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# **London Borough of Lewisham Pension Fund**

## **2017/18 Annual Report**

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

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# 1 FOREWORD BY HEAD OF CORPORATE RESOURCES

- 1.1. Welcome to the 2017/18 Annual Report for the Lewisham Pension Fund. The requirement for and contents of the annual report is set out in Regulation 57 of the Local Government Pension Scheme Regulations 2013.
- 1.2. The Pension Fund Annual Report details the financial position of the Fund and the performance of the managers appointed to administer the investment portfolio. It brings together a number of separate reporting strands into one comprehensive document that enables the public and employees to see how the Fund is managed and how it is performing.
- 1.3. The results of the most recent triennial valuation, based on the Fund's position as at 31 March 2016, showed an improved funding level of 78% of its liabilities, compared to a funding level of 71% as at the 2013 valuation. The resulting deficit as at the 2016 valuation was £288m (£348m in 2013). The next valuation will take place in 2019/20, as at 31 March 2019.
- 1.4. Since the last valuation active membership has decreased by approximately 3%, whilst the number of pensioners has increased by approximately 5%. The Fund continues to mature and the net cash withdrawal in 2017/18, excluding Fund management expenses, was £6.4m (£8.2m in 2016/17).
- 1.5. Over the year the net asset value of the Fund increased by 2.3% to £1,304m at 31 March 2018 (£1,275m the previous year). The return on assets for the year was 0.07% above benchmark, consistent with last year's performance (0.06% above benchmark).
- 1.6. This was the fifth full year of the Fund's mainly passive strategy and the performance of the Fund's passive equities and bonds has marginally exceeded benchmark expectations overall. During the year, in accordance with the diversification strategy agreed by Members of the Pensions Investment Committee in 2016/17, approximately 12% of the Fund's value held in equities was disinvested. Funds were invested in new mandates in diversified growth and multi-asset credit, whilst in March 2018 Members also procured a new infrastructure manager (to be funded in 2018/19).
- 1.7. With regard to development of pension reform, particularly around pooling, Lewisham remains committed to pooling its assets with the London Collective Investment Vehicle (LCIV) where suitable mandates become available. However, to date none of the funds launched by the LCIV have been funds Lewisham are invested in or planning to invest in.
- 1.8. A new Pensions Investment Committee convened for the first time in June 2018, with a change in half its membership. As a result of that change, the Committee has revisited its Investment Beliefs and agreed on a set of statements which accurately reflect the direction in which Members believe the Fund's strategy should be focussed. ESG issues will be a key consideration in the revised strategy, which will follow the outcome of the upcoming triennial valuation in 2019. The Fund will continue to position itself to put the interest and benefit of its members first as a priority.

**David Austin**  
**Head of Corporate Resources (Acting S151 Officer)**

## **2 FOREWORD BY CHAIR OF PENSION INVESTMENT COMMITTEE**

- 2.1. I am delighted to sit in my fifth year as Chair of the Lewisham Pensions Investment Committee (PIC).
- 2.2. The most recent Office for Budget Responsibility forecasts in the Chancellor's Budget identified that inflation declined in the first half of 2018 but has pushed up in subsequent quarters due to higher oil prices and a weak Sterling exchange rate; in the medium term it is expected to stay above the Bank of England's 2% target. UK GDP growth increased by 1.7% in 2017 on 2016 and is forecast to increase by 1.3% in 2018, downgraded from the March 2018 forecast of 1.5%. Thereafter growth is forecast to increase by a relatively stable 1.5% year on year, although this is based on broad-brush assumptions regarding the impact that Brexit might have.
- 2.3. In 2017/18 equity markets performed poorly compared to 2016/17, with UK equities in particular underperforming all major overseas markets. As at the end of March 2018 the Fund held approximately 54% of its assets in passive equities which contributed to a much smaller increase in Fund value than in 2016/17, from £1,275m to £1,304m (an increase of £29m or 2.3%). The Fund continues to act on the 2016 triennial evaluation, re-balancing the Fund as appropriate towards alternative and more illiquid strategies.
- 2.4. After appointing a new fund manager in multi asset credit as part of this drive towards diversification and smart illiquid, we have appointed new mandates in private debt, as well as committing to moving 6% of the fund into our first ever infrastructure mandate, in March 2018. With one third of this being dedicated to renewable energy assets only, we are therefore also in line with the starting target of 2% for renewable energy investment currently shared by many local government pension funds.
- 2.5. However, there is much further to go, given both the upcoming challenges presented by Carbon Transition and our manifesto commitment to move away from fossil fuel investments. The Committee will continue to seek out investment opportunities in renewable energy within the infrastructure asset class, here or at the LCIV, for both steady income and the avoidance of stranded assets. We have also begun the process of analysing the carbon footprints of our large equity mandates, so that appropriate action can be taken following the upcoming Tri-Annual Evaluation in 2019.
- 2.6. Keeping up to date with legislative and regulatory developments has required the on-going attention of the Committee, not least the Government's now mandatory demand for the Fund to belong to a 'pool'. As a voluntary founding member of LCIV the Fund remains committed to pooling our assets onto the platform. We are actively engaged with LCIV to identify mandates which are aligned with the beliefs of the Committee and the overall Fund strategy.
- 2.7. Alongside most of the other 32 London Borough shareholders, we hope to see LCIV taking the opportunities of scale afforded to it to make significant and profitable investments in alternative asset classes which are already being successfully pursued by other UK Local Government Pension Funds in 'pools' and collaborations across the UK at present.

- 2.8. The Committee will continue to work to ensure the Fund is well managed to the benefit of all its members. Our latest Investment Strategy Statement was published in September 2018 which, when read in conjunction with the Funding Strategy Statement, provides an overview of the Fund's approach to investing its assets in order to fund its liabilities.
- 2.9. I thank the members of the Pensions Investment Committee and the Council's officers for their work over the last year. I look forward to continuing to work with all concerned to ensure the Fund continues to be effectively and responsibly managed.

**Councillor Mark Ingleby**  
**Chair – Pensions Investment Committee**

### **3 INTRODUCTION**

#### **A. OVERVIEW OF THE SCHEME**

- 3.1. The London Borough of Lewisham Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is set up under the Superannuation Act 1972, which requires the Council to maintain a Pension Fund for its own employees and employees admitted to the Fund under an admission agreement.
- 3.2. The Fund's objectives as per its Investment Strategy Statement are to invest its assets so as to meet the long-term pension and other benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations 2013) for its members. The Fund's approach to investing is to optimise return consistent with a prudent level of risk, to ensure there are sufficient resources to meet the liabilities whilst ensuring the suitability of the assets in relation to the needs of the Fund.

#### **B. MANAGEMENT**

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

## 4 MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

### A. SCHEME MANAGEMENT AND ADVISERS

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

**Pensions Investment Committee      Members as at 31 March 2018**

Cllr Ingleby (Chair)  
Cllr Hooks (Vice Chair)  
Cllr Best  
Cllr Johnston-Franklin  
Cllr Maslin  
Cllr Milne  
Cllr Muldoon  
Cllr Ogunbadewa

**Members as at 30 September 2018**

Cllr Ingleby (Chair)  
Cllr Krupski (Vice Chair)  
Cllr Best  
Cllr Codd  
Cllr Feis-Bryce  
Cllr Maslin  
Cllr Muldoon  
Cllr Sheikh

**Local Pension Board**

**Members as at 30 September 2018**

Stephen Warren (Chair)  
Adam Barrett (Employer Rep – LB Lewisham)  
Adam Bowles (Employer Rep – Lewisham Homes)  
Elizabeth Sclater (Employee Rep – Scheme Member)  
Vacant (Employee Rep)

**Administrator**

Executive Director for Resources & Regeneration -  
Janet Senior

**Adviser**

Hymans Robertson LLP

**Actuary**

Hymans Robertson LLP

**Custodian Bank**

The Northern Trust Company

**Solicitors**

LB Lewisham Legal Services

**Bankers**

Barclays Bank

**Performance Measurement**

The Northern Trust Company

**Investment Managers**

**Managers as at 31 March 2018:**

Blackrock (Mixed Passive)  
HarbourVest (Private Equity)  
Invesco (Diversified Growth)  
M&G (Company Finance)  
Pemberton (Multi-Asset Credit)  
Schroder (Property)  
UBS (Mixed Passive)

## B. RISK MANAGEMENT

- 4.2. The legal responsibility for the prudent and effective stewardship of the Fund's assets rests with the PIC. This Committee has full delegated authority to make investment decisions, the terms of which are set out in its terms of reference in the Council's constitution. It receives advice from the Executive Director for Resources and Regeneration and, as necessary, from the Fund's appointed actuary, investment managers, custodian and investment adviser.
- 4.3. The Committee has regard to the Myners Principles, as updated and consolidated post 2008 by the Government. The Committee manages the Pension Fund's assets in accordance with the relevant LGPS regulations.
- 4.4. The Fund risk register is incorporated within the annual business plan which is approved by the PIC. The risk register sets out the nature of the individual risks for the Fund with an assessment of the level of risk. Risk ratings fall into the following four categories:

| RISK CATEGORY                | HOW THE RISK SHOULD BE MANAGED  |
|------------------------------|---|
| <b>Red<br/>(16-25)</b>       | Immediate action required, senior management involved   |
| <b>Amber/Red<br/>(10-15)</b> | Senior management attention needed and management responsibility specified                      |
| <b>Amber/Green<br/>(5-9)</b> | Manage by specific monitoring or response procedures  |
| <b>Green<br/>(1-4)</b>       | Manage by routine procedures, unlikely to need specific or significant application of resources |

- 4.5. The PIC reviews the risk register periodically to ensure that risks are updated and the relevant mitigations are put in place to manage them. The Local Pension Board also reviews the register and assists the authority in ensuring it adequately mitigates against risk.
- 4.6. The Fund's Investment Strategy Statement also outlines the risks taken to meet the funding objectives and the approaches taken to managing those risks.

### Key Risks

- 4.7. The principal risks identified as affecting the Fund are as follows:

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

- a. **Financial mismatch** – the risk that the Fund assets fail to grow in line with the developing costs of meeting the liabilities. This is mitigated by the PIC setting a strategic asset allocation benchmark for the Fund which takes into account probability of success and downside risk, and monitoring allocation



and returns relative to the benchmark. The PIC also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

- b. Changing demographics** – the risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits. This is mitigated by the PIC seeking to understand the assumptions used in any analysis and modelling so they can be compared to their own views, and the level of risks associated with these assumptions can be assessed.
- c. Systemic risk** – the possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting the Fund’s liabilities. The PIC seeks to mitigate this as much as it can through a diversified portfolio.

## **2. Asset Risks** – specifically:

- a. Concentration** – the risk that a significant allocation to any single asset class and its underperformance relative to expectation would result in difficulties achieving funding objectives. The PIC strategic asset allocation invests in a diversified range of asset classes and has in place rebalancing arrangements to ensure actual allocation does not deviate substantially from the target. The Fund invests in a range of mandates, each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help to reduce the Fund’s concentration risk.
- b. Illiquidity** – the risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. By investing in liquid asset classes such as listed quoted equities and bonds, as well as property, the PIC has recognised the need for access to liquidity in the short term.
- c. Currency risk** – the risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities). The Fund invests in a range of overseas markets which provides a diversified approach to currency markets.
- d. Environmental, Social and Governance (ESG)** – the risk that ESG factors reduce the ability of the Fund to generate long-term returns. The PIC expects all investment managers to undertake appropriate monitoring of investments with regards to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund, including corporate governance and environmental factors. It expects managers to integrate material ESG factors within its investment analysis and decision making, and to use their influence as major institutional investors to promote good practice in the investee companies and markets to which the Fund is exposed.
- e. Manager underperformance** – the failure of managers to achieve the returns as set out in their mandates. The PIC has attempted to reduce this risk by appointing more than one manager and having a large proportion of the Fund managed on a passive basis. The PIC assesses manager performance on a quarterly basis and will take steps if underperformance persists.

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

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

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

## C. FINANCIAL PERFORMANCE

- 4.8. The 2017/18 Pension Fund annual budget for controllable expenditure remained largely unchanged from 2016/17 apart from a reduction in management fees to reflect a backdated fee arrangement with BlackRock negotiated via LCIV. Actuals against budget are illustrated below:

|  | 2017/18      |              |             | 2016/17      | 2016/17 v 2017/18 |               |
|--|--------------|--------------|-------------|--------------|-------------------|---------------|
|  | Actuals      | Budget       | Variance    | Actuals      | Year on Year      | Variance      |
|  | £'000        | £'000        | £'000       | £'000        | £'000             | %             |
| <b>Administration Expenses</b>           | 696          | 654          | 42          | 705          | (9)               | (1.3)         |
| <b>Oversight and Governance Expenses</b> | 257          | 256          | 1           | 433          | (176)             | (40.6)        |
|  | <b>953</b>   | <b>910</b>   | <b>43</b>   | <b>1,138</b> | <b>(185)</b>      | <b>(16.3)</b> |
| <b>Investment Management Expenses:</b>   |              |              |             |              |                   |               |
| Transaction Costs                        | 12           | 20           | (8)         | 0            | 12                | -             |
| Management Fees                          | 917          | 1,010        | (93)        | 978          | (61)              | (6.2)         |
| Performance Fees                         | 0            | 0            | 0           | 0            | 0                 | 0.0           |
| Custody Fees                             | 47           | 30           | 17          | 27           | 20                | 74.1          |
|  | <b>976</b>   | <b>1,060</b> | <b>(84)</b> | <b>1,005</b> | <b>(29)</b>       | <b>(2.9)</b>  |
| <b>Total Expenses</b>                    | <b>1,929</b> | <b>1,970</b> | <b>(41)</b> | <b>2,143</b> | <b>(214)</b>      | <b>(10.0)</b> |

- 4.9. Administration expenses consist of all expenses the administering authority must incur in performing its duties to administer entitlements and provide benefit entitlement information. This includes staff costs, IT costs, general costs such as stationary and postage, membership fees, and costs associated with the provision of additional voluntary contributions. Oversight and governance expenses can include the cost of selection, appointment and performance monitoring of fund managers, investment advisory services, legal and actuarial services, and audit fees.

- 4.10. The reduction in oversight and governance costs is largely down to the mis-categorisation of management fees into this category in 2016/17, as well as higher actuarial and advisory fees last year due to the triennial evaluation. The increase in custody fees reflects an accounting error, where expense relating to 2016/17 were not correctly accrued for in year.

#### **D. ADMINISTRATIVE MANAGEMENT PERFORMANCE**

- 4.11. The pension scheme, and its many Admitted and Scheduled bodies, is administered by a small in-house team which is also responsible for other areas of pension work including providing data to the LPFA, TPA and the NHS pension schemes. The team also carries out non-Pension Fund work such as providing estimates and calculating and paying redundancy and compensation payments.

##### **KEY ADMINISTRATIVE ACTIVITIES:**

|  | <b>2017/18</b> | <b>2016/17</b> | <b>2015/16</b> | <b>2014/15</b> | <b>2013/14</b> |
|--|----------------|----------------|----------------|----------------|----------------|
| New scheme members   | 1,157          | 1,021          | 1,232          | 1,470          | 1,670          |
| Estimate of benefits   | 1,801          | 1,915          | 1,801          | 1,610          | 854            |
| Responding to correspondence *   | 557            | 625            | 557            | 557            | 557            |
| Deferred benefits  | 186            | 238            | 380            | 207            | 230            |
| Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme   | 246            | 232            | 212            | 124            | 138            |
| Retirements  | 335            | 491            | 406            | 386            | 323            |
| Death cases (with dependants)  | 192            | 287            | 249            | 243            | 212            |
| Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme | 246            | 263            | 208            | 167            | 90             |
| Additional contributions   | 40             | 21             | 7              | 32             | 33             |
| Refunds of contributions   | 187            | 328            | 211            | 160            | 6              |
| <b>Overall Performance</b>   | <b>4,947</b>   | <b>5,421</b>   | <b>5,263</b>   | <b>4,956</b>   | <b>4,113</b>   |

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

- 4.12. The role of the pensions section in the Administering Authority during 2017/18 was carried out by five Full Time Equivalent (FTE) staff serving just over 25,000 members. Relevant data and staffing ratios are as set out below.

##### **KEY STAFF INDICATORS:**

| <b>FTE Staff</b>              | <b>2017/18</b> | <b>2016/17</b> | <b>2015/16</b> | <b>2014/15</b> | <b>2013/14</b> |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Lewisham                      | 7.5*           | 7.5*           | 7.5*           | 6.4            | 5.8            |
| Made up of:                   |                |                |                |                |                |
| Work for other schemes        | (0.5)          | (0.5)          | (0.5)          | (0.5)          | (0.5)          |
| Other work                    | (2.0)          | (2.0)          | (2.0)          | (1.0)          | (1.0)          |
| <b>Administration of LGPS</b> | <b>5.0</b>     | <b>5.0</b>     | <b>5.0</b>     | <b>4.9</b>     | <b>4.3</b>     |

\* Plus 2 apprentices

| <b>Scheme Membership</b>   | <b>2017/18</b> | <b>2016/17</b> | <b>2015/16</b> | <b>2014/15</b> | <b>2013/14</b> |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Number of contributors     | 6,821          | 6,867          | 7,045          | 7,142          | 6,817          |
| Number of deferred members | 10,950         | 10,621         | 9,828          | 9,061          | 8,306          |
| Number of pensioners       | 7,622          | 7,431          | 7,225          | 7,050          | 6,890          |
| <b>Total</b>               | <b>25,393</b>  | <b>24,919</b>  | <b>24,098</b>  | <b>23,253</b>  | <b>22,013</b>  |

| <b>Staff Performance</b>         | <b>2017/18</b> | <b>2016/17</b> | <b>2015/16</b> | <b>2014/15</b> | <b>2013/14</b> |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Ratio of members to 1 FTE staff  | 5,079          | 4,984          | 4,819          | 4,745          | 5,119          |
| Transactions per member of staff | 989            | 1,084          | 1,052          | 964            | 957            |

4.13. The age profile of the membership calculated as at 31 March 2018 is show in the table below:

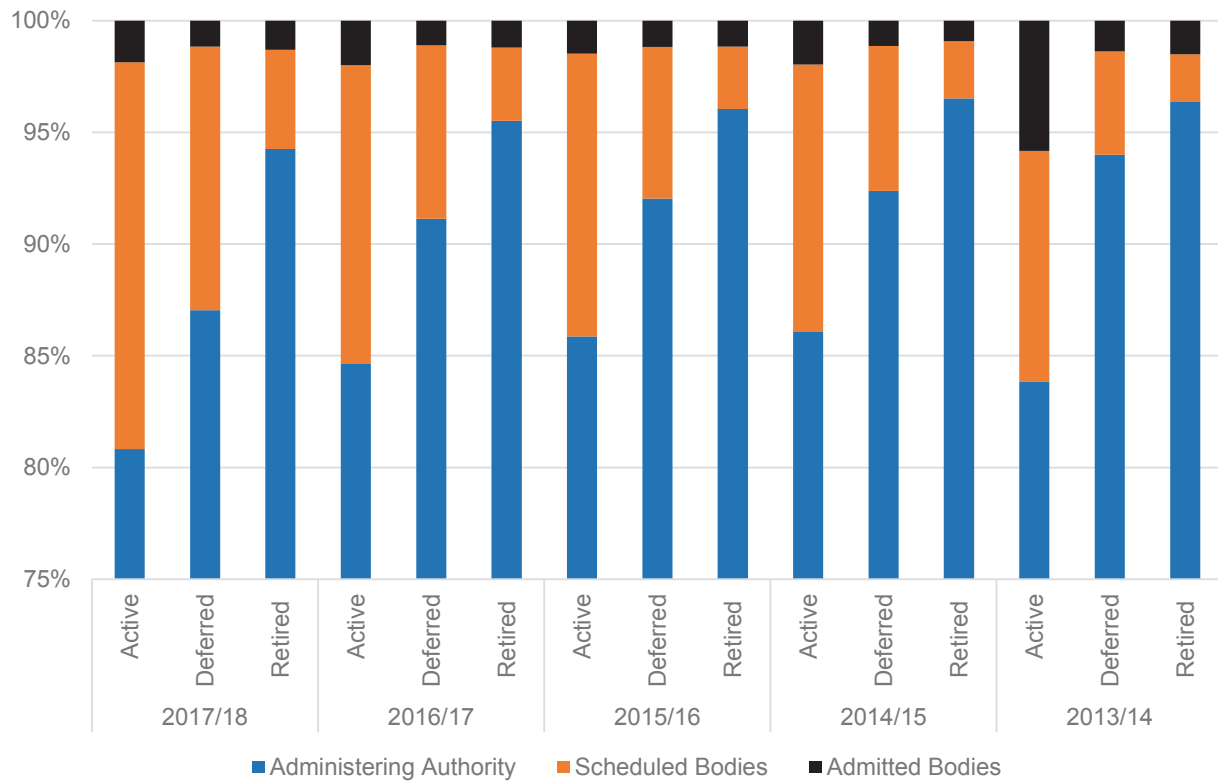
#### **AGE PROFILE OF MEMBERSHIP:**

| <b>Age Band</b> | <b>Contributing</b> | <b>Deferred</b> | <b>Pensioners/<br/>Dependents</b> |
|-----------------|---------------------|-----------------|-----------------------------------|
| 0-4             | 0                   | 0               | 0                                 |
| 5-9             | 0                   | 0               | 0                                 |
| 10-14           | 0                   | 0               | 22                                |
| 15-19           | 15                  | 3               | 21                                |
| 20-24           | 277                 | 143             | 11                                |
| 25-29           | 467                 | 625             | 0                                 |
| 30-34           | 611                 | 890             | 1                                 |
| 35-39           | 730                 | 1001            | 4                                 |
| 40-44           | 758                 | 1024            | 8                                 |
| 45-49           | 1006                | 1474            | 25                                |
| 50-54           | 1235                | 2096            | 70                                |
| 55-59           | 1021                | 2001            | 406                               |
| 60-64           | 549                 | 642             | 1341                              |
| 65-69           | 132                 | 67              | 1628                              |
| 70-74           | 20                  | 17              | 1447                              |
| 75-79           | 0                   | 6               | 1078                              |
| 80-84           | 0                   | 0               | 787                               |
| 85-89           | 0                   | 0               | 505                               |
| 90-94           | 0                   | 0               | 214                               |
| 95-99           | 0                   | 0               | 47                                |
| 100-104         | 0                   | 0               | 7                                 |
| <b>Total</b>    | <b>6,821</b>        | <b>9,989*</b>   | <b>7,622</b>                      |

\*Does not include Status 2's (undecided leavers) shown in the membership numbers above.

4.14. A five year analysis of the Fund's membership (active, deferred, and retired) is shown in the next graph and table. The table also provides the unit costs per active, deferred and retired member in terms of both administrative and investment management expenses. Administrative expenses in this context include oversight and governance expenses as outlined in section 4.9, whilst management expenses relate to fund manager fees, transaction costs and custody fees.

## 5 Year Membership Profile



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

|                                 | 2017/18       |                 |                | 2016/17       |                 |                | 2015/16       |                 |                | 2014/15       |                 |                | 2013/14       |                 |                |
|---------------------------------|---------------|-----------------|----------------|---------------|-----------------|----------------|---------------|-----------------|----------------|---------------|-----------------|----------------|---------------|-----------------|----------------|
| <b>Membership</b>               | <b>Active</b> | <b>Deferred</b> | <b>Retired</b> | <b>Active</b> | <b>Deferred</b> | <b>Retired</b> | <b>Active</b> | <b>Deferred</b> | <b>Retired</b> | <b>Active</b> | <b>Deferred</b> | <b>Retired</b> | <b>Active</b> | <b>Deferred</b> | <b>Retired</b> |
| Administering Authority         | 5,513         | 9,531           | 7,184          | 5,814         | 9,679           | 7,098          | 6,049         | 9,045           | 6,939          | 6,147         | 8,370           | 6,805          | 5,715         | 7,807           | 6,639          |
| Scheduled Bodies                | 1,181         | 1,292           | 339            | 916           | 825             | 243            | 892           | 668             | 202            | 855           | 588             | 180            | 705           | 385             | 147            |
| Admitted Bodies                 | 127           | 127             | 99             | 137           | 117             | 90             | 104           | 115             | 84             | 140           | 103             | 65             | 397           | 114             | 104            |
| <b>Totals</b>                   | <b>6,821</b>  | <b>10,950</b>   | <b>7,622</b>   | <b>6,867</b>  | <b>10,621</b>   | <b>7,431</b>   | <b>7,045</b>  | <b>9,828</b>    | <b>7,225</b>   | <b>7,142</b>  | <b>9,061</b>    | <b>7,050</b>   | <b>6,817</b>  | <b>8,306</b>    | <b>6,890</b>   |
| <b>Unit Costs</b>               | <b>£</b>      | <b>£</b>        | <b>£</b>       | <b>£</b>      | <b>£</b>        | <b>£</b>       | <b>£</b>      | <b>£</b>        | <b>£</b>       | <b>£</b>      | <b>£</b>        | <b>£</b>       | <b>£</b>      | <b>£</b>        | <b>£</b>       |
| Administrative Unit Cost        | 98            | 17              | 13             | 116           | 21              | 15             | 104           | 21              | 14             | 91            | 20              | 13             | 86            | 20              | 12             |
| Investment Management Unit Cost | 100           | 18              | 13             | 102           | 19              | 14             | 127           | 26              | 18             | 141           | 32              | 20             | 151           | 35              | 21             |
| <b>Total Unit Cost</b>          | <b>198</b>    | <b>35</b>       | <b>26</b>      | <b>218</b>    | <b>40</b>       | <b>29</b>      | <b>231</b>    | <b>47</b>       | <b>32</b>      | <b>232</b>    | <b>52</b>       | <b>33</b>      | <b>237</b>    | <b>55</b>       | <b>33</b>      |

- 4.15. A list of contributing employers and the amounts contributed by the employers in 2017/18 is shown below:

**EMPLOYER CONTRIBUTIONS:**

| Employer                               | Contributions Paid<br>£'000 | Comments   |
|--|-----------------------------|--|
| <b>Administering Authority</b>         |                             |  |
| Lewisham Council                       | 24,771                      |  |
| <b>Scheduled Bodies</b>                |                             |  |
| Lewisham Homes                         | 3,315                       |  |
| Haberdashers' Aske's Knights Academy   | 876                         |  |
| Christ The King Sixth Form College     | 373                         |  |
| St Matthew's Academy                   | 184                         |  |
| Tidemill Academy                       | 164                         |  |
| <b>Admitted Bodies</b>                 |                             |  |
| Youth First Ltd                        | 189                         |  |
| Phoenix                                | 175                         |  |
| Phoenix Agency Services                | 122                         |  |
| Chartwells                             | 52                          |  |
| Skanska                                | 33                          |  |
| Lewisham Music                         | 31                          | New in 2017/18   |
| 3 C's Support                          | 24                          |  |
| One Housing                            | 19                          |  |
| NSL                                    | 19                          |  |
| Nviro                                  | 14                          | New in 2017/18   |
| Wide Horizons                          | 13                          |  |
| Change Grow Live                       | 12                          |  |
| Fusions Leisure Management             | 12                          |  |
| Housing 21                             | 6                           |  |
| Pre-School Learning Alliance           | 4                           |  |
| Blenheim CDP                           | 3                           |  |
| Excalibur                              | 2                           | Ceased in 2016/17 – income represents one-off correction |
| Tower Services                         | 2                           |  |
| Chequers Contract Services – Lee Manor | 1                           |  |
| Lewisham Nexus Services                | 0                           |  |
| Quality Heating                        | 0                           |  |

- 4.16. The Statement of Accounts summarises the contributions received from employees and employers; the total contributions received per establishment are shown in the table below.
- 4.17. The Fund has a number of bodies which participate in the Fund either as scheduled or admitted bodies. Scheduled bodies are organisations which have a statutory entitlement to be members of the scheme. Admitted bodies are those which have applied to join the scheme and the Council has formally approved their admission.

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

| <b>Employer</b>                          | <b>Total Contributions Received (EE &amp; ER) £'000</b> | <b>% Received by due date</b> |
|--|---|-------------------------------|
| <b>Administering Authority</b>           |   |                               |
| Lewisham Council                         | 32,053  | 100                           |
| <b>Scheduled Bodies</b>                  |   |                               |
| Lewisham Homes                           | 4,441   | 100                           |
| Haberdashers' Aske's Knights Academy     | 1,194   | 100                           |
| Christ The King Sixth Form College       | 511   | 99                            |
| St Matthew's Academy                     | 242   | 100                           |
| Tidemill Academy                         | 211   | 100                           |
| <b>Admitted Bodies</b>                   |   |                               |
| Phoenix                                  | 243   | 99                            |
| Youth First Ltd                          | 242   | 100                           |
| Phoenix Agency Services                  | 165   | 99                            |
| Chartwells                               | 64  | 100                           |
| Skanska                                  | 46  | 95                            |
| Lewisham Music                           | 39  | 98                            |
| 3 C's Support                            | 31  | 70                            |
| One Housing                              | 25  | 90                            |
| NSL                                      | 24  | 100                           |
| Wide Horizons                            | 19  | 100                           |
| Change Grow Live                         | 17  | 100                           |
| Nviro                                    | 16  | 100                           |
| Fusions Leisure Management               | 15  | 90                            |
| Quality Heating                          | 8   | 90                            |
| Housing 21                               | 7   | 100                           |
| Pre-School Learning Alliance             | 5   | 80                            |
| Blenheim CDP                             | 5   | 100                           |
| Tower Services                           | 2   | 100                           |
| Excalibur Tenant Management Co-operative | 2   | 100                           |
| Chequers Contract Services – Lee Manor   | 1   | 80                            |
| Lewisham Nexus Services                  | 0   | 100                           |

Note: All payments were chased and received.



## 5 INVESTMENT POLICY AND PERFORMANCE REPORT

### A. INVESTMENT STRATEGY

#### Investment Policy

- 5.1. The Council's investment policy encompasses its approach to funding its liabilities as per the Funding Statement Strategy (FSS) and is outlined in its Investment Strategy Statement (ISS). The ISS is included at Appendix B and a link to the FSS is provided in Section 11 of this report. The FSS sets out the strategy for prudently meeting the Fund's future pension liabilities over the longer term. The ISS sets out the Fund's policies in respect of asset allocation, rebalancing, and the approach to risk including environmental, social and governance considerations.
- 5.2. The only direct shares held by the Fund are in a FTSE 250 listed private equity investment company, HarbourVest Global Private Equity, the value of which stood at £11.5m at 31 March 2018. The Fund reviews each fund manager's Corporate Governance policies to ensure they are in-line with the Fund's investment principles.

#### UK Stewardship Code

- 5.3. The UK Stewardship Code sets out the principles for effective stewardship by institutional investors. In so doing, the Code assists institutional investors to better exercise their stewardship responsibilities, which in turn gives force to the "comply or explain" governance system.
- 5.4. The Fund fully endorses the principles embedded within the Code. It expects its external fund managers to be signatories of the Code, reaching Tier One level of compliance or seeking to achieve it within a reasonable timeframe. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.
- 5.5. The seven principles of the UK Stewardship code and how the Fund meets each one is described below:

|    |   |  |
|----|---|--|
| 1. | Publicly disclose policy on how stewardship responsibilities are discharged.  | The Fund's stewardship responsibilities are set out in the ISS. Under the Regulations, the ISS must be reviewed and revised as necessary from time to time and at least every three years.   |
| 2. | Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed. | PIC members declare any conflicts of interest before meetings begin. This is recorded in the minutes and published on the Council website. A decision is made by the Chair on the necessary steps to be taken to ensure the interests of the Fund are put first. |
| 3. | Monitor investee companies.   | The Fund's custodian produces monthly performance reports, whilst the Fund's advisor prepares quarterly performance reports which are reported at PIC. Fund managers also prepare  |

|    |  |   |
|----|--|---|
|    |  | quarterly reports, and attend PIC at least annually to update Members.  |
| 4. | Establish clear guidelines on when and how stewardship activities will be escalated. | The Fund has established a rebalancing policy; this has been reviewed and agreed by our investment advisors and forms part of the ISS. In addition to regular PIC meetings, officers are in regular communication with fund managers and will escalate any concerns about performance, strategy or governance to PIC. |
| 5. | Be willing to act collectively with other investors where appropriate.               | The Fund is willing to act in collective engagement and is actively committed to the LCIV for the pooling of its assets into centrally managed Funds.   |
| 6. | Have a clear policy on voting and disclosure of voting activity.                     | The Fund makes use of proxy voting, with the PIC having delegated the exercise of voting rights to fund managers in line with the ISS.  |
| 7. | Report periodically on stewardship and voting activities.                            | This annual report forms part of the Fund's periodic reporting on its Stewardship duties.   |

- 5.6. The Fund is also a member of the following bodies:
- Pensions and Lifetime Savings Association PSLA (formerly known as The National Association of Pension Funds NAPF).
  - Local Authority Pension Fund Forum (LAPFF)

### **Application of CIPFA Principles for Investment**

- 5.7. The Fund is required to demonstrate compliance with CIPFA's Principles for Investment Decision Making, which reflect principles of good investment practice issued by government in response to the Myners review. Actions taken to comply with the principles are set out in the Investment Strategy Statement in Appendix B.

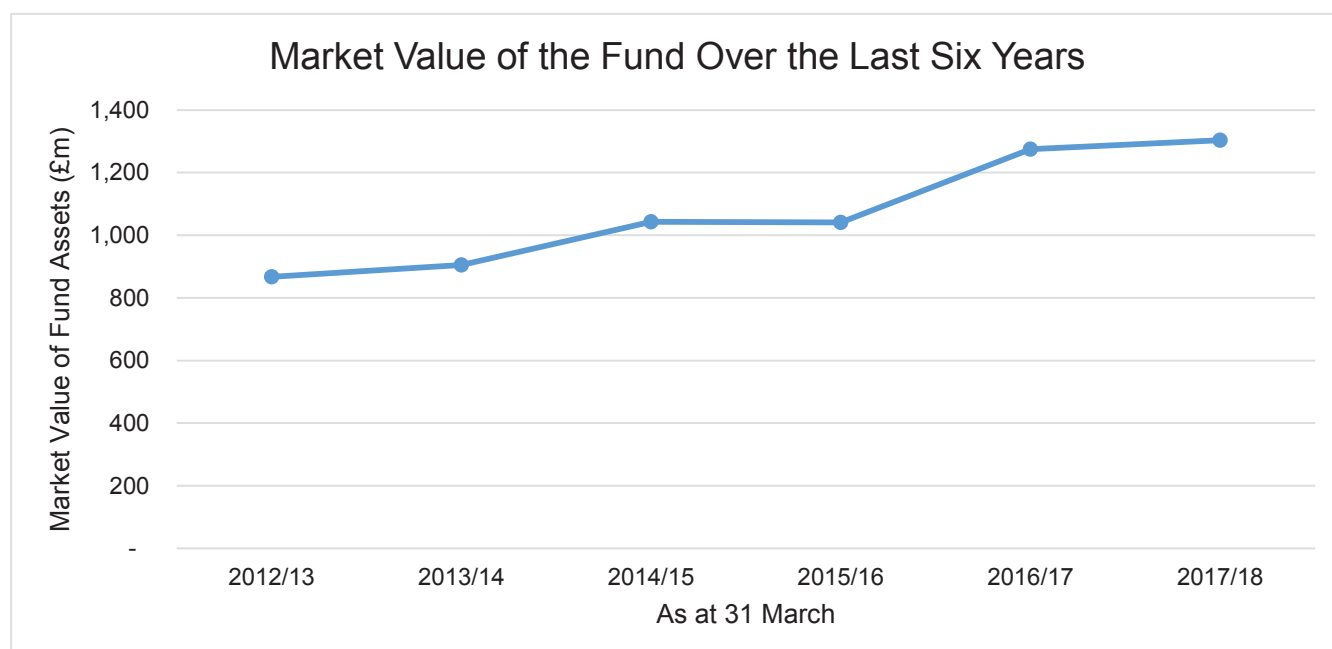
## **B. INVESTMENT PERFORMANCE**

- 5.8. The investment objective is to ensure that the Fund's investments increase the likelihood that benefits will be paid to members as they fall due, by maximising investment returns over the long term within acceptable risk tolerances.
- 5.9. Since November 2012, the majority of the Fund has been under passive management (74% as at 31 March 2018). The investment strategy has previously been for a significant proportion of the Fund to be invested into growth assets. Following the 2016 valuation, the strategy has been adapted to seek a more diversified portfolio and reduce exposure to the volatility of equities. As at 31 March 2018 approximately 54% of the Fund was invested in passive equities, down from 66% as at 31 March 2017, which reflects the 12% disinvestment from equities during 2017/18 into alternative asset classes.
- 5.10. The Fund's asset allocation as at 31 March 2018 has seven managers with six mandates.

## STRATEGIC ASSET ALLOCATION AS AT 31 MARCH 2018:

| Mandate                             | 2017/18              |                           |                           | 2016/17                   |
|-------------------------------------|----------------------|---------------------------|---------------------------|---------------------------|
|                                     | Asset Value<br>£'000 | Target<br>Allocation<br>% | Actual<br>Allocation<br>% | Actual<br>Allocation<br>% |
| Passive Equities and Bonds          | 962,789              | 74.0                      | 73.9                      | 85.8                      |
| Property                            | 111,446              | 10.0                      | 8.5                       | 7.9                       |
| Diversified Growth/Targeted Returns | 77,240               | 6.0                       | 5.9                       | N/A                       |
| Private Equity                      | 51,036               | 3.0                       | 3.9                       | 3.9                       |
| Multi-Asset Credit                  | 27,717               | 3.0                       | 2.1                       | N/A                       |
| Credit Financing                    | 8,927                | 1.0                       | 0.7                       | 0.7                       |
| Cash and Net Current Assets         | 64,371               | 3.0                       | 4.9                       | 1.7                       |
| <b>Total</b>                        | <b>1,303,526</b>     | <b>100%</b>               | <b>100%</b>               | <b>100%</b>               |

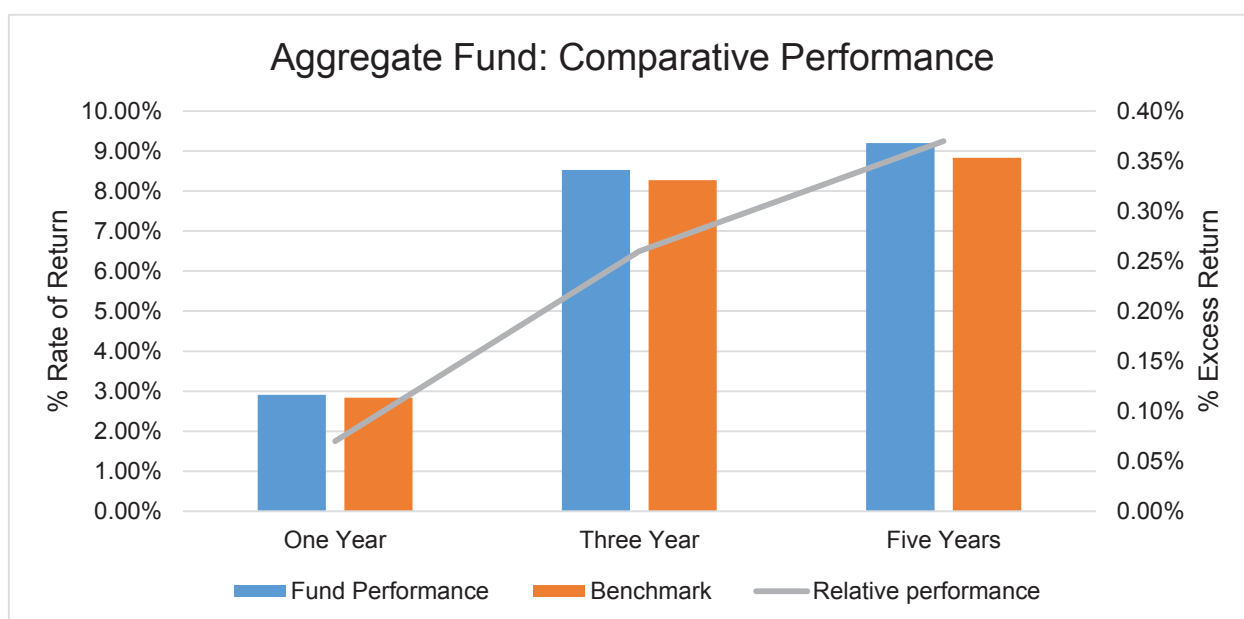
- 5.11. The differing short term performances of asset classes and fund managers inevitably results in the actual asset allocations deviating from their strategic targets over time. Periodically the Fund undertakes a re-balancing exercise to return to the agreed strategic allocation, whilst separate re-balancing arrangements are in place within the passive mandates as outlined within the ISS.
- 5.12. The graph below depicts the changing value of the Fund's assets as at 31 March over the last six years. The graph shows that the value of the Fund has been increasing year on year, apart from 2015/16 where there was a slight drop in value. The value of the Fund's total assets increased by approximately £29m during 2017/18.



- 5.13. The annualised return of the Fund's investments over the last 12 months was 2.9%, which was 0.1% above the benchmark return. Over the last five years, the Fund's investments absolute return is 9.2%, which is 0.4% above the benchmark return of 8.8% as depicted below:

### AGGREGATE FUND – COMPARATIVE PERFORMANCE:

| As at 31 March 2018         | One Year<br>% | Three Year<br>% | Five Years<br>% |
|-----------------------------|---------------|-----------------|-----------------|
| <b>Fund Performance</b>     | 2.91          | 8.53            | 9.20            |
| <b>Benchmark</b>            | 2.84          | 8.27            | 8.83            |
| <b>Relative performance</b> | <b>0.07</b>   | <b>0.26</b>     | <b>0.37</b>     |



5.14. Individual fund managers' performance is assessed against customised benchmarks. The performance of each manager against their composite benchmark over the period of three years and their inception is as set out in the table below.

### FUND MANAGER PERFORMANCE SUMMARY:

|                         |                 | Blackrock<br>% | UBS<br>%      | Schroders<br>% | Invesco<br>%  | HarbourVest<br>% | Pemberton<br>% | M&G<br>%    |
|-------------------------|-----------------|----------------|---------------|----------------|---------------|------------------|----------------|-------------|
| <b>1 year</b>           | Absolute        | 1.81           | 1.63          | 10.51          | N/A           | 3.22             | N/A            | 1.20        |
|                         | Benchmark       | 1.66           | 1.65          | 11.01          | N/A           | 1.80             | N/A            | 0.36        |
|                         | <b>Relative</b> | <b>0.15</b>    | <b>(0.02)</b> | <b>(0.50)</b>  | <b>N/A</b>    | <b>1.42</b>      | <b>N/A</b>     | <b>0.84</b> |
| <b>3 years</b>          | Absolute        | 7.03           | 7.36          | 7.86           | N/A           | 13.43            | N/A            | 2.28        |
|                         | Benchmark       | 6.81           | 6.83          | 8.92           | N/A           | 10.65            | N/A            | 0.43        |
|                         | <b>Relative</b> | <b>0.22</b>    | <b>0.53</b>   | <b>(1.06)</b>  | <b>N/A</b>    | <b>2.78</b>      | <b>N/A</b>     | <b>1.85</b> |
| <b>Since Inception*</b> | Absolute        | 9.53           | 8.75          | 4.87           | 0.31          | 9.13             | (0.42)         | 3.02        |
|                         | Benchmark       | 9.33           | 8.35          | 5.80           | 2.68          | 8.92             | 1.60           | 0.55        |
|                         | <b>Relative</b> | <b>0.20</b>    | <b>0.40</b>   | <b>(0.93)</b>  | <b>(2.37)</b> | <b>0.21</b>      | <b>(2.02)</b>  | <b>2.47</b> |

\*Blackrock Nov 2012; UBS Nov 2012; Schroders Oct 2004; Invesco Sep 2017; HarbourVest Dec 2006; Pemberton Jan 2018; M&G May 2010.

5.15. The table above shows that there has been a varied performance over time, with some fund managers consistently performing well in comparison to their benchmark. It is to be noted that Blackrock and UBS are both passive funds which track their composite benchmarks instead of

actively trying to outperform them, whilst HarbourVest and M&G hold relatively small proportions of the Fund. Invesco and Pemberton were new funds in the year, hence the lack of historical performance data. The PIC continues to monitor the performance of all fund managers on a quarterly basis via the reports it receives from the Fund's advisors. In addition, each manager is invited to discuss their performance at Committee meetings annually, and where necessary explain strategies for improvement.

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

#### **FUND MANAGER BENCHMARKS:**

| <b>Manager</b>     | <b>Mandate</b>                      | <b>Performance Target</b>   |
|--------------------|-------------------------------------|---|
| <b>BlackRock</b>   | Mixed Passive Mandate               | Index Tracker Funds depending on market and asset class; performance will correspond to the average return.   |
| <b>UBS</b>         | Mixed Passive Mandate               | Index Tracker Funds depending on market and asset class; performance will correspond to the average return.   |
| <b>Schroders</b>   | Property                            | To outperform the Investment Property database (IPD) UK Quarterly Property Fund Index All Balanced Funds Weighted Average by 0.75% per annum, over a three year rolling period net of fees. |
| <b>Invesco</b>     | Diversified Growth/Targeted Returns | The Fund targets a gross return of 5% per annum above UK three month London Inter-Bank Offer Rate (LIBOR), over a three year rolling period.  |
| <b>HarbourVest</b> | Private Equity                      | To outperform the Morgan Stanley Capital International (MSCI) World Index by 5% over a five year rolling period, net of fees.   |
| <b>Pemberton</b>   | Multi-Asset Credit                  | The fund targets a gross Internal Rate of Return (IRR) of 7-8%.   |
| <b>M &amp; G</b>   | Credit Financing                    | One month LIBOR + 4-6%, net of fees.  |

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

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

## **6 SCHEME ADMINISTRATION REPORT**

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

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

### **B. INTERNAL DISPUTE PROCEDURE**

- 6.2. The Local Government Pensions Scheme Regulations 2013 set out a two-stage 'Internal Dispute Resolution Procedure' (IDRP). The Fund's internal dispute resolution procedure is shown below:
- 6.3. Stage one: the member's complaint is referred to the Executive Director of Resources and Regeneration, who is nominated by the London Borough of Lewisham to act as an independent referee. Any decision made must be given in writing.
- 6.4. If the member is dissatisfied with the stage one decision, they can take the matter to stage two of the IDRP.
- 6.5. Stage two: the stage one decision is reviewed by the Head of Legal Services who is nominated by the London Borough of Lewisham to act as an independent referee.
- 6.6. There are time limits associated with each stage of the procedure, both for the applicant and the adjudicator. Appeals must normally be made within six months of the date of the decision that is being challenged and the adjudicator must normally give written notice of their decision within three months of the receipt of the appeal.
- 6.7. At any stage of the process, or before the process begins, the member can seek help and advice from The Pensions Advisory Service (TPAS). The Pensions Advisory Service is an independent non-profit organisation that provides free information and guidance to members of the public on pension matters generally. They can also help to resolve disputes and complaints about private pension arrangements (workplace pensions, personal pensions and stakeholder pensions).
- 6.8. Lewisham Pension Fund did not have any disputed cases in 2017/18.

## **7 ACTUARIAL REPORT ON FUND**

- 7.1. The Regulations require that every three years all Local Government Pension Schemes be subject to actuarial review. The actuarial review sets assumptions about the level of investment returns, life expectancy and other relevant factors to determine the assets and liabilities of the Fund and the corresponding funding level.
- 7.2. The last revaluation was undertaken in March 2016; a link to the Executive Summary of the valuation report is provided in Appendix C. The full version is available on the Lewisham Pensions website at [www.lewishampensions.org](http://www.lewishampensions.org). The actuarial review assessed the Fund as being 78% funded; this represents an increase of 7% in the funding level since the last valuation in 2013.
- 7.3. The 2016 valuation resulted in the actuary assessing Lewisham's employers' contribution rate to provide for future pensions entitlements (the Future Service Rate) to be a minimum of 17.6% for financial years 2017/18 through to 2019/20, plus a lump sum component increasing year on year.
- 7.4. Lewisham set an employer contribution rate of 22.5% for 2017/18, which will remain unchanged in 2018/19. It paid a lump sum employer contribution of £2.5m in 2016/17, and will evaluate the need for further lump sum payments in 2018/19.
- 7.5. The next triennial valuation will take place as at the end of March 2019.

## **8 FUND GOVERNANCE**

### **A. GOVERNANCE STRUCTURE**

- 8.1. Lewisham's Annual Governance Statement has been adopted by the PIC.
- 8.2. Article 9 of the Council's Constitution sets out the composition and terms of reference of the Pensions Investment Committee, to exercise all functions of the Council in relation to local government pensions under Section 7, 12 or 24 Superannuation Act 1972 and all other relevant pension legislation. This includes:
- review with fund managers the investment performance of the Fund's assets on a quarterly basis;
  - to examine the portfolio of investments, and its market value, at the end of each quarter for suitability and diversification;
  - to inform fund managers of the Council's policy regarding investment of its funds, and to take advice on the possible effect on performance resulting from implementing the policy;
  - to review from time to time the appointment of fund managers;
  - to determine the overall investment strategy and policies of the Fund, taking account of professional advice; and
  - responsibility for compliance with the six Myners principles set out in CIPFA's "Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012" and all other relevant guidance in relation to the Local Government Pension Scheme in force and issued by CIPFA from time to time.
- 8.3. Responsibility for day-to-day administration and preparation of the Pension Fund accounts and annual report has been delegated to the Executive Director for Resources and Regeneration.
- 8.4. Details of the Council's Code of Corporate Governance is set out in Part V of the Council's Constitution which is available at:  
<https://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Documents/Constitution.pdf>
- 8.5. The Council's latest Annual Governance Statement is available with the main Council Statement of Accounts at the following link:  
<https://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/finances/Documents/StatementOfAccounts17-18.pdf>

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

- 8.6. The Pensions Investment Committee comprises eight Members of the Council who have voting rights. The Committee meets at least four times a year. At the start of each meeting Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. The Committee takes advice from its independent investment consultant (Hymans Robertson) and permits attendance from non-voting observers



comprised of pensioners, admitted and scheduled bodies, union officials, and members of the Local Pension Board.

- 8.7. The following table sets out attendance by the eight Councillors who were Members of the Pensions Investment Committee for the four scheduled meetings in 2017/18. Each Councillor has one vote with the Chair having the casting vote.

| Member                    | 22 Jun 2017 | 5 Sep 2017 | 14 Nov 2017 | 8 Feb 2018 |
|---------------------------|-------------|------------|-------------|------------|
| Cllr. Ingleby (Chair)     | ✓           | ✓          | ✓           | ✓          |
| Cllr. Hooks (Vice- Chair) | ✓           | ✓          | ✓           | ✓          |
| Cllr. Best                | Apologies   | Apologies  | ✓           | Apologies  |
| Cllr. Johnston-Franklin   | Apologies   | ✓          | ✓           | ✓          |
| Cllr. Maslin              | Apologies   | Apologies  | ✓           | ✓          |
| Cllr. Milne               | ✓           | Apologies  | Apologies   | Apologies  |
| Cllr. Muldoon             | ✓           | ✓          | ✓           | ✓          |
| Cllr. Ogunbadewa          | ✓           | ✓          | ✓           | ✓          |

### Member Training

- 8.8. Members attend training events and conferences to develop and maintain the relevant skills required as set out in the CIPFA Knowledge and Skills framework. The framework covers six key areas:

- 1) Legislative and governance framework
- 2) Accounting and auditing standards
- 3) Procurement of financial services and relationship management
- 4) Investment performance and risk management
- 5) Financial markets and investment products knowledge
- 6) Actuarial methods, standards and practices

- 8.9. During 2017/18 Members notified officers of their attendance at the following training sessions and events:

| Date           | Description   | Provider         | Members  |
|----------------|---|------------------|--|
| 20 April 2017  | Absolute Return Strategies for DB Pension Schemes               | SPS Conferences  | Cllr Muldoon                                     |
| 27 April 2017  | 'Build-to-Rent' - Impact Fund                                   | Invesco          | Cllrs Ingleby, Muldoon                           |
| 22 June 2017   | Alternative Credit Briefing (PIC)                               | Hymans Robertson | Cllrs Hooks, Ingleby, Milne, Muldoon, Ogunbadewa |
| 22 June 2017   | Investment Beliefs (PIC)  | Hymans Robertson | Cllrs Hooks, Ingleby, Milne, Muldoon, Ogunbadewa |
| 31 August 2017 | Alternative Credit and Private Debt Investing for Pension Funds | SPS Conferences  | Cllr Ingleby                                     |

| Date              | Description   | Provider                       | Members                |
|-------------------|---|--------------------------------|------------------------|
| 19 September 2017 | Low Carbon Workshop   | LCIV                           | Cllr Ingleby           |
| 27 September 2017 | The Future of Corporate Pensions  | Pensions Investment Academy    | Cllr Muldoon           |
| 28 September 2017 | Finding Yield Amid Uncertainty  | Financial Times Live           | Cllr Muldoon           |
| 03 October 2017   | Infrastructure Training Sessions  | Hymans Robertson               | Cllrs Ingleby, Muldoon |
| 23 November 2017  | Local Government Pensions Scheme in Flux: Investment Issues and Solutions           | SPS Conferences                | Cllr Muldoon           |
| 29 November 2017  | The Future for Active Pension Fund Investment                                       | Pensions Investment Academy    | Cllr Muldoon           |
| 24 January 2018   | Cash Flow Management Challenges for Pension Funds                                   | Pensions Investment Academy    | Cllr Muldoon           |
| 21 March 2018     | Should Trustees be Involved in Making Investment Decisions?                         | Pensions Investment Academy    | Cllr Muldoon           |
| 22 March 2018     | Social Infrastructure Investment Opportunities for Local Government Pension Schemes | Franklin Templeton Investments | Cllr Muldoon           |

- 8.10. Members are also aware of their obligations under the Markets in Financial Instruments Directive (MIFID) II, under which the Fund has opted up to professional status with its fund managers and relevant service providers, committing to develop and maintain their knowledge of the LGPS in order to preserve the Fund's professional client status.
- 8.11. Members are provided with a schedule of suggested training events and conferences throughout the year, provided at each quarterly meeting of PIC. The events are intended to cover a range of skillsets and provide insight as appropriate to the needs of Members and the broader developing strategic direction of the Fund.
- 8.12. In addition, the Fund's advisors present training on relevant topics both within PIC meetings and as separate events; these cover a wide range of subjects, from the impact of legislative changes to asset specific training.
- 8.13. Members are recommended, where they have not already, to make use of and complete the Pension Regulator's online toolkit for Trustees.
- 8.14. Members also bring their professional experience to their roles on the Investment Committee; for example, one 2017/18 Member is a lawyer in financial services with specialism in life insurance and pensions and continues to develop these skills as part of their CPD requirements, whilst another is a financial advisor working in pensions-related areas and has served as a Shadow Member on the LGPS Scheme Advisory Board. The Chair also attends regular meetings at LCIV to represent the Fund's interests.

## 9 REPORT FROM THE LOCAL PENSION BOARD

### Introduction

9.1. The Board has an important role of assisting the Administering Authority with the efficient management of the Fund and ensuring its compliance with legislation and best practice. Following the appointment of a new Chair in December 2017, the Board met twice in the year and once subsequently. Its focus has been on:

- developing a common understanding of its role;
- agreeing its ways of working;
- enhancing its understanding of the arrangements put in place by the Administering Authority, including through attendance of members of the Board at meetings of the Pensions Investment Committee;
- agreeing the terms of a baseline assessment of the Administering Authority's compliance with legislation and best practice; and
- ensuring that appropriate arrangements are put in place for developing and maintaining the knowledge and understanding of members of the Board.

9.2. Further information about the Board and its operation is available on the Council's website at the following link:

<http://councilmeetings.lewisham.gov.uk/ielistmeetings.aspx?CId=353&Year=0>

and on the Fund's website at the following link:

<http://www.lewishampensions.org/lewisham-pension-fund/about-us/local-pension-board/>

### Membership of the Board

9.3. The Board consists of five members; two employer representatives, two member representatives, and an Independent Chair.

|                   |                                |  |
|-------------------|--------------------------------|--|
| Stephen Warren    | Independent Chair (Non-Voting) |  |
| Adam Bowles       | Employer Representative        | Head of Organisational Development & Human Resources, Lewisham Council |
| Adam Barrett      | Employer Representative        | Director of Resources, Lewisham Homes                                  |
| Elizabeth Sclater | Member Representative          | Pensioner Member   |
| Vacant            | Member Representative          | -  |

9.4. All four members appointed to the Board attended both meetings of the Board held in the year. One member representative position is vacant and the Council would be very keen to hear from any member who would be interested in serving on the Board. This is an important opportunity to contribute to the efficient management of the Fund.

## **Knowledge and Understanding**

- 9.5. Relevant training via attendance at external events is made available to members of the Board. A record of training, including completion of the Pension Regulator's Toolkit, is maintained.

## **Work Programme for the Future**

- 9.6. The Board has agreed that:
- it will schedule four meetings a year;
  - it will adopt a cyclical report that will allow it to review over the course of the year compliance with relevant legislation and Codes of Practice issued by the Pensions Regulator.
  - The scope and nature of its work will be informed by a baseline assessment commissioned from a third party and its assessment of risk.

## **10 FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES**

- 10.1. The Pension Fund accounts, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, were approved by Council on 18 July 2018 and have been audited by the Council's external auditors Grant Thornton. The Accounts are set out in Appendix A.

## **11 FUNDING STRATEGY STATEMENT**

- 11.1. The Fund has a Funding Strategy Statement (FSS) which details the Fund's approach to funding its liabilities. The FSS is reviewed in detail at least every three years in line with the triennial valuation, and was last updated as at 1 April 2017. The Statement can be accessed at the following link: [www.lewishampensions.org/lewisham-pension-fund/about-us/forms-and-publications/](http://www.lewishampensions.org/lewisham-pension-fund/about-us/forms-and-publications/).
- 11.2. The FSS is developed by the Council in conjunction with the Fund's actuary, Hymans Robertson, and after consultation with employers. The FSS sets out any changes in the Fund's liabilities and obligations to pay pensions in the coming years, and how those liabilities are funded by investments and contributions. The FSS has links to the Investment Strategy Statement.
- 11.3. The purpose of the FSS is to:
- establish a clear and transparent strategy which will identify how employers' pension liabilities are best met going forward;
  - support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
  - take a prudent longer-term view of funding those liabilities.

- 11.4. The statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.
- 11.5. The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. The funding basis adopts an asset outperformance assumption of 1.8% per annum over and above the redemption yield in index-linked gilts at the time of the 2016 valuation.
- 11.6. The Fund has an active risk management programme in place. The measures that the Administering Authority has in place to mitigate key risks are summarised in the FSS under the following headings:
- financial;
  - demographic
  - regulatory; and
  - governance
- 11.7. The 2016 valuation specified the minimum employer contributions, expressed as a percentage of pensionable pay and shown in the Rates and Adjustment certificate, as follows:

| Employer/Pool Name                   | Total Contribution Rate (%/£) |                          |                          |
|--------------------------------------|-------------------------------|--------------------------|--------------------------|
|                                      | 2017/18                       | 2018/19                  | 2019/20                  |
| LB Lewisham                          | 17.6% plus<br>£6,100,000      | 17.6% plus<br>£6,300,000 | 17.6% plus<br>£6,400,000 |
| Christ The King Sixth Form College   | 18.5% plus<br>£93,000         | 18.5% plus<br>£93,000    | 18.5% plus<br>£93,000    |
| Haberdashers' Aske's Knights Academy | 17.9% plus<br>£170,000        | 17.9% plus<br>£170,000   | 17.9% plus<br>£170,000   |
| Lewisham Homes                       | 21.0%                         | 20.0%                    | 19.0%                    |
| St Matthew's Academy                 | 19.6%                         | 18.6%                    | 17.6%                    |
| Tidemill Academy                     | 22.0%                         | 22.0%                    | 22.0%                    |
| NSL                                  | 22.8%                         | 22.8%                    | 22.8%                    |
| Wide Horizons                        | 14.6%                         | 14.6%                    | 14.6%                    |
| Phoenix Community Housing            | 18.4%                         | 16.4%                    | 14.4%                    |
| Blenheim CDP                         | 15.0%                         | 15.0%                    | 15.0%                    |
| Skanska                              | 21.1%                         | 19.1%                    | 17.1%                    |
| 3 C's Support                        | 0.0%                          | 0.0%                     | 0.0%                     |
| One Housing                          | 22.0% plus<br>£13,000         | 22.0% plus<br>£13,000    | 22.0% plus<br>£13,000    |
| Fusions Leisure Management           | 24.0%                         | 24.0%                    | 24.0%                    |
| Pre-School Learning Alliance         | 18.6%                         | 15.6%                    | 12.6%                    |
| Chartwells                           | 25.7%                         | 25.7%                    | 25.7%                    |

| Employer/Pool Name                     | Total Contribution Rate (%/£) |         |         |
|--|-------------------------------|---------|---------|
|  | 2017/18                       | 2018/19 | 2019/20 |
| Chequers Contract Services – Lee Manor | 14.9%                         | 11.9%   | 8.9%    |
| Change Grow Live                       | 18.0%                         | 18.0%   | 18.0%   |
| Quality Heating                        | 0.0%                          | 0.0%    | 0.0%    |
| Phoenix                                | 20.4%                         | 20.4%   | 20.4%   |

## 12 INVESTMENT STRATEGY STATEMENT

- 12.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that administering authorities prepare, maintain and publish an Investment Strategy Statement (ISS) in accordance with the Regulations. The Statement must include the following:
- a requirement to invest money in a wide variety of investments;
  - the authority's assessment of the suitability of particular investments and types of investments;
  - the authority's approach to risk, including the ways in which risks are to be measured and managed;
  - the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
  - the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
  - the authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 12.2. Appendix B sets out the ISS for the Fund as at September 2018, which as well as the considerations above includes the Fund asset allocation, rebalancing policy, and compliance with CIPFA's Principles for Investment Decision Making.

## 13 COMMUNICATIONS POLICY STATEMENT

- 13.1. Pension Funds are required to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. Lewisham's most recently published Communications Statement is available at the following link: [www.lewishampensions.org/lewisham-pension-fund/about-us/forms-and-publications/](http://www.lewishampensions.org/lewisham-pension-fund/about-us/forms-and-publications/).
- 13.2. The statement should contain a commentary on how the Fund has met the commitments set out in the Communications Policy Statement, which it is required to publish under the provisions of Regulation 61 of The Local Government Pension Scheme Regulations 2013. In particular:
- how scheme information has been provided to members, their representatives and employers,

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

## 14 ADDITIONAL DATA

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

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

|                         | Active | Ceased | Total |
|-------------------------|--------|--------|-------|
| <b>Scheduled Bodies</b> | 5      | 1      | 6     |
| <b>Admitted Bodies</b>  | 18     | 2      | 20    |
| <b>Total</b>            | 23     | 3      | 26    |

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

| Asset Class               | UK<br>£m   | Non-UK<br>£m | Total<br>£m  |
|---------------------------|------------|--------------|--------------|
| <b>Equities</b>           | 409        | 313          | 722          |
| <b>Bonds</b>              | 169        | 84           | 253          |
| <b>Property</b>           | 108        | 0            | 108          |
| <b>Alternatives</b>       | 78         | 57           | 135          |
| <b>Cash</b>               | 86         | 0            | 86           |
| <b>Net Current Assets</b> | 0          | 0            | 0            |
| <b>Total</b>              | <b>850</b> | <b>454</b>   | <b>1,304</b> |

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

| Asset Class         | UK<br>£000   | Non-UK<br>£000 | Total<br>£000 |
|---------------------|--------------|----------------|---------------|
| <b>Equities</b>     | 216          | 0              | 216           |
| <b>Bonds</b>        | 518          | 688            | 1,206         |
| <b>Property</b>     | 4,728        | 0              | 4,728         |
| <b>Alternatives</b> | 0            | 349            | 349           |
| <b>Cash</b>         | 95           | 0              | 95            |
| <b>Total</b>        | <b>5,557</b> | <b>1,037</b>   | <b>6,594</b>  |



## 15 INDEPENDENT AUDITOR'S CONSISTENCY REPORT

### **Independent auditor's report to the members of the London Borough of Lewisham on the consistency of the pension fund financial statements included in the Pension Fund Annual Report**

#### **Opinion**

The pension fund financial statements of the London Borough of Lewisham (the "Authority") for the year ended 31 March 2018, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including a summary of significant accounting policies, of the London Borough of Lewisham Pension Fund, are derived from the audited pension fund financial statements for the year ended 31 March 2018 included in the Authority's Statement of Accounts (the "Statement of Accounts"). In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18 and applicable law.

#### **Pension Fund Annual Report - Pension fund financial statements**

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

#### **Who we are reporting to**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **The audited financial statements and our Report thereon**

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 28 September 2018.

#### **Executive Director for Resources and Regeneration responsibilities for the pension fund financial statements in the Pension Fund Annual Report**

Under the Local Government Pension Scheme Regulations 2013, the Executive Director for Resources and Regeneration of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Assets Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.



**Auditor's responsibility**

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

*Paul Grady*

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

30 Finsbury Square  
London  
EC2A 1AG

27 November 2018

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PENSION FUND

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**Appendix A – 2017/18 Pension Fund Accounts**

**PENSION  
FUND  
ACCOUNTS**

**2017/18**

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**PENSION FUND**

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

We have audited the pension fund financial statements of the London Borough of Lewisham (the 'Authority') for the year ended 31 March 2018, which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities,;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

**Basis for opinion**

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

**Who we are reporting to**

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

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director for Resources and Regeneration's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or

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**PENSION FUND**


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- the Executive Director for Resources and Regeneration has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

**Other information**

The Executive Director for Resources and Regeneration is responsible for the other information. The other information comprises the information included in the pension fund financial statements, the Narrative Report by the Executive Director for Resources and Regeneration and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements, the other information published together with the pension fund financial statements in the Statement of Accounts, the Narrative Report by the Executive Director for Resources and Regeneration and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

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

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

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**PENSION FUND**

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

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director for Resources and Regeneration. The Executive Director for Resources and Regeneration is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Executive Director for Resources and Regeneration determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Executive Director for Resources and Regeneration is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit Panel is Those Charged with Governance.

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

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at:

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Paul Grady**

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

30 Finsbury Square  
London  
EC2A 1AG

28 September 2018

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**PENSION FUND**

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**PENSION FUND ACCOUNTS**

**FOREWORD**

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2017/18.

The Pension Fund's value increased over the year by £29m (2.3%), a year which saw the Fund initiate a rebalancing exercise by selling a proportion of its equity holdings to reinvest in alternative asset classes, being diversified growth and multi-asset credit, in line with the Fund's agreed Investment and Funding Strategies following the triennial valuation of 2016.

**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 (referred to henceforth as the Regulations):

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

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

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

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**PENSION FUND**


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A statement of the Fund's corporate governance, Funding Strategy and Investment Strategy can be found on the authority's pensions website, at the following address:

[www.lewishampensions.org](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 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of the obligations to pay pensions and benefits which fall due after the end of the financial year. In respect of future obligations, the actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis.

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

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

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

- (a) Fund Assets at 31 March 2018 – the below table outlines the fund managers, asset classes, and values of those assets held by the fund as at 31 March 2018:

| Fund Manager              | Asset                                  | Asset Value<br>31 March<br>2018<br><br>£'000 | Proportion<br>of the<br>Fund<br><br>(%) | Asset Value<br>31 March<br>2017<br><br>£'000 |
|---------------------------|--|--|---|--|
| <b>Blackrock</b>          | Passive Equity and Bonds               | 484,194                                      | 37.2                                    | 549,121                                      |
| <b>UBS</b>                | Passive Equity and Bonds               | 478,595                                      | 36.7                                    | 544,085                                      |
| <b>Schroders Property</b> | Property                               | 111,446                                      | 8.5                                     | 100,946                                      |
| <b>Invesco</b>            | Diversified<br>Growth/Targeted Returns | 77,240                                       | 5.9                                     | 0.0  |
| <b>Pemberton</b>          | Multi-Asset Credit                     | 27,717                                       | 2.1                                     | 0.0  |
| <b>HarbourVest</b>        | Private Equity                         | 51,036                                       | 3.9                                     | 49,481                                       |
| <b>M&amp;G</b>            | Credit                                 | 8,927  | 0.7                                     | 8,822  |
| <b>Securities Lending</b> | Securities Lending                     | 122  | 0.0                                     | 119  |
| <b>Unallocated Funds</b>  | Cash                                   | 64,809                                       | 5.0                                     | 18,662                                       |



| PENSION FUND             |  |                  |              |                  |
|--------------------------|--|------------------|--------------|------------------|
| <b>Lewisham</b>          | Cash in Hand and Net Current Liabilities | (560)            | 0.0          | 3,333            |
| <b>Total Fund Assets</b> |  | <b>1,303,526</b> | <b>100.0</b> | <b>1,274,569</b> |

- (b) 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
- (c) Investments - Investments in the Net Assets Statement are shown at Fair Value, the basis of measurement being market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2017/18 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. 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.
- (d) 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.
- (e) Income - Dividend income earned from equity and bonds with BlackRock is reinvested and not repaid directly to the fund as cash, but from UBS is repaid to the Fund. 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.
- (f) 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 31 March 2018 is the actual fair value using the latest available valuation on or after 31 December 2017, plus an estimated valuation for the period up to 31 March 2018.
- (g) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property/unit trust funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards at Fair Value based on their Open Market Value (OMV).



**PENSION FUND**

The only non-UK fund is the Real Continental European Fund. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies. All the property funds are independently valued on a rolling basis at least annually.

- (h) **Financing Fund** - The fair value of the M&G fund is based on different pricing policies depending on the instrument being valued. The fund is close to maturity with debt instruments being repaid; at this stage of its life fund valuations are based on the manager's own internal valuation model which makes use of discounted cash flows. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2018 is the actual fair value using the latest available valuation on or after 31 December 2017, plus an estimated valuation for the period up to 31 March 2018.
- (i) **Diversified Growth/Targeted Returns Fund** – The pension fund is allocated notional units in the Invesco fund based on its overall contribution. Units will be valued on every business day in which units are created and realised. The value given to the fund's assets will be the recognised market quotation; if this is not available, the latest independent valuation will be used. Where no independent valuation can be used, the value will be determined by the manager in such manner as it deems appropriate.
- (j) **Multi-Asset Credit Fund** – the Pemberton private debt fund is valued at Fair Value using external benchmarks such as the equity values of comparable companies to borrowers, credit default swap or commodity price movements and macro-economic data.
- (k) **Contributions** – These represent the total amounts received from the employers and employees within the scheme. From 1 April 2017 the employee contribution bands (revised annually in line with inflation) are as follows:

| <b>Full time pay for the post</b> | <b>Contribution rate 2017/18</b> |
|-----------------------------------|----------------------------------|
| Up to £13,700                     | 5.5%                             |
| £13,701 to £21,400                | 5.8%                             |
| £21,401 to £34,700                | 6.5%                             |
| £34,701 to £43,900                | 6.8%                             |
| £43,901 to £61,300                | 8.5%                             |
| £61,301 to £86,800                | 9.9%                             |
| £86,801 to £102,200               | 10.5%                            |
| £102,201 to £153,300              | 11.4%                            |
| More than £153,301                | 12.5%                            |

The employer's contribution is reviewed every three years and is determined by the fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation. The employer's contribution rate for 2017/18 is 22.5% and for 2018/19 it will remain unchanged.

**PENSION FUND**

- (l) 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.
- (m) 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.
- (n) 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.
- (o) 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.
- (p) 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 triennial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2016.

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

| <b>Financial assumption</b>     | <b>March 2016<br/>%</b> | <b>March 2013<br/>%</b> |
|---------------------------------|-------------------------|-------------------------|
| Discount Rate                   | 4.0                     | 4.6                     |
| Price Inflation (CPI*)          | 2.1                     | 2.5                     |
| Pay Increases                   | 2.9                     | 4.3                     |
| Pension Increase:               |                         |                         |
| Pension in excess of GMP**      | 2.1                     | 2.5                     |
| Post - 88 GMP                   | 2.1                     | 2.5                     |
| Pre - 88 GMP                    | 0.0                     | 0.0                     |
| Revaluation of Deferred Pension | 2.1                     | 2.5                     |
| Expenses                        | 0.6                     | 0.7                     |

\* Consumer Price Index

\*\* Guaranteed Minimum Pension

With effect from the 1 April 2016, the actuarial review carried out for 31 March 2013 resulted in increases to the Council's contribution rate up to 22.5%.

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**PENSION FUND**


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- The triennial valuation on the 31 March 2016 revealed that the Fund's assets, which at 31 March 2016 were valued at £1,041 million, were sufficient to meet 78% (71% in 2013) of the past service liabilities valued at £1,328 million (£1,215 million in 2013) accrued up to that date. The resulting deficit as at the 2016 valuation was £288 million (£348 million in 2013).
- (q) Actuarial Present Value of Promised Retirement Benefits - The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1,871m as at 31 March 2018 (£1,847m as at 31 March 2017).
- (r) 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. Some managers invoice fees, others deduct fees from asset holdings; in the latter instance, the fees are added back to the accounts to accurately reflect the management expense.
- (s) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
  - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
  - Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.
- (t) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts; please see note 11.
- (u) Financial Instruments –
- (i) Financial Liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.
- (ii) Financial Assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial Assets are classified into two types:
- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
  - Fair value through profit or loss – assets that are held for trading.
- (v) 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

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**PENSION FUND**

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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 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 estimated distributions and capital calls up to 31 March. Other mandates such as the diversified growth and multi-asset credit funds also adopt their own valuation policies when other quoted or comparable inputs are unavailable.

**(w) 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 2016, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed as transfers-in. Further details about the AVC arrangements are disclosed in note 13 to the financial statements.

**PENSION FUND**  
**FUND ACCOUNT FOR THE YEAR**

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

**FUND ACCOUNT FOR THE YEAR ENDED**  
**31 MARCH 2018**

**DEALINGS WITH MEMBERS,**  
**EMPLOYERS AND OTHERS DIRECTLY**  
**INVOLVED WITH THE SCHEME**

**Contributions Receivable:**

|                                      | <b>2017/18</b><br><b>£'000</b> | <b>2016/17</b><br><b>£'000</b> | <b>Note</b> |
|--------------------------------------|--------------------------------|--------------------------------|-------------|
| - from Employers                     | 30,417                         | 33,411                         | 1           |
| - from Employees                     | 9,211                          | 9,099                          | 1           |
| - Reimbursement for Early Retirement | 609                            | 955                            |             |
| Transfer Values In                   | 6,136                          | 2,123                          |             |
| Other Income                         | 30                             | 72                             |             |

**Subtotal: Income**

**46,403**

**45,660**

**Benefits Payable:**

|                                    |        |        |   |
|------------------------------------|--------|--------|---|
| - Pensions                         | 40,420 | 39,096 | 2 |
| - Lump Sums: Retirement allowances | 6,779  | 8,611  | 2 |
| - Lump Sums: Death grants          | 1,039  | 1,720  | 2 |

**Payments to and on account of leavers:**

|                            |       |       |  |
|----------------------------|-------|-------|--|
| - Refunds of Contributions | 140   | 86    |  |
| - Transfer Values Out      | 4,438 | 4,331 |  |

**Subtotal: Expenses**

**52,816**

**53,844**

**Subtotal: Net additions (withdrawals)**  
**from dealings with members**

**(6,413)**

**(8,184)**

| PENSION FUND  |                  |                  |    |
|---|------------------|------------------|----|
| Management Expenses   | 1,929            | 2,143            | 3  |
| <b>Subtotal: Net Additions (withdrawals) including fund management expenses</b> | <b>(8,342)</b>   | <b>(10,327)</b>  |    |
| <b><u>RETURNS ON INVESTMENTS</u></b>  |                  |                  |    |
| Investment Income   | 6,594            | 6,670            | 4  |
| Change in market value of investments (Realised and Unrealised)                 | 30,897           | 236,975          | 5a |
| Taxes on Income   | (192)            | (178)            |    |
| <b>Total Net Returns on Investments</b>   | <b>37,299</b>    | <b>243,467</b>   |    |
| NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD                         | 28,957           | 233,140          |    |
| OPENING NET ASSETS OF THE FUND  | 1,274,569        | 1,041,429        |    |
| <b>CLOSING NET ASSETS OF THE FUND</b>   | <b>1,303,526</b> | <b>1,274,569</b> |    |

**PENSION FUND**  
**NET ASSETS STATEMENT**

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2018.

| <b>NET ASSETS STATEMENT AS AT 31 MARCH 2018</b> | <b>2017/18<br/>£'000</b> | <b>2016/17<br/>£'000</b> | <b>Note</b> |
|---|--------------------------|--------------------------|-------------|
| <b>EQUITIES</b>                                 |                          |                          |             |
| Equities: UK                                    | 11,487                   | 11,777                   | 5           |
| Equities: Global                                | 0                        | 13,805                   | 5           |
|   | <b>11,487</b>            | <b>25,582</b>            |             |
| <b>MANAGED FUNDS</b>                            |                          |                          |             |
| Property  | 108,401                  | 98,174                   | 5           |
| Equities  | 710,103                  | 830,606                  | 5           |
| Fixed Interest                                  | 210,101                  | 206,232                  | 5           |
| Index Linked                                    | 42,600                   | 41,599                   | 5           |
| Other Assets                                    | 135,223                  | 32,862                   | 5           |
|   | <b>1,206,428</b>         | <b>1,209,473</b>         |             |
| <b>CASH HELD WITH CUSTODIAN</b>                 | 86,154                   | 36,517                   | 9           |
| <b>DERIVATIVE CONTRACTS</b>                     |                          |                          |             |
| Assets  | 1,069                    | 800                      | 7           |
| Liabilities                                     | (1,069)                  | (800)                    | 7           |
| <b>OTHER INVESTMENT BALANCES</b>                |                          |                          |             |
| Debtors: Investment Transactions                | 3,101                    | 3,118                    | 8           |
| Creditors: Investment Transactions              | (3,085)                  | (3,453)                  | 8           |
| <b>TOTAL INVESTMENTS</b>                        | <b>1,304,085</b>         | <b>1,271,236</b>         |             |
| <b>NET CURRENT ASSETS AND LIABILITIES</b>       |                          |                          |             |
| Debtors   | 287                      | 701                      | 8           |
| Creditors                                       | (1,689)                  | (475)                    | 8           |
| Cash in Hand                                    | 843                      | 3,107                    | 9           |
| <b>TOTAL NET ASSETS</b>                         | <b>1,303,526</b>         | <b>1,274,569</b>         |             |

The value for derivative contracts in 2016/17 has been restated but does not impact the total net assets value for 2016/17. It was previously shown as £0 for both assets and liabilities.

**PENSION FUND**

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2018. This liability is included within the Authority's balance sheet.

**NOTES TO THE PENSION FUND ACCOUNTS****1. CONTRIBUTIONS RECEIVED****Employer Contributions**

|                         | <b>2017/18<br/>£'000</b> | <b>2016/17<br/>£'000</b> |
|-------------------------|--------------------------|--------------------------|
| Administering Authority | 24,771                   | 27,346                   |
| Scheduled Bodies        | 4,913                    | 5,209                    |
| Admitted Bodies         | 733                      | 856                      |
|                         | <b>30,417</b>            | <b>33,411</b>            |

**Employee Contributions**

|                         | <b>2017/18<br/>£'000</b> | <b>2016/17<br/>£'000</b> |
|-------------------------|--------------------------|--------------------------|
| Administering Authority | 7,281                    | 7,265                    |
| Scheduled Bodies        | 1,687                    | 1,607                    |
| Admitted Bodies         | 243                      | 227                      |
|                         | <b>9,211</b>             | <b>9,099</b>             |

**2. BENEFITS PAID****By Category**

|  | <b>2017/18<br/>£'000</b> | <b>2016/17<br/>£'000</b> |
|--|--------------------------|--------------------------|
| Pensions                                     | 40,420                   | 39,096                   |
| Commutation and Lump Sum Retirement Benefits | 6,779                    | 8,611                    |
| Lump Sum Death Grants                        | 1,039                    | 1,720                    |
|  | <b>48,238</b>            | <b>49,427</b>            |

**By Authority**

|                         | <b>2017/18<br/>£'000</b> | <b>2016/17<br/>£'000</b> |
|-------------------------|--------------------------|--------------------------|
| Administering Authority | 44,572                   | 45,788                   |
| Scheduled Bodies        | 2,748                    | 2,912                    |
| Admitted Bodies         | 918                      | 727                      |
|                         | <b>48,238</b>            | <b>49,427</b>            |

**3. MANAGEMENT EXPENSES**

|  | <b>2017/18<br/>£'000</b> | <b>2016/17<br/>£'000</b> |
|--|--------------------------|--------------------------|
| Administration Expenses                | 696                      | 705                      |
| Oversight and Governance Expenses      | 257                      | 433                      |
| <u>Investment Management Expenses:</u> |                          |                          |



| PENSION FUND        |              |              |
|---------------------|--------------|--------------|
| - Transaction Costs | 12           | 0            |
| - Management Fees   | 917          | 978          |
| - Performance Fees  | 0            | 0            |
| - Custody Fees      | 47           | 27           |
|                     | <b>1,929</b> | <b>2,143</b> |

The reduction in Oversight and Governance expenses in 2017/18 is in part due to the mis-categorisation of Management Fees to Oversight and Governance expenses in 2016/17 of approximately £90k. Actuarial and advisory fees were also approximately £41k higher in 2016/17 due to the triennial valuation.

#### **4. INVESTMENT INCOME**

|                                | <b>2017/18<br/>£'000</b> | <b>2016/17<br/>£'000</b> |
|--------------------------------|--------------------------|--------------------------|
| Cash                           | 90                       | 100                      |
| Equities                       | 216                      | 467                      |
| Fixed Interest                 | 430                      | 955                      |
| Index Linked                   | 88                       | 208                      |
| Managed Funds (incl. Property) | 5,416                    | 4,561                    |
| Securities Lending             | 5                        | 11                       |
| Other                          | 349                      | 368                      |
|                                | <b>6,594</b>             | <b>6,670</b>             |

#### **5. INVESTMENT ANALYSIS**

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

| Asset   | Manager   | 31 March 2018 |      |
|---|-----------|---------------|------|
|   |           | Value £'000   | %    |
| UBS Asset Management Life World Equity Tracker      | UBS       | 221,735       | 17.0 |
| Aquila Life US Equity Index Fund                    | Blackrock | 145,507       | 11.2 |
| Blackrock Pensions Aquila Life UK Equity Index Fund | Blackrock | 90,457        | 6.9  |
| UBS Asset Management Life UK Equity Tracker A Nav   | UBS       | 89,239        | 6.8  |
| Invesco Fund Managers Perpetual Targeted Returns    | Invesco   | 77,240        | 5.9  |

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

| Asset | Manager | 31 March 2018 |   |
|-------|---------|---------------|---|
|       |         | Value £'000   | % |

| PENSION FUND  |             |         |       |
|---|-------------|---------|-------|
| <b>UK Equities</b>  |             |         |       |
| HarbourVest GE PE Shares                                  | HarbourVest | 11,530  | 100   |
|   |             |         |       |
| <b>Property</b>   |             |         |       |
| Schroder Unit TST UK Real Estate                          | Schroders   | 15,677  | 14.4  |
| Legal and General Managed Property Fund                   | Schroders   | 14,071  | 12.9  |
| Hermes Property Unit                                      | Schroders   | 10,658  | 9.8   |
| Blackrock UK FD   | Schroders   | 10,012  | 9.2   |
| Real Income Fund  | Schroders   | 9,720   | 8.9   |
| Metro Ppty Unit Trust                                     | Schroders   | 9,221   | 8.5   |
| Mayfair Cap Ppty (MCPUT)                                  | Schroders   | 8,725   | 8.0   |
| Multi-Let INDL Property Unit Trust                        | Schroders   | 6,887   | 6.3   |
| IPIF Feeder Unit Trust Fund                               | Schroders   | 6,372   | 5.9   |
| Standard Life Pooled Property Fund                        | Schroders   | 6,240   | 5.7   |
|   |             |         |       |
| <b>Managed Equities</b>                                   |             |         |       |
| UBS Asset Management Life World Equity Tracker            | UBS         | 221,735 | 31.6  |
| Aquila Life US Equity Index Fund                          | Blackrock   | 145,507 | 20.8  |
| BlackRock Pensions Aquila Life UK Equity Index            | Blackrock   | 90,457  | 12.9  |
| UBS Asset Management Life UK Equity Tracker A Nav         | UBS         | 89,239  | 12.7  |
| Aquila Life European Equity Index Fund                    | Blackrock   | 41,227  | 5.9   |
| BlackRock AM (IE) ISHS Emerging Markets Index             | Blackrock   | 35,961  | 5.1   |
|   |             |         |       |
| <b>Fixed Interest</b>                                     |             |         |       |
| Blackrock Pensions Aquila Over 15 Years UK                | Blackrock   | 43,384  | 20.6  |
| Blackrock AM (IE) UK Credit                               | Blackrock   | 42,005  | 19.9  |
| UBS Asset Mgmt STG Corp                                   | UBS         | 42,090  | 20.0  |
| Aquila Life Over 5 yrs Index Fund                         | Blackrock   | 40,223  | 19.1  |
| UBS GBL Asset Life UK Over 15 Year Gilt                   | UBS         | 43,123  | 20.5  |
|   |             |         |       |
| <b>Index Linked</b>                                       |             |         |       |
| UBS Asset Mgmt Life Over 5 Year Index Linked Gilt Tracker | UBS         | 42,808  | 100.0 |
|   |             |         |       |
| <b>Alternatives</b>                                       |             |         |       |
| Invesco Fund Managers Perpetual Targeted Returns          | Invesco     | 77,240  | 57.1  |
| Pemberton Euro Debt Investments Jersey II                 | Pemberton   | 27,717  | 20.5  |
| HIPEP VII (AIF) Partnership Fund LP                       | HarbourVest | 11,309  | 8.4   |

## PENSION FUND

An analysis of investment movements is set out below:

| INVESTMENT<br>MOVEMENTS<br>2017/18 | Value at<br>31 March<br>2017 | Purchases<br>at Cost | Sales<br>Proceeds | Change<br>in<br>Capital<br>Value | Change<br>in<br>Market<br>Value | Value at<br>31 March<br>2018 |
|------------------------------------|------------------------------|----------------------|-------------------|----------------------------------|---------------------------------|------------------------------|
|                                    | £'000                        | £'000                | £'000             | £'000                            | £'000                           | £'000                        |
| UK Equities                        | 11,777                       | 0                    | 0                 | 0                                | (290)                           | 11,487                       |
| Global Equities                    | 13,805                       | 4                    | (13,411)          | 8                                | (406)                           | 0                            |
| Managed<br>Equities                | 830,606                      | 243,467              | (385,544)         | 0                                | 21,574                          | 710,103                      |
| Property                           | 98,174                       | 9,723                | (5,488)           | (8)                              | 6,000                           | 108,401                      |
| Fixed Interest<br>Securities       | 206,232                      | 6,451                | (4,409)           | 279                              | 1,548                           | 210,101                      |
| Index Linked<br>Securities         | 41,599                       | 1,600                | (910)             | 73                               | 238                             | 42,600                       |
| Other Assets*                      | 32,862                       | 111,208              | (11,362)          | (74)                             | 2,589                           | 135,223                      |
| Derivatives                        | 0                            | 0                    | 0                 | 0                                | 0                               | 0                            |
|                                    | 1,235,055                    | 372,453              | (421,124)         | 278                              | 31,253                          | 1,217,915                    |
| Cash Deposits                      | 36,517                       |                      |                   |                                  | (365)                           | 86,154                       |
| Other<br>Investment<br>Balances    | (336)                        |                      |                   |                                  | 9                               | 16                           |
| Total<br>Investments               | 1,271,236                    |                      |                   |                                  | 30,897                          | 1,304,085                    |

\* Includes Venture Capital, Multi-Asset Credit, Private Equity and Diversified Growth funds.

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

Apart from global equities, overseas managed equities and bonds, the other overseas investments held by the Fund fall under the 'Other Assets' category comprising of private equity with a value of £29.4m and multi-asset credit/private debt, with a value of £27.7m

The total value of unquoted securities held by the fund as at 31 March 2018 was £884m, this includes equities, bonds, private equity, diversified growth and multi-asset credit funds.

The total value of quoted securities held by the fund as at 31 March 2018 was £217m, this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds unitised/unit-linked insurance policies valued at £877m and unit trusts valued at £187m, of which £109m relates to pooled property investments. The Fund also holds assets with value £28m as a Limited Partner in a compartment of a common limited partnership.

## PENSION FUND

As at 31 March 2017:

| INVESTMENT<br>MOVEMENTS<br>2016/17       | Value at<br>31 March<br>2016 | Purchases<br>at Cost | Sales<br>Proceeds | Change<br>in<br>Capital<br>Value | Change<br>in<br>Market<br>Value | Value at<br>31 March<br>2017 |
|--|------------------------------|----------------------|-------------------|----------------------------------|---------------------------------|------------------------------|
|  | £'000                        | £'000                | £'000             | £'000                            | £'000                           | £'000                        |
| <b>UK Equities</b>                       | 8,735                        | 0                    | 0                 | 0                                | 3,042                           | <b>11,777</b>                |
| <b>Global Equities</b>                   | 10,714                       | 2                    | 0                 | (57)                             | 3,146                           | <b>13,805</b>                |
| <b>Equities</b>                          | 656,010                      | 11,567               | (33,820)          | 0                                | 196,849                         | <b>830,606</b>               |
| <b>Property</b>                          | 96,263                       | 11,400               | (9,371)           | (83)                             | (35)                            | <b>98,174</b>                |
| <b>Fixed Interest<br/>Securities</b>     | 162,329                      | 26,746               | (2,985)           | 0                                | 20,142                          | <b>206,232</b>               |
| <b>Index Linked<br/>Securities</b>       | 33,177                       | 3,716                | (2,341)           | 0                                | 7,047                           | <b>41,599</b>                |
| <b>Other Assets*</b>                     | 33,077                       | 5,278                | (11,266)          | (27)                             | 5,800                           | <b>32,862</b>                |
| <b>Derivatives</b>                       | 0                            | 0                    | 0                 | 0                                | 0                               | <b>0</b>                     |
|  | <b>1,000,305</b>             | <b>58,709</b>        | <b>(59,783)</b>   | <b>(167)</b>                     | <b>235,991</b>                  | <b>1,235,055</b>             |
| <b>Cash Deposits</b>                     | 40,667                       |                      |                   |                                  | 984                             | <b>36,517</b>                |
| <b>Other<br/>Investment<br/>Balances</b> | 389                          |                      |                   |                                  | 0                               | <b>(336)</b>                 |
| <b>Total<br/>Investments</b>             | <b>1,041,361</b>             |                      |                   |                                  | <b>236,975</b>                  | <b>1,271,236</b>             |

\* Includes Venture Capital, Credit Mandates and Private Equity.

## PENSION FUND

**5A. FINANCIAL INSTRUMENTS**

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

| 31 March 2018                      |                       |   |                               | 31 March 2017                      |                       |   |
|------------------------------------|-----------------------|---|-------------------------------|------------------------------------|-----------------------|---|
| Fair Value through Profit and Loss | Loans and Receivables | Financial Liabilities at Amortised Cost |                               | Fair Value through Profit and Loss | Loans and Receivables | Financial Liabilities at Amortised Cost |
| £'000                              | £'000                 | £'000                                   |                               | £'000                              | £'000                 | £'000                                   |
|                                    |                       |   | <b>Financial Assets</b>       |                                    |                       |   |
| 11,487                             |                       |   | Equities                      | 25,582                             |                       |   |
|                                    |                       |   | Managed Funds                 |                                    |                       |   |
| 108,401                            |                       |   | Property                      | 98,174                             |                       |   |
| 710,103                            |                       |   | Managed Equity                | 830,606                            |                       |   |
| 210,101                            |                       |   | Fixed Interest                | 206,232                            |                       |   |
| 42,600                             |                       |   | Index Linked                  | 41,599                             |                       |   |
| 135,223                            |                       |   | Other Alternative Assets      | 32,862                             |                       |   |
| 1,069                              |                       |   | Derivative contracts          | 0                                  |                       |   |
|                                    | 86,154                |   | Cash deposits                 |                                    | 36,517                |   |
|                                    | 361                   |   | Pending Trades                |                                    | 2,700                 |   |
|                                    | 2,740                 |   | Dividends & Income            |                                    | 418                   |   |
|                                    | 189                   |   | Contributions Due             |                                    | 645                   |   |
|                                    | 843                   |   | Cash Balances                 |                                    | 3,107                 |   |
|                                    | 98                    |   | Other Current Assets          |                                    | 57                    |   |
| <b>1,218,984</b>                   | <b>90,385</b>         | <b>0</b>                                | <b>Total Financial Assets</b> | <b>1,235,055</b>                   | <b>43,444</b>         | <b>0</b>                                |

## PENSION FUND

| 31 March 2018                      |                       |   |                                    | 31 March 2017                      |                       |   |
|------------------------------------|-----------------------|---|------------------------------------|------------------------------------|-----------------------|---|
| Fair Value through Profit and Loss | Loans and Receivables | Financial Liabilities at Amortised Cost |                                    | Fair Value through Profit and Loss | Loans and Receivables | Financial Liabilities at Amortised Cost |
| £'000                              | £'000                 | £'000                                   |                                    | £'000                              | £'000                 | £'000                                   |
|                                    |                       |   | <b>Financial Liabilities</b>       |                                    |                       |   |
|                                    |                       | (1,069)                                 | Derivative Contracts               |                                    |                       |   |
|                                    |                       | (3,085)                                 | Pending Trades                     |                                    |                       | (3,453)                                 |
|                                    |                       | 0                                       | Unpaid benefits                    |                                    |                       | 0                                       |
|                                    |                       | (1,689)                                 | Other current Liabilities          |                                    |                       | (475)                                   |
|                                    |                       | (5,843)                                 | <b>Total Financial Liabilities</b> |                                    |                       | <b>(3,928)</b>                          |
| <b>1,218,984</b>                   | <b>90,385</b>         | <b>(5,843)</b>                          | <b>Net Financial Assets</b>        | <b>1,235,055</b>                   | <b>43,444</b>         | <b>(3,928)</b>                          |

## Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

| 31 March 2018 |                                    | 31 March 2017  |
|---------------|------------------------------------|----------------|
| £'000         | Financial Assets                   | £'000          |
| 30,897        | Fair Value through Profit and Loss | 236,975        |
| 0             | Loans and Receivables              | 0              |
|               |                                    |                |
|               | <b>Financial Liabilities</b>       |                |
| 0             | Fair Value through Profit and Loss | 0              |
|               |                                    |                |
| <b>30,897</b> | <b>Total</b>                       | <b>236,975</b> |

## Valuation of Financial Instruments carried at Fair Value

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into three levels, according to the quality and reliability of information used to determine fair values.

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, quoted fixed securities, quoted index linked securities and unit trusts).

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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, or where valuation techniques are used to determine fair value).

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.

| <b>Values as at 31 March 2018</b>                      | <b>Quoted Market Price<br/><br/>Level 1<br/><br/>£'000</b> | <b>Using Observable Inputs<br/><br/>Level 2<br/><br/>£'000</b> | <b>With Significant Unobservable Inputs<br/>Level 3<br/><br/>£'000</b> | <b>Total<br/><br/><br/>£'000</b> |
|--|--|--|--|----------------------------------|
| <b>Financial Assets</b>                                |  |  |  |                                  |
| Financial Assets at Fair Value through Profit and Loss | 11,487   | 1,176,161  | 30,267   | <b>1,217,915</b>                 |
| Loans and Receivables                                  | 90,384   | 0  | 0  | <b>90,384</b>                    |
| <b>Total Financial Assets</b>                          | <b>101,872</b>   | <b>1,176,161</b>   | <b>30,267</b>  | <b>1,308,300</b>                 |
| <b>Financial Liabilities</b>                           |  |  |  |                                  |
| Fair Value through Profit and Loss                     | 0  | 0  | 0  | <b>0</b>                         |
| Financial Liabilities at Amortised Cost                | (4,774)  | 0  | 0  | <b>(4,774)</b>                   |
| <b>Total Financial Liabilities</b>                     | <b>(4,774)</b>   | <b>0</b>   | <b>0</b>   | <b>(4,774)</b>                   |
| <b>Net Financial Assets</b>                            | <b>97,098</b>  | <b>1,176,161</b>   | <b>30,267</b>  | <b>1,303,526</b>                 |

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| Values as at 31 March 2017                             | Quoted Market Price<br>Level 1<br>£'000 | Using Observable Inputs<br>Level 2<br>£'000 | With Significant Unobservable Inputs<br>Level 3<br>£'000 | Total<br>£'000   |
|--|---|---|--|------------------|
| <b>Financial Assets</b>                                |   |   |  |                  |
| Financial Assets at Fair Value through Profit and Loss | 25,582                                  | 1,176,611                                   | 32,862   | <b>1,235,055</b> |
| Loans and Receivables                                  | 43,443                                  | 0   | 0  | <b>43,443</b>    |
| <b>Total Financial Assets</b>                          | <b>69,025</b>                           | <b>1,176,611</b>                            | <b>32,862</b>  | <b>1,278,498</b> |
| <b>Financial Liabilities</b>                           |   |   |  |                  |
| Fair Value through Profit and Loss                     | 0                                       | 0   | 0  | <b>0</b>         |
| Financial Liabilities at Amortised Cost                | (3,929)                                 | 0   | 0  | <b>(3,929)</b>   |
| <b>Total Financial Liabilities</b>                     | <b>(3,929)</b>                          | <b>0</b>                                    | <b>0</b>   | <b>(3,929)</b>   |
| <b>Net Financial Assets</b>                            | <b>65,096</b>                           | <b>1,176,611</b>                            | <b>32,862</b>  | <b>1,274,569</b> |

**5B. 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 traditional securities (equities, bonds), collective investment and alternative funds (in property, multi asset credit and growth 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.



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The Committee has determined that the current largely passive investment management structure is appropriate and is in accordance with its latest investment strategy. In 2017/18 the Fund reduced its equity exposure by approximately 12% of the Fund's total value, committing the sales proceeds to new mandates in diversified growth and multi-asset credit, in line with the Funding Strategy and Investment Strategy Statements approved by PIC towards the end of 2016/17.

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

**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 other investment funds, to all these market risks. The aim of the investment strategy is to manage and control exposure to market risk within acceptable parameters while optimising the return from the investment portfolio. In general, market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the PIC.

**a) Other Price Risk – Market**

The risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

**b) Other Price Risk – Sensitivity Analysis**

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period.

| <b>Asset Type</b>      | <b>Potential Market Movement +/-<br/>(% p.a.)</b> |
|------------------------|---|
| UK Equities            | 9.6   |
| Global Equities        | 10.1  |
| Bonds and Index Linked | 9.3   |
| Alternatives           | 4.6   |
| Property               | 2.9   |
| Cash                   | 0.8   |

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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:

| <b>Asset Type</b>      | <b>Final Market Value as at 31 March 2018</b> | <b>Percentage Change</b> | <b>Value on Increase</b> | <b>Value on Decrease</b> |
|------------------------|---|--------------------------|--------------------------|--------------------------|
|                        | <b>£'000</b>                                  | <b>%</b>                 | <b>£'000</b>             | <b>£'000</b>             |
| UK Equities            | 408,655                                       | 9.6                      | 447,753                  | 369,557                  |
| Global Equities        | 312,935                                       | 10.1                     | 344,577                  | 281,293                  |
| Bonds and Index Linked | 252,700                                       | 9.3                      | 276,156                  | 229,244                  |
| Other Assets           | 135,223                                       | 4.6                      | 141,396                  | 129,050                  |
| Property               | 108,401                                       | 2.9                      | 111,498                  | 105,304                  |
| Cash                   | 86,154  | 0.8                      | 86,875                   | 85,433                   |
| <b>Total Assets*</b>   | <b>1,304,068</b>                              | <b>**7.0</b>             | <b>**1,395,092</b>       | <b>**1,213,044</b>       |

\* This figure excludes derivatives and other investment balances.

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

**c) Interest Rate Risk** is the risk the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The risk is mitigated by the Fund holding minimum cash balances where possible 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 (£GBP). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31 March 2018 with the previous year in brackets:

|            |                   |
|------------|-------------------|
| Euro       | €16.9m (€15.8m)   |
| US Dollars | \$88.4m (\$77.5m) |

The remaining exposures arise from much smaller investments relating to other currencies.

**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 and 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 2018 there were pending foreign exchange purchases of £1.1m and corresponding sales of £1.1m. 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 9.2%. This volatility is applied to the Fund's overseas assets as follows:

## PENSION FUND

| <b>Asset Type</b>        | <b>Asset Value at<br/>31 March 2018<br/>£'000</b> | <b>Change<br/>%</b> | <b>Value on<br/>Increase<br/>£'000</b> | <b>Value on<br/>Decrease<br/>£'000</b> |
|--------------------------|---|---------------------|--|--|
| Overseas<br>Equities     | 312,935   | 9.2                 | 341,735                                | 284,135                                |
| Overseas<br>Fixed Income | 84,025  | 9.2                 | 91,758                                 | 76,292                                 |
| Other<br>Alternatives    | 57,094  | 9.2                 | 62,348                                 | 51,840                                 |
| <b>Total</b>             | <b>454,054</b>                                    | <b>9.2</b>          | <b>495,841</b>                         | <b>412,267</b>                         |

**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 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.

**iii) Liquidity Risk**

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due. For example; the benefits payable costs and capital commitments. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2018 these assets totalled approximately £974m, comprising of bonds and equities, with a further £86.2m held in cash by the custodian on behalf of the Fund and fund managers.

**6. PRIOR YEAR ADJUSTMENT**

No prior year adjustments have been made to these accounts.

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**7. DERIVATIVE CONTRACTS**

As at 31 March 2018 there were pending forward foreign exchange purchases of £1.1m and sales of £1.1m, with an unrealised loss of £62. The gains and losses in the table below relate to foreign exchange forward contracts.

| <b>Asset Type</b>                    | <b>2017/18<br/>£'000</b> |  | <b>2016/17<br/>£'000</b> |
|--------------------------------------|--------------------------|--|--------------------------|
| Foreign Exchange Gains               | 2                        |  | 0                        |
| Foreign Exchange Losses              | (4)                      |  | 0                        |
| <b>Total Realised Gains/(Losses)</b> | <b>(2)</b>               |  | <b>0</b>                 |

**8. DEBTORS & CREDITORS**

These comprise the following amounts:

**Investment Transactions****Debtors**

Equity Dividends / Income from Managed Funds  
Interest and Other Income  
Pending Trades

**2017/18  
£'000**

**2016/17  
£'000**

0

31

2,740

387

361

2,700

**3,101****3,118****Creditors**

Pending Trades

**2017/18  
£'000**

**2016/17  
£'000**

(3,085)

(3,453)

**(3,085)****(3,453)****Non-Investment Transactions****Debtors**

Contributions Due from Admitted / Scheduled  
Employers / Employees  
Interest and Other Income  
LB Lewisham  
Tax Refunds

**2017/18  
£'000**

**2016/17  
£'000**

189

645

0

21

64

35

34

0

**287****701**

| PENSION FUND                  |                          |                          |
|-------------------------------|--------------------------|--------------------------|
| <b><u>Creditors</u></b>       | <b>2017/18<br/>£'000</b> | <b>2016/17<br/>£'000</b> |
| Fund Manager and Custody Fees | (283)                    | (251)                    |
| Consultancy / Advisory Fees   | (56)                     | (48)                     |
| LB Lewisham                   | (1,350)                  | (176)                    |
|                               | <b><u>(1,689)</u></b>    | <b><u>(475)</u></b>      |

## 9. 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 31 March 2018 was £86.2m (£36.5m as at 31 March 2017). Approximately £14.0m from the 2015/16 disinvestment in Investec was held by the custodian in a cash fund which is drawn down to meet cashflow requirements during the year, whilst £50.7m representing proceeds from equity sales as part of the Fund's rebalancing was held in a separate cash fund to meet commitments to the Fund's multi-asset credit mandate. £10.1m of the cash held was from HarbourVest, £8.1m from M&G, £3.0m from Schroders and approximately £138k was being held on behalf of the other managers.

### Pension Fund Bank Account

The Lewisham cash in hand balance of £843m represents uninvested cash held in the Pension Fund bank account as at 31 March 2018.

## 10. POST YEAR END EVENTS

The Fund executed the first stage of a rebalancing exercise in 2017/18, consistent with the Funding Strategy and Investment Strategy Statement amendments following the triennial valuation results, part of which was to procure two new fund managers with multi-asset credit mandates. As at 31 March 2018 the Fund had not yet been admitted to one of these funds, the Partners Group Multi Asset Credit 2017 (IV) GBP fund. In April 2018 Lewisham was successfully onboarded into the fund, with a commitment to invest £40m; the first capital call was issued and payment made of £20m on 23 April 2018.

The Fund also procured a new infrastructure mandate in March 2018 with J.P. Morgan, but as at 31 March 18 had not been admitted to the fund. Lewisham's commitment to the infrastructure fund will be approximately £80m, with a first capital call likely mid-year.

Following the local elections of May 2018, a new Pensions Investment Committee will convene for its first meeting on 28 June 2018. The Committee comprises four previously sitting Councillors, including the re-elected Chair, and four new Councillors with varying degrees of pensions knowledge and experience. The Fund's strategic direction, in line with its Funding and Investment Strategies, will be reassessed by Members in the coming months in conjunction with the results of the next triennial valuation to be carried out as at March 2019.

**PENSION FUND****11. COMMITMENTS**

The Pension Fund was committed to the following capital contributions as at the 31 March 2018:

| <b>Fund Manager</b> | <b>Fund</b>   | <b>Amount<br/>'000</b> | <b>Translated<br/>£'000</b> |
|---------------------|---|------------------------|-----------------------------|
| HarbourVest         | HarbourVest Partners VIII – Cayman Venture Fund L.P                               | \$190                  | 135                         |
| HarbourVest         | HarbourVest Partners VIII – Cayman Buyout Fund L.P                                | \$833                  | 593                         |
| HarbourVest         | HarbourVest Partners X AIF L.P.   | \$24,158               | 17,215                      |
| HarbourVest         | HIPEP VII (AIF) Partnership Fund L.P.   | \$14,550               | 10,368                      |
| HarbourVest         | HarbourVest International Private Equity Partners V – Cayman Partnership Fund L.P | €700                   | 613                         |
| HarbourVest         | HarbourVest International Private Equity Partners V – Cayman Direct Fund L.P      | €180                   | 158                         |
| Pemberton           | European Debt Investments Jersey II LP  | £12,226                | 12,226                      |
|                     | <b>Total</b>  |                        | <b>41,308</b>               |

The HarbourVest commitments have been translated from either Euros or Dollars using exchange rates as at 31 March 2018. This compares to the total commitments at 31 March 2017 of £39.3m.

**12. RELATED PARTY TRANSACTIONS**

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

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

During the year the following declarations were made:

- Councillor Simon Hooks declared he now works in the life insurance and pensions field.

In addition, the Chair of the Investment Committee Cllr Mark Ingleby sits on the Board of Lewisham Homes, the Council's housing subsidiary.

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

**PENSION FUND**

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

No other trustees or Council chief officers with direct responsibility for pension fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2018.

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

- a) Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £661k (included in Administration Expenses in Note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time and vice versa.
- b) The salary of the Executive Director for Resources and Regeneration for 2017/18 was £189,977 including employer pension contributions of £34,894. This total also includes an allowance for acting as Chief Executive following the resignation of the previous post holder.

**13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)**

Contributing members have the right to make AVCs to enhance their pension. There are currently 40 '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(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

|                                      | <b>Total</b> | <b>Equitable</b> | <b>Clerical</b> |
|--------------------------------------|--------------|------------------|-----------------|
| <b>2017/18</b>                       | <b>£'000</b> | <b>Life</b>      | <b>Medical</b>  |
|                                      | <b>£'000</b> | <b>£'000</b>     | <b>£'000</b>    |
| <b>Value at 1 April 2017</b>         | 1,309        | 461              | 848             |
| Contributions and Transfers Received | 177          | 4                | 173             |
| Investment Return                    | 27           | 17               | 10              |
| Paid Out                             | (203)        | (48)             | (155)           |
| <b>Value at 31 March 2018</b>        | <b>1,310</b> | <b>434</b>       | <b>876</b>      |

|                                      | <b>Total</b> | <b>Equitable</b> | <b>Clerical</b> |
|--------------------------------------|--------------|------------------|-----------------|
| <b>2016/17</b>                       | <b>£'000</b> | <b>Life</b>      | <b>Medical</b>  |
|                                      | <b>£'000</b> | <b>£'000</b>     | <b>£'000</b>    |
| <b>Value at 1 April 2016</b>         | 1,234        | 442              | 792             |
| Contributions and Transfers Received | 116          | 4                | 112             |
| Investment Return                    | 98           | 18               | 80              |
| Paid Out                             | (139)        | (3)              | (136)           |
| <b>Value at 31 March 2017</b>        | <b>1,309</b> | <b>461</b>       | <b>848</b>      |



## PENSION FUND

**14. SCHEDULED BODIES**

The following are scheduled bodies to the Fund as at 31 March 2018, arranged in descending order by the value of their contributions in 2017/18:

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

**15. ADMITTED BODIES**

The following are admitted bodies to the Fund as at 31 March 2018, arranged in descending order by the value of their contributions in 2017/18:

|  |
|--|
| Phoenix  |
| Youth First LTD                                |
| Phoenix Agency Services                        |
| Chartwells Compass                             |
| Skanska  |
| Lewisham Music                                 |
| 3 C's Support                                  |
| One Housing                                    |
| NSL (formerly known as National Car Parks Ltd) |
| Wide Horizons                                  |
| Change Grow Live                               |
| Nviro  |
| Fusions Leisure Management                     |
| Quality Heating                                |
| Housing 21                                     |
| Pre-School Learning Alliance                   |
| Blenheim CDP (Ceased November 2017)            |
| Excalibur (Ceased March 2017)                  |
| Tower Services                                 |
| Chequers Contract Services – Lee Manor         |
| Lewisham Nexus Services (Ceased April 2017)    |

**16. STOCK LENDING**

The Statement of Investment Principles and Investment Strategy Statement permit 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 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.



**PENSION FUND**

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 31 March 2018 the value of aggregate stock on loan was £0m (£9.3m as at 31 March 2017). As part of the Fund's rebalancing in year and the sale of equities to finance investments in new mandates, assets in segregated accounts which participated in stock lending arrangements were sold or traded into pooled life funds.

**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 £3k net of direct expenses (compared to £8k in 2016/17). The value of collateral held as at 31 March 2018 was £0m (£9.8m as at 31 March 2017).

**17. MEMBERSHIP**

|                             | <b>Active<br/>Members</b> | <b>Active<br/>Members</b> | <b>Deferred<br/>Beneficiaries</b> | <b>Deferred<br/>Beneficiaries</b> | <b>Retired<br/>Former<br/>Members</b> | <b>Retired<br/>Former<br/>Members</b> |
|-----------------------------|---------------------------|---------------------------|-----------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
|                             | <b>2017/18</b>            | <b>2016/17</b>            | <b>2017/18</b>                    | <b>2016/17</b>                    | <b>2017/18</b>                        | <b>2016/17</b>                        |
| <b>Admin.<br/>Authority</b> | 5,513                     | 5,814                     | 9,531                             | 9,679                             | 7,184                                 | 7,098                                 |
| <b>Scheduled<br/>Bodies</b> | 1,181                     | 916                       | 1,292                             | 825                               | 339                                   | 243                                   |
| <b>Admitted<br/>Bodies</b>  | 127                       | 137                       | 127                               | 117                               | 99                                    | 90                                    |
| <b>Totals</b>               | <b>6,821</b>              | <b>6,867</b>              | <b>10,950</b>                     | <b>10,621</b>                     | <b>7,622</b>                          | <b>7,431</b>                          |

**18. AUTHORISATION**

These accounts were approved by Council on 18 July 2018.

## **Appendix B – Investment Strategy Statement**

# Investment Strategy Statement: September 2018

### **Introduction and background**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Table 1: BlackRock and UBS Rebalancing**

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

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

**Table 2: Tolerance levels**

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

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

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

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

## Investment of money in a wide variety of investments

### Asset classes

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

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

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

Table 1: Fund allocation

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

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

## Managers

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

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

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

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

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

### Funding risks

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

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

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

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

### Asset risks

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

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

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

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

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

#### Other provider risk

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Stewardship**

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

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

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

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

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

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

## Appendices

### Appendix 1 – Approach to risk

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

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

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

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

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

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

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

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

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

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

## Appendix 2 – Compliance with CIPFA Principles for Investment

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

### Principle 1: Effective Decision-Making

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

Compliance statement - full compliance

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

### Principle 2: Clear Objectives

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

Compliance statement – full compliance

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

### **Principle 3: Risk and Liabilities**

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

Compliance statement – full compliance

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

### **Principle 4: Performance Assessment**

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

Compliance statement – full compliance

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

### **Principle 5: Responsible Ownership**

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

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

Compliance statement – Full compliance

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

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

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

### Compliance statement – full compliance

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



## Appendix C – Executive Summary of the 2016 Actuarial Valuation

### Executive summary

We have carried out an actuarial valuation of the London Borough of Lewisham Pension Fund ('the Fund') as at 31 March 2016. The results are presented in this report and are briefly summarised below.

#### Funding position

The table below summarises the funding position of the Fund as at 31 March 2016 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2013).

|                          | 31 March 2013 | 31 March 2016 |
|--------------------------|---------------|---------------|
| Past Service Position    | (£m)          | (£m)          |
| Past Service Liabilities | 1,215         | 1,328         |
| Market Value of Assets   | 868           | 1,041         |
| Surplus / (Deficit)      | (348)         | (288)         |
| Funding Level            | 71%           | 78%           |

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance and favourable membership experience over the inter-valuation period. The liabilities have increased due to a reduction in the future expected investment return, although this has been partially been offset by lower than expected pay and benefit growth (both over the inter-valuation period and continuing in the long term).

#### Contribution rates

The table below summarises the whole fund Primary and Secondary Contribution rates at this triennial valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

| Primary rate (%)             | Secondary Rate (£) |            |            |
|------------------------------|--------------------|------------|------------|
| 1 April 2017 - 31 March 2020 | 2017/18            | 2018/19    | 2019/20    |
| 15.8%                        | £9,447,000         | £9,550,000 | £9,545,000 |

The Primary rate also includes an allowance of 0.6% of pensionable pay for the Fund's expenses.

The average employee contribution rate is 6.6% of pensionable pay.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

Broadly, contributions required to be made by employers in respect of new benefits earned by members (the primary contribution rate) have increased as future expected investment returns have fallen. Changes to employer contributions targeted to fund the deficit have been variable across employers.

The minimum contributions to be paid by each employer from 1 April 2017 to 31 March 2020 are shown in the Rates and Adjustment Certificate in **Appendix H**.