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

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

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

- 1.1. Welcome to the 2014-15 Annual Report for the Lewisham Pension Fund. The requirement for and contents of the annual report was introduced under regulation 34 of the Local Government Pension Scheme (Administration) regulations 2008.
- 1.2. The Pension Fund Annual Report details the financial position of the Lewisham Pension Fund and the performance of the professional managers appointed to administer the investment portfolio. It brings together a number of separate reporting strands into one comprehensive document that enables the public and employees to see how the Fund is managed and how it is performing.
- 1.3. The results of the most recent triennial valuation, based on the Fund's position as at 31 March 2013, showed a funding level of 71.4% of its liabilities. This presents a £348m funding gap at the 2013 valuation.
- 1.4. In all four quarters of 2014-15 the value of the Fund increased. Over the year the total fund value increased by 15.5%. The return on the assets was slightly below benchmark.
- 1.5. This was the second full year of the Fund's majority passive mandates. The performance of the Fund's passive equities and bonds have been in-line with benchmark expectations.
- 1.6. Commodity prices have broadly fallen in 2014. UK inflation fell during the year, and reached a low of 0% in February 2015.
- 1.7. There are a number of recent changes to legislation that have an impact on Public Sector Pensions. For example:
  - The local Pension Board was established by Full Council on 26<sup>th</sup> February 2015. The first meeting took place on 23<sup>rd</sup> July 2015. The Board is made up of five members: two employer representatives, two employee representatives and one independent chair. The position of independent chair is currently vacant. The role of the Board is to provide additional governance of the Pension Fund.
  - Lewisham is a founding shareholder in a London Collective Investment Vehicle (London CIV Ltd). The aim of the vehicle is for Local Authorities to benefit from access to equivalent investment mandates at lower cost.
  - Employees have the right to convert their defined benefits into defined contribution schemes.
- 1.8. Development of Pension reform continues and Lewisham will continue to position itself to put the interest and benefit of its members first as priority.

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

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

- 2.1. I am delighted to sit in my second year as Chairman of the Lewisham Pension Investment Committee (PIC).
- 2.2. The UK economy has expanded by 2.6% during 2014 the fastest pace since 2007. This has given rise to upwards revisions for UK economic growth by the Office of National Statistics. The UK is displaying positive signs of a broad based sustainable recovery.
- 2.3. In the current economic climate equity markets have performed well. The Pension Investment Committee have chosen a mixed portfolio of assets with the performance of other asset classes being weaker. Overall, the Fund value increased by £138 m in 2014/15.
- 2.4. Keeping up to date with legislative and regulatory developments has required the on-going attention of the committee. And this continues.
- 2.5. The Committee will continue to work to ensure the Fund is well managed to the benefit of all its members.
- 2.6. I thank the members of the Pensions Investment Committee and the Council's officers for their work over the last year. I look forward to continuing to work with all concerned to ensure the Fund continues to be effectively managed.

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

### **3 INTRODUCTION**

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

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

#### **B. MANAGEMENT**

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

## **4 MANAGEMENT AND FINANCIAL PERFORMANCE REPORT**

### **A. SCHEME MANAGEMENT AND ADVISERS**

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

#### **Pensions Investment Committee**

##### **Members**

Member until 31/03/15  
Cllr Hilton

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

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

##### **Permitted Observers**

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

##### **Administrator**

Executive Director for Resources &  
Regeneration- Janet Senior

##### **Adviser**

Hymans Robertson LLP

##### **Actuary**

Hymans Robertson LLP

##### **Custodian Bank**

The Northern Trust Company

##### **Solicitors**

LB Lewisham Legal Services

##### **Bankers**

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

##### **Performance Measurement**

WM Company and  
The Northern Trust Company

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

Lynch, Jones & Ryan, Inc

##### **Investment Managers**

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

##### **AVC Providers**

Equitable Life and Clerical Medical

##### **Auditors**

Grant Thornton UK LLP

## B. RISK MANAGEMENT

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

RISK CATEGORY	HOW THE RISK SHOULD BE MANAGED
<b>Red</b>	Immediate action required, Senior Management involved
<b>Amber/Red</b>	Senior Management attention needed and Management responsibility specified
<b>Amber/Green</b>	Manage by specific monitoring or response procedures
<b>Green</b>	Manage by routine procedures, unlikely to need specific or significant application of resources

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

### Key Risks

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

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

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

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

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

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

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

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

## **C. FINANCIAL PERFORMANCE**



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

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

4.11. Variances explained:

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

#### D. ADMINISTRATIVE MANAGEMENT PERFORMANCE

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

##### KEY ADMINISTRATIVE ACTIVITIES:

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

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

##### KEY STAFF INDICATORS

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

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

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

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

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

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

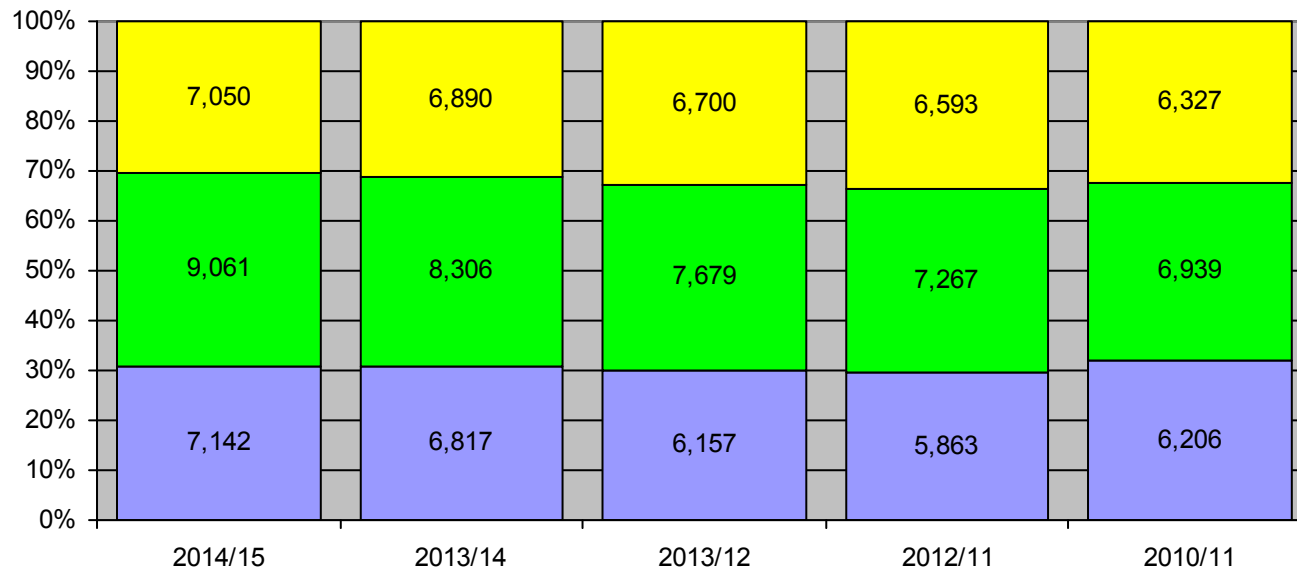
4.15. A five year analysis of the Fund's membership (active, deferred, and retired) is shown in the next table. The table also provides the unit cots per member broken down by active, deferred and retired including and excluding investment management expenses.

## FIVE YEAR ANALYSIS: MEMBERSHIP AND ADMINSTRATIVE UNIT COSTS

	2014/15			2013/14			2012/13			2011/12			2010-11		
	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired	Active	Deferred	Retired
<b>Authority</b>	6,147	8,370	6,805	5,715	7,807	6,639	5,322	7,284	6,530	5,035	6,958	6,448	5,436	6,694	6,201
<b>Scheduled Bodies</b>	855	588	180	705	385	147	655	303	127	666	243	106	642	194	91
<b>Admitted Bodies</b>	140	103	65	397	114	104	180	92	43	162	66	39	128	51	35
<b>Totals</b>	<b>7,142</b>	<b>9,061</b>	<b>7,050</b>	<b>6,817</b>	<b>8,306</b>	<b>6,890</b>	<b>6,157</b>	<b>7,679</b>	<b>6,700</b>	<b>5,863</b>	<b>7,267</b>	<b>6,593</b>	<b>6,206</b>	<b>6,939</b>	<b>6,327</b>
<b>Adminstrative unit Costs</b>	£90.86	£20.46	£13.15	£85.84	£20.13	£12.13	£85.50	£19.59	£11.22	£119.63	£27.58	£15.20	£115.16	£29.43	£16.14
<b>Investment Management unit costs</b>	£141.43	£31.85	£20.47	£150.64	£35.32	£21.29	£245.80	£56.31	£32.27	£483.18	£111.38	£61.38	£186.00	£47.53	£26.06
<b>Total unit costs</b>	<b>£232.29</b>	<b>£52.31</b>	<b>£33.62</b>	<b>£236.48</b>	<b>£55.45</b>	<b>£33.43</b>	<b>£331.30</b>	<b>£75.90</b>	<b>£43.49</b>	<b>£602.81</b>	<b>£138.96</b>	<b>£76.58</b>	<b>£301.16</b>	<b>£76.96</b>	<b>£42.20</b>

### Membership Profile

Active Deferred Retired



## Employer Contributions

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

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

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

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

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

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

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

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

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

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

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

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

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

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



## 5 INVESTMENT POLICY AND PERFORMANCE REPORT

### A. INVESTMENT STRATEGY

#### Investment Policy

- 5.1. The Council's investment strategy applies the Funding Statement Strategy (FSS) and the Statement of Principles (SIP). These are discussed more fully in sections 10 and 11 of this report respectively. The FSS sets out the strategy for prudently meeting the Fund's future pension liabilities over the longer term. The SIP sets out the Fund's policies in respect of responsible investment, environmental, social and governance issues.
- 5.2. The Fund does not have direct shares in Companies. The Fund Manager votes on the Fund's behalf. The Fund reviews each Fund Manager's Corporate Governance policies to ensure they are in-line with the Fund's investment principles.

#### UK Stewardship Code

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

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

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

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

### Application of the Myners Principles

- 5.6. The actions the fund undertakes to demonstrate compliance with the Myners Principles is set out in the Statement of Investment Principles.
- 5.7. The investment objective is to ensure that the Fund's investments maximise the likelihood that benefits will be paid to members as they fall due by maximising investment returns over the long term within acceptable risk tolerances.
- 5.8. Since November 2012, some 80% of the Fund has been under Passive Management. The investment strategy is for a significant proportion of the Fund to be invested into growth assets. For this reason, over 60% of the fund is invested in equities.
- 5.9. The Fund's structure has six managers with five mandates.

### STRATEGIC ASSET ALLOCATION AS AT 31 MARCH 2015

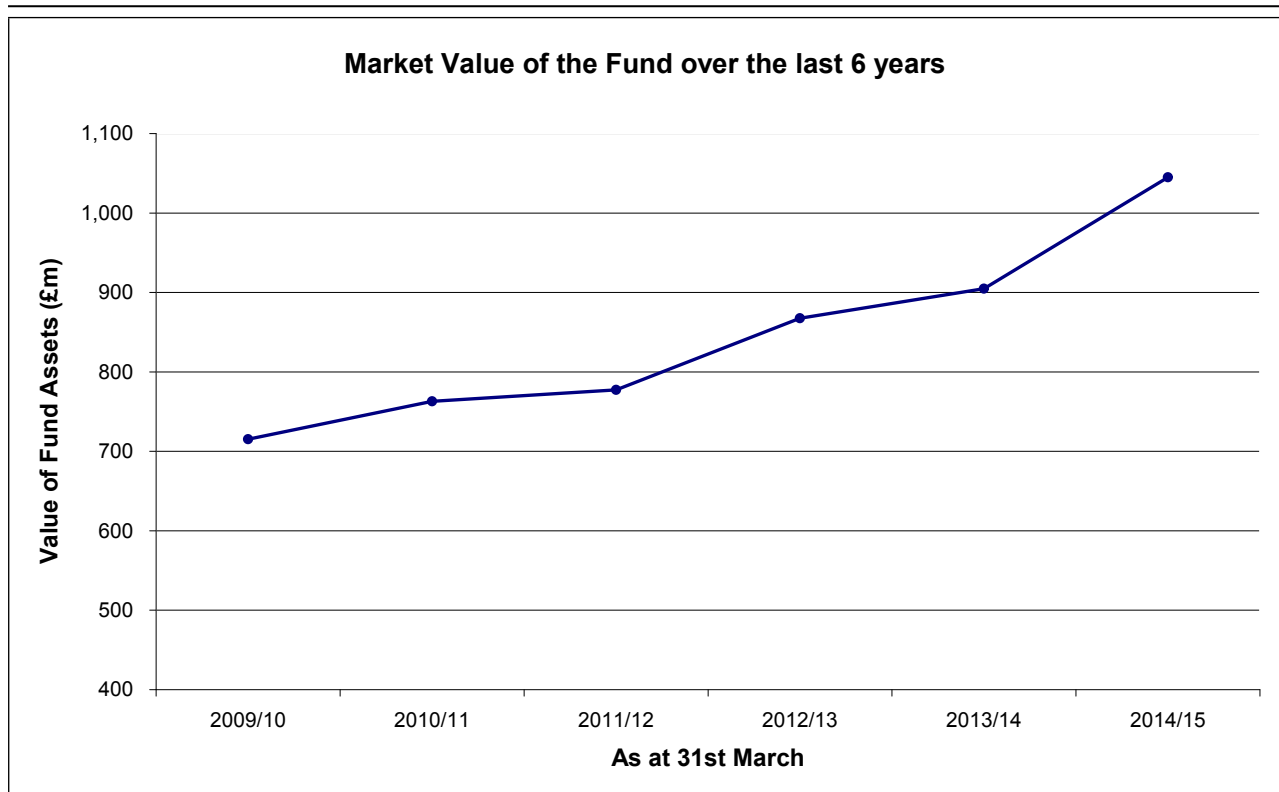
Mandate	Target Allocation	Asset Value 31 Mar 15 £'m	Actual Allocation 31 Mar 15	Actual Allocation 31 Mar 14
Passive Equities and Bonds	81.0%	866.9	83%	82.0%
Property	10.0%	88.2	8.3%	8.4%
Private Equity	3.0%	44.2	4.2%	4.3%
Credit	1.0%	14.4	1.4%	1.6%
Commodities	5.0%	31.8	3.0%	3.7%
Cash	0.0%	1.3	0.1%	0.1%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

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

5.11. The differing short term performances of asset classes and managers inevitably results in the actual asset allocations deviating from their strategic targets over time. Periodically, the Fund undertakes a re-balancing exercise to return to the agreed strategic allocation.

## B. INVESTMENT PERFORMANCE

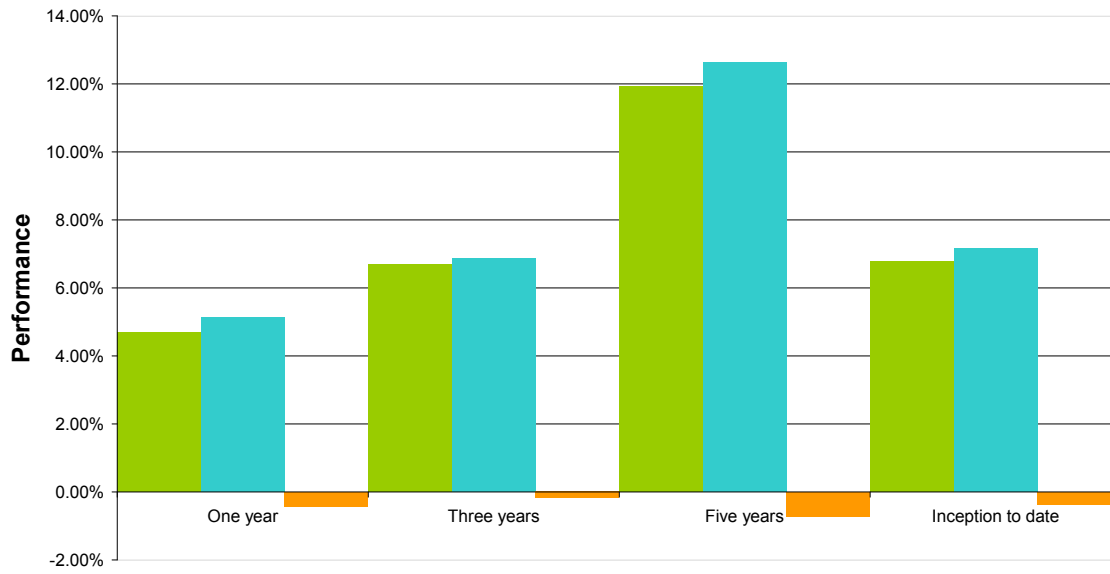
5.12. The graph below depicts the progress of the Fund's assets over the last six years as at the 31st March in each year. The graph shows that the value of the fund has been increasing over the years.






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

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

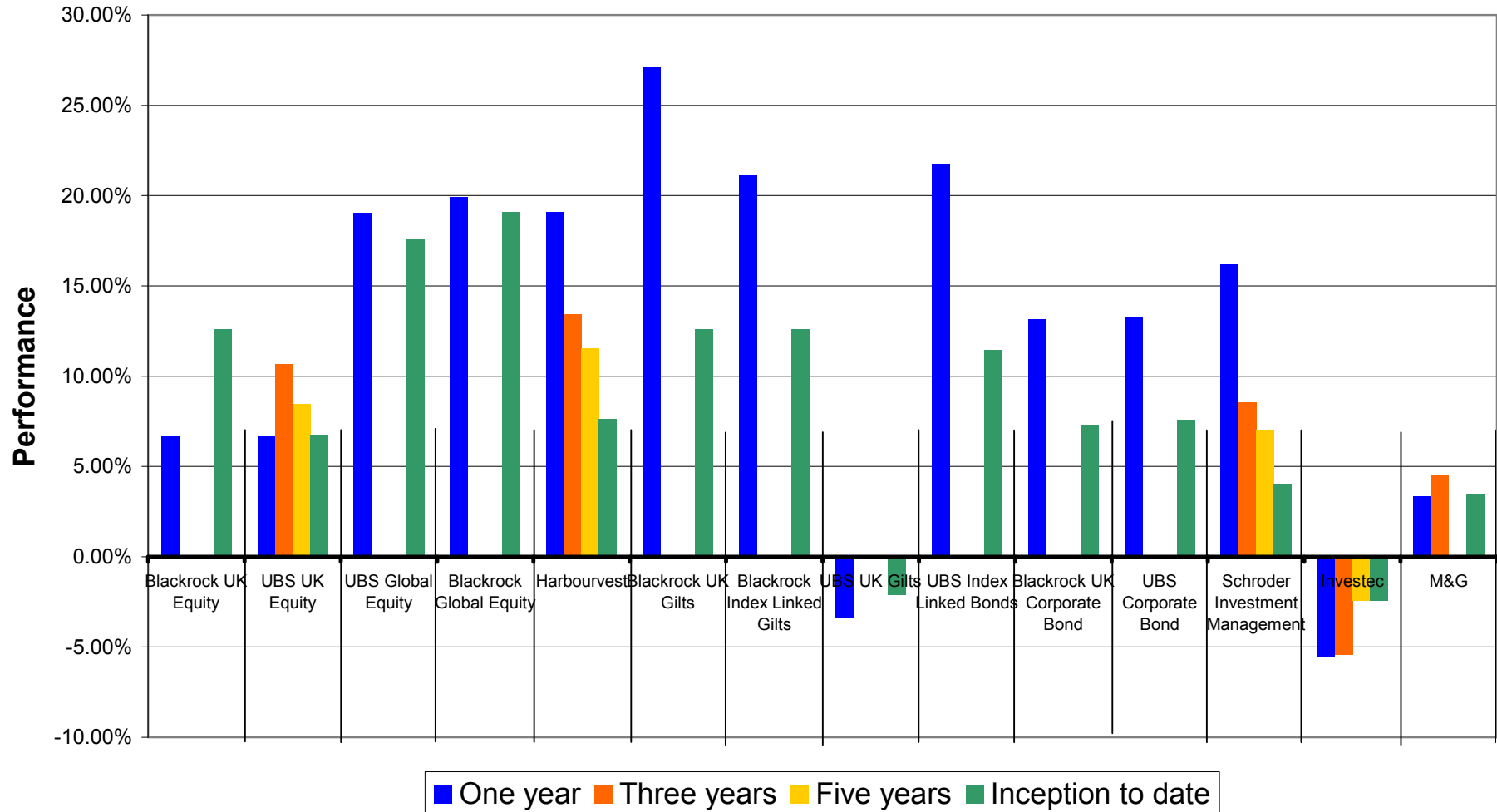
### Aggregate Fund Performance relative to benchmark



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

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

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



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

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

5.17. The value of Assets Under Management (AUM) by asset class and fund manager is shown in the Pension Fund Accounts in Appendix A.

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

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

## 6 SCHEME ADMINISTRATION REPORT

### **Scheme administration/ Pension Administration and Assurance**

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

### **Internal dispute procedure**

- 6.2. The pension scheme regulations set out a two-stage 'Independent Disputes Resolution Procedure' (IDRP). The Funds internal dispute resolution procedure is shown below:
- 6.3. *Stage One* : the member's case is referred to the Executive Director of Resources and Regeneration who is appointed by the London Borough of Lewisham to act as an independent referee.
- 6.4. If the member is dissatisfied with the stage one decision, they can take the matter to stage two of the IDRP.
- 6.5. *Stage two*: the stage one decision is reviewed by the Head of Legal Services who is appointed by the London Borough of Lewisham to act as an independent referee.
- 6.6. There are time limits associated with each stage of the procedure, both for the applicant and the adjudicator. Appeals must normally be made within six months of the date of the decision that is being challenged and the adjudicator must normally give written notice of their decision within two months of the receipt of the appeal.
- 6.7. At any stage of the process, or before the process begins, the member can seek help and advice from The Pensions Advisory Service (TPAS). The Pensions Advisory Service is an independent non-profit organisation that provides free information and guidance to members of the public on pension matters generally. They can also help to resolve disputes and complaints about private pension arrangements (workplace pensions, personal pensions and stakeholder pensions).
- 6.8. Lewisham Pension Fund did not have any disputed cases in 2014/15.

## 7 ACTUARIAL REPORT ON FUNDS

- 7.1. The Regulations require that every three years all Local Government Pension Schemes be subject to actuarial review. The actuarial review sets assumptions about the level of investment returns, life expectancy and other relevant factors to determine the assets and liabilities of the fund and the corresponding funding level.
- 7.2. The last revaluation was undertaken in March 2013 and the summary published with last year's annual report available on the Council's website – PIC meeting November 2014. The full version can be obtained upon request. The actuarial review assessed the fund as

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

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

## **8 GOVERNANCE COMPLIANCE STATEMENT**

### **A. GOVERNANCE STRUCTURE**

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



## B. MEMBERSHIP

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

## C. POLICY AND PROCESSES

- 8.6. Responsibility for day-to-day administration and preparation of the Pension Fund accounts and annual report has been delegated to the Executive Director for Resources and Regeneration.
- 8.7. The following table sets out attendance by the eight Councillors who were on the Pensions Investment Committee for the four scheduled meetings in 2014/15. Each Councillor has one vote with the Chair having the casting vote.

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

### Member Training

- 8.8. Members attend training events to develop and maintain the relevant skills required as set out in the CIPFA Knowledge and Skills framework. The framework covers six key areas:
- 1) Legislative and governance framework
  - 2) Accounting and auditing standards
  - 3) Procurement of financial services and relationship management
  - 4) Investment performance and risk management
  - 5) Financial markets and investment products
  - 6) Actuarial methods, standards and practices
- 8.9. During 2014-15 members attended the following training:

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

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

## 9 FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

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

## 10 FUNDING STRATEGY STATEMENT

- 10.1. The Fund has a Funding Strategy Statement (FSS) which details the Fund's approach to funding its liabilities. The FSS is reviewed in detail at least every three years in line with the triennial valuation. The last review was at 31 March 2013, with the results published in the 2013/14 Annual Report available on the Council's website.
- 10.2. The FSS has been developed by the Council in conjunction with the Fund's actuary, Hymans Robertson, and after consultation with the employers. The FSS focuses on the growth of the Fund's liabilities to pay pensions in the coming years and how those liabilities are funded by investments and contributions. The FSS has links to the Statement of Investment Principles.
- 10.3. The purpose of the FSS is to:
- establish a clear and transparent strategy which will identify how employers' pension liabilities are best met going forward;
  - support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
  - take a prudent longer-term view of funding those liabilities.
- 10.4. This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.
- 10.5. The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. The funding basis adopts an asset outperformance assumption of 1.6% per annum over and above the redemption yield in index-linked gilts.

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

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

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

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

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

## 11 STATEMENT OF INVESTMENT PRINCIPLES

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

## 12 COMMUNICATIONS POLICY STATEMENT

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

## 13 ADDITIONAL DATA

- 13.1. To assist in the production of the scheme annual report compiled by the LGPS Scheme Advisory Board, funds are required to include the following:
- 13.2. A summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members).

	Active	Ceased	Total
<b>Scheduled Body</b>	5	0	5
<b>Admitted Body</b>	23	21	24
<b>Total</b>	28	1	29

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

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

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

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