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LONDON BOROUGH OF LEWISHAM PENSION FUND

2012/13 ANNUAL REPORT

CONTENTS

FOREWORD

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 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 results of the 2013 triennial valuation are currently being evaluated and the results will be published in the 2013/14 annual report.

All pension funds have been subject to considerable financial pressures with regard to rising longevity and falling investment returns over the years, however, the Fund performed well over the last quarter of the year. This has mainly been attributable to the rise in the value of equities.

During the year, the review of public sector pension schemes has continued following the report 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 OF THE PENSIONS INVESTMENT COMMITTEE

2012/13 was another challenging year for the global economy with continuing uncertainty about the strength of the economy and volatility in financial markets. The Committee ensured that the Fund was managed effectively by keeping under review the performance of our individual investment managers and the overall structure of the fund.

The year saw the successful transition of the Fund from being actively managed to being passively managed, and the withdrawal of our investment in the hedge fund of funds, and resulting in a decrease in the number of investment managers from eight to six. This has left us with a less complex structure which, we anticipate, will lead to greater efficiencies.

The value of the Fund increased by approximately £90m during the year, with the majority of the increase occurring during the last quarter, and being directly related to a rise in the value of equities.

Keeping up to date with legislative and regulatory developments has required the on-going attention of the committee. The coming year will be a year of preparation for changes in the LGPS structure and governance arrangements. April 2014 will see in the new Pensions Scheme Act, and the LGPS will come under the regulation of the Pensions Regulator for the first time.

The Committee will continue to work effectively to ensure the Fund is best managed to the benefit of all its members.

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

Councillor Dan Whittle
Chair
Pensions Investment Committee

1. INTRODUCTION

OVERVIEW OF THE SCHEME

The London Borough of Lewisham Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is set up under the Superannuation Act 1972, which requires the Council to maintain a Pension Fund for its own employees and employees admitted to the Fund under an admission agreement.

The Fund's objectives are to provide a pool of assets sufficient to meet the long-term pension and other benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations) for its members. The investment objectives are to ensure the Fund has sufficient assets to pay pensions and other benefits by maximising investment returns over the long term within acceptable risk tolerances.

MANAGEMENT

The Council has delegated the investment arrangements of the scheme to the Pensions Investment Committee (PIC). This Committee decides on the investment policy most suitable to meet the liabilities of the fund and the ultimate responsibility for the investment policy lies with it. It comprises eight elected representatives of the Council, 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 investment adviser.

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 (AS AT 31ST MARCH 2013)

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

Administering Authority	**The London Borough of Lewisham**
Pensions Investment Committee Members	**Cllr Whittle (Chair)**
	Cllr Maslin (Vice Chair)
	Cllr Best
	Cllr Fletcher
	Cllr Muldoon

	Cllr Ingleby
	Cllr Peake
	Cllr Stamirowski
Permitted Observers	Mr Stephen Whitlettt Unison Unite Representative (Vacant) Pensioner's Rep (Vacant) Admitted Body Rep (Vacant)
Administrator	Executive Director for Resources & Regeneration - Janet Senior
Adviser	Hymans Robertson LLP
Actuary	Hymans Robertson LLP
Custodian Bank	The Northern Trust Company
Solicitors	LB Lewisham Legal Services
Bankers	The Co-Operative Bank
Performance Measurement	WM Company and The Northern Trust Company
Commission Recapture Agent	Lynch, Jones & Ryan, Inc
Investment Managers	Blackrock (Mixed Passive) Harbourvest (Private Equity) Investec (Commodities) M & G (Company Finance) Schroder (Property) UBS (Mixed Passive)
AVC Providers	Equitable Life and Clerical Medical
Auditors	Grant Thornton UK LLP

2. INVESTMENT POLICY AND PERFORMANCE

STRATEGY

The investment objective is to ensure that the Fund's investments maximise the likelihood that benefits will be paid to members as they fall due by maximising investment returns over the long term within acceptable risk tolerances.

In November 2010, the Pensions Investment Committee (PIC) carried out a review of the investment strategy. A decision to restructure the Fund's strategic asset allocation was made in February 2011 after the continuous unsatisfactory performance of the Fund's active investment managers. After considering advice given by the Fund's investment adviser Hymans Robertson, the Committee decided that the fund should move from active management to passive management. Two managers were appointed to manage the passive multi asset mandate, namely BlackRock and UBS. The Fund's transition from active to passive management was completed at the end of November 2012.

The committee also decided to disinvest in the hedge fund of funds managed by Fauchier. This was also due to the poor performance of the fund over the years. The termination of the hedge fund of funds investment was completed in July 2012.

The Fund's structure has now changed from 8 Managers with 9 mandates to 6 managers with 5 mandates and the expected outcomes from such a move are simplified governance, better performance and lower management costs.

An appropriate strategy for reinvesting the ex-hedge fund funds is currently being developed, this explains the high level of cash held by the Fund at the end of the year.

STRATEGIC ASSET ALLOCATION AS AT 31 MARCH 2013

Mandate	Target Allocation	Actual Allocation
Passive Equities and Bonds	78.0%	78.0%
Property	10.0%	8.0%
Venture Capital	3.0%	4.3%
Credit	3.0%	1.6%
Commodities	5.0%	4.4%
Cash	<1.0%	3.5%
Undetermined		
Total	**100%**	**100%**

The differing short term performances of asset classes and managers inevitably results in the actual asset allocations deviating from their strategic targets. Periodically, the Fund undertakes a re-balancing exercise to return to the strategic benchmark.
The last rebalancing exercise was undertaken in 2010, however it is considered impractical for the fund to undertake such an exercise so soon after a major transition period. It is therefore anticipated that the next rebalancing exercise will be undertaken next year.

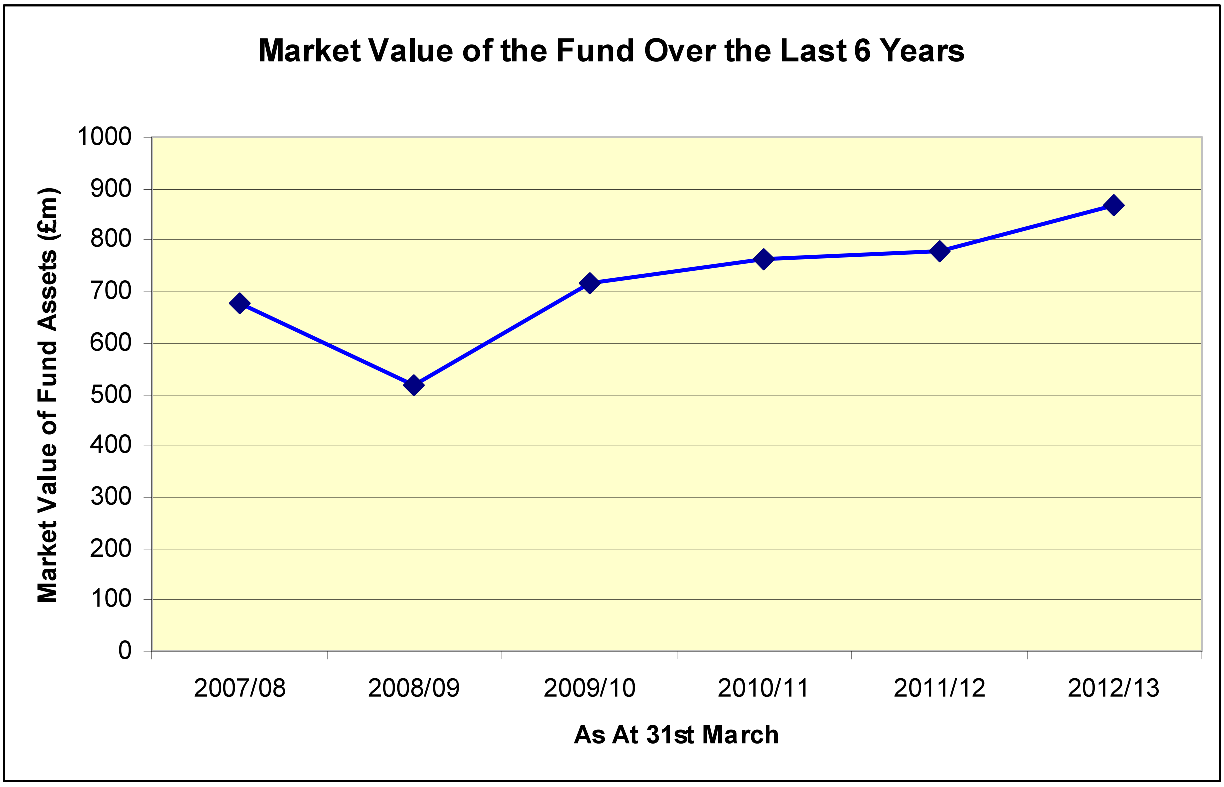
PERFORMANCE

VALUE OF ASSETS UNDER MANAGEMENT

The value of assets under management (AUM) by asset class and fund manager is shown in the table below which highlights the effect of the transition on the structure of the Fund as at 31 March 2013:

Fund Manager	Assets	Assets Value 2012/13 £000	Assets Value 2011/12 £000	Proportion of the Fund 2012/13
Alliance Bernstein	Global Equities	0	165,816	0%
RCM	Global Equities incl. UK	0	171,254	0%
Fauchier	Hedge Fund of Funds	0	21,077	0%
UBS	UK Tracker fund	0	128,474	0%
UBS	Bonds	0	138,140	0%
UBS	Passive Equity and Bonds	340,486	0	39.2%
Blackrock	Passive Equity and Bonds	338,769	0	39.0%
Schroders Property	Property	69,598	68,846	8.0%
HarbourVest (*Incl Legacy Stock)	Private Equity	37,515	33,163	4.3%
Investec	Commodities	37,889	37,587	4.4%
M&G	Credit	13,411	11,089	1.6%
Unallocated Funds	Cash	29,924	0	3.5%
Total Fund		**£867,592**	**£777,464**	**100%**

The graph below depicts the progress of the Fund's assets over the last 6 years as at the 31st March in each year. The graph shows that, with the exception of a dip in 2008/9, the value of the fund has been increasing over the years.

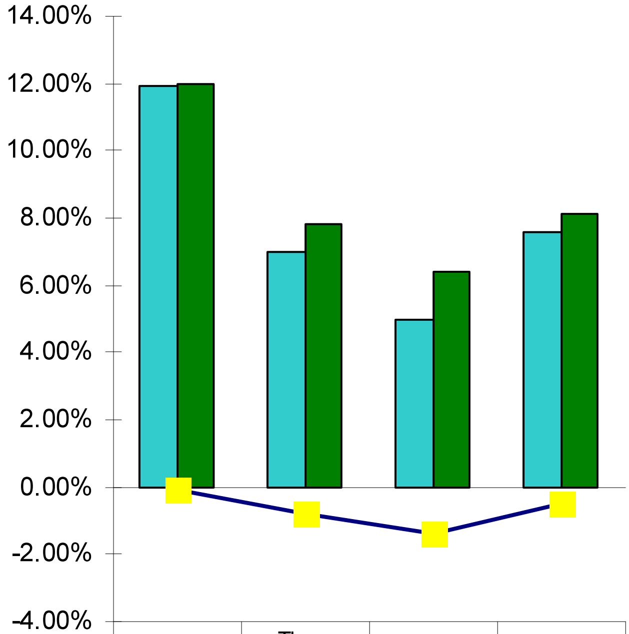


The Pension Fund's top equity and unit trust holdings are listed in Appendix B - Pension Fund Accounts under section 5 Investment Analysis.

The value of the Fund's total assets increased by just over £90m (11.6%) during the year. Most of this increase (approximately £70m) occurred during the last quarter i.e. January 2013 to March 2013 and was mainly due to the equity markets performing strongly over this period.

The annualised return of the Fund's investments over the last 12 months was 11.9%, which was 0.1% below the benchmark return. Since inception, the Fund's investments absolute return is 7.6%, which is 0.5% below the benchmark return of 8.1% as depicted below:

Agregate Fund: Comparative Performance



	One year	Three Years	Five years	Inception
Fund Performance	11.90%	7.00%	4.96%	7.60%
Benchmark	12.00%	7.80%	6.37%	8.10%
Relative Performance	-0.10%	-0.80%	-1.41%	-0.50%

This chart shows that the fund has consistently underperformed its benchmark over the years. A major contributing factor to this is the underperformance of some investment managers, which triggered the restructuring of the fund carried out during the year.

Northern Trust, the Fund's custodian, produces monthly performance reports, and Hymans Robertson, the Fund's advisor, prepares quarterly performance reports which are presented to PIC at every meeting. WM company also produce quarterly performance benchmarking reports which set the Fund's position against A WM Local Authority Universe.

Individual managers' performance is assessed against customised benchmarks. The performance of each manager against the composite benchmark over the period of time since inception is as set out in the table below:

Manager	Mandate	Performance Target	Performance Relative to Benchmark - Excess/ (Under) 1yr	3yr	Since Inception
RCM to 31 Oct 2012	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.	5.70%	0.90%	(1.0%)
Alliance Bernstein - to 31 October 2012	Global Equities incl. UK	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.	-1.80%	-3.30%	-2.30%
UBS (Passive Equity) to 31 Oct 2012	UK Equity (Index)	Index tracker fund the performance will correspond to the average return.	0%	0%	0.10%
UBS (Bonds) to 31 Oct 2012	Fixed Interest	To outperform a composite of various bond indicies by 1.1% over a rolling three year periods net of fees.	1.10%	1.20%	1.30%
Fauchier – to 30 June 2012	Hedge Fund	To outperform UK Base Rates by 5% over a five year rolling period.	-5.50%	-5.20%	-6.00%
UBS (wef Nov 2012)	Mixed Passive Mandate	Index tracker fund the performance will correspond to the average return.	N/A	N/A	(0.1%)
BlackRock (wef Nov 2012)	Mixed Passive Mandate	Index tracker fund the performance will correspond to the average return.	N/A	N/A	(0.20%)
Harbourvest	Private Equity	To outperform the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) index by 5% over a five year rolling period net of fees.	1.9%	(0.5%)	0.5%
Schroder	Property	To outperform the Investment Property database (IPD) by 0.75% per annum over a three year rolling period net of fees.	(0.4%)	(1.6%)	(0.8%)
Investec	Commodities	Dow Jones Commodities Index +1%	1.9%	(0.5%)	0.50%
M & G	Credit	One Month London Inter-Bank Offer rate (LIBOR)+ 1%	5.30%	N/A	2.50%

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

RISK MANAGEMENT

Risk Management and Governance

The legal responsibility for the prudent and effective stewardship of the Fund's assets rests with the Pensions Investment Committee. This Committee has full delegated authority to make investment decisions, the terms of which are set out in its terms of reference. It receives advice from the Executive Director for Resources and Regeneration and as necessary from the Fund's appointed actuary, investment managers, custodian and investment adviser.
The Committee has regard for the Myners' Principles, as updated and consolidated post 2008 by the Government. The committee manages the pension fund's assets in accordance with LGPS regulations.

Key Risks

The key risks affecting the pension fund are summarised as follows:

1. Strategic risk relating to the investment strategy including asset allocation:

This is managed by appointing a number of investment managers to secure a wide diversification of investments and appointing a qualified investment adviser to provide relevant and timely information and advice to aide PIC's strategy development and decision making process.

2. Investment risk (including market risk, interest rate risk and currency risk):

The management of these risks is detailed in the Pension Fund Accounts, Appendix B below.

3. Performance risk relating to the performance of the investment managers appointed to manage the funds assets:

Asset allocation benchmarks are used and performance is monitored relative to set targets.

Performance measurement is carried out monthly by Northern Trust and quarterly by Hymans Robertson. These are reported to PIC at every meeting. WM company also carries out an annual performance review and presents this to PIC with their findings.

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 compensations).

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

		2012/13		2011/12		2010/11	
	Target Days	No. of cases	Achievement of target	No. of cases	Achievement of target	No. of cases	Achievement of target
New Scheme Members	20	747	71%	546	70%	660	88.8%
Estimate of Benefits	10	753	91%	1055	88%	1594	91.2%
Responding to correspondence	10	621	88%	557	95%	493	97.8%
Preserved Benefits	15	478	82%	263	85%	463	69.5%
Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme	10	181	98%	225	91%	286	90.6%
Retirements	10	274	94%	441	93%	295	98.6%
Death cases	5	227	97%	217	96%	225	97.8%
Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme	10	92	100%	157	76%	120	88%
Additional contributions	10	25	92%	20	95%	18	100%
Refunds of contributions	10	11	100%	4	100%	6	100%
Overall Performance		**3309**	**89%**	**3485**	**87%**	**4160**	**78.2%**

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
Children's Society
Pre-School Learning Alliance
Chequers Contract Services

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:

	Active Members 2012/13	*Active Members 2011/12*	Deferred Benefits 2012/13	*Deferred Benefits 2011/12*	Retired Former Members 2012/13	*Retired Former Members 2011/12*
Administering Authority	5,322	*5,035*	7,284	*6,958*	6,530	*6,448*
Scheduled Bodies	655	*666*	303	*243*	127	*106*
Admitted Bodies	180	*162*	92	*66*	43	*39*
Totals	**6,157**	***5,863***	**7,679**	***7,267***	**6,700**	***6,593***

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. This will be published in the 2014/15 annual report.

Appendix A is the Executive Summary of the Actuarial Statement for 2012/13 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 managers
- 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 and annual report 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 2012/13. Each Councillor has one vote with the Chair having the casting vote.

	12 Jun 2012	3 Sep 2012 Meeting Cancelled	15 Nov 2012	21 Feb 2013
Cllr. Allison	Apologies	-	Apologies	✓
Cllr. Best	✓	-	Apologies	Apologies
Cllr. Fletcher	✓	-	✓	✓
Cllr. Maslin (Vice-Chair)	✓	-	✓	Apologies
Cllr. Muldoon	✓	-	✓	✓
Cllr. Pattison (till Sep 12)	✓	-	-	-
Cllr. Whittle (Chair)	N/A	-	✓	✓
Cllr. Wise	Apologies	-	✓	Apologies
Cllr. Ingleby (wef Feb 13)	-	-	-	✓

Member Training

Members attended a Pension Committee training day in February 2013, which was conducted by Hymans Robertson for all London Boroughs. The training looked at the LGPS background, governance framework, role of the actuary and investment consultant, actuarial methods standards and practices, pension fund accounting and audit standards, financial matters, investment strategy, financial markets and product knowledge, and governance and reform.

The new investment manager Blackrock also conducted a training session for PIC members in March 2013, which focused on why the fund might invest in certain assets, alternatives, and corporate governance.

Members also paid a visit to M&G in March to talk about the fund, its past and current performance and future prospects.

6. 2012/13 ACCOUNTS

The Fund's accounts, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, were adopted by Council on 19th September 2013 and have been audited by the Council's external auditors Grant Thornton. 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 in line with the triennial valuation, and the next full review is due to be completed during 2013, with the results published in the 2014/15 annual report.

The current 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 6th 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 since the 2010 valuation 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

Children's Society		26.5%	Commenced July 2012
Chequers (John Bull) (Lee Manor)		 26.2% 25.9%	Commenced June 2012
Pre-School Learning Alliance		25.7%	Commenced July 2012

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 July 2013 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

London Borough of Lewisham Pension Fund ("the Fund") Actuarial Statement for 2012/13

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 2012/13.

Description of funding policy

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

- 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 rate as possible; and
- to take a prudent longer-term view of funding those liabilities.

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.

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 the 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%	-

* Plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

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

* Future pensioners assumed to be age 45 at the valuation data.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from 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 again at that time.

Peter Summers
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
3 May 2013

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Appendix B
Pension Fund Accounts

PENSION

FUND

ACCOUNTS

2012/13

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Lewisham for the year ended 31 March 2013 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 2012/13.

This report is made solely to the members of 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of 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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

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

Opinion on other matters

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

Matters on which we report by exception

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

Opinion on pension fund financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

S. M. Exton

Susan M Exton
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

27 September 2013

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2012/13.

The Pension Fund's value rose over the year by approximately £90m which is mainly due to an increase in stock valuation during the year.

The Fund underwent a major transition this year in moving from active management to passive management, with 78% of the fund being transitioned. This resulted in a change of some investment managers. RCM, Alliance Bernstein and UBS (active) were replaced by Blackrock and UBS (passive). The Fund also disinvested from the hedge fund of funds held with Fauchier Partners. The Pensions Investment Committee decided on this change in strategy due to the unsatisfactory performance of these managers. All resulting effects have been accounted for in these 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 pension scheme administered by the London Borough of Lewisham to provide benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

ORGANISATION

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance 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:

http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/finances/Pages/Pension-fund.aspx

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of the obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in paragraph (m) 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 two 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 2012/13 Local Authority Code of Practice and the IAS 26 Retirement Benefit Plans. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.

(c) The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on 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. Due to timing differences in the valuation of this private equity investment, the value carried in the accounts as at 31st March 2013 is the actual fair value as at 31st December 2012 plus an estimated valuation for the period 1st January 2013 to 31st March 2013.

(e) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure 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.

(f) The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31st March 2013 is the actual fair value as at 31st December 2012, plus an estimated valuation for the period 1st January 2013 to 31st March 2013.

(g) 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, which may include broker estimates or valuation modelling techniques.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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 £1,353 million as at 31st March 2013 (£1,158 million 31st March 2012).

(n) 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.

(o) 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.

(p) 2012/13 Financial Year Summary of the Fund's Market Value

Fund Manager	**Assets**	**Assets Value 2012/13 £000**	**Assets Value 2011/12 £000**	**Proportion of the Fund 2012/13 (%)**
UBS	Bonds	0	138,140	0%
Alliance Bernstein	Global Equities	0	165,816	0%
RCM	Global Equities incl.UK	0	171,254	0%
Schroders Property	Property	69,598	68,846	8%
HarbourVest (*Incl Legacy Stock)	Private Equity	37,515	33,163	4%
UBS	UK Tracker fund	0	128,474	0%
UBS	Passive Equity and Bonds	340,486	0	39%
Fauchier	Hedge Fund of Funds	0	21,077	0%
Blackrock	Passive Equity and Bonds	338,769	0	39%
Investec	Commodities	37,889	37,587	4%
M&G	Credit	13,411	11,089	2%
Securities Lending	Securities Lending	88	8	0%
Unallocated Funds	Cash	29,836	0	3%
Lewisham	Cash and Net Current Assets	-43	2,010	0%
Total Fund		**£867,549**	**£777,464**	**100%**

FUND ACCOUNT FOR THE YEAR

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

2011/12 £'000s	FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2013	2012/13 £000s	Note
	DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME		
	Contributions Receivable:		
26,992	- from Employer	26,934	1
8,979	- from Employees	8,612	1
1,951	- Reimbursement for Early Retirement	308	
2,896	Transfer Values In	3,083	7
8	Other Income	10	
40,826	**Sub-Total: Income**	**38,948**	
	Benefits Payable:		
30,038	- Pensions	32,101	2
8,826	- Lump Sums: Retirement allowances	6,169	
1,170	- Lump Sums: Death grants	1,249	
	Payments to and on account of leavers:		
1	- Refunds of Contributions	1	
6,059	- Transfer Values Out	2,376	7
1,002	Administrative and other expenses borne by the scheme	752	3
47,096	**Sub-Total: Expenses**	**42,648**	
(6,270)	**Total Net additions (withdrawals) from Dealings with Scheme Members**	**(3,700)**	

	RETURNS ON INVESTMENTS		
10,667	Investment Income	10,981	4
13,855	Change in market value of investments (Realised and Unrealised)	85,404	5
	Investment Expenses:		
(3,045)	- Investment Management Fees	(2,162)	6
(537)	- Tax on Dividends	(438)	
20,940	**Total Net Returns on Investments**	**93,785**	
14,670	**NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD**	**90,085**	
762,794	OPENING NET ASSETS OF THE SCHEME	777,464	
777,464	**CLOSING NET ASSETS OF THE SCHEME**	**867,549**	

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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 2013.

31st March 2012 £'000s	NET ASSETS STATEMENT AT 31 MARCH 2013	31st March 2013 £000s	Note
	EQUITIES		5
43,745	Equities: UK	5,861	
269,466	Equities: Global	11,499	
313,211		17,360	
	MANAGED FUNDS		5
66,993	Property	68,794	
151,513	Equity	510,346	
88,581	Fixed Interest	130,160	
49,552	Index Linked	26,496	
98,435	Other Assets	80,290	
455,074		816,086	
6,196	**CASH DEPOSITS**	33,502	11
	DERIVATIVE CONTRACTS		9
4	Assets	0	
(21)	Liabilities	0	
	OTHER INVESTMENT BALANCES		10
2,164	Debtors: Investment Transactions	3,771	
(1,174)	Creditors: Investment Transactions	(3,127)	
775,454	**TOTAL INVESTMENTS**	**867,592**	
	NET CURRENT ASSETS AND LIABILITIES		
765	Debtors	590	10
(2,273)	Creditors	(1,777)	10
3,518	Cash in Hand	1,144	11
777,464	**TOTAL NET ASSETS**	**867,549**	

The financial statements of the fund do not take account of the liability to pay pensions or benefits after 31st March 2013 (please refer to note (m) above. This liability is included within the Authority’s balance sheet.

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

Employer Contributions	**2012/13 £000s**	**2011/12 £000s**
Administering Body - LB Lewisham: Normal	22,313	22,752
Admitted Bodies: Normal	1,026	974
Scheduled Bodies: Normal	3,595	3,266
	26,934	**26,992**

Employee Contributions	**2012/13 £000s**	**2011/12 £000s**
Administering Body - LB Lewisham	7,102	7,449
Admitted Bodies	328	325
Scheduled Bodies	1,182	1,205
	8,612	**8,979**

2. BENEFITS PAYABLE	**2012/13 £000s**	**2011/12 £000s**
Administering Body - LB Lewisham	19,010	17,907
Admitted Bodies	224	192
Scheduled Bodies	946	730
Dependants' Pensions	1,259	1,226
Pensions Increases	10,662	9,983
	32,101	**30,038**

3. ADMINISTRATION COSTS	**2012/13 £000s**	**2011/12 £000s**
Lewisham Administration	623	547
Administrative Costs Incl. Audit Fees*	124	**452
Bank Charges	5	3
	752	**1,002**

*These costs include a net figure of £21k paid to Grant Thornton for external audit services in 2012/13.
In 2011/12 £32.2k was paid to the Audit Commission for the same service.
**These costs include custodian and advisory fees in 2011/12

4. INVESTMENT INCOME

	2012/13 £000s	2011/12 £000s
Cash	140	212
Equity	6,003	7,846
Fixed Interest	1,945	0
Index Linked	177	0
Managed Funds Incl. Property	2,626	2,467
Securities Lending	89	141
Other*	1	1
	10,981	**10,667**

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

5. INVESTMENT ANALYSIS

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

Asset	Manager	2012/13 Value £000	2012/13 %
UBS GBL Asset Life North America Equity Tracker	UBS	97,683	11.2
Aquila Life US Equity Index Fund	Blackrock	97,671	11.2
Aquila Life UK Equity Index Fund	Blackrock	69,230	8.0
UBS Global Life UK Equity Tracker Fund	UBS	68,500	7.9

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

Asset	Manager	2012/13 Value £000	2012/13 %
UK Equities			
Harbourvest GE PE Shares	Harbourvest	5,861	100
Global Equities			
Commonwealth Bank of Australia	UBS	673	5.9
BHP Billiton Ltd	UBS	652	5.7
Westpaac BKG Corp	UBS	588	5.1
Property			
Standard Life Pooled property Fund	Schroder	8,271	12.0
Schroder Uk Prop.	Schroder	8,018	11.7
Real Continental European Fund	Schroder	6,183	9.0
Hermes Property UT	Schroder	5,944	8.6
Legal and General Property Fund	Schroder	5,927	8.6
Rockspring Hanover Property Unit Trust	Schroder	5,134	7.5

Blackrock UK Fund	Schroder	6,439	9.4
Real Income Fund	Schroder	4,407	6.4
Hercules Unit Property	Schroder	3,755	5.5
Managed Equities			
Global AM Life Equity Tracker	UBS	29,243	5.7
UBS Global Life North America	UBS	97,683	19.1
Aquila Life European Equity Index Fund	Blackrock	31,791	6.2
UBS Global Life UK Equity Tracker Fund	UBS	68,500	13.4
Blackrock AM EM IDX Fund	Blackrock	25,046	4.9
Aquila Life US Equity Index Fund	Blackrock	97,671	19.0
Aquila Life UK Equity Index Fund	Blackrock	69,230	13.6
Fixed Interest			
UBS Global Asset Management Corporate Bond Fund	UBS	25,647	19.7
Blackrock Am Uk Corporate Bond Index	Blackrock	26,188	20.1
Aquila Life over 5 yrs Index Fund	Blackrock	27,119	20.8
Barclays Global Aquila Life	Blackrock	26,441	20.3
Others			
Global Commodities and Resources	Investec	37,889	47.2
Cayman Partnership Fund	Harbourvest	12,593	15.7
UK Companies Financing Fund	M&G	12,835	16.0
Cayman Buyout Fund	Harbourvest	8,576	10.7
Cayman Venture Fund	Harbourvest	5,199	6.5

An analysis of investment movements is set out below:

5. INVESTMENT ANALYSIS Investments	Value at 31/03/2012 £000s	Purchases at Cost £000s	Sales Proceeds £000s	Change in Capital Value £000s	Change in Market Value £000s	Value at 31/03/2013 £000s
UK Equities	43,745	12,272	(47,285)	13	(2,884)	5,861
Global Equities	269,466	234,024	(224,112)	(1,127)	(266,752)	11,499
Managed Equities	151,513	51,554	(33,429)	0	340,708	510,346
Property	66,993	8,388	(5,390)	0	(1,197)	68,794
Fixed Interest Securities	88,581	83,801	(76,709)	0	34,487	130,160
Index Linked Securities	49,552	5,271	(7,195)	0	(21,132)	26,496
Other*	98,435	4,597	(24,899)	0	2,157	80,290
Derivatives	(17)	0	0	0	17	0
	768,268	**399,907**	**(419,019)**	**(1,114)**	**85,404****	**833,446**
Cash deposits	6,196					33,502
Other Investment Balances	990					644
	775,454					**867,592**

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

** Due to the timing of the final valuation of Private Equity and the Financing Fund, adjustments were made to the valuations in the 2011/12 accounts based on information received during June 2013. The effect of these adjustments have been reversed this year through the change in market value as the true valuation has now been reflected in these accounts. The total of these adjustments is £2.191m.

The Pension Fund's bond investments are held with UBS and Blackrock in the form of pooled funds. The fund denoted Index Linked above is comprised wholly of UK Government index linked gilts. The 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 and bonds, the only other overseas investments held by the Fund fall under the 'Others' category and are namely Private Equity £31.7m and Commodities £37.88m.

The fund held the following unlisted securities as at 31st March 2013: Equities (including managed equities) £341m, Index Linked Securities £176m and Other Assets £87m.

The fund held the following listed securities as at 31st March 2013: Equities (including managed equities) £127m, Fixed Interest Securities £26m and Index Linked Securities £10m.

As at 31st March 2012:

5. INVESTMENT ANALYSIS **Investments**	**Value at 31/03/2011** **£000s**	**Purchases at Cost** **£000s**	**Sales Proceeds** **£000s**	**Change in Capital Value** **£000s**	**Change in Market Value** **£000s**	**Value at 31/03/2012** **£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

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.

31st March 2012			Financial Assets	31st March 2013		
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**
313,211			Equities	17,360		
			Managed Funds:			
66,993			Property	68,794		
151,513			Equity	510,346		
88,581			Fixed Interest	130,160		
49,552			Index Linked	26,496		
98,435			Other Assets	80,290		
4			Derivative contracts	0		
	6,196		Cash deposits		33,502	
	1,680		Pending Trades		2,670	
	484		Dividends &		1,153	
	765		Contributions Due		538	
	3,518		Cash Balances		1,144	
768,289	12,643		Total Financial Assets	833,446	39,007	
			Financial Liabilities			
(21)			Derivative Contracts	0		
		(1,174)	Pending Trades			(3,127)
		(290)	Unpaid benefits			(584)
		(1,983)	Other current Liabilities			(1,193)
(21)	0	(3,447)	Total Financial Liabilities	0	0	(4,904)
768,268	**12,643**	**(3,447)**	**Net Financial Assets**	**833,446**	**39,007**	**(4,904)**

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

31 March 2012		31 March 2013
£'000	**Financial Assets**	£'000
13,263	Fair Value through Profit and Loss	85,404
0	Loans and Receivables	
	Financial Liabilities	

(21)	Fair Value through Profit and Loss	0
13,242	**Total**	**85,404**

The fund also received bank interest totalling £8,050 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 2013	**Quoted Market Price Level 1 £'000**	**Using Observable Inputs Level 2 £'000**	**With Significant Unobservable Inputs Level 3 £'000**	**Total £'000**
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	17,360	786,519	29,567	833,446
Loans and Receivables	39,007			39,007
Total Financial Assets	**56,367**	**786,519**	**29,567**	**872,453**
Financial Liabilities				
Fair Value through Profit and Loss	0			0
Financial Liabilities at Amortised Cost	(4,904)			(4,904)
Total Financial Liabilities	**(4,904)**	**0**	**0**	**(4,904)**
Net Financial Assets	**51,463**	**786,519**	**29,567**	**867,549**

Values as at 31st March 2012	Quoted Market Price Level 1 £'000	Using Observable Inputs Level 2 £'000	With Significant Unobservable Inputs Level 3 £'000	Total £'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

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.

Due to the performance of some managers, the Lewisham Pension Investment Committee (PIC) decided to move the fund towards a more passive rather than active management. This has been reflected in this statement of accounts.
The Committee has determined that the new investment management structure is appropriate and is in accordance with its revised investment strategy. The Committee, however, regularly monitors each investment manager, and its investment consultant (Hymans Robertson) advises on the nature of the investments made and associated risks.

The Fund's investments are 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	13.3
Overseas Equities	13.2
UK Bonds	6.5
Index Linked	8.6

Cash	0.0
Other Assets	6.5
Property	1.9

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	302,959	13.3	343,253	262,665
Overseas Equities	224,747	13.2	254,414	195,080
UK Bonds	130,160	6.5	138,620	121,700
Index Linked	26,496	8.6	28,775	24,217
Cash	33,502	0.0	33,502	33,502
Other Assets	80,290	6.5	85,509	75,071
Property	68,794	1.9	70,101	67,487
Total Assets*	**866,948**	**10.0**	**954,174**	**779,722**

* 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 2013, 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 6.2%. This represents the aggregate currency exposure in the fund as at the end of March 2013 and is calculated by multiplying the weight of each currency by the change in its exchange rate (relative to GBP). This volatility is applied to the fund's overseas assets as follows:

Asset Type	Asset Value @ 31/12/12 £'000	+6.2% £'000	-6.2% £'000
Overseas Equities	224,747	238,681	210,813
Other Assets	51,835	55,049	48,621
Other Alternatives	67,456	71,638	63,274
Total	**344,038**	**365,368**	**322,708**

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 Fund is also exposed to credit risk through Securities Lending. The Securities Lending (SL) 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. The Fund's exposure through the securities Lending programme is now reduced as the fund is now passively managed and SL activity has greatly reduced. 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 it has adequate cash resources to meet its commitments. The fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2013 these assets totalled approximately £684m, with a further £33.5m held in cash by the custodian on behalf of the Fund and fund managers.

6. INVESTMENT MANAGEMENT FEES	**2012/13 £'000s**	**2011/12 £'000s**
Fund Managers' Fees	1,872	3,045
Custodian Fees*	227	0**
Advisory Costs	63	0**
	2,162	**3,045**

*These fees include the cost of transition management
**These costs were classed as administration costs in 2011/12 (see note 3)

7. Transfer Values In and Out

There were no group transfers this year, all transfers were on an individual basis.

8. PRIOR YEAR ADJUSTMENT

No prior year adjustments have been made to these accounts.

9. DERIVATIVE CONTRACTS

As at 31 March 2013, 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	**31st March 2013**		**31st March 2012**
Total Gains	0		4
Foreign Exchange Losses			
Total Losses	0		(21)
Total Unrealised Gains/(Losses)	0		(17)

10. DEBTORS AND CREDITORS

These comprise the following amounts:

Debtors	**2012/13 £000s**	**2011/12 £000s**
Contributions due from Admitted / Scheduled Bodies	538	765
Equity Dividends / Income from Managed Funds	711	484
Interest and Other Income	390	0
VAT	52	0
Pending Trades	2,670	1,680
Total	**4,361**	**2,929**

Creditors	**2012/13 £000s**	**2011/12 £000s**
Fund Manager and Custody Fees	(171)	(516)
Consultancy / Advisory Fees (Inc Audit Fee)	(94)	(27)
Pension Payments Due to Employees	(586)	(289)
Taxes Due	0	0

Pending Trades	(3,127)	(1,174)
LB Lewisham	(926)	(1,441)
Total	**(4,904)**	**(3,447)**

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.

11. 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. Part of the cash held this year was in relation to the closure of the Hedge Fund of Funds with Fauchier Partners. The total cash held as at 31st March 2013 was £33.5m (£6.19m as at 31st March 2012). Approximately £20m of the cash held was from the closure of the Fauchier Partners investment during the year. Suitable reinvestment of these funds is currently being considered. £7m of the cash is being held to meet the ongoing cashflow requirements of the fund, and £4m is the residual cash from the transition.

Cash in Hand

The Lewisham cash balance of £1,144k represents uninvested cash held in the Pension Fund bank account as at 31st March 2013, and includes a figure of £926K to be paid by the Fund to the Council for items described in note 14a below.

12. TRANSACTION COSTS

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

	2012/13 £000s	**2011/12 £000s**
Total Purchases	261	199
Total Sales	148	144
Total transactions	**409**	**343**

13. POST YEAR END EVENTS

There have been no events since March 2013, and up to the date when these accounts were prepared, that require any adjustment to these accounts.

14. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31st March 2013.

Harbourvest

Fund	Amount	Translated £
Harbourvest Partners VIII – Cayman Venture Fund L.P	$1,852,500	1,224,317
Harbourvest Partners VIII – Cayman Buyout Fund L.P	$4,995,000	3,301,195
Harbourvest International Private Equity Partners V – Cayman Partnership Fund L.P	€2,362,500	1,991,115
Harbourvest International Private Equity Partners V – Cayman Direct Fund L.P	€180,000	151,704
Total		**6,668,331**

(The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31st March 2013). Total Harbourvest commitments as at 31st March 2012 were £8,909,007.

15. 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. Four 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 the following declarations were made:

Cllr Maslin declared an interest in UBS. He is a Director of Hales Gallery of which UBS is an occasional customer. Cllr Maslin has not taken part in any of the decisions taken during the year involving UBS.
Councillor Muldoon declared a personal interest in the February 2013 meeting, as a friend of Sir Paul Judge, the Chair of Schroder Income Growth Fund plc.

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 dealings with the Fund as follows:

Recharges from the Council for the in-house administration costs and other expenses, such as interest payable on balances, borne by the scheme were transacted for £623k (see note 3). (Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time and vice versa.)

The salary of the Executive Director for Resources and Regeneration, who is the Lead Pension Fund Officer, has been disclosed in the Council's full set of accounts.

16. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make additional voluntary contributions (AVCs) to enhance their pension. There are currently 48 '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.

2012/13	**Total £000s**	**Equitable £000s**	**Clerical Medical £000s**
Value at 1 April 2012	1,519	535	984
Contributions and Transfers Received	208	9	199
Investment Return	105	20	85
Paid Out	(339)	(37)	(302)
Value at 31 March 2013	**1,493**	**527**	**966**

2011/12	**Total £000s**	**Equitable £000s**	**Clerical Medical £000s**
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**

17. SCHEDULED BODIES

The following are scheduled bodies to the fund as at 31st March 2013:

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

18. ADMITTED BODIES

The following are admitted bodies to the fund as at 31st March 2013:

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
Children's Society
Pre-School Learning Alliance
Chequers Contract Services

19. 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.

There was a large reduction in stock lending activity towards the end of the year due to the fund restructure and move to passive investments, as the fund is unable to lend units in pooled funds.

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As at the 31st March 2013, the value of aggregate stock on loan was £0.98m (£25.5m as at 31st March 2012). 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 £89k net of direct expenses (£0.10m as at 31st March 2012). The value of collateral held was £1.064m (£27.2m as at 31st March 2012).

20. MEMBERSHIP

	Active Members 2012/13	***Active Members 2011/12***	**Deferred Benefits 2012/13**	***Deferred Benefits 2011/12***	**Retired Former Members 2012/13**	***Retired Former Members 2011/12***
Admin. Authority	5,322	5,035	7,284	6,958	6,530	*6,448*
Scheduled Bodies	655	666	303	243	127	*106*
Admitted Bodies	180	162	92	66	43	*39*
Totals	**6,157**	**5,863**	**7,679**	**7,267**	**6,700**	***6,593***

21. These accounts were authorised on the 19th September 2013 by the Executive Director for Resources and Regeneration.

Appendix C

Funding Strategy Statement

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 began at the end of March 2013, and the revised statement will be issued in 2014/15.

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:

- 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 in line with triennial valuations being carried out, with the next full review due to be completed by late 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 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."*

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;
- 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 employer[2]. 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.

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.

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[1] See Regulation 77(4)
[2] See Regulation 77(6)

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.

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.

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.

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 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:-

- 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.

As at the time this statement was written the Pension Fund had a strong net cash inflow and could 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, 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.

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.

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 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.

(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.

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.

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.

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	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Asset and liability returns are measured against returns assumed in the valuation on an annual basis.*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Limiting the investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to	*Short term (quarterly) investment monitoring analyses market performance*

benchmark	*and active managers relative to their index benchmark.* *This is supplemented with an analysis of absolute returns against those under-pinning the valuation.*
Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in index-linked bonds also helps to mitigate this risk.* *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.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading and phasing in of contribution rises.*

5.3 Demographic Risks

Risk	**Summary of Control Mechanisms**
Ill health retirements significantly more than anticipated	*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.*
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Sensitivity analysis in triennial valuation calculations helps employers understand the potential impact of life expectancy.*

	Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding. *Administering Authority encourage any 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.*
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*

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	*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.* *The Administering Authority will inform employers where it considers that it is appropriate.* *In all circumstances where it appears that changes may impact on the Fund's solvency the Administrating Authority will consider seeking actuarial advice to mitigate or manage the impact of such changes.*
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.	

5.5 Governance

<table>
<tr><th>Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>Administering Authority unaware of structural changes in an employer’s membership (e.g. large fall in employee members, large number of retirements).</td><td rowspan="2">The Administering Authority monitors membership movements on an annual basis.

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</td></tr>
<tr><td>Administering Authority not advised of an employer closing to new entrants.</td></tr>
<tr><td>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.</td><td>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.</td></tr>
<tr><td>An employer ceasing to exist with insufficient funding or adequacy of a bond.</td><td>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.

The risk is mitigated by:

• Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.
• Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.
• Vetting prospective employers before admission.
• 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.</td></tr>
</table>

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 to 19 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;
- 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

July 2013

Appendix D
Statement of Investment Principles

Contents

Appendices

Appendix D
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 2013 had assets of approximately £867 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 (PIC) at the 14 November 2013 meeting for endorsement.

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.

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

The Committee 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 the Council's lawyers. Its primary responsibilities are to:

- Prepare the Statement of Investment Principles
- Set the objectives of the Fund and determine the strategic asset allocation.
- 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 Committee following written advice from the Executive Director for Resources and Regeneration. The Chair can provisionally agree revisions subject to subsequent ratification by the whole Committee.

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 Committee 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 November 2012.

The responsibilities of the investment managers are to:

- Ensure the investment of the Fund's assets is 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 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.

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 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 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.

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 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 PIC of non-compliance
- Ensuring that this document is regularly reviewed and updated and reflects regulatory requirements.
- Submitting quarterly performance monitoring reports to 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 PIC in order to manage the assets of the Fund in a prudent and efficient manner. If this responsibility is used, 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.

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 12.3% of the assets.

5 Investment Manager Structure and Fund Details

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 60 to 75% of Lewisham's Fund, and in the current structure constitute approximately 61% 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 PIC at its meeting of 13 June 2012, about 78% of the Fund is being 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.

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.

PIC considers most of the 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 will report periodically to 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 PIC and to officers annually, or more frequently as 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 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 commodities managers will also be expected to report annually to PIC and annually to officers. They must also be prepared to answer questions tabled by Members of PIC. Each investment manager is required to present on a more frequent basis, if required.

In addition Lewisham's internal auditors and the external auditors undertake periodic reviews to confirm that the arrangements and procedures established by 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 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 2013/14 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 PIC as part of the manager monitoring process. However, adopting a strategy largely based on passive investment for approximately 70% of the Fund's assets makes the overall exposure to this risk relatively low.

- Concentration Risk

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

- Demographic Risk

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

- Counterparty Risk

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

- Currency Risk

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

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Statement of Investment Principles

Appendix 1: Who's Who

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

Appendix 2: Benchmark Position –Old and New Funds

Asset class	Manager	Benchmark	New Benchmark proportion (%)
Equities:			
Private equity	Harbourvest	MSCI All Country World Developed Index	3.0
	Blackrock (passive)	Composite	30.0
	UBS (passive)	Composite	30.0
Bonds:			
	Blackrock (passive)	Composite	9.0
	UBS (passive)	Composite	9.0
Sub Total			**81.0**
Property	Schroders	IPD Pooled Property Fund Index	10.0
UK Financing Fund	M&G	LIBOR	1.0
Commodities	Investec	Dow Jones-UBS Commodities Total Return Index	5.0
Temporary Cash Holding			3.0
Total			**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 PIC based on advice from officers, and the investment consultant. Specialist investment managers are employed who are responsible for day to day investment decisions.
- In conjunction with the Fund's Independent Investment Advisor, the Council will establish a training and development programme for Members of PIC.
- There is a clear 'Conflicts of interest policy' and Members must make declarations of interest before each meeting of PIC or as matters arise during the course of the Committee business.

Principle 2: Clear Objectives

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

Compliance statement – full compliance

- 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.
- PIC has set a scheme specific benchmark, diversified to ensure that market volatility in the funds value is reduced through holding a proportion of the funds assets in alternative assets such as property, private equity, corporate credit, commodities and bonds.
- Each investment manager has a specific benchmark and target set for it and a time horizon, typically three years, for being measured against their target.

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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

- 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.

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.

Appendix D
Statement of Investment Principles

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

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.
The report should contain 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 PIC, its advisers and investment managers and details of the mandates and fee basis of investment managers.
- 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.

Policy statement

Communications policy statement

London Borough of Lewisham
April 2013

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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 28 employers and approximately 20,500 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 2013.

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

The Pensions Team, 5th Floor Laurence House, 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 Practice[3] issued by the Pensions Regulator in September 2005 sets out suggested

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

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.

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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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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
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.

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.

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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.

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:

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

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.

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
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.

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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.

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

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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:

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

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:

Appendix E
Communications Policy Statement

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:

Appendix E
Communications Policy Statement

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Pension Fund valuation reports • 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.

Appendix E
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

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.