London Borough of Lewisham Pension Fund

2018/19 Annual Report

Together we can make Lewisham a great place to live, work and learn.

Contents

Appendices

1 FOREWORD BY ACTING CHIEF FINANCE OFFICER

1.1. Welcome to the 2018/19 Annual Report for the Lewisham Pension Fund. The requirement for and contents of the annual report is set out in Regulation 57 of the Local Government Pension Scheme Regulations 2013.

1.2. The Pension Fund Annual Report details the financial position of the Fund and the performance of the managers appointed to administer the investment portfolio. It brings together a number of separate reporting strands into one comprehensive document that enables the public and employees to see how the Fund is managed and how it is performing.

1.3. The results of the most recent triennial valuation, based on the Fund's position as at 31 March 2016, showed an improved funding level of 78% of its liabilities, compared to a funding level of 71% as at the 2013 valuation. The resulting deficit as at the 2016 valuation was £288m (£348m in 2013). The next valuation, as at 31 March 2019, is currently underway with the final results expected in early 2020.

1.4. Since the last valuation active membership has decreased by approximately 5%, whilst the number of pensioners has increased by approximately 8%. The Fund continues to mature and the net cash withdrawal in 2018/19, excluding Fund management expenses, was £9.2m (£6.4m in 2017/18).

1.5. Over the year the net asset value of the Fund increased by 6.4% to £1,387m at 31 March 2019 (£1,304m the previous year). The return on assets for the year was under benchmark by 1.20% (compared to 0.07% above in 2017/18) which was mostly a result of underperformance in the Fund's Diversified Growth mandate; however, the underperformance in this asset class was a common trend across the market.

1.6. This was the sixth full year of the Fund's mainly passive strategy and the performance of the Fund's passive equities and bonds has marginally exceeded benchmark expectations since inception. During the year, in accordance with the diversification strategy agreed by Members of the Pensions Investment Committee in 2016/17, approximately 5% of the Fund's value committed to multi-asset credit mandates (6% in total) was fully called up by managers, whilst the funding of a new infrastructure mandate was also completed. Fund performance will be impacted by how quickly and successfully these funds are deployed by managers, in line with their performance objectives.

1.7. With regard to development of pension reform, particularly around pooling, Lewisham remains committed to pooling its assets with the London Collective Investment Vehicle (LCIV) where suitable mandates become available. However, to date none of the funds launched by the LCIV have been funds Lewisham are invested in or planning to invest in.

1.8. The Committee has revisited its Investment Beliefs over the past year and agreed on a set of statements which accurately reflect the direction in which Members believe the Fund's strategy should be focussed. ESG issues will be a key consideration in the revised strategy, which will follow the outcome of the March 2019 triennial valuation. The Fund will continue to position itself to put the interest and benefit of its members first as a priority.

David Austin
Head of Corporate Resources (Acting S151 Officer)

2 FOREWORD BY CHAIR OF PENSION INVESTMENT COMMITTEE

2.1. I am delighted to sit in my sixth year as Chair of the Lewisham Pensions Investment Committee (PIC).

2.2. Economic growth in the UK and globally slowed in the second half of 2018/19, with the OBR revising down its near-term real GDP forecast as a result, forecasting growth of 1.2% in 2019 down from 1.6%, although settling to 1.5% a year in the medium-term. CPI inflation fell to 1.8% in January 2019 as oil prices fell sharply in the final quarter of 2018, the first time for two years that inflation fell below the Government's 2% target. It has fluctuated at or below the 2% mark since then, and is forecasted at 1.9% in 2020, returning to the 2% target thereafter.

2.3. The most recent Office for Budget Responsibility forecasts were published in March 2019 but will be restated and republished in November 2019 in lieu of the cancelled Budget announcement which was due to take place in early November 2019. Considerable uncertainty over the next steps in the Brexit process has made any forecasting difficult without making broad-brush assumptions, and this will continue into late 2019/20.

2.4. Despite a difficult economic and political environment, the average local authority Pension Fund produced a return of 6.6% in 2018/19, with most returning between 5% and 8% for the year. US equities, private equity and infrastructure were amongst the highest performing asset classes for the year, whilst emerging market equities and absolute return funds performed relatively poorly. Lewisham's Fund increased in value over the year by approximately 6.4%, from £1,304m to £1,387m; approximately 51% of the Fund was held in passive equities, reflecting the continued strategic diversification of the Fund out of equity investments and into alternative asset classes

2.5. The Fund completed new investments in multi-asset credit and infrastructure during the financial year, allocating 3% and 6% of the Fund respectively to these new mandates. As 2019 progresses, the Committee will look to address the challenges presented by carbon transition in line with the Committee's beliefs. A carbon footprint exercise has been undertaken on the Fund's equity holdings, the results of which will be coupled with research carried out to identify opportunities in the renewable energy infrastructure asset class to avoid stranded assets and achieve steady income streams, while keeping capital suitability illiquid to preserve the resources necessary for planning long-term Pension Fund payments to members in the future.

2.6. It is hoped that such investments will take place through the London CIV, if and when adequate demand for such mandates can be gained and communicated to the CIV, a process I have been leading and prompting over the last year amongst the other London Pension Committee Chairs, given the 're-balancing' windows of opportunity that the triennial valuation will offer all of the 32 London Borough shareholders. Indeed, our own carbon footprint exercise and the triennial valuation will provide timely opportunities to re-organise our passive equities to take better prudential advantage of both carbon-tilting and appropriate exclusion strategies in the move away from fossil fuels to the rapidly increasing opportunities of greener technologies.

2.7. The latest triennial valuation takes place as at March 2019, and the preliminary results will be available in late 2019. The Committee will work with the local authority to determine a suitable Funding Strategy and Investment Strategy for the next three year cycle aligned to the wider climate objectives of the Fund and continuing to plan for a fully-funded position.

2.8. Keeping up to date with legislative and regulatory developments has required the on-going attention of the Committee, not least the Government's now mandatory demand for the Fund to belong to a 'pool' and the draft pooling guidance published in early 2019. As a voluntary founding member of LCIV the Fund remains committed to pooling our assets onto the platform. We are actively engaged with LCIV to identify mandates which are aligned with the beliefs of the Committee and the overall Fund strategy

2.9. Alongside most of the other 32 London Borough shareholders, we hope to see LCIV taking the opportunities of scale afforded to it to make significant and profitable investments in alternative asset classes which are already being successfully pursued by other UK Local Government Pension Funds in 'pools' and collaborations across the UK at present.

2.10. The Committee will continue to work to ensure the Fund is well managed to the benefit of all its members. Our latest Investment Strategy Statement was published in September 2018 which, when read in conjunction with the Funding Strategy Statement, provides an overview of the Fund's approach to investing its assets in order to fund its liabilities.

2.11. I thank the members of the Pensions Investment Committee and the Council's officers for their work over the last year. I look forward to continuing to work with all concerned to ensure the Fund continues to be effectively and responsibly managed.

Councillor Mark Ingleby
Chair – Pensions Investment Committee

3 INTRODUCTION

A. OVERVIEW OF THE SCHEME

3.1. The London Borough of Lewisham Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is set up under the Superannuation Act 1972, which requires the Council to maintain a Pension Fund for its own employees and employees admitted to the Fund under an admission agreement.

3.2. The Fund's objectives as per its Investment Strategy Statement are to invest its assets so as to meet the long-term pension and other benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations 2013) for its members. The Fund's approach to investing is to optimise return consistent with a prudent level of risk, to ensure there are sufficient resources to meet the liabilities whilst ensuring the suitability of the assets in relation to the needs of the Fund.

B. MANAGEMENT

3.3. The Council has delegated the investment arrangements of the scheme to the Pensions Investment Committee (PIC). This Committee decides on, and has ultimate responsibility for, the investment policy most suitable to meet the liabilities of the Fund. It comprises eight elected representatives of the Council, all of whom have voting rights. Members of scheduled and admitted bodies to the Fund, and representatives of the Local Pension Board may attend Committee meetings as observers, but have no voting rights.

3.4. The Committee reports to Full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Acting Chief Finance Officer and the Fund's appointed actuary, investment managers and investment adviser.

3.5. The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Regulations, whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

C. ASSET POOLING

3.6. The London Borough of Lewisham is one of thirty-two shareholders in the London Collective Investment Vehicle (LCIV), one of eight pooling vehicles established as part of the reform of investment management in the LGPS which began in 2015 with the publication of criteria and guidance on pooling of LGPS assets to deliver significantly reduced costs while maintaining overall investment performance and achieving benefits of scale.

3.7. The new pools have significantly changed the previous approach to investing, although the responsibility for determining asset allocations and the investment strategy remains with each individual Pension Fund.

3.8. The London Borough of Lewisham Pension Fund does not currently have any actively pooled assets with the LCIV. Further information on asset pooling is provided in section 10 of this report.

4 MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

A. SCHEME MANAGEMENT AND ADVISERS

4.1. The individuals and organisations administering the Pension Fund are as set out below:

Pensions Investment Committee	**Members as at 31 March 2019*** Cllr Ingleby (Chair) Cllr Krupski (Vice Chair) Cllr Best Cllr Codd Cllr Maslin Cllr Muldoon Cllr Sheikh Cllr Penfold* (from the June 2019 Committee meeting, following the resignation of Cllr Feis-Bryce in March 2019).
Local Pension Board	**Members as at 31 March 2019*** Stephen Warren (Chair) Adam Bowles (Employer Rep – LB Lewisham) Rowann Limond (Employer Rep – Lewisham Homes)* (from October 2019, following resignation of Alex Bush) Elizabeth Sclater (Employee Rep – Scheme Member) Gary Cummins (Employee Rep – Union member)* (from March 2019, following the resignation of Simon Tilley in February 2019).
Administrator	Acting Chief Finance Officer – David Austin
Responsible Officers	Group Manager for Pensions & Payroll – Carol Eldridge Principal Accountant for Pensions – Robert Browning
Adviser	Hymans Robertson LLP
Actuary	Hymans Robertson LLP
Asset Pool	The London Collective Investment Vehicle (LCIV)
Custodian Bank	The Northern Trust Company
Solicitors	LB Lewisham Legal Services
Bankers	Barclays Bank
Performance Measurement	The Northern Trust Company
Investment Managers	**Managers as at 31 March 2019:** Blackrock (Mixed Passive) HarbourVest (Private Equity) Invesco (Diversified Growth) J.P. Morgan (Infrastructure) M&G (Company Finance) Partners Group (Multi-Asset Credit) Pemberton (Multi-Asset Credit) Schroders (Property)

	UBS (Mixed Passive)
AVC Providers	Equitable Life and Clerical Medical
Auditors	Grant Thornton UK LLP

B. RISK MANAGEMENT

4.2. The legal responsibility for the prudent and effective stewardship of the Fund's assets rests with the PIC. This Committee has full delegated authority to make investment decisions, the terms of which are set out in its terms of reference in the Council's constitution. It receives advice from the Acting Chief Finance Officer and, as necessary, from the Fund's appointed actuary, investment managers, custodian and investment adviser.

4.3. The Committee has regard to the Myners Principles which codify best practice in investment decision-making, as updated and consolidated post 2008 by the Government. The Committee manages the Pension Fund's assets in accordance with the relevant LGPS Regulations.

4.4. The Fund risk register is incorporated within the annual business plan which is approved by the PIC. The risk register sets out the nature of the individual risks for the Fund with an assessment of the level of risk. Risk ratings fall into the following four categories:

RISK CATEGORY	RISK RESPONSE
Red (16-25)	Immediate action required, senior management involved
Amber/Red (10-15)	Senior management attention needed and management responsibility specified
Amber/Green (5-9)	Manage by specific monitoring or response procedures
Green (1-4)	Manage by routine procedures, unlikely to need specific or significant application of resources

4.5. The PIC reviews the risk register periodically to ensure that risks are updated and the relevant mitigations are put in place to manage them. The Local Pension Board also reviews the register on a quarterly basis, and assists the authority in ensuring it adequately mitigates against risk. Senior officers will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, PIC approval may be required where appropriate officer delegations are not in place.

4.6. The Fund's Investment Strategy Statement also outlines the risks taken to meet the funding objectives and the approaches taken to managing those risks, and include the following:

1. **Funding Risks** – broken down into:

a. **Financial mismatch** – the risk that the Fund assets fail to grow in line with the developing costs of meeting the liabilities. This is mitigated by the PIC setting a strategic asset allocation benchmark for the Fund which takes into account probability of success and downside risk, and monitoring allocation and returns relative to the benchmark. The PIC also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.
b. **Changing demographics** – the risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits. This is mitigated by the PIC seeking to understand the assumptions used in any analysis and modelling so they can be compared to their own views, and the level of risks associated with these assumptions can be assessed.
c. **Systemic risk** – the possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. The PIC seeks to mitigate this as much as it can through a diversified portfolio.

2. **Asset Risks** – specifically:
   a. **Concentration** – the risk that a significant allocation to any single asset class and its underperformance relative to expectation would result in difficulties achieving funding objectives. The PIC strategic asset allocation invests in a diversified range of asset classes and has in place rebalancing arrangements to ensure actual allocation does not deviate substantially from the target. The Fund invests in a range of mandates, each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help to reduce the Fund's concentration risk.
   b. **Illiquidity** – the risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. By investing in liquid asset classes such as listed quoted equities and bonds, as well as property, the PIC has recognised the need for access to liquidity in the short term.
   c. **Currency risk** – the risk that the currency of the Fund's assets underperforms relatives to Sterling (i.e. the currency of the liabilities). The Fund invests in a range of overseas markets which provides a diversified approach to currency markets. The Fund has also considered, and will continue to consider at periodic intervals, the potential need for any currency hedging to reduce currency risk.
   d. **Environmental, Social and Governance (ESG)** – the risk that ESG factors reduce the ability of the Fund to generate long-term returns. The PIC expects all investment managers to undertake appropriate monitoring of investments with regards to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund, including corporate governance and environmental factors. It expects managers to integrate material ESG factors within its investment analysis and decision making, and to use their influence as major institutional investors to promote good practice in the investee companies and markets to which the Fund is exposed.
   e. **Manager underperformance** – the failure of managers to achieve the returns as set out in their mandates. The PIC has attempted to reduce this risk by appointing more than one manager and having a large proportion of

the Fund managed on a passive basis. The PIC assesses manager performance on a quarterly basis and will take steps if underperformance persists.

3. **Other Provider Risk** – comprising:
   a. **Transition risk** – the risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the PIC seeks suitable professional advice.
   b. **Custody risk** – the risk of losing economic rights to Fund assets, when held in custody or being traded.
   c. **Credit default** – the possibility of default of a counterparty in meeting its obligations.
   d. **Stock-lending** – the possibility of default and loss of economic rights to Fund assets.

The PIC monitors and manages risks in these areas through a process of regular scrutiny of its providers, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The PIC has the power to replace a provider should serious concerns exist.

4.7. The Pension Fund Statement of Accounts as appended at Appendix A sets out additional financial risk management in place for the Fund and provides some sensitivity analysis of market price risk and currency risk, and the potential impact on the Fund's market value.

4.8. The Fund also gains assurance from the work of internal audit, which undertakes an annual audit to provide an opinion on the effectiveness of controls in place and makes recommendations to management on how to improve those controls. The findings of the 2018/19 internal audit were issued in March 2019, with the Fund achieving a satisfactory assurance level. Key findings and recommendations from the audit include the need to carry our regular and timely reconciliations; to maintain a log of amendments for member accounts; to improve document retention procedures; and to ensure adequate training in key pensions systems is provided for pensions staff.

4.9. Areas that were identified by internal audit as working well include the calculation and processing of pension payments with appropriate segregation of duties; the reconciliation of pension payments and investigation of discrepancies; the training offered to members of the PIC; and the active monitoring of Fund activity including that undertaken at PIC meetings.

C. FINANCIAL PERFORMANCE

4.10. The 2018/19 Pension Fund annual budget for controllable expenditure was increased by approximately 35% on the 2017/18 budget to allow for increased management expenses as a result of investing in new mandates in the year. Actuals against budget are illustrated below:

	2018/19 Actuals	Budget	Variance	2017/18 Actuals	2017/18 v 2018/19 Year on Year Variance	
	£'000	£'000	£'000	£'000	£'000	%
Administration Expenses	626	813	(187)	696	(70)	(10.1)
Oversight and Governance Expenses	235	245	(10)	257	(22)	(8.6)
	861	**1,058**	**(197)**	**953**	**(92)**	**(9.7)**
Investment Management Expenses:						
Transaction Costs	24	20	4	12	12	100.0
Management Fees	1,911	1,551	360	917	994	108.4
Custody Fees	34	42	(8)	47	(13)	(27.7)
	1,969	**1,613**	**356**	**976**	**993**	**101.7**
Total Expenses	**2,830**	**2,671**	**159**	**1,929**	**901**	**46.7**

4.11. Administration expenses consist of all expenses the administering authority must incur in performing its duties to administer entitlements and provide benefit entitlement information. This includes staff costs, IT costs, general costs such as stationary and postage, membership fees, and costs associated with the provision of additional voluntary contributions. Oversight and governance expenses can include the cost of selection, appointment and performance monitoring of fund managers, investment advisory services, legal and actuarial services, and audit fees.

4.12. The reduction in administration costs in 2018/19 is made up in part by reduced staffing and IT costs recharged to the Fund, whilst the reduction in oversight and governance costs is predominantly the result of an accounting error which, if overlooked, would bring 2018/19 costs in line with 2017/18. The most material change in the 2018/19 expenses is the increase in management fees which saw more than a 100% increase on 2017/18 costs and exceeded the forecast by £360,000. This is the result of a change in Fund structure and the transition of assets into more actively managed alternative asset classes from passive equity mandates. The 2019/20 budget will be increased to account for higher fees, as well as the full-year fee impact of new managers.

D. ADMINISTRATIVE MANAGEMENT PERFORMANCE

4.13. The pension scheme, and its many Admitted and Scheduled bodies, is administered by a small in-house team which is also responsible for other areas of pension work including providing data to the LPFA, TPA and the NHS pension schemes. The team also carries out non-Pension Fund work such as providing estimates and calculating and paying redundancy and compensation payments. Further information about the administration of the scheme including Fund forms and publications, information on complaints and disputes, and details on how members are kept informed, including relevant contact details, can be found on the Fund's website at www.lewishampensions.org/lewisham-pension-fund/.

4.14. The number of key administrative activities carried out in the year are shown in the table below. A new task management system has been purchased which, going forward, will improve the monitoring of administration performance against targets.

KEY ADMINISTRATIVE ACTIVITIES:

	2018/19	2017/18	2016/17	2015/16	2014/15
New scheme members	1,181	1,157	1,021	1,232	1,470
Estimate of benefits	1,839	1,801	1,915	1,801	1,610
Responding to correspondence *	557	557	625	557	557
Deferred benefits	330	186	238	380	207
Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme	304	246	232	212	124
Retirements	410	335	491	406	386
Death cases (with dependants)	264	192	287	249	243
Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme	247	246	263	208	167
Additional contributions	46	40	21	7	32
Refunds of contributions	507	187	328	211	160
Overall Performance	**5,685**	**4,947**	**5,421**	**5,263**	**4,956**

*A large volume of correspondence has moved to email and is not recorded, therefore a proxy has been used.

4.15. The role of the pensions section in the Administering Authority during 2018/19 was carried out by five Full Time Equivalent (FTE) staff serving almost 26,000 members. Relevant data and staffing ratios are as set out below, and indicate an increasing number of transactions over time being undertaken by the same number of FTE staff.

KEY STAFF INDICATORS:

FTE Staff	**2018/19**	**2017/18**	**2016/17**	**2015/16**	**2014/15**
Lewisham	7.5*	7.5*	7.5*	7.5*	6.4
Made up of:					
Work for other schemes	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Other work	(2.0)	(2.0)	(2.0)	(2.0)	(1.0)
Administration of LGPS	**5.0**	**5.0**	**5.0**	**5.0**	**4.9**

* Plus 2 apprentices

Scheme Membership	**2018/19**	**2017/18**	**2016/17**	**2015/16**	**2014/15**
Number of contributors	6,726	6,821	6,867	7,045	7,142
Number of deferred members	11,469	10,950	10,621	9,828	9,061
Number of pensioners	7,779	7,622	7,431	7,225	7,050
Total	**25,964**	**25,393**	**24,919**	**24,098**	**23,253**

Staff Performance	2018/19	2017/18	2016/17	2015/16	2014/15
Ratio of members to 1 FTE staff	5,193	5,079	4,984	4,819	4,745
Transactions per member of staff	1,137	989	1,084	1,052	964

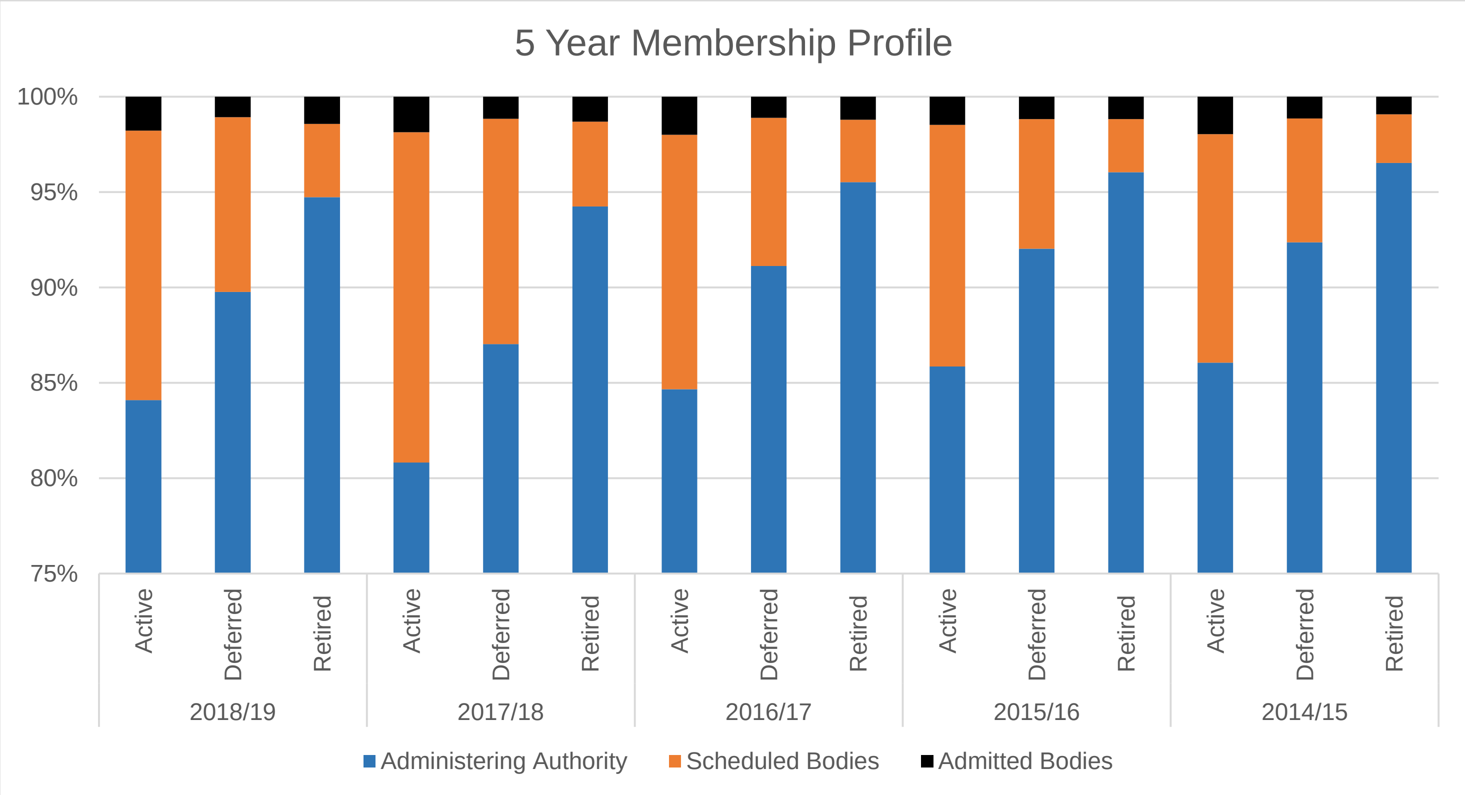
4.16. The age profile of the membership calculated as at 31 March 2019 is show in the table below:

AGE PROFILE OF MEMBERSHIP:

Age Band	Contributing	Deferred	Pensioners/ Dependents
0-4	0	0	0
5-9	0	0	0
10-14	0	0	19
15-19	12	0	24
20-24	258	22	15
25-29	451	220	0
30-34	572	475	1
35-39	691	698	3
40-44	777	783	9
45-49	911	1,017	20
50-54	1,205	1,764	58
55-59	1,080	1,731	399
60-64	590	620	1,344
65-69	157	75	1,668
70-74	22	24	1,543
75-79	0	5	1,105
80-84	0	0	800
85-89	0	0	484
90-94	0	0	224
95-99	0	0	46
100-104	0	0	7
Total	**6,726**	**7,434***	**7,769**

*Does not include Status 2's (undecided leavers) shown in the membership numbers above.

4.17. A five year analysis of the Fund's membership (active, deferred, and retired) is shown in the next graph and table. The table also provides the unit cots per active, deferred and retired member in terms of both administrative and investment management expenses. Administrative expenses in this context include oversight and governance expenses as outlined in section 4.11, whilst management expenses relate to fund manager fees, transaction costs and custody fees.


5 Year Membership Profile
100%
95%
90%
85%
80%
75%
Active
Deferred
Retired
2018/19
2017/18
2016/17
2015/16
2014/15
Administering Authority
Scheduled Bodies
Admitted Bodies

FIVE YEAR ANALYSIS: MEMBERSHIP AND ADMINISTRATIVE UNIT COSTS:

	2018/19			2017/18			2016/17			2015/16			2014/15		
Membership	**Active**	**Deferred**	**Retired**	**Active**	**Deferred**	**Retired**	**Active**	**Deferred**	**Retired**	**Active**	**Deferred**	**Retired**	**Active**	**Deferred**	**Retired**
Administering Authority	5,656	10,295	7,360	5,513	9,531	7,184	5,814	9,679	7,098	6,049	9,045	6,939	6,147	8,370	6,805
Scheduled Bodies	951	1,051	298	1,181	1,292	339	916	825	243	892	668	202	855	588	180
Admitted Bodies	119	123	111	127	127	99	137	117	90	104	115	84	140	103	65
Totals	**6,726**	**11,469**	**7,769**	**6,821**	**10,950**	**7,622**	**6,867**	**10,621**	**7,431**	**7,045**	**9,828**	**7,225**	**7,142**	**9,061**	**7,050**
Unit Costs				**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Administrative Unit Cost (£)	90	15	11	98	17	13	116	21	15	104	21	14	91	20	13
Investment Management Unit Cost (£)	205	34	25	100	18	13	102	19	14	127	26	18	141	32	20
Total Unit Cost (£)	**295**	**49**	**36**	**198**	**35**	**26**	**218**	**40**	**29**	**231**	**47**	**32**	**232**	**52**	**33**

4.18. A list of contributing employers and the amounts contributed by the employers in 2018/19 is shown below:

EMPLOYER CONTRIBUTIONS:

Employer	Contributions Paid £'000	Comments
Administering Authority		
Lewisham Council	25,790	
Scheduled Bodies		
Lewisham Homes	3,339	
Haberdashers' Aske's Knights Academy	1,222	
Christ The King Sixth Form College	542	
Tidemill Academy	162	
St Matthew's Academy	154	
Childeric	101	New in 2018/19
Admitted Bodies		
Youth First Ltd	173	
Phoenix	147	
Phoenix Agency Services	120	
Chartwells	49	
Lewisham Music	46	
One Housing	40	
Skanska	28	
3 C's Support	18	
NSL	14	
Change Grow Live	13	
Nviro	12	
Fusions Leisure Management	10	
Housing 21	4	
Pre-School Learning Alliance	4	
Wide Horizons	3	
Tower Services	2	
Chequers Contract Services – Lee Manor	<1	

4.19. The Statement of Accounts summarises the contributions received from employees and employers; the total contributions received per establishment are shown in the table below.

4.20. The Fund has a number of bodies which participate in the Fund either as scheduled or admitted bodies. Scheduled bodies are organisations which have a statutory entitlement to be members of the scheme. Admitted bodies are those which have applied to join the scheme and the Council has formally approved their admission.

TOTAL CONTRIBUTIONS RECEIVED FROM EMPLOYEE (EE) AND EMPLOYER (ER):

Employer	Total Contributions Received (EE & ER) £'000	% Received by due date
Administering Authority		
Lewisham Council	33,508	100
Scheduled Bodies		
Lewisham Homes	4,525	98
Haberdashers' Aske's Knights Academy	1,539	100
Christ The King Sixth Form College	675	98
Tidemill Academy	209	80
St Matthew's Academy	207	95
Childeric	128	99
Admitted Bodies		
Youth First Ltd	224	90
Phoenix	213	95
Phoenix Agency Services	162	98
Chartwells	60	25
Lewisham Music	55	100
One Housing	44	100
Skanska	41	100
3 C's Support	23	80
NSL	18	100
Change Grow Live	17	99
Nviro	14	100
Fusions Leisure Management	12	100
Quality Heating	11	98
Housing 21	5	100
Pre-School Learning Alliance	5	94
Wide Horizons	4	100
Tower Services	2	99
Chequers Contract Services – Lee Manor	<1	80

Note: All payments were chased and received.

5 INVESTMENT POLICY AND PERFORMANCE REPORT

A. INVESTMENT STRATEGY

Investment Policy

5.1. The Council's investment policy encompasses its approach to funding its liabilities as per the Funding Strategy Statement (FSS) and is outlined in its Investment Strategy Statement (ISS). The ISS is included at Appendix B and the FSS at Appendix C. The FSS sets out the strategy for prudently meeting the Fund's future pension liabilities over the longer term. The ISS sets out the Fund's policies in respect of asset allocation, rebalancing, and the approach to risk including environmental, social and governance considerations.

5.2. The only direct shares held by the Fund are in a FTSE 250 listed private equity investment company, HarbourVest Global Private Equity, the value of which stood at £13.7m at 31 March 2019. The Fund reviews each fund manager's Corporate Governance policies to ensure they are in line with the Fund's investment principles when procuring a new manager, and as part of the regular monitoring of managers.

UK Stewardship Code

5.3. The UK Stewardship Code 2012 sets out the principles for effective stewardship by asset owners and asset managers alike. In so doing, the Code assists institutional investors to better exercise their stewardship responsibilities, which in turn gives force to the "comply or explain" governance system. Managers and Owners are tiered based on the quality of their Code statements, distinguishing between those who report well and demonstrate their commitment to stewardship, and those where reporting improvements are required.

5.4. Although not a direct signatory, the Fund fully endorses the principles embedded within the Code. It expects its external fund managers to be signatories of the Code, reaching Tier One level of compliance or seeking to achieve it within a reasonable timeframe. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

5.5. The seven principles of the UK Stewardship Code 2012, and how the Fund meets each one, is described below:

1.	Publicly disclose policy on how stewardship responsibilities are discharged.	The Fund's stewardship responsibilities are set out in the ISS. Under the Regulations, the ISS must be reviewed and revised as necessary from time to time and at least every three years.
2.	Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.	PIC members declare any conflicts of interest before meetings begin. This is recorded in the minutes and published on the Council website. A decision is made by the Chair on the necessary steps to be taken to ensure the interests of the Fund are put first.
3.	Monitor investee companies.	The Fund's custodian produces monthly performance reports, whilst the Fund's advisor

		prepares quarterly performance reports which are reported at PIC. Fund managers also prepare quarterly reports, and attend PIC at least annually to update Members.
4.	Establish clear guidelines on when and how stewardship activities will be escalated.	The Fund has established a rebalancing policy; this has been reviewed and agreed by our investment advisors and forms part of the ISS. In addition to regular PIC meetings, officers are in regular communication with fund managers and will escalate any concerns about performance, strategy or governance to PIC.
5.	Be willing to act collectively with other investors where appropriate.	The Fund is willing to act in collective engagement and is actively committed to the LCIV for the pooling of its assets into centrally managed Funds, whilst liaising and working with other shareholders of the LCIV to achieve shared objectives.
6.	Have a clear policy on voting and disclosure of voting activity.	The Fund makes use of proxy voting, with the PIC having delegated the exercise of voting rights to fund managers in line with the ISS.
7.	Report periodically on stewardship and voting activities.	This annual report forms part of the Fund's periodic reporting on its Stewardship duties.

5.6. In early 2019 the Financial Reporting Council (FRC) consulted on a new Stewardship Code that sets substantially higher expectations for investor stewardship policy and practice; the result of that consultation is the UK Stewardship Code 2020, which comes into force from 1 January 2020 and comprises twelve 'apply and explain' Principles for asset managers and owners, with six Principles for service providers (including investment consultants). To be included in the first list of signatories to the Code, organisations must submit an annual Stewardship report explaining how they have applied the Code in the previous twelve months; this report must be submitted to the FRC by 31 March 2021.

5.7. The Fund will consider the impact of the new Code and align its expectations of its asset managers and service providers accordingly. The Fund will use the revised Code as a basis for reviewing and strengthening its approach to responsible investment activity.

5.8. The Fund is also a member of the following bodies:

a. Pensions and Lifetime Savings Association PSLA (formerly known as The National Association of Pension Funds NAPF).
b. Local Authority Pension Fund Forum (LAPFF)

Application of CIPFA Principles for Investment

5.9. The Fund is required to demonstrate compliance with CIPFA's Principles for Investment Decision Making, which reflect principles of good investment practice issued by government in response to the Myners review. Actions taken to comply with the principles are set out in the Investment Strategy Statement in Appendix B.

B. INVESTMENT PEFORMANCE

5.10. The investment objective is to ensure that the Fund's investments increase the likelihood that benefits will be paid to members as they fall due, by maximising investment returns over the long term within acceptable risk tolerances.

5.11. Since November 2012, the majority of the Fund has been under passive management (70% as at 31 March 2019). The investment strategy has previously been for a significant proportion of the Fund to be invested into growth assets. After the 2016 valuation, the strategy was adapted to seek a more diversified portfolio and reduce the heavy exposure to the volatility of equities. As at 31 March 2019 approximately 50% of the Fund was invested in passive equities, down from 54% as at 31 March 2018, which reflects the in-year investment of 3% of the Fund into a new infrastructure mandate.

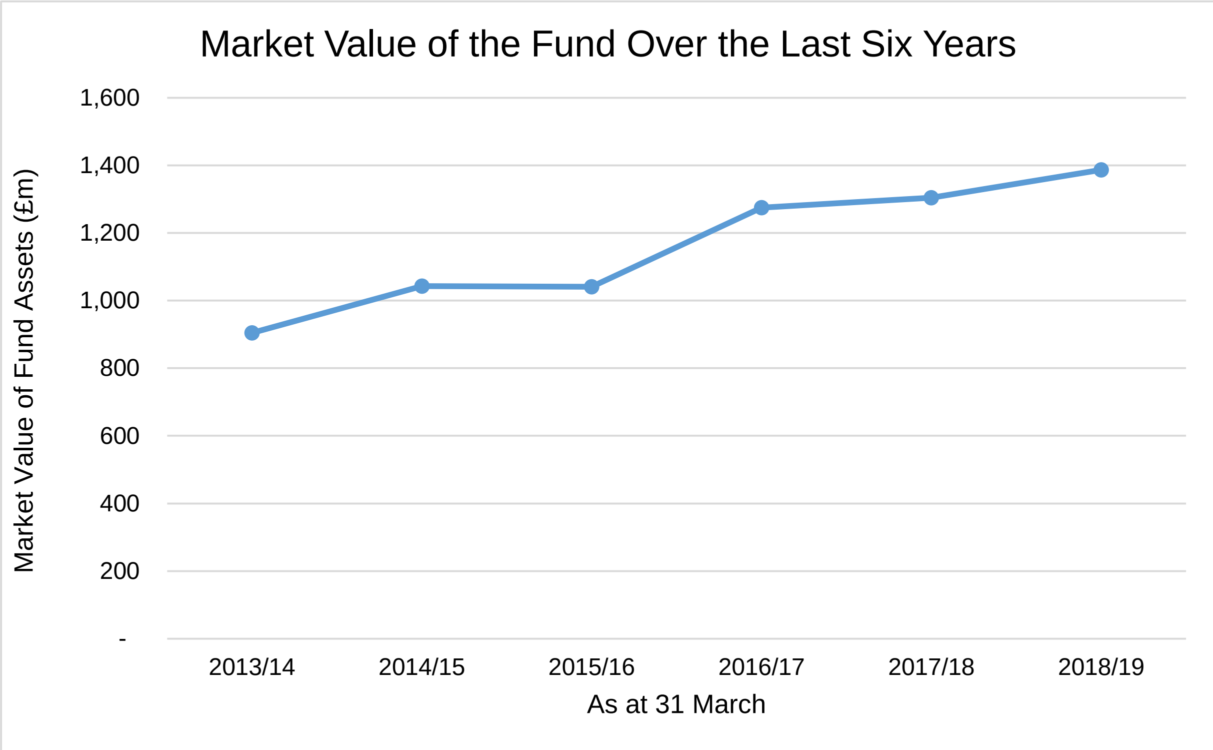
5.12. The Fund's asset allocation as at 31 March 2019 has nine managers with seven mandates.

STRATEGIC ASSET ALLOCATION AS AT 31 MARCH 2019:

	2018/19			2017/18
Mandate	**Asset Value £'000**	**Target Allocation %**	**Actual Allocation %**	**Actual Allocation %**
Passive Equities and Bonds	972,705	63.0	70.1	73.9
Property	112,281	10.0	8.1	8.5
Infrastructure	80,580	6.0	5.8	N/A
Diversified Growth / Targeted Returns	76,231	6.0	5.5	5.9
Private Equity	51,321	3.0	3.7	3.9
Multi-Asset Credit	64,713	12.0	4.7	2.1
Credit Financing	656	0.0	0.0	0.7
Cash and Net Current Assets	28,240	0.0	2.1	4.9
Total	**1,386,727**	**100%**	**100%**	**100%**

5.13. The differing short term performances of asset classes and fund managers inevitably results in the actual asset allocations deviating from their strategic targets over time. Periodically the Fund undertakes a re-balancing exercise to return to the agreed strategic allocation, whilst separate re-balancing arrangements are in place within the passive mandates as outlined within the ISS. The over allocation to equities and under allocation to multi-asset credit, relative to their targets, represents a planned 6% reallocation from passive equities to a liquid multi-asset credit mandate, in line with the diversification strategy adopted by the Fund following the 2016 valuation.

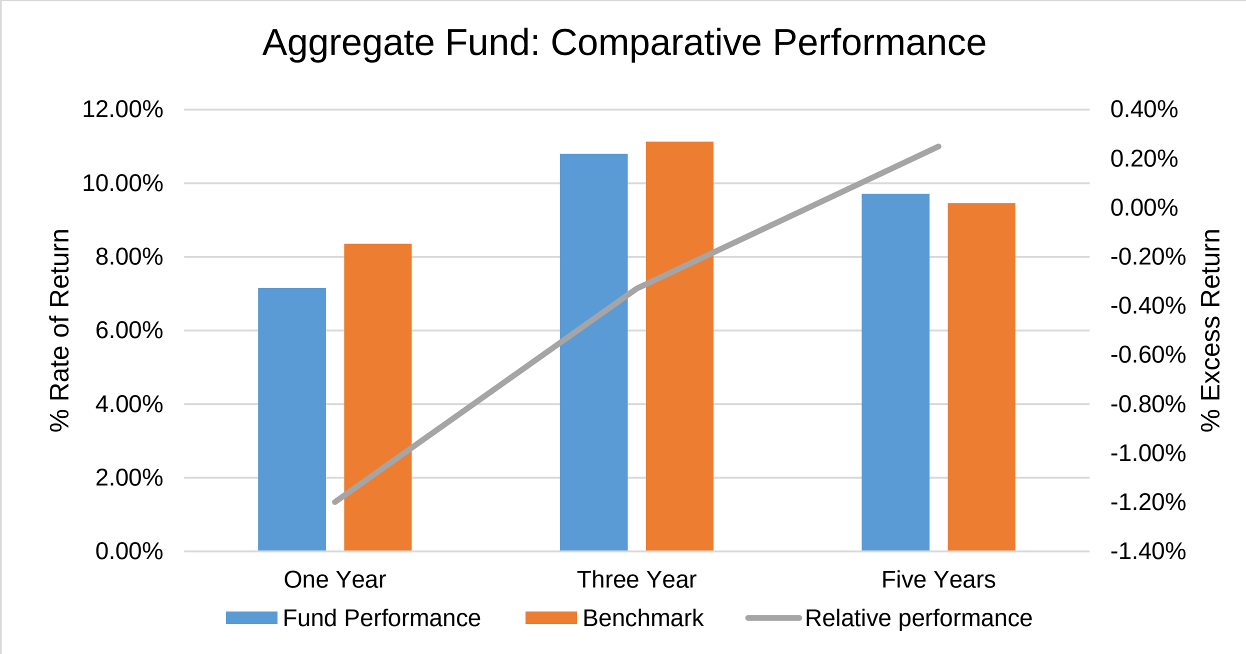
5.14. The graph below depicts the changing value of the Fund's assets as at 31 March over the last six years. The graph shows that the value of the Fund has been increasing year on year, apart from 2015/16 where there was a slight drop in value. The value of the Fund's total assets increased by approximately £83m, or 6.4%, during 2018/19.



5.15. The annualised return of the Fund's investments over the last 12 months was 7.2%, which was 1.2% below the benchmark return (based on the benchmarks employed by each mandate). Over the last five years, the Fund's investments absolute return is 9.7%, which is approximately 0.2% above the benchmark return of 9.5% as depicted below:

AGGREGATE FUND – COMPARATIVE PERFORMANCE:

As at 31 March 2019	One Year %	Three Year %	Five Years %
Fund Performance	7.15	10.80	9.71
Benchmark	8.35	11.13	9.46
Relative performance	**(1.20)**	**(0.33)**	**0.25**



5.16. Individual fund managers' performance is assessed against customised benchmarks. The performance of each manager against their composite benchmark over the period of three years and their inception is as set out in the table below.

		Blackrock %	UBS %	Schroders %	J.P. Morgan %	Invesco %	HarbourVest %	Partners Group %	Pemberton %	M&G %
1 year	Absolute	8.60	8.10	5.50	N/A	(1.30)	20.60	N/A	6.25	3.50
	Benchmark	8.50	8.20	4.80	N/A	0.80	12.60	N/A	8.00	0.60
	Relative	**0.10**	**(0.10)**	**0.70**	**N/A**	**(2.10)**	**8.00**	**N/A**	**(1.75)**	**2.90**
3 years	Absolute	12.30	11.80	6.40	N/A	N/A	15.20	N/A	N/A	4.30
	Benchmark	11.90	11.90	6.20	N/A	N/A	15.00	N/A	N/A	0.50
	Relative	**0.40**	**(0.10)**	**0.20**	**N/A**	**N/A**	**0.20**	**N/A**	**N/A**	**3.80**
Since Inception*	Absolute	11.50	11.10	4.94	(3.04)	(0.70)	10.02	0.38	4.80	4.80
	Benchmark	11.20	11.20	5.58	1.87	0.70	9.21	4.73	8.03	0.70
	Relative	**0.30**	**(0.10)**	**(0.85)**	**(4.91)**	**(1.40)**	**0.81**	**(4.36)**	**(3.23)**	**4.10**

*Blackrock Nov 2012; UBS Nov 2012; Schroders Oct 2004; J.P. Morgan Jan 2019; Invesco Sep 2017; HarbourVest Dec 2006; Partners Group Apr 2018; Pemberton Jan 2018; M&G May 2010.

5.17. The table above shows that there has been a varied performance over time, with some fund managers consistently performing above benchmark. It is to be noted that Blackrock and UBS are both passive funds which track their composite benchmarks instead of actively trying to outperform them, whilst HarbourVest and M&G hold relatively small proportions of the Fund. Invesco and Pemberton were new funds in 2017/18, whilst Partners Group and J.P. Morgan were new funds in 2018/19, hence the lack of historical performance data. The PIC continues to monitor the performance of all fund managers on a quarterly basis via the reports it receives from the Fund's advisors. In addition, each manager is invited to discuss their performance at Committee meetings annually, and where necessary explain strategies for improvement.

5.18. A description of the benchmark for each fund manager is set out below.

FUND MANAGER BENCHMARKS:

Manager	Mandate	Benchmark / Performance Target
BlackRock	Mixed Passive Mandate	Composite benchmark. Index Tracker Funds depending on market and asset class; performance will correspond to the average return.
UBS	Mixed Passive Mandate	Composite benchmark. Index Tracker Funds depending on market and asset class; performance will correspond to the average return.
Schroders	Property	To outperform the MSCI/AREF UK Quarterly Property Fund Index All Balanced Funds Weighted Average by 0.75% on a three year rolling basis net of fees.
J.P. Morgan	Infrastructure	Hurdle rate of 7%. The fund targets a return of 8-12% per annum net of fees.
Invesco	Diversified Growth/Targeted Returns	3m LIBOR. The fund targets a gross return of 5% per annum above UK three month London Inter-Bank Offer Rate (LIBOR), over a three year rolling period.
HarbourVest	Private Equity	To outperform the Morgan Stanley Capital International (MSCI) World Index by 5% over a five year rolling period, net of fees.
Partners Group	Multi-Asset Credit	The fund targets a return of LIBOR +4-6% net of fees, with a 5% cash yield
Pemberton	Multi-Asset Credit	The fund targets a gross Internal Rate of Return (IRR) of 7-8%.
M & G	UK Credit Financing	One month LIBOR + 4-6%, net of fees.

5.19. The value of assets under management (AUM) by asset class and fund manager is shown in the Pension Fund Accounts in Appendix A.

5.20. The Pension Fund's top equity and unit trust holdings are also shown in the Pension Fund Accounts in Appendix A, under Section 5 - Investment Analysis.

6 SCHEME ADMINISTRATION REPORT

A. SCHEME ADMINISTRATION / PENSIONS ADMINISTRATION AND ASSURANCE

6.1. Scheme member administration and pensioner administration is undertaken by our in-house Pensions team. Scheme administration is audited annually and a summary of the 2018/19 audit findings can be found in sections 4.8 and 4.9 of this report. A copy of the internal report can be provided upon request.

B. INTERNAL DISPUTE PROCEDURE

6.2. The Local Government Pensions Scheme Regulations 2013 set out a two-stage ‘Internal Dispute Resolution Procedure’ (IDRP). The Fund’s internal dispute resolution procedure is shown below:

6.3. Stage one: the member’s complaint is referred to the Acting Chief Finance Officer, who is nominated by the London Borough of Lewisham to act as an independent referee. Any decision made must be given in writing.

6.4. If the member is dissatisfied with the stage one decision, they can take the matter to stage two of the IDRP.

6.5. Stage two: the stage one decision is reviewed by the Head of Legal Services who is nominated by the London Borough of Lewisham to act as an independent referee.

6.6. There are time limits associated with each stage of the procedure, both for the applicant and the adjudicator. Appeals must normally be made within six months of the date of the decision that is being challenged and the adjudicator must normally give written notice of their decision within three months of the receipt of the appeal.

6.7. At any stage of the process, or before the process begins, the member can seek help and advice from The Pensions Advisory Service (TPAS). The Pensions Advisory Service is an independent non-profit organisation that provides free information and guidance to members of the public on pension matters generally. They can also help to resolve disputes and complaints about private pension arrangements (workplace pensions, personal pensions and stakeholder pensions).

6.8. Lewisham Pension Fund did not have any disputed cases in 2018/19.

7 ACTUARIAL REPORT ON FUND

7.1. The Regulations require that every three years all Local Government Pension Schemes be subject to actuarial review. The actuarial review sets assumptions about the level of investment returns, life expectancy and other relevant factors to determine the assets and liabilities of the Fund and the corresponding funding level.

7.2. The last revaluation was undertaken in March 2016; a link to the Executive Summary of the valuation report is provided in Appendix D. The full version is available on the Lewisham Pensions website at www.lewishampensions.org. The actuarial review assessed the Fund as being 78% funded; this represents an increase of 7% in the funding level since the last valuation in 2013.

7.3. The 2016 valuation resulted in the actuary assessing Lewisham's employers' contribution rate to provide for future pensions entitlements (the Future Service Rate) to be a minimum of 17.6% for financial years 2017/18 through to 2019/20, plus a lump sum component increasing year on year.

7.4. Lewisham set an employer contribution rate of 22.5% for 2018/19, which will remain unchanged in 2019/20. It paid a lump sum employer contribution of £2.5m in 2016/17, and will evaluate the need for further lump sum payments in 2019/20.

7.5. The next triennial valuation takes place as at March 2019 and is currently underway, with final results expected in early 2020.

8 FUND GOVERNANCE

A. GOVERNANCE STRUCTURE

8.1. Lewisham's Annual Governance Statement has been adopted by the PIC.

8.2. Article 9 of the Council's Constitution sets out the composition and terms of reference of the Pensions Investment Committee, to exercise all functions of the Council in relation to local government pensions under Section 7, 12 or 24 of the Superannuation Act 1972 and all other relevant pension legislation. This includes:

- to review with fund managers the investment performance of the Fund's assets on a quarterly basis;
- to examine the portfolio of investments, and its market value, at the end of each quarter for suitability and diversification;
- to inform fund managers of the Council's policy regarding investment of its funds, and to take advice on the possible effect on performance resulting from implementing the policy;
- to review from time to time the appointment of fund managers;
- to determine the overall investment strategy and policies of the Fund, taking account of professional advice; and
- responsibility for compliance with the six Myners principles set out in CIPFA's "Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012" and all other relevant guidance in relation to the Local Government Pension Scheme in force and issued by CIPFA from time to time.

8.3. Responsibility for day-to-day administration and preparation of the Pension Fund accounts and annual report has been delegated to the Acting Chief Finance Officer.

8.4. Details of the Council's Code of Corporate Governance is set out in Part V of the Council's Constitution which is available at:
www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/our-constitution

8.5. The Council's latest Annual Governance Statement is available with the main Council Statement of Accounts at the following link:
www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/finances/statement-of-accounts

B. MEMBERSHIP – PENSIONS INVESTMENT COMMITTEE

8.6. The Pensions Investment Committee comprises eight Members of the Council who have voting rights. The Committee meets at least four times a year. At the start of each meeting Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. The Committee takes advice from its independent investment consultant (Hymans Robertson) and permits attendance from non-voting observers comprised of pensioners, admitted and scheduled bodies, union officials, and members of the Local Pension Board.

8.7. The following table sets out attendance by the eight Councillors who were Members of the Pensions Investment Committee for the four scheduled meetings in 2018/19. Each Councillor has one vote with the Chair having the casting vote.

Member	28 Jun 2018	11 Sep 2018	20 Nov 2018	14 Feb 2019
Cllr. Ingleby (Chair)	✓	✓	✓	✓
Cllr. Krupski (Vice- Chair)	✓	✓	✓	✓
Cllr. Best	✓	✓	✓	✓
Cllr. Codd	✓	✓	✓	✓
Cllr. Feis-Bryce	✓	Apologies	✓	Apologies
Cllr. Maslin	Apologies	✓	Apologies	✓
Cllr. Muldoon	✓	✓	✓	✓
Cllr. Sheikh	✓	✓	✓	✓

Member Training

8.8. Members attend training events and conferences to develop and maintain the relevant skills required as set out in the CIPFA Knowledge and Skills framework. The framework covers six key areas:

1) Legislative and governance framework
2) Accounting and auditing standards
3) Procurement of financial services and relationship management
4) Investment performance and risk management
5) Financial markets and investment products knowledge
6) Actuarial methods, standards and practices

8.9. During 2018/19 Members notified officers of their attendance at the following training sessions and events:

Date	Description	Provider	Members
16 May 2018	Pension Fund Flight Plans: Is it time to re-risk and if so, how?	Pension Investment Academy	Cllr Muldoon
19 June 2018	The Renewable Energy Infrastructure Investment Opportunity for UK Pension Funds (Workshop)	Institute for Energy Economics and Financial Analysis (IEEFA)	Cllr Ingleby
28 June 2018	The Role of the Pensions Investment Committee	LB Lewisham	Cllrs Ingleby, Krupski, Best, Codd, Feis-Bryce, Muldoon, Sheikh
29 June 2018	DB Schemes - The Ins and Outs of Advice	PLSA	Cllr Muldoon
17 July 2018	Cash Flow Driven Investments for Defined Benefit Pension Schemes.	Macquarie Investment Bank	Cllr Muldoon
11 September 2018	Invesco Investment Summit	Invesco	Cllr Codd

Date	Description	Provider	Members
10 October 2018	LGPS Governance Training - Fundamentals Day 1	LGA	Cllr Codd
30 October 2018	LGPS Governance Training - Fundamentals Day 2	LGA	Cllr Codd
04 December 2018	LGPS Governance Training - Fundamentals Day 3	LGA	Cllr Codd
05 December – 07 December 2018	LAPFF Conference (Bournemouth)	LAPFF	Cllr Ingleby
08 February 2019	Renewable Energy Infrastructure Investing	IEEFA	Cllrs Ingleby, Codd, Sheikh
14 February 2019	Update on Renewable Energy Infrastructure Market	IEEFA	Cllrs Ingleby, Krupski, Sheikh

8.10. Members are also aware of their obligations under the Markets in Financial Instruments Directive (MIFID) II, under which the Fund has opted up to professional status with its fund managers and relevant service providers, committing to develop and maintain their knowledge of the LGPS in order to preserve the Fund's professional client status.

8.11. Members are provided with a schedule of suggested training events and conferences throughout the year, provided at each quarterly meeting of PIC. The events are intended to cover a range of skillsets and provide insight as appropriate to the needs of Members and the broader developing strategic direction of the Fund.

8.12. In addition, the Fund's advisors present training on relevant topics both within PIC meetings and as separate events; these cover a wide range of subjects, from the impact of legislative changes to asset specific training.

8.13. Members are recommended, where they have not already, to make use of and complete the Pension Regulator's online toolkit for Trustees.

9 REPORT FROM THE LOCAL PENSION BOARD

Introduction

9.1. The Board has an important role of assisting the Administering Authority with the efficient management of the Fund and ensuring its compliance with legislation and best practice. The Board met twice in the year and twice subsequently. A further scheduled meeting was postponed as a quorum could not been secured. The Board's focus has been on:

- enhancing its understanding of the arrangements put in place by the Administering Authority, including through consideration of minutes and agendas of the Pensions Investment Committee and receipt of documentation by management;
- commissioning a baseline assessment of the Board's and the Administering Authority's compliance with legislation and best practice and receiving the results. The Board has agreed its own action plan in response to the findings and has reviewed and commented on the Administering Authority's draft action plan; and
- ensuring that appropriate arrangements are put in place for developing and maintaining the knowledge and understanding of members of the Board.

Further information about the Board and its operation is available on the Council's website at: www.councilmeetings.lewisham.gov.uk/ieListMeetings.aspx?CId=353&Year=0 and on the Fund's website at the following link:
www.lewishampensions.org/lewisham-pension-fund/about-us/local-pension-board/

Membership of the Board

9.2. The Board consists of five members; two employer representatives, two member representatives, and an Independent Chair.

Name	Capacity	Role	Meetings attended out of possible meetings in 2018/19
Stephen Warren	Independent Chair (Non-Voting)		2/2
Adam Bowles	Employer Representative	Head of Organisational Development & Human Resources, Lewisham Council	1/2
Adam Barrett	Employer Representative	Director of Resources, Lewisham Homes (to December 2018)	2/2
Alex Bush	Employer Representative	Assistant Director: People, Performance and Communications, Lewisham Homes (from December 2018 to October 2019)	0/2

Rowann Limond	Employer Representative	Director of Finance and Performance, Lewisham Homes (from October 2018)	N/A
Elizabeth Sclater	Member Representative	Pensioner Member	2/2
Simon Tilley	Member Representative	Active Member (from December 2018 to February 2019)	1/1
Gary Cummins	Member Representative	Active Member (from March 2019)	N/A

Knowledge and Understanding

9.3. Relevant training via attendance at external events is made available to members of the Board. A record of training, including completion of the Pension Regulator's Toolkit, is maintained. An induction process for new members of the Board is being developed.

Work Programme for the Future

9.4. The Board has agreed that:

- It will schedule four meetings a year;
- It will adopt a cyclical report that will allow it to review, over the course of the year, compliance with relevant legislation and Codes of Practice issued by the Pensions Regulator;
- It will monitor implementation of the action plans prepared in response to the baseline assessment of the Board's and the Administering Authority's compliance with legislation;
- It will receive and review the Administering Authority's risk register for the Fund; and,
- It will evaluate the robustness of the Administering Authority's arrangements for obtaining assurance about the operation of the London CIV, the collective investment vehicle for London Local Authorities' Pension Funds, to which the Fund anticipates migrating some of its investments.

10 ASSET POOLING

10.1. The London Collective Investment Vehicle (LCIV) is the investment vehicle established for the pooling of London Local Authority (LLA) Pension Fund assets, created to deliver broader investment opportunities and enhanced cost efficiencies than LLAs can achieve individually. It is authorised and regulated by the Financial Conduct Authority (FCA) as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS fund) and an Unauthorised Contractual Scheme.

10.2. Each LLA is a shareholder in the LCIV and contributes to the financial operation of the vehicle via an annual service charge and Development Funding Charge (DFC). The annual service charge is akin to a membership fee, providing access to LCIV services. The DFC is designed to cover the cash flow imbalance between the LCIV's annual revenues and annual costs until LCIV generates sufficient management fee income to cover annual operating costs, and decreases year on year. The service charge for 2018/19 was £25,000, whilst the DFC was £65,000.

10.3. As at 31 March 2019 the Fund has yet to directly pool any assets with the LCIV, although an arrangement with BlackRock, one of the Fund's passive equity and bond managers, and the LCIV made in 2017 allowed for a fee reduction backdated to January 2017 in consideration for the passive pooling of the mandate outside of the ACS. In exchange for negotiating the preferential annual management charges, the LCIV charge an annual arrangement fee based on the value of the Fund's BlackRock holdings; in 2018/19, this charge was approximately £26,000.

10.4. The Fund is committed to the principles of pooling and to the transitioning of assets to the LCIV. However, the nature of the LCIV's setup in its first few years has meant the funds it has created and established have been of little interest to Lewisham, or incompatible with our strategy. Recently the LCIV has gained new investment permissions from the FCA which will see it offer more complex asset types more in line with the requirements of the LLAs. Fund officers and Members maintain a close relationship with the LCIV, and the PIC considers our pooling obligations in all investment decisions. Transition of Fund assets to the pool will be considered over the course of the next 12-18 months where feasible, although any transitions will be dependent on LCIV engaging fully with LLAs to better understand their requirements and then developing suitable products.

11 FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

11.1. The Pension Fund accounts, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, were approved by Council on 2 October 2019 and have been audited by the Council's external auditors Grant Thornton. The Accounts are set out in Appendix A.

12 FUNDING STRATEGY STATEMENT

12.1. The Fund has a Funding Strategy Statement (FSS) which details the Fund's approach to funding its liabilities. The FSS is reviewed in detail at least every three years in line with the triennial valuation, and was last updated as at 1 April 2017; it can be found in Appendix C or on the Fund's website at the following link: www.lewishampensions.org/lewisham-pension-fund/about-us/forms-and-publications/.

12.2. The FSS is developed by the Council in conjunction with the Fund's actuary, Hymans Robertson, and after consultation with employers. The FSS sets out any changes in the Fund's liabilities and obligations to pay pensions in the coming years, and how those liabilities are funded by investments and contributions. The FSS has links to the Investment Strategy Statement.

12.3. The purpose of the FSS is to:
- establish a clear and transparent strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- take a prudent longer-term view of funding those liabilities.

12.4. The statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

12.5. The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. The funding basis adopts an asset outperformance assumption of 1.8% per annum over and above the redemption yield in index-linked gilts at the time of the 2016 valuation.

12.6. The Fund has an active risk management programme in place. The measures that the Administering Authority has in place to mitigate key risks are summarised in the FSS under the following headings:
- financial;
- demographic
- regulatory; and
- governance

12.7. The 2016 valuation specified the minimum employer contributions, expressed as a percentage of pensionable pay and shown in the Rates and Adjustment certificate, as follows:

Employer/Pool Name	Total Contribution Rate (%/£)		
	2017/18	2018/19	2019/20
LB Lewisham	17.6% plus £6,100,000	17.6% plus £6,300,000	17.6% plus £6,400,000
Christ The King Sixth Form College	18.5% plus £93,000	18.5% plus £93,000	18.5% plus £93,000
Haberdashers' Aske's Knights Academy	17.9% plus £170,000	17.9% plus £170,000	17.9% plus £170,000
Lewisham Homes	21.0%	20.0%	19.0%
St Matthew's Academy	19.6%	18.6%	17.6%
Tidemill Academy	22.0%	22.0%	22.0%

Employer/Pool Name	Total Contribution Rate (%/£)		
	2017/18	2018/19	2019/20
NSL	22.8%	22.8%	22.8%
Wide Horizons	14.6%	14.6%	14.6%
Phoenix Community Housing	18.4%	16.4%	14.4%
Blenheim CDP	15.0%	15.0%	15.0%
Skanska	21.1%	19.1%	17.1%
3 C's Support	0.0%	0.0%	0.0%
One Housing	22.0% plus £13,000	22.0% plus £13,000	22.0% plus £13,000
Fusions Leisure Management	24.0%	24.0%	24.0%
Pre-School Learning Alliance	18.6%	15.6%	12.6%
Chartwells	25.7%	25.7%	25.7%
Chequers Contract Services – Lee Manor	14.9%	11.9%	8.9%
Change Grow Live	18.0%	18.0%	18.0%
Quality Heating	0.0%	0.0%	0.0%
Phoenix	20.4%	20.4%	20.4%

12.8. Since the 2016 valuation took place additional bodies have been admitted into the Fund. Those actively contributing to the Fund as at 31 March 2019 are shown below, together with their contribution rates:

Employer/Pool Name	Total Contribution Rate (%/£)		
	2017/18	2018/19	2019/20
Childeric (started 1 September 2018)	N/A	22.9%	22.9%
St Georges (started 1 May 2018)	25.7%	25.7%	25.7%
Lewisham Music (started 1 April 2017)	33.2%	33.2%	33.2%
Nviro (started 1 September 2016)	36.6%	36.6%	36.6%
Youth First (started 1 September 2016)	22.9%	22.9%	22.9%

13 INVESTMENT STRATEGY STATEMENT

13.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that administering authorities prepare, maintain and publish an Investment Strategy Statement (ISS) in accordance with the Regulations. The Statement must include the following:

- a requirement to invest money in a wide variety of investments;

- the authority's assessment of the suitability of particular investments and types of investments;
- the authority's approach to risk, including the ways in which risks are to be measured and managed;
- the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- the authority's policy on the exercise of rights (including voting rights) attaching to investments.

13.2. Appendix B sets out the ISS for the Fund as at September 2018, which as well as the considerations above includes the Fund asset allocation, rebalancing policy, and compliance with CIPFA's Principles for Investment Decision Making. The ISS will be updated to reflect the results of the latest triennial valuation in early 2020.

14 COMMUNICATIONS POLICY STATEMENT

14.1. Pension Funds are required to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. Lewisham's most recently published Communications Statement is included at Appendix E, and is also available on the Fund's website at the following link: www.lewishampensions.org/lewisham-pension-fund/about-us/forms-and-publications/.

14.2. The statement has been prepared to meet the provisions of Regulation 61 of The Local Government Pension Scheme Regulations (2013), as well as the Public Service Pensions Act (2013) and the Pensions Regulator's Code of Practice No.14, in particular by setting out the following:

- how scheme information has been provided to members, their representatives and employers,
- in what format it is presented, how frequently it is presented, and the method of distributing information, and;
- the steps the Fund has taken to promote scheme membership to prospective members and their employers.

15 ADDITIONAL DATA

15.1. To assist in the production of the scheme annual report compiled by the LGPS Scheme Advisory Board, Funds are required to include the following:

15.2. A summary of the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members).

	Active	Ceased	Total
Scheduled Bodies	6	0	6
Admitted Bodies	18	0	18
Total	24	0	24

15.3. An analysis of Fund assets as at the reporting date, analysed as follows:

Asset Class	UK £m	Non-UK £m	Total £m
Equities	381	329	710
Bonds	185	91	276
Property	112	0	112
Infrastructure	0	81	81
Diversified Growth	76	0	76
Private Equity	0	38	38
Multi-Asset Credit	0	65	65
Cash	29	0	29
Total	**783**	**604**	**1,387**

15.4. An analysis of investment income accrued during the reporting year, analysed as follows:

Asset Class	UK £000	Non-UK £000	Total £000
Bonds	0	1,075	1,075
Property	3,900	0	3,900
Alternatives	0	935	935
Cash	259	0	259
Total	**4,159**	**2,010**	**6,169**

16 INDEPENDENT AUDITOR'S CONSISTENCY REPORT

Independent auditor's report to the members of the London Borough of Lewisham on the consistency of the pension fund financial statements of the London Borough of Lewisham included in the Pension Fund Annual Report

Opinion

The pension fund financial statements of the London Borough of Lewisham (the 'pension fund') administered by the London Borough of Lewisham (the "Authority") for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies, are derived from the audited pension fund financial statements for the year ended 31 March 2019 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 4 October 2019.

Acting Chief Finance Officer's responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Acting Chief Finance Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Assets Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Grady

Paul Grady, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

21 November 2019

Appendix A – 2018/19 Pension Fund Statement of Accounts

LONDON BOROUGH OF LEWISHAM PENSION FUND ACCOUNTS

2018/19

Independent auditor's report to the Members of the London Borough of Lewisham council on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of the London Borough of Lewisham (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Acting Chief Finance Officer' s use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Acting Chief Finance Officer has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Acting Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Acting Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Acting Chief Finance Officer. The Acting Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, which give a true and fair view, and for such internal control as the Acting Chief Finance Officer determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Acting Chief Finance Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit Panel is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Grady

Paul Grady
Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

4 October 2019

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2018/19.

The Pension Fund's value increased over the year by £83m (6.4%), a year which saw the Fund complete its rebalancing strategy by divesting from equities and investing in alternative asset classes in line with the Fund's Investment and Funding Strategies.

INTRODUCTION

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme. The Fund is a contributory defined benefit pension scheme administered by the London Borough of Lewisham to provide benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

ORGANISATION

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation (referred to henceforth as 'the Regulations'):

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Formal responsibility for investment management of the Pension Fund is delegated to the Council's Pensions Investment Committee (PIC), which appoints and monitors external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the element of the Fund they manage. The investment managers also have to consider the PIC's views on socially responsible investments. Details of the Socially Responsible Investment policy are contained in the Investment Strategy Statement and published online (see web address below).

The Pension Board operates independently of PIC and assists the administering authority in securing compliance with the Regulations and any other legislation or codes of practice relating to the governance and administration of the Scheme. Further information about the Board, together with its Terms of Reference, can be found online at the web address below.

The Pension Fund administration is managed by a small in-house team, which is also responsible for other areas of work such as redundancy payments, gratuities and teachers compensation.

A statement of the Fund's corporate governance, funding strategy and investment strategy can be found on the authority's pensions website, at the following address:

www.lewishampensions.org

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of the obligations to pay pensions and benefits which fall due after the end of the financial year. In respect of future obligations, the actuarial present value of promised retirement benefits are valued on an International Accounting Standard (IAS) 19 basis.

The Local Government Pension Scheme (Administration) Regulations 2013 require administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Regulations summarise the Pension Code and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December following the end of the financial year. The Council will be taking its Annual Report to its Pensions Investment Committee later in the year to comply with this deadline.

A summary of the significant accounting policies and the basis of preparation of the accounts are shown below:

(a) Fund Assets at 31 March 2019 – the below table outlines the fund managers, asset classes, and values of those assets held by the fund as at 31 March 2019.

Fund Manager	Asset	Asset Value 31 March 2019 £000	Proportion of the Fund 31 March 2019 %	Asset Value 31 March 2018 £000	RESTATED Asset Value 31 March 2018 £000
Blackrock	Passive Equity and Bonds	526,667	38.0	484,194	484,194
UBS	Passive Equity and Bonds	446,038	32.2	478,595	478,594
Schroders Property	Property	112,281	8.1	111,446	108,397
J.P. Morgan	Infrastructure	80,580	5.8	0	0
Invesco	Diversified Growth/Targeted	76,231	5.5	77,240	77,240
HarbourVest	Private Equity	51,321	3.7	51,036	40,905
Partners Group	Multi-Asset Credit	41,776	3.0	0	0
Pemberton	Multi-Asset Credit	22,937	1.7	27,717	27,717
M&G	Credit	656	0.0	8,927	851
Various Managers	Cash and Net Current Assets	28,678	2.1	64,931	86,188
Lewisham	Cash and Net Current Liabilities	(438)	0.0	(560)	(560)
Total Fund Assets		**1,386,727**	**100.0**	**1,303,526**	**1,303,526**

The fund manager asset values for 31 March 2018 have been restated from the prior year accounts to strip out cash and debtor/creditor balances and allocate them to ‘various managers’ under cash and net current assets.

(b) Basis of Preparation - The accounts have been prepared on an accruals basis (i.e. income and expenditure attributable to the financial year have been included) even where payment has not actually been made or received, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.

(c) Investments - Investments in the Net Assets Statement are shown at Fair Value, the basis of measurement being market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2018/19 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.

(d) The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.

(e) Income - Dividend income earned from equity and bonds with BlackRock is reinvested and not repaid directly to the fund as cash, but from UBS is repaid to the Fund. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors.

(f) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2019 is the actual fair value using the latest available valuation on or after 31 December 2018, plus an estimated valuation for the period up to 31 March 2019.

(g) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property/unit trust funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards at Fair Value based on their Open Market Value (OMV).

The only non-UK fund is the Real Continental European Fund. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies. All the property funds are independently valued on a rolling basis at least annually.

(h) Financing Fund - The fair value of the M&G fund is based on different pricing policies depending on the instrument being valued. The fund is close to maturity with debt instruments being repaid; at this stage of its life fund valuations are based on the manager's own internal valuation model which makes use of discounted cash flows. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2019 is the actual fair value using the latest available valuation on or after 31 December 2018, plus an estimated valuation for the period up to 31 March 2019.

(i) Diversified Growth/Targeted Returns Fund – The pension fund is allocated notional units in the Invesco fund based on its overall contribution. Units will be valued on every business day in which units are created and realised. The value given to the fund's assets will be the recognised market quotation; if this is not available, the latest independent valuation will be used. Where no independent valuation can be used, the value will be determined by the manager in such manner as it deems appropriate.

(j) Multi-Asset Credit Funds – the Pemberton private debt fund is valued at Fair Value using external benchmarks such as the equity values of comparable companies to borrowers, Credit Default Swap or commodity price movements and macro-economic data. Partners Group values its instruments using private credit estimates or public ratings for the issuer if available and above a rating of B- from Standard & Poor's. Below that, broker quotes are used where available, or Fair Values are derived based on widely recognised market and income valuation methods.

(k) Infrastructure Fund – Being illiquid and not publicly traded assets, J.P. Morgan appoint external valuers at least annually to determine the Fair Value of fund assets, whilst J.P. Morgan itself calculates the Net Asset Value (NAV) of each investment quarterly in accordance with their internal valuation policies which align with market best practice.

(l) Contributions – These represent the total amounts received from the employers and employees within the scheme. Rates will differ between bodies in the scheme; from 1 April 2018 the employee contribution bands (revised annually in line with inflation) for the administering authority are as follows:

Pensionable Pay for the Post	**Contribution Rates 2018/19**	
	Main Section	**50/50 Section**
Up to £14,100	5.50%	2.75%
£14,101 to £22,000	5.80%	2.90%
£22,001 to £35,700	6.50%	3.25%
£35,701 to £45,200	6.80%	3.40%
£45,201 to £63,100	8.50%	4.25%
£63,101 to £89,400	9.90%	4.95%
£89,401 to £105,200	10.50%	5.25%
£105,201 to £157,800	11.40%	5.70%
More than £157,801	12.50%	6.25%

The employer's contribution is reviewed every three years and is determined by the fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation. The employer's contribution rate for the administering authority in 2018/19 is 22.5% and for 2019/20 it will remain unchanged.

(m) Benefits – Benefits payable are made up of pension payments and lump sums payable to members of the Fund upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.

(n) Transfer Values – Transfer values are those sums paid to, or received from, other pension schemes relating to periods of previous pensionable employment. Transfer values are calculated in accordance with the Local Government Pension Scheme Regulations and have been brought into the accounts on a cash basis.

(o) Taxation – The fund is a registered public service scheme under section (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 suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.

(p) VAT – By virtue of Lewisham Council being the administrating authority, VAT input tax is recoverable on fund activities. Any irrecoverable VAT is accounted for as an expense.

(q) Actuarial – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 77 of the Local Government Scheme Regulations 1997. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent triennial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2016.

Some of the triennial valuation financial assumptions made, with comparison to the previous valuation, are presented in the table below:

Financial Assumption	March 2016 (%)	March 2013 (%)
Discount Rate	4.0	4.6
Price Inflation (CPI*)	2.1	2.5
Pay Increases	2.9	4.3
Pension Increase:		
Pension in excess of GMP**	2.1	2.5
Post - 88 GMP	2.1	2.5
Pre - 88 GMP	0.0	0.0
Revaluation of Deferred Pension	2.1	2.5
Expenses	0.6	0.7

* Consumer Price Index

** Guaranteed Minimum Pension

With effect from the 1 April 2017, the actuarial review carried out for 31 March 2016 resulted in the Council's contribution rate being set at 22.5%.

The next actuarial valuation of the Fund is underway and will be carried out as at 31 March 2019, with new employer contribution rates taking effect from 1 April 2020 for the 2020/21 financial year. The results of this valuation will be published in autumn 2019.

The triennial valuation on the 31 March 2016 revealed that the Fund's assets, which at 31 March 2016 were valued at £1,041 million, were sufficient to meet 78% (71% in 2013) of the past service liabilities valued at £1,328 million (£1,215 million in 2013) accrued up to that date. The resulting deficit as at the 2016 valuation was £288 million (£348 million in 2013).

(r) Actuarial Present Value of Promised Retirement Benefits – The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £2,098m as at 31 March 2019 (£1,871m as at 31 March 2018), which includes an allowance for the impact of GMP equalisation and the recent McCloud ruling on age discrimination.

The key actuarial assumptions used to calculate this value are summarised in the below table:

Financial Assumptions	March 2019 (%)	March 2018 (%)
Discount Rate	2.4	2.7
Salary Increases	3.2	3.1
Pension Increases	2.5	2.4

Longevity Assumptions	Males	Females
Current Pensioners	22.2 years	24.6 years
Future Pensioners	24.0 years	26.5 years

Sensitivity to the assumptions for year ended 31 March 2019	Approxmiate increase to liabilites (%)	Approximate monetary amount (£m)
0.5% p.a. decrease in the Real Discount Rate	10	208
0.5% p.a. increase in the Salary Increase Rate	1	22
0.5% p.a. increase in the Pension Increase Rate	8	176

The longevity assumptions for current pensioners are average future life expectancies at age 65, whilst future pensioners are assumed to be aged 45 at the last formal valuation. These assumptions have not changed since 2017/18.

For sensitivity purposes, the actuary estimates that a 1 year increase in life expectancy would increase liabilities by approximately 3-5%.

(s) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value of funds under management as at the end of those quarters. Some managers invoice fees, others deduct fees from asset holdings; in the latter instance, the fees are added back to the accounts via a manual adjustment to accurately reflect the management expense.

(t) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
- Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
- Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.

(u) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts; please see note 11.

(v) Financial Instruments –
(i) Financial Liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.
(ii) Financial Assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial Assets are classified into two types:

- Assets at amortised cost – assets that have fixed or determinable payments but are not quoted in an active market; and
- Fair value through profit or loss – assets that are held for trading.

(w) Critical judgements in applying accounting policies and assumptions made about the future and other major sources of estimation uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the future or that are otherwise uncertain. There are two areas in the accounts where critical judgements are applied which are materially significant to the accounts:

- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of assumptions including the discount rate, mortality rates and expected returns on fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised.

- Private Equity valuations – the value of the Fund's private equity holdings is calculated by the General Partners of the fund on the basis of their Valuation Policy, which follows best practice in the industry. However this is based upon a 31 December audited accounts valuation adjusted for estimated distributions and capital calls up to 31 March. Other mandates including the diversified growth, infrastructure and multi-asset credit funds also adopt their own valuation policies when other quoted or comparable inputs are unavailable.

(x) Additional Voluntary Contributions ("AVCs")

Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main fund, and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed as transfers-in. Further details about the AVC arrangements are disclosed in note 13 to the financial statements.

Pension Fund Accounts

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2019

The fund account shows the surplus or deficit on the fund for the year.

	2018/19 £000	2017/18 £000	See note
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME			
Contributions Receivable:			
- from Employers	**(31,990)**	(30,417)	1
- from Employees	**(9,712)**	(9,211)	1
- Reimbursement for Early Retirement	**(133)**	(609)	
Transfer Values In	**(4,453)**	(6,136)	
Other Income	**(68)**	(30)	
Sub-Total: Income	**(46,356)**	**(46,403)**	
Benefits Payable:			
- Pensions	**42,220**	40,420	2
- Lump Sums: Retirement allowances	**8,261**	6,779	2
- Lump Sums: Death grants	**843**	1,039	2
Payments to and on account of leavers:			
- Refunds of Contributions	**118**	140	
- Transfer Values Out	**4,133**	4,438	
Sub-Total: Expenses	**55,575**	**52,816**	
Sub-Total: Net (Additions)/ Withdrawals from dealings with members	**9,219**	**6,413**	
Management Expenses	**2,830**	1,929	3
Sub-Total: Net (Additions)/ Withdrawals including fund management expenses	**12,049**	**8,342**	
RETURNS ON INVESTMENTS			
Investment Income	**(6,168)**	(6,594)	4
Change in market value of investments (Realised & Unrealised)	**(89,474)**	(30,897)	5a
Taxes on Income	**392**	192	
Total Net Returns on Investments	**(95,250)**	**(37,299)**	
NET (INCREASE) / DECREASE IN THE FUND DURING YEAR	**(83,201)**	**(28,957)**	
OPENING NET ASSETS OF THE FUND	**(1,303,526)**	**(1,274,569)**	
CLOSING NET ASSETS OF THE FUND	**(1,386,727)**	**(1,303,526)**	

Pension Fund Accounts

NET ASSETS STATEMENT AS AT 31 MARCH 2019

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2019.

	31/03/19 £000	31/03/18 £000	See note
INVESTMENT ASSETS			
Equities			
United Kingdom	**13,747**	11,487	5
Global	**0**	0	5
	13,747	**11,487**	
Managed Funds			
Property	**112,285**	108,401	5
Equities	**695,931**	710,103	5
Fixed Interest	**183,854**	210,101	5
Index Linked	**92,934**	42,600	5
Other Assets	**259,752**	135,223	5
	1,344,756	**1,206,428**	
Cash Held with Custodian	**28,593**	86,154	9
Derivative Contracts			
Assets	**0**	1,069	7
Liabilities	**0**	(1,069)	7
Other Investment Balances	**70**	16	8a
TOTAL INVESTMENTS	**1,387,165**	**1,304,085**	
Current Assets	**1,325**	1,130	8b
Current Liabilities	**(1,763)**	(1,689)	8b
TOTAL NET ASSETS	**1,386,727**	**1,303,526**	

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2019. This liability is included within the Authority's balance sheet.

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVED

	2018/19 £000	2017/18 £000
Employer Contributions		
Administering Authority	**(25,790)**	(24,771)
Scheduled Bodies	**(5,518)**	(4,913)
Admitted Bodies	**(682)**	(733)
	(31,990)	**(30,417)**
Employee Contributions		
Administering Authority	**(7,719)**	(7,281)
Scheduled Bodies	**(1,765)**	(1,687)
Admitted Bodies	**(228)**	(243)
	(9,712)	**(9,211)**

2. BENEFITS PAID

By Category	2018/19 £000	2017/18 £000
Pensions	**42,220**	40,420
Commutation and Lump Sum Retirement Benefits	**8,261**	6,779
Lump Sum Death Grants	**843**	1,039
	51,324	**48,238**

By Authority	2018/19 £000	2017/18 £000
Administering Authority	**46,924**	44,572
Scheduled Bodies	**3,005**	2,748
Admitted Bodies	**1,395**	918
	51,324	**48,238**

3. MANAGEMENT EXPENSES

	2018/19 £000	2017/18 £000
Administration Expenses	**626**	696
Oversight and Governance Expenses	**235**	257
Investment Management Expenses:		
- Transaction Costs	**24**	12
- Management Fees	**1,911**	917
- Performance Fees	**0**	0
- Custody Fees	**34**	47
	2,830	**1,929**

The increase in management fees reflects the change in Fund structure and the transition of assets into more actively managed alternative asset classes from passive equity mandates, undertaken during the year.

3A. EXTERNAL AUDIT COSTS

	2018/19 £000	2017/18 £000
External Audit Services	**16**	21
	16	**21**

4. INVESTMENT INCOME

	2018/19 £000	2017/18 £000
Cash	**(258)**	(90)
Equities	**0**	(216)
Fixed Interest	**0**	(430)
Index Linked	**0**	(88)
Managed Funds (incl Property)	**(5,079)**	(5,416)
Securities Lending	**(1)**	(5)
Other	**(831)**	(349)
	(6,169)	**(6,594)**

5 INVESTMENT ANALYSIS

Individual Investment assets with a market value exceeding 5% of the total fund value are:

Asset	Manager	31 March 2019	
		£000	%
UBS Asset Management Life World Equity Tracker	UBS	202,001	14.6
Aquila Life US Equity Index Fund	Blackrock	166,334	12.0
Blackrock Pensions Aquila Life UK Equity Index Fund	Blackrock	97,225	7.0
UBS Asset Management Life UK Equity Tracker A Nav	UBS	81,244	5.9
IIF UK I LP	JP Morgan	80,580	5.8
Invesco Fund Managers Perpetual Targeted Returns	Invesco	76,231	5.5

Investments exceeding 5% within each class of security are as follows:

UK Equities			
Harbourvest GE PE Shares	Harbourvest	13,809	100.0
Property			
Schroder Unit TST UK Real Estate	Schroders	16,221	14.3
IPIF Feeder Unit Trust Fund	Schroders	13,257	11.7
Real Income Fund	Schroders	11,787	10.4
Hermes Property Unit	Schroders	11,117	9.8
Blackrock UK FD	Schroders	10,244	9.0
Metro Ppty Unit Trust	Schroders	9,726	8.6
Mayfair Cap Ppty (MCPUT)	Schroders	8,975	7.9
Multi-Let INDL Property Unit Trust	Schroders	7,970	7.0
Legal and General Managed Property Fund	Schroders	6,817	6.0
Managed Equities			
UBS Asset Management Life World Equity Tracker	UBS	202,001	29.0
Aquila Life US Equity Index Fund	Blackrock	166,334	23.9
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	97,225	14.0
UBS Asset Management Life UK Equity Tracker A Nav	UBS	81,244	11.7
Aquila Life European Equity Index Fund	Blackrock	41,311	5.9
BlackRock AM (IE) ISHS Emerging Markets Index	Blackrock	36,601	5.3
Fixed Interest			
Blackrock Pensions Aquila Over 15 Years UK	Blackrock	47,740	25.9
Blackrock AM (IE) UK Credit	Blackrock	47,138	25.6
UBS GBL Asset Life UK Over 15 Year Gilt	UBS	44,767	24.3
UBS Asset Mgmnt STG Corp	UBS	44,332	24.1
Index Linked			
Aquila Life Over 5 yrs Index Fund	Blackrock	48,571	52.3
UBS Asset Mgmnt Life Over 5 Year Index Linked Gilt Tracker	UBS	44,377	47.7
Alternatives			
JP Morgan IIF UK I LP	JP Morgan	80,580	31.0
Invesco Fund Managers Perpetual Targeted Returns	Invesco	76,231	29.3
Partners Group Comp MAC 2017 IV	Partners Group	41,776	16.1
Pemberton Euro Debt Investments Jersey II	Pemberton	22,937	8.8
HIPEP VII (AIF) Partnership Fund LP	Harbourvest	17,072	6.6

An analysis of investment movements is set out below:

5. INVESTMENT ANALYSIS

INVESTMENT MOVEMENTS 2018/19	Value at 31 March 2018 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2019 £000
UK Equities	**11,487**	0	0	0	2,260	**13,747**
Managed Equities	**710,103**	8,087	(83,101)	(2,777)	63,619	**695,931**
Property	**108,401**	9,207	(8,231)	0	2,908	**112,285**
Fixed Interest Securities	**210,101**	15,875	(5,013)	1,867	(38,976)	**183,854**
Index Linked Securities	**42,600**	2,100	(3,900)	910	51,224	**92,934**
Other Assets*	**135,223**	142,214	(26,634)	(13)	8,961	**259,751**
	1,217,915	**177,483**	**(126,879)**	**(13)**	**89,996**	**1,358,502**
Cash Deposits	**86,154**				(513)	**28,593**
Other Investment Balances	**16**				(9)	**70**
Total Investments	**1,304,085**				**89,474**	**1,387,165**

* Includes Infrastructure, Multi-Asset Credit, Private Equity and Diversified Growth funds.

The Pension Fund's fixed interest and index linked bond investments are held with UBS and Blackrock in the form of pooled funds. The asset denoted 'Index Linked Securities' above is comprised wholly of UK Government index linked gilts. The 'Fixed Interest Securities' comprise various government and corporate bonds.

Apart from global equities, overseas managed equities and bonds, the other overseas investments held by the Fund fall under the 'Other Assets' category comprising of private equity with a value of £37.5m, multi-asset credit/private debt with a value of £22.9m, and infrastructure with a value of £80.6m.

The total value of unquoted securities held by the fund as at 31 March 2019 was £1,022m, this includes equities, bonds, private equity, diversified growth, infrastructure and multi-asset credit funds.

The total value of quoted securities held by the fund as at 31 March 2019 was £218m, this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds unitised/unit-linked insurance policies valued at £887m and unit trusts valued at £197m, of which £114m relates to pooled property investments. The Fund also holds assets with value £63m as a Limited Partner in the compartments of multi asset credit limited partnerships, and £81m in a perpetual life infrastructure fund.

As at 31 March 2018:

UK Equities	**11,777**	0	0	0	(290)	**11,487**
Global Equities	**13,805**	4	(13,411)	8	(406)	**0**
Managed Equities	**830,606**	243,467	(385,544)	0	21,574	**710,103**
Property	**98,174**	9,723	(5,488)	(8)	6,000	**108,401**
Fixed Interest Securities	**206,232**	6,451	(4,409)	279	1,548	**210,101**
Index Linked Securities	**41,599**	1,600	(910)	73	238	**42,600**
Other *	**32,862**	111,208	(11,362)	(74)	2,589	**135,223**
Derivatives	**0**	0	0	0	0	**0**
Sub-total	**1,235,055**	**372,453**	**(421,124)**	**278**	**31,253**	**1,217,915**
Cash Deposits	**36,517**				(365)	**86,154**
Other Investment Balances	**(336)**				9	**16**
Total Investments	**1,271,236**				30,897	**1,304,085**

* Includes Multi-Asset Credit, Private Equity and Diversified Growth funds.

5A. FINANCIAL INSTRUMENTS

The accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category. No financial assets were reclassified during the accounting period. All assets are held at fair value, therefore there is no difference between fair value and carrying value.

Pension Fund Accounts

	31-Mar-19			31-Mar-18		
	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost
	£000	£000	£000	£000	£000	£000
Financial Assets						
Equities	13,747			11,487		
Managed Funds:						
Property	112,285			108,401		
Managed Equity	695,931			710,103		
Fixed Interest	183,854			210,101		
Index Linked	92,934			42,600		
Other Alternative Assets	259,752			135,223		
Derivative contracts	0			1,069		
Cash deposits		28,593			86,154	
Pending Trades		0			361	
Dividends & Income		70			2,740	
Cash Balances		1,049			843	
Other Current Assets		87			98	
Total Financial Assets	**1,358,503**	**29,799**	**0**	**1,218,984**	**90,385**	**0**
Financial Liabilities						
Derivative Contracts			0			(1,069)
Pending Trades			0			(3,085)
Unpaid benefits			0			0
Other Current Liabilities			(1,763)			(1,689)
Total Financial Liabilities	**0**	**0**	**(1,763)**	**0**	**0**	**(5,843)**
Net Financial Assets	**1,358,503**	**29,799**	**(1,763)**	**1,218,984**	**90,385**	**(5,843)**

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

	31/03/19 £000	31/03/18 £000
Financial Assets		
Fair Value through Profit and Loss	**89,987**	**30,897**
Assets at Amortised Cost	**(513)**	**0**
Financial Liabilities		
Fair Value through Profit and Loss	**0**	**0**
	89,474	**30,897**

Valuation of Financial Instruments carried at Fair Value

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 - consists of assets where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities (e.g. quoted equities, quoted fixed securities, quoted index linked securities and unit trusts).

Level 2 - consists of assets where quoted market prices are not available (e.g. 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).

Level 3 - consists of assets where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Values as at 31 March 2019	**Quoted Market Price Level 1 £000**	**Using Observable Inputs Level 2 £000**	**With Significant Unobservable Inputs Level 3 £000**	**Total at 31/03/19 £000**
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	13,747	1,225,948	118,807	**1,358,502**
Financial Assets at Amortised Cost	29,988	0	0	**29,988**
	43,735	**1,225,948**	**118,807**	**1,388,490**
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	**0**
Financial Liabilities at Amortised Cost	(1,763)	0	0	**(1,763)**
	(1,763)	**0**	**0**	**(1,763)**
Net Financial Assets	**41,972**	**1,225,948**	**118,807**	**1,386,727**

Values as at 31 March 2018	**Quoted Market Price Level 1 £000**	**Using Observable Inputs Level 2 £000**	**With Significant Unobservable Inputs Level 3 £000**	**Total at 31/03/18 £000**
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	11,487	1,176,161	30,267	**1,217,915**
Loans and Receivables	90,384	0	0	**90,384**
	101,872	**1,176,161**	**30,267**	**1,308,300**
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	**0**
Financial Liabilities at Amortised Cost	(4,774)	0	0	**(4,774)**
	(4,774)	**0**	**0**	**(4,774)**
Net Financial Assets	**97,098**	**1,176,161**	**30,267**	**1,303,526**

5B. FINANCIAL RISK MANAGEMENT

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for an accepted level of risk. Therefore the Fund holds a mix of financial instruments such as securities (equities, bonds), interests in collective investment schemes (pooled funds), and cash equivalents. In addition, debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

Responsibility for the Fund’s risk management strategy rests with the Council’s Pension Investment Committee (PIC). Risk management policies are established to identify and analyse the risks faced by the Council’s pension operations. The main risks from the Fund's holding of financial instruments are market risk, credit risk, and liquidity risk. These policies are reviewed regularly to reflect change in activity and in market conditions.

The Committee regularly monitors each investment manager, and its investment consultant (Hymans Robertson) advises on the nature of the investments made and associated risks.
The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus.

The Committee has determined that the current largely passive investment management structure is appropriate and is in accordance with its latest investment strategy. In 2018/19 the Fund completed its on-boarding with the Partners Group Multi Asset Credit 2017 (IV) GBP fund, investing its commitment of £40m in full, and also reduced equity holdings by an additional 6% of the Fund’s total value, committing the sales proceeds to a $105m investment in J.P. Morgan’s Infrastructure Investment Fund. These actions were in line with the Funding Strategy and Investment Strategy Statements approved by PIC towards the end of 2016/17.

The Fund's custodian is Northern Trust, who manage investments and report on them on behalf of the Fund. As the Fund adopts a long term investment strategy, the high level strategic risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes made to the portfolio.

i) Market Risk

Market risk represents the risk that fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed, through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control exposure to market risk within acceptable parameters while optimising the return from the investment portfolio. In general, market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the PIC.

a) Other Price Risk – Market

The risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

b) Other Price Risk – Sensitivity analysis

The Council and its investment advisors also undertake appropriate monitoring of market conditions and benchmark analysis. The Fund has a long term view on expected investment returns which smoothes out short term price volatility.

Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period, assuming all other variables such as foreign exchange rates and interest rates remain the same:

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	**9.4**
Global Equities	**10.3**
Bonds and Index Linked	**9.3**
Alternatives	**4.2**
Property	**1.9**
Cash	**0.5**

Applied to the period end asset mix, the potential impact on the Fund's market value in the next financial year is as follows:

Asset Type	Final Market Value as at 31 March 2019 £000	Percentage Change	Value on Increase £000	Value on Decrease £000
UK Equities	380,911	9.4	416,838	344,984
Global Equities	328,767	10.3	362,583	294,951
Bonds and Index Linked	276,789	9.3	302,630	250,948
Other Assets	259,752	4.2	270,690	248,814
Property	112,285	1.9	114,382	110,188
Cash	28,592	0.5	28,735	28,449
Total Assets*	**1,387,096**	**6.5**	**1,476,957**	**1,297,235**

* This figure excludes derivatives and other investment balances.

** The % change and value change for Total Assets includes the impact of correlation across asset classes

c) Interest Rate Risk is the risk the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The risk is mitigated by the Fund holding minimum cash balances and a diversified portfolio.

d) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£GBP). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31 March 2019 with the previous year in brackets:

Euro	€15.9m	(€16.9m)
US Dollars	$190.6m	($88.4m)

The remaining exposures arise from much smaller investments relating to other currencies.

e) Currency risk – sensitivity analysis

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges and the latter are "over the counter" agreements, which neither the purchaser nor the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date. As at 31 March 2019 there were no pending foreign exchange purchases or sales. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements in 2019/20 to be 9.1%. This volatility is applied to the Fund's overseas assets at period end as follows:

Asset Type	Asset Value at 31 March 19 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas Equities	328,767	9.1	358,691	298,843
Overseas Fixed Income	91,352	9.1	99,667	83,037
Other Alternatives	141,051	9.1	153,889	128,213
Total	**561,170**	**9.1**	**612,248**	**510,092**

ii) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties – including; brokers, custodian and investment managers - seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

The Fund is also exposed to credit risk through Securities Lending. The Securities Lending (SL) programme is run by the Fund's custodian, Northern Trust. Northern Trust assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%. However, more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time. The Fund's exposure through the SL programme is now reduced as the Fund is now passively managed and SL activity has greatly reduced.

iii) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due. For example; the benefits payable costs and capital commitments. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2019 these assets totalled approximately £986m, comprising of bonds and equities, with a further £28.6m held in cash by the custodian on behalf of the Fund and fund managers.

6. PRIOR YEAR ADJUSTMENT

No prior year accounting adjustments have been made to these accounts. The membership numbers in note 17 have been restated for 2017/18 due to an error in member allocation between the administering authority and scheduled bodies; the total number of members in 2017/18 remains unchanged from that previously reported.

7. DERIVATIVE CONTRACTS

As at 31 March 2019 there were no pending foreign exchange purchases or sales. The net gains and losses in the table below relate to foreign exchange forward contracts.

	2018/19 £000	2017/18 £000
Foreign Exchange Gains	21	2
Foreign Exchange Losses	0	(4)
Total Unrealised Gains / (Losses)	21	(2)

8A. OTHER INVESTMENT BALANCES

These comprise the following amounts:

	31/03/19 £000	31/03/18 £000
Debtors		
Equity Dividends / Income from Managed Funds	38	0
Interest and Other Income	32	2,740
Pending Trades	0	361
Creditors		
Pending Trades	0	(3,085)
Net	70	16

8B. NET CURRENT ASSETS

These comprise the following amounts:

Current Assets

	31/03/19 £000	31/03/18 £000
Contributions Due from Admitted/ Scheduled Employers/ Employees	189	189
Interest and Other Income	0	0
Other Current Assets	87	98
Cash in Hand	1,049	843
	1,325	1,130

Current Liabilities

	31/03/19 £000	31/03/18 £000
Fund Manager and Custody Fees	(274)	(283)
Consultancy/ Advisory Fees	(8)	(56)
Other Current Liabilities	(1,481)	(1,350)
	(1,763)	(1,689)

9. CASH AND BANK

Cash Held With Custodian
The Northern Trust Company is the Fund's global custodian and cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2019 was £28.6m (£86.2m as at 31 March 2018). Approximately £10.2m of this was from HarbourVest, £8.5m from Pemberton, £5.7m with Schroders and £4.1 was being held on behalf of the other managers.

Pension Fund Bank Account
The Lewisham cash in hand balance of £1,049m represents uninvested cash held in the Pension Fund bank accounts as at 31 March 2019.

10. POST YEAR END EVENTS

There are no post year events to report. However, the results of the 2019 triennial valuation are expected in the autumn and the Fund's strategy will be revisited and reviewed in light of the results of that valuation. This review will take account of the updated view on the performance required from the Fund and therefore the level of risk to be adopted.

The Council is in the process of having the Fund's equity funds analysed for their carbon footprint, and it is expected that the Fund will transition a proportion of these assets into low-carbon equivalents where possible.

The Council also plans to undertake a retender of its actuarial and investment advisory services later in 2019 using the National LGPS frameworks.

11. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31 March 2019:

Fund Manager	Fund	Amount ('000)	Translated (£'000)
HarbourVest	Harbourvest Partners VIII - Cayman Venture Fund L.P	$190	146
HarbourVest	Harbourvest Partners VIII - Cayman Buyout Fund L.P	$833	639
HarbourVest	HarbourVest Partners X AIF L.P.	$19,343	14,845
HarbourVest	HarbourVest Partners XI AIF L.P.	$25,000	19,186
HarbourVest	HIPEP VII (AIF) Partnership Fund L.P.	€ 9,000	6,907
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Partnership Fund L.P	€ 700	603
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Direct Fund L.P	£180	155
Pemberton	European Debt Investments Jersey II LP	£18,748	18,748
	Total		**61,229**

12. RELATED PARTY TRANSACTIONS

There have been no material transactions with related parties in the financial year. There were no provisions for doubtful debt and amounts written off in the period.

Eight Councillors sit on the Pensions Investment Committee which oversees the Fund. At each meeting of the Pensions Investment Committee, Councillors are required to make declarations of interest which are recorded.

During the year the following declarations were made:

- Councillors Chris Best and John Muldoon declared their interests as members of Lewisham's Pension Fund.
- The Chair of the Investment Committee Cllr Mark Ingleby sits on the Board of Lewisham Homes, the Council's housing subsidiary.

Four members and an independent chair make up the membership of the Pensions Board, which assists the administering authority in adhering to the Regulations with regards to its administration and governance of the scheme. At each meeting of the Board, members are required to make declarations of interest which are recorded.

During the year no declarations of interest were made apart from the members being participants in the scheme, although this is a requirement of their Board membership.

No other trustees or Council chief officers with direct responsibility for pension fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2019.

The Council, the administering body, had dealings with the Fund as follows:

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £652k (included in Administration Expenses in Note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time and vice versa.

- The salary of the Executive Director for Resources and Regeneration for 2018/19 was £192,490, which includes employer's pension contributions of £35,355. This total also includes an allowance for acting as Chief Executive following the departure of the previous post holder.

- The salary of the Acting Chief Finance Officer, covering the period 14 November 2018 to 31 March 2019, was £53,465, which includes employer's pension contributions of £9,820.

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 49 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

The fund has two AVC providers: Clerical Medical and Equitable Life. The value of AVC investments is shown below. The contributions are held by the providers and do not form part of the Lewisham fund's assets in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

	2018/19			2017/18		
	Equitable Life £000	Clerical Medical £000	Total £000	Equitable Life £000	Clerical Medical £000	Total £000
Value at the Beginning of Year	**434**	**876**	**1,310**	**461**	**848**	**1,309**
Contributions and Transfers Received	3	172	175	4	173	177
Investment Return	13	93	106	17	10	27
Paid Out	(22)	(177)	(199)	(48)	(155)	(203)
Value at the End of the Year	**428**	**964**	**1,392**	**434**	**876**	**1,310**

14. SCHEDULED BODIES

The following are scheduled bodies to the Fund as at 31 March 2019, arranged in descending order by the value of their contributions in 2018/19:

Lewisham Homes Limited
Haberdashers' Aske's Knights Academy
Christ The King Sixth Form College
Tidemill Academy
St Matthews Academy
Childeric

15. ADMITTED BODIES

The following are admitted bodies to the Fund as at 31 March 2019, arranged in descending order by the value of their contributions in 2018/19:

Youth First LTD
Phoenix
Phoenix Agency Services
Chartwells Compass
Lewisham Music
Skanska
One Housing
3 C's Support
NSL (formerly known as National Car Parks Ltd)
Change Grow Live
Nviro
Fusions Leisure Management
Quality Heating
Pre-School Learning Alliance
Housing 21
Wide Horizons
Tower Services
Chequers Contract Services – Lee Manor

16. STOCK LENDING

The Statement of Investment Principles and Investment Strategy Statement permit the Fund to enter into stock lending whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan. Equities and fixed income assets held in segregated accounts in custody may be lent.

The economic benefits of ownership are retained when securities are on loan. The Fund has its full entitlements at all times to any income due, or rights on its securities on the anticipated date of the entitlement so that no economic benefits are foregone as a result of securities lending activity.

Northern Trust is responsible for collecting dividend and interest income on loaned securities from borrowers. The right to vote moves with the securities.

As at the 31 March 2019 the value of aggregate stock on loan was £0m (£0m as at 31 March 2018); the Fund does not currently hold any segregated assets for participation in the securities lending programme.

Collateral

The collateral held as security on loans cannot be sold or re-pledged in the absence of default by the borrower. The Fund did not enter into any stock lending transactions during the financial year, and the value of collateral held as at 31 March 2019 was £0m (£0m as at 31 March 2018).

17. MEMBERSHIP

	Active Members			Deferred Beneficiaries			Retired Members		
	2018/19	2017/18 (RESTATED)	2017/18	2018/19	2017/18 (RESTATED)	2017/18	2018/19	2017/18 (RESTATED)	2017/18
Administering Authority	5,656	5,761	5,513	10,295	9,892	9,531	7,360	7,248	7,184
Scheduled Bodies	951	933	1,181	1,051	931	1,292	298	275	339
Admitted Bodies	119	127	127	123	127	127	111	99	99
	6,726	**6,821**	**6,821**	**11,469**	**10,950**	**10,950**	**7,769**	**7,622**	**7,622**

The membership totals for 2017/18 in relation to the administering authority and scheduled bodies have been restated due to a reporting error in which certain members categorised under the administering authority were inadvertently reported under scheduled bodies.

18. AUTHORISATION

These accounts were approved by Council on 02 October 2019.

Appendix B – Investment Strategy Statement

Investment Strategy Statement: September 2018

Introduction and background

This is the Investment Strategy Statement (“ISS”) of the London Borough of Lewisham Pension Fund (“the Fund”), which is administered by Lewisham Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Fund’s Pension Investment Committee (“the PIC”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The PIC acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the PIC in September 2018, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The PIC has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The PIC seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (dated March 2017).

The suitability of particular investments and types of investments

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund’s members under the Local Government Pension Scheme. Against this background, the Fund’s approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

The Fund’s funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The PIC aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed, but will take account of future salary and/or inflation increases.

The PIC has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. This benchmark is consistent with the PIC’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

It is intended that the Fund’s investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. An Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions.

In addition, the PIC monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The PIC also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. In the September 2014 Pension Investment PIC meeting, the PIC adopted a rebalancing policy, as summarised below.

Existing rebalancing arrangements are currently in place for the BlackRock and UBS passive multi-asset mandates. Rebalancing operates within each mandate, as follows:

Table 1: BlackRock and UBS Rebalancing

Mandates	Policy
Blackrock	Rebalancing tolerance levels of +/- 2% for the following allocations: • UK Equity (19.0%) • Global Equity (55.0%) • Over 15 Year Gilts (8.6%) • Over 5 Year Index-Linked Gilts (8.7%) • UK Corporate Bonds (8.7%) Monitored on a daily basis, with rebalancing occurring at the next available dealing date if out with the tolerance range.
UBS	Strategic benchmarking is as follows: • UK Equity (19.0%) • Global Equity (55.0%) • UK Fixed Interest Gilts (8.6%) • UK Index-Linked (8.7%) • UK Corporate Bonds (8.7%) Monitoring and rebalancing occurs on a quarterly basis, with holdings rebalancing to the benchmark allocation.

Rebalancing arrangements for the Fund's mandates are set out below.

Table 2: Tolerance levels

Mandates	Deviation from Strategic Benchmark	Action
BlackRock (passive multi-asset)	+/- 3%	Monitored on a quarterly basis, with rebalancing to +/- 1.5% at the next available opportunity.
UBS (passive multi-asset)	+/- 3%	Monitored on a quarterly basis, with rebalancing to +/- 1.5% at the next available opportunity.
Schroders Property	+/- 2%	Monitored on a quarterly basis, with rebalancing to +/- 1% at the next available opportunity.
HarbourVest Private Equity	-	Rebalancing is not available for this mandate, given its structure (pre-arranged commitments and buy-and hold).
M&G UK Financing Fund	-	Rebalancing is not available for this mandate, given its buy-and-hold structure.
Invesco Perpetual Global Targeted Returns	+/- 1.5%	Monitored on a quarterly basis, with rebalancing to +/- 0.75% at the next available opportunity.
Partners Group Multi-Asset Credit Fund 2017	-	Rebalancing is not available for this mandate, given its buy-and-hold structure.
Pemberton European Mid-Market Debt Fund II	-	Rebalancing is not available for this mandate, given its buy-and-hold structure.
J.P. Morgan Infrastructure Investments Fund UK 1 LP	-	Rebalancing is not available for this mandate, given its buy-and-hold structure.

In order to avoid excessive rebalancing, the assets will not be brought back to the absolute strategic benchmark, but to a position that is approximately half way between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.

Where a mandate is underweight and breaches its tolerance level, the Fund's surplus cash flow will be used to bring assets back to within the tolerable range. If the surplus cash is not sufficient, the rebalancing will be undertaken by selling funds from the mandates that are most overweight, and using the proceeds to purchase assets that are the most underweight.

Where a mandate is overweight and breaches its tolerance level, assets will be disinvested from the mandate, and the proceeds reinvested in the most underweight mandate. Where multiple mandates qualify as being 'most underweight', the proceeds will be re-invested in relative proportions to bring the respective mandates to a similar level of underweight. This rebalancing is managed by the Fund's Officers.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including, but not limited to, equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The PIC reviews the nature of the Fund's investments on a regular basis, with particular reference to suitability and diversification. The PIC seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the PIC is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table includes both an interim benchmark proportion which indicates how the Fund is currently invested, as well as a target benchmark proportion that the PIC has agreed to move toward in the long term. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Fund allocation

Asset class	Manager	Benchmark	Interim Benchmark Proportion %	Maximum %	Target Benchmark Proportion %	Maximum %
Equities:						
Private Equity	HarbourVest	MSCI AC World Developed Index	3.0	6	3.0	6
Listed Equity	BlackRock (passive)	Composite	27.4	55	22.0	45
Listed Equity	UBS (passive)	Composite	27.4	55	22.0	45
Bonds:						
	Blackrock (passive)	Composite	9.6	20	9.5	20
	UBS (passive)	Composite	9.6	20	9.5	20
Equities and Bonds Subtotal			**77.0**		**66.0**	
Other:						
Property	Schroders	IPD Pooled Property Fund Index	10.0	20	10.0	20
UK Financing Fund	M&G	LIBOR	1.0	5	-	-
Diversified Growth Fund	Invesco	LIBOR	6.0	15	6.0	15
Temporary Cash Holdings	N/A	N/A	3.0*	10	-	10
Alternative Credit	Partners Group	LIBOR	-*	10	3.0	10
	Pemberton	LIBOR	3.0*	10	3.0	10
Infrastructure	J.P. Morgan	LIBOR	-	15	6.0	15
Liquid Multi-Asset Credit	To be selected	To be selected	-	15	6.0	15
Other Subtotal			**23.0**		**34.0**	
Total			100.0		100.0	

*Cash is currently being held in the Trustee bank account waiting to be called upon for investment into the alternative credit funds.

Managers

The PIC has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The PIC, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The PIC is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and has put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that the Fund assets fail to grow in line with the developing cost of meeting the liabilities.

- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The PIC measures and manages financial mismatch in two ways. As indicated above, the PIC has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2019 valuation process. The PIC assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The PIC also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The PIC also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The PIC seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The PIC has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the PIC has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the PIC also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

The PIC has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager and having a large proportion of the Fund's assets managed on a passive basis. The PIC assesses the investment managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the PIC seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The PIC monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The PIC has the power to replace a provider should serious concerns exist.

A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in appendix 1. A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the London CIV Pool. The proposed structure and basis on which the London CIV Pool will operate was set out in the July 2016 submission to Government.

The Fund's intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.

2 That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

At the time of preparing this statement the Fund has not invested its assets via the London CIV Pool. Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

The Fund holds c. 4% of the Fund in illiquid assets and these will remain outside of the London CIV pool. Following the commitment to alternative credit the Fund will hold c. 10% of the Fund in illiquid assets. The cost of exiting these strategies early would have a negative financial impact on the Fund. It is expected that these assets will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The PIC consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the PIC undertakes training on a regular basis and this will include on training and information sessions on matters of social, environmental and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return. Climate change is a financial risk and must be considered, alongside the opportunity set created by low carbon transition across all asset classes. The Fund therefore seeks to move away from fossil fuels-linked investments in response to climate change, to protect investments from volatile energy markets and stranded assets, and to invest in sustainable energy infrastructure and other carbon transition opportunities across all asset classes.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

The exercise of rights (including voting rights) attaching to investments

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund’s conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies’ activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The PIC has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund’s managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The PIC monitor the voting decisions made by all its investment managers on a regular basis.

The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website at the following link: http://www.lewishampensions.org/

Stewardship

The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

The PIC expects both the London CIV Pool and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis.

Chartered Institute of Public Finance ("CIPFA") Pensions Panel Principles for Investment Decision Making set out the six principles of good investment practice issued by Government (Myners principles). The extent to which the Fund complies is set out in Appendix 2.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

In addition the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners

Appendices

Appendix 1 – Approach to risk

Investment invariably involves an element of risk. The Council in recognition of this has adopted a number of strategies to mitigate the impact of unavoidable risks on the Fund. The Fund is subject to the following risks:

Funding Risk: Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A Funding Strategy Statement ("FSS") is prepared every three years as part of the triennial valuation and the Council monitors the Fund's investment strategy and performance relative to the growth in the liabilities at least annually.

Financial mismatch risk: The Council recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate the risk an investment strategy is set which provides exposure to assets providing inflation protected growth as well as cash flow generating assets that match the Fund's liabilities.

Liquidity/Cash flow Risk: Investments are held until such time as they are required to fund payment of pensions. In 2017/2018 the net payments from the fund to pensioners exceeded the contributions due, and the liquidity risk is therefore being very closely monitored. The Council manages its cash flows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

Manager Risk: Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Council when fund managers are selected and their performance is reviewed regularly by the PIC as part of the manager monitoring process. However, adopting a strategy largely based on passive investment for approximately 70% of the Fund's assets makes the overall exposure to this risk relatively low.

Concentration Risk: This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Council attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly and following a regular fund manager review process.

Demographic Risk: This relates to the uncertainty around longevity. The Council recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

Counterparty Risk: This risk relates to the other party(s) in a financial transaction (the counterparty) failing to meet its obligations to the Fund. The Council has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk by specifying minimum credit ratings and credit limits. It has similarly applied this strict criteria within its stock lending agreements to mitigate counterparty risk in these transactions.

Currency Risk: The strategic asset allocation adopted by the Council provides for an element to be held overseas to provide diversification and exposure to different economies. Such investment is however subject to fluctuations in exchange rates with an associated positive or adverse impact on performance. Managers of global equities have been provided with an element of discretion to hedge currencies to protect returns. The Council however recognises that it can adopt a long term perspective on investments and consequently is able to absorb short term fluctuations in exchange rates. However, the Council continues to monitor developments in the currency hedging environment to determine if adoption of currency hedging is beneficial.

Environmental, Social and Ethical Issues Risk: The Council recognises that environmental, social and ethical issues have the potential to impact on the long term financial viability of an organisation. The Council monitors both developments within the investment environment and the voting of its appointed managers through its participation in the LAPFF.

Appendix 2 – Compliance with CIPFA Principles for Investment

Regulations require administering authorities to assess the extent to which they comply with the CIPFA Principles for Investment Decision Making, and provide reasons for non-compliance. These reflect the principles of good investment practice issued by government in response to the Myners review. The six principles which underpin best practice and the assessment of Lewisham's compliance is as set out below.

Principle 1: Effective Decision-Making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Compliance statement - full compliance

- Decisions are taken by the PIC based on advice from officers, and the investment consultant. Specialist investment managers are employed who are responsible for day to day investment decisions.
- In conjunction with the Fund's Independent Investment Advisor, the Council will establish a training and development programme for Members of the PIC.
- There is a clear 'Conflicts of interest policy' and Members must make declarations of interest before each meeting of the PIC or as matters arise during the course of the PIC business.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Compliance statement – full compliance

- The PIC has set its investment objectives in the context of an actuarial review that considered the assets and liabilities and maturity profile of the fund, and it approves a Funding Strategy Statement for the Fund.
- The PIC has set a Fund specific benchmark, diversified to ensure that market volatility in the Fund's value is reduced through holding a proportion of the Fund's assets in alternative assets such as property, private equity, corporate credit, commodities and bonds.
- Each investment manager has a specific benchmark and target set for it and a time horizon, typically three years, for being measured against their target.

Principle 3: Risk and Liabilities
In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Compliance statement – full compliance

- The Funding Strategy Statement and triennial valuation are written specifically with the structure of liabilities in mind and also address risks to the Fund.
- The Administering Authority's strategy recognises the relatively immature liabilities of the Fund, the security of members' benefits and the secure nature of most employers' covenants. The strength of the sponsor covenant and the risk of sponsor default combined mean that the scheme's actuary can set a recovery period of 20 years.
- When setting the common contribution rate the Actuary is charged with increasing the future service rate by an amount equal to the Fund's solvency target to ensure a fully funded scheme (known as a "past service adjustment")

Principle 4: Performance Assessment
Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Compliance statement – full compliance

- The PIC reviews investment performance on a quarterly basis and cross examines investment managers on whether a half-yearly or annual basis. Mandates are generally structured so that formal reviews of investment managers occur on a rolling three year basis.
- The Fund employs the services of a Custodian who produces quarterly reports on performance to the Fund.

Principle 5: Responsible Ownership
Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Investment Strategy Statement. Trustees should report periodically to members on the discharge of such responsibilities.

Compliance statement – Full compliance

- This Investment Strategy Statement sets out the Fund's approach to Socially Responsible Investment and Corporate Governance.
- PIC has delegated responsibility for the exercise of voting rights and engagement with companies to investment managers. Within that delegation investment managers are expected to support ethical and socially responsible corporate governance on the basis that in the longer term this will enhance the value of the companies concerned.
- Managers are held to account on their voting records.
- The Fund is a member of the Local Authority Pension Fund Forum

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate. The report should contain commentary on how any commitments made in the Statement of Investment Principles have been progressed during the reporting period.

Compliance statement – full compliance

- This Investment Strategy Statement sets out the responsibilities of the PIC, its advisers and investment managers and details of the mandates and fee basis of investment managers.
- The PIC papers are available for public inspection and are available on the Council's website. Formal statements such as the Communications Policy, Funding Strategy Statement, Statement of Investment Principles and Triennial Valuation are reported on at PIC meetings and are available on the web.
- A comprehensive annual pensioner's newsletter is produced and distributed to all pensioners of the Fund.

London Borough of Lewisham Pension Fund

Funding Strategy Statement

March 2017

Contents

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Lewisham Pension Fund ("the Fund"), which is administered by Lewisham Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1st April 2017.

1.2 What is the London Borough of Lewisham Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Lewisham Pension Fund, in effect the LGPS for the Lewisham area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;

- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact David Austin, Head of Corporate Finance, in the first instance at david.austin@lewisham.gov.uk or on telephone number 0208 314 9114.

2 Basic Funding Issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non-ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

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2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating Contributions for Individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?

2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.

3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**
Sub-type	**Local Authority**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	20 years	20 years	Expected future working lifetime	Shorter of expected future working lifetime and outstanding contract term
Secondary rate – Note (d)	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over a period set by the Administering Authority	Reduce contributions by spreading the surplus over a period set by the Administering Authority	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the shorter of expected future working lifetime and outstanding contract term
Probability of achieving target – Note (e)	66%	75%	66%	80%	80%	70%
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Council
Max cont increase	+1% of pay
Max cont decrease	-1% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation may be set as a percentage of salaries as opposed to monetary amounts. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

v. As an alternative to (iv), the academy will have the option to elect to pay contributions initially in line with the ceding LEA instead. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread they payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the administering authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;

- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 5 years
Community Admission Bodies and Designating Employers	- up to 3 years
Academies	- up to 3 years
Transferee Admission Bodies	- payable immediately.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding Strategy and Links to Investment Strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, every three years. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Statutory Reporting and Comparison to Other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in February 2017 for comment;

b) Comments were requested within 28 days;

c) Following the end of the consultation period the FSS was updated where required and then published in March 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the Lewisham Pension Fund website, at www.lewishampensions.org
- A full copy included in/ the annual report and accounts of the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.lewishampensions.org/lewisham-pension-fund/about-us/forms-and-publications/

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

financial;

demographic;

regulatory; and

governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning.

Risk	Summary of Control Mechanisms
	Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:

Risk	Summary of Control Mechanisms
	Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor.

Risk	Summary of Control Mechanisms
	Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;

5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is slightly higher than the assumed rate of 1.6% p.a. used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by

2. 0.5% above the retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose the difference between RPI and CPI equals 1.0% per annum. This is a larger difference than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements that was made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation.** This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Appendix C – Executive Summary of the 2016 Actuarial Valuation

Executive summary

We have carried out an actuarial valuation of the London Borough of Lewisham Pension Fund ('the Fund') as at 31 March 2016. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the funding position of the Fund as at 31 March 2016 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2013).

Past Service Position	31 March 2013 (£m)	31 March 2016 (£m)
Past Service Liabilities	1,215	1,328
Market Value of Assets	868	1,041
Surplus / (Deficit)	(348)	(288)
Funding Level	**71%**	**78%**

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance and favourable membership experience over the inter-valuation period. The liabilities have increased due to a reduction in the future expected investment return, although this has been partially been offset by lower than expected pay and benefit growth (both over the inter-valuation period and continuing in the long term).

Contribution rates

The table below summarises the whole fund Primary and Secondary Contribution rates at this triennial valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary rate (%)	Secondary Rate (£)		
1 April 2017 - 31 March 2020	2017/18	2018/19	2019/20
15.8%	£9,447,000	£9,550,000	£9,545,000

The Primary rate also includes an allowance of 0.6% of pensionable pay for the Fund's expenses.

The average employee contribution rate is 6.6% of pensionable pay.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

Broadly, contributions required to be made by employers in respect of new benefits earned by members (the primary contribution rate) have increased as future expected investment returns have fallen. Changes to employer contributions targeted to fund the deficit have been variable across employers.

The minimum contributions to be paid by each employer from 1 April 2017 to 31 March 2020 are shown in the Rates and Adjustment Certificate in **Appendix H**.

LONDON BOROUGH OF LEWISHAM PENSION FUND

COMMUNICATION POLICY STATEMENT

(LGPS) 2019

COMMUNICATIONS POLICY STATEMENT

Legislative background

This document sets out the Communications Policy of the Administering Authority of the London Borough of Lewisham Pension Fund as required under the Local Government Pension Scheme Regulations (2013), Regulation 61.
The Public Service Pensions Act 2013 also introduced a framework for the governance and administration of public sector service pension schemes and provided an extended regulatory oversight of the LGPS to the Pensions Regulator. The Regulator's Code of Practice No14 has detailed guidance on providing good quality communications to members and others, with reference to the Occupational & Personal Pensions Scheme (Disclosure of Information) Regulations 2013 and HM Treasury Directions 2014 on Information about Benefits.

Objectives

The aim of this communications strategy is to make sure that all stakeholders are kept informed of developments within the Pension Fund. We want to ensure transparency and an effective communication process will help to maintain the efficient running of the Scheme. Regulations require each Administering Authority to prepare, maintain and publish a statement setting out their policy on communicating with the following stakeholders and organisations:

London Borough of Lewisham Pension Fund

Contributing Scheme Members (Active members)
Deferred Scheme Members
Pensioner Scheme Members & Dependants
Prospective Scheme Members
Employers participating in the Fund
Elected Members (Trustees)
The Pensions Board
Other Bodies

Communications Methodology
The administering authority has at its disposal a wide range of options for communicating with the diverse groups that it needs to serve. The method of communication will vary depending on what needs to be communicated and to whom. The methods used by the Administering Authority to communicate with all interested parties are detailed below.

General Communications
We use a range of methods to communicate including a variety of paper-based and electronic means. The Fund has a dedicated Pensions website **www.lewishampensions.org**

We will accept some communications electronically and will respond electronically where possible. For security reasons, we will not use email for communicating sensitive information or where it is necessary to verify the address or identity of the sender.

- **Website** – Communication in the form of a dedicated Pension Fund website is available which contains a wide range of information for not only scheme members but also scheme employers and other interested parties. The website can be accessed via **www.lewishampensions.org** . The website contains copies of scheme guides, newsletters and other relevant information pertaining to the LGPS. All email correspondence supplied by the administration team includes the direct link to our website.

- **Policy Documents** – These are available for all stakeholders to access either on the website at **www.lewishampensions.org** in hard copy or electronically on application.

Data Protection Statement

To protect any personal information held on computer, the London Borough of Lewisham Pension Fund is registered under the General Data Protection Regulations (GDPR) 2018. This allows members to check that their details held are accurate.

The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection grounds should contact us on 020 8314 7277 or by email **pensionsteam@lewisham.gov.uk**

National Fraud Initiative (NFI)

This authority is under a duty to protect the public fund it administers, and to this end may use information for the prevention and detection of fraud. This includes our participation in the Government's National Fraud Initiative (NFI), and it may also share information with other bodies responsible for auditing, or administering public funds, solely for the purposes of preventing and/or detecting fraud.

Policy on Communicating with Contributing (active) Scheme Members, Deferred and Pensioner Members

All members of the Scheme (active, deferred and pensioner members) will be kept informed about their benefits, developments in the Scheme and any changes to the scheme of a regulatory or operational nature. This includes consultation with representative groups as required.

- **Scheme Guides** – There are scheme guides available for members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). A copy of these will be provided to new employees of the scheme on request. The scheme guides can also be found on the Pension Fund website at **www.lewishampensions.org** and the dedicated LGPS member's site at **www.lgpsmember.org**

- **Annual Benefit Statements** – Active and deferred scheme members are entitled to an annual benefit statement detailing the benefits that they might expect at retirement. These are issued annually and would normally be issued within 5 months of the financial year end (31st March). These contain vital information for scheme members and enable individuals to make informed choices about their retirement options.

- **Pensioner Payslips –** All pensioners receive a payslip each month along with their P60 at the end of the year.

- **Pension Increase notifications –** The notification of the annual increase to pensioner benefits is available to view at **http://www.lewishampensions.org/lewisham-pension-fund/pensioners/how-we-keep-in-touch/**

- **Certificates of Continued Entitlement to Pensions (Life Certificates) –** The Fund will undertake periodic exercises, conducted through correspondence, in order to establish the continued existence of the following pensioners:

  - All pensioners living abroad (outside the UK).
  - Those over the age of 80
  - Those pensioners receiving pension benefits by cheque

- **Pension Fund Report and Accounts Summary** – This provides a summary of the Pension Fund during the financial year and can be found at: **http://www.lewishampensions.org/lewisham-pension-fund/about-us/forms-and-publications**

Policy on Communicating with Prospective Scheme Members
We will make information available to all prospective scheme members, new employees and prospective employees. All new employees will be contractually enrolled into the LGPS where their employer is a scheduled body or a contractor has an open admission agreement, the terms of which are to enrol new members and will receive information regarding the scheme. They can still choose to opt-out should they wish to do so.

- **Initial Contact** - All permanent new members of staff are contractually enrolled into the LGPS, where the employer is a scheduled body or open admission agreement contractor. Each new member is sent a statutory notification by the pension administrators confirming their membership of the LGPS. Further scheme information including scheme guides can be found on our website at **www.lewishampensions.org**

- **Induction seminars** – A representative of the administration team attend the monthly induction seminars for all new employees of the Council, which are facilitated by HR, providing prospective new members of the scheme the opportunity to discuss any aspect of their membership of the scheme.

- **Scheme Guides** – There are scheme guides available for prospective members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). The scheme guides can be found on the Pension Fund website **www.lewishampensions.org** or **lgpsmember.org** which are available for any member to access.

Policy on Communicating with Employers participating in the Fund
We will keep employers in the Pension Fund informed about developments in the Scheme and consult on changes to the Scheme as required. Potential scheme employers will also have access to information about the Pension Fund to ensure that they are fully informed in their relationship with the Fund.

- **Employer Guide** – This is a guide for scheme employers outlining the details of the scheme and the administrative arrangements for the scheme. This has been distributed to all employers in the scheme and all new employers will receive copies. Training on procedures in relation to the employer guide is also available upon request.

- **Website** – The website holds a wide range of information in regard to Employee Guides, pension forms, newsletters and policies. The website can be accessed via **www.lewishampensions.org**

- **Annual Report and Accounts** – This contains details of the Pension Fund during the financial year, income and expenditure as well as other related details. This is a detailed and lengthy document and will therefore not be routinely distributed, except to employers participating in the Fund or on request. The full document will be published on the website at **www.lewishampensions.org**

Policy on Communicating with Elected Members
Information will be provided to Council Members in order for them to be able to fulfil their duties under the role of administering authority.

- **Access to Pensions Investment Committee** – The Pensions Investment Committee is the Committee which has delegated power to review, administer and monitor the Pension Fund. The Committee meets a minimum of four times a year or more frequently, as required.

Meetings are open to members of the public, although there may be occasions when members of the public are excluded due to the confidential nature of matters under discussion.

- **Committee Reports** – Reports to the Committee and to other Committees as necessary, for example Corporate Committee and Council, ensures that Council Members are kept informed of developments in relation to Pension Fund issues and the impact that these can have on overall Council policies and procedures. These are published on the Council's website. The agenda, reports and minutes of the meetings are available on the Council's website at **http://councilmeetings.lewisham.gov.uk/ieDocHome.aspx?=1**

- **Training –** Committee Member training is a standing agenda item and the Committee liaise with Officers on training needed and received on an on-going basis each year. They are also kept informed of any relevant external training courses.

- **Presentations** – Officers and advisers to the Fund deliver presentations on investment and administration matters to the Committee at each quarterly meeting upon request.

Policy on Communicating with the Pensions Board
The Pension Board will meet at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

- **Reports to The Pensions Board** - The Pension Board is not a decision making body and is not a Committee constituted under the Local Government Act 1972, although in most regards will be treated in the same way. As such, members of the public may attend and papers will be made public in the same was as described above for the Pension Investment Committee.

- **Training –** The Pension Board will be provided with, and be required to undertake, appropriate training, either provided internally by Officers or externally.

Policy on Communicating with Other Bodies
There are a number of other interested parties with whom we will communicate with as required, this includes:

- **The Department for Communities and Local Government (DCLG)** – regular contact with DCLG as regulator of the scheme, participating and responding to consultations as required.

- **Trade Unions –** we will work with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts will be made to ensure all pension related issues are communicated effectively with the trade unions.

- **Employer Representatives** - we will work with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups.

- **Pension Fund Investment Managers, Advisers and Actuaries** –

➢ Regular meetings with the Fund Managers who invest funds on behalf of the Fund.
➢ Regular meetings with Investment Advisers who provide help and advice on the asset allocation and investments of the Fund.
➢ Regular meetings with the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund.

- **Pension Fund Custodian** – The Fund's Custodian is Northern Trust, who ensures the safekeeping of the Funds investment transactions and all related share certificates.

- **AVC Provider** – Additional Voluntary Contributions (AVC) are a way to top up your pension benefits, and in some instances provide tax free lump sum depending on the policy, and are held and invested separately from the LGPS. The Funds preferred AVC provider is Clerical Medical.

- **Pensions and Lifetime Savings Association (PLSA) (previously known as NAPF)** – The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

- **Local Authority Pension Fund Forum (LAPFF)** – The Fund is a member of LAPFF which was established to help local authority funds share information and ideas about socially responsible investing.

➢ Regular meetings with Investment Advisers who provide help and advice on the asset allocation and investments of the Fund
➢ Regular meetings with the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund

- **London Pension Officers Group (LPOG) & London Pension Officers Forum (LPOF) –** the Fund is a member of these voluntary groups. Meetings are held on a quarterly basis to share information and ensure standardised interpretation of LGPS regulations and best practice.

- **Requests for Information (FOI)** - Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality.

- **Consultations** – There are occasions when the administering authority will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the London Borough of Lewisham Pension Scheme. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.

- **Minority Groups** – It is recognised that there may be occasions when some minority groups may not be able to access all the information available to others. The Pension Fund will try to ensure that information is available to the widest possible audience and as such will try to ensure that minority groups do have access to information. This is however a developing area, but feedback on how to promote better access for all minority groups is welcome.

Communication Material

The table below shows the Fund communications along with their publication frequency and the format in which they are available to their intended audience.

Communication Material	**Paper form**	**Electronic form**	**Website**	**Frequency**	**Intended Audience (active, deferred, pensioner, prospective members, employers or ALL)**
Annual Benefit Statements	✓	✗	✗	Annually	Active, Deferred
Annual Newsletter	✗	✗	✗	N/A	ALL
Pension Updates	✓	✗	✓	When details available	Active, Prospective, Employers
Ad hoc Newsletters	✓	✗	✗	As required	ALL
Newsletter	✗	✗	✓	Quarterly	Employers (& schools)

Payslips	✓	✗	✗	Monthly	Pensioners
Notice of Pension Increase (PI)	✗	✗	✓	Annually (April)	Pensioners
Scheme Updates	✓	✓	✗	As required	Active members/ Employers (& schools)
Scheme Guides	✓	✓	✓	When requested	ALL
Induction Sessions	✓	✓	✗	Monthly	New employees
Pre-Retirement Seminars	✗	✗	✗	Attend as requested	Active
Employer Forum	✗	✗	✗	N/A	Employers
Pensions Administration Strategy (PAS)	✓	✓	✓	Reviewed Annually (April) or as and when required	Employers (& schools)
Pension Committee	✓	✓	✓	4 to 6 meetings per financial year	ALL
Pension Board	✓	✓	✓	2 meetings per financial year	ALL