10 FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS

10.1 THE FINANCIAL STATEMENTS

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PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2021

	Notes	2019/20		2020/21	
		£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		68,709		87,726
Transfers in from other pension funds	4		6,160		4,129
			74,869		**91,855**
Benefits	5		(91,117)		(91,909)
Payments to and on account of leavers / employer exit	6		(7,017)		(6,138)
Net additions / (deductions) from dealings with members			**(23,265)**		**(6,192)**
Management expenses	7 & 8		(12,727)		(18,714)
Net additions / (deductions) including fund management expenses			**(35,992)**		**(24,906)**
Returns on investments					
Investment Income		47,623		48,501	
Taxes on Income		(206)		-	
Net investment income	9	47,417		48,501	
Profit / (losses) on disposal of investments and changes in the market value of investments	10(d)	(140,307)		469,734	
Net return on investments			**(92,890)**		**518,235**
Net increase (decrease) in the net assets available for benefits during the year			**(128,882)**		**493,329**
Net assets at the start of the year			**2,702,760**		**2,573,878**
Net assets at the end of the year			**2,573,878**		**3,067,207**

NET ASSETS STATEMENT AS AT 31 MARCH 2021

	Notes	31 March 2020 £'000	31 March 2021 £'000
Long-term Investments	10	833	1,182
Investment assets	10	2,567,570	3,068,317
Investment liabilities	10	(5,397)	(6,260)
Total net investment assets		**2,563,006**	**3,063,239**
Long term assets		-	-
Current assets	12	12,586	6,003
Long term liabilities		-	-
Current liabilities	13	(1,714)	(2,035)
Net assets of the Fund available to fund benefits at the period end		**2,573,878**	**3,067,207**

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).

SECTION 10. THE PENSION FUND ACCOUNTS

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

As at 31 March 2021 the total membership of the Fund was 58,411 (2019/20: 58,396) and consisted of 17,370 contributors/actives (2019/20: 16,989), 23,535 deferred members (2019/20: 24,420) and 17,506 pensioners (2019/20: 16,987).

At 31 March 2021 there were 124 (31 March 2020: 126) employer bodies in the Cumbria LGPS (for the full list see Note 25). The number of employers reduced by two during the year, this was as a result of one new employer joining the Fund and three Academy employers joining Multi Academy Trusts that were already employers within 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 2020/21 and the position at the year-end date, 31 March 2021. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) 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'.

Amendments to IAS 19 (Employee Benefits) related to Plan Amendment, Curtailment or Settlement were issued by the International Accounting Standards Board (IASB) in February 2018 and are effective for the LGPS from 2020/21.

In accordance with the CIPFA guidance pertaining to section 6.5 of the Code, the presentational changes for the 2020/21 Accounts are:

- the removal of the requirements to analyse assets between quoted/unquoted and UK/overseas – this has led to presentational changes in section 10 of the accounts relating to investment assets;
- the revised analysis requirement for pooled investment holdings – this has led to presentational changes throughout the accounts where pooled investment are detailed; and

- more detailed disclosure requirements in respect of investment management fees – this has led to presentational changes in section 8 of the accounts relating to investment management expenses.

This is the first year that these disclosure note amendments have been included in the Fund's accounts; they amount to presentational amendments only but do include the restatement of prior years' figures in the revised formats. These changes do not represent a change to existing accounting policies.

The accounts have been prepared on a going concern basis.

NOTE 1 (b): INVESTMENT MARKET ACTIVITY DURING 2020/21

The financial year 2020/21 will be remembered as being the year of the COVID-19 pandemic. In financial markets, valuations have rebounded since the COVID-induced slump of March 2020; one-year returns reflect the recovery period since the low point of 31 March 2020, and longer term returns show a recovery to closer to pre-COVID levels. The rebound was particularly apparent in listed equities where the MSCI AC World Index recorded a positive return of 38.9% for the twelve months, and the UK FTSE All Share recorded a positive return of 26.7%.

Central government support has underpinned the recovery providing liquidity to markets and the roll-out of vaccination programmes has allowed the gradual lifting of restrictions. The majority of markets in which the Fund holds investments showed positive returns amid improving economic data and rising growth expectations.

The impact of the pandemic on other asset classes was varied. Government bond yields rose as investors moved away from the perceived safe-haven assets and sought out higher risk assets supported by rising growth expectations with index-linked gilts showing a positive 2.6% return for the year. Credit markets outperformed government bonds with returns of 7.0%.

NOTE 1 (c): FUND PERFORMANCE 2020/21

As at 31 March 2021 the unaudited value of the Fund's net assets was £3,067.207m (an increase of £493.329m from £2,573.878m as at 31 March 2020). The Fund's Actuary has estimated that the Cumbria LGPS was approximately 106% funded as at 31 March 2021, (based on assumptions per the full actuarial valuation as at 31 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 made a return on its investments of 18.7% (net of fees) for the year-ended 31 March 2021.

As a long term investor, the Fund is primarily focussed on longer-term performance. and has outperformed both its 5 and 10 year benchmarks (5 year: 8.7% p.a. (net of fees) against a benchmark of 8.4% and 10 year: 8.6% p.a. against a benchmark of 8.0% (net of fees)).

Performance to 31 March 2021 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	18.7%	15.8%	+ 2.9%
5 year performance	8.7%	8.4%	+ 0.3%
10 year performance	8.6%	8.0%	+ 0.6%

As shown above, the Fund's return of 18.7% for the year was above the Fund's bespoke index performance benchmark of 15.8% for the same period. The main contributors to performance included the global listed equity fund managed by Border to Coast Pensions Partnership Ltd (BCPP), and outperformance from the property portfolio.

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, and the revised Investment Strategy was agreed by the Pensions Committee in December 2019. In 2020/21 with the impact of the pandemic on global investment markets, it became clear that expectations of future investment returns had reduced. It was recognised that this increased the risk of the Fund achieving lower investment returns than those reflected in the Actuary's assumptions which would then reduce the funding level of the Cumbria Fund. Importantly, this could have a material impact on employer future service rate contributions in future years. In response the Fund, in conjunction with Investment Consultants, Isio, undertook a further review of its Investment Strategy.

The outcome of this review gave the Fund both an interim asset allocation, agreed by the Pensions Committee in September 2020, and a longer-term Target strategic allocation - an evolution of the Fund's strategy from the 2019 position - which was agreed at Pensions Committee in March 2021. The key principles for the Investment Strategy are:

- Return generation - at a 98.9% funding level (as at 31 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 new Target Investment Strategy increases the expected return (relative to the previously agreed 2019 strategy).

- Stability for employers - 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.

- Inflation risk – 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 and diversified private debt.

- Public equity - 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 2019 review, the focus was on reducing this asset class in favour of assets with a similar expected return but less volatility. However, as expectations for future investment returns overall have reduced since the 2019 review, it was agreed as part to the 2020 interim review that the Fund should continue with the 35% allocation on the basis that this should provide additional return and liquidity for the Fund.

- Illiquidity premium – the Fund is managed as a going concern and can hold long term investments 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 interim asset allocation commenced immediately following Committee approval in September 2020, recognising that in light of uncertainties affecting the markets investment decisions will be taken in a managed and responsive way, with the following changes being made in the period to 31 March 2021:-

- The increase of the Fund's holding in index-linked government gilts by 1% (to an interim aim of 20%);

- The selection of suitable investments to increase the allocation to Multi-Asset Credit funds by 4% to an interim allocation of 16% of the Fund (pending deployment of monies into private market investments over time);

- The selection of suitable investments for the alternatives portfolio, including new investment commitments of £210m made to BCPP private markets funds to be launched following the year-end (Border to Coast Infrastructure 2021, Border to Coast Private Equity 2021 and Border to Coast Private Credit 2021);

- The increase of the Fund's infrastructure equity commitments with a current manager to achieve the aim for an interim strategic allocation in total of 10% of the Fund; and

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

Implementation of changes towards the revised Target Investment Strategy has been incorporated within the Fund's business plan for 2021/22.

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

<u>2020/21 Business Plan</u>:

All targets set within the 2020/21 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. However, work on improving the data held within the Fund was scaled back during the year to ensure that the Fund could appropriately meet other challenges including the impact of COVID-19 and new legislation / regulatory changes whilst prioritising work to meet the requirements of the Pensions Regulator.

In addition to continual improvement activities and the major annual pieces of work, e.g. preparation of the Annual Report and Accounts, the core additional activities planned and delivered through the 2020/21 Business Plan and new issues arising during the year were:-

- **Liaise 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.**

  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 BCPP provides, via the Joint Committee, and in officer working groups. Key developments during the year include:

- Members confirmed the decision to invest the Fund's 5% long-term strategic allocation to Multi-Asset Credit (MAC) in the Border to Coast MAC sub-fund (c.£150m at 31/03/21), upon satisfactory completion of the transition planning work, expected to be during 2021/22; and

- Members of the Investment Sub Group confirmed new commitments totalling £210m into BCPP's Private Equity, Infrastructure and for the first year, Private Credit sub funds to meet the needs of the Fund's strategy.

- **Investigate and implement suitable investment options to implement the Investment Strategy approved by Pensions Committee in December 2019**

  During the year the Fund reviewed the investment strategy in light of the pandemic's effect on investment markets, and following approval by Pensions Committee, transitioned assets towards a revised interim strategic asset allocation. This included the exit from the corporate bonds portfolio (7% of the Fund), investing in multi-asset credit (equating to 16% of the Fund's total portfolio), funding private market investment commitments and reducing cash balances.

- **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.

  All contracts were regularly reviewed to ensure that performance is appropriate. Two new contracts were for core services to the Pension Fund were let in 2020/21:

  - The Fund entered into a new contract with Eversheds Sutherland LLP in June 2020 for the provision of legal advice to the Fund.
  - The Fund appointed a new custodian, Northern Trust, with the transfer from State Street completed in October 2020.

  Officers met at least quarterly (and weekly during the early stages of the COVID-19 pandemic) with the Operations Director of Local Pensions Partnership - Administration (LPPA), the Fund's pensions' administration provider, to review performance standards. LPPA performance remained high throughout the year despite the challenges of operating throughout the pandemic.

- **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 2020/21 the Fund responded to the following consultations:

- Amendments to the Statutory Underpin Consultation

  This consultation set out MHCLG's proposals for amending LGPS regulations to remedy an age discrimination case affecting all public sector pension schemes – referred to as the McCloud case.
- Reforming local government exit pay - A consultation on the reform of exit payments in local government

  Following the implementation of exit payment cap legislation by HM Treasury in November 2020, MHCLG consulted on further reforms to the on exit payments specific to the LGPS.

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

  Throughout 2020/21, the majority of vacant posts to the Local Pension Board were recruited to including the appointment of substitutes.

- **Responding to new legislation relating to the Exit Payment Cap and proposed new LGPS regulations related to exit payment reforms**

  In November 2020, The Restriction of Public Sector Exit Payment Regulations 2020 came into effect, placing a cap of £95,000 on the cost of exiting employees from public sector roles.

  Officers were actively engaged in working with the Fund's employers to mitigate the effect of this new legislation on employers and scheme members taking retirement through redundancy.

  This legislation was subsequently revoked in March 2021.

<u>Looking forward to 2021/22</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 2021/22 (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.

Pensions Administration

- 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.

Investment Management

- Investigating and implementing suitable investment options to implement the revised Target Investment Strategy approved by Pensions Committee in December 2019 and revised in March 2021;

- Ensuring that the asset allocations remain appropriate and monitor progress in moving towards the Target Investment Strategy;

- Liaising with Border to Coast Pensions Partnership Ltd (BCPP) to ensure that suitable opportunities are available within the pool for the Fund to transition to its amended investment strategy;

- Reviewing the reporting requirements of the revised UK Stewardship Code (2020) with a view to the Fund reporting to the Financial Reporting Council (FRC) on the Stewardship of the Fund's assets for the 2020/21 fiscal year; and

- Ensuring that new Members of the Pensions Committee and/or Investment Sub Group receive full training in Fund investments.

Oversight & Governance

- Completion of the 2020/21 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;

- 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
- Reviewing the findings of the SAB's "Good Governance in the LGPS" review and implementing any required improvements within the Cumbria Fund identifying resource implications with the new governance framework.

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 2020/21 will be published on-line when finalised (and at the latest by the statutory deadline of 1 December 2021) 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 2020/21.

Fund account – revenue recognition

2.1. Contribution Income

Future service 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.

Other Employers contributions including pensions strain costs 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. There are no such long term debtors at 31 March 2021.

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** Note 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. In pooled funds with accumulation units, the Fund does not receive investment income directly from dividends or bonds, as this is received by the pooled fund and increases the value of the unitised holdings.

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

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

Fund account – expense items

2.4. Benefits payable (Note 5)

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

2.5. Taxation

The Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments is subject to withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises, and is shown on the Fund Account as 'Taxes on income'.

2.6. Administrative expenses (Note 7)

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

2.7. Investment management expenses (Note 7,8 and 8a)

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 any 2020/21 submissions of cost transparency templates received prior to the cut off for the accounts and, where appropriate, used these to inform the Management Fees disclosed in the Accounts; the remaining cost transparency templates will be assessed as they are received and will inform additional disclosures of investment costs in the Fund's 2020/21 Annual Report to be published by 1st December 2021. 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 transparency of 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 expenses for those charged with the governance of the Fund (e.g. training, travel and allowances) and the cost of obtaining investment advice from external investment consultants and advisors is included in oversight and governance costs. This section also includes 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 until 30 September 2020 and Northern Trust Corporation from 1 October 2020, as independent Custodians to the Fund, value any directly held 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 31 March 2021.

- 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 (BCPP), 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). Consequently, the shares are valued at cost. At 31 March 2021, these are valued at £1,181,818 as detailed in Note 22.

- 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. All valuations are performed in accordance with the appropriate Standards of Professional Appraisal Practices ("USPAP") and International Valuation Standards ("IVS") or provides an IPEVC (International Private Equity and Venture Capital) (or other recognised industry standard) compliant valuation as applicable. 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 31 March 2021. 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**.**

f) Freehold and leasehold properties: The properties are valued at fair value at 31 March 2021 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 grants.

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 31 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. There are no long-term debtors as at 31 March 2021.

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. Northern Trust Corporation 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 31 March 2021.

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

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 31 March, if any, are included in the net assets statement to reflect the Fund's continuing economic interest in the securities. The Fund's stock lending program was wound down following the transition of the Fund's active global equity to BCPP and the exit from the Fund's corporate bond portfolio. BCPP has an active stock lending programme, where it is permissible and as lenders of stock do not generally retain voting rights on lent stock, there are procedures in place to enable stock to be recalled prior to a shareholder vote if considered necessary from a responsible investment perspective. The Fund's passive global equity holding is managed by Legal and General who also operate a stock lending programme in selective overseas equity markets under strict conditions.

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 (S151 Officer). Where a reasonable estimate has been made, but is subsequently identified as being insufficiently accurate, the Director of Finance (S151 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 2020/21 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 2020/21 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 13.7% to 34.5% of pensionable pay, plus a lump sum payment for deficit recovery contributions. Individual employer rates are set by the Actuary on a three-yearly cycle, taking into account the employer's own attributes and particular circumstances. This includes the maturity profile of the membership, if the Admission is open or closed to new members, and the maximum deficit recovery period as determined by the Fund Actuary in relation to the employer's covenant and membership profile.

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

By Category	2019/20 £'000	2020/21 £'000
Employee contributions to the fund	18,106	19,177
Employer contributions to the fund:		
Normal contributions	47,002	57,896
Deficit recovery contributions	3,601	10,653
Total Employer contributions	50,603	68,549
Total Contributions receivable	**68,709**	**87,726**
By Employer Type	**2019/20 £'000**	**2020/21 £'000**
Administering Authority	38,941	53,586
Other Scheduled bodies	28,007	32,701
Admitted bodies	1,761	1,439
	68,709	**87,726**

As shown in the above table the administering authority contributions (Cumbria County Council) were £55.586m (£38.941m 2019/20). This value was inclusive of £5.417m which related to historic deficit contributions pre-paid for financial years 2021/22 and 2022/23.

In April 2020, three employers chose to pay additional lump sum contributions to offset their historic deficit contribution for the years 2020/21 to 2022/23. This greater volume of additional payments explains the significant increase in the deficit recovery contributions for 2020/21 in the table above.

In addition to future service contributions and historic deficit 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:

<u>Non ill-health early retirements</u>: 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.

<u>Ill-health early retirements</u>: 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 31 March 2019, and all other Cumbria LGPS employer policies that are relevant to the 2020/21 financial year are available on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

NOTE 4: TRANSFERS IN FROM OTHER PENSIONS

Transfers into the Fund have been made by individual members, where they decide to move pensions benefits accrued from previous employment into their LGPS pension. These are variable year to year depending on choices made by individual members.

	2019/20 £'000	2020/21 £'000
Individual transfers	6,160	4,129
	6,160	**4,129**

NOTE 5: BENEFITS

Pension benefits within the LGPS are based on final pensionable pay or career average, and duration 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 1 April 2008, during the period 1 April 2008 to 31 March 2014, and employed post 1 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	2019/20 £'000	2020/21 £'000
Net pensions paid	74,270	76,874
Net lump sum on retirement	14,355	12,889
Net lump sum on death	2,492	2,146
	91,117	**91,909**
By Employer Type	**2019/20 £'000**	**2020/21 £'000**
Administering Authority	51,387	51,874
Scheduled bodies	31,352	32,276
Admitted bodies	8,378	7,759
	91,117	**91,909**

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2020/21 were £51.874m (£51.387m 2019/20).

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.

	2019/20 £'000	2020/21 £'000
Refund of member contributions	236	262
Individual transfers out to other Schemes	6,781	5,876
Group transfer out to other Schemes	-	-
	7,017	**6,138**

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 administration services, provided by delegation of function to Lancashire County Council, through Local Pensions Partnership - Administration (LPPA), 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:

	2019/20 £'000	2020/21 £'000
Administrative costs	1,306	1,471
Investment management costs	10,661	16,660
Oversight and governance costs	760	583
	12,727	**18,714**

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 2020/21 is provided for information in the next note.

Administration costs were £0.165m (12.7%) higher in 2020/21 than the previous year, for further details refer to Note 8.

Investment management costs were £5.999m (56.3%) higher in 2020/21 than the previous year, for further details refer to Note 8 and 8 (a).

Oversight and governance costs were £0.177m (23.3%) lower in 2020/21 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 2020/21 is provided below.

	2019/20 £'000	2020/21 £'000
Administrative costs:		
Pensions Administration	1,047	1,223
Employee costs	257	239
Legal advice	-	8
Other	2	1
	1,306	1,471
Investment Management costs: See Note 8 (a)		
Management Fees	8,743	10,910
Performance Fees	1,723	5,719
Custody fees	77	31
Transaction costs	118	-
	10,661	16,660
Oversight and governance costs:		
Employee costs	318	306
Pension fund committee	22	14
Pension Board	15	10
Investment consultancy fees	130	92
Performance monitoring service	41	42
Shareholder voting service	10	10
Actuarial fees	109	60
Audit fees	32	33
Legal and tax advice	39	14
Other (including bank charges)	44	2
	760	583
	12,727	**18,714**

In accordance with the CIPFA guidance there are some presentational changes for the 2020/21 accounts that seek to provide more detailed disclosure of investment management fees. To comply with this, a new disclosure note 8(a) has been created to further breakdown the Investment Management fees section of the above table.

Variations on spend between years include:-

- Pensions Administration - The budget for the Fund's pensions administrator, Local Pensions Partnership - Administration (LPPA), increased in 2020/21 due to higher costs within LPPA arising from additional scheme complexity, enhanced technology and improved customer service processes.

- Investment Management Costs – Investment management costs increased in 2020/21 from £10.661m to £16.660m. Details of these costs are explained further in Note 8(a).

- Actuarial Fees - Actuarial fees were significantly lower in 2020/21 than 2019/20 due to the work undertaken in 2019/20 associated with the triennial valuation of the Fund.

NOTE 8(a) : INVESTMENT MANAGEMENT EXPENSES ADDITIONAL INFORMATION

As detailed above, in accordance with CIPFA Guidance for the completion of the 2020/21 LGPS accounts this additional note provides more detailed disclosure of investment management fees across the more specific asset class headings for the Fund's Pooled investment holdings. This includes a restatement of the 2019/20 investment management fee values for presentational reasons only.

<u>2020/21 Investment Management Expenses:</u>

	Management Fees £'000	Performance Fees £'000	Transaction Costs £'000	2020/21 £'000
Asset Classes				
Corporate Bonds	33	-	-	33
Equities	-	-	-	-
BCPP Asset Pool				
Pooled Equity Investments with BCPP	2,020	-	-	2,020
Governance & Development costs of BCPP	665	-	-	665
Pooled Passive Investments	90	-	-	90
Alternatives				
Infrastructure Funds	2,015	963	-	2,978
Private Equity Funds	2,222	4,228	-	6,450
Private Debt Funds	919	528	-	1,447
Multi Asset Credit Funds	1,879	-	-	1,879
Property Funds	417	-	-	417
Directly held Property	546	-	-	546
Derivatives	(12)	-	-	(12)
Cash & FX Contract costs	116	-	-	116
	10,910	5,719	-	16,629
Custody Fees				31
Total Investment Management Expenses				**16,660**

2019/20 Investment Management Expenses:

	Management Fees £'000	Performance Fees £'000	Transaction Costs £'000	2019/20 £'000
Asset Classes				
Corporate Bonds	232	-	-	232
Equities	1,256	-	118	1,374
BCPP Asset Pool				
Pooled Equity Investments with BCPP	1,034	-	-	1,034
Governance & Development costs of BCPP	294	-	-	294
Pooled Passive Investments	45	-	-	45
Alternatives				
Infrastructure Funds	2,050	557	-	2,607
Private Equity Funds	1,647	897	-	2,544
Private Debt Funds	707	269	-	976
Multi Asset Credit Funds	-	-	-	-
Property Funds	414	-	-	414
Directly held Property	570	-	-	570
Derivatives	370	-	-	370
Cash & FX Contract costs	124	-	-	124
	8,743	1,723	118	10,584
Custody Fees				77
Total Investment Management Expenses				**10,661**

- Corporate Bonds – the fees have reduced significantly from those paid in 2019/20 due to the asset class being largely exited in the summer of 2020 with the final holding sold in March 2021.

- Equities – the fees shown in 2019/20 were for half a year of fees related to the Fund's previous segregated investments with active global equity managers, prior to the Fund transitioning its active equity holdings to BCPP's Global Equity Alpha Fund (a pooled fund) in October 2019. As the Fund no longer holds any segregated investments in equities, there are no such costs in 2020/21.

- BCPP asset pool – the 2020/21 fees represent a full year's cost for both the internally managed UK Equity fund and the Global Equity Alpha fund, together with the annual charges from the pool in relation to the operational and governance costs and ongoing development of the company and related investment management projects to increase capacity.

- 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. The growth in the portfolio values together with additional investments into Multi Asset Credit pooled funds has led to increased management fees

  Total management fees on investments in alternatives was £7.452m in 2020/21 (£4.818m in 2019/20). The increase in 2020/21 is mainly attributable to the new allocation to Multi Asset Credit funds and increased portfolio values overall. Positive investment returns especially in the Private Equity funds has resulted in increased performance fees, from £1.723m in 2019/20 to £5.719m in 2020/21.

- Transaction costs – there were no transactions costs paid directly by the Fund in 2020/21 as there were no segregated equity mandates held.

NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £48.501m (2019/20 £47.417m net of £0.206m irrecoverable tax on dividends in 2019/20 only); and including stock lending income of £0.001m (2019/20: £0.012m), can be analysed as follows:

	2019/20 £'000	2020/21 £'000
Income from Corporate Bonds	7,045	928
Income from Equities	7,674	58
Infrastructure Funds Income	15,061	13,058
Private Equity Funds Income	1,980	8,066
Private Debt Funds Income	3,788	8,060
Multi Asset Credit Funds Income	3	9,260
Property Funds Income	3,463	2,720
Rents from Directly held Property	8,043	6,279
Interest on Cash deposits	360	72
	47,417	**48,501**

In October 2019, the Fund transitioned from global equity segregated portfolio managers to the pooled Border to Coast Authorised Contractual Scheme (ACS) Global Equity Alpha fund. The Fund does not receive investment income directly from equity dividends, as this is received by the pooled fund and increases the value of the unitised holdings, hence the absence of equity dividends for 2020/21.

In 2020/21 the Fund exited from its directly held corporate bonds portfolio, as the Fund ceased to require an allocation to this asset following the 2019 Investment Strategy Review. The resulting reduction in income from corporate bonds is seen in 2020/21.

The majority of income earned relates to the Fund's alternatives portfolio. The increase in amounts received between 2019/20 and 2020/21 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 2020 Total £'000	31 March 2020 Total £'000	31 March 2021 Total £'000	31 March 2021 Total £'000
Long-Term assets					
Unquoted Equities (shares in BCPP Ltd)			833		1,182
Investment Assets					
Corporate bonds			173,363		-
Pooled investment vehicles					
Managed by Border to Coast Pool:					
- UK equities		223,894		282,723	
- Global equities		472,433		701,677	
		696,327		984,400	
Unitised insurance policies (passive):					
- Global equities		144,303		201,806	
- UK index-linked securities		495,549		533,853	
- UK sterling liquidity fund		105,022		521	
		744,874		736,180	
Other pooled funds and limited partnerships:					
- Infrastructure Funds		213,799		216,023	
- Private Equity Funds		124,146		174,588	
- Private Debt Funds		107,592		123,371	
- Multi Asset Credit / Fixed Income Funds		227,885		488,223	
- Property Funds		78,928		79,798	
		752,350		1,082,003	
Pooled investment vehicles & managed funds total			2,193,551		2,802,583
Investment properties	10(b)		155,700		176,615
Derivative contracts	10(c)		452		2,335
Cash & cash equivalents			37,726		81,747
Amounts receivable for sales *			1,525		-
Investment income accrued *			3,326		2,105
Property rental debtors *			1,927		2,932
			44,956		89,119
Subtotal investment assets			2,567,570		3,068,317
Investment liabilities					
Derivative contracts	10(c)		(2,369)		(2,450)
Amounts payable for purchases *			(47)		-
Property creditors *			(2,981)		(3,810)
Subtotal investment liabilities			(5,397)		(6,260)
Total Net Investments			2,563,006		3,063,239

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

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

Note 10(c) details the derivative contracts. These are forward foreign exchange contracts and futures held at 31 March, presented as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31 March 2021.

In 2020/21 the Fund exited from its directly held corporate bonds portfolio, in line with the 2019 Investment Strategy Review, hence the reduction in quoted corporate bonds and increase in pooled funds and alternative private market funds in 2020/21.

In response to government requirements in relation to the pooling of LGPS assets, Cumbria LGPS along with 11 other partner LGPS funds, set up Border to Coast Pensions Partnership Ltd (BCPP). The company, formed to enable the pooling of LGPS investment assets by the twelve partner funds, launched its first investment funds in 2018/19. The share capital in BCPP is shown as a long-term asset as unquoted equities. During 2020/21 Northumberland County Council Pension Fund and Tyne and Wear Pension Fund, two of the partner funds, merged. This required an equalisation of the ownership shares between the remaining eleven partner funds and led to the increase in shares in BCPP Ltd shown in the table (from £0.833m in 2019/20 to £1.182m in 2020/21).

The Fund's largest manager holding is with BCPP. 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 table managed by BCPP, totalling £984.400m.

The Fund's second largest manager holding is the unitised insurance policies with Legal and General totalling £736.180m, shown in the table categorised into the underlying asset types. These unitised, index-tracking (passive) 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.

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 Pooled Funds and Limited Partnerships' in the table. 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 £1,082.003m at 31 March 2021.

NOTE 10(a): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

Manager	Asset Class	31 March 2020		31 March 2021	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast UK Equity Fund	Equities	223,894	8.7%	282,723	9.2%
Border to Coast Global Equity Alpha Fund	Equities	472,433	18.4%	701,677	22.9%
Border to Coast Cumbria LP	Infrastructure Funds	6,480	0.3%	19,404	0.6%
Border to Coast Cumbria LP	Private Equity Funds	4,742	0.2%	14,465	0.5%
	Managed by BCPP Pool	**707,549**	**27.6%**	**1,018,269**	**33.2%**
Investments Managed outside Border to Coast Pensions Partnership Ltd					
Legal & General Policy No. 1	Equities, bonds, cash	103,227	4.0%	124,026	4.0%
Legal & General Policy No. 2	Index-linked bonds, cash	497,344	19.4%	410,348	13.4%
Legal & General Policy No. 3	Global equities	144,303	5.6%	201,806	6.6%
Legal & General Passive Currency	Currency overlay	(1,426)	-0.1%	(115)	0.0%
PIMCO	Multi Asset Credit	-	0.0%	191,288	6.2%
Aberdeen Standard Investments	Direct property	156,758	6.1%	180,237	5.9%
Apollo	Multi Asset Credit	90,195	3.5%	156,005	5.1%
CQS	Multi Asset Credit	100,000	3.9%	121,703	4.0%
JP Morgan	Infrastructure	121,897	4.8%	114,366	3.8%
Partners Group	Private Market Credit	52,133	2.1%	64,226	2.1%
Strategic cash allocation	Cash	29,354	1.1%	57,086	1.9%
Barings	Private Loan Fund	45,746	1.8%	56,251	1.8%
Unigestion	Secondary Funds	37,204	1.5%	49,290	1.6%
Partners Group	Infrastructure	52,025	2.0%	47,833	1.6%
Pantheon	Private Equity Funds	23,499	0.9%	43,248	1.4%
Insight Investments	Fixed income / cash	37,690	1.5%	40,787	1.3%
M&G	Property Fund	40,022	1.6%	39,942	1.3%
Aviva	Property Fund	38,861	1.5%	39,856	1.3%
Aberdeen SL Capital	Infrastructure	33,398	1.3%	34,419	1.1%
Aberdeen SL Capital	Secondary Funds	22,262	0.9%	29,672	1.0%
Healthcare Royalty Partners	Royalties Fund	21,564	0.8%	26,595	0.9%
BlackRock	Private Equity Funds	17,130	0.7%	11,318	0.4%
M&G	Real Estate Debt	9,714	0.4%	2,895	0.1%
Border to Coast Ltd	Share capital	833	0.0%	1,182	0.0%
Transition residual, tax accruals	Overseas/UK equities	799	0.0%	358	0.0%
Aberdeen Standard Investments	Bonds / Sales outstanding	179,370	7.0%	348	0.0%
Sales outstanding receivable	Infrastructure	1,510	0.1%	-	0.0%
Aberdeen Asset Management	Indirect property	45	0.0%	-	0.0%
	Outside of BCPP Pool	**1,855,457**	**72.4%**	**2,044,970**	**66.8%**
Total Net Investments		**2,563,006**	**100.0%**	**3,063,239**	**100.0%**

Border to Coast Pensions Partnership Ltd (BCPP), the company created for the pooling of LGPS investment assets by initially twelve partner funds including Cumbria LGPS, launched its first investment funds in 2018/19. As shown above, the pool currently manages 33% of Cumbria's investments, i.e. the Border to Coast UK Equity

Fund, the Border to Coast Global Equity Alpha Fund, and the Border to Coast Cumbria Limited Partnership for alternative investments in infrastructure and private equity.

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.

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 31 March 2021 the portfolio valued at £176.615m included 24 properties ranging from £1.500m to £17.000m 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(f) **to (h).**

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

	2019/20 £'000	2020/21 £'000
Rental income from investment property	8,390	6,693
Direct operating expenses arising from investment property	(347)	(414)
	8,043	**6,279**

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:

	2019/20 £'000	2020/21 £'000
Balance at the start of the year	**161,280**	**155,700**
Additions:		
Purchases	12,408	24,327
Subsequent expenditure	-	3,888
Disposals	(5,712)	(12,548)
Net gains/(losses) from fair value adjustments	(12,276)	5,248
Balance at the end of the year	**155,700**	**176,615**

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:

	2019/20 £'000	2020/21 £'000
Not later than one year	7,594	8,150
Later than one year and not later than five years	25,760	24,288
Later than five years	18,018	25,825
Total future lease payments due under existing contracts	**51,372**	**58,263**

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 disruption and exceptional circumstances 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 £8.315m 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 £0.165m to £8.150m for the forthcoming year. To provide context to this, it is worth noting that as at 31 March 2021 the Fund held £1.190m of deposits paid by tenants which help to mitigate loss to the Fund should rents not be paid.

As at 31 March 2021, an allowance of £0.263m for expected credit loss on outstanding rent arrears (which totalled £1.685m as at 31 March 2021), is recognised within the 'Property rental creditors' figure of £3.810m at Note 10. This represents approximately 4.2% of the 2020/21 net rental income of £6.279m. Of the £0.263m allowance for expected credit loss, £0.153m related to a current live lease (approximately 2.4% 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.

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 derivatives held by Cumbria LGPS (shown in Note 10) can be summarised as follows including a prior year comparator:

	31 March 2021		
Reconciliation to Note 10	**Investment Asset / Unrealised Gain £'000**	**Investment Liability / Unrealised Loss £'000**	**Net Market Value £'000**
Total Derivatives			
Forward currency contracts	2,335	(2,450)	**(115)**
Futures	-	-	-
Derivative Contracts Gain/(Loss)	**2,335**	**(2,450)**	**(115)**

	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		2020/21	
Currency	**Local Value 000's**	**Currency**	**Local Value 000's**	**Unrealised Gain Sterling £'000**	**Unrealised Loss Sterling £'000**
Settlement one					
GBP	56,939	EUR	65,312	1,251	-
GBP	31,141	JPY	4,580,800	1,084	-
GBP	282,132	USD	392,700	-	(2,450)
				2,335	**(2,450)**
Net forward currency contracts at 31 March					**(115)**

The open forward foreign exchange contracts as at 31 March 2020 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)**

There were no outstanding exchange traded futures contracts as at 31 March 2021. Outstanding exchange traded futures contracts as at 31 March 2020 were 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)**

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.

2020/21 saw the Fund exit from its directly held corporate bonds portfolio, as the Fund ceased to require an allocation to this asset following the 2019 Investment Strategy Review, hence the reduction in quoted corporate bonds, and increase in alternative private market funds in 2020/21. The Fund has also made other strategic moves, funding a higher allocation to defensive assets; index-linked gilts and multi-asset credit (MAC) funds. Hence the year shows a high volume of sales of corporate bonds, and the purchase of other managed funds.

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

2020/21:

Asset Class	Value at 1 April 2020 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Changes in value during the year £'000	Value at 31 March 2021 £'000
Fixed interest securities (Corporate Bonds)	173,363	-	(180,627)	7,264	-
Equities					
UK equities	833	349		-	1,182
Pooled investment vehicles	1,441,201	27,598	(107,300)	359,081	1,720,580
Other Managed funds	752,350	343,567	(83,113)	69,199	1,082,003
Property (See Note 10b)	155,700	28,215	(12,548)	5,248	176,615
Derivatives (forward foreign exchange contracts, futures)	(1,917)	5,589	(34,851)	31,064	(115)
	2,521,530	**405,318**	**(418,439)**	**471,856**	**2,980,265**
Cash & cash equivalents	37,726			(2,122)	81,747
Amounts receivable for sales	1,525				-
Investment income accrued	3,326				2,105
Property rental debtors	1,927				2,932
Amounts payable for purchases	(47)				-
Property creditors	(2,981)				(3,810)
Total Net Investments	**2,563,006**			469,734	**3,063,239**

Analysis of gains/(losses) for the year	**2020/21 £'000**
Realised - Profit and losses on disposal of investments	38,612
Unrealised - Changes in the market value of investments	431,122
	469,734

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

2019/20:

Asset Class	Value at 1 April 2019 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Changes in value during the year £'000	Value at 31 March 2020 £'000
Fixed interest securities (Corporate Bonds)	170,911	13,481	(5,400)	(5,629)	173,363
Equities					
UK equities	37,614	3,147	(43,040)	3,112	833
Overseas equities	574,520	62,540	(700,016)	62,956	-
	612,134	65,687	(743,056)	66,068	833
Pooled investment vehicles	1,183,228	1,158,369	(731,960)	(168,436)	1,441,201
Unit Trusts	-	-	-	-	-
Managed funds	523,101	309,640	(80,213)	(178)	752,350
Property (See Note 10b)	161,280	12,408	(5,712)	(12,276)	155,700
Derivatives (forward foreign exchange contracts, futures)	(5,169)	97,960	(73,853)	(20,855)	(1,917)
	2,645,485	**1,657,545**	**(1,640,194)**	**(141,306)**	**2,521,530**
Cash	44,360			999	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**			(140,307)	**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)

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

It is a requirement of the Pensions Statement of Recommended Practice (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 Fund's investments managed by BCPP, two of the three unitised insurance policies held with Legal and General, and investments with PIMCO and Apollo.

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.

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.

The Fund's agreed investment strategy has an interim allocation of 16% to multi-asset credit. As a result, the funds held with two of the three managers, PIMCO and Apollo, account for more than 5% of the Fund in 2020/21.

Holding	31 March 2020 £'000	% of Total Net Investments	31 March 2021 £'000	% of Total Net Investments
Border to Coast Pension Partnership Ltd - UK Equity	223,894	8.7%	282,723	9.2%
Border to Coast Pension Partnership Ltd - Global Equity Alph	472,433	18.4%	701,677	22.9%
Investments over 5% managed by Border to Coast	**696,327**	**27.1%**	**984,400**	**32.1%**
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Inde	150,075	5.9%	153,961	5.0%
Policy 2 Legal and General Bespoke	347,269	13.5%	256,387	8.4%
Policy 3 Legal and General FTSE World Equity Index	144,303	5.6%	201,806	6.6%
Investments over 5% managed by Legal and General	**641,647**	**25.0%**	**612,154**	**20.0%**
Other pooled investments over 5% of Net Investment Assets				
PIMCO - Diversified Income fund	-	-	191,288	6.2%
Apollo - Total Return fund	-	-	156,005	5.1%
	1,337,974	**52.1%**	**1,943,847**	**63.4%**

NOTE 10(f): 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	Basis of Valuation	Observable and unobservable inputs	Key Sensitivities affecting the valuations provided
LEVEL 1			
Market quoted investments (includung equity & pooled funds)	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Cash and cash equivalents	Carrying value is fair value because of short-term nature (daily access)	Not required	Not required
Futures and options in UK bonds*	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Closing bid value on published exchanges	Not required	Not required
LEVEL 2			
Unquoted fixed income bonds and unit trusts	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives*	Market forward exchange rates at the year-end.	Exchange rate risk	Not required
UK and Overseas equity and bond options	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments - unitised funds with underlying assets in quoted equity (UK or overseas), gilts or cash	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
LEVEL 3			
Pooled investments - hedge funds	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	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)	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 2021.

Fair Value – Sensitivity of Asset values at Level 3

	Assessed valuation range (+/-)	Value at 31 March 2021 £'000	Value on increase £'000	Value on decrease £'000
Alternatives - Infrastructure	2.7%	216,023	221,856	210,190
Alternatives - Private Equity	5.3%	174,588	183,841	165,335
Alternatives - Private Debt	5.6%	123,371	130,280	116,462
Alternatives - Multi Asset Credit	8.1%	488,223	527,769	448,677
Property - direct and pooled	3.5%	256,413	265,387	247,439
Total		**1,258,618**	**1,329,133**	**1,188,103**

Further details on estimates and sensitivities of values 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 March 2020 and March 2021 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(g): 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: 2% of Total Investments (2019/20: 9%)
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 2020/21 following the exit from the corporate bond portfolio. This reduced quoted corporate bonds (level 1), and has increased pooled vehicles and funds (level 3).

Level 2: 57% of Total Investments (2019/20: 56%)
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: 41% of Total Investments (2019/20: 35%)
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 2020				31 March 2021			
	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								
Unquoted Equities (shares in BCPP Ltd)	-	-	833	833	-	-	1,182	1,182
Fixed interest securities - Corporate bonds	173,363	-	-	173,363	0	-	-	0
Pooled Investments	-	1,441,201	752,350	2,193,551	-	1,720,580	1,082,003	2,802,583
Derivative contracts	-	452	-	452	-	2,335	-	2,335
Cash & cash equivalents	45,372	-	-	45,372	63,456	20,161	-	83,617
Total Financial assets at fair value through profit and loss	**218,735**	**1,441,653**	**753,183**	**2,413,571**	**63,456**	**1,743,076**	**1,083,185**	**2,889,717**
Investment properties (Non-financial assets) at fair value through profit and loss	-	-	155,700	155,700	-	-	176,615	176,615
Financial liabilities (Derivative contracts) at fair value through profit and loss	-	(2,369)	-	(2,369)	-	(2,450)	-	(2,450)
Total Investments at Fair Value	**218,735**	**1,439,284**	**908,883**	**2,566,902**	**63,456**	**1,740,626**	**1,259,800**	**3,063,882**
Percentage of Total Investments	**9%**	**56%**	**35%**	**100%**	**2%**	**57%**	**41%**	**100%**

NOTE 10(h): 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 2020/21	Market value 1 April 2020 £'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 2021 £'000
Unquoted Equities	833	-	-	349	-	-	-	1,182
Level 3 pooled investments (i.e. Other managed funds)	752,350	-	-	343,567	(83,113)	10,501	58,698	1,082,003
Investment Properties	155,700	-	-	28,215	(12,548)	(4,311)	9,559	176,615
	908,883	**-**	**-**	**372,131**	**(95,661)**	**6,190**	**68,257**	**1,259,800**

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 2020 £'000	31 March 2021 £'000
Financial Instruments	2,414,568	2,887,660
Statutory debts / liabilities & provisions	3,610	2,932
Investment Property	155,700	176,615
Net Assets of the Fund	**2,573,878**	**3,067,207**

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 31 March 2021.

	31 March 2020				31 March 2021			
	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	833	-	-	833	1,182	-	-	1,182
Fixed interest securities (corporate bonds)	173,363	-	-	173,363	-	-	-	-
Pooled investment vehicles	2,193,551	-	-	2,193,551	2,802,583	-	-	2,802,583
Derivative contracts	452	-	-	452	2,335	-	-	2,335
Cash & cash equivalents	-	45,372	-	45,372	20,161	63,456	-	83,617
Investment receivables/debtors	-	6,778	-	6,778	-	5,037	-	5,037
Current & long-term assets	-	637	-	637	-	505	-	505
	2,368,199	**52,787**	**-**	**2,420,986**	**2,826,261**	**68,998**	**-**	**2,895,259**
Financial Liabilities								
Derivative contracts	(2,369)	-	-	(2,369)	(2,450)	-	-	(2,450)
Investment payables/creditors	-	-	(3,028)	(3,028)	-	-	(3,810)	(3,810)
Current/long-term liabilities	-	-	(1,021)	(1,021)	-	-	(1,339)	(1,339)
Total Financial Instruments	**2,365,830**	**52,787**	**(4,049)**	**2,414,568**	**2,823,811**	**68,998**	**(5,149)**	**2,887,660**
ANALYSIS OF NET GAINS AND (LOSSES) FOR YEAR ENDED 31st MARCH								
Financial Assets	(125,662)	-	-	(125,662)	466,936	-	-	466,936
Financial Liabilities	(2,369)	-	-	(2,369)	(2,450)	-	-	(2,450)
Total Net Gains/(Losses)				(128,031)				464,486

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: 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 31 March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2020 £'000	31 March 2021 £'000
Cash balances	**7,646**	**1,870**
Current Debtors		
Contributions due	3,649	3,488
Employer exit from scheme due < 1 year	328	-
Miscellaneous	963	645
Total Current Debtors	**4,940**	**4,133**
Total Current Assets	**12,586**	**6,003**

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 31 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: 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 31 March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2020 £'000	31 March 2021 £'000
Current Creditors		
Investment Managers fees	376	356
Tax payable	693	696
Miscellaneous	645	983
Total Current Liabilities	**1,714**	**2,035**

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 asset 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				2019/20 £'000	2020/21 £'000
		Foreign Exchange	Interest rate	Liquidity	Other risks		
UK Equities	◐	◐	◐	○	◐	224,727	283,905
Overseas Equities	◐	●	◐	○	◐	616,736	903,483
UK Bonds	◐	◐	●	○	◐	166,503	0
Overseas Bonds	◐	●	●	○	◐	6,860	0
Index Linked Gilts	○	○	◐	○	◐	495,549	533,853
Property *	◐	○	◐	●	◐	155,700	176,615
Alternative Investments	◐	◐	◐	●	◐	752,350	1,082,003
Derivatives**	◐	●	○	○	◐	(1,917)	(115)
UK Cash	◐	○	◐	○	◐	132,815	52,555
Overseas Cash	◐	●	◐	○	◐	17,579	31,583
Total Investments at Fair Value						**2,566,902**	**3,063,882**

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.

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

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 2021.

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.

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 31 March 2019). In 2020/21 it was recognised that the impact of the pandemic on global investment markets risks the Fund achieving lower investment returns going forwards than those reflected in the Actuary's assumptions, and this risks impacting on the funding level of the Cumbria Fund. In response, the Fund undertook a further review of its Investment Strategy to give both an interim asset allocation, agreed by the Pensions Committee in September 2020, and a longer-term target strategic allocation which was agreed at Pensions Committee in March 2021. Undertaking reviews to continually evolve the strategy, 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:

- 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 which are therefore 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 recognises that, as part of its diversified portfolio, it requires allocations to assets that are linked to inflation e.g. long lease property, index-linked gilts and infrastructure equity/debt, to maintain its strong funding position.

- 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 8 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 BCPP's stock lending programme there are two elements to this: counterparty risk and settlement risk.

The Fund's cash and cash-like holdings as at 31 March 2021 were £1.870m (2019/20: £7.646m) within current assets (see Note 12), and £81.747m (2019/20: £37.726m) shown as cash and cash equivalents within investments (see Note 10). In addition to this, in 2020/21 £0.521m (2019/20: £105.022m) of the Fund's holding in unitised insurance policies was in cash-like investments (in the UK Sterling liquidity fund as shown in Note 10 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 2021	Balances as at 31 March 2020 £'000	Balances as at 31 March 2021 £'000
Money Market Funds			
Northern Trust GBP Liquidity Fund	AAA	-	22,838
Northern Trust USD Liquidity Fund	AAA	-	28,971
Northern Trust EUR Liquidity Fund	AAA	-	2,611
SSGA GBP Liquidity Fund	AAA	14,099	-
SSGA EUR Liquidity Fund	AAA	234	-
SSGA USD Liquidity Fund	AAA	15,018	-
Legal & General Sterling Liquidity Fund	AAA	105,022	521
Aberdeen Standard Sterling Liquidity Fund	AAA	3,703	1,400
Federated Short Term Prime Fund	AAA	3,403	300
Bank deposit accounts			
National Westminster Bank	A+	541	170
Bank current accounts			
Northern Trust Company (GBP)	AA-	-	2,665
Northern Trust Company (USD, EUR)	AA-	-	1
State Street Bank & Trust	AA-	2,864	-
Barclays Bank	A+	2,112	4,500
Short Term Deposit			
Cash Collateral Swaps		600	-
The Bank of New York Mellon call account	AA	2,798	-
Cash Equivalents - Fixed income funds			
Insight Liquidity Plus fund	AAAf/S1	-	20,161
Total		**150,394**	**84,138**

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.

Market Risk – Sensitivity Analysis

The Fund's funding position is sensitive to changes in market prices (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 March 2020 and March 2021 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	2020/21 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Equities	1,187,388	15.7%	1,373,808	1,000,968
Index Linked Gilts	533,853	11.3%	594,178	473,528
Infrastructure Funds	216,023	2.7%	221,856	210,190
Private Equity Funds	174,588	5.3%	183,841	165,335
Private Debt Funds	123,371	5.6%	130,280	116,462
Multi Asset Credit Funds	488,223	8.1%	527,769	448,677
Property and Property Funds	256,413	3.5%	265,387	247,439
Cash	84,138	1.6%	85,484	82,792
	3,063,997		**3,382,603**	**2,745,391**

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 31 March 2021, the Fund had overseas investments (excluding forward foreign exchange contract) of £1,259.675m and £31.583m 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 March 2020 and March 2021 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 £94.228m, or 3.1% of the Fund's total value.

Foreign Exchange - Sensitivity Analysis	2020/21 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
US Dollar denominated assets	803,915	8.5%	872,248	735,582
European currency denominated assets	268,467	5.8%	284,038	252,896
Other currency denominated assets	134,075	7.7%	144,399	123,751
UK assets within Global equity funds	84,801		84,801	84,801
	1,291,258		**1,385,486**	**1,197,030**

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 31 March 2021, 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. The UK Bank Rate has been held at 0.10% throughout 2020/21. 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 31 March 2021 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value. Therefore a 0.40% change in interest rates (which would bring the base rate up to 0.5%) will increase or reduce the Fund's return by £2.472m (2019/20 £3.277m) on an annualised basis.

Assets exposed to interest rate risk	31 March 2020 £'000	31 March 2021 £'000
Fixed interest securities (including pooled investments)	668,912	533,853
Cash and cash equivalents	8,915	27,497
Money market funds and pooled cash vehicles	141,479	56,641
	819,306	**617,991**

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 2020/21, 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.

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(g) 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 31 March 2021 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £1,804.082m, i.e. 59% of net assets (31 March 2020 £1,658.019m, 65%). The value of the illiquid assets including investment properties was £1,259.800m which represented 41% of net assets (31 March 2020 £908.883m, 35%).

External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. The Fund's investments in unitised pooled funds 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 are all due within 12 months from the Net Assets Statement date. 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 the Fund's 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, and
- the bank's position in the market for sourcing Private Finance Initiative (PFI), corporate, utility and other non-government sources of inflation-linked debt.

Neither the investment manager (Legal and General) nor any of its related companies would act as counterparty. As part of the manager's credit and counterparty risk framework, the creditworthiness of all counterparties is reviewed on a regular basis.

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. £0.115m loss on the currency derivatives at 31 March 2021 (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 BCPP 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 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 31 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 31 March 2021 are as follows:

Asset Class	2019/20 £'000	2020/21 £'000	Manager	Holding Details
Pooled investment vehicles				
Managed by Pool	696,327	984,400	Border to Coast	UK and Global equity funds.
Unitised insurance policies	744,874	736,180	Legal and General	Index tracking funds.
Other managed funds	-	191,288	PIMCO	Multi Asset Credit
	90,195	156,005	Apollo	Multi Asset Credit
	100,000	121,703	CQS	Multi Asset Credit
	121,897	114,366	JP Morgan	Infrastructure fund.
	52,025	64,226	Partners Grp	Private Market Credit
	45,746	56,251	Barings	Global private loan fund.
	37,204	49,290	Unigestion	Secondary private equity funds
	52,133	47,833	Partners Grp	Infrastructure fund.
	23,499	43,248	Pantheon	Private Equity funds.
	37,690	40,787	Insight	Fixed Income funds.
	40,022	39,942	M&G	Long-lease property fund.
	38,861	39,856	Aviva	Long-lease property fund.
	33,398	34,419	Aberdeen SLC	Infrastructure fund.
	22,262	29,672	Aberdeen SLC	Secondary private equity funds
	21,564	26,595	HRP	Healthcare Royalties Partners Fund.
	6,480	19,404	Border to Coast	Infrastructure Funds
	4,742	14,465	Border to Coast	Private Equity Funds
	14,873	11,318	BlackRock	BlackRock in-house funds.
	9,714	2,895	M&G	Real estate debt funds.
	45	-	Aberdeen	Overseas property funds (ex-
UK equity unquoted	833	1,182	Border to Coast	Company share capital.
	2,194,384	**2,825,325**		

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 Utmost Life, are shown below:

	2019/20 £'000	2020/21 £'000
Standard Life	895	921
Scottish Widows	919	795
Utmost Life	577	456
Prudential	1,386	0
Total AVCs	**3,777**	**2,172**

AVC contributions of £2.172m (in respect of three of the providers) were paid directly from employees pay during the year, we are still awaiting confirmation of the figure for Prudential. (2019/20: £3.777m).

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 (BCPP)

As indicated in **Note 22**, in 2017/18 the Fund became a partner in BCPP as its chosen route to pool investment assets across the LGPS. BCPP is the organisation set up to run pooled LGPS investments for the Fund and initially 11 other Pension Funds. The company is a private limited company limited by shares and its company number is 10795539. BCPP was incorporated in May 2017 and initially 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 2020/21.

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 2020/21 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Fund. Each member of the Pensions 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 at least 85% of the active membership. This target has been exceeded in 2020/21, with 90% coverage.

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 'LPPA') 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 Statement of Accounts 2020/21 (see Note 13 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 2020/21 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 2020/21

- Cumbria County Council's Employer's Future Service Rate – LGPS 18.4% (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 2020/21 on Cumbria LGPS specific work.

- During 2020/21, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (1FTE) (2019/20:1FTE) 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 2020/21 this allowance was £7,301. This cost is charged to Cumbria LGPS.

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

2020/21 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 (S151 Officer)	13,209	13,209	2,430	15,639
Senior Manager – Pensions & Financial Services (Deputy S151 Officer - LGPS)	46,212	46,212	14,436	60,648
	59,421	**59,421**	**16,866**	**76,287**

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 (S151 Officer)	12,855	12,855	1,915	14,770
Senior Manager – Pensions & Financial Services (Deputy S151 Officer - LGPS)	49,853	49,853	7,428	57,281
	62,708	**62,708**	**9,343**	**72,051**

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There are no contingent liabilities or outstanding contractual commitments at 31 March 2021.

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 2020/21. The estimated value of claims still outstanding is £3.991m (value in GBP at 31 March 2021, 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 2020/21 and despite a positive ruling in respect of time limits by the French Supreme Court there has been little progress for Fokus Bank (withholding tax) claims in France, Germany and Italy. A judgement by the Supreme Court in November 2020 has the potential to render the Foreign Income (FID) and Tax Credit (Manninen) Group claims time barred however there remains further litigation before the decision can be considered final. 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. A Supreme Court hearing is scheduled for the second half of 2021 when HMRC will appeal the Court of Appeal judgment issued in October 2019 and found in favour of the claimant.

The fees incurred to date for the outstanding tax claims mentioned above total £0.407m 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 2020/21 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 2020/21.

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

The Fund generally allows a payment period of 30 days. Included within the £4.133m (£4.940m at 31 March 2020) of current debtors (see Note 12) is £0.021m of debtors aged between two and six months (£0.016m at 31 March 2020) and £0.103m of debtors aged greater than six months (£0.075m 31 March 2020).

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 has been wound down following the transition of the Fund's active global equity to BCPP and the sale of the Fund's corporate bond portfolio.

The value of securities on loan as at 31 March 2021 has reduced to nil following the transition of assets away from segregated mandates with Loomis Sayles and Nordea during 2019/20 (where the Fund was the asset owner and could therefore stock lend) to a unitised holding of Global Equity with BCPP (where the Investment Manager is the asset owner), and the exit from the segregated mandate of corporate bonds during 2020/21. Within the BCPP UK and Global equity sub-funds that the Fund has subscribed to, BCPP actively participates in stock lending and the income from this forms part of the return on the holding.

The Fund had no securities on loan at 31 March 2021 (2019/20: £0.773m); in the prior year these were included in the net assets statement to reflect the Fund's continuing economic interest in the securities, and consisted of (2019/20 only) £0.043m UK corporate bonds and £0.730m overseas corporate bonds. The related collateral totalled (2019/20 only) £0.812m, consisting of £0.745m overseas corporate bonds, and £0.067m UK corporate bonds.

For the year to 31 March 2021, the Fund earned income of £0.001m (2019/20 £0.012m) through stock lending of the various assets.

NOTE 21: EVENTS AFTER THE REPORTING DATE

The COVID-19 pandemic remains an ongoing issue and the impact on the valuation of the Fund's assets will continue to be assessed up until the publication of the audited accounts.

There have been no 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 Pension 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(g)).

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(f) **and** 10 (g).

Those charged with governance have been provided with further information detailing the use of estimates within these financial statements. This includes the processes and procedures in place including the risks and associated controls so as to ensure that they understand and are content with the levels of scrutiny and controls in place where estimates are applied. This includes estimates used to determine the value of:

- Level 3 assets (as provided by Investment Managers and the underlying independent valuers (where applicable));
- Property (as provided by an independent property valuer); and

- Historic pension liabilities (as assessed by the Fund's Actuary)

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 and therefore there is not expected to be any material uncertainty of the valuation of these assets. 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 of all assets, the value of the Fund will increase by approx. £30.632m, with a decrease having the opposite effect. For further information on the Sensitivity of Asset values at Level 3 including property, refer to Note 10(f). Level 3 investments including property – 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. For further information on the assumptions contained in the Actuarial valuation, and how sensitive the funding position is to changes in those assumptions, please refer to the published Actuarial Valuation report which is available on the Fund's website.	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; • a 0.25% reduction in the real investment return achieved would result in a £124m increase in the deficit shortfall, or;

Item	Uncertainties	Effect if actual differs from assumptions
		• a 25% reduction in Asset values would result in a £676m increase in the deficit shortfall; as determined at the 2019 valuation.

Investment in the Fund's asset pooling company – Border to Coast Pensions Partnership Ltd (BCPP)

BCPP is the organisation set up to run pooled LGPS investments initially for 12 Pensions Funds including Cumbria LGPS. The company is a private limited company limited by shares and its company number is 10795539. BCPP was incorporated in May 2017 and initially issued 12 £1 'A Ordinary' shares. In 2020 when Northumberland and Tyne & Wear Pension Funds merged the number of £1 A Ordinary shares reduced to 11. 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. In addition to meet the FCA regulated capital requirements, the Fund also holds the required number of class B non-voting shares, to meet the funds obligation to the partnership; the value of this holding was initially £833,333.

During 2020/21 there have been two amendments to the level of Class B shares held by the Fund:

- On 3 June 2020 the statutory instrument confirming that Tyne & Wear and Northumberland Pension Funds would merge came into effect, this led to Cumbria LGPS increasing its regulatory Capital by £75,757 to change from being a 1/12th shareholder to a 1/11th shareholder (increasing the Fund's Class B share to the value of £909,090).
- At Pensions Committee in March 2020, Members were advised that due to the increasing value of the assets held by BCPP, and to meet the FCA regulatory capital requirements, the Fund would need to increase it's holding of B class shares by 1/11th of an additional £3m, this increase was approved. The Fund's portion (£272,728) was paid on 3 March 2021 bringing the total B Class shares to £1,181,818.

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 31 March 2021 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership Ltd (BCPP) became licensed to trade in May 2018;
- The first two years of financial accounts for the Company show the shareholder funds to be equivalent to the regulatory capital invested (at cost); and
- 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 COVID-19, declared as a pandemic on 11 March 2020, continues to impact on many aspects of daily life and the global economy. In the final quarter of 2019/20, most investment markets experienced large reductions in valuations, however, during 2020/21 most markets have recovered to at least pre-pandemic levels as at 31 March 2021.

For the 2019/20 accounts only, the Fund's property valuer (CBRE Ltd) was directed by the Royal Institution of Chartered Surveyors (the RICS) to include a 'Material Uncertainty' clause in all property valuation reports. This approach was removed from valuations from September 2020 onwards, as businesses and the wider economy began to function in a more normal sense. As at the valuation date, property markets are showing transaction volumes and other relevant evidence at levels where enough market evidence exists upon which to base opinions of value.

Valuations for Private Equity investments are usually received at least a quarter in arrears, and these investments are valued at an estimate to the fair value at 31 March, as best as is available at the time of preparation. For 31 March 2021, the 31 December 2020 valuations have been the latest available for the private equity investments shown at Note 10 (5.7% of the net investments assets), further cash transactions up to 31 March are reflected, but to remain prudent no assumptions for a value uplift have been incorporated into the estimate to fair value. During the pandemic some underlying investments have been by the nature of their revenues more resilient than others, e.g. healthcare versus consumer spending. All such estimates are subject to a degree of uncertainty; it remains a fluid situation and, whilst 2020/21 saw a recovery of much of the decline associated with COVID-19, 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. For 31 March 2021, the 31 December 2020 valuations have been the latest available for £101.656m infrastructure investments shown at Note 10 (3.3% of the net investments assets), further cash transactions up to 31 March are reflected, but to remain prudent no assumptions for a value uplift have been incorporated into the estimate to fair value.

NOTE 23: ACTUARIAL POSITION OF THE FUND

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

The full Actuarial Valuation Report as at 31 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 2020 £'m	31 March 2021 £'m
Valuation Basis		
Present value of past service liabilities	(2,827)	(2,861)
Net assets of the Fund	2,574	3,067
Net liability (Valuation Basis)	**(253)**	**206**
IAS 19 Basis		
Present value of past service liabilities	(3,478)	(4,129)
Net assets of the Fund	2,574	3,067
Net liability (IAS 19 Basis)	**(904)**	**(1,062)**

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.

Mercer

CUMBRIA LOCAL GOVERNMENT PENSION FUND

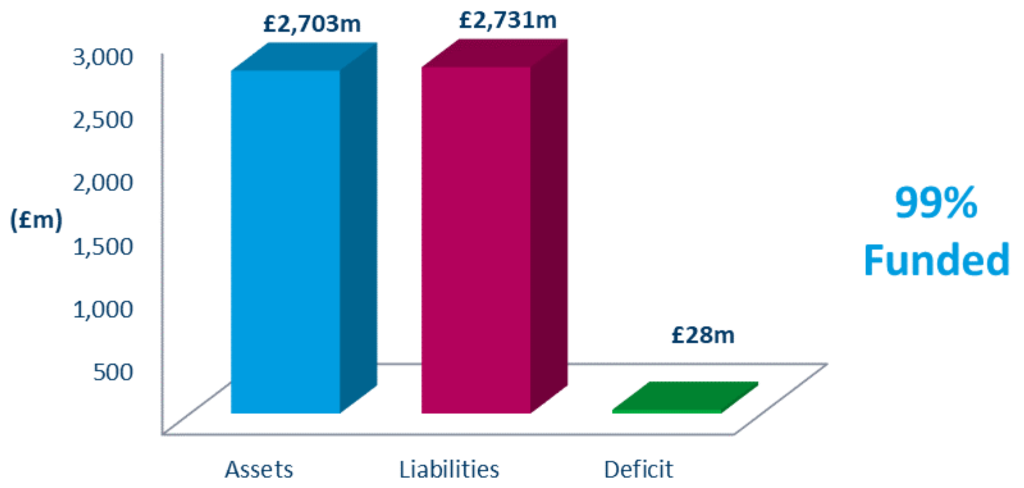
ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2021 - STATEMENT BY THE CONSULTING ACTUARY

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.

Actuarial Valuation as at 31 March 2019



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 recovery payment (the "Secondary rate" for 2021/22) 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 has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS.

The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014.

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). 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 and 2021 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 as a general rule but the Administering Authority is consulting on updates to the Funding Strategy Statement which will allow the Fund to review contributions between valuations where there is a material change in employer covenant or liabilities, in line with the new regulations on contribution flexibilities introduced in September 2020. The position will 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 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.7% per annum
Rate of pay increases	3.6% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.8% per annum

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.1% p.a. vs 2.4%). In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2020 was estimated as £3,478 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£83 million, and allowing for net benefits accrued/paid over the period increased the liabilities by c£25 million (this includes any increase in liabilities arising as a result of early retirements). There was also an increase in liabilities of £543 million due to "actuarial losses" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £4,129 million.

GMP Indexation

The public service schemes were previously 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 has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Clive Lewis

Fellow of the Institute and

Faculty of Actuaries

Mark Wilson

Fellow of the Institute and

Faculty of Actuaries

Mercer Limited

May 2021

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 accounting standards issued but not yet adopted that would materially impact on the 2020/21 financial statements.

NOTE 25: PARTICIPATING EMPLOYERS OF THE FUND

As at 31 March 2021 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

Employers of the Fund as at 31 March 2021 (total 124)

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
- Lake District National Park Authority
- Lakes College (West Cumbria)

Scheduled Resolution Bodies (16)
- Allerdale Waste Services (New)
- 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 (39)
- 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
- Dallam Academy
- Eaglesfield Paddle Academy
- Energy Coast UTC
- Fairfield Primary 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
- Penny Bridge Academy

Scheduled Bodies - Academies (cont)
- 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
- Hensingham Primary
- Longtown Academy
- Newtown Academy (New)
- Northside 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
- Kirkland Academy (New)
- Lazonby Academy
- Lorton Academy
- Whitfield Academy
- Wreay School Academy

West Lakes Academy (one employer)
- Arlecdon Primary Academy
- Dearham Primary Academy
- Flimby Academy
- Thornhill Primary Academy
- 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)

Scheduled Bodies No Actives (cont)
- Seaton Parish Council
- Water Authority

Admitted Bodies Transferee (16)
- Carlisle Leisure Ltd
- Carlisle Leisure Allerdale
- Carlisle Mencap - Huntley Ave
- Carlisle Mencap - Hart St
- Caterlink - W/Lakes
- Caterlink - WHT
- 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 (15)
- Commission for Social Care Inspection
- Cumbria Cerebral Palsy
- Cumbria Deaf Vision
- Eden Housing Association
- Glenmore Trust
- Harraby Community Centre
- Higham Hall
- Home Group (Copeland)
- Lakeland Arts Trust
- Longtown Memorial Hall Community Centre
- Morton Community Centre
- Oaklea Trust
- Soundwave
- South Lakes Housing
- West House

Admitted Bodies No Actives (13)
- Bulloughs - Solway
- Cumbria Training Partnership
- Direct Training Services
- Egremont & District Pool Trust
- FCC Environment
- Henry Lonsdale Trust
- Kendal Brewery Arts Centre Trust Ltd
- Kendal Citizens Advice
- Lake District Cheshire Homes
- NRCS Ltd (Neighbourhood Revitalisation)
- Project Homeless
- Troutbeck Bridge Swimming Pool
- Wigton Joint Burial Committee

APPENDIX B: GLOSSARY

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

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

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

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

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

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

Authorised Contractual Scheme (ACS) – an ACS is a type of structure in which institutional investors (including Pension funds) can hold their pooled investments. The ACS is the investment vehicle chosen by BCPP to hold the public market quoted investments for the twelve partner funds; and provides a tax efficient means for managing all the equity and bonds held by the company.

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

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

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

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

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

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

CIPFA – Chartered Institute of Public Finance & Accountancy**.**

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

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

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

Coronavirus (COVID-19) – The World Health Organisation (WHO) declared the outbreak of Coronavirus to be a global pandemic on 11 March 2020. Investment markets have seen significant volatility as a result of concerns relating to the Coronavirus Pandemic.

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

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

Currency Hedge – This is one way for pension funds to reduce the volatility of their foreign currency exposures, by using derivatives to convert exposures back to the domestic currency. Open funds with a long term focus commonly hedge 50% of their exposure to mitigate the worst effects that any adverse currency movement would have on the value of the Fund.

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

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

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

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

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

Designated Body – Also known as Resolution body – please refer below.

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

Diversified Credit – Also known as Multi Asset Credit – please refer below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Multi-Asset Credit – MAC is a term used for a fund investing in a range of investments that are classed as 'credit' i.e. fixed income, and will often include corporate debt, loans directly to companies, absolute return bonds, emerging market debt, assetbacked securities, real-estate debt and high yield bonds. The MAC fund will aim to be diversified across many asset types (also known as Diversified Credit).

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

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

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

PIRC – Pensions & Investment Research Consultants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unit Trust – A specific type of pooled investment fund.

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

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

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

TO BE ADDED AT THE CONCLUSION OF THE AUDIT