
Pension Fund Accounts

SECTION 7

**PENSION FUND
ACCOUNTS**

2014/2015

Pension Fund Accounts

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2014/15.

The Pension Fund's value rose over the year by £138m, mainly due to an increase in stock valuation during the year.

INTRODUCTION

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

ORGANISATION

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

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

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

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

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

<http://www.lewishampensions.org/>

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 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 the obligations to pay pensions and benefits which fall due after the end of the financial year. In respect of future obligations, the actuarial present value of promised retirement benefits is valued on an International Accounting Standard (IAS) 19 basis.

The Local Government Pension Scheme (Administration) Regulations 2008 requires administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund

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Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Regulations summarise the Pension Code and the minimum disclosure requirements.

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

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

- (a) **Basis of Preparation** - The accounts have been prepared on an accruals basis (i.e. income and expenditure attributable to the financial year have been included) even where payment has not actually been made or received, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (b) **Investments** - Investments in the Net Assets Statement are shown at market value based on bid prices, as required by the 2014/15 Local Authority Code of Practice and the IAS 26 Retirement Benefit Plans. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.
- (c) The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.
- (d) **Income** - Dividend income earned from equity and bonds (excluding Private Equity) is reinvested by Investment Managers and not repaid directly to the fund

as cash. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors.
- (e) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31st March 2015 is the actual fair value using the latest available valuation on or after 31st December 2014, plus an estimated valuation for the period up to 31st March 2015.
- (f) **Property** - The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards on the basis of their open market value (OMV).

The only-non UK fund is the Continental European Fund 1. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies. All the funds are independently valued on a rolling basis at least annually.
- (g) **Financing** - The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Due to timing differences in the valuation of this investment, the value carried in the

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accounts as at 31st March 2015 is the actual fair value using the latest available valuation on or after 31st December 2014, plus an estimated valuation for the period up to 31st March 2015.

- (h) **Commodities** - The fair value of the Investec commodities is based on their quoted market prices at the Balance Sheet date. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for a non-exchange traded financial instrument, the fair value of the instrument is estimated using Investec's valuation techniques.
- (i) **Contributions** - These represent the total amounts received from the employers and employees within the scheme. From 1st April 2014 the employee contribution bands (revised annually in line with inflation) increased to nine ranging from 5.5% for members earning up to £13,500 a year to 12.5% for members earning over £150,001 a year.

Full Time Pay for the Post	Contribution Rate 2014/15
Up to £13,500	5.50%
£13,501 to £21,000	5.80%
£21,001 to £34,000	6.50%
£34,001 to £43,000	6.80%
£43,001 to £60,000	8.50%
£60,001 to £85,000	9.90%
£85,001 to £100,000	10.50%
£101,000 to £150,000	11.40%
More than £150,001	12.50%

The employer's contribution is reviewed every three years and is determined by the fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation. The employer's contribution rate for 2014/15 is 21.5%, in 2015/16 it will be 22%.

Last year the contributions bands were as follows:

Full time pay for the post	Contribution rate 2013/14
Up to £13,700	5.50%
£13,701 to £16,100	5.80%
£16,101 to £20,800	5.90%
£20,801 to £34,700	6.50%
£34,701 to £46,500	6.80%
£46,501 to £87,100	7.20%
More than £87,100	7.50%

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

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

The most recent actuarial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2013.

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

Financial Assumption	March 2013 (%)	March 2010 (%)
Discount Rate	4.6	6.1
Price Inflation	3.3	3.8
Pay Increases	4.3	5.3*
<u>Pension Increase:</u>		
Pension in excess of GMP	2.5	3.3
Post-88 GMP	2.5	2.8
Pre-88 GMP	0.0	0.0
Revaluation of Deferred Pension	2.5	3.3
Expenses	0.7	0.6

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

With effect from the 1 April 2014, the actuarial review carried out for 31 March 2013 resulted in no increase to the Council's contribution rate of 21.5% for 2014/15. There will be annual increases of 0.5% for the subsequent two years (2015/16 and 2016/17). The next actuarial valuation of the Fund will be carried out as at 31 March 2016, with new employer contribution rates taking effect from 1 April 2017.

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

Actuarial Present Value of Promised Retirement Benefits

- (o) The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1,683 million as at 31st March 2015 (£1,416 million 31st March 2014).
- (p) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.
- (q) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
 - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
 - Dividend receipts: the rate applicable on the day prior to the date the dividend is received is used.

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(r) 2014/15 Financial Year Summary of the Fund's Market Value

Fund Manager	Assets	Assets Value 31/03/15 £000	Proportion of the Fund 31/03/15 %	Assets Value 31/03/14 £000
Schroders Property	Property	88,262	8	76,179
HarbourVest	Private Equity	44,167	4	39,136
UBS	Passive Equity and Bonds	433,052	42	371,042
Blackrock	Passive Equity and Bonds	433,790	42	369,472
Investec	Commodities	31,784	3	33,651
M&G	Credit	14,447	1	13,981
Securities Lending	Securities Lending	100	0	93
Unallocated Funds	Cash	198	0	1,202
Lewisham	Cash and Net Current Assets	(3,242)	0	38
Total Fund		1,042,558	100	867,549

- (s) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts. Please see note 13.
- (t) Financial Instruments –
- (i) Financial Liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.
- (ii) Financial Assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial Assets are classified into two types:
- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
 - Fair value through profit or loss – assets that are held for trading.
- (u) Critical Judgements in Applying Accounting Policies and Assumptions made about the Future and other Major Sources of Estimation Uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the future or that are otherwise uncertain. There are two areas in the accounts where critical judgements are applied which are materially significant to the accounts:
- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of assumptions including the discount rate, mortality rates and expected returns on fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised.
 - Private Equity and M&G valuations – the value of the Fund's private equity holdings is calculated by the General Partners of the fund on the basis of their Valuation Policy, which follows best practice in the industry. However this is based upon a 31 December audited accounts valuation adjusted for distributions and capital calls up to 31 March.
- (v) Additional Voluntary Contributions ("AVCs")
Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main fund, and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed within transfers-in. Further details about the AVC arrangements are disclosed in note 15 to the financial statements.

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FUND ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2015

The Fund Account shows the surplus or deficit on the fund for the year.

	2014/15 £000	2013/14 £000	See note
<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME</u>			
Contributions Receivable:			
- from Employers	(30,471)	(29,147)	1
- from Employees	(9,774)	(9,095)	1
- reimbursement for Early Retirement from Employers	(1,604)	(1,380)	
Transfer Values In	(1,572)	(1,407)	
Other Income	(3)	(11)	
Sub-Total: Income	(43,424)	(41,040)	
Benefits Payable:			
- Pensions	35,476	33,841	2
- Lump Sums: Retirement allowances	8,478	6,539	
- Lump Sums: Death grants	528	368	
Payments to and on account of leavers:			
- Refunds of Contributions	52	3	3
- Transfer Values Out	3,190	2,012	
Administrative and other expenses borne by the scheme	941	836	3
Sub-Total: Expenses	48,665	43,599	
Total Net (additions) / withdrawals from Dealings with Scheme Members	5,241	2,559	
<u>RETURNS ON INVESTMENTS</u>			
Investment Income	(6,978)	(5,477)	4
Change in market value of investments (realised & unrealised)	(137,859)	(36,147)	5
Investment Expenses:			
- Investment Management Fees	1,443	1,467	6
- Tax on Dividends	389	353	
Total Net Returns on Investments	(143,005)	(39,804)	
NET (INCREASE) / DECREASE IN THE FUND DURING YEAR	(137,764)	(37,245)	
OPENING NET ASSETS OF THE FUND	(904,794)	(867,549)	
CLOSING NET ASSETS OF THE FUND	(1,042,558)	(904,794)	

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NET ASSETS STATEMENT AS AT 31ST MARCH 2015

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2015.

	31/03/15 £000	31/03/14 £000	See note
INVESTMENT ASSETS			
Equities			
United Kingdom	8,777	6,505	5
Global	11,228	10,389	5
	20,005	16,894	
Managed Funds			
Property	82,286	75,732	5
Equities	662,071	558,575	5
Fixed Interest	159,838	142,268	5
Index Linked	32,410	28,476	5
Other Assets	65,028	71,689	5
	1,001,633	876,740	
Cash Deposits	23,775	10,651	10
Derivative Contracts			
Assets	0	0	8
Liabilities	0	0	8
Other Investment Balances			
Debtors - Investment Transactions	387	491	9
Creditors - Investment Transactions	0	(20)	9
TOTAL INVESTMENTS	1,045,800	904,756	
NET CURRENT ASSETS AND LIABILITIES			
Debtors	1,226	1,107	9
Creditors	(4,740)	(1,222)	9
Cash in Hand	272	153	10
TOTAL NET ASSETS	1,042,558	904,794	

Note: The financial statements of the fund do not take account of the liability to pay pensions or benefits after 31st March 2015. This liability is included within the Council's balance sheet.

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NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVED

	2014/15 £000	2013/14 £000
Employer Contributions		
Administering: Normal	(24,974)	(24,400)
Admitted: Normal	(809)	(826)
Scheduled	(4,688)	(3,921)
	(30,471)	(29,147)
Employee Contributions		
Administering	(7,868)	(7,521)
Admitted	(381)	(317)
Scheduled	(1,525)	(1,257)
	(9,774)	(9,095)

2. BENEFITS PAYABLE

	2014/15 £000	2013/14 £000
Administering *	22,652	20,278
Admitted	383	262
Scheduled	1,174	1,000
Dependants Pensions *	0	1,328
Pensions Increases	11,267	10,973
	35,476	33,841

*Dependents Pensions data is no longer recorded separately. It is included in Administering.

3. ADMINISTRATION COSTS

	2014/15 £000	2013/14 £000
Lewisham Administration	614	581
Administration Costs *	305	249
Other Costs	14	0
Bank Charges	8	6
	941	836

* These costs include Grant Thornton external audit services in 2014/15.

4. INVESTMENT INCOME

	2014/15 £000	2013/14 £000
Cash	(184)	(67)
Equity	(462)	(570)
Fixed Interest	(1,074)	(1,869)
Index Linked	(277)	0
Managed Funds (incl Property)	(4,930)	(2,962)
Securities Lending	(7)	(9)
Other	(44)	0
	(6,978)	(5,477)

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5. INVESTMENT ANALYSIS

Asset	Manager	31st March 2015	
		£000	%
Individual Investment assets with a market value exceeding 5% of the total fund value are:			
Aquila Life US Equity Index Fund	Blackrock	140,178	14.1
UBS GBL Asset Life North America Equity Tracker	UBS	134,844	13.6
Aquila Life UK Equity Index Fund	Blackrock	90,028	9.1
UBS Global Life UK Equity Tracker Fund	UBS	86,977	8.8

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

UK Equities			
Harbourvest GE PE Shares	Harbourvest	8,777	100
Global Equities			
Commonwealth Bank of Australia	UBS	708	6.6
Westpac BKG Corp	UBS	564	5.2
Property			
Standard Life Pooled Property Fund	Schroder	10,762	13.1
Schroder UK Property Fund	Schroder	12,575	15.3
Hermes Property UT	Schroder	8,439	10.3
Legal and General Property Fund	Schroder	11,440	13.9
Blackrock UK Fund	Schroder	12,173	14.8
Real Income Fund	Schroder	8,170	9.9
Hercules Unit Property	Schroder	4,790	5.8
Managed Equities			
UBS Global AM Life Equity Tracker	UBS	86,978	13.1
UBS Global Life North America	UBS	134,844	20.4
Aquila Life European Equity Index Fund	Blackrock	41,335	6.2
UBS Global Life European EX UK Equity Tracker Fund	UBS	37,417	5.6
Aquila Life US Equity Index Fund	Blackrock	140,031	21.1
Aquila Life UK Equity Index Fund	Blackrock	89,930	13.6
Fixed Interest			
UBS Global Asset Management Corporate Bond Fund	UBS	32,510	20.3
Blackrock AM UK Corporate Bond Index	Blackrock	31,576	19.8
Aquila Life over 5 yrs Index Fund	Blackrock	31,226	19.5
Barclays Global Aquila Life over 15 yrs	Blackrock	31,689	19.8
Index Linked			
UK(GOVT OF) 0.375% I/L GILT	UBS	1,734	5.3
UK(GOVT OF) 0.5% IDX/LKD	UBS	1,662	5.1
UK(GOVT OF) 0.75% I/L STK	UBS	1,729	5.3
UK(GOVT OF) 1.125% I/L STK	UBS	1,804	5.5
UK(GOVT OF) 1.25% IDX-LKD	UBS	1,828	5.6
UK(GOVT OF) 1.25% IDX-LKD	UBS	2,061	6.3
UK(GOVT OF) 1.875% I/L STK	UBS	1,795	5.5
UK(GOVT OF) 2.5% I/L GILT	UBS	1,773	5.4
UK(GOVT OF) 2.5% I/L STK	UBS	1,690	5.2
Others			
Global Commodities and Resources	Investec	31,784	48.9
Cayman Partnership Fund	Harbourvest	8,244	12.7
UK Companies Financing Fund	M&G	9,425	14.5
Cayman Buyout Fund	Harbourvest	8,075	12.4
Cayman Venture Fund	Harbourvest	5,608	8.6

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An analysis of investment movements for 2014/15 (and 2013/14) is set out below:

INVESTMENT MOVEMENTS 2014/15	Value at 31 March 2014 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2015 £000
UK Equities	6,505	0	0	(152)	2,424	8,777
Global Equities	10,389	17	(1)	(73)	896	11,228
Property	75,732	12,059	(9,991)	(3,965)	8,451	82,286
Managed Equities	558,575	13,627	(850)		90,719	662,071
Fixed Interest Securities	142,268	3,728	(12,436)		26,278	159,838
Index Linked Securities	28,476	3,515	(5,265)		5,684	32,410
Other *	71,689	1,356	(11,266)		3,249	65,028
Derivatives	0	0	0	0	0	0
	893,634	34,302	(39,809)	(4,190)	137,701	1,021,638
Cash Deposits	10,651				158	23,775
Other Investment Balances	471					387
Total Investments	904,756					1,045,800

INVESTMENT MOVEMENTS 2013/14	Value at 31 March 2013 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2014 £000
UK Equities	5,861	0	0	(150)	794	6,505
Global Equities	11,499	0	(3)	13	(1,120)	10,389
Property	68,794	8,760	(4,933)	(871)	3,982	75,732
Managed Equities	510,346	12,280	(3,500)	(6)	39,455	558,575
Fixed Interest Securities	130,160	17,983	(2,822)	0	(3,053)	142,268
Index Linked Securities	26,496	6,079	(2,791)	0	(1,308)	28,476
Other *	80,290	1,917	(7,915)	0	(2,603)	71,689
Derivatives	0	0	0	0	0	0
	833,446	47,019	(21,964)	(1,014)	36,147	893,634
Cash Deposits	33,502					10,651
Other Investment Balances	644					471
Total Investments	867,592					904,756

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

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

Apart from Global Equities and bonds, the only other overseas investments held by the Fund fall under the 'Other' category and are namely Private Equity £23.8m and Commodities £31.7m.

The total value of unquoted securities held by the fund as at 31st March 2015 was £743m; this includes equities, bonds and other assets.

The total value of quoted securities held by the fund as at 31st March 2015 was £197m; this includes equities and bonds.

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Lewisham has investment assets that are classed as pooled investment vehicles. Lewisham holds Unit trusts valued at £58.1m, unitised insurance policies valued at £673.7m, other managed funds valued at £25.3m.

5(a) FINANCIAL INSTRUMENTS

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

	31 st March 2015			31 st March 2014		
	Fair Value through Profit & Loss £000	Loans and Receivables £000	Financial Liabilities at Amortised Cost £000	Fair Value through Profit & Loss £000	Loans and Receivables £000	Financial Liabilities at Amortised Cost £000
Financial Assets						
Equities	20,005			16,894		
Managed Funds:						
Property	82,286			75,732		
Managed Equity	662,071			558,575		
Fixed Interest	159,838			142,268		
Index Linked	32,410			28,476		
Other Assets	65,028			71,689		
Derivative contracts	0			0		
Cash deposits		23,775			10,651	
Pending Trades		0			326	
Dividends & Income		387			165	
Contributions Due		1,191			611	
Cash Balances		272			153	
Other Current Assets	0	35		0	496	
Total Financial Assets	1,021,638	25,660	0	893,634	12,402	0
Financial Liabilities						
Derivative Contracts			0			0
Pending Trades			0			(20)
Unpaid benefits			(374)			(955)
Other Current Liabilities			(4,366)			(267)
Total Financial Liabilities	0	0	(4,740)	0	0	(1,242)
Net Financial Assets	1,021,638	25,660	(4,740)	893,634	12,402	(1,242)

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Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

Net Gains and Losses on Financial Instruments	31/03/15 £000	31/03/14 £000
Financial Assets		
Fair Value through Profit and Loss	137,859	36,147
Loans and Receivables	0	0
Financial Liabilities		
Fair Value through Profit and Loss	0	0
	137,859	85,404

The fund also received bank interest totalling £377 during the year.

Valuation of Financial Instruments carried at Fair Value

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

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

Level 2 - consists of assets where quoted market prices are not available (e.g. where an instrument is traded in a market that is not considered to be active).

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

Values as at 31st March 2015

	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/15 £000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	20,005	968,394	33,239	1,021,638
Loans and Receivables	25,660	0	0	25,660
	45,665	968,394	33,239	1,047,298
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(4,740)	0	0	(4,740)
	(4,740)	0	0	(4,740)
Net Financial Assets	40,925	968,394	33,239	1,042,558

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Values as at 31st March 2014	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/14 £000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	16,894	844,109	32,631	893,634
Loans and Receivables	12,402	0	0	12,402
	29,296	844,109	32,631	906,036
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(1,242)	0	0	(1,242)
	(1,242)	0	0	(1,242)
Net Financial Assets	28,054	844,109	32,631	904,794

5(b) FINANCIAL RISK MANAGEMENT

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

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

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

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

The Committee has determined that the current largely passive investment management structure is appropriate and is in accordance with its revised investment strategy.

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

i) Market Risk

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

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a) Other Price Risk – Market

The risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused

by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

b) Other Price Risk – Sensitivity analysis

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

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

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	10.26
Overseas Equities	8.96
Total Bonds	8.41
Cash	0.02
Alternatives	7.03
Property	2.61

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

Asset Type	Final Market Value as at 31/03/2015 £000	Percentage Change	Value on Increase £000	Value on Decrease £000
UK Equities	388,664	10.26	428,541	348,788
Overseas Equities	293,472	8.96	319,767	267,177
Total Bonds	192,551	8.41	208,744	176,357
Other Assets	65,050	7.03	69,624	60,478
Property	82,286	2.61	84,434	80,139
Cash	23,777	0.02	23,782	23,773
Total Assets	1,045,800 *	6.19 **	1,134,892	956,712 *

*This figure excludes derivatives and other investment balances.

**This is the average variance in proportion to the value of asset type held.

c) Interest Rate Risk is the risk the Pension Fund is exposed to from changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on bonds and cash held by investment managers, a 0.5% change in interest rates would result in an approximate annualised change in income of £918. The risk is mitigated by the Fund holding minimum cash balances and a diversified portfolio.

d) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31st March 2015 with the previous year in brackets:

Australian Dollars	£9.6m (£15m)
Euro	£22.4m (£37m)

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Hong Kong Dollars	£4.9m (£4m)
Singapore Dollars	£2.1m (£2m)
US Dollars	£127m (£130m)

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

e) Currency risk – sensitivity analysis

The fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser nor the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date. As at 31 March 2015, there were no derivative contracts held. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 6.58%. This volatility is applied to the fund's overseas assets as follows:

Asset Type	Asset Value at 31/03/15 £000	%age Change	Value on Increase £000	%age Change	Value on Increase £000
Overseas Equities	293,472	+6.58	312,782	-6.58	274,162
Other Assets	64,086	+6.58	68,303	-6.58	59,869
Other Alternatives	55,552	+6.58	59,207	-6.58	51,897
Total	413,110	+ 6.58%	440,292	- 6.58%	385,928

ii) Credit Risk

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

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

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

iii) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due, for example the benefits payable costs and capital commitments. The fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days.

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As at the 31 March 2015 these assets totalled approximately £874m, with a further £23.7m held in cash by the custodian on behalf of the Fund and fund managers.

6. INVESTMENT MANAGEMENT FEES

	2014/15 £000	2013/14 £000
Fund Managers' Fees	1,351	1,389
Custodian Fees	38	48
Advisory Costs	54	30
Totals	1,443	1,467

7. PRIOR YEAR ADJUSTMENT

No prior year adjustments have been made to these accounts.

8. DERIVATIVE CONTRACTS

At 31 March 2015, there was no foreign exchange contracts held.

9. DEBTORS AND CREDITORS**(a) Debtors**

	31/03/15 £000	31/03/14 £000
Contributions Due from Admitted / Scheduled Employers	1031	474
Contributions Due from Admitted / Scheduled Employees	160	137
Equity Dividends / Income from Managed Funds	0	4
Interest and Other Income	387	161
LB Lewisham	0	496
Tax Refunds	35	0
Pending Trades	0	326
	1,613	1,598

(b) Creditors

	31/03/15 £000	31/03/14 £000
Fund Manager and Custody Fees	(243)	(267)
Consultancy / Advisory Fees (inc Audit Fees)	(56)	0
Pension Payments due to Employees	(374)	(955)
Pending Trades	0	(20)
LB Lewisham	(4,067)	0
	(4,740)	(1,242)

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

Pension Fund Accounts

10. CASH AND BANK**Cash Held With Custodian**

The Northern Trust Company is the fund's global custodian and the cash is held to meet the cash flow requirements of the fund and its managers. The total cash held as at 31st March 2015 was £23.7m (£10.7m as at 31st March 2014). Approximately £11.5m of the cash held was from Harbourvest, £5.0m from M&G, £6.0m of cash held was from Schroder. Approximately £0.9m was being held on behalf of the other managers.

Pension Fund Bank Account

The Lewisham cash balance represents uninvested cash held in the Pension Fund bank account as at 31st March 2015.

11. TRANSACTION COSTS

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

	2014/15 £000	2013/14 £000
Total Purchases	0	1
Total Sales	0	2
Totals	0	3

12. POST YEAR END EVENTS

In April 2015 the Council agreed to two new Funds with HarbourVest Partners: HIPEP VII (AIF) Partnership Fund L.P and HarbourVest Partners X (AIF) L.P. A total of £40 million has been committed over a 10 year cycle. As at 31st April 2015 Lewisham paid £1.3 million (\$1.97 million).

13. COMMITMENTS

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

Harbourvest

Fund	Amount ('000)	Translated (£'000)
Harbourvest Partners VIII – Cayman Venture Fund L.P	\$523	351
Harbourvest Partners VIII – Cayman Buyout Fund L.P	\$2,313	1,558
Harbourvest International Private Equity Partners V – Cayman Partnership Fund L.P	€1,225	886
Harbourvest International Private Equity Partners V – Cayman Direct Fund L.P	€180	130
Total		2,925

The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31st March 2015. This compares to the total Harbourvest commitments at 31st March 2014 £4.2m.

Pension Fund Accounts

14. RELATED PARTY TRANSACTIONS

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

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

During the year the following declarations were made:

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

No other trustees or Council chief officers with direct responsibility for pension fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2015.

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

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £614k (see note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time and vice versa.
- The salary of the Executive Director for Resources and Regeneration is disclosed in the Council's full set of accounts.

15. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 53 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

The fund has two AVC providers: Clerical Medical and Equitable Life. The value of AVC investments is shown below. The contributions are held by the providers and do not form part of the Lewisham fund's assets in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

	2014/15			2013/14		
	Equitable £000	Clerical Medical £000	Total £000	Equitable £000	Clerical Medical £000	Total £000
Value at the Beginning of Year	496	1,074	1,570	527	966	1,493
Contributions and Transfers Received	4	324	328	5	330	335
Investment Return	18	134	152	21	53	74
Paid Out	(46)	(373)	(419)	(57)	(275)	(332)
Value at the End of the Year	472	1,159	1,631	496	1,074	1,570

Pension Fund Accounts

16. SCHEDULED BODIES

The following are scheduled bodies to the fund as at 31st March 2015:

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

17. ADMITTED BODIES

The following are admitted bodies to the fund as at 31st March 2015:

National Car Parks Ltd
 Excalibur Tenant Management Co-operative Ltd
 PLUS
 Housing 21
 Lewisham Nexus Services
 SAGE Educational Trust
 Wide Horizons
 Phoenix
 INSPACE
 T Brown & Sons
 Quality Heating
 Blenheim CDP
 Crime Reduction Initiatives (CRI)
 Skanska
 One Housing
 Fusions Leisure Management
 3 C's Support
 Children's Society
 Pre-School Learning Alliance
 Chequers Contract Services – Lee Manor
 Tower Services **Started 1st July 2014**
 Blenheim
 Chartwells **Started 1st September 2014**

18. STOCK LENDING

The Statement of Investment Principles permits the Fund to enter into stock lending whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan. Equities and fixed income assets held in segregated accounts in custody may be lent. The Fund actively lends in 50 different equity and fixed income markets worldwide. Northern Trust conducts this activity on behalf of the Fund.

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

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

As at the 31st March 2015, the value of aggregate stock on loan was £1.9m (£1.3m as at 31st March 2014). These have been carried in the accounts at this value. There are no liabilities associated with these assets.

Pension Fund Accounts

Collateral

The collateral held as security on loans cannot be sold or repledged in the absence of default by the borrower. The Council entered into stock lending transactions during the financial year earning £100k net of direct expenses (compared to £93k in 2013/14). The value of collateral held as at 31 March 2015 was £2.1m (£1.4m as at 31st March 2014).

19. MEMBERSHIP

	Active Members		Deferred Beneficiaries		Retired Members	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
Administering Authority	6,147	5,961	8,370	7,837	6,805	6,687
Scheduled Bodies	855	705	588	385	180	147
Admitted Bodies	140	151	103	84	65	56
	7,142	6,817	9,061	8,306	7,050	6,890