



AGENDA

PENSIONS INVESTMENT COMMITTEE

Date: THURSDAY, 15 NOVEMBER 2012 at 7.00 pm

**Committee Rooms 4
Civic Suite
Lewisham Town Hall
London SE6 4RU**

**Enquiries to: Clare Weaser
Telephone: 0208 314 7369 (direct line)
Email: clare.weaser@lewisham.gov.uk**

COUNCILLORS

Councillor Dan Whittle (Chair)
Councillor Paul Maslin (Vice-Chair)
Councillor Christine Allison
Councillor Chris Best
Councillor Julia Fletcher
Councillor John Muldoon
Councillor Susan Wise

Observers

Mrs Humble
Mr Whittet (UNISON)

Officers

Janet Senior (Executive Director for
Resources and Regeneration)
Selwyn Thompson – Group Manager
Shola Ojo – Principal Accountant
Carol Eldridge – Group Manager (Pensions
and Payroll)
Conrad Hall – Head of Business
Management and Service Support

Members are summoned to attend this meeting

**Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 6 November 2012**



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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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.

Agenda Item 1

PENSIONS INVESTMENT COMMITTEE		
Report Title	MINUTES	
Key Decision		Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 15 November 2012

Recommendation

That the Minutes of that part of the meeting of the Committee, which was open to the press and public, held on 13 June 2012 be confirmed and signed.

LONDON BOROUGH OF LEWISHAM

MINUTES of the meeting of the PENSIONS INVESTMENT COMMITTEE, which was open to the press and public, held on WEDNESDAY 13 JUNE 2012 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 7 p.m.

Present

Councillors Best, Fletcher, Maslin, Muldoon, and Pattison.

Observer – Mr Whittet (UNISON)

Independent Investment Adviser: Scott Donaldson, Hymans Robertson

Officers: Conrad Hall - Head of Business Management and Service Support.
Selwyn Thompson – Group Manager Budget Strategy.
Shola Ojo – Principal Accountant Budget Strategy.
Helen Glass – Principal Lawyer

Apologies for absence were received from Councillors Allison, Whittle and Wise.

<u>Minute No.</u>	<u>Action</u>
1.	<p><u>ELECTION OF CHAIR AND VICE CHAIR</u></p> <p>RESOLVED that Councillor Whittle be elected Chair and Councillor Maslin be elected Vice -Chair of the Pensions Investment Committee for the municipal year 2012/13. In the absence of Councillor Whittle, Councillor Maslin chaired the meeting.</p> <p>Councillor Maslin welcomed Steve Whittet who is the new observer on the Committee representing UNISON.</p>
2.	<p><u>MINUTES</u></p> <p>RESOLVED that the Minutes of the meeting of the Pensions Investment Committee, held on 23 February 2012, be confirmed and signed.</p>
3.	<p><u>DECLARATIONS OF INTERESTS</u></p> <p>Councillor Fletcher declared that her brother in law had recently been employed as a trader for Bryden International which is part of the Melrose Group.</p> <p>Councillor Maslin declared that he is a Director of Hales Gallery Limited and UBS is an occasional customer of the Gallery.</p>

Minute No.

Action

4. DRAFT PENSION FUND ANNUAL REPORT – YEAR ENDING 31 MARCH 2012

4.1 Mr Thompson presented the report. He said that although the value of investment had increased by £11m as outlined in paragraph 3.9 of the report, the fund had decreased as of 13 June 2012.

4.2 Mr Thompson referred members to fund management fees in the pensions fund accounts. He said that fees had increased from £1.4m to £3.2m, this was due, in part, to the performance of commodities. Mr Donaldson said that fees had increased because returns to the fund had been high which had triggered more fees.

4.3 Councillor Muldoon asked how many people in Lewisham's Pension Fund had AVC Contracts. Mr Thompson did not have the figures at the meeting; he agreed to send the information to members. Ex Dir R & R

RESOLVED that the draft Pension Fund accounts for the year ended 31 March 2012, as set out in Appendix 1 to the report be noted.

5. INVESTMENT PERFORMANCE FOR THE QUARTER ENDED 31 MARCH 2012

5.1 Mr Donaldson presented the report.

5.2 Councillor Fletcher asked Mr Donaldson for his prediction regarding the financial markets for the next three months. Mr Donaldson said that it is always difficult to predict future markets because they are constantly changing. He said that a lot could depend on whether Greece will exit the Eurozone. The result of French and Greek elections could have an effect on global financial markets. Ultimately he considered that the behaviour of markets will depend on the effectiveness or otherwise of politicians' meetings where the focus will be on how to prevent an immediate breaking up the Eurozone and destabilisation of the world economy.

5.3 Councillor Fletcher asked whether the American economy was improving because the government was not taking any action until after the elections in November. Mr Donaldson said that the American economy was improving slowly so the government could afford to hold off quantitative easing. Employment in the first quarter was encouraging. As the election approaches it will lead to uncertainties. He said that the portfolio needs to diversify

Minute No.

Action

because markets are volatile.

- 5.4 Councillor Muldoon asked whether it was advisable to invest in Guilts. Mr Donaldson said that the performance of corporate bonds was fair. Guilts were not performing well. He said that money flows into Guilts from Local Government Pension Funds which can take a long term view of their investments. However, nominal Guilts do not look good investment opportunities in real terms.

RESOLVED that the report be noted

6 TERMS OF REFERENCE

RESOLVED that the terms of reference of the Pensions Investment Committee be noted

7 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act, as amended by the Local Authorities (Executive Arrangements) (Access to information) (Amendments) (England) Regulations 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

8. Minutes

9. Passive Investment Manager Selection

The following is a summary of the items considered in the closed part of the meeting.

8 Minutes

RESOLVED that the minutes of the meeting of the Pensions Investment Committee held on 23 February 2012 which were not open to the press and public be confirmed and signed.

9 Passive Investment Manager Selection

RESOLVED that

(i) the move to a more passive investment strategy for the Council's Pension Fund be approved as set out in section five of the report;

(ii) the amended Statement of Investment Principles, at Appendix 1 to the report be approved.

(iii) UBS Global Asset Management (UK) Limited ("UBS") be appointed as the passive investment manager for the equity and bond portfolio described in section eight of the report;

(iv) Blackrock Advisors (UK) Limited ("Blackrock") be appointed as the passive investment manager for the equity and bond portfolio described in section eight of the report;

(v) officers be instructed to issue termination of contract letters to Alliance Bernstein, RCM and UBS Equity.

(vi) it be noted that the Council's existing custodians, Northern Trust, have been appointed as the transition manager for this process;

(vii) officers be instructed to report back to this Committee on the implementation of the transition process in the Autumn;

(viii) the options available for use of the redeemed Hedge Fund from Fauchier Partners as set out in section eight of this report be noted;

(ix) the redeemed assets be invested in short term investment and a further report be submitted to the next meeting of this Committee;

(x) the risks set out in this report be noted and

(xi) officers be authorised to ask new Passive Investment Managers to inform the Committee as to how they propose to engage with companies/funds over issues relating to Corporate

Minute No.

Action

Governance to include the remuneration of Directors.

The meeting ended at 7.25pm

Chair

Agenda Item 2

PENSIONS INVESTMENT COMMITTEE		
Report Title	DECLARATIONS OF INTERESTS	
Key Decision		Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 15 November 2012

Declaration of interests

Members are asked to declare any personal interest they have in any item on the agenda.

Personal interests

There are two types of personal interest :-

- (a) an interest which you must enter in the Register of Members' Interests*
- (b) an interest where the wellbeing or financial position of you, (or a "relevant person") is likely to be affected by a matter more than it would affect the majority of inhabitants of the ward or electoral division affected by the decision.

*Full details of registerable interests appear on the Council's website.

("Relevant" person includes you, a member of your family, a close associate, and their employer, a firm in which they are a partner, a company where they are a director, any body in which they have securities with a nominal value of £25,000 and (i) any body of which they are a member, or in a position of general control or management to which they were appointed or nominated by the Council, and (ii) any body exercising functions of a public nature, or directed to charitable purposes or one of whose principal purpose includes the influence of public opinion or policy, including any trade union or political party) where they hold a position of general management or control,

If you have a personal interest you must declare the nature and extent of it before the matter is discussed or as soon as it becomes apparent, except in limited circumstances. Even if the interest is in the Register of Interests, you must declare it in meetings where matters relating to it are under discussion, unless an exemption applies.

Exemptions to the need to declare personal interest to the meeting

You do not need to declare a personal interest where it arises solely from membership of, or position of control or management on:

- (a) any other body to which you were appointed or nominated by the Council
- (b) any other body exercising functions of a public nature.

In these exceptional cases, unless your interest is also prejudicial, you only need to declare your interest if and when you speak on the matter .

Sensitive information

If the entry of a personal interest in the Register of Interests would lead to the disclosure of information whose availability for inspection creates or is likely to create a serious risk of violence to you or a person living with you, the interest need not be entered in the Register of Interests, provided the Monitoring Officer accepts that the information is sensitive. Where this is the case, if such an interest arises at a meeting, it must be declared but you need not disclose the sensitive information.

Prejudicial interests

Your personal interest will also be prejudicial if all of the following conditions are met:

- (a) it does not fall into an exempt category (see below)
- (b) the matter affects either your financial interests or relates to regulatory matters - the determining of any consent, approval, licence, permission or registration
- (c) a member of the public who knows the relevant facts would reasonably think your personal interest so significant that it is likely to prejudice your judgement of the public interest.

Categories exempt from being prejudicial interest

- (a) Housing – holding a tenancy or lease with the Council unless the matter relates to your particular tenancy or lease; (subject to arrears exception)
- (b) School meals, school transport and travelling expenses; if you are a parent or guardian of a child in full time education, or a school governor unless the matter relates particularly to the school your child attends or of which you are a governor;
- (c) Statutory sick pay; if you are in receipt
- (d) Allowances, payment or indemnity for members
- (e) Ceremonial honours for members
- (f) Setting Council Tax or precept (subject to arrears exception)

Effect of having a prejudicial interest

If your personal interest is also prejudicial, you must not speak on the matter. Subject to the exception below, you must leave the room when it is being discussed and not seek to influence the decision improperly in any way.

Exception

The exception to this general rule applies to allow a member to act as a community advocate notwithstanding the existence of a prejudicial interest. It only applies where members of the public also have a right to attend to make representation, give evidence or answer questions about the matter. Where this is the case, the member with a prejudicial interest may also attend the meeting for that purpose. However the member must still declare the prejudicial interest, and must leave the room once they have finished making representations, or when the meeting decides they have

finished, if that is earlier. The member cannot vote on the matter, nor remain in the public gallery to observe the vote.

Prejudicial interests and overview and scrutiny

In addition, members also have a prejudicial interest in any matter before an Overview and Scrutiny body where the business relates to a decision by the Executive or by a committee or sub committee of the Council if at the time the decision was made the member was on the Executive / Council committee or sub-committee and was present when the decision was taken. In short, members are not allowed to scrutinise decisions to which they were party.

Agenda Item 3

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Annual Performance Review 2011/12		
KEY DECISION	No	Item No:	3
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	15 November 2012

A slide presentation will be made at the meeting by Lynn Coventry from W. M. Company.

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Pension Fund Annual Report 2011/12		
KEY DECISION	No	Item No: 4	
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	15 November 2012

1. PURPOSE OF THE REPORT

- 1.1 This report sets out the Annual Report on the Pension Fund activities for the year ending 31 March 2012 which is attached as Appendix 1.
- 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 Members are recommended to approve the Annual Report for publication as set out in Appendix 1.

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.
- 3.4 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 The financial implications are contained within the detail of the appended document.

5. LEGAL IMPLICATIONS

- 5.1 Provision for the publication of the Pension Fund Annual Report for the financial year 2011/12 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 1st December 2012 for the year 2011/12.
- 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. ENVIRONMENTAL IMPLICATIONS

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

7. HUMAN RESOURCES IMPLICATIONS

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

8. CRIME AND DISORDER IMPLICATIONS

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

9. EQUALITIES IMPLICATIONS

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

10. CONCLUSIONS

- 10.1 The format and contents of the report essentially corresponds to that produced in the previous year.

APPENDICES

Appendix 1 – Annual Report 2011/12

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact Selwyn Thompson, Group Manager Budget Strategy on 020 8314 6932.

**LONDON BOROUGH OF LEWISHAM
PENSION FUND**

**ANNUAL REPORT
2011/12**

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Introduction by the Executive Director for Resources and Regeneration and the Chair of the Pensions Investment Committee

1. Management

- Overview of Scheme
- Scheme Management and Advisers

2. Investment Policy and Performance Review of Investments

- Strategic Asset Allocation
- Performance

3. Scheme Administration

- Review of Administration during the year
- Staffing
- Membership Numbers and Composition

4. Actuary's Statement on Valuation of assets and liabilities

5. Governance Compliance Statement

- Member Training

6. 2011/12 Pension Fund Accounts

7. Funding Strategy Statement

8. Statement of Investment Principles

9. Communications Statement

Appendices

- A. Actuarial Valuation Report – Executive Summary
- B. 2011/12 Pension Fund Accounts
- C. Funding Strategy Statement
- D. Statement of Investment Principles
- E. Communications Policy Statement

INTRODUCTION

EXECUTIVE DIRECTOR FOR RESOURCES & REGENERATION

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.

The Fund is a long-term investor because the major proportion of benefits are payable some years into the future. The results of the most recent triennial valuation, based on the fund's position as at 31 March 2010, showed a funding level of 75.4% of its liabilities, resulting in a £234m funding gap at the 2010 valuation. The next triennial valuation will be carried out as at 31 March 2013.

All pension funds will be subject to considerable financial pressures with regard to rising longevity and falling investment income which will impact on employers contribution levels. A more immediate challenge for employers is auto-enrolment of employees into a pension scheme. Compliance is compulsory for all employers and will result in significant additional administration for both employers and the Fund.

During the year, the review of public sector pensions schemes has continued, following the reports published by Lord Hutton in 2010/11. The Council will continue to prepare for the new scheme which is expected to start in 2014.

Janet Senior

Executive Director for Resources & Regeneration

CHAIR – PENSIONS INVESTMENT COMMITTEE

It has been a challenging year for the global economy with continuing uncertainty about the strength of the economy and volatility in financial markets. The Committee has ensured that the Fund is managed effectively by keeping under review the performance of our individual investment managers and the overall structure of the fund.

Keeping up to date with legislative and regulatory developments has required the on-going attention of the committee. The Committee has been kept abreast of developments in the pension field through updates at its meetings, which this year has included briefings on ethical investments and investment strategies in social housing infrastructure.

As a result of continued underperformance by the active managers, the Committee took the decision to adopt a passive management and only remain active where it is essential or case compelling, such as property. The transition process is currently underway and is expected to result in a more efficient and cost effective Fund for its members.

We shall be working with our actuary, Legal Advisers and others to ensure that any future changes that may affect the Fund are dealt with appropriately.

I thank the members of the Pensions Investment Committee and the Council's finance staff for their work over the last year. I look forward to continuing to work with all concerned to ensure the Fund is managed effectively.

Councillor Dan Whittle

1. MANAGEMENT

INTRODUCTION

The Council has delegated the investment arrangement of the scheme to the Pensions Investment Committee (PIC) who 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. The Committee comprises eight elected representatives of the Council, including two opposition party representatives, 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.

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 advisors.

The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

SCHEME MANAGEMENT AND ADVISERS

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

<p><u>1. Executive Director for Resources & Regeneration</u></p> <p>Janet Senior</p> <p>5th Floor Laurence House, Catford Road, London, SE6 4RU</p>	<p><u>2. Head of Business Management & Service Support</u></p> <p>Conrad Hall</p> <p>5th Floor Laurence House, Catford Road, London, SE6 4RU</p>
<p><u>3. Officers (Investment)</u></p> <p>Selwyn Thompson – Group Manager, Budget Strategy</p> <p>1st Floor Lewisham Town Hall London SE6 4RU</p>	<p><u>4. Officers (Administration)</u></p> <p>Carol Eldridge: Group Manager, Pensions</p> <p>1st Floor Lewisham Town Hall London SE6 4RU</p>
<p><u>5. Officers (Investment)</u></p> <p>Shola Ojo</p> <p>Principal Accountant, Budget Strategy</p> <p>1st Floor Lewisham Town Hall London SE6 4RU</p>	<p><u>6. Officers (Administration)</u></p> <p>Mike Dobson</p> <p>Team Leader, Pensions</p> <p>1st Floor Lewisham Town Hall London SE6 4RU</p>

7. <u>Investment Managers</u>	
Alliance Bernstein Devonshire House, 1 Mayfair Place , London W1J 8AJ	UBS Global Asset Management 21 Lombard Street, London EC3V 9AH
Schroders 31 Gresham Street, London EC2V 7QA	HarbourVest 8th floor, Suite 7, Berkeley Square House, Berkeley Square. London
RCM (UK) Limited 155 Bishopsgate London EC2M 3AD	Fauchier Partners 72 Welbeck Street London W1G 0AY
Investec Asset Management 2 Gresham Street London EC2V 7QP	M&G Laurence Pountney Hill London EC4R 0HH

8. <u>Custodian Bank</u> The Northern Trust Company 50 Bank Street, Canary Wharf, London E14 5NT	9. <u>Actuary</u> Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB
10. <u>Investment Consultant</u> Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB	11. <u>Solicitors</u> Legal Services Lewisham Town Hall, Catford Road, London, SE6 4RU
12. <u>Performance Measurement</u> The Northern Trust Company 50 Bank Street, Canary Wharf, London E14 5NT	13. <u>Performance Measurement</u> The W.M. Company (a subsidiary of State Street Bank) World Markets House, Crewe Toll, Edinburgh, EH4 2PY
14. <u>Commission Recapture Agent</u> Lynch, Jones & Ryan, Inc 3 Times Square, New York, NY 10036, U.S.A.	15. <u>Bankers</u> The Co-operative Bank Regional Public Sector Manager Public Sector The Co-operative Bank 4th Floor, 9 Prescott Street, London. E1 8BE.

<p>16. <u>Auditors</u></p> <p>Audit Commission First floor Millbank Tower, Millbank, London. SW1P 4HQ.</p>	<p>17. <u>AVC providers</u></p> <p>Clerical Medical PO Box 174 Walton Street Aylesbury Bucks. HP21 7YP.</p> <p>Equitable Life PO Box 177 Walton Street Aylesbury Bucks HP21 7YH.</p>
<p>18. <u>Membership of Professional Associations</u></p> <p>National Association of Pension Funds</p> <p>Local Authority Pension Fund Forum</p>	

MEMBERS OF THE PENSIONS INVESTMENT COMMITTEE

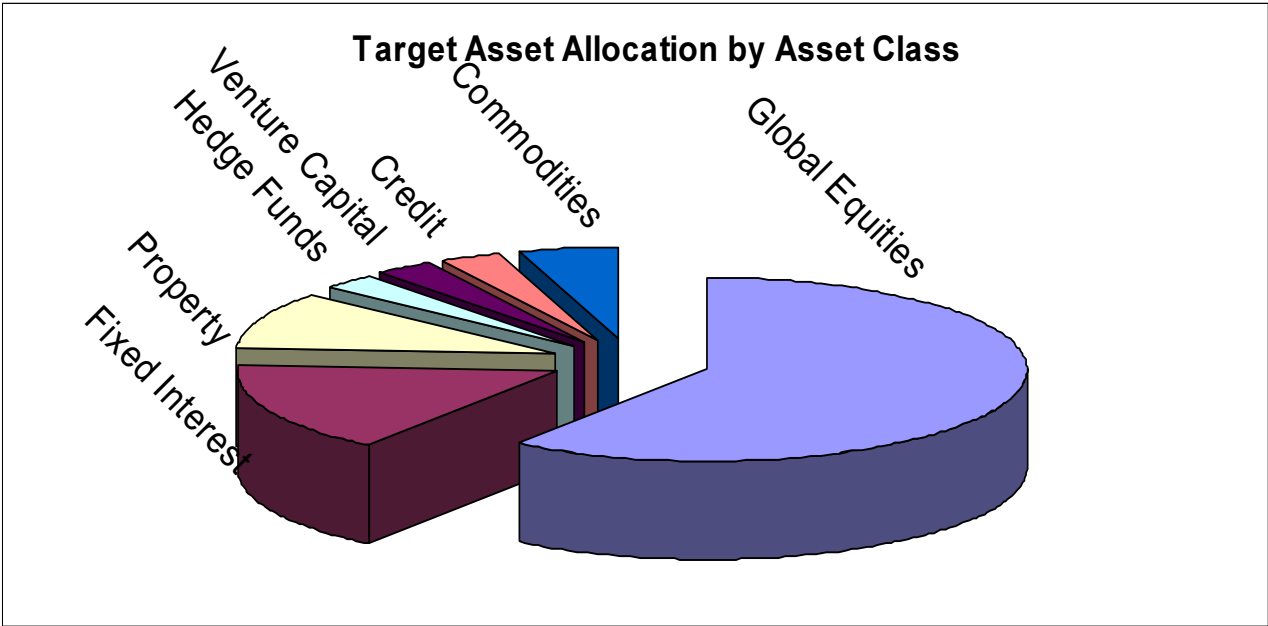
<p>1. <u>Investment Committee</u></p>	
<p><u>Councillors</u></p> <p>Cllr Whittle (Chair)</p> <p>Cllr Maslin (Vice Chair)</p> <p>Cllr Allison</p> <p>Cllr Best</p> <p>Cllr Fletcher</p> <p>Cllr Muldoon</p> <p>Cllr Wise</p> <p>Cllr Patisson</p>	<p><u>Union Representatives</u></p> <p>Mr Stephen Whitlettt Unison</p> <p>Vacant Unite</p> <p><u>Pensioner Representative</u></p> <p>Mrs C Humble</p> <p><u>Admitted Body Representative</u></p> <p>Vacant</p>

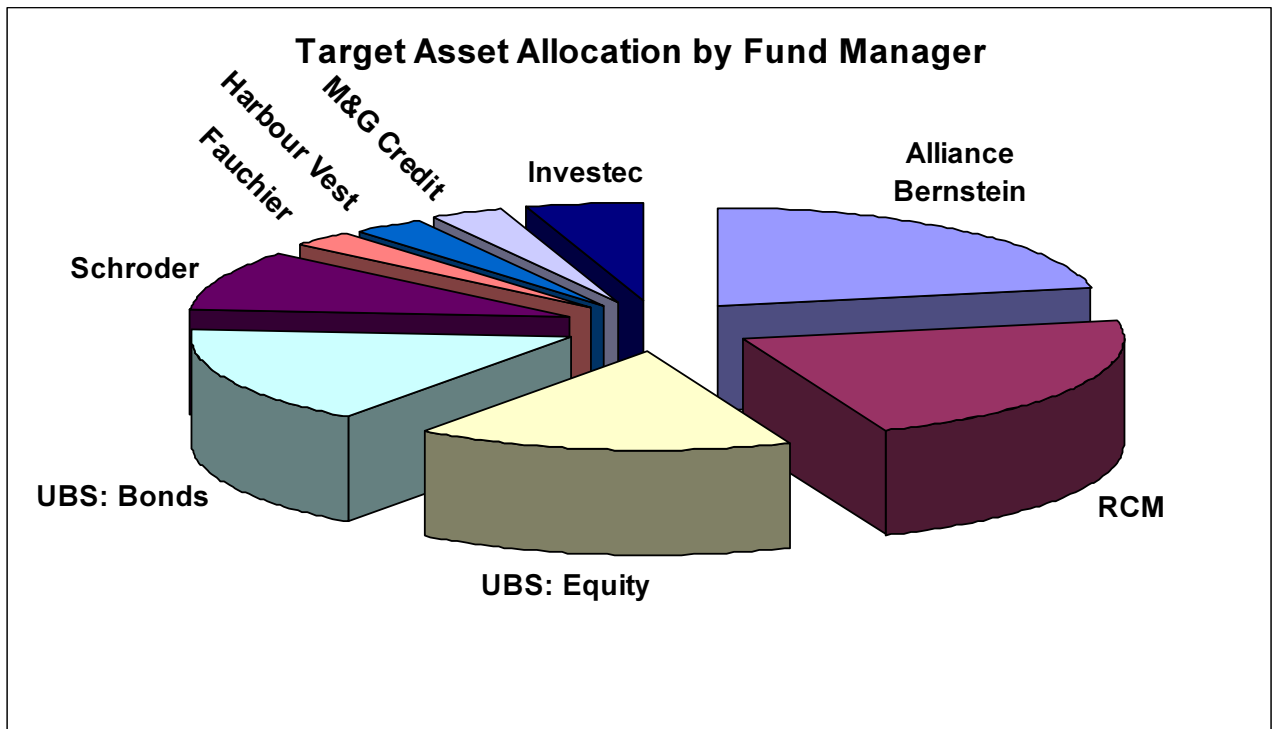
2. INVESTMENT POLICY AND PERFORMANCE

STRATEGIC ASSET ALLOCATION

The Fund’s strategic allocation was determined by the Pensions Investment Committee in June 2009 after considering the advice of the then Investment Advisor, Dr Scott Jamieson, and the Council’s Investment Consultants, Hymans Robertson. The current strategic allocation is as detailed in the table and charts below and indicates that the Fund has a 60% target allocation to equities.

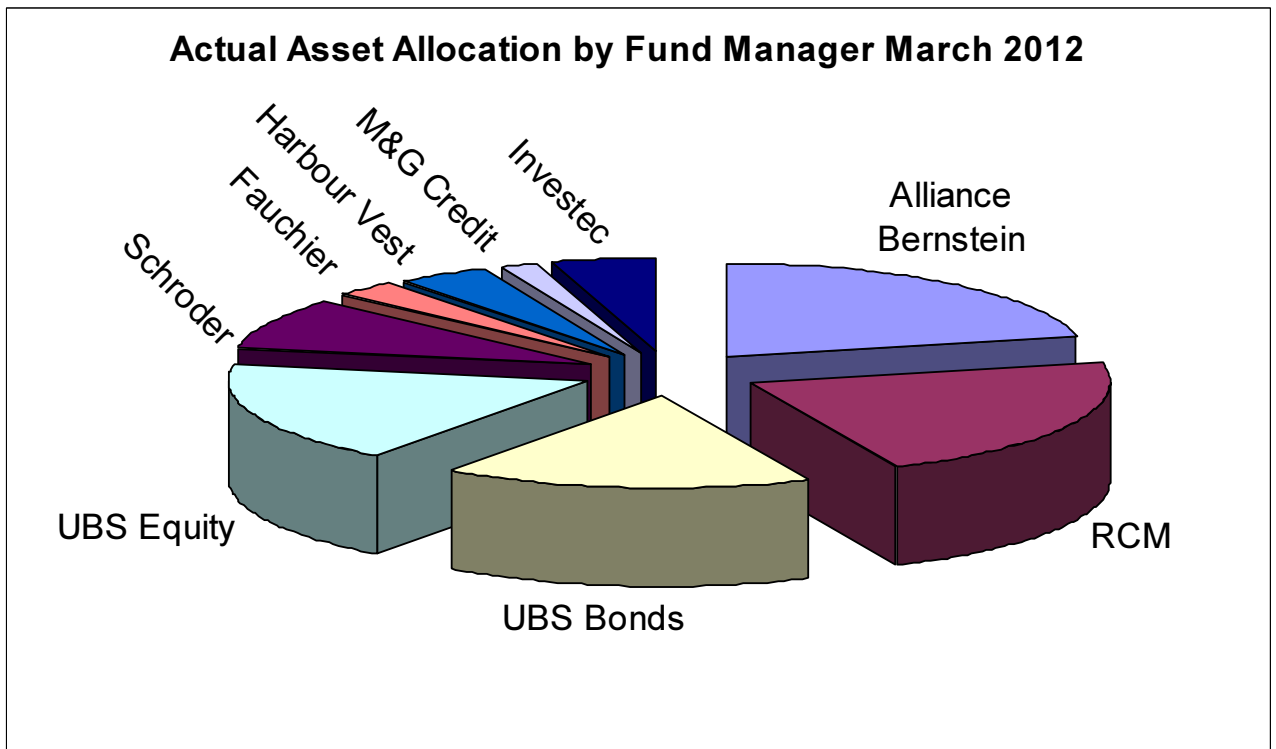
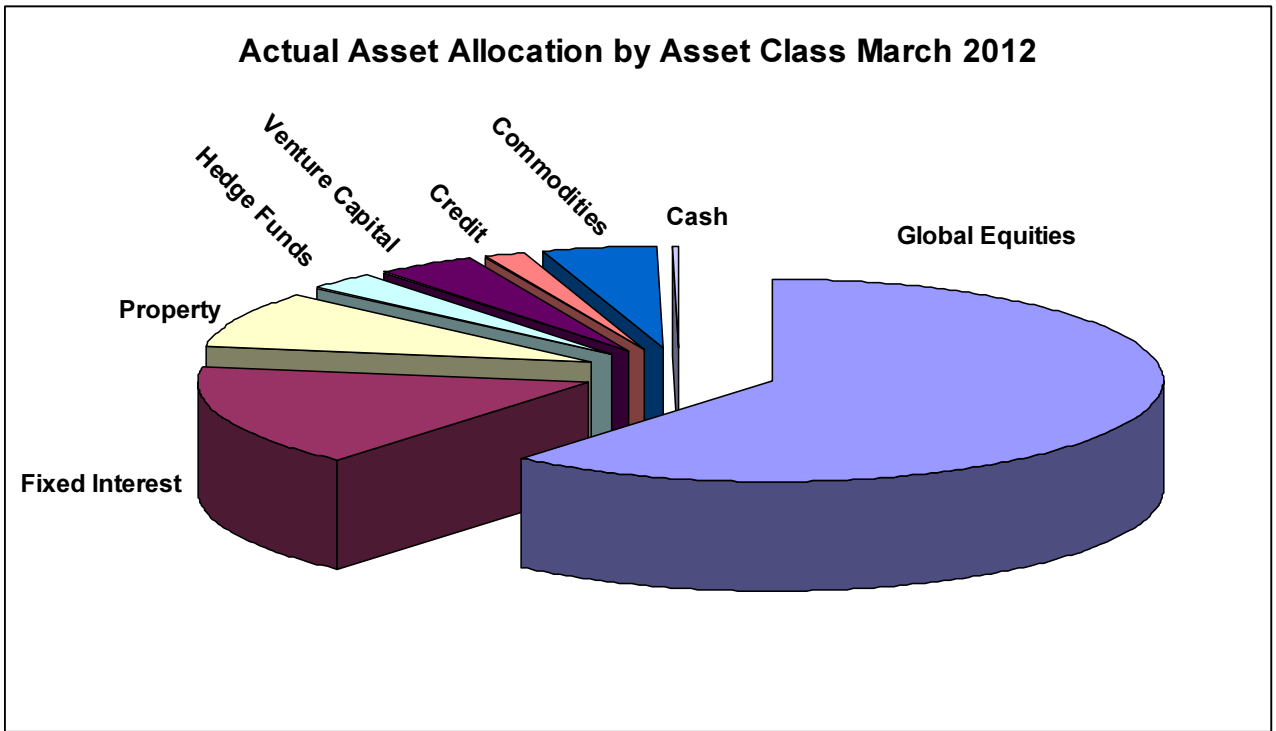
Manager	Mandate	Target Allocation
Alliance Bernstein	Global Equities	22.00%
RCM	Global Equities	22.00%
UBS: Equity	UK Equities	16.00%
UBS: Bonds	Fixed Interest	16.00%
Schroder	Property	10.00%
Fauchier	Hedge Funds	3.00%
Harbour Vest	Venture Capital	3.00%
M&G Credit	Credit	3.00%
Investec	Commodities	5.00%





The actual allocation of funds between the different investment managers and asset types is as set out below. The differing short term performances of asset classes and managers inevitably results in the actual asset allocations deviating from the strategic benchmark. Periodically, the Fund undertakes a re-balancing exercise to return to the strategic benchmark.

Manager	Mandate	Market Value 31 March 2012		Market Value 31 March 2011	
		£M	%	£M	%
Alliance Bernstein	Global Equities	165,816	21.3%	177,416	23.3%
RCM	Global Equities inc. UK	171,254	22.0%	169,067	22.2%
UBS: Equity	UK Equities	128,474	16.5%	125,728	16.4%
UBS: Bonds	Fixed Interest	138,140	17.8%	124,671	16.3%
Schroder	Property	68,846	8.9%	68,386	9.0%
Fauchier	Hedge Funds	21,077	2.7%	22,054	2.9%
Harbour Vest	Venture Capital	33,163	4.3%	30,020	3.9%
M&G Credit	Credit	11,089	1.4%	5,314	0.7%
Investec	Commodities	37,587	4.8%	40,062	5.3%
NTrust	Securities Lending	8	0.0%	150	0.0%
LB Lewisham	Cash	2,010	0.3%	-74	0.0%
Total		£777,464	100.0%	£762,794	100.0%



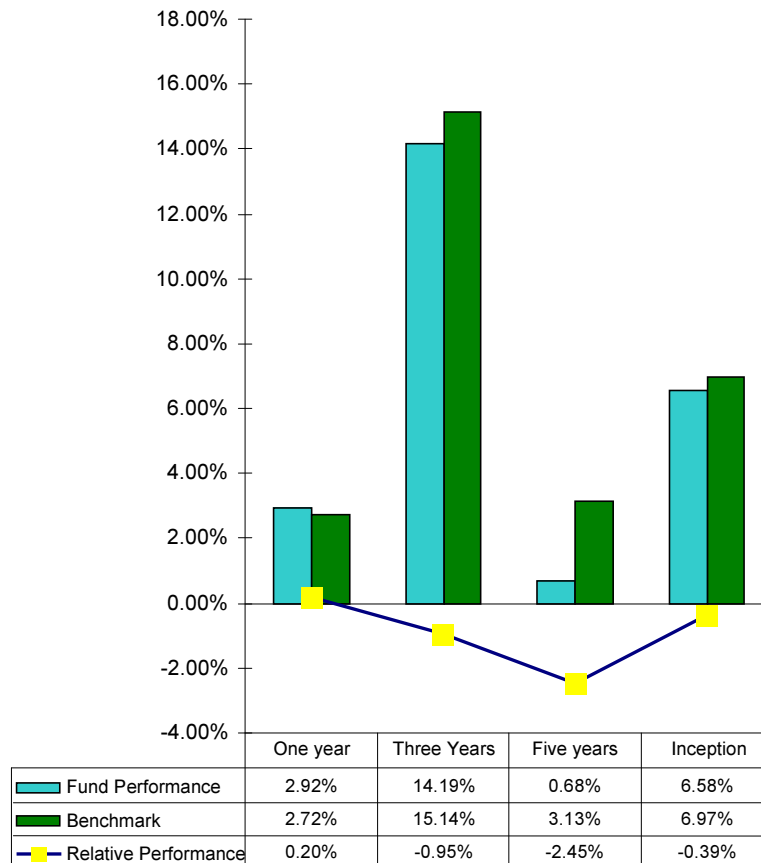
The Pension Fund's top equity and unit trust holdings are listed in Appendix B - Pension Fund Accounts under section 5 Investment Analysis.

PERFORMANCE

Individual managers performance is assessed against a customised benchmark. The performance of the overall fund against the composite bench mark over the period of time since inception is as set out below:

The benchmarks and performance of individual managers is as set out below:

Aggregate Fund: Comparative Performance



Manager	Mandate	Performance Target	Performance Relative to Benchmark : Excess/ - Under			
			1 Year	3 Year	5 Year	Since Inception of the Investment
Alliance Bernstein	Global Equity	To outperform the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) index by 1.5% over a three year rolling period net of fees.	-4.18%	-1.78%	-4.74%	-2.79%
Fauchier	Hedge Fund	To outperform UK Base Rates by 5% over a five year rolling period.	-9.97%	-2.53%		-6.50%
Harbourvest	Venture Capital	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.	-2.15%	-15.08%	0.29%	0.09%
RCM	Global Equity	To outperform the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) index by 1.5% over a three year rolling period net of fees.	5.52%	-2.09%		-1.33%
Schroders	Property	To outperform the Investment Property database (IPD) by 0.75% per annum over a three year rolling period net of fees.	-1.25%	-4.71%	-2.29%	-0.87%
UBS (Equity)	UK Equity (Index)	Index tracker fund the performance will correspond to the average return.	0.84%	0.12%		0.20%
UBS (Bonds)	Fixed Interest	To outperform a composite of various bond indices by 1.1% over a rolling three year periods net of fees.	-0.87%	3.91%	-0.29%	-0.63%
INVESTEC	Commodities	Dow Jones Commodities Index +1%	9.82%			1.13%
M & G	Credit	One Month London Inter-Bank Offer rate (LIBOR)+ 1%	1.31%			1.09%

The table and the chart above indicate that the fund has consistently underperformed the benchmark apart from the last year where it marginally met the benchmark. In order to address this poor performance, the Pensions Investment Committee decided in 2011 to change the investment strategy of the fund from an active mandate to a passive mandate. This process is underway and will continue well into 2012/13.

3. SCHEME ADMINISTRATION

REVIEW OF ADMINISTRATION DURING THE YEAR

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

The Team's targets and performance against these targets are as set out below:

	Target Days	2011/12		2010/11		2009/10	
		No. of cases	Achievement of target	No. of cases	Achievement of target	No. of cases	Achievement of target
New Scheme Members	20	546	70%	660	88.8%	883	92.3%
Estimate of Benefits	10	1055	88%	1594	91.2%	733	99.0%
Responding to correspondence	10	557	95%	493	97.8%	595	97.0%
Preserved Benefits	15	263	85%	463	69.5%	987	27.0%
Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme	10	225	91%	286	90.6%	452	90.0%
Retirements	10	441	93%	295	98.6%	280	96.0%
Death cases	5	217	96%	225	97.8%	212	97.0%
Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme	10	157	76%	120	88%	120	60.0%
Additional contributions	10	20	95%	18	100%	39	97.0%
Refunds of contributions	10	4	100%	6	100%	17	94.0%
Overall Performance		3,485	87%	4,160	78.2%	4,318	76.5%

STAFFING

The Administering Authority role of the pensions section during 2011/12 was carried out by 4.8 full time equivalent staff. Relevant staffing ratios are as set out below.

	31 Mar 2012	31 Mar 2011	31 Mar 2010
Pension Fund Member per Member of Staff	3,485	3,416	3,374
Transaction per Member of Staff	726	729	758

The Statement of Accounts provides details of the contributions received from employees and employers and this has been reproduced below.

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 the admission.

Admitted Bodies

National Car Parks Ltd
Excalibur Tenant Management
Project
PLUS
Housing 21
Lewisham Nexus Services
Lewisham Way Youth and
Community Centre
SAGE Educational Trust
CIS Securities
Wide Horizons
Phoenix
INSPACE
T Brown & Sons
Quality Heating
Blenheim CDP
RSM Tenon formerly RSM Bentley
Jennison
Broomleigh Housing Association
Penrose
Skanska
One Housing
Fusions Leisure Management
3 C's Support

Scheduled Bodies

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

The Fund's financial accounts detail the contributions to the fund and the benefits payable. The relevant extracts set out the relevant number of employees, deferred beneficiaries and retired former employees. There are set out in the Table below:

	Employees		Deferred Beneficiaries		Retired Former Employees	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
Administering Authority	5,035	5,436	6,958	6,694	6,448	6,201
Scheduled Bodies	666	642	243	194	106	91
Admitted Bodies	162	128	66	51	39	35
Total	5,863	6,206	7,267	6,939	6,593	6,327

4. ACTUARY'S STATEMENT ON VALUATION OF ASSETS AND LIABILITIES

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.

The last revaluation was undertaken in March 2010 and an Executive Summary of the valuation report was published in the 2009/10 annual report. That actuarial review assessed the fund as being 75% funded. This represents a decrease of 12% in the funding level since the last valuation in 2007.

This has resulted in the actuary assessing the employers contribution rate to provide for future pensions entitlements (the Future Service Rate) to be 20.5% of employees pay with effect from 1st April 2011, and annual increases of 0.5% for the subsequent 2 years.

The next revaluation exercise will have an effective date of 31st March 2013 with the resultant employers contribution taking effect from 2014/15.

Appendix A is the Executive Summary of the Actuarial Statement for 2011/12 prepared by the Fund's actuaries, Hymans Robertson.

5. GOVERNANCE COMPLIANCE STATEMENT

Lewisham's Governance Compliance Statement has been adopted by the Pensions Investment Committee.

The Governance Compliance Statement is as follows:

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 of 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 manager
- to determine the overall investment strategy and policies of the fund on professional advice
- responsibility for compliance with the ten Myners principles incorporated in the "CIPFA Pensions Committee Principles for Investment Decision Making" and all other relevant guidance in relation to the Local Government Pension Scheme in force and issued by CIPFA from time to time.

The Pensions Investment Committee comprises 8 Members of the Council who have voting rights. The committee meets at least 4 times a year and 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 opportunities comprised of pensioners, admitted and scheduled bodies and union officials.

Responsibility for day-to-day administration and preparation of the Pension Fund accounts has been delegated to the Executive Director for Resources and Regeneration.

The following table sets out attendance by the eight Councillors who have been on the Pensions Investment Committee during the four scheduled meetings in 2011/12. Each Councillor has one vote with the Chair having the casting vote.

	15 Jun 2011	6 Sep 2011	17 Nov 2011	23 Feb 2012
Cllr. Allison	✓	-	-	-
Cllr. Best	✓	✓	-	-
Cllr. Fletcher	✓	✓	✓	-
Cllr. Maslin (Vice-Chair)	✓	✓	✓	✓
Cllr. Muldoon	✓	✓	✓	✓
Cllr. Pattison	✓	-	-	✓
Cllr. Whittle (Chair)	✓	✓	✓	-
Cllr. Wise	✓	✓	✓	✓

Member Training

Members attended a Pension Committee training day in February 2012, which was conducted by Hymans Robertson for all London Boroughs. The training looked at the governance framework, actuarial methods standards and practices, pension fund accounting and audit standards, financial matters and product knowledge and investment strategies.

6. 2011/12 ACCOUNTS

The Fund's accounts, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, were adopted by Council on 26 September 2012 and have been audited by the Council's external auditors the Audit Commission. The Accounts are set out in Appendix B.

7. FUNDING STRATEGY STATEMENT

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 as part of triennial valuations being carried out, with the next full review due to be completed during 2013.

The Funding Strategy Statement is attached as Appendix C. It 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.

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;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

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.

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 1.3% per annum over and above the redemption yield in index-linked gilts.

The Fund has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised in the FSS under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

The 2010 valuation specified the minimum employer contributions, expressed as a percentage of pensionable pay and shown in the Rates and Adjustment certificate, as follows:

	Contributions paid in 2010/11	Minimum Contributions for the Year Ending		
		31 march 2012	31 March 2013	31 March 2014
LB Lewisham	20%	20.5%	21.0%	21.5%
Excalibur Tenant Mgt	20%	20.5%	21.0%	21.5%
PLUS	20%	20.5%	21.0%	21.5%
Housing 21	20%	20.5%	21.0%	21.5%
Lewisham Nexus	20%	20.5%	21.0%	21.5%
Lewisham Way Youth & Community Centre	20%	20.5%	21.0%	21.5%
Lewisham Park Hsg Assn	20%	20.5%	21.0%	21.5%
SAGE	20%	20.5%	21.0%	21.5%
*Lewisham Elders Resource Centre	20%	20.5%	21.0%	21.5%
Wide Horizons	20%	20.5%	21.0%	21.5%
Lewisham Homes	17.2%	16.7%	16.7%	16.7%
Haberdashers Aske's Hatcham College	15.9%	17.5%	17.5%	17.5%
Christ The King 6 th form College	20.7%	21.0%	21.0%	21.0%
St Matthew's Academy	16.5%	17.1%	17.1%	17.1%
National Car Parks	21.4%	22.8% plus £32k	22.8% plus £34k	22.8% PLUS £36K
CIS Securities	19.4%	24.1%	25.7%	27.4%
Phoenix Community Hsg	20.1%	17.8%	17.1%	16.5%
Inspace	20.7%	19.5%	18.3%	17.1%
T Brown & Sons	24.3%	20.5%	18.5%	16.5%
Quality Heating	23.5%	22.3%	20.3%	18.3%
RSM Bentey Jennison	29.0%	23.5%	21.5%	19.5%
Broomleigh Housing	29.0%	22.3%	20.3%	18.3%

* Lewisham Elders Resource Centre has now left the scheme

The following table shows the bodies that joined the scheme during 2011/12 and their contribution rates:

Scheduled Bodies	2011/12	2012/13	
Tidemill Academy	20.50%	23.00%	Commenced Nov 2011
Admitted Bodies	2011/12	2012/13	
Penrose	20.50%	20.50%	Commenced July 2011
Skanska	23.00%	23.00%	Commenced August 2011
Community Support – Three Cc’s Support	25.30%	25.30%	Commenced Nov 2011
Fusions	28.00%	28.00%	Commenced Nov 2011

8. STATEMENT OF INVESTMENT PRINCIPLES

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.

Appendix D sets out the Statement of Investment Principles as at June 2012 for the Fund including information on the responsibilities of managers and advisors to the Fund, the objectives and structure of the Fund, and SRI and corporate governance policies. Appendices also set out the terms of each mandate, a ‘who’s who’ of the funds managers and advisors and an assessment of how the Fund meets the six investment principles.

9. COMMUNICATIONS STATEMENT

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.

The report 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
- what steps the fund has taken to promote scheme membership to prospective members
- Lewisham’s published Communications Statement is reproduced at Appendix E.

APPENDIX A

Actuarial Statement for 2011/12

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

Description of Funding Policy

The funding policy is set out in the Fund's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;

to ensure that sufficient funds are available to meet all benefits as they fall due for payment;

not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;

to help employers recognise and manage pension liabilities as they accrue, with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;

to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;

to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and

to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the modelling, there is still a sufficiently high likelihood that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £715 million, were sufficient to meet 75.4% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £234 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 29 March 2011.

METHOD

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

ASSUMPTIONS

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

* 1% p.a. for the two years following the valuation, reverting to 5.3% p.a. thereafter. Plus an allowance for promotional pay increases.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.0 years	23.8 years
Future Pensioners*	22.9 years	25.7 years

* based on members aged 45 at the valuation date.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from the London Borough of Lewisham, administering authority to the Fund.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.



Geoffrey Nathan

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

31 May 2012

Hymans Robertson LLP
20 Waterloo Street
Glasgow

**PENSION
FUND
ACCOUNTS**

2011/12

Independent Auditor's report to the Members of London Borough of Lewisham

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my 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 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

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

Susan M Exton
District Auditor

Audit Commission
1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

27 September 2012

PENSION FUND ACCOUNTS

INTRODUCTION

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme. The Fund is a contributory defined 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 operated under various sets of regulations made under the Superannuation Act 1972. The fund is administered with the following secondary legislation:

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)

- The Local Government Pension Scheme (Administration) Regulations 2008 (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 monitors the external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the fund. The investment managers also have to consider the PIC's views on socially responsible investments. Details of this policy are contained in the Statement of Investment Principles (see web address below).

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:

["www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm"](http://www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm)

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 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 actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in paragraph (n) below.

The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007 also 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 Code summarises the Pension Code and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December the following year, up to five months after a local authority must approve its Statement of Accounts. The Council will be taking its Annual Report to its Pensions Investment Committee in order 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, excepting 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 2011/12 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 sales of investments during the year.
- (d)** 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.
- (e)** The Pension Fund's Hedge Fund assets are held in the Jubilee Absolute Return Fund, which is a collective investment scheme structured as a protected cell of Jubilee Absolute Return Fund PCC Limited, an open ended investment company listed on the Irish Stock Exchange. The Jubilee Absolute Return Fund produces an official single-priced NAV and hence there are no bid-offer prices for subscriptions or redemptions. The official single-priced NAV is produced on a monthly basis by the independent administrator, HSBC Securities Services (Ireland) Limited ("HSBC").
- (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 to are located in the UK. They

are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards and are valued on the basis of their open market value (OMV).

The only non UK funds are the Continental European Fund 1 and Lend Lease Real Estate Partners 3. Their net asset values are derived from the net asset values of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will vary between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations does however vary. All the funds are independently valued on a rolling basis at least annually.

- (g) 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.
- (h) 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 valuation techniques.
- (i) Contributions – These represent the total amounts receivable from employers within the scheme in respect of their own contributions and any of their employees contributions who are members of the scheme.
There are seven employee contribution bands (revised annually in line with inflation) ranging from 5.5% for members earning under £13,500 a year to 7.5% for members earning over £85,300 a year.

Full time pay for the post	Contribution rate
Up to £13,500	5.5%
£13,501 to £15,800	5.8%
£15,801 to £20,400	5.9%
£20,401 to £34,000	6.5%
£34,001 to £45,500	6.8%
£45,501 to £85,300	7.2%
More than £85,300	7.5%

The employer's contribution is reviewed every three years and is determined by the fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation.

- (j) Benefits - Benefits payable are made up of pension payments and lump sums payable 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 administrating 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 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 2010.

The valuation was based on the projected unit valuation method. This assesses the cost of benefits accruing to existing members during the year following valuation and allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the market value of assets.

In order to value liabilities which have accrued at the valuation date and those accruing in respect of future service the Actuary has assumed that the Fund's assets will generate a return of 6.1% per annum (5.8% 2007). The Actuary set the employer contribution accordingly to recover the deficit over future periods.

Other financial assumptions made include:

Financial assumption	Funding Basis (%pa)	Gilt Basis (%pa)
Discount Rate	6.1	4.5
Price Inflation	3.3	3.3
Pay Increases	5.3	5.3
Pension Increase:		
Pension in excess of GMP	3.3	3.3
Post -88 GMP	2.8	2.8
Pre-88 GMP	0.0	0.0
Revaluation of Deferred Pension	3.3	3.3
Expenses	0.6	0.6

The actuarial review carried out for 31 March 2010 resulted in an increase to the Council's contribution rate from 20% to 20.5%, with effect from 1st April 2011 and annual increases of 0.5% for the subsequent two years. The next actuarial valuation of the Fund will have an effective date of 1 April 2013, with new employer contribution rates taking effect from 2014/15.

The triennial valuation on the 31st March 2010 revealed that the Fund's assets, which at 31 March 2010 were valued at £715 million, were sufficient to meet 75.4% (87.4% 2007) of the liabilities valued at £949 million (£840 million 2007) accrued up to that date. The resulting deficit at the 2010 valuation was £234 million (£106 million 2007).

Actuarial Present Value of Promised Retirement Benefits

The Actuary has calculated the actuarial present value of retirement benefits (on an IAS 26 basis) to be £1,158 million as at 31st March 2012 (£1,044 million 31st March 2011).

- (o) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.
- (p) 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: the converted foreign exchange rate is used at stock valuation date.
 - Dividend receipts: the rate applicable on the day prior to the date the dividend is received is used.

(q) 2011/12 Financial Year Summary of the Fund's Market Value

Fund Manager	Assets	Assets Value 31st March 2012 £000	Assets Value 31st March 2011 £000	Proportion of the Fund 31st March 2012 (%)
UBS	Bonds	138,140	124,671	17.8%
Alliance Bernstein	Global Equities	165,816	177,416	21.3%
RCM	Global Equities incl. UK	171,254	169,067	22.0%
Schroders Property	Property	68,846	68,386	8.9%
HarbourVest	Private Equity	33,163	30,020	4.3%
UBS passive equity	UK Tracker fund	128,474	125,728	16.5%
Fauchier	Hedge Fund of Fund	21,077	22,054	2.7%
Investec	Commodities	37,587	40,062	4.8%
M&G	Credit	11,089	5,314	1.4%
Securities Lending	Securities Lending	8	150	0.00%
Lewisham	Cash and Net Current Assets	2,010	-74	0.3%
Total Fund		£777,464	£762,794	100.00%

FUND ACCOUNT FOR THE YEAR

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

2010/11 Restated £'000s	<u>FUND ACCOUNT FOR THE YEAR ENDED</u> <u>31st MARCH 2012</u>	2011/12 £000s	Note
	<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS</u> <u>DIRECTLY INVOLVED WITH THE SCHEME</u>		
	Contributions Receivable:		
28,899	- from Employer	26,992	1
9,330	- from Employees	8,979	1
606	- Reimbursement for Early Retirement	1,951	
3,266	Transfer Values In	2,896	
0	Other Income	8	
42,101	Sub-Total: Income	40,826	
	Benefits Payable:		
27,724	- Pensions	30,038	2
4,757	- Lump Sums: Retirement allowances	8,826	
535	- Lump Sums: Death grants	1,170	
	Payments to and on account of leavers:		
1	- Refunds of Contributions	1	
8,210	- Transfer Values Out	6,059	
1,021	Administrative and other expenses borne by the scheme	1,002	3
42,248	Sub-Total: Expenses	47,096	
(147)	Total Net additions (withdrawals) from Dealings with Scheme Members	(6,270)	
	<u>RETURNS ON INVESTMENTS</u>		
11,800	Investment Income	10,667	4

40,118	Change in market value of investments (Realised and Unrealised)	13,855	5
	Investment Expenses:		
(1,649)	- Fund Managers' Fees	(3,045)	
(739)	- Tax on Dividends	(537)	
(1,735)	- Other Direct Expenses	0	
47,795	Total Net Returns on Investments	20,940	
47,648	NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	14,670	
715,146	OPENING NET ASSETS OF THE SCHEME	762,794	
762,794	CLOSING NET ASSETS OF THE SCHEME	777,464	

* The increase in fund managers fees in 2011/12 is mainly attributable to a performance fee of £1.15m paid to Investec during the year.

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 2012.

2010/11 Restated £'000s	<u>NET ASSETS STATEMENT AT 31 MARCH 2012</u>	31st March 2012 £000s	Note
	EQUITIES		5
38,484	Equities: UK	43,745	
280,438	Equities: Global	269,466	
318,922		313,211	
	MANAGED FUNDS		5
62,831	Property	66,993	
149,430	Equity	151,513	
82,110	Fixed Interest	88,581	
42,516	Index Linked	49,552	
93,218	Other Assets	98,435	
430,105		455,074	
13,332	Cash Deposits	6,196	9
	DERIVATIVE CONTRACTS		7
203	Assets	4	
(249)	Liabilities	(21)	
	OTHER INVESTMENT BALANCES		8
3,333	Debtors: Investment Transactions	2,164	
(2,777)	Creditors: Investment Transactions	(1,174)	
762,869	TOTAL INVESTMENTS	775,454	
	NET CURRENT ASSETS AND LIABILITIES		
547	Debtors	765	8
(663)	Creditors	(2,273)	8
41	Cash in Hand	3,518	9
762,794	TOTAL NET ASSETS	777,464	

The financial statements of the fund do not take account of the liability to pay pensions or benefits after 31st March 2012. This liability is included within the Authority's balance sheet.

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

<u>Employer Contributions</u>	2011/12 £000s	2010/11 £000s
Administering: Normal	22,752	24,344
Admitted: Normal	974	817
Scheduled	3,266	3,738
	26,992	28,899

<u>Employee Contributions</u>	2011/12 £000s	2010/11 £000s
Administering	7,449	8,241
Admitted	325	206
Scheduled	1,205	883
	8,979	9,330

<u>2. BENEFITS PAYABLE</u>	2011/12 £000s	2010/11 £000s
Administering	17,907	16,642
Admitted	192	174
Scheduled	730	745
Dependants Pensions	1,226	1,225
Pensions Increases	9,983	8,938
	30,038	27,724

<u>3. ADMINISTRATION COSTS</u>	2011/12 £000s	2010/11 £000s
Lewisham Administration	547	466
*Administrative Costs Incl. Audit Fees	452	550
Bank Charges	3	5
	1,002	1,021

*These costs include a net figure of £32.2k paid to The Audit Commission for external audit services in 2011/12. In 2010/11 the amount paid was £35k.

<u>4. INVESTMENT INCOME</u>	2011/12 £000s	2010/11 £000s
Cash	212	160
Equity	7,846	6,311
Fixed Interest**	0	2,594
Managed Funds Incl. Property	2,467	2,535
Securities Lending	141	200
Other*	1	0
	10,667	11,800

* Includes Commodities, Hedge Fund, Venture Capital and Credit Mandates

**For 2011/12 this has been classified as a change in market value.

5. INVESTMENT ANALYSIS

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

Asset	Manager	2011/12 Value £000	2011/12 %
Global AM Life Equity Tracker	UBS	128,448	16.7
Global AM Life Over 5 Yr index Linked Gilt	UBS	49,552	6.4

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

Asset	Manager	2011/12 Value £000	2011/12 %
UK Equities			
Royal Dutch Shell A Shares	RCM/Alliance Bernstein	4,639	10.6
Vodafone Group	RCM/Alliance Bernstein	3,994	9.1
BHP Billiton	RCM/Alliance Bernstein	3,813	8.7
BP	Alliance Bernstein	3,132	7.2
WPP	RCM	3,089	7.1
Compass Group	RCM	2,652	6.1
Unilever	RCM	2,344	5.4
Global Equities			
Lux EMG	Alliance Bernstein	23,066	8.6
Property			
Standard Life Pooled property Fund	Schroder	8,221	12.3
Schroder Prop. U/TS Exempt property	Schroder	8,194	12.2
Real Continental European Fund	Schroder	6,371	9.5
Hermes Property UT	Schroder	6,028	9.0
Legal and General Property Fund	Schroder	5,817	8.7
Rockspring Hanover Property Unit Trust	Schroder	5,599	8.4
Blackrock UK Fund	Schroder	5,081	7.6
Real Income Fund	Schroder	3,685	5.5

Managed Equities			
Global AM Life Equity Tracker	UBS	128,448	85
Fixed Interest			
UBS Life :Neutral UK Corporate Bond Fund	UBS	32,751	37
UBS Global Asset Management Corporate Bond Fund	UBS	29,865	33.7
UBS Global Asset Management Long Dated UK Fixed Interest Fund	UBS	25,964	29.3
Others			
Global Commodities and Resources	Investec	37,584	38.2
Jubilee Absolute GBP Class B	Fauchier	21,073	21.4
Cayman Partnership Fund	Harbourvest	11,191	11.4
UK Companies Financing Fund	M&G	10,827	11.0
Cayman Buyout Fund	Harbourvest	7,637	7.8
Cayman Venture Fund	Harbourvest	4,985	5.1

An analysis of investment movements is set out below:

5. INVESTMENT ANALYSIS	Value at 31/03/2011	Purchases at Cost	Sales Proceeds	Change in Capital Value	Change in Market Value	Value at 31/03/2012
Investments	£000s	£000s	£000s	£000s	£000s	£000s
UK Equities	38,484	16,947	(9,064)	57	(2,679)	43,745
Global Equities	280,438	122,119	(130,245)	(390)	(2,456)	269,466
Managed Equities	149,430	1,830	0	0	253	151,513
Property	62,831	12,602	(8,785)	(85)	430	66,993
Fixed Interest						
Securities	82,110	0	(3,855)	0	10,326	88,581
Index Linked Securities	42,516	0	(2,145)	0	9,181	49,552
Other*	93,217	8,496	(2,049)	0	(1,229)	98,435
Derivatives	(46)	0	0	0	29	(17)
	748,980	161,994	(156,143)	(418)	13,855	768,268
Cash deposits	13,332					6,196
Other Investment						
Balances	556					990
	762,868					775,454

* Includes Commodities, Hedge Fund, Venture Capital and Credit Mandates

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

(The amounts in respect of derivative payments and receipts represent the cost at inception of the contract).

Apart from Global Equities, the only other overseas investments held by the Fund fall under the 'Others' category and are namely Private Equity £28.91m and Commodities £37.58m.

The fund held the following unlisted securities as at 31st March 2012: Equities (including managed equities) £94m, Fixed Interest Securities £55.8m, Property £66.9m, and Other Assets £98.43m.

The fund held the following listed securities as at 31st March 2012: Equities (including managed equities) £370.7m, Fixed Interest Securities 32.75m and Index Linked Securities £49.55m.

As at 31st March 2011

Investments	Value at 31/03/2010 Restated £000s	Purchases at Cost £000s	Sales Proceeds £000s	Change in Market Value £000s	Value at 31/03/2011 £000s
UK Equities	35,267	10,248	(7,687)	656	38,484
Global Equities	262,034	135,499	(124,997)	7,902	280,438
Managed Equities	148,177	3,162	(15,145)	13,236	149,430
Property	60,276	3,908	(2,380)	1,027	62,831
Fixed Interest Securities	76,354	0	(1,726)	7,482	82,110
Index Linked Securities	40,338	0	0	2,178	42,516
Other*	41,471	44,273	(35)	7,508	93,217
Derivatives	(175)	0	0	129	(46)
	663,742	197,090	(151,970)	40,118	748,980
Cash deposits	8,143				13,332
Other Investment Balances	38,093				556
	709,978				762,868

* Includes Commodities, Hedge Fund, Venture Capital and Credit Mandates

FINANCIAL INSTRUMENTS

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

31 st March 2011			Financial Assets	31 st March 2012		
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
318,922			Equities	313,211		
			Managed Funds:			
62,831			Property	66,993		
149,430			Equity	151,513		
82,110			Fixed Interest	88,581		
42,516			Index Linked	49,552		
93,218			Other Assets	98,435		
203			Derivative contracts	4		
	13,332		Cash deposits		6,196	
	2,699		Pending Trades		1,680	
	634		Dividends & Income		484	
	547		Contributions Due		765	
	41		Cash Balances		3,518	
749,230	17,253		Total Financial Assets	768,289	12,643	
			Financial Liabilities			
(249)			Derivative Contracts	(21)		
		(2,777)	Pending Trades			(1,174)
0			Unpaid benefits			(290)
		(663)	Other current Liabilities			(1,983)
(249)	0	(3,440)	Total Financial Liabilities	(21)	0	(3,447)
748,981	17,253	(3,440)	Net Financial Assets	768,268	12,643	(3,447)

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

31 March 2011		31 March 2012
£'000	Financial Assets	£'000
40,321	Fair Value through Profit and Loss	13,263
0	Loans and Receivables	0
	Financial Liabilities	
(203)	Fair Value through Profit and Loss	(21)
40,118	Total	13,242

The fund also received bank interest totalling £2,056 during the year.

Valuation of Financial Instruments carried at Fair Value

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

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

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

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

Values as at 31st March 2012	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	313,215	426,388	28,686	768,289
Loans and Receivables	12,643			12,643
Total Financial Assets	325,858	426,388	28,686	780,932
Financial Liabilities				
Fair Value through Profit and Loss	(21)			(21)
Financial Liabilities at Amortised Cost	(3,447)			(3,447)
Total Financial Liabilities	(3,468)	0	0	(3,468)
Net Financial Assets	322,390	426,388	28,686	777,464

Values as at 31st March 2011	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	319,125	404,305	25,800	749,230
Loans and Receivables	17,253			17,253
Total Financial Assets	336,378	404,305	25,800	766,483
Financial Liabilities				
Financial Liabilities at amortised cost	(249)	0	0	(249)
Financial Liabilities at Amortised Cost	(3,440)			(3,440)
Total Financial Liabilities	(3,689)	0	0	(3,689)
Net Financial Assets	332,689	404,305	25,800	762,794

FINANCIAL RISK MANAGEMENT

As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds 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 Pension Fund Investment Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. Policies are reviewed regularly to reflect change in activity and in market conditions.

The main risks from the Fund's holding of financial instruments are market risk, credit risk and liquidity risk.

Market risk includes price risk, interest rate risk and currency risk. 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 Lewisham Pension Investment Committee (PIC) has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee, however, regularly monitors each investment manager, and its

investment consultant (Hymans) advises on the nature of the investments made and associated risks. Due to the performance of some managers, the Committee decided to move the fund towards a more passive rather than active management. This will be reflected in the 2012/13 statement of accounts.

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 risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes 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 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) Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines. 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 2012/13 reporting period.

Asset Type	Potential Market Movement +/- (%p.a.)
UK Equities	15.3
Overseas Equities	15.9
UK Bonds	7.5
Index Linked	7.9
Cash	0.0
Other Assets	8.6
Property	6.3

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

Asset Type	Final Market Value £'000	Percentage Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	195,258	15.3	225,132	165,384
Overseas Equities	269,466	15.9	312,311	226,621
UK Bonds	88,581	7.5	95,225	81,973
Index Linked	49,552	7.9	53,466	45,622
Cash	6,196	0.0	6,196	6,196
Other Assets	98,435	8.6	106,900	89,970
Property	66,993	6.3	71,213	62,772
Total Assets*	774,481		870,443	678,538

* This figure excludes derivatives and other investment balances.

b) Interest Rate Risk is the risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on bonds held on a segregated basis and cash held by investment managers, a 0.5% change in interest rates would result in an approximate change in income of £677k.

c) 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'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. As at 31 March 2012, forward foreign exchange contracts were the only derivative contracts held. 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.

Following analysis of historical data in consultation with the Fund's advisors, the council considers the likely volatility associated with foreign exchange rate movements to be 9.9%. This volatility is applied to the fund's overseas assets as follows:

Asset Type	Asset Value @ 31/12/12 £'000	+9.9% £'000	-9.9% £'000
Overseas Equities	269,466	296,143	242,789
Other Assets	66,490	73,073	59,907
Total	335,956	369,216	302,696

* Other assets consist of Private Equity £28.91m and Commodities £37.58m.

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

The Pension Fund is exposed to credit risk through Securities Lending and Forward Currency Contracts. The Securities Lending programme is run by the Fund's custodian, Northern Trust, who 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.

Forward Currency Contracts are with Alliance and Bernstein and RCM. The Fund manages its risk by monitoring the credit quality and financial position of its fund managers. The investment managers' research process for selecting and monitoring securities or funds for investment mitigates the risk of fraud.

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

iii) Liquidity Risk – This is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due, for example the pensioner payroll costs and capital commitments. The council therefore takes steps to ensure that 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 2012 these assets totalled approximately £604m, with a further £6.196m held in cash by the custodian on behalf of the fund managers.

6. PRIOR YEAR ADJUSTMENT

The overall 2010/11 market value for Harbourvest included £125k relating to the mid value of the UK listed equities. This asset has been restated in 2010/11 to exclude this mid value valuation resulting in a reduction in the Harbourvest market value of £125k as at 31st March 2011. As a result, the net asset statement for 2010/11 has been reduced by £125k from £762,919 to £762,794. This is represented in the Fund account by a reduction in the change in market value of investments (Realised and Unrealised) of £125k.

The Council makes a cash re-imbusement to the fund as a contribution towards early retirement benefits paid during the year. In 2010/11, this was included in the Employer Contributions. As this is not part of the standard employer's contribution, it has now been restated as a separate item in the accounts. This totalled £606k in 2010/11 but had no effect on the net asset statement total.

7. DERIVATIVE CONTRACTS

The global equity managers Alliance Bernstein and RCM are instructed to operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of assets held. 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.

At 31 March 2012, forward foreign exchange contracts were the only derivative contracts held. Forward foreign exchange contracts are disclosed in the accounts at market value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

Foreign Exchange Gains	31 st March 2011	31 st March 2012
Total Gains	203	4
Foreign Exchange Losses		
Total Losses	(249)	(21)
Total Unrealised Gains/(Losses)	(46)	(17)

8. DEBTORS & CREDITORS

These comprise the following amounts:

Debtors	2011/12 £000s	2010/11 £000s
Contributions due from Admitted / Scheduled Bodies	765	547
Equity Dividends / Income from Managed Funds	484	483
Interest and Other Income	0	151
Pending Trades	1,680	2,699
	2,929	3,880
Creditors	2011/12 £000s	2010/11 £000s
Fund Manager and Custody Fees	(516)	(663)
Consultancy / Advisory Fees	(19)	0
Audit Fee	(8)	0
Pension Payments Due to Employees	(290)	0
Pending Trades	(1,174)	(2,777)
LB Lewisham	(1,440)	0
	(3,447)	(3,440)

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.

9. CASH DEPOSITS

The Northern Trust Company is the fund's global custodian and the cash is held in an interest bearing account to meet the cash flow requirements of the fund and its managers. The total cash held for this purpose as at 31st March 2012 was £6.19m (£13.33m as at 31st March 2011). Approximately £1.72m of this cash was held for Schroders, £0.8m for Alliance Bernstein and £3.35m for RCM.

Cash in Hand

The Lewisham cash balance represents uninvested cash held in the Pension Fund bank account as at 31st March 2012. The increase in the cash in hand figure from 2010/11 to 2011/12 is mainly due to the Fund operating its own bank account, which necessitates the availability of cash. The cash in hand figure includes a figure of £1.44m to be paid by the Fund to the council for items described in note 13b below.

10. TRANSACTION COSTS

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

	2011/12 £000s	2010/11 £000s
Total Purchases	199	167
Total Sales	144	239
Total transactions	343	406

11. POST YEAR END EVENTS

A restructure of the Fund's investment portfolio will take place in 2012/13. The Fund will move from being actively managed to being passively managed. This will result in the change of some fund managers.

These changes are deemed to be non-adjusting post balance sheet events. There have been no events since March 2012, and up to the date when these accounts were prepared, that require any adjustment to these accounts.

12. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31st March 2012:

Harbourvest

Fund	Amount	Translated £
HarbourVest Partners VIII – Cayman Venture Fund L.P	\$2,422,500	1,513,336
HarbourVest Partners VIII – Cayman Buyout Fund L.P	\$6,706,250	4,189,394
HarbourVest International Private Equity Partners V – Cayman Partnership Fund L.P	Euros 3,587,500	2,990,580
HarbourVest International Private Equity Partners V – Cayman Direct Fund L.P	Euros 258,750	215,697
Total		8,909,007

(The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31st March 2012.

Total Harbourvest commitments as at 31st March 2011 were £11,999,889.

M&G - £9,107,145 (£ 14,728,129 as at 31st March 2011)

13. 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. Five Councillors of this Committee are members of the pension scheme. At each meeting of the Pensions Investment Committee Councillors are asked to make declarations of interest which are minuted at the meeting.

During the year Cllr Maslin declared an interest in UBS. He is a Director of Hales Gallery from whom UBS has purchased one painting. Cllr Maslin has not taken part in any of the decisions taken during the year involving UBS.

No other trustees or Council chief officers with direct responsibility for pension fund issues have undertaken any declarable transactions with the Pension Fund.

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

- a) Recharges from the Council for the in-house administration costs and other expenses borne by the scheme were transacted for £547k (see note 3).
- b) 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. Any interest receivable/payable on such balances is paid to/from the Pension Fund annually at an interest rate equating to that earned by the Council on temporary investments.
- c) The salary of the Executive Director for Resources and Regeneration has been disclosed in the Council's full set of accounts.

14. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make additional voluntary contributions (AVCs) to enhance their pension. There are currently 125 '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.

	Total	Equitable	Clerical Medical
	£000s	£000s	£000s
2011/12			
Value at 1 April 2011	1,441	535	906
Contributions and Transfers Received	248	5	243
Investment Return	52	20	32
Paid Out	(222)	(25)	(197)
Value at 31 March 2012	1,519	535	984

2010/11	£000s
Value at 1 April 2010	1,421
Contributions and Transfers Received	337
Investment Return	54
Paid Out	-371
Value at 31 March 2011	1,441

15. SCHEDULED BODIES

The following are scheduled bodies to the fund as at 31st March 2012:

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

16. ADMITTED BODIES

The following are admitted bodies to the fund as at 31st March 2012:

National Car Parks Ltd
 Excalibur Tenant Management Project
 PLUS
 Housing 21
 Lewisham Nexus Services
 Lewisham Way Youth and Community
 Centre
 SAGE Educational Trust
 CIS Securities
 Wide Horizons
 Phoenix
 INSPACE
 T Brown & Sons
 Quality Heating
 Blenheim CDP
 RSM Tenon formerly RSM Bentley
 Jennison
 Broomleigh Housing Association
 Penrose
 Skanska
 One Housing
 Fusions Leisure Management
 3 C's Support

17. 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 pays income to the Fund on a contractual basis (i.e. pay date) for contractual income markets. For non-contractual income markets, Northern Trust pays income to the Fund once income is received from the local sub-custodian. Therefore, income is paid at the same time as income is paid for in-custody positions. Northern Trust is responsible for collecting dividend and interest income on loaned securities from borrowers. The right to vote moves with the securities.

As at the 31st March 2012, the value of aggregate stock on loan was £25.5m (£10.2m as at 31st March 2011). These have been carried in the accounts at this value. There are no liabilities associated with these assets.

Collateral

The collateral held versus securities on loan cannot be sold or repledged in absence of default by the borrower.

The council entered into stock lending transactions during the financial year earning £0.10 million net of direct expenses (£0.15m as at 31st March 2011). The value of collateral held was £27.2m (£11m as at 31st March 2011).

18. MEMBERSHIP

	Employees		Deferred Beneficiaries		Retired Former Employees	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
Administering Authority	5,035	5,436	6,958	6,694	6,448	6,201
Scheduled Bodies	666	642	243	194	106	91
Admitted Bodies	162	128	66	51	39	35
	5,863	6,206	7,267	6,939	6,593	6,327

19. These accounts were authorised on the 26 September 2012 by the Executive Director for Resources and Regeneration.

1. Introduction

This is the Funding Strategy Statement (FSS) of the Lewisham Pension Fund (“the Fund”), which is administered by Lewisham Council, (“the Administering Authority”), reviewed in line with the 2010 triennial valuation.

It was reviewed by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser.

The FSS is reviewed in detail at least every three years in line with triennial valuations being carried out, with the next full review due to be completed by 31 March 2013.

1.1 Regulatory Framework

Scheme members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant) replaced from 1 April 2008 with the Local Government Pension Scheme (Administration) Regulations 2008, regulations 35 and 36;
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

Operating within this framework, the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required for example, when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

The key requirements relating to the FSS are that:

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- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to:
 - FSS guidance produced by CIPFA
 - its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the fund valuation process.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2013.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Carol Eldridge in the first instance at carol.eldridge@lewisham.gov.uk or on 020 – 8314 6351.

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM) (now the Department for Communities and Local Government (CLG)) has stated that the purpose of the FSS is:

- *“to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities.”*

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These objectives are desirable individually, but may be mutually conflicting. . Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

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.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue, with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;

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- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “*future service rate*”; plus
- b) an adjustment for the funding position (or “solvency”) of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period (see section 3.7.3 below for deficit recovery periods).

The Fund’s actuary is required by the Local Government Pension Scheme Regulations 1997 to report the *Common Contribution Rate*¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.8.

¹ See Regulation 77(4)

² See Regulation 77(6)

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Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. Certain employers' contributions have been pooled with others.

Any costs of early retirements other than on the grounds of ill-health must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency' for ongoing employers is defined to be the ratio of the current market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the fund.

The Fund normally operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

Where an admission agreement for an admission body that is not a Transferee Admission Body and has no guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

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The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Allowance has been made for improvements mortality by allowing for medium cohort with a 1% underpin from 2007. Employers are aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profile of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the Fund's assets in excess of gilts. There is, however, no guarantee that the assets will out-perform gilts, or even match the return on gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions, it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund's investments will deliver an average additional real return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

Details of other significant financial assumptions and their derivation are given in the Fund Actuary's formal valuation report.

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3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. For the 2010 valuation, the future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. Where it is considered appropriate to do so then the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for admission bodies that are not a Transferee Admission Body and that have no guarantor in place). The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted.

The approach used to calculate the employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 *Employers that admit new entrants*

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 *Employers that do not admit new entrants*

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the *Attained Age* funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both the *Projected Unit* and *Attained Age* funding methods are described in the Actuary's report on the valuation.

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Both future service rates will include an allowance for expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, part-time, full-time, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between the 2007 and 2010 valuations and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum

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broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers. unless the circumstances dictate otherwise.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of refunds of contributions or individual transfers to other Funds;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. For the 2007 valuation onwards the Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Solvency Issues and Target Funding Levels

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

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- capping of employer contribution rate increases / decreases within a pre-determined range (“Stabilisation”)
- the pooling of contributions amongst employers with similar characteristics
- the use of extended deficit recovery periods

the phasing in of contribution increases/decreases

3.7.2 *Stabilisation*

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Pension Fund actuary to carry out extensive modelling to explore the long term effect on the Pension Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there were no material events occurring before 1 April 2011 which rendered the stabilisation unjustifiable.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Pension Fund actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been “stabilised” and are currently paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Pension Fund if possible.

The Pension Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The Scheme regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities within reasonably stable employer contribution rates. The role of the Pension Fund actuary, in performing the necessary calculations and determining the key assumptions used,

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is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.7.3 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	Maximum Length of Deficit Recovery Period
Statutory bodies with tax raising powers	a period to be agreed with each employer not exceeding 20 years
Community Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 20 years
Transferee Admission Bodies that admit new entrants	the period from the start of the revised contributions to the end of the employer's contract a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers., if earlier
Closed employers and Community Admission Bodies	a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers.

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate, which for the 2010 valuation is April 2011; contribution rates for 2010/11 having already been set at the level advised by the 2007 valuation (and which may include contributions towards the deficit where employers are contributing at more than the future service rate). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

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3.7.4 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over a period agreed with the Administering Authority subject to the maximum period shown in the table above for deficits in calculating their **minimum** contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions.

3.7.5 Phasing in of Contribution Rises

The Administering Authority may allow some employers to phase in contribution rises over the period to which their contribution rates apply i.e. 1 April 2011 to 31 March 2014

3.7.6 Phasing in of Contribution Reductions

Any contribution reductions will be phased in over a period agreed with the Administering Authority .

3.7.7 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment for each employer will be equivalent to the employer's deficit.

3.7.8 Pooled Contributions

3.7.8.1 Smaller Employers

The Administering Authority may allow smaller employers to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. The maximum number of active members to participate in a pool is at the discretion of the Administering Authority but is normally set at 10 employees.

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Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Transferee Admission Bodies are also ineligible for pooling.

For the 2010 valuation the only pool in existence is the Council pool and this pool includes the same employers as at the 2007 valuation.

3.7.8.2 Other Contribution Pools

Schools are also pooled with their funding Council.

Some Admission Bodies with guarantors are pooled with their Council.

3.8 Admission Bodies ceasing

Admission Agreements for Transferee Admission Bodies are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

Last active member ceasing participation in the LGPS;

The insolvency, winding up or liquidation of the Admission Body;

Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;

A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the Admission Agreement by giving the appropriate period of notice as set out in the Admission Agreement to the other party (or parties in the case of a Transferee Admission Body (TAB)).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation as required

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under Regulation 78 of the 1997 regulations (38 of the 2008 regulations) to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

- (a) For Transferee Admission Bodies, the assumptions would normally be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
- (b) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.
- (c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

In the event that the Fund is not able to recover the required payment in full directly from the admission body or from any bond or indemnity or guarantor, then:

- (d) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.

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- (e) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

As an alternative to (b) above where the ceasing admission body is continuing in business, the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing admission body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified.

3.9 Early Retirement Costs

3.9.1 *Non Ill Health retirements*

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. All employers, irrespective of whether or not they are pooled, are required to pay additional contributions wherever an employee retires "early" (see below) with no reduction to their benefit or receives an enhanced pension on retirement before attaining the age at which the valuation assumes that benefits are payable. The current cost of these are specified in the latest early retirement manual from Hymans Robertson.

Many members have two tranches of pension - namely that which was accrued before and after 1 April 2008. In theory, these can be paid without reduction from two different retirement ages. In practice, the member can only retire once and so both pensions are paid from a single age. It is assumed that the member will retire at the age when all of the members pension can be taken without reduction.

The additional costs of premature retirement are calculated by reference to these ages.

3.9.2 *Ill health monitoring*

An allowance is made by the actuary for ill health retirements in the valuation. The Administering Authority regularly reviews the incidence of ill health retirements.

3.10 New Admitted Bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

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Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the Awarding Authority. The bond could be required to cover the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer's contract
- any other risks deemed necessary by the awarding authority

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2010, the proportion held in equities and property was 76% of the total Fund assets.

The investment strategy of lowest risk would be one which provides cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this

This lowest risk strategy is not necessarily likely to be the most cost-effective strategy in the long-term.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from a liability matching strategy. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund, the security of members' benefits and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

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4.2 Consistency with Funding Basis

The funding basis adopts an asset outperformance assumption of 1.6% per annum over and above the redemption yield in index-linked gilts. Both the Fund's Actuary and its investment advisor consider that the funding basis does conform to the requirement to take a "prudent longer term" approach to funding.

The Administering Authority is aware that, in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of the outperformance target. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

Enabling other investment strategies would require investment in new systems and higher ongoing costs which would have to be borne by the employers. The potential benefits of multiple investment strategies need to be assessed against the costs.

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

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5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<p><i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</i></p> <p><i>Analyse progress at three yearly valuations for all employers.</i></p> <p><i>Asset and liability returns are measured against returns assumed in the valuation on an annual basis.</i></p>
Inappropriate long-term investment strategy	<p><i>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.</i></p> <p><i>Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.</i></p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	<p><i>Limiting the investment in bonds helps to mitigate this risk.</i></p>
Active investment manager under-performance relative to benchmark	<p><i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</i></p> <p><i>This is supplemented with an analysis of absolute returns against those underpinning the valuation.</i></p>
Pay and price inflation significantly more than anticipated	<p><i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</i></p> <p><i>Inter-valuation monitoring, as above, gives early warning.</i></p>

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	<p><i>Some investment in index-linked bonds also helps to mitigate this risk.</i></p> <p><i>Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</i></p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	<p><i>Seek feedback from employers on scope to absorb short-term contribution rises.</i></p> <p><i>Mitigate impact through deficit spreading and phasing in of contribution rises.</i></p>

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Ill health retirements significantly more than anticipated	<p><i>Monitoring of each employer's ill health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill health assumption built into the triennial valuation.</i></p>
Pensioners living longer.	<p><i>Set mortality assumptions with some allowance for future increases in life expectancy.</i></p> <p><i>Sensitivity analysis in triennial valuation calculations helps employers understand the potential impact of life expectancy.</i></p> <p><i>Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.</i></p> <p><i>Administering Authority encourage any</i></p>

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	<i>employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.</i>
Deteriorating patterns of early retirements	<i>Employers are charged the extra capital cost of non ill health retirements following each individual decision.</i> <i>Employer ill health retirement experience is monitored.</i>

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	<i>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself. It considers all consultation papers issued by the Department for Communities and Local Government and comments where appropriate.</i>
Changes to national pension requirements and/or HM Revenue & Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule, new 2008 scheme, tax simplification and budget changes for higher earners.	<i>The Administering Authority will inform employers where it considers that it is appropriate.</i> <i>In all circumstances where it appears that changes may impact on the Fund's solvency the Administering Authority will consider seeking actuarial advice to mitigate or manage the impact of such changes.</i>

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5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	<p><i>The Administering Authority monitors membership movements on an annual basis.</i></p> <p><i>The Actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 78 of the 1997 Regulations; 38 of the 2008 Regulations) between triennial valuations</i></p>
Administering Authority not advised of an employer closing to new entrants.	<p><i>The Actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 78 of the 1997 Regulations; 38 of the 2008 Regulations) between triennial valuations</i></p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	<p><i>In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers with Best Value contractors to inform it of forthcoming changes.</i></p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> • <i>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.</i> • <i>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</i> • <i>Vetting prospective employers before admission.</i> • <i>Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.</i>

Annex A – Employers’ Contributions, Spreading and Phasing Periods

Following the 2010 valuation, the minimum employer contributions were shown in the Rates and Adjustment certificate attached to the 2010 valuation report. This certificate can be seen on page 18 of this annual report.

Annex B – Responsibilities of Key Parties

The Administering Authority should:-

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund’s actuary;
- prepare and maintain an FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund’s performance and funding and amend FSS/SIP
- advise the Actuary of any new or ceasing employers

The Individual Employer should:-

- deduct contributions from employees’ pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, excess ill-health early retirements if appropriate; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding;

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- for ceding employers, be a signatory to Transferee Admission Agreements as the ceding employer and set the level of any required bond. Keep the level of the bond under review.

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and

prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

London Borough of Lewisham Pension Fund

Statement of Investment Principles

Revised June 2012

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Statement of Investment Principles

1. Background

This Statement is prepared in accordance with The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999, which requires administering bodies to prepare, maintain and publish a written statement of the principles governing investment decisions.

The Local Government Pension Scheme was established by statute as a final salary defined benefit pension scheme to provide death and retirement benefits for eligible members and their dependents. The benefits are defined by statute and increased each year in line with movements in the retail prices index.

The fund as at 31 March 2012 had assets of approximately £777 million.

The Council has delegated responsibility for the investment management of the Fund to the Pensions Investment Committee, which determines the appropriate investment policy after obtaining proper advice from the Executive Director for Resources and Regeneration, the actuary, and the investment consultants.

Management of the Fund is delegated to professional Investment Managers whose activities are defined by detailed Investment Management Agreements, and regulated by the Financial Services Authority.

The principles outlined in this document were first approved by the Investment Committee in 2000, and are reviewed periodically.

2. Responsibility for Fund Governance

2.1 Pensions Investment Committee

This Statement will be presented to The Pensions Investment Committee (the PIC) at the 13 June 2012 meeting for endorsement.

The PIC oversees the operation of the Fund and its investment powers are set out in the Local Government Pension Scheme Regulations. This Statement of Investment Principles is consistent with those powers.

The PIC meets quarterly and consists of eight voting members with a quorum of three. Stakeholders such as pensioners and contributors also sit on the PIC as observers. The current composition of the PIC is shown at Appendix 1.

The PIC has delegated authority to make decisions regarding the Fund, acting on the advice of the investment consultant, the Executive Director for Resources and Regeneration and external advisers. Its primary responsibilities are to:

- Prepare the Statement of Investment Principles
- Set the objectives of the Fund and determine the strategic asset allocation.

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- Appoint and review the appointments of all advisors to the Fund.
- Receive valuations of the assets together with market reports and transaction details from the investment managers
- Ensure that the investment managers are operating within the agreed benchmarks and tolerances
- Monitor the investment managers' performance against the indices and investment performance targets with which they are measured
- Determine the Fund's socially responsible investment and corporate governance policies. Monitor the risks taken by the investment managers relative to their respective benchmarks
- Set and monitor the annual budget and plan for the operation of the Fund.

Revisions to this statement will require the agreement of the PIC following written advice from the Executive Director for Resources and Regeneration. The Chair can provisionally agree revisions subject to subsequent ratification by the PIC.

The PIC will review this statement at least every three years to reflect changes necessitated by the triennial actuarial valuation, and will monitor compliance with the statement regularly. The PIC will, however, be advised of any material changes to the Fund during the inter-valuation period.

2.2 Investment Managers

The investment management structure of the fund will be determined after obtaining appropriate advice. Implementation of the current mandate structure was completed in 2011/12.

The responsibilities of the investment managers are to:

- Ensure the investment of the Fund's assets are in compliance with legislation, the parameters specified by this document and the detailed Investment Management Agreement.
- Provide quarterly reports including a review of investment performance.
- Attend meetings with the Executive Director for Resources and Regeneration and/or the PIC as and when required and respond promptly to all related enquiries.
- Exercise voting rights on share holdings in accordance with the Council's policy.
- To work with the appointed Custodian and ensure that accounting records are reconciled on a monthly basis.

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2.3 Custodian Bank

Northern Trust are the independent custodian bank responsible for safe custody of share certificates and records of title to the Fund's investments, settlement of investment transactions, accounting and collection of dividends and income.

The Custodian's specific responsibilities are to:

- Provide the Council with periodic valuations of the Fund's assets and details of all transactions electronically on a daily basis.
- Collect income and make tax reclaims
- Manage un-invested cash
- Report on the performance of the investment managers and the Fund relative to appropriate benchmarks on at least a monthly basis.
- Undertake stock-lending for the Fund within agreed parameters.
- Process corporate actions in accordance with the fund manager instructions as well as proxy vote in meetings

2.4 Independent Investment Adviser

The independent investment adviser position is currently vacant .

The specific responsibilities are to advise the Executive Director for Resources and Regeneration and the PIC in respect of the:

- Evaluation of the investment managers and their performance
- Selection and review of investment managers and custodians
- Provision of advice relating to investment issues.

2.5 The Actuary

The scheme actuary appointed by the Council is Hymans Robertson LLP.

The actuary's responsibilities are to:

- Undertake the statutory valuation of the Fund
- Provide advice on the funding level to aid the PIC in balancing the short and long term objectives of the Fund
- Provide IAS19 reports on pension costs.
- Calculation of initial employers contributions for admitted and scheduled bodies.
- To review bond and guarantee levels for admitted bodies.

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2.6 The Investment Consultant

Investment advice is provided by a representative of Hymans Robertson LLP.

The investment consultant's responsibilities are to advise the Executive Director for Resources and Regeneration and the PIC in respect of:

- Investment strategy, advising on the risks and returns associated with different asset strategies
- The selection and review of investment managers and custodian.
- Advice relating to personnel and governance issues within the managers organisations.

2.7 The Executive Director for Resources and Regeneration

The Executive Director for Resources and Regeneration is responsible for:

- Implementation of policy
- Ensuring compliance with this document and notifying the PIC of non-compliance
- Ensuring that this document is regularly reviewed and updated and reflects regulatory requirements.
- Submitting quarterly performance monitoring reports to the PIC
- Preparation of the annual report and accounts
- Attendance at review meetings with Investment Managers.
- Operational issues relating to the Fund and the day to day administration of Investment Managers.
- Taking emergency decisions in between meetings of the PIC in order to manage the assets of the Fund in a prudent and efficient manner. If this responsibility is used, the PIC will be updated at the next available opportunity.

3 Investment Objectives of the Fund

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

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

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4 Realisation of Investments

The majority of stocks held by the Fund are quoted on major stock markets and may be realised quickly to meet cash flow requirements . Property and venture capital investments, which are relatively illiquid comprise approximately 12.32 % of the assets.

5 Investment Manager Structure and Fund Details

The PIC will ensure that investment managers are appointed who are authorised under the Local Government Pension Scheme Management and Investment of Funds Regulations 1999 to manage the assets of the fund.

The appointments of the Actuary and Investment Consultant are reviewed periodically. Although the investment managers have full discretion as to stock selection they are required to keep within the asset allocation ranges stipulated by the Investment Committee. These ranges are outlined in Appendix 2.

6 Investment Strategy and Asset Mix

An Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions.

The strategic benchmark sets out the longer-term strategy adopted by the Fund in terms of the balance between equities, property, bonds and other investments. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. Within each major market the investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles.

Investment policy is influenced by the fundamental view that over the longer term, equity investment is likely to provide superior returns to other investment classes. Historically, equities have accounted for between 70 to 75% of Lewisham's Fund, and in the current structure constitute approximately 65% of the Fund.

The investment managers set their individual investment strategies to meet the performance objectives set by the Fund. The benchmarks, performance targets and operating ranges are outlined in Appendix II. Following the decision by the PIC at its meeting of 13 June 2012, about 78% of the Fund will be managed passively. For these managers the benchmarks are therefore very similar to the overall market performance, although at the margins there are opportunities to improve performance and these will be properly monitored.

7 Freedom of information

The Council will attempt to respond to requests for information relating to the Fund, under Freedom of Information Act 2000, within the statutory timescales.

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There are exemptions from the requirement to provide information, for example, where it has been provided for the Fund in confidence, or where disclosure would prejudice the commercial interests of any person or body.

The PIC considers information about the Fund under the 'Open - Part 1' of its meeting agenda, which is open to the public, including information on:

- investment performance compared with benchmark and target returns
- capital additions and withdrawals
- voting of shares.

8 Policy on Socially Responsible Investment

The Fund is bound in respect of Socially Responsible Investment (SRI) policy by law - based on decisions made in the courts which apply to all pension schemes. The Fund may not subordinate the interests of members to SRI policy objectives:

- Due to the requirement to treat the financial interests of the Fund and members as paramount, it is envisaged that the investment managers will operate a policy of positive engagement as opposed to negative screening
- The investment managers will use the voting rights of the Fund to encourage ethical and socially responsible corporate governance based on the principle that, in the longer term, this should enhance shareholder value
- Investment managers are encouraged to refrain from investing in organisations engaged in unethical practices, provided that there are suitable alternative investments, which will not in the long term result in a loss of Fund performance.

The Council recognises the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies. The Council is a member of the Local Authority Pension Fund Forum (LAPFF) and participates in this to promote its views.

9 Corporate governance

The proper corporate governance of companies in which the Fund invests, as set out in the Combined Code of Corporate Governance, is of importance to the London Borough of Lewisham. Investment managers have delegated responsibility to instruct the Custodian on the exercise of the voting rights of the investments, on the understanding that these rights are to be exercised to enhance the value of the relevant securities, and are in accordance with the Socially Responsible Investment (SRI) objectives set out above. The managers

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will report periodically to the PIC on the exercise of these powers and will consult the Fund if in any doubt on related issues.

10 Monitoring of investment performance

The Northern Trust Company measures the performance of the Fund and of each investment manager periodically against relevant benchmarks. Comparisons can also be made against other local authority Funds through the WM Local Authority Pension Fund Universe. Each investment manager has been set a target outperformance in excess of the applicable benchmark. Over the longer term, the return generated by the Fund is expected to exceed the rate of return assumed by the actuary for funding the scheme on an ongoing basis.

The Council schedules meeting with Investment Managers on the basis of their strategic importance to the fund, the perceived risk associated with the investment portfolio and the advice of the professional advisors. On this basis major portfolio managers are required to present to the PIC quarterly and to officers half yearly, or less frequently as the PIC, acting on the advice of the Executive Director for Resources and Regeneration, may require. Given that the major portfolio managers are operating on passive mandates, where returns are expected to track the overall market performance very closely, it is anticipated that presentations to the PIC are only likely to be required on an exception basis, i.e. when performance is significantly different to that of the market overall.

Smaller investment managers such as the private equity and hedge fund managers will be expected to report annually to PIC and annually to officers. They must also be prepared to answer questions tabled by Members of the PIC. Each investment manager is required to present on a more frequent basis, if required.

In addition Lewisham's Internal Audit Service and the external auditors undertake periodic reviews to confirm that the arrangements and procedures established by the PIC are complied with.

11 Risk

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

The Fund is subject to the following risks:

- **Funding Risk**

Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A Funding Strategy Statement (FSS) is prepared every three years as part of the triennial valuation and the Council monitors the Fund's investment

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strategy and performance relative to the growth in the liabilities at least annually.

- Financial mismatch risk

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

Liquidity/Cash flow Risk

Investments are held until such time as they are required to fund payment of pensions. In 2012/13 it is anticipated that the net payments from the fund to pensioners will exceed the contributions due, and the liquidity risk is therefore being very closely monitored. The Council manages its cash flows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met

Manager Risk

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

- Concentration Risk

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

- Demographic Risk

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

- Counterparty Risk

This risk relates to the other party(s) in a financial transaction (the counterparty) failing to meet its obligations to the Fund. The Council has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk by specifying minimum credit ratings and credit limits. It has similarly applied has strict

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criteria within its stock lending agreements to mitigate counterparty risk in these transactions.

- **Currency Risk**

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

- **Environmental, Social and Ethical Issues Risk**

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

Regulations require pension fund administering authorities to state the extent to which they comply with the Chartered Institute of Public Finance (CIPFA) Pensions Panel Principles for Investment Decision Making. This covers the six principles of good investment practice issued by Government in response to the Myners review of institutional investment. The extent to which Lewisham complies is set out in Appendix 3.

12. STOCK LENDING

The Council entered into a stock-lending arrangement with the Custodian Northern Trust in April 2010.

The Council recognises that stock lending results in the transfer of ownership (including voting rights) to a counterparty whilst economic exposure is retained by the Fund. In order to mitigate the counterparty risk implicit in this arrangement the Council has applied stringent collateralisation conditions.

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Appendix 1: Who's Who

Please refer to pages 5-7 of this annual report.

Appendix 2: Benchmark Position – Current and New Funds

Asset class	Manager	Benchmark	Benchmark proportion (%)	New Benchmark proportion (%)
Equities:			63.0	63.0
UK equities	UBS (passive)	FTSE All Share	16.0	16.0
Global equities	Alliance Bernstein & RCM	MSCI AC World Index	44.0	44.0
Private equity	Harbourvest	MSCI All Country World Developed Index	3.0	3.0
Bonds	UBS (passive/active)	5% FTSE >5yr Index-Linked 3% FTSE >15yr Gilt 8% iBoxx £ non Gilt All Stocks/ >15yr	16.0	18.0
Sub Total			79.0	81.0
Property	Schroders	IPD Pooled Property Fund Index	10.0	10.0
UK Financing Fund	M&G	LIBOR	3.0	1.0
Fund of hedge funds	Fauchier	LIBOR	3.0	3.0
Commodities	Investec	Dow Jones-UBS Commodities Total Return Index	5.0	5.0
Total			100.0	100.0

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Appendix 3: Compliance with the CIPFA Principles for Investment Decision Making

Regulations require administering authorities to assess the extent to which they comply with the CIPFA Principles for Investment Decision Making, and provide reasons for non-compliance. These reflect the principles of good investment practice issued by government in response to the Myners review.

The six principles which underpin best practice and the assessment of Lewisham's compliance is as set out below.

Principle 1: Effective Decision-Making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Compliance statement - full compliance

- Decisions are taken by the PIC based on advice from officers, the independent investment adviser and the investment consultant. Specialist investment managers are employed who are responsible for day to day investment decisions.
- In conjunction with the Fund's Independent Investment Advisor the Council will establish a training and development programme for Members of the PIC.
- The Council has a Pension Fund Business Plan which is reviewed annually.
- There is a clear conflicts of interest policy and Members must make declarations of interest before each meeting of the PIC or as matters arise during the course of PIC business.
- Training is provided to Members before each meeting on topics they are to consider and technical briefing notes are prepared and distributed prior to meetings.

Principle 2: Clear Objectives

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

Compliance statement – full compliance

- The PIC has set its investment objectives in the context of an actuarial review that considered the assets and liabilities and maturity profile of the fund, and it approves a Funding Strategy Statement for the Fund.
- The PIC has set a scheme specific benchmark, diversified to ensure that market volatility in the funds value is reduced through holding a

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proportion of the funds assets in alternative assets such as property, private equity, hedge funds, corporate credit, commodities and bonds.

- Each investment manager has a specific benchmark and target set for it and a time horizon, typically three years, for being measured against their target.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.

These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Compliance statement – full compliance

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

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Compliance statement – full compliance

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

Appendix D

Statement of Investment Principles

Principle 5: Responsible Ownership

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

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Compliance statement – Full compliance

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

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.

The report should contain a commentary on how any commitments made in the Statement of Investment Principles have been progressed during the reporting period.

Compliance statement – full compliance

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

Appendix E
Communications Policy Statement

Policy statement

Communications policy statement

London Borough of Lewisham
April 2012

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Communications Policy Statement

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Communications Policy Statement

Introduction

This is the Communications Policy Statement of the Local Government Pension Fund, administered by the London Borough of Lewisham.

The Fund liaises with more than 20 employers and approximately 17,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

It is effective from 1 April 2012.

Any enquiries in relation to this Communication Policy Statement should be sent to:

The Pensions Team, Room 101, Town Hall, Catford, SE6 4RU

Tel: 020 8314 7277.

Regulatory framework

This policy statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme Regulations 1997. The provision requires us to:

“prepare, maintain and publish a written statement setting out their policy concerning communications with:

- (a) members
- (b) representatives of members
- (c) prospective members
- (d) employing authorities.”

In addition it specifies that the statement must include information relating to:

- ‘(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employing authorities.’

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements are to be introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a ‘reasonable period’. The draft Code of

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Communications Policy Statement

Practice³ issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements is set out in the Performance Measurement section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

Responsibilities and resources

Within the Pensions Section the responsibility for communication material is performed by our Pensions Manager with the assistance of one of the Senior Pensions Officers.

Though we write all communication material within the section, all design work is carried out by the Council's publications team. We also carry out all the arrangements for forums, workshops and meetings covered within this statement.

All printing is carried out internally by the Council's printing department.

Communication with key audience groups

Our audience

We communicate with a number of stakeholders. For the purposes of this communication policy statement, we are considering our communications with the following audience groups:

- active members
- deferred members
- pensioner members
- prospective members
- employing authorities (scheme employers and admission bodies)
- senior managers
- union representatives
- elected members/the Pensions Committee
- Pensions Section staff
- the media.

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, the Office of the Deputy Prime Minister, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

³ Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006, issued September 2005.

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Communications Policy Statement

How we communicate

General communication

We will continue to use paper based communication as our main means of communicating, for example by sending letters to our scheme members. However, we will complement this by use of electronic means such as our intranet site. We will accept communications electronically, for example by email, and, where we do so, we will respond electronically where possible.

Our Pensions Section staff are responsible for specific tasks. Any phone calls or visitors are then passed to the relevant person within the section. Direct line phone numbers are advertised to allow easier access to the correct person. We also have a 'golden number' which hunts around the team for a vacant phone in case the required number is engaged. This means the person gets to speak to somebody and if they cannot help, they take a message and ask the team member who was engaged to ring the person back.

Branding

As the Pension Fund is administered by Lewisham Council, all literature and communications will conform with the branding of the Council.

Accessibility

We recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically. However, we can provide all communications in large print, Braille, on cassette or in another language on request.

Policy on communication with active, deferred and pensioner members

Our objectives with regard to communication with members are:

- for the Local Government Pension Scheme (LGPS) to be used as a tool in the attraction and retention of employees for better education on the benefits of the LGPS
- to provide more opportunities for face to face communication as a result of improved communication,
- for queries and complaints to be reduced for our employers to be employers of choice to increase take up of the LGPS
- to reassure stakeholders.

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefits or responses to individual queries). The communications are explained in more detail beneath the table.

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Communications Policy Statement

Method of communication	Media	Frequency of issue	Method of distribution	Audience group (active, deferred, pensioner or all)
Scheme booklet	Paper based and on intranet site	At joining and major scheme changes	Post to home address/via employers	Active
Pension Fund Report and Accounts	Paper based and on website	Annually	On request	All
Pension Fund Accounts – Summary	Paper based	Annually	Via employers for actives; post to home address for deferred and pensioner members	All
Estimated Benefit Statements	Paper based	Annually	Post to home address/via employers for active members; to home address for deferred members	Active and deferred
Factsheets	Paper based and on intranet	On request	On request	Active
Intranet site	Electronic	Continually available	Advertised on all communications	Active
'Open-door' policy	Face to face	On request	On request	All
Face to face education sessions including mid-career and pre-retirement planning courses	Face to face	On request	On request	All
Customer comment cards	Paper based	On completion of individual tasks	With communications	All
Joiner packs	Paper based	On joining	Post to home address	Active members

Explanation of communications

Scheme booklet – A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

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Communications Policy Statement

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

Pension Fund Report and Accounts Summary – Provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

Estimated Benefit Statements – For active members these include the current value of benefits as well as the projected benefits to age 65. In relation to deferred members, the benefit statement includes the current value of the deferred benefits as well as the associated death benefits.

Factsheets – These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, maternity leave, strike absences, death benefits, etc.

Intranet site – This provides scheme-specific information, forms that can be printed or downloaded, access to documents such as newsletters, reports, accounts, frequently asked questions and answers, links to related sites and contact information.

‘Open-door’ policy – This provides the facility for members to call into the pensions office without a prior appointment. We guarantee that visitors will be seen by an experienced member of staff within five minutes of arrival.

Face to face education sessions – These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights.

Joiner packs – These complement the scheme booklet and include the paperwork needed to join the scheme.

Policy on promotion of the scheme to prospective members and their employing authorities

Our objectives with regard to communication with prospective members are:

- to improve take up of the LGPS
- for the LGPS to be used as a tool in the attraction of employees
- for our employers to be employers of choice
- for public relations purposes.

As we in the Pensions Team do not have direct access to prospective members, we will work in partnership with the employing authorities in the Fund to meet these objectives. We will do this by providing the following communications:

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Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Overview of the LGPS leaflet	Paper based	On commencing employment	Via employers	New employees
Educational sessions	As part of induction workshops	On commencing employment	Face to face	New employees
Promotional flyers	Paper based	Annually	Via employers	Existing employees
Posters	Paper based	Ongoing	Via employers	New and existing employees

Explanation of communications

Overview of the LGPS leaflet – A short leaflet that summarises the costs of joining the LGPS and the benefits of doing so.

Educational session – A talk providing an overview of the benefits of joining the LGPS.

Promotional flyers – These will be designed to help those that are not in the LGPS to understand the benefits of participating in the scheme and provide guidance on how to join the scheme.

Posters – These will be designed to help those that are not in the LGPS to understand the benefits of participating in the scheme and provide guidance on how to join the scheme.

Policy on communication with employing authorities

Our objectives with regard to communication with employers are:

- to improve relationships
- to assist them in understanding costs/funding issues
- to work together to maintain accurate data
- to ensure smooth transfers of staff
- to ensure they understand the benefits of being an LGPS employer
- to assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Employers' Guide	Paper based and employer intranet site	At joining and updated as necessary	Post or via email	Main contact for all employers
Employer meetings	Face to face	As and when necessary	Post or via email	All contacts for all employers

Appendix E Communications Policy Statement

Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	Main contact for all employers
Meeting with adviser	Face to face	On request	Invite sent by post or email	Senior management involved in funding and HR issues

Explanation of communications

Employers' Guide – A detailed guide that provides guidance on the employer responsibilities, including the forms and other necessary communications with the Pensions Section and scheme members.

Employer meeting – An informal event covering topical LGPS issues.

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example the current employing authorities and scheme membership numbers.

Adviser meeting – Gives employers the opportunity to discuss their involvement in the scheme with advisers.

Policy on communication with senior managers

Our objectives with regard to communication with senior managers are:

- to ensure they are fully aware of developments within the LGPS
- to ensure that they understand costs/funding issues
- to promote the benefits of the scheme as a recruitment/retention tool.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Committee papers	Paper based and electronic	In advance of committee or Pensions Panel	Email or hard copy	All

Explanation of communications

Briefing paper – A briefing that highlights key issues or developments relating to the LGPS and the Fund, which can be used by senior managers when attending meetings.

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Committee paper – A formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

Policy on communication with union representatives

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the scheme to their members
- to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the scheme
- to engage in discussions over the future of the scheme
- to provide opportunities to educate union representatives on the provisions of the scheme.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Face to face education sessions	Face to face	On request	On request	All

Explanation of communications

Briefing paper – A briefing that highlights key issues and developments relating to the LGPS and the Fund.

Face to face education sessions – These are education sessions that are available on request for union representatives and activists, for example to improve their understanding of the basic principles of the scheme, or to explain possible changes to policies.

Policy on communication with elected members/the Pensions Committee

Our objectives with regard to communication with elected members/the Pensions Committee are:

- to ensure they are aware of their responsibilities in relation to the scheme
- to seek their approval to the development or amendment of discretionary policies, where required
- to seek their approval to formal responses to government consultation in relation to the scheme.

Our objectives will be met by providing the following communications:

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Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Training sessions	Face to face	When there is a new Pensions Panel and as and when required	Face to face or via the Employers Organisation for Local Government	All members of the Pensions Panel as well as other elected members
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All members of the Pensions Panel
Pensions Panel meetings	Meeting	Quarterly or as and when required	Members elected onto Pensions Panel	All members of the Pensions Panel

Explanation of communications

Training sessions – Providing a broad overview of the main provisions of the LGPS, and elected members' responsibilities within it.

Briefing paper – A briefing that highlights key issues and developments to the LGPS and the Fund.

Pensions Committee meeting – A formal meeting of elected members, attended by senior managers, at which local decisions in relation to the scheme (policies, etc.) are taken.

Policy on communication with Pensions Section staff

Our objectives with regard to communication with Pensions Section staff are:

- to ensure they are aware of changes and proposed changes to the scheme
- to provide on-the-job training to new staff
- to develop improvements to services and changes to processes as required
- to agree and monitor service standards.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Face to face training sessions	Face to face	As required	By arrangement	All
Staff meetings	Face to face	As required	By arrangement	All
Attendance at seminars	Externally provided	As and when advertised	By email, paper based	All

Explanation of communications

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Face to face training sessions – Enable new staff to understand the basics of the scheme, or provide more in depth training to existing staff, either as part of their career development or to explain changes to the provisions of the scheme.

Staff meetings – To discuss any matters concerning the local administration of the scheme, including, for example, improvements to services or timescales.

Attendance at seminars – To provide more tailored training on specific issues.

Policy on communication with the media

Our objectives with regard to communication with the media are:

to ensure the accurate reporting of Fund valuation results, the overall performance of the Fund and the Fund’s policy decisions against discretionary elements of the scheme.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Press releases	Paper based or electronic	Every three years following the valuation of the Fund, annually on the publication of the Fund accounts and as and when required for other matters	Post or email	Local press

Explanation of communications

Press releases – Provide statements setting out the Fund’s opinion of the matters concerned (i.e. Fund valuation results).

Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholders/interested parties are:

to meet our obligations under various legislative requirements
to ensure the proper administration of the scheme
to deal with the resolution of pension disputes
to administer the Fund’s AVC scheme.

Our objectives will be met by providing the following communications:

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Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Pension Fund valuation reports <ul style="list-style-type: none"> • R&A certificates • revised R&A certificates • cessation valuations 	Electronic	Every three years	Via email	Office of the Deputy Prime Minister (ODPM)/Her Majesty's Revenue and Customs (HMRC)/all scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	ODPM/HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/the Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	ODPM/HMRC/the Pensions Regulator

Explanation of communications

Pension Fund valuation report – A report issued every three years setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three-year period commencing one year from the valuation date.

Details of new employers – A legal requirement to notify both organisations of the name and type of employer entered into the Fund (i.e. following the admission of third party service providers into the scheme).

Resolution of pension disputes – A formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute.

Completion of questionnaires – Various questionnaires that may be received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund.

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Communications Policy Statement

Performance measurement

So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Communication	Audience	Statutory delivery period	Target delivery period
Scheme booklet	New joiners to the LGPS	Within two months of joining	Within six weeks of joining the LGPS
Estimated Benefit Statements as at 31 March	Active members	On request	30 September
Telephone calls	All	Not applicable	95% of phone calls to be answered within 10 seconds
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	95% of retirement benefits to be issued within five working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within six weeks
Transfers in	Joiners/active members	Within two months of request	Within two weeks
Issue of forms, i.e. expression of wish	Active/deferred members	N/A	Within five working days
Changes to scheme rules	Active/deferred and pensioner members, as required	Within two months of the change coming into effect	Within one month of change coming into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within five working days

Appendix E Communications Policy Statement

Quality

Audience	Method	To consider	Notes
All member types	Paper based survey on completion of specific tasks	Service received during that task	Customer comment cards are sent to members on completion of specific tasks. A questionnaire is also sent to members following their retirement. Random questionnaires are also included in the Pensioners Newsletter.
All member types	Focus group meeting on half yearly basis	All services and identify improvement areas/new services	Representative group of all member types; to include union representatives
Employers	Face to face	Their issues	On request

Results

We will publish an overview of how we are performing within our annual report and in our newsletters. Full details will be reported to our Pensions Committee and will be available for viewing on our intranet site.

Review process

We will review our communications policy annually to ensure it meets audience needs and regulatory requirements. A current version of the policy statement will always be available on our intranet site; paper copies will be available on request.

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Adjustments to the Pension Fund Accounts 2011/12		
KEY DECISION	No	Item No:	5
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	15 November 2012

1. PURPOSE OF THE REPORT

- 1.1 This report provides Members with an update on the key accounting adjustments to the Pension Fund accounts for 2011/12. It summarises the nature of these adjustments and provides a brief explanation from officers as to the reasons why such adjustments have been necessary to make to the accounts.

2. RECOMMENDATION

- 2.1 Members are asked to note the contents of this report.

3. BACKGROUND

- 3.1 The Pension Fund financial statements are an important mechanism for the Council to account for its stewardship of public funds. Members of the Pensions Investment Committee have a final responsibility for these statements.
- 3.2 The Pension Fund Annual Governance Report has been published and there is an agreed action for officers. The auditors have provided an unqualified opinion on the financial statements of the Pension Fund for 2011/12.

4. ADJUSTMENTS TO THE ACCOUNTS

- 4.1 In the Lewisham Pension Fund Annual Governance Report, the auditors provided their opinion on the financial statements. They said that there were two amendments to the accounts that had an impact on the value of investments disclosed in the Net Assets Statement. The total impact of these amendments was an increase in the value of investments (£2m) on the Net Assets Statement and a corresponding increase in the change in market value in the fund account. The adjustments are set out as follows:

- Harbourvest – Private Equity Investments. Due to timing, the custodian report used by the Council in preparing the accounts was dated as at

December 2011, instead of March 2012. Therefore, this led to the auditors noting a discrepancy between the accounts and the external fund manager confirmation received of £2.2m.

- M&G – UK Companies Financing Fund Investments. Due to timing, the custodian report used by the Council in preparing the accounts was dated as at September 2011, instead of 31 March 2012. Therefore, this led the auditors noting a discrepancy between the accounts and the accounts and the external fund manager confirmation received of £260k.

4.2 Officers have had extensive dialogue with the auditors regarding these issues, as well as convening specific meetings with managers at Harbourvest and M&G. Furthermore, a meeting has been held with the Pension Fund custodian, Northern Trust to seek a solution or an alternative approach to redress this issue.

4.3 It is the view of Officers that discrepancies have not arisen due to poor accounting practice, but is entirely due to timing differences between the preparation of the financial statements and the provision of information by the respective fund manager. This happens every year and is specific to the types of mandates of venture capital and financing fund investments which both Harbourvest and M&G manage, respectively. This is common across the industry. The Lewisham Pension Fund is not alone in receiving such comments and any pension fund which hold such mandates will face the same issues of timing.

4.4 In summary, when the Custodian provides the Council with the data, these two investment managers only provide estimates, as the actual results are not available at that time. The Custodian will then add any capital calls to these valuations and an estimated market value of the investment officers in the Council's Budget Strategy Team. The actual results are then provided by the Investment Manager after the accounts have been prepared and an adjustment is then made to our accounts.

4.5 This will continue to happen every year. However, Officers are committed to working with the new external auditors to agree a mechanism which will mean avoiding such issues being described as discrepancies in future years.

4.6 Members should note that there were some further minor adjustments to the accounts which have been corrected, prior to the final unqualified audit opinion being issued.

5. FINANCIAL IMPLICATIONS

5.1 There are no specific financial implications directly arising from this report. However, Members should note that changes in valuation methods or dates used can have apparently large impacts on fund values reported. However, due to the substantial values of pension investments, these impacts are not material (in this case, for example, they are less than 0.5% of the value of the fund) and of course that accurate market values are always used when assets are bought and sold.

6. LEGAL IMPLICATIONS

- 6.1 The Pension Fund financial statements for the year ended 31 March 2012 are audited 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 by law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

7. ENVIRONMENTAL IMPLICATIONS

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

8. HUMAN RESOURCES IMPLICATIONS

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

9. CRIME AND DISORDER IMPLICATIONS

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

10. EQUALITIES IMPLICATIONS

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

11. CONCLUSIONS

- 11.1 As part of the Annual Governance Report action plan, officers will work with the Grant Thornton auditors to agree an approach for accounting for venture capital and companies financing mandates.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact Selwyn Thompson, Group Manager Budget Strategy on 020 8314 6932.

Agenda Item 6

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Investment Performance for the quarter ended 30 September 2012		
KEY DECISION	No	Item No: 6	
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	15 November 2012

1. SUMMARY

- 1.1 This report sets out the performance of the Pension Fund investment portfolio and that of the individual managers for the quarter ended 30 September 2012.

2. RECOMMENDATION

- 2.1 The Committee is recommended to note the contents of the report.

3. BACKGROUND

- 3.1 The existing management arrangements for the Lewisham Pension Fund investment portfolio have been operational for approximately four years. This report sets out the performance for the quarter ended 30 September 2012 and since inception, as provided by the Fund's custodian, Northern Trust.
- 3.2 The full report is attached at Appendix A and performance commentary will be provided at the meeting by the Fund's investment advisors, Hymans Robertson.

4. PORTFOLIO SUMMARY

- 4.1 The Lewisham Pension Fund had an overall market value of £782.9m for the quarter ended 30 September 2012. The Fund's value has increased by £21.4m over the quarter with the Fund's equity and fixed interest holdings posting positive absolute returns. The Fund has underperformed its benchmark, returning 2.7%, relative to the benchmark return of 3.2%.
- 4.2 Relative performance from the Fund's active managers was mixed. The Fund's global equity mandates with Alliance Bernstein and RCM outperformed, as did the Fund's UBS fixed interest mandate and M&G Financing fund. In contrast, the Schrodgers (property), Investec (commodities), and Harbourvest (private equity) mandates, each underperformed.
- 4.3 Members should note that the Fauchier Partners fund of hedge funds holding was redeemed on 1 July 2012. This report and the detailed analysis attached at Appendix A, still shows the target allocation at 3%. This is pending further discussion on the destination of those funds, with the proceeds reported as cash. A

separate report, elsewhere on this agenda discusses the options available to Members.

- 4.4 As at 30th September 2012, the Fund employed seven specialist managers with mandates corresponding to the principal asset classes. A portfolio summary showing the change in market values between two quarters is set out below in Table 1.

Table 1 – Portfolio Summary

Manager	Mandate	Asset Value 30/6/12 £m	Asset Value 30/9/12 £m	Proportion of the Fund 30/09/12 %
Alliance Bernstein	Global Equities	157.1	163.5	21.0
Harbourvest	Venture Capital	34.0	34.0	4.5
Investec	Commodities	36.0	35.6	4.5
M&G	UK Financing Fund	11.5	11.6	1.5
RCM	Global Equities	166.5	173.2	22.0
Schroders Property	Property	70.1	69.7	9.0
UBS UK Equity	UK Tracker Fund	124.3	130.2	16.5
UBS (Bonds)	Fixed Interest	141.5	144.5	18.5
Cash Held (Fauchier)	Hedge Fund	20.5	0	-
Cash (ex-Fauchier assets)	Cash	0	20.6	2.5
Total Fund		761.5	782.9	100.0

- 4.5 Members of the Pensions Investment Committee have approved the move to a more passive investment strategy. This will fundamentally change the balance of the Council's Pension Fund and the change will be reflected in the next performance report to this Committee. The transition process is due to be completed on the 26th November 2012. The progress on transition has been set on in more detail in a report elsewhere on this agenda.
- 4.5 The performance of the individual managers relative to the appropriate benchmarks as at 30 September set out in Table 2. This table shows the volatility of returns that existed pre-transition and the mixed performance of all mandates relative to targets.

Table 2: Performance Summary – Managers

Manager	Absolute Performance Qtr 30 Sept 2012 %	Benchmark %	Performance Qtr 30 Sept Relative to Benchmark %	Performance Relative to Benchmark Since Inception %
Alliance Bernstein	4.0	3.8	0.2	-2.3
Harbourvest	-0.6	3.8	-4.3	1.2
Investec	-1.4	6.5	-7.4	-2.4
M&G	1.1	0.2	0.9	2.1
RCM	3.9	3.8	0.1	-1.0
Schroders Property	-0.7	0.4	-1.1	-1.0
UBS (Equity)	4.7	4.7	0.0	0.1
UBS (Bonds)	2.2	1.9	0.3	1.3
Cash (Fauchier)	-0.7	0.5	-1.2	-6.0
Total Fund	2.7	3.2	0.5	-0.5

4.6 The performance of individual managers will be analysed and appraised at the meeting by the Council's investment advisor, Hymans Robertson.

5. CONCLUSION

5.1 Performance of the managers relative to benchmarks were still very mixed at the end of the quarter. The impact of the transition of the fund from active to passive will begin to take effect at the end of next quarter and will be reported at the next Pensions Investment Committee meeting.

6. FINANCIAL IMPLICATIONS

6.1 The comments of the Executive Director for Resources & Regeneration have been incorporated into the report.

7. LEGAL IMPLICATIONS

7.1 As the administering authority for the Fund, the Council must review the performance of the Fund's investments at regular intervals and review the investments made by Fund Managers quarterly.

7.2 The Pension Regulations require that the Council has regard to the proper advice of its expert independent advisers in relation to decisions affecting the Pension Fund. They must also have regard to the separate advice of the Chief Financial Officer who has statutory responsibility to ensure the proper administration of the Council's financial affairs, including the administration of the Pension Fund.

8. ENVIRONMENTAL IMPLICATIONS

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

9. HUMAN RESOURCES IMPLICATIONS

9.1 There are no human resources implications directly arising from this report.

10. CRIME AND DISORDER IMPLICATIONS

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

11. EQUALITIES IMPLICATIONS

11.1 There are no equalities implications directly arising from this report.

APPENDICES

The full report and performance commentary has been attached at Appendix A to this report.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact Selwyn Thompson, Group Manager Budget Strategy on 020 8314 6932.

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Third Quarter of 2012

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➤ Prepared By:
Scott Donaldson - Partner
Albert Chen - Investment Analyst

For and on behalf of Hymans Robertson LLP
November 2012

Real people. Real skills. Real results.

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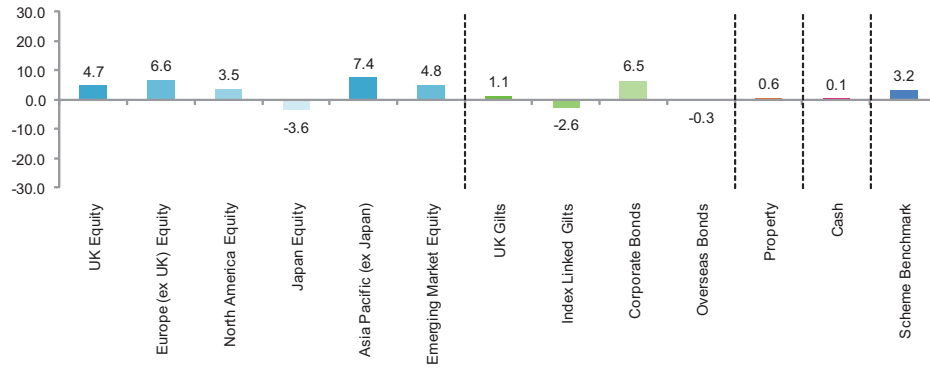
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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Historic Returns for World Markets to 30 September 2012

3 Months (%)



Historic Returns - Comment

Initiatives announced by central banks during the quarter to end September differed in nature and size, but not in purpose. The common goal was to stimulate economic growth, in the context of an uncertain global outlook. In many European countries, including the UK, there was an active debate over the balance between austerity measures and the need to promote economic growth. Civil unrest in Spain and Greece, in September, was proof of the deep unpopularity of austerity measures. In the US, weak employment numbers were a recurring source of concern.

During the quarter, economic growth forecasts for the UK were revised down. The Bank of England cut its forecast for growth in 2012 to close to zero with some forecasters predicting economic contraction. Economic growth forecasts for other regions were also revised downwards. The Eurozone crisis was regularly cited as the greatest threat to the global economy. In the US and China decelerating economic growth was the catalyst for further monetary easing.

In bond markets, Spain, Portugal and Italy continued to pay a 'premium' price for borrowing. In contrast, certain German bonds, at times, returned a negative yield, as investors effectively paid for the security they offered.

Key events during the quarter were:

Global Economy

- Policy makers in the UK, Eurozone, US, Japan and China announced further asset purchase programmes to stimulate economies;
- Short-term interest rates were unchanged in UK, US and Japan;
- Eurozone short-term interest rates were cut, from 1.0% to 0.75%;
- France and Italy pressed the case for economic growth rather than austerity as policy priority;
- Moodys placed the outlook for credit ratings of Germany and Netherlands on 'negative watch'.

Equities

- Apple became the world's largest company measured by market capitalisation (\$623bn);
- The strongest sectors relative to the 'All World' Index were Oil & Gas (+2.6%) and Financials (+1.6%); the weakest were Utilities (-5.7%) and Consumer Goods (-2.4%).

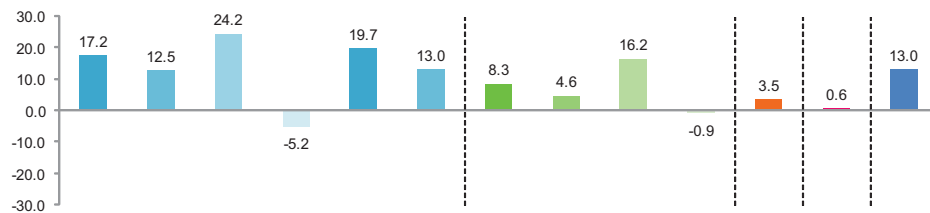
Bonds

- The ECB announced a bond purchase programme to assist countries struggling to raise funds;
- Corporate bonds outperformed government issues by a significant margin.

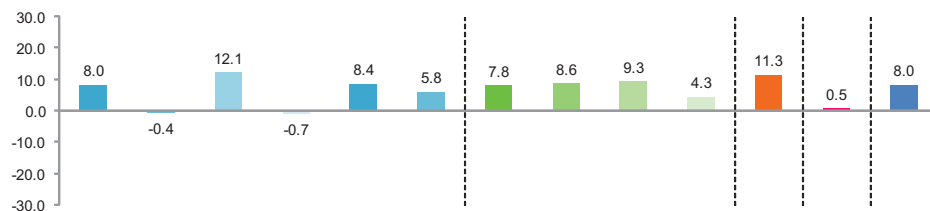
The action taken by policy makers during the quarter reflects deep unease about the global economic outlook. For the US, and indeed the global economy, much depends on the outcome of the November presidential election. The two main candidates offer very different economic strategies.

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2 Months (%)



3 Years (% p.a.)



Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2012	Q3 2012			
Global Equity	447.9	466.9	59.6	60.0	-0.4
Bonds	141.5	144.5	18.5	16.0	2.5
Property	70.1	69.7	8.9	10.0	-1.1
Hedge Fund of Funds	20.6	0.0	0.0	3.0	-3.0
Private Equity	34.0	34.0	4.3	3.0	1.3
Cash (ex-Fauchier assets)	0.0	20.7	2.6	0.0	2.6
UK Financing Fund	11.5	11.6	1.5	3.0	-1.5
Commodities	36.0	35.6	4.5	5.0	-0.5
Total inc. Trustee Bank Account	761.5	782.9	100.0	100.0	

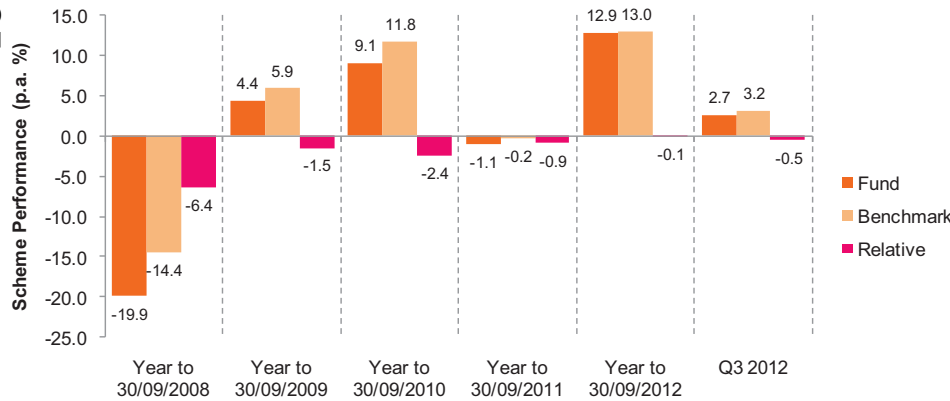
Comments

The Fund's portfolio value increased by £21.4m over the quarter, with the Fund's equity and fixed interest holdings posting positive absolute returns. The Fund underperformed its benchmark, returning 2.7%, relative to the benchmark return of 3.2%.

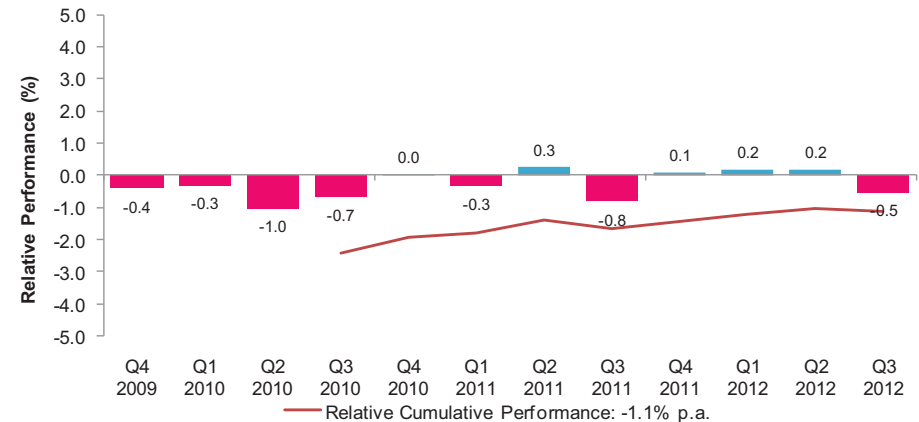
Relative performance from the Fund's active managers was mixed; the Fund's global equity mandates with Alliance Bernstein and RCM outperformed, as did the Fund's UBS fixed interest mandate and M&G Financing fund. In contrast, the Schroders (property), Investec (commodities), and HarbourVest (private equity) mandates each underperformed.

N.B. The Fauchier fund of hedge funds holding was redeemed on 1 July. In this report we still show this target allocation at 3% pending further discussion on the destination of those funds, with the proceeds reported as cash.

Performance Summary [i]



Relative Quarterly and Relative Cumulative Performance

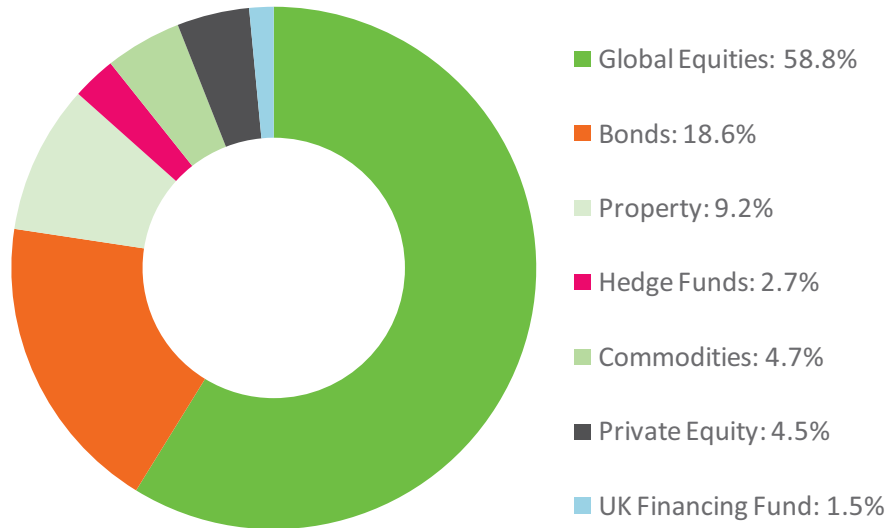


Source: [i] DataStream, Fund Manager, Hymans Robertson

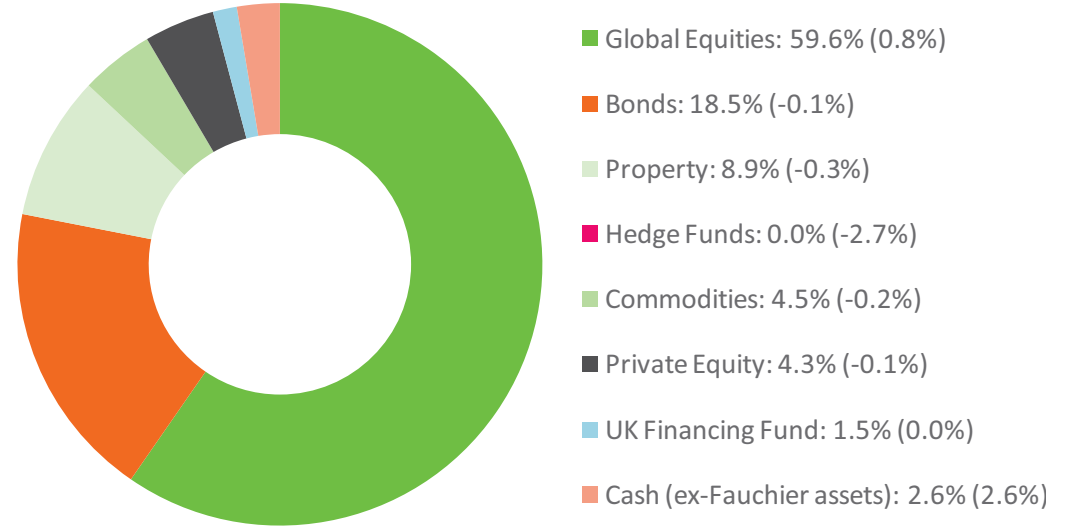


Fund Asset Allocation

Asset allocation as at 30 June 2012



Asset allocation as at 30 September 2012



Comments ^[i]

The Fund's investment in the Fauchier hedge fund of funds mandate was redeemed at the start of July, with the proceeds held in cash pending further discussion on the final destination of these assets.

Other than the Fauchier redemption, the rest of the Fund's asset allocation is broadly unchanged as at the end of Q3 2012, as compared to the position at the end of the previous quarter, with movements in the allocations resulting from market movements over the period.

Source: [i] Fund Manager, Hymans Robertson



Manager Summary

Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2012	Q3 2012			
Alliance Bernstein - Global Equity	157.1	163.5	20.9	22.0	-1.1
RCM - Global Equity	166.5	173.2	22.1	22.0	0.1
UBS - UK Equity (Index)	124.3	130.2	16.6	16.0	0.6
UBS - Fixed Interest	141.5	144.5	18.5	16.0	2.5
Schroders - Property	70.1	69.7	8.9	10.0	-1.1
Fauchier - Hedge Fund of Funds	20.6	0.0	0.0	3.0	-3.0
Investec - Commodities	36.0	35.6	4.5	5.0	-0.5
Harbourvest - Venture Capital	34.0	34.0	4.3	3.0	1.3
M&G - UK Companies Financing Fund	11.5	11.6	1.5	3.0	-1.5
Cash (ex-Fauchier assets)	0.0	20.7	2.6	0.0	2.6
Total	761.5	782.9	100.0	100.0	0.0

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Manager Summary

Manager	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
Alliance Bernstein - Global Equity	01 Nov 2004	MSCI All Country World Index	1.5% p.a. above benchmark	●●●●●
RCM - Global Equity	19 Dec 2008	MSCI All Country World Index	1.5% p.a. above benchmark	●●●●●
UBS - UK Equity (Index)	27 Feb 2008	FTSE All Share	-	●●●●●
UBS - Fixed Interest	31 Oct 2004	Composite Bond Index	1.1% p.a. above benchmark	●●●●●
Schroders - Property	12 Oct 2004	IPD Pooled Property Fund Index	-	●●●●●
Fauchier - Hedge Fund of Funds	28 Jun 2008	LIBOR + 5% p.a.	-	●●●●●
Investec - Commodities	25 Feb 2010	Dow Jones-UBS Commodities Total Return Index	-	●●●●●
Harbourvest - Venture Capital	29 Jun 2006	MSCI All Country World Developed Index	5% p.a. above benchmark	●●●●●
M&G - UK Companies Financing Fund	01 May 2010	LIBOR	4-6% p.a. above benchmark	●●●●●

* For information on our manager ratings, see individual manager pages

Key:- ● - Replace ● - On-Watch ● - Retain



Performance Summary - Managers

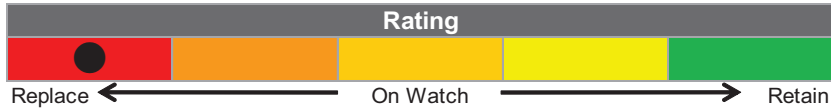
Performance Summary ^[i]

		Alliance Bernstein - Global Equity	RCM - Global Equity	UBS - UK Equity (Index)	UBS - Fixed Interest	Schroders - Property	Fauchier - Hedge Fund of Funds	Investec - Commodities	Harbourvest - Venture Capital	M&G - UK Companies Financing Fund	Cash (ex-Fauchier assets)	Total Fund
3 Months (%)	Absolute	4.0	3.9	4.7	2.2	-0.7	-0.7	-1.4	-0.6	1.1	N/A	2.7
	Benchmark	3.8	3.8	4.7	1.9	0.4	0.5	6.5	3.8	0.2	N/A	3.2
	Relative	0.2	0.1		0.3					0.9	N/A	
12 Months (%)	Absolute	14.6	23.4	17.3	12.2	-0.0	-0.9	-2.5	1.3	3.8	N/A	12.9
	Benchmark	16.7	16.7	17.2	11.0	2.8	4.9	2.3	18.0	0.9	N/A	13.0
	Relative		5.7	0.0	1.1					3.0	N/A	
2 Years (% p.a.)	Absolute	3.4	7.8	8.0	11.1	5.7	-0.6	N/A	7.7	N/A	N/A	6.8
	Benchmark	6.9	6.9	8.0	9.8	9.5	4.9	N/A	7.7	N/A	N/A	8.0
	Relative		0.9		1.2					N/A	N/A	
Since Inception (% p.a.)	Absolute	4.9	9.4	3.8	10.9	2.0	-0.5	-0.4	5.2	2.9	N/A	6.7
	Benchmark	7.3	10.4	3.7	9.5	3.0	5.9	2.1	3.9	0.8	N/A	7.2
	Relative			0.1	1.3				1.2	2.1	N/A	



Alliance Bernstein - Global Equity

HR View Comment & Rating



The Committee has decided that the "core" assets of the Fund should be managed on a passive (i.e. index-tracking) basis. The Committee has decided to allocate the passive management of the assets equally to UBS and BlackRock.

Alliance Bernstein has been informed of the termination of their mandate and Northern Trust, as the appointed transition manager, are in the process of managing the transfer of assets.

Performance Summary to 30 September 2012 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.0	14.6	3.4	4.9
Benchmark	3.8	16.7	6.9	7.3
Relative	0.2	-1.8	-3.3	-2.3

* Inception date 01 Nov 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-3.3	1.5

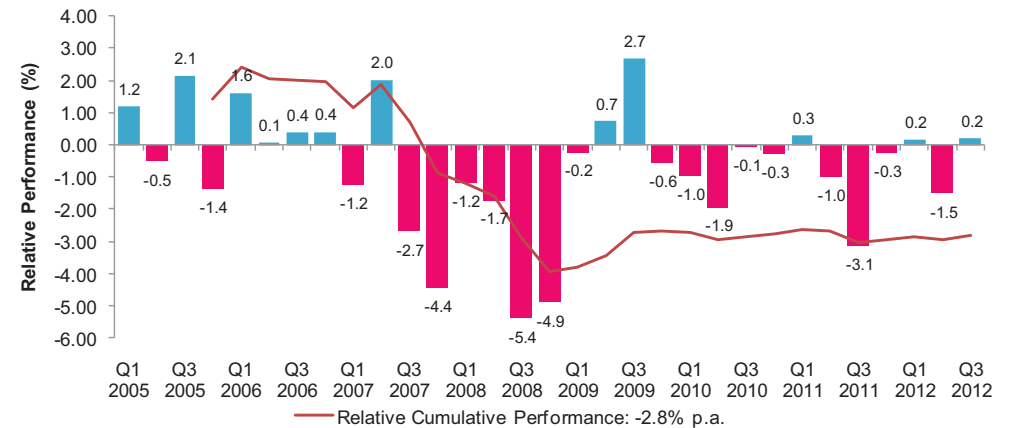
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Performance Summary - Comment

Alliance Bernstein outperformed their benchmark during Q3 2012, with the mandate returning 4.0% against the benchmark return of 3.8%.

The manager's holdings in financials, which detracted from performance in the previous quarter, were the portfolio's top performers in Q3 2012, benefiting from confidence-building measures by central banks. Holdings in this group included ING Group, Banco de Brasil, Societe Generale and Citigroup. Two technology stocks, Sharp and HP, were the biggest detractors to performance, following disappointing quarterly announcements suggesting that both firms face a prolonged period of restructuring.

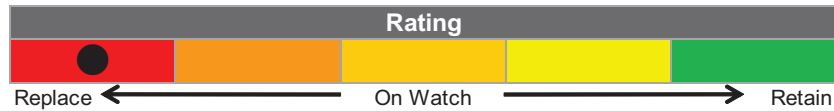
Relative Quarterly and Relative Cumulative Performance ^[ii]



Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Hymans Robertson

RCM - Global Equity

HR View Comment & Rating



The Committee has decided that the "core" assets of the Fund should be managed on a passive (i.e. index-tracking) basis. The Committee has decided to allocate the passive management of the assets equally to UBS and BlackRock.

RCM has been informed of the termination of their mandate and Northern Trust, as the appointed transition manager, are in the process of managing the transfer of assets.

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Performance Summary - Comment

Over the quarter, RCM achieved a portfolio return of 3.9%, ahead of the benchmark return of 3.8%.

Stock selection was the greatest contributor to relative performance over the quarter, offset by a negative contribution from sector allocation. Henkel (Consumer Staples) and Google, were among the biggest contributors to positive relative performance. The underweight allocation to Financials detracted from performance as the sector rebounded following moves by central banks to restore confidence. A number of Japanese stocks were also among the top detractors, hurt to some extent by the slowdown in economic activity in China.

Over the past year, the manager has significantly outperformed its benchmark, and remains ahead of benchmark over the 3 year period, but behind benchmark since the mandate's inception.

Performance Summary to 30 September 2012 ^[1]

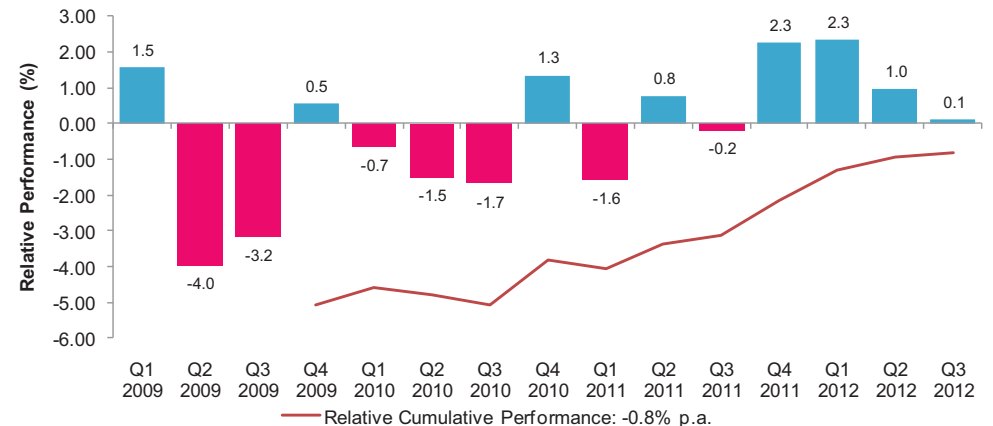
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.9	23.4	7.8	N/A
Benchmark	3.8	16.7	6.9	N/A
Relative	0.1	5.7	0.9	N/A

* Inception date 18 Sep 2008.

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.9	1.5

Relative Quarterly and Relative Cumulative Performance



UBS - UK Equity

HR View Comment & Rating



There were no significant business updates over the quarter for the UBS passive equity business.

Performance Summary to 30 September 2012 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.7	17.3	8.0	3.8
Benchmark	4.7	17.2	8.0	3.7
Relative	-0.0	0.0	-0.0	0.1

* Inception date 27 Feb 2008.

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.0	0.0

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Performance Summary - Comment

UBS succeeded in closely matching benchmark performance over the quarter, as would be expected for a passive manager.

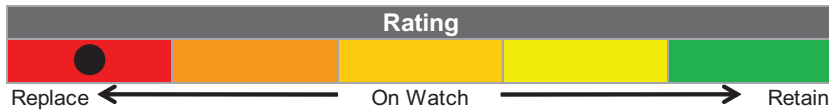
The strongest sector performers (relative to the FTSE All Share index) during the quarter were Technology and Financials, while Telecommunications and Oil & Gas were the weakest.

Relative Quarterly and Relative Cumulative Performance



UBS- Fixed Interest

HR View Comment & Rating



The Committee has agreed to move to new passive mandates with UBS and BlackRock.

Northern Trust are in the process of managing the transition process for the active bond assets within this mandate.

Performance Summary to 30 September 2012 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.2	12.2	11.1	10.9
Benchmark	1.9	11.0	9.8	9.5
Relative	0.3	1.1	1.2	1.3

* Inception date 31 Oct 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
1.2	1.1

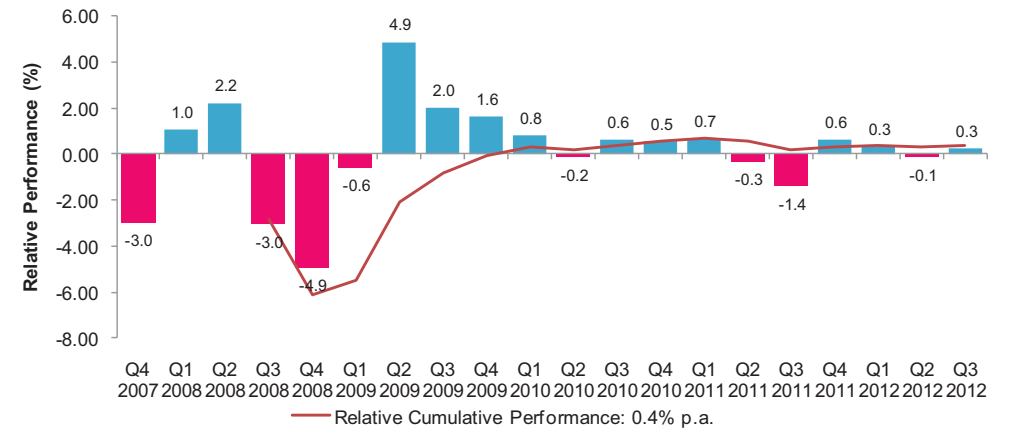
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Performance Summary - Comment

The UBS fixed interest mandate outperformed its benchmark over the quarter, returning 2.2% versus the benchmark return of 1.9%. The mandate is now ahead of benchmark over the past year and over the longer term performance period of 3 years.

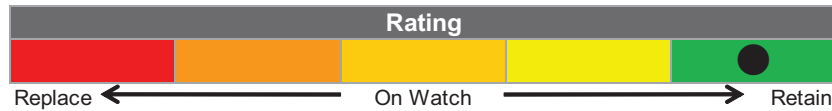
Within the overall portfolio, the Long-dated Fixed Interest Fund outperformed its benchmark due to positive contributions from off-benchmark credit positions. The Duration Neutral and Long-Dated Corporate Bond funds both also outperformed their respective benchmarks due to individual credit selection.

Relative Quarterly and Relative Cumulative Performance



Schroders - Property

HR View Comment & Rating



There have been no significant changes or business updates in relation to Schroders' property teams over the past quarter.

Performance Summary to 30 September 2012 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.7	-0.0	5.7	2.0
Benchmark	0.4	2.8	9.5	3.0
Relative	-1.1	-2.7	-3.5	-1.0

* Inception date 12 Oct 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-3.5	0.0

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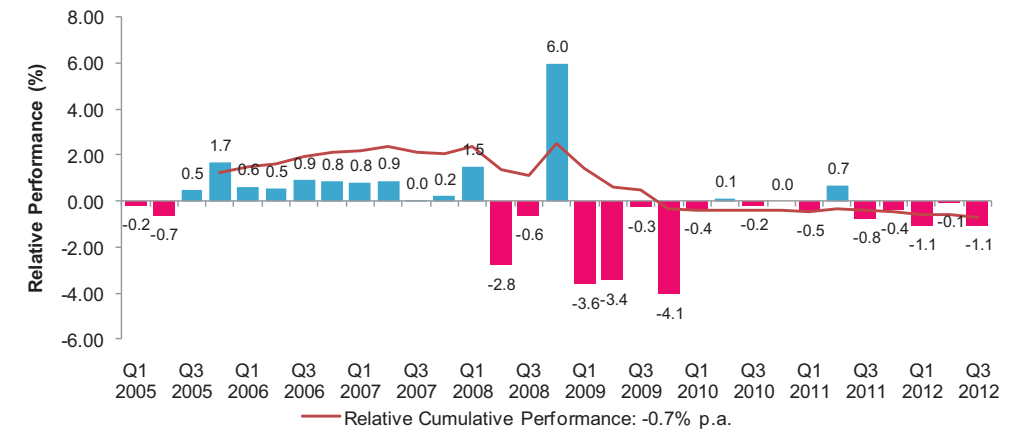
Performance Summary - Comment

The portfolio underperformed its benchmark over the quarter, returning -0.7% against the benchmark return of 0.4%.

Within the portfolio, underperformance over the quarter was attributable primarily to three holdings: the Gresham Real Estate Fund, a pre-2007 leveraged opportunity fund, the RREEF UK Office Property Fund, and the Schroders Continental European Fund I. The Gresham fund is in wind down phase, and the manager is awaiting redemption from the RREEF fund, having served the redemption notice in December 2011. With limited scope to make changes to the European holding, the manager continues to expect this portion of the portfolio to detract from returns for "some quarters to come".

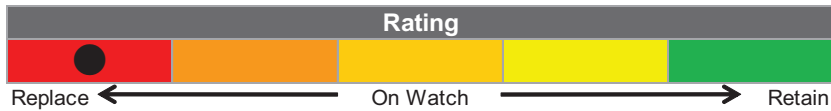
The manager continues to maintain an underweight position to the Retail sector and an overweight position in Central London offices. The manager's outlook remains broadly unchanged from previous quarters, and the manager continues to expect a flat return from UK property for 2012, with declining capital values offset by returns from income. The manager also expects that returns from UK property will be derived mostly from income going forwards, and anticipates some rental growth from 2014 as the economy improves.

Relative Quarterly and Relative Cumulative Performance



Fauchier - Hedge Fund of Funds

HR View Comment & Rating



As noted in our previous quarterly report, the Committee has served a redemption notice for the entirety of the mandate.

Fauchier confirmed that the redemption was processed on 1 July 2012 and that proceeds were paid out on 27 July.

Performance Summary to 30 September 2012 ^[i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-0.7	-0.9	-0.5
Benchmark	0.5	4.9	5.9
Relative	-1.2	-5.5	-6.0

* Inception date 28 Jun 2008.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-5.2	5.0

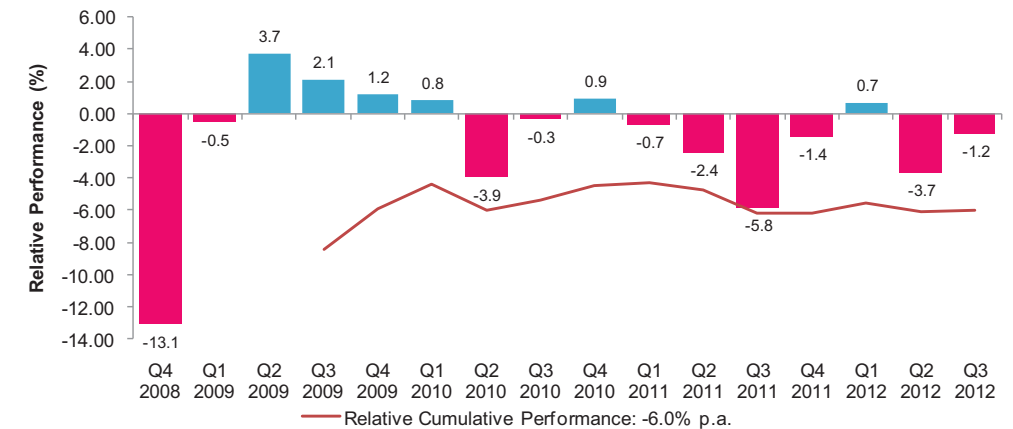
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Performance Summary - Comment

The Fauchier mandate returned -0.7% underperforming its benchmark return of 0.5% for the partial quarter to 1 July 2012.

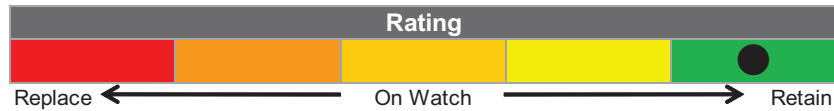
The mandate has now been terminated, and the proceeds have been retained in cash at Northern Trust, pending further discussion on the destination of the funds.

Relative Quarterly and Relative Cumulative Performance



Investec - Commodities

HR View Comment & Rating



Investec have confirmed that both Charles Whall and Tom Nelson commenced with Investec Asset Management in September, as co-portfolio managers of their Energy strategies, as flagged in our previous quarterly report.

Whall has 19 years' experience working within the oil and gas industry followed by 10 years as the lead Oil & Gas sector analyst for Newton Asset Management. Tom Nelson has worked at Guinness Asset Management since 2005 where he was co-portfolio manager of their Global Energy Fund.

There have been no other significant investment team updates to report for the period.

Performance Summary to 30 September 2012 ^[1]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-1.4	-2.5	-0.4
Benchmark	6.5	2.3	2.1
Relative	-7.4	-4.7	-2.4

* Inception date 25 Feb 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
N/A	0.0

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Performance Summary - Comment

The Investec commodities mandate underperformed its benchmark over the quarter, returning -1.4% against the benchmark return of 6.5%.

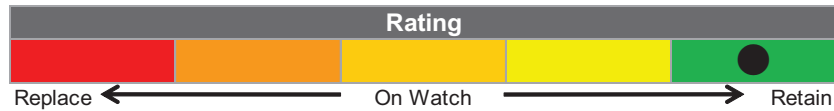
The manager's long positions in Base & Bulks were again among the largest detractors to performance; the iron ore price fell by 22% over the quarter as demand continues to weaken. Individual holdings that detracted included Rio Tinto and Forstescue Metal Groups, while the manager's holding in Whitehaven Coal was also sold off as an offer to buy out the company lapsed.

Positive contributors to performance included the portfolio's long position in tin, where the manager sees a supply deficit continuing into 2013, and long positions in agricultural commodities, with the price of corn, soybeans and other soft commodities rising on the back of US drought conditions.



Harbourvest - Venture Capital

HR View Comment & Rating



HarbourVest held their annual private equity seminar in London on 16 October to provide investors with an update on the performance of their various funds as well as their view of the market as it currently stands and going forward. Overall the mood was positive. The funds are generally performing well, notwithstanding the impact of the financial crisis in 2008. In 2010, 2011 and YTD 2012, HarbourVest returned more in distributions to clients than it called for its primary partnership investments, a strong indication that the underlying funds continue to generate liquidity despite the challenging economic conditions.

The firm reiterated how its approach is not based simply on allocating capital to primary funds, but that it also takes a very active approach to sourcing secondary and co-investment opportunities. We feel confident that HarbourVest can continue to deliver and remain strongly supportive of continued private equity investment with the firm.

Performance Summary - Comment

The HarbourVest mandate returned -0.6%, underperforming its benchmark return of 3.8%.

Given the volatility and pricing of this asset class, it can be misleading to place too much emphasis on short-term performance. The returns shown are sourced from Northern Trust.

Performance Summary to 30 September 2012 ^[i]

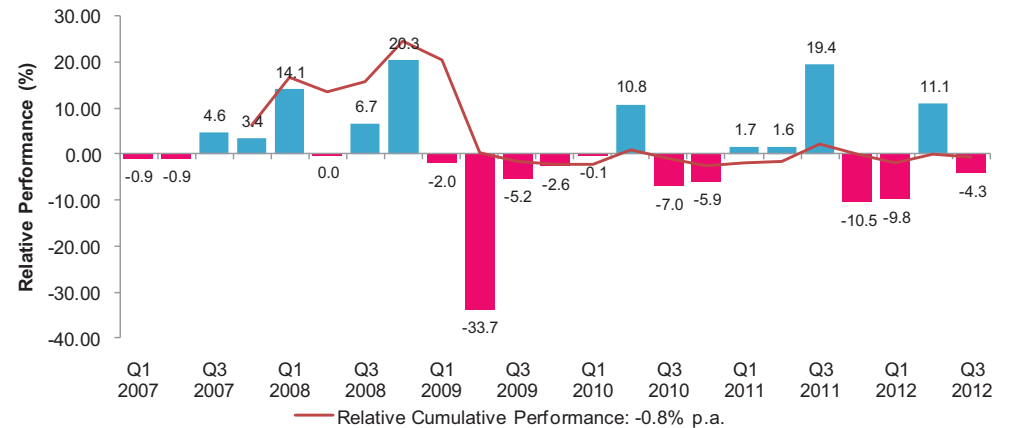
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.6	1.3	7.7	5.2
Benchmark	3.8	18.0	7.7	3.9
Relative	-4.3	-14.2	-0.0	1.2

* Inception date 29 Jun 2006.

3 Year Relative Return

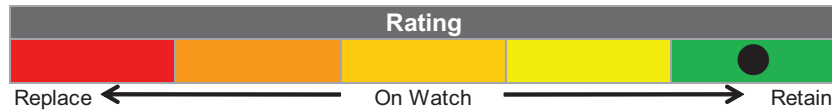
Actual % p.a.	Target % p.a.
0.0	5.0

Relative Quarterly and Relative Cumulative Performance



M&G - UK Companies Financing Fund

HR View Comment & Rating



There have been no significant changes to the M&G investment team to report during the period.

Performance Summary to 30 September 2012 ^[i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.1	3.8	2.9
Benchmark	0.2	0.9	0.8
Relative	0.9	3.0	2.1

* Inception date 01 May 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
N/A	0.0

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Performance Summary - Comment

The UK Companies Financing Fund returned 1.1% (as reported by Northern Trust), ahead of its BOR benchmark return of 0.2% for the quarter.

As reported in the previous quarterly report, the fund committed to its final loan at the start of July, for £100m to a UK power company, which remains to be drawn down. The manager reports that the loans within the portfolio are all performing to expectation.



Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\left(\left(1 + \text{Fund Performance} \right) / \left(1 + \text{Benchmark Performance} \right) \right) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

Period	Arithmetic Method			Geometric Method			Difference
	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	0.10%
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	-1.24%
Linked 6 months			-0.25%			0.96%	-1.21%
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	0.34%

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.

If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.

If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.



PENSIONS INVESTMENT COMMITTEE		
Report Title	Exclusion of the Press and Public	
Key Decision	No	Item No. 7
Ward		
Contributors	Chief Executive (Head of Business & Committee)	
Class	Part 1	Date: 15 November 2012

Recommendation

It is recommended that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12(A) of the Act, as amended by the Local Authorities (Executive Arrangements) (Access to Information) (Amendments) (England) Regulations 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information:-

8. Closed Minutes
9. Decision on Hedge Fund mandate following the termination of the Fauchier Partners Jubilee Fund
10. Update – Pension Fund Transition

By virtue of paragraph(s) 3, 4, 5 of Part 1 of Schedule 12A of the Local Government Act 1972.

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of the Local Government Act 1972.

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