THE PENSION FUND ACCOUNTS

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FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS

1 THE FINANCIAL STATEMENTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2023

		2021/22		2022/23	
	Notes	**£000's**	**£000's**	**£000's**	**£000's**
Dealings with members, employers and others directly involved in the fund					
Contributions	3		83,717		89,588
Transfers in from other pension funds	4		8,422		11,348
			92,139		**100,936**
Benefits	5		(94,775)		(99,033)
Payments to and on account of leavers / employer exit	6		(27,829)		(7,061)
Net additions / (deductions) from dealings with members			**(30,465)**		**(5,158)**
Management expenses	7 & 8		(17,708)		(18,477)
Net additions / (deductions) including fund management expenses			**(48,173)**		**(23,635)**
Returns on investments					
Investment Income		59,109		49,542	
Taxes on Income		(121)		(67)	
Net investment income	9	58,988		49,475	
Profit / (losses) on disposal of investments and changes in the market value of investments	10(d)	239,693		(180,240)	
Net return on investments			**298,681**		**(130,765)**
Net increase (decrease) in the net assets available for benefits during the year			**250,508**		**(154,400)**
Net assets at the start of the year			**3,067,207**		**3,317,715**
Net assets at the end of the year			**3,317,715**		**3,163,315**

NET ASSETS STATEMENT AS AT 31 MARCH 2023

	Notes	31 March 2022 £'000	31 March 2023 £'000
Long-term Investments	10	1,182	1,182
Investment assets	10	3,317,089	3,161,293
Investment liabilities	10	(7,853)	(3,466)
Total net investment assets		**3,310,418**	**3,159,009**
Long term assets		-	-
Current assets	12	9,130	6,496
Long term liabilities		-	-
Current liabilities	13	(1,833)	(2,190)
Net assets of the Fund available to fund benefits at the period end		**3,317,715**	**3,163,315**

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" and "Cumbria Pension Fund") is a contributory defined benefit scheme to provide pensions and other benefits for all members of the Fund. The Fund was administered by Cumbria County Council until 31 March 2023 and is being administered by Westmorland and Furness Council from 1 April 2023 as a result of Local Government Reorganisation (LGR) within Cumbria.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income; and

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

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

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

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

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

- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

Membership to the Cumbria LGPS is open to:

- all eligible employees of scheduled bodies (local government, academies, colleges) within the county who are not covered by alternative pension arrangements (the main categories of employees covered by alternative arrangements are teachers, fire service uniformed personnel and police officers); and

- other eligible employees of admitted employers of the Fund (usually this includes employers to whom contracts have been awarded for the provision of public services within the county).

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

As at 31 March 2023 the total membership of the Fund was 62,278 (2021/22: 60,312) and consisted of 17,681 contributors/actives (2021/22: 17,853), 25,650 deferred members (2021/22: 24,280) and 18,947 pensioners (2021/22: 18,179). The active and deferred membership numbers have been adjusted to account for those scheme members who are recorded as active members but are not actively contributing into the scheme and therefore have been considered to be currently in the process of being transferred to deferred leaver status.

At 31 March 2023 there were 125 (31 March 2022: 127) employer bodies in the Cumbria LGPS (for the full list see **Note 25**). The number of employers decreased by two during the year, which was a result of the admission of five new employers, the merger of three employers with existing Fund employers, and the exit of four employers from the Fund.

Basis of Preparation:

The Statement of Accounts for the Cumbria Local Government Pension Scheme (Cumbria LGPS) is presented in its entirety and separately from the General Fund in Cumbria County Council's Accounts. Although the County Council was 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 2022/23 and the position at the year-end date, 31 March 2023. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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'.

The accounts have been prepared on a going concern basis. Due to LGR in Cumbria, the seven legacy Councils covering Cumbria were replaced by two new unitary councils from 1 April 2023 – Westmorland & Furness Council covering the areas of Barrow, Eden and South Lakeland, and Cumberland Council covering the areas of Allerdale, Carlisle and Copeland. Cumbria County Council, ceased to exist as at 31 March 2023 and Westmorland & Furness Council became the Administering Authority of Cumbria LGPS from 1 April 2023. The Fund will continue to provide services, as currently, to all of its scheduled, resolution and admitted bodies.

NOTE 1 (b): INVESTMENT MARKET ACTIVITY DURING 2022/23

The financial year 2022/23 was mostly focussed on inflationary pressures, easing of Covid restrictions in developed economies, the continuing Russian invasion of Ukraine, and the impact of a range of different UK Government policies resulting in a sharp fall in government bonds. The wider global markets experienced a highly volatile year, driven primarily by concerns over high inflation, base rate actions, and the prospect that developed economies could enter into recession.

One-year returns in listed equities were mixed for the 2022/23 period, with the MSCI All Country World Index recording a negative return of -1.4% for the twelve months, and the UK FTSE All Share recording a positive return of 2.9%. Europe recovered somewhat from the initial serious impact in early 2022 of the economic fall-out of the conflict, and the region outperformed the US for the twelve months with a positive return (Europe ex-UK 8.7% vs North America -2.5%).

The impact on other asset classes was varied. Government bond yields rose as higher inflation and increasing interest rates drove bond values downwards significantly through the year, with the UK Over-5 year index-linked gilts index showing a -30.4% return. UK property was also significantly impacted by the higher inflation and interest rates with the MSCI index (UK pension funds below £250m) showing a -13.8% return for the year. Private market assets (i.e. private equity, private debt and infrastructure funds) were the most stable at protecting capital; and outperformed public equities.

NOTE 1 (c): FUND PERFORMANCE 2022/23

As at 31 March 2023 the unaudited value of the Fund's net assets was £3,163.315m (a decrease of £154.400m from £3,317.715m as at 31 March 2022). The Fund's Actuary has estimated that the Cumbria LGPS was approximately 106% funded as at 31 March 2023. This result was calculated by updating the results of the actuarial valuation as at 31 March 2022 to include an update to the real discount rate, to reflect changes in real yields since the valuation and the correlation of the Fund's holdings to those yields.

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 reduced. Overall, the Fund made a negative return on its investments of -3.9% (net of fees) for the year-ended 31 March 2023.

As a long term investor, the Fund is primarily focussed on longer-term performance. and has outperformed both its 3 and 10 year benchmarks and matched the 5 year benchmark (3 year: 7.5% p.a. (net of fees) outperformed the benchmark of 6.9%, 5 year: 5.2% p.a. (net of fees) matched the benchmark, and 10 year: 7.3% p.a. outperformed the benchmark of 6.6% (net of fees)).

Performance to 31 March 2023 in relation to the Fund's bespoke benchmark over these timeframes is shown in the table below.

	Cumbria Performance	Bespoke Benchmark	Variance to Benchmark
1 year performance	-3.9%	-2.9%	- 1.0%
3 year performance (per year)	7.5%	6.9%	+ 0.6%
5 year performance (per year)	5.2%	5.2%	+ 0.0%
10 year performance (per year)	7.3%	6.6%	+ 0.7%

As shown above, the Fund's return of -3.9% for the year was below the Fund's bespoke index performance benchmark of -2.9% for the same period. The main detractors from performance against benchmark were assets with absolute or inflation-plus benchmarks, as this included the Fund's UK property holdings and in fixed income (the multi-asset credit funds).

The process of implementing in the Fund's agreed asset allocation is ongoing, with the associated investment decisions being taken in a managed and responsive way. Key changes made in the twelve months to 31 March 2023 included:

- Reducing the Fund's holding in Multi-Asset Credit funds (also known as liquid fixed income) from 14% at the start of the year to 9% at March 2023, investing the proceeds in the Fund's increased strategic allocation to private debt; as the private debt allocation is invested in private markets closed-ended funds it will take some years to grow substantially from 7% at March 2023 and reach the long-term aim of 14% of the Fund;

- Rebalancing between assets to address larger underweights and overweights within the Fund that developed through market movements during the year; in particular to reduce outperforming assets such as the Border to Coast UK Equity fund and Overseas Developed Equity fund and reinvesting these proceeds into index-linked gilts, as this asset had fallen to below the percentage range set for it in the Investment Strategy;

- The selection of suitable investments for the Private Markets portfolio in February 2023, including new investment commitments of £300m made to Border to Coast Pensions Partnership Ltd (BCPP) private markets funds to be launched following the year-end (Border to Coast Infrastructure 2023, Border to Coast Private Equity 2023 and Border to Coast Private Credit 2023); and

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

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

<u>2022/23 Business Plan</u>:

All targets set within the 2022/23 Business Plan have been achieved during the year with key tasks either completed, or ongoing work that is on track for completion. This work, key highlights of which are summarised below, has been delivered within the approved budget.

- **Continual improvement activities**

  e.g. continual improvement programme for the quality of data held by the Fund. Work undertaken by the Fund and LPPA has continued to see improvements in the common and conditional data scores reported to the Pensions Regulator.

- **Major annual pieces of work**

  e.g. preparation of the Annual Report and Accounts. The 2021/22 Financial Accounts and Annual Report were compiled in accordance with CIPFA's example accounts requirements. The accounts were audited by Grant Thornton and an unmodified opinion was given with no recommendations arising. The auditor formally signed off the accounts in early 2023 with the Fund's 2021/22 Annual Report published on its website on 1 December 2022.

- **Completion of the 2022 actuarial valuation of the Cumbria Pension Fund.**

  The 2022 valuation was signed off by 31 March 2023 in accordance with the regulatory timeframe. All employers received schedules detailing their respective funding position and contribution rates for 2023/24 – 2025/26.

- **Investigate and implement suitable investment options to implement the Investment Strategy approved by Pensions Committee and keep its ongoing suitability under review.**

  The continuation of capital drawdowns to previously agreed commitments to infrastructure, private equity and private debt funds achieved the movement of the asset allocation to the revised Interim Strategy.

- **Liaise with Border to Coast Pensions Partnership Ltd to ensure that suitable opportunities were available within the pool for the Fund to transition to its amended investment strategy.**

  The Fund continued to be active in influencing the range of sub-funds that BCPP provide with the aim of being reflective of the majority of Investment Strategy Asset classes.

  BCPP sub-funds currently under development include UK and global property, and UK Opportunities, in addition to further vintage funds in private markets; Infrastructure, Private Equity and Private Credit.

- **Prepare the Cumbria Pension Fund for organisational change resulting from Local Government Reorganisation (LGR).**

  Throughout 2022/23 work was ongoing within the Fund to ensure that the Pension Fund continues to operate effectively following LGR.

  This included ensuring the continuity of pensions' administration services which are delivered via a delegation of responsibilities arrangement with Lancashire County Council.

In addition a communication plan was developed to advise scheme members and employers as to how LGR would affect them.

In addition to the 2022/23 Business Plan, originally approved in March 2022, the Fund has had to respond to unforeseen activities during the first half of the year. These activities included:

- the impact of preparations for LGR on the Cumbria Pension Fund including the impact on workloads and resources over and above those considered when setting the business plan; and

- assessing whether any changes were required to the Fund's Investment Strategy in response to rapidly increasing inflation. The impact of inflation on both the Fund's liabilities and the Actuary's assumptions in relation to the future investment returns were of particular concern, and Officers worked with the Independent Advisors and the Fund's Actuary to consider these (an Investment Strategy 'sense-check'). The conclusion was that no changes to the Fund's long-term asset allocations were required during the year.

Looking forward to 2023/24:

In March 2023, the Cumbria Pensions Committee set the business plan for the Fund for 2023/24 (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance). As set out below, these objectives are focused on the principal activities of the Fund as currently anticipated. However, given the changing nature of the LGPS and the economic climate, it is recognised that priorities may change throughout the year.

Pensions Administration

- Working with LPPA to address any pension administration issues associated with LGR in Cumbria.

- Appraising the impact of 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.

- Embedding the new pensions administration system ("UPM") used by LPPA into the Fund

- 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.

Investment Management

- Undertaking a full Investment Strategy Review to consider the key outcomes of the 2022 actuarial valuation and their implications for the Fund. A specialist Investment Consultant will be procured to lead the work.

- Continuing to investigate and implement suitable investment options to implement the current investment strategy, and in addition, any revisions following agreement of the 2023 Investment Strategy Review.

- Monitoring progress in moving towards the final target Investment Strategy and keep its ongoing suitability under review.

- Liaising with Border to Coast Pensions Partnership Ltd (BCPP) to ensure that suitable opportunities exist within the pool for the Fund to transition to its amended Investment Strategy.

Oversight & Governance

- Addressing any issues associated with the governance of Cumbria Pension Fund resulting from LGR.

- Completion of the 2022/23 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes.

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

- Reviewing and updating the Fund's risks, policies and strategies; and

- Reviewing, measuring and delivering training to Members and Officers as outlined in the Training Plan.

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 2022/23 will be published on-line when finalised (and at the latest by the statutory deadline of 1 December 2023) on the Cumbria Pension Fund website **www.cumbriapensionfund.org**.

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 2022/23.

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 pension 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 2023.

Where an employer leaves the scheme, any contributions 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 **Note 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 County Council practices. Staff and on-costs related to administration are apportioned to this heading.

This section all includes the cost of Local Pensions Partnership – Administration who provide the technical pension administration function for the Fund through a Delegation of Functions agreement with Lancashire County Council.

2.7. Investment management expenses (Notes 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 2022/23 submissions of cost transparency returns received prior to the cut-off date for the accounts and, where appropriate, used these to inform the Management Fees disclosed in the Accounts. However, many of the returns were received from managers after the cut-off date for inclusion within these Accounts.

Where a cost transparency report has not been received by the cut-off date, the Fund has considered other available information to ensure the disclosed costs are reasonable. The remaining cost transparency templates will be assessed as they are received and will inform additional disclosures of investment costs in the Fund's 2022/23 Annual Report to be published by 1 December 2023. 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.

<u>Net assets statement</u>

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

Northern Trust Corporation, 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. There were no such investments at 31 March 2023.

b) Fixed interest securities: Fixed interest securities are recorded at net market value based on their current yields. There were no such investments at 31 March 2023.

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 2023.

   - 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 generate any material profit 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 2023, 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. The Fund reviews 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 2023. 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 2023 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.

<u>Long-Term Assets</u>

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 2023.

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 2023.

2.11. Derivatives

The Fund may use 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. There were no derivatives as at 31 March 2023.

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 were 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 Assurance Company, 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. 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 2022/23 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 2022/23 are as follows:

- Employees - range from 5.5% to 12.5% of pensionable pay dependent on the full-time salary of the member (these rates are halved for those employees opting for the flexibility of the 50:50 section of the LGPS).

- Employers - range from 13.7% to 34.5% of pensionable pay for future service, plus a lump sum payment for deficit recovery contributions where appropriate. 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	**2021/22 £'000**	**2022/23 £'000**
Employee contributions to the fund	19,898	22,062
Employer contributions to the fund:		
Normal contributions	60,948	64,503
Deficit recovery contributions	2,871	3,023
Total Employer contributions	63,819	67,526
Total Contributions receivable	**83,717**	**89,588**
By Employer Type	**2021/22 £'000**	**2022/23 £'000**
Administering Authority	48,411	51,852
Other Scheduled bodies	33,935	36,541
Admitted bodies	1,371	1,195
	83,717	**89,588**

As shown in the above table the Administering Authority contributions (Cumbria County Council) were £51.852m (£48.411m 2021/22).

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**, which is available on the Cumbria Pension Fund website. All other Cumbria LGPS employer policies that are relevant to the 2022/23 financial year are available under 'Forms and Publications / Policies'.

NOTE 4: TRANSFERS IN FROM OTHER PENSIONS

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

In 2021/22 one employer group transfer inwards took place, for Inspira transferring into Cumbria County Council.

	2021/22 £'000	2022/23 £'000
Group transfers	2,172	-
Individual transfers	6,250	11,348
	8,422	**11,348**

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	2021/22 £'000	2022/23 £'000
Net pensions paid	79,129	82,764
Net lump sum on retirement	13,738	13,778
Net lump sum on death	1,908	2,491
	94,775	**99,033**
By Employer Type	**2021/22 £'000**	**2022/23 £'000**
Administering Authority	52,668	54,487
Scheduled bodies	34,171	35,684
Admitted bodies	7,936	8,862
	94,775	**99,033**

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2022/23 were £54.487m (£52.668m 2021/22).

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. In 2021/22 one large employer group transfer out took place; Carlisle College transferred out to the Tyne and Wear Pension Fund.

	2021/22 £'000	2022/23 £'000
Refund of member contributions	250	194
Individual transfers out to other Schemes	2,976	6,326
Group transfer out to other Schemes	24,603	541
	27,829	**7,061**

NOTE 7: MANAGEMENT EXPENSES

Officers employed by the Administering Authority 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 Ltd (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:

	2021/22 £'000	2022/23 £'000
Administrative costs	1,732	1,872
Investment management costs	15,313	15,811
Oversight and governance costs	663	794
	17,708	**18,477**

The Code of Practice does not require any breakdown of pension fund administrative expenses. However, in the interest of greater transparency and comparability, the Council has opted 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 2022/23 is provided for information in the next note.

Administration costs were £0.140m (8.1%) higher in 2022/23 than the previous year, for further details refer to **Note 8**.

Investment management costs were £0.498m (3.3%) higher in 2022/23 than the previous year, for further details refer to **Note 8 and 8(a)**.

Oversight and governance costs were £0.131m (19.8%) higher in 2022/23 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 2022/23 is provided below.

	2021/22 £'000	2022/23 £'000
Administrative costs:		
Pensions Administration	1,416	1,499
Employee costs	296	349
Legal advice	19	23
Other	1	1
	1,732	1,872
Investment Management costs: See Note 8 (a)		
Management Fees	11,822	11,762
Performance Fees	3,386	4,016
Custody fees	38	33
Fund Entry costs	67	-
	15,313	15,811
Oversight and governance costs:		
Employee costs	328	378
Pension fund committee	18	26
Pension Board	10	18
Investment consultancy fees	76	48
Performance monitoring service	44	41
Shareholder voting service	10	10
Actuarial fees	44	156
Audit fees	31	31
Legal and tax advice	74	20
Other (including bank charges)	28	66
	663	794
	17,708	**18,477**

Variations on spend between years include:

- Pensions Administration - The budget for the Fund's pensions administrator, Local Pensions Partnership - Administration (LPPA), increased in 2022/23 due to increased numbers of Scheme Members in the Fund as well as higher costs within LPPA arising from additional scheme complexity, enhanced technology and improved customer service processes. In addition, a vacant post within the Administration team was filled during 2021/22 with the full year cost of this post being reflected in 2022/23.

- Investment Management Costs – Investment management costs increased in 2022/23 from £15.313m to £15.811m. In accordance with the CIPFA guidance, disclosure note 8(a) has been included below to provide more detailed disclosure of Investment Management fees.

- Oversight and Governance costs – Actuarial costs increased in 2022/23 due to work undertaken associated with the triennial valuation of the Fund. Additionally, employee costs increased as a new post was recruited to during the year.

NOTE 8(a): INVESTMENT MANAGEMENT EXPENSES ADDITIONAL INFORMATION

As detailed above, in accordance with CIPFA Guidance this note provides more detailed disclosure of investment management fees across the more specific asset class headings for the Fund's Pooled investment holdings. The investment management fee values for 2021/22 are also provided for comparison purposes.

2022/23 Investment Management Expenses:

	Management Fees £'000	Performance Fees £'000	Transaction / Entry Costs £'000	2022/23 £'000
Asset Classes				
BCPP Asset Pool				
Pooled Equity Investments with BCPP	1,950	-	-	1,950
Pooled Multi Asset Credit with BCPP	378	-	-	378
Governance & Development costs of BCPP	901	-	-	901
Pooled Passive Investments	48	-	-	48
Private Markets				
Infrastructure Funds	2,365	2,396	-	4,761
Private Equity Funds	2,086	1,376	-	3,462
Private Debt Funds	1,403	244	-	1,647
Multi Asset Credit Funds	1,383	-	-	1,383
Property Funds	571	-	-	571
Directly held Property	671	-	-	671
Cash & FX Contract costs	6	-	-	6
	11,762	4,016	-	15,778
Custody Fees				33
Total Investment Management Expenses				**15,811**

2021/22 Investment Management Expenses:

	Management Fees £'000	Performance Fees £'000	Transaction / Entry Costs £'000	2021/22 £'000
Asset Classes				
BCPP Asset Pool				
Pooled Equity Investments with BCPP	2,362	-	-	2,362
Pooled Multi Asset Credit with BCPP	161	-	-	161
Governance & Development costs of BCPP	769	-	-	769
Pooled Passive Investments	45	-	-	45
Private Markets				
Infrastructure Funds	1,994	819	-	2,813
Private Equity Funds	2,160	1,880	-	4,040
Private Debt Funds	1,031	687	-	1,718
Multi Asset Credit Funds	2,074	-	-	2,074
Property Funds	516	-	67	583
Directly held Property	602	-	-	602
Cash & FX Contract costs	108	-	-	108
	11,822	3,386	67	15,275
Custody Fees				38
Total Investment Management Expenses				**15,313**

- BCPP asset pool – the 2022/23 fees represent a full year's cost for the pooled Equity funds and the pooled Multi Asset Credit fund. In addition, there are 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.

- Private Markets - The objective of the Fund's strategic investment allocation to private markets is to select a portfolio of private market assets which aids cash flow and increases diversification and stability. The growth in the portfolio values together with additional investments into private market funds has led to increased management fees.

  Total management fees on investments in private markets was £7.808m in 2022/23 which was a moderate increase on the previous year (£7.775m in 2021/22). There was an increase in the value of performance fees paid, from £3.386m in 2021/22 to £4.016m in 2022/23 however it is recognised levels of these fees are not consistent year on year, as the performance varies and is specific to each investment.

- Transaction and Entry costs – there were no transactions costs paid directly by the Fund in either year, however there was an Entry (equalisation) fee paid related to a new investment in a Residential property fund during 2021/22.

NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £49.475m net of £0.067m irrecoverable tax on dividends (2021/22 £58.988m, net of £0.121m irrecoverable tax on dividends) can be analysed as follows:

	2021/22 £'000	2022/23 £'000
Income from Equities	54	91
Infrastructure Funds Income	14,982	14,635
Private Equity Funds Income	15,059	10,164
Private Debt Funds Income	7,483	4,918
Multi Asset Credit Funds Income	11,277	8,463
Property Funds Income	2,897	2,274
Rents from Directly held Property	7,210	7,221
Interest on Cash deposits	26	1,709
	58,988	**49,475**

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. The Fund however, continues to receive class action income several years after its direct ownership of shares, this is shown above as income from equities.

The majority of income earned relates to the Fund's private market portfolio (e.g. Infrastructure, Private Equity, Private Debt and Multi Asset Credit funds). The decrease in amounts received between 2021/22 and 2022/23 is due to the underlying investments maturing to varying degrees in each year; overall the Fund is committed to more investment in private markets. 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 2022 Total £'000	31 March 2022 Total £'000	31 March 2023 Total £'000	31 March 2023 Total £'000
Long-Term assets					
Unquoted Equities (shares in BCPP Ltd)			**1,182**		**1,182**
Investment Assets					
Pooled investment vehicles					
Pooled equity/fixed income (active):					
- UK equities		166,649		149,663	
- Global equities		657,893		682,461	
- Overseas equities		153,626		152,081	
- Fixed income funds		151,951		146,913	
		1,130,119		1,131,118	
Unitised insurance policies (passive):					
- Global equities		184,315		172,833	
- UK index-linked securities		558,368		444,547	
		742,683		617,380	
Other pooled funds and limited partnerships:					
- Infrastructure Funds		338,451		414,735	
- Private Equity Funds		254,425		309,840	
- Private Debt Funds		159,588		221,060	
- Multi Asset Credit / Fixed Income Funds		301,723		142,479	
- Property Funds		92,240		86,442	
		1,146,427		1,174,556	
Pooled investment vehicles & managed funds total			**3,019,229**		**2,923,054**
Investment properties	10(b)		**209,300**		**156,540**
Derivative contracts	10(c)		**-**		**-**
Cash & cash equivalents			**85,614**		**79,636**
Amounts receivable for sales *			**-**		**-**
Investment income accrued *			**727**		**406**
Property rental debtors *			**2,219**		**1,657**
			88,560		**81,699**
Subtotal investment assets			**3,317,089**		**3,161,293**
Investment liabilities					
Derivative contracts	10(c)		**(4,142)**		**-**
Amounts payable for purchases *			**-**		**-**
Property creditors *			**(3,711)**		**(3,466)**
Subtotal investment liabilities			**(7,853)**		**(3,466)**
Total Net Investments			**3,310,418**		**3,159,009**

* 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(a) analyses the investments by Investment Manager.

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 2023.

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 Ltd is shown as a long-term asset as unquoted equities in the above table at a value of £1.182m (a 1/11th share of the total share capital in BCPP after Northumberland County Council Pension Fund and Tyne and Wear Pension Fund, two of the founding members of the BCPP, merged in 2020/21).

The Fund's largest active manager holding is with BCPP. The Fund's more liquid investments with BCPP total £1,131.118m and are shown in Note 10 as 'Pooled equity/fixed income (active). These consist of investments in the Border to Coast UK Equity Fund; the Border to Coast Global Equity Alpha Fund; the Border to Coast Multi-Asset Credit (MAC) fund, shown as 'Fixed income funds'; and the Border to Coast Overseas Developed Listed Equity fund. In addition to this, the Fund has invested in a number of private market investments managed by BCPP (infrastructure, private equity, and private credit). For a summary of the Fund's total investments with BCPP please refer to **Note 10(a)**.

The Fund's second largest manager holding is the unitised insurance policies with Legal and General totalling £617.380m, 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 i.e. fixed interest gilts and equity.

The Fund holds a portfolio of private market 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 private markets with the objective of generating diversification and more stable and / or inflation protected income streams. This portfolio totals £1,174.556m at 31 March 2023.

NOTE 10(a): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

Manager	Asset Class	31 March 2022		31 March 2023	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast Global Equity Alpha Fund	Equities	657,893	19.9%	682,461	21.6%
Border to Coast UK Equity Fund	Equities	166,649	5.0%	149,663	4.7%
Border to Coast Overseas Developed Eq	Equities	153,626	4.6%	152,081	4.8%
Border to Coast Multi Asset Credit Fund	Multi Asset Credit	151,951	4.6%	146,913	4.7%
Border to Coast Cumbria LP	Infrastructure Funds	70,791	2.1%	123,900	3.9%
Border to Coast Cumbria LP	Private Equity Funds	66,642	2.0%	108,212	3.4%
Border to Coast Cumbria LP	Private Credit Funds	7,786	0.3%	51,859	1.7%
	Managed by BCPP Pool	**1,275,338**	**38.5%**	**1,415,089**	**44.8%**
Investments Managed outside Border to Coast Pensions Partnership Ltd					
Legal & General	Index-linked gilts	558,368	16.9%	444,547	14.1%
Legal & General	Global equities	184,315	5.6%	172,833	5.5%
Legal & General	Passive currency overlay	(4,142)	-0.1%	0	0.0%
JP Morgan	Infrastructure	167,371	5.1%	179,541	5.7%
Aberdeen Standard Investments	Direct property	211,424	6.4%	159,654	5.1%
Partners Group	Private Market Credit	102,360	3.1%	124,498	3.9%
Apollo	Multi Asset Credit	152,458	4.6%	113,223	3.6%
Strategic cash allocation	Cash	71,843	2.2%	74,712	2.4%
Partners Group	Infrastructure	64,552	1.8%	70,149	2.2%
Pantheon	Private Equity Funds	64,717	2.0%	70,075	2.2%
Healthcare Royalty Partners	Royalties Fund	43,341	1.3%	51,210	1.6%
Barings	Private Loan Fund	48,465	1.5%	44,703	1.4%
Aberdeen SL Capital	Private Equity Funds	31,510	1.0%	41,717	1.3%
Aberdeen SL Capital	Infrastructure	35,737	1.1%	41,146	1.3%
Aviva	Property Fund	43,988	1.3%	36,989	1.2%
Unigestion	Private Equity Funds	43,763	1.3%	36,343	1.2%
M&G	Property Fund	43,255	1.3%	33,057	1.0%
CQS	Multi Asset Credit	120,854	3.7%	29,256	0.9%
Hearthstone	Residential Property Fund	4,997	0.1%	16,396	0.5%
BlackRock	Private Equity Funds	4,452	0.1%	2,283	0.1%
Border to Coast Ltd	Share capital	1,182	0.0%	1,182	0.0%
Transition residual, tax accruals	Overseas/UK equities	316	0.0%	406	0.0%
PIMCO	Multi Asset Credit	28,821	0.9%	0	0.0%
Insight Investments	Fixed income / cash	10,156	0.3%	0	0.0%
M&G	Real Estate Debt	977	0.0%	0	0.0%
	Outside of BCPP Pool	**2,035,080**	**61.5%**	**1,743,920**	**55.2%**
Total Net Investments		**3,310,418**	**100.0%**	**3,159,009**	**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 c.45% of Cumbria's investments, i.e. the Border to Coast UK Equity Fund, the Border to Coast Global Equity Alpha Fund, the Border to Coast Overseas Developed Equity Fund, the Border to Coast Multi Asset Credit Fund and the Border to Coast Cumbria Limited Partnership for private market investments in infrastructure, private equity and private credit.

Since 2012, the Fund has been increasing its investment into infrastructure and other private markets 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 2023 the portfolio valued at £156.540m included 21 properties ranging from £1.925m to £15.300m each. These properties cover a mix of sectors such as offices, industrial, 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:

	2021/22 £'000	2022/23 £'000
Rental income from investment property	7,681	7,922
Direct operating expenses arising from investment property	(471)	(701)
	7,210	**7,221**

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:

	2021/22 £'000	2022/23 £'000
Balance at the start of the year	**176,615**	**209,300**
Additions:		
Purchases	17,123	-
Subsequent expenditure	3,552	979
Disposals	(23,607)	(7,008)
Net gains/(losses) from fair value adjustments	35,617	(46,731)
Balance at the end of the year	**209,300**	**156,540**

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:

	2021/22 £'000	2022/23 £'000
Not later than one year	8,055	7,716
Later than one year and not later than five years	26,445	24,697
Later than five years	44,429	40,840
Total future lease payments due under existing contracts	**78,929**	**73,253**

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 arrears rather than on a probability-adjusted basis.

The full potential rental income receivable for the properties going forward is currently £7.716m per year, and due to the above targeted and prudent approach to the certainty of payment and bad debt provision, the future lease payments did not need to be reduced by an allowance for expected credit losses to those shown in the above table, for the forthcoming year. To provide context to this, it is worth noting that as at 31

March 2023 the Fund held £0.837m of deposits paid by tenants which help to mitigate loss to the Fund should rents not be paid.

As at 31 March 2023, an allowance of £0.286m for expected credit loss on outstanding rent arrears (which totalled £0.624m as at 31 March 2023), is recognised within the 'Property rental creditors' figure of £3.466m at Note 10. This represents approximately 4.0% of the 2022/23 net rental income of £7.221m. Of the £0.286m allowance for expected credit loss, £0.280m related to a current live lease (approximately 3.9% 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.

Until February 2022, Cumbria LGPS had a passive currency overlay programme with 50% of its public equity investments denominated in overseas currencies hedged into sterling. The purpose was to reduce the Fund's exposure to the day to day fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This was carried out using derivatives called forward foreign exchange contracts.

The Fund's passive currency overlay programme on its public equity investments was reduced to nil by July 2022 and instead the Fund will seek to manage its exposure to currency risk by investing in a diversified portfolio of assets using active management, holding the majority of its more stable contractual mandates (such as private debt and infrastructure) in sterling share classes, and maintaining an unhedged public equity exposure (to provide diversification during extreme markets movement).

The Fund had no directly held derivatives on 31 March 2023. The derivatives held by Cumbria LGPS (shown in **Note 10**) can be summarised as follows for 31 March 2022 only:

	31 March 2022		
Reconciliation to Note 10	**Investment Asset / Unrealised Gain £'000**	**Investment Liability / Unrealised Loss £'000**	**Net Market Value £'000**
Total Derivatives			
Forward currency contracts	-	(4,142)	**(4,142)**
Futures	-	-	-
Derivative Contracts Gain/(Loss)	**-**	**(4,142)**	**(4,142)**

The open forward foreign exchange contracts as at 31 March 2022 can be summarised as follows:

Currency Bought		Currency Sold		2021/22	
Currency	Local Value 000's	Currency	Local Value 000's	Unrealised Gain Sterling £'000	Unrealised Loss Sterling £'000
Settlement one to six months GBP	162,991	USD	220,000	-	(4,142)
				-	**(4,142)**
Net forward currency contracts at 31 March 2022					**(4,142)**

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.

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

2022/23:

Asset Class	Value at 1 April 2022 £'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 2023 £'000
Equities					
UK equities	1,182	-	-	-	1,182
Pooled investment vehicles	1,872,802	78,671	(57,158)	(145,817)	1,748,498
Other Managed funds	1,146,427	227,763	(225,007)	25,373	1,174,556
Property (See Note 10b)	209,300	979	(7,008)	(46,731)	156,540
Derivatives (forward foreign exchange contracts, futures)	(4,142)	20,358	(2,200)	(14,016)	0
	3,225,569	**327,771**	**(291,373)**	**(181,191)**	**3,080,776**
Cash & cash equivalents	85,614			951	79,636
Amounts receivable for sales	-				-
Investment income accrued	727				406
Property rental debtors	2,219				1,657
Amounts payable for purchases	-				-
Property creditors	(3,711)				(3,466)
Total Net Investments	**3,310,418**			(180,240)	**3,159,009**

Analysis of gains/(losses) for the year	**2022/23 £'000**
Realised - Profit and losses on disposal of investments	14,054
Unrealised - Changes in the market value of investments	(194,294)
	(180,240)

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

2021/22:

Asset Class	Value at 1 April 2021 £'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 2022 £'000
Equities					
UK equities	1,182	-	-	-	1,182
Pooled investment vehicles	1,720,580	318,414	(308,082)	141,890	1,872,802
Other Managed funds	1,082,003	276,441	(283,176)	71,159	1,146,427
Property (See Note 10b)	176,615	20,675	(23,607)	35,617	209,300
Derivatives (forward foreign exchange contracts, futures)	(115)	26,774	(20,659)	(10,142)	(4,142)
	2,980,265	**642,304**	**(635,524)**	**238,524**	**3,225,569**
Cash & cash equivalents	81,747			1,169	85,614
Amounts receivable for sales	-				-
Investment income accrued	2,105				727
Property rental debtors	2,932				2,219
Amounts payable for purchases	-				-
Property creditors	(3,810)				(3,711)
Total Net Investments	**3,063,239**			239,693	**3,310,418**

Analysis of gains/(losses) for the year	2021/22 £'000
Realised - Profit and losses on disposal of investments	162,274
Unrealised - Changes in the market value of investments	77,419
	239,693

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 in 2022/23 is one of the four pooled sub-funds managed by BCPP, the two unitised insurance funds held with Legal and General, and an infrastructure investment with JP Morgan.

Holding	31 March 2022 £'000	% of Total Net Investments	31 March 2023 £'000	% of Total Net Investments
Border to Coast Pension Partnership Ltd - UK Equity	166,649	5.0%	149,663	4.7%
Border to Coast Pension Partnership Ltd - Global Equity Alpha	657,893	19.9%	682,461	21.6%
Investments over 5% managed by Border to Coast	**824,542**	**24.9%**	**832,124**	**26.3%**
Legal and General Over 5 Yr Index-Linked Gilts Index	558,368	16.9%	444,547	14.1%
Legal and General FTSE World Equity Index	184,315	5.6%	172,833	5.5%
Investments over 5% managed by Legal and General	**742,683**	**22.5%**	**617,380**	**19.6%**
Other pooled investments over 5% of Net Investment Assets				
JPMorgan - Institutional Infrastructure fund	167,371	5.1%	179,541	5.7%
	1,734,596	**52.5%**	**1,629,045**	**51.6%**

NB: Due to the removal of Apollo Total Return and PIMCO Diversified Income funds for comparator purposes, the totals no longer agree to the number stated in this note in the prior year accounts.

During the year Cumbria LGPS withdrew £24m from the UK Equity Alpha fund and £10m from L&G FTSE World Equity fund to address an overweight position which had developed due to growth in equity in the Fund, this was used to both rebalance into index-linked gilts and to make investments in Private Market assets.

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.

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 (including 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), fixed income, 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 Private market 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 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.

* 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 2023.

Fair Value – Sensitivity of Asset values at Level 3

	Assessed valuation range (+/-)	Value at 31 March 2023 £'000	Value on increase £'000	Value on decrease £'000
Alternatives - Infrastructure	9.1%	414,735	452,476	376,994
Alternatives - Private Equity	10.1%	309,840	341,134	278,546
Alternatives - Private Debt	5.7%	221,060	233,660	208,460
Alternatives - Multi Asset Credit	6.0%	142,479	151,028	133,930
Property - direct and pooled	16.2%	242,982	282,345	203,619
Total		**1,331,096**	**1,460,643**	**1,201,549**

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 periods between March 2020 and March 2021 as well as January 2022 to March 2022, which included a significant portion of the volatility related to COVID-19 and Russia's invasion of Ukraine respectively have 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.

To ensure that it continues to meet its funding target the Fund seeks 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: 3% of Total Investments (2021/22: 2%)
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.

Level 2: 55% of Total Investments (2021/22: 57%)
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: 42% of Total Investments (2021/22: 41%)
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 2022				31 March 2023			
	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)	-	-	1,182	1,182	-	-	1,182	1,182
Pooled Investments	-	1,872,802	1,146,427	3,019,229	-	1,748,498	1,174,556	2,923,054
Derivative contracts	-	0	-	0	-	-	-	-
Cash & cash equivalents	79,128	10,156	-	89,284	82,309	-	-	82,309
Total Financial assets at fair value through profit and loss	**79,128**	**1,882,958**	**1,147,609**	**3,109,695**	**82,309**	**1,748,498**	**1,175,738**	**3,006,545**
Investment properties (Non-financial assets) at fair value through profit and loss	-	-	209,300	209,300	-	-	156,540	156,540
Financial liabilities (Derivative contracts) at fair value through profit and loss	-	(4,142)	-	(4,142)	-	-	-	0
Total Investments at Fair Value	**79,128**	**1,878,816**	**1,356,909**	**3,314,853**	**82,309**	**1,748,498**	**1,332,278**	**3,163,085**
Percentage of Total Investments	**2%**	**57%**	**41%**	**100%**	**3%**	**55%**	**42%**	**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 2022/23	Market value 1 April 2022 £'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 2023 £'000
Unquoted Equities	1,182	-	-	-	-	-	-	1,182
Level 3 pooled investments (i.e. Other managed funds)	1,146,427	-	-	227,763	(225,007)	17,855	7,518	1,174,556
Investment Properties	209,300	-	-	979	(7,008)	3,153	(49,884)	156,540
	1,356,909	**-**	**-**	**228,742**	**(232,015)**	**21,008**	**(42,366)**	**1,332,278**

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 2022 £'000	31 March 2023 £'000
Financial Instruments	3,104,356	3,004,115
Statutory debts / liabilities & provisions	4,059	2,660
Investment Property	209,300	156,540
Net Assets of the Fund	**3,317,715**	**3,163,315**

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 2023.

	31 March 2022				31 March 2023			
	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	1,182	-	-	1,182	1,182	-	-	1,182
Pooled investment vehicles	3,019,229	-	-	3,019,229	2,923,054	-	-	2,923,054
Derivative contracts	-	-	-	-	-	-	-	-
Cash & cash equivalents	10,156	79,128	-	89,284	-	82,309	-	82,309
Investment receivables/debtors	-	2,946	-	2,946	-	2,063	-	2,063
Current & long-term assets	-	648	-	648	-	341	-	341
	3,030,567	**82,722**	**-**	**3,113,289**	**2,924,236**	**84,713**	**-**	**3,008,949**
Financial Liabilities								
Derivative contracts	(4,142)	-	-	(4,142)	-	-	-	-
Investment payables/creditors	-	-	(3,711)	(3,711)	-	-	(3,466)	(3,466)
Current/long-term liabilities	-	-	(1,080)	(1,080)	-	-	(1,368)	(1,368)
Total Financial Instruments	**3,026,425**	**82,722**	**(4,791)**	**3,104,356**	**2,924,236**	**84,713**	**(4,834)**	**3,004,115**
ANALYSIS OF NET GAINS AND (LOSSES) FOR YEAR ENDED 31st MARCH								
Financial Assets	208,218	-	-	208,218	(133,509)	-	-	(133,509)
Financial Liabilities	(4,142)	-	-	(4,142)	-	-	-	-
Total Net Gains/(Losses)				204,076				(133,509)

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 2022 £'000	31 March 2023 £'000
Cash balances	**3,670**	**2,673**
Current Debtors		
Contributions due	4,392	3,073
Miscellaneous	1,068	750
Total Current Debtors	**5,460**	**3,823**
Total Current Assets	**9,130**	**6,496**

Cash balances held by the Administering Authority are variable as the need arises to have cash available for pension payments and 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 2022 £'000	31 March 2023 £'000
Current Creditors		
Investment Managers fees	215	316
Tax payable	753	822
Miscellaneous	865	1,052
Total Current Liabilities	**1,833**	**2,190**

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: Foreign Exchange	Market Risk: Interest rate	Market Risk: Liquidity	Market Risk: Other risks	2021/22 £'000	2022/23 £'000
UK Equities	◉	◉	◉	○	◉	167,831	150,845
Overseas Equities	◉	●	◉	○	◉	995,834	1,007,375
Index Linked Gilts	○	○	◉	○	◉	558,368	444,547
Property *	◉	○	◉	●	◉	209,300	156,540
Alternative Investments	◉	◉	◉	●	◉	1,298,378	1,321,469
Derivatives**	◉	●	○	○	◉	(4,142)	-
UK Cash	◉	○	◉	○	◉	81,125	73,081
Overseas Cash	◉	●	◉	○	◉	8,159	9,228
Total Investments at Fair Value						**3,314,853**	**3,163,085**

Overall Procedures for Managing Risk

The principal powers under which a 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 Pension Fund website under 'Forms and Publications / Policies'.

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

The Fund annually reviews its policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. These are detailed in the Fund's Investment Strategy Statement which was last reviewed in March 2023.

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 Pension Fund website under 'Forms and Publications / Policies''.

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 conducting an annual review

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

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 3-5 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 the following two years, with the impact of the pandemic on global investment markets increasing the risk of the Fund achieving lower investment returns than those reflected in the Actuary's assumptions, the Fund undertook a further review of its Investment Strategy to assess and react to the impact this could have on employer contributions in future years. This gave 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. In addition, follow up work regarding implementation steps to achieve the longer-term allocation was considered by the Investment Sub-Group and Pensions Committee in late 2021 and early 2022 and, as noted below, a further "sense check" of the Strategy was undertaken in mid-2022 in response to rising inflation. 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.

  N.B. in recognition of rises in inflation in both the UK and globally the Fund undertook a "sense check" of the Fund's Investment Strategy to assess whether any changes were required in response to the impact of inflation on both the Fund's liabilities and the Actuary's assumptions in relation to the future investment returns of the current Investment Strategy. The conclusion in September 2022 was that no changes to the Fund's long-term asset allocations were required.

- 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 10 years it has been in place. The process continues to evolve as the Fund continues to enhance its governance and monitoring.

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 2023 were £2.673m (2021/22: £3.670m) within current assets (see **Note 12**), and £79.636m (2021/22: £85.614m) shown as cash and cash equivalents within investments (see **Note 10**). 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 2023	Balances as at 31 March 2022 £'000	Balances as at 31 March 2023 £'000
Money Market Funds			
Northern Trust GBP Liquidity Fund	AAA	62,748	65,456
Northern Trust USD Liquidity Fund	AAA	4,588	5,099
Northern Trust EUR Liquidity Fund	AAA	635	2,664
Bank deposit accounts			
National Westminster Bank	A+	3,670	2,673
Bank current accounts			
Barclays Bank	A+	3,616	4,924
Northern Trust Company (GBP)	AA	936	28
Northern Trust Company (USD, EUR)	AA	2,881	1,465
State Street Bank (CHF)	AA	46	-
State Street Bank (EUR)	AA	8	-
Cash Equivalents - Fixed income funds			
Insight Liquidity Plus fund	AAAf/S1	10,156	-
Total		**89,284**	**82,309**

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 diversification 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 private market 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 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 as well as January 2022 to March 2022, which included a significant portion of the volatility related to COVID-19 and Russia's invasion of Ukraine respectively have 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	2022/23 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Equities	1,158,220	14.0%	1,320,371	996,069
Index Linked Gilts	444,547	16.6%	518,342	370,752
Infrastructure Funds	414,735	9.1%	452,476	376,994
Private Equity Funds	309,840	10.1%	341,134	278,546
Private Debt Funds	221,060	5.7%	233,660	208,460
Multi Asset Credit Funds	289,392	6.0%	306,756	272,028
Property and Property Funds	242,982	16.2%	282,345	203,619
Cash	82,309	2.4%	84,284	80,334
	3,163,085		**3,539,368**	**2,786,802**

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 2023, the Fund had overseas investments of £1,703.856m and £9.228m 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 as well as January 2022 to March 2022, which included a significant portion of the volatility related to COVID-19 and Russia's invasion of Ukraine respectively have 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 £128.117m, or 4.1% of the Fund's total value.

Foreign Exchange - Sensitivity Analysis	2022/23 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
US Dollar denominated assets	1,058,088	9.1%	1,154,374	961,802
European currency denominated assets	365,615	5.3%	384,993	346,237
Other currency denominated assets	197,669	6.3%	210,122	185,216
UK assets within Global equity funds	91,712		91,712	91,712
	1,713,084		**1,841,201**	**1,584,967**

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 some of their foreign currency exposure to minimise potential losses due to adverse currency movements between the purchase and sale of an asset. As such, during the most recent Investment Strategy Review the Fund's approach to hedging was reviewed.

As reported in the Financial Statements for 2021/22 the conclusion of this review was that the Fund should no longer hedge 50% of its public equity investments denominated in overseas currencies but instead hold its more stable contractual mandates (such as private debt and infrastructure) in sterling share classes where possible.

The 'unwinding' of the Fund's use of foreign exchange derivates and the move to holding the majority of the Fund's more stable contractual mandates in sterling share classes was undertaken in stages between February and July 2022. As at 31 March 2022, the Cumbria Fund had a remaining hedge in place for one infrastructure fund investment denominated in US dollar currency, hedged into sterling in accordance with a passive currency overlay program, until the planned transfer into a GBP share class. This was reduced to nil by July 2022 (see **Note 10(c)**).

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 had been 0.75% in March 2022, and was increased on eight occasions in the twelve months, to 4.25% in March 2023. 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 2023 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value. Therefore a 0.75% change in interest rates (which would bring the base rate up to 5.0%) will increase or reduce the Fund's return by £3.951m (2021/22 £4.857m) on an annualised basis.

Assets exposed to interest rate risk	31 March 2022 £'000	31 March 2023 £'000
Fixed interest securities (including pooled investments)	558,368	444,547
Cash and cash equivalents	21,313	9,090
Money market funds and pooled cash vehicles	67,971	73,219
	647,652	**526,856**

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 investments than it requires to fulfil all obligations).

In 2022/23, 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 2023 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £1,830.807m, i.e. 58% of net assets (31 March 2022 £1,957.944m, 59%). The value of the illiquid assets including investment properties was £1,332.278m which represented 42% of net assets (31 March 2022 £1,356.909m, 41%).

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 for 2021/22 (all of which were derivatives) is shown in **Note 10(c)** there are no investment liabilities for 2022/23. 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 investment assets including foreign currency trades 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 advisors and investment managers as part of the 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 nor any of its related companies would act as counterparty in a deal they traded. 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. Investment managers usually apply 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. £4.142m loss on the currency derivatives at 31 March 2022 only, there are no investment liabilities 31 March 2023 (see **Note 10c**).

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.

The Fund has allocations 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 2023 are as follows:

Asset Class	2021/22 £'000	2022/23 £'000	Manager	Holding Details
Pooled investment vehicles				
Managed by Pool	1,130,119	1,131,118	Border to Coast	UK, Overseas and Global equity funds, fixed income multi-asset fund
	70,791	123,900	Border to Coast Cumbria LP	Infrastructure Funds
	66,642	108,212	Border to Coast Cumbria LP	Private Equity Funds
	7,786	51,859	Border to Coast Cumbria LP	Private Credit Funds
Unitised insurance policies	742,683	617,380	Legal and General	Index tracking funds
Other managed funds	167,371	179,541	JP Morgan	Infrastructure
	102,360	124,498	Partners Group	Private Market Credit
	152,458	113,223	Apollo	Multi Asset Credit
	64,552	70,149	Partners Group	Infrastructure
	64,717	70,075	Pantheon	Private Equity Funds
	43,341	51,210	Healthcare Royalty Partners	Royalties Fund
	48,465	44,703	Barings	Private Loan Fund
	31,510	41,717	Aberdeen SL Capital	Private Equity Funds
	35,737	41,146	Aberdeen SL Capital	Infrastructure
	43,988	36,989	Aviva	Property Fund
	43,763	36,343	Unigestion	Private Equity Funds
	43,255	33,057	M&G	Property Fund
	120,854	29,256	CQS	Multi Asset Credit
	4,997	16,396	Hearthstone	Residential Property Fund
	4,452	2,283	BlackRock	Private Equity Funds
	28,821	-	PIMCO	Multi Asset Credit
	10,156	-	Insight Investments	Fixed income / cash
	977	-	M&G	Real Estate Debt
UK equity unquoted	1,182	1,182	Border to Coast	Company share capital
	3,030,977	**2,924,237**		

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 Assurance Company, 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:

	2021/22 £'000	2022/23 £'000
Standard Life	882	447
Scottish Widows	820	820
Utmost Life	411	411
Prudential Assurance Company	2,916	3,859
Total AVCs	**5,029**	**5,537**

Figures for three of the four providers have either not yet been received or are in draft form for 2022/23 and therefore values highlighted yellow in the above table are not finalised.

The table and narrative across all of Note 15 will be updated prior to the accounts being finalised for audit.

AVC contributions of £1.477m were paid from employees to the providers during the year, including those to Prudential Assurance Company (£0.011m excluding those to Prudential Assurance Company). During 2021/22 the contributions paid by employees including to Prudential Assurance Company totalled £1.082m (£0.053m excluding those to Prudential Assurance Company).

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 the 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. There are now 11 £1 A Ordinary shares in issuance following the merger of two of the founding members of the BCPP (Northumberland County Council Pension Fund and Tyne and Wear Pension Fund) in 2020/21. 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 2022/23.

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 2022/23 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 2022/23, 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 employed 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 Annual Financial Report 2022/23 (see Note 14 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 2022/23 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 2022/23.

- 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 2022/23 on Cumbria LGPS specific work.

- During 2022/23 the Director of Finance (S151) of Cumbria County Council of the Fund left and was replaced by an interim Acting Director of Finance (S151). Costs for the Acting Director of Finance were paid to an employment agency and therefore the Officer did not meet the definition of an employee of the Council. The cost attributable to the Pension Fund for the interim Acting Director of Finance (S151) in 2022/23 was £5,003 and is noted for completeness only.

- During 2022/23, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (1FTE) (2021/22:1FTE) received remuneration (excluding pension contributions) in the £55,000 - £59,999 range however the remuneration (excluding pension contributions) 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 2022/23 this allowance was £7,502. This cost is charged to Cumbria LGPS.

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

2022/23 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) – P. Duke	10,472	10,472	1,877	12,349
Senior Manager – Pensions & Financial Services (Deputy S151 Officer - LGPS)	51,376	51,376	11,929	63,305
	61,848	**61,848**	**13,806**	**75,654**

2021/22 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) – J. Crellin	2,642	2,642	486	3,128
Director of Finance (S151 Officer) – P. Duke	10,105	10,105	1,859	11,964
Senior Manager – Pensions & Financial Services (Deputy S151 Officer - LGPS)	47,053	47,053	14,657	61,710
	59,800	**59,800**	**17,002**	**76,802**

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There are no contingent liabilities or outstanding contractual commitments at 31 March 2023.

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. 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.

Historically, there have been some notable court cases such as Manninen and Fokus, *EU Commission v Germany, Santander, and EU Commission v Portugal* initially added to the strength of the argument, however more recent developments outlined below have been less favourable and have prompted Officers to question Cumbria's commitment to continue in the group litigation when the overall chance of success for these claims appears diminished.

During 2022/23 the Fund received updates from the leading professional services firm, acting on behalf of the Cumbria Fund, detailing developments in the various cases and providing an updated assessment of the prospects of a successful claim as detailed below.

- **FIDs/Manninen**: The Fund received a refreshed Opinion from Counsel, which lowered the prospects of success for the FID's Manninen claims, indicating a number of claimants had withdrawn from the group litigation, including the test claimant. As no new test claimant came forward the group litigation needed to be disbanded, and this process is now underway. Cumbria Pension Fund has reached its cost cap and will not be required to contribute to any adverse costs

- **Manufactured overseas dividends (MODs):** The UK Supreme Court (UKSC) issued its unanimous judgement on 27 April 2022 which found in favour of HMRC, overturning previous favourable decisions. The Group litigation for Manufactured Overseas Dividend (MODs) claims was later disbanded after all participants including Cumbria Pension Fund indicated their wish to withdraw the claims. There is no cost cap in this case and the Fund has recently been advised of its share of costs.

- **Fokus Bank:** There were no repayments during 2022/23, although the Fund has received £0.271m of income in previous years. The leading professional services firm, acting on behalf of the Cumbria Fund has reported in respect of the Fokus Bank claims that the French Tax Authority (FTA) and the German Central Tax office are now actively addressing claims and have started issuing information requests to claimants. Work is ongoing by officers in the Cumbria

Fund to establish the availability and cost of providing any requested historic data. These are now the only claims in which the Fund remains an ongoing participant.

The estimated value of claims still outstanding at 31 March 2023 was £0.868m (value in GBP), which relates to the Fokus Bank claims only.

The fees incurred to date for all of the outstanding tax claims mentioned above total £0.515m 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 2022/23 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 2022/23.

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 £3.823m (£5.460m at 31 March 2022) of current debtors (see **Note 12**) is £0.011m of debtors aged between two and six months (£0.163m at 31 March 2022) and £0.029m of debtors aged greater than six months (£0.053m 31 March 2022).

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 was wound down in 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. Legal and General also operate a stock lending programme in selective overseas equity markets under strict conditions and income from this forms part of the return on the passive global equity holding.

The Fund had no securities on loan at 31 March 2023 and earned no income directly in 2022/23 through stock lending.

NOTE 21: EVENTS AFTER THE REPORTING DATE

The Russian invasion of Ukraine remains an ongoing issue. In addition, interest rate rises and high inflation in the UK continue to affect valuations in index-linked gilt markets. The impact of these matters on the valuation of the Fund's assets continued to be assessed up until the publication of the audited accounts.

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).

Local Government Reorganisation took place in Cumbria on 1 April 2023 and as detailed in Note 1(a), Westmorland & Furness Council became the Administering Authority of Cumbria LGPS, as set out in legislation via a Statutory Instrument. Whilst a significant event for the Fund, there are no financial implications to the Pension Fund arising from this vesting of Administering Authority.

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 functions of 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 valuation of 'level 3' assets (as described further below).

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 at 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. £31.590m, with a decrease having the opposite effect. Level 3 investments including property – often income will be inflation linked e.g. CPI 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, and 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. For further information on the Sensitivity of Asset values at Level 3 including property, please refer to Note 10(f). Further information on the sensitivity analysis of market prices for the Fund's investments (excluding derivatives) is included in the Market Risk section of Note 14.
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 Cumbria Pension Fund website.	The effects on the funding level of changes in the individual assumptions can be measured; but interact in complex ways. For instance: • a 0.25% increase in life expectancy would result in a £23m decrease in funding surplus; • a 0.25% reduction in the real investment return achieved would result in a £134m decrease in the funding surplus, or;

Item	Uncertainties	Effect if actual differs from assumptions
		• a 25% reduction in Asset values would result in a £829m decrease in the funding surplus; as determined at the 2022 valuation.

Investment in the Fund's asset pooling company – Border to Coast Pensions Partnership Ltd (BCPP) company number 10795539

Cumbria County Council, as Administering Authority for the Cumbria Local Government Pension Scheme, holds 'A Ordinary' share capital and class B non-voting shares in BCPP. For accounting purposes this holding is included and reported within the Cumbria LGPS Annual Report and Accounts and has been valued at transaction price (i.e. cost, as an appropriate estimate of fair value) as follows:

- The Class A share is valued at £1 and reflects the ownership stake in the company carrying full voting rights, dividend and capital distribution rights; and
- The Class B shares are valued at £1,181,818 and represented the Fund's contribution to the company's FCA regulatory capital requirement.

Management have made this judgement using the criteria set out in IFRS 9 Financial Instruments:

- Fair value cannot be otherwise established for these assets as there is currently no market for the shares and no identical or similar market to compare to;
- After two of the pool's partner funds (Northumberland and Tyne & Wear) merged on 1 April 2020, the obligation to meet the company's capital requirement were re-allocated between the remaining eleven partner funds. This serves as a precedent that in the event of a future exit from the partnership, the Fund's shares could be disposed of at cost back to the pool and re-issued to the remaining partners; and
- The first four 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 generate any material profit and shareholders have agreed that the minimal amount of profit for 2022-23 will be retained, meaning that no dividend to shareholders has been declared and there is no expectation of a future dividend being projected.

The cost of these shares has therefore been determined as a reasonable and appropriate estimate of their fair value.

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).

The valuation of ‘level 3’ assets

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 2023, the 31 December 2022 valuations have been the latest available for the private equity investments shown at Note 10 (9.9% of the net investments assets), further cash transactions up to 31 March are reflected. Private equity has historically been shown to protect value when public quoted equity falls, which was seen in the final quarter, but to remain prudent no assumptions for a value uplift have been incorporated into the estimate to fair value.

Infrastructure investments have been positively impacted overall from rising inflation and power demand, as these include operational and essential assets in renewable and contracted energy, power distribution and utilities. For 31 March 2023, the 31 December 2022 valuations have been the latest available for £193.966m of the infrastructure investments shown at Note 10 (6.1% 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 assessed the valuation of the Cumbria Local Government Pension Scheme as at 31 March 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026.

The full Actuarial Valuation Report as at 31 March 2022 and the previous Actuarial Valuation Report as at 31 March 2019 are available on the Cumbria Pension Fund website at www.cumbriapensionfund.org.

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 2022 £'m	31 March 2023 £'m
Valuation Basis		
Present value of past service liabilities	(3,017)	(2,986)
Net assets of the Fund	3,318	3,163
Net liability (Valuation Basis)	**301**	**177**
IAS 19 Basis		
Present value of past service liabilities	(4,157)	(2,913)
Net assets of the Fund	3,318	3,163
Net liability (IAS 19 Basis)	**(839)**	**250**

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

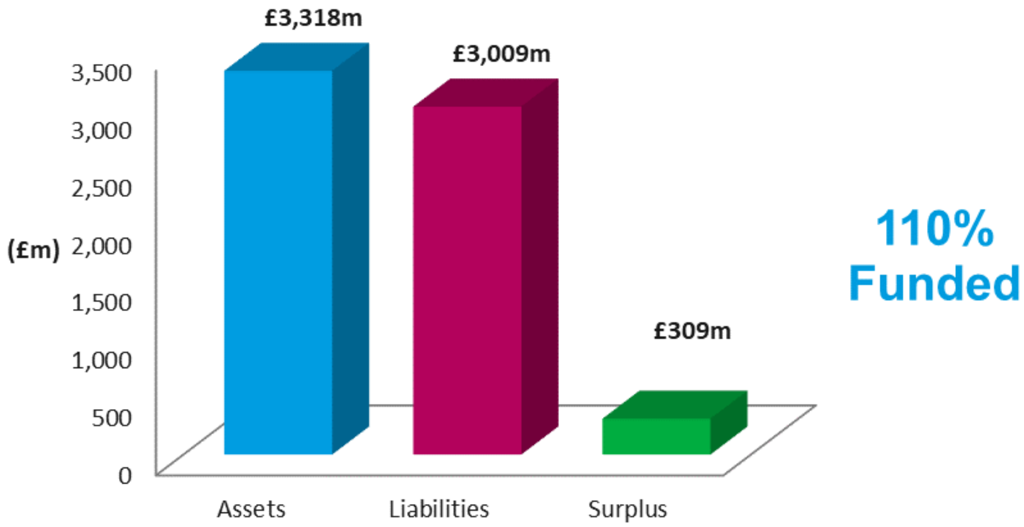
ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2023 - STATEMENT BY THE CONSULTING ACTUARY

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 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026.

On the basis of the assumptions adopted, the Fund's assets of £3,318 million represented 110% of the Fund's past service liabilities of £3,009 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £309 million.

Actuarial Valuation as at 31 March 2022



The valuation also showed that a Primary contribution rate of 18.9% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and 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. Equally, where there is a surplus, it may be appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At the actuarial valuation the average recovery period adopted was 10 years, and the total initial recovery payment (the “Secondary rate” for 2023/26) was a surplus offset of approximately £2.1m 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 March 2023.

In practice, each individual employer’s position is assessed separately, and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the 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)	4.35% per annum	5.10% per annum
Rate of pay increases (long term)	4.6% per annum	4.6% per annum
Rate of increases in pensions in payment (in excess of GMP)	3.1% per annum	3.1% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2025. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2026.

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 2023 (the 31 March 2022 assumptions are included for comparison):

	31 March 2022	31 March 2023
Rate of return on investments (discount rate)	2.8% per annum	4.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	3.3% per annum	2.7% per annum
Rate of pay increases	4.8% per annum	4.2% per annum
Increases on pensions (in excess of GMP) / Deferred revaluation	3.4% per annum	2.8% per annum

The demographic assumptions are based on those used for funding purposes:

- the start of period assumptions are based on the 2019 actuarial valuation assumptions (but updated to the 2021 CMI future improvement tables)
- the end of period assumptions are based on the updated assumption adopted for the 2022 actuarial valuation, with a long-term rate of life expectancy improvement of 1.5% p.a.

Full details of the demographic assumptions are set out in the formal reports to the respective valuations.

The movement in the value of the Fund's promised retirement benefits for IAS 26 is as follows:

Start of period liabilities	**£4,157m**
Interest on liabilities	£115m
Net benefits accrued/paid over the period*	£62m
Actuarial (gains)/losses (see below)	(£1,421m)
End of period liabilities	**£2,913m**

**this includes any increase in liabilities arising as a result of early retirements*

Key factors leading to actuarial gains above are:

- **Change in financial assumptions:** Corporate bond yields increased significantly over the year, with a corresponding increase in discount rate to 4.8% p.a. from 2.8% p.a. In addition, there has been a reduction in long-term assumed CPI to 2.7% p.a. from 3.3% p.a. In combination, these factors lead to a significant reduction in liabilities
- **Change in demographic assumptions:** As noted above, the assumptions have been updated to reflect the 2022 actuarial valuation assumptions. This acts to reduce the liabilities
- **Pension increases / high short-term inflation:** The figures allow for the impact of the April 2023 pension increase of 10.1%, along with the high levels of CPI since September 2022 (which will feed into the 2024 pension increase). As current inflation is higher than the long term assumption, this increases the liabilities
- **2022 actuarial valuation:** The year-end liabilities allow for the final 2022 valuation results, and so will allow for the difference between the assumptions and actual member experience over 2019/22. This will include factors such as the impact of actual pay increases awarded, actual rates of ill-health retirement, etc.

Leanne Johnston

Fellow of the Institute and and Faculty of Actuaries

Mark Wilson

Fellow of the Institute

Faculty of Actuaries

Mercer Limited
May 2023

Appendix - additional considerations

The "McCloud judgment": The figures above allow for the impact of the judgment based on the proposed remedy.

GMP indexation: The above figures allow for the provision of full CPI pension increases on GMP benefits for members who reach State Pension Age after 6 April 2016.

Covid 19 / Ukraine: The financial assumptions allow for these factors to the degree that they are reflected in the market values on which the assumptions are based. The impact of COVID deaths over the period 2019/22 will be included in the actuarial gains / losses item above. The mortality assumption includes no specific adjustment for COVID as our view is that it is not possible at this point to draw any meaningful conclusions on the long-term impact.

Current high inflation: The period-end figures above allow for the impact of actual known CPI at the accounting date as noted above. The period-end assumptions then allow for expected (market implied) CPI from that point.

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 2022/23 financial statements.

NOTE 25: PARTICIPATING EMPLOYERS OF THE FUND

As at 31 March 2023 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

Employers of the Fund as at 31 March 2023 (total 125)

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
- 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 (37)

- Appleby Grammar Academy
- Arnside National CofE Academy
- Bassenthwaite Academy
- Burton Morewood Primary Academy
- Caldew Academy
- Cartmel Priory Academy
- Cockermouth Academy
- Crosby on Eden Academy
- Cumbria Academy for Autism
- Changing Lives Learning Trust (one employer)
  - Arlecdon Primary Academy
  - Dearham Academy
  - Flimby Primary Academy
  - Thornhill Primary Academy
  - West Lakes Academy
- Cumbria Education Trust (one employer)
  - Caldew Lea Academy
  - Castle Carrock Academy (merged)
  - Hensingham Primary
  - Longtown Academy
  - Newtown Primary Academy
  - Northside Primary Academy
  - Petteril Bank Academy (new)
  - Tebay Academy
  - The Workington Academy
  - Whitehaven Academy
  - William Howard Academy
  - Yanwath Academy
  - Yewdale Academy
- Eaglesfield Paddle Academy
- Energy Coast UTC

Scheduled Bodies - Academies (cont)

- Furness Education Trust (one employer)
  - Furness Academy
  - Newton Primary Academy (new)
  - Parkside GGI Academy
  - Victoria Primary Academy
  - Yarlside 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
- Learning for Life Trust (one employer)
  - Broughton Primary Academy (merged)
  - Fairfield Primary Academy
- Lunesdale MAT (one employer)
  - Queen Elizabeth Academy
  - Queen Elizabeth Studio School
- Mater Christi MAT (one employer)
  - Dean Gibson Catholic Primary Academy
  - Our Lady & St Patrick's Catholic Academy (new)
  - Our Lady of the Rosary Catholic Primary Academy (new)
  - Scared Heart Catholic Primary Academy
  - St Bernard's Catholic High Academy
  - St Cuthbert's Catholic Academy Carlisle
  - St Cuthbert's Catholic Academy Windermere
  - St Gregory's Catholic Primary Academy (new)
  - St Joseph's Catholic High Academy
  - St Margaret Mary's Catholic Academy
  - St Mary's Catholic Primary Academy ULV (new)
  - St Puis X Catholic Primary Academy (new)
- Queen Elizabeth Grammar Academy
- Richard Rose Academies
- Seaton Academy
- Settlebeck High Academy
- South Cumbria MAT (one employer)
  - Chetwynd School Academy
  - Ormsgill Nursery & Primary Academy (new)
  - Vickerstown Academy (new)
- South Westmorland MAT - Dallam Academy
- Stanwix School Academy
- Stramongate Academy
- The Good Shepherd MAT (one employer)
  - Ambleside Primary Academy
  - Braithwaite Primary Academy
  - Dean Academy
  - Ellenborough & Ewanrigg Academy
  - Gilsland Academy
  - Kirkland Academy
  - Lazonby Academy
  - Lorton Academy
  - Penny Bridge Academy (merged)
  - Threlkeld Academy
  - Whitfield Academy
  - Wreay School Academy
- The Queen Katherine School Academy
- Trinity Academy
- Walney Academy

Scheduled Bodies No Actives (12)

- Brampton Parish Council

Scheduled Bodies No Actives (cont)

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

Admitted Bodies Transferee (17)

- Bulloughs (Caldew Academy) (new)
- Carlisle Leisure Ltd
- Carlisle Leisure Allerdale
- Caterlink - Longtown (new)
- Caterlink - St Bernard's CHS
- Caterlink - Thornhill (new)
- Caterlink - W/Lakes
- Caterlink - WHT
- Cumbria Teacher Training (new)
- Greenwich Leisure (Copeland)
- Greenwich Leisure (South Lakes)
- Mellors Catering - Appleby
- Mellors Catering - Kirkby Stephen
- People First
- Priority Facilities (Ashfield Infs) (new)
- Priority Facilities (St Mary's, Work)
- Tullie House Trust

Admitted Bodies Community (13)

- Care Quality Commission
- Cumbria Cerebral Palsy
- Cumbria Deaf Vision
- Eden Housing Association
- Glenmore Trust
- Higham Hall
- Home Group (Copeland)
- Lakeland Arts Trust
- Longtown Memorial Hall Community Centre
- Morton Community Centre
- Oaklea Trust
- South Lakes Housing
- West House

Admitted Bodies No Actives (17)

- Carlisle Mencap - Huntley Ave
- Carlisle Mencap - Hart St
- Cumbria Training Partnership
- Direct Training Services
- Egremont & District Pool Trust
- Harraby Community Centre
- Henry Lonsdale Trust
- Kendal Citizens Advice
- Lake District Cheshire Homes
- Mellors Catering Services - Rockcliffe
- NRCS Ltd (Neighbourhood Revitalisation)
- Project Homeless
- Soundwave
- SLS (Cumbria) Ltd - QK
- SLS (Cumbria) Ltd - StH
- Troutbeck Bridge Swimming Pool
- Wigton Joint Burial Committee

APPENDIX: 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.

Additional Voluntary Contributions - Additional Voluntary Contributions, or AVCs, are extra payments to increase future benefits. It is also possible to pay AVCs to provide life cover. All LGPS pension funds have an AVC arrangement. Scheme members can invest money through their AVC provider, which is often an insurance company or building society. AVCs are taken directly from pay and attract tax relief.

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 – Also known as Private Markets – please refer below.

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).*

Beneficiaries (in relation to Stewardship) – In this context we are referring to Scheme Members and Scheme Employers, please see separate definitions below.

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 judgement 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.

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.

Deficit recovery period – A reasonable period of time over which a pension fund will aim to repair it's funding level to meet its statutory objective of 100% solvency, taking into account employer circumstance where possible.

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.

DLUHC – Department of Levelling Up, Housing and Communities, the UK government department with responsibility for Local Government. Formerly called the Ministry of Housing, Communities and Local Government ("MHCLG").

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.

Joint Committee – this is the term used to refer to the committee of Partner Fund councillors. Its primary purpose is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.

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.

Local Government Reorganisation (LGR) – From 1 April 2023, Cumbria County Council and the six District Councils of Cumbria ceased and were replaced by two new unitary Councils - Cumberland Council and Westmorland & Furness Council. As part of this reorganisation the Administering Authority for Cumbria Pension Fund vested from Cumbria County Council to Westmorland & Furness Council.

Loans and Receivables – are also known as 'Financial assets held at amortised cost' in the context of IFRS9 (International Financial Reporting Standards)

Long term cost efficiency – Implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

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"). Now called Department of Levelling Up, Housing and Communities ("DLUHC").

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, asset-backed 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.

Other Registerable Interests – Including the receipt of gifts or hospitality worth over £100; and membership / being in position of general control or management of a body to which they are appointed or nominated by the Council.

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.

Partner Funds - The term we use to describe the 10 other LGPS Pension Funds who are equal owners of BCPP along with Cumbria. A list of our partner funds can be found at: **https://www.bordertocoast.org.uk/partner-funds/**

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).*

Pecuniary Interests – Including the ownership of securities and other assets, any employment, office, trade, profession or vocation carried out for profit or gain.

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.

Private Markets – 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.

Proxy Voting – Also known as Shareholder Voting – please refer below.

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.

S151 Officer – Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a S151 Officer, also known as a Chief Financial Officer (CFO), to have responsibility for those arrangements.

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.

Scheme Members – are predominantly employees and ex-employees of local public sector organisations including local authorities, the police authority (non-uniformed), schools, and academies. Additionally, a small number of scheme members are employees and ex-employees of either community bodies or private companies to whom services and therefore staff have been contracted out.

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

Shareholder Rights & Responsibilities - Rights exist primarily through shareholdings (but can be derived through other means). The shareholder role includes responsibilities for appointing directors and auditors and ensuring that appropriate governance structures are in place. Good governance is about ensuring that company policies and practices are robust, and its operations are effective and responsibly delivered in relation to its stakeholders.

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 and responsibility 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).

<u>Resolutions which are voted upon include</u>:
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.

Solvency – A level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Stewardship - The responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

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.

Stranded Assets – are defined as assets that have been prematurely devalued or converted to liabilities. In recent years, the issue of stranded assets caused by environmental factors, such as climate change and society's attitudes towards it, has become increasingly high profile.

Supranational Institutions – Owned or established by governments of two or more countries, usually established by international treaties and generally not subject to commercial law; they include multilateral insurance companies, monetary funds and regional public policy institutions.

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.