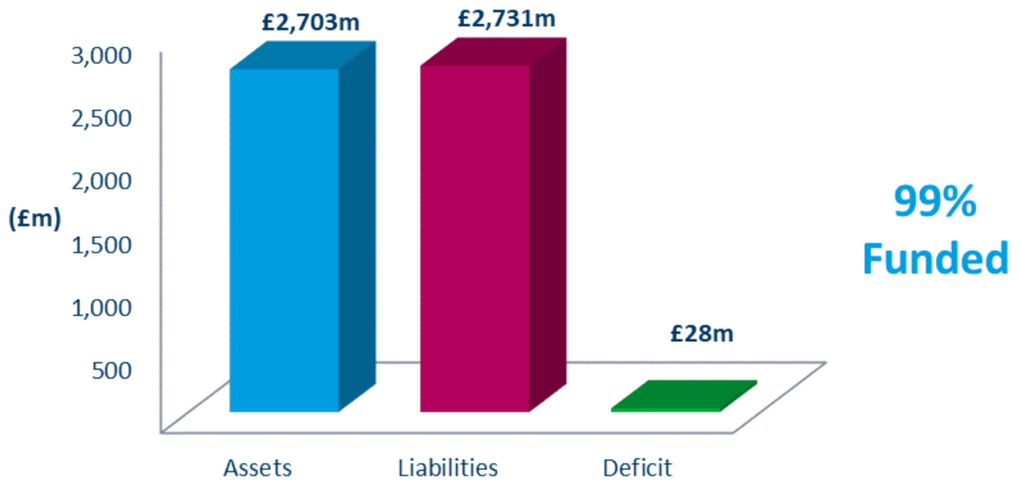
ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020 - STATEMENT BY THE CONSULTING ACTUARY

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 Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund’s assets of £2,703 million represented 99% of the Fund’s past service liabilities of £2,731 million (the “Solvency Funding Target”) at the valuation date. The deficit at the valuation was therefore £28 million.

10. THE PENSION FUND ACCOUNTS



The valuation also showed that a Primary contribution rate of 18.6% 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 FSS is to achieve and 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.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 12 years, and the total initial recovery payment (the "Secondary rate" for 2020/21) is an addition of approximately £6m per annum in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

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 in most cases) 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 Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	3.65% per annum	4.40% per annum
Rate of pay increases (long term)	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. Once the final remedy is known, the position and any potential impact will be reviewed by the Fund in light of the current funding strategy (which includes an implicit allowance for the estimated costs).

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include a specific allowance for the estimated cost of the McCloud judgment (although there is a margin within the assumptions that may be used to absorb costs arising). However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £23 million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum.

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

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 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.2% per annum	2.1% per annum
Rate of pay increases	3.7% per annum*	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

* This was the long-term assumption. An allowance corresponding to that made at the 2016 actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £3,553 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£86 million, and allowing for net benefits accrued/paid over the period increased the liabilities by c£35 million (this includes any increase in liabilities arising as a result of early retirements and GMP indexation – see comments elsewhere in this statement). There was also a decrease in liabilities of £196 million due to "actuarial gains" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £3,478 million.

GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £9 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

John Livesey

Fellow of the Institute and

Faculty of Actuaries

Mark Wilson

Fellow of the Institute and

Faculty of Actuaries

Mercer Limited

June 2020

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 2019/20 financial statements.

NOTE 25: PARTICIPATING EMPLOYERS OF THE FUND

As at 31st March 2020 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

10. THE PENSION FUND ACCOUNTS

Employers of the Fund as at 31 March 2020 (total 126)

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 (42)
(number of academies 63)

- Appleby Grammar Academy
- Arnside National CofE Academy
- Bassenthwaite Academy
- Broughton Primary Academy
- Burton Morewood Primary Academy
- Caldew Academy
- Cartmel Priory Academy
- Castle Carrock Academy
- Chetwynd School Academy
- Cockermouth Academy
- Crosby on Eden Academy
- Cumbria Academy for Autism (New)
- Dallam Academy
- Dearham Primary Academy
- Eaglesfield Paddle Academy
- Energy Coast UTC
- Fairfield Primary Academy
- Flimby Academy
- George Hastwell School Academy
- Ghyllside Academy
- Great Corby Academy
- James Rennie Academy
- Kendal MAT - Castle Park Academy
- Keswick Academy
- Kirkbie Kendal Academy
- Kirkby Stephen Academy

Scheduled Bodies - Academies (cont)

- 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

Cumbria Education Trust (one employer)

- Caldew Lea Academy (New)
- Hensingham Primary (New)
- Longtown Academy
- Tebay Academy
- The Workington Academy
- Whitehaven Academy
- William Howard Academy
- Yanwath Academy
- Yewdale Academy

Furness Education Trust (one employer)

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

Lunesdale MAT (one employer)

- Queen Elizabeth Academy
- Queen Elizabeth Studio School

The Good Shepherd MAT (one employer):

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

West Lakes Academy (one employer)

- Arlecdon Primary Academy (New)
- Thornhill Primary Academy (New)
- West Lakes Academy

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
- 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
- Lakeland Arts Trust
- Longtown Memorial Hall Community Centre
- Morton Community Centre
- Oaklea Trust
- Soundwave
- South Lakes Housing
- West House

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
- NRCS Ltd (Neighbourhood Revitalisation)
- Project Homeless
- Troutbeck Bridge Swimming Pool
- Wigton Joint Burial Committee