House of Commons

Parliamentary Contributory Pension Fund (PCPF)

Annual Review 2017

Welcome

As Chairman of the Parliamentary Contributory Pension Fund Trustees, I am pleased to welcome you to this year's Annual Review. In the following pages you will find a summary of the latest Accounts for the Fund year ended 31 March 2017, along with all the latest news and information about the Fund.

This year two Trustees (David Mowat and Rt Hon Peter Lilley) resigned from the Trustee Board. As a result of this, the Secretariat undertook a Member Nominated Trustee (MNT) exercise to replace the two Trustees. You would all have received a letter inviting you to nominate yourself or another for these vacancies. We received a number of nominations and a selection panel reviewed all the nominations received. I am pleased to welcome Ranil Jayawardena MP and Richard Graham MP to the Trustee board. I would also like to thank David Mowat and Peter Lilley for their hard work and dedication to the Fund during their time as Trustees.

It has been a challenging year for the wider economy; there have been immense challenges ranging from political, to social and economic shifts. I am delighted to report, that despite these challenges, the Fund has returned 22.1% during the year ending 31 March 2017. This reflects the strong overall returns from the Fund's equity mandates over the period. 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 5-14.

The actuarial valuation of the Fund as at 31 March 2017 is currently underway and we expect to have the results of this in early 2018. The results will be published on the Fund's website in May 2018. This is the first actuarial valuation since the new CARE scheme was set up and we look forward to the final valuation results

which will set the basis for reviewing the investment strategy and setting the Exchequer contribution.

The Trustees have continued to hold a lot of discussions around climate change and wider Environmental Social and Governance (ESG) issues. We have published an Engagement policy, which seeks to address how we engage with our Fund managers on issues surrounding ESG. The Fund also publishes a summary of the equity managers' voting records; both documents can be viewed on the Fund's website. We work closely with our Fund managers on ESG issues and aim to build on our existing approach, while ensuring that we protect the long-term interests of the Fund.

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 another busy year. I would also like to take this opportunity to thank the Secretariat staff for their continued support and help.

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 Fund's website at **www.mypcpfpension.co.uk** which provides more information about the Fund and your pension benefits.

With best wishes

Brian H Donohoe
Chairman of Trustees

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At a glance 2016/17

Total Assets:

£733m

(Up from last year's £621m)

Investments Returned:

22.1%**

(Up from last year's -1.1%)**

Total membership was

1,951

(Down from last year's 1,971)

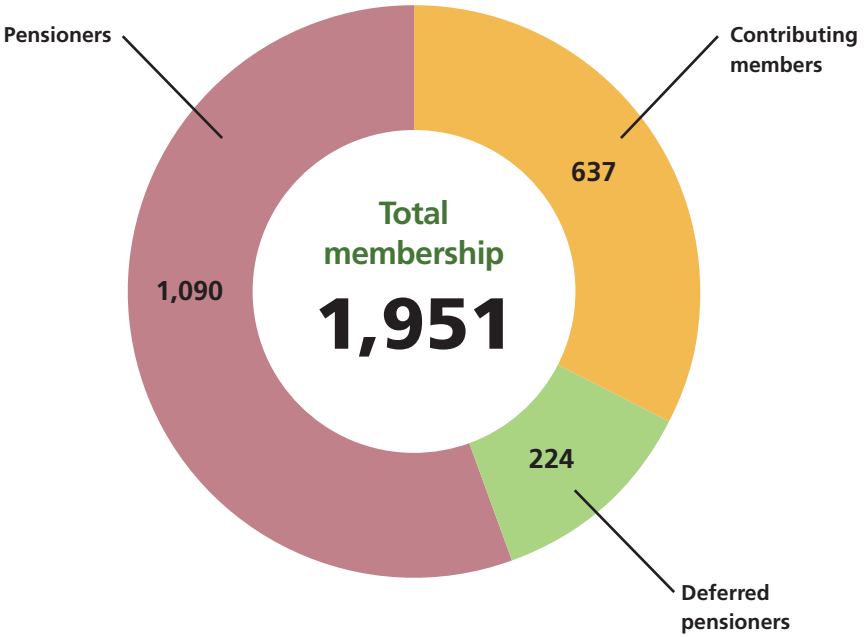
** This information is taken from the full Trustees' Accounts for the year ended 31 March 2016, which are published by the National Audit Office as a House of Commons paper. From 1 April 2015 the pension liability has been recognised in the PCPF accounts. A copy of the full report is available on the Fund's website www.mypcpfpension.co.uk

Financial highlights

	2017 £'000s	2016 £'000s
Money in		
Contributions from Exchequer	**6,698**	6,580
Contributions from Members	**5,956**	6,028
Investment income	**9,702**	7,152
Total income	**22,356**	19,760
Money out		
Benefits paid	**24,523**	34,915
Transfers out	**1,120**	2,997
Investment management expenses	**1,432**	1,542
Administration expenses	**602**	568
Total expenditure	**27,677**	40,022
Total Assets at end of the year	**733,762**	621,787
Pension liability at end of the year	**941,500**	777,500

Membership

Member type	2017	2016
Contributing members	637	643
Deferred pensioners (former contributing members)	224	236
Pensioners	1,090	1,092
Total	**1,951**	1,971



Investment Perspectives

Market update (1 January to 30 September 2017)

Survey data suggested continued momentum in global growth over the period. The Global Manufacturing PMI index remained at its highest level for almost six years in March. Momentum was reflected in hard data from the Eurozone and Japan where the region recorded its best quarterly growth in two years. The US bounced back from a sluggish Q1 but growth in the UK was disappointing.

The US Federal Reserve raised the US interest rates twice over the period to a range of 1-1.25%. It also announced its intention to start unwinding its long-standing QE programme from October; as its holdings of government bonds and mortgage-backed securities mature, it will limit its reinvestment.

Headline inflation in the UK rose further on the back of last year's fall in sterling. The rise in UK CPI inflation paused at the end of June, before August matched May's five-year high of 2.9%. Despite above-target inflation, the Bank of England held UK interest rates at 0.25% p.a. citing the moderation in pay growth. Yet, the Governor indicated in September that rates would rise soon unless economic conditions deteriorated.

Gilt yields were broadly unchanged over the period. A downward drift, albeit with short-term swings caused by Brexit and the General Election, was reversed at the end of June as investors grew more concerned about the possibility of tighter monetary policy. The change in interest rate expectations, resulting from Mark Carney's statement in September, caused gilt yields to rise sharply in the final weeks of the period, reversing a fairly steady decline over June - September.

Oil prices were volatile over the period - Brent crude fell from $57 down to $48 a barrel before ending the period at a two-year high of $59 a barrel. Increased production in the US continued to offset the impact on global oil supply of OPEC's output cut from November 2016. Confidence in supply was hit by US weather disruption and political uncertainty in Kurdistan, while demand in Asia was unexpectedly strong towards the end of the period.

Sterling investment-grade credit markets performed well relative to gilts, particularly in the second quarter of 2017. Yield spreads on sterling AA-rated bonds hit their lowest levels for over 12 years. Towards the end of the period, buoyant economic conditions and a weak US dollar boosted emerging markets. Yields on the major local currency debt indices fell close to their lowest levels for over four years. During September, the series of Atlantic hurricanes and two Mexican earthquakes caused the first noticeable wobble in insurance-linked markets since Superstorm Sandy hit the east coast of the US in October 2012.

Sterling fared relatively well during the first six months of the period – barely changed in trade-weighted terms – in spite of post-election uncertainties in June but came under pressure until markets moved to price in a UK rate rise in 2017. Over the period as a whole, sterling was ahead of the yen and US dollar but behind the euro.

Global equity indices rose strongly over the first 9 months of the year, establishing new all-time highs. Improving corporate earnings and positive economic momentum more than offset growing concerns over equity valuations and rising political tension in the Korean peninsula. In sterling terms, the best regional returns came from Europe and Emerging Markets. UK equities underperformed again as sterling strengthened.

Despite the Oil & Gas sector resurgence in the last 3 months of the period due to commodity price strengthening, overall it was the worst performing sector within global equities. Outperformance from the Technology and sector (the best performing sector over the period) reflected the more general outperformance of growth stocks relative to value stocks – a reversal of the trend of late 2016.

UK property edged higher over the period – values as measured by the IPD Monthly Capital Growth Index are back at pre-referendum levels. The strongest gains came from the industrial sector, where rental growth is also slightly ahead of a modest overall rise.

Fund performance

Over the year to 31 March 2017, the Fund returned 22.1% against its benchmark return of 21.2%. The Fund's overall performance reflects strong positive returns from equity markets over the period. All of the Fund's assets delivered positive absolute returns but UK property returns were subdued following the fallout of the European Referendum result. Returns from the Fund's fixed income allocations were also positive but lagged equities.

More recent performance from the Fund has been strong, with the Fund delivering a positive return of +3.3% over the six-month period to 30 September 2017, ahead of benchmark by +0.3%, with a majority of the Fund's active mandates outperforming their benchmarks over the period. Over this time period, equity market returns have continued to deliver positive returns. In particular, the Fund's overseas equity holdings have been the strongest performing part of the portfolio, as positive underlying overseas equity returns have been boosted by economic optimism. All of the Fund's mandates have delivered positive returns over this period.

Update on strategy

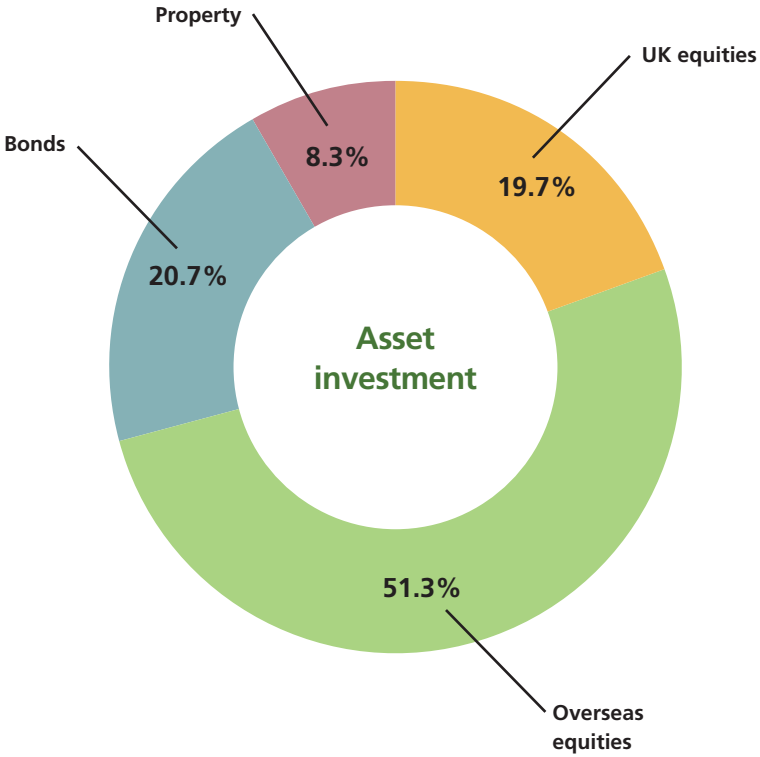
Over the year, the Fund reduced its global equity allocation and introduced a new allocation to alternative credit. This allocation will help increase the level of diversification within the Fund whilst acting as another source of income due to the cash flows associated with the underlying debt instruments. The Fund should also benefit from the illiquidity premium associated with this type of debt mandate.

The Fund has also been taking steps to rationalise its property allocation, with the objective of moving from four underlying property managers to three. The Fund has been implementing this over time as attractive opportunities arise to carry out the transactions, with the overall aim of reducing costs.

Fund asset managers

Manager	Mandate	Holding as at 31.3.17	Target Allocation
MFS International (UK) Ltd	UK equities	8.0%	8.0%
MFS International (UK) Ltd	Global equities	9.0%	8.0%
Sarasin & Partners LLP	Global equities	7.9%	8.0%
BlackRock Advisors (UK)	Multi-asset	46.0%	42.0%
PIMCO Europe Ltd (UK)	UK bonds	11.3%	13.7%
M&G	European Loans	9.5%	10.3%
Multi-managers	Property	8.3%	10.0%
Total		**100.0%**	**100.0%**

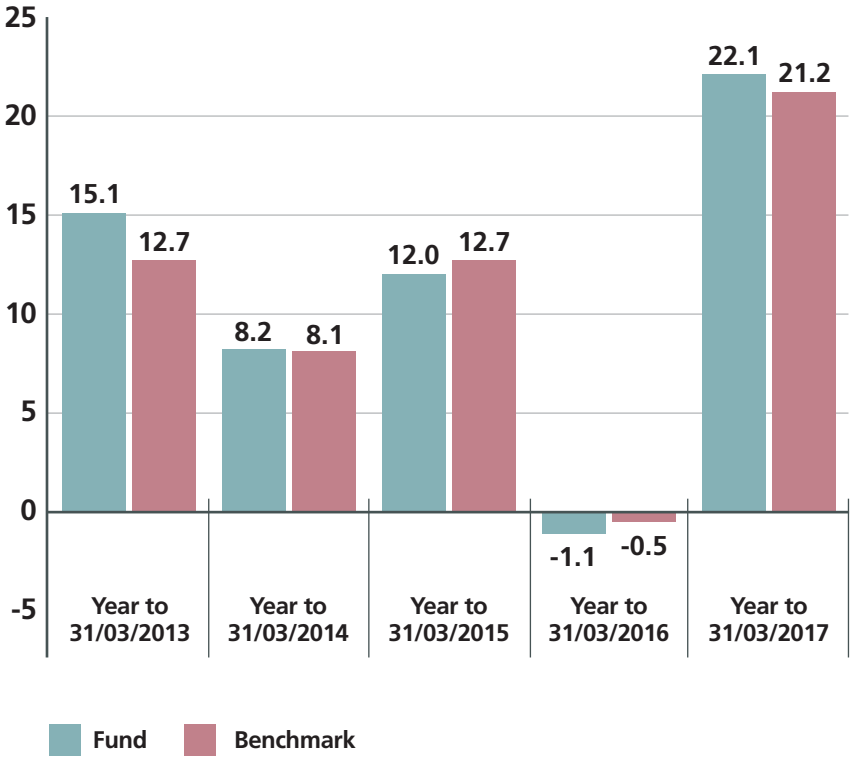
Where the assets were invested on 31 March 2017



UK equities	19.7%
Overseas equities	51.3%
Bonds	20.7%
Property	8.3%

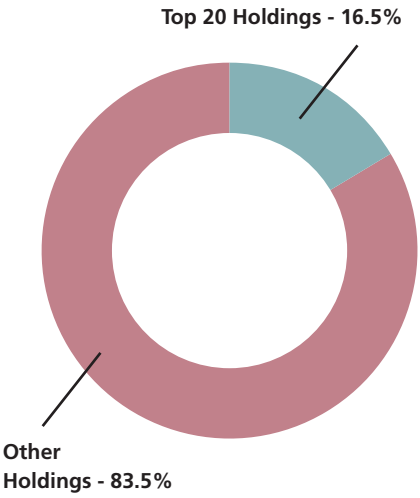
How did the investments perform?

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



Overall fund holdings as at 31 March 2017

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	16.5%
UK Government	5.7%
HSBC Holdings	1.0%
BP Plc	1.0%
BAT	1.0%
Diageo Plc	0.8%
Glaxosmithkline Plc	0.7%
Roche Holding AG	0.5%
Rio Tinto	0.5%
Royal Dutch Shell A	0.5%
Nestle	0.5%
Bayer AG	0.5%
JP Morgan Chase & Co	0.5%
Reckitt Benckiser Group	0.5%
BT Group Plc	0.5%
Royal Dutch Shell B	0.4%
Lloyds Banking Group	0.4%
Apple Inc	0.4%
Total SA	0.4%
WPP Plc	0.4%
Samsung Electronics Ltd	0.3%
Other Holdings	**83.5%**
Total	**100%**

Investment principles – Environmental, Social and Governance (ESG)

The Trustees' Statement of Investment Principles (SIP) outlines their core investment beliefs and their overall approach to responsible investment. The Trustees have formulated an Engagement Policy which outlines their policy on engaging with Fund managers on ESG issues. Within this, the Trustees have adopted the Institutional Shareholder Services (ISS) proxy voting guidelines as a standard for all voting. This has been communicated to the Fund's managers and the investment arrangements have been amended to reflect this. A summary of voting records is published on the PCPF website every quarter.

The Trustees have continued to monitor their managers on ESG issues and have invited a Fund manager to each of their investment-focused meetings. The managers are questioned on their ESG practices and are asked to highlight examples of engagement with the companies they invest in. In all cases managers are expected to apply and comply with best practice standards on Stewardship.

The Trustees' documents on responsible investment and engagement can be viewed on the PCPF website at www.mypcpfpension.co.uk.

What is an abated pension?

Abatement is a standard feature of public service pension schemes.

If you are in receipt of a pension from the Scheme, and following retirement, you return to work in the public sector, you may not earn more, by way of "re-employed salary" and pension, than the up-rated salary for the post from which you retired.

As a result, if you retire and are re-elected, your pension benefits may be affected. For example, when your new salary plus your pension exceed your previous up-rated salary, your pension will be reduced or may cease. This is known as 'abatement'.

More information about working after retirement is available in the Pensioners' E-booklet at www.mypcpfpension.co.uk in the Pensioners section.

Your tax limits

The money you pay into your pension arrangements usually has tax advantages. However, there are limits and tax will be charged on any excess.

Here is a summary of the different allowances that could apply to you.

Annual Allowance - £40,000

This is the total amount you can pay into your pension arrangements each tax year before tax will be charged. Each £1 of annual defined benefit pension built up in excess of inflation is treated as £16 for this purpose.

The level of pensions savings measured against the Annual Allowance is called the Pension Input Amount (PIA). If your PIA has exceeded the Annual Allowance, you will receive a pensions savings statement from the Scheme within six months of the end of the tax year in which the Pension Input Period ended.

Tapered Annual Allowance - Between £10,000 and £40,000

This usually only affects you 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).

If your total taxable income is £110,000 or more, you should check if the Tapered Annual Allowance applies to you.

Money Purchase Annual Allowance - £4,000

The Money Purchase Annual Allowance was previously £10,000; however, it was reduced to £4,000 as of April 2017.

This **only applies** if you have already taken some of your defined contribution savings as cash, a short-term annuity

from a flexi-access drawdown fund, cash from a pension pot ('uncrystallised funds pension lump sums') or if you have taken more than the limit from a capped drawdown fund.

In these circumstances, from 6 April 2017, the total increase in value across all defined contribution pension schemes that you contribute to is restricted to £4,000 for the purpose of calculating any Annual Allowance charge.

Lifetime Allowance - £1 million (increasing to £1.03 milllion from April 2018)

The standard Lifetime Allowance is a limit on the overall amount of pension savings that you can have at retirement without incurring a tax charge (unless you apply for a protection). Each £1 of annual defined benefit pension built up is treated as £20 for this purpose.

The Lifetime Allowance was reduced in April 2016 from £1.25 million. You can apply to protect your lifetime allowance from this reduction and learn more by visiting www.gov.uk/tax-on-your-private-pension/lifetime-allowance.

Please note that Annual and Lifetime Allowance limits are subject to change.

Visit www.gov.uk/tax-on-your-private-pension for more information.

Pensions and tax seminars

In 2017, the Pensions Secretariat, Corporate Services arranged for a third party to present pension tax seminars which were specifically tailored for members. As these were well received by the members who attended, further seminars are planned for 2018. Contributing members will be invited to attend to find out more about pensions tax allowances and how they may be impacted. Further details will provided nearer to the time.

State Pension Age changes

The conclusions of the first State Pension Age (SPA) review were announced in July 2017, having been delayed because of the General Election.

The main news from the review is that the SPA will increase from 67 to 68 over a two-year period, starting in 2037 and ending in 2039. This is seven years earlier than the previously planned 2044 to 2046 step-up.

The increase is in line with the key recommendation of a report which was published on 23 March 2017, following an independent review of the SPA.

If you are a Member of the CARE Section of the Scheme, you will recall that you now have a Normal Pension Age (NPA) that is the same as your State Pension Age. NPA is the earliest age a pension can normally be claimed without an early payment reduction. Your NPA will change if your State Pension Age changes.

Check your State Pension Age at gov.uk/state-pension-age.

The change to State Pension Age will not affect you if you were born before 6 April 1970.

Keep your details up to date

Have you moved house or changed your contact information?

If so, remember to keep the Scheme administrator, RPMI, informed so you can continue to receive important information about your pension.

You can update your details by writing to:
PCPF Administration Team, RPMI, PO Box 193, Darlington, DL1 9FP.

Alternatively, email pcpf@rpmi.co.uk or call 0845 555 3377 (calls cost 5p per minute plus your phone company's access charge).

Transferring pension benefits

If you are contributing to the Scheme and wish to consider transferring benefits from another registered pension scheme; or, if you no longer contribute and wish to consider transferring benefits to another registered pension scheme, you can refer to the members' website for further information, or contact the Scheme Administrator at the address shown on page 28.

Protect your pension

Please be vigilant against pension scams.

Scammers may try to lure you into an illegal pension transfer. If the transfer goes through, you may never see your pension again and you could face a large tax bill as well!

Scammers' tactics are becoming ever more sophisticated. They will try to flatter, tempt and pressure you.

Be wary of offers of 'deals' such as overseas investments, guaranteed returns, or limited offers one-off pension investments, cold calls, upfront cash or promises to help you access your pension funds early. These offers are unlikely to be genuine.

If you're under age 55 you cannot access your pension, unless you are too ill to work.

Before agreeing to any pension transfers…

- Study details of any transfer carefully yourself
- See if the deal is a known scam at fca.org.uk/scamsmart
- Check the adviser is registered with the Financial Conduct Authority at register.fca.org.uk
- Call the Pensions Advisory Service for help on 0300 123 1047 or visit pensionsadvisoryservice.org.uk
- Visit pensionwise.gov.uk to learn about your retirement options

Further information is available on the Pension Regulator's website www.thepensionsregulator.gov.uk/pension-scams.

If think you've been a victim of a scam, please report it to Action Fraud on 0300 123 2040.

Take care of your Death benefit nominations

If you die before the age of 75 while contributing to the Scheme, a lump sum benefit is payable at the discretion of the Trustees. This is generally not subject to income or inheritance tax, but will be subject to the Lifetime Allowance.

It is important to complete a Death benefit nomination form to say who you would like those beneficiaries to be – for instance, individuals, charities, organisations or clubs – and what percentage they should receive.

You should submit a new Death benefit nomination form every few years, either to reconfirm your wishes or change them, so the Trustees know your choices are up to date.

Please note that your nomination:

- Will cease to be valid if the nominee is your spouse, civil partner or same sex spouse and your marriage or civil partnership ends, or if any of the nominees die;
- May be revoked at any time by you giving notice, in writing, to the Trustees;
- May be disregarded if the Trustees are of the opinion that payment to the nominee is not reasonably appropriate (e.g. the nominees cannot be traced)

The Trustees' discretion will also apply to any refund of contributions paid on the death of a member with deferred benefits in the event that no spouse's or dependants' pensions are payable. Such deferred members may also wish to consider updating their Death benefit nomination form.

You can download a death benefit nomination form from www.mypcpfpension.co.uk or request one from the Scheme administrator, RPMI. Telephone 0845 555 3377 (calls cost 5p per minute plus your phone company's access charge), or emailpcpf@rpmi.co.uk

How to save more

It is important to plan carefully for the lifestyle you want when you retire and there are several options available to help you keep your pension savings on track.

Additional Voluntary Contributions (AVCs)

While you are contributing to the Scheme you have the option to pay AVCs. These are extra pension contributions which build up in a separate fund to your Scheme contributions.

You can choose how much to pay (subject to limits) and which funds you would like to invest in from the choice available.

If you would like more information about AVCs please contact RPMI at the address given on page 28.

Added Pension

Members of the CARE Sections of the Scheme can pay a one-off lump sum or make monthly contributions to buy an additional amount of pension, either to buy an extra pension for you *or* for you and your dependant(s). This is known as Added Pension.

Added Pension options are available once a year (either in April or within one month of joining the Scheme).

Effective Pension Age (EPA)

Members of the CARE Sections of the Scheme are able to claim their Scheme benefits when they reach Normal Retirement Age. This will be either age 65 or their State Pension Age – whichever is greater.

If your State Pension Age is over 65, you can pay additional contributions by making monthly contributions to the Scheme. This option is available once a year (either in April or within one month of joining the Scheme) to reduce your Normal Retirement Age by up to three years, to a minimum of age 65. This is known as buying an 'Effective Pension Age' (EPA).

Please remember the April deadline for applications for Added Pension or Effective Pension Age changes.

Early Retirement Reduction Waiver

If you retire before your Normal Retirement Age or EPA, your pension would normally be reduced because it is being paid early. However, members of the CARE Sections can make a one-off payment at retirement so that benefits are not reduced.

The Scheme administrator, RPMI, will calculate the cost of this, if requested, and the payment must be received before your pension will be paid.

Find out more

If you wish to buy Added Pension or Effective Pension Age, you can learn more and download forms at www.mypcppension.co.uk or contact RPMI.

For more information on the Early Retirement Reduction Waiver, please contact RPMI at the address given on page 28.

House of Commons Members' Fund

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. Former members and certain dependants can apply for assistance, particularly in times of financial hardship.

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.

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.

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.

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 and you will be notified of their decision in due course.

Enquiries and further information

HCMF Secretariat
House of Commons Members' Fund
Pensions Secretariat
Corporate Services
House of Commons
London SW1A 0AA

Telephone: 020 7219 2106
Fax: 020 7219 2554
Email: hcmf@parliament.uk

Learn more about your pension online

Lots of information about your PCPF pension is available online at www.mypcpfpension.co.uk.

The website is a useful source of information and can be viewed on mobiles and tablets, so you can manage your pension whenever and wherever you want.

You can download forms, read your Member Guide, and find the latest annual reports and investment information.

You can also learn about your options and benefits, and check news updates to see how changes in the pensions industry may affect you.

Visit www.mypcpfpension.co.uk.

Notes

Your contacts

The Fund is administered by RPMI 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 the administrators of the Parliamentary Contributory Pension Fund (PCPF), quoting your unique pension reference number (if not known, please quote your National Insurance number), at:

PCPF Administration Team
RPMI
PO Box 193
Darlington
DL1 9FP

Customer helpline: 0845 555 3377
Email: PCPF@rpmi.co.uk
Website: www.mypcpfpension.co.uk

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

Pensions Secretariat
House of Commons
Corporate Services
3rd Floor, 7 Millbank
London SW1A 0AA

Email: pensionsmp@parliament.uk
Phone: 020 7219 2106
Fax: 020 7219 2554

Help for visually impaired members

This Annual Review is available in a large type or as a PDF which can be emailed to you. If you would like to receive one of these, please contact the Pensions Secretariat.