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# **London Borough of Lewisham Pension Fund**

## 2020/21 Annual Report

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

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# 1. FOREWORD BY THE EXECUTIVE DIRECTOR OF CORPORATE RESOURCES

- 1.1. Welcome to the 2020/21 Annual Report for the Lewisham Pension Fund. The requirement for, and contents of, the annual report is set out in Regulation 57 of the Local Government Pension Scheme Regulations 2013.
- 1.2. The Pension Fund Annual Report details the financial position of the Fund and the performance of the managers appointed to administer the investment portfolio. It brings together a number of separate reporting strands into one comprehensive document that enables the public and employees to see how the Fund is managed and how it is performing.
- 1.3. The London Borough of Lewisham, as administering authority, runs the Fund on behalf of its members, with the overriding objective of ensuring its assets are sufficient to pay the benefits owing to members. To achieve this, it must ensure:
  - The proper receipt of contributions from employers and employees;
  - The appropriate investment of those contributions to achieve both investment income and capital growth; and
  - The timely payment of benefits as and when members retire, for the rest of their lives, and their dependents where relevant.
- 1.4. To achieve these objectives the Fund operates within a framework of strategies, aligned with investment beliefs, which meet the requirements of the Regulations and clearly set out a route to achieve full funding of the Fund's obligations within a set timeframe. These take the form of the Funding Strategy Statement and Investment Strategy Statement, both of which are appended to this report, and a Statement of Investment Beliefs formed by the Pensions Investment Committee, which is responsible for exercising all functions of the administering authority in relation to local government pensions. The Statement of Investment Beliefs sets out a list of high level overriding principles by which the Committee make investment decisions, including governance, investment strategy and structure, responsible investment, and climate change; the full statement is available on the Fund's website at [www.lewishampensions.org](http://www.lewishampensions.org).
- 1.5. The results of the most recent triennial valuation, based on the Fund's position as at 31 March 2019, showed an improved funding level of 90% of its liabilities, compared to a funding level of 78% as at the 2016 valuation. The resulting deficit as at the 2019 valuation was £154m (£287m in 2016). The improved funding level and reduced deficit are predominantly the result of a large increase in the value of the Fund's assets since the previous valuation (£1.041bn at 31 March 2016 to £1.387bn at 31 March 2019), which partially offsets an increase in liabilities of £123m due to a reduction in the assumed rate of future investment returns. The next triennial valuation will take place as at 31 March 2022.
- 1.6. Over the three year valuation period, active membership decreased by approximately 2% whilst the number of deferred members and pensioners both increased, by 17% and 7% respectively. The Fund continues to mature and the net cash withdrawal in 2020/21, excluding Fund management expenses, was £8.8m (£4.4m in 2019/20).

- 1.7. The Covid-19 outbreak, declared a pandemic by the World Health Organisation on 11th March 2020, has had an unprecedented impact on global and UK economies, with full recovery expected to take several years. The Fund saw a significant recovery in the short term as at the end of March 2021 in its asset values, particularly equities compared to the fall in 2019/20. The net asset value of the Fund rose by £265m, or 19.6%, from £1.352bn to £1.617bn (compared to a decrease of £35m, or -2.5%, in 2019/20). However, performance for the year was under benchmark by 1.14% in spite of the significant rise in valuation (compared to 0.56% over benchmark in 2019/20), with the rise in equities and cash being partially offset by the lack of diversified growth in year. Much of the gain in value was in the first half of 2020/21, with the Fund's value increasing to £1.502bn as at 30 September 2020. This was primarily due to the reduction of uncertainty and how the ongoing response to the virus would impact the markets and the future valuation of the Fund.
- 1.8. This was the eighth full year of the Fund's mainly passive strategy and the performance of the Fund's passive equities and bonds, in aggregate, has marginally dropped below benchmark expectations, after it exceeded expectations for the first time since inception in 2019/20. In February 2020, following the results of the 2019 triennial valuation, new funding and investment strategies for the Fund were agreed which target a fully funded position within 17 years, with a 70% likelihood of achieving this; however, the disruption caused by the coronavirus outbreak will have a mixed and uncertain impact on the underlying assumptions and required performance to meet this target. Officers and Members will continue to monitor the impact of the pandemic on funding levels, including working with employers to review their contribution rates if necessary following amendments to the LGPS regulations which now allow employer contributions to be reviewed outside of formal valuations.
- 1.9. The new investment strategy will retain but reduce a majority passive growth strategy, diversifying the Fund away from fossil fuels to low-carbon mandates, whilst investing in income assets to generate regular cash returns and help manage the Fund's overall cash position. Members and officers continue to work with the Fund's advisers and the London Collective Investment Vehicle (LCIV) to develop suitable mandates and a clear plan for the transition of assets into these mandates within this valuation cycle. Fund performance will be impacted by how quickly and successfully these funds are deployed by managers, in line with their performance objectives.
- 1.10. Lewisham remains committed to pooling its assets with the LCIV when suitable mandates become available, something that was being developed with the LCIV and other shareholders through 2019/20 and into 2020/21. Lewisham took action in 2021/22 to make our first direct investment with the pool which was previously set out in the 2019/20 annual report.
- 1.11. The Pensions Investment Committee agreed a revised investment strategy which moved from the carbon foot-printing of the Fund's equity holdings, to agreeing a separate set of climate objectives. In doing so, ESG issues will remain a key consideration for the Fund going forward, which will continue to position itself to prioritise the interests and benefits of its members.

**Kathy Freeman**  
**Executive Director of Corporate Resources (S151 Officer)**

## **2. FOREWORD BY THE CHAIR OF THE PENSIONS INVESTMENT COMMITTEE**

- 2.1. 2020/21 was a year that few could have predicted. Covid-19 brought the world to a standstill in March 2020, and resulted in imposition of restrictions and multiple lockdowns across the nation. Unlike the market crashes of decades past, the outbreak of Covid-19 led to an abrupt disruption of not just the financial markets but the real economy too, decimating both supply and demand, something that is expected to continue until the world re-opens. The focus now is recovery, which is reaffirmed by the modest growth of 1.3% in GDP for the quarter ending December 2020, and measures including the continuation of furlough as well as stamp duty breaks, along with other financial support packages for people and businesses.
- 2.2. In the second quarter of 2020, UK GDP contracted by 19.5%, the largest quarterly contraction in the UK economy since records began in 1955. With a resurgence in virus cases and new support measures announced in the autumn of 2020, a balance between economic recovery and containment of the virus was necessary. The effect of these measures, of the reopening of the economy and of people's return to economic activity, was felt by the end of the third quarter of 2020 as UK GDP rose by 16.9%, the largest quarterly gain in the UK economy since records began. UK GDP continues to rise: in the second quarter of 2021, UK GDP rose by 4.8%, and prospects for the rest of the 2021/22 financial year remain highly promising.
- 2.3. The initial impact of the coronavirus outbreak saw global markets tumble with equity markets losing a quarter of their value, and the wider uncertainty making many alternative asset classes difficult to value or subject to material uncertainty clauses. Lewisham's Pension Fund assets saw strong growth over a period of 3-5 years prior to the pandemic, rising from £1.041bn in 2015/16 to £1.617bn in 2020/21. Though 2019/20 was the first year in which assets reduced in value from the previous financial year, falling by £35m (2.5%), this was attributed to the coronavirus pandemic.
- 2.4. Despite the uncertainty and volatility in the market as a result of coronavirus, the Fund saw a healthy rise of 19.6% in the value of assets between 1 April 2020 and 31 March 2021, from £1.352bn to £1.617bn. However, as the pandemic continues to spread across the globe and further containment measures remain likely, the effect on the Fund in the medium-term, not just in terms of asset values but the funding assumptions underlying the strategic direction of the Fund, remains uncertain.
- 2.5. Approximately 58% of the Fund at March 2021 was invested in growth assets, 17% in income assets and 25% in protection assets including passive bonds and cash. The latest triennial valuation took place on 31 March 2019 and the Committee, in conjunction with officers, analysed the results to determine a suitable Funding Strategy and Investment Strategy for the next three year cycle. The Committee continues to plan for a fully-funded position, the Fund having risen from 78% to 90% funded in the last three years, largely on the crest of equity investment returns.
- 2.6. The Fund's new Investment Strategy will see the transfer of existing passive equities into low-carbon rules-based ESG passive equity mandates, as well as new investments in low-carbon income generating assets. This will ensure the Fund continues to align investments with the wider climate objectives of the Fund, while still preserving the resources necessary for securing the long-term payment of members' benefits. These investments will include

some diversification into a build-to-rent residential property mandate as a more illiquid and less volatile asset class with steady bond-like returns.

- 2.7. The year has seen significant development towards the creation of a London Collective Investment Vehicle (LCIV) low carbon passive equity fund, a process which the previous Chair has been leading and prompting over the last year amongst the other London Pension Committee Chairs. As a voluntary founding member of LCIV, the Fund remains committed to pooling our assets onto the platform. We are actively engaging with LCIV to identify mandates which are aligned with the beliefs of the Committee and the overall Fund strategy. Alongside most of the other 32 London Borough shareholders, we hope to see LCIV taking the opportunities of scale afforded to it to make significant and profitable investments in alternative asset classes which are already being successfully pursued by other UK Local Government Pension Funds in 'pools' and collaborations across the UK at present, and to develop closer and more informed working relationships with borough shareholders.
- 2.8. One such development is the creation of LCIV's first Seed Investor Groups (SIGs) for proposed fund launches. These groups provide a forum for interested boroughs to discuss and develop a mandate, in conjunction with LCIV, which best suits the needs of the group. Progress has been made in the first half of 2020/21, particularly in regards to a 100% renewable energy infrastructure SIG that launched in early 2021. This progress has continued following the launch of a low carbon and ESG passive equities SIG.
- 2.9. The Committee will continue to work to ensure the Fund is well managed to the benefit of all its members. I thank the members of the Pensions Investment Committee and the Council's officers for their work over the last year, and would like to thank the outgoing Chair in particular for his work to ensure the Fund is well managed and increasingly aligned with our wider climate objectives. I look forward to continuing to work with all concerned to ensure the Fund continues to be effectively and responsibly managed.

**Councillor James Royston**  
**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 was established 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. It is governed by the Public Service Pensions Act 2013, and administered in accordance with secondary legislation including the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016 (referred to henceforth as 'the Regulations').
- 3.2. The Fund's objectives as per its Investment Strategy Statement are to invest its assets so as to meet the long-term pension liabilities (as prescribed by the Local Government Pension Scheme Regulations 2013) for its members. The Fund's approach to investing is to optimise return consistent with a prudent level of risk, to ensure there are sufficient resources to meet the liabilities whilst ensuring the suitability of the assets in relation to the needs of the Fund.

#### **B. MANAGEMENT**

- 3.3. The Council has delegated the investment arrangements of the scheme to the Pensions Investment Committee (PIC). This Committee decides on, and has ultimate responsibility for, the investment policy most suitable to meet the liabilities of the Fund. It comprises eight elected representatives of the Council, all of whom have voting rights. Members of scheduled and admitted bodies to the Fund, and representatives of the Local Pension Board, may attend Committee meetings as observers but have no voting rights.
- 3.4. The Committee reports to Full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Executive Director of Corporate Resources and her officers, and the Fund's appointed actuary, investment adviser and fund managers.
- 3.5. The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Regulations, whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

#### **C. ASSET POOLING**

- 3.6. The London Borough of Lewisham is one of thirty-two shareholders in the London Collective Investment Vehicle (LCIV), one of eight pooling vehicles established as part of the reform of investment management in the LGPS which began in 2015 with the publication of criteria and guidance on pooling of LGPS assets to deliver significantly reduced costs while maintaining overall investment performance and achieving benefits of scale.
- 3.7. The new pools have significantly changed the previous approach to investing, although the responsibility for determining asset allocations and the investment strategy remains with each individual Pension Fund.

- 3.8. As at 31 March 2021, the London Borough of Lewisham Pension Fund did not have any actively pooled assets with the LCIV. Further information on asset pooling is provided in section 10 of this report.

## 4. SCHEME MANAGEMENT, RISK AND BUDGET

### A. SCHEME MANAGEMENT AND ADMINISTRATION

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

<b>Pensions Investment Committee:</b>	Cllr. Mark Ingleby – Chair
	Cllr. Louise Krupski - Vice Chair
	Cllr. Chris Best
	Cllr. Patrick Codd
	Cllr. Caroline Kalu
	Cllr. Paul Maslin
	Cllr. John Muldoon
	Cllr. Stephen Penfold
<b>Local Pension Board:</b>	Stephen Warren - Chair
	Suki Binjal - Employer Representative - LB Lewisham
	Rowann Limond - Employer Representative - Lewisham Homes
	Gary Cummins - Scheme Representative - LB Lewisham
	Elizabeth Sclater - Scheme Representative - Pensioner Member
<b>Administrator:</b>	Kathy Freeman - Executive Director of Corporate Resources
<b>Responsible Officers:</b>	Shida Ashrafi - Group Manager for Pensions & Payroll
	David Austin – Director of Corporate Resources
<b>Advisers:</b>	Hymans Robertson LLP
<b>Actuary:</b>	Hymans Robertson LLP
<b>Asset Pool:</b>	The London Collective Investment Vehicle (LCIV)
<b>Custodian:</b>	Northern Trust
<b>Legal Advisers:</b>	LB Lewisham Legal Services
<b>Bank:</b>	Barclays Bank
<b>Performance Measurement:</b>	Northern Trust, Hymans Robertson, PIRC
<b>AVC Providers:</b>	Clerical Medical and Utmost
<b>External Auditors:</b>	Grant Thornton UK LLP
<b>Asset Managers:</b>	BlackRock (Passive Equities and Bonds)
	HarbourVest (Private Equity)
	Invesco (Diversified Growth)



	J.P. Morgan (Infrastructure)
	M&G (Company Finance)
	Partners Group (Multi Asset Credit)
	Pemberton (Multi Asset Credit)
	Schroders (Property)
	UBS (Passive Equities and Bonds)

**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 Chief Finance Officer and, as necessary, from the Fund’s appointed actuary, investment managers, custodian and investment adviser.
- 4.3. The Committee has regard to the Myners Principles which codify best practice in investment decision-making, as updated and consolidated post 2008 by the Government and set out in the Chartered Institute of Public Finance and Accountancy’s (CIPFA’s) Principles for Investment Decision Making and Disclosure in the LGPS (2012). The Committee manages the Pension Fund’s assets in accordance with the relevant Regulations.
- 4.4. The Fund maintains a Risk Management Policy which sets out the risk philosophy for the management of the Fund, the Fund’s attitudes to risk, and how risk management is implemented and monitored. The risk management process is consistent with the Regulations and guidance issued by CIPFA, Managing Risk in the Local Government Pension Scheme (2018), and is a continuous process as outlined in the table below.



<b>Risk Management Stage</b>	<b>Description of Process</b>
<p><b>1. Risk Identification</b></p>	<p>Assessing risks in the context of the objectives and targets of the Fund, which is both a proactive and reactive process. Risks are identified by a number of means, including:</p> <ul style="list-style-type: none"> <li>i/ Formal risk assessment exercises managed by the Pensions Investment Committee;</li> <li>ii/ Regular performance measurement against agreed objectives or benchmarks;</li> <li>iii/ Findings of internal and external audit;</li> <li>iv/ Feedback from Local Pensions Board, employers and other stakeholders;</li> <li>v/ Liaison with regional and national associations, professional groups and other sector organisations.</li> </ul> <p>Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the analysis and classification, control and monitoring of those risks.</p>
<p><b>2. Risk Analysis and Evaluation</b></p>	<p>Once identified, the potential risks are assessed and scored according to their likelihood of occurring (from rare to almost certain) and the impact on the Fund should they occur (from insignificant to extreme).</p>
<p><b>3. Risk Response</b></p>	<p>These scores are then used to prioritise the risk from low risk to high risk according to the level of response required, as shown in the graphic below. Senior officers will review the extent to which the identified risks are mitigated by existing controls and whether any further action is required to address the risk. Before any such action can be taken, PIC approval may be required where appropriate officer delegations are not in place. Actions taken may result in risk elimination, risk reduction, or risk transfer.</p>
<p><b>4. Monitor and Review</b></p>	<p>The ultimate responsibility of PIC, in monitoring risk management activity the Committee will consider whether:</p> <ul style="list-style-type: none"> <li>i/ The risk controls in place achieve the desired outcomes;</li> <li>ii/ The procedures in place for assessing risk are appropriate;</li> <li>iii/ Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk;</li> <li>iv/ There are any lessons to be learned for the future assessment and management of risks.</li> </ul>

4.5. The risk register is incorporated within the annual business plan which is approved by PIC and reviewed periodically to ensure that risks are updated and the relevant mitigations are put in place to manage them. The Local Pension Board is also expected to consider risk at every meeting, and assists the authority in ensuring it adequately mitigates against risk and that the direction of travel shows movement towards target scores. Senior officers and those named as responsible officers on the register will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur.

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

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

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

**2. Asset Risks** – specifically:

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

**e. Manager underperformance** – the failure of managers to achieve the returns as set out in their mandates. The PIC has attempted to reduce this risk by appointing more than one manager and having a large proportion of the Fund managed on a passive basis. The PIC assesses manager performance on a quarterly basis and will take steps if underperformance persists.

**3. Other Provider Risk** – comprising:

**a. Transition risk** – the risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the PIC seeks suitable professional advice.

**b. Custody risk** – the risk of losing economic rights to Fund assets, when held in custody or being traded.

**c. Credit default** – the possibility of default of a counterparty in meeting its obligations.

**d. Stock-lending** – the possibility of default and loss of economic rights to Fund assets.

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

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

4.8. The Fund also gains assurance from the work of internal audit, which undertakes an annual audit to provide an opinion on the effectiveness of controls in place and makes recommendations to management on how to improve those controls. The findings of the 2020/21 internal audit were issued in May 2021, with the Fund achieving a limited assurance level. The recommendations from the audit include the need to regularly review accuracy of payments to pensioners along with the contribution rates of both the employee and employer to ensure no under/over payments. Reconciliation reviews and actions to resolve variances need to be dealt with in a timely manner, and procedure notes for calculating member pension benefits need to be kept up to date and reviewed periodically.

4.9. Areas that were identified by internal audit as working well include the pension lump sum payments and monthly payments as per the benefits calculation forms. Segregation of duties was another area that worked well as transfer calculations were completed by one officer and checked by a second officer for accuracy. Finally, employee contribution bandings and rates on Oracle matched those published on the LGPS website which shows payroll input was accurate.

## **C. FINANCIAL PERFORMANCE**

4.10. The 2020/21 Pension Fund annual budget for controllable expenditure was increased by approximately 39% on the 2019/20 budget, largely to allow for full year management expenses from the Fund's infrastructure and private debt mandates, along with administration an oversight & governance expenses relating to actuarial fees and advisor services on low carbon and renewable procurement. Actuals against budget are illustrated in the table below:

	2020/21			2019/20	2020/21 v 2019/20	
	Actuals	Budget	Variance	Actuals	Year on Year	Variance
	£'000	£'000	£'000	£'000	£'000	%
<b>Administration Expenses</b>	1,018	730	288	698	320	45.8
<b>Oversight and Governance Expenses</b>	509	418	91	403	106	26.3
	<b>1,527</b>	<b>1,148</b>	<b>379</b>	<b>1,101</b>	<b>426</b>	<b>38.7</b>
<b>Investment Management Expenses:</b>						
Transaction Costs	15	20	(5)	13	2	15.4
Management Fees	2,332	2,443	(111)	2,444	(112)	(4.6)
Custody Fees	36	35	1	35	1	2.9
	<b>2,383</b>	<b>2,498</b>	<b>(115)</b>	<b>2,492</b>	<b>(109)</b>	<b>(4.4)</b>
<b>Total Expenses</b>	<b>3,910</b>	<b>3,646</b>	<b>264</b>	<b>3,593</b>	<b>317</b>	<b>8.8</b>

- 4.11. Administration expenses consist of all expenses the administering authority must incur in performing its duties to administer entitlements and provide benefit information. This includes staff costs, IT costs, general costs such as stationary and postage, membership fees, and costs associated with the provision of additional voluntary contributions. Oversight and governance expenses can include the cost of selection, appointment and performance monitoring of fund managers, investment advisory services, legal and actuarial services, and audit fees.
- 4.12. The increased oversight and governance costs in 2020/21 is predominantly the result of increased spend against actuarial and advisory services, from £271,000 in 2019/20 to £318,000 in 2020/21, which was more than budgeted; this can be attributed to the 2019 triennial valuation taking place and the associated actuarial costs, as well as advisory assistance with new regulations, along with advisory services on low carbon and renewable procurement.
- 4.13. Management expenses in 2020/21 reduced by £112,000 on 2019/20, as it was thought that spend would reflect the effect of investments in new mandates carrying forward from 2018/19. The expenditure under budget is a result of an overestimation of manager fees on multiple mandates.

## 5. INVESTMENT STRATEGY AND PERFORMANCE

### A. INVESTMENT STRATEGY

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

- 5.2. The main outcomes of the 2019 triennial valuation (2019 – 2022) incorporated into the strategy include:
- Divesting from over £650m of current passive equity mandates and reinvesting into a single low carbon index 'passive like' tracking fund;
  - Divesting over £75m from the current diversified growth fund mandate which has not performed in line with expectations;
  - Identifying one or two new low carbon income mandates, most likely in the infrastructure and/or multi asset credit space which also deliver the necessary cash flows for the fund;
  - Considering divestment from the current property fund over the next investment period and directing the fund's property investment to a more low carbon orientated mandate; and
  - Rebalancing the other existing mandates where necessary in-line with the agreed investment strategy allocations.
- 5.3. The administration of the investment side of the Fund is managed internally by officers within the Council's Strategic Finance team. The Fund's custodian is the main depository for investment assets, and provides performance reporting and accounting support for all transactional activity in relation to the Fund's investments which is used to update the Fund's ledger and compile the annual accounts. The Fund also maintains its own bank account for day to day cash flow requirements.

## **B. UK STEWARDSHIP CODE**

- 5.4. In 2019 the Financial Reporting Council consulted on a new UK Stewardship Code that sets substantially higher expectations for investor stewardship policy and practice than the 2012 Code. The result of that consultation was the UK Stewardship Code 2020, which came into force on 1 January 2020.
- 5.5. The Code defines stewardship as the "responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society", and consists of twelve Principles for asset managers and owners, and six for service providers, to which signatories to the Code are expected to evidence compliance through the publication of an annual Stewardship Report. Managers, owners and service providers are tiered based on the quality of their Code statements, distinguishing between those who report well and demonstrate their commitment to stewardship, and those where reporting improvements are required.
- 5.6. Although not currently a direct signatory to the new Code, the Fund will consider its impact and align its expectations of asset managers and service providers accordingly. The Fund will use the revised Code as a basis for reviewing and strengthening its approach to responsible investment, and fully endorses the principles embedded within the Code. It expects its external fund managers to be signatories to the Code, and to seek to transition from the old 2012 Code to the new 2020 Code, reaching Tier One level of compliance or seeking to achieve it within a reasonable timeframe. The Pensions Committee believes that investor stewardship is a key component of the CIPFA Good Governance Framework and is committed to exercising this responsibility.
- 5.7. The twelve principles of the UK Stewardship Code 2020 are set out below with brief examples of how the Fund works to meet each one in line with the expectations set out in the Code, although this does not constitute a statement of compliance and is by no means exhaustive.

Category	Code Principle	Examples of Compliance
<b>Purpose and Governance</b>	<ol style="list-style-type: none"> <li>1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.</li> <li>2. Signatories' governance, resources and incentives support stewardship.</li> <li>3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.</li> <li>4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.</li> <li>5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.</li> </ol>	<p>PIC Members have contributed to a Statement of Investment beliefs that when considered with the Funding Strategy Statement translate Fund objectives into a well-defined Investment Strategy. Taken in conjunction with PIC's Climate Objectives, the Fund seeks to make ESG focussed investments to achieve the overriding purpose of preserving the resources necessary to secure the long-term payment of members' benefits.</p> <p>The Fund's Pension Board assists the Council, as administering authority, to monitor adherence to legislation and best practice relating to the administration and governance of the Fund. PIC members declare any conflicts of interest before meetings begin. This is recorded in the minutes and published on the Council website. A decision is made by the Chair on the necessary steps to be taken to ensure the interests of the Fund and its beneficiaries are put first.</p> <p>The Fund's stewardship responsibilities are set out in the ISS, including its approach to systemic risks which includes maintaining a diversified portfolio to reduce the impact of any market or business group failure.</p> <p>The fund is audited, both externally and internally, annually. The Pension Board in April 2019 commissioned an external review to measure the Fund's compliance to the Pension Regulator's Code of Practice and the Local Government Pension Scheme Advisory Board's guidance.</p>
<b>Investment Approach</b>	<ol style="list-style-type: none"> <li>6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.</li> <li>7. Signatories systematically integrate stewardship and investment, including</li> </ol>	<p>The Fund publishes its Statement of Accounts and Annual Report every year which details the breakdown of the Fund and its investments, the membership of the Fund and how officers deal with member queries, and how decisions are taken to meet the Fund's liabilities and continue to pay member benefits. The FSS and ISS set out in greater detail the stewardship of the Fund, the former being consulted on with Fund employers prior to publication.</p> <p>The Fund has integrated stewardship and ESG factors into its new Investment Strategy, which will see the Fund transition its equity holdings into low carbon ESG passive equities and pursue</p>

Category	Code Principle	Examples of Compliance
	<p>material environmental, social and governance issues, and climate change, to fulfil their responsibilities.</p> <p>8. Signatories monitor and hold to account managers and/or service providers.</p>	<p>investments in other low carbon assets including renewable energy infrastructure, to continue to provide benefits for its members whilst addressing wider ESG issues such as climate change and decarbonisation.</p> <p>The Fund's custodian produces monthly performance reports, whilst the Fund's advisor prepares quarterly performance reports which are reported at PIC. Fund managers also prepare monthly and quarterly reports for officers' attention, and attend PIC at least annually to update Members on fund performance.</p>
<b>Engagement, Exercising Rights and Responsibilities</b>	<p>9. Signatories engage with issuers to maintain or enhance the value of assets.</p> <p>10. Signatories, where necessary, participate in collaborative engagement to influence issuers.</p> <p>11. Signatories, where necessary, escalate stewardship activities to influence issuers.</p> <p>12. Signatories actively exercise their rights and responsibilities.</p>	<p>The Fund has established a set of Investment Consultant Objectives which includes objectives on strategic advice, effective implementation and research, all of which require the Fund's advisers to use its more extensive resources and engage with asset managers and other stakeholders on the Fund's behalf.</p> <p>Officers regularly engage with asset managers on all issues of asset administration and performance. The Fund participates in collective engagement and is actively committed to the LCIV for the pooling of its assets into centrally managed Funds, whilst liaising and working with other shareholders of the LCIV to achieve shared objectives, outside of the larger pool if necessary but always in the spirit of collaboration to achieve shared goals.</p> <p>PIC has delegated the exercise of voting rights to its investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.</p>

- 5.8. The Fund is also a member/subscriber of the following bodies:
- a. Pensions and Lifetime Savings Association (PLSA);
  - b. Local Authority Pension Fund Forum (LAPFF);
  - c. Local Government Pension Committee (LGPC).

**C. APPLICATION OF CIPFA PRINCIPLES FOR INVESTMENT DECISION MAKING**

- 5.9. The Fund is required to demonstrate compliance with CIPFA's Principles for Investment Decision Making and Disclosure, which reflect principles of good investment practice issued by government in response to the Myners review. Actions taken to comply with the principles are set out in the Investment Strategy Statement in Appendix B.
- 5.10. The Pension Fund has a paramount fiduciary duty to obtain the best possible financial return on Fund investments without exposing assets to unnecessary risk. Following good practice



in terms of social, environmental and ethical issues is likely to have a favourable effect on the long-term financial performance and improve investment returns to shareholders.

#### D. INVESTMENT PERFORMANCE

- 5.11. The overriding investment objective is to ensure that the Fund's investments increase the likelihood that benefits will be paid to members as they fall due, by maximising investment returns over the long term within acceptable risk tolerances. It is in the interest of both employees and the public that the Fund is well managed and continues to provide high returns and excellent value for money.
- 5.12. Since November 2012, the majority of the Fund has been under passive management (72% as at 31 March 2021). The investment strategy has previously allocated a significant proportion of the Fund for investment into growth assets. After the 2016 valuation, the strategy was adapted to seek a more diversified portfolio and reduce the heavy exposure to the volatility of equities by investing in income assets such as infrastructure and private debt. As at 31 March 2021 approximately 58% of the Fund was invested in growth assets, 17% in income assets and 25% in protection assets including passive bonds and cash.
- 5.13. The Fund's asset allocation as at 31 March 2021 has eight active managers with six mandates, as below.

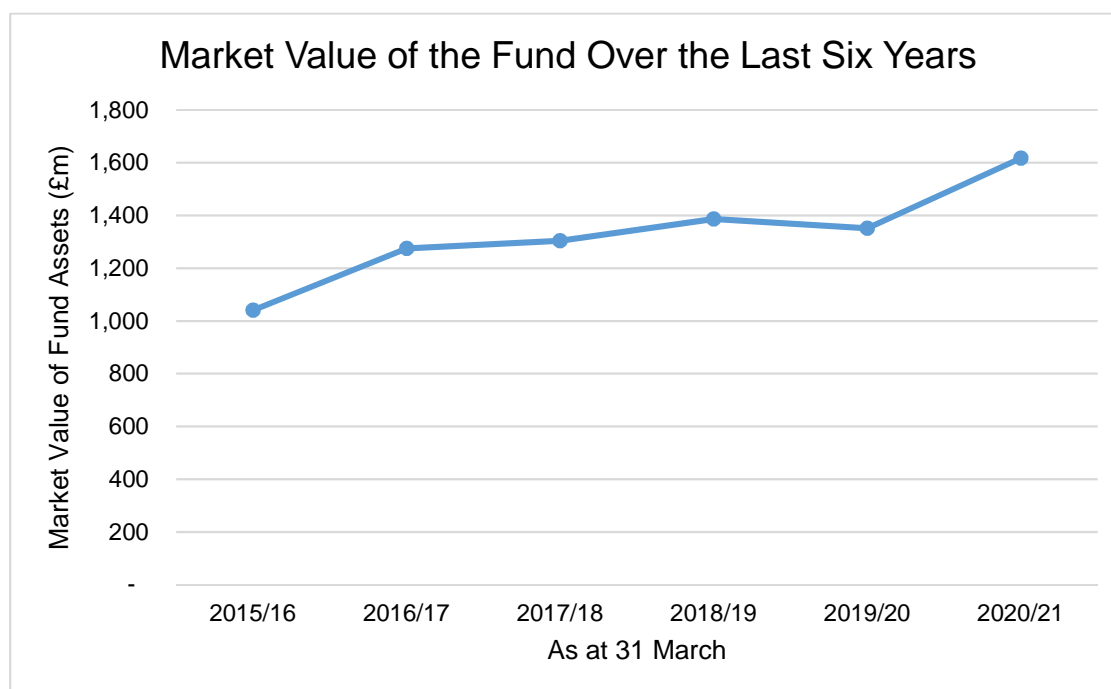
#### D1. STRATEGIC ASSET ALLOCATION AT 31 MARCH 2021:

Mandate	2020/21			2019/20
	Asset Value £'000	Target Allocation %	Actual Allocation %	Actual Allocation %
Passive Equities and Bonds	1,167,345	68.0	72.2	68.6
Property	112,036	10.0	6.9	7.9
Infrastructure	74,260	6.0	4.6	5.8
Diversified Growth / Targeted Returns	0	6.0	0.0	5.7
Private Equity	86,452	3.0	5.3	4.2
Multi-Asset Credit	71,302	6.0	4.4	5.6
Credit Financing	0	0.0	0.0	0.0
Cash and Net Current Assets	105,954	1.0	6.6	2.2
<b>Total</b>	<b>1,617,349</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

- 5.14. The differing short term performances of asset classes and fund managers inevitably results in the actual asset allocations deviating from their strategic targets over time. Periodically the Fund undertakes a re-balancing exercise to return to the agreed strategic allocation, whilst

separate re-balancing arrangements are in place within the passive mandates as outlined within the ISS.

- 5.15. The graph below depicts the changing value of the Fund's assets as at 31 March over the last six years. The Fund has steadily increased in value over the period, from £1,041bn at 31 March 2016 to a high of £1,617bn at 31 March 2021. The Fund rebounded from a fall in value in 2019/20, and rose by approximately £265m in 2020/21.



- 5.16. The annualised return of the Fund's investments over the last 12 months was 18.35%, which was 1.14% below the benchmark return (a composite of the benchmarks employed by each mandate). Over the last five years, the Fund's absolute return on its investments is 9.67%, which is approximately 0.26% below the benchmark return of 9.93% as depicted in the below table.

## D2. AGGREGATE FUND – COMPARATIVE PERFORMANCE:

As at 31 March 2021	One Year %	Three Year %	Five Years %
<b>Fund Performance</b>	18.35	7.71	9.67
<b>Benchmark</b>	19.49	8.22	9.93
<b>Relative performance</b>	<b>(1.14)</b>	<b>(0.51)</b>	<b>(0.26)</b>

5.17. Individual fund manager performance is assessed against customised benchmarks. The performance of each manager against their composite benchmark over a one year period, three year period and their inception is as set out in the table below.

### D3. INDIVIDUAL MANAGER PERFORMANCE:

		<b>Blackrock</b>	<b>UBS</b>	<b>Schroders</b>	<b>J.P. Morgan</b>	<b>Invesco</b>	<b>HarbourVest</b>	<b>Partners Group</b>	<b>Pemberton</b>
		<b>(Passive Equities &amp; Bonds)</b>	<b>(Passive Equities &amp; Bonds)</b>	<b>(Property)</b>	<b>(Infrastructure)</b>	<b>(Diversified Growth/ Targeted Returns)</b>	<b>(Private Equity)</b>	<b>(Multi-Asset Credit)</b>	<b>(Multi-Asset Credit)</b>
		<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>1 year</b>	Absolute	26.5	24.3	2.9	(2.2)	(1.6)	11.80	2.5	5.9
	Benchmark	26.0	24.3	2.8	7.0	5.2	40.00	4.4	8.0
	<b>Relative</b>	<b>0.4</b>	<b>0.0</b>	<b>0.1</b>	<b>(8.6)</b>	<b>(6.5)</b>	<b>(20.1)</b>	<b>(1.7)</b>	<b>(1.9)</b>
<b>3 years</b>	Absolute	9.4	8.8	2.8	N/A	(0.3)	14.0	N/A	N/A
	Benchmark	9.1	8.9	2.9	N/A	5.7	14.4	N/A	N/A
	<b>Relative</b>	<b>0.3</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>N/A</b>	<b>5.7</b>	<b>(0.3)</b>	<b>N/A</b>	<b>N/A</b>
<b>Since Inception*</b>	Absolute	11.1	10.7	4.5	3.4	(0.2)	10.1	4.0	6.4
	Benchmark	10.8	10.7	5.3	7.0	5.7	10.1	4.8	8.0
	<b>Relative</b>	<b>0.3</b>	<b>0.0</b>	<b>(0.7)</b>	<b>(3.3)</b>	<b>(5.6)</b>	<b>0.1</b>	<b>(0.8)</b>	<b>(1.5)</b>

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

5.18. The table above shows that there has been a varied performance over time. It is to be noted that Blackrock and UBS are both passive funds which track their composite benchmarks instead of actively trying to outperform them, and account for approximately 73% of the Fund. No other manager, apart from Schroders, accounts for more than 6% of the Fund, in line with their target allocations. Pemberton was a new fund in 2017/18, whilst Partners Group and J.P. Morgan were new funds in 2018/19, hence the lack of historical performance data. The PIC continues to monitor the performance of all fund managers on a quarterly basis via the reports it receives from the Fund's advisors. In addition, each manager is invited to discuss their performance at Committee meetings annually, and where necessary explain strategies for improvement.

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

**D4. FUND MANAGER BENCHMARKS:**

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

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

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

**6. SCHEME ADMINISTRATION**

**A. SCHEME ADMINISTRATION / PENSIONS ADMINISTRATION AND ASSURANCE**

6.1. As at 31 March 2021 there were 26,882 members of the Fund; 6,928 of these were active, 11,865 deferred (undecided, deferred and frozen) and 8,089 retired. Besides the administering authority, the Fund also comprised 8 active scheduled bodies and 17 active admitted bodies, along with 2 admitted bodies that left the fund in 2020/21.

6.2. Scheme member administration and pensioner administration is undertaken by a small in-house Pensions team which is also responsible for other areas of pension work including providing data to the LPFA, TPA and the NHS pension schemes. The team also carries out non-Pension Fund work such as providing estimates and calculating and paying redundancy and compensation payments. Further information about the administration of the scheme including forms and publications, information on complaints and disputes, and

details on how members are kept informed, including relevant contact details, can be found on the Fund's website at [www.lewishampensions.org](http://www.lewishampensions.org). Scheme administration is audited annually and a short summary of the 2020/21 audit findings can be found in sections 4.8 and 4.9 of this report. A copy of the internal report can be provided upon request.

6.3. Pension transactions are completed monthly as they fall due, the in-house team also work through queries and respond to members and bodies as appropriate. Membership is updated regularly to ensure it is accurate. Satisfaction surveys were not carried out in 2020/21 for either employers or members of the Fund.

6.4. The number of key administrative activities carried out in 2020/21 and across the previous four years are shown in the table below.

#### A1. KEY ADMINISTRATIVE ACTIVITIES:

	2020/21	2019/20	2018/19	2017/18	2016/17
New scheme members	638	1,072	1,181	1,157	1,021
Estimate of benefits	794	1,393	1,839	1,801	1,915
Responding to correspondence	1,714	1,472	557	557	625
Deferred benefits	290	298	330	186	238
Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme	335	420	304	246	232
Retirements	322	410	410	335	491
Death cases (with dependants)	376	292	264	192	287
Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme	335	262	247	246	263
Additional contributions	25	50	46	40	21
Refunds of contributions	170	434	507	187	328
<b>Overall Performance</b>	<b>4,999</b>	<b>6,103</b>	<b>5,685</b>	<b>4,947</b>	<b>5,421</b>

6.5. The role of the pensions section in the administering authority during 2020/21 was carried out by five Full Time Equivalent (FTE) staff serving almost 27,000 members. Relevant data and staffing ratios are as set out below, and indicate an increasing number of transactions over time being undertaken by the same number of FTE staff.

#### A2. KEY STAFF INDICATORS:

FTE Staff:	2020/21	2019/20	2018/19	2017/18	2016/17
Lewisham	7.5	7.5	7.5	7.5	7.5
Made up of:					
Work for other schemes	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Other work	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
<b>Administration of LGPS</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>

Scheme Membership:	2020/21	2019/20	2018/19	2017/18	2016/17
Number of contributors	6,928	6,754	6,726	6,821	6,867
Number of deferred members	11,865	11,860	11,469	10,950	10,621
Number of pensioners	8,089	8,024	7,779	7,622	7,431
<b>Total</b>	<b>26,882</b>	<b>26,638</b>	<b>25,964</b>	<b>25,393</b>	<b>24,919</b>

<b>Staff Performance:</b>	<b>2020/21</b>	<b>2019/20</b>	<b>2018/19</b>	<b>2017/18</b>	<b>2016/17</b>
Ratio of members to 1 FTE staff	5,376	5,328	5,193	5,079	4,984
Transactions per member of staff	1,000	1,221	1,137	989	1,084

6.6. The age profile of the membership calculated as at 31 March 2021 is show in the table below.

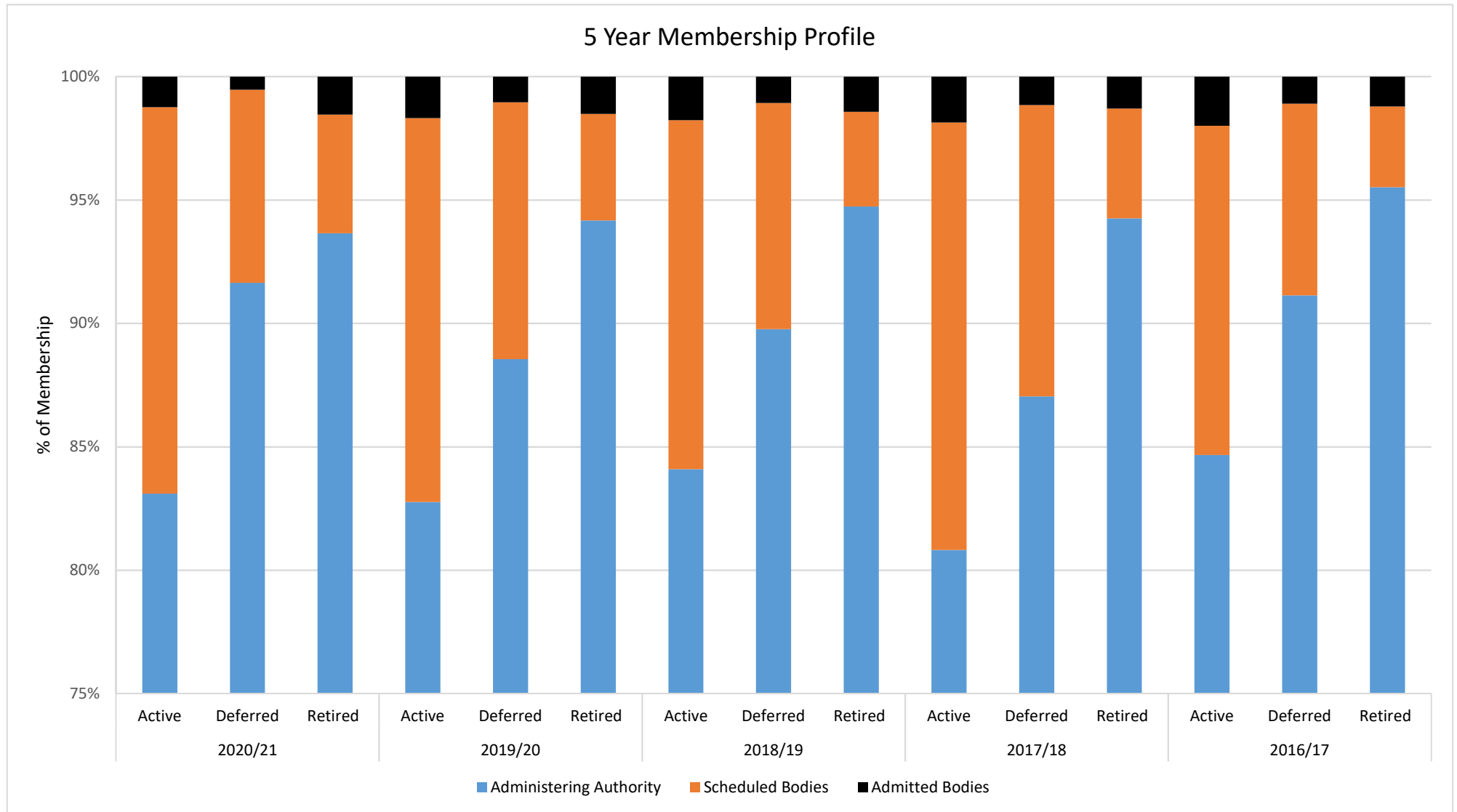
### A3. AGE PROFILE OF MEMBERSHIP:

<b>A</b>	<b>Contributing</b>	<b>Deferred</b>	<b>Pensioners/ Dependents</b>
0-4	0	0	4
5-9	0	0	5
10-14	0	0	17
15-19	11	0	28
20-24	217	8	18
25-29	462	150	2
30-34	608	446	1
35-39	693	672	3
40-44	794	793	11
45-49	891	934	20
50-54	1131	1508	46
55-59	1185	1756	424
60-64	680	840	1363
65-69	218	179	1727
70-74	38	33	1650
75-79		7	1151
80-84		2	847
85-89			493
90-94			225
95-99			45
100-104			9
<b>Total</b>	<b>6928</b>	<b>7328*</b>	<b>8089</b>

\*Does not include undecided leavers or frozen accounts shown in the deferred membership numbers above.

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

**A4. 5 YEAR MEMBERSHIP PROFILE:**



**A5. FIVE YEAR ANALYSIS: MEMBERSHIP AND ADMINISTRATIVE UNIT COSTS:**

	2020/21			2019/20			2018/19			2017/18			2016/17		
<b>Membership</b>	<b>Active</b>	<b>Deferred</b>	<b>Retired</b>	<b>Active</b>	<b>Deferred</b>	<b>Retired</b>	<b>Active</b>	<b>Deferred</b>	<b>Retired</b>	<b>Active</b>	<b>Deferred</b>	<b>Retired</b>	<b>Active</b>	<b>Deferred</b>	<b>Retired</b>
Administering Authority	5,757	10,873	7,575	5,590	10,502	7,556	5,656	10,295	7,360	5,513	9,531	7,184	5,814	9,679	7,098
Scheduled Bodies	1,085	928	389	1,050	1,234	346	951	1,051	298	1,181	1,292	339	916	825	243
Admitted Bodies	86	64	125	114	124	122	119	123	111	127	127	99	137	117	90
<b>Total</b>	<b>6,928</b>	<b>11,865</b>	<b>8,089</b>	<b>6,754</b>	<b>11,860</b>	<b>8,024</b>	<b>6,726</b>	<b>11,469</b>	<b>7,769</b>	<b>6,821</b>	<b>10,950</b>	<b>7,622</b>	<b>6,867</b>	<b>10,621</b>	<b>7,431</b>
<b>Unit Costs</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Administrative Unit Cost (£)	121	20	15	114	19	14	90	15	11	98	17	13	116	21	15
Investment Management Unit Cost (£)	241	40	29	258	42	31	205	34	25	100	18	13	102	19	14
<b>Total Unit Cost (£)</b>	<b>362</b>	<b>60</b>	<b>44</b>	<b>372</b>	<b>61</b>	<b>45</b>	<b>295</b>	<b>49</b>	<b>36</b>	<b>198</b>	<b>35</b>	<b>26</b>	<b>218</b>	<b>40</b>	<b>29</b>



6.7 A list of contributing employers and the amounts contributed by the employers in 2020/21 is shown below:

**A6. EMPLOYER CONTRIBUTIONS:**

Employer	Contributions Paid £'000	Comments
<b>Administering Authority</b>		
Lewisham Council	28,556	
<b>Scheduled Bodies</b>		
Lewisham Homes	3,674	
Haberdashers' Aske's Knights Academy	1,266	
Christ The King Sixth Form College	492	
St Matthew's Academy	220	
Childeric	169	
Tidemill Academy	169	
St George's	88	
Sedgehill Academy	115	Started 01/09/2020
<b>Admitted Bodies</b>		
Youth First Ltd	367	
Phoenix Agency Services	117	
Phoenix	115	
DB Services	20	
Lewisham Music	13	
Skanska	16	
Chartwells	N/A	Ceased
One Housing	N/A	Ceased
Change Grow Live	13	
Nviro	4	
NSL	0	
Fusions Leisure Management	5	
Quality Heating	0	
Housing 21	4	
Pre-School Learning Alliance	3	
Tower Services	2	
3 C's Support	0	
Wide Horizons	N/A	Ceased
Chequers Contract Services – Lee Manor	N/A	Ceased
City West Services	6	
Greenwich Leisure Ltd (GLL)	8	Started 08/10/2020

6.8 The Statement of Accounts summarises the contributions received from employees and employers by type of body; the total contributions received per establishment are shown in the table further below.

6.9 The Fund has a number of bodies which participate in the Fund either as scheduled or admitted bodies. Scheduled bodies are organisations which have a statutory entitlement to

be members of the scheme. Admitted bodies are those which have applied to join the scheme and the Council has formally approved their admission.

**A7. TOTAL CONTRIBUTIONS RECEIVED FROM EMPLOYEES AND EMPLOYERS:**

<b>Employer</b>	<b>Total Contributions Received £'000</b>	<b>% Returns Received by Due Date</b>
<b>Administering Authority</b>		
Lewisham Council	37,120	100%
<b>Scheduled Bodies</b>		
Lewisham Homes	5,054	75%
Haberdashers' Aske's Knights Academy	1,605	100%
Christ The King Sixth Form College	631	100%
St Matthew's Academy	288	100%
Childeric	210	100%
Tidemill Academy	217	100%
St George's	111	100%
Sedgehill Academy	137	100%
<b>Admitted Bodies</b>		
Youth First Ltd	417	100%
Phoenix	175	58%
Phoenix Agency Services	157	50%
DB Services	23	40%
Lewisham Music	15	25%
Skanska	23	92%
Chartwells	N/A	N/A
One Housing	N/A	N/A
Change Grow Live	18	100%
NSL	0	100%
Nviro	5	83%
Fusions Leisure Management	6	100%
Quality Heating	10	92%
3 C's Support	6	75%
Housing 21	5	100%
Pre-School Learning Alliance	5	100%
Tower Services	2	100%
Wide Horizons	N/A	N/A
City West Services	7	83%
Greenwich Leisure Ltd (GLL)	9	100%

6.10 Although the LGPS is a national scheme, it is administered locally. Lewisham Council has a statutory responsibility to administer the pension benefits payable from the Pension Fund on behalf of the participating employers and the past and present members and their dependents. The following table outlines benefits payable in 2020/21.

<b>Benefits Payable</b>	<b>Employer</b>	<b>Amount Payable</b>
		<b>£'000</b>
Pensions	Administering Authority	41,863
	Scheduled Bodies	2,771
	Admitted Bodies	1,095
Lump Sums: Retirement Allowances	Administering Authority	4,721
	Scheduled Bodies	963
	Admitted Bodies	221
Lump Sums: Death Grant	Administering Authority	1,472
	Scheduled Bodies	273
	Admitted Bodies	239

## **B. INTERNAL DISPUTE PROCEDURE**

- 6.11 The Local Government Pensions Scheme Regulations 2013 set out a two-stage 'Internal Dispute Resolution Procedure' (IDRP). The Fund's internal dispute resolution procedure is shown below:
- 6.12 Stage one: the member's complaint is referred to the Executive Director of Corporate Resources, who is nominated by the London Borough of Lewisham to act as an independent referee. Any decision made must be given in writing.
- 6.13 If the member is dissatisfied with the stage one decision, they can take the matter to stage two of the IDRP.
- 6.14 Stage two: the stage one decision is reviewed by the Director of Law, Governance and HR who is nominated by the London Borough of Lewisham to act as an independent referee.
- 6.15 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.
- 6.16 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).
- 6.17 Lewisham Pension Fund had one IDRP case in 2020/21, this represents 0.0002% of complaints against caseload in the financial year.

## **7. ACTUARIAL REPORT ON FUND**

- 7.1. The Regulations require that every three years all Local Government Pension Schemes be subject to actuarial review. The actuarial review sets assumptions about the level of investment returns, life expectancy and other relevant factors to determine the assets and liabilities of the Fund and the corresponding funding level.
- 7.2. The last revaluation was undertaken as at 31 March 2019, and the final valuation report is available on the Lewisham Pensions website at [www.lewishampensions.org](http://www.lewishampensions.org). The actuarial review assessed the Fund as being 90% funded; this represents an increase of 12% in the funding level since the last valuation in 2016, from 78% funded.
- 7.3. The 2019 valuation resulted in the actuary assessing Lewisham's employers' contribution rate to provide for future pensions entitlements to be a minimum of 17.6% for financial years 2020/21 through to 2022/23, plus a lump sum component increasing year on year. The equivalent rate remains unchanged from the previous valuation at 22.5%.
- 7.4. Lewisham, as the administering authority for the Fund, set an employer contribution rate of 22.5% for 2020/21, which remains unchanged for 2021/22 as per the actuarial Rates and Adjustment certificate. It paid a lump sum employer contribution of £240,000 in 2020/21 to ensure that total contributions paid into the Fund across the valuation period remained in line with the actuarial recommendation.
- 7.5. The next triennial valuation will take place as at March 2022.

## **8. FUND GOVERNANCE**

### **A. GOVERNANCE STRUCTURE**

- 8.1. Lewisham's Annual Governance Statement has been adopted by the PIC on behalf of the Fund.
- 8.2. Article 9 of the Council's Constitution sets out the composition and terms of reference of the Pensions Investment Committee, to exercise all functions of the Council in relation to local government pensions under Section 7, 12 or 24 of the Superannuation Act 1972 and all other relevant pension legislation. This includes:
  - To review with fund managers the investment performance of the Fund's assets on a quarterly basis;
  - To examine the portfolio of investments, and its market value, at the end of each quarter for suitability and diversification;
  - To inform fund managers of the Council's policy regarding investment of its funds, and to take advice on the possible effect on performance resulting from implementing the policy;
  - To review from time to time the appointment of fund managers;
  - To determine the overall investment strategy and policies of the Fund, taking account of professional advice; and
  - Responsibility for compliance with the six Myners principles set out in CIPFA's "Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme"

in the United Kingdom (2012)" and all other relevant guidance in relation to the Local Government Pension Scheme in force and issued by CIPFA from time to time.

- 8.3. Responsibility for day-to-day administration and preparation of the Pension Fund accounts and annual report has been delegated to the Executive Director for Corporate Resources.
- 8.4. Details of the Council's Code of Corporate Governance is set out in Part V of the Council's Constitution which is available at:  
[www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/our-constitution](http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/our-constitution)
- 8.5. The Council's latest Annual Governance Statement is available with the main Council Statement of Accounts at the following link:  
[www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/finances/statement-of-accounts](http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/finances/statement-of-accounts)

## **B. MEMBERSHIP – PENSIONS INVESTMENT COMMITTEE**

- 8.6. The Pensions Investment Committee comprises eight Members of the Council who have voting rights, and meets at least quarterly. At the start of each meeting Committee Members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. The Committee takes advice from its independent investment consultant (Hymans Robertson) and permits attendance from non-voting observers comprised of pensioners, admitted and scheduled bodies, union officials, and members of the Local Pension Board.
- 8.7. The following table sets out attendance by the eight Councillors who were Members of the Pensions Investment Committee for the scheduled meetings in 2020/21. Note four meetings are scheduled in each financial year although the November 2020 meeting was cancelled. Each Councillor has one vote with the Chair having the casting vote.

<b>Member</b>	<b>23 Jul 2020</b>	<b>1 Oct 2020</b>	<b>30 Nov 2020</b>	<b>17 Feb 2021</b>
Cllr. Ingleby – Chair	✓	✓	N/A	✓
Cllr. Krupski - Vice Chair	✓	✓	N/A	✓
Cllr. Best	✓	✓	N/A	✓
Cllr. Codd	✓	Apologies	N/A	✓
Cllr. Kalu	✓	✓	N/A	✓
Cllr. Maslin	✓	✓	N/A	✓
Cllr. Muldoon	✓	✓	N/A	✓
Cllr. Penfold	✓	✓	N/A	✓

## **C. MEMBER TRAINING**

- 8.8. Members attend training events and conferences to develop and maintain the relevant skills required as set out in the CIPFA Knowledge and Skills framework. The framework covers six key areas:
- 1) Legislative and governance framework
  - 2) Accounting and auditing standards
  - 3) Procurement of financial services and relationship management
  - 4) Investment performance and risk management
  - 5) Financial markets and investment products knowledge
  - 6) Actuarial methods, standards and practices

8.9. During 2020/21 Members notified officers of their attendance at the following training sessions and events:

Date	Description	Provider	Members
01/06/2020	Renewable Infrastructure Fact-find	Hymans Robertson	Cllr. Ingleby, Cllr. Codd, Cllr. Krupski, Cllr. Penfold
04/08/2020	ESG: Impact Investing (Webinar)	Barnett Waddingham	Cllr. Ingleby
05/08/2020	COVID-19 Impact on Responsible Investment and Climate Risk (Webinar)	Hymans Robertson	Cllr. Ingleby
05/08/2020	LGPS-Live: Scheme Advisory Board Update, Responsible Investment, and Investment Income (Webinar)	DG Publishing	Cllr. Ingleby
11/09/2020	Residential Property Fact-find	Hymans Robertson	Cllr. Ingleby
03/12/2020	ESG and Impact Investing for Pension Funds	SPS Conferences	Cllr. Ingleby, Cllr. Krupski
04/12/2020	Scheme Advisory Board: webinar: 'MAC [Multi Asset Credit] – Finding Yield in a Zero Interest World'	LPGS/LAPFF	Cllr. Ingleby
17/12/2020	UK Residential Property Training	Hymans Robertson	Cllr. Ingleby, Cllr. Maslin, Cllr. Codd, Cllr. Penfold, Cllr. Kalu
21/01/2021	ESG Plus - the fossil-free global equity strategy	Storebrand Global	Cllr. Ingleby
27/01/2021	ESG – Regulation Developments, Practical Implications and Trustee Issues	Pension Investment Academy	Cllr. Krupski
02/02/2021	Facing the Challenge of Global Warming”	Pensions For Purpose / Invesco	Cllr. Codd, Cllr. Ingleby
24/02/2021	LGIM: webinar: 'Measuring Climate Risk in portfolios'	LGIM	Cllr. Ingleby

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

- 8.11. Members are provided with a schedule of suggested training events and conferences throughout the year, provided at each quarterly meeting of PIC. The events are intended to cover a range of skillsets and provide insight as appropriate to the needs of Members and the broader strategic direction of the Fund.
- 8.12. In addition, the Fund's advisors present training on relevant topics both within PIC meetings and as separate events; these cover a wide range of subjects, from the impact of legislative changes to asset specific training, which is also supported by presentations from fund managers on their respective asset classes.
- 8.13. Members are recommended, where they have not already, to make use of and complete the Pension Regulator's online toolkit for Trustees.

## **9. REPORT FROM THE LOCAL PENSION BOARD**

### **A. INTRODUCTION**

- 9.1. The Board has an important role of assisting the administering authority with the efficient management of the Fund and ensuring its compliance with legislation and best practice. The Board met once in the 2020/21 financial year but the meeting was subsequently cancelled as only one board member attended. A further scheduled meeting was postponed as a quorum could not be secured. The Board's focus has been on:
  - Enhancing its understanding of the arrangements put in place by the administering authority, including through consideration of minutes and agendas of the Pensions Investment Committee and receipt of documentation by management;
  - Commissioning a baseline assessment of the Board's and the administering authority's compliance with legislation and best practice and receiving the results. The Board has agreed its own action plan in response to the findings and has reviewed and commented on the administering authority's draft action plan; and
  - Ensuring that appropriate arrangements are put in place for developing and maintaining the knowledge and understanding of members of the Board.

Further information about the Board and its operation, including its terms of reference, is available on the Council's website at:

<https://councilmeetings.lewisham.gov.uk/ieListMeetings.aspx?CIId=353&Year=0> and on the Fund's website at the following link:

<https://www.lewishampensions.org/resources/>

## B. MEMBERSHIP OF THE BOARD

- 9.2. The Board consists of five members; two employer representatives, two scheme (member) representatives, and an Independent Chair. The board met once in the 2020/21 financial year on the 20th of October 2020, this meeting was subsequently cancelled as only one member attended.

Name	Capacity	Role	Meetings attended in 2020/21
Stephen Warren	Independent Chair (Non-Voting)		0/1
Suki Binjal	Employer Representative	Director of Law, Governance and HR, Lewisham Council (from July 2020)	0/1
Rowann Limond	Employer Representative	Director of Finance and Technology, Lewisham Homes	0/1
Gary Cummins	Scheme Representative	Housing Partnership and Contract Manager	0/1
Elizabeth Sclater	Scheme Representative	Pensioner Member	1/1

## C. KNOWLEDGE AND UNDERSTANDING

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

## D. WORK PROGRAMME FOR THE FUTURE

- 9.4. The Board only met once in 2020/21 due to the impact of Covid-19 along with members leaving, this meeting was then cancelled as it was inquorate. At the time of writing the Annual Report (October 2021), it is noted that no meetings have been held in 2021/22.
- 9.5. The Board has agreed to reconstitute itself with new members and agree that:
- It will schedule four meetings a year;
  - It will adopt a cyclical report that will allow it to review, over the course of the year, compliance with relevant legislation and Codes of Practice issued by the Pensions Regulator;
  - It will monitor implementation of the action plans prepared in response to the baseline assessment of the Board's and the administering authority's compliance with legislation;
  - It will receive and review the administering authority's risk register for the Fund; and,
  - It will evaluate the robustness of the administering authority's arrangements for obtaining assurance about the operation of the London CIV, the collective investment vehicle for London Local Authorities' Pension Funds, to which the Fund anticipates migrating some of its investments.



## **10. ASSET POOLING**

### **A. FINANCIAL YEAR 2020/21**

- 10.1. The London Collective Investment Vehicle (LCIV) is the investment vehicle established for the pooling of London Local Authority (LLA) Pension Fund assets, created to deliver broader investment opportunities and more enhanced cost efficiencies than LLAs can achieve individually. It is authorised and regulated by the Financial Conduct Authority (FCA) as an Alternative Investment Fund Manager (AIFM) with permission to manage authorised and unauthorised Alternative Investment Funds (AIFs) via an Authorised Contractual Scheme (ACS) pooling structure and as an Exempt Unauthorised Unit Trust (EUUT).
- 10.2. Each LLA is a shareholder in the LCIV, and the Fund has £150,000 of non-voting redeemable shares as a subscriber to the pool. It and contributes to the financial operation of the vehicle via an annual service charge and Development Funding Charge (DFC). The annual service charge is akin to a membership fee, providing access to LCIV services. The DFC is designed to cover the cash flow imbalance between the LCIV's annual revenues and annual costs until LCIV generates sufficient management fee income to cover annual operating costs. The service charge for 2020/21 was £30,000, whilst the DFC was £102,000.
- 10.3. As at 31 March 2021 the Fund has yet to directly pool any assets with the LCIV, although an arrangement with BlackRock, one of the Fund's passive equity and bond managers, and the LCIV made in 2017 allowed for a fee reduction backdated to January 2017 in consideration for the passive pooling of the mandate outside of the ACS. The value of the Fund's BlackRock holdings pooled passively as at 31 March 2021 was approximately £636m; in exchange for negotiating the preferential annual management charges, LCIV charge an annual arrangement fee based on the value of those holdings and in 2020/21 this charge was approximately £33,500 (£28,000 in 2019/20).
- 10.4. The Fund is committed to the principles of pooling and to the transitioning of assets to the LCIV. However, the nature of the LCIV's setup in its first few years has meant the funds it has created and established have been of little interest to Lewisham, or incompatible with our strategy. Fund officers and Members maintain a close relationship with the LCIV, and the PIC considers pooling obligations in all investment decisions.
- 10.5. The Fund has been working in conjunction with LCIV and interested shareholder boroughs to develop a renewable infrastructure mandate via a specific Seed Investor Group (SIG); it is expected that this will represent the Fund's first investment via the pool, likely to take place sometime in mid-2021.
- 10.6. Members and officers will continue to work with LCIV to develop mandates in line with the Fund's strategy.

### **B. AT TIME OF WRITING ANNUAL REPORT**

- 10.7. In respect of asset pooling, it is noted that at the time of writing the annual report (October 2021) the Fund has taken the decision to divest its passive equity funds from Blackrock and UBS and to move 60% of the total passive equity allocation into the LCIV Passive Equity Progressive Paris Aligned Fund (PEPPA).

## **11. FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES**

- 11.1. The Pension Fund accounts, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, were approved by Council on 24<sup>th</sup> November 2021 and have been audited by the Council's external auditors Grant Thornton. The Accounts are set out in Appendix A.

## **12. FUNDING STRATEGY STATEMENT**

- 12.1. The Fund has a Funding Strategy Statement (FSS) which details the Fund's approach to funding its liabilities. The FSS is reviewed in detail at least every three years in line with the triennial valuation, and was last updated in November 2019, effective from 1 April 2020; it can be found in Appendix C or on the Fund's website at the following link: [www.lewishampensions.org/resources](http://www.lewishampensions.org/resources)
- 12.2. The FSS is developed by the Council in conjunction with the Fund's actuary, Hymans Robertson, and after consultation with employers. The FSS sets out any changes in the Fund's liabilities and obligations to pay pensions in the coming years, and how those liabilities are funded by investments and contributions. The FSS has links to the Investment Strategy Statement.
- 12.3. The purpose of the FSS is to:
- Establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
  - Support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
  - Take a prudent longer-term view of funding those liabilities.
- 12.4. The statement sets out how the administering authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.
- 12.5. The administering authority normally targets the recovery of any deficit over a period not exceeding 20 years. The funding basis adopts an asset outperformance assumption of 2.0% per annum over and above long-term government bond yields at the time of the 2019 valuation.
- 12.6. The Fund has an active risk management programme in place. The measures that the administering authority has in place to mitigate key risks are summarised in the FSS under the following headings:
- Financial;
  - Demographic
  - Regulatory; and
  - Governance
- 12.7. The 2019 valuation specified the minimum employer contributions, expressed as a percentage of pensionable pay and shown in the Rates and Adjustment certificate, as follows:

Employer/Pool Name	Total Contribution Rate (%/£)		
	2020/21	2021/22	2022/23
LB Lewisham	17.6% plus £6,400,000	17.6% plus £6,400,000	17.6% plus £6,400,000
Christ The King Sixth Form College	22.4%	21.4%	21.4%
Haberdashers' Aske's Knights Academy	17.9% plus £170,000	17.9% plus £170,000	17.9% plus £170,000
Lewisham Homes	19.0%	19.0%	19.0%
St Matthew's Academy	17.6%	17.6%	17.6%
Tidemill Academy	22.0%	22.0%	22.0%
Childeric	23.6%	23.6%	23.6%
St George's	23.7%	23.7%	23.7%
NSL	0.0%	0.0%	0.0%
Phoenix	14.4%	14.4%	14.4%
Skanska	17.1%	17.1%	17.1%
3 C's Support	0.0%	0.0%	0.0%
One Housing	22.0% plus £13,000	22.0% plus £13,000	22.0% plus £13,000
Fusions Leisure Management	24.0%	24.0%	24.0%
Pre-School Learning Alliance	12.6%	12.6%	12.6%
Chartwells	25.7%	25.7%	25.7%
Change Grow Live	18.0%	18.0%	18.0%
Quality Heating	0.0%	0.0%	0.0%
Youth First	22.9%	22.9%	22.9%
Phoenix Agency Services	20.4%	20.4%	20.4%
DB Services	32.5%	32.5%	32.5%
Lewisham Music	33.2%	33.2%	33.2%
Nviro	36.6%	36.6%	36.6%

### 13. INVESTMENT STRATEGY STATEMENT

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

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

13.2. Appendix B sets out the latest ISS for the Fund as at September 2018, which as well as the considerations above includes the Fund asset allocation, rebalancing policy, and compliance with CIPFA's Principles for Investment Decision Making. At the time of writing the annual report, our advisors have confirmed that the ISS will be updated to reflect the triennial valuation due in 2022 and the new strategy will be adopted by the Fund once it has been approved. Once complete, it will be available on the Fund's website at the following link:  
[www.lewishampensions.org/resources](http://www.lewishampensions.org/resources)

## **14. COMMUNICATIONS POLICY STATEMENT**

14.1. Pension Funds are required to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. Lewisham's most recently published Communications Statement is included at Appendix D, and is also available on the Fund's website at the following link:  
[www.lewishampensions.org/resources](http://www.lewishampensions.org/resources)

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

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

## **15. ADDITIONAL DATA**

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

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

	Active	Ceased	Total
<b>Scheduled Bodies</b>	8	0	8
<b>Admitted Bodies</b>	17	2	19
<b>Total</b>	25	2	27

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

Asset Class	UK £m	Non-UK £m	Total £m
<b>Equities</b>	463	390	853
<b>Bonds</b>	207	107	314
<b>Property</b>	112	0	112
<b>Infrastructure</b>	0	74	74
<b>Diversified Growth</b>	0	0	0
<b>Private Equity</b>	0	86	86
<b>Multi-Asset Credit</b>	0	71	71
<b>Cash</b>	106	0	106
<b>Net Current Assets</b>	0	0	0
<b>Total</b>	<b>888</b>	<b>728</b>	<b>1,617</b>

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

Asset Class	UK £000	Non-UK £000	Total £000
<b>Bonds</b>	0	996	996
<b>Property</b>	3,233	0	3,233
<b>Alternatives</b>	0	13,966	13,966
<b>Cash</b>	59	0	59
<b>Total</b>	<b>3,292</b>	<b>14,962</b>	<b>18,254</b>

## 16. INDEPENDENT AUDITOR'S CONSISTENCY REPORT

### Independent auditor's report to the members of the London Borough of Lewisham on the pension fund financial statements of the London Borough of Lewisham Pension Fund

#### Opinion

We have audited the financial statements of the London Borough of Lewisham Pension fund (the 'Pension Fund') administered by the London Borough of Lewisham (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director of Corporate Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Executive Director of Corporate Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Executive Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Executive Director of Corporate Resources with respect to going concern are described in the 'Responsibilities of the Authority, Executive Director of Corporate Resources and Those Charged with Governance for the financial statements' section of this report.

#### Other information

The Executive Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Pension Fund's financial statements,

our auditor's report thereon, and our auditor's report on the Authority's and group's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

### **Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

### **Matters on which we are required to report by exception**

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

### **Responsibilities of the Authority, the Executive Director of Corporate Resources and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Corporate Resources. The Executive Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Executive Director of Corporate Resources is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

#### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Panel concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Panel whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Fund Account, and
  - accounting estimates made in respect of the valuation of assets and liabilities in the Net Assets Statement
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director of Corporate Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments and IAS 26 pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations included the potential for fraud in revenue and expenditure recognition and the significant accounting estimates related to the valuation of level 3 investments and the IAS 26 pensions liability valuation.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:



- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government pensions sector
- understanding of the legal and regulatory requirements specific to the Pension Fund including:
  - the provisions of the applicable legislation – guidance issued by CIPFA, LASAAC and SOLACE – the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

### Use of our report

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

*Paul Grady*

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

16 December 2021



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# **London Borough of Lewisham Pension Fund 2020/21 Statement of Accounts**

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

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## **PENSION FUND ACCOUNTS**

### **FOREWORD**

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year ending 31 March 2021.

The Pension Fund's value increased over the year by £265m (20%), from £1.352bn to £1.617bn. (In 2019/20 the fund reduced in value by £35m in large part caused by the Covid Outbreak in the last months of the financial year). The increase in 2020/21 more than reversed the reduction in 2019/20.

### **INTRODUCTION**

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

### **ORGANISATION**

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

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

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

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

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

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

[www.lewishampensions.org](http://www.lewishampensions.org)

## Pension Fund Accounts

## FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2021

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

	2020/21 £000	2019/20 £000	See note
<b><u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME</u></b>			
<b>Contributions Receivable:</b>			
- from Employers	(35,439)	(35,027)	5
- from Employees	(10,822)	(10,369)	5
Transfer Values In	(3,605)	(10,708)	
Other Income	(347)	(79)	
<b>Sub-Total: Income</b>	<b>(50,213)</b>	<b>(56,183)</b>	
<b>Benefits Payable:</b>			
- Pensions	45,729	44,347	6
- Lump Sums: Retirement allowances	5,905	9,726	6
- Lump Sums: Death grants	1,983	1,080	6
<b>Payments to and on account of leavers:</b>			
- Refunds of Contributions	51	105	
- Transfer Values Out	5,351	5,314	
<b>Sub-Total: Expenses</b>	<b>59,019</b>	<b>60,572</b>	
<b>Sub-Total: Net (Additions)/ Withdrawals from dealings with members</b>	<b>8,806</b>	<b>4,389</b>	
Management Expenses	3,910	3,593	7
<b>Sub-Total: Net (Additions)/ Withdrawals including fund management expenses</b>	<b>12,716</b>	<b>7,982</b>	
<b><u>RETURNS ON INVESTMENTS</u></b>			
Investment Income	(18,254)	(14,952)	9
Change in market value of investments (Realised & Unrealised)	(259,794)	41,344	14b
Taxes on Income	191	145	
<b>Total Net Returns on Investments</b>	<b>(277,857)</b>	<b>26,537</b>	
<b>NET (INCREASE) / DECREASE IN THE FUND DURING YEAR</b>	<b>(265,141)</b>	<b>34,519</b>	
<b>OPENING NET ASSETS OF THE FUND</b>	<b>(1,352,208)</b>	<b>(1,386,727)</b>	
<b>CLOSING NET ASSETS OF THE FUND</b>	<b>(1,617,349)</b>	<b>(1,352,208)</b>	

## Pension Fund Accounts

## NET ASSETS STATEMENT AS AT 31 MARCH 2021

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2021.

	31/03/21	31/03/20	See note
	£000	£000	
<b>INVESTMENT ASSETS</b>			
<b>Equities</b>			
United Kingdom	0	0	10 - 14
Global	19,271	13,342	10 - 14
	<b>19,271</b>	<b>13,342</b>	
<b>Managed Funds</b>			
Property	112,040	106,332	10 - 14
Equities	852,936	663,396	10 - 14
Fixed Interest	207,213	176,092	10 - 14
Index Linked	107,210	88,785	10 - 14
Other Assets	210,012	275,021	10 - 14
	<b>1,489,411</b>	<b>1,309,626</b>	
<b>Cash Held with Custodian</b>	105,524	28,393	18
<b>Derivative Contracts</b>			
Assets	0	1,815	16
Liabilities	0	(1,815)	16
<b>Other Investment Balances</b>	2,769	1,272	17a
<b>TOTAL INVESTMENTS</b>	<b>1,616,975</b>	<b>1,352,633</b>	
Current Assets	4,340	5,070	17b
Current Liabilities	(3,966)	(5,495)	17b
<b>TOTAL NET ASSETS</b>	<b>1,617,349</b>	<b>1,352,208</b>	

## NOTES TO THE PENSION FUND ACCOUNTS

### Note 1: Basis of Preparation of Financial Statements

The Statement of Accounts summarise the Fund's transactions for 2020/21 and its position at year end and as at 31st March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) 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 obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in an accompanying report to the accounts, which is disclosed in Note 19.

The Pension Fund Accounts have been prepared on a going concern basis, with the assumption that the functions of the authority will continue in operational existence for the foreseeable future.

### Note 2: Summary of Significant Accounting Policies

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ('the Code') which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of the obligations to pay pensions and benefits which fall due after the end of the financial year. In respect of future obligations, the actuarial present value of promised retirement benefits are valued on an International Accounting Standard (IAS) 26 basis.

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

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

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

- (a) Investments - Investments in the Net Assets Statement are shown at Fair Value. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016). 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.

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**Pension Fund Accounts**

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- (b) 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.
- (c) Passive equity and bonds - dividend income earned from equity and bonds with BlackRock and UBS is reinvested and not repaid directly to the Fund 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 notes for Debtors and Creditors.
- (d) 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 these investments, the value carried in the accounts as at 31 March 2021 is the fair value using the latest available valuation at 31 December 2020, rolled forward to include known fund level activity up to 31 March 2021, and adjusted for market valuation changes.
- (e) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property/unit trust funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the Fund has exposure are located in the UK. They are valued in accordance with the Royal Institute of Chartered Surveyors' (RICS) Valuation Standards at Fair Value based on their Open Market Value (OMV).

The only non-UK fund is the Real Continental European Fund. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies, and will be based on the price frequency of the underlying assets.

- (f) Diversified Growth/Targeted Returns Fund – The Fund is allocated notional units in the Invesco fund based on its overall contribution. Units will be valued on every business day in which units are created and realised. The value given to the fund's assets will be the recognised market quotation; if this is not available, the latest independent valuation will be used. Where no independent valuation can be used, the value will be determined by the manager in such manner as it deems appropriate. This fund was fully exited in March 2021 with the assets held as cash at year end.
- (g) Multi-Asset Credit Funds – the Pemberton private debt fund is valued at Fair Value using external benchmarks such as the equity values of comparable companies to borrowers, Credit Default Swap or commodity price movements and macro-economic data. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2021 is the fair value at 31 December 2020 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2021.

Partners Group values its instruments using private credit estimates or public ratings for the issuer if available and above a rating of B- from Standard & Poor's. Below that, broker quotes are used where available, or Fair Values are derived based on widely recognised market and income valuation methods. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2021 is the fair value at 31 December 2020 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2021.

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**Pension Fund Accounts**


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- (h) Infrastructure Fund – Being illiquid and not publicly traded assets, J.P. Morgan appoint external valuers at least annually to determine the Fair Value of fund assets, whilst J.P. Morgan itself calculates the Net Asset Value (NAV) of each investment quarterly in accordance with their internal valuation policies which align with market best practice. Due to timing delays in the receipt of manager statements by the Fund’s custodian, the value carried in the accounts at 31 March 2021 is the fair value at 31 December 2020 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2021.
- (i) Contributions – These represent the total amounts receivable from the employers and employees within the scheme. Rates will differ between bodies in the scheme; from 01 April 2020 the employee contribution bands (revised annually in line with inflation) for the administering authority are as follows:

Pensionable Pay for the Post	Contribution Rates 2020/21	
	Main Section	50/50 Section
Up to £14,600	5.50%	2.75%
£14,601 to £22,800	5.80%	2.90%
£22,801 to £37,100	6.50%	3.25%
£37,101 to £46,900	6.80%	3.40%
£46,901 to £65,600	8.50%	4.25%
£65,601 to £93,000	9.90%	4.95%
£93,001 to £109,500	10.50%	5.25%
£109,501 to £164,200	11.40%	5.70%
More than £164,201	12.50%	6.25%

The employer’s contribution is reviewed every three years and is determined by the Fund’s Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation. The employer’s contribution rate for the administering authority in 2020/21 is 22.5%, unchanged from 2019/20.

- (j) 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.
- (k) 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.
- (l) 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.
- (m) 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.



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**Pension Fund Accounts**


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- (n) 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 62 of the Local Government Pension Scheme Regulations 2013. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent triennial valuation carried out by the actuaries was as at 31 March 2019. Some of the financial assumptions made, with comparison to the previous valuation, are presented in the table below:

<b>Financial Assumption</b>	<b>March 2019 (%)</b>	<b>March 2016 (%)</b>
Discount Rate	3.5	4.0
Price Inflation (CPI*)	2.3	2.1
Pay Increases	3.0	2.9
Benefit Increase	2.3	2.1
CARE Revaluation	2.3	2.1
Expenses	0.7	0.6

\* Consumer Price Index

With effect from 1 April 2017 to 31 March 2019, the actuarial review carried out for 31 March 2016 resulted in the Council's employer contribution rate being set at 22.5%.

The recent triennial valuation as at the 31 March 2019 revealed that the Fund's assets, which at 31 March 2019 were valued at £1.387bn, were sufficient to meet 90% (78% in 2016) of the past service liabilities valued at £1.541bn (£1.328bn in 2016) accrued up to that date. The resulting deficit as at the 2019 valuation was £154m (£287m in 2016).

- (o) Actuarial Present Value of Promised Retirement Benefits – The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the Pension Fund financial statements include a note disclosing the actuarial present value of retirement benefits (see Note 9).

The longevity assumptions for current pensioners are average future life expectancies at age 65, whilst future pensioners are assumed to be aged 45 at the last formal valuation; these longevity assumptions have changed since the previous IAS26 disclosures for year ending 31 March 2020.

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

- (p) Investment Management and Administration - Regulation 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council, as the administering authority, 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. Management fees of the Fund's investment managers are typically calculated as a set percentage of the market value of funds under management at regular intervals, although some agreements also allow for performance fees above a defined hurdle rate. Of the Fund's nine fund managers, four charge fees by invoice, the remaining five deduct them at source; in the latter instance, adjustments have been made to the Fund Account to recognise the net return on those investments.

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**Pension Fund Accounts**

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- (q) 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.
- (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 10.
- (s) Financial Instruments
- (i) Financial Liabilities are recognised at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund
  - (ii) Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.  
The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13
- (t) 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 Regulations, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed as transfers-in. Further details about the AVC arrangements are disclosed in note 13 to the financial statements.

### **Note 3: Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out above, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

There were no such critical judgements made during 2020/21.

## Pension Fund Accounts

**Note 4: Assumptions Made About the Future and Other Major Sources of Uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
Actuarial present value of promised retirement benefits	The figure of net liability to pay pensions is based on a significant number of complex assumptions including the discount rate, salary increases, 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. However, the market disruption caused by the coronavirus outbreak will have mixed and uncertain impacts on all of those assumptions, possibly resulting in material changes to the disclosed present value of promised retirement benefits as at 31 March 2021. Further sensitivity analysis is included in note 19, below.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption is estimated to reduce the present value of the pension liability by £233m.
Property valuations	Valuation techniques are used to determine the carrying values of directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, otherwise the best available data is used.	Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the percentage of volatility that can be applied to the Fund's Property assets in 2020/21, assuming all other variables such as foreign exchange rates and interest rates remain the same, is estimated to be 1.9%. This would be an increase or decrease in the value of property investments of £2.2m, on a fair value of £112m.
Private equity and infrastructure valuations	These investments are not publicly listed and involve estimation techniques in their valuation. In addition, timing issues in producing capital statements for inclusion in the statement of accounts means that several assets are valued in the accounts at previous quarter valuations or later, and rolled forward to 31 March 2021 with adjustments and estimations where possible for known activity such as disbursements and capital calls. The Fund's private equity and infrastructure holdings (all level 3 investments) are impacted by this delay; as such, the final realised value of those assets may differ from the valuations presented in the accounts.	Private equity and infrastructure investments are valued at £138.7m in the financial statements. There is a risk that this investment may be under- or overstated in the accounts by up to 4.2% i.e. an increase or decrease of £5.8m.

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**Pension Fund Accounts**


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Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 10. This estimate is subject to significant variances based on changes to underlying assumptions.

Covid 19 Impact

Following the uncertainty surrounding asset values as result of the COVID 19 outbreak during late 2019/20, Officers now believe asset values have stabilised in order that a materially accurate value can be applied to illiquid assets.

**Note 5: Contributions Receivable**

	2020/21 £000	2019/20 £000
<b>Employer Contributions</b>		
Administering Authority	(28,556)	(28,555)
Scheduled Bodies	(6,191)	(5,824)
Admitted Bodies	(692)	(648)
	<b>(35,439)</b>	<b>(35,027)</b>
<b>Employee Contributions</b>		
Administering Authority	(8,566)	(8,251)
Scheduled Bodies	(2,062)	(1,900)
Admitted Bodies	(194)	(218)
	<b>(10,822)</b>	<b>(10,369)</b>

Contributions receivable from employers are shown below:

	2020/21 £000	2019/20 £000
<b>Employer Contributions</b>		
Normal	(34,672)	(33,302)
Early Retirement Strain	(357)	(1,024)
Deficit Funding	(410)	(701)
	<b>(35,439)</b>	<b>(35,027)</b>

**Note 6: Benefits Payable**By Category

	2020/21 £000	2019/20 £000
Pensions	45,729	44,347
Commutation and Lump Sum Retirement Benefits	5,905	9,726
Lump Sum Death Grants	1,983	1,080
	<b>53,617</b>	<b>55,153</b>

By Authority

	2020/21 £000	2019/20 £000
Administering Authority	48,055	50,057
Scheduled Bodies	4,007	3,808
Admitted Bodies	1,555	1,288
	<b>53,617</b>	<b>55,153</b>

## Pension Fund Accounts

**Note 7: Management Expenses**

The table below shows a breakdown of the management expenses incurred during the year.

	<b>2020/21</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Administration Expenses	1,018	698
Oversight and Governance Expenses	509	403
<u>Investment Management Expenses:</u>		
- Transaction Costs	15	13
- Management Fees	2,332	2,444
- Performance Fees	0	0
- Custody Fees	36	35
	<b>3,910</b>	<b>3,593</b>

**Note 8: External Audit Costs**

	<b>2020/21</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
External Audit Services	36	25
	<b>36</b>	<b>25</b>

The Pension Fund's external auditors are Grant Thornton.

**Note 9: Investment Income**

The table below shows a breakdown of the investment income for the year:

	<b>2020/21</b>	<b>Restated</b>
	<b>£000</b>	<b>2019/20</b>
		<b>£000</b>
Cash	(59)	(1,003)
Global Equities	0	0
Fixed Interest	0	0
Index Linked	0	0
Property	(3,233)	(4,204)
Managed Equities	(9,798)	(8,078)
Securities Lending	0	(1)
Other Alternative Assets	(5,164)	(1,666)
	<b>(18,254)</b>	<b>(14,952)</b>

## Pension Fund Accounts

**Note 10: Fund Assets**

The table below outlines the fund managers, asset classes, and values of those assets held by the Fund as at 31 March 2021.

<b>Fund Manager</b>	<b>Asset</b>	<b>Asset Value 31 March 2021 £000</b>	<b>Proportion of the Fund 31 March 2021 %</b>	<b>Asset Value 31 March 2020 £000</b>
<b>Blackrock</b>	Passive Equity and Bonds	636,109	39.3%	501,591
<b>UBS</b>	Passive Equity and Bonds	531,236	32.8%	426,666
<b>Schroders Property</b>	Property	112,036	6.9%	106,328
<b>HarbourVest</b>	Private Equity	86,452	5.3%	57,267
<b>J.P. Morgan</b>	Infrastructure	74,260	4.6%	78,098
<b>Pemberton</b>	Multi-Asset Credit	38,127	2.4%	34,873
<b>Partners Group</b>	Multi-Asset Credit	33,175	2.1%	40,400
<b>Invesco</b>	Diversified Growth/Targeted Returns	0	0.0%	77,726
<b>Various Managers</b>	Cash and Net Current Assets	105,579	6.5%	29,683
<b>Lewisham</b>	Cash and Net Current Assets/(Liabilities)	375	0.0%	(424)
<b>Total Fund Assets</b>		<b>1,617,349</b>	<b>100.0%</b>	<b>1,352,208</b>

**Note 11: Investment Analysis**

Individual Investment assets with a market value exceeding 5% of the total fund value as at 31 March 21 are as follows:

<b>Asset</b>	<b>Manager</b>	<b>31 March 2021</b>	
		<b>£000</b>	<b>%</b>
UBS Asset Management Life World Equity Tracker	UBS	240,024	14.8
Aquila Life US Equity Index Fund	Blackrock	214,030	13.2
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	126,901	7.8
UBS Asset Management Life UK Equity Tracker A Nav	UBS	95,341	5.9

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**Pension Fund Accounts**

Individual Investment assets with a market value exceeding 5% of the total fund value as at 31 March 20 are as follows:

Asset	Manager	31 March 2020	
		£000	%
UBS Asset Management Life World Equity Tracker	UBS	190,536	14.1
Aquila Life US Equity Index Fund	Blackrock	162,396	12.0
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	99,797	7.4
IIF UK I LP	JP Morgan	78,098	5.8
Invesco Fund Managers Perpetual Targeted Returns	Invesco	77,726	5.7
UBS Asset Management Life UK Equity Tracker A Nav	UBS	75,078	5.6

Investments exceeding 5% within each class of security at 31 March 21 are as follows:

Asset	Manager	31 March 2021	
		£000	%
<b>Global Equities</b>			
Harbourvest Global PE Shares	Harbourvest	19,275	100.0
<b>Property</b>			
Schroder Unit TST UK Real Estate	Schroders	15,663	14.0
IPIF Feeder Unit Trust Fund	Schroders	15,439	13.8
Hermes Property Unit	Schroders	11,634	10.4
Metro Ppty Unit Trust	Schroders	11,591	10.3
Real Income Fund	Schroders	9,635	8.6
Blackrock UK FD	Schroders	9,650	8.6
Mayfair Cap Ppty (MCPUT)	Schroders	8,524	7.6
Multi-Let INDL Property Unit Trust	Schroders	8,648	7.7
Legal and General Managed Property Fund	Schroders	5,844	5.2
<b>Managed Equities</b>			
UBS Asset Management Life World Equity Tracker	UBS	240,024	28.1
Aquila Life US Equity Index Fund	Blackrock	214,030	25.1
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	126,901	14.9
UBS Asset Management Life UK Equity Tracker A Nav	UBS	95,341	11.2
Aquila Life European Equity Index Fund	Blackrock	47,196	5.5
Blackrock AM (IE) ISHS EMG Markets Index IE FLX	Blackrock	45,707	5.4
<b>Fixed Interest</b>			
UBS Asset Mgmt STG Corp Bond Index Fund	UBS	53,393	25.8
UBS GBL Asset Life UK Over 15 Year Gilt Tracker Fund	UBS	52,820	25.5
Blackrock AM (IE) iShares UK Credit Bond Index Fund	Blackrock	52,309	25.2
Blackrock Pensions Aquila Life Over 15 Years UK Gilt Index Fund	Blackrock	48,692	23.5
<b>Index Linked</b>			
Aquila Life Over 5 Yrs Index Fund	Blackrock	54,294	50.6
UBS Asset Mgmt Life Over 5 Year Index Linked Gilt Tracker	UBS	52,916	49.4
<b>Other Alternative Assets</b>			
JP Morgan IIF UK I LP	JP Morgan	71,529	34.1
Partners Group Comp MAC 2017 IV	Partners Group	33,175	17.2
Pemberton Euro Debt Investments Jersey II	Pemberton	38,127	19.7
HIPEP VII (AIF) Partnership Fund LP	Harbourvest	27,724	13.2
HarbourVest Partners X AIF LP	Harbourvest	21,817	10.4

## Pension Fund Accounts

Investments exceeding 5% within each class of security at 31 March 20 are as follows:

Asset	Manager	31 March 2020	
		£000	%
<b>Global Equities</b>			
Harbourvest GE PE Shares	Harbourvest	13,346	100.0
<b>Property</b>			
Schroder Unit TST UK Real Estate	Schroders	15,388	14.5
IPIF Feeder Unit Trust Fund	Schroders	13,668	12.9
Hermes Property Unit	Schroders	10,820	10.2
Real Income Fund	Schroders	10,260	9.6
Blackrock UK FD	Schroders	9,576	9.0
Metro Ppty Unit Trust	Schroders	9,406	8.8
Mayfair Cap Ppty (MCPUT)	Schroders	8,559	8.0
Multi-Let INDL Property Unit Trust	Schroders	7,864	7.4
Legal and General Managed Property Fund	Schroders	5,738	5.4
<b>Managed Equities</b>			
UBS Asset Management Life World Equity Tracker	UBS	190,536	28.7
Aquila Life US Equity Index Fund	Blackrock	162,396	24.5
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	99,797	15.0
UBS Asset Management Life UK Equity Tracker A Nav	UBS	75,078	11.3
Aquila Life European Equity Index Fund	Blackrock	38,078	5.7
<b>Fixed Interest</b>			
UBS Asset Mgmt STG Corp Bond Index Fund	UBS	45,399	25.8
UBS GBL Asset Life UK Over 15 Year Gilt Tracker Fund	UBS	44,675	25.4
Blackrock Pensions Aquila Life Over 15 Years UK Gilt Index Fund	Blackrock	43,661	24.8
Blackrock AM (IE) iShares UK Credit Bond Index Fund	Blackrock	42,357	24.0
<b>Index Linked</b>			
Aquila Life Over 5 Yrs Index Fund	Blackrock	45,170	50.9
UBS Asset Mgmt Life Over 5 Year Index Linked Gilt Tracker	UBS	43,615	49.1
<b>Other Alternative Assets</b>			
JP Morgan IIF UK I LP	JP Morgan	78,098	28.4
Invesco Fund Managers Perpetual Targeted Returns	Invesco	77,726	28.3
Partners Group Comp MAC 2017 IV	Partners Group	40,400	14.7
Pemberton Euro Debt Investments Jersey II	Pemberton	34,873	12.7
HIPEP VII (AIF) Partnership Fund LP	Harbourvest	19,148	7.0



## Pension Fund Accounts

**Note 12: Reconciliation in Movement in Investments**

An analysis of investment movements in 2020/21 is set out below:

<b>INVESTMENT MOVEMENTS 2020/21</b>	<b>Value at 31 March 2020 £000</b>	<b>Purchases at Cost £000</b>	<b>Sales Proceeds £000</b>	<b>Change in Capital Value £000</b>	<b>Change in Market Value £000</b>	<b>Value at 31 March 2021 £000</b>
Global Equities	13,342	0	0	0	5,929	19,271
Managed Equities	663,396	1,677	(46,054)	(4,819)	238,736	852,936
Property	106,332	8,552	(3,119)	0	275	112,040
Fixed Interest Securities	176,092	31,592	(750)	3,246	(2,967)	207,213
Index Linked Securities	88,785	14,483	0	1,573	2,369	107,210
Other Alternative Assets *	275,021	15,574	(96,874)	(2)	16,293	210,012
	<b>1,322,968</b>	<b>71,878</b>	<b>(146,797)</b>	<b>(2)</b>	<b>260,635</b>	<b>1,508,682</b>
Cash Deposits	28,393				(834)	105,524
Other Investment Balances	1,272				(7)	2,769
<b>Total Investments</b>	<b>1,352,633</b>				<b>259,794</b>	<b>1,616,975</b>

<b>INVESTMENT MOVEMENTS 2019/20</b>	<b>Value at 31 March 2019 £000</b>	<b>Purchases at Cost £000</b>	<b>Sales Proceeds £000</b>	<b>Change in Capital Value £000</b>	<b>Change in Market Value £000</b>	<b>Value at 31 March 2020 £000</b>
Global Equities	13,747	0	0	0	(406)	13,342
Managed Equities	695,931	40,119	(10,600)	1,247	(63,301)	663,396
Property	112,285	3,534	(3,856)	(730)	(4,900)	106,332
Fixed Interest Securities	183,854	6,650	(28,526)	(1,247)	15,360	176,092
Index Linked Securities	92,934	4,550	(11,089)	0	2,390	88,785
Other Alternative Assets *	259,751	32,421	(26,236)	(11)	9,096	275,021
	<b>1,358,502</b>	<b>87,274</b>	<b>(80,307)</b>	<b>(741)</b>	<b>(41,761)</b>	<b>1,322,968</b>
Cash Deposits	28,593				409	28,393
Other Investment Balances	70				7	1,272
<b>Total Investments</b>	<b>1,387,165</b>				<b>(41,345)</b>	<b>1,352,633</b>

## Pension Fund Accounts

## Note 13a: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key sensitivities affecting the valuations provided
UK Equities	Level 2	Average of broker prices	Evaluated price of feeds	Not required
Global Equities	Level 1	The published bid market price on the final day of the accounting period	Not required	Not required
Bonds and Index Linked	Level 2	Average of broker prices	Evaluated price of feeds	Not required
Property	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published	NAV - based pricing set on a forward basis	Not required
Cash	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
UK Fixed Income Managed Funds	Level 2	Average of broker prices	Evaluated price of feeds	Not required
UK Venture Capital	Level 2	Average of broker prices	Evaluated price of feeds	Not required
Overseas Venture Capital	Level 2	Average of broker prices	Evaluated price of feeds	Not required
Private equity/ Overseas venture capital	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special Valuation Guidance (March 2020)	-EBITDA Multiple -Revenue multiple - Discount for lack of marketability - Control premium	Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts
Overseas Hedge Funds	Level 3	Valued by investing managers on a fair value basis each year using PRAG guidance	NAV - based pricing set on a forward basis	Valuations are affected by a change to the value of the financial instrument it is being hedged against

## Pension Fund Accounts

**Note 13b: Sensitivity of Assets Valued at Level 3**

The fund has determined that the valuation methods described above for level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

	Valuation range (+/-)	Value at 31 Mar 21	Value on increase	Value on decrease
		£000	£000	£000
Overseas Hedge Funds	4.20%	71,530	74,534	68,526
Overseas Venture Capital	4.20%	67,179	70,001	64,357
<b>Total</b>		<b>138,709</b>	<b>144,535</b>	<b>132,883</b>

**Note 13c: Valuation of Financial Instruments carried at Fair Value**

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1** – where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts). Listed investments are shown at bid prices. The bid value is based on the market quotation of the relevant stock exchange.

**Level 2** – where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

**Level 3** – where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include infrastructure, which the Fund holds assets in, unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in.

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

Values as at 31 March 2021	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/21 £000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	19,271	1,350,702	138,709	<b>1,508,682</b>
Financial Assets at Amortised Cost	123,433	0	0	<b>123,433</b>
	<b>142,704</b>	<b>1,350,702</b>	<b>138,709</b>	<b>1,632,115</b>
<b>Financial Liabilities</b>				
Fair Value through Profit and Loss	0	0	0	<b>0</b>
Financial Liabilities at Amortised Cost	(14,766)	0	0	<b>(14,766)</b>
	<b>(14,766)</b>	<b>0</b>	<b>0</b>	<b>(14,766)</b>
<b>Net Financial Assets</b>	<b>127,938</b>	<b>1,350,702</b>	<b>138,709</b>	<b>1,617,349</b>

## Pension Fund Accounts

Values as at 31 March 2020	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/20 £000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	13,342	1,187,605	122,022	1,322,969
Financial Assets at Amortised Cost	52,238	0		52,238
	<b>65,580</b>	<b>1,187,605</b>	<b>122,022</b>	<b>1,375,207</b>
<b>Financial Liabilities</b>				
Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(22,999)	0	0	(22,999)
	<b>(22,999)</b>	<b>0</b>	<b>0</b>	<b>(22,999)</b>
<b>Net Financial Assets</b>	<b>42,581</b>	<b>1,187,605</b>	<b>122,022</b>	<b>1,352,208</b>

**Note 13d: Transfers between Levels 1 and 2**

There has not been any transfers between Level 1 and Level 2 assets in 2020/21.

**Note 13e: Reconciliation of Fair Value Measurements within Level 3**

	Value at 31 March 2020 £000	Purchases at cost £000	Sales proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2021 £000
Overseas Hedge Funds	78,099		0	0	(6,569)	71,530
Overseas Venture Capital	43,923	7,490	(7,661)	0	23,427	67,179
<b>Total</b>	<b>122,022</b>	<b>7,490</b>	<b>(7,661)</b>	<b>0</b>	<b>16,858</b>	<b>138,709</b>

## Pension Fund Accounts

## Note 14a: Classification of 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 between accounting categories during the year ended 31 March 2021.

	31-Mar-21			31-Mar-20		
	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost
	£000	£000	£000	£000	£000	£000
<b>Financial Assets</b>						
Equities	19,271			13,342		
Managed Funds:						
Property	112,040			106,332		
Managed Equity	852,936			663,396		
Fixed Interest	207,213			176,092		
Index Linked	107,210			88,785		
Other Alternative Assets	210,012			275,021		
Derivative contracts	0			1,815		
Cash deposits		105,524			28,393	
Pending Trades		12,085			17,500	
Dividends & Income Due		1,484			1,276	
Cash Balances		3,877			4,691	
Other Current Assets		463			188	
<b>Total Financial Assets</b>	<b>1,508,682</b>	<b>123,433</b>	<b>0</b>	<b>1,324,783</b>	<b>52,048</b>	<b>0</b>
<b>Financial Liabilities</b>						
Derivative Contracts			0			(1,815)
Pending Trades			(10,793)			(17,511)
Unpaid benefits			0			0
Other Current Liabilities			(3,973)			(5,488)
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>(14,766)</b>	<b>0</b>	<b>0</b>	<b>(24,814)</b>
<b>Net Financial Assets</b>	<b>1,508,682</b>	<b>123,433</b>	<b>(14,766)</b>	<b>1,324,783</b>	<b>52,048</b>	<b>(24,814)</b>

## Note 14b: Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

	31/03/21 £000	31/03/20 £000
<b>Financial Assets</b>		
Fair Value through Profit and Loss	260,635	(41,760)
Assets at Amortised Cost	(834)	409
<b>Financial Liabilities</b>		
Liabilities at Amortised Cost	(7)	7
	<b>259,794</b>	<b>(41,344)</b>

## Note 15: Nature and Extent of Risks Arising from Financial Instruments

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

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

The Committee regularly monitors each investment manager, and its investment consultant (Hymans Robertson) advises on the nature of the investments made and associated risks.

The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus.

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

### a) 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 pooled 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 investments by asset class and establishing mandate guidelines with investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the PIC.

### i) 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.

### ii) 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.

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Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the following asset level percentages of volatility can be applied to the Fund's assets in 2020/21, assuming all other variables such as foreign exchange rates and interest rates remain the same:

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	17.1
Global Equities	14.7
Bonds and Index Linked	7.9
Other Alternative Assets	4.2
Property	1.9
Cash	1.8

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

Asset Type	Final Market Value as at 31 March 2021 £000	Percentage Change	Value on Increase £000	Value on Decrease £000
UK Equities	462,781	17.1	541,917	383,645
Global Equities	409,426	14.7	469,612	349,240
Bonds and Index Linked	314,423	7.9	339,262	289,584
Other Alternative Assets	210,012	4.2	218,837	201,187
Property	112,040	1.9	114,211	109,869
Cash	105,524	1.8	107,413	103,635
<b>Total Assets (*), (**)</b>	<b>1,614,206</b>	<b>7.9</b>	<b>1,741,762</b>	<b>1,486,650</b>

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

\*\* The % change and value change for Total Assets is the average impact across the asset classes

The 2019/20 comparator table is as follows:

Asset Type	Final Market Value as at 31 March 2020 £000	Percentage Change	Value on Increase £000	Value on Decrease £000
UK Equities	365,850	12.6	411,767	319,933
Global Equities	310,888	14.7	356,704	265,072
Bonds and Index Linked	264,877	7.9	285,800	243,954
Other Alternative Assets	275,021	4.1	286,186	263,856
Property	106,332	2.3	108,758	103,906
Cash	28,393	2.4	29,083	27,703
<b>Total Assets*</b>	<b>1,351,361</b>	<b>6.9</b>	<b>1,444,875</b>	<b>1,257,847</b>

\* This figure excludes derivatives and other investment balances.

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

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**Pension Fund Accounts**


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**iii) Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk.

**iv) Interest Rate Risk – Sensitivity Analysis**

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

The analysis demonstrates that a 1% increase in interest rates will reduce the fair value on fixed interest assets (obviously the interest received will not change), and vice versa.

Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

<b>Asset Type</b>	<b>Asset Value at 31 March 21 £000</b>	<b>Impact of 1% Decrease £000</b>	<b>Impact of 1% Increase £000</b>
Cash & Cash Equivalents	105,493	105,493	105,493
UK Fixed Income Managed Funds	101,512	96,669	106,355
Overseas Fixed Income Managed Funds	105,701	92,115	119,288
<b>Total</b>	<b>312,707</b>	<b>294,278</b>	<b>331,136</b>

<b>Asset Type</b>	<b>Asset Value at 31 March 20 £000</b>	<b>Impact of 1% Decrease £000</b>	<b>Impact of 1% Increase £000</b>
Cash & Cash Equivalents	28,393	28,393	28,393
UK Fixed Income Managed Funds	166,062	161,069	171,055
Overseas Fixed Income Managed Funds	87,756	76,477	99,035
<b>Total</b>	<b>282,211</b>	<b>265,939</b>	<b>298,483</b>

**v) Currency Risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£GBP). The Fund was exposed to the following significant foreign currency levels (i.e. £2m and over) at the 31 March 2021, with the previous year in brackets:

Euro	€10.6m	(€9.9m)
US Dollars	\$230.4m	(\$196.4m)

The remaining exposures arise from much smaller holdings of other currencies including Swiss Francs, Norwegian Krone and Australian Dollars.



## Pension Fund Accounts

**vi) Currency risk – sensitivity analysis.**

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. Overseas equities, fixed interest securities and cash in foreign currencies are exposed to currency risk. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements in 2020/21 to be 7.7% (7.4% in 2019/20). This volatility is applied to the Fund's overseas assets at period end as follows:

Asset Type	Asset Value at 31 March 21 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas Equities	409,426	7.7	440,961	377,891
Overseas Fixed Income	105,701	7.7	113,842	97,560
Other Alternative Assets	174,638	7.7	188,089	161,187
<b>Total</b>	<b>689,765</b>	<b>7.7</b>	<b>742,892</b>	<b>636,638</b>

Asset Type	Asset Value at 31 March 20 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas Equities	310,888	7.4	333,746	288,030
Overseas Fixed Income	87,756	7.4	94,208	81,304
Other Alternative Assets	156,858	7.4	168,391	145,325
<b>Total</b>	<b>555,502</b>	<b>7.4</b>	<b>596,345</b>	<b>514,659</b>

**b) Credit Risk**

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

	Rating	Balances at 31 March 2021 £000	Balances at 31 March 2020 £000
Barclays	A +	3,877	4,691
Northern Trust	AA -	105,524	28,393
<b>Total</b>		<b>109,401</b>	<b>33,084</b>

**c) 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 2021 these assets totalled approximately £1,187m, comprising of bonds and equities, with a further £105.5m held in cash by the custodian on behalf of the Fund and fund managers.

## Pension Fund Accounts

**Note 16: Derivative Contracts**

As at 31 March 2021 there were no pending foreign exchange purchases or sales. The net losses related to foreign exchange forward contracts was £6k in 2020/21 (£0k in 2019/20).

**Note 17a: Other Investment Balances**

These comprise the following amounts:

	31/03/21 £000	31/03/20 £000
<b>Debtors</b>		
Equity Dividends / Income from Managed Funds	1,494	1,244
Interest and Other Income	(10)	32
Pending Trades	12,085	17,500
<b>Creditors</b>		
Interest and Other Expenditure	(7)	7
Pending Trades	(10,793)	(17,511)
<b>Net</b>	<b>2,769</b>	<b>1,272</b>

**Note 17b: Net Current Assets**

These comprise the following amounts:

**Current Assets**

	31/03/21 £000	31/03/20 £000
Contributions Due from Admitted/ Scheduled Employers/ Employees	341	191
Interest and Other Income	0	0
Other Current Assets	122	188
Cash in Hand	3,877	4,691
	<b>4,340</b>	<b>5,070</b>

**Current Liabilities**

	31/03/21 £000	31/03/20 £000
Fund Manager and Custody Fees	(357)	(283)
Consultancy/ Advisory Fees	(33)	(35)
Other Current Liabilities	(3,576)	(5,177)
	<b>(3,966)</b>	<b>(5,495)</b>

## Pension Fund Accounts

**Note 18: Cash and Bank****Cash Held With Custodian**

The Northern Trust Company is the Fund's global custodian and cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2021 was £105.5m (£28.4m as at 31 March 2020). The table below shows how this was split between the Fund Managers.

<b>Fund Manager</b>	<b>31-Mar-21</b>	<b>31-Mar-20</b>
	<b>£'000</b>	<b>£'000</b>
Cash Account (Formerly Invesco)	76,471	0
HarbourVest	9,267	5,962
Schroders	8,720	10,941
JP Morgan	6,423	4,655
Partners Group	4,263	1,525
Cash Account (Formerly Fauchier)	365	472
Securities Lending	14	125
UBS	1	21
Pemberton	0	4,018
M&G	0	673
Cash Account (Formerly Investec)	0	1
	<b>105,524</b>	<b>28,393</b>

**Pension Fund Bank Account**

The Lewisham cash in hand balance of £3.9m represents uninvested cash held in the Pension Fund bank accounts as at 31 March 2021. The Fund's accounts are held with Barclays Bank.

**Note 19: Actuarial Present Value of Promised Retirement Benefits**

The table below shows the total net liability of the Fund as at 31 March 2021. The figures have been prepared by Hymans Robertson LLP, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation. In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

	<b>31-Mar-21</b>	<b>31-Mar-20</b>
	<b>£m</b>	<b>£m</b>
Present value of promised retirement benefits	-2,369	-1,817
Fair Value of Scheme Assets	1,601	1,352
Net Liability	-768	-465

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**Pension Fund Accounts**


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**Longevity assumptions**

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

<b>Longevity Assumptions for year ended 31 March 2021</b>	<b>Males</b>	<b>Females</b>
Current Pensioners	21.4 years	24.0 years
Future Pensioners	22.8 years	25.8 years

**Financial assumptions**

	<b>31-Mar-21 (%)</b>	<b>31-Mar-20 (%)</b>
Discount Rate	2.0	2.3
Salary Increases	3.6	2.6
Pension Increases	2.9	1.9

**Sensitivity Analysis**

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

<b>Sensitivity to the assumptions for year ended 31 March 2021</b>	<b>Approximate increase to liabilities (%)</b>	<b>Approximate monetary amount (£m)</b>
0.5% p.a. decrease in the Real Discount Rate	10	233
0.5% p.a. increase in the Salary Increase Rate	1	15
0.5% p.a. increase in the Pension Increase Rate	9	214

**Note 20: Events after the Reporting Period**

The audited Pension Fund Statement of Accounts was authorised for issue by the Executive Director of Corporate Resources on 30 November 2021. Events taking place after this date are not reflected in the accounts. Where events took place before this date which materially altered the conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect these altered conditions. There are no events after the balance sheet date to report for 2020/21.

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**Pension Fund Accounts**


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**Note 21: Contractual Commitments**

The Pension Fund was committed to the following capital contributions as at the 31 March 2021:

<b>Fund Manager</b>	<b>Fund</b>	<b>Amount ('000)</b>	<b>Translated (£'000)</b>
HarbourVest	HIPEP IX AIF SCSp	\$25,000	18,121
HarbourVest	HarbourVest Partners XI AIF L.P.	\$16,688	12,096
HarbourVest	HarbourVest Partners X AIF L.P.	\$12,045	8,731
Pemberton	European Debt Investments Jersey II L.P.	£4,907	4,907
HarbourVest	HIPEP VII (AIF) Partnership Fund L.P.	\$4,875	3,534
HarbourVest	Harbourvest Partners VIII - Cayman Buyout Fund L.P.	\$555	402
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Partnership Fund L.P.	€ 700	596
HarbourVest	Harbourvest Partners VIII - Cayman Venture Fund L.P.	\$190	138
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Direct Fund L.P.	€ 124	106
	<b>Total</b>		<b>48,631</b>

**Note 22: Related Party Transactions**

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

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

During the year the following declarations were made:

- Councillor John Muldoon declared an interest as a member of Lewisham's Pension Fund.
- Councillor Caroline Kalu declared an interest as a board member of Lewisham Homes, the Council's housing subsidiary.
- The Chair of the Investment Committee Councillor Mark Ingleby declared an interest as a Councillor elected Director of Lewisham Homes, the Council's housing subsidiary, not in receipt of pension.

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

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

No other trustees or Council chief officers with direct responsibility for Pension Fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2021.

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**Pension Fund Accounts**


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

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £730k (included in Administration Expenses in Note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently Pension Fund cash balances are held by the Council from time to time and vice versa.

### Key Management Personnel Remuneration

The key management personnel of the Fund are the Executive Director of Corporate Resources and the Director of Finance.

There were no costs apportioned to the Pension Fund in respect of the Executive Director of Corporate Resources post for 2019/20 and 2020/21.

Total remuneration payable to key management personnel from the Pension Fund is set out below:

	2020/21 £'000	2019/20 £'000
Short Term Benefits	21	24
Post-Employment Benefits	4	3
<b>Total</b>	<b>25</b>	<b>27</b>

### Note 23: Additional Voluntary Contributions (AVC's)

Contributing members have the right to make AVCs to enhance their pension. There are currently 45 '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 Utmost (formerly Equitable Life). The value of AVC investments is shown below. The contributions are held by the providers and do not form part of the Lewisham Fund's assets in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

	2020/21			2019/20		
	Utmost £000	Clerical Medical £000	Total £000	Equitable Life £000	Clerical Medical £000	Total £000
<b>Value at the Beginning of Year</b>	421	986	1,407	428	964	1,392
Contributions and Transfers Received	0	286	286	3	182	185
Investment Return	29	156	185	81	(83)	(2)
Paid Out	(94)	(322)	(416)	(91)	(77)	(168)
<b>Value at the End of the Year</b>	<b>356</b>	<b>1,106</b>	<b>1,462</b>	<b>421</b>	<b>986</b>	<b>1,407</b>

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**Pension Fund Accounts**

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**Note 24a: Scheduled Bodies**

The following are scheduled bodies to the Fund as at 31 March 2021, arranged in descending order by the value of their contributions in 2020/21:

Lewisham Homes Limited
Haberdashers' Aske's Hatcham College
Christ The King Sixth Form College
St Matthews Academy
Tidemill Academy
Childeric
Sedgehill School
St George's Academy

**Note 24b: Admitted Bodies**

The following are admitted bodies to the Fund as at 31 March 2021, arranged in descending order by the value of their contributions in 2020/21:

Youth First Ltd
Phoenix
Inspace/ BS Phoenix
DB Services (left during 2020/21)
Skanska
Change Grow Live / CIS / Penrose
Lewisham Music
Quality Heating
GLL
City West Services
3 C's Support
Fusions Leisure Management
Nviro (left during 2020/21)
Housing 21
Pre-School Learning Alliance
NSL (formerly known as National Car Parks Ltd)
Tower Services

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**Pension Fund Accounts**


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**Note 25: Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the London Borough of Lewisham Pension Fund include:

Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership numbers of the scheme:

	<b>Active Members</b>		<b>Deferred Beneficiaries</b>		<b>Retired Members</b>	
	<b>2020/21</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2019/20</b>
Administering Authority	5,745	5,590	10,593	10,502	7,629	7,556
Scheduled Bodies	1,083	1,050	1,323	1,234	389	346
Admitted Bodies	79	114	60	124	76	122
	<b>6,907</b>	<b>6,754</b>	<b>11,976</b>	<b>11,860</b>	<b>8,094</b>	<b>8,024</b>



## **Appendix B: Investment Strategy Statement**

# Investment Strategy Statement: September 2018

### **Introduction and background**

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

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

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

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

### **The suitability of particular investments and types of investments**

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

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

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

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

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

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

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

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

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

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

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

**Table 1: BlackRock and UBS Rebalancing**

Mandates	Policy
<b>Blackrock</b>	Rebalancing tolerance levels of +/- 2% for the following allocations: <ul style="list-style-type: none"> <li>• UK Equity (19.0%)</li> <li>• Global Equity (55.0%)</li> <li>• Over 15 Year Gilts (8.6%)</li> <li>• Over 5 Year Index-Linked Gilts (8.7%)</li> <li>• UK Corporate Bonds (8.7%)</li> </ul> Monitored on a daily basis, with rebalancing occurring at the next available dealing date if out with the tolerance range.
<b>UBS</b>	Strategic benchmarking is as follows: <ul style="list-style-type: none"> <li>• UK Equity (19.0%)</li> <li>• Global Equity (55.0%)</li> <li>• UK Fixed Interest Gilts (8.6%)</li> <li>• UK Index-Linked (8.7%)</li> <li>• UK Corporate Bonds (8.7%)</li> </ul> Monitoring and rebalancing occurs on a quarterly basis, with holdings rebalancing to the benchmark allocation.

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

**Table 2: Tolerance levels**

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

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

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

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

## Investment of money in a wide variety of investments

### Asset classes

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

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

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

Table 1: Fund allocation

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

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

## Managers

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

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

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

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

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

### Funding risks

- Financial mismatch – The risk that the Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

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

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

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

### Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

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

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

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

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

#### Other provider risk

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

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

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

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

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

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

- 1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- 2 That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

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

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

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

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

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

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

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

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

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

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment



managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

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

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

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

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

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

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

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

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

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

### **Stewardship**

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

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

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

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

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

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

## Appendices

### Appendix 1 – Approach to risk

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

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

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

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

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

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

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

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

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

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

## Appendix 2 – Compliance with CIPFA Principles for Investment

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

### Principle 1: Effective Decision-Making

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

Compliance statement - full compliance

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

### Principle 2: Clear Objectives

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

Compliance statement – full compliance

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

**Principle 3: Risk and Liabilities**

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

Compliance statement – full compliance

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

**Principle 4: Performance Assessment**

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

Compliance statement – full compliance

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

**Principle 5: Responsible Ownership**

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

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

Compliance statement – Full compliance

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

### **Principle 6: Transparency and Reporting**

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

#### Compliance statement – full compliance

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

Appendix C: Funding Strategy Statement

London Borough of  
Lewisham Pension Fund

Funding Strategy Statement

November 2019

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# 1 Introduction

## 1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 01 April 2020.

## 1.2 What is the London Borough of Lewisham Pension Fund?

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

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

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

## 1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

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

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

#### 1.4 How does the Fund and this FSS affect me?

This depends who you are:

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

#### 1.5 What does the FSS aim to do?

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

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

### 1.6 How do I find my way around this document?

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

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

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

## 2 Basic Funding issues

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

### 2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

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

### 2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

#### **2.4 How does the calculated contribution rate vary for different employers?**

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

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

## 2.5 How is a funding level calculated?

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

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

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

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

In short, funding levels and deficits/surpluses are short term, high level risk measures, whereas contribution-setting is a longer term issue.

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

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

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

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

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

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

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

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

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

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

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

### **2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?**

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required which will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

[The LGPS Scheme Advisory Board \(SAB\) issued advice to LGPS funds in May 2019](#). As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. The Fund has taken the following action:

- Reserved additional prudence within the discount rate. As at 31 March 2019, the Fund's investment strategy had a greater than 75% likelihood of delivering 3.5% p.a. Had there not been any risks associated with McCloud, the Fund would have considered a lower likelihood of success; and
- Increased the pace of funding. When setting the funding plans for scheduled bodies, the Fund has determined contributions allowing for a higher probability of employer's meeting their funding targets over their respective time horizons. For instance, college has a target of 80% (as opposed to the 75% which was the proposed target before McCloud risks were introduced).

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

## **2.8 When will the next actuarial valuation be?**

On 8 May 2019 MHCLG issued a [consultation](#) seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.



## 3 Calculating contributions for individual Employers

### 3.1 General comments

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

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

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

### 3.2 The effect of paying lower contributions

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

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

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

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

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

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

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### 3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
	Local Authority	Colleges	Academies	Open to new entrants	Closed to new entrants	
<b>Funding Target Basis used</b>	Ongoing participation basis, assumes long-term Fund participation (see <a href="#">Appendix E</a> )			Ongoing participation basis, but may move to "gifts exit basis" - see <a href="#">Note (a)</a> .		Contractor exit basis, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
<b>Primary rate approach</b>	(see <a href="#">Appendix D – D.2</a> )					
<b>Stabilised contribution rate?</b>	Yes - see <a href="#">Note (b)</a>	No	No	No	No	No
<b>Maximum time horizon – <a href="#">Note (c)</a></b>	20 years	20 years	20 years	20 years	Expected future working lifetime	Time horizon of guarantor
<b>Secondary rate – <a href="#">Note (d)</a></b>	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
<b>Treatment of surplus</b>	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over a period set by the Administering Authority	Reduce contributions by spreading the surplus over a period set by the Administering Authority	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the shorter of expected future working lifetime and outstanding contract term
<b>Probability of achieving target – <a href="#">Note (e)</a></b>	66% - see Section 2.7	75% - see Section 2.7	66% - see Section 2.7	80%	80%	70%
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None
<b>Review of rates – <a href="#">Note (f)</a></b>	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
<b>New employer</b>	n/a	n/a	<a href="#">Note (g)</a>	<a href="#">Note (h)</a>	<a href="#">Note (h)</a>	<a href="#">Notes (h) &amp; (i)</a>
<b>Cessation of participation: exit debt/credit payable</b>	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per <a href="#">Note (i)</a> .			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a gifts exit basis – see <a href="#">Note (i)</a> .		Participation is assumed to expire at the end of the contract. Exit debt/credit (if any) calculated on the gifts exit basis. Letting employer will be liable for future deficits and surpluses. See <a href="#">Note (i)</a> for further details.

**Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)**

In the circumstances where:

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

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

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

**Note (b) (Stabilisation)**

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

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

The current stabilisation mechanism applies if:

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

On the basis of extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), the Council has opted to reduce their time horizon from 20 to 17 years and to temporarily increase the likelihood of full funding at the end of their time horizon from 66% to 70%. On these parameters, the Council's 2019/20 rate has been frozen for a further three years.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

**Note (c) (Maximum time horizon)**

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the time horizon to reduce at successive valuations where contributions are reducing until recovery periods are at each employer's members' future working lifetimes (hence meeting the objective that today's members are paying for/taking credit for any deficits/surpluses over their own working lifetime. However, the Administering Authority reserves the right to propose alternative time horizons up to a maximum of 20 years where contributions are increasing.

**Note (d) (Secondary rate)**

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

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

**Note (e) (Likelihood of achieving funding target)**

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

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

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

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

**Note (f) (Regular Reviews)**

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

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

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### Note (g) (New Academy conversions)

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

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purposes of setting contribution rates, those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that the academy's initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving their funding target outlined for Academies in the table in Section [3.3](#) above;
- v. As an alternative to (iv), the academy will have the option to elect to pay contributions initially in line with the ceding LEA instead. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.
- vi. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy will be assumed to transfer to the new MAT.

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

### Note (h) (New Admission Bodies)

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

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

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

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

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

#### **Note (i) (New Transferee Admission Bodies)**

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit or entitled to any surplus at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term. Please note, the level of surplus would be determined by the Administering Authority in accordance with the Regulations.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on exit from the Fund does not pay any exit debt or receive any exit credit. In other words, the pension risks “pass through” to the letting employer.

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The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

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

#### **Note (j) (Admission Bodies Ceasing)**

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

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

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider the extent of any surplus, the proportion of surplus arising as a result of the Admission Body's employer contributions, any representations (such as risk sharing agreements or guarantees) made by the Admission Body and any employer providing a guarantee to the Admission Body.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome in its approach to exit valuations. For exit valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a 3% loading to any transferring active liabilities and 1% loading to deferred liabilities as an estimate of the possible impact of resulting benefit changes.

The actuary charges a fee for carrying out an employer's exit valuation and the Fund will be subject to future administration expenses in relation to the exiting employer's members which the Fund will recharge to the



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employer. For the purposes of the cessation valuation, these expenses will be deducted from the employer's exit credit or added to the employer's exit debt as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's exit.

Where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future. Therefore, cessation liabilities will be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Depending on the nature of any guarantee an exiting employer may have, it may be possible to transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted in consultation with any guarantor.

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

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

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

### **3.4 Pooled contributions**

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

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

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

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

### 3.5 Additional flexibility in return for added security

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

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

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

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

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

whether the admission agreement is likely to be open or closed to new entrants.

### 3.6 Non ill health early retirement costs

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

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

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

### 3.7 Ill health early retirement costs

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

### 3.8 External ill health insurance

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

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

### 3.9 Employers with no remaining active members

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

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

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

### 3.10 Policies on bulk transfers

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

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

## 4 Funding strategy and links to investment strategy

### 4.1 What is the Fund's investment strategy?

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

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy, which is available to members and employers.

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix [E3](#)) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the Fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and uses a methodology which takes into account this potential variability.

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

### 4.4 Does the Fund monitor its overall funding position?

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

## 5 Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

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

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

### 5.2 Solvency

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

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### 5.3 Long Term Cost Efficiency

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

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

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

Relative considerations include:

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

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Absolute considerations include:

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

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

## Appendix A – Regulatory framework

### A1 Why does the Fund need an FSS?

MHCLG has stated that the purpose of the FSS is:

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

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

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

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

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

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

### A2 Does the Administering Authority consult anyone on the FSS?

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

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

- a) A draft version of the FSS was issued to all participating employers in December 2019 for comment;
- b) Comments were requested within 30 days;
- c) Following the end of the consultation period the FSS was updated where required and then published, in April 2020.

### A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at <http://www.lewishampensions.org>

A copy sent by e-mail to each participating employer in the Fund; and

Copies made available on request.

### A4 How often is the FSS reviewed?

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

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

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

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

#### **A5 How does the FSS fit into other Fund documents?**

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

These documents can be found on the web at <http://www.lewishampensions.org>



## Appendix B – Responsibilities of key parties

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

### **B1 The Administering Authority should:-**

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

### **B2 The Individual Employer should:-**

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

### **B3 The Fund Actuary should:-**

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

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4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

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

## Appendix C – Key risks and controls

### C1 Types of risk

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

financial;

demographic;

regulatory; and

governance.

### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>

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Risk	Summary of Control Mechanisms
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>
Effect of possible asset underperformance as a result of climate change	<p>The Fund explicitly models potential government and corporate policies on climate change when reviewing its funding and investment strategies.</p> <p>The Fund is actively reducing the carbon exposure within its investment strategy.</p>

### C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p>

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Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f) to 3.3</a> ) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

**C4 Regulatory risks**

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The Administering Authority is monitoring the progress on the McCloud court case and national cost sharing valuations and will consider an interim valuation or other appropriate action once more information is known.</p>
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a> ).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

**C5 Governance risks**

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>

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Risk	Summary of Control Mechanisms
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see <a href="#">Notes (h)</a> and <a href="#">(j)</a> to <a href="#">3.3</a>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f)</a> to <a href="#">3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</p>
An employer ceasing participation resulting in an exit credit being payable.	<p>The Administering Authority regularly monitors admission bodies coming up to cessation.</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid as required.</p>

## Appendix D – The calculation of Employer contributions

As discussed in [Section 2](#), the actuary calculates the required contribution rate for each employer using a three-step process:

4. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
5. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
6. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in [3.3 Note \(e\)](#) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

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

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

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

### **D2 How is the Primary contribution rate calculated?**

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

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

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

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

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The projections are carried out using an economic modeller (the “Economic Scenario Service”) developed by the Fund’s actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (at the end of the time horizon) is equal to the required likelihood.

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

### **D3 How is the Secondary contribution rate calculated?**

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer’s funding target assumptions (see [Appendix E](#)).

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

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

The projections are carried out using the Economic Scenario Service described above. The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target at the end of their time horizon is at least equal to the required likelihood.

### **D4 What affects a given employer’s valuation results?**

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

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer’s liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

### **D5 How is each employer’s asset share calculated?**

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore, it cannot account for each employer’s assets separately. Instead, the Fund Actuary must



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apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

- 1) A technique known as “analysis of surplus” in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer’s liability value to calculate the employer’s asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
- 2) A ‘cashflow approach’ in which an employer’s assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer’s assets.

Until 31 March 2016, the Administering Authority used the ‘analysis of surplus’ approach to apportion the Fund’s assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer’s assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund’s assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers’ asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

#### **D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?**

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer’s asset share to the receiving employer’s asset share. This sum is equal to the member’s Cash Equivalent Transfer Value (CETV).

## Appendix E – Actuarial assumptions

### E1 What are the actuarial assumptions used to calculate employer contribution rates?

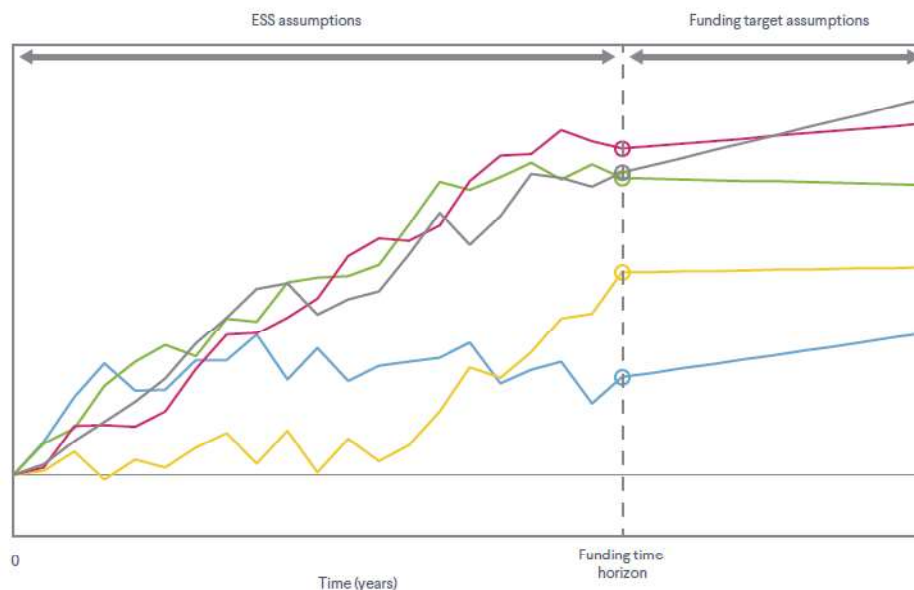
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions).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

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

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



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Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

## E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns							RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)			
5 years	16th %ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
Volatility (Disp) (1 yr)		1%	7%	10%	17%	17%	14%	11%	1%		

## E2 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

1. Benefit increases and CARE revaluation
2. Salary growth
3. Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has two funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

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Funding basis	Ongoing participation basis	Gilts exit basis
<b>Employer type</b>	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Community Admission Bodies that are closed to new entrants
<b>Investment return assumption underlying the employer's funding target (at the end of its time horizon)</b>	Long term government bond yields plus an asset outperformance assumption (AOA) of 2.0% p.a.	Long term government bond yields with no allowance for outperformance on the Fund's assets

### **E3 What assumptions are made in the ongoing basis?**

The following assumptions are those of the most significance used in both the projection of the assets, benefits, cashflows and in the funding target:

#### **a) Salary growth**

Following discussions with Fund officers, the salary increase assumption at the 2016 valuation has been set to the Consumer's Prices Index (CPI) plus 0.7% p.a. This is the same derivation as was made for the previous valuation.

#### **b) Pension increases**

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

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. This is the same derivation as was made for the previous valuation.

#### **c) Life expectancy**

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

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

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

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

**d) General**

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

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

## Appendix F – Glossary

<b>Funding basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Gilt</b>	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
<b>Guarantee / guarantor</b>	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's <b>covenant</b> to be as strong as its guarantor's.
<b>Letting employer</b>	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

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<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
<b>Maturity</b>	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Primary contribution rate</b>	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal <b>valuation</b> . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund until the next formal valuation is completed.
<b>Scheduled Bodies</b>	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . See <a href="#">Appendix D</a> for further details.
<b>Stabilisation</b>	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
<b>Valuation</b>	A risk management exercise to review the Primary and Secondary contribution rates and other statutory information for a Fund, and usually individual employers too.





**Appendix D: Communications Policy**  
**LONDON BOROUGH OF LEWISHAM PENSION FUND**

**COMMUNICATION POLICY STATEMENT**  
(LGPS) 2019

**Legislative background**

This document sets out the Communications Policy of the Administering Authority of the London Borough of Lewisham Pension Fund as required under the Local Government Pension Scheme Regulations (2013), Regulation 61.

The Public Service Pensions Act 2013 also introduced a framework for the governance and administration of public sector service pension schemes and provided an extended regulatory oversight of the LGPS to the Pensions Regulator. The Regulator's Code of Practice No14 has detailed guidance on providing good quality communications to members and others, with reference to the Occupational & Personal Pensions Scheme (Disclosure of Information) Regulations 2013 and HM Treasury Directions 2014 on Information about Benefits.

**Aim and Objectives**

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

**London Borough of Lewisham Pension Fund:**

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

**Communications Methodology**

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

## **General Communications**

We use a range of methods to communicate including a variety of paper-based and electronic means. The Fund has a dedicated Pensions website [www.lewishampensions.org](http://www.lewishampensions.org)

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

- **Website** – Communication in the form of a dedicated Pension Fund website is available which contains a wide range of information for not only scheme members but also scheme employers and other interested parties. The website can be accessed via [www.lewishampensions.org](http://www.lewishampensions.org) . The website contains copies of scheme guides, newsletters and other relevant information pertaining to the LGPS. All email correspondence supplied by the administration team includes the direct link to our website.
- **Policy Documents** – These are available for all stakeholders to access either on the website at [www.lewishampensions.org](http://www.lewishampensions.org) in hard copy or electronically on application.

## **Data Protection Statement**

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

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

## **National Fraud Initiative (NFI)**

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

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

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

- **Scheme Guides** – There are scheme guides available for members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). A copy of these will be provided to new employees of the scheme on request. The scheme guides can also be found on the Pension Fund website at [www.lewishampensions.org](http://www.lewishampensions.org) and the dedicated LGPS member's site at [www.lgpsmember.org](http://www.lgpsmember.org)
- **Annual Benefit Statements** – Active and deferred scheme members are entitled to an annual benefit statement detailing the benefits that they might expect at retirement. These are issued annually and would normally be issued within 5 months of the financial year end (31<sup>st</sup> March). These contain vital information for scheme members and enable individuals to make informed choices about their retirement options.
- **Pensioner Payslips** – All pensioners receive a payslip each month along with their P60 at the end of the year.
- **Pension Increase notifications** – The notification of the annual increase to pensioner benefits is available to view at: <http://www.lewishampensions.org/lewisham-pension-fund/pensioners/howwe-keep-in-touch/>
- **Certificates of Continued Entitlement to Pensions (Life Certificates)** – The Fund will undertake periodic exercises, conducted through correspondence, in order to establish the continued existence of the following pensioners.
  - All pensioners living abroad (outside the UK).
  - Those over the age of 80
  - Those pensioners receiving pension benefits by cheque
- **Pension Fund Report and Accounts Summary** – This provides a summary of the Pension Fund during the financial year and can be found at: <http://www.lewishampensions.org/lewisham-pension-fund/about-us/formsand-publications>

### **Policy on Communicating with Prospective Scheme Members**

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

- **Initial Contact** - All permanent new members of staff are contractually enrolled into the LGPS, where the employer is a scheduled body or open admission agreement contractor. Each new member is sent a statutory notification by the pension administrators confirming their membership of the LGPS. Further scheme information including scheme guides can be found on our website at: [www.lewishampensions.org](http://www.lewishampensions.org)
- **Induction seminars** – A representative of the administration team attend the monthly induction seminars for all new employees of the Council, which are facilitated

by HR, providing prospective new members of the scheme the opportunity to discuss any aspect of their membership of the scheme.

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

### **Policy on Communicating with Employers participating in the Fund**

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

- **Employer Guide** – This is a guide for scheme employers outlining the details of the scheme and the administrative arrangements for the scheme. This has been distributed to all employers in the scheme and all new employers will receive copies. Training on procedures in relation to the employer guide is also available upon request.
- **Website** – The website holds a wide range of information in regard to Employee Guides, pension forms, newsletters and policies. The website can be accessed via [www.lewishampensions.org](http://www.lewishampensions.org)
- **Annual Report and Accounts** – This contains details of the Pension Fund during the financial year, income and expenditure as well as other related details. This is a detailed and lengthy document and will therefore not be routinely distributed, except to employers participating in the Fund or on request. The full document will be published on the website at [www.lewishampensions.org](http://www.lewishampensions.org)

### **Policy on Communicating with Elected Members**

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

- **Access to Pensions Investment Committee** – The Pensions Investment Committee is the Committee which has delegated power to review, administer and monitor the Pension Fund. The Committee meets a minimum of four times a year or more frequently, as required. Meetings are open to members of the public, although there may be occasions when members of the public are excluded due to the confidential nature of matters under discussion.
- **Committee Reports** – Reports to the Committee and to other Committees as necessary, for example Corporate Committee and Council, ensures that Council Members are kept informed of developments in relation to Pension Fund issues and the impact that these can have on overall Council policies and procedures. These are published on the Council's website. The agenda, reports and minutes of the meetings

are available on the Council's website at <http://councilmeetings.lewisham.gov.uk/ieDocHome.aspx?=1>

- **Training** – Committee Member training is a standing agenda item and the Committee liaise with Officers on training needed and received on an on-going basis each year. They are also kept informed of any relevant external training courses.
- **Presentations** – Officers and advisers to the Fund deliver presentations on investment and administration matters to the Committee at each quarterly meeting upon request.

### **Policy on Communicating with the Pensions Board**

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

- **Reports to The Pensions Board** - The Pension Board is not a decision making body and is not a Committee constituted under the Local Government Act 1972, although in most regards will be treated in the same way. As such, members of the public may attend and papers will be made public in the same way as described above for the Pension Investment Committee.
- **Training** – The Pension Board will be provided with, and be required to undertake, appropriate training, either provided internally by Officers or externally.

### **Policy on Communicating with Other Bodies**

There are a number of other interested parties with whom we will communicate with as required, this includes:

- **The Department for Levelling Up, Housing & Communities (formerly The Ministry of Housing, Communities & Local Government – MHCLG)** – regular contact with DCLG as regulator of the scheme, participating and responding to consultations as required.
- **Trade Unions** – we will work with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts will be made to ensure all pension related issues are communicated effectively with the trade unions.
- **Employer Representatives** - we will work with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups.
- **London CIV** – the London Collective Investment Vehicle was established by a group of 32 London based Councils to invest on a pooled basis for the LGPS Funds administered by those Councils. It is important that the London CIV understands the Fund's strategies so that the assets are invested in accordance with those strategies. Communication with the CIV will be in a number of ways including directly at officer level and via the various committees and groups established as part of the London CIV governance structure. The Lewisham Pensions Investment Committee will also

receive regular updates on the activities of the CIV and will also be responsible for deciding the assets to be invested in the CIV.

- **Pension Fund Investment Managers, Advisers and Actuaries:**
  - Regular meetings with the Fund Managers who invest funds on behalf of the Fund.
  - Regular meetings with Investment Advisers who provide help and advice on the asset allocation and investments of the Fund.
  - Regular meetings with the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund.
  
- **Pension Fund Custodian** – The Fund's Custodian is Northern Trust, who ensures the safekeeping of the Funds investment transactions and all related share certificates.
  
- **AVC Provider** – Additional Voluntary Contributions (AVC) are a way to top up your pension benefits, and in some instances provide tax free lump sum depending on the policy, and are held and invested separately from the LGPS. The Funds preferred AVC provider is Clerical Medical.
  
- **Pensions and Lifetime Savings Association (PLSA) (previously known as NAPF)** – The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.
  
- **Local Authority Pension Fund Forum (LAPFF)** – The Fund is a member of LAPFF which was established to help local authority funds share information and ideas about socially responsible investing.
  - Regular meetings with Investment Advisers who provide help and advice on the asset allocation and investments of the Fund
  - Regular meetings with the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund
  
- **London Pension Officers Group (LPOG) & London Pension Officers Forum (LPOF)** – the Fund is a member of these voluntary groups. Meetings are held on a quarterly basis to share information and ensure standardised interpretation of LGPS regulations and best practice.
  
- **Requests for Information (FOI)** - Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality.
  
- **Consultations** – There are occasions when the administering authority will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the London Borough of Lewisham Pension Scheme. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and

representative groups will be approached to provide feedback to the policy changes before amendments are enacted.

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

## Communication Material

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

Communication Material	Paper Form	Electronic Form	Website	Frequency	Intended Audience (active, deferred, pensioner, prospective members, employers or ALL)
Annual Benefits Statements	✓	✗	✗	Annually	Active or Deferred
Annual Newsletter	✗	✗	✗	N/A	ALL
Pension Updates	✓	✗	✓	When details available	Active, Prospective and Employers
Ad-hoc Newsletters	✓	✗	✗	As requested	ALL
Newsletter	✗	✗	✓	Quarterly	Employers (& Schools)
Payslips	✓	✗	✗	Monthly	Pensioners
Notice of Pension Increase (PI)	✗	✗	✓	Annually (April)	Pensioners
Scheme Updates	✓	✓	✗	As requested	Active/Employers (& Schools)
Scheme Guides	✓	✓	✓	As requested	ALL
Induction Sessions	✓	✓	✗	Monthly	New Employees
Pre-Retirement Seminars	✗	✗	✗	Attend as requested	Active
Employers Forum	✗	✗	✗	N/A	Employers
Pensions Administration Strategy (PAS)	✓	✓	✓	Reviewed Annually (April) or as and when requested	Employers (& Schools)
Pension Committee	✓	✓	✓	4 to 6 meetings per financial year	ALL
Pension Board	✓	✓	✓	2 meetings per financial year	ALL