Parliamentary Contributory Pension Fund (PCPF)

Annual Review 2019

House of Commons

Welcome

As Chair of the Parliamentary Contributory Pension Fund Trustees, it is my pleasure to welcome you to this year's Annual Review. In particular, I would like to welcome all the new Members who joined us after the December election. Our PCPF Annual Review contains a summary of the accounts for the year ended 31 March 2019, as well as the latest news and information about the Scheme.

2019 has proved to be yet another busy year for the Scheme. In February the Scheme Secretary, Lucy Tindal, stood down from her role to pursue other exciting opportunities in the industry. I'd like to thank Lucy for her years of service to the PCPF and of course we wish her all the best for her future. Our new Secretary, Gurpreet Bassi, has over 20 years' experience in the pensions industry and has worked at the House of Commons for the last 10 years.

Following a successful tender exercise at the beginning of the year for the administration contract, we said goodbye to RPMI and welcomed Buck as the new PCPF administrators. Since then, the Secretariat have been working closely with both RPMI and Buck to ensure a smooth transition from one administrator to the other. Buck have also been working hard to ensure service levels remain consistent as they get themselves up to speed with the Scheme Rules and work towards automation of calculations, whilst also dealing with the increased workload that comes with a General Election. I believe Buck have mostly managed to achieve a seamless service for our members, although I ask that you bear with us while Buck continue to settle into their new role. We hope that you have a positive experience with Buck, and we welcome your feedback on this and any other administration issues you wish to raise. More information about Buck can be found on **page 13**.

We continue to focus on investment matters at our meetings and I am pleased to report that the Fund returned 7.4% during the year ending 31 March 2019 which was ahead of our target. The outperformance was largely as a result of strong returns from equity markets. Information on the investments held by the Fund, together with a summary of the investment strategy and details of past performance is set out on **pages 6-7**. We are ever increasingly focussed not just on investments, but on responsible investment, as owners of the assets of the Fund. During the year, changes to pension legislation meant that pension fund Trustees were required to update the Fund's Statement of Investment Principles (SIP) to address all financially material considerations, which included Environmental, Social and Governance (ESG) and climate change risks. The new SIP was agreed in July and a copy is available on our website at **mypcpfpension.co.uk**. We made additional progress in the ESG arena, by developing and publishing our first Responsible Investment policy in the summer. More information about the Responsible Investment policy and other ESG developments can be found on **page 8**.

This year also saw the introduction of some Scheme rule changes. As a direct result of Trustee consultation with IPSA, we have managed to secure several rule changes which we believe are in the interests of scheme members. Most of the changes were of a purely technical nature, making the scheme easier to interpret and administer, but there were also some benefit improvements. We have been very pleased to see IPSA taking on Trustee views and engaging with us throughout the process.

I hope you enjoy reading this year's Annual Review and that you find it informative. If you have any feedback to give on this year's Review or any of our other communications, the Trustees would be pleased to hear from you via the Pensions Secretariat – contact details are on the back page. You may also like to visit the Scheme's website at **mypcpfpension.co.uk** which provides more information about the Scheme and your pension benefits.

Finally, and as always, I would like to express my thanks to my colleagues on the Trustee Board for the time and service they have given over this busy year. I would also like to take this opportunity to thank the Secretariat staff for their continued support and help.

With best wishes

Sir Brian H Donohoe
Chair of Trustees

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At a glance

Total Assets:
£733m
(up from last year's £699m)

Investments returned:
7.4%
(up from last year's 3.5%)

Total membership:
2,006
(down from last year's 2,029)

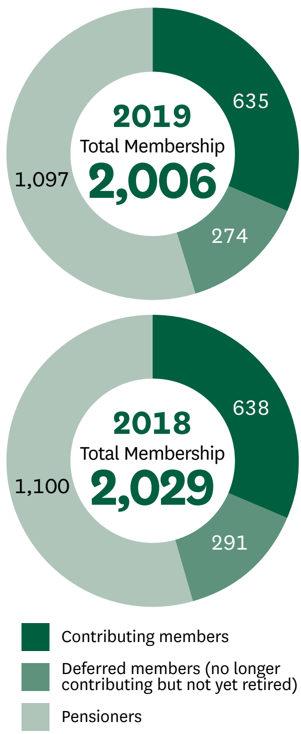
This information is taken from the draft Accounts for the year ended 31 March 2019, which as at time of printing have not been finalised. Once agreed, the accounts are published by the National Audit Office as a House of Commons paper, at which time a copy of the full report will be made available on the Scheme's website (**www.mypcpfpension.co.uk**).

Financial highlights

	As at 31/3/2019 £'000s	As at 31/3/2018 £'000s
Money in		
Contributions from Exchequer	6,955	6,775
Contributions from members	5,917	5,956
Investment income	10,640	9,831
Total income	23,512	22,562
Money out		
Benefits paid	25,792	25,994
Transfers out	1,161	663
Investment management expenses	1,255	1,276
Administration expenses	793	765
Total expenditure	29,001	28,698
Total assets at end of the year	732,842	699,003
Pension liability at end of the year	957,000	887,300

This information was taken from the draft Accounts for the year ended 31 March 2019, as at time of printing.

Membership



Investment perspectives

Market update (to 30 October 2019)

Data for gross domestic product over the period confirms realised global growth has slowed and forecasts for 2019 and 2020 have drifted lower amid the ongoing trade dispute between the US and China. The US economy has outperformed developed market peers but, here too, growth has slowed on 2018's robust pace as tariffs impact business investment. Disruption has been particularly notable in large export and manufacturing orientated economies, such as Germany. The UK economy is expected to grow in Q3, following contraction in Q2, but forecasts have fallen reflecting elevated uncertainty.

The Fed's gradual tightening of monetary policy continued in to the fourth quarter of 2018 but concerns over slowing growth and muted inflationary pressures has seen a shift in messaging and action in 2019 – the Fed cut rates for the second time in three months in September and the ECB cut rates further in to negative territory and announced the restart of quantitative easing from November 2019. The Bank of England has been less equivocal in advance of the Brexit outcome.

US 10-year treasury yields rose to their highest level for seven years in early October before falling sharply amid concerns over slowing global growth. Equivalent UK yields and German yields largely followed this pattern, touching new record lows in August 2019. Index-linked yields fell further, indicating fears of a near-term inflationary spike post-Brexit.

Total returns in credit markets were bolstered by falling underlying interest rates while global investment-grade credit spreads were little changed. In contrast, US and European high yield spreads increased, most notably US high yield market as oil prices fell c.26%. Bonds have outperformed loans as interest rate expectations fell, shifting sentiment towards fixed rate assets.

Equity markets saw a steep sell-off in the fourth quarter of 2018 and endured challenging months in the second and third quarters of 2019. Despite this, global equities ended the period 3 % higher in local currency terms. Returns to sterling investors were significantly better reflecting sterling weakness. European (ex-UK) equities outperformed while Japanese equities underperformed. Yen strength has weighed on the exporter-heavy Japanese equity market.

Oil & gas was the worst performing sector, while the more defensive utilities sector saw notable outperformance.

The UK commercial property market has slowed, producing total returns of 2.9% over the 12-month period to end September 2019. Slowing capital growth in industrials and offices is outweighed by the material declines in retail, where values have fallen by 11.1% over the year.

Fund performance

Over the year to 31 March 2019, The Fund's assets returned 7.4%, outperforming the benchmark return by 1.0%. The Fund's strong absolute performance over the year reflects positive returns from equity markets over the period, and outperformance from the Fund's active equity manager, MFS, who delivered substantial positive returns of 14.8% over the year.

More recent performance from the Fund has been strong, with the Fund delivering a positive return of 6.8% over the six-month period to 30 September 2019, ahead of the benchmark return. Positive returns were again supported by the Fund's equity investments which performed strongly over the period.

Strategy update

Over the year, the Trustees have completed a review of the Fund's investment strategy. The Trustees have agreed a number of changes to the strategy reflecting the Fund's long term objectives, and their beliefs. Overall, the changes increase the focus on long term sustainability of returns, in particular, income-oriented assets.

The Trustees introduced an allocation to renewable infrastructure investments, funded from the listed equity portfolio. In addition, the Trustees have restructured the Fund's protection assets, reducing exposure to interest rates and increasing focus on consistent, absolute return generation over the long term.

In early 2020, the Trustees have reviewed the Fund's equity structure. The Trustees have considered approaches to increase the sustainability of returns from equities, reflecting the Fund's objectives, beliefs and Responsible Investment policy. After receiving training on alternative benchmark indices, presentations from industry partners and formal advice, the Trustees agreed to convert the Fund's index tracking global equity mandate to sustainable multi factor equity and low carbon approaches. This change is expected to reduce the carbon emissions intensity from the Fund's equity holdings by more than 50% relative to the current position. Having already committed to global renewable infrastructure during 2019, the Trustees will give consideration to further sustainable investment approaches during 2020.

The Trustees continue to prioritise cashflow considerations, with the Fund well positioned to support an increase in cash outflow following the December General Election, without a need to sell physical assets.

Responsible Investment update

Introducing the Fund's Responsible Investment policy

During the year, the Trustees have finalised their formal Responsible Investment policy. This policy reflects input and advice from the Trustees' advisors, and training received from other pension funds engaged with this subject. In addition, the Trustees have considered industry developments, and the approaches adopted by the Fund's investment managers, in detail. The Trustees' policy sets out several commitments which have been incorporated in the Fund's forward-looking business plan. These commitments include:

- Opportunities arising from a greater understanding of ESG factors (e.g. renewable infrastructure) will be considered when setting investment structure.
- Responsible investment considerations will be explicitly made for new mandates, inc. voting and engagement policies.
- Managers demonstrating weaker practices over sustained periods will not be considered for future appointments, and their appointment will be reviewed.
- Analysis of the Fund's carbon exposure and intensity will be considered on a regular basis.
- The Responsible Investment Policy will be reviewed annually.
- The Annual Review will include an update on the Fund's stewardship and governance activities, including voting and engagement (please see an update on developments below).
- The Trustees' full Responsible Investment policy is available on the PCPF website: **mypcpfpension.co.uk**.

Update on Responsible Investment developments

The Trustees continue to monitor the voting and engagement activities of the Fund's equity managers on a quarterly basis, with the review a standing item of Investment focused Trustee meetings. When the Trustees identify concerns, relative to the Fund's policy, they will challenge the relevant manager and seek justification, for example on individual votes.

With regard to the Fund's investment strategy, the Trustees have recently committed 5% of Fund assets to a Global Renewable Infrastructure strategy managed by BlackRock. The new strategy specialises in building the infrastructure required to generate renewable energy, such as Solar and Wind farms, and offers investment characteristics compatible with the Fund's investment objectives.
In February 2020, the Trustees have reviewed their equity structure and agreed to convert the Blackrock regional market-cap equity to Blackrock's low carbon approach. They have also agreed to allocate 30% of the existing equity structure to a global (sustainable) multi factor equity with Schroders. The Trustees believe this approach is compatible with their investment objectives, beliefs and Responsible Investment policy.

The Financial Reporting Council recently released their new UK Stewardship Code which comes into effect from 1 January 2020. The revised Code seeks to raise standards for asset owners and managers, extending to establishing clear stewardship objectives, integration of stewardship in investment strategies, and adhering to clearer and more elaborate reporting requirements. As signatories to the existing Code, the Trustees will be reviewing the new requirements and developing their compliance statement during 2020.

Fund managers

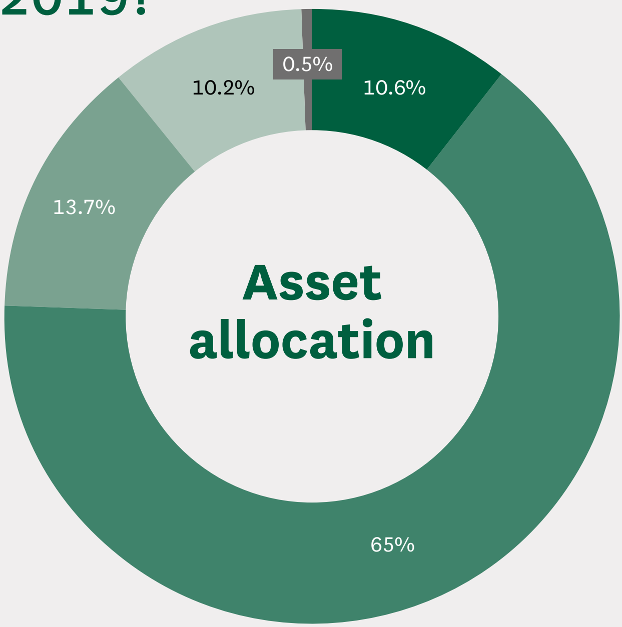
The manager proportions and mandates at the year-end are shown in the table below:

Manager	Mandate	Holding as at 31/3/19	Target Allocation
BlackRock Advisors (UK)	Global equities	47.5%	45.0%
MFS International (UK) Ltd	Global equities	17.5%	16.0%
M&G	European Loans	9.0%	10.3%
M&G	Illiquid credit	4.7%	5.0%
Multi-managers	Property	10.2%	10.0%
PIMCO Europe Ltd	UK bonds	10.6%	13.7%
Transition cash*	Cash	0.5%	-
Total		100.0%	100.0%

*Held by Fund's custodian, Northern Trust

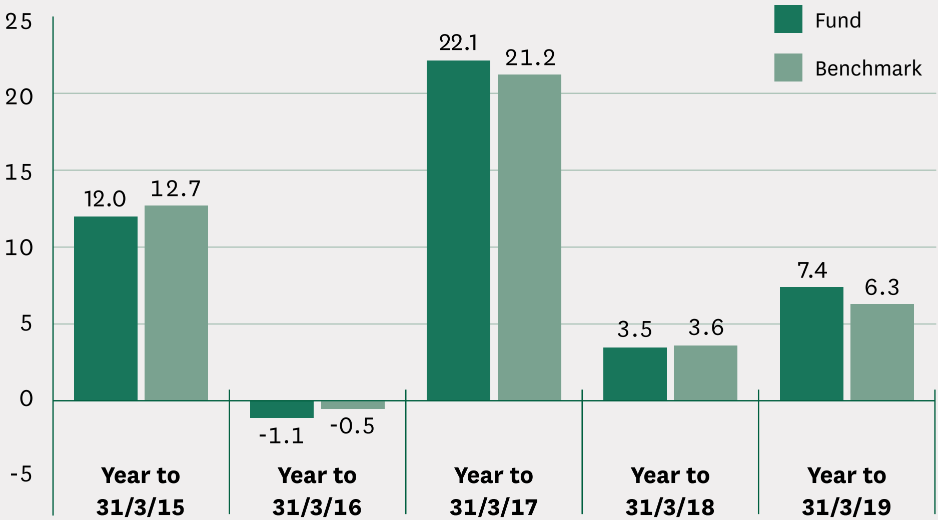
Where were the assets invested on 31 March 2019?

UK bonds	10.6%
Global equities	65%
Fixed income	13.7%
Property	10.2%
Cash	0.5%



How did the investments perform?

The overall Fund performance during the past five years is shown here, relative to the benchmark set by the Trustees.

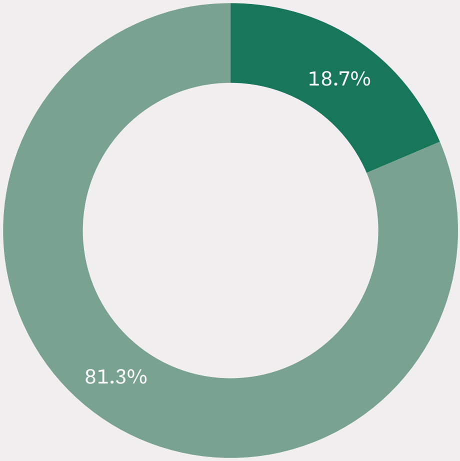


Overall holdings as at 31 March 2019

In an effort to maintain transparency and accountability to stakeholders, we disclose our overall top 20 holdings. The Fund's exposure to underlying stocks reflects a combination of the managers' benchmark index (for passive mandate), and for active mandates only, the managers' views on the stocks' return expectation taking into account the stocks' underlying risks.

Top 20 holdings 18.7%

Other holdings 81.3%



Top 20 Holdings	Holding as at 31/3/19 18.7%	Change since 31/3/18 1.3%
UK Government	7.7%	3.2%
Nestle	0.8%	0.1%
Diageo	0.7%	-0.6%
Visa	0.7%	0.2%
HSBC Holdings PLC	0.7%	-0.8%
Linde plc	0.6%	0.6%
Thermo Fisher Scientific	0.6%	0.1%
Comcast A	0.6%	0.1%
Medtronic plc	0.6%	0.1%
Royal Dutch Shell PLC Class A	0.6%	-0.3%
LVMH	0.6%	0.1%
BP PLC	0.6%	-1.0%
Reckitt Benckiser Group	0.5%	-0.6%
Disney (Walt) Company	0.5%	0.1%
Accenture Cl A	0.5%	0.1%
Honeywell International Incorporat	0.5%	0.1%
Royal Dutch Shell PLC Class B	0.5%	-0.2%
Apple INC	0.5%	-0.2%

An introduction to Buck

During 2019, the PCPF Trustees appointed us as the new pension administrators for the PCPF.

Who are Buck?

We are one of the world's leading human resource and benefits consulting firms, with more than 1,900 professionals worldwide supporting over 1,600 organisations.

We will be focusing on establishing a relationship with members to improve the overall member experience and accommodate shifting member expectations. One of our strengths is our investment in technology. This means that most members will benefit from a new member portal, which gives online access to member details and pension calculations. This member portal will be launched during 2020.

You can find Buck's contact details on page 22.

Meet the team

Murray McDowall, Head of Client Relations: Executive Account Manager

Murray will be the Executive Account Manager and will act as the strategic partner within Buck, liaising on the day-to-day service provision across the entire Buck solution.

Murray recently joined Buck to lead our Client Relationship Team, after gaining 30 years of industry experience. He spent the last 20 of those years with a large corporate carrying out a similar role. Murray specialises in the private sector, where he has managed relationships for numerous high-profile clients.

Your administration team

Vicky Finn - Team Leader
Vicky has over 20 years experience in the pensions industry across many different types of schemes, including Final Salary, CARE and Defined Contribution schemes.

Diane Sealy - Senior Administrator
Diane has a huge 25+ years experience working in pensions, with expertise in Defined Benefit and Defined Contribution pension schemes.

James Dalton - Administrator
James has over 12 years experience in Pensions Administration across a combination of Defined Benefit, Defined Contribution and Hybrid schemes.

We look forward to working with all of the PCPF members with any pension related query they may have.

Rule changes

As you will be aware, the Independent Parliamentary Standards Authority (IPSA) are responsible for setting the rules of the MPs' pension scheme. During the year, the Trustees and their legal advisers worked closely with IPSA to make a number of minor changes to the Scheme Rules.

These changes were the direct result of Trustee engagement with IPSA, through a formal consultation process. These technical changes are positive for the scheme, making our rules clearer and easier to interpret and administer, as well as some minor benefit improvements. The new rules were laid before Parliament on 18 July 2019.

Notable changes include:

Partners pensions – all members of the PCPF can now nominate a partner to receive the dependant's pension, ensuring they receive the same benefits as are paid to a spouse/civil partner. Previously this was limited to members who had served as an MP at some point since 2004.

Death in Service – Improving death in service benefits where a member dies in the course of carrying out their parliamentary business.

Time limits – the Trustees now have increased flexibility, as a result of a new Trustee discretion, over some of the time restrictions set out in the rules.

Age 75 – the restrictions on paying benefits to members after age 75 have been removed. Now MPs can remain in the scheme until they cease to serve or stand down and it will be possible to commute pension for a tax free lump sum at any age should they wish. Prior to the rule change, Members approaching the age of 75 were required to make some pension choices as it was not possible to take a tax free lump sum after the age of 75.

Nomination Reminders

Partners' pensions

Changes to the scheme rules, laid in July 2019, mean that any member of the PCPF can now nominate a partner to receive the dependant's pension, ensuring they receive the same benefits as are paid to spouse/civil partner.

While dependant's pensions are provided automatically to legal spouses/civil partners, you must currently register your partners in order for them to receive the same dependants' benefits that are provided to spouses/civil partners. In order to qualify, you must complete a partner nomination form, declaring that you and your partner are co-habiting, in an exclusive, financially dependent or inter-dependant relationship and not prevented from marrying or forming a civil partnership.

Death in service

All serving members are reminded that they should keep their death in service nomination up to date. The death benefit nomination form allows you to nominate a beneficiary for the lump sum payable if you were to die whilst serving as an MP. In the absence of a form, the payment would be made to your estate.

How to nominate...

You can download a partner nomination form, or death benefit nomination form, at: **www.mypcpfpension.co.uk/forms**.

Alternatively, request one from the Scheme administrator, Buck, by calling **0330 123 0634** or emailing **pcpf@buck.com**.

Your Tax Limits

You get tax relief on your pension savings, but there are limits and tax will be charged on any excess.

Annual Allowance

This is the amount you can save each tax year, across all your pension arrangements, before tax is charged. This allowance is based on the total amount of defined benefits you have built up (plus any defined contribution savings you make, if you have any).

The Annual Allowance is currently £40,000, although there are some exceptions for higher earners (see Tapered Annual Allowance).

Lifetime Allowance

You can save as much as you like into your pension. But there is a limit to the amount you can draw out of all your pensions without attracting an excess tax charge. This is called the Lifetime Allowance (LTA) and it is currently set at £1,055,000 for 2019/20.

You usually find out if you are affected by the LTA when you retire, because it is based on the actual benefits you will receive (excluding the State Pension).

Tapered Annual Allowance

The Annual Allowance reduces for some high earners. This is called the Tapered Annual Allowance and includes earnings from all employment plus other external sources such as shares, rental properties during the tax year, plus the value of your pension pot.

You will be affected if your ‘adjusted income’ (your taxable income plus your Pension Input Amount) is over £150,000 and your taxable income is over £110,000. For every £2 of adjusted income over £150,000, your Annual Allowance reduces by £1, to a possible minimum of £10,000.

What happens if I exceed the Annual Allowance?

If you exceed the Annual Allowance within the PCPF, and do not have enough unused Annual Allowance from the last three years, then an Annual Allowance tax charge is due. You can ask for the PCPF to pay the tax charge to the HMRC on your behalf. Your pension benefits would then be reduced by an appropriate and cost neutral amount in exchange.

Previously this option was only available to you if the tax charge was over £2,000 and your Annual Allowance was over £40,000, known as mandatory scheme pays, but since December 2018, the Trustees have elected to offer voluntary scheme pays. This means that even if the conditions of mandatory scheme pays are not met, you can still request the PCPF pay your tax charge, in exchange for reducing your benefits. The Trustees will continue to monitor the take up of voluntary scheme pays and continue to offer this facility as long as it is deemed to be in the best interests of their members.

The Trustees offer tax seminars to all serving Members. These tax seminars provide further information about the tax allowances described above. If you are interested in attending a tax seminar, please contact the PCPF Secretariat, who can advise you of the dates of upcoming events.

McCloud Judgement

In 2015, the Government introduced reforms to public sector pensions. The Independent Parliamentary Standards Authority (IPSA) introduced similar reforms to the PCPF, which came into effect on 8 May 2015. As part of the changes, transitional provisions were introduced to protect the rights of all members within ten years of normal retirement age, with tapering protections applied for those between 10 and 13.5 years from pension age. These protections allowed members to stay in the previous scheme until retirement, or for a period of time, depending on their age. Younger members who were more than 13.5 years from retirement age were moved to the new scheme with immediate effect.

The changes were challenged by members of the firefighters' and judges' schemes (which became known as the McCloud case) who complained of unfair treatment on grounds of age discrimination. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judges' and firefighters' schemes, as part of the reforms, amounted to unlawful discrimination.

On 15 July 2019, the Treasury published a statement which announced that they accepted that the McCloud judgement applied to all of the main public service pension schemes. Due to the unique status of the PCPF, the PCPF was not covered by the McCloud judgement or the Treasury's announcement and it was a decision for IPSA as to whether to make equivalent changes to the transitional protections that apply in the PCPF. The Trustees wrote to IPSA and on 24 September 2019, in response to the Chair on the matter, IPSA confirmed their intention that future changes to the PCPF should be in line with the Government's approach to other public service schemes. Potential remedies are currently unknown but once further information is available, we will communicate with scheme members as appropriate.

Please be assured that the pension you have built to date is safe.

Be Scam Aware

Don't let someone else enjoy your retirement!

The ScamSmart campaign, run by the Pensions Regulator and the Financial Conduct Authority found that in 2018 the average money lost by pension scam victims amounted to £82,000, for most people that's the equivalent of 22 years' worth of saving.

Anyone can be the victim of a pension scam, no matter how knowledgeable they think they are. So, it's important that everyone can spot the warning signs of a pension scam.

Scammers will try to persuade pension savers to transfer their entire pension savings, or to release funds from it. This often comes in the form of an unexpected call or email from companies and individuals promising to help you 'unlock' your pension savings early. You may be promised 'free' pension reviews, access to 'guaranteed higher returns', legal loopholes, overseas transfers, time limited offers and unusual or complex investment structures.

But, if you try to take your pension early, you are much more likely to lose some, if not all, of your pension, and you may also face a hefty tax bill for unauthorised payments.

In general, you can only claim your pension benefits before the age of 55 in extreme cases, such as ill health. Buck, the PCPF administrators, has checks in place to ensure that the receiving scheme is bona fide before a transfer goes ahead, but members should be extra cautious when thinking about such a move.

You should also note that as of January 2019, it is illegal for you to be approached by phone about a possible transfer of your pension benefits. So, if you do get an unsolicited call about transferring your pension, you can know it's not legitimate. Although the ban covers cold calls, you should also be very wary of pension review offers that you may see elsewhere, such as on social media platforms.

If you'd like to find out more, speak to Buck using the PCPF helpline: **0330 123 0634.**

House of Commons Members' Fund (HCMF)

What is the Members' Fund?

The Members' Fund is a benevolent fund that assists former Members of Parliament and their dependants who are in financial need. It was established in 1939, when there were no pension arrangements for Members, to provide former members with benefits in lieu of a pension. The modern day purpose of the Fund is that former members and certain dependants can apply for assistance, particularly in times of financial hardship.

How is it managed?

It is managed by a board of Trustees, who are either serving Members appointed by the House, or former members.

They consider all applications for benefits and grant suitable awards after they have looked at all the circumstances of the applicant, particularly their financial circumstances. All matters related to the Fund are handled on the basis of utmost confidentiality.

What are its current aims and how is it funded?

Its aims are to continue to make annual grant payments to existing claimants and to provide one-off payments to former MPs and/or their spouses, children and any other financial dependants who are experiencing financial hardship.

All current Members automatically contribute £2 per month by deduction from their salary.

Who may benefit from one-off payments?

Any former member or any persons who appear to the Fund's Trustees to be, or to have been, a financial dependant of a former member. Pensioner and deferred members of the PCPF (those who have left service but have a preserved pension) are entitled to apply for a payment from the Fund, and each application will be carefully considered on its own merits by the Trustees as described above.

How do I apply for assistance?

If you would like to apply for financial assistance from the Members' Fund, please contact the HCMF Secretariat using the contact details below. You will be sent an application form requesting further information about your financial situation and reasons for applying and you will be required to provide documentary evidence of your finances. The Trustees will then consider your case at a meeting and you will be notified of their decision in due course.

Enquiries and further information

House of Commons Members' Fund
HCMF Secretariat
Finance, Portfolio & Performance
House of Commons
London
SW1A 0AA

Telephone: 020 7219 3420
Email: hcmf@parliament.uk

Your Contacts

The PCPF Scheme is currently administered by Buck Limited who also look after the accounting and payroll functions.

If you have any questions or require any information about your pension entitlement, please contact Buck (you will be asked a series of security questions before you can access your account):

Buck Administration Team
PO Box 319
Mitcheldean
Bristol
GL14 9BF

Customer helpline:
0330 123 0634

Email:
PCPF@buck.com

Website:
www.mypcpfpension.co.uk

If you have any general queries or would like to arrange a meeting to discuss your pension, please contact:

PCPF Secretariat
Finance, Portfolio & Performance
House of Commons
London
SW1A 0AA

Email:
pensionsmp@parliament.uk

Phone:
020 7219 2743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DIVISIONS OF THE HOUSE
Members are requested not to pass the desks before the Division Clerks have taken their places and to give their names distinctly to the Clerks.
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