
PENSION FUND

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2018/19.

The Pension Fund's value increased over the year by £82m (6.3%), a year which saw the Fund complete its rebalancing strategy by divesting from equities and investing in alternative asset classes in line with the Fund's Investment and Funding Strategies.

INTRODUCTION

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

ORGANISATION

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation (referred to henceforth as 'the Regulations'):

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

The Pension Board operates independently of PIC and assists the administering authority in securing compliance with the Regulations and any other legislation or codes of practice relating to the governance and administration of the Scheme. Further information about the Board, together with its Terms of Reference, can be found online at the web address below.

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

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

www.lewishampensions.org

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ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The Local Government Pension Scheme (Administration) Regulations 2013 require administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Regulations summarise the Pension Code and the minimum disclosure requirements.

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

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

- (a) Fund Assets at 31 March 2019 – the below table outlines the fund managers, asset classes, and values of those assets held by the fund as at 31 March 2019.

Fund Manager	Asset	Asset Value	Proportion of	Asset Value
		31 March 2019 £000	the Fund 31 March 2019 %	31 March 2018 £000
Blackrock	Passive Equity and Bonds	526,667	38.0	484,194
UBS	Passive Equity and Bonds	446,038	32.2	478,594
Schroders Property	Property	112,281	8.1	108,397
J.P. Morgan	Infrastructure	80,580	5.8	0
Invesco	Diversified Growth/Targeted Returns	76,231	5.5	77,240
HarbourVest	Private Equity	51,321	3.7	40,905
Partners Group	Multi-Asset Credit	40,307	2.9	0
Pemberton	Multi-Asset Credit	22,937	1.7	27,717
M&G	Credit	656	0.0	851
Various Managers	Cash and Net Current Assets	28,678	2.1	86,188
Lewisham	Cash and Net Current	(438)	0.0	(560)
Total Fund Assets		1,385,258	100.0	1,303,526

- (b) Basis of Preparation - The accounts have been prepared on an accruals basis (i.e. income and expenditure attributable to the financial year have been included) even where payment has not actually been made or received, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (c) Investments - Investments in the Net Assets Statement are shown at Fair Value, the basis of measurement being market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2018/19 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. 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. Unlisted equities are quoted based on last trade or

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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.

- (d) The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.
- (e) Income - Dividend income earned from equity and bonds with BlackRock is reinvested and not repaid directly to the fund as cash, but from UBS is repaid to the Fund. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors.
- (f) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2019 is the actual fair value using the latest available valuation on or after 31 December 2018, plus an estimated valuation for the period up to 31 March 2019.
- (g) 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/unit trust funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards at Fair Value based on their Open Market Value (OMV).

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

- (h) Financing Fund - The fair value of the M&G fund is based on different pricing policies depending on the instrument being valued. The fund is close to maturity with debt instruments being repaid; at this stage of its life fund valuations are based on the manager's own internal valuation model which makes use of discounted cash flows. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2019 is the actual fair value using the latest available valuation on or after 31 December 2018, plus an estimated valuation for the period up to 31 March 2019.
- (i) Diversified Growth/Targeted Returns Fund – The pension fund is allocated notional units in the Invesco fund based on its overall contribution. Units will be valued on every business day in which units are created and realised. The value given to the fund's assets will be the recognised market quotation; if this is not available, the latest independent valuation will be used. Where no independent valuation can be used, the value will be determined by the manager in such manner as it deems appropriate.
- (j) Multi-Asset Credit Funds – the Pemberton private debt fund is valued at Fair Value using external benchmarks such as the equity values of comparable companies to borrowers, Credit Default Swap or commodity price movements and macro-economic data. Partners Group values its instruments using private credit estimates or public ratings for the issuer if available and above a rating of B- from Standard & Poor's. Below that, broker quotes are used where available, or Fair Values are derived based on widely recognised market and income valuation methods.

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- (k) Infrastructure Fund – Being illiquid and not publicly traded assets, J.P. Morgan appoint external valuers at least annually to determine the Fair Value of fund assets, whilst J.P. Morgan itself calculates the Net Asset Value (NAV) of each investment quarterly in accordance with their internal valuation policies which align with market best practice.
- (l) Contributions – These represent the total amounts received from the employers and employees within the scheme. From 1 April 2018 the employee contribution bands (revised annually in line with inflation) are as follows:

Pensionable Pay for the Post	Contribution Rates 2018/19	
	Main Section	50/50 Section
Up to £14,100	5.50%	2.75%
£14,101 to £22,000	5.80%	2.90%
£22,001 to £35,700	6.50%	3.25%
£35,701 to £45,200	6.80%	3.40%
£45,201 to £63,100	8.50%	4.25%
£63,101 to £89,400	9.90%	4.95%
£89,401 to £105,200	10.50%	5.25%
£105,201 to £157,800	11.40%	5.70%
More than £157,801	12.50%	6.25%

The employer's contribution is reviewed every three years and is determined by the fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation. The employer's contribution rate for 2018/19 is 22.5% and for 2019/20 it will remain unchanged.

- (m) Benefits – Benefits payable are made up of pension payments and lump sums payable to members of the Fund upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.
- (n) 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.
- (o) 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.
- (p) VAT – By virtue of Lewisham Council being the administering authority, VAT input tax is recoverable on fund activities. Any irrecoverable VAT is accounted for as an expense.
- (q) 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 triennial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2016.

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

Financial Assumption	March 2016 (%)	March 2013 (%)
Discount Rate	4.0	4.6
Price Inflation (CPI*)	2.1	2.5
Pay Increases	2.9	4.3
Pension Increase:		
Pension in excess of GMP**	2.1	2.5
Post - 88 GMP	2.1	2.5
Pre - 88 GMP	0.0	0.0
Revaluation of Deferred Pension	2.1	2.5
Expenses	0.6	0.7

* Consumer Price Index

** Guaranteed Minimum Pension

With effect from the 1 April 2017, the actuarial review carried out for 31 March 2016 resulted in the Council's contribution rate being set at 22.5%.

The next actuarial valuation of the Fund is underway and will be carried out as at 31 March 2019, with new employer contribution rates taking effect from 1 April 2020 for the 2020/21 financial year. The results of this valuation will be published in autumn 2019.

The triennial valuation on the 31 March 2016 revealed that the Fund's assets, which at 31 March 2016 were valued at £1,041 million, were sufficient to meet 78% (71% in 2013) of the past service liabilities valued at £1,328 million (£1,215 million in 2013) accrued up to that date. The resulting deficit as at the 2016 valuation was £288 million (£348 million in 2013).

- (r) Actuarial Present Value of Promised Retirement Benefits – The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £2,084m as at 31 March 2019 (£1,871m as at 31 March 2018).
- (s) 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 of funds under management as at the end of those quarters. Some managers invoice fees, others deduct fees from asset holdings; in the latter instance, the fees are added back to the accounts via a manual adjustment to accurately reflect the management expense.
- (t) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
 - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
 - Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.
- (u) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts; please see note 11.

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- (v) Financial Instruments –
- (i) Financial Liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.
- (ii) Financial Assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial Assets are classified into two types:
- Assets at amortised cost – assets that have fixed or determinable payments but are not quoted in an active market; and
 - Fair value through profit or loss – assets that are held for trading.
- (w) Critical judgements in applying accounting policies and assumptions made about the future and other major sources of estimation uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the future or that are otherwise uncertain. There are two areas in the accounts where critical judgements are applied which are materially significant to the accounts:
- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of assumptions including the discount rate, mortality rates and expected returns on fund assets. The Pension Fund’s qualified actuary calculates this figure to ensure the risk of misstatement is minimised.
 - Private Equity valuations – the value of the Fund’s private equity holdings is calculated by the General Partners of the fund on the basis of their Valuation Policy, which follows best practice in the industry. However this is based upon a 31 December audited accounts valuation adjusted for estimated distributions and capital calls up to 31 March. Other mandates including the diversified growth, infrastructure and multi-asset credit funds also adopt their own valuation policies when other quoted or comparable inputs are unavailable.
- (x) Additional Voluntary Contributions (“AVCs”)

Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main fund, and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed as transfers-in. Further details about the AVC arrangements are disclosed in note 13 to the financial statements.

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FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2019

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

	2018/19 £000	2017/18 £000	See note
<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME</u>			
Contributions Receivable:			
- from Employers	(31,990)	(30,417)	1
- from Employees	(9,712)	(9,211)	1
- Reimbursement for Early Retirement	(133)	(609)	
Transfer Values In	(4,453)	(6,136)	
Other Income	(68)	(30)	
Sub-Total: Income	(46,356)	(46,403)	
Benefits Payable:			
- Pensions	42,220	40,420	2
- Lump Sums: Retirement allowances	8,261	6,779	2
- Lump Sums: Death grants	843	1,039	2
Payments to and on account of leavers:			
- Refunds of Contributions	118	140	
- Transfer Values Out	4,133	4,438	
Sub-Total: Expenses	55,575	52,816	
Sub-Total: Net (Additions)/ Withdrawals from dealings with members	9,219	6,413	
Management Expenses	2,830	1,929	3
Sub-Total: Net (Additions)/ Withdrawals including fund management expenses	12,049	8,342	
<u>RETURNS ON INVESTMENTS</u>			
Investment Income	(6,168)	(6,594)	4
Change in market value of investments (Realised & Unrealised)	(88,005)	(30,897)	5a
Taxes on Income	392	192	
Total Net Returns on Investments	(93,781)	(37,299)	
NET (INCREASE) / DECREASE IN THE FUND DURING YEAR	(81,732)	(28,957)	
OPENING NET ASSETS OF THE FUND	(1,303,526)	(1,274,569)	
CLOSING NET ASSETS OF THE FUND	(1,385,258)	(1,303,526)	

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NET ASSETS STATEMENT AS AT 31 MARCH 2019

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2019.

	31/03/19 £000	31/03/18 £000	See note
INVESTMENT ASSETS			
Equities			
United Kingdom	13,747	11,487	5
Global	0	0	5
	13,747	11,487	
Managed Funds			
Property	112,285	108,401	5
Equities	695,931	710,103	5
Fixed Interest	183,854	210,101	5
Index Linked	92,934	42,600	5
Other Assets	258,282	135,223	5
	1,343,286	1,206,428	
Cash Held with Custodian	28,593	86,154	9
Derivative Contracts			
Assets	0	1,069	7
Liabilities	0	(1,069)	7
Other Investment Balances			
Debtors - Investment Transactions	70	3,101	8
Creditors - Investment Transactions	0	(3,085)	8
TOTAL INVESTMENTS	1,385,696	1,304,085	
NET CURRENT ASSETS AND LIABILITIES			
Debtors	276	287	8
Creditors	(1,763)	(1,689)	8
Cash in Hand	1,049	843	9
TOTAL NET ASSETS	1,385,258	1,303,526	

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2019. This liability is included within the Authority's balance sheet.

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NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVED

	2018/19 £000	2017/18 £000
Employer Contributions		
Administering Authority	(25,790)	(24,771)
Scheduled Bodies	(5,518)	(4,913)
Admitted Bodies	(682)	(733)
	(31,990)	(30,417)
Employee Contributions		
Administering Authority	(7,719)	(7,281)
Scheduled Bodies	(1,765)	(1,687)
Admitted Bodies	(228)	(243)
	(9,712)	(9,211)

2. BENEFITS PAID

<u>By Category</u>	2018/19 £000	2017/18 £000
Pensions	42,220	40,420
Commutation and Lump Sum Retirement Benefits	8,261	6,779
Lump Sum Death Grants	843	1,039
	51,324	48,238

<u>By Authority</u>	2018/19 £000	2017/18 £000
Administering Authority	46,924	44,572
Scheduled Bodies	3,005	2,748
Admitted Bodies	1,395	918
	51,324	48,238

3. MANAGEMENT EXPENSES

	2018/19 £000	2017/18 £000
Administration Expenses	626	696
Oversight and Governance Expenses	235	257
<u>Investment Management Expenses:</u>		
- Transaction Costs	24	12
- Management Fees	1,911	917
- Performance Fees	0	0
- Custody Fees	34	47
	2,830	1,929

The increase in management fees reflects the change in Fund structure and the transition of assets into more actively managed alternative asset classes from passive equity mandates, undertaken during the year.

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4. INVESTMENT INCOME

	2018/19 £000	2017/18 £000
Cash	(258)	(90)
Equities	0	(216)
Fixed Interest	0	(430)
Index Linked	0	(88)
Managed Funds (incl Property)	(5,079)	(5,416)
Securities Lending	(1)	(5)
Other	(831)	(349)
	(6,169)	(6,594)

5 INVESTMENT ANALYSIS

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

Asset	Manager	31 March 2019	
		£000	%
UBS Asset Management Life World Equity Tracker	UBS	199,997	14.4
Aquila Life US Equity Index Fund	Blackrock	164,509	11.9
Blackrock Pensions Aquila Life UK Equity Index Fund	Blackrock	96,565	7.0
UBS Asset Management Life UK Equity Tracker A Nav	UBS	81,108	5.9
IIF UK I LP	JP Morgan	80,580	5.8
Invesco Fund Managers Perpetual Targeted Returns	Invesco	76,231	5.5

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

UK Equities			
Harbourvest GE PE Shares	Harbourvest	13,809	100.0
Property			
Schroder Unit TST UK Real Estate	Schroders	16,262	14.3
IPIF Feeder Unit Trust Fund	Schroders	13,116	11.5
Real Income Fund	Schroders	11,774	10.4
Hermes Property Unit	Schroders	11,117	9.8
Blackrock UK FD	Schroders	10,265	9.0
Metro Ppty Unit Trust	Schroders	9,737	8.6
Mayfair Cap Ppty (MCPUT)	Schroders	9,037	8.0
Multi-Let INDL Property Unit Trust	Schroders	7,926	7.0
Legal and General Managed Property Fund	Schroders	6,803	6.0
Managed Equities			
UBS Asset Management Life World Equity Tracker	UBS	199,997	29.0
Aquila Life US Equity Index Fund	Blackrock	164,509	23.8
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	95,565	13.9
UBS Asset Management Life UK Equity Tracker A Nav	UBS	81,108	11.8
Aquila Life European Equity Index Fund	Blackrock	40,832	5.9
BlackRock AM (IE) ISHS Emerging Markets Index	Blackrock	35,995	5.2
Fixed Interest			
Blackrock Pensions Aquila Over 15 Years UK	Blackrock	47,839	26.0
Blackrock AM (IE) UK Credit	Blackrock	47,100	25.6
UBS GBL Asset Life UK Over 15 Year Gilt	UBS	44,859	24.4
UBS Asset Mgmt STG Corp	UBS	44,332	24.1
Index Linked			
Aquila Life Over 5 yrs Index Fund	Blackrock	48,803	52.3
UBS Asset Mgmt Life Over 5 Year Index Linked Gilt Tracker	UBS	44,589	47.7
Alternatives			
JP Morgan IIF UK I LP	JP Morgan	80,580	31.2
Invesco Fund Managers Perpetual Targeted Returns	Invesco	76,231	29.5
Partners Group Comp MAC 2017 IV	Partners Group	40,307	15.6
Pemberton Euro Debt Investments Jersey II	Pemberton	22,937	8.9
HIPEP VII (AIF) Partnership Fund LP	Harbourvest	17,119	6.6

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An analysis of investment movements is set out below:

5. INVESTMENT ANALYSIS

INVESTMENT MOVEMENTS 2018/19	Value at 31 March 2018 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2019 £000
UK Equities	11,487	0	0	0	2,260	13,747
Global Equities	0	0	0	0	0	0
Managed Equities	710,103	8,087	(83,101)	(2,777)	63,619	695,931
Property	108,401	9,207	(8,231)	0	2,908	112,285
Fixed Interest Securities	210,101	15,875	(5,013)	1,867	(38,976)	183,854
Index Linked Securities	42,600	2,100	(3,900)	910	51,224	92,934
Other Assets*	135,223	142,214	(26,634)	(13)	7,492	258,282
Derivatives	0	0	0	0	0	0
	1,217,915	177,483	(126,879)	(13)	88,527	1,357,033
Cash Deposits	86,154				(513)	28,593
Other Investment Balances	16				(9)	70
Total Investments	1,304,085				88,005	1,385,696

* Includes Infrastructure, Multi-Asset Credit, Private Equity and Diversified Growth funds.

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

Apart from global equities, overseas managed equities and bonds, the other overseas investments held by the Fund fall under the 'Other Assets' category comprising of private equity with a value of £37.5m, multi-asset credit/private debt with a value of £22.9m, and infrastructure with a value of £80.6m.

The total value of unquoted securities held by the fund as at 31 March 2019 was £1,022m, this includes equities, bonds, private equity, diversified growth, infrastructure and multi-asset credit funds.

The total value of quoted securities held by the fund as at 31 March 2019 was £218m, this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds unitised/unit-linked insurance policies valued at £887m and unit trusts valued at £197m, of which £114m relates to pooled property investments. The Fund also holds assets with value £63m as a Limited Partner in the compartments of multi asset credit limited partnerships, and £81m in a perpetual life infrastructure fund.

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As at 31 March 2018:

INVESTMENT MOVEMENTS 2017/18	Value at 31 March 2017 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2018 £000
UK Equities	11,777	0	0	0	(290)	11,487
Global Equities	13,805	4	(13,411)	8	(406)	0
Managed Equities	830,606	243,467	(385,544)	0	21,574	710,103
Property	98,174	9,723	(5,488)	(8)	6,000	108,401
Fixed Interest Securities	206,232	6,451	(4,409)	279	1,548	210,101
Index Linked Securities	41,599	1,600	(910)	73	238	42,600
Other *	32,862	111,208	(11,362)	(74)	2,589	135,223
Derivatives	0	0	0	0	0	0
Sub-total	1,235,055	372,453	(421,124)	278	31,253	1,217,915
Cash Deposits	36,517				(365)	86,154
Other Investment Balances	(336)				9	16
Total Investments	1,271,236				30,897	1,304,085

* Includes Multi-Asset Credit, Private Equity and Diversified Growth funds.

5A. FINANCIAL INSTRUMENTS

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

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	31-Mar-19			31-Mar-18		
	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost
	£000	£000	£000	£000	£000	£000
Financial Assets						
Equities	13,747			11,487		
Managed Funds:						
Property	112,285			108,401		
Managed Equity	695,931			710,103		
Fixed Interest	183,854			210,101		
Index Linked	92,934			42,600		
Other Alternative Assets	258,282			135,223		
Derivative contracts	0			1,069		
Cash deposits		28,593			86,154	
Pending Trades		0			361	
Dividends & Income		70			2,740	
Contributions Due		189			189	
Cash Balances		1,049			843	
Other Current Assets		87			98	
Total Financial Assets	1,357,033	29,988	0	1,218,984	90,385	0
Financial Liabilities						
Derivative Contracts			0			(1,069)
Pending Trades			0			(3,085)
Unpaid benefits			0			0
Other Current Liabilities			(1,763)			(1,689)
Total Financial Liabilities	0	0	(1,763)	0	0	(5,843)
Net Financial Assets	1,357,033	29,988	(1,763)	1,218,984	90,385	(5,843)

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

	31/03/19 £000	31/03/18 £000
Financial Assets		
Fair Value through Profit and Loss	88,005	30,897
Assets at Amortised Cost	0	0
Financial Liabilities		
Fair Value through Profit and Loss	0	0
	88,005	30,897

Valuation of Financial Instruments carried at Fair Value

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into three levels, according to the quality and reliability of information used to determine fair values.

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, quoted fixed securities, quoted index linked securities and unit trusts).

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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, or where valuation techniques are used to determine fair value).

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 31 March 2019	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/19 £000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	13,747	1,224,479	118,807	1,357,033
Financial Assets at Amortised Cost	29,988	0	0	29,988
	43,735	1,224,479	118,807	1,387,021
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(1,763)	0	0	(1,763)
	(1,763)	0	0	(1,763)
Net Financial Assets	41,972	1,224,479	118,807	1,385,258

Values as at 31 March 2018	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/18 £000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	11,487	1,176,161	30,267	1,217,915
Loans and Receivables	90,384	0	0	90,384
	101,872	1,176,161	30,267	1,308,300
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(4,774)	0	0	(4,774)
	(4,774)	0	0	(4,774)
Net Financial Assets	97,098	1,176,161	30,267	1,303,526

5B. FINANCIAL RISK MANAGEMENT

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

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operations. The value of these financial instruments is reflected in the financial statements at their fair value.

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

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

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

The Committee has determined that the current largely passive investment management structure is appropriate and is in accordance with its latest investment strategy. In 2018/19 the Fund completed its onboarding with the Partners Group Multi Asset Credit 2017 (IV) GBP fund, investing its commitment of £40m in full, and also reduced equity holdings by an additional 6% of the Fund's total value, committing the sales proceeds to a \$105m investment in J.P. Morgan's Infrastructure Investment Fund. These actions were in line with the Funding Strategy and Investment Strategy Statements approved by PIC towards the end of 2016/17.

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

i) Market Risk

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

a) Other Price Risk – Market

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

b) Other Price Risk – Sensitivity analysis

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

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Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period, assuming all other variables such as foreign exchange rates and interest rates remain the same:

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	9.4
Global Equities	10.3
Bonds and Index Linked	9.3
Alternatives	4.2
Property	1.9
Cash	0.5

Applied to the period end asset mix, the potential impact on the Fund's market value in the next financial year is as follows:

Asset Type	Final Market Value as at 31 March 2019 £000	Percentage Change	Value on Increase £000	Value on Decrease £000
UK Equities	380,911	9.4	416,838	344,984
Global Equities	328,767	10.3	362,583	294,951
Bonds and Index Linked	276,789	9.3	302,630	250,948
Other Assets	258,282	4.2	269,158	247,406
Property	112,285	1.9	114,382	110,188
Cash	28,592	0.5	28,735	28,449
Total Assets*	1,385,626	6.5	1,475,392	1,295,860

* This figure excludes derivatives and other investment balances.

** The % change and value change for Total Assets includes the impact of correlation across asset classes

c) Interest Rate Risk is the risk the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The risk is mitigated by the Fund holding minimum cash balances and a diversified portfolio.

d) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£GBP). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31 March 2019 with the previous year in brackets:

Euro	€15.9m	(€16.9m)
US Dollars	\$190.6m	(\$88.4m)

The remaining exposures arise from much smaller investments relating to other currencies.

e) Currency risk – sensitivity analysis

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges and the latter are "over the counter" agreements, which neither the purchaser nor the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from

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entering into an equal and opposite contract at the reporting date. As at 31 March 2019 there were no pending foreign exchange purchases or sales. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements in 2019/20 to be 9.1%. This volatility is applied to the Fund's overseas assets at period end as follows:

Asset Type	Asset Value at 31 March 19 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas Equities	328,767	9.1	358,691	298,843
Overseas Fixed Income	91,352	9.1	99,667	83,037
Other Alternatives	141,051	9.1	153,889	128,213
Total	561,170	9.1	612,248	510,092

ii) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in 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 and monitoring of counterparties – including; brokers, custodian and investment managers - seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

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

iii) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due. For example; the benefits payable costs and capital commitments. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2019 these assets totalled approximately £986m, comprising of bonds and equities, with a further £28.6m held in cash by the custodian on behalf of the Fund and fund managers.

6. PRIOR YEAR ADJUSTMENT

No prior year accounting adjustments have been made to these accounts. The membership numbers in note 17 have been restated for 2017/18 due to an error in member allocation between the administering authority and scheduled bodies; the total number of members in 2017/18 remains unchanged from that previously reported.

7. DERIVATIVE CONTRACTS

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As at 31 March 2019 there were no pending foreign exchange purchases or sales. The net gains and losses in the table below relate to foreign exchange forward contracts.

	2018/19	2017/18
	£000	£000
Foreign Exchange Gains	21	2
Foreign Exchange Losses	0	(4)
Total Unrealised Gains / (Losses)	21	(2)

8. DEBTORS & CREDITORS

These comprise the following amounts:

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Investment Transactions**Debtors**

	31/03/19 £000	31/03/18 £000
Equity Dividends / Income from Managed Funds	38	0
Interest and Other Income	32	2,740
Pending Trades	0	361
	70	3,101

Creditors

	31/03/19 £000	31/03/18 £000
Pending Trades	0	(3,085)
	0	(3,085)

Non-Investment Transactions**Debtors**

	31/03/19 £000	31/03/18 £000
Contributions Due from Admitted/ Scheduled Employers/ Employees	189	189
Interest and Other Income	0	0
LB Lewisham	64	64
Tax Refunds	23	34
	276	287

Creditors

	31/03/19 £000	31/03/18 £000
Fund Manager and Custody Fees	(274)	(283)
Consultancy/ Advisory Fees	(8)	(56)
LB Lewisham	(1,481)	(1,350)
	(1,763)	(1,689)

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

The Northern Trust Company is the Fund's global custodian and cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2019 was £28.6m (£86.2m as at 31 March 2018). Approximately £10.2m of this was from HarbourVest, £8.5m from Pemberton, £5.7m with Schrodgers and £4.1 was being held on behalf of the other managers.

Pension Fund Bank Account

The Lewisham cash in hand balance of £1,049m represents uninvested cash held in the Pension Fund bank accounts as at 31 March 2019.

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10. POST YEAR END EVENTS

There are no post year events to report. However, the results of the 2019 triennial valuation are expected in the autumn and the Fund's strategy will be revisited and reviewed in light of the results of that valuation. This review will take account of the updated view on the performance required from the Fund and therefore the level of risk to be adopted.

The Council is in the process of having the Fund's equity funds analysed for their carbon footprint, and it is expected that the Fund will transition a proportion of these assets into low-carbon equivalents where possible.

The Council also plans to undertake a retender of its actuarial and investment advisory services later in 2019 using the National LGPS frameworks.

11. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31 March 2019:

Fund Manager	Fund	Amount ('000)	Translated (£'000)
HarbourVest	Harbourvest Partners VIII - Cayman Venture Fund L.P	\$190	146
HarbourVest	Harbourvest Partners VIII - Cayman Buyout Fund L.P	\$833	639
HarbourVest	HarbourVest Partners X AIF L.P.	\$19,343	14,845
HarbourVest	HarbourVest Partners XI AIF L.P.	\$25,000	19,186
HarbourVest	HIPEP VII (AIF) Partnership Fund L.P.	€ 9,000	6,907
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Partnership Fund L.P	€ 700	603
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Direct Fund L.P	£180	155
Pemberton	European Debt Investments Jersey II LP	£18,748	18,748
	Total		61,229

12. RELATED PARTY TRANSACTIONS

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

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

During the year the following declarations were made:

- Councillors Chris Best and John Muldoon declared their interests as members of Lewisham's Pension Fund.
- The Chair of the Investment Committee Cllr Mark Ingleby sits on the Board of Lewisham Homes, the Council's housing subsidiary.

Four members and an independent chair make up the membership of the Pensions Board, which assists the administering authority in adhering to the Regulations with regards to its administration and governance of the scheme. At each meeting of the Board, members are required to make declarations of interest which are recorded.

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During the year no declarations of interest were made apart from the members being participants in the scheme, although this is a requirement of their Board membership.

No other trustees or Council chief officers with direct responsibility for pension fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2019.

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

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £652k (included in Administration Expenses in 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 for 2018/19 was £192,492, which includes employer's pension contributions of £35,356. This total also includes an allowance for acting as Chief Executive following the departure of the previous post holders.

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 49 '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(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

	2018/19			2017/18		
	Equitable Life £000	Clerical Medical £000	Total £000	Equitable Life £000	Clerical Medical £000	Total £000
Value at the Beginning of Year	434	876	1,310	461	848	1,309
Contributions and Transfers Received	3	172	175	4	173	177
Investment Return	13	93	106	17	10	27
Paid Out	(22)	(177)	(199)	(48)	(155)	(203)
Value at the End of the Year	428	964	1,392	434	876	1,310

14. SCHEDULED BODIES

The following are scheduled bodies to the Fund as at 31 March 2019, arranged in descending order by the value of their contributions in 2018/19:

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

15. ADMITTED BODIES

PENSION FUND

The following are admitted bodies to the Fund as at 31 March 2019, arranged in descending order by the value of their contributions in 2018/19:

Youth First LTD
Phoenix
Phoenix Agency Services
Chartwells Compass
Lewisham Music
Skanska
One Housing
3 C's Support
NSL (formerly known as National Car Parks Ltd)
Change Grow Live
Nviro
Fusions Leisure Management
Quality Heating
Pre-School Learning Alliance
Housing 21
Wide Horizons
Tower Services
Chequers Contract Services – Lee Manor

16. STOCK LENDING

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

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

As at the 31 March 2019 the value of aggregate stock on loan was £0m (£0m as at 31 March 2018); the Fund does not currently hold any segregated assets for participation in the securities lending programme.

Collateral

The collateral held as security on loans cannot be sold or re-pledged in the absence of default by the borrower. The Fund did not enter into any stock lending transactions during the financial year, and the value of collateral held as at 31 March 2019 was £0m (£0m as at 31 March 2018).

17. MEMBERSHIP

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	Active Members			Deferred Beneficiaries			Retired Members		
	2018/19	2017/18 (RESTATED)	2017/18	2018/19	2017/18 (RESTATED)	2017/18	2018/19	2017/18 (RESTATED)	2017/18
Administering Authority	5,656	5,761	5,513	10,295	9,892	9,531	7,360	7,248	7,184
Scheduled Bodies	951	933	1,181	1,051	931	1,292	298	275	339
Admitted Bodies	119	127	127	123	127	127	111	99	99
	6,726	6,821	6,821	11,469	10,950	10,950	7,769	7,622	7,622

The membership totals for 2017/18 in relation to the administering authority and scheduled bodies have been restated due to a reporting error in which certain members categorised under the administering authority were inadvertently reported under scheduled bodies.

18. AUTHORISATION

These accounts were approved by Council on XXXXXX.