



London Borough of Lewisham Pension Fund 2015/16 Annual Report

Together we can make Lewisham the best place in London
to live, work and learn

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Appendices

- A 2015/16 Pension Fund Accounts
- B Statement of Investment Principles

Other related documents

These have not changed from previous years and are available on the Council's website via the following link to the 2013/14 [annual report](#):

- Funding Strategy Statement; see Appendix B
- Actuarial Valuation Report – Executive Summary; see Appendix D
- Communications Policy Statement – Appendix F

1 FOREWORD BY EXECUTIVE DIRECTOR OF RESOURCES & REGENERATION

- 1.1. Welcome to the 2015-16 Annual Report for the Lewisham Pension Fund. The requirement for and contents of the annual report was introduced under regulation 34 of the Local Government Pension Scheme (Administration) regulations 2008.
- 1.2. The Pension Fund Annual Report details the financial position of the Lewisham Pension Fund and the performance of the professional 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 2013, showed a funding level of 71.4% of its liabilities. We are currently finalising the triennial valuation at 31 March 2016.
- 1.4. Over the last three years (the valuation period) active membership has increased by 528 members (8%). However, the Fund overall continues to mature and the net cash withdrawals in 2015/16 was £7.0m compared to £5.2m in the previous year.
- 1.5. Over the year the net asset value of the Fund held broadly steady finishing the year with a value of £1,041m at the 31 March 2016 (£1,043m the previous year). The return on assets was 0.8% above benchmark for the year which is a strong performance given the majority of the fund is invested passively.
- 1.6. This was the third full year of the Fund's passive mandate. The performance of the Fund's passive equities and bonds have been in-line with benchmark expectations. During the year the Fund exited its commodity equity mandate and procured a new multi-asset mandate focused on return but with lower volatility.
- 1.7. The Fund will further review its investment strategy in 2016/17 and update its funding strategy statement in response to the findings of the most recent valuation. Development of Pension reform continues and Lewisham will continue to position itself to put the interest and benefit of its members first as priority.

Janet Senior
Executive Director for Resources & Regeneration

2 FOREWORD BY CHAIR OF PENSION INVESTMENT COMMITTEE

- 2.1. I am delighted to sit in my third year as Chairman of the Lewisham Pension Investment Committee (PIC).
- 2.2. The most recent office for budget responsibility forecasts in the Chancellor's Autumn Statement identified that inflation was low in 2015/16 but is now beginning to rise. Growth was 2.2% in 2015/16 and is expected to fall to 1.4% in 2016/17 before returning to above 2% per year thereafter. Global economic uncertainties and pressures continue to put pressure on public sector spending and the returns available from investing.
- 2.3. In the current economic climate equity markets have, however, performed well. Overall, the Fund broadly held its value at £1,041m in 2015/16. From the confirmation of the tri-annual evaluation figure for March 31st 2016, the Committee will work from the evidence of this to re-balance the fund, as appropriate, towards more illiquid strategies with regular returns that can perform better than traditional bonds in the current climate of high but volatile equity prices, to better manage the fund's 'glide path' towards future liabilities.
- 2.4. Keeping up to date with legislative and regulatory developments has required the on-going attention of the committee, principally the creation of the now up and running Pensions Board, who oversee us, and the Government's now mandatory demand for the fund to belong to a 'pool'. As a voluntary founding member of the London Collective Investment Vehicle (CIV), which launched as the first ever Public Sector owned Funds Manager in history in February, we are hoping to pool one of our passive mandates onto the CIV platform, to save on fees.
- 2.5. Alongside most of the other 32 London Borough shareholders and Joint Sectoral Committee members of the CIV, we hope to see the CIV taking the opportunities of scale afforded to it to make significant and profitable investments in infrastructure, property or impact funds that are already being successfully pursued by other UK Local Government Pension Funds in 'pools' and collaborations across the UK at present.
- 2.6. The Committee will continue to work to ensure the Fund is well managed to the benefit of all its members. As a further result of the latest triennial valuation and its implications for the Fund's portfolio we will therefore be updating our Funding Strategy Statement and Statement of Investment Strategy which the Government requires us to prepare for April 2017.
- 2.7. As part of this work, I am keen to assess the risks and opportunities of the emerging areas of sustainable and ethical investments to deliver improved environmental, social and corporate governance outcomes for the Fund. For example, significant opportunities are already being successfully pursued in renewable energy investments - through a variety of asset classes - combining both secure illiquidity alongside reliable annual returns, by some Pension Funds in the UK.

2.8. 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 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 are to provide a pool of assets sufficient to meet the long-term pension and other benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations) for its members. The investment objectives are to ensure the Fund has sufficient assets to pay pensions and other benefits by maximising investment returns over the long term within acceptable risk tolerances.

B. MANAGEMENT

- 3.3. The Council has delegated the investment arrangements of the scheme to the Pensions Investment Committee (PIC). This Committee decides on the investment policy most suitable to meet the liabilities of the Fund and the ultimate responsibility for the investment policy lies with it. It comprises eight elected representatives of the Council, all of whom have voting rights. Members of the admitted bodies and representatives of the Trade Unions may attend the Committee meetings as observers, but have no voting rights.
- 3.4. The Committee reports to the Full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Executive Director for Resources and Regeneration 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.

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	Members as at 6 September 2016 Cllr Ingleby (Chair) Cllr Hooks (Vice Chair) Cllr Best Cllr Hilton Cllr Muldoon Cllr Johnston-Franklin Cllr Maslin Cllr Ogunbadewa
Permitted Observers	Tony Smith GMB Unison Representative (Vacant) Unite Representative (Vacant) Pensioner's Rep (Vacant) Admitted Body Rep (Vacant)
Administrator	Executive Director for Resources & Regeneration- Janet Senior
Adviser	Hymans Robertson LLP
Actuary	Hymans Robertson LLP
Custodian Bank	The Northern Trust Company
Solicitors	LB Lewisham Legal Services
Bankers	Barclays Bank
Performance Measurement	The Northern Trust Company
Commission Recapture Agent	Lynch, Jones & Ryan, Inc
Investment Managers	Blackrock (Mixed Passive) Harbourvest (Private Equity) M & G (Company Finance) Schroder (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 Executive Director for Resources and Regeneration 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, as updated and consolidated post 2008 by the Government. The committee manages the Pension Fund’s assets in accordance with 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	HOW THE RISK SHOULD BE MANAGED
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.

Key Risks

- 4.6. The key risks identified as affecting the pension fund in the latest review of the risk register are summarised as follows:
 - 1. **Governance Risk** relating to inappropriate investment strategy being adopted. This risk is mitigated by having in place an Investment Strategy that is:
 - a. set in accordance with LGPS investment regulations;
 - b. documented, reviewed and approved by the PIC;
 - c. takes into account the Fund’s liabilities;
 - d. ensures a regular review of the Fund’s asset allocation strategy; and
 - e. identifies an external advisor to provide specialist guidance on the investments decisions for the Fund.

2. **Operational Risk** relating to a failure to adhere to relevant statutory regulations, including updates from the LGPS and the Department for Communities and Local Government (DCLG). This risk is mitigated by:
 - a. the monitoring of statutory requirements via the DCLG website and attending London Pension Fund Forum (LPFF) meetings;
 - b. the monitoring of proposed changes and responding to consultations to influence outcomes;
 - c. the use of specialist advisors to prepare for anticipated changes;
 - d. ensuring policies, processes and systems are in place and up to date to comply with regulation; and
 - e. ensuring adequate training and specialist knowledge and skills for both staff and Members charged with governance.

3. **Financial risk** relating to Fund assets not being sufficient to meet its obligations and liabilities in the medium term to long term. This risk is mitigated by:
 - a. having controls in place to monitor assets and liabilities of the Pension Fund and to review asset allocation on a regular basis to ensure it remains appropriate;
 - b. using external advisers - actuarial and investment - to advise the Fund on how to manage the asset and liability mismatch;
 - c. setting strategic goals to achieve a fully funded position and setting targets to make changes to the Fund's investments when appropriate to do so;
 - d. the triennial valuation assessment of the funding position; and
 - e. inter-valuation monitoring to ensure movements in the Funding position are assessed and strategies to manage any deterioration are put in place.

Third Party Risks:

- 4.7. **Other employers:** The fund has contributions from other employers. To manage the risk of late payments Lewisham maintains a good working relationship with these parties. In 2015/16 Lewisham had twelve employers with late payments. However, Lewisham are working with the employers to resolve the issue. Lewisham's general policy is to charge interest in line with the regulations.

- 4.8. **Third party operations:** This is covered in the contract between Lewisham and the third party software provider Aquila Heywood. Heywood have in place a business continuity plan (BCP) that demonstrates they are well prepared to deal with serious incidents ranging from the effects of a flood or explosion, a serious IT infrastructure malfunction, or even an information security incident. A copy of the Heywoods BCP is available on request.

- 4.9. **Investment Risk:** The management of these risks is detailed in the Pension Fund Accounts, Appendix A.

C. FINANCIAL PERFORMANCE

4.10. The 2015/16 pension fund annual budget for controllable expenditure remained unchanged from 2014/15. Actuals against budget is illustrated below:

	2015/16			2014/15	2014/15 v 2015/16	
	ACTUALS	BUDGET	VARIANCE	ACTUALS	YEAR ON YEAR	
	£000s	£000s	£000s	£000s	£000s	%
<u>ADMINISTRATION COSTS</u>						
Lewisham Administration	586	577	9	614	(28)	-5%
Advisory Costs	313	263	50	284	29	10%
Audit costs	21	23	(2)	21	0	0%
Bank Charges	8	8	0	8	0	0%
Other Costs	0	0	0	14	(14)	
	928	871	57	941	(13)	1.5%
<u>INVESTMENT MANAGEMENT FEES</u>						
Fund Managers' Fees	1,226	1400	(174)	1,351	(125)	-10%
Custodian Fees	40	67	(27)	38	2	5%
Advisory Costs	117	33	84	54	63	54%
	1,383	1,500	(117)	1,443	(60)	-4%

4.11. Variances explained:

Increase in advisory costs is due to increased consultation on cessation of the commodities mandate and the procurement of the new multi-asset mandate which should start during 2016/17, and also due to triennial valuation work undertaken by the fund's actuaries.

D. ADMINISTRATIVE MANAGEMENT PERFORMANCE

4.12. The pension scheme, and its many Admitted and Scheduled bodies, is administered by a small in-house team. The team are 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, calculating and paying redundancy and compensation payments.

KEY ADMINISTRATIVE ACTIVITIES:

	2015/16	2014/15	2013/14	2012/13	2011/12
	No. of cases	No. of cases	No. of cases	No. of cases	No. of cases
New Scheme Members	1232	1470	1,670	747	546
Estimate of Benefits	1801	1610	854	753	1,055
Responding to correspondence *	557	557	557	621	557
Deferred Benefits	380	207	230	478	263
Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme	212	124	138	181	225
Retirements	406	386	323	274	441
Death cases (with Dependants)	249	243	212	227	217
Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme	208	167	90	92	157
Additional contributions	7	32	33	25	20
Refunds of contributions	211	160	6	11	4
Overall Performance	5263	4,956	4,113	3,309	3,485

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

KEY STAFF INDICATORS

4.13. The role of the pensions section in the Administering Authority during 2015/16 was carried out by 5 Full Time Equivalent (FTE) staff serving some 23,000 members. Relevant data and staffing ratios are as set out below.

FTE Staff	2015/16	2014/15	2013/14	2012/13
Lewisham	7.5*	6.4	5.8	5.8
Made up of:				
Work for other schemes	0.5	(0.5)	(0.5)	(0.5)
Other work	2	(1)	(1.0)	(1.0)
Administration of LGPS	5	4.9	4.3	4.3

* plus 2 apprentices

Membership	2015/16	2014/15	2013/14	2012/13	2011/12
Number of contributors	7045	7,142	6,817	6,517	5,863
Number of deferred members	9828	9,061	8,306	7,679	7,267
Number of pensioners	7225	7,050	6,890	6,700	6,593
Total	24,098	23,253	22,013	20,896	19,723

	31-Mar-16	31-Mar-15	31-Mar-14	31-Mar-13	31-Mar-12
Ratio 1 FTE staff to members	4,819	4,745	5,119	4,776	3,485
Transactions per member of staff	1,052	964	957	770	726

4.14. The age profile of the membership calculated as at 31 March 2016 is show in the table below:

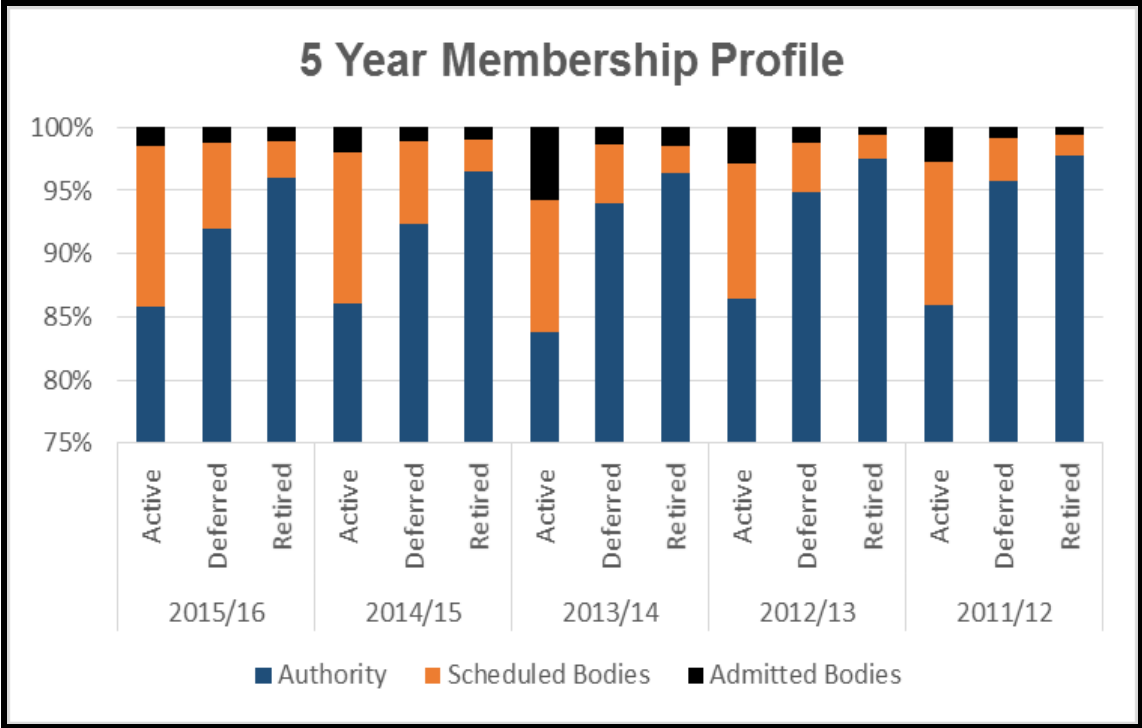
Age Band	Contributing	Deferred	Pensioners/Dependents
0-4	0	0	1
5-9	0	0	6
10-14	0	0	14
15-19	36	12	22
20-24	328	254	11
25-29	596	738	1
30-34	625	827	0
35-39	721	936	4
40-44	804	1095	8
45-49	1137	1726	29
50-54	1280	2121	114
55-59	944	1650	455
60-64	455	442	1352
65-69	109	50	1630
70-74	10	9	1248
75-79	0	0	1034
80-84	0	0	566
85-89	0	0	492
90-94	0	0	183
95-99	0	0	51
100-104	0	0	4
Total	7045	7246*	7225

*Does not Include status 2's (undecided leavers) included above

4.15. A five year analysis of the Fund's membership (active, deferred, and retired) is shown in the next table. The table also provides the unit cots per member broken down by active, deferred and retired including and excluding investment management expenses.

FIVE YEAR ANALYSIS: MEMBERSHIP AND ADMINSTRATIVE UNIT COSTS

	2015/16			2014/15			2013/14			2012/13			2011/12		
	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired
Authority	6,049	9,045	6,939	6,147	8,370	6,805	5,715	7,807	6,639	5,322	7,284	6,530	5,035	6,958	6,448
Scheduled Bodies	892	668	202	855	588	180	705	385	147	655	303	127	666	243	106
Admitted Bodies	104	115	84	140	103	65	397	114	104	180	92	43	162	66	39
Totals	7,045	9,828	7,225	7,142	9,061	7,050	6,817	8,306	6,890	6,157	7,679	6,700	5,863	7,267	6,593
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Administrative Unit Cost	92	19	13	91	20	13	86	20	12	86	20	11	120	28	15
Investment Manager Unit Cost	137	28	19	141	32	20	151	35	21	246	56	32	483	111	61
Total Unit Cost	230	47	32	232	52	236	236	55	33	331	76	43	603	139	77



Employer Contributions

- 4.16. A list of contributing employers and the amounts contributed by the employers in 2015-16 is shown below:

Employer Contributions	Contribution rate	Comments
Employer	£'s	
Lewisham Council	£24,694,770	
Christ The King Sixth Form College	£383,131.39	
Haberdashers' Aske's Knights Academy	£916,785.10	
Lewisham Homes	£2,966,292.63	
St Matthew Academy	£278,513.86	
Tidemill Academy	£96,818.02	
National Car Parks Ltd	£18,804.38	
Excalibur Tenant Management Ass	£9,493.56	
PLUS	£3,848.01	Finished Dec 15
Housing 21	£7,238.50	
Lewisham Nexus Services	£3,817.71	
Griffin School Trust	£2,580.00	Started Jan 16
Tower Services	£1,830.64	
Wide Horizons	£15,158.25	
Phoenix	£223,082.94	
INSPACE	£117,332.06	
T Brown & Sons	£0.00	Finished Jun 15
Quality Heating	£0.00	
Blenheim CDP	£7,327.32	
Penrose now Crime Reduction Initiatives (CRI)	£13,614.05	
Skanska	£37,154.28	
One Housing	£49,808.70	
Fusions Leisure Management	£21,882.04	
3 C's Support	£65,244.70	
Children's Society 21.10%	£0.00	
Children's Society 19.10%	£0.00	
Pre-School Learning Alliance	£4,446.93	
Chequers Contract Services 17.90%	£1,249.12	
Chequers Contract Services 19.90%	£271.44	
Chartwells Compass Contract	£61,112.00	
LifeLine	£2,797.72	

4.17. The Statement of Accounts provides details of the contributions received from employees and employers, reproduced below for ease of reference.

4.18. 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 to apply to join the scheme and the Council has to formally approve their admission.

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

Employer	Establishment	Total contributions received £'000 (ee & ers)	% Received by due date
Lewisham Council	Lewisham Council	30,541	100%
Scheduled bodies			
	Christ The King Sixth Form College	523	100%
	Haberdashers' Aske's Knights Academy	1,249	100%
	Lewisham Homes	3,921	99%
	St Matthew Academy	365	100%
	Tidemill Academy	132	75%
	Griffin School Trust	5	100%
Admitted bodies			
	National Car Parks Ltd	24	99%
	Excalibur Tenant Management Ass	12	45%
	PLUS	5	80%
	Housing 21	9	75%
	Lewisham Nexus Services	5	75%
	Tower Services	2	90%
	Wide Horizons	22	75%
	Phoenix	301	100%

	INSPACE	154	100%
	T Brown & Sons	2	100%
	Quality Heating	10	100%
	Blenheim CDP	9	N/A
	Crime Reduction Initiatives (CRI)	21	100%
	Skanska	52	100%
	One Housing	64	90%
	Fusions Leisure Management	27	90%
	3 C's Support	83	25%
	Pre-School Learning Alliance	6	80%
	Chequers Contract Services 17.90%	2	90%
	Chartwells Compass Contract	75	80%
	LifeLine	4	100%

Note: All payments were chased and payments made.

5 INVESTMENT POLICY AND PERFORMANCE REPORT

A. INVESTMENT STRATEGY

Investment Policy

- 5.1. The Council's investment strategy applies the Funding Statement Strategy (FSS) and the Statement of Principles (SIP). The SIP is included at Appendices B and a link to the FSS is provided. The FSS sets out the strategy for prudently meeting the Fund's future pension liabilities over the longer term. The SIP sets out the Fund's policies in respect of responsible investment, environmental, social and governance issues.
- 5.2. The only direct shares held by the fund are in Harbourvest Partnership Ltd, the value of which stood at £8.7m on the 31st March 2016. The Fund reviews each Fund Manager's Corporate Governance policies to ensure they are in-line with the Fund's investment principles.

UK Stewardship Code

- 5.3. The UK Stewardship Code sets out the principles for effective stewardship by investors. 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.
- 5.4. The seven principles of the UK Stewardship code and how Lewisham meets each one is described below:

1.	Publicly disclose their policy on how they will discharge their stewardship responsibilities.	The Fund's stewardship responsibilities is set out in the SIP. This statement is updated on an annual basis - see Appendix B.
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. 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 their investee companies.	Northern Trust, the Fund's custodian, produces monthly statements and performance reports. The Fund managers and Hymans Robertson, the Fund's advisor, prepare quarterly performance reports. These are presented to PIC at every meeting. In addition, WM company (State Street Global Services) produce quarterly performance benchmarking reports which present the Fund's performance against that of a WM Local Authority Universe.
4.	Establish clear guidelines on when and how they will escalate their stewardship activities.	The Fund has established a rebalancing policy. This has been reviewed and agreed by our investment advisors. In addition to regular PIC meetings, officers are in regular communication with the Fund Managers.

5.	Be willing to act collectively with other investors where appropriate.	The Fund is willing to act in collective engagement. Lewisham is currently participating in the creation of a London Local Government Pension Scheme Collective Investment Vehicle.
6.	Have a clear policy on voting and disclosure of voting activity.	The Fund makes use of proxy voting. Managers vote on the behalf of the fund, in line with the Fund's investment principles.
7.	Report periodically on their stewardship and voting activities.	This annual report forms part of the Fund's periodic reporting on it's Stewardship duties.

- 5.5. The Fund is 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 the Myners Principles

- 5.6. The actions the fund undertakes to demonstrate compliance with the Myners Principles are set out in the Statement of Investment Principles in Appendix B.
- 5.7. The investment objective is to ensure that the Fund's investments maximise 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.
- 5.8. Since November 2012, at least 78% of the Fund has been under Passive Management. The investment strategy is for a significant proportion of the Fund to be invested into growth assets. For this reason 61% of the fund is invested in equities.
- 5.9. During the year, the Pensions Investment Committee decided to terminate the commodities mandate held with Investec, which had been under-performing for a while, and procure a multi-asset mandate in its place.
- 5.10. The selection process was undertaken and Invesco was appointed to provide a global targeted return fund. This is likely to commence during 2016/17.
- 5.11. The Fund's structure currently has five managers with four mandates.

STRATEGIC ASSET ALLOCATION AS AT 31 MARCH 2016

Mandate	Target Allocation	Asset Value 31 Mar 16 £'m	Actual Allocation 31 Mar 16	Actual Allocation 31 Mar 15
Passive Equities and Bonds	81.0%	863.2	82.9%	83%
Property	10.0%	97.5	9.4%	8.3%
Private Equity	3.0%	41.2	4.0%	4.2%
Credit	1.0%	14.8	1.4%	1.4%

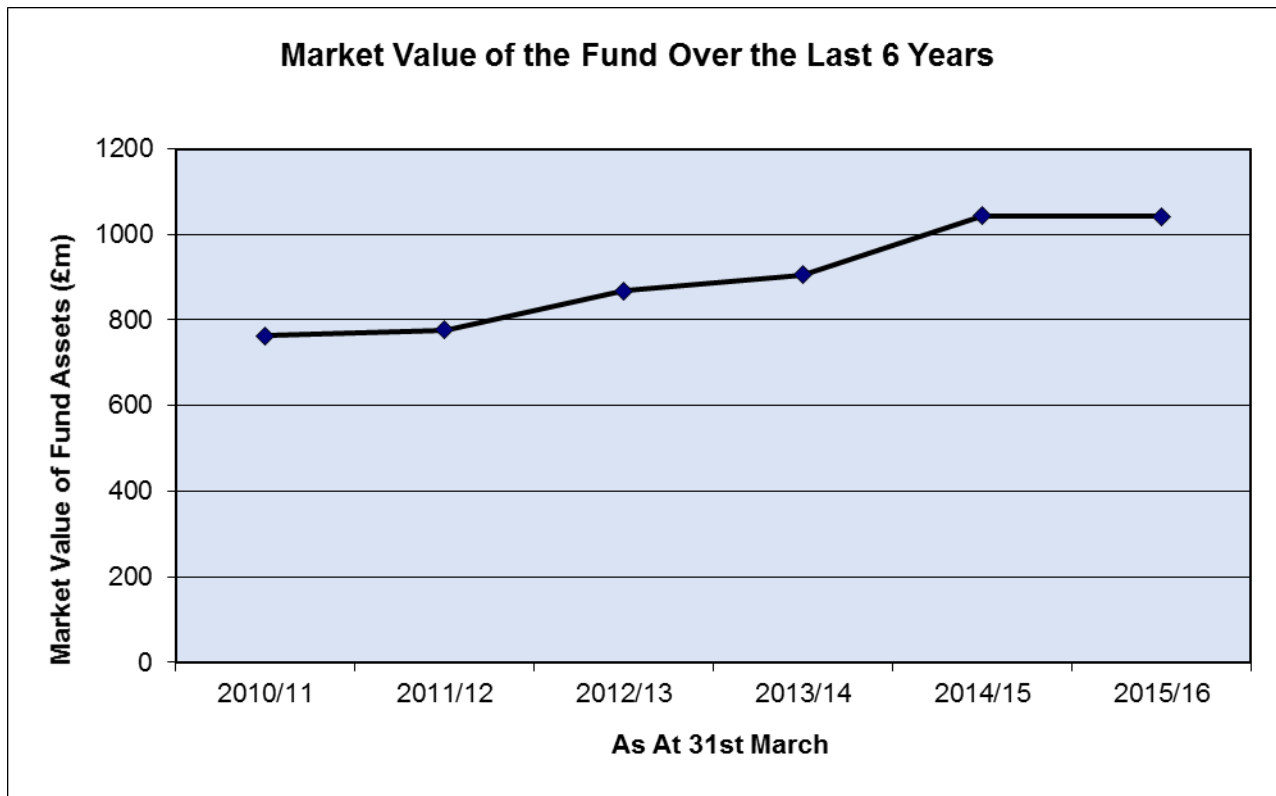
Cash	0.0%	24.3	2.3%	0.1%
Total	100%	1,041	100%	100%

5.12. The decrease in the valuation of the pension fund is mainly due to the poor performance in the equities market in the last year.

5.13. The differing short term performances of asset classes and 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.

B. INVESTMENT PERFORMANCE




5.14. The graph below depicts the progress of the Fund’s assets over the last six years as at the 31st March in each year. The graph shows that the value of the fund has been increasing over the years, apart from 2015/16 where there was a slight drop in value. The value of the Fund’s total assets decreased by just over £1m during the year.



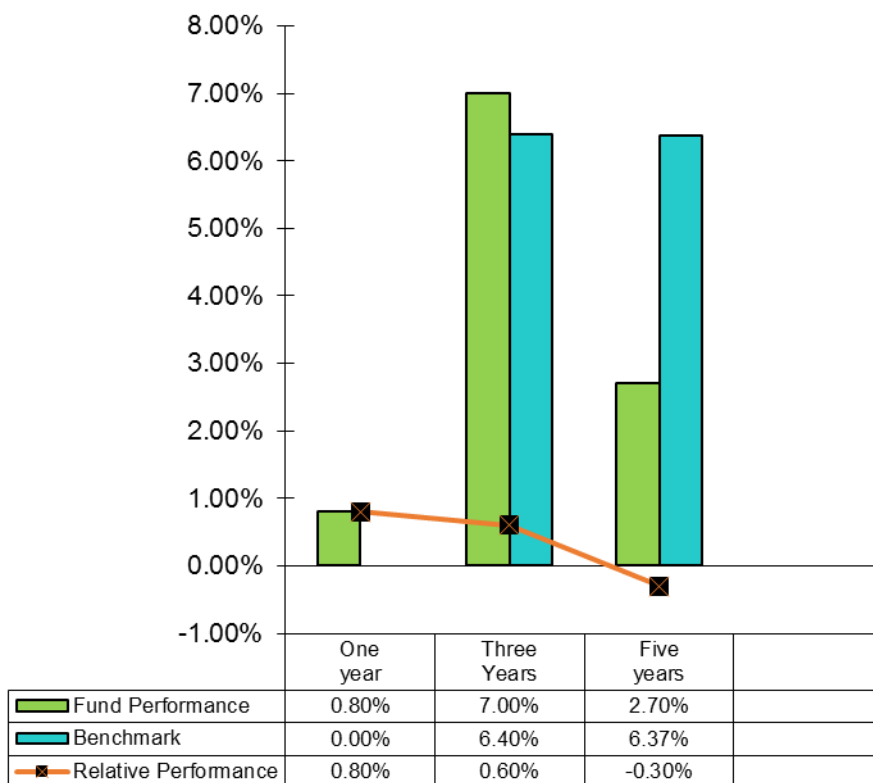
5.15. The annualised return of the Fund’s investments over the last 12 months was 0.8%, which was 0.8% above the benchmark return. Over the last five years, the Fund’s investments absolute return is 2.7%, which is 0.3% below the benchmark return of 3% as depicted below:

5.16. Individual managers' performance is assessed against customised benchmarks. The performance of each manager against the composite benchmark their asset class over the period of five years is as set out in the table on the below:

Aggregate Fund: Comparative Performance

	One Year	Three Year	Five Years
 Fund Performance	0.8%	7.0%	2.7%
 Benchmark	0	6.4%	3.0%
 Relative performance	0.8%	0.6%	-0.3%

Aggregate Fund: Comparative Performance



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

Manager	Mandate	Performance Target
UBS	Mixed Passive Mandate	Index tracker fund the performance will correspond to the average return.
BlackRock	Mixed Passive Mandate	Index tracker fund the performance will correspond to the average return.
Harbourvest	Private Equity	To outperform the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) index by 5% over a five year rolling period net of fees.
Schroder	Property	To outperform the Investment Property database (IPD) by 0.75% per annum over a three year rolling period net of fees.
M & G	Credit	One Month London Inter-Bank Offer rate (LIBOR)+ 1%

5.18. The table below shows that there has been a varied performance over time, with some managers consistently performing well in comparison to their benchmark. It is to be noted that Blackrock and UBS are both passive funds which track the benchmark and HarbourVest and M&G hold relatively small proportions of the fund. This explains the overall performance of the fund overtime. PIC continues to monitor the performance of all investment managers on a quarterly basis. Each manager is invited to discuss their performance at the committee meetings once a year and to explain strategies for improvement, where necessary.

Managers Performance Summary

		Blackrock	UBS	Schroders	HarbourVest	M&G
		%	%	%	%	%
1 year	Absolute	-0.4	-0.6	10.7	15.2	4.4
	Benchmark	-0.6	-0.5	10.6	9.4	0.6
	Relative	0.2	-0.1	0.1	5.3	3.8
3 years	Absolute	7.2	6.9	11.9	12.7	4.6
	Benchmark	6.9	6.9	13	9.4	0.5
	Relative	0.2		-1	3	4.1
Since Inception*	Absolute	10.8	10.5	2.5	8.4	4.8
	Benchmark	10.5	10.6	3.3	7.4	0.7
	Relative	0.3	-0.1	-0.8	0.9	4.1

*Blackrock 20 Nov 2012; UBS 15 Nov 2012; Schroders 12 Oct 2004; HarbourVest 29 June 2006; M&G 01 May 2010.

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 listed in Appendix A - Pension Fund Accounts under section 5 Investment Analysis.

6. SCHEME ADMINISTRATION REPORT

Scheme administration/ Pension Administration and Assurance

- 6.1. Scheme member administration and pensioner administration is undertaken by our in-house Pensions team. Scheme administration is audited annually. A copy of the internal report can be provided upon request. The results of the last audit report is summarised below:

Internal dispute procedure

- 6.2. The pension scheme regulations set out a two-stage 'Independent Disputes Resolution Procedure' (IDRP). The Funds internal dispute resolution procedure is shown below:
- 6.3. *Stage One*: the member's case is referred to the Executive Director of Resources and Regeneration who is appointed by the London Borough of Lewisham to act as an independent referee.
- 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 appointed 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 two 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 2013/14.

7 ACTUARIAL REPORT ON FUNDS

- 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 2013, a link to the Executive Summary of

the valuation report is provided. The full version can be obtained upon request. The actuarial review assessed the fund as being 71.4% funded. This represents a decrease of 3% in the funding level since the last valuation in 2010.

- 7.3. The evaluation has resulted in the actuary assessing the employers' contribution rate to provide for future pensions entitlements (the Future Service Rate) to be 21.5% of employees pay with effect from 1st April 2014, and annual increases of 0.5% for the subsequent 2 years.
- 7.4. The next revaluation exercise will have an effective date of 31st March 2016 with the resultant employers' contribution taking effect from 2016/17. This will be published in the 2016/17 annual report.
- 7.5. The Executive Summary of the Actuarial Statement for 2015/16 is prepared by the Fund's actuaries, Hymans Robertson.

8 GOVERNANCE COMPLIANCE STATEMENT

A. GOVERNANCE STRUCTURE

- 8.1. Lewisham's Governance Compliance Statement has been adopted by the PIC.
- 8.2. The Governance Compliance Statement is as follows:
- 8.3. Under the Constitution Article 9 sets out that Council has appointed the Pensions Investment Committee with the following terms of reference to exercise all functions of the Council in relation to local government pensions under Section 7, 12 or 24 Superannuation Act 1972 and all other relevant pensions legislation. This includes:
 - review with fund managers the investment performance of the superannuation fund 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 the fund managers of the Council's policy regarding investment of its superannuation 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 the fund managers;
 - to determine the overall investment strategy and policies of the fund on professional advice; and
 - responsibility for compliance with the six Myners principles set out in "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.
- 8.4. Details of the governance structure for the Council is set out within the Council's

Constitution which is available at:

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Pages/constitution.aspx>

B. MEMBERSHIP

- 8.5. 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 an independent investment consultant (Hymans Robertson) and has non-voting observers comprised of pensioners, admitted and scheduled bodies and union officials present.

C. POLICY AND PROCESSES

- 8.6. Responsibility for day-to-day administration and preparation of the Pension Fund accounts and annual report has been delegated to the Executive Director for Resources and Regeneration.
- 8.7. The following table sets out attendance by the eight Councillors who were on the Pensions Investment Committee for the four scheduled meetings in 2015/16. Each Councillor has one vote with the Chair having the casting vote.

	11 Jun 2015	2 Sep 2015	17 Nov 2015	9 Feb 2016
Cllr. Ingleby (Chair)	✓	✓	✓	✓
Cllr. Hooks (Vice- Chair)	✓	✓	✓	✓
Cllr. Best	✓	✓	✓	Apologies
Cllr. Bonavia	✓	✓	Apologies	Apologies
Cllr. Hilton	✓	✓	✓	✓
Cllr. Johnston-Franklin	✓	✓	Apologies	✓
Cllr. Maslin	✓	Apologies	✓	Apologies
Cllr. Muldoon	✓	✓	Apologies	✓
Cllr. Reid	Apologies	✓	✓	✓

Member Training

- 8.8. Members attend training events 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
 - 6) Actuarial methods, standards and practices

8.9. During 2015/16 members attended the following training:

Date	Description	Provider	Members
14 Sept 2015	Pension Basic	NAPF	Cllr Johnston Franklin
29 Sept 2015	2nd Annual Investment Management Summit	FT	Cllr Ingleby
19 Nov 2015	Local Authority Pension Fund Investment Strategies		Cllr Muldoon
25 Nov 2015	Briefing on Lewisham Pension Fund's investment in that firm	M&G	Cllr Muldoon
25 Jan 2016	Lewisham Portfolio Review	Blackrock	Cllr Hooks, Ingleby, Muldoon
27 Jan 2016	Economic forecasts for 2016	Schroders	Cllr Muldoon
11 Feb 2016	Investment Strategies Conference		Cllr Ingleby
17 March 2016	Local Authority Pension Investment Strategies and Current Issues		Cllr Muldoon
12 March 2016	Pensions Training	Hymans Robertson	Cllr Muldoon

9 FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

9.1. The Fund's accounts, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, were adopted by Council on 21st September 2016 and have been audited by the Council's external auditors Grant Thornton. The Accounts are set out in Appendix A.

10 FUNDING STRATEGY STATEMENT

10.1. 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. The current triennial valuation and update of the FSS is yet to be completed. The last review was at 31 March 2013, with a link provided.

10.2. The FSS is developed by the Council in conjunction with the Fund's actuary, Hymans Robertson, and after consultation with the employers. The FSS focuses on the growth of the Fund's liabilities to pay pensions in the coming years and how those liabilities are funded by investments and contributions. The FSS has links to the Statement of Investment Principles.

10.3. 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.

10.4. This 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.

10.5. 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 1.6% per annum over and above the redemption yield in index-linked gilts.

10.6. 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.

10.7. The 2013 valuation specified the minimum employer contributions, expressed as a percentage of pensionable pay and shown in the Rates and Adjustment certificate, as follows:

	Minimum Contributions for the Year Ending					Lump sums due 2016
	31-Mar-13	31-Mar-14	31-Mar-15	Additional Payments	31-Mar-16	Additional Payments
LB Lewisham	21.00%	21.50%	21.50%	No lump sum due contributions exceeded lump sum due	22.00%	Possible lump sum
Excalibur Tenant Mgt	21.00%	21.50%	21.50%	pooled with LBL	22.00%	
PLUS	21.00%	21.50%	21.50%	pooled with LBL	22.00%	
Housing 21	21.00%	21.50%	21.50%	pooled with LBL	22.00%	
Lewisham Nexus	21.00%	21.50%	21.50%	pooled with LBL	22.00%	
Wide Horizons	21.00%	21.50%	14.60%		14.60%	
Lewisham Homes	21.00%	21.50%	21.50%	No lump sum due contributions exceeded lump sum due	22.00%	Possible lump sum
Haberdashers Aske's Hatcham College	17.50%	17.50%	17.90%	Plus lump sum £156,000	17.90%	Plus lump sum £163,000
Christ The King 6 th form College	21.00%	21.00%	18.50%	Plus Lump sum 85,000	18.50%	Plus lump sum £89,000

	Minimum Contributions for the Year Ending					Lump sums due 2016
	31-Mar-13	31-Mar-14	31-Mar-15	Additional Payments	31-Mar-16	Additional Payments
St Matthew's Academy	17.10%	17.10%	20.60%		20.60%	
Tidemill	23.00%	23.00%	17.50%	Plus Lump Sum £25,000	17.50%	Plus lump sum £26,000
National Car Parks	22.8% plus £34k	22.8% plus £36K	22.80%	Plus Lump Sum £58,000	22.80%	Plus lump sum £61,000
Phoenix Community Hsg	17.10%	16.50%	20.40%		20.40%	
Inspace (Wilmott Dixon)	18.30%	17.10%	20.40%		20.40%	
T Brown & Sons	18.50%	16.50%	0.00%	Employees cons only	0.00%	Employees cons only. Ceased Mar 2015
Quality Heating	20.30%	18.30%	0.00%	Employees cons only	0.00%	Employees cons only
RSM Bentey Jennison	21.50%	19.50%	0.00%	Ceased June 2014	0.00%	
Childrens Society (EIS2)	26.50%	26.50%	19.10%		19.1% & 21.10%	
Chequers (Lee Manor)	25.90%	25.90%	17.90%		17.90%	
Pre-School Learning Alliance	25.70%	25.70%	21.60%		21.60%	
Chequers (John Bull)	26.20%	26.20%	19.90%	Ceased June 2014	19.90%	
Fusions Lifestyle	28.00%	28.00%	24.00%		24.00%	
Childrens Society (EIS1)	23.30%	23.30%	21.10%		21.10%	
Childrens Society (2nd group)	19.10%	19.10%	19.10%		19.10%	
Three C's	25.30%	25.30%	23.70%		23.70%	
Skanska	23.00%	23.00%	23.10%		23.10%	
Penrose	20.50%	20.50%	19.70%	Ceased Feb 2014 paid £98,000 on cessation	n/a	
CRI			19.70%		19.70%	
One Housing	22.00%	22.00%	22.00%	Plus Lump Sum £45,000	22.00%	Plus lump sum £47,000
Tower Services	n/a	n/a	22.30%	Started July 2014	22.30%	
Blenheim	n/a	n/a	22.00%	Started April 2014	22.00%	
Chartwells Compass Contract	n/a	n/a	25.70%	Started Sep 2014	25.70%	
SAGE	21.00%	21.50%	n/a	Ceased Mar 2014	n/a	
Bromleigh	7%	7%	n/a	Ceased June 2013	n/a	

11 STATEMENT OF INVESTMENT PRINCIPLES

11.1. The Regulations require that pension funds prepare, maintain and publish a statement of the principles governing investment decisions. Authorities are also required to assess their compliance against the six principles established by the government in 2008.

- 11.2. Appendix B sets out the Statement of Investment Principles as at November 2016 for the Fund, including:
- information on the responsibilities of managers and advisors to the Fund,
 - the objectives and structure of the Fund, and
 - SRI and corporate governance policies.
- 11.3. Appendices to the SIP also set out the terms of each mandate, a ‘who’s who’ of the Fund’s managers and advisors and an assessment of how the Fund meets the six investment principles.

12 COMMUNICATIONS POLICY STATEMENT

- 12.1. 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. A link to Lewisham’s published Communications Statement is provided.
- 12.2. The statement should contain a commentary on how the Fund has met the commitments set out in the communications policy statement it is required to publish under the provisions of regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008. In particular:
- how scheme information has been provided to members, their representatives and employers,
 - in what format and how frequently information has been provided, and
 - what steps the fund has taken to promote scheme membership to prospective members.

13 ADDITIONAL DATA

- 13.1. To assist in the production of the scheme annual report compiled by the LGPS Scheme Advisory Board, funds are required to include the following:
- 13.2. 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 Body	6	0	6
Admitted Body	28	5	28
Total	34	5	34

- 13.3. An analysis of fund assets as at the reporting date, analysed as follows:

	UK £m	Non- UK £m	Total £m
Equities	383	293	676
Bonds	131	64	195
Property	96		96

Alternatives	8	25	33
Cash	41		41
Total	659	382	1,041

13.4. An analysis of investment income accrued during the reporting date, analysed as follows:

	UK	Non- UK	Total
	£000s	£000s	£000s
Equities	265	405	670
Bonds	1,120	839	1,959
Property	3,234		3,234
Alternatives		456	456
Cash	118		118
Total	4,737	1,700	6,437

14 INDEPENDENT AUDITOR'S CONSISTENCY REPORT

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

The accompanying pension fund financial statements of Lewisham Pension fund (the "Authority") for the year ended 31 March 2016, which comprise the fund account, the net assets statement and the related notes, are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 26 September 2016. 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 is not a substitute for reading the audited Statement of Accounts of the Authority.

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 work has been undertaken so that we might state to the members of the Authority 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.

Executive Director for Resources and Regeneration responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Executive Director for Resources and Regeneration is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes

and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority 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 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of the Foreword, Introduction; Management and financial performance report; Investment policy and performance report; Scheme administration report; Actuarial report on funds; Governance compliance statement; Funding strategy statement; Communications policy statement; Statement of investment principles; and additional data.

Opinion

In our opinion, the pension fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Darren Wells

Darren Wells

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

The Explorer Building
Manor Royal
Crawley
West Sussex
RH10 9GT

15 December 2016

APPENDIX A

**LONDON BOROUGH OF LEWISHAM PENSION FUND STATEMENT OF ACCOUNTS
2015/16**



**PENSION
FUND
ACCOUNTS**

2015/16

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF LEWISHAM

We have audited the pension fund financial statements of London Borough of Lewisham (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Executive Director for Resources and Regeneration and auditor

As explained more fully in the Statement of the Executive Director for Resources and Regeneration's Responsibilities, the Executive Director for Resources and Regeneration is responsible for the preparation of the Authority's 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Resources and Regeneration; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Darren Wells

Darren Wells

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

Fleming Way

Manor Royal

Crawley

RH10 9GT

26 September 2016

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2015/16.

The Pension Fund's value fell over the year by £1.1m, mainly due to a decrease in the value of equities during the year.

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:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transition Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

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 Statement of Investment Principles (see 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 principles can be found on the authority's website, at the following address:

<http://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 2015/16 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, valued on an International Accounting Standard (IAS) 19 basis.

The Local Government Pension Scheme (Administration) Regulations 2008 requires 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 in November to comply with this deadline.

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

- (a)** 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.
- (b)** Investments - Investments in the Net Assets Statement are shown at market value based on bid prices, as required by the 2015/16 Local Authority Code of Practice and the IAS 26 Retirement Benefit Plans. 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.
- (c)** 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.
- (d)** Income - Dividend income earned from equity and bonds (excluding Private Equity) is reinvested by Investment Managers and not repaid directly to the fund

Pension Fund Accounts

as cash. 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.

- (e) 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 31st March 2016 is the actual fair value using the latest available valuation on or after 31st December 2015, plus an estimated valuation for the period up to 31st March 2016.
- (f) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schrodgers, to invest in pooled property funds. The Schrodgers 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 on the basis of their open market value (OMV).

The only non-UK fund is the Continental European Fund 1. 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 funds are independently valued on a rolling basis at least annually.

- (g) Financing Fund - The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31st March 2016 is the actual fair value using the latest available valuation on or after 31st December 2015, plus an estimated valuation for the period up to 31st March 2016.
- (h) Contributions – These represent the total amounts received from the employers and employees within the scheme. From 1st April 2015 the employee contribution bands (revised annually in line with inflation) are as follows:

Full time pay for the post	Contribution rate 15/16
Up to £13,600	5.5%
£13,601 to £21,200	5.8%
£21,201 to £34,400	6.5%
£34,401 to £43,500	6.8%
£43,501 to £60,700	8.5%
£60,701 to £86,000	9.9%
£86,001 to £101,200	10.5%
£101,201 to £151,800	11.4%
More than £151,801	12.5%

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

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long-term liabilities. This is assessed at each triennial actuarial revaluation. The employer's contribution rate for 2015/16 is 22.0% and for 2016/17 it will be 22.5%.

- (i) 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.
- (j) 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.
- (k) 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.
- (l) VAT – By virtue of Lewisham Council being the administering authority, VAT input tax is recoverable on fund activities. Any irrecoverable VAT is accounted for as an expense.
- (m) 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 actuarial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2013.

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

Financial assumption	March 2013 %	March 2010 %
Discount Rate	4.6	6.1
Price Inflation	3.3	3.3
Pay Increases	4.3	5.3*
Pension Increase:		
Pension in excess of GMP	2.5	3.3
Post - 88 GMP	2.5	2.8
Pre - 88 GMP	0.0	0.0
Revaluation of Deferred Pension	2.5	3.3
Expenses	0.7	0.6

* The assumption for 2010 was actually 1% pa for 2010/11 and 2011/12 and 5.3% thereafter.

With effect from the 1 April 2015, the actuarial review carried out for 31 March

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2013 resulted in an increase to the Council's contribution rate of 0.5% (i.e. to 22%) for 2015/16. This will be followed by annual increases of 0.5% for 2016/17.

The next actuarial valuation of the Fund is underway and will be carried out as at 31 March 2016, with new employer contribution rates taking effect from 1 April 2017 for the 2017/18 financial year. The results of this valuation will be published in autumn 2016.

The triennial valuation on the 31st March 2013 revealed that the Fund's assets, which at 31 March 2013 were valued at £868 million, were sufficient to meet 71.4% (75.4% in 2010) of the current liabilities valued at £1,216 million (£949 million in 2010) accrued up to that date. The resulting deficit as at the 2013 valuation was £348million (£234 million in 2010).

Actuarial Present Value of Promised Retirement Benefits

- (n)** The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1,570 million as at 31st March 2016 (£1,683 million as at 31st March 2015).
- (o)** 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 funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.
- (p)** 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.

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(q)

Fund Manager	Assets	Assets Value 2015/16	Assets Value 2014/15	Proportion of Fund 2015/16
		£'000	£'000	(%)
Schroders Property	Property	97,527	88,262	9.4
HarbourVest	Private Equity	41,247	44,167	4.0
UBS	Passive Equity and Bonds	430,848	433,052	41.4
Blackrock	Passive Equity and Bonds	432,402	433,790	41.5
Investec	Commodities	0	31,784	0.0
M&G	Credit	14,869	14,447	1.4
Securities Lending	Securities Lending	109	100	-
Unallocated Funds	Cash	24,358	198	2.3
Lewisham	Cash and Net Current Assets	68	(3,242)	-
Total Fund		1,041,429	1,042,558	100.0

(r) 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 13.

(s) 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:

- Loans and receivables – 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.

(t) 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 and M&G 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 distributions and capital calls up to 31 March.

(u) 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 2009, 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 within transfers-in. Further details about the AVC arrangements are disclosed in note 15 to the financial statements.

FUND ACCOUNT FOR THE YEAR

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

<u>FUND ACCOUNT FOR THE YEAR ENDED</u> <u>31st MARCH 2016</u>	2015/16 £'000s	2014/15 £'000s	Note
<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS</u>			
<u>DIRECTLY INVOLVED WITH THE SCHEME</u>			
Contributions Receivable:			
- from Employer	30,542	30,471	1
- from Employees	9,339	9,774	1
- Reimbursement for Early Retirement	1,898	1,604	
Transfer Values In	1,409	1,572	
Other Income	221	3	
Sub-Total: Income	43,409	43,424	
Benefits Payable:			
- Pensions	37,629	35,476	2
- Lump Sums: Retirement allowances	8,087	8,478	
- Lump Sums: Death grants	1,048	528	
Payments to and on account of leavers:			
- Refunds of Contributions	(3)	52	
- Transfer Values Out	2,709	3,190	
Administrative and other expenses borne by the scheme	928	941	3

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Sub-Total: Expenses	50,398	48,665	
Total Net additions (withdrawals) from Dealings with Scheme Members	(6,989)	(5,241)	
<u>RETURNS ON INVESTMENTS</u>			
Investment Income	6,437	6,978	4
Change in market value of investments (Realised and Unrealised)	1,013	137,859	5a
Investment Expenses:			
- Investment Management Fees	(1,383)	(1,443)	6
- Tax on Dividends	(207)	(389)	
Total Net Returns on Investments	5,860	143,005	
NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	(1,129)	137,764	
OPENING NET ASSETS OF THE SCHEME	1,042,558	904,794	
CLOSING NET ASSETS OF THE SCHEME	1,041,429	1,042,558	

NET ASSETS STATEMENT

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2016.

NET ASSETS STATEMENT AT 31 MARCH 2015	2015/16 £000s	2014/15 £000s	Note
- EQUITIES			
Equities: UK	8,735	8,777	5
Equities: Global	10,714	11,228	5
	19,449	20,005	
MANAGED FUNDS			
Property	96,263	82,286	5
Equity	656,010	662,071	5
Fixed Interest	162,329	159,838	5
Index Linked	33,177	32,410	5
Other Assets	33,077	65,028	5
	980,856	1,001,633	
CASH HELD WITH CUSTODIAN	40,667	23,775	10
DERIVATIVE CONTRACTS			
Assets	0	0	8
Liabilities	0	0	8
OTHER INVESTMENT BALANCES			
Debtors: Investment Transactions	389	387	9
Creditors: Investment Transactions	(0)	(0)	9
TOTAL INVESTMENTS	1,041,361	1,045,800	
NET CURRENT ASSETS AND LIABILITIES			
Debtors	587	1,226	9
Creditors	(792)	(4,740)	9
Cash in Hand	273	272	10
TOTAL NET ASSETS	1,041,429	1,042,558	

The financial statements of the fund do not take account of the liability to pay pensions or benefits after 31st March 2016. This liability is included within the Authority's balance sheet.

NOTES TO THE PENSION FUND ACCOUNTS**1. CONTRIBUTIONS RECEIVABLE**

<u>Employer Contributions</u>	2015/16 £000s	2014/15 £000s
Administering	25,593	24,974
Admitted	557	809
Scheduled	4,392	4,688
	<u>30,542</u>	<u>30,471</u>

Employee Contributions	2015/16 £000s	2014/15 £000s
Administering	7,593	7,868
Admitted	222	381
Scheduled	1,524	1,525
	<u>9,339</u>	<u>9,774</u>

<u>2. BENEFITS PAYABLE</u>	2015/16 £000s	2014/15 £000s
Administering	24,639	22,652
Admitted	401	383
Scheduled	1,147	1,174
Pensions Increases	11,442	11,267
	<u>37,629*</u>	<u>35,476*</u>

* includes Dependents Pensions

<u>3. ADMINISTRATION COSTS</u>	2015/16 £000s	2014/15 £000s
Lewisham Administration	586	614
Administrative costs*	334	305
Other Costs	0	14
Bank Charges	8	8
	<u>928</u>	<u>941</u>

*includes Grant Thornton Audit fees

<u>4. INVESTMENT INCOME</u>	2015/16 £000s	2014/15 £000s
Cash	109	184
Equity	670	1,536
Fixed Interest	1,583	0
Index Linked	376	277
Managed Funds Incl Property	3,234	4,930
Securities Lending	9	7
Other	456	44
	<u>6,437</u>	<u>6,978</u>

5. INVESTMENT ANALYSIS

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

Asset	Manager	31 st March 2016	
		Value £'000	%
Aquila Life US Equity Index Fund	Blackrock	146,076	15.1
UBS GBL Asset Life North America Equity Tracker	UBS	134,737	13.9
UBS Global Life UK Equity Tracker Fund	UBS	87,569	9.0
Blackrock Pensions Aquila Life UK Equity Index	Blackrock	86,527	8.9

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

Asset	Manager	31 st March 2016	
		Value £'000	%
UK Equities			
Harbourvest GE PE Shares	Harbourvest	8,739	100
Global Equities			
Commonwealth Bank of Australia	UBS	662	6.5
Westpac BKG Corp	UBS	511	5.0
Property			
Hercules Unit Property	Schroder	4,844	5.0
Hermes Property unit	Schroder	9,178	9.5
IPIF Feeder Unit Trust	Schroder	5,122	5.3
legal and General property Funds	Schroder	12,543	13.0
Real Income FD	Schroder	8,681	9.0
Schroder unit TST Uk Real Estate Sref INC	Schroder	13,534	14.0
Standard Life Pooled Property Fund	Schroder	11,798	12.3
Managed Equities			
UBS ASST MGMT Lift Uk Equity	UBS	87,569	13.3
UBS GBL Asset Life North America	UBS	134,737	20.5
UBS ASST MGMT Life Euro Ex	UBS	38,830	5.9
Aquila Life European Equity index	Blackrock	39,545	6.0

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Asset	Manager	31 st March 2016	
		Value £'000	%
BlackRock Pension Aquila Life UK	Blackrock	86,477	13.2
Aquila Life Uk Equity Index Fund	Blackrock	145,998	22.2
Fixed Interest			
UBS Asst Management STG Corp	UBS	32,404	19.9
BlackRock AM (IE)Uk Credit	Blackrock	31,783	19.6
Aquila Life Over 5 Years	Blackrock	31,842	19.6
BlackRock Pension Aquila over 15 years UK	Blackrock	33,011	20.3
Index Linked			
UK(Government Of) 0.75% I/L 22/3/34 Gbp	UBS	1,737	5.2
UK(Government Of) 1.25% I/L 22/11/2027	UBS	1,730	5.2
UK(Government Of) 0.125% I/L Gilt 22/3/68 Gbp	UBS	1,674	5.1
UK (Govt Of) 0.375% Idx-Lkd Gilt 22/3/62	UBS	1,821	5.5
UK(Govt)Of) 0.5% Idx/Lkd 22/3/50 Gbp	UBS	1,682	5.1
UK (Govt Of) 0.625% Idx/Lkd 22/03/40 Gbp	UBS	1,848	5.6
UK (Govt Of) 0.75% I/L Stk 22/11/2047	UBS	1,694	5.1
UK (Govt Of) 1.25% Idx-Lkd Gilt 2055 Gbp	UBS	2,044	6.2
UK(Govt Of) 1.875% I/L Stk 22/11/22 Gbp	UBS	1,647	5
Others			
International PE Ptrs V Cayman Ptnship Fd	Harbourvest	7,101	15
Partners Viii Cayman Venture Fund LP	Harbourvest	5,471	11.6
HIPEP Vii (AIF) Partnership Fund LP	Harbourvest	3,998	8.4
Ptrs Viii Cayman Buyout	Harbourvest	7,272	15.4
M&G UK Companies Financing Fund	M&G	7,556	16.0

An analysis of investment movements is set out below:

5. INVESTMENT ANALYSIS	Value at	Purchases	Sales	Change in	Change in	Value at
Investments	31/03/2015	at Cost	Proceeds	Capital Value	Market Value	31/03/2016
	£000s	£000s	£000s	£000s	£000s	£000s
UK Equities	8,777	0	0		-42	8,735
Global Equities	11,228	2,152	-1,450	19	-1235	10,714
Equities	662,071	5,462	-4,511	26	-7,038	656,010
Property	82,286	8,907	-58	-845	5,973	96,263
Fixed Interest Securities	159,838	7,429	-6446	0	1,508	162,329
Index Linked Securities	32,410	4,845	-4567	0	489	33,177
Other*	65,028	5,341	-38,330	-47	1,085	33,077
Derivatives	0	0	0	0	0	0
	1,021,638	34,136	-55,362	-847	740	1,000,305
Cash deposits	23,775				273	40,667
Other Investment Balances	387					389
	1,045,800				1,013	1,041,361

* Includes Venture Capital, Credit Mandates and Private equity (and Commodities in 2014/15 only).

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

Apart from Global Equities and bonds, the only other overseas investment held by the Fund fall under the 'Other' category and is namely Private Equity £25.4m.

The total value of unquoted securities held by the fund as at 31st March 2016 was £711m, this includes equities, bonds and other assets.

The total value of quoted securities held by the fund as at 31st March 2016 was £193m, this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds Unit Trusts valued at £490m, Unitised Insurance Policies valued at £363m, and other managed funds valued at £25m.

As at 31st March 2015:

5. INVESTMENT ANALYSIS						
	Value at 31/03/14	Purchases At Cost	Sales Proceeds	Change in Capital Value	Change in Market Value	Value at 31/03/15
Investments	£'000	£'000	£'000	£'000	£'000	£'000
UK Equities	6,505	0	0	(152)	2,424	8,777
Global Equities	10,389	17	(1)	(73)	896	11,228
Property	75,732	12,059	(9,991)	(3,965)	8,451	82,286
Managed Equities	558,575	13,627	(850)		90,719	662,071
Fixed Interest Securities	142,268	3,728	(12,436)		26,278	159,838
Index Linked Securities	28,476	3,515	(5,265)		5,684	32,410
Other*	71,689	1,356	(11,266)		3,249	65,028
Derivatives	0	0	0			
	893,634	34,302	(39,809)	(4,190)	137,701	1,021,638
Cash Deposits	10,651					23,775
Other Investments	471				158	387
Balances	904,756				137,859	1,045,800

* Includes Venture Capital, Credit Mandates and Private equity and Commodities.

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.

31 st March 2016			Financial Assets	31 st March 2015		
Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
19,449			Equities	20,005		
			Managed Funds			
96,263			Property	82,286		
656,010			Managed Equity	662,071		
162,329			Fixed Interest	159,838		
33,177			Index Linked	32,410		
33,077			Other Assets	65,028		
0			Derivative contracts	0		
	40,667		Cash deposits		23,775	
	0		Pending Trades		0	
	389		Dividends & Income		387	
	566		Contributions Due		1,191	
	273		Cash Balances		272	
	186		Other Current Assets		35	
1,000,305	42,081	0	Total Financial Assets	1,021,638	25,660	0

31 st March 2016			Financial Assets	31 st March 2015		
Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Liabilities			
		0	Derivative Contracts			0
		0	Pending Trades			0
		0	Unpaid benefits			(374)
		(957)	Other current Liabilities			(4,366)
		(957)	Total Financial Liabilities			(4,740)
1,000,305	42,081	(957)	Net Financial Assets	1,021,638	25,660	(4,740)

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

31 March 2016		31 March 2015
£'000	Financial Assets	£'000
1,013	Fair Value through Profit and Loss	137,859
0	Loans and Receivables	0
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
1,013	Total	137,859

Valuation of Financial Instruments carried at Fair Value

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

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).

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).

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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 st March 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs Level 3	Total
	Level 1	Level 2		
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	19,449	947,779	33,077	1,000,305
Loans and Receivables	41,916			41,916
Total Financial Assets	61,365	947,779	33,077	1,042,220
Financial Liabilities				
Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost	(792)			(792)
Total Financial Liabilities	(792)			(792)
Net Financial Assets	60,573	947,779	33,077	1,041,429

Values as at 31 st March 2015	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs Level 3	Total
	Level 1	Level 2		
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	20,005	966,243	35,390	1,021,638
Loans and Receivables	25,660			25,660
Total Financial Assets	45,665	966,243	35,390	1,047,298
Financial Liabilities				
Fair Value through Profit and Loss				

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Financial Liabilities at Amortised Cost	(4,740)			(4,740)
Total Financial Liabilities	(4,740)			(4,740)
Net Financial Assets	40,925	966,243	35,390	1,042,558

5B. FINANCIAL RISK MANAGEMENT

The Funds 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), 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 revised investment strategy.

The Fund’s investments are held by Northern Trust, who act as custodian 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 analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

Asset Type	Potential Market Movement +/- (%p.a.)
UK Equities	10.48
Overseas Equities	9.65
Total Bonds	8.74
Cash	0.01
Alternatives	6.61
Property	2.69

The potential volatilities are broadly consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset Type	Final Market Value as at 31/3/2016 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	382,657	10.48	422,759	342,555
Overseas Equities	292,802	9.65	321,057	264,546
Total Bonds	195,506	8.74	212,593	178,418
Other Assets	33,077	6.61	35,264	30,891
Property	96,263	2.69	98,852	93,673
Cash	40,667	0.01	40,671	40,663
*Total Assets	1,040,972	**6.74	**1,111,133	**970,810

* 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 from changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on bonds and cash held by investment managers, a 0.5% change in interest rates would result in an approximate annualised change in income of £7k. 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 (£UK). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31st March 2016 with the previous year in brackets:

Australian Dollars	£8.9m (£9.6m)
Euro	£17.2m (£22.4m)
Hong Kong Dollars	£4.2m (£4.9m)
US Dollars	£70.3m (£127m)

The remaining exposures arise from smaller investments relating to other currencies such as the Singapore Dollar and New Zealand Dollar.

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, 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 2016, there were no derivative contracts held. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 6.4%. This volatility is applied to the fund's overseas assets as follows:

Asset Type	Asset Value @ 31/3/2016 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	292,802	6.4	311,552	274,052
Overseas Fixed Income	64,300	6.4	68,418	60,183
Other Alternatives	25,474	6.4	27,105	23,842
Total	382,575	6.4	407,075	358,077

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 of 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.

The Financing Fund (M&G) is also exposed to credit risk. The fund gains exposure by investing in private placements. This risk is managed by the manager assigning a credit analyst to all investments, who continually monitors the asset, its direct peers and its sector.

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 2016 these assets totalled approximately £870.9m, with a further £40.7m held in cash by the custodian on behalf of the Fund and fund managers.

<u>6. INVESTMENT MANAGEMENT FEES</u>	2015/16 £'000	2014/15 £'000
Fund Managers’ Fees	1,226	1,351
Custodian Fees	40	38
Advisory/Actuarial Costs	117	54
	<u>1,383</u>	<u>1,443</u>

7. PRIOR YEAR ADJUSTMENT

No prior year adjustments have been made to these accounts.

8. DERIVATIVE CONTRACTS

As at 31 March 2014, there were no foreign exchange contracts held.

Asset Type	31st March 2016		31st March 2015
Foreign Exchange Gains			
Total Gains	0		0
Foreign Exchange Losses			
Total Losses	0		0
Total Unrealised Gains/(Losses)	0		0

9. DEBTORS & CREDITORS

These comprise the following amounts:

Debtors	2015/16 £'000	2014/15 £'000
Contributions due from Admitted / Scheduled Employers	400	1,031
Contributions due from Admitted / Scheduled Employees	166	160
Equity Dividends / Income from Managed Funds		387
Interest and Other Income		35
Tax Refunds	21	0
Pending Trades	0	
	587	1,613
Creditors	2015/16 £'000	2014/15 £'000
Fund Manager and Custody Fees	(172)	(243)
Consultancy / Advisory Fees	(43)	(56)
Pension Payments Due to Employees	0	(374)
Pending Trades	0	0
LB Lewisham	(577)	(4,067)
	(792)	(4,740)

The pending trades relate to purchases and sales by managers which have yet to be the subject of cash settlement. Pending trade sales and purchases at the year end are treated as investment debtors and creditors.

10. CASH AND BANK

Cash Held With Custodian

The Northern Trust Company is the fund's global custodian and the cash is held to meet the cash flow requirements of the fund and its managers. The total cash held as at 31st March 2016 was £40.7m (£23.7m as at 31st March 2015). Approximately £24m was held from de-investment in Investec, £7m of the cash held was from Harbourvest, £7.0m from M&G, £1.0m of cash held was from Schroder. Approximately £0.9m was being held on behalf of the other managers.

Pension Fund Bank Account

The Lewisham cash balance represents uninvested cash held in the Pension Fund bank account as at 31st March 2016.

11. TRANSACTION COSTS

The following direct costs were incurred in relation to individual investment transactions:

	2015/16	2014/15
	£'000	£'000
Total Purchases	7	0
Total Sales	1	0
Total transactions	8	0

12. POST YEAR END EVENTS

There were no post year end events to report. However the Fund is completing the procurement of a new multi-asset mandate to replace the disinvestment in Commodities (Investec) in 2015.

Following the EU referendum the Council considered the issue of Brexit, how it might impact the Pension Fund, and discussed this its professional pension advisors.

The Council's pension investments are invested for the medium to long term. The Council does not have any complex leveraged mandates that could react badly in the face of extreme market volatility, and is therefore monitoring the value of the fund on a weekly basis via the asset values provided in sterling by its custodians Northern Trust. A month after Brexit, there has been a 10% increase in value of the fund.

Over the course of the year, in the current investment environment the fund would be looking for between a 5-10% growth in valuation. However recent years have been more volatile – in 2014/15 the fund valuation grew by some 15% but in 2015/16 the fund valuation grew by just over 0%. On this basis the valuation changes in the year to date are not out of range.

Pension Fund Accounts

The Council is expecting the results of the most recent triennial valuation in the Autumn and is planning to then review its investment strategy. This review will take account of the updated view on the performance required from the fund (and therefore risk) and a better understanding of the likely market implications for investment options post the EU referendum decision.

Other potential considerations for the investment strategy of the fund are the London CIV and pooling, MIFID II impact on LGPS, and continuing Public Sector austerity reducing active LGPS members.

13. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31st December 2015

Harbourvest

Fund	Amount '000	Translated £'000
Harbourvest Partners VIII – Cayman Venture Fund L.P	\$285	195
Harbourvest Partners VIII – Cayman Buyout Fund L.P	\$1,655	1,131
HarbourVest Partners X AIF L.P.	\$29,160	19,919
HIPEP VII (AIF) Partnership Fund L.P.	\$25,350	17,317
Harbourvest International Private Equity Partners V – Cayman Partnership Fund L.P	€1,050	831
Harbourvest International Private Equity Partners V – Cayman Direct Fund L.P	€180	143
Total		39,536

The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31st March 2016. This compares to the total Harbourvest commitments at 31st March 2015 £2.9m.

14. 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 minuted at the meeting.

During the year the following declarations were made:

- Councillor John Muldoon declared personal interests as a holder of preserved benefits in the Lewisham scheme which elected members had been able to join until May 2014 and as an independently selected substitute member on the Shadow Advisory Board of the LGPS scheme nationally.

- Councillor Muldoon declared a personal interest as a member of the Local Government Pensions Scheme Shadow Advisory Board.

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 2016.

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 £586k (see 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 2015/16 was £172,120 including employer pension contributions of £31,047.

15. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 41 '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(2),(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

		Total	Equitable	Clerical
2015/16		£'000	£'000	Medical
				£'000
Value at 1 April 2015		1,631	472	1,159
Contributions and Transfers Received		163	4	159
Investment Return		6	12	(6)
Paid Out		(566)	(46)	(520)
Value at 31 March 2016		1,234	442	792

		Total	Equitable	Clerical
2014/15		£'000	£'000	Medical
				£'000
Value at 1 April 2014		1,570	496	1,074
Contributions and Transfers Received		330	4	324
Investment Return		151	18	134
Paid Out		(420)	(46)	(373)
Value at 31 March 2015		1,631	472	1,159

16. SCHEDULED BODIES

The following are scheduled bodies to the fund as at 31st March 2016:

Christ The King Sixth Form College
Haberdashers' Aske's Knights Academy
Lewisham Homes
St Matthew Academy
Tidemill Academy
Griffin Schools Trust

17. ADMITTED BODIES

The following are admitted bodies to the fund as at 31st March 2016:

NSL (formerly known as National Car Parks Ltd)
Excalibur Tenant Management Co-operative Ltd
PLUS (Ceased December 2015)
Housing 21
Lewisham Nexus Services
Wide Horizons
Phoenix
INSPACE
T Brown & Sons (Ceased June 2015)
Quality Heating
Blenheim CDP
Crime Reduction Initiatives (CRI)
Skanska
One Housing
Fusions Leisure Management
3 C's Support

Pre-School Learning Alliance
Chequers Contract Services – Lee Manor
Tower Services
Blenheim
Chartwells
Lifeline (Ceased October 2015)

18. STOCK LENDING

The Statement of Investment Principles permits 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 Fund actively lends in 50 different equity and fixed income markets worldwide. Northern Trust conducts this activity on behalf of the Fund.

Pension Fund Accounts

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 31st March 2016, the value of aggregate stock on loan was £5.5m (£1.9m as at 31st March 2015). These have been carried in the accounts at this value. There are no liabilities associated with these assets.

Collateral

The collateral held as security on loans cannot be sold or repledged in the absence of default by the borrower. The Council entered into stock lending transactions during the financial year earning £109k net of direct expenses (compared to £100k in 2014/15). The value of collateral held as at 31 March 2016 was £6.2m (£2.1m as at 31st March 2015).

19. MEMBERSHIP

	Active Members	Active Members	Deferred Benefits	Deferred Benefits	Retired Former Members	Retired Former Members
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
Admin. Authority	6,049	6,147	9,045	8,370	6,939	6,805
Scheduled Bodies	892	855	668	588	202	180
Admitted Bodies	104	140	115	103	84	65
Totals	7,045	7,142	9,828	9,061	7,225	7,050

20. These accounts were authorised on the 21 September 2016 by the Executive Director for Resources and Regeneration.



London Borough of Lewisham Pension Fund

Statement of Investment Principles

September 2016

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

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APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

1. Background

- 1.1 This Statement is prepared in accordance with The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999, which requires administering bodies to prepare, maintain and publish a written statement of the principles governing investment decisions.
- 1.2 The Local Government Pension Scheme was established by statute as a final salary defined benefit pension scheme to provide death and retirement benefits for eligible members and their dependents. The benefits are defined by statute and increased each year in line with movements in the retail prices index.
- 1.3 The fund as at 31 March 2016 had assets of approximately £1,041 million.
- 1.4 The Council has delegated responsibility for the investment management of the Fund to the Pensions Investment Committee, which determines the appropriate investment policy after obtaining proper advice from the Executive Director for Resources and Regeneration, the actuary, and the investment consultants.
- 1.5 Management of the Fund is delegated to professional Investment Managers whose activities are defined by detailed Investment Management Agreements, and regulated by the Financial Services Authority.
- 1.6 The principles outlined in this document were first approved by the Investment Committee in 2000, and are reviewed periodically.

2. Responsibility for Fund Governance

A. Pensions Investment Committee

- 2.1 This Statement will be presented to The Pensions Investment Committee (PIC) at the 15th November 2016 meeting for endorsement.
- 2.2. PIC oversees the operation of the Fund and its investment powers are set out in the Local Government Pension Scheme Regulations. This Statement of Investment Principles is consistent with those powers.
- 2.3 PIC meets quarterly and consists of eight voting members with a quorum of three members. Stakeholders such as pensioners and contributors are allowed to sit on PIC as observers. The current composition of PIC is shown at Appendix 1.
- 2.4 The Committee has delegated authority to make decisions regarding the Fund, acting on the advice of the investment consultant, the Executive Director for Resources and Regeneration and the Council's lawyers. Its primary responsibilities are to:
 - Prepare the Statement of Investment Principles

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

- Set the objectives of the Fund and determine the strategic asset allocation.
- Appoint and review the appointments of all advisors to the Fund.
- Receive valuations of the assets together with market reports and transaction details from the investment managers
- Ensure that the investment managers are operating within the agreed benchmarks and tolerances
- Monitor the investment managers' performance against the indices and investment performance targets with which they are measured
- Determine the Fund's socially responsible investment and corporate governance policies. Monitor the risks taken by the investment managers relative to their respective benchmarks
- Set and monitor the annual budget and plan for the operation of the Fund.

2.5 Revisions to this statement will require the agreement of the Committee following written advice from the Executive Director for Resources and Regeneration. The Chair can provisionally agree revisions subject to subsequent ratification by the whole Committee.

2.6 PIC will review this statement at least every three years to reflect changes necessitated by the triennial actuarial valuation, and will monitor compliance with the statement regularly. The Committee will, however, be advised of any material changes to the Fund during the inter-valuation period.

B Investment Managers

2.7 The investment management structure of the fund will be determined after obtaining appropriate advice. Implementation of the current mandate structure was completed in November 2012.

2.8 The responsibilities of the investment managers are to:

- Ensure the investment of the Fund's assets is in compliance with legislation, the parameters specified by this document and the detailed Investment Management Agreement.
- Provide quarterly reports including a review of investment performance.
- Attend meetings with the Executive Director for Resources and Regeneration and/or PIC as and when required and respond promptly to all related enquiries.
- Exercise voting rights on share holdings in accordance with the Council's policy.
- To work with the appointed Custodian and ensure that accounting records are reconciled on a monthly basis.

C. Custodian Bank

2.9 Northern Trust are the independent custodian bank responsible for safe custody of share certificates and records of title to the Fund's investments, settlement of investment transactions, accounting and collection of dividends and income.

2.10 The Custodian's specific responsibilities are to:

- Provide the Council with periodic valuations of the Fund's assets and details of all transactions electronically on a daily basis.

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

- Collect income and make tax reclaims
- Manage un-invested cash
- Report on the performance of the investment managers and the Fund relative to appropriate benchmarks on at least a monthly basis.
- Undertake stock-lending for the Fund within agreed parameters.
- Process corporate actions in accordance with the fund manager instructions as well as proxy vote in meetings

D. Independent Investment Adviser

- 2.11 The independent investment adviser position is currently vacant. The specific responsibilities are to advise the Executive Director for Resources and Regeneration and PIC in respect of the:
- Evaluation of the investment managers and their performance
 - Selection and review of investment managers and custodians
 - Provision of advice relating to investment issues.

E The Actuary

- 2.12 The scheme actuary appointed by the Council is Hymans Robertson LLP. The actuary's responsibilities are to:
- Undertake the statutory valuation of the Fund
 - Provide advice on the funding level to aid PIC in balancing the short and long term objectives of the Fund
 - Provide IAS19 reports on pension costs.
 - Calculation of initial employers' contributions for admitted and scheduled bodies.
 - To review bond and guarantee levels for admitted bodies.

F. The Investment Consultant

- 2.13 Investment advice is provided by a representative of Hymans Robertson LLP. The investment consultant's responsibilities are to advise the Executive Director for Resources and Regeneration and PIC in respect of:
- Investment strategy, advising on the risks and returns associated with different asset strategies
 - The selection and review of investment managers and custodian.
 - Advice relating to personnel and governance issues within the managers organisations.

G. The Executive Director for Resources and Regeneration

- 2.14 The Executive Director for Resources and Regeneration is responsible for:
- Implementation of policy
 - Ensuring compliance with this document and notifying PIC of non-compliance
 - Ensuring that this document is regularly reviewed and updated and reflects regulatory requirements.

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

- Submitting quarterly performance monitoring reports to PIC
- Preparation of the annual report and accounts
- Attendance at review meetings with Investment Managers.
- Operational issues relating to the Fund and the day to day administration of Investment Managers.
- Taking emergency decisions in between meetings of PIC in order to manage the assets of the Fund in a prudent and efficient manner. If this responsibility is used, PIC will be updated at the next available opportunity.

H. Pensions Board

3 Investment Objectives of the Fund

- 3.1 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 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
 - Ensure the suitability of assets in relation to the needs of the Fund.

4 Realisation of Investments

- 4.1 The majority of stocks held by the Fund are quoted on major stock markets and may be realised quickly to meet cash flow requirements. Property and venture capital investments, which are relatively illiquid comprise approximately 14.8% of the assets.

5. Investment Manager Structure and Fund Details

- 5.1 PIC will ensure that investment managers are appointed who are authorised under the Local Government Pension Scheme Management and Investment of Funds Regulations 1999 to manage the assets of the fund.
- 5.2 The appointments of the Actuary and Investment Consultant are reviewed periodically. Although the investment managers have full discretion as to stock selection they are required to keep within the asset allocation ranges stipulated by the Investment Committee. These ranges are outlined in Appendix 2.

6 Investment Strategy and Asset Mix

- 6.1 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.
- 6.2 The strategic benchmark sets out the longer-term strategy adopted by the Fund in terms of the balance between equities, property, bonds and other investments. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. Within each major market the investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles.

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

- 6.3 Investment policy is influenced by the fundamental view that over the longer term, equity investment is likely to provide superior returns to other investment classes. In the last structure it was agreed that equity should constitute 63% of the Fund. However, with the closure of the Hedge of Funds mandate, and the completion of the Fund's triennial valuation, the benchmark has slightly changed so that equity should constitute 65%.
- 6.4 The investment managers set their individual investment strategies to meet the performance objectives set by the Fund. The new benchmark position is outlined in Appendix 2.
- 6.5 In September 2014 Pension Investment Committee meeting, the Committee adopted a rebalancing policy. The Policy is outlined in Appendix 3.

7. Freedom of information

- 7.1 The Council will attempt to respond to requests for information relating to the Fund, under Freedom of Information Act 2000, within the statutory timescales.
- 7.2 There are exemptions from the requirement to provide information, for example, where it has been provided for the Fund in confidence, or where disclosure would prejudice the commercial interests of any person or body.
- 7.3 PIC considers most of the information about the Fund under the 'Open - Part 1' of its meeting agenda, which is open to the public, including information on:
- capital additions and withdrawals
 - voting of shares.
- 7.4 The investment performance compared with benchmark and target returns is considered under part 2 of the meeting.

8. Policy on Socially Responsible Investment

- 8.1 The Fund is bound in respect of Socially Responsible Investment (SRI) policy by law - based on decisions made in the courts which apply to all pension schemes. The Fund may not subordinate the interests of members to SRI policy objectives:
- Due to the requirement to treat the financial interests of the Fund and members as paramount, it is envisaged that the investment managers will operate a policy of positive engagement as opposed to negative screening
 - The investment managers will use the voting rights of the Fund to encourage ethical and socially responsible corporate governance based on the principle that, in the longer term, this should enhance shareholder value
 - Investment managers are encouraged to refrain from investing in organisations engaged in unethical practices, provided that there are suitable alternative investments, which will not in the long term result in a loss of Fund performance.

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

- 8.2 The Council recognises the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies. The Council is a member of the Local Authority Pension Fund Forum (LAPFF) and participates in this to promote its views.

9 Corporate governance

- 9.1 The proper corporate governance of companies in which the Fund invests, as set out in the Combined Code of Corporate Governance, is of importance to the London Borough of Lewisham. Investment Managers have delegated responsibility to instruct the Custodian on the exercise of the voting rights of the investments, on the understanding that these rights are to be exercised to enhance the value of the relevant securities, and are in accordance with the Socially Responsible Investment (SRI) objectives set out above. The managers will report periodically to PIC on the exercise of these powers and will consult the Fund if in any doubt on related issues.

10 Monitoring of investment performance

- 10.1 The Northern Trust Company measures the performance of the Fund and of each investment manager periodically against relevant benchmarks. Comparisons can also be made against other local authority Funds through the WM Local Authority Pension Fund Universe. Each investment manager has been set a target outperformance in excess of the applicable benchmark. Over the longer term, the return generated by the Fund is expected to exceed the rate of return assumed by the actuary for funding the scheme on an ongoing basis.
- 10.2 The Council schedules meeting with Investment Managers on the basis of their strategic importance to the fund, the perceived risk associated with the investment portfolio and the advice of the professional advisors. On this basis major portfolio managers are required to present to PIC and to officers annually, or more frequently as PIC, acting on the advice of the Executive Director for Resources and Regeneration, may require. Given that the major portfolio managers are operating on passive mandates, where returns are expected to track the overall market performance very closely, it is anticipated that presentations to PIC are only likely to be required on an exception basis, i.e. when performance is significantly different to that of the market overall.
- 10.3 Smaller investment managers such as the private equity manager will also be expected to report annually to PIC and annually to officers. They must also be prepared to answer questions tabled by Members of PIC. Each investment manager is required to present on a more frequent basis, if required.
- 10.4 In addition Lewisham's internal auditors and the external auditors undertake periodic reviews to confirm that the arrangements and procedures established by PIC are complied with.

11. Risk

- 11.1 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.

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

11.2 The Fund is subject to the following risks:

11.2.1 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.

11.2.2 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.

11.2.3 Liquidity/Cash flow Risk

Investments are held until such time as they are required to fund payment of pensions. In 2016/17 it is anticipated that the net payments from the fund to pensioners will exceed 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.

11.2.4 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 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.

11.2.5 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.

11.2.6 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.

11.2.7 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.

11.2.8 Currency Risk

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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. The Council however continues to monitor developments in the currency hedging environment to determine if adoption of currency hedging is beneficial.

11.2.9 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.

- 11.3 Regulations require pension fund administering authorities to state the extent to which they comply with the Chartered Institute of Public Finance (CIPFA) Pensions Panel Principles for Investment Decision Making. This covers the six principles of good investment practice issued by Government in response to the Myners review of institutional investment. The extent to which Lewisham complies is set out in Appendix 4.

12. STOCK LENDING

- 12.1 The Council entered into a stock-lending arrangement with the Custodian, Northern Trust, in April 2010.
- 12.2 The Council recognises that stock lending results in the transfer of ownership (including voting rights) to a counterparty whilst economic exposure is retained by the Fund. In order to mitigate the counterparty risk implicit in this arrangement the Council has applied stringent collateralisation conditions.

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Appendix 1: Who's Who

Please refer to pages 6 of this annual report.

Appendix 2: Benchmark Position

Asset class	Manager	Benchmark	New Benchmark proportion (%)
Equities:			
Private equity	Harbourvest	MSCI All Country World Developed Index	3.0
Listed Equity	Blackrock (passive)	Composite	31.2
Listed Equity	UBS (passive)	Composite	31.2
Bonds:			
	Blackrock (passive)	Composite	9.3
	UBS (passive)	Composite	9.3
Equities and Bonds Subtotal			84.0
Other:			
Property	Schroders	IPD Pooled Property Fund Index	10.0
UK Financing Fund	M&G	LIBOR	1.0
Temporary Cash Holding			0
Other Subtotal			11.0
Total			100.0

Fund Manager	Assets	Assets Value 2015/16	Assets Value 2014/15	Proportion of Fund 2015/16
		£'000	£'000	(%)
Schroders Property	Property	97,527	88,262	9.4
HarbourVest	Private Equity	41,247	44,167	4.0
UBS	Passive Equity and Bonds	430,848	433,052	41.4

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Blackrock	Passive Equity and Bonds	432,402	433,790	41.5
Investec	Commodities	0	31,784	0.0
M&G	Credit	14,869	14,447	1.4
Securities Lending	Securities Lending	109	100	-
Unallocated Funds	Cash	24,358	198	2.3
Lewisham	Cash and Net Current Assets	68	(3,242)	-
Total Fund		1,041,429	1,042,558	100.0

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Appendix 3: Rebalancing Policy

REBALANCING POLICY

A rebalancing policy is important as it provides a framework for maintaining the Fund's assets within range of its strategic benchmark. A rebalancing policy should be set in such a way as to avoid excessive rebalancing during volatile markets, and should take into account the following factors:

- Tolerance levels – the acceptable % allocation ranges for individual mandates/asset classes,
- Frequency – the frequency of monitoring/rebalancing, and
- Rebalancing target – the point to rebalance to.

In turn, the factors above should take into account characteristics of the individual asset classes, including liquidity (and transaction costs) and volatility.

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	<p>Rebalancing tolerance levels of +/- 2% for the following allocations:</p> <ul style="list-style-type: none">- UK Equity (20.5%)- Global Equity (56.5%)- Over 15 Year Gilts (7.6%)- Over 5 Year Gilts (7.7%)- UK Corporate Bonds (7.7%) <p>Monitored on a daily basis, with rebalancing occurring at the next available dealing date if outwith the tolerance range.</p>
UBS	<p>Strategic benchmarking is as follows:</p> <ul style="list-style-type: none">- UK Equity (20.5%)- Global Equity (56.5%)- UK fixed interest (7.6%)- UK Index linked (7.7%)- UK Corporate Bonds (7.7%) <p>Monitoring and rebalancing occurs on a quarterly basis, with holdings rebalancing to the benchmark allocation.</p>

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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.

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 outwith 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 outwith 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.

It has been built into this policy the option for the Executive Director of Resources and Regeneration to exercise discretion to override table 2. This option offers flexibility that takes into account market conditions and other factors that will influence the process of rebalancing.

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Appendix 4: Compliance with the CIPFA Principles for Investment

Decision Making

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 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 PIC.
- There is a clear 'Conflicts of interest policy' and Members must make declarations of interest before each meeting of PIC or as matters arise during the course of the Committee 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

- 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.
- PIC has set a scheme specific benchmark, diversified to ensure that market volatility in the funds value is reduced through holding a proportion of the funds assets in alternative assets such as property, private equity, corporate credit, commodities and bonds.

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- 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

- 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 Statement of Investment Principles.

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Trustees should report periodically to members on the discharge of such responsibilities.

Compliance statement – Full compliance

- The Statement of Investment Principles 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 a commentary on how any commitments made in the Statement of Investment Principles have been progressed during the reporting period.

Compliance statement – full compliance

- The Statement of Investment Principles sets out the responsibilities of PIC, its advisers and investment managers and details of the mandates and fee basis of investment managers.
- 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 pensioners newsletter is produced and distributed to all pensioners of the Fund.