



London Borough Of Lewisham Pension Fund 2013/14 Annual Report

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

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1 FOREWARD BY EXECUTIVE DIRECTOR OF ESOURCES & REGENERATION

- 1.1. Welcome to the 2013-14 Annual Report for the Lewisham Pension Fund. The requirement for and contents of the annual report was introduced under regulation 34 of the Local Government Pension Scheme (Administration) regulations 2008.
- 1.2. The Pension Fund Annual Report details the financial position of the Lewisham Pension Fund and the performance of the professional managers appointed to administer the investment portfolio. It brings together a number of separate reporting strands into one comprehensive document that enables the public and employees to see how the Fund is managed and how it is performing.
- 1.3. The results of the most recent triennial valuation, based on the Fund's position as at 31 March 2013, showed a funding level of 71.4% of its liabilities. This presents a £348m funding gap at the 2013 valuation.
- 1.4. In the first quarter of 2013-14 the value of the Fund decreased. However, three consecutive quarters of increase followed. Over the year the total fund value increased by 4%. The return on the assets was slightly below benchmark.
- 1.5. This was the first full year of the Fund's passive mandate. The performance of the Fund's passive equities and bonds have been in-line with benchmark expectations.
- 1.6. In quarter two, the Fund invested an additional £25 million equally into the Blackrock and UBS passive multi-asset mandates. This was funded by cash from the Fauchier disinvestment proceeds from July 2012.
- 1.7. There are a number of recent and proposed changes to legislation that have an impact on Public Sector Pensions. For example:
 - Auto enrolment has resulted in an 123% increase in new scheme membership.
 - The preparations for creating a local Pension Board from the 1 April 2015 to provide additional governance of the Pension Fund.
 - Lewisham have agreed in principal to becoming a founding shareholder in a London Collective Investment Vehicle. The aim of the vehicle is for Local Authorities to benefit from access to more funds at lower cost.
- 1.8. Development of Pension reform continues and Lewisham will continue to position itself to put the interest and benefit of its members first as priority.

Janet Senior
Executive Director for Resources & Regeneration

2 CHAIR OF PENSION INVESTMENT COMMITTEE

- 2.1. Following the May 2014 local elections, I was delighted to be appointed as Chairman of the Lewisham Pension Investment Committee (PIC).
- 2.2. The UK economy has expanded during 2013-14 giving rise to upwards revisions for UK economic growth by the Office of National Statistics. The UK is displaying positive signs of a broad based sustainable recovery. Unfortunately the austerity measures will continue and in the spending round 2013 a further saving of £11.5bn was announced by the Chancellor of the Exchequer. As these savings are implemented it will impact some Pension Fund members.
- 2.3. In the current economic climate equity markets have performed well. The Pension Investment Committee have chosen a mixed portfolio of assets with the performance of other asset classes being weaker. Overall, the Fund value increased by £37m in 2013/14.
- 2.4. Keeping up to date with legislative and regulatory developments has required the on-going attention of the committee. And this continues.
- 2.5. The Committee will continue to work to ensure the Fund is well managed to the benefit of all its members.
- 2.6. I thank the members of the Pensions Investment Committee and the Council's officers for their work over the last year. I look forward to continuing to work with all concerned to ensure the Fund continues to be effectively managed.

Councillor Mark Ingleby
Chair - Pensions Investment Committee

3 INTRODUCTION

A. OVERVIEW OF THE SCHEME

- 3.1. The London Borough of Lewisham Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is set up under the Superannuation Act 1972, which requires the Council to maintain a Pension Fund for its own employees and employees admitted to the Fund under an admission agreement.
- 3.2. The Fund's objectives are to provide a pool of assets sufficient to meet the long-term pension and other benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations) for its members. The investment objectives are to ensure the Fund has sufficient assets to pay pensions and other benefits by maximising investment returns over the long term within acceptable risk tolerances.

B. MANAGEMENT

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

4 MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

A. SCHEME MANAGEMENT AND ADVISERS

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

Pensions Investment Committee

Members

Members until 31/03/14
Cllr Whittle (Chair)
Cllr Maslin (Vice Chair)
Cllr Fletcher
Cllr Peake
Cllr Stamirowski)

Members as at 26/06/14

Cllr Ingleby (Chair)
Cllr Muldoon (Vice Chair)
Cllr Best
Cllr Bonavia
Cllr Hilton
Cllr Hooks
Cllr Maslin
Cllr Reid

Permitted Observers

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

Administrator

Executive Director for Resources &
Regeneration- Janet Senior

Adviser

Hymans Robertson LLP

Actuary

Hymans Robertson LLP

Custodian Bank

The Northern Trust Company

Solicitors

LB Lewisham Legal Services

Bankers

The Co-Operative Bank

Performance Measurement

WM Company and
The Northern Trust Company

Commission Recapture Agent

Lynch, Jones & Ryan, Inc

Investment Managers

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

AVC Providers

Equitable Life and Clerical Medical

Auditors

Grant Thornton UK LLP

B. RISK MANAGEMENT

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

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

- 4.5. The PIC reviews the risk register periodically to ensure that risks are updated and the relevant mitigations are put in place to manage them.

Key Risks

- 4.6. The key risks identified as affecting the pension fund in the latest review of the risk register are summarised as follows:
1. **Governance Risk** relating to inappropriate investment strategy being adopted. This risk is mitigated by having in place an Investment Strategy that is:
 - a. set in accordance with LGPS investment regulations;
 - b. documented, reviewed and approved by the PIC;
 - c. takes into account the Fund's liabilities;
 - d. ensures a regular review of the Fund's asset allocation strategy; and
 - e. identifies an external advisor to provide specialist guidance on the investments decisions for the Fund.

2. **Operational Risk** relating to a failure to adhere to relevant statutory regulations, including updates from the LGPS and the Department for Communities and Local Government (DCLG). This risk is mitigated by:
 - a. the monitoring of statutory requirements via the DCLG website and attending London Pension Fund Forum (LPFF) meetings;
 - b. the monitoring of proposed changes and responding to consultations to influence outcomes;
 - c. the use of specialist advisors to prepare for anticipated changes;
 - d. ensuring policies, processes and systems are in place and up to date to comply with regulation; and
 - e. ensuring adequate training and specialist knowledge and skills for both staff and Members charged with governance.

3. **Financial risk** relating to Fund assets not being sufficient to meet its obligations and liabilities in the medium term to long term. This risk is mitigated by:
 - a. having controls in place to monitor assets and liabilities of the Pension Fund and to review asset allocation on a regular basis to ensure it remains appropriate;
 - b. using external advisers - actuarial and investment - to advise the Fund on how to manage the asset and liability mismatch;
 - c. setting strategic goals to achieve a fully funded position and setting targets to make changes to the Fund's investments when appropriate to do so;
 - d. the triennial valuation assessment of the funding position; and
 - e. inter-valuation monitoring to ensure movements in the Funding position are assessed and strategies to manage any deterioration are put in place.

Third Party Risks:

- 4.7. **Other employers:** The fund has contributions from other employers. To manage the risk of late payments Lewisham maintains a good working relationship with these parties. In 2013/14 Lewisham only had one employer with late payments. However, Lewisham were aware in advance and worked with the employer to resolve the issue. Lewisham's general policy is to charge interest in line with the regulations.

- 4.8. **Third party operations:** This is covered in the contract between Lewisham and the third party software provider Aquila Heywood. Heywood have in place a business continuity plan (BCP) that demonstrates they are well prepared to deal with serious incidents ranging from the effects of a flood or explosion, a serious IT infrastructure malfunction, or even an information security incident. A copy of the Heywoods BCP is available on request.

- 4.9. **Investment Risk:** The management of these risks is detailed in the Pension Fund Accounts, Appendix A.

C. FINANCIAL PERFORMANCE

4.10. Income and expenditure on the fund is forecast annually and monitored on a monthly basis by the Head of Corporate Resources. A summary of 2013/14 analysis is detailed below:

Apr-Mar 13-14	Forecast	Actual	Variance
Member Income			
Council's Contribution	(22,860,000)	(24,400,211)	(1,540,211)
Employer Contrib. from Scheduled Body	(3,600,000)	(3,920,563)	(320,563)
Employer Contrib. from Admitted Bodies	(789,000)	(825,915)	(36,915)
Employee Contrib. Officers	(7,237,000)	(7,521,060)	(284,060)
Employee Contrib. from Admitted Bodies	(330,000)	(317,158)	12,842
Employee Contrib. from Scheduled Body	(1,140,000)	(1,257,176)	(117,176)
Member Expenditure			
Retirement Pensions	21,345,000	22,572,700	1,227,700
Pension Increase	11,000,000	10,846,745	(153,255)
Retirement Grants	5,350,000	6,538,645	1,188,645
Pension Increase GMP	120,000	126,665	6,665
Death Grants	1,190,000	367,941	(822,059)
Widows' Pensions	300,000	281,747	(18,253)
Children's Pensions	15,000	13,545	(1,455)
Leavers and Transfers			
Refund of Contributions	1,400	2,981	1,581
Transfer Values Out	2,350,000	2,011,904	(338,096)
Transfer Values In	(1,500,000)	(1,406,955)	93,045
Other Income/ Recharges			
Income Received	(6,000)	(10,893)	(4,893)
Early Retire Dir Recharge	(870,000)	(1,379,501)	(509,501)
Lewisham Expenses			
Administration Scheme costs	246,000	248,875	2,875
Central Support Services	520,000	580,774	60,774
Bank Charges	1,250	6,486	5,236
Investment Expenses			
Investment manager fees	1,475,000	1,467,120	(7,880)
Tax on dividends	210,000	352,638	142,638
Net	5,791,650	4,379,332	(1,412,317.84)

4.11. Member income was higher due to the positive take-up of members through auto-enrolment. Pension payments were also more than expected as the Council continues to implement significant savings, resulting in a number of members leaving who were eligible take out their pension.

D. ADMINISTRATIVE MANAGEMENT PERFORMANCE

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

KEY ADMINISTRATIVE ACTIVITIES:

	2013/14	2012/13	2011/12	2010/11
	No. of cases	No. of cases	No. of cases	No. of cases
New Scheme Members	1,670	747	546	660
Estimate of Benefits	854	753	1,055	1,594
Responding to correspondence *	557	621	557	493
Preserved Benefits	230	478	263	463
Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme	138	181	225	286
Retirements	323	274	441	295
Death cases (No Dependants)	167	227	217	225
Death Cases (with dependants)	45			
Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme	90	92	157	120
Additional contributions	33	25	20	18
Refunds of contributions	6	11	4	6
Overall Performance	4,113	3,309	3,485	4,160

*A large volume of correspondence has moved to email and is not recorded, therefore a proxy has been used (average of the last three years).

KEY STAFF INDICATORS

4.13. The role of the pensions section in the Administering Authority during 2013/14 was carried out by 4.3 Full Time Equivalent (FTE) staff serving some 22,000 members. Relevant data and staffing ratios are as set out below.

FTE Staff	2013/14	2012/13
Lewisham	5.8	5.8
Made up of:		
Work for other schemes	(0.5)	(0.5)
Other work	(1.0)	(1.0)
Administration of LGPS	4.3	4.3

Membership	2013/14	2012/13	2011/12	2010/11
Number of contributors	6,817	6,517	5,863	6,206
Number of deferred members	8,306	7,679	7,267	6,939
Number of pensioners	6,890	6,700	6,593	6,327
Total	22,013	20,896	19,723	19,472

	31-Mar-14	31-Mar-13	31-Mar-12	31-Mar-11	31-Mar-10
Ratio 1 FTE staff to members	5,119	4,776	3,485	3,416	3,374
Transactions per member of staff	957	770	726	729	758

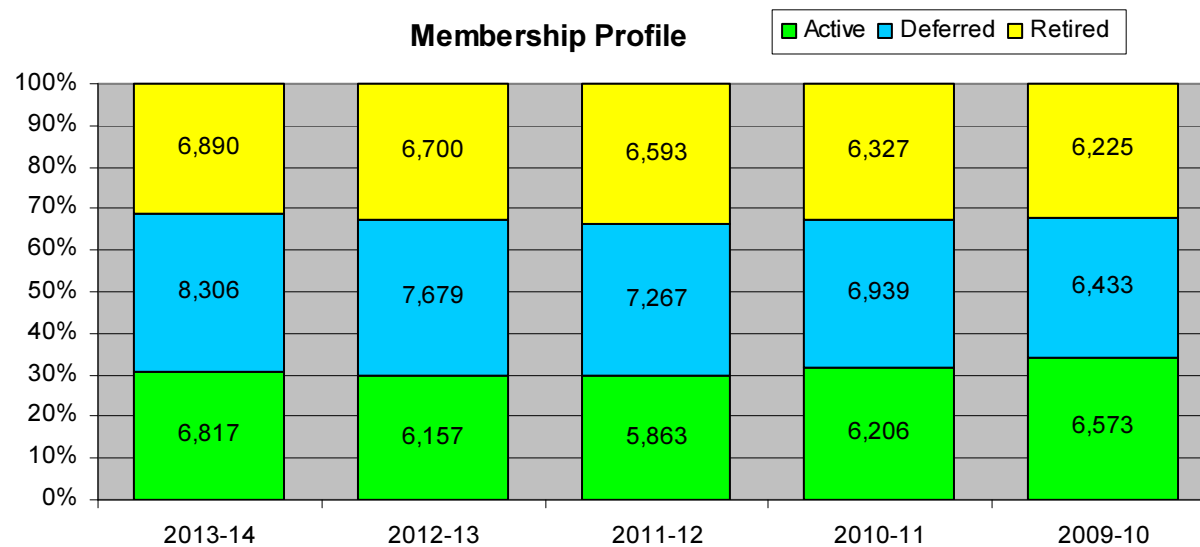
4.14. The age profile of the membership calculated as at 31 March 2014 is show in the table below:

Age Band	Contributing	Deferred	Dependents	Retired
0-4	0	0	3	0
5-9	0	0	5	0
10-14	0	0	9	0
15-19	21	4	20	0
20-24	187	78	12	0
25-29	439	416	1	0
30-34	576	609	0	1
35-39	656	708	4	1
40-44	796	974	4	5
45-49	1,198	1,585	6	26
50-54	1,271	1,934	28	72
55-59	1,015	1,465	51	212
60-64	514	414	67	1,098
65-69	135	76	82	1,441
70-74	9	43	130	1,101
75-79	0	0	176	835
80-84	0	0	172	550
85-89	0	0	168	339
90-94	0	0	81	129
95-99	0	0	27	31
100-104	0	0	2	1
Total	6,817	8,306	1,048	5,842

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

FIVE YEAR ANALYSIS: MEMBERSHIP AND ADMINSTRATIVE UNIT COSTS

	2013/14			2012/13			2011/12			2010-11			2009-10		
	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired
Administering Authority	5,715	7,807	6,639	5,322	7,284	6,530	5,035	6,958	6,448	5,436	6,694	6,201	5,860	6,267	6,117
Scheduled Bodies	705	385	147	655	303	127	666	243	106	642	194	91	582	122	76
Admitted Bodies	397	114	104	180	92	43	162	66	39	128	51	35	131	44	32
Totals	6,817	8,306	6,890	6,157	7,679	6,700	5,863	7,267	6,593	6,206	6,939	6,327	6,573	6,433	6,225
Adminstrative unit Costs	£ 122.63	£ 100.65	£ 121.34	£ 122.14	£ 97.93	£ 112.24	£ 170.90	£ 137.88	£ 151.98	£ 164.52	£ 147.14	£ 161.37	£ 131.29	£ 134.15	£ 138.63
Investment Management unit costs	£ 215.20	£ 176.62	£ 212.92	£ 351.15	£ 281.55	£ 322.69	£ 519.36	£ 419.02	£ 461.85	£ 265.71	£ 237.64	£ 260.63	£ 78.05	£ 79.75	£ 82.41
Total unit costs	£ 337.83	£ 277.27	£ 334.25	£ 473.28	£ 379.48	£ 434.93	£ 690.26	£ 556.90	£ 613.83	£ 430.23	£ 384.78	£ 422.00	£ 209.34	£ 213.90	£ 221.04



Employer Contributions

- 4.16. A list of contributing employers and the amounts contributed by the employers in 2013-14 is shown below:

Employer Contributions	Contribution
	£'s
Lewisham Council	24,400,211
Christ The King Sixth Form College	£355,732
Haberdashers' Aske's Knights Academy	£678,342
Lewisham Homes	£2,492,834
St Matthew Academy	£292,514
Tidemill Academy	£101,142
National Car Parks Ltd	£18,780
Excalibur Tenant Management Project	£9,458
PLUS	£4,968
Housing 21	£7,208
Lewisham Nexus Services	£4,370
SAGE Educational Trust	£14,360
CIS Securities Ceased 31st May 2013	£2,660
Wide Horizons	£20,428
Phoenix	£176,933
INSPACE	£86,092
T Brown & Sons	£16,956
Quality Heating	£21,121
Blenheim CDP	£0
RSM Tenon formerly RSM Bentley Jennison now Baker Tilly	£19,721
Broomleigh Housing Association Ceased 30th June 2013	£1,710
Penrose now Crime Reduction Initiatives (CRI)	£114,395
Skanska	£26,181
One Housing	£82,854
Fusions Leisure Management	£34,992
3 C's Support	£79,464
Children's Society	£50,367
Pre-School Learning Alliance	£27,836
Chequers Contract Service	£5,063
Total	£29,146,689

4.17. Employee contributions by employer received in 2013-14 split by contribution bands

Member Contributions	Contribution rate						
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%
Employer	£'s	£'s	£'s	£'s	£'s	£'s	£'s
Scheduled bodies							
Christ The King Sixth Form College	0	1,492	21,717	56,973	7,149	18,583	0
Haberdashers' Aske's Knights Academy	9,134	12,670	62,881	119,593	35,454	16,491	14,567
Lewisham Homes	2,594	3,603	89,452	406,035	151,254	109,650	28,289
St Matthew Academy	0	2,021	8,072	58,646	12,903	5,530	0
Tidemill Academy	153	465	7,326	16,879	3,013	0	0
Admitted bodies							
National Car Parks Ltd	0	0	1,149	3,635	0	0	0
Excalibur Tenant Management Project	0	0	0	0	2,934	0	0
PLUS	0	0	0	1,502	0	0	0
Housing 21	0	0	1,984	0	0	0	0
Lewisham Nexus Services	0	0	0	1,321	0	0	0
SAGE Educational Trust	0	0	0	0	0	4,809	0
CIS Securities Ceased 31st May 2013	0	0	0	631	0	0	0
Wide Horizons	366	170	779	2,218	1,520	180	0
Phoenix	0	7,091	8,188	30,791	40,004	4,232	8,864
INSPACE	0	0	0	25,617	7,382	0	0
T Brown & Sons	0	0	0	6,824	2,754	0	0
Quality Heating	0	0	0	7,733	0	0	0
Blenheim CDP	0	0	0	0	0	0	0
RSM Tenon formerly RSM Bentley Jennison now Baker Tilly	0	0	0	0	8,253	0	0
Broomleigh Housing Association Ceased 30th June 2013	0	0	0	969	0	0	0
Penrose now Crime Reduction Initiatives (CRI)	0	0	0	2,231	0	0	0
Skanska	0	0	0	0	8,752	0	0
One Housing	0	0	0	25,123	0	0	0
Fusions Leisure Management	0	0	7,331	785	0	0	0
3 C's Support	0	0	0	23,355	2,283	0	0
Children's Society	0	0	0	14,320	0	0	0
Pre-School Learning Alliance	0	0	0	4,916	2,384	0	0
Chequers Contract Services	0	700	432	0	0	0	0

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

4.19. The Fund has a number of bodies which participate in the fund either as scheduled or admitted bodies. Scheduled bodies are organisations which have a statutory entitlement to be members of the scheme. Admitted bodies are those which have to apply to join the scheme and the Council has to formally approve their admission.

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

Employer	Establishment	Total contributions received £'000 (includes e'e & e'r)	% Received by due date
Lewisham Council	Lewisham Council	31,846	100%
Scheduled bodies			
	Christ The King Sixth Form College	462	100%
	Haberdashers' Aske's Knights Academy	1,001	100%
	Lewisham Homes	3,365	100%
	St Matthew Academy	327	100%
	Tidemill Academy	129	100%
Admitted bodies			
	National Car Parks Ltd	24	100%
	Excalibur Tenant Management Project	12	100%
	PLUS	6	100%
	Housing 21	9	100%
	Lewisham Nexus Services	6	100%
	SAGE Educational Trust	19	100%
	CIS Securities Ceased 31st May 2013	3	100%
	Wide Horizons	26	67%*
	Phoenix	347	100%
	INSPACE	119	100%
	T Brown & Sons	30	100%

Employer	Establishment	Total contributions received £'000 (includes e'e & e'r)	% Received by due date
	Quality Heating	25	100%
	Blenheim CDP	0	N/A**
	RSM Tenon formerly RSM Bentley Jennison now Baker Tilly	32	100%
	Broomleigh Housing Association Ceased 30th June 2013	4	100%
	Penrose now Crime Reduction Initiatives (CRI)	19	75%
	Skanska	38	100%
	One Housing	110	100%
	Fusions Leisure Management	46	100%
	3 C's Support	126	100%
	Children's Society	68	100%
	Pre-School Learning Alliance	36	100%
	Chequers Contract Services	6	100%

* Problem with payments due for Sep to Dec 2013. Payment relating to these months was made in April 2014. All other payments before and after this were on time.

** One employee on long term sick leave

5 INVESTMENT POLICY AND PERFORMANCE REPORT

A. INVESTMENT STRATEGY

Investment Policy

- 5.1. The Council's investment strategy applies the Funding Statement Strategy (FSS) and the Statement of Principles (SIP). These are included in Appendices B & C respectively. The FSS sets out the strategy for prudently meeting the Fund's future pension liabilities over the longer term. The SIP sets out the Fund's policies in respect of responsible investment, environmental, social and governance issues.
- 5.2. The Fund does not have direct shares in Companies. The Fund Manager votes on the Fund's behalf. The Fund reviews each Fund Manager's Corporate Governance policies to ensure they are in-line with the Fund's investment principles.

UK Stewardship Code

- 5.3. The UK Stewardship Code sets out the principles for effective stewardship by investors. In so doing, the Code assists institutional investors to better exercise their stewardship responsibilities, which in turn gives force to the "comply or explain" governance system.
- 5.4. The seven principles of the UK Stewardship code and how Lewisham meets each one is described below:

1.	Publicly disclose their policy on how they will discharge their stewardship responsibilities.	The Fund's stewardship responsibilities is set out in the SIP. This statement is updated on an annual basis - see Appendix B.
2.	Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.	PIC members declare any conflicts of interest before meetings begin. This is recorded in the minutes. A decision is made by the Chair on the necessary steps to be taken to ensure the interests of the Fund are put first.
3.	Monitor their investee companies.	Northern Trust, the Fund's custodian, produces monthly statements and performance reports. The Fund managers and Hymans Robertson, the Fund's advisor, prepare quarterly performance reports. These are presented to PIC at every meeting. In addition, WM company (State Street Global Services) produce quarterly performance benchmarking reports which present the Fund's performance against that of a WM Local Authority Universe.
4.	Establish clear guidelines on when and how they will escalate their stewardship activities.	The Fund has established a rebalancing policy. This has been reviewed and agreed by our investment advisors. In addition to regular PIC meetings, officers are in regular communication with the Fund Managers.

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

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

Application of the Myners Principles

- 5.6. The actions the fund undertakes to demonstrate compliance with the Myners Principles is set out in the Statement of Investment Principles in Appendix C.
- 5.7. The investment objective is to ensure that the Fund's investments maximise the likelihood that benefits will be paid to members as they fall due by maximising investment returns over the long term within acceptable risk tolerances.
- 5.8. Since November 2012, 78% of the Fund has been under Passive Management. The investment strategy is for a significant proportion of the Fund to be invested into growth assets. For this reason 61% of the fund is invested in equities.
- 5.9. The Fund's structure has six managers with five mandates.
- 5.10. At the time of the last annual report, the fund had a large amount (£25m) of cash in temporary holding. This was due to the disinvestment of our Hedge fund mandate. This has been invested and the fund now has minimal amounts in cash.

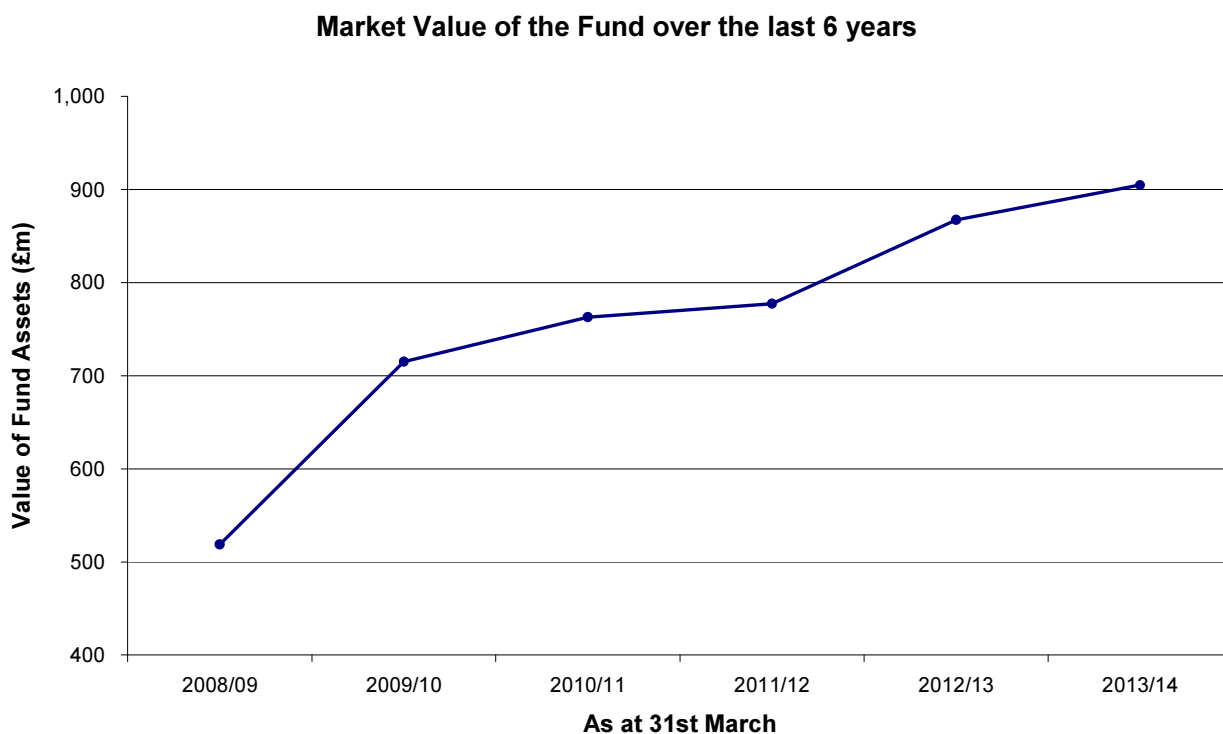
STRATEGIC ASSET ALLOCATION AS AT 31 MARCH 2014

Mandate	New Target Allocation	Asset Value 31 Mar 14	Actual Allocation 31 Mar 14	Actual Allocation 31 Mar 13
Passive Equities and Bonds	81.0%	740,514	82.0%	78.0%
Property	10.0%	76,179	8.4%	8.0%
Private Equity	3.0%	39,136	4.3%	4.3%
Credit	1.0%	13,981	1.6%	1.6%
Commodities	5.0%	33,651	3.7%	4.4%
Cash	0.0%	1,263	0.1%	3.5%
Total	100%	904,724	100%	100%

- 5.11. The increase in the allocation to equities and bonds is partly due to the injection of £25million from the closure of the fund of hedge funds mandate, and partly due to the good performance in the equities market in the last year.
- 5.12. The differing short term performances of asset classes and managers inevitably results in the actual asset allocations deviating from their strategic targets over time. Periodically, the Fund undertakes a re-balancing exercise to return to the agreed strategic allocation.
- 5.13. The Funds allocation and rebalancing policies are currently being revised and once finalised any necessary action will be taken before the end of the 2014/15 financial year.




B. INVESTMENT PERFORMANCE

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

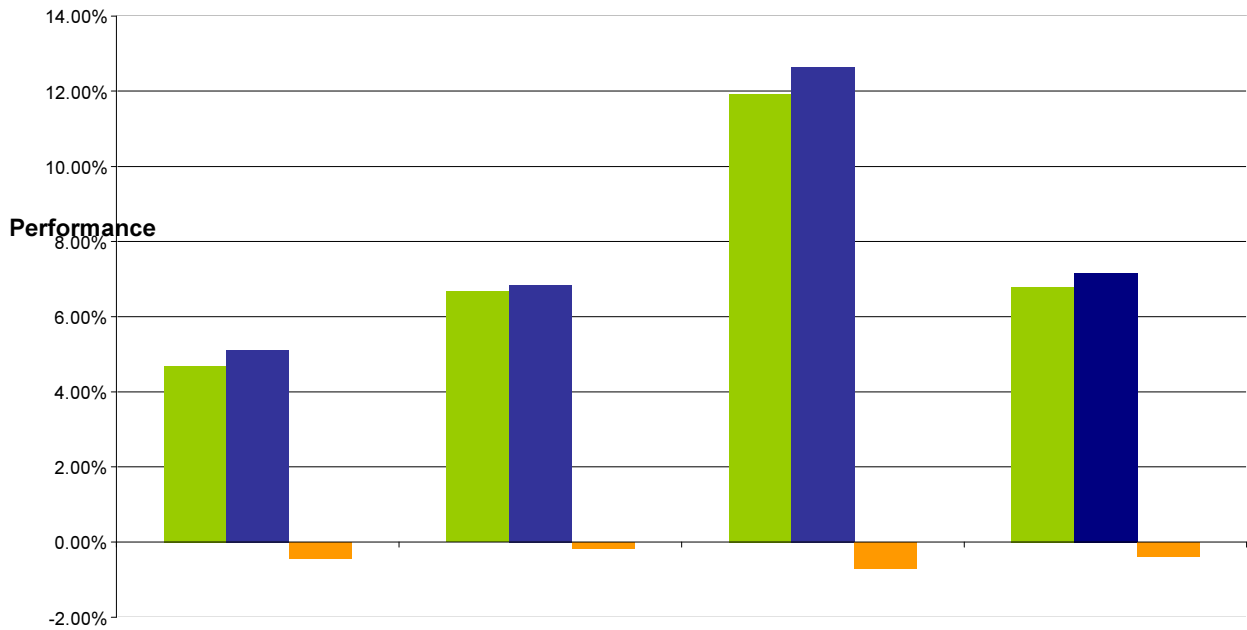


- 5.15. The value of the Fund’s total assets increased by just over £37m (4.3%) during the year.
- 5.16. The annualised return of the Fund’s investments over the last 12 months was 4.7%, which was 0.4% below the benchmark return. Since inception, the Fund’s investments absolute return is 6.8%, which is 0.4% below the benchmark return of 7.2% as depicted below:

	One Year	Three Year	Five Years	Inception to date
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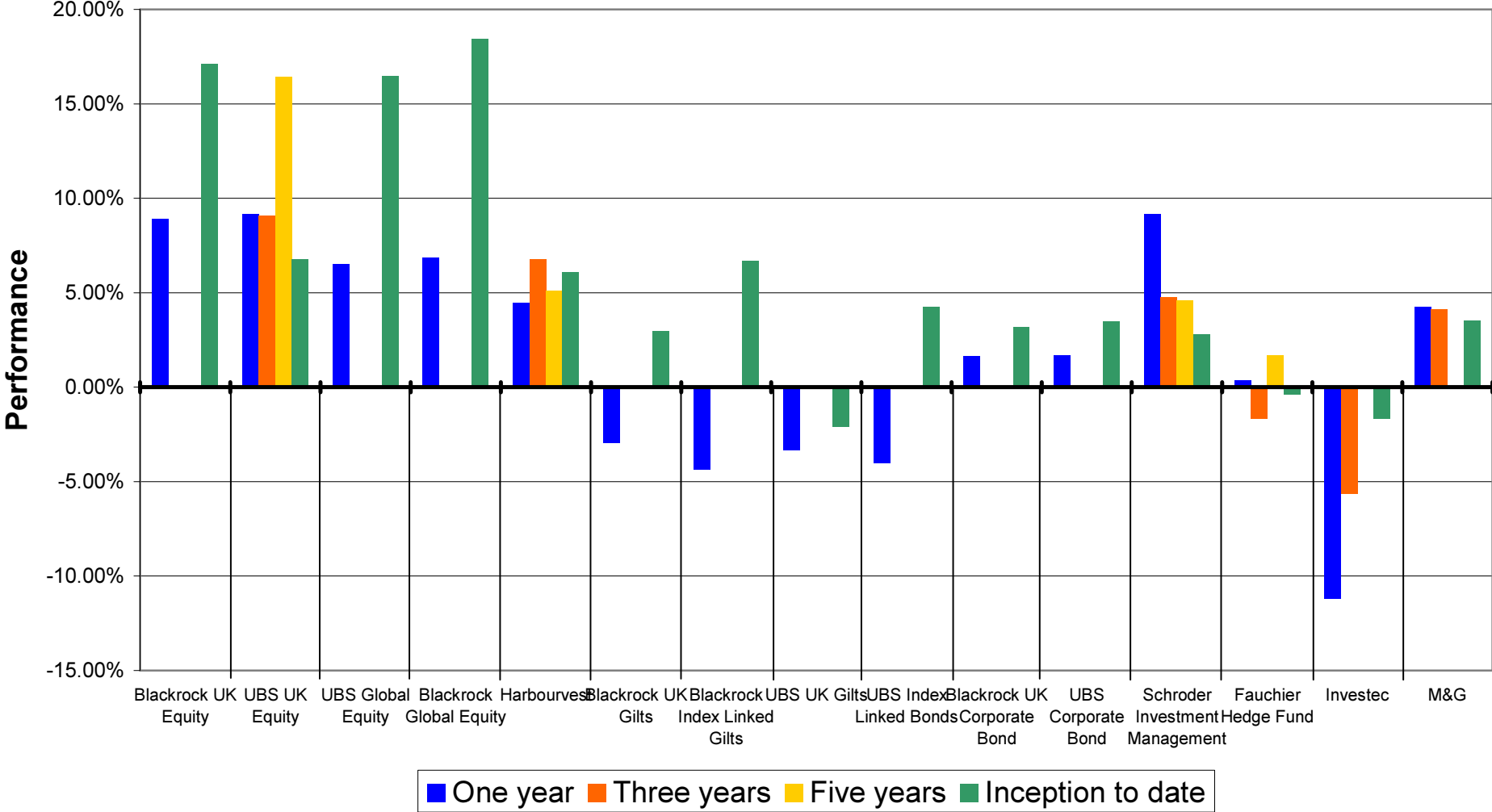
 Fund Performance	4.70%	6.68%	11.93%	6.79%
 Benchmark	5.13%	6.86%	12.64%	7.17%
 Relative performance	-0.43%	-0.18%	-0.71%	-0.38%

Aggregate Fund Performance relative to benchmark



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

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



5.18. Fauchier Hedge Fund has been left in the above graph for comparative purposes only. The Hedge Fund was a major underperformer and was terminated early in 2013.

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

Manager	Mandate	Performance Target
UBS	Mixed Passive Mandate	Index tracker fund the performance will correspond to the average return.
BlackRock	Mixed Passive Mandate	Index tracker fund the performance will correspond to the average return.
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.
Schroder	Property	To outperform the Investment Property database (IPD) by 0.75% per annum over a three year rolling period net of fees.
Investec	Commodities	Dow Jones Commodities Index +1%
M & G	Credit	One Month London Inter-Bank Offer rate (LIBOR)+ 1%

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

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

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

6 SCHEME ADMINISTRATION REPORT

Scheme administration/ Pension Administration and Assurance

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

Internal dispute procedure

- 6.2. The pension scheme regulations set out a two-stage 'Independent Disputes Resolution Procedure' (IDRP). The Funds internal dispute resolution procedure is shown below:
- 6.3. *Stage One* : the member's case is referred to the Executive Director of Resources and Regeneration who is appointed by the London Borough of Lewisham to act as an independent referee.
- 6.4. If the member is dissatisfied with the stage one decision, they can take the matter to stage two of the IDRP.
- 6.5. *Stage two*: the stage one decision is reviewed by the Head of Legal Services who is appointed by the London Borough of Lewisham to act as an independent referee.
- 6.6. There are time limits associated with each stage of the procedure, both for the applicant and the adjudicator. Appeals must normally be made within six months of the date of the decision that is being challenged and the adjudicator must normally give written notice of their decision within two months of the receipt of the appeal.
- 6.7. At any stage of the process, or before the process begins, the member can seek help and advice from The Pensions Advisory Service (TPAS). The Pensions Advisory Service is an independent non-profit organisation that provides free information and guidance to members of the public on pension matters generally. They can also help to resolve disputes and complaints about private pension arrangements (workplace pensions, personal pensions and stakeholder pensions).
- 6.8. Lewisham Pension Fund did not have any disputed cases in 2013/14.

7 ACTUARIAL REPORT ON FUNDS

- 7.1. The Regulations require that every three years all Local Government Pension Schemes be subject to actuarial review. The actuarial review sets assumptions about the level of investment returns, life expectancy and other relevant factors to determine the assets and liabilities of the fund and the corresponding funding level.
- 7.2. The last revaluation was undertaken in March 2013, an Executive Summary of the valuation report is appended in Appendix D. The full version can be obtained upon request.

The actuarial review assessed the fund as being 71.4% funded. This represents a decrease of 3% in the funding level since the last valuation in 2010.

- 7.3. The evaluation has resulted in the actuary assessing the employers contribution rate to provide for future pensions entitlements (the Future Service Rate) to be 21.5% of employees pay with effect from 1st April 2014, and annual increases of 0.5% for the subsequent 2 years.
- 7.4. The next revaluation exercise will have an effective date of 31st March 2016 with the resultant employers contribution taking effect from 2016/17. This will be published in the 2016/17 annual report.
- 7.5. Appendix E is the Executive Summary of the Actuarial Statement for 2013/14 prepared by the Fund's actuaries, Hymans Robertson.

8 GOVERNANCE COMPLIANCE STATEMENT

A. GOVERNANCE STRUCTURE

- 8.1. Lewisham's Governance Compliance Statement has been adopted by the PIC.
- 8.2. The Governance Compliance Statement is as follows:
- 8.3. Under the Constitution Article 9 sets out that Council has appointed the Pensions Investment Committee with the following terms of reference to exercise all functions of the Council in relation to local government pensions under Section 7, 12 or 24 Superannuation Act 1972 and all other relevant pensions legislation. This includes:
 - review with fund managers the investment performance of the superannuation fund on a quarterly basis;
 - to examine the portfolio of investments, and its market value, at the end of each quarter for suitability and diversification;
 - to inform the fund managers of the Council's policy regarding investment of its superannuation funds, and to take advice on the possible effect on performance resulting from implementing the policy;
 - to review from time to time the appointment of the fund managers;
 - to determine the overall investment strategy and policies of the fund on professional advice; and
 - responsibility for compliance with the six Myners principles set out in "Principles for investment decision making and disclosure in the Local Government Pension Scheme in the United Kingdom 2012" and all other relevant guidance in relation to the Local Government Pension Scheme in force and issued by CIPFA from time to time.
- 8.4. Details of the governance structure for the Council is set out within the Council's Constitution which is available at:
<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Pages/constitution.aspx>

B. MEMBERSHIP

8.5. The Pensions Investment Committee comprises eight Members of the Council who have voting rights. The committee meets at least four times a year. At the start of each meeting committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. The committee takes advice from an independent investment consultant (Hymans Robertson) and has non voting observers comprised of pensioners, admitted and scheduled bodies and union officials present.

C. POLICY AND PROCESSES

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

8.7. The following table sets out attendance by the eight Councillors who were on the Pensions Investment Committee for the four scheduled meetings in 2013/14. Each Councillor has one vote with the Chair having the casting vote.

	12 Jun 2013	2 Sep 2013	14 Nov 2013	20 Feb 2014
Cllr. Best	Apologies	✓	✓	✓
Cllr. Fletcher	✓	✓	✓	✓
Cllr. Ingleby	✓	✓	Apologies	✓
Cllr. Maslin (Vice-Chair)	✓	✓	✓	✓
Cllr. Muldoon	✓	✓	✓	✓
Cllr. Peake	✓	Apologies	Absent	✓
Cllr. Whittle (Chair)	✓	✓	✓	✓
Cllr. Stamirowski	✓	✓	Absent	Apologies

Member Training

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

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

8.9. During 2013-14 members attended the following training:

Date	Description	Provider	Members
12 th June 13	Introduction to Actuarial Valuation	Hymans Robertson	Cllr. Fletcher Cllr. Ingleby Cllr. Maslin

Date	Description	Provider	Members
			Cllr. Muldoon Cllr. Peake Cllr. Whittle Cllr. Stamirowski
12 th June 13	Investing in Residential Private rented sector	Hearthstone	Cllr. Fletcher Cllr. Ingleby Cllr. Maslin Cllr. Muldoon Cllr. Peake Cllr. Whittle Cllr. Stamirowski
20 th Sep 13	Trustee Training Part 1	Schroders	Cllr. Maslin
4 th Oct 13	Trustee Training Part 2	Schroders	Cllr. Ingleby Cllr. Maslin
4 th Feb 14	Introduction to Pension Fund	UBS	Cllr. Ingleby Cllr. Muldoon Cllr. Whittle

9 FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

- 9.1. The Fund's accounts, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, were adopted by Council on 17th September 2014 and have been audited by the Council's external auditors Grant Thornton. The Accounts are set out in Appendix A.

10 FUNDING STRATEGY STATEMENT

- 10.1. The Fund has a Funding Strategy Statement (FSS) which details the Fund's approach to funding its liabilities. The FSS is reviewed in detail at least every three years in line with the triennial valuation. The last review was at 31 March 2013, with the results published in Appendix B.
- 10.2. The FSS has been developed by the Council in conjunction with the Fund's actuary, Hymans Robertson, and after consultation with the employers. The FSS focuses on the growth of the Fund's liabilities to pay pensions in the coming years and how those liabilities are funded by investments and contributions. The FSS has links to the Statement of Investment Principles.
- 10.3. The purpose of the FSS is to:
- establish a clear and transparent strategy which will identify how employers' pension liabilities are best met going forward;
 - support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
 - take a prudent longer-term view of funding those liabilities.

- 10.4. This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.
- 10.5. The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. The funding basis adopts an asset outperformance assumption of 1.6% per annum over and above the redemption yield in index-linked gilts.
- 10.6. The Fund has an active risk management programme in place. The measures that the Administering Authority has in place to mitigate key risks are summarised in the FSS under the following headings:
- financial;
 - demographic;
 - regulatory; and
 - governance.
- 10.7. The 2013 valuation specified the minimum employer contributions, expressed as a percentage of pensionable pay and shown in the Rates and Adjustment certificate, as follows:

	Contributions paid in 2013/14	Minimum Contributions for the Year Ending			
		31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15
LB Lewisham	21.50%	20.50%	21.00%	21.50%	21.50%
Excalibur Tenant Mgt	21.50%	20.50%	21.00%	21.50%	21.50%
PLUS	21.50%	20.50%	21.00%	21.50%	21.50%
Housing 21	21.50%	20.50%	21.00%	21.50%	21.50%
Lewisham Nexus	21.50%	20.50%	21.00%	21.50%	21.50%
SAGE	21.50%	20.50%	21.00%	21.50%	21.50%
Wide Horizons	21.50%	20.50%	21.00%	21.50%	14.60%
Lewisham Homes	21.50%	20.50%	21.00%	21.50%	21.50%
Haberdashers Aske's Hatcham College	17.50%	17.50%	17.50%	17.50%	17.9% plus £156k
Christ The King 6 th form College	21.00%	21.00%	21.00%	21.00%	18.5% plus £85k
St Matthew's Academy	17.10%	17.10%	17.10%	17.10%	20.60%
National Car Parks	22.8% plus £36K	22.8% plus £32k	22.8% plus £34k	22.8% plus £36K	22.8% plus £58k
CIS Securities	27.40%	24.10%	25.70%	27.40%	n/a
Phoenix Community Hsg	16.50%	17.80%	17.10%	16.50%	20.40%
Inspace (Wilmott Dixon)	17.10%	19.50%	18.30%	17.10%	20.40%
T Brown & Sons	16.50%	20.50%	18.50%	16.50%	0.00%
Quality Heating	18.30%	22.30%	20.30%	18.30%	0.00%

	Contributions paid in 2013/14	Minimum Contributions for the Year Ending			
		31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15
RSM Bentey Jennison	19.50%	23.50%	21.50%	19.50%	0.00%
Broomleigh Housing	18.30%	22.30%	20.30%	18.30%	7.00%
Childrens Society (EIS2)	26.50%	N/A	26.50%	26.50%	19.10%
Chequers (Lee Manor)	25.90%	N/A	25.90%	25.90%	17.90%
Pre-School Learning Alliance	25.70%	N/A	25.70%	25.70%	21.60%
Chequers (John Bull)	26.20%	N/A	26.20%	26.20%	19.90%
Fusions Lifestyle	28.00%	28.00%	28.00%	28.00%	24.00%
Childrens Society (EIS1)	23.30%	N/A	23.30%	23.30%	21.10%
Three C's	25.30%	25.30%	25.30%	25.30%	23.70%
Skanska	23.00%	23.00%	23.00%	23.00%	23.10%
Tidemill	23.00%	20.50%	23.00%	23.00%	17.5% plus £25k
CRI (previously Penrose)	20.50%	20.50%	20.50%	20.50%	19.7% plus £55k
One Housing	22.00%	22.00%	22.00%	22.00%	22% plus £45k

11 STATEMENT OF INVESTMENT PRINCIPLES

- 11.1. The Regulations require that pension funds prepare, maintain and publish a statement of the principles governing investment decisions. Authorities are also required to assess their compliance against the six principles established by the government in 2008.
- 11.2. Appendix C sets out the Statement of Investment Principles as at July 2014 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.
- 11.3. Appendices to the SIP also set out the terms of each mandate, a 'who's who' of the Fund's managers and advisors and an assessment of how the Fund meets the six investment principles.

12 COMMUNICATIONS POLICY STATEMENT

- 12.1. Pension Funds are required to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. Lewisham's published Communications Statement is provided at Appendix F.

12.2. The statement should contain a commentary on how the Fund has met the commitments set out in the communications policy statement it is required to publish under the provisions of regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008. In particular:

- how scheme information has been provided to members, their representatives and employers,
- in what format and how frequently information has been provided, and
- what steps the fund has taken to promote scheme membership to prospective members.

13 ADDITIONAL DATA

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

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

	Active	Ceased	Total
Scheduled Body	5	0	5
Admitted Body	22	2	24
Total	28	1	29

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

	UK £000s	Non- UK £000s	Global £000s	Total £000s
Equities	1	569		570
Bonds	1,201	668		1,869
Property (direct holdings)				0
Alternatives	2,962	9		2,971
Cash	67			67
Total	4,231	1,246	0	5,477