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# **London Borough of Lewisham Pension Fund**

## **2022/23 Annual Report**

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## Appendices

### 2022/23 Pension Fund Statement of Accounts

# **1. FOREWORD BY THE ACTING EXECUTIVE DIRECTOR OF CORPORATE RESOURCES**

- 1.1. Welcome to the 2022/23 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. Much of the current investment strategy to diversifying the Fund away from fossil fuels to low-carbon mandates has been achieved. This has been achieved by moving funds away from passive growth funds and investment into funds such as Passive Equity Progressive Paris Aligned Fund (PEPPA) and London Collective Investment Vehicle (LCIV) Renewable Infrastructure Fund and into Storebrand Global Plus Fund in 2022/23.
- 1.4. Following the March 2022 triennial valuation the Investment Strategy Statement (ISS) has been updated and was been approved by the Pension Investment Committee in June 2023. The revised ISS did not necessitate material changes to the Fund's asset allocation, but the Committee has since developed and adopted a Responsible Investment Beliefs Statement which supports the ISS.
- 1.5. 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.
- 1.6. 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 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).
- 1.7. Lewisham has also invested in pooling its assets with the London LGPS CIV (LCIV). Lewisham took action in 2021/22 to make our first direct investment with the pool which included investment into the LCIV Passive Equity Progressive Paris Aligned Fund (PEPPA) and the LCIV Renewable Infrastructure Fund. During 2022/23 the fund made a new investment into the LCIV Private Debt Fund and there will be further drawdown in 2023/24.

- 1.8. The results of the most recent triennial valuation, based on the Fund's position as at 31 March 2022, showed an improved funding level of 97% of its liabilities, compared to a funding level of 90% as at the 2019 valuation. The resulting deficit as at the 2022 valuation was £56m (£154m in 2019). 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 (£1.387bn at 31 March 2019 to £1.750bn at 31 March 2022), which partially offsets an increase in liabilities of £263m due to a reduction in the assumed rate of future investment returns. The next triennial valuation will take place as at 31 March 2025.
- 1.9. Over the three year valuation period, active membership decreased by approximately 1.6% whilst the number of the pensioners increased, by 7% and the deferred members increased by 0.2%. The Fund continues to mature and the net cash withdrawal in 2022/23, excluding Fund management expenses, was £3.9m (£7.2m in 2021/22).
- 1.10. The war in Ukraine started at the start of the year 2022/23 and we saw a large fall in global markets and a fall in the supplies of gas and other energy and food. These shortages led to an increase in inflation which was followed by the Bank of England raising the interest rates. During the year In 2022/23 the net asset value of the Fund fell by £93m, or 5.4%, from £1.750bn to £1.657bn (compared to an increase of £130m, or 8.0%, in 2021/22). The war in Ukraine has continued to have an effect on the global markets at 31 March 2023 and we expect to see a fall in fund values during 2023/24. We expect global energy and food costs to level off and we expect inflation to gradually fall during 2023/24. The Bank of England is expected to slow the interest rate rises as they start to control inflation. The performance for the year was over benchmark by 0.2% (compared to 2.8% over benchmark in 2021/22), which may be due to the effects on global markets from the war in Ukraine.
- 1.11. In February 2023 the results of the 2022 triennial valuation were completed and it showed that the current funding position has improved from 90% to 97% fully funded. However, the disruption caused by the coronavirus pandemic and now the war in Ukraine 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 war 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.
- 1.12. The Pensions Investment Committee agreed a revised investment strategy which continues to move along the pathway to more low carbon investments and to meet its climate objectives. In doing so, climate reduction issues will remain a key consideration for the Fund along side its fiduciary duty to prioritise the interests and benefits of its members.

**David Austin**

**Acting Executive Director of Corporate Resources (S151 Officer)**

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

- 2.1. The war in Ukraine had an impact on the cost of energy and food prices in 2022/23 and gave rise to high inflation and increased in the cost of living. The Bank of England increased interest rates to try and bring down inflation. Year-on-year headline CPI inflation in the US and Eurozone fell to 6.0%, and 8.5%, respectively, as the UK measure rose to 10.4%.
- 2.2. Global growth rose positively in Q1 2023 with resilient labour markets and falling energy prices, improving the outlook for consumers and businesses. Forecasted 2023 GDP growth was revised higher in most developed economies, while UK growth is expected to be broadly flat rather than a recession.
- 2.3. Lewisham's Pension Fund assets saw strong growth over the previous seven years, rising from £1.041bn in 2015/16 to £1.750bn in 2021/22. In 2022/23 the fund saw a fall in value of £93.8m to £1.657bn. However, as the war in Ukraine continues it is likely to have a detrimental affect 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.
- 2.4. The Fund continues to perform broadly in line with its strategic benchmark over longer periods, with relative outperformance over the 1 and 3-year periods, and just behind its benchmark performance of 7.2% per annum since inception.
- 2.5. Approximately 60% of the Fund at March 2023 was invested in growth assets, 25% in income assets and 15% in protection assets including passive bonds and cash. The last triennial valuation took place on 31 March 2022 with the next one taking place as at 31 March 2025. The Committee, in conjunction with officers, analysed the results of the 2022 triennial valuation 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 90% to 97% funded in the last three years, largely on the crest of equity investment returns.
- 2.6. The Fund's revised Investment Strategy will see the continued investment into low-carbon investments, as well as low-carbon income generating assets such as the LCIV Renewable Infrastructure Fund. 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.
- 2.7. During the year the Fund made new investments into Storebrand Global ESG Plus (£256m) and Storebrand Emerging Markets Plus (£76m). Storebrand's investments specifically target low-carbon ESG equities with enhanced green revenue exposure. The other new investment was LCIV Private Debt which we committed £85m and we have investment an outstanding commitment of £55m as at the year-end.
- 2.8. Lewisham Pension Fund was a voluntary founding member of London Collective Investment Vehicle (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.

- 2.9. 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, in particular for their 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 Sian Eiles**

**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 his 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 2023, the London Borough of Lewisham Pension Fund had £1.317m invested in pooled investments. 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 Sian Eiles - Chair  |
|                                       | Cllr. Mark Ingleby – Vice Chair  |
|                                       | Cllr Yemisi Anifowose  |
|                                       | Cllr. Chris Best   |
|                                       | Cllr Mark Jackson  |
|                                       | Cllr. Louise Krupski   |
|                                       | Cllr James Royston   |
|                                       | Cllr. John Muldoon   |
| <b>Local Pension Board:</b>           | Stephen Warren - Chair   |
|                                       | Rowann Limond (Lewisham Homes) and Sherene Russell-Alexande - Employer Representatives |
|                                       | Mark Adu-Brobbey and Gary Cummins - Scheme Representatives                             |
| <b>Administrator:</b>                 | David Austin – Acting Executive Director of Corporate Resources                        |
| <b>Responsible Officers:</b>          | Shida Ashrafi - Group Manager for Pensions & Payroll                                   |
|                                       | Katharine Nidd – Acting Director of Finance  |
| <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 (Fixed Income Unit Trust)  |
|                                       | HarbourVest (Venture Capital)  |
|                                       | J.P. Morgan (Infrastructure – Hedge Funding)   |
|                                       | Legal & General Investment Management (LGIM) (Venture Capital)                         |



|  |  |
|--|--|
|  | London Collective Investment Vehicle (LCIV) (Pooling)      |
|  | Partners Group (Venture Capital [private debt])            |
|  | Pemberton (Venture Capital [private debt])                 |
|  | Schroders (Property)                                       |
|  | Storebrand Global and Emerging Markets (Equity Unit Trust) |

## 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.



| Risk Management Stage                  | Description of Process  |
|--|---|
| <b>1. Risk Identification</b>          | <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> |
| <b>2. Risk Analysis and Evaluation</b> | <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>  |
| <b>3. Risk Response</b>                | <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>   |
| <b>4. Monitor and Review</b>           | <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 Pension Investment Committee and reviewed periodically to ensure that risks are updated and the relevant mitigations are put in place to manage them. The Local Pension Board (PB) is also expected to consider risk at their meetings, and reviews the authority risk management 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 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 a periodic audit to provide an opinion on the effectiveness of controls in place and to make recommendations to management on how to improve those controls. The findings of the 2020/21 internal audit were reported to the Pension Investment Committee in March 2022. The Fund achieving a limited assurance level and the recommendations from the audit included 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 any variances have been undertaken to ensure a that the procedure notes for calculating member pension benefits are kept up to date and regularly reviewed.
- 4.9. Internal Audit did not carry out an inspection in 2022/23 but will be reviewing the practices and procedures in 2023/24.

## C. FINANCIAL PERFORMANCE

4.10. The administration expenses and investment expenses are set out below:

|  | 2022/23<br>Actuals | 2021/22<br>Actuals | Year on Year<br>Variance |               |
|--|--------------------|--------------------|--------------------------|---------------|
|  | £'000              | £'000              | £'000                    | %             |
| <b>Administration Expenses</b>           | 862                | 1,161              | (299)                    | -25.8%        |
| <b>Oversight and Governance Expenses</b> | 525                | 420                | 105                      | 25.0%         |
|  | <b>1387</b>        | <b>1,581</b>       | <b>(194)</b>             | <b>-12.3%</b> |
| <b>Investment Management Expenses:</b>   |                    |                    |                          |               |
| Transaction Costs                        | 535                | 220                | 315                      | 143.2%        |
| Management Fees                          | 2,055              | 1,954              | 101                      | 5.1%          |
| Custody Fees                             | 140                | 112                | 28                       | 25.0%         |
|  | <b>2,730</b>       | <b>2,286</b>       | <b>444</b>               | <b>19.4%</b>  |
| <b>Total Expenses</b>                    | <b>4,117</b>       | <b>3,867</b>       | <b>250</b>               | <b>6.4%</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 increase in transaction costs in 2022/23 was the result of the sale of the Fund's passive equities out of Blackrock and UBS and into Storebrand Global ESG Plus funds and Storebrand Emerging Markets which, concluded in the third quarter of the financial year 2022/23.

## 5. INVESTMENT STRATEGY AND PERFORMANCE

### A. INVESTMENT STRATEGY

5.1. The Council's Investment Strategy Statement (ISS) was reviewed and updated in June 2023 and it sets out its approach to funding its liabilities in the Funding Strategy Statement (FSS). 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. The ISS and the FSS can be found at <http://www.lewishampensions.org/>

5.2. The ISS was updated and approved in June 2022, following detailed discussion and agreement with the Committee. The triennial valuation results have not necessitated material changes to the Fund's asset allocation and therefore to the ISS. The Committee has since developed and adopted a Responsible Investment Beliefs Statement which provides greater clarity and understanding of how the Committee beliefs support and underpin the Fund's ISS.

- 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 depositary 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. The Financial Reporting Council revised the UK Stewardship Code in 2020 and the code sets the expectations for investor's stewardship policy and practice.
- 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 2020 Code. 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  |
|------------------------|--|---|
| Purpose and Governance | 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. | 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. |
|                        | 2. Signatories' governance, resources and incentives support stewardship.  | 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.  |

| Category   | Code Principle  | Examples of Compliance  |
|--|---|---|
|  | <p>3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.</p> <p>4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.</p> <p>5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.</p>   | <p>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. 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>  |
| Investment Approach                                | <p>6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.</p> <p>7. Signatories systematically integrate stewardship and investment, including 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>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 has seen the Fund transition its equity holdings into low carbon ESG passive equities and pursue 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> |
| Engagement, Exercising Rights and Responsibilities | <p>9. Signatories engage with issuers to maintain or enhance the value of assets.</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</p>   |

| Category | Code Principle  | Examples of Compliance   |
|----------|---|--|
|          | 10. Signatories, where necessary, participate in collaborative engagement to influence issuers. | with asset managers and other stakeholders on the Fund's behalf.<br>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. |
|          | 11. Signatories, where necessary, escalate stewardship activities to influence issuers.         | 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.  |
|          | 12. Signatories actively exercise their rights and responsibilities.                            |  |

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.

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. 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 2023 approximately 60% of the Fund was invested in growth assets, 25% in income assets and 15% in protection assets including passive bonds and cash.

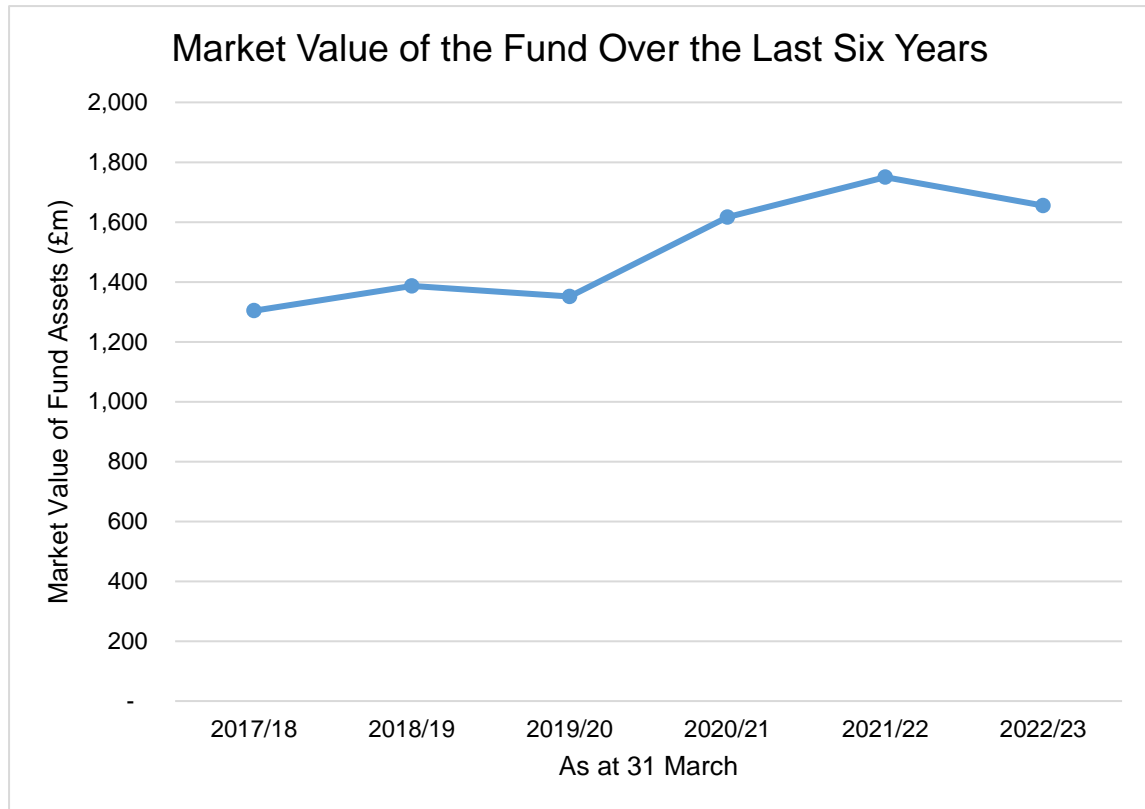


- 5.13. The Fund's asset allocation as at 31 March 2023 has nine active managers with six mandates, as below.

**D1. STRATEGIC ASSET ALLOCATION AT 31 MARCH 2023:**

| Mandate                            | 2022/23              |                           |                           | 2021/22                   |
|------------------------------------|----------------------|---------------------------|---------------------------|---------------------------|
|                                    | Asset Value<br>£'000 | Target<br>Allocation<br>% | Actual<br>Allocation<br>% | Actual<br>Allocation<br>% |
| Fixed Income and equity Unit Trust | 1,100,342            | 69.0                      | 66.4                      | 70.8                      |
| Property                           | 176,427              | 10.0                      | 10.7                      | 9.4                       |
| Infrastructure                     | 76,621               | 6.0                       | 4.6                       | 6.2                       |
| Private Equity                     | 160,127              | 5.0                       | 9.7                       | 5.7                       |
| Venture Capital (Private Debt)     | 57,367               | 4.0                       | 3.5                       | 4.2                       |
| Renewable Infrastructure           | 40,267               | 6.0                       | 2.4                       | 1.4                       |
| Cash and Net Current Assets        | 45,346               | 0.0                       | 2.7                       | 2.3                       |
| <b>Total</b>                       | <b>1,656,506</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 £1,275bn at 31 March 2017 to a high of £1,657bn at 31 March 2023. The Fund decreased by approximately £94m in 2022/23.



- 5.16. The annualised return of the Fund's investments over the last 12 months was -4.61%, which was 0.21% above 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 7.29%, which is approximately 0.66% above the benchmark return of 6.64% as depicted in the below table.

**D2. AGGREGATE FUND – COMPARATIVE PERFORMANCE:**

| As at 31 March 2023         | One Year<br>% | Three Year<br>% | Five Years<br>% |
|-----------------------------|---------------|-----------------|-----------------|
| <b>Fund Performance</b>     | (4.61)        | 7.29            | 5.46            |
| <b>Benchmark</b>            | (4.83)        | 6.64            | 5.16            |
| <b>Relative performance</b> | <b>0.21</b>   | <b>0.66</b>     | <b>0.29</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:

|                  |           | Blackrock                 | LCIV           | Schroders  | J.P. Morgan      | LCIV             | HarbourVest      | Partners Group    | Pemberton         | LGIM       | Storebrand Global Mkt | Storebrand Emerging Mkt | LCIV                       |
|------------------|-----------|---------------------------|----------------|------------|------------------|------------------|------------------|-------------------|-------------------|------------|-----------------------|-------------------------|----------------------------|
|                  |           | (Fixed Income Unit Trust) | (Private Debt) | (Property) | (Infrastructure) | (Passive Equity) | (Private Equity) | (Venture Capital) | (Venture Capital) | (Property) | (Equity Unit Trust)   | (Equity Unit Trust)     | (Renewable Infrastructure) |
|                  |           | %                         | %              | %          | %                | %                | %                | %                 | %                 | %          | %                     | %                       | %                          |
| 1 year           | Absolute  | (70.3)                    | 3.7            | (11.9)     | 10.8             | (1.6)            | (0.5)            | 6.0               | 6.4               | N/A        | N/A                   | N/A                     | 2.4                        |
|                  | Benchmark | (70.3)                    | 6.0            | (14.9)     | 7.0              | (1.7)            | 0.3              | 7.5               | 8.7               | N/A        | N/A                   | N/A                     | 6.0                        |
|                  | Relative  | 0.0                       | (2.3)          | 3.0        | 3.8              | 0.1              | (0.8)            | (1.5)             | (2.3)             | N/A        | N/A                   | N/A                     | (3.6)                      |
| 3 years          | Absolute  | (28.5)                    | N/A            | 3.1        | N/A              | N/A              | 19.9             | N/A               | N/A               | N/A        | N/A                   | N/A                     | N/A                        |
|                  | Benchmark | (28.7)                    | N/A            | 2.7        | N/A              | N/A              | 17.9             | N/A               | N/A               | N/A        | N/A                   | N/A                     | N/A                        |
|                  | Relative  | 0.2                       | N/A            | 0.4        | N/A              | N/A              | 2.0              | N/A               | N/A               | N/A        | N/A                   | N/A                     | N/A                        |
| Since Inception* | Absolute  | 6.6                       | 3.7            | 4.3        | 6.3              | (6.3)            | 11.8             | 4.3               | 6.0               | 6.2        | 6.0                   | (2.6)                   | 2.4                        |
|                  | Benchmark | 6.2                       | 6.0            | 5.0        | 7.0              | (6.6)            | 9.8              | 5.3               | 8.1               | 7.0        | 6.6                   | (5.2)                   | 6.0                        |
|                  | Relative  | 0.4                       | (2.3)          | (0.7)      | (0.7)            | (0.3)            | 2.0              | (1.0)             | (2.1)             | (0.8)      | (0.6)                 | 2.6                     | (3.6)                      |

\*Blackrock Nov 2012; LCIV Private Debt Jul 2022; Schroders Oct 2004; J.P. Morgan Jan 2019; LCIV Dec 2021; HarbourVest Dec 2006; Partners Group Apr 2018; Pemberton Jan 2018; LGIM Mar 2022; Storebrand Global May 2022; Storebrand Emerging Aug 2022; LCIV Renewable Oct 2021; LCIV Private Debt May 2022.

5.18. The table above shows that there has been a varied performance over time. It is to be noted that Blackrock and LCIV are all passive funds which track their composite benchmarks instead of actively trying to outperform them, and account for approximately 72% of the Fund. No other managers, apart from Schroders and Storebrand, accounts for more than 6% of the Fund, in line with their target allocations. Pemberton was a new fund in 2017/18, Partners Group and J.P. Morgan were new funds in 2018/19, LCIV and LGIM were new funds in 2021/22 and Storebrand was a new fund this year (2022/23), 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.

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

| Manager               | Mandate                  | Benchmark / Performance Target  |
|-----------------------|--------------------------|---|
| <b>BlackRock</b>      | Fixed Income Unit Trust  | iBoxx Sterling Non-Gilts Index; FTSE Actuaries UK Conventional Gilts over 5 or 15;  |
| <b>Schroders</b>      | Property                 | MSCI Pooled Property Fund Index   |
| <b>J.P. Morgan</b>    | Infrastructure           | Hurdle rate of 7% p.a. The fund targets a return of 8-12% per annum net of fees.  |
| <b>LCIV</b>           | Equity Unit trust        | The objective of the Fund is to track the performance of the S&P Developed Ex-Korea LargeMidCap Net-Zero 2050 Paris-Aligned ESG Index |
| <b>LCIV</b>           | Renewable Infrastructure | Hurdle rate of 7% p.a.  |
| <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> | Venture Capital          | The fund targets a return of SONIA +4-6% net of fees, with a 5% cash yield  |
| <b>Pemberton</b>      | Venture Capital          | Venture Capital The fund targets a return of SONIA +4-6% net of fees  |
| <b>LGIM</b>           | Property                 | UK Build To Rent Fund. Total return of 7-9% p.a. (net of fees)  |
| <b>Storebrand</b>     | Equity Unit Trust        | MSCI AC World Development Index and MSCI EM Index   |
| <b>LCIV</b>           | Private Debt             | 6-8% net IRR  |

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 2023 there were 26,863 members of the Fund; 6,846 of these were active, 11,493 deferred (undecided, deferred and frozen) and 8,524 retired. Besides the administering authority, the Fund also comprised 8 active scheduled bodies and 20 active admitted bodies.

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). Internal audit reviews the scheme's administration periodically as described in sections 4.8 and 4.9 of this report.

- 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.
- 6.4. The number of key administrative activities carried out in 2022/23 and across the previous four years are shown in the table below.

#### A1. KEY ADMINISTRATIVE ACTIVITIES:

|  | 2022/23      | 2021/22      | 2020/21      | 2019/20      | 2018/19      |
|--|--------------|--------------|--------------|--------------|--------------|
| New scheme members   | 1,054        | 279          | 638          | 1,072        | 1,181        |
| Estimate of benefits   | 840          | 901          | 794          | 1,393        | 1,839        |
| Responding to correspondence   | 3,380        | 1,143        | 1,714        | 1,472        | 557          |
| Deferred benefits  | 131          | 296          | 290          | 298          | 330          |
| Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme   | 575          | 390          | 335          | 420          | 304          |
| Retirements  | 425          | 381          | 322          | 410          | 410          |
| Death cases (with dependants)  | 90           | 368          | 376          | 292          | 264          |
| Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme | 344          | 418          | 335          | 262          | 247          |
| Additional contributions   | 29           | 23           | 25           | 50           | 46           |
| Refunds of contributions   | 172          | 266          | 170          | 434          | 507          |
| <b>Overall Performance</b>   | <b>7,040</b> | <b>4,465</b> | <b>4,999</b> | <b>6,103</b> | <b>5,685</b> |

- 6.5. The role of the pensions section in the administering authority during 2022/23 was carried out by 6.5 Full Time Equivalent (FTE) staff serving some 26,800 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:

| <b>FTE Staff:</b>             | 2022/23    | 2021/22    | 2020/21    | 2019/20    | 2018/19    |
|-------------------------------|------------|------------|------------|------------|------------|
| Lewisham                      | 8.5        | 7.5        | 7.5        | 7.5        | 7.5        |
| Made up of:                   |            |            |            |            |            |
| Work for other schemes        | 0          | (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>6.5</b> | <b>5.0</b> | <b>5.0</b> | <b>5.0</b> | <b>5.0</b> |

| <b>Scheme Membership:</b>  | 2022/23       | 2021/22       | 2020/21       | 2019/20       | 2018/19       |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Number of contributors     | 6,846         | 6,617         | 6,928         | 6,754         | 6,726         |
| Number of deferred members | 11,493        | 11,139        | 11,865        | 11,860        | 11,469        |
| Number of pensioners       | 8,524         | 8,339         | 8,089         | 8,024         | 7,779         |
| <b>Total</b>               | <b>26,863</b> | <b>26,095</b> | <b>26,882</b> | <b>26,638</b> | <b>25,964</b> |

| <b>Staff Performance:</b>        | <b>2022/23</b> | <b>2021/22</b> | <b>2020/21</b> | <b>2019/20</b> | <b>2018/19</b> |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Ratio of members to 1 FTE staff  | 4,133          | 5,228          | 5,376          | 5,328          | 5,193          |
| Transactions per member of staff | 1,083          | 893            | 1,000          | 1,221          | 1,137          |

- 6.6. The age profile of the membership calculated as at 31 March 2023 is show in the table below.

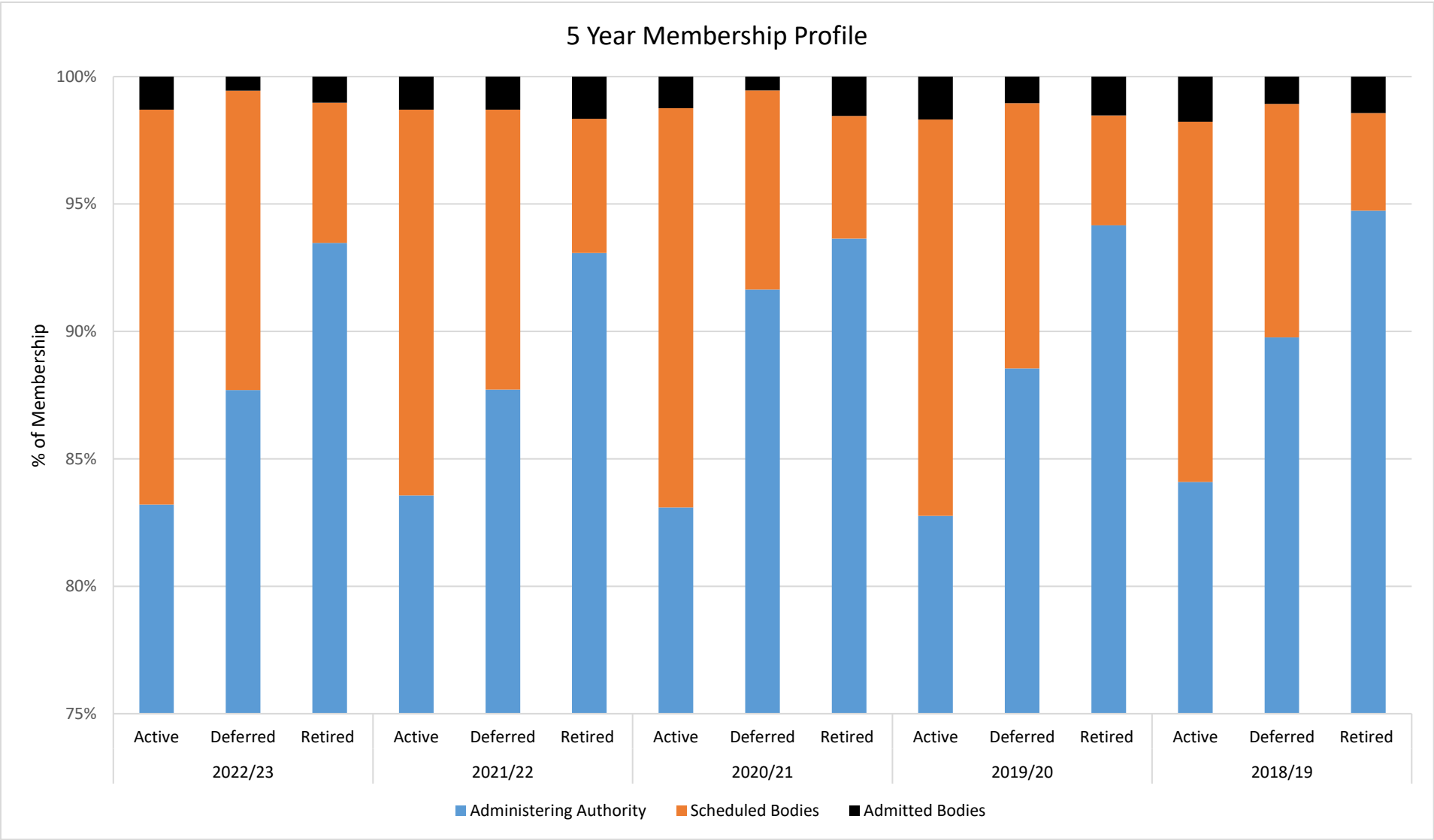
**A3. AGE PROFILE OF MEMBERSHIP:**

| <b>A</b>     | <b>Contributing</b> | <b>Deferred</b> | <b>Pensioners/<br/>Dependents</b> |
|--------------|---------------------|-----------------|-----------------------------------|
| 0-4          | 0                   | 0               | 2                                 |
| 5-9          | 0                   | 0               | 4                                 |
| 10-14        | 0                   | 0               | 12                                |
| 15-19        | 15                  | 0               | 30                                |
| 20-24        | 207                 | 6               | 11                                |
| 25-29        | 477                 | 82              | 3                                 |
| 30-34        | 560                 | 375             | 1                                 |
| 35-39        | 672                 | 651             | 5                                 |
| 40-44        | 759                 | 861             | 7                                 |
| 45-49        | 823                 | 899             | 16                                |
| 50-54        | 940                 | 1298            | 43                                |
| 55-59        | 1208                | 1746            | 372                               |
| 60-64        | 816                 | 1042            | 1366                              |
| 65-69        | 275                 | 244             | 1926                              |
| 70-74        | 46                  | 50              | 1649                              |
| 75-79        | 1                   | 12              | 1342                              |
| 80-84        | 0                   | 5               | 914                               |
| 85-89        | 0                   | 0               | 551                               |
| 90-94        | 0                   | 0               | 256                               |
| 95-99        | 0                   | 0               | 50                                |
| 100-104      | 0                   | 0               | 5                                 |
| <b>Total</b> | <b>6799</b>         | <b>7271*</b>    | <b>8565</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:**

|                                     | 2022/23       |                 |                | 2021/22       |                 |                | 2020/21       |               |               | 2019/20       |                 |                | 2018/19       |                 |                |
|-------------------------------------|---------------|-----------------|----------------|---------------|-----------------|----------------|---------------|---------------|---------------|---------------|-----------------|----------------|---------------|-----------------|----------------|
| <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>Active</b> | <b>Active</b> | <b>Active</b> | <b>Deferred</b> | <b>Retired</b> | <b>Active</b> | <b>Deferred</b> | <b>Retired</b> |
| Administering Authority             | 5,696         | 10,079          | 7,968          | 5,648         | 9,645           | 7,804          | 5,757         | 10,873        | 7,575         | 5,590         | 10,502          | 7,556          | 5,656         | 10,295          | 7,360          |
| Scheduled Bodies                    | 1,061         | 1,351           | 469            | 1,023         | 1,208           | 441            | 1,085         | 928           | 389           | 1,050         | 1,234           | 346            | 951           | 1,051           | 298            |
| Admitted Bodies                     | 89            | 63              | 87             | 88            | 143             | 139            | 86            | 64            | 125           | 114           | 124             | 122            | 119           | 123             | 111            |
| <b>Total</b>                        | <b>6,846</b>  | <b>11,493</b>   | <b>8,524</b>   | <b>6,759</b>  | <b>10,996</b>   | <b>8,384</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>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 (£)        | 142           | 24              | 16             | 164           | 29              | 19             | 121           | 20            | 15            | 114           | 19              | 14             | 90            | 15              | 11             |
| Investment Management Unit Cost (£) | 279           | 48              | 32             | 237           | 42              | 27             | 241           | 40            | 29            | 258           | 42              | 31             | 205           | 34              | 25             |
| <b>Total Unit Cost (£)</b>          | <b>421</b>    | <b>72</b>       | <b>48</b>      | <b>401</b>    | <b>70</b>       | <b>46</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>      |



- 6.8. A list of contributing employers and the amounts contributed by the employers in 2022/23 is shown below:

**A6. EMPLOYER CONTRIBUTIONS:**

| Employer                             | Contributions Paid<br>£'000 | Comments |
|--------------------------------------|-----------------------------|----------|
| <b>Administering Authority</b>       |                             |          |
| Lewisham Council                     | 32,680                      |          |
| <b>Scheduled Bodies</b>              |                             |          |
| Lewisham Homes                       | 3,769                       |          |
| Haberdashers' Aske's Knights Academy | 1,358                       |          |
| Christ The King Sixth Form College   | 477                         |          |
| St Matthew's Academy                 | 208                         |          |
| Childeric                            | 212                         |          |
| Tidemill Academy                     | 187                         |          |
| St George's                          | 66                          |          |
| Sedgehill Academy                    | 156                         |          |
| <b>Admitted Bodies</b>               |                             |          |
| Youth First Ltd                      | 114                         |          |
| Phoenix Agency Services              | 109                         |          |
| Phoenix                              | 126                         |          |
| KGB Cleaning                         | 42                          |          |
| CGL                                  | 62                          |          |
| Lewisham Music                       | 14                          |          |
| Change Grow Live                     | 14                          |          |
| NSL                                  | 0                           |          |
| Housing 21                           | 5                           |          |
| Zing                                 | 10                          |          |
| Pre-School Learning Alliance         | 4                           |          |
| Tower Services                       | 2                           |          |
| 3 C's Support                        | 0                           |          |
| Braybourne FS Ltd (Hatcham)          | 55                          |          |
| City West Services                   | 1                           |          |
| Greenwich Leisure Ltd (GLL)          | 6                           |          |
| Harrison Catering Hatcham            | 26                          |          |
| Harrison Catering Knights            | 12                          |          |
| M Group                              | 24                          |          |

- 6.9. 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.
- 6.10. 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<br/>£'000</b> | <b>% Returns Received by Due Date</b> |
|--------------------------------------|---|---------------------------------------|
| <b>Administering Authority</b>       |   |                                       |
| Lewisham Council                     | 42,621  | 100%                                  |
| <b>Scheduled Bodies</b>              |   |                                       |
| Lewisham Homes                       | 5,219   | 100%                                  |
| Haberdashers' Aske's Knights Academy | 1,698   | 100%                                  |
| Christ The King Sixth Form College   | 610   | 100%                                  |
| St Matthew's Academy                 | 278   | 100%                                  |
| Childeric                            | 266   | 58%                                   |
| Tidemill Academy                     | 243   | 100%                                  |
| St George's                          | 82  | 100%                                  |
| Sedgehill Academy                    | 186   | 100%                                  |
| <b>Admitted Bodies</b>               |   |                                       |
| Youth First Ltd                      | 148   | 100%                                  |
| Phoenix                              | 194   | 42%                                   |
| Phoenix Agency Services              | 146   | 33%                                   |
| KGB Cleaning                         | 53  | 58%                                   |
| CGL                                  | 75  | 100%                                  |
| Lewisham Music                       | 15  | 17%                                   |
| Change Grow Live                     | 19  | 100%                                  |
| NSL                                  | 1   | 100%                                  |
| 3 C's Support                        | 3   | 0%                                    |
| Braybourne FS Ltd (Hatcham)          | 73  | 67%                                   |
| Housing 21                           | 6   | 100%                                  |
| Zing                                 | 12  | 90%                                   |
| Pre-School Learning Alliance         | 5   | 100%                                  |
| Tower Services                       | 3   | 100%                                  |
| City West Services                   | 1   | 42%                                   |
| Greenwich Leisure Ltd (GLL)          | 7   | 100%                                  |
| Harrison Catering Hatcham            | 31  | 100%                                  |
| Harrison Catering Knights            | 14  | 100%                                  |
| M Group                              | 30  | 100%                                  |

- 6.11. 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 2022/23.

| <b>Benefits Payable</b> | <b>Employer</b>         | <b>Amount Payable</b> |
|-------------------------|-------------------------|-----------------------|
|                         |                         | <b>£'000</b>          |
| Pensions                | Administering Authority | 43,210                |
|                         | Scheduled Bodies        | 3,033                 |
|                         | Admitted Bodies         | 2,903                 |

|                                  |                         |       |
|----------------------------------|-------------------------|-------|
|                                  |                         |       |
| Lump Sums: Retirement Allowances | Administering Authority | 7,226 |
|                                  | Scheduled Bodies        | 1,582 |
|                                  | Admitted Bodies         | 300   |
|                                  |                         |       |
| Lump Sums: Death Grant           | Administering Authority | 1,045 |
|                                  | Scheduled Bodies        | 447   |
|                                  | Admitted Bodies         | 7     |

## **B. INTERNAL DISPUTE RESOLUTION PROCEDURE (IDRP)**

- 6.12. 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:
- 6.13. Stage one: the member's complaint is referred to the Acting Executive Director of Corporate Resources, who is nominated by the London Borough of Lewisham to act as an independent adjudicator. Any decision made must be given in writing.
- 6.14. If the member is dissatisfied with the stage one decision, they can take the matter to stage two of the IDRP.
- 6.15. Stage two: the stage one decision is reviewed by the Director of Law and Corporate Governance who is nominated by the London Borough of Lewisham to act as an independent referee.
- 6.16. 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.
- 6.17. 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).
- 6.18. The member has the right to refer the complaint to the The Pensions Ombudsman (TPO) free of charge. Before the complaint is put to the TPO the member should first have tried to resolve the complaint through the IDRP and consulted with TPAS. The TPO is completely independent and acts as an impartial adjudicator. Its role and powers have been decided by Parliament. The TPO cannot investigate matters where legal proceedings have already started but, subject to that, he can settle disputes about matters of fact or law as they affect occupational pension schemes.
- 6.19. Lewisham Pension Fund had one IDRP case in 2022/23, 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 2022, 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 97% funded; this represents an increase of 7% in the funding level since the last valuation in 2019, from 90% funded.
- 7.3. The 2022 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 2022/23 through to 2023/24, 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 22.0% for 2022/23, which will be reviewed each year for the next three years.
- 7.5. The next triennial valuation will take place as at March 2025 but the final results are not expected before December 2025.

## **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 Acting 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 2022/23. Note four meetings are scheduled in each financial year and each Councillor has one vote with the Chair having the casting vote.

| <b>Member</b>              | <b>14 June 2022</b> | <b>6 Sept 2022</b> | <b>8 Nov 2022</b> | <b>9 Feb 2023</b> |
|----------------------------|---------------------|--------------------|-------------------|-------------------|
| Cllr. Eiles – Chair        | ✓                   | ✓                  | ✓                 | ✓                 |
| Cllr. Ingleby – Vice Chair | ✓                   | ✓                  | ✓                 | ✓                 |
| Cllr. Anifowose            | ✓                   | ✓                  | Apologies         | ✓                 |
| Cllr. Best                 | ✓                   | ✓                  | ✓                 | ✓                 |
| Cllr. Royston              | ✓                   | ✓                  | ✓                 | ✓                 |
| Cllr. Jackson              | ✓                   | ✓                  | ✓                 | ✓                 |
| Cllr. Krupski              | ✓                   | ✓                  |                   | ✓                 |
| Cllr. Muldoon              | ✓                   | ✓                  | ✓                 | ✓                 |

## **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. Member of the Board are encouraged to complete the Pension Regulator's Toolkit. This is an online modular training facility which breaks the LGPS pension requirements into various pension's subject areas.
- 8.10. During 2022/23 Members notified officers of their attendance at the following training sessions and events:

| Date       | Description   | Provider   | Members  |
|------------|---|------------|--|
| 14/06/2022 | Review of the Quarterly Investment Report   | Hymans     | Cllr Eiles (Chair),<br>Cllrr Ingleby (Vice-Chair),<br>Cllr Anifowose<br>Cllr Best<br>Cllr Jackson<br>Cllr Krupski<br>Cllr Muldoon<br>Cllr Royston  |
| 06/09/2022 | London CIV Investment workshop on the LCIV Passive Equity Progressive Paris Aligned Fund and LCIV Renewable Infrastructure Fund | London CIV | Cllr Eiles (Chair),<br>Cllrr Ingleby (Vice-Chair),<br>Cllr Anifowose,<br>Cllr Best<br>Cllr Jackson<br>Cllr Krupski<br>Cllr Muldoon<br>Cllr Royston |
| 06/09/2022 | Review of the Quarterly Investment Report   | Hymans     | Cllr Eiles (Chair),<br>Cllrr Ingleby (Vice-Chair),<br>Cllr Anifowose<br>Cllr Best<br>Cllr Jackson<br>Cllr Krupski<br>Cllr Muldoon<br>Cllr Royston  |
| 08/11/2022 | Initial results of the 2022 valuation and Investment Strategy Review  | Hymans     | Cllr Eiles (Chair),<br>Cllrr Ingleby (Vice-Chair),<br>Cllr Anifowose<br>Cllr Best<br>Cllr Jackson<br>Cllr Krupski<br>Cllr Muldoon<br>Cllr Royston  |
| 08/11/2022 | Review of the Quarterly Investment Report   | Hymans     | Cllr Eiles (Chair),<br>Cllrr Ingleby (Vice-Chair),<br>Cllr Anifowose<br>Cllr Best<br>Cllr Jackson<br>Cllr Krupski<br>Cllr Muldoon<br>Cllr Royston  |

| Date       | Description   | Provider                         | Members   |
|------------|---|----------------------------------|---|
| 28/11/2022 | Training/ presentation by Hymans at Chairs'/ Vice Chairs'/ Officers ESG Group online Meeting on Impact Investing and Forestry/ Natural Capital Investing  | Hymans                           | Cllr Eiles (Chair),<br>Cllrr Ingleby (Vice-Chair),<br>Cllr Muldoon  |
| 25/01/2023 | Workshop by on TCFD & Net Zero issues   | Hymans                           | Cllr Eiles (Chair),<br>Cllrr Ingleby (Vice-Chair),<br>Cllr Best<br>Cllr Jackson<br>Cllr Krupski<br>Cllr Muldoon<br>Cllr Royston                   |
| 31/01/2023 | Storebrand Asset management – online Global Solutions update on passive equities.   | Storebrand                       | Cllr Muldoon  |
| 09/02/2023 | Review of the Quarterly Investment Report   | Hymans                           | Cllr Eiles (Chair),<br>Cllrr Ingleby (Vice-Chair),<br>Cllr Best<br>Cllr Jackson<br>Cllr Krupski<br>Cllr Muldoon<br>Cllr Royston                   |
| 09/02/2023 | Schroders presentation on Managing Lewisham mandate; ESG factors; Inflation; Retail; and mitigating risk.   | Schoders Investment Fund Manager | Cllr Eiles (Chair),<br>Cllrr Ingleby (Vice-Chair),<br>Cllr Best<br>Cllr Jackson<br>Cllr Krupski<br>Cllr Muldoon<br>Cllr Royston                   |
| 01/03/2023 | DG Publishing/ LGPS Live: Webinar on McCloud judgement and Incorporating Social Impact Objectives into Pension Fund Investment Strategies   |                                  | Cllr Muldoon  |
| 14/03/2023 | SPS Local Authority Pension Fund Investment Conference – Current Issues   |                                  | Cllr Muldoon  |
| Ongoing    | Each week Cllr Muldoon undertakes at least one hour's unstructured CPD when he reads Citywire publications on market conditions, investment reports and pensions news.  |                                  | Cllr Muldoon  |
| Ongoing    | Weekly reading Financial publications such as Institute of Directors Economic Update; Pensions Age emails; Mohamed El-Erian's posts on the economy; reading on LinkedIn; reading Money Mail and other financial publications. |                                  | Cllr Eiles (Chair),<br>Cllrr Ingleby (Vice-Chair),<br>Cllr Anifowose<br>Cllr Best<br>Cllr Jackson<br>Cllr Krupski<br>Cllr Muldoon<br>Cllr Royston |

8.11. 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.

- 8.12. 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.
- 8.13. 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.

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

### **A. INTRODUCTION**

- 9.1. The Pension Board is not decision-making body but does have a specific remit under The Public Service Pensions Act 2013 to ensure that pension funds meet all relevant legal requirements.
- 9.2. The Pension 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.
- 9.3. The Pension Board met four times in 2022/23 and has planned quarterly meetings in 2023/24. 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;
  - Reviewing the strategies and other reporting requirements to meet the administering authority's compliance with legislation and best practice. The Board has agreed its own work programme and plans to review this at each meeting; 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?CId=353&Year=0> and on the Fund's website at the following link:

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

### **B. MEMBERSHIP OF THE BOARD**

- 9.4. The Board consists of five members; two employer representatives, two scheme (member) representatives, and an Independent Chair. Since 1 April 2022 one new members has be appointed to the board.



| Name                      | Capacity                       | Role   | Meetings attended in 2022/23 |
|---------------------------|--------------------------------|--|------------------------------|
| Stephen Warren            | Independent Chair (Non-Voting) |  | 4/4                          |
| Rowann Limond             | Employer Representative        | Director of Finance and Technology, Lewisham Homes | 3/4                          |
| Salena Mulhere            | Employer Representative        | Assistant Chief Executive                          | 3/3                          |
| Sherene Russell-Alexander | Employer Representative        | Director of People and Organisational Development  | 1/1                          |
| Mark Adu-Brobbe           | Scheme Representative          | Programme Manager - Together Lewisham              | 4/4                          |
| Gary Cummins              | Scheme Representative          | Housing Partnership and Contract Manager           | 3/4                          |

## C. KNOWLEDGE AND UNDERSTANDING

- 9.5. Member of the Board are encouraged to complete the Pension Regulator's Toolkit. This is an online modular training facility which breaks the Pension requirements into various pension's subject areas. Relevant training via attendance at external events is made available to members of the Board, officers also schedule relevant training sessions and a record of training for each member is maintained.

## D. WORK PROGRAMME FOR THE FUTURE

- 9.6. The Board has agreed that:

- It will schedule four meetings a year;
- It will structure its workplan to ensure that there are regular reviews of all relevant Pension Fund policies and procedures in place such that these continue to comply with relevant legislation and Codes of Practice issued by the Pensions Regulator;
- It will monitor the implementation of the action plan prepared in response external review commissioned to measure the Fund's compliance to the Pension Regulator's Code of Practice and the Local Government Pension Scheme Advisory Board's guidance;
- It will receive and review the administering authority's risk register and risk management policy for the Fund; and,
- It will evaluate the robustness of the administering authority's arrangements for obtaining assurance about the operation of pooled funds, specifically the London CIV, the collective investment vehicle for London Local Authorities' Pension Funds, as the Fund's levels of pooled investments has increased in recent years.

## 10. ASSET POOLING

### A. FINANCIAL YEAR 2021/22

- 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.
- 10.3. As at 31 March 2023 the Fund has invested into three funds with LCIV £505m invested into Passive Equity Progressive Paris Aligned Fund (PEPPA), £40m invested into the LCIV Renewable Infrastructure Fund and £59m invested into LCIV Private Debt Fund.
- 10.4. The Fund is committed to the principles of pooling and to the transitioning of assets to the LCIV or another LGPS pool. However, the nature of the LCIV's setup in its first few years meant the funds it had created and established had been of little interest to Lewisham, or incompatible with our strategy. The establishment of PEPPA and the Renewable Infrastructure Fund and the new Private Debt Fund has increased the levels of funds pooled in 2022/23 and Fund officers and Members maintain a close relationship with the LCIV, and the PIC considers pooling obligations in all investment decisions.
- 10.5. 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**

- 10.6. In respect of asset pooling, it is noted that at the time of writing the annual report (September 2023) the Fund had increased its investment to £36m into the LCIV Renewable Infrastructure Fund of the commitment of £90m and an investment of £56m, of the commitment of £85m into the LCIV Private Debt Fund.

## **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 2021/22, were approved by Council on XXXXX 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 June 2023 and it can be found on the Fund's website at the following link: [www.lewishampensions.org/resources](http://www.lewishampensions.org/resources) The Funding Strategy is updated after each Triennial Valuation so the new funding strategy it will be effective from April 2023.

- 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 2022 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 2022 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 (%/£) |                          |                          |
|--------------------------------------|-------------------------------|--------------------------|--------------------------|
|                                      | 2023/24                       | 2024/25                  | 2025/26                  |
| LB Lewisham                          | 17.6% plus up to £5.750m      | 17.6% plus up to £5.750m | 17.6% plus up to £5.750m |
| Haberdashers' Aske's Knights Academy | 20.1%                         | 19.8%                    | 19.8%                    |
| Christ The King Sixth Form College   | 21.4%                         | 21.4%                    | 21.4%                    |
| 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                            | 24.6%                         | 25.6%                    | 26.4%                    |
| St George's                          | 23.7%                         | 23.7%                    | 23.7%                    |

| Employer/Pool Name                   | Total Contribution Rate (%/£) |         |         |
|--------------------------------------|-------------------------------|---------|---------|
|                                      | 2023/24                       | 2024/25 | 2025/26 |
| Sedgehill Academy                    | 33.4%                         | 33.4%   | 33.4%   |
| NSL                                  | 0.0%                          | 0.0%    | 0.0%    |
| Phoenix                              | 16.2%                         | 16.2%   | 16.2%   |
| 3 C's Support                        | 0.0%                          | 0.0%    | 0.0%    |
| Pre-School Learning Alliance         | 0.0%                          | 0.0%    | 0.0%    |
| Change Grow Live Ltd (2014)          | 18.0%                         | 18.0%   | 18.0%   |
| Inspace (Phoenix 2 formerly Wilmott) | 16.2%                         | 15.9%   | 15.5%   |
| Lewisham Music                       | 0.0%                          | 0.0%    | 0.0%    |
| City West                            | 33.7%                         | 32.7%   | 31.7%   |
| Change Grow Live Ltd (2017)          | 31.2%                         | 30.2%   | 29.2%   |
| Greenwich Leisure Limited            | 29.2%                         | 28.8%   | 28.8%   |
| Kier Housing                         | 29.8%                         | 29.8%   | 29.8%   |
| M Group                              | 25.6%                         | 25.6%   | 25.6%   |
| KGB Cleaning South West Ltd          | 25.0%                         | 25.0%   | 25.0%   |
| Youth First                          | 23.2%                         | 23.2%   | 23.2%   |
| Harrison Catering Knights            | 30.4%                         | 30.4%   | 30.4%   |
| Harrison Catering Crayford           | 30.4%                         | 30.4%   | 30.4%   |
| Harrison Catering Hatchams           | 30.4%                         | 30.4%   | 30.4%   |

## 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 The latest ISS for the Fund as at June 2023, 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 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 is provided to members, their representatives, prospective members, employers (including admitted and scheduled bodies), the Pension Investment Committee, the Pension Board and to other bodies.
- 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

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

15.3 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 |
|-------------------------|--------|--------|
| <b>Scheduled Bodies</b> | 8      | 1      |
| <b>Admitted Bodies</b>  | 20     | 2      |
| <b>Total</b>            | 28     | 3      |

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

| Asset Class                    | UK<br>£m | Non-UK<br>£m | Total<br>£m |
|--------------------------------|----------|--------------|-------------|
| <b>Equity Unit Trust</b>       | 504      | 366          | 870         |
| <b>Fixed Income Unit Trust</b> | 153      | 97           | 250         |
| <b>Property</b>                | 121      | 0            | 121         |

|                           |              |            |              |
|---------------------------|--------------|------------|--------------|
| <b>Private Equity</b>     | 162          | 117        | 279          |
| <b>Multi-Asset Credit</b> | 0            | 76         | 76           |
| <b>Cash</b>               | 58           | 0          | 58           |
| <b>Net Current Assets</b> | 3            | 0          | 3            |
| <b>Total</b>              | <b>1,001</b> | <b>656</b> | <b>1,657</b> |

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

| <b>Asset Class</b>              | <b>UK<br/>£000</b> | <b>Non-UK<br/>£000</b> | <b>Total<br/>£000</b> |
|---------------------------------|--------------------|------------------------|-----------------------|
| <b>Equity Unit Trust</b>        | 393                | 663                    | 1,056                 |
| <b>Fixed Income Unit Trusts</b> | 6                  | 5,708                  | 5,714                 |
| <b>Property</b>                 | 4,398              | 0                      | 4,398                 |
| <b>Alternatives</b>             | 3,480              | 2,677                  | 6,157                 |
| <b>Cash</b>                     | 691                | 140                    | 831                   |
| <b>Total</b>                    | <b>8,968</b>       | <b>9,188</b>           | <b>18,156</b>         |

## 16. INDEPENDENT AUDITOR'S CONSISTENCY REPORT

- 16.1 The Pension Fund annual report currently does not include an external auditor's consistency report with opinion which refers to that given on the statement of accounts, as they are yet to be signed off.
- 16.2 The report will be republished once the external auditor have issued an opinion on the main council's statement of accounts.

## 17. GOVERNANCE COMPLIANCE STATEMENT

- 17.1 Regulation 55 of the Local Government Pension Scheme regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund's governance arrangements. It should outline the extent of the Fund's compliance with guidance issued by the Department of Levelling Up, Housing and Communities (DLUHC) and review that statement on an ongoing basis.
- 17.2 This statement sets out the Fund's Governance Structure, scheme of delegation, and the terms of reference for its Governing Bodies, the Pensions Committee and the Local Pensions Board and can be found on the Lewisham Pension fund's website.
- 17.3 The Fund fully complies with the best practice guidelines on governance, issued by (DLUHC). For details, see the table below.

| Principle  | Fully Compliant |
|--|-----------------|
| <b>A - Structure</b>   |                 |
| The Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.  | ✓               |
| That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.  | ✓               |
| That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.  | ✓               |
| That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.   | N/A             |
| <b>B - Representation</b>  |                 |
| That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee (the Local Pensions Board) structure. These include: <ul style="list-style-type: none"> <li>• Employing authorities (including non-scheme employers (e.g. admitted bodies))</li> <li>• Scheme members (including deferred and pensioner scheme members)</li> <li>• Independent professional observers (where appropriate)</li> <li>• Expert advisers (on an ad hoc basis)</li> </ul> | ✓               |
| That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.   | ✓               |
| <b>Selection and Role of Lay Members</b>   |                 |
| That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.  | ✓               |
| That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.  | ✓               |
| <b>Voting</b>  |                 |
| The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.   | ✓               |
| <b>Training/Facility Time/Expenses</b>   |                 |
| That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.   | ✓               |

|  |   |
|--|---|
| That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form or secondary forum.  | ✓ |
| <b>Meetings</b>  |   |
| That the administering authority's main committee or committees meet at least quarterly.   | ✓ |
| That an administering authority's secondary committee or panel meet at least once a year and is synchronised with the dates when the main committee sits.  | ✓ |
| That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders be represented.  | ✓ |
| <b>Access</b>  |   |
| That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.               | ✓ |
| <b>Scope</b>   |   |
| That administering authorities have taken steps to bring the wider scheme issues within the scope of their governance arrangements.  | ✓ |
| <b>Publicity</b>   |   |
| That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | ✓ |



## **SECTION 8 – 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 2023.

The Pension Fund's value decreased over the year by £95m (5%), £1.750bn to £1.657bn. The Fund value of the fund decreased due to the changes in global markets mainly caused by the war in Ukraine, high inflation, the Bank of England policy on interest rates, consumer spending and the reduction in treasury values.

### **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 consider the PIC's views on environmental, social and governance (ESG) factors. Details of the ESG factors 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/resources/](http://www.lewishampensions.org/resources/)

## Pension Fund Accounts

## FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2023

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

|   | 2022/23          | 2021/22          | See<br>note |
|---|------------------|------------------|-------------|
|   | £000             | £000             |             |
| <b><u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS</u></b>                         |                  |                  |             |
| <b><u>DIRECTLY INVOLVED WITH THE SCHEME</u></b>                                   |                  |                  |             |
| <b>Contributions Receivable:</b>  |                  |                  |             |
| - from Employers  | 39,739           | 37,341           | 5           |
| - from Employees  | 12,300           | 11,120           | 5           |
| Transfer Values In  | 10,103           | 8,096            |             |
| Other Income  | 84               | 37               |             |
| <b>Sub-Total: Income</b>  | <b>62,226</b>    | <b>56,594</b>    |             |
| <b>Benefits Payable:</b>  |                  |                  |             |
| - Pensions  | 49,145           | 46,942           | 6           |
| - Lump Sums: Retirement allowances  | 9,108            | 9,891            | 6           |
| - Lump Sums: Death grants   | 1,498            | 1,310            | 6           |
| <b>Payments to and on account of leavers:</b>                                     |                  |                  |             |
| - Refunds of Contributions  | 30               | 105              |             |
| - Transfer Values Out   | 6,375            | 5,515            |             |
| <b>Sub-Total: Expenses</b>  | <b>66,156</b>    | <b>63,763</b>    |             |
| <b>Sub-Total: Net Additions/ (Withdrawals) from dealings with members</b>         | <b>(3,930)</b>   | <b>(7,169)</b>   |             |
| Management Expenses   | (4,117)          | (3,867)          | 7           |
| <b>Sub-Total: Net (Additions)/ Withdrawals including fund management expenses</b> | <b>(8,047)</b>   | <b>(11,036)</b>  |             |
| <b><u>RETURNS ON INVESTMENTS</u></b>  |                  |                  |             |
| Investment Income   | 18,156           | 18,776           | 9           |
| Change in market value of investments (Realised & Unrealised)                     | (103,693)        | 125,203          | 14b         |
| Taxes on Income   | (193)            | (9)              |             |
| <b>Total Net Returns on Investments</b>   | <b>(89,847)</b>  | <b>143,970</b>   |             |
| <b>NET INCREASE / (DECREASE) IN THE FUND DURING YEAR</b>                          | <b>(93,777)</b>  | <b>132,934</b>   |             |
| <b>OPENING NET ASSETS OF THE FUND</b>   | <b>1,750,283</b> | <b>1,617,349</b> |             |
| <b>CLOSING NET ASSETS OF THE FUND</b>   | <b>1,656,506</b> | <b>1,750,283</b> |             |

## Pension Fund Accounts

## NET ASSETS STATEMENT AS AT 31 MARCH 2023

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2023.

|  | 31/03/23         | 31/03/22         | See<br>note |
|--|------------------|------------------|-------------|
|  | £000             | £000             |             |
| <b>INVESTMENT ASSETS</b>                   |                  |                  |             |
| <b>Equities</b>                            |                  |                  |             |
| Equities                                   | 0                | 107,822          | 10 - 14     |
| <b>Managed Funds</b>                       |                  |                  |             |
| Pooled Property Investments                | 120,409          | 147,265          | 10 - 14     |
| Equity Unit Trust                          | 870,481          | 832,033          | 10 - 14     |
| Fixed Income Unit Trust                    | 249,606          | 212,999          | 10 - 14     |
| Index Linked                               | 0                | 112,882          | 10 - 14     |
| Venture capital                            | 278,574          | 172,834          | 10 - 14     |
| Hedge Funds                                | 76,617           | 71,610           | 10 - 14     |
| <b>Total Investment Funds</b>              | <b>1,595,687</b> | <b>1,657,385</b> |             |
| <b>Cash Held with Custodian</b>            | <b>58,448</b>    | <b>92,992</b>    | 18          |
| <b>Other Investment Balances (debtors)</b> | <b>241</b>       | <b>42</b>        | 17a         |
| <b>TOTAL INVESTMENTS</b>                   | <b>1,654,376</b> | <b>1,750,419</b> |             |
| Current Assets                             | 4,855            | 2,100            | 17b         |
| Current Liabilities                        | (2,725)          | (2,236)          | 17b         |
| <b>TOTAL NET ASSETS</b>                    | <b>1,656,506</b> | <b>1,750,283</b> |             |

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2023. This liability is included within the Authority's balance sheet.

## NOTES TO THE PENSION FUND ACCOUNTS

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

The Statement of Accounts summarise the Fund's transactions for 2022/23 and its position at year end and as at 31st March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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 and Practices

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ('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.

#### Accounting Policies

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. Unlisted equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing

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**Pension Fund Accounts**


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policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.

- (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) **Equities:** Equities are valued at published market prices.
- (d) **Bonds:** Bonds are valued at the published bid market price on the final day of the accounting period.
- (e) **Pooled Investments - Equity Unit Trusts and market quoted investments;** are valued at published bid market prices on the final day of the accounting period.
- (f) **Pooled Investments - UK Fixed Income Managed Funds;** are valued at the average of broker prices.
- (g) **Pooled Investments – Hedge Funds;** are valued by the investing managers on a fair value basis each year using PRAG guidance.
- (h) **Pooled Property Investments:** The Property Funds do not have any direct investments in property but use property Fund managers to invest in pooled property/unit trust funds. 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).
- (i) **Venture Capital: The Private Equity and Private Debt;** 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.
- (j) **Hedge Funds:** Hedge Funds are valued by investing managers on a fair value basis using PRAG guidance.
- (k) **Fixed Income Unit Trust: Fixed income earned from fixed income unit trusts. Interest income is recognised in the Fund as it accrues.**
- (l) **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 2022 the employee contribution bands (revised annually in line with inflation) for the administering authority are as follows:

| Pensionable Pay for the Post | Contribution Rates 2022/23 |               |
|------------------------------|----------------------------|---------------|
|                              | Main Section               | 50/50 Section |
| Up to £15,000                | 5.50%                      | 2.75%         |
| £15,001 to £23,600           | 5.80%                      | 2.90%         |
| £23,601 to £38,300           | 6.50%                      | 3.25%         |
| £38,301 to £48,500           | 6.80%                      | 3.40%         |
| £48,501 to £67,900           | 8.50%                      | 4.25%         |
| £67,901 to £96,200           | 9.90%                      | 4.95%         |
| £96,201 to £113,400          | 10.50%                     | 5.25%         |
| £113,401 to £170,100         | 11.40%                     | 5.70%         |
| More than £170,101           | 12.50%                     | 6.25%         |

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**Pension Fund Accounts**


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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 2022/23 is 22.5%, unchanged from 2019/20.*

- (m) **Benefits** – Benefits payable are made up of pension payments and lump sums payable to members of the Fund upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.
- (n) **Transfer Values** – Transfer values are those sums paid to, or received from, other pension schemes relating to periods of previous pensionable employment. Transfer values are calculated in accordance with the Local Government Pension Scheme Regulations and have been brought into the accounts on a cash basis.
- (o) **Taxation** – The Fund is a registered public service scheme under section (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.
- (p) **VAT** – By virtue of Lewisham Council being the administering authority, VAT input tax is recoverable on Fund activities. Any irrecoverable VAT is accounted for as an expense.
- (q) **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 19).

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund. Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2022 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. The assumptions used are based on the average future life expectancies at age 65.

- (r) **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. All investment management expenses are accounted for on an accruals' basis. The Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance.
- (s) **Foreign currency**: Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
  - Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
  - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
  - Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.

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**Pension Fund Accounts**


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- (t) **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 21.
- (u) **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
- (v) **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 23.

**Practices**

- (w) **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 2022. Some of the financial assumptions made, with comparison to the previous valuation, are presented in the table below:

| Financial Assumption   | March 2022 (%) | March 2019 (%) |
|------------------------|----------------|----------------|
| Discount Rate          | 3.6            | 3.5            |
| Price Inflation (CPI*) | 2.7            | 2.3            |
| Pay Increases          | 3.7            | 3.0            |
| Benefit Increase       | 2.7            | 2.3            |
| CARE Revaluation       | 2.7            | 2.3            |
| Expenses               | 0.9            | 0.7            |

\* Consumer Price Index

With effect from 1 April 2023 to 31 March 2026, the actuarial review carried out for 31 March 2022 resulted in the Council's employer contribution rate being set at 22.0%.

The most recent triennial valuation as at the 31 March 2022 revealed that the Fund's assets, which at 31 March 2022 were valued at £1.750bn, were sufficient to meet 97% (90% in 2019) of the past service liabilities valued at £1.804bn (£1.541bn in 2019) accrued up to that date. The resulting deficit as at the 2022 valuation was £56m (£154m in 2019).

## Pension Fund Accounts

**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 2022/23.

**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:

| Item  | Uncertainties  | Effect if actual results differ from assumptions  |
|---|--|---|
| Actuarial present value of promised retirement benefits (Note 19) | 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. 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 0.1% increase or decrease in the discount rate assumption is estimated to increase or reduce the present value of the pension liability by £24.3m.  |
| Property valuations   | Valuation techniques are used to determine the carrying values of freehold and leasehold property directly held by some fund managers. 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 2022/23, assuming all other variables such as foreign exchange rates and interest rates remain the same, is estimated to be 7.7%. This would be an increase or decrease in the value of property investments by £9.2m, on a fair value of £120m. |
| Venture Capital - private equity / infrastructure                 | Private equity investments are valued at fair value in accordance with British Private Equity and Venture Capital Association guidelines. These investments are not publicly listed and as such, there is a degree of estimation involved in the valuation.  | The venture capital investment in the financial statements is £277.4m. There is a risk that this investment may be under or overstated in the accounts and is estimated to be 11.8%. This would be an increase or decrease in the value of venture capital investments by £32.7m, on a fair value of £277.4m.   |



## Pension Fund Accounts

**Note 5: Contributions Receivable**

|                               | 2022/23<br>£000 | 2021/22<br>£000 |
|-------------------------------|-----------------|-----------------|
| <b>Employer Contributions</b> |                 |                 |
| Administering Authority       | (32,680)        | (30,351)        |
| Scheduled Bodies              | (6,433)         | (6,436)         |
| Admitted Bodies               | (626)           | (554)           |
|                               | <b>(39,739)</b> | <b>(37,341)</b> |
| <b>Employee Contributions</b> |                 |                 |
| Administering Authority       | (9,941)         | (8,797)         |
| Scheduled Bodies              | (2,149)         | (2,141)         |
| Admitted Bodies               | (210)           | (182)           |
|                               | <b>(12,300)</b> | <b>(11,120)</b> |

Contributions receivable from employers are shown below:

|                               | 2022/23<br>£000 | 2021/22<br>£000 |
|-------------------------------|-----------------|-----------------|
| <b>Employer Contributions</b> |                 |                 |
| Normal                        | (37,962)        | (35,548)        |
| Early Retirement Strain       | (1,607)         | (1,623)         |
| Deficit Funding               | (170)           | (170)           |
|                               | <b>(39,739)</b> | <b>(37,341)</b> |

**Note 6: Benefits Payable**By Category

|  | 2022/23<br>£000 | 2021/22<br>£000 |
|--|-----------------|-----------------|
| Pensions                                     | 49,145          | 46,942          |
| Commutation and Lump Sum Retirement Benefits | 9,108           | 9,891           |
| Lump Sum Death Grants                        | 1,498           | 1,310           |
|  | <b>59,751</b>   | <b>58,143</b>   |

By Authority

|                         | 2022/23<br>£000 | 2021/22<br>£000 |
|-------------------------|-----------------|-----------------|
| Administering Authority | 51,480          | 52,190          |
| Scheduled Bodies        | 5,062           | 4,344           |
| Admitted Bodies         | 3,209           | 1,609           |
|                         | <b>59,751</b>   | <b>58,143</b>   |

## Pension Fund Accounts

**Note 7: Management Expenses**

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

|  | 2022/23<br>£000 | 2021/22<br>£000 |
|--|-----------------|-----------------|
| Administration Expenses                | 862             | 1,161           |
| Oversight and Governance Expenses      | 525             | 420             |
| <u>Investment Management Expenses:</u> |                 |                 |
| - Transaction Costs                    | 535             | 220             |
| - Management Fees                      | 2,055           | 1,954           |
| - Performance Fees                     | 0               | 0               |
| - Custody Fees                         | 140             | 112             |
|  | <b>4,117</b>    | <b>3,867</b>    |

**Note 8: External Audit Costs**

|                         | 2022/23<br>£000 | 2021/22<br>£000 |
|-------------------------|-----------------|-----------------|
| External Audit Services | 49              | 62*             |
| <b>Total</b>            | <b>49</b>       | <b>62</b>       |

\* this includes £24k additional fees for the 2020/21 audit

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:

|   | 2022/23<br>£000 | 2021/22<br>£000 |
|---|-----------------|-----------------|
| Cash  | (831)           | 27              |
| Bonds   | 0               | (483)           |
| Equities  | (985)           | (483)           |
| Pooled property investments,                            | (4,860)         | (3,941)         |
| Pooled investments (fixed income and equity unit trusts |                 |                 |
| and hedge funds)  | (8,474)         | (7,572)         |
| Venture Capital   | (3,006)         | (6,324)         |
|   | <b>(18,156)</b> | <b>(18,776)</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 2023.

| Fund Manager                                   | Investment Asset                    | Asset Value<br>31 March<br>2023<br>£000 | Proportion of<br>the Fund<br>31 March<br>2023<br>% | Asset Value<br>31 March<br>2022<br>£000 |
|--|-------------------------------------|---|--|---|
| <b>LCIV - PEPPA</b>                            | Equity Unit Trust                   | 504,922                                 | 30.5   | 459,186                                 |
| <b>Storebrand<br/>Global ESG</b>               | Equity Unit Trust                   | 271,627                                 | 16.4   | 0                                       |
| <b>Blackrock</b>                               | Fixed Income Unit Trust             | 249,606                                 | 15.1   | 368,683                                 |
| <b>Schroders<br/>Property</b>                  | Property                            | 131,970                                 | 8.0  | 153,961                                 |
| <b>HarbourVest</b>                             | Venture Capital                     | 100,915                                 | 6.1  | 124,224                                 |
| <b>J.P. Morgan</b>                             | Hedge Funds                         | 76,621                                  | 4.6  | 86,561                                  |
| <b>Storebrand<br/>Emerging<br/>Markets</b>     | Equity Unit Trust                   | 74,186                                  | 4.5  | 0                                       |
| <b>LCIV – Private<br/>Debt</b>                 | Venture Capital                     | 59,212                                  | 3.6  | 0                                       |
| <b>LGIM</b>                                    | Venture Capital                     | 44,457                                  | 2.7  | 9,910                                   |
| <b>LCIV –<br/>Renewable<br/>Infrastructure</b> | Venture Capital                     | 40,267                                  | 2.4  | 24,900                                  |
| <b>Pemberton</b>                               | Venture Capital                     | 39,544                                  | 2.4  | 40,632                                  |
| <b>Partners<br/>Group</b>                      | Venture Capital                     | 17,832                                  | 1.1  | 32,087                                  |
| <b>UBS</b>                                     | Equities and Equity Unit<br>Trust   | 0                                       | 0  | 409,857                                 |
| <b>Various<br/>Managers</b>                    | Cash and other Assets               | 43,216                                  | 2.7  | 40,418                                  |
| <b>Lewisham</b>                                | Net Current<br>Assets/(Liabilities) | 2,131                                   | 0.1  | (136)                                   |
| <b>Total Fund Assets</b>                       |                                     | <b>1,656,506</b>                        | <b>100.0%</b>                                      | <b>1,750,283</b>                        |

## Note 11: Investment Analysis

Individual Investment assets with a market value exceeding 5% of the total fund value as at 31 March 2023 are as follows:

|   |            | £000    | %    |
|---|------------|---------|------|
| Passive Equity Progressive Paris Aligned Fund       | LCIV       | 504,919 | 30.5 |
| Storebrand Global ESG Plus                          | Storebrand | 271,627 | 16.4 |
| Blackrock Fixed Income A                            | Blackrock  | 96,586  | 5.8  |
| Aquila Over 5 years Index Linked Blackrock Pensions | Blackrock  | 78,505  | 4.7  |
| BlackRock Pensions Aquila over 15 years             | Blackrock  | 74,143  | 4.5  |

## Pension Fund Accounts

Individual Investment assets with a market value exceeding 5% of the total fund value as at 31 March 2022 are as follows:

| Asset   | Manager   | 31 March 2022 |      |
|---|-----------|---------------|------|
|   |           | £000          | %    |
| Passive Equity Progressive Paris Aligned Fund | LCIV      | 459,186       | 26.2 |
| UBS Asset Management Fund                     | UBS       | 268,067       | 15.3 |
| Aquila Over 5 years Index Linked              | Blackrock | 112,822       | 6.5  |
| BlackRock Pensions Aquila over 15 years       | Blackrock | 107,950       | 6.2  |
| UBS Asset Management Life UK Equity Tracker   | UBS       | 107,821       | 6.2  |
| Blackrock Fixed Income A                      | UBS       | 105,493       | 6.0  |

## Note 12: Reconciliation in Movement in Investments

An analysis of investment movements in 2022/23 (includes cash, debtors and creditors) is set out below:

|  | Market Value as at 31/03/2022 | Purchases and derivative payments | Sales and capital receipts | Re-Classification | Change in Market Value during the year | Market Value as at 31/03/2023 |
|--|-------------------------------|-----------------------------------|----------------------------|-------------------|--|-------------------------------|
|  | £000                          | £000                              | £000                       | £000              | £000                                   | £000                          |
| Bonds                                      | 112,822                       | 0                                 | 0                          | (97,940)          | (14,882)                               | 0                             |
| Equities                                   | 107,822                       | 145,362                           | (181,831)                  |                   | (71,353)                               | 0                             |
| Fixed Income Unit Trust                    | 212,999                       | 0                                 | (174)                      | 97,940            | (61,159)                               | 249,606                       |
| Equity unit trust                          | 832,033                       | 82,467                            | (86,434)                   |                   | 42,416                                 | 870,482                       |
| Hedge fund                                 | 71,610                        | 77                                | (2,396)                    |                   | 7,326                                  | 76,617                        |
| Pooled property Investments                | 147,265                       | 6,141                             | (9,450)                    |                   | (23,547)                               | 120,409                       |
| Venture capital                            | 172,834                       | 124,617                           | (33,499)                   |                   | 14,620                                 | 278,572                       |
|  | <b>1,657,385</b>              | <b>358,664</b>                    | <b>(313,784)</b>           | <b>0</b>          | <b>(106,579)</b>                       | <b>1,595,686</b>              |
| Derivative contracts:                      |                               |                                   |                            |                   |  |                               |
| Forward currency contracts                 | 0                             | 0                                 | (0)                        |                   | 0                                      | 0                             |
| <b>Sub-total</b>                           | <b>1,657,385</b>              | <b>358,664</b>                    | <b>(313,784)</b>           | <b>0</b>          | <b>(106,579)</b>                       | <b>1,595,686</b>              |
| Cash deposits                              | 92,992                        |                                   |                            |                   | 3,154                                  | 58,448                        |
| Amount receivable for sales of investments | 0                             |                                   |                            |                   | 0                                      | 0                             |
| Investment income due                      | 42                            |                                   |                            |                   | 0                                      | 241                           |
| Spot FX contracts                          | 0                             |                                   |                            |                   | (268)                                  | 0                             |
| Amounts payable for purchases of Invs      | 0                             |                                   |                            |                   | 0                                      | 0                             |
| Other investment balances                  | (136)                         |                                   |                            |                   |  | 2,131                         |
| <b>Total</b>                               | <b>1,750,283</b>              |                                   |                            |                   | <b>(103,693)</b>                       | <b>1,656,506</b>              |

## Pension Fund Accounts

|  | Market Value as at 31/03/2021 | Purchases during the year and derivative payments | Sales and capital distributions | Change in Market Value during the year | Market Value as at 31/03/2022 |
|--|-------------------------------|---|---------------------------------|--|-------------------------------|
|  | £000                          | £000  | £000                            | £000                                   | £000                          |
| Bonds  | 107,210                       | 27,291  | (28,150)                        | 6,471                                  | 112,822                       |
| Equities                                     | 95,341                        | 253,024   | (243,782)                       | 3,239                                  | 107,822                       |
| Fixed Income Unit Trust                      | 207,214                       | 24,706  | (736)                           | (18,185)                               | 212,999                       |
| Equity Unit Trust                            | 776,855                       | 80,988  | (112,811)                       | 87,001                                 | 832,033                       |
| Hedge Funds                                  | 71,529                        | 0   | (1,266)                         | 1,347                                  | 71,610                        |
| Pooled property Investments                  | 112,136                       | 13,098  | (4,507)                         | 26,638                                 | 147,265                       |
| Venture Capital                              | 138,480                       | 49,072  | (35,549)                        | 20,831                                 | 172,834                       |
|  | <b>1,508,665</b>              | <b>448,179</b>                                    | <b>(426,801)</b>                | <b>127,342</b>                         | <b>1,657,385</b>              |
| Forward currency contracts                   | 0                             | 125   | (136)                           | 11                                     | 0                             |
|  |                               |   |                                 |  |                               |
| <b>Sub-total</b>                             | <b>1,508,665</b>              | <b>448,304</b>                                    | <b>(426,937)</b>                | <b>127,353</b>                         | <b>1,657,385</b>              |
|  |                               |   |                                 |  |                               |
| Cash deposits                                | 105,524                       |   |                                 | 985                                    | 92,992                        |
| Amount receivable for sales of investments   | 10,800                        |   |                                 | 0                                      | 0                             |
| Investment income due                        | 2,769                         |   |                                 | 0                                      | 42                            |
| Spot FX contracts                            | 0                             |   |                                 | (5)                                    | 0                             |
| Amounts payable for purchases of Investments | (10,800)                      |   |                                 | 0                                      | 0                             |
| Other investment balances                    | 391                           |   |                                 | (3,130)                                | (136)                         |
| <b>Total</b>                                 | <b>1,671,349</b>              |   |                                 | <b>125,203</b>                         | <b>1,750,283</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   |
|---|---------------------|---|---|---|
| Equities  | Level 1             | Published market prices   | Evaluated price of feeds  | Not required  |
| Bonds   | Level 2             | The published bid market price on the final day of the accounting period  | Not required  | Not required  |
| Pooled investment – equity unit trust and market quoted investments | Level 1             | Published bid market price on the final day of the accounting period  | Not required  | Not required  |
| Pooled investments - UK Fixed Income Managed Funds                  | Level 2             | Average of broker prices  | Not required  | Not required  |
| Pooled investments - 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                           |
| 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  |
| Venture Capital - private equity and private debt                   | Level 3             | Comparable valuation of similar companies in accordance with International Private Equity guidelines                  | - EBITDA multiple<br>'- Revenue Multiplier<br>'- Discount for lack of marketability<br>'- Control Premium | Valuations could be affected by changes to expected cashflow or by differences between audited and unaudited accounts             |
| 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                           |
| Pooled Property Investments   | Level 3             | Latest available fair value provided by the manager, adjusted for cash movements subsequent to that date as required. | Manager valuation statements are prepared in accordance with ECVA guidelines                              | Upward valuations are only considered when there is validation of the investment objectives and such progress can be demonstrated |

## 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 2023.

|                          | Assessed<br>valuation<br>range (+/-) | Value at<br>31 March<br>2023 | Value on<br>Increase | Value on<br>Decrease |
|--------------------------|--------------------------------------|------------------------------|----------------------|----------------------|
|                          | %                                    | £000                         | £000                 | £000                 |
| Overseas Hedge Fund      | 5.8                                  | 76,617                       | 81,061               | 72,173               |
| Overseas Venture Capital | 11.8                                 | 117,130                      | 130,951              | 103,309              |
| UK Venture Capital       | 11.8                                 | 161,444                      | 180,494              | 142,393              |
| <b>Total</b>             |                                      | <b>355,191</b>               | <b>392,506</b>       | <b>317,875</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. 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:

| Market Value as at 31/03/2023                                      | Quoted<br>market<br>price | Using<br>observable<br>inputs | With<br>significant<br>observable<br>inputs |                  |
|--|---------------------------|-------------------------------|---|------------------|
|  | Level 1                   | Level 2                       | Level 3                                     | Total            |
|  | £000                      | £000                          | £000  | £000             |
| <b>Financial assets at fair value through profit and loss</b>      |                           |                               |   |                  |
| Pooled investments   | 967,439                   | 152,648                       | 76,617                                      | 1,196,704        |
| Pooled Property Investments  | 0                         | 120,409                       | 0   | 120,409          |
| Venture Capital  | 0                         | 0                             | 278,574                                     | 278,574          |
| Cash deposits  | 58,448                    | 0                             | 0   | 58,448           |
| Other investment assets  | 4,855                     | 0                             | 0   | 4,855            |
| Investment income due  | 210                       | 30                            |   | 240              |
| <b>Financial liabilities at fair value through profit and loss</b> |                           |                               |   |                  |
| Other investment liabilities                                       | (2,724)                   | 0                             | 0   | (2,724)          |
|  |                           |                               |   |                  |
| <b>Net financial assets</b>  | <b>1,029,428</b>          | <b>273,427</b>                | <b>355,191</b>                              | <b>1,656,506</b> |

## Pension Fund Accounts

| Re-stated Market Value as at 31/03/2022                              | Quoted market price | Using observable inputs | With significant observable inputs |                  |
|--|---------------------|-------------------------|------------------------------------|------------------|
|  | Level 1             | Level 2                 | Level 3                            | Total*           |
|  | £000                | £000                    | £000                               | £000             |
| <b>Financial assets at fair value through profit and loss</b>        |                     |                         |                                    |                  |
| Bonds  | 0                   | 112,822                 | 0                                  | 112,822          |
| Equities   | 107,516             | 0                       | 0                                  | 107,822          |
| Pooled investments   | 1,042,588           | 0                       | 71,610                             | 1,116,642        |
| Pooled Property Investments  | 2,750               | 147,265                 | 0                                  | 147,265          |
| Private Equity   | 0                   | 0                       | 172,834                            | 172,834          |
| Cash deposits  | 92,992              | 0                       | 0                                  | 92,992           |
| Other Investment assets  | 2,100               | 0                       |                                    | 2,100            |
| Investment income due  | 42                  | 0                       | 0                                  | 42               |
| <b>Financial Liabilities at Fair Value through Profit &amp; Loss</b> |                     |                         |                                    |                  |
| Other investment liabilities   | (2,236)             | 0                       | 0                                  | (2,236)          |
| <b>Net financial assets</b>  | <b>1,245,752</b>    | <b>260,087</b>          | <b>244,444</b>                     | <b>1,750,283</b> |

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

There has not been any transfers between Level 1 and Level 2 assets in 2022/23.

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

|                          | Re-stated Market Value as at 31/03/2022 | Transfers in/out of level 3 | Purchases      | Sales           | Unrealised gains (losses) | Realised gains (losses) | Market Value as at 31/03/2023 |
|--------------------------|---|-----------------------------|----------------|-----------------|---------------------------|-------------------------|-------------------------------|
|                          | £000                                    | £000                        | £000           | £000            | £000                      | £000                    | £000                          |
| Overseas Hedge Fund      | 71,610                                  | 0                           | 77             | (2,396)         | 7,203                     | 123                     | 76,617                        |
| Overseas Venture Capital | 117,145                                 | 0                           | 23,570         | (24,324)        | (5,566)                   | 6,305                   | 115,930                       |
| UK Venture Capital       | 55,689                                  | 0                           | 101,047        | (9,175)         | 13,883                    | 0                       | 161,444                       |
| <b>Total</b>             | <b>244,444</b>                          | <b>0</b>                    | <b>124,694</b> | <b>(35,895)</b> | <b>15,520</b>             | <b>6,428</b>            | <b>355,991</b>                |



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**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. Bonds of £97m were reclassified as Fixed Income Unit Trust between accounting categories during the year ended 31 March 2023.

| Market Value as at 31/03/2022<br>Designated as fair value through profit and loss | Loans and receivables | Financial liabilities |                              | Designated as fair value through profit and loss | Loans and receivables | Market Value as at 31/03/2023<br>Financial liabilities |
|---|-----------------------|-----------------------|------------------------------|--|-----------------------|--|
| £000  | £000                  | £000                  | £000                         | £000   | £000                  | £000   |
|   |                       |                       | <b>Financial assets</b>      |  |                       |  |
| 112,822   |                       |                       | Bonds                        | 0  |                       |  |
| 107,822   |                       |                       | Equities                     | 0  |                       |  |
| 212,999   |                       |                       | Fixed Income Unit Trust      | 249,606  |                       |  |
| 832,033   |                       |                       | Equity Unit Trust            | 870,481  |                       |  |
| 71,610  |                       |                       | Hedge Funds                  | 76,617   |                       |  |
| 147,265   |                       |                       | Pooled property Investments  | 120,409  |                       |  |
| 172,833   |                       |                       | Venture Capital              | 278,574  |                       |  |
| 0   | 92,992                |                       | Cash deposits                | 0  | 58,448                |  |
| 0   | 42                    |                       | Other investment balances    | 0  | 241                   |  |
| 0   | 2,100                 |                       | Debtors                      | 0  | 4,855                 |  |
| <b>1,657,385</b>  | <b>95,134</b>         | <b>0</b>              |                              | <b>1,595,687</b>                                 | <b>63,544</b>         | <b>0</b>   |
|   |                       |                       | <b>Financial liabilities</b> |  |                       |  |
|   |                       | (2,236)               | Creditors                    |  |                       | (2,725)  |
|   |                       |                       | Other Current Liabilities    |  |                       |  |
| <b>0</b>  | <b>0</b>              | <b>(2,236)</b>        |                              | <b>0</b>   | <b>0</b>              | <b>(2,725)</b>   |
| <b>1,657,385</b>  | <b>95,134</b>         | <b>(2,236)</b>        | <b>Total</b>                 | <b>1,595,687</b>                                 | <b>63,544</b>         | <b>(2,725)</b>   |
|   | <b>1,750,283</b>      |                       | <b>Grand Total</b>           |  | <b>1,656,506</b>      |  |

## Pension Fund Accounts

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

The following table shows net gains on financial instruments:

|                                    | 31/03/23<br>£000 | 31/03/22<br>£000 |
|------------------------------------|------------------|------------------|
| <b>Financial Assets</b>            |                  |                  |
| Fair Value through Profit and Loss | (106,579)        | 127,342          |
| Loans and receivables              | 3,154            | 985              |
| Assets at Amortised Cost           |                  |                  |
| <b>Financial Liabilities</b>       |                  |                  |
| Fair value through profit and loss | 0                | 11               |
| Liabilities at Amortised Cost      | (268)            | (3,135)          |
|                                    | <b>(103,693)</b> | <b>125,203</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 because 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

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**Pension Fund Accounts**


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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 smooths out short term price volatility.

Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the following asset level percentages of volatility can be applied to the Fund's assets in 2022/23, assuming all other variables such as foreign exchange rates and interest rates remain the same:

| <b>Asset Type</b>           | <b>Potential<br/>Market<br/>Movement<br/>+/- (% p.a.)</b> |
|-----------------------------|---|
| Equity Unit Trust           | 12.8  |
| Fixed Income Unit Trust     | 13.0  |
| Hedge funds                 | 5.8   |
| Pooled property Investments | 7.7   |
| Venture Capital             | 11.8  |
| Other Investments           | 1.2   |
| Cash                        | 1.2   |
| <b>Total</b>                | <b>8.3</b>  |

## Pension Fund Accounts

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                          | Market Value as at 31/03/2023 | Percentage change | Value on increase | Value on decrease |
|-------------------------------------|-------------------------------|-------------------|-------------------|-------------------|
|                                     | £000                          | %                 | £000              | £000              |
| <b>Cash and cash equivalents</b>    | 58,448                        | 0.0               | 58,448            | 58,448            |
| <b>Investment portfolio assets:</b> |                               |                   |                   |                   |
| Fixed Income unit trusts            | 249,606                       | 13.0              | 282,054           | 217,157           |
| Equity unit trusts                  | 870,482                       | 12.8              | 981,903           | 759,059           |
| Hedge funds                         | 76,617                        | 5.8               | 81,061            | 72,174            |
| Pooled property Investments         | 120,409                       | 7.7               | 129,681           | 111,138           |
| Venture Capital                     | 278,573                       | 11.8              | 311,445           | 245,702           |
| Other funds                         | 2,371                         | 1.2               | 3,400             | 3,343             |
| <b>Total assets * **</b>            | <b>1,656,506</b>              |                   | <b>1,846,992</b>  | <b>1,466,021</b>  |

\* This figure includes derivatives and other investment balances.

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

The 2021/22 comparator table is as follows:

| Asset Type                          | Final Market Value as at 31/03/2022 | Percentage Change | Value on Increase | Value on Decrease |
|-------------------------------------|-------------------------------------|-------------------|-------------------|-------------------|
|                                     | £000                                | %                 | £000              | £000              |
| <b>Cash and cash equivalents</b>    | 92,992                              | 0.0               | 92,992            | 92,992            |
| <b>Investment portfolio assets:</b> |                                     |                   |                   |                   |
| Bonds                               | 112,822                             | 9.1               | 123,135           | 102,510           |
| Equities                            | 107,822                             | 16.2              | 125,289           | 90,355            |
| Overseas equities                   | 102,070                             | 13.0              | 115,339           | 88,801            |
| Fixed Income unit trusts            | 212,999                             | 9.1               | 232,382           | 193,616           |
| Equity unit trusts                  | 729,964                             | 16.2              | 848,218           | 611,710           |
| Hedge funds                         | 71,610                              | 5.8               | 75,763            | 67,457            |
| Pooled property Investments         | 147,265                             | 3.8               | 152,905           | 141,624           |
| Venture Capital                     | 172,833                             | 5.8               | 182,858           | 162,809           |
| Other funds                         | (94)                                | 2.8               | (97)              | (92)              |
| <b>Total Assets</b>                 | <b>1,750,283</b>                    |                   | <b>1,948,784</b>  | <b>1,551,782</b>  |

### 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.

## Pension Fund Accounts

**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.

| Asset type                              | Market Value as at 31/03/2023 | Change in year in the net assets available to pay benefits |                 |
|---|-------------------------------|--|-----------------|
|   |                               | <b>+100 BPS</b>  | <b>-100 BPS</b> |
|   | <b>£000</b>                   | <b>£000</b>  | <b>£000</b>     |
| <b>Cash and cash equivalents</b>        |                               |  |                 |
| Cash                                    | 58,448                        | 0  | 0               |
| <b>Fixed Interest Investments</b>       |                               |  |                 |
| UK Fixed Income Funds                   | 152,648                       | 1,526  | (1,526)         |
| Overseas Fixed Income Funds             | 96,958                        | 970  | (970)           |
| <b>Total change in assets available</b> | <b>308,054</b>                | <b>2,496</b>   | <b>(2,496)</b>  |

| Asset type                              | Market Value as at 31/03/2022 | Change in year in the net assets available to pay benefits |                 |
|---|-------------------------------|--|-----------------|
|   |                               | <b>+100 BPS</b>  | <b>-100 BPS</b> |
|   | <b>£000</b>                   | <b>£000</b>  | <b>£000</b>     |
| <b>Cash and cash equivalents</b>        |                               |  |                 |
| Cash                                    | 92,992                        | 0  | 0               |
| <b>Bonds</b>                            |                               |  |                 |
| UK public sector Index linked           | 112,822                       | 1,128  | (1,128)         |
| <b>Fixed Interest Investments</b>       |                               |  |                 |
| UK Fixed Income Funds                   | 105,483                       | 1,055  | (1,055)         |
| Overseas Fixed Income Funds             | 107,516                       | 1,075  | (1,075)         |
| <b>Total change in assets available</b> | <b>418,814</b>                | <b>3,258</b>   | <b>(3,258)</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 at the 31 March 2023:

|            |         |                 |
|------------|---------|-----------------|
| Euro       | €8.9m   | (€20.9m 21/22)  |
| US Dollars | \$16.6m | (\$84.8m 21/22) |

The remaining exposures arise from much smaller holdings of other currencies including Swiss Francs, Hong Kong Dollars and Japanese Yen.

## 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 2022/23 to be 6.5% (7.3% in 2021/22). This volatility is applied to the Fund's overseas assets at period end as follows:

| Asset Type               | Asset Value at<br>31 March 2023<br>£000 | Change<br>% | Value on<br>Increase<br>£000 | Value on<br>Decrease<br>£000 |
|--------------------------|---|-------------|------------------------------|------------------------------|
| Overseas Fixed Income    | 96,958                                  | 8.8         | 105,490                      | 88,425                       |
| Overseas Equity Funds    | 365,562                                 | 8.8         | 397,731                      | 333,392                      |
| Overseas Hedge Funds     | 76,617                                  | 8.8         | 83,360                       | 69,875                       |
| Overseas Venture Capital | 117,130                                 | 8.8         | 127,437                      | 106,823                      |
| <b>Total</b>             | <b>656,267</b>                          | <b>8.8</b>  | <b>714,018</b>               | <b>598,515</b>               |

| Asset Type               | Asset Value at<br>31 March 2022<br>£000 | Change<br>% | Value on<br>Increase<br>£000 | Value on<br>Decrease<br>£000 |
|--------------------------|---|-------------|------------------------------|------------------------------|
| Overseas Fixed Income    | 107,516                                 | 7.3         | 115,365                      | 99,668                       |
| Overseas Equity Funds    | 102,070                                 | 7.3         | 109,521                      | 94,619                       |
| Overseas Hedge Funds     | 71,610                                  | 7.3         | 76,838                       | 66,382                       |
| Overseas Venture Capital | 117,145                                 | 7.3         | 125,696                      | 108,593                      |
| <b>Total</b>             | <b>398,341</b>                          | <b>7.3</b>  | <b>427,420</b>               | <b>369,262</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<br>31 March<br>2023<br>£000 | Balances at<br>31 March<br>2022<br>£000 |
|----------------|--------|---|---|
| Barclays       | A +    | 3,912                                   | 1,386                                   |
| Northern Trust | AA -   | 58,448                                  | 92,992                                  |
| <b>Total</b>   |        | <b>62,360</b>                           | <b>94,378</b>                           |

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**Pension Fund Accounts**


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**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 proportion of assets as cash to allow for short notice payments and capital calls. As at the 31 March 2023 these assets totalled £58.4m held in cash by the custodian on behalf of the Fund and fund managers.

**Note 16: Derivative Contracts**

As at 31 March 2023 there were no pending foreign exchange purchases or sales. The net gain related to foreign exchange forward contracts was nil in 2022/23 (net gain £11k in 2021/22).

**Note 17a: Other Investment Balances**

These comprise the following amounts:

|  | 31/03/23<br>£000 | 31/03/22<br>£000 |
|--|------------------|------------------|
| <b>Debtors</b>                               |                  |                  |
| Equity Dividends / Income from Managed Funds | 177              | 23               |
| Recovered Taxes                              | 64               |                  |
| Interest and Other Income                    | 0                | 19               |
| <b>Creditors</b>                             |                  |                  |
| Interest and Other Expenditure               | 0                | 0                |
| <b>Net</b>                                   | <b>241</b>       | <b>42</b>        |

**Note 17b: Net Current Assets**

These comprise the following amounts:

**Current Assets**

|   | 31/03/23<br>£000 | 31/03/22<br>£000 |
|---|------------------|------------------|
| Contributions Due from Admitted/ Scheduled Employers/ Employees | 56               | 57               |
| Other Current Assets  | 737              | 657              |
| Prepayments   | 150              | 0                |
| Cash in Hand  | 3,912            | 1,386            |
|   | <b>4,855</b>     | <b>2,100</b>     |

## Pension Fund Accounts

## Current Liabilities

|                               | 31/03/23<br>£000 | 31/03/22<br>£000 |
|-------------------------------|------------------|------------------|
| Fund Manager and Custody Fees | (511)            | (553)            |
| Consultancy/ Advisory Fees    | (21)             | (187)            |
| Other Current Liabilities     | (2,193)          | (1,496)          |
|                               | (2,725)          | (2,236)          |

## 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 2023 was £58.4m (£93.0m as at 31 March 2022). The table below shows how this was split between the Fund Managers.

## Fund Manager

|                              | 31/03/2023<br>£'000 | 31/03/2022<br>£'000 |
|------------------------------|---------------------|---------------------|
| Cash Account                 | 43,089              | 39,851              |
| Schroders                    | 11,479              | 3,904               |
| HarbourVest                  | 3,521               | 20,122              |
| Partners Group               | 359                 | 11,246              |
| JP Morgan                    | 0                   | 14,951              |
| Pemberton                    | 0                   | 2,352               |
| Cash Account                 | 0                   | 548                 |
| Securities Lending           | 0                   | 15                  |
| UBS                          | 0                   | 1                   |
| BlackRock transition account | 0                   | 1                   |
|                              | 58,448              | 92,991              |

## 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 2023. 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 2023. 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.



## Pension Fund Accounts

|   | 31/03/2023 | 31/03/2022 |
|---|------------|------------|
|   | £m         | £m         |
| Present value of promised retirement benefits | (1,673)    | (2,287)    |
| Fair Value of Scheme Assets                   | 1,657      | 1,750      |
| Net Liability                                 | (16)       | (537)      |

## Longevity assumptions

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2022 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% 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:

| Longevity Assumptions for year ended 31 March 2023 | Males | Females |
|--|-------|---------|
| Current Pensioners                                 | 21.1  | 24.1    |
| Future Pensioners                                  | 22.1  | 25.5    |

## Financial assumptions

|                   | 31/03/2023 (%) | 31/03/2022 (%) |
|-------------------|----------------|----------------|
| Discount Rate     | 4.8            | 3.2            |
| Salary Increases  | 4.0            | 4.2            |
| Pension Increases | 3.0            | 2.7            |

## 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:

| Sensitivity to the assumptions at 31 March 2023 | Approximate increase to liabilities (%) | Approximate monetary amount (£m) |
|---|---|----------------------------------|
| 0.1% p.a. decrease in the Real Discount Rate    | 2                                       | 24                               |
| 1 year increase in member life expectancy       | 4                                       | 60                               |
| 0.1% p.a. increase in the Salary Increase Rate  | 0                                       | 2                                |
| 0.1% p.a. increase in the Pension Increase Rate | 2                                       | 23                               |

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**Pension Fund Accounts**


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**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 June 2023. 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 2023, the figures in the financial statements and notes have been adjusted in all material respects to reflect these altered conditions.

**Note 21: Contractual Commitments**

The Pension Fund was committed to the following capital contributions as at the 31 March 2023:

| <b>Fund Manager</b> | <b>Fund</b>                                | <b>Contractual<br/>Commitment<br/>£000</b> | <b>Undrawn<br/>Capital<br/>£000</b> |
|---------------------|--|--|-------------------------------------|
| Harbourvest         | Harbourvest Closed Ended Funds             | 130,955                                    | 44,641                              |
| London CIV          | LCIV Renewable Infrastructure              | 90,000                                     | 59,335                              |
| London CIV          | LCIV Private Debt                          | 85,000                                     | 31,213                              |
| Pemberton           | Pemberton European Mid-Market Debt Fund II | 40,000                                     | 3,981                               |
| Schroders           | Schroders Property Funds                   | 20,658                                     | 6,228                               |
| <b>Total</b>        |  | <b>366,613</b>                             | <b>145,398</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:

- 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 2023.

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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 (included in Administration Expenses in Note 7). 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 2021/22 and 2022/23.

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

|                          | <b>2022/23</b><br><b>£'000</b> | <b>2021/22</b><br><b>£'000</b> |
|--------------------------|--------------------------------|--------------------------------|
| Short Term Benefits      | 21                             | 20                             |
| Post-Employment Benefits | 4                              | 4                              |
| <b>Total</b>             | <b>25</b>                      | <b>24</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.

|  | <b>2022/23</b>         |                                      |                       | <b>2021/22</b>                     |                                      |                       |
|--|------------------------|--------------------------------------|-----------------------|------------------------------------|--------------------------------------|-----------------------|
|  | <b>Utmost<br/>£000</b> | <b>Clerical<br/>Medical<br/>£000</b> | <b>Total<br/>£000</b> | <b>Equitable<br/>Life<br/>£000</b> | <b>Clerical<br/>Medical<br/>£000</b> | <b>Total<br/>£000</b> |
| <b>Value at the Beginning of Year</b>      | <b>352</b>             | <b>1,024</b>                         | <b>1,376</b>          | <b>356</b>                         | <b>1,106</b>                         | <b>1,462</b>          |
| Contributions and Transfers Received       | 0                      | 121                                  | 121                   | 0                                  | 181                                  | 181                   |
| Investment Return / change in market value | (21)                   | (43)                                 | (64)                  | 16                                 | 64                                   | 80                    |
| Paid Out                                   | (42)                   | (228)                                | (270)                 | (20)                               | (327)                                | (347)                 |
| <b>Value at the End of the Year</b>        | <b>289</b>             | <b>874</b>                           | <b>1,163</b>          | <b>352</b>                         | <b>1,024</b>                         | <b>1,376</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 2023, arranged in descending order by the value of their contributions in 2022/23:

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

**Note 24b: Admitted Bodies**

The following are admitted bodies to the Fund as at 31 March 2022, arranged in descending order by the value of their contributions in 2022/23

|  |
|--|
| Youth First Ltd                                    |
| Phoenix  |
| Inspace/ BS Phoenix                                |
| KGB Cleaning                                       |
| NSL Ltd (formerly known as National Car Parks Ltd) |
| City West Services                                 |
| Housing 21   |
| Zing Environments Ltd                              |
| Braybourne FS Ltd (Knights)                        |
| Lewisham Music                                     |
| Change Grow Live                                   |
| Three C's Support                                  |
| Braybourne FS Ltd (Hatcham)                        |
| Harrison Catering (Hatcham)                        |
| Pre-School Learning Alliance                       |
| Harrison Catering (Knights)                        |
| GLL  |
| Tower Services                                     |
| M Group Services                                   |

## Pension Fund Accounts

**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:

|                         | Active Members |              | Deferred Beneficiaries |               | Retired Members |              |
|-------------------------|----------------|--------------|------------------------|---------------|-----------------|--------------|
|                         | 2022/23        | 2021/22      | 2022/23                | 2021/22       | 2022/23         | 2021/22      |
| Administering Authority | 5,696          | 5,403        | 10,079                 | 9,853         | 7,968           | 7,824        |
| Scheduled Bodies        | 1,061          | 1,140        | 1,351                  | 1,224         | 469             | 435          |
| Admitted Bodies         | 89             | 74           | 63                     | 62            | 87              | 80           |
|                         | <b>6,846</b>   | <b>6,617</b> | <b>11,493</b>          | <b>11,139</b> | <b>8,524</b>    | <b>8,339</b> |