



# **SUPPLEMENTARY AGENDA**

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## **PENSIONS INVESTMENT COMMITTEE**

**Date: TUESDAY, 17 NOVEMBER 2015 at 7.00 pm**

**Committee Room 1  
Civic Suite  
Catford Road  
London SE6 4RU**

**Enquiries to: Emma Aye-Kumi  
Telephone: 020 8314 48975 (direct line)  
Email: emma.aye-kumi@lewisham.gov.uk**

### **COUNCILLORS**

Councillor Chris Best  
Councillor Kevin Bonavia  
Councillor Simon Hooks  
Councillor Mark Ingleby  
Councillor Paul Maslin  
Councillor John Muldoon  
Councillor Liz Johnston-Franklin  
Councillor Joan Reid

### **Observers**

#### **Independent**

Scott Donaldson, Hymans Robertson

#### **Officers**

David Austin, Head of Corporate Resources  
Janet Senior, Executive Director for  
Resources & Regeneration  
Helen Glass, Principal Lawyer  
Carol Eldridge, Group Manager - Pensions  
& Payroll

**Members are summoned to attend this meeting**

**Barry Quirk  
Chief Executive  
Laurence House  
Catford  
London SE6 4RU  
Date: Thursday, 5 November 2015**



INVESTOR IN PEOPLE

The public are welcome to attend our committee meetings, however occasionally committees may have to consider some business in private. Copies of reports can be made available in additional formats on request.

# ORDER OF BUSINESS – PART 1 AGENDA

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<b>PENSIONS INVESTMENT COMMITTEE</b>			
<b>REPORT TITLE</b>	Annual Report and Final Accounts		
<b>KEY DECISION</b>	No	<b>Item No:</b>	
<b>WARD</b>	N/A		
<b>CONTRIBUTORS</b>	Executive Director for Resources & Regeneration		
<b>CLASS</b>	Part 1	<b>Date:</b>	17 November 2015

### **Reasons for Lateness and Urgency**

- This report is late as officers required additional time to finalise the contents of the Annual Report.
- This report is urgent as this is the final meeting of the Pension Investment Committee before the 1 December by when the Annual Report has to be agreed and published.

### **1. SUMMARY**

- 1.1. This report sets out the Annual Report on the Pension Fund activities for the year ending 31 March 2015 and the audit Pension Fund accounts for 2014/15 are attached at Appendix A.
- 1.2. The Council is required to publish the report by the 1 December each year and the contents are specified by guidance issued by the Government.

### **2. RECOMMENDATION**

- 2.1 The Committee is recommended to approve the Annual Report and note the Final Accounts appended.

### **3 BACKGROUND**

- 3.1 Regulations issued by the Government in 2008 require Councils which administer pension funds to publish by the 1 of December each year, a report which details their activities for the preceding financial year.
- 3.2 The Regulations were supplemented by Guidance issued in 2010 which established a general framework within which reports are to be prepared.
- 3.3 The report essentially consolidates a number of published statutory statements including the Statement of Investment Principles, Funding Strategy Statement and Communications Policy Statement into one document.

### **4 FINANCIAL IMPLICATIONS**

- 4.1 These reports address the finances of the Pension Fund. There are no further financial implications to these reports.

## **5 LEGAL IMPLICATIONS**

- 5.1 Provision for the publication of the Pension Fund Annual Report for the financial year 2014/15 is covered by regulation 34 of the Administration Regulations.
- 5.2 As set out in the report the Administering authority (London Borough of Lewisham) must produce the report by 1 December 2015 for the year 2014/15.
- 5.3 In preparing and publishing the Pension Fund Annual Report, the Authority must have regard to guidance given by the Secretary of State.

## **6 CRIME AND DISORDER IMPLICATIONS**

- 6.1 There are no crime and disorder implications directly arising from this report.

## **7 EQUALITIES IMPLICATIONS**

- 7.1 There are no equalities implications directly arising from this report.

## **8 ENVIRONMENTAL IMPLICATIONS**

- 8.1 There are no environmental implications directly arising from this report.

### **ENCLOSED**

The Pension Fund Annual Report 2014/15, and  
as Appendix A, Pension Fund Accounts 2014/15 (audited)

### **FURTHER INFORMATION**

If there are any queries on this report or you require further information, please contact:

David Austin, Head of Corporate Resources on 020 8314 9114.



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# **London Borough Of Lewisham Pension Fund 2014/15 Annual Report**

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

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# **1 FOREWARD BY EXECUTIVE DIRECTOR OF RESOURCES & REGENERATION**

- 1.1. Welcome to the 2014-15 Annual Report for the Lewisham Pension Fund. The requirement for and contents of the annual report was introduced under regulation 34 of the Local Government Pension Scheme (Administration) regulations 2008.
- 1.2. The Pension Fund Annual Report details the financial position of the Lewisham Pension Fund and the performance of the professional 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 2013, showed a funding level of 71.4% of its liabilities. This presents a £348m funding gap at the 2013 valuation.
- 1.4. In all four quarters of 2014-15 the value of the Fund increased. Over the year the total fund value increased by 15.5%. The return on the assets was slightly below benchmark.
- 1.5. This was the second full year of the Fund's majority passive mandates. The performance of the Fund's passive equities and bonds have been in-line with benchmark expectations.
- 1.6. Commodity prices have broadly fallen in 2014. UK inflation fell during the year, and reached a low of 0% in February 2015.
- 1.7. There are a number of recent changes to legislation that have an impact on Public Sector Pensions. For example:
  - The local Pension Board was established by Full Council on 26<sup>th</sup> February 2015. The first meeting took place on 23<sup>rd</sup> July 2015. The Board is made up of five members: two employer representatives, two employee representatives and one independent chair. The position of independent chair is currently vacant. The role of the Board is to provide additional governance of the Pension Fund.
  - Lewisham is a founding shareholder in a London Collective Investment Vehicle (London CIV Ltd). The aim of the vehicle is for Local Authorities to benefit from access to equivalent investment mandates at lower cost.
  - Employees have the right to convert their defined benefits into defined contribution schemes.
- 1.8. Development of Pension reform continues and Lewisham will continue to position itself to put the interest and benefit of its members first as priority.

**Janet Senior**  
**Executive Director for Resources & Regeneration**

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

- 2.1. I am delighted to sit in my second year as Chairman of the Lewisham Pension Investment Committee (PIC).
- 2.2. The UK economy has expanded by 2.6% during 2014 the fastest pace since 2007. This has given rise to upwards revisions for UK economic growth by the Office of National Statistics. The UK is displaying positive signs of a broad based sustainable recovery.
- 2.3. In the current economic climate equity markets have performed well. The Pension Investment Committee have chosen a mixed portfolio of assets with the performance of other asset classes being weaker. Overall, the Fund value increased by £138 m in 2014/15.
- 2.4. Keeping up to date with legislative and regulatory developments has required the on-going attention of the committee. And this continues.
- 2.5. The Committee will continue to work to ensure the Fund is well managed to the benefit of all its members.
- 2.6. 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 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 are to provide a pool of assets sufficient to meet the long-term pension and other benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations) for its members. The investment objectives are to ensure the Fund has sufficient assets to pay pensions and other benefits by maximising investment returns over the long term within acceptable risk tolerances.

#### **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 the admitted bodies and representatives of the Trade Unions may attend the 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**

Member until 31/03/15  
Cllr Hilton

##### **Members as at 26/04/15**

Cllr Ingleby (Chair)  
Cllr Muldoon (Vice Chair)  
Cllr Best  
Cllr Bonavia  
Cllr Hooks  
Cllr Johnston-Franklin  
Cllr Maslin  
Cllr Reid

##### **Permitted Observers**

Tony Smith GMB  
Unison Representative (Vacant)  
Unite Representative (Vacant)  
Pensioner's Rep (Vacant)  
Admitted Body Rep (Vacant)

##### **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**

The Co-Operative Bank, then Barclays  
Bank (from February 2015)

##### **Performance Measurement**

WM Company and  
The Northern Trust Company

##### **Commission Recapture Agent**

Lynch, Jones & Ryan, Inc

##### **Investment Managers**

Blackrock (Mixed Passive)  
Harbourvest (Private Equity)  
Investec (Commodities)  
M & G (Company Finance)  
Schroder (Property)  
UBS (Mixed Passive)

##### **AVC Providers**

Equitable Life and Clerical Medical

##### **Auditors**

Grant Thornton UK LLP

**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 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</b>	Immediate action required, Senior Management involved
<b>Amber/Red</b>	Senior Management attention needed and Management responsibility specified
<b>Amber/Green</b>	Manage by specific monitoring or response procedures
<b>Green</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.

**Key Risks**

- 4.6. The key risks identified as affecting the pension fund in the latest review of the risk register are summarised as follows:

- 1. **Governance Risk** relating to inappropriate investment strategy being adopted. This risk is mitigated by having in place an Investment Strategy that is:
  - 1.1. set in accordance with LGPS investment regulations;
  - 1.2. documented, reviewed and approved by the PIC;
  - 1.3. takes into account the Fund’s liabilities;
  - 1.4. ensures a regular review of the Fund’s asset allocation strategy; and
  - 1.5. identifies an external advisor to provide specialist guidance on the investments decisions for the Fund.

**2. Operational Risk** relating to a failure to adhere to relevant statutory regulations, including updates from the LGPS and the Department for Communities and Local Government (DCLG). This risk is mitigated by:

- 2.1. the monitoring of statutory requirements via the DCLG website and attending London Pension Fund Forum (LPFF) meetings;
- 2.2. the monitoring of proposed changes and responding to consultations to influence outcomes;
- 2.3. the use of specialist advisors to prepare for anticipated changes;
- 2.4. ensuring policies, processes and systems are in place and up to date to comply with regulation; and
- 2.5. ensuring adequate training and specialist knowledge and skills for both staff and Members charged with governance.

**3. Financial risk** relating to Fund assets not being sufficient to meet its obligations and liabilities in the medium term to long term. This risk is mitigated by:

- 3.1. having controls in place to monitor assets and liabilities of the Pension Fund and to review asset allocation on a regular basis to ensure it remains appropriate;
- 3.2. using external advisers - actuarial and investment - to advise the Fund on how to manage the asset and liability mismatch;
- 3.3. setting strategic goals to achieve a fully funded position and setting targets to make changes to the Fund's investments when appropriate to do so;
- 3.4. the triennial valuation assessment of the funding position; and
- 3.5. inter-valuation monitoring to ensure movements in the Funding position are assessed and strategies to manage any deterioration are put in place.

#### **Third Party Risks:**

- 4.7. **Other employers:** The fund has contributions from other employers. To manage the risk of late payments Lewisham maintains a good working relationship with these parties. In 2014/15 Lewisham only had seven employers with late payments. However, Lewisham are working with the employers to resolve the issue. Lewisham's general policy is to charge interest in line with the regulations.
- 4.8. **Third party operations:** This is covered in the contract between Lewisham and the third party software provider Aquila Heywood. Heywood have in place a business continuity plan (BCP) that demonstrates they are well prepared to deal with serious incidents ranging from the effects of a flood or explosion, a serious IT infrastructure malfunction, or even an information security incident. A copy of the Heywoods BCP is available on request.
- 4.9. **Investment Risk:** The management of these risks is detailed in the Pension Fund Accounts, Appendix A.

## **C. FINANCIAL PERFORMANCE**

4.10. The 2014/15 pension fund annual budget for controllable expenditure was agreed in November Pension Investment Committee. Actuals against budget is illustrated below:

	2014/15			2013/14		
	ACTUALS	BUDGET	VARIANCE	ACTUALS	YEAR ON YEAR	
<b><u>ADMINISTRATION COSTS</u></b>	£000s	£000s	£000s	£000s	£000s	%
Lewisham Administration	614	577	37	581	33	6%
Advisory Costs	284	263	21	228	56	25%
Audit costs	21	23	(2)	21	0	0%
Bank Charges	8	8	0	6	2	33%
Other Costs	14	0	14	0	14	
	<b>941</b>	<b>871</b>	<b>70</b>	<b>836</b>	<b>105</b>	13%
<b><u>INVESTMENT MANAGEMENT FEES</u></b>						
Fund Managers' Fees	1,351	1400	(49)	1389	(38)	-3%
Custodian Fees	38	67	(29)	48	(10)	-21%
Advisory Costs	54	33	21	30	24	80%
	<b>1,443</b>	<b>1,500</b>	<b>(57)</b>	<b>1,467</b>	<b>(24)</b>	-2%

4.11. Variances explained:

- Increase in advisory costs is due to increased consultation on the impact of changes to legislation
- Increase in bank and other charges is due to increased transactions going through the pension fund bank account.

#### D. ADMINISTRATIVE MANAGEMENT PERFORMANCE

4.12. The Pension Fund is administered by an in-house team also responsible for other areas of payroll work (such as redundancy payments, gratuities, teachers compensations).

##### KEY ADMINISTRATIVE ACTIVITIES:

	2014/15	2013/14	2012/13	2011/12	2010/11
	No. of cases	No. of cases	No. of cases	No. of cases	No. of cases
New Scheme Members	1,470	1,670	747	546	660
Estimate of Benefits	1,610	854	753	1,055	1,594
Responding to correspondence *	557	557	621	557	493
Preserved Benefits	207	230	478	263	463
Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme	124	138	181	225	286
Retirements	386	323	274	441	295
Death cases (with Dependants)	243	212	227	217	225
Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme	167	90	92	157	120
Additional contributions	32	33	25	20	18
Refunds of contributions	160	6	11	4	6
<b>Overall Performance</b>	<b>4,956</b>	<b>4,113</b>	<b>3,309</b>	<b>3,485</b>	<b>4,160</b>

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

##### KEY STAFF INDICATORS

4.13. The role of the pensions section in the Administering Authority during 2014/15 was carried out by 4.9 Full Time Equivalent (FTE) staff serving some 23,000 members. Relevant data and staffing ratios are as set out below.

FTE Staff	2014/15	2013/14	2012/13
Lewisham	6.4	5.8	5.8
Made up of:			
Work for other schemes	(0.5)	(0.5)	(0.5)
Other work	(1)	(1.0)	(1.0)
<b>Administration of LGPS</b>	<b>4.9</b>	<b>4.3</b>	<b>4.3</b>

Membership	2014/15	2013/14	2012/13	2011/12	2010/11
Number of contributors	7,142	6,817	6,517	5,863	6,206
Number of deferred members	9,061	8,306	7,679	7,267	6,939
Number of pensioners	7,050	6,890	6,700	6,593	6,327
<b>Total</b>	<b>23,253</b>	<b>22,013</b>	<b>20,896</b>	<b>19,723</b>	<b>19,472</b>

	31-Mar-15	31-Mar-14	31-Mar-13	31-Mar-12	31-Mar-11
Ratio 1 FTE staff to members	4,745	5,119	4,776	3,485	3,416
Transactions per member of staff	964	957	770	726	729

4.14. The age profile of the membership calculated as at 31 March 2014 is show in the table below:

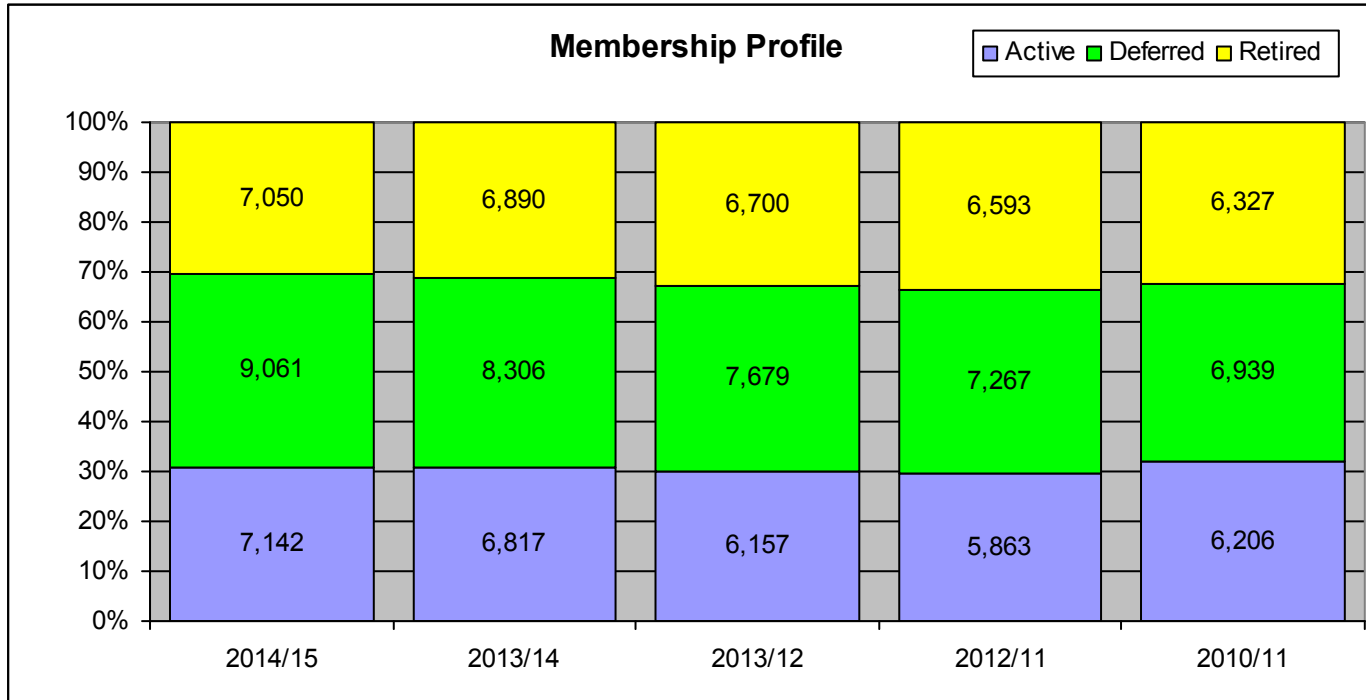
Age Band	Contributing	Deferred	Dependents	Retired
0-4	0	0	0	1
5-9	0	0	0	7
10-14	0	0	0	11
15-19	13	1	0	21
20-24	232	36	0	8
25-29	660	175	0	1
30-34	586	512	0	0
35-39	678	444	1	4
40-44	803	664	3	4
45-49	1129	1169	21	6
50-54	1280	1605	73	33
55-59	996	1417	317	58
60-64	540	443	1256	76
65-69	124	28	1480	95
70-74	10	9	895	143
75-79	1	0	861	191
80-84	0	0	576	179
85-89	0	0	366	168
90-94	0	0	126	78
95-99	0	0	39	21
100-104	0	0	2	1
<b>Total</b>	<b>7,052</b>	<b>6,503</b>	<b>6,016</b>	<b>1,106</b>

4.15. A five year analysis of the Fund's membership (active, deferred, and retired) is shown in the next table. The table also provides the unit cots per member broken down by active, deferred and retired including and excluding investment management expenses.

## FIVE YEAR ANALYSIS: MEMBERSHIP AND ADMINSTRATIVE UNIT COSTS

	2014/15			2013/14			2012/13			2011/12			2010-11		
	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired
<b>Authority</b>	6,147	8,370	6,805	5,715	7,807	6,639	5,322	7,284	6,530	5,035	6,958	6,448	5,436	6,694	6,201
<b>Scheduled Bodies</b>	855	588	180	705	385	147	655	303	127	666	243	106	642	194	91
<b>Admitted Bodies</b>	140	103	65	397	114	104	180	92	43	162	66	39	128	51	35
<b>Totals</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>6,157</b>	<b>7,679</b>	<b>6,700</b>	<b>5,863</b>	<b>7,267</b>	<b>6,593</b>	<b>6,206</b>	<b>6,939</b>	<b>6,327</b>
<b>Administrative unit costs</b>	£90.86	£20.46	£13.15	£85.84	£20.13	£12.13	£85.50	£19.59	£11.22	£119.63	£27.58	£15.20	£115.16	£29.43	£16.14
<b>Investment Management unit costs</b>	£141.43	£31.85	£20.47	£150.64	£35.32	£21.29	£245.80	£56.31	£32.27	£483.18	£111.38	£61.38	£186.00	£47.53	£26.06
<b>Total unit costs</b>	<b>£232.29</b>	<b>£52.31</b>	<b>£33.62</b>	<b>£236.48</b>	<b>£55.45</b>	<b>£33.43</b>	<b>£331.30</b>	<b>£75.90</b>	<b>£43.49</b>	<b>£602.81</b>	<b>£138.96</b>	<b>£76.58</b>	<b>£301.16</b>	<b>£76.96</b>	<b>£42.20</b>





## Employer Contributions

- 4.16. A list of contributing employers and the amounts contributed by the employers in 2014-15 is shown below:

Employers	Contribution
Lewisham Council	£24,973,815.15
Christ The King Sixth Form College	£440,955.47
Haberdashers' Aske's Knights Academy	£1,097,285.99
Lewisham Homes	£2,725,641.47
St Matthew Academy	£315,978.18
Tidemill Academy	£108,718.53
National Car Parks Ltd	£20,821.46
Excalibur Tenant Management Project	£9,493.56
PLUS	£4,931.01
Housing 21	£6,934.20
Lewisham Nexus Services	£3,805.37
Tower Services	£1,397.08
Wide Horizons	£35,514.74
Phoenix	£267,506.23
INSPACE	£123,882.31
Blenheim CDP	£7,160.76
RSM Tenon formerly RSM Bentley Jennison now Baker Tilly	£1,972.08
Penrose now Crime Reduction Initiatives (CRI)	£15,807.16
Skanska	£38,582.37
One Housing	£67,763.47
Fusions Leisure Management	£32,741.33
3 C's Support	£93,159.41
Children's Society	£28,303.61
Pre-School Learning Alliance	£9,162.14
Chequers Contract Services	£2,534.73
Chartwells Compass Contract	£41,866.54

4.17. The Statement of Accounts provides details of the contributions received from employees and employers, reproduced below for ease of reference.

4.18. 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 to apply to join the scheme and the Council has to formally approve their admission.

**TOTAL CONTRIBUTIONS RECEIVED FROM EMPLOYEE (E'E) AND EMPLOYER (E'R)**

Employer	Establishment	Total contributions received £'000 (ee & ers)	% Received by due date
<b>Lewisham Council</b>	Lewisham Council	32,841	100%
<b>Scheduled bodies</b>			
	Christ The King Sixth Form College	574	100%
	Haberdashers' Aske's Knights Academy	1,474	100%
	Lewisham Homes	3,617	25% <sup>a</sup>
	St Matthew Academy	411	58% <sup>b</sup>
	Tidemill Academy	139	99%
<b>Admitted bodies</b>			
Started July 2014	National Car Parks Ltd	85	99%
	Excalibur Tenant Management Project	12	25% <sup>c</sup>
	PLUS	6	99%
	Housing 21	9	99%
	Lewisham Nexus Services	5	58% <sup>d</sup>
	Tower Services	2	99%
	Wide Horizons	46	99%
	Phoenix	365	99%
	INSPACE	167	50% <sup>e</sup>

Employer	Establishment	Total contributions received £'000 (ee & ers)	% Received by due date
Ended June 2014	T Brown & Sons	13	100%
	Quality Heating	9	100%
	Blenheim CDP	8	N/A
	RSM Tenon formerly RSM Bentley Jennison now Baker Tilly	n/a	n/a
	Crime Reduction Initiatives (CRI)	21	100%
	Skanska	51	58% <sup>f</sup>
	One Housing	133	99%
	Fusions Leisure Management	41	99%
	3 C's Support	120	75% <sup>g</sup>
	Children's Society	33	100%
	Pre-School Learning Alliance	12	100%
Started Sep 2014	Chequers Contract Services	3	100%
	Chartwells Compass Contract	52	100%

a Lewisham Homes was formally contacted 8<sup>th</sup> July 2015

b St Matthew was contacted the school took positive action. The last part of the year saw improvement.

c Excalibur was contacted the organisation took positive action. The last part of the year saw improvement

d Nexus was contacted the organisation took positive action. The last part of the year saw improvement

e SPACE was contacted the organisation took positive action. The last part of the year saw improvement

f Skanska was contacted the organisation took positive action. The last part of the year saw improvement

g 3 Cs was formally contacted 8<sup>th</sup> July 2015

## 5 INVESTMENT POLICY AND PERFORMANCE REPORT

### A. INVESTMENT STRATEGY

#### Investment Policy

- 5.1. The Council's investment strategy applies the Funding Statement Strategy (FSS) and the Statement of Principles (SIP). These are discussed more fully in sections 10 and 11 of this report respectively. The FSS sets out the strategy for prudently meeting the Fund's future pension liabilities over the longer term. The SIP sets out the Fund's policies in respect of responsible investment, environmental, social and governance issues.
- 5.2. The Fund does not have direct shares in Companies. The Fund Manager votes on the Fund's behalf. 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 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 seven principles of the UK Stewardship code and how Lewisham meets each one is described below:

1.	Publicly disclose their policy on how they will discharge their stewardship responsibilities.	The Fund's stewardship responsibilities is set out in the SIP. This statement is updated on an annual basis.
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. 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 their investee companies.	Northern Trust, the Fund's custodian, produces monthly statements and performance reports. The Fund managers and Hymans Robertson, the Fund's advisor, prepare quarterly performance reports. These are presented to PIC at every meeting. In addition, WM company (State Street Global Services) produce quarterly performance benchmarking reports which present the Fund's performance against that of a WM Local Authority Universe.
4.	Establish clear guidelines on when and how they will escalate their stewardship activities.	The Fund has established a rebalancing policy. This has been reviewed and agreed by our investment advisors. In addition to regular PIC meetings, officers are in regular communication with the Fund Managers.

5.	Be willing to act collectively with other investors where appropriate.	The Fund is willing to act in collective engagement. Lewisham is currently participating in the creation of a London Local Government Pension Scheme Collective Investment Vehicle.
6.	Have a clear policy on voting and disclosure of voting activity.	The Fund makes use of proxy voting. Managers vote on the behalf of the fund, in line with the Fund's investment principles.
7.	Report periodically on their stewardship and voting activities.	This annual report forms part of the Fund's periodic reporting on it's Stewardship duties.

- 5.5. The Fund is a member of the following bodies:
- The National Association of Pension Funds (NAPF)
  - Local Authority Pension Fund Forum (LAPFF)

### Application of the Myners Principles

- 5.6. The actions the fund undertakes to demonstrate compliance with the Myners Principles is set out in the Statement of Investment Principles.
- 5.7. The investment objective is to ensure that the Fund's investments maximise 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.
- 5.8. Since November 2012, some 80% of the Fund has been under Passive Management. The investment strategy is for a significant proportion of the Fund to be invested into growth assets. For this reason, over 60% of the fund is invested in equities.
- 5.9. The Fund's structure has six managers with five mandates.

### STRATEGIC ASSET ALLOCATION AS AT 31 MARCH 2015

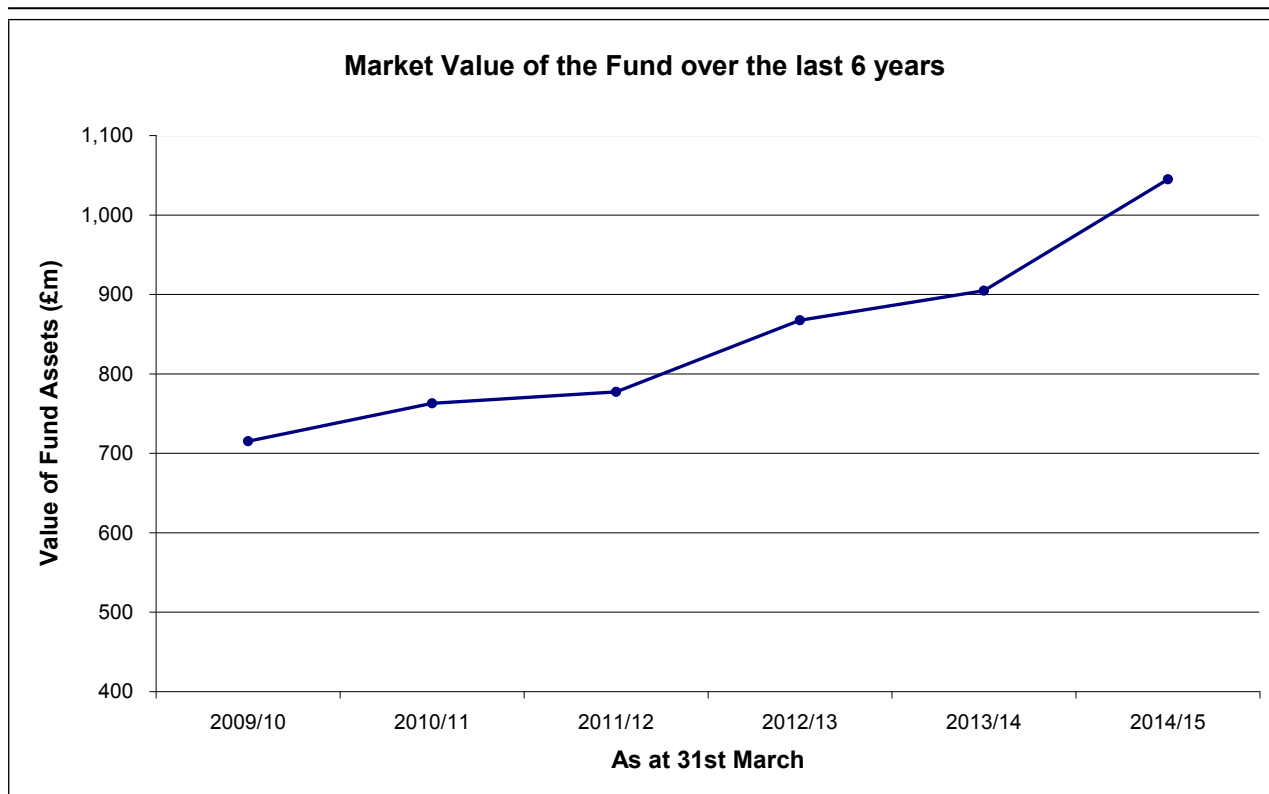
Mandate	Target Allocation	Asset Value 31 Mar 15 £'m	Actual Allocation 31 Mar 15	Actual Allocation 31 Mar 14
Passive Equities and Bonds	81.0%	866.9	83%	82.0%
Property	10.0%	88.2	8.3%	8.4%
Private Equity	3.0%	44.2	4.2%	4.3%
Credit	1.0%	14.4	1.4%	1.6%
Commodities	5.0%	31.8	3.0%	3.7%
Cash	0.0%	1.3	0.1%	0.1%
<b>Total</b>	<b>100%</b>	<b>1,046</b>	<b>100%</b>	<b>100%</b>

- 5.10. The increase in the valuation of the pension fund is mainly due to the good performance in the equities market in the last year.

5.11. The differing short term performances of asset classes and 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.

## B. INVESTMENT PERFORMANCE

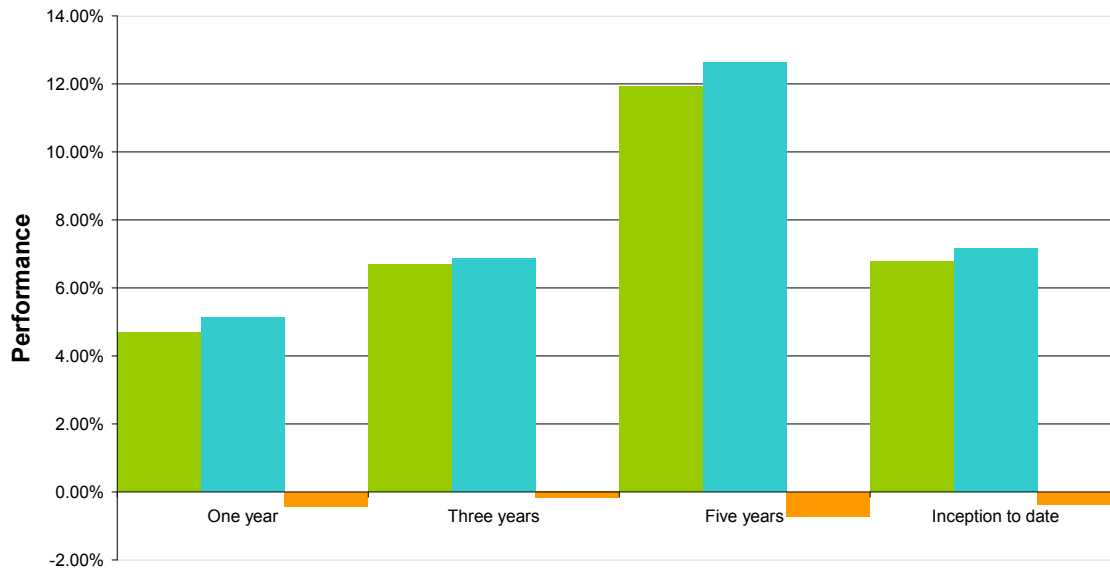
5.12. The graph below depicts the progress of the Fund's assets over the last six years as at the 31st March in each year. The graph shows that the value of the fund has been increasing over the years.



5.13. The value of the Fund's total assets increased by just over £141m (15.2% ) during the year.

5.14. The annualised return of the Fund's investments over the last 12 months was 16.02%, which was 1.6% above the benchmark return. Since inception, the Fund's investments absolute return is 7.21%, which is 0.3% below the benchmark return of 7.5% as depicted below:

### Aggregate Fund Performance relative to benchmark

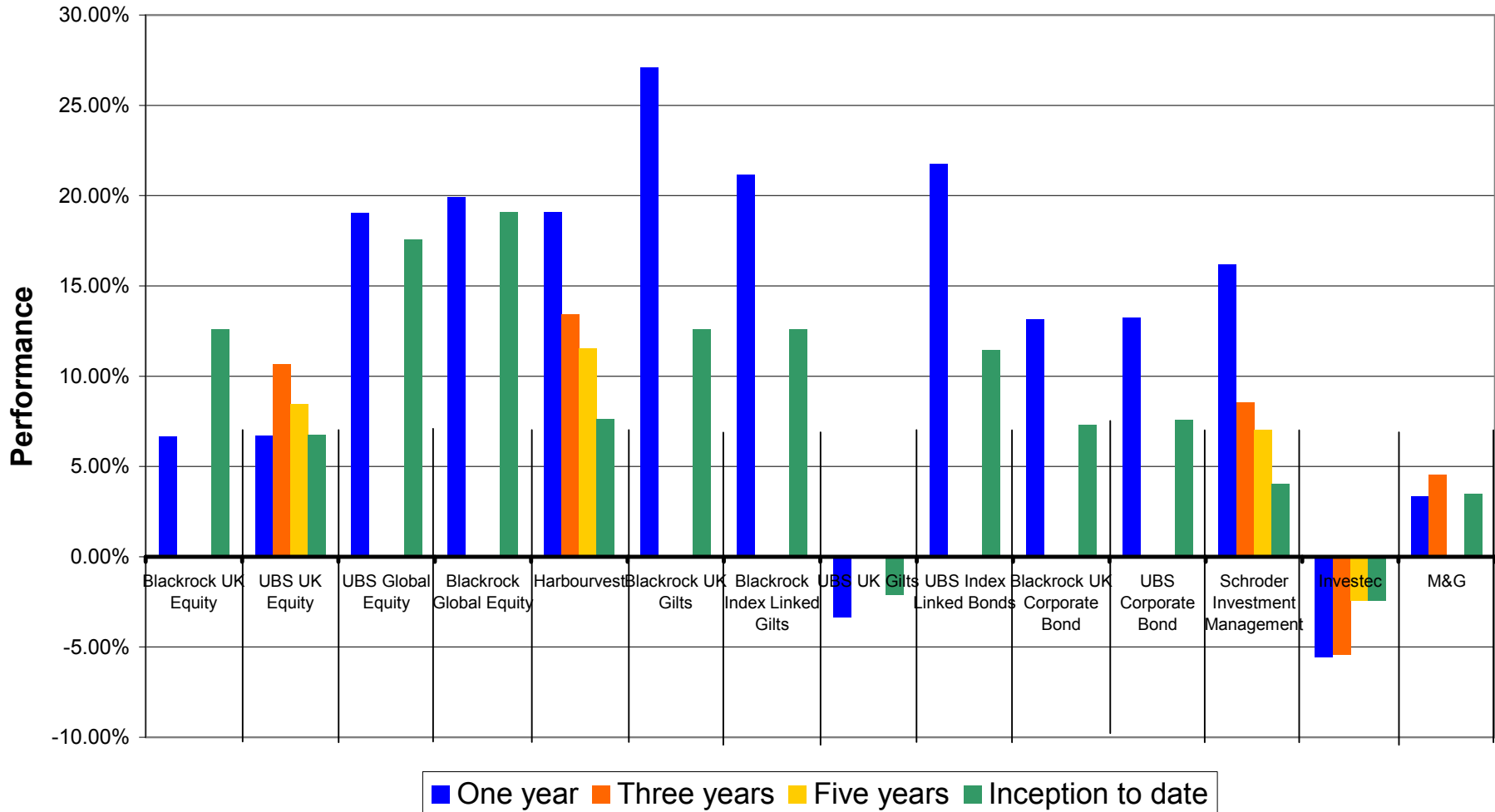


	One Year	Three Year	Five Years	Inception to date
Fund Performance	16.02%	11.03%	8.51%	7.21%
Benchmark	14.39%	10.76%	8.68%	7.50%
Relative performance	1.64%	0.27%	-0.17%	-0.29%

5.15. Individual managers' performance is assessed against customised benchmarks. The performance of each manager against the composite benchmark their asset class over the period of time since inception is as set out in the table on the next page.



## Fund Managers (by asset class) Performance annualised over 1, 3, 5 years



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

Manager	Mandate	Performance Target
<b>UBS</b>	Mixed Passive Mandate	Index tracker fund the performance will correspond to the average return.
<b>BlackRock</b>	Mixed Passive Mandate	Index tracker fund the performance will correspond to the average return.
<b>Harbourvest</b>	Private Equity	To outperform the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) index by 5% over a five year rolling period net of fees.
<b>Schroder</b>	Property	To outperform the Investment Property database (IPD) by 0.75% per annum over a three year rolling period net of fees.
<b>Investec</b>	Commodities	Dow Jones Commodities Index +1%
<b>M &amp; G</b>	Credit	One Month London Inter-Bank Offer rate (LIBOR)+ 1%

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 listed in Appendix A - Pension Fund Accounts under section 5 Investment Analysis.

5.19. The table above shows that some managers have consistently underperformed their benchmark, which has resulted in the underperformance of the fund overall. PIC continues to monitor the performance of all investment managers on a quarterly basis. Each manager is invited to discuss their performance at the committee meetings once a year and to explain strategies for improvement, where necessary.

## 6 SCHEME ADMINISTRATION REPORT

### **Scheme administration/ Pension 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.

### **Internal dispute procedure**

- 6.2. The pension scheme regulations set out a two-stage 'Independent Disputes Resolution Procedure' (IDRP). The Funds internal dispute resolution procedure is shown below:
- 6.3. *Stage One* : the member's case is referred to the Executive Director of Resources and Regeneration who is appointed by the London Borough of Lewisham to act as an independent referee.
- 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 appointed 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 two 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 2014/15.

## 7 ACTUARIAL REPORT ON FUNDS

- 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 2013 and the summary published with last year's annual report available on the Council's website – PIC meeting November 2014. The full version can be obtained upon request. The actuarial review assessed the fund as

being 71.4% funded. This represents a decrease of 3% in the funding level since the last valuation in 2010.

- 7.3. The evaluation has resulted in the actuary assessing the employers contribution rate to provide for future pensions entitlements (the Future Service Rate) to be 21.5% of employees pay with effect from 1st April 2014, and annual increases of 0.5% for the subsequent 2 years.
- 7.4. The next revaluation exercise will have an effective date of 31st March 2016 with the resultant employers contribution taking effect from 2016/17. This will be published in the 2016/17 annual report.

## **8 GOVERNANCE COMPLIANCE STATEMENT**

### **A. GOVERNANCE STRUCTURE**

- 8.1. Lewisham's Governance Compliance Statement has been adopted by the PIC.
- 8.2. The Governance Compliance Statement is as follows:
- 8.3. Under the Constitution Article 9 sets out that Council has appointed the Pensions Investment Committee with the following terms of reference 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 pensions legislation. This includes:
  - review with fund managers the investment performance of the superannuation fund 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 the fund managers of the Council's policy regarding investment of its superannuation 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 the fund managers;
  - to determine the overall investment strategy and policies of the fund on professional advice; and
  - responsibility for compliance with the six Myners principles set out in "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.
- 8.4. Details of the governance structure for the Council is set out within the Council's Constitution which is available at:  
<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Pages/constitution.aspx>

**B. MEMBERSHIP**

8.5. 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 an independent investment consultant (Hymans Robertson) and has non voting observers comprised of pensioners, admitted and scheduled bodies and union officials present.

**C. POLICY AND PROCESSES**

8.6. 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.

8.7. The following table sets out attendance by the eight Councillors who were on the Pensions Investment Committee for the four scheduled meetings in 2014/15. Each Councillor has one vote with the Chair having the casting vote.

	<b>26 Jun 2014</b>	<b>9 Sep 2014</b>	<b>13 Nov 2014</b>	<b>19 Feb 2015</b>
Cllr. Ingleby (Chair)	✓	✓	✓	✓
Cllr. Muldoon (Vice-Chair)	✓	✓	✓	✓
Cllr. Best	Apologies	✓	Absent	Apologies
Cllr. Bonavia	✓	Apologies	✓	Apologies
Cllr. Hilton	✓	✓	✓	✓
Cllr. Hooks	Apologies	✓	✓	✓
Cllr. Maslin	Apologies	✓	✓	Apologies
Cllr. Reid	✓	Apologies	✓	✓

**Member Training**

8.8. Members attend training events 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
- 6) Actuarial methods, standards and practices

8.9. During 2014-15 members attended the following training:

<b>Date</b>	<b>Description</b>	<b>Provider</b>	<b>Members</b>
3 <sup>rd</sup> Sept 2014	Introduction to Investments	Investec	Cllr. Ingleby
10 <sup>th</sup> Sept 2014	Pensions and the Economy	Institute of	Cllr Muldoon

Date	Description	Provider	Members
		Directors	
12 <sup>th</sup> Sept 2014	Pension Age Conference	Pension Age	Cllr Muldoon
16 <sup>th</sup> Oct 2014	Property and Real Asset Strategy	??	Cllr Ingleby
6 <sup>th</sup> Nov 2014	First Steps Investment Training	UBS	Cllr Hilton

## 9 FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

- 9.1. The Fund's accounts, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, were adopted by Council on 23 September 2015 and have been audited by the Council's external auditors Grant Thornton. The Accounts are set out in Appendix A.

## 10 FUNDING STRATEGY STATEMENT

- 10.1. 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. The last review was at 31 March 2013, with the results published in the 2013/14 Annual Report available on the Council's website.
- 10.2. The FSS has been developed by the Council in conjunction with the Fund's actuary, Hymans Robertson, and after consultation with the employers. The FSS focuses on the growth of the Fund's liabilities to pay pensions in the coming years and how those liabilities are funded by investments and contributions. The FSS has links to the Statement of Investment Principles.
- 10.3. 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.
- 10.4. This 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.
- 10.5. 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 1.6% per annum over and above the redemption yield in index-linked gilts.

10.6. 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.

10.7. The 2013 valuation specified the minimum employer contributions, expressed as a percentage of pensionable pay and shown in the Rates and Adjustment certificate, as follows:

	Minimum Contributions for the Year Ending					Lump sums due 2016
	31-Mar-13	31-Mar-14	31-Mar-15	Additional Payments	31-Mar-16	Additional Payments
LB Lewisham	21.00%	21.50%	21.50%	No lump sum due contributions exceeded lump sum due	22.00%	Possible lump sum
Excalibur Tenant Mgt	21.00%	21.50%	21.50%	pooled with LBL	22.00%	
PLUS	21.00%	21.50%	21.50%	pooled with LBL	22.00%	
Housing 21	21.00%	21.50%	21.50%	pooled with LBL	22.00%	
Lewisham Nexus	21.00%	21.50%	21.50%	pooled with LBL	22.00%	
Wide Horizons	21.00%	21.50%	14.60%		14.60%	
Lewisham Homes	21.00%	21.50%	21.50%	No lump sum due contributions exceeded lump sum due	22.00%	Possible lump sum
Haberdashers Aske's Hatcham College	17.50%	17.50%	17.90%	Plus lump sum £156,000	17.90%	Plus lump sum £163,000
Christ The King 6 <sup>th</sup> form College	21.00%	21.00%	18.50%	Plus Lump sum 85,000	18.50%	Plus lump sum £89,000
St Matthew's Academy	17.10%	17.10%	20.60%		20.60%	
Tidemill	23.00%	23.00%	17.50%	Plus Lump Sum £25,000	17.50%	Plus lump sum £26,000
National Car Parks	22.8% plus £34k	22.8% plus £36K	22.80%	Plus Lump Sum £58,000	22.80%	Plus lump sum £61,000
Phoenix Community Hsg	17.10%	16.50%	20.40%		20.40%	
Inspace (Wilmott Dixon)	18.30%	17.10%	20.40%		20.40%	
T Brown & Sons	18.50%	16.50%	0.00%	Employees cons only	0.00%	Employees cons only. Ceased Mar 2015
Quality Heating	20.30%	18.30%	0.00%	Employees cons only	0.00%	Employees cons only
RSM Bentey Jennison	21.50%	19.50%	0.00%	Ceased June 2014	0.00%	

	Minimum Contributions for the Year Ending					Lump sums due 2016
	31-Mar-13	31-Mar-14	31-Mar-15	Additional Payments	31-Mar-16	Additional Payments
Childrens Society (EIS2)	26.50%	26.50%	19.10%		19.1% & 21.10%	
Chequers (Lee Manor)	25.90%	25.90%	17.90%		17.90%	
Pre-School Learning Alliance	25.70%	25.70%	21.60%		21.60%	
Chequers (John Bull)	26.20%	26.20%	19.90%	Ceased June 2014	19.90%	
Fusions Lifestyle	28.00%	28.00%	24.00%		24.00%	
Childrens Society (EIS1)	23.30%	23.30%	21.10%		21.10%	
Childrens Society (2nd group)	19.10%	19.10%	19.10%		19.10%	
Three C's	25.30%	25.30%	23.70%		23.70%	
Skanska	23.00%	23.00%	23.10%		23.10%	
Penrose	20.50%	20.50%	19.70%	Ceased Feb 2014 paid £98,000 on cessation	n/a	
CRI			19.70%		19.70%	
One Housing	22.00%	22.00%	22.00%	Plus Lump Sum £45,000	22.00%	Plus lump sum £47,000
Tower Services	n/a	n/a	22.30%	Started July 2014	22.30%	
Blenheim	n/a	n/a	22.00%	Started April 2014	22.00%	
Chartwells Compass Contract	n/a	n/a	25.70%	Started Sep 2014	25.70%	
SAGE	21.00%	21.50%	n/a	Ceased Mar 2014	n/a	
Bromleigh	7%	7%	n/a	Ceased June 2013	n/a	

## 11 STATEMENT OF INVESTMENT PRINCIPLES

- 11.1. The Regulations require that pension funds prepare, maintain and publish a statement of the principles governing investment decisions. Authorities are also required to assess their compliance against the six principles established by the government in 2008.
- 11.2. The Statement of Investment Principles for the Fund was reviewed at June 2015, including:
- information on the responsibilities of managers and advisors to the Fund,
  - the objectives and structure of the Fund, and
  - Socially Responsible Investments and corporate governance policies.
- 11.3. Appendices to the SIP also set out the terms of each mandate, a 'who's who' of the Fund's managers and advisors and an assessment of how the Fund meets the six investment principles.
- 11.4. No changes were made and the SIP remains as published in the 2013/14 annual report (available on the Council's website). This will be revisited next in 2016/17 with the results of the triennial valuation.



## 12 COMMUNICATIONS POLICY STATEMENT

- 12.1. 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 published Communications Statement is provided at Appendix F.
- 12.2. The statement should contain a commentary on how the Fund has met the commitments set out in the communications policy statement it is required to publish under the provisions of regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008. In particular:
- how scheme information has been provided to members, their representatives and employers,
  - in what format and how frequently information has been provided, and
  - what steps the fund has taken to promote scheme membership to prospective members.
- 12.3 No changes are proposed for 2014/15 – the policy remains as published and reported in the 2013/14 annual report (available on the Council's website).

## 13 ADDITIONAL DATA

- 13.1. To assist in the production of the scheme annual report compiled by the LGPS Scheme Advisory Board, funds are required to include the following:
- 13.2. 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 Body</b>	5	0	5
<b>Admitted Body</b>	23	21	24
<b>Total</b>	28	1	29

- 13.3. An analysis of fund assets as at the reporting date, analysed as follows:

	UK £m	Non- UK £m	Global £m	Total £m
<b>Equities</b>	389	260	34	682
<b>Bonds</b>	128	32	33	193
<b>Property (direct holdings)</b>	82			82
<b>Alternatives</b>	9	56		65
<b>Cash</b>	15	8		23
<b>Total</b>	624	355	66	1,045

13.4. An analysis of investment income accrued during the reporting date, analysed as follows:

	<b>UK</b>	<b>Non- UK</b>	<b>Global</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Equities</b>	13	457		470
<b>Bonds</b>	1,325	1,016		2,341
<b>Property (direct holdings)</b>	3,979			3,979
<b>Alternatives</b>				
<b>Cash</b>	188			188
<b>Total</b>	<b>5,505</b>	<b>1,473</b>		<b>6,978</b>

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**Pension Fund Accounts**

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**PENSION  
FUND  
ACCOUNTS**

**2014/15**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEWISHAM PENSION FUND**

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

This report is made solely to the members of Lewisham Pension Fund, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the 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.

### **Respective responsibilities of the Executive Director for Resources and Regeneration and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of accounts, the Executive Director for Resources and Regeneration is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFNLASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Resources and Regeneration; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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**Pension Fund Accounts**

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**Opinion on the pension fund financial statements**

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015, and
- have been properly prepared in accordance with the CIPFNLSAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

**Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.



Darren Wells  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Fleming Way,  
Manor Royal  
Crawley  
RH10 9GT

29 September 2015

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**Pension Fund Accounts**

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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 2014/15.

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

### **INTRODUCTION**

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

### **ORGANISATION**

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

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

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

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

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

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

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**Pension Fund Accounts**

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## **ACCOUNTING POLICIES**

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The Local Government Pension Scheme (Administration) Regulations 2008 requires administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Regulations summarise the Pension Code and the minimum disclosure requirements.

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

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

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

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**Pension Fund Accounts**

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as cash. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors.

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

The only-non UK fund is the Continental European Fund 1. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies. All the funds are independently valued on a rolling basis at least annually.

- (g) Financing - The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31<sup>st</sup> March 2015 is the actual fair value using the latest available valuation on or after 31<sup>st</sup> December 2014, plus an estimated valuation for the period up to 31<sup>st</sup> March 2015.
- (h) Commodities - The fair value of the Investec commodities is based on their quoted market prices at the Balance Sheet date. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for a non-exchange traded financial instrument, the fair value of the instrument is estimated using Investec's valuation techniques.
- (i) Contributions – These represent the total amounts received from the employers and employees within the scheme. From 1<sup>st</sup> April 2014 the employee contribution bands (revised annually in line with inflation) increased to nine ranging from 5.5% for members earning up to £13,500 a year to 12.5% for members earning over £150,001 a year.



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**Pension Fund Accounts**


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<b>Full time pay for the post</b>	<b>Contribution rate 2014/15</b>
Up to £13,500	5.5%
£13,501 to £21,000	5.8%
£21,001 to £34,000	6.5%
£34,001 to £43,000	6.8%
£43,001 to £60,000	8.5%
£60,001 to £85,000	9.90%
£85,001 to £100,000	10.5%
£101,000 to £150,000	11.40%
More than £150,001	12.50%

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

Last year the contributions bands were as follows:

<b>Full time pay for the post</b>	<b>Contribution rate 2013/14</b>
Up to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%

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

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**Pension Fund Accounts**


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appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 77 of the Local Government Scheme Regulations 1997. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

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

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

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

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

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

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

#### **Actuarial Present Value of Promised Retirement Benefits**

- (o) The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1,683 million as at 31st March 2015 (£1,416 million 31st March 2014).
- (p) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment

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**Pension Fund Accounts**


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managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.

- (q) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
  - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
  - Dividend receipts: the rate applicable on the day prior to the date the dividend is received is used.

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

Fund Manager	Assets	Assets	Assets	Proportion of Fund 2014/15  (%)
		Value 2014/15 £'000	Value 2013/14 £'000	
<b>Schroders Property</b>	Property	88,262	76,179	8.4
<b>HarbourVest</b>	Private Equity	44,167	39,136	4.2
<b>UBS</b>	Passive Equity and Bonds	433,052	371,042	41.5
<b>Blackrock</b>	Passive Equity and Bonds	433,790	369,472	41.5
<b>Investec</b>	Commodities	31,784	33,651	3.0
<b>M&amp;G</b>	Credit	14,447	13,981	1.4
<b>Securities Lending</b>	Securities Lending	100	93	-
<b>Unallocated Funds</b>	Cash	198	1,202	-
<b>Lewisham</b>	Cash and Net Current Assets	(3,242)	38	-
<b>Total Fund</b>		<b>1,042,558</b>	<b>904,794</b>	<b>100.0</b>

- (s) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts. Please see note 13.

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**Pension Fund Accounts**

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

## Pension Fund Accounts

**FUND ACCOUNT FOR THE YEAR**

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

<b><u>FUND ACCOUNT FOR THE YEAR ENDED</u></b> <b><u>31st MARCH 2015</u></b>	<b>2014/15</b> <b>£'000s</b>	<b>2013/14</b> <b>£'000s</b>	<b>Note</b>
<b><u>DEALINGS WITH MEMBERS, EMPLOYERS</u></b> <b><u>AND OTHERS</u></b> <b><u>DIRECTLY INVOLVED WITH THE SCHEME</u></b>			
<b>Contributions Receivable:</b>			
- from Employer	30,471	29,147	1
- from Employees	9,774	9,095	1
- Reimbursement for Early Retirement	1,604	1,380	
Transfer Values In	1,572	1,407	
Other Income	3	11	
<b>Sub-Total: Income</b>	<b>43,424</b>	<b>41,040</b>	
<b>Benefits Payable:</b>			
- Pensions	35,476	33,841	2
- Lump Sums: Retirement allowances	8,478	6,539	
- Lump Sums: Death grants	528	368	
<b>Payments to and on account of leavers:</b>			
- Refunds of Contributions	52	3	
- Transfer Values Out	3,190	2,012	
Administrative and other expenses borne by the scheme	941	836	3
<b>Sub-Total: Expenses</b>	<b>48,665</b>	<b>43,599</b>	
<b>Total Net additions (withdrawals) from Dealings with Scheme Members</b>	<b>(5,242)</b>	<b>(2,559)</b>	

## Pension Fund Accounts

<b>RETURNS ON INVESTMENTS</b>			
Investment Income	6,978	5,477	4
Change in market value of investments (Realised and Unrealised)	137,859	36,147	5a
<b>Investment Expenses:</b>			
- Investment Management Fees	(1,443)	(1,467)	6
- Tax on Dividends	(389)	(353)	
<b>Total Net Returns on Investments</b>	<b>143,005</b>	<b>39,804</b>	
NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	137,764	37,245	
OPENING NET ASSETS OF THE SCHEME	904,794	867,549	
<b>CLOSING NET ASSETS OF THE SCHEME</b>	<b>1,042,558</b>	<b>904,794</b>	

## Pension Fund Accounts

## 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 2015.

<b>NET ASSETS STATEMENT AT 31 MARCH 2015</b>	<b>2014/15 £000s</b>	<b>2013/14 £000s</b>	<b>Note</b>
<b>-</b>			
<b>EQUITIES</b>			
Equities: UK	8,777	6,505	5
Equities: Global	11,228	10,389	5
	<b>20,005</b>	<b>16,894</b>	
<b>MANAGED FUNDS</b>			
Property	82,286	75,732	5
Equity	662,071	558,575	5
Fixed Interest	159,838	142,268	5
Index Linked	32,410	28,476	5
Other Assets	65,028	71,689	5
	<b>1,001,633</b>	<b>876,740</b>	
<b>CASH HELD WITH CUSTODIAN</b>	23,775	10,651	10
<b>DERIVATIVE CONTRACTS</b>			
Assets	0	0	8
Liabilities	0	0	8
<b>OTHER INVESTMENT BALANCES</b>			
Debtors: Investment Transactions	387	491	9
Creditors: Investment Transactions	(0)	(20)	9
<b>TOTAL INVESTMENTS</b>	<b>1,045,800</b>	<b>904,756</b>	
<b>NET CURRENT ASSETS AND LIABILITIES</b>			
Debtors	1,226	1,107	9
Creditors	(4,740)	(1,222)	9
Cash in Hand	272	153	10
<b>TOTAL NET ASSETS</b>	<b>1,042,558</b>	<b>904,794</b>	

The financial statements of the fund do not take account of the liability to pay pensions or benefits after 31<sup>st</sup> March 2015. This liability is included within the Authority's balance sheet.

## Pension Fund Accounts

## NOTES TO THE PENSION FUND ACCOUNTS

**1. CONTRIBUTIONS RECEIVABLE**

<b><u>Employer Contributions</u></b>	<b>2014/15 £000s</b>	<b>2013/14 £000s</b>
Administering	24,974	24,400
Admitted	809	826
Scheduled	4,688	3,921
	<u>30,471</u>	<u>29,147</u>

<b><u>Employee Contributions</u></b>	<b>2014/15 £000s</b>	<b>2013/14 £000s</b>
Administering	7,868	7,521
Admitted	381	317
Scheduled	1,525	1,257
	<u>9,774</u>	<u>9,095</u>

**2. BENEFITS PAYABLE**

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

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

**3. ADMINISTRATION COSTS**

	<b>2014/15 £000s</b>	<b>2013/14 £000s</b>
Lewisham Administration	614	581
Administrative costs*	305	249
Other Costs	14	
Bank Charges	8	6
	<u>941</u>	<u>836</u>

\*includes Grant Thornton Audit fees

**4. INVESTMENT INCOME**

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



## Pension Fund Accounts

## 5. INVESTMENT ANALYSIS

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

Asset	Manager	31 <sup>st</sup> March 2015	
		Value £'000	%
Aquila Life US Equity Index Fund	Blackrock	140,178	14.1
UBS GBL Asset Life North America Equity Tracker	UBS	134,844	13.6
Aquila Life UK Equity Index Fund	Blackrock	90,028	9.1
UBS Global Life UK Equity Tracker Fund	UBS	86,977	8.8

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

Asset	Manager	31 <sup>st</sup> March 2015	
		Value £'000	%
<b>UK Equities</b>			
Harbourvest GE PE Shares	Harbourvest	8,777	100
<b>Global Equities</b>			
Commonwealth Bank of Australia	UBS	708	6.6
Westpac BKG Corp	UBS	564	5.2
<b>Property</b>			
Standard Life Pooled property Fund	Schroder	10,762	13.1
Schroder Uk Prop.	Schroder	12,575	15.3
Hermes Property UT	Schroder	8,439	10.3
Legal and General Property Fund	Schroder	11,440	13.9
Blackrock UK Fund	Schroder	12,173	14.8
Real Income Fund	Schroder	8,170	9.9
Hercules Unit Property	Schroder	4,790	5.8
<b>Managed Equities</b>			
UBS Global AM Life Equity Tracker	UBS	86,978	13.1
UBS Global Life North America	UBS	134,844	20.4
Aquila Life European Equity Index Fund	Blackrock	41,335	6.2
UBS Global Life European EX UK Equity Tracker Fund	UBS	37,417	5.6

## Pension Fund Accounts

Asset	Manager	31 <sup>st</sup> March 2015	
		Value £'000	%
Aquila Life US Equity Index Fund	Blackrock	140,031	21.1
Aquila Life UK Equity Index Fund	Blackrock	89,930	13.6
<b>Fixed Interest</b>			
UBS Global Asset Management Corporate Bond Fund	UBS	32,510	20.3
Blackrock Am Uk Corporate Bond Index	Blackrock	31,576	19.8
Aquila Life over 5 yrs Index Fund	Blackrock	31,226	19.5
Barclays Global Aquila Life over 15 yrs	Blackrock	31,689	19.8
<b>Index Linked</b>			
UK(GOVT OF) 0.375% I/L GILT	UBS	1,734	5.3
UK(GOVT OF) 0.5% IDX/LKD	UBS	1,662	5.1
UK(GOVT OF) 0.75% I/L STK	UBS	1,729	5.3
UK(GOVT OF) 1.125% I/L STK	UBS	1,804	5.5
UK(GOVT OF) 1.25% IDX-LKD	UBS	1,828	5.6
UK(GOVT OF) 1.25% IDX-LKD	UBS	2,061	6.3
UK(GOVT OF) 1.875% I/L STK	UBS	1,795	5.5
UK(GOVT OF) 2.5% I/L GILT	UBS	1,773	5.4
UK(GOVT OF) 2.5% I/L STK	UBS	1,690	5.2
<b>Others</b>			
Global Commodities and Resources	Investec	31,784	48.9
Cayman Partnership Fund	Harbourvest	8,244	12.7
UK Companies Financing Fund	M&G	9,425	14.5
Cayman Buyout Fund	Harbourvest	8,075	12.4
Cayman Venture Fund	Harbourvest	5,608	8.6

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**Pension Fund Accounts**


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An analysis of investment movements is set out below:

<b>5. INVESTMENT ANALYSIS</b>	<b>Value at 31/03/14</b>	<b>Purchases At Cost</b>	<b>Sales Proceeds</b>	<b>Change in Capital Value</b>	<b>Change in Market Value</b>	<b>Value at 31/03/15</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Investments</b>						
UK Equities	6,505	0	0	(152)	2,424	8,777
Global Equities	10,389	17	(1)	(73)	896	11,228
Property	75,732	12,059	(9,991)	(3,965)	8,451	82,286
Managed Equities	558,575	13,627	(850)		90,719	662,071
Fixed Interest Securities	142,268	3,728	(12,436)		26,278	159,838
Index Linked Securities	28,476	3,515	(5,265)		5,684	32,410
Other*	71,689	1,356	(11,266)		3,249	65,028
Derivatives	0	0	0			
	<b>893,634</b>	<b>34,302</b>	<b>(39,809)</b>	<b>(4,190)</b>	<b>137,701</b>	<b>1,021,638</b>
Cash deposits	10,651				158	23,775
Other Investment Balances	471					387
	<b>904,756</b>				<b>137,859</b>	<b>1,045,800</b>

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

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

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

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

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

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

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**Pension Fund Accounts**


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As at 31<sup>st</sup> March 2014:

<b><u>5.</u></b> <b><u>INVESTMENT</u></b> <b><u>ANALYSIS</u></b>	<b>Value at</b> <b>31/03/13</b>	<b>Purchase</b> <b>s</b> <b>At Cost</b>	<b>Sales</b> <b>Proceeds</b>	<b>Change</b> <b>in</b> <b>Capital</b> <b>Value</b> <b>£'000</b>	<b>Change</b> <b>in</b> <b>Market</b> <b>Value</b> <b>£'000</b>	<b>Value at</b> <b>31/03/14</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Investments</b>						
UK Equities	5,861	0	0	(150)	794	6,505
Global Equities	11,499	0	(3)	13	(1,120)	10,389
Property	68,794	8,760	(4,933)	(871)	3,982	75,732
Managed	510,346	12,280	(3,500)	(6)	39,455	558,575
Equities						
Fixed Interest	130,160	17,983	(2,822)	0	(3,053)	142,268
Securities						
Index Linked	26,496	6,079	(2,791)	0	(1,308)	28,476
Securities						
Other*	80,290	1,917	(7,915)	0	(2,603)	71,689
Derivatives	0	0	0	0	0	0
	<b>833,446</b>	<b>47,019</b>	<b>(21,964)</b>	<b>(1,014)</b>	<b>36,147</b>	<b>893,634</b>
Cash deposits	33,502					10,651
Other Investment	644					471
Balances						
	<b>867,592</b>					<b>904,756</b>

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**Pension Fund Accounts**


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

## Pension Fund Accounts

31 <sup>st</sup> March 2015			Financial Assets	31 <sup>st</sup> March 2014		
Fair Value through Profit and Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Fair Value through Profit and Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
			<b>Financial Liabilities</b>			
		0	Derivative Contracts	0		
		0	Pending Trades			(20)
		(374)	Unpaid benefits			(955)
		(4,366)	Other current Liabilities			(267)
		<b>(4,740)</b>	<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>(1,242)</b>
<b>1,021,638</b>	<b>25,660</b>	<b>(4,740)</b>	<b>Net Financial Assets</b>	<b>893,634</b>	<b>12,402</b>	<b>(1,242)</b>

## Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

31 March 2015		31 March 2014
£'000	Financial Assets	£'000
137,859	Fair Value through Profit and Loss	36,147
0	Loans and Receivables	0
	<b>Financial Liabilities</b>	
0	Fair Value through Profit and Loss	0
<b>137,859</b>	<b>Total</b>	<b>36,147</b>

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

## Valuation of Financial Instruments carried at Fair Value

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

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

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

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

## Pension Fund Accounts

Values as at 31 <sup>st</sup> March 2015	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	20,005	968,394	33,239	<b>1,021,638</b>
Loans and Receivables	25,660			<b>25,660</b>
<b>Total Financial Assets</b>	<b>45,665</b>	<b>968,394</b>	<b>33,239</b>	<b>1,047,298</b>
<b>Financial Liabilities</b>				
Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost	(4,740)			<b>(4,740)</b>
<b>Total Financial Liabilities</b>	<b>(4,740)</b>			<b>(4,740)</b>
<b>Net Financial Assets</b>	<b>40,925</b>	<b>968,394</b>	<b>33,239</b>	<b>1,042,558</b>

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

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**Pension Fund Accounts**

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**5B. FINANCIAL RISK MANAGEMENT**

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

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

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

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

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

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

**i) Market Risk**

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

**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



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**Pension Fund Accounts**


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

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

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

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

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

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

<b>Asset Type</b>	<b>Final Market Value as at 31/3/2015 £'000</b>	<b>Percentage Change %</b>	<b>Value on Increase £'000</b>	<b>Value on Decrease £'000</b>
UK Equities	388,664	10.26	428,541	348,788
Overseas Equities	293,472	8.96	319,767	267,177
Total Bonds	192,551	8.41	208,744	176,357
Other Assets	65,050	7.03	69,624	60,478
Property	82,286	2.61	84,434	80,139
Cash	23,777	0.02	23,782	23,773
<b>Total Assets</b>	<b>1,045,800*</b>	<b>6.19**</b>	<b>1,134,892</b>	<b>956,712</b>

\* This figure excludes derivatives and other investment balances.

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

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**Pension Fund Accounts**


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

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

Australian Dollars	£9.6m (£15m)
Euro	£22.4m (£37m)
Hong Kong Dollars	£4.9m (£4m)
Singapore Dollars	£2.1m (£2m)
US Dollars	£127m (£130m)

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

**e) Currency risk – sensitivity analysis**

The fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date. As at 31 March 2015, there were no derivative contracts held. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 6.58%. This volatility is applied to the fund's overseas assets as follows:

Asset Type	Asset Value @ 31/3/2015 £'000	% Change	Value on Increase £'000	% Change	Value on Decrease £'000
Overseas Equities	293,472	+6.58	312,782	-6.58	274,162
Other Assets	64,086	+6.58	68,303	-6.58	59,869
Other Alternatives	55,552	+6.58	59,207	-6.58	51,897
<b>Total</b>	<b>413,110</b>	<b>+6.58%</b>	<b>440,292</b>	<b>-6.58%</b>	<b>385,928</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

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**Pension Fund Accounts**


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the carrying value of the fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection of and monitoring of counterparties including brokers, custodian and investment managers seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

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

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

### iii) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due, for example the benefits payable costs and capital commitments. The fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2015 these assets totalled approximately £874m, with a further £23.7m held in cash by the custodian on behalf of the Fund and fund managers.

#### **6. INVESTMENT MANAGEMENT FEES**

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

#### **7. PRIOR YEAR ADJUSTMENT**

No prior year adjustments have been made to these accounts.

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**Pension Fund Accounts**


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**8. DERIVATIVE CONTRACTS**

As at 31 March 2015, there were no foreign exchange contracts held.

<b>Asset Type</b>	<b>31<sup>st</sup> March 2015</b>		<b>31<sup>st</sup> March 2014</b>
Foreign Exchange Gains			
Total Gains	0		0
Foreign Exchange Losses			
Total Losses	0		0
<b>Total Unrealised Gains/(Losses)</b>	<b>0</b>		<b>0</b>

**9. DEBTORS & CREDITORS**

These comprise the following amounts:

<b>Debtors</b>	<b>2014/15 £'000</b>	<b>2013/14 £'000</b>
Contributions due from Admitted / Scheduled Employers	1,031	474
Contributions due from Admitted / Scheduled Employees	160	137
Equity Dividends / Income from Managed Funds		4
Interest and Other Income	387	161
LB Lewisham		496
Tax Refunds	35	0
Pending Trades		326
	<b>1,613</b>	<b>1,598</b>
<b>Creditors</b>	<b>2014/15 £'000</b>	<b>2013/14 £'000</b>
Fund Manager and Custody Fees	(243)	(267)
Consultancy / Advisory Fees	(56)	0
Pension Payments Due to Employees	(374)	(955)
Pending Trades	0	(20)
LB Lewisham	(4,067)	0
	<b>(4,740)</b>	<b>(1,242)</b>

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

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**Pension Fund Accounts**


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

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

**Pension Fund Bank Account**

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

**11. TRANSACTION COSTS**

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

	<b>2014/15</b>	<b>2013/14</b>
	<b>£'000</b>	<b>£'000</b>
Total Purchases	0	1
Total Sales	0	2
<b>Total transactions</b>	<b>0</b>	<b>3</b>

**12. POST YEAR END EVENTS**

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

**13. COMMITMENTS**

The Pension Fund was committed to the following capital contributions as at the 31<sup>st</sup> March 2015

**Harbourvest**

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

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

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**Pension Fund Accounts**

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#### **14. RELATED PARTY TRANSACTIONS**

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

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

During the year the following declarations were made:

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

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

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

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

#### **15. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)**

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

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

## Pension Fund Accounts

	<b>Total</b>	<b>Equitable</b>	<b>Clerical Medical</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>2014/15</b>			
<b>Value at 1 April 2014</b>	1,570	496	1,074
Contributions and Transfers Received	330	4	324
Investment Return	151	18	134
Paid Out	(420)	(46)	(373)
<b>Value at 31 March 2015</b>	<b>1,631</b>	<b>472</b>	<b>1,159</b>

	<b>Total</b>	<b>Equitable</b>	<b>Clerical Medical</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>2013/14</b>			
<b>Value at 1 April 2013</b>	1,493	527	966
Contributions and Transfers Received	335	5	330
Investment Return	74	21	53
Paid Out	(332)	(57)	(275)
<b>Value at 31 March 2014</b>	<b>1,570</b>	<b>496</b>	<b>1,074</b>

**16. SCHEDULED BODIES**

The following are scheduled bodies to the fund as at 31<sup>st</sup> March 2015:

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

**17. ADMITTED BODIES**

The following are admitted bodies to the fund as at 31<sup>st</sup> March 2015:

National Car Parks Ltd
Excalibur Tenant Management Co-operative Ltd
PLUS
Housing 21
Lewisham Nexus Services
SAGE Educational Trust
Wide Horizons
Phoenix
INSPACE
T Brown & Sons
Quality Heating
Blenheim CDP
Crime Reduction Initiatives (CRI)
Skanska
One Housing
Fusions Leisure Management
3 C's Support

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**Pension Fund Accounts**


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Children's Society
Pre-School Learning Alliance
Chequers Contract Services – Lee Manor
Tower Services <b>Started 1<sup>st</sup> July 2014</b>
Blenheim
Chartwells <b>Started 1<sup>st</sup> September 2014</b>

**18. STOCK LENDING**

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

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

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

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

**Collateral**

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



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**Pension Fund Accounts**


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**19. MEMBERSHIP**

	<b>Active Members 2014/15</b>	<b>Active Members 2013/14</b>	<b>Deferred Benefits 2014/15</b>	<b>Deferred Benefits 2013/14</b>	<b>Retired Former Members 2014/15</b>	<b>Retired Former Members 2013/14</b>
<b>Admin. Authority</b>	6147	5,961	8370	7,837	6805	6,687
<b>Scheduled Bodies</b>	855	705	588	385	180	147
<b>Admitted Bodies</b>	140	151	103	84	65	56
<b>Totals</b>	<b>7142</b>	<b>6,817</b>	<b>9061</b>	<b>8,306</b>	<b>7050</b>	<b>6,890</b>

**20. AUTHORISATION**

These accounts were authorised on the 29 September 2015 by the Executive Director for Resources and Regeneration.