



# Lambeth Pension Fund Annual Report

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## 2014-15

*This year was another excellent year for the Lambeth Fund. The Fund had set-up its new Governance arrangements for implementation on 1 April 2015 with a new Committee and Board. The Fund's assets grew by more than £100m across all the asset classes and reached a net asset value of £1,136m at the end of the year. Five new Employers were admitted into the Fund. The Fund continued its theme of national collaboration and played a key role in setting up the first ever Public Sector Collective Investment Vehicle. The Fund won the LGC Investment Awards Emerging Manager of the Year award and was shortlisted for Fund of the Year (over £750m)*

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1. Statement of Investment Principles
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### 1 SCHEME MANAGEMENT AND ADVISORS

|                                   |   |
|-----------------------------------|---|
| <b>Administering Authority:</b>   | London Borough of Lambeth   |
| <b>Administrator:</b>             | Guy Ware - Strategic Director of Enabling- resigned 14 August 2015<br>Christina Thompson - Director of Finance – appointed 14 August 2015 |
| <b>Council Officers:</b>          |   |
| Hamant Bharadia                   | Associate Director  |
| Frank Higgins                     | Head of Financial Strategy  |
| Andrien Meyers                    | Treasury & Pension Fund Manager   |
| Nemashe Sivayogan                 | Pension Fund Accountant   |
| Shida Ashrafi                     | Head of Payroll, Pension & Staff Support  |
| Linda Osborne                     | Pensions Manager  |
| <b>Bank:</b>                      | National Westminster Bank Plc   |
| <b>Legal Advisors:</b>            | Council Lawyers   |
| <b>Fund Managers:</b>             |   |
| Adam Street Partnership           | Majedie Asset Management  |
| Baillie Gifford & Co              | MFS Investment Management   |
| Blue Crest Capital Management LLP | Pacific Alternative Asset Management Company (PAAMCO)   |
| Invesco Perpetual                 | Principal Global Investors (Terminated in April 2014)   |
| Insight Investment Management     | Standard Life   |
| RREEF                             | State Street Liquidity Fund   |
| <b>Advisers:</b>                  | Mercer Ltd  |
| <b>Custodians:</b>                | State Street Global Advisors  |
| <b>AVC Providers:</b>             | Prudential  |
|                                   | Clerical Medical  |
|                                   | Equitable Life  |
| <b>Actuary:</b>                   | Hymans Robertson  |
| <b>Auditor:</b>                   | Deloitte LLP,UK   |

## 2. HIGHLIGHTS OF THE YEAR

- A new Pensions Committee has been created with full decision-making powers. The new committee is all encompassing, having responsibility for all Fund matters including governance, investments, funding, accounting, employer and scheme member engagement, communications and administration.
- The Pensions Act 2013 also required mandatory Pension Boards to be in place. The role of the Board is to review the diligence of decision-making but not the decision itself. The Board is made up of three elected members, one staff, one pensioners and one trade union representative.
- The Fund continues to be a major player in terms of national collaboration; to this effect it has played a major role in setting up the UK's first ever Collective Investment Vehicle with the objective of generating efficiencies in procurement and fees, and improved return on investments. The CIV could potentially grow from £3bn to around £15bn.
- Further collaboration has seen the Fund adopt its own finance system. The new accounting system 'One Oracle', which was a partnership programme with five other London Boroughs, went live in summer 2014.
- The Fund's assets increased by £104m showing a 10% increase from 2013/14.
- The Fund received £88m as income and paid £53m in benefits.
- Five new employers were admitted into the Fund.
- The administration team successfully implemented changes required as the new scheme - LGPS 2014 – came into operation on 1 April 2014
- The Local Government Chronicle (LGC), Local Authorities Pension Fund Forum (LAPFF) and the National Association of Pension Funds (NAPF) and other organisations have published a number of articles about the Lambeth Pension Fund.
- The Fund was shortlisted for two LGC Investment Awards in 2014 – the Fund of the Year (over £750m) and Emerging Pensions Manager of the Year with Andrien Meyers winning the latter category.
- Fund officers spoke and represented the Fund at the LGC, NAPF, LAPFF and Institutional Investor Conferences.



### 3. CHAIRMAN'S REPORT

## ***WELCOME TO THE LAMBETH PENSION FUND ANNUAL REPORT 2014-15***



The Lambeth Pension Fund Investment Panel (Pension Committee from April 2015) is responsible for overseeing the management of the Lambeth Pension Fund including investment management and pension administration issues.

As the Chairman of this Panel, I am pleased to introduce the Pension Fund's Annual Report for the year 2014-15.

The last twelve months saw the Lambeth Pension Fund have a total transformation.

**Governance:** In the past Governance of the Fund solely focused on investments with minimal importance placed on other aspects. The Fund has used the introduction of the Pensions Act 2013 as an opportunity to change these arrangements, which were deemed too narrowly focused.

A new Pensions Committee has been created with full decision-making powers. The new committee is all encompassing, with responsibility for all Fund matters including governance, investments, funding, accounting, employer and scheme member engagement, communications and administration.

The Pensions Act 2013 also required mandatory pension boards to be in place. The role of the Board is to review the diligence of decision-making but not the decision itself. As such a new Board has also been created.

**Risk Management (Funding)** – The Fund also made a series of changes to the way in which the Fund approaches its investment strategy. The Triennial valuation (where funding levels improved to 72.6%) saw it introduce a new approach in which it sets its investment strategy at the same time as considering its funding strategy and contribution plan, basing all three on a sophisticated model but crucially applying a practical, qualitative (human) overlay.

Contribution rates and investment strategy were considered in tandem; balancing risk with the need for stability. The Council as the largest employer in the Fund (99% of the total Fund) achieved more stability in terms of employer contribution rates with the result that the Council was able to reduce its budget over the three year period the triennial review covers. Overall The Fund is well placed to forge ahead with a comfortable positive cash



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flow status, out-performing active growth asset strategies and additional deficit contributions. The Contribution rates came into effect on 1 April 2014 and will remain in place until the next valuation i.e. 31 March 2016 with new rates effective on 1 April 2017.

**Risk Management (Investments)** – The Pension Fund Investment Panel (PFIP) agreed that one of the priorities for investments is to construct a Liability Driven Investment (LDI) strategy that can be implemented as the funding level improves and / or market conditions are conducive. This is to provide some protection against interest rate movements and inflation. Other work streams have involved simplifying our manager structure where possible and reconsidering the case for hedge funds and active currency due to concerns from the Panel over complexity and fee levels.

In terms of the Fund size and investment returns, 2014/15 has been extremely positive. During the year, the value of the Fund rose by £104m to stand at £1.1bn. The average local authority fund returned 10.3% in 2014/15, whereas the Lambeth Fund returned 10.5%, ahead of its benchmark of 10.3%. The Panel has continued to monitor the Fund closely at every meeting and challenged the investment advisers and investment managers as necessary to ensure the Fund's investments are managed effectively.

**Engagement Within the sector:** The Fund is a key player in LGPS collaboration and innovation. The Fund is represented on the London Collective Investment Vehicle (CIV), which is a ground breaking collaboration of 31 London Funds to ensure better returns and reduced fees and is a member of their Technical Committee. Officers of the council have attended and spoken at a number of conferences where possible; not just because they think that they have a fresh perspective and views to contribute but also because they recognise that they have a lot to learn from the ever-changing LGPS environment. Further, the Fund has engaged with various Central Government bodies to discuss the current state of the LGPS.

**Responsible Investment:** The Fund has made great strides on responsible investment. The SIP gives investment managers full discretion when evaluating Environment, Social and Governance (ESG) issues and in exercising rights and stewardship obligations by taking into account current best practice. The Fund is one of the few funds that ranks the managers with which it invests on their ethical credentials as well as on their investment returns, using research information from Mercer. The Fund looks to engage positively on responsible investment issues, either through direct engagement or via the Local Authority Pension Fund Forum.

**With the Community:** Lambeth is the first co-operative borough and the Fund supports co-operative services to join the LGPS. The Fund actively works towards supporting Lambeth Council in its ambition, encouraging local residents and organisations to run non-statutory services themselves. Five organisations have joined in the last year as admitted bodies with 12 in the pipeline.

**With other Councils:** The Fund has worked with five other Councils to implement a new accounting system, which went live in mid-2014. This allows the Fund to transparently account for all its transactions separately to the Council. The closure of the 2013/14 accounts was completed in good time with a clean audit opinion. Related is the fact that our actuaries have commented that our data is cleaner than that of many other funds.



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**With its Members:** The Fund continues to actively engage with its members through the issuance of tailored newsletters, one to one meetings and a three day turnaround period for e-mail/telephone queries from employers and the creation of a new Pensions section on the Council's website which contains key policy documents, contact information and factsheets.

I am very pleased that Andrien Meyers - Treasury and Pension Manager - won the LGC Investments Award for Emerging manager of the year in November 2014, and that the Fund itself was shortlisted for an award.

I would like to thank all those involved in the management of the Pension Fund during the year.

**Cllr. Adrian Garden**  
**Chairman – Lambeth Pension Committee**

#### 4. RISK MANAGEMENT

By considering today's investment landscape the Fund has put in place a number of measurements which should help improve and manage risk within the governance structure.

Lambeth Pension Fund has adopted a transparent, performance monitoring framework that makes clear the relative importance of the multitude of risks associated with operating a pension fund where PFIP (Pension Committee from April 2015) has overall responsibility for internal controls and risk management. In adopting this approach, PFIP are able to allocate their time more efficiently by devoting more time to the biggest risks. The Value at Risk (VaR) approach to risk measurement, applied and interpreted with full awareness of its shortcomings, is the heart of the risk framework. The panel is committed to identifying, evaluating and managing risk and to implementing and maintaining control procedures to reduce significant risks to an acceptable level.

In order to meet the above responsibilities, and as required by the Pension regulations 2013, the Fund has set up its Pension Committee and Pension Board, effective from April 2015. The Committee is the decision making body and the Board will review all activities related to the Fund to ensure proper practice is followed and identify areas for improvement. This helps to reduce and control the risks associated with the pension fund as a whole.

The new governance arrangements will contribute to effective risk management and help identify areas where further work/training is required.

##### Investment Risks

The Statement of Investment Principles is the main tool by which the Fund controls investment risk. One of the principal ways in which the Fund manages risk is through diversification of assets and managers. The provision of expert advice is crucial to the decision-making and risk management processes. The knowledge of Pension Committee members must be sufficient for advice to be challenged and understood. To facilitate this, the Fund is committed to training, the Panel members are also required to attend external training courses and internal workshops to aid them to discharge their duties.

The investment management process is outsourced to third parties, specifically investment managers and custodians. This arrangement provides a clear segregation of duties within the Fund, with the in-house investment team closely monitoring compliance with regulations and mandates. The Fund investment adviser, Mercer Limited, monitors the performance of the Fund and Managers, and reports to the PFIP on a quarterly basis.

In addition, assurance is sought over third party operations, undertaken by external investment managers who manage the Fund's assets by requesting and reviewing their Internal control reports.



## Financial Risks

Action is taken to review performance against the investment strategy on a regular basis in accordance with LGPS regulations. The Fund's financial management framework is the same as that of Lambeth Council. Council Officers monitor the budget, which is set annually as part of the three year forward looking service plan. The financial accounting system is integrated with the Council's, and the segregation of duties and control structure is agreed with and annually reviewed by Internal Audit. A key financial risk is the non-payment of contributions by employers. The regulations provide a sanction for late payments, and processes are in place to ensure that contributions are reconciled regularly.

The administration risks relate mainly to the obligation to administer the Fund and pay benefits accurately and on time as agreed with employers or under statute. The main areas of risk are non-payment or late payment of members' benefits or incorrect calculation of benefits, breach of Data Protection Regulations and failure to comply with Freedom of Information Act requests or Disclosure of Information requirements. Such risks can lead to adverse publicity, loss of reputation and ultimately statutory fines. These are addressed in the Business Continuity Plan.



## 5. FINANCIAL PERFORMANCE

2014-15 was another excellent year for the Fund's investments. The Fund's assets value increased by £104m (i.e. 10%) to stand at £1.1bn at 31 March 2015. The Fund outperformed the benchmark over the quarter, the year and three years to 31 March 2015, as a result of strong performance. The Funds UK equity, Global equity and bond portfolios increased by £102m; however due to the adverse movement in the Euro, the Fund's European Property portfolio did not perform as well.

The table below detail each asset class performance against their benchmark

### Investment Performance to 31 March 2015

#### Gross of Fees

| Asset Class                      | Last Quarter |            | Last Year   |             | Last 3 Years  |                 |
|----------------------------------|--------------|------------|-------------|-------------|---------------|-----------------|
|                                  | Fund (%)     | B'mark (%) | Fund (%)    | B'mark (%)  | Fund (% p.a.) | B'mark (% p.a.) |
| UK Equity                        | 5.8          | 4.7        | 7.3         | 6.6         | 16.3          | 10.6            |
| Global Equity                    | 8.9          | 7.5        | 19.9        | 19.0        | 17.5          | 14.5            |
| Property                         | -4.8         | 0.0        | -6.1        | 0.0         | 2.4           | 0.0             |
| Diversified Growth               | 4.6          | 0.2        | 10.9        | 0.7         | 7.3           | 0.8             |
| Hedge Funds (Fund of Funds)      | 3.2          | 0.1        | 4.3         | 0.6         | 8.0           | 0.6             |
| Bonds                            | 3.7          | 3.2        | 13.4        | 13.1        | 9.8           | 8.7             |
| <b>Total (ex-Adams Street) *</b> | <b>4.4</b>   | <b>3.7</b> | <b>10.5</b> | <b>10.3</b> | <b>10.7</b>   | <b>7.9</b>      |

\* Adam street performance for March 2015 not available at the time of reporting.

2014/15 was another cash positive year for the Fund. During the year, the Fund received £56.6m in contributions and transfers in and paid out £53.1m in benefits and payments to leavers. The total income to the Fund was £88.4m and the expenditure incurred was £57.5m. This has resulted in the Fund having a positive cash position of £31.0m as at 31 March 2015. Since the Fund has, sufficient income from its operational activity to pay benefits, investment income has been re-invested within the existing portfolios in order to enhance returns.

The table below summarises the Fund's income and expenditure for the past three years to 2014/15.

|                             | 2014-15<br>£'000 | 2013-14<br>£'000 | 2012-13<br>£'000 |
|-----------------------------|------------------|------------------|------------------|
| <b>Income</b>               | <b>88,446</b>    | 87,877           | 71,620           |
| <b>Expenditure</b>          | <b>(57,501)</b>  | (57,096)         | (50,357)         |
| <b>Surplus for the year</b> | <b>30,945</b>    | 37,781           | 21,263           |

### Contribution cash-flow

Lambeth Pension Fund is a mature Fund with more pensioners than contributing members. This leads to a situation of more cash outflow than cash inflow in general, but with the increased deficit funding received from the Fund's major employer, Lambeth Council, and investment income received from its property and private equity part of the portfolio, the

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Fund once again showed a positive cash flow. The table below details the Fund's cash flow in 2014-15.

| Cash flow   | £m             |
|---|----------------|
| <b>Contributions receivable:</b>                      |                |
| from employers  | 45.51          |
| from employees  | 9.43           |
| From employees transferring from other pension funds  | 1.61           |
| Income re Equivalent Contribution Scheme              | 0.01           |
|   |                |
| Income earned on investments                          | 31.88          |
| <b>Total Inflow</b>                                   | <b>88.45</b>   |
|   |                |
| <b>Benefits payable:</b>                              |                |
| Pension payments                                      | (41.12)        |
| Lump Sum payments due when people retire              | (7.26)         |
| <b>Payments to and on account of leavers</b>          |                |
| Refunds to employees who leave the scheme             | (0.13)         |
| Payments where employees transfer to other funds      | (4.59)         |
| Tax paid on Investment Income                         | (0.68)         |
|   |                |
| Administrative and other expenses borne by the scheme | (1.02)         |
| Investment Mgmt. Expenses                             | (2.70)         |
| <b>Total Outflow</b>                                  | <b>(57.50)</b> |
| <b>Net cash flow</b>                                  | <b>30.95</b>   |

### Fund's Triennial Valuation

#### Assets

The Fund had its last actuarial valuation in March 2013. The performance of the Fund's investments had been more than the expected return over the three-year period to 31 March 2013. This has had a positive effect on the past service position of the Fund at this valuation.

The Fund's investment strategy has changed slightly since 2010. However, the Fund continues to invest in a large proportion of riskier assets (such as equities, property and alternatives). At 31 March 2013, around 66% of the Fund's investments were in these riskier assets. The experience of the last three years serves to underline the fact that, whilst these riskier assets are expected to outperform more risk adverse investments (such as government bonds and cash) over the long-term, they are susceptible to volatility in the short-term.

The Fund is aware of this risk and as such in 2014/15 has adopted a de-risking strategy where focus is on removing riskier assets as the funding level improves. To this effect the Fund terminated its active currency mandate, is setting up a Liability Driven Investment (LDI) vehicle and is considering its hedge fund allocations.

## Liabilities

The decrease in the real yield from gilts since 2010 has served to increase the value of the Fund's liabilities.

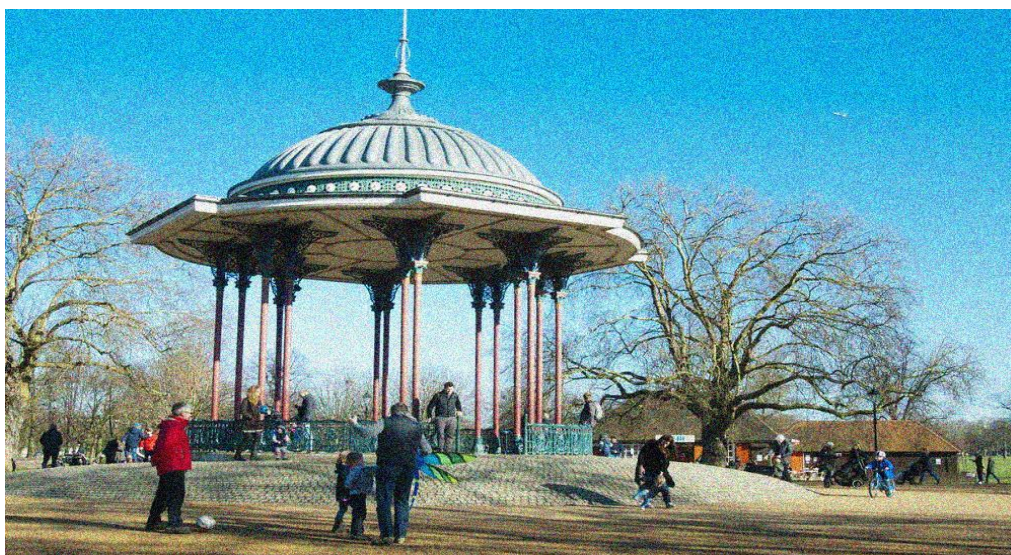
The discount rate used to value the Fund's future benefit payments is based on the return on fixed interest gilts, whilst the benefits themselves are projected to increase in line with both salary and price inflation. Therefore, the "real" return available on gilts (i.e. the return on fixed interest gilts net of inflation) is a key indicator in the measurement of liabilities.

All other things being equal, a decrease in real gilt yield serves to increase the value placed on the Fund's liabilities and vice versa.

At the 2013 valuation, the Fund had assets of £951m and liabilities of £1,310m. The deficit had increased from £290m at 31 March 2010 to £359m at 31 March 2013 and the funding level had increased by 0.1% from 72.5% to 72.6% in the same period.

## Members' contributions

In the year all non-Lambeth employers paid their pension contributions by the due date therefore the option to levy interest was not exercised. For a number of years Lambeth has participated in the National Fraud Initiative (NFI). Where overpayments have been identified for example where a pensioner has died, action has been taken to arrange recovery in line with Council policies.



## 6. ADMINISTRATIVE MANAGEMENT PERFORMANCE

The Lambeth Pension Fund has an in house team to manage its administration function. The team of eight provides services and manages the records of approximately 20,000 members and 26 employers. In the year, the team was equipped to cope with the LGPS 2014 changes and educated Fund members of the changes via briefing session, newsletters and individual meetings.

The table below details the key administration performance indicators used for the year.

### Performance against LGPC Targets 2014/15

| Performance indicator (from point at which all required information has been received) | LGPC Target | Achieved % |
|--|-------------|------------|
| Letter detailing transfer <b>in</b> quote  | 10 days     | 100.0%     |
| Letter detailing transfer <b>out</b> quote   | 10 days     | 100.0%     |
| Process and pay refund   | 5 days      | 93.0%      |
| Letter notifying estimate of retirement benefits                                       | 10 days     | 90.0%      |
| Process and pay lump sum retirement grant  | 5 days      | 95.0%      |
| Calculate and notify deferred benefits   | 10 days     | 47.0%      |

The financial indicator of administrative efficiency is determined by calculating the unit costs per member including and excluding Investments management expenses and benchmarking of unit costs against appropriate comparators. The Fund takes part in the annual CIPFA benchmarking exercise; the latest statistics show the cost of administering the Fund at £28.39 for each member.

The table below shows the movement in membership for the past five years. The Fund lost a considerable number of active members due to reduction in staff numbers in the earlier years but, with more employers joining the Fund and the introduction of auto enrolment, the number of contributing members is steadily increasing.

### 5 year analysis of membership data

| Description        | Mar-15        | Mar-14        | Mar-13        | Mar-12        | Mar-11        |
|--------------------|---------------|---------------|---------------|---------------|---------------|
| Active             | 5,239         | 4,832         | 4,543         | 4,501         | 5,024         |
| Deferred pensioner | 8,074         | 7,816         | 7,438         | 7,178         | 6,598         |
| Pensioner          | 6,626         | 6,525         | 6,394         | 6,300         | 6,167         |
| <b>TOTALS</b>      | <b>19,939</b> | <b>19,173</b> | <b>18,375</b> | <b>17,979</b> | <b>17,789</b> |

Detail of contributing members and the total contributions paid in the year is disclosed on the notes to the financial statements. In the year, the fund received £56.6m in total as



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contributions and transfers in. Of this, £20m was deficit funding from the main employer, Lambeth Council, £25.5m was received as normal employer's contributions, £9.5m as employees' contributions and £1.6m as transfers in. The fund paid out £53.1m to members as benefit and transfers.



## 7. INVESTMENT POLICY AND PERFORMANCE REPORT

The Fund made a series of changes to the way in which it approaches its investment strategy. The Triennial valuation 2013 (where funding levels improved to 72.6%) saw it introduce a new approach in which it sets its investment strategy at the same time as considering its funding strategy and contribution plan, basing all three on a sophisticated model but crucially applying a practical, qualitative (human) overlay.

Contribution rates and investment strategy were considered in tandem; balancing risk with the need for stability, in terms of certainty with regard to contribution rates. The Council as the largest employer in the Fund (99% of the total Fund) achieved more stability. The cash flow position was also considered at the same time where an in-house exercise was carried out to assess the need for cash. Once all these areas were covered, the Fund decided to adopt a de-risking strategy terminating riskier asset classes such as active currency and further seeking to implement an LDI vehicle to buy itself inflation and interest rate protection.

The Fund has invested its assets through nine external Fund managers in seven different asset classes. During 2014/15 the net assets grew by £104m; this was mainly due to the increase in the market value of the Funds' investments. The table below shows the planned asset allocation along with the actual asset allocation for the beginning and end of the financial year.

| Manager         | 2015       |            |             | 2014       |            |             |
|-----------------|------------|------------|-------------|------------|------------|-------------|
|                 | Value (£m) | Actual (%) | Planned (%) | Value (£m) | Actual (%) | Planned (%) |
| Insight         | 325.9      | 28.9       | 30.0        | 287.4      | 27.7       | 30.0        |
| MFS             | 161.6      | 14.3       | 13.5        | 134.9      | 13.0       | 11.0        |
| Majedie         | 160.8      | 14.2       | 11.0        | 150.2      | 14.5       | 11.0        |
| Baillie Gifford | 160.1      | 14.2       | 13.5        | 134.0      | 12.9       | 11.0        |
| Invesco         | 99.5       | 8.9        | 12.0        | 111.5      | 10.7       | 12.0        |
| PAAMCO          | 73.7       | 6.4        | 7.0         | 73.1       | 7.0        | 7.0         |
| Adams Street    | 44.3       | 3.9        | 5.0         | 36.1       | 3.5        | 5.0         |
| Standard Life   | 47.5       | 4.2        | 5.0         | 43.1       | 4.2        | 5.0         |
| Principal       | 0.0        | 0.0        | 0.0         | 28         | 2.7        | 5.0         |
| BlueCrest       | 30.9       | 2.7        | 3.0         | 28.8       | 2.8        | 3.0         |
| RREEF           | 1.6        | 0.1        | 0.0         | 1.9        | 0.2        | 0.0         |
| Cash Account    | 25.3       | 2.2        | 0.0         | 9.0        | 0.9        | 0.0         |
|                 | 1,131.2    | 100.0      | 100.0       | 1,038      | 100.0      | 100.0       |

The Council holds Fund managers accountable for decisions on asset allocation within the benchmark that they operate under. In order to follow the recommendations of the Myners' Committee, managers are challenged robustly and formally about asset allocation proposals. Managers' performance is reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and they are called to a Committee meeting if

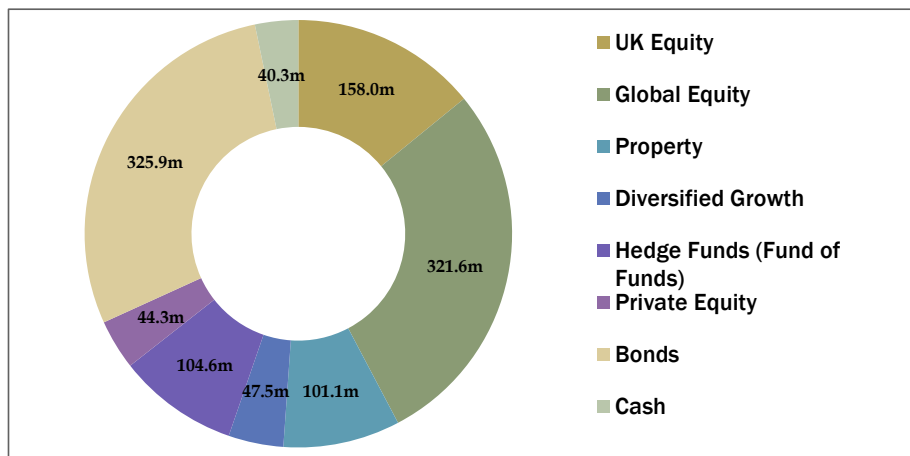
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there are issues that need to be addressed. Officers meet managers regularly and advice is taken from the Investment Adviser on matters relating to fund manager arrangements and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the SIP. The asset allocation of the Pension Fund at the start and end of the financial year is set out above.

The reason for the increase in cash held is due to the termination of the currency portfolio in April 2014 due to poor performance. The Funds released from this portfolio were invested in the State Street liquidity fund and it is classified as cash in the previous table. This cash will be used to fund an additional \$55m investment in Private equity.

The graph below shows the asset allocations by major asset classes as at 31 March 2015



The table below shows the individual fund managers performance for the quarter, one year, three years and since inspection against their benchmark.

| Manager         | Last Quarter |        | Last Year |        | Last 3 Years |          | Since Inception |          |
|-----------------|--------------|--------|-----------|--------|--------------|----------|-----------------|----------|
|                 | Fund         | B'mark | Fund      | B'mark | Fund         | B'mark   | Fund            | B'mark   |
|                 | (%)          | (%)    | (%)       | (%)    | (% p.a.)     | (% p.a.) | (% p.a.)        | (% p.a.) |
| Insight         | 3.7          | 3.2    | 13.4      | 13.1   | 9.8          | 8.7      | 10.1            | 8.9      |
| MFS             | 8.4          | 7.5    | 20.4      | 19.1   | 17.8         | 15       | 16.9            | 13.6     |
| Majedie         | 5.8          | 4.7    | 7.3       | 6.6    | 16.3         | 10.6     | 10.5            | 5.1      |
| Baillie Gifford | 9.3          | 7.6    | 19.4      | 19     | 17.2         | 14.1     | 15.7            | 12.6     |
| Invesco         | -4.9         | 0.1    | -6.2      | 0.6    | 2.5          | 0.6      | 3.7             | 0.7      |
| PAAMCO          | 2.7          | 0.1    | 1.4       | 0.6    | 7.5          | 0.6      | 6.1             | 0.7      |
| Standard Life   | 4.6          | 0.2    | 10.9      | 0.7    | 7.3          | 0.8      | 6.5             | 0.9      |
| BlueCrest       | 4.6          | 0.1    | 11.5      | 0.6    | 9.1          | 0.6      | 8.2             | 0.7      |
| RREEF           | 3.2          | 3      | 10.9      | 18.3   | 4.5          | 11.4     | -11.3           | 4.4      |
| Adams Street    | 4.8          | 0      | 15.9      | 0      | 14.8         | 0        | 0               | 0        |



**Environmental, Social and Governance:**

Good corporate management includes assessing, reporting and addressing material risks associated with corporate governance and environmental and social issues. Companies should have regard to the environmental and social consequences of their activities in all their decisions, because pro-environment and society approaches to business are usually good for the business in the long run. Where the Fund considers that disclosure on these risks is inadequate, the Fund will generally support requests for improved disclosure and this is done via quarterly meetings with managers.

- The Employers of the Fund wish to have an active influence on issues of environmental, social or governance (ESG) concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Fund requires the Fund Managers to take into account the implications of substantial “extra-financial” considerations, e.g., ESG or reputational issues that could bring a particular investment decision into the public arena.
- Whilst the Fund has no specific policy on investing or divesting in stock with regard to environmental, social and governance (ESG) issues, in comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, external Fund managers could deploy ESG considerations in deciding upon selection.
- The Pension Fund also holds expectations of its Fund managers to hold companies to account on the highest standards of behaviour and reputational risk management, which may damage long-term performance, and for those issues to be part of their stock selection criteria. Further Mercers and the Committee use these ratings when they meet our managers to interrogate them on what they have done over the quarter.
- The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. Whilst work is being undertaken to bring the share voting process in-house, managers have delegated authority to exercise the Fund’s voting rights, subject to seeking the Council’s specific approval in respect of potentially contentious issues and report quarterly on action taken.
- The Fund is an active member of the Local Authority Pension Fund Forum, , a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility. The Fund uses this forum to put its views forward on ESG issues and more recently have started to use it when it comes to voting either through proxy voting with the manager or via the LAPFF. E.g. Actively supported LAPFF along with other 100 co-filers to put resolutions before the Shell and BP 2015 AGMs on issues such as - ongoing operational emissions management; asset portfolio resilience to the International Energy Agency’s (IEA’s) scenarios; low-carbon energy research and development (R&D) and investment strategies
- The Fund will demonstrate action it has taken to show compliance with the Myners principles, where appropriate.

## 8. SCHEME ADMINISTRATION REPORT

The administration of the Lambeth Pension Scheme is undertaken in-house. The Altair Pensions Administration system is used to perform pension benefit calculations and administer the pensioner payroll. The quality of data is monitored constantly. Evidence and assurance is gained from quarterly audits and tri-annual valuations.

Key documents for Lambeth Pension Fund, including the discretionary policy statement, can be found on the Lambeth internet ([www.lambeth.gov.uk/pensions](http://www.lambeth.gov.uk/pensions)) and intranet sites.

There are plans to introduce member self-service in 2016.

The Internal Dispute Resolution Procedure is based on standard guidance for all LGPS funds. Stage 1 cases are reviewed by the Director of Co-operative Business Development; and Stage 2 cases by the Director of Corporate Affairs. In the financial year 2014/15 there were three appeals that were resolved at Stage 1, two of these related to ill-health retirement and one related to a transfer out.



## 9. ACTUARIAL REPORT ON FUNDS

### Pension Fund Accounts Reporting Requirement

#### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2014/15 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Funds funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Lambeth Pension Fund, which is in the remainder of this note.

#### Balance sheet

| Year ended                                    | 31 Mar 2015<br>£m | 31 Mar 2014<br>£m |
|---|-------------------|-------------------|
| Present value of Promised Retirement Benefits | 1,777             | 1,509             |

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2015 comprises £624m in respect of employee members, £520m in respect of deferred pensioners and £633m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

#### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £228m.



## Lambeth Pension Fund Annual Report 2014-15

### Financial assumptions

My recommended financial assumptions are summarised below:

| Year ended                       | 31 Mar 2015<br>% p.a. | 31 Mar 2014<br>% p.a. |
|----------------------------------|-----------------------|-----------------------|
| Inflation/Pensions Increase Rate | 2.40%                 | 2.80%                 |
| Salary Increase Rate             | 4.30%                 | 4.60%                 |
| Discount Rate                    | 3.20%                 | 4.30%                 |

### Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's Vita Curves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

|                    | Males      | Females    |
|--------------------|------------|------------|
| Current Pensioners | 21.7 years | 24.0 years |
| Future Pensioners* | 24.3 years | 26.6 years |

\*Future pensioners are assumed currently aged 45

### Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

### Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 22 April 2015. The covering report identifies the appropriate reliance and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Steven Law FFA

5 May 2015

For and on behalf of Hymans Robertson LLP

## 10. GOVERNANCE COMPLIANCE STATEMENT

This is the Governance Compliance Statement of the London Borough of Lambeth Pension Fund administered by the London Borough of Lambeth (“the administering authority”).

### Background

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare a written governance compliance statement.

Governance is defined as the leadership, direction and control of organisations to ensure they achieve their aims and objectives. In public service organisations particularly, these processes need to be clear and open to scrutiny.

In the past Governance of the Fund solely focused on investments with minimal importance placed on other aspects. The Fund has used the introduction of the Pensions Act 2013 as an opportunity to change these arrangements, which were deemed too narrowly focused.

A new Pensions Committee has been created with full decision making powers. The new Committee is all encompassing. It has responsibility for all Fund matters including governance, investments, funding, accounting, employer and scheme member engagement, communications and administration.

The Pensions Act 2013 also required mandatory pension boards to be in place. The role of the Board is to review the diligence of decision-making but not the decision itself. As such a new Board has also been created.

Both the new Committee and Board came into effect on 1 April 2015.

### Delegation of functions

Lambeth Council has delegated its pension fund management to the Pension Committee, ‘the Committee’.

In addition and in accordance with the Public Service Pensions Act 2013, Lambeth Council has established a local Pensions Board ‘the Board’, for the purposes of assisting the administering authority (Lambeth) in the governance of the scheme.

The Committee is advised by the Strategic Director of Enabling and the Fund’s investment consultants.

The Strategic Director of Enabling is responsible for ensuring that the in-house team provides adequate support to both the Committee and the Board. In between the Committee meetings, the fund managers’ report to the Strategic Director of Enabling on investment performance and the implementation of the investment strategy.

The Fund’s procedures are subject to audit and scrutiny by both the Council’s internal audit team and its external auditors, Deloitte LLP.

This delegation of functions complies with the current guidance issued by the Secretary of State.

### The terms, structure and operational procedures of the delegation effective from 1 April 2015

The terms of reference for the Pension Committee are:

- *Determining the overall investment strategy in accordance with the Local Government Pension Scheme (LGPS) Regulations and, ensuring that the Fund is invested in suitable types of investments and sufficiently diversified having regard to its investment objectives.*
- *Determining the Statement of Investment Principles, and modification as appropriate.*
- *Ensuring adequate monitoring and compliance with the overall investment strategy and the Statement of Investment Principles.*
- *The appointment of investment managers and any external service providers and advisers it considers to be necessary.*
- *Maintaining effective arrangements for reviewing on a regular basis investment managers' performance against established benchmarks and being satisfied as to manager expertise and the quality of their internal systems.*

**Comment [S1]:** please find attached the full ToR and in the annual report have a summarised and included only the area related investment.

**Comment [d2]:** Is this the full Terms of reference as they seem very investment focussed.

The investment managers make presentations to the Committee at its formal meetings on the Fund performance, implementation of the investment policy and any other developments. Reports to the Committee are published on the Council's website.

### The frequency of meetings

The Committee meets at least three times per year; additional meetings are convened as and when required. Notice of the meeting is sent to all members of the Council.

A yearly calendar giving details of the times and venue of the Committee's meetings is posted on the Council's website.

Committee meetings are held in the evenings at the Town Hall, Brixton and are open to members of the public.

### Representatives

The Committee draws its membership from "interested parties" as follows:

- Five elected councillor members
- One employee representative (who is a member of the Fund)
- One trade union representative
- One pensioner representative (who is a member of the Fund)

Only the councillor members have voting rights. The non-voting employee and pensioner representatives are elected through a postal ballot.

Provision is made for councillor members and representatives to undergo training sessions to assist them in making informed decisions about investments and other matters related to the Local Government Pension Scheme.

## Pensions Board

A local pension's board was established in April 2015 to assist the administering authority in the governance and administration of the Local Government Pension Scheme.

### The frequency of meetings

The Board will meet at least twice per year, but may choose to meet more regularly. A yearly calendar giving details of the times and venue of the Board's meetings is posted on the Council's website.

Meetings are held in the evenings at the Town Hall, Brixton and are open to members of the public.

### Representatives

The Board draws its membership from "interested parties" as follows:

- Three elected councillor members serving as employer representatives.
- One employee representative (who is a member of the fund)
- One trade union representative
- One pensioner representative (who is a member of the fund)

All six members have voting rights. The employee and pensioner representatives are elected through a postal ballot.

### The terms of reference for the Pension Board are:

- *Assist in securing compliance with the Scheme Regulations, the Public Service Pensions Act 2013 and any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator.*
- *Ensure the effective and efficient governance and administration of the Scheme.*

Lambeth Council will ensure that all members of both the Committee and the Board receive appropriate training and formally declare that they do not have conflicts of interest

During 2014/15, the Pension Committee's predecessor, the Pension Fund Investment Panel met every quarter to review investment performance. At each meeting, two Investment managers were asked to attend to present details of their Fund's performance and answer any questions the Panel had. The Fund advisor Mercer presented the quarterly performance report and provides advice to the panel. An attendance level for the Panel was 70% for the year. In 2014/15, Officers organised training for PFIP members in liaison with Fund Managers, the Investment Advisor, the Custodian and the Actuary. The training covered areas such as the LGPS framework, types of investment and specific training on Liability Driven Investments.

## Lambeth Pension Fund Annual Report 2014-15

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

| FUND ACCOUNT   |      | 2014/15          | 2013/14          |
|--|------|------------------|------------------|
|  | Note | £'000            | £'000            |
| <b>Dealing with members ,employers and others directly involved in the fund</b>                        |      |                  |                  |
| Contributions  | 7    | (54,959)         | (54,850)         |
| Transfer in from other pensions funds  | 8    | (1,609)          | (3,014)          |
|  |      | <b>(56,568)</b>  | <b>(57,864)</b>  |
| Benefits   | 9    | 48,381           | 47,653           |
| Payments to and on account leavers   | 10   | 4,720            | 3,362            |
|  |      | <b>53,101</b>    | <b>51,015</b>    |
| <b>Net increase in dealing with members ,employers and others directly involved in the fund</b>        |      | <b>(3,467)</b>   | <b>(6,849)</b>   |
| Management expenses  | 11   | 3,718            | 3,080            |
| <b>Returns on investments</b>  |      |                  |                  |
| Investment Income  | 12   | (31,878)         | (30,518)         |
| Tax on Income  | 13   | 682              | 505              |
| Profit and loss on disposal of investments and changes in the market value of investments and currency | 15a  | (73,413)         | (47,350)         |
| Foreign Exchange loss  |      | 245              | 0                |
| Net return on investments  |      | <b>(104,364)</b> | <b>(77,363)</b>  |
| <b>Net increase in the net assets available for benefits during the year.</b>                          |      | <b>(104,113)</b> | <b>(81,132)</b>  |
| <b>Net Assets of the fund at 1 April</b>   |      | <b>1,032,163</b> | <b>951,031</b>   |
| <b>Net Assets of the fund at 31 March</b>  |      | <b>1,136,276</b> | <b>1,032,163</b> |

| NET ASSET STATEMENT  | Notes | 2014-15<br>£'000 | 2013-14<br>£'000 |
|--|-------|------------------|------------------|
| Investment Assets  | 15    | 1,103,010        | 1,023,351        |
| Cash Deposits  | 15    | 28,143           | 5,603            |
|  |       | <b>1,131,153</b> | <b>1,028,954</b> |
| <b>Investment Liabilities</b>  |       |                  |                  |
| Borrowings   |       | -                | -                |
| <b>Current Assets</b>  | 20    | <b>18,289</b>    | <b>15,131</b>    |
| <b>Current Liabilities</b>   | 21    | <b>(13,166)</b>  | <b>(11,922)</b>  |
| Net assets of the fund available to fund benefits at the period end. |       | <b>1,136,276</b> | <b>1,032,163</b> |



## NOTE 1: DESCRIPTION OF FUND

The Lambeth Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by London Borough of Lambeth Council. The council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Lambeth Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

### a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

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

It is a contributory defined benefit pension scheme administered by Lambeth Council to provide pensions and other benefits for pensionable employees of Lambeth Council and a range of other scheduled and admitted bodies within the borough area.

The fund is overseen by the Lambeth Pension Fund Committee, which is a committee of Lambeth Council.

### b) 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 Lambeth 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.

There are 30 employer organisations within Lambeth Pension Fund including the Lambeth council itself, as detailed below.

| Lambeth Pension Fund                    | 31-Mar-15    | 31-Mar-14    |
|---|--------------|--------------|
| Number of employers with active members | 23           | 20           |
| <b>Number of employees in scheme</b>    |              |              |
| Lambeth council                         | 4,652        | 4,338        |
| Other employers                         | 587          | 496          |
| <b>Total</b>                            | <b>5,239</b> | <b>4,834</b> |
| <b>Number of pensioners</b>             |              |              |
| Lambeth council                         | 6,521        | 6,448        |
| Other employers                         | 105          | 77           |
| <b>Total</b>                            | <b>6,626</b> | <b>6,525</b> |
| <b>Deferred pensioners</b>              |              |              |
| Lambeth council                         | 7,722        | 7,533        |
| Other employers                         | 352          | 299          |
| <b>Total</b>                            | <b>8,074</b> | <b>7,832</b> |

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Currently, employer contribution rates range from 8.8% to 31% of pensionable pay.

### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

|                 | Service pre 1 April 2008   | Service post 31 March 2008   |
|-----------------|--|--|
| <b>Pension</b>  | Each year worked is worth $1/80 \times$ final pensionable salary.  | Each year worked is worth $1/60 \times$ final pensionable salary.  |
| <b>Lump sum</b> | Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Lambeth Pension Fund scheme handbook available from County Hall.

## NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* 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.

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund account – revenue recognition

#### a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises.

#### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### **c) Investment income**

##### **i) Interest income**

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

##### **ii) Dividend income**

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

##### **iii) Distributions from pooled funds**

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

##### **v) Movement in the net market value of investments**

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

#### **Fund account – expense items**

##### **d) Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

##### **e) Taxation**

The fund is a registered public service scheme under section 1(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 a fund expense as it arises.

##### **f) Management expenses**

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

##### **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

### **Oversight and governance costs**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

### **Investment management expenses**

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- Blue Crest Management – Hedge Fund -Fund of Funds

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

### **Net assets statement**

#### **h) Financial assets**

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 assets 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 fair value of asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined as follows:

#### **i) Market-quoted investments**

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

#### **ii) Fixed interest securities**

Fixed interest securities are recorded at net market value based on their current yields.

#### **iii) Unquoted investments**

The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.

Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited. Partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

**iv) Pooled investment vehicles**

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

**i) Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

**j) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**k) Financial liabilities**

The fund recognises financial liabilities 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.

**l) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

**m) Additional voluntary contributions**

Lambeth Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential, equitable life and clerical medical as its AVC provider.

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2) (b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22)

## **NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

**Unquoted private equity investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2015 was £44.3m (31 March 2014: £36.1m).

**Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

## NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

| Item   | Uncertainties  | Effect if actual results differ from assumptions   |
|--|--|--|
| <b>Actuarial present value of promised retirement benefits</b> | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. | The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £169m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £166m, and a one-year increase in assumed life expectancy would increase the liability by approximately £54m. |
| <b>Private equity</b>  | Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publically listed and as such, there is a degree of estimation involved in the valuation. The valuation shown as at 31 March 2014 is £44.3m.  | The total (called) private equity investment in the financial statement is £44.3m. There is a risk that this investment may be under-or overstated in the accounts. Private Equity is illiquid for holding until its maturity of 12 years.   |
| <b>Hedge fund of funds</b>                                     | The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge necessary. These investments are not publically listed and as such there is a degree of estimation involved in the valuation.  | The total hedge fund of funds value in the financial statements is £104.6m. There is a risk that the investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 5% in respect of the net asset values on which the hedge funds of funds valuation is based. This equates to a tolerance of +/- £5.2m.   |

## NOTE 6: EVENTS AFTER THE REPORTING DATE

There have been no events since 31 March 2015, and up to the date when these accounts were authorised that require any adjustments to these accounts.

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### NOTE 7: CONTRIBUTIONS RECEIVABLE

| Category     | 2014/15<br>£'000 | 2013/14<br>£'000 |
|--------------|------------------|------------------|
| Employer     | 45,529           | 45,910           |
| Members      | 9,430            | 8,940            |
| <b>Total</b> | <b>54,959</b>    | <b>54,850</b>    |

| Authority                 | 2014/15<br>£'000 | 2013/14<br>£'000 |
|---------------------------|------------------|------------------|
| Scheduled Bodies          | 54,220           | 54,456           |
| Admitted Bodies           | 466              | 175              |
| Community Admission body  | 187              | 157              |
| Transferee admission body | 86               | 62               |
| <b>Total</b>              | <b>54,959</b>    | <b>54,850</b>    |

| Type                                     | 2014/15<br>£'000 | 2013/14<br>£'000 |
|--|------------------|------------------|
| Employees' Normal Contribution           | 9,430            | 8,931            |
| Employers' Normal Contribution           | 25,529           | 24,154           |
| Employers' Deficit recovery Contribution | 20,000           | 21,765           |
| <b>Total</b>                             | <b>54,959</b>    | <b>54,850</b>    |

### NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

|                     | 2014/15<br>£'000 | 2013/14<br>£'000 |
|---------------------|------------------|------------------|
| Group Transfer      | 0                | 0                |
| Individual Transfer | 1,609            | 3,014            |
| <b>Total</b>        | <b>1,609</b>     | <b>3,014</b>     |

### NOTE 9: BENEFITS PAYABLE

| Category                                     | 2014/15<br>£'000 | 2013/14<br>£'000 |
|--|------------------|------------------|
| Pensions                                     | 41,119           | 39,423           |
| Commutation and Lump sum retirement benefits | 6,856            | 7,486            |
| Lump sum death benefits                      | 406              | 744              |
| <b>Total</b>                                 | <b>48,381</b>    | <b>47,653</b>    |

### NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

|                                   | 2014/15<br>£'000 | 2013/14<br>£'000 |
|-----------------------------------|------------------|------------------|
| Refund to members leaving service | 132              | 40               |
| Individual Transfers              | 4,588            | 3,322            |
| <b>Total</b>                      | <b>4,720</b>     | <b>3,362</b>     |

## NOTE 11: MANAGEMENT EXPENSES

|                                | 2014/15<br>£'000 | 2013/14<br>(Re stated)<br>£'000 |
|--------------------------------|------------------|---------------------------------|
| Administrative Cost            | 999              | 795                             |
| Investment management expenses | 2,699            | 2,285                           |
| Oversight and governance costs | 20               | -                               |
| <b>Total</b>                   | <b>3,718</b>     | <b>3,080</b>                    |

This analysis of the costs of managing the Lambeth Pension Fund during the period has been prepared in accordance with CIPFA guidance.

In 2013/14, this was disclosed separately as administrative expenses (£904k) and investment expenses (£2,176k). Also 2013/14 figures has been restated to show the actuary cost of £109k under investment management expenses as per 2014/15 CIPFA disclosure requirement.

The investment management expenses above includes £539,512 (2013/14: £375,281) in respect of performance-related fees paid to the fund's investment managers.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15a).

## NOTE 12: INVESTMENT INCOME

|   | 2014/15<br>£'000 | 2013/14<br>£'000 |
|---|------------------|------------------|
| Fixed interest Securities                               | 11,806           | 14,890           |
| Equity dividends  | 5,500            | 4,734            |
| Private Equity income                                   | 9,001            | 5,996            |
| Pooled property investments                             | 4,422            | 3,909            |
| Pooled investments - unit trust and other managed funds | 957              | 922              |
| Interest on cash deposits                               | 192              | 67               |
| <b>Total</b>  | <b>31,878</b>    | <b>30,518</b>    |

## NOTE 13: TAXES ON INCOME

|                            | 2014/15<br>£'000 | 2013/14<br>£'000 |
|----------------------------|------------------|------------------|
| Withholding tax – equities | 546              | 465              |
| Withholding tax – pooled   | 136              | 40               |
| <b>Total</b>               | <b>682</b>       | <b>505</b>       |

## NOTE 14: INVESTMENT EXPENSES

|   | 2014/15<br>£'000 | 2013/14<br>£'000 |
|---|------------------|------------------|
| Management Fees                                     | 2,511            | 2,012            |
| Custody fees  | 40               | 41               |
| Performance monitoring fees -investment consultancy | 91               | 124              |
| Actuarial Fees                                      | 57               | 108              |
| <b>Total</b>  | <b>2,699</b>     | <b>2,285</b>     |



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The total management expenses incurred for the year was £6.8m of which only £2.5m was actually remitted; the remainder was deducted in the daily pricing of the individual portfolios.

### NOTE 15: INVESTMENTS

| Investments assets         | 2014/15<br>£'000 | 2013/14<br>£'000 |
|----------------------------|------------------|------------------|
| Equities                   | 144,908          | 131,007          |
| Pooled Funds               | 13,124           | 13,776           |
| Unit Trusts                | 799,559          | 729,326          |
| UK Unit Trusts - Property  | 101,110          | 113,125          |
| Private Equity             | 44,309           | 36,117           |
| Cash Instruments           | 27,728           | 6,557            |
| Cash Deposits              | 415              | (954)            |
| Total Value of Investments | 1,131,153        | 1,028,954        |

### NOTE 15A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS

| Investment Managers          | 01-Apr-14<br>£'000 | Purchases<br>£'000 | Sales<br>£'000   | Realised gain/(loss)<br>£'000 | Unrealised gain/(loss)<br>£'000 | Un analysed Movement<br>£'000 | 31-Mar-15<br>£'000 |
|------------------------------|--------------------|--------------------|------------------|-------------------------------|---------------------------------|-------------------------------|--------------------|
| Adams Street                 | 36,117             | 8,980              | 0                | 0                             | (788)                           | 0                             | 44,309             |
| Insight                      | 287,376            | 11,806             | (2)              | 0                             | 26,677                          | 0                             | 325,857            |
| Baillie Gifford              | 134,036            | 0                  | 0                | 0                             | 26,032                          | 0                             | 160,068            |
| Blue Crest                   | 28,758             | 0                  | 0                | 0                             | 2,135                           | 0                             | 30,893             |
| Invesco                      | 111,539            | 0                  | 0                | 0                             | (12,087)                        | 0                             | 99,452             |
| Majedie                      | 150,006            | 84,743             | (79,985)         | 7,318                         | (1,282)                         | 0                             | 160,800            |
| MFS                          | 134,891            | 232                | 0                | 0                             | 26,456                          | 0                             | 161,579            |
| PAAMCO                       | 73,116             | 0                  | 0                | 0                             | 564                             | 0                             | 73,680             |
| Principal                    | 28,025             | 64                 | (27,864)         | (9,762)                       | 9,537                           | 0                             | 0                  |
| RREEF                        | 1,586              | 0                  | (54)             | (663)                         | 789                             | 0                             | 1,658              |
| Standard Life                | 43,127             | 0                  | 0                | 0                             | 4,356                           | 0                             | 47,483             |
| State street- Liquidity Fund | 0                  | 24,990             | 0                | 0                             | 0                               | 0                             | 24,990             |
| Cash                         | 377                | 0                  | 0                | 0                             | 0                               | 7                             | 384                |
| <b>TOTAL</b>                 | <b>1,028,954</b>   | <b>130,815</b>     | <b>(107,905)</b> | <b>(3,107)</b>                | <b>82,389</b>                   | <b>7</b>                      | <b>1,131,153</b>   |

Transaction costs are included in the cost of purchases and in sales proceeds. These include costs charged directly to the Fund, such as fees, commissions, stamp duty and other fees. Transactions cost incurred during the year total £362k (£381k in 2013/14). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

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| Investment Managers | 01-Apr-13      | Purchases      | Sales           | Realised gain/(loss) | Unrealised gain/(loss) | Un analysed Movement | 31-Mar-14        |
|---------------------|----------------|----------------|-----------------|----------------------|------------------------|----------------------|------------------|
|                     | £'000          | £'000          | £'000           | £'000                | £'000                  | £'000                | £'000            |
| Adams Street        | 36,557         | 2,623          | 0               | 0                    | (3,063)                | 0                    | 36,117           |
| Insight             | 279,787        | 9,175          | (161)           | 0                    | (1,425)                | 0                    | 287,376          |
| Baillie Gifford     | 118,856        | 0              | 0               | 0                    | 15,180                 | 0                    | 134,036          |
| Blue Crest          | 28,254         | 0              | 0               | 0                    | 504                    | 0                    | 28,758           |
| Invesco             | 93,255         | 18,529         | 0               | 0                    | (245)                  | 0                    | 111,539          |
| Majedie             | 123,255        | 103,203        | (97,500)        | 16,041               | 5,007                  | 0                    | 150,006          |
| MFS                 | 124,715        | 204            | 0               | 0                    | 9,972                  | 0                    | 134,891          |
| PAAMCO              | 65,742         | 0              | 0               | 0                    | 7,374                  | 0                    | 73,116           |
| Principal           | 32,843         | 71             | 0               | 0                    | (4,889)                | 0                    | 28,025           |
| RREEF               | 1,417          | 0              | 0               | 0                    | 169                    | 0                    | 1,586            |
| Standard Life       | 41,732         | 0              | 0               | 0                    | 1,395                  | 0                    | 43,127           |
| Cash                | 10,682         | 0              | 0               | 0                    | 0                      | (10,305)             | 377              |
| <b>TOTAL</b>        | <b>957,095</b> | <b>133,805</b> | <b>(97,661)</b> | <b>16,041</b>        | <b>29,979</b>          | <b>(10,305)</b>      | <b>1,028,954</b> |

### NOTE 15B: ANALYSIS OF INVESTMENTS

#### Investment Analysed by Fund Managers

|                 | 2014/15<br>£'000 | %            | 2013/14<br>£'000 | %            |
|-----------------|------------------|--------------|------------------|--------------|
| Adam Street     | 44,309           | 3.9          | 36,117           | 3.5          |
| Baillie Gifford | 160,068          | 14.2         | 134,036          | 13.0         |
| Blue Crest      | 30,893           | 2.7          | 28,758           | 2.8          |
| Invesco         | 99,452           | 8.8          | 111,539          | 10.8         |
| Insight         | 325,856          | 28.8         | 287,376          | 27.9         |
| Majedie         | 160,801          | 14.2         | 150,006          | 14.6         |
| MFS             | 161,579          | 14.3         | 134,891          | 13.1         |
| PAAMCO          | 73,680           | 6.5          | 73,116           | 7.2          |
| Principal       | 0                | -            | 28,025           | 2.7          |
| RREEF           | 1,658            | 0.1          | 1,586            | 0.2          |
| Standard Life   | 47,483           | 4.2          | 43,127           | 4.2          |
| State Street    | 25,374           | 2.3          | 377              | -            |
| <b>TOTAL</b>    | <b>1,131,153</b> | <b>100.0</b> | <b>1,028,954</b> | <b>100.0</b> |

## NOTE 16: FINANCIAL INSTRUMENTS

### NOTE 16A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period

|                                | 2014/15   |                       |  | 2013/14  |                       |  |
|--------------------------------|---|-----------------------|--|--|-----------------------|--|
|                                | Designated<br>as fair value<br>through profit<br>& loss | Loans &<br>Receivable | Financial<br>Liabilities at<br>amortised<br>cost | Designated<br>as fair<br>value<br>through<br>profit & loss | Loans &<br>Receivable | Financial<br>Liabilities at<br>amortised<br>cost |
|                                | £'000   | £'000                 | £'000  | £'000  | £'000                 | £'000  |
| <b>Financial Assets</b>        |   |                       |  |  |                       |  |
| Equities                       | 144,908   | 0                     | 0  | 131,007  | 0                     | 0  |
| Pooled funds                   | 13,124  | 0                     | 0  | 13,776   | 0                     | 0  |
| Unit trust                     | 799,559   | 0                     | 0  | 729,327  | 0                     | 0  |
| Pooled property<br>Investments | 101,110   | 0                     | 0  | 113,125  | 0                     | 0  |
| Private Equity                 | 44,309  | 0                     | 0  | 36,117   | 0                     | 0  |
| Cash and cash Instruments      | 0   | 40,084                | 0  | 0  | 14,619                | 0  |
| Debtors                        | 0   | 6,348                 | 0  | 0  | 6,115                 | 0  |
|                                | 1,103,010   | 46,432                | 0  | 1,023,352  | 20,734                | 0  |
| <b>Financial Liabilities</b>   |   |                       |  |  |                       |  |
| Creditors                      | 0   | 0                     | (13,166)   | 0  | 0                     | (11,922)   |
| <b>Total</b>                   | 1,103,010   | 46,432                | (13,166)   | 1,023,352  | 20,734                | (11,922)   |

### NOTE 16B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

The net gain or loss through profit and loss on financial assets was £73.4m (£47.3m 2013/14)

### NOTE 16C: FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

There is no difference between the fair value and carrying value of the financial instruments and liabilities.

## NOTE 16D: 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. The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

| Values as 31 March 2015                                | Quoted market price | Using observable inputs | With significant unobservable inputs |                  |
|--|---------------------|-------------------------|--------------------------------------|------------------|
|  | Level 1             | Level 2                 | Level 3                              | Total            |
|  | £'000               | £'000                   | £'000                                | £'000            |
| <b>Financial Assets</b>                                |                     |                         |                                      |                  |
| Financial assets at fair value through profit and loss |                     |                         |                                      |                  |
| <b>Equity</b>  | <b>144,908</b>      | <b>0</b>                | <b>0</b>                             | <b>160,770</b>   |
| <b>Pooled funds</b>                                    | <b>13,124</b>       | <b>0</b>                | <b>0</b>                             | <b>13,124</b>    |
| <b>Unit Trust</b>                                      | <b>694,986</b>      | <b>0</b>                | <b>104,573</b>                       | <b>799,560</b>   |
| <b>Property- Unit trust</b>                            | <b>0</b>            | <b>101,110</b>          | <b>0</b>                             | <b>101,110</b>   |
| <b>Private Equity</b>                                  | <b>0</b>            | <b>0</b>                | <b>44,309</b>                        | <b>44,309</b>    |
| <b>Cash</b>  | <b>28,143</b>       | <b>0</b>                | <b>0</b>                             | <b>28,143</b>    |
| <b>Total</b>   | <b>881,161</b>      | <b>101,110</b>          | <b>148,882</b>                       | <b>1,131,153</b> |

| Values as 31 March 2014                                | Quoted market price | Using observable inputs | With significant unobservable inputs |                  |
|--|---------------------|-------------------------|--------------------------------------|------------------|
|  | Level 1             | Level 2                 | Level 3                              | Total            |
|  | £'000               | £'000                   | £'000                                | £'000            |
| <b>Financial Assets</b>                                |                     |                         |                                      |                  |
| Financial assets at fair value through profit and loss |                     |                         |                                      |                  |
| <b>Equity</b>  | <b>131,007</b>      | <b>0</b>                | <b>0</b>                             | <b>131,007</b>   |
| <b>Pooled funds</b>                                    | <b>13,776</b>       | <b>0</b>                | <b>0</b>                             | <b>13,776</b>    |
| <b>Unit Trust</b>                                      | <b>627,452</b>      | <b>0</b>                | <b>101,874</b>                       | <b>729,326</b>   |
| <b>Property- Unit trust</b>                            | <b>0</b>            | <b>113,125</b>          | <b>0</b>                             | <b>113,125</b>   |
| <b>Private Equity</b>                                  | <b>0</b>            | <b>0</b>                | <b>36,117</b>                        | <b>36,117</b>    |
| <b>Cash</b>  | <b>5,603</b>        | <b>0</b>                | <b>0</b>                             | <b>5,603</b>     |
| <b>Total</b>   | <b>777,838</b>      | <b>113,125</b>          | <b>137,991</b>                       | <b>1,028,954</b> |

## NOTE 17: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and Risk Management

The Fund's primary long term risk is that the Fund's asset will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manage these investments risks as part of its overall Pension Fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

## a) Market

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

### Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund investments increased/decreased the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

| Asset Type                                    | Value as at 31<br>Mar 15<br>£'000 | Percentage<br>Change<br>% | Value on<br>Increase<br>£'000 | Value on<br>decrease<br>£'000 |
|---|-----------------------------------|---------------------------|-------------------------------|-------------------------------|
| <b>Cash and cash equivalents</b>              | 40,084                            | -                         | 40,084                        | 40,084                        |
| <b>Investment Portfolio assets:</b>           |                                   |                           |                               |                               |
| Equities & Pooled Fund                        | 158,032                           | 10.30%                    | 174,310                       | 141,755                       |
| Global Equities- Unit Trust                   | 321,647                           | 8.96%                     | 350,467                       | 292,828                       |
| Property - Unit Trust                         | 101,110                           | 3.63%                     | 104,780                       | 97,440                        |
| Diversified Growth - Unit Trust               | 47,483                            | 3.28%                     | 49,041                        | 45,926                        |
| Hedge Fund - Unit Trust                       | 104,573                           | 4.20%                     | 108,965                       | 100,181                       |
| Corporate Bond - Unit Trust                   | 325,856                           | 5.77%                     | 344,658                       | 307,054                       |
| Private Equity                                | 44,309                            | 5.18%                     | 46,604                        | 42,014                        |
| Investment income due and other debtors       | 6,348                             | -                         | 6,348                         | 6,348                         |
| Amount payable to Inland revenue              | (22)                              | -                         | (22)                          | (22)                          |
| Outstanding settlements                       | (5,890)                           | -                         | (5,890)                       | (5,890)                       |
| Amount payable to LB Lambeth                  | (7,254)                           | -                         | (7,254)                       | (7,254)                       |
| <b>Total assets available to pay benefits</b> | <b>1,136,276</b>                  |                           | <b>1,212,090</b>              | <b>1,059,795</b>              |

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| Asset Type                                    | Value as at<br>31 Mar 14<br>£'000 | Percentage<br>Change<br>% | Value on<br>Increase<br>£'000 | Value on<br>decrease<br>£'000 |
|---|-----------------------------------|---------------------------|-------------------------------|-------------------------------|
| <b>Cash and cash equivalents</b>              | 14,620                            | 0                         | 14,620                        | 14,620                        |
| <b>Investment Portfolio assets:</b>           |                                   |                           |                               |                               |
| Equities                                      | 120,001                           | 12.26%                    | 134,713                       | 105,289                       |
| Global Equities- Unit Trust                   | 293,709                           | 11.22%                    | 326,663                       | 260,755                       |
| Property - Unit Trust                         | 113,125                           | 2.74%                     | 116,225                       | 110,025                       |
| Active currency - Unit Trust                  | 28,025                            | 6.77%                     | 29,922                        | 26,128                        |
| Diversified Growth - Unit Trust               | 43,127                            | 4.43%                     | 45,038                        | 41,216                        |
| Hedge Fund - Unit Trust                       | 101,874                           | 4.48%                     | 106,438                       | 97,310                        |
| Corporate Bond - Unit Trust                   | 287,372                           | 5.31%                     | 302,633                       | 272,113                       |
| Private Equity                                | 36,117                            | 5.28%                     | 38,024                        | 34,210                        |
| Investment income due                         | 6,115                             | 0                         | 6,115                         | 6,115                         |
| Amount payable to Inland revenue              | (9)                               | 0                         | (9)                           | (9)                           |
| Amount payable to LB Lambeth                  | (11,913)                          | 0                         | (11,913)                      | (11,913)                      |
| <b>Total assets available to pay benefits</b> | <b>1,032,163</b>                  |                           | <b>1,108,469</b>              | <b>955,859</b>                |

### Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments 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.

The fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| Asset Type                | Carrying amount as at<br>31 Mar 15<br>£'000 | Carrying amount as<br>at 31 Mar 14<br>£'000 |
|---------------------------|---|---|
| Investment Cash           | 28,143                                      | 6,557                                       |
| Cash Balances             | 11,941                                      | 8,062                                       |
| Fixed interest Securities | 325,856                                     | 287,373                                     |
| <b>Total</b>              | <b>365,940</b>                              | <b>301,992</b>                              |

### Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

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 +/- 100 BPS change in interest rates.

| Asset Type                          | Carrying amount<br>as at 31 Mar 15<br>£'000 | Effect on asset values |                 |
|-------------------------------------|---|------------------------|-----------------|
|                                     |   | +100BPS                | -100BPS         |
| Investment Cash                     | 28,143                                      | 2,814                  | (2,814)         |
| Cash Balances                       | 11,941                                      | 1,194                  | (1,194)         |
| Fixed interest Securities           | 325,856                                     | 32,586                 | (32,586)        |
| <b>Total change in assets value</b> | <b>366,940</b>                              | <b>36,594</b>          | <b>(36,594)</b> |

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| Income Source                            | Carrying amount as<br>at 31 Mar 15 | Effect on asset values |              |
|--|------------------------------------|------------------------|--------------|
|  | £'000                              | +100BPS                | -100BPS      |
| Cash deposits/ cash and cash equivalents | 192                                | 19                     | (19)         |
| Fixed interest Securities                | 8,771                              | 877                    | (877)        |
| <b>Total change in income receivable</b> | <b>8,963</b>                       | <b>896</b>             | <b>(896)</b> |

This analysis demonstrates that a 10% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the fund's currency exposure as at 31 March 2015 and as at the previous period end.

### Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the council considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one standard deviation).

A 13% fluctuation in the currency is considered reasonable based on the fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant. A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows

| Currency exposure - asset Type          | Asset value as<br>at 31 March<br>2015 | Change in Net assets available to pay benefits |                 |
|---|---------------------------------------|--|-----------------|
|   | £'000                                 | +13%<br>£'000                                  | -13%<br>£'000   |
| Global Equities                         | 353,117                               | 45,905   | (45,905)        |
| Private Equity                          | 44,309                                | 5,760  | (5,760)         |
| Property                                | 101,110                               | 13,144   | (13,144)        |
| <b>Total change in assets available</b> | <b>467,066</b>                        | <b>64,809</b>                                  | <b>(64,809)</b> |

| Currency exposure - asset type          | Asset value as at<br>31 March 2014 | Change in Net assets available to pay benefits |                 |
|---|------------------------------------|--|-----------------|
|   | £'000                              | +13%<br>£'000                                  | -13%<br>£'000   |
| Global Equities                         | 293,709                            | 38,182   | (38,182)        |
| Private Equity                          | 36,117                             | 4,695  | (4,695)         |
| Property                                | 111,542                            | 14,500   | (14,500)        |
| <b>Total change in assets available</b> | <b>441,368</b>                     | <b>57,377</b>                                  | <b>(57,377)</b> |

### b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an

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assessment of credit 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 council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2015 was £40.3m (31 March 2014: £16m). This was held with the following institutions.

| Summary                                  | Rating | 31-Mar-15<br>£'000 | 31-Mar-14<br>£'000 |
|--|--------|--------------------|--------------------|
| <b>Money Market Funds</b>                |        |                    |                    |
| State Street- Liquidity Fund             | AAA    | 25,405             | 377                |
| Majedie Asset Management                 |        | 2,738              | 6,557              |
| <b>Bank deposits and current account</b> |        |                    |                    |
| Royal Bank of Scotland                   | A      | 11,941             | 9,017              |
| <b>Total</b>                             |        | <b>40,084</b>      | <b>15,951</b>      |

### Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The council has immediate access to its pension fund cash holding.

### NOTE 18: FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will take place as at 31 March 2016.

*The key elements of the funding policy are:*

- to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment.
- to ensure that employer contribution rates are as stable as possible.
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return.
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so.
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases a maximum period of 12 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the 2013 actuarial valuation, the fund was assessed as 72.6% funded (72.5% at the March 2010 valuation). This corresponded to a deficit of £359m (2010 valuation: £290m) at that time.

Contribution increases were phased in over the three-year period ending 31 March 2017 for both scheme employers and admitted bodies. The common contribution rate (i.e. the rate which all employers in the fund pay) is 16.8% till the next triennial valuation in 2016.



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Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the funding strategy statement on the fund's website.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows.

### Financial assumptions

| Investment Return (discount rate) | 4.60% | Based on 25 year bond returns extrapolated to reflect the duration of the fund's Liability |
|-----------------------------------|-------|--|
| Inflation                         | 3.30% | Assumed to be RPI  |
| Salary Increase                   | 4.30% |  |
| Pension Increase                  | 2.50% | Assumed be 0.5% less than RPI  |

### Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was as follows.

| Mortality assumptions at age 65            | Male       | Female     |
|--|------------|------------|
| Current Pensioners                         | 21.7 years | 24.0 years |
| Future Pensioners (assumed current age 45) | 24.3 years | 26.6 years |

### Historic mortality assumptions

Life expectancy for the year ended 31 March 2013 are based on PFA92 and PMA92 actuarial tables. The allowances for future life expectancy are as follows.

| Prospective pensioners  | Current pensioners  |
|---|---|
| Year of birth, medium cohort and 1% per annum minimum improvement from 2010 | Year of birth, medium cohort and 1% per annum minimum improvement from 2010 |

### Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

### NOTE 19: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also used valued ill health and death benefits in line with IAS 19.

Calculated on an IAS 19 basis, the actuarial present value of promised retirement benefits at 31 March 2015 was £1,777m (31 March 2014: £1,509m). The net assets available to pay benefits as at 31 March 2015 was £1,135.3m (31 March 2014: £1,032.1m). The implied fund deficit as at 31 March 2014 was therefore £641.7m (31 March 2014: £476.9m).

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2013 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

### Assumptions used

|  |      |
|--|------|
| Inflation/pension increase rate assumption | 2.4% |
| Salary increase rate                       | 4.3% |
| Discount rate                              | 3.2% |

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### NOTE 20: CURRENT ASSETS

|                                 | 31-Mar-15<br>£'000 | 31-Mar-14<br>£'000 |
|---------------------------------|--------------------|--------------------|
| <b>Debtors</b>                  |                    |                    |
| Accrued income receivable       | 6,317              | 6,115              |
| Pension payroll control account | 31                 | 0                  |
| Cash Balances                   | 11,941             | 9,016              |
| <b>Total</b>                    | <b>18,289</b>      | <b>15,131</b>      |

### NOTE 21: CURRENT LIABILITIES

|                                  | 31-Mar-15<br>£'000 | 31-Mar-14<br>£'000 |
|----------------------------------|--------------------|--------------------|
| Inland Revenue                   | 22                 | 9                  |
| Outstanding settlements          | 5,890              | 0                  |
| Due to London Borough of Lambeth | 7,254              | 11,913             |
| <b>Total</b>                     | <b>13,166</b>      | <b>11,922</b>      |

### NOTE 22: ADDITIONAL VOLUNTARY CONTRIBUTIONS

| Name             | Market Value<br>31-Mar-15 | Market Value<br>31-Mar-14 |
|------------------|---------------------------|---------------------------|
| Prudential       | 1,208                     | 1,059                     |
| Equitable Life   | 243                       | 453                       |
| Clerical Medical | 105                       | 262                       |
| <b>Total</b>     | <b>1,556</b>              | <b>1,774</b>              |

### NOTE 23: RELATED PARTY TRANSACTIONS

Lambeth Council administers the Lambeth Pension Fund. Consequently, there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £1.0m (2013/14: £0.9m) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £41.7m to the fund in 2014/15 (2013/14: £42.9m). The amount payable to the council as at 31 March 2015 shown as current liability.

#### Governance

There are no elected members of the Pension Fund Investment Panel (PFIP) who are in receipt of pension benefits from the Lambeth Pension Fund but two pensioner representatives are in receipt of pension benefits from the Lambeth Pension Fund. In addition, PFIP staff representatives D.Okechukwu and L.Osborne, and trade union representative J Rogers are active members of the pension fund.

Each member of the PFIP is required to declare their interests at each meeting.

### NOTE 24: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The total commitments as at 31 March 2015 is £88.3m and the outstanding capital commitments (investments) is £35.1m (31 March 2014: total commitment £51.3m and outstanding was £6.9m).

These commitments relate to outstanding call payments due on Private Equity parts of portfolio. The amounts 'called' by this fund are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

### NOTE 25: CONTINGENT ASSETS

Admitted body employers in the Lambeth Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

## 12. FUNDING STRATEGY STATEMENT

The Funding Strategy Statement has been prepared by the Administering Authority in collaboration with the Fund's actuary Hymans Robertson, and after consultation with the Fund's employers and investment adviser. The Funding Strategy Statement was reviewed and updated in May 2014 following the 2013 triennial valuation. This statement covers the Fund and its policies in respect of the following areas:

- Purpose of the Pension Fund.
- Aims of the funding policy.
- Solvency issues and target funding levels.
- Identification of risks and counter measures.
- Links to investment policy set out in the Statement of Investment Principles.

The full version of the Funding Strategy Statement is attached as appendix 2 to this report and also available on the Pension Fund's website at [www.lambeth.gov.uk/pensions](http://www.lambeth.gov.uk/pensions).

## 13. STATEMENT OF INVESTMENT PRINCIPLES

Lambeth Council is responsible for administering the Lambeth Pension Fund under the Local Government Pension Scheme (LGPS) Regulations.

The Council has a duty to ensure that scheme funds not immediately required to pay pension benefits are suitably invested and to take proper advice in the execution of this function. It has delegated responsibilities to the Pension Fund Investment Panel subject to approval by Corporate Committee

The statement was made in accordance with regulation 5 of the Local Government Pension Scheme Regulation 1999. In preparing this statement, the Panel has taken professional advice. The statement is subject to periodic review and it was last reviewed and updated in April 2014. The statement covers:-

- Funding objective.
- Investment objectives and ways to achieve.
- Social responsible investment.
- Exercise of voting rights.
- Asset allocation by fund manager.

The full version of the Statement of Investment Principles is attached as appendix 1 to this report and also available on the Pension Fund's website at [www.lambeth.gov.uk/pensions](http://www.lambeth.gov.uk/pensions).

#### 14. COMMUNICATIONS POLICY STATEMENT

As required by the Regulation 67 of the Administration Regulations the fund prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities.

Effective communication with all members and Scheme Employers is very important. The Fund's Communications Policy Statement formalises the processes by which this will be achieved. The full version of the communication policy attached as appendix 3 to this report also available on the Fund's website at [www.lambeth.gov.uk/pensions](http://www.lambeth.gov.uk/pensions).

The Fund uses the following ways to provide up-to-date and accurate information to its members.

##### Website

The Fund's dedicated website has all the relevant information on joining the Pension Fund, Fund performance, and latest changes in LGPS Regulations.

Website: [www.lambeth.gov.uk/pensions](http://www.lambeth.gov.uk/pensions)

##### Annual Reports

The Lambeth Pension Fund Annual Report will be available to all Scheme Employees. The Annual Report has the Fund Statement of Account for the year ended 31 March and further useful information on Fund operations. The annual report is also available on the Fund webpage.

##### Annual Benefit Statements

Annual Benefit Statements are sent out to all active and deferred members. This statement provides details of their pension benefits. It is hoped that our members find them a useful aid in assessing the benefits they have accrued and their prospective benefits at retirement. The Fund plans to continue improving and updating the statements to ensure the information provided is accurate, clear and understandable.

##### Contact Details:

###### Pension Administration

Lambeth Pension Services  
1st Floor, Olive Morris House  
18, Brixton Hill, Brixton  
London SW2 1RL  
Telephone: 0207 926 9572  
email: [pensions@lambeth.gov.uk](mailto:pensions@lambeth.gov.uk)

###### Investment Management

Treasury and Pension Fund  
9th Floor, Phoenix House  
10 Wandsworth Road  
Vauxhall  
London SW8 2LL  
Telephone: 02079269786  
Email: [pensionfund@lambeth.gov.uk](mailto:pensionfund@lambeth.gov.uk)

## 15. COMPLIANCE STATEMENT

The purpose of this Compliance Statement is primarily to disclose some additional information required by law but which is not considered to be of such significance to Members.

### Taxation

The Fund is approved under the Income and Corporation Taxes Act 1988. Although exempt from UK income and capital gains taxes, the Fund is unable to recover the tax credit on UK dividends.

### Statement of Investment Principles

In accordance with the Pension Act 1995, the Fund has produced a Statement of Investment Principles which is reviewed at intervals of not more than three years; copies are available on request or can be accessed from the Fund website.

### Transfer Values

Transfer values for Members leaving pensionable service during the year were calculated in accordance with the Pension Schemes Act 1993, (as amended by the Pensions Act 1995). No transfer values were reduced because of under-funding. The Rules of the Fund have always provided that deferred pensioners may transfer the value of their benefits to another approved scheme at any time before any benefits have been paid from the Fund.

### Pension Increases

Pensions are increased in accordance with the pension increase (Review) Order 2009 Statutory Instrument 2009 No 692.

## 16. STATEMENT OF RESPONSIBILITIES

### 1. Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs (usually that officer is the S151 officer who in the Council's case is the Strategic Director of Enabling);
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the statement of accounts.

### 2. The Strategic Director of Enabling Responsibilities

The Director of Strategic Enabling is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Government Accounting.

In preparing this statement of accounts, the Strategic Director of Enabling has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Take reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the Lambeth Pension Fund as at 31 March 2015 and its income and expenditure for the year then ended.



**Christina Thompsons**  
Director of Finance

## **17. INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF LAMBETH ON THE PENSION FUND FINANCIAL STATEMENTS**

### **Opinion on the pension fund accounting statements**

We have audited the pension fund financial statements for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of London Borough of Lambeth Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Strategic Director of Enabling and auditor**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Enabling; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



***Opinion on financial statements***

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and the amount and disposition of the fund's assets and liabilities as at 31 March 2015, other than liabilities to pay pensions and other benefits after the end of the scheme year.; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

**Opinion on other matters**

In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

**Matters on which we report by exception**

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.



Susan Barratt BA ACA  
For and on behalf of Deloitte LLP  
Appointed Auditor  
Reading, United Kingdom  
22 September 2015



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