PENSIONS INVESTMENT COMMITTEE			
Report Title	**PENSION FUND ANNUAL REPORT FOR YEAR ENDING 31ST MARCH 2010**		
Key Decision			**Item No. 7**
Ward			
Contributors	**Executive Director for Resources**		
Class	**Part 1**	**Date: 1 SEPTEMBER 2010**	

1. Purpose of the Report

1.1 This report sets out the Annual Report on the Pension Fund activities for the year ending 31 March 2010 which is attached as Appendix 1.

1.2 The Council is required to publish the report by the 1st December each year and the contents are specified by guidance issued by the Government in July 2009.

2. Recommendation

It is recommended that the Pensions Investment Committee approve the Annual Report for publication as set out in Appendix 1.

3. Background

3.1 Regulations issued by the Government in 2008 require Councils which administer pension funds to publish by the 1st of December each year a report which details their activities for the preceding financial year. The first reports under these provisions were published for 2008/09.

3.2 The Regulations were supplemented by Guidance issued in July 2009 which established a general framework within which reports were to be prepared.

3.3 The Report incorporates the Pension Fund statement of accounts and consequently is subject to audit. To enable the audit to be completed by the statutory deadline of the 30th September it is necessary to prepare the report by this date.

3.4 The report essentially consolidates a number of published statutory statements including the Statement of Investment Principles, Funding Strategy Statement and Communications Policy Statement into one document.

3.5 The Statement of Investment Principles (SIP) which forms part of the Annual Report has been revised to incorporate the requirement to provide a section on risk and stock lending. The revised SIP has been reviewed by the Funds Independent Advisor.

3.6 A number of the sections are related to the revaluation currently being undertaken by the actuary. These sections including the Funding Strategy Statement and the Executive Report on the Revaluation will be extensively updated in the 2010/11 report.

4. <u>Legal Implications</u>

4.1 Provision for the publication of the pension fund annual report commencing with the financial year 2008/09 and for subsequent years is covered by regulation 34 of the Administration Regulations.

4.2 As set out in the report the Administering authority (London Borough of Lewisham) must produce the report by 1st December 2010 for the year 2009/10.

4.3 In preparing and publishing the pension fund annual report the authority must have regard to guidance given by the Secretary of State.

5. <u>Conclusions</u>

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

5.2 It has been published earlier to enable the audit of the Council's statement of accounts to be completed within the statutory deadline of the 30th September 2010.

Background Papers

None reported

If there are any queries on this report please contact Jim Ricketts tel: 0208 314 9299

Appendix 1: Draft Annual Report

LONDON BOROUGH OF LEWISHAM PENSION FUND

ANNUAL REPORT 2009/10

CONTENTS

FOREWORD

BY THE CHAIR OF THE PENSIONS INVESTMENT COMMITTEE
Cllr Dan Whittle

Financial markets staged a sharp recovery in 2009/10. The value of the Lewisham Pension Fund increased by £196 million (38%) which recovered the reduction in value sustained in 2008/09. This recovery remains fragile with continuing uncertainty on the strength of the economic recovery and sovereign debt contributing to volatility in financial markets.

The year which was under the previous Chair Councillor Alan Smith was essentially one of consolidation to provide the revised management structure and asset allocation an opportunity to deliver performance. In this context it is pleasing to note that the fund was placed 48 out of 100 funds by the WM Company which was a considerable improvement on the 98th and 81st rankings in the previous two years. It does however also emphasise the scope for further improvement in the fund's performance.

The Fund faces considerable challenges in the short term with the fund revaluation currently being undertaken by the scheme actuary and the Hutton Commission on the provision of public sector pensions due to report by the Autumn. Rising life expectancy and declining relative investment returns will inevitably impact on the level of the employers contributions and create further debate on the affordability and options for the future shape of the Scheme.

The revaluation will also provide a context within which to consider the future direction of the Fund's investment strategy.

.

1. MANAGEMENT

SCHEME MANAGEMENT AND ADVISERS

INTRODUCTION

The Pension Fund is a funded, defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the London Borough of Lewisham and the admitted bodies and scheduled bodies in the fund under the provisions of the Local Government Superannuation Acts and Regulations.

These benefits include retirement pensions, widows' pensions, and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable are based on an employee's final salary and the number of years of eligible service. Pensions are currently increased each year in line with the Retail Price Index (RPI).

The fund is financed by contributions from employees, the Council, the admitted/ scheduled bodies and from interest and dividends on the fund's investments. The employers contributions are set by the fund's actuary at the actuarial valuation which is carried out every third year.

The regulations governing the administration of the pension scheme and those regarding scheme benefits, membership and contributions are updated on a regular basis by central government. A revised scheme came in to effect from 1st April 2008.

The Council has delegated the investment arrangement of the scheme to the Pensions Fund Investment Committee (PIC) who decide on the investment policy most suitable to meet the liabilities of the fund and the ultimate responsibility for the investment policy lies with it. The Committee comprises eight elected representatives of the Council, including two opposition party representatives, all of whom have voting rights. Members of the admitted bodies and representatives of the Trade Unions may attend the Committee meetings as observers but have no voting rights.

The Committee reports to the full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Executive Director For Resources, and the fund's appointed actuary, investment managers and advisors.

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

SCHEME MANAGEMENT AND ADVISERS

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

1. Investment Committee

Councillors

Cllr Whittle (Chair)
Cllr Maslin (Vice Chair)
Cllr Allison
Cllr Best
Cllr Feakes
Cllr Fletcher
Cllr Muldoon
Cllr Wise

Union Representatives

Mr J Hale UNISON
Vacant UNITE

Pensioner Representatives

Mrs C Humble
Mr D Tucker

Admitted Body Representative

Vacant

2. Executive Director for Resources

Janet Senior
Town Hall, London, SE6 4RU

3. Investment Managers

Alliance Bernstein

Devonshire House, 1 Mayfair Place ,

London WIJ 8AJ

UBS Global Asset Management

21 Lombard Street,

London EC3V 9AH

Schroders

31 Gresham Street,

London EC2V 7QA

HarbourVest

8th floor, Suite 7,Berkeley Square House,

Berkeley Square. London

RCM (UK) Limited

155 Bishopsgate

London EC2M 3AD

Fauchier Partners

72 Welbeck Street London

W1G 0AY

Investec Asset Management

2 Gresham Street

London EC2V 7QP

M&G

4. Custodian Bank

The Northern Trust Company

50 Bank Street, Canary Wharf,

London E14 5NT

5. Actuary

Hymans Robertson LLP

20 Waterloo Street

Glasgow G2 6DB

6. Investment Consultant

Hymans Robertson LLP

20 Waterloo Street

Glasgow G2 6DB

7. Solicitors

Legal Services

Town Hall,

London, SE6 4RU

8. Performance Measurement

The Northern Trust Company

50 Bank Street, Canary Wharf,

London E14 5NT

The W.M. Company (a subsidiary of State Street Bank)

World Markets House, Crewe Toll,

Edinburgh, EH4 2PY

9. Commission Recapture Agent

Lynch, Jones & Ryan, In
3 Times Square, New York,
NY 10036, U.S.A.

10. Bankers

The Co-operative Bank
Regional Public Sector Manager
Public Sector
The Co-operative Bank
4th Floor, 9 Prescot Street
London. E1 8BE.

11. Auditors
Audit Commission
First floor Millbank Tower,
Millbank,
London. SW1P 4HQ.

12. Independent Investment Adviser
Scott Jamieson
51 Braidpark Drive, Giffnock
Glasgow. G46 6LY

11. Officers (investment)
Jim Ricketts: Interim Group Manager, Capital & Treasury
Alex Robertson: Treasury and Pension Fund Accountant

12. Officers (Administration)
Carol Eldridge: Group Manager
Mike Dobson: Team Leader

13. AVC providers

Clerical Medical
PO Box 174 Walton Street Aylesbury
Bucks. HP21 7YP.

Equitable Life
PO Box 177 Walton Street
Aylesbury
Bucks. HP21 7YH.

14. Membership of Professional Associations

National Association of Pension Funds

Local Authority Pension Fund Forum

2. INVESTMENT POLICY AND PERFORMANCE

STRATEGIC ASSET ALLOCATION

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

Manager	Mandate	Target Allocation
Bernstein	Global Equities	22.00%
RCM	Global Equities	22.00%
UBS: Equity	UK Equities	16.00%
UBS: Bonds	Fixed Interest	16.00%
Schroder	Property	10.00%
Fauchier	Hedge Funds	3.00%
Harbour Vest	Venture Capital	3.00%
M&G Credit	Credit	3.00%
Investec	Commodities	5.00%
		100.00%

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

Error! Not a valid link.

The top holdings of securities are as set out below. Managers are holding increasing proportions of portfolios in unit trusts and collective investment schemes. The top unit trust holdings are as set out below.

	£Million	% Total Investments
UBS Global Asset Life: UK Equity Tracker Fund	119.771	16.9%
UBS Global Asset Over 5 Year Index Linked Gilt Fund	40.338	5.68%
Alliance Bernstein Emerging Value Fund	32.158	4.53%
UBS Life :Neutral UK Corporate Bond Fund	29.934	4.22%
UBS Global Asset Management Corporate Bond Fund	25.777	3.63%
UBS Global Asset Management Long Dated UK Fixed Interest Fund	20.642	2.91%
Jubilee Absolute Return Fund	20.371	2.87%
Schroder Real Continental European Property Fund	7.705	1.09%
Harbourvest International Partners Venture Capital Fund	7.303	1.03%
Rockspring Hannover Property Unit Trust	5.806	0.82%
	309.805	43.6%

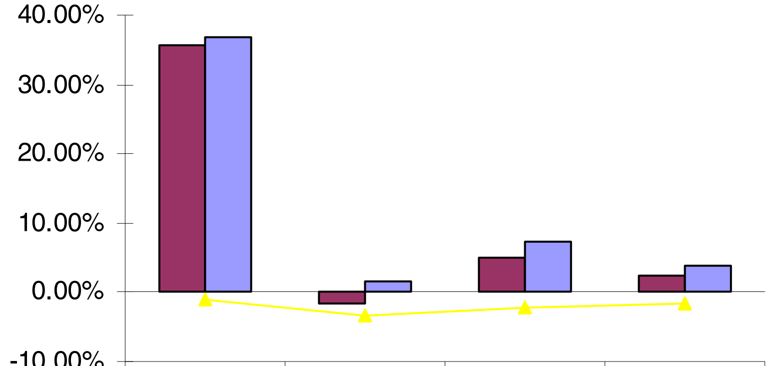
The corresponding table for direct holdings is as detailed below

	£Million	% Total Investments
BHP Billiton Plc	3.997	0.6%
Nestle	3.413	0.5%
Royal Dutch Shell	3.297	0.5%
Apple Inc	2.757	0.4%
JP Morgan Chase & Co	2.745	0.4%
BNP Paribas	2.685	0.4%
Philip Morris International	2.607	0.4%
Hewlett Packard Co	2.595	0.4%
Teva Pharmaceutical Industries	2.499	0.4%
Sony Corporation	2.415	0.3%
	29.010	4.1%

PERFORMANCE

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

Agregate Fund: Comparative Performance



	One year	Three Years	Five years	Ten Years
Fund Performance	35.80%	-1.74%	5.09%	2.30%
Benchmark	36.75%	1.49%	7.24%	3.84%
Relative Performance	-0.95%	-3.23%	-2.15%	-1.54%

The table indicates that the Fund has consistently underperformed the benchmark. However it should be noted that the current structure which was introduced to address longer term underperformance issues has been operational for a relatively short period.

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

Manager	Mandate	Performance Target	Performance Relative to Benchmark - Excess/(Under) 1 Year	3 Year	5 Year	10 Year
Alliance Bernstein	Global Equity	To outperform the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) index by 1.5% over a three year rolling period net of fees.	3.55%	-5.30%	-2.02%	
Fauchier	Hedge Fund	To outperform UK Base Rates by 5% over a five year rolling period	7.79%			
Harbourvest	Venture Capital	To outperform the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) index by 5% over a [illegible] year rolling period net of fees.	55.34%	2.10%		
RCM	Global Equity	To outperform the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) index by 1.5% over a three year rolling period net of fees.	10.27%			
Schroders	Property	To outperform the Investment Property Databank (IPD) by 0.75% per annum over a three year rolling period net of fees.	-3.56%	-1.38%	-7.37%	
UBS (Equity)	UK Equity (Index)	Index tracker (and the performance will correspond to the index return)	-0.08%			
UBS (Bonds)	Fixed Interest	To outperform a composite of various bond indices by 1.1% over a rolling three year period net of fees.	10.00%	0.70%	2.39%	
INVESCO	Commodities	Dow Jones UBS Commodities Index +1%				
M & G	Credit	One Month London Interbank Offer Rate (LIBOR) + 4%				

The table indicates the relatively short duration of the current manager appointments and the volatility of returns of the investments which are essentially held for the long term.

3. SCHEME ADMINISTRATION

REVIEW OF ADMINISTRATION DURING THE YEAR

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

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

Administrative Targets and Comparative Performance

Function	Target Days	Number of Cases 2009/10	Number of Cases 2008/09	Achievement of Target 2009/10	Achievement of Target 2008/09
New Scheme Members	20	883	95[illegible]	92.3%	82.0%
Estimate of Benefits	10	733	782	99.0%	98.3%
Responding to correspondence	10	[illegible]	[illegible]	97.0%	90.0%
Preserved Benefits	15	987	433	27.0%	30.3%
Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme	10	452	255	90.0%	74.5%
Retirements	10	280	243	96.0%	94.7%
Death cases	5	[illegible]	[illegible]	97.0%	94.0%
Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme	10	120	129	60.0%	80.0%
Additional contributions	10	30	34	97.0%	100.0%
Refunds of contributions	10	[illegible]	9	94.0%	100.0%
Overall Performance		4,3[illegible]3	[illegible],582	76.5%	85.3%

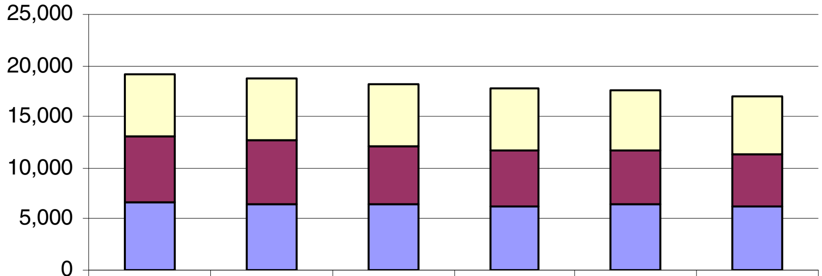
STAFFING

The Administering Authority role of the pensions section comprises of 5.7 full time equivalent staff. Relevant staffing ratios are as set out below.

	31 Mar 2010	31 Mar 2009
Pension Fund Member per Member of Staff	3,374	3,290
Transaction per Member of Staff	758	628

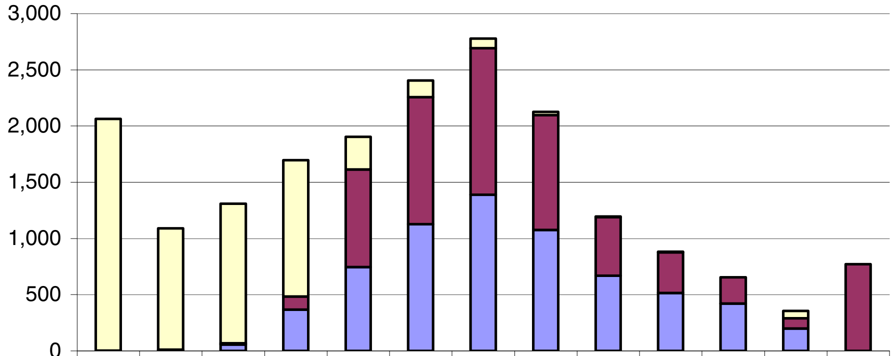
MEMBERSHIP NUMBERS

The number and composition of the Pension Fund is as set out below. The table indicates that the total membership of the fund at the 31st March 2010 was 19,231 which represented an increase of 2,186 (135) over the six year period. The principal increase is in the deferred members.



	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05
Pensioners	6,225	6,078	6,005	5,930	5,859	5,789
Deferred	6,433	6,237	5,815	5,566	5,353	5,083
Active Members	6,573	6,436	6,380	6,198	6,400	6,173

The age profile of the Fund is as set out below



	Over 75	70-74	65-69	60-64	55-59	50-54	45-49	40-44	35-39	30-34	25-29	Under 25	Frozen Pensi
Retired Members	2,061	1,081	1,240	1,211	292	149	87	29	7	3	0	65	
Deferred Members	2	3	11	117	867	1,129	1,303	1,021	521	364	233	92	770
Active Members	0	7	57	368	746	1,128	1,389	1,077	668	514	421	198	

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

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

Admitted Bodies

National Car Parks Ltd
Excalibur Tenant Management Project
PLUS
Housing 21
Lewisham Nexus Services
Lewisham Way Youth and Community Centre

Scheduled Bodies

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

Lewisham Park Housing Association
SAGE Educational Trust
Lewisham Elders Resource Centre
CIS Securities
Wide Horizons
Phoenix
INSPACE
T Brown & Sons
Quality Heating
VT Group
Bentley Jenison
Broomleigh Housing Association

The Fund's financial accounts (Appendix B) detail the contributions to the fund and the benefits payable. The relevant extracts are as set out below.

Contributions Payable	2009/10 Employee £M	Employer £M	Total £M	2008/09 Employee £M	Employer £M	Total £M
London Borough of Lewisham	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Admitted Bodies	0.271	0.873	1.144	0.308	0.947	1.252
Scheduled Bodies	1.143	3.338	4.481	0.983	2.825	3.808
	9.728	23.761	33.489	9.356	27.863	37.211

Benefits Payable	2009/10 £M	2008/09 £M
London Borough of Lewisham)		15.057
Admitted Bodies)	16.247	0.084
Scheduled Bodies)		0.31
Dependants	1.240	1.101
Pensions Increases	9.333	8.395
	26.833	24.977

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

The Regulations require that every three years all Local Government Pension Schemes be subject to actuarial review. The actuarial review sets assumptions about the level of investment returns, life expectancy and other relevant factors to determine the assets and liabilities of the fund and the corresponding funding level.

The last revaluation was undertaken in 2007 and an Executive Summary of the valuation report can be found at Appendix A. The actuarial review carried out at 31 March 2007 has assessed the fund as being 87% funded. This represents an improvement of 11% in the funding level since the last valuation. The principal reason for this increase in funding is that investment returns have been higher than the projections incorporated into the 2004 revaluation exercise.

The actuary assessed the employers contribution rate to provide for future pensions entitlements (the Future Service Rate) to be 16.4% of employees pay with an additional 4.6% being required to fund the deficit over a period of 20 years. The total contribution rate as specified by the Actuary is consequently 21%.

The Actuary has specified that the total contribution rate of 21% be phased in stages of 0.5% pa, as follows:

Year	Employer's Contribution Rate (%)	Cumulative Increase since 2007/08 (%)
2007/8	18.5	
2008/9	19.0	+0.5
2009/10	19.5	+1.0
2010/11	20.0	+1.5

The next revaluation exercise is due to be undertaken as at the 31st March 2010 with the resultant employers contribution being implemented in March 2011.

5. GOVERNANCE COMPLIANCE STATEMENT

Lewisham's Governance Compliance Statement was adopted by the Pensions Investment Committee on the 20 November 2008

The Governance Compliance Statement is as follows:

Under the Constitution Article 9 sets out that Council has appointed the Pensions Investment Committee with the following terms of reference: to exercise all functions of the Council in relation to local government pensions under Section 7,12 or 24 Superannuation Act 1972 and all other relevant pensions legislation. This includes:

- review with fund managers of the investment performance of the superannuation fund on a quarterly basis
- to examine the portfolio of investments, and its market value, at the end of each quarter for suitability and diversification
- to inform the fund managers of the Council's policy regarding investment of its superannuation funds, and to take advice on the possible effect on performance resulting from implementing the policy

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

The Pensions Investment Committee comprises 8 Members of the Council who have voting rights. It also takes advice from an independent investment consultant and has non voting observers comprised of pensioners, admitted and scheduled bodies and union officials.

Responsibility for day-to-day administration has been delegated to the Executive Director for Resources.

The following table sets out attendance by the eight Councillors who have been on the Pensions Investment Committee during the four scheduled meetings in 2009/10. Each Councillor has one vote with the Chair having the casting vote.

	15 Jun 2009	2 Sep 2009	18 Nov 2009	25 Feb 2010
Cllr. Bentley	✓	✓	✓	✓
Cllr. Best	-	✓	-	
Cllr. Feakes	✓	✓		
Cllr. Fletcher	✓	✓		✓
Cllr. Klier	✓	✓	✓	✓
Cllr. Luxton			✓	✓
Cllr. Smith	✓	✓	✓	✓
Cllr. Stockbridge	✓	-	✓	

MEMBER TRAINING

A report was considered by Members on the provision of training at their meeting on the 23rd March 2010. Members expressed a preference for training immediately prior to the Committee meeting with topics directly related to the items they were considering.

These training sessions have been supplemented by detailed briefing notes on the Managers presenting at the meeting and issues which Members may wish to concentrate on.

6. 2009/10 ACCOUNTS

The Fund accounts prepared in accordance with the appropriate Statements of Recommended Practices (SORP's) were considered by the Pensions Investment Committee on 17th June 2010. The accounts were subject to audit by the Council's external auditors the Audit Commission.

The Accounts are set-out in Appendix B .

7. FUNDING STRATEGY STATEMENT

The Fund has a Funding Strategy Statement (FSS) which details the Fund's approach to funding its liabilities. The FSS is reviewed in detail at least every three years as part of triennial valuations being carried out, with the next full review due to be completed during 2011.

The Funding Strategy Statement is attached as Appendix C. It has been developed by the Council in conjunction with the Fund's actuary, Hymans Robertson, and after consultation with the employers and investment adviser. The FSS focuses on the growth of the Fund's liabilities, to pay pensions in the coming years, and how those liabilities are funded by investments and contributions. The FSS has links to the Statement of Investment Principles.

The purpose of the FSS is:

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

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. The funding basis adopts an asset outperformance assumption of 1.3% per annum over and above the redemption yield in index-linked gilts.

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

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

The 2007 valuation specified the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2007 valuation report as follows:

Employer Code	Employer	Minimum contributions for the year ending (% payroll)		
		31 March 2009	31 March 2010	31 March 2011
1	L B LEWISHAM	19.0%	19.5%	20.0%
2	CHRIST THE KING COLLEGE	20.7%	20.7%	20.7%
3	HABERDASHER'S ASKES HATCHAM COLLEGE	15.9%	15.9%	15.9%
4	LEWISHAM HOMES	17.2%	17.2%	17.2%
50	NATIONAL CAR PARKS	21.4%	21.4%	21.4%
52	EXCALIBUR TENANT MANAGEMENT	19.0%	19.5%	20.0%
53	PLUS	19.0%	19.5%	20.0%
56	HOUSING 21	19.0%	19.5%	20.0%
57	LEWISHAM NEXUS	19.0%	19.5%	20.0%
58	LEWISHAM WAY YOUTH & COMMUNITY CENTRE	19.0%	19.5%	20.0%
60	LEWISHAM PARK HOUSING ASSN	19.0%	19.5%	20.0%
61	SAGE	19.0%	19.5%	20.0%
63	LEWISHAM ELDERS RESOURCE CENTRE	19.0%	19.5%	20.0%
64	CIS SECURITIES	19.4%	19.4%	19.4%
65	WIDE HORIZONS	19.0%	19.5%	20.0%

8. STATEMENT OF INVESTMENT PRINCIPLES

The Regulations require that pensions funds prepare, maintain and publish a statement of the principals governing investment decisions. Authorities are also required to assess their compliance against the six principles established by the government in 2008.

Appendix D sets out the revised draft SIP as at July 2010 for the Fund including information on the responsibilities of managers and advisors to the Fund, the objectives and structure of the Fund, and SRI and corporate governance policies. Appendices also set out the terms of each mandate, a who's who of the funds managers and advisors and an assessment of how the Fund meets the six investment principles.

9. COMMUNICATIONS STATEMENT

Pension Funds are required to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. The first statement had to be published by 1 April 2006. On 1st April 2008, regulation 67 of the administration regulations carried forward this requirement into the 2008 scheme.

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

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

Lewisham's published Communications Statement is reproduced at Appendix E.

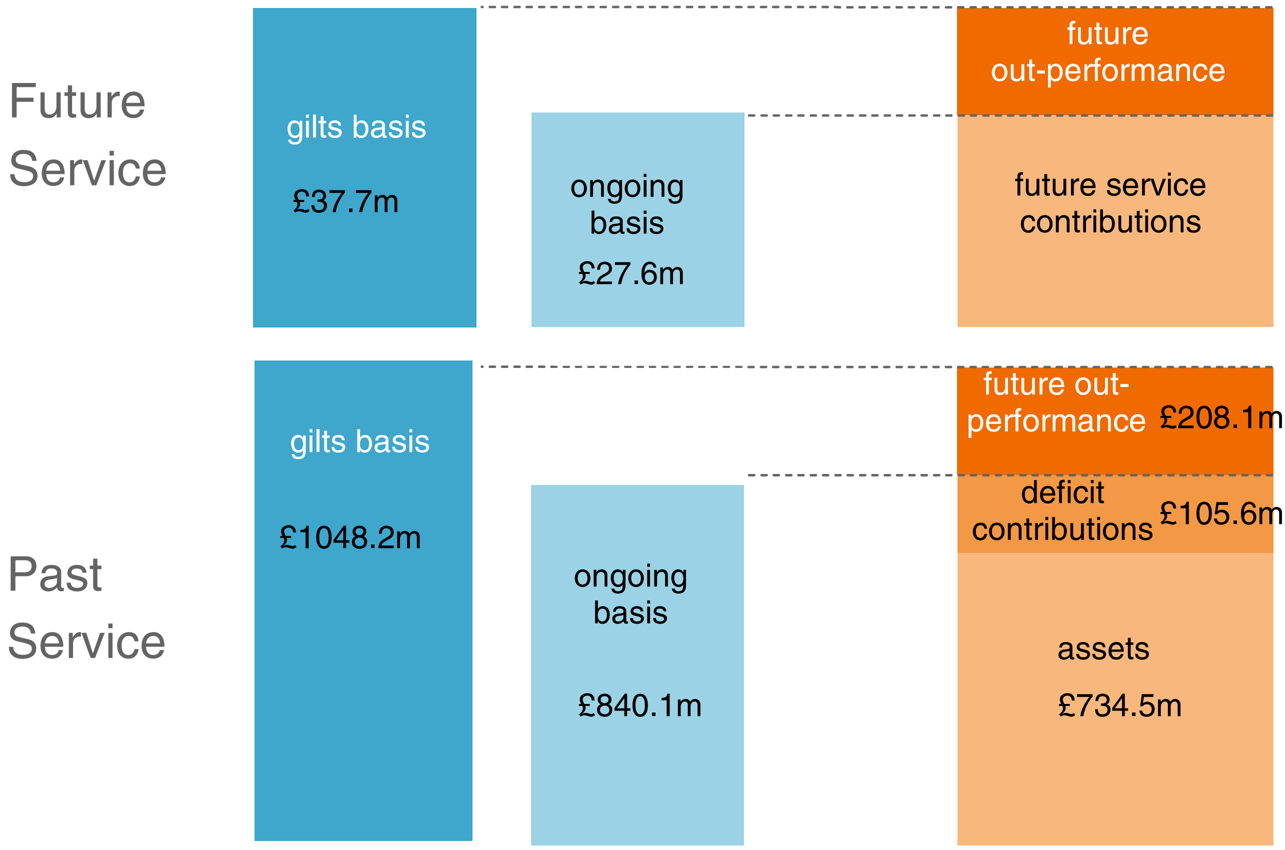
EXECUTIVE SUMMARY

I have carried out an actuarial valuation of the London Borough of Lewisham Pension Fund ('the Fund') as at 31 March 2007 ('the valuation date'). The results are presented in this report and summarised below.

The Fund's objective of holding sufficient assets to meet the estimated current cost of providing members' past service benefits) was not met at the valuation date. The funding level was 87% (compared to 76% at 31 March 2004) and there was a funding shortfall of £105.6m.

Without anticipating an element of future equity out-performance, the 'gilt-based' funding level would be 70% at the valuation date, and there would be a shortfall of £313.7m.

The Fund's financial position at the valuation date is illustrated graphically in the chart below.



The employers' average future service contribution rate as at 31 March 2007 (ignoring the past service shortfall) is 16.4% of pensionable pay. Assuming that a funding level of 100% is to be targeted over a period of 20 years, the common employers' contribution rate is 21% of pensionable pay. These figures take advance credit from outperformance of the Fund's assets relative to gilt yields on the valuation basis, as set out in the Funding Strategy

Statement. Ignoring this credit for outperformance the funding position would be 70%, and the common contribution rate of 36.9% of pay.

Adjustments have been made to the common rate of employers' contribution to take account of certain circumstances that are peculiar to individual employers, as required by Regulation 77(6). The minimum contributions to be paid by each employer from 1 April 2008 to 31 March 2011 are shown in the Rates and Adjustment Certificate at Annexe H.

The results of the valuation are very sensitive to the actuarial assumptions made. If actual future demographic and economic experience does not match the assumptions, the financial position of the Fund could deteriorate materially.

Peter Summers

Fellow of the Faculty of Actuaries

8 January 2008

PENSION

FUND

ACCOUNTS

2009/10

PENSION FUND ACCOUNTS

INTRODUCTION

The Pension Fund provides for the payment of benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

ORGANISATION

The Fund is operated under various sets of regulations made under the Superannuation Act 1972. The main sets of regulations are the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008.

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

A report on the Fund's performance and topical developments is sent to all pensioners bi-annually. The report published in November gives details of the outturn for each year to 31 March. A statement of the Fund's corporate governance, funding strategy and investment principles can be found on the authority's website, at the following address:

"www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm"

ACCOUNTING POLICIES

The Pension Fund Accounts have been prepared in accordance with the 2009 CIPFA Code of Practice on Local Authority Accounting - a Statement of Recommended Practice (the SORP). The 2009 Code states that the Pension Fund Accounts should be prepared in accordance with The Financial Reports of Pension Schemes – A Statement of Recommended Practice 2007 (the Pension SORP 2007).

The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007 also requires administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Code summarises the Pension SORP and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December the following year, up to five months after a local authority must approve its Statement of Accounts. The Council will be taking its annual Report to its Pensions Investment Committee in order to comply with this deadline.

The Accounting Policies and the basis of preparation of the Accounts are shown below: -

(a) Basis of Preparation - The Accounts have been prepared on an accruals basis, i.e. income and expenditure attributable to the financial year have been included, even where payment has not actually been made or received. The only exception being 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 income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.

(b) Investments - Investments in the Net Assets Statement are shown at market value based on bid prices as required by the 2009 local authority SORP and the 2007 Pension Fund SORP. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.

(c) Private equity investments are valued in accordance with U.S. 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.

(d) The Pension Fund's Hedge Fund assets are held in the Jubilee Absolute Return Fund which is a collective investment scheme structured as a protected cell of Jubilee Absolute Return Fund PCC Limited, an open ended investment company listed on the Irish Stock Exchange. The Jubilee Absolute Return Fund produces an official single-priced NAV and hence there are no bid-offer prices for subscriptions or redemptions. The official single-priced NAV is produced on a monthly basis by the independent administrator, HSBC Securities Services (Ireland) Limited ("HSBC").

(e) Property - The Fund does not have any direct investments in property but does use a property Fund of Funds manager, Schroders, to invest in pooled property funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure to are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards and are valued on the basis of their open market value (OMV).

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

(f) Contributions –there are seven employee contribution bands (revised annually in line with inflation) ranging from 5.5% for members earning under £12,000 a year to 7.5% to members earning over £75,000 a year. The employer's contribution is reviewed every three years and is determined 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.

(g) 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 value of the fund as at the last valuation on 31 March 2007 was £734.5m which represented an 87% funding level.

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

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

The actuarial review carried out for 31 March 2007 resulted in an increase to the Council's contribution rate from 18.5% to 19% with effect from 1st April 2008 and a further increase to 19.5% effective from 1st April 2009. A further increase to 20% will occur in 2010/11. The next actuarial valuation of the fund will have an effective date of 1 April 2010, with new employer contribution rates taking effect from 2011/12.

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, has been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.

(h) Foreign currency transactions are made using the WM/ Reuters exchange rate in the following circumstances:

- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
- Stock holdings: the converted foreign exchange rate is used at stock valuation date.
- Dividend receipts: the rate applicable on the day prior to the date the dividend is received is used.

INVESTMENT PERFORMANCE

(i) 2009/10 Financial Year Summary of Fund value and Fund Manager's performance

Fund Managers have individual annual performance targets measured over rolling three-year periods net of fees.

Fund Manager	Assets	Assets value £m 2009/10	Assets value £m 2008/09	Proportion of the Fund (%)
UBS	**Bonds**	**123.3**	**99.6**	**17.2%**
Alliance Bernstein	**Global Equities incl. UK (from 07/08)**	**192.2**	**125.5**	**26.9%**
RCM	**Global Equities incl. UK**	**141.5**	**101.3**	**19.8%**
Schroders Property	**Property**	**60.8**	**53.3**	**8.5%**
HarbourVest (*Incl Legacy Stock)	**Private Equity**	**21.1**	**20.7**	**3.0%**
UBS passive equity	**UK Tracker fund**	**150.7**	**98.8**	**21.1%**
Fauchier	**Hedge Fund of Fund**	**20.4**	**18.0**	**2.9%**
Lewisham	**Cash**	**5.1**	**1.7**	**0.7%**
Total Fund		715.1	518.9	100.0%

Note: Inception date was 1st November 2004.

Appendix B
2009/10 Pension Fund Accounts

FUND ACCOUNT FOR THE YEAR

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

FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2010

	2009/10 £000s	2008/09 £000s
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME		
Contributions Receivable:		
- from Employer	29,761	**27,856**
- from Employees	9,728	**9,355**
Transfer Values In	7,017	**3,384**
Other Income	2	**8**
Sub-Total: Income	46,508	40,603
Benefits Payable:		
- Pensions	26,833	**24,977**
- Lump Sums: Retirement allowances	5,002	**4,415**
- Lump Sums: Death grants	583	**632**
Payments to and on account of leavers:		
- Refunds of Contributions	4	**1**
- Transfer Values Out	3,453	**3,243**
Administrative and other expenses borne by the scheme	863	**725**
Sub-Total: Expenses	36,738	33,993
Total Net (additions) withdrawals from Dealings with Scheme Members	(9,770)	(6,610)
RETURNS ON INVESTMENTS		
Investment Income	12,158	**14,594**
Change in market value of investments (realised and unrealised)	175,590	**(177,086)**
Investment Expenses:		
- Fund Managers' Fees	(1,518)	**(1,181)**
- VAT reclaimed on fund managers fees	1,005	**-**
- Tax on Dividends	(713)	**(731)**
Total Net Returns on Investments	186,522	(164,404)
NET INCREASE / (DECREASE) IN THE FUND DURING THE YEAR	196,292	**(157,794)**
OPENING NET ASSETS OF THE SCHEME	518,854	**676,648**
CLOSING NET ASSETS OF THE SCHEME	715,146	518,854

The VAT reclaim relates to a backdated claim to recover VAT which had not been recovered on management expenses. The claim has been the subject of negotiation with Her Majesty's Revenue and Customs (HMRC).

NET ASSETS STATEMENT

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2010.

NET ASSETS STATEMENT

	2009/10 £000s	2008/09 £000s
INVESTMENT ASSETS		
EQUITIES:		
United Kingdom	33,237	28,927
Overseas	264,064	182,156
	297,301	211,083
MANAGED FUNDS:-		
Property	60,276	41,989
Equities	169,277	129,940
Bonds	116,692	99,061
Hedge Fund of Funds	20,371	17,976
	366,616	288,966
CASH DEPOSITS	8,143	15,846
DERIVATIVE CONTRACTS		
Assets	-	1,095
Liabilities	(175)	(526)
OTHER INVESTMENT BALANCES		
Debtors in respect of investment transactions	38,666	875
Creditors in respect of investment transactions	(573)	(16)
TOTAL INVESTMENTS	709,978	517,323
NET CURRENT ASSETS & LIABILITIES		
Debtors	700	519
Creditors	(591)	(762)
Cash in Hand	5,059	1,774
TOTAL NET ASSETS	715,146	518,854

Appendix B
2009/10 Pension Fund Accounts

The Net Assets Statement explicitly does not take account of the liability to pay pensions or benefits after the period end. This liability is included within the Authority's balance sheet.

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

Employer Contributions

	2009/10 '£000	2008/09 '£000
Administering: Normal	24,027	22,736
Administering: Additional	1,523	1,351
Admitted: Normal	873	944
Scheduled	3,338	2,825
	29,761	27,856

Employee Contributions

	2009/10	2008/09
Employee Contributions		
Administering	8,314	8,064
Admitted	271	308
Scheduled	1,143	983
	9,728	9,355

2. BENEFITS PAYABLE

	2009/10	2008/09
Administering	15,613	15,057
Admitted	73	84
Scheduled	561	310
Dependants Pensions	1,248	1,131
Pensions Increases	9,338	8,395
	26,833	24,977

3. ADMINISTRATION

	2009/10	2008/09
Audit Fee	38	38
Administration	583	532
Consultancy Costs	242	155
	863	725

4. INVESTMENT INCOME

	2009/10 £000s	2008/09 £000s
Interest on cash deposits	40	380
Equities (Includes Unit Trust Equity)	6,838	8,712
Other Managed Fund Income	5,280	5,502
	12,158	14,594

5. INVESTMENT ANALYSIS

The only (non UK Government) security forming over 5% of the portfolio is an investment in a UBS UK Equity Tracker pooled fund. This pooled fund is sufficiently diversified to ensure that overall exposure to a single UK security exceeding 5% will not occur.

An analysis of investment movements is set out below:

	Value at 31 March 09	**Purchases at cost**	**Sales proceeds**	**Change in market value and Other**	**Value at 31 March 10**
	£000	£000	£000		£000
Equities (inc. Equity Unit Trusts)	**341,023**	**149,023**	**(175,503)**	**152,036**	**466,578**
Other Managed Funds:		-	-	-	-
Property	**41,989**	**19,081**	**(1,845)**	**1,051**	**60,276**
Bonds: Fixed Interest	**63,736**	**24,912**	**(29,582)**	**17,287**	**76,354**
Bonds: Index linked	**35,325**	**3,409**	**(2,265)**	**3,869**	**40,338**
Hedge Fund of Funds	**17,976**	-	-	**2,395**	**20,371**
Derivatives	**569**	-	-	**(745)**	**(175)**
	500,618	196,425	(209,194)	175,893	663,742
Cash Deposits	**15,846**			**(304)**	**8,143**
Other Investment Balances	**859**				**38,093**
Total Investments	517,323			175,590	709,978

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

Equity holdings are further analysed as follows

	2009/10 £000s	2008/09 £000s
UK EQUITY		
- listed	33,192	28,769
- unlisted	45	158
TOTAL UK EQUITY	33,237	28,927
OVERSEAS EQUITY		
- listed	264,064	182,156
TOTAL EQUITY INVESTMENTS	297,301	211,083
EQUITY MANAGED FUNDS		
Unit Trust: UK Equities	151,941	98,865
Unit Trust: Overseas Equities	17,336	31,075
TOTAL EQUITY MANAGED FUNDS	169,277	129,940
TOTAL EQUITY RELATED INVESTMENTS	466,578	341,023

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

6. DERIVATIVE CONTRACTS

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

In practice this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer.

At 31 March 2010, forward foreign exchange contracts were the only derivative contracts held. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

	Sterling Value of obligation on purchase or sale date	**Sterling Value of equal and opposite obligation at 31 March 2009**	**Implied unrealised Gains/(losses)**
	£000s	£000s	£000s
Currency contracted to purchase	**(13,177)**	**13,100**	**(77)**
Currency contracted to sell	**13,177**	**(13,275)**	**(98)**
Net Position	0	(175)	(175)

The Net Asset Statement analyses the net position into the sum of those contracts (for either purchase or sale) which imply a loss at the reporting date (£175k) and the sum of those that imply a gain (£0).

7. DEBTORS & CREDITORS

These consist of the following amounts:

(a) Debtors

	2009/10 £000s	2008/09 £000s
Equity Dividends/ Income from Managed Funds	590	635
Interest	2	8
Tax refunds	396	232
Pending Trades	37,678	-
Contributions Due from Admitted/Scheduled Bodies	700	519
	39,366	1,394

(b) Creditors

	2009/10 £000s	2008/09 £000s
Fund manager and Custody fees	(580)	(724)
Taxes due	(4)	(16)
Audit Fees	(11)	(38)
Pending Trades	(569)	-
	(1,164)	(778)

The pending trades relate to purchases and sales by managers which have yet to be the subject of cash settlement. The debtors figure is relatively high as a result of a balancing exercise at the year end which required managers to sell shares to provide funds to establish a new commodities mandate and to transfer between managers to get the asset allocation to correspond to the strategic benchmark.

8. CASH DEPOSITS

The Cash Deposits relate 100% to UK Cash Holdings.

An analysis of Cash Deposits as at 31st March 2010 is as follows:

	2009/10 £000s	**2008/09 £000s**
Northern Trust	**8,143**	**15,846**
Lewisham	**5,059**	**1,774**
	13,202	**17,620**

The Northern Trust Company is the fund global custodian and the cash is held in an interest bearing account to meet the cash flow requirements of our fund managers. Pending trade sales and purchases at the year end are treated as investment debtors and creditors

Cash in Hand is Pension Fund contributions held in the Borough's current account prior to investment.

9. TRANSACTION COSTS

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

	£000
Equity Purchases	192
Equity Sales	129
Total Transaction Costs	321

10. RELATED PARTY TRANSACTIONS

Information in respect of material transactions with related parties is disclosed elsewhere within the Pension Fund accounts. There were no provisions for doubtful debt and amounts written off in the period.

Eight Councillors sit on the Pensions Investment Committee which oversees the Fund. Five Councillors of this Committee are members of the pensions scheme. At each meeting of the Pensions Investment Committee Councillors are asked to make declarations of interest. No material declarations of interest were made in 2009/10. During the year no trustees or Council chief officers with direct responsibility for pension fund issues have undertaken any declarable transactions with the Pension Fund.

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

a) Recharges from the Council for the in-house administration costs and other expenses borne by the scheme were transacted for £863k (see note 3).

b) All 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. Any interest receivable on such balances is paid to the Pension Fund on an annually at an interest rate equating to that earned by the Council on temporary investments.

11. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

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.

	£000s
Value at 30 March 2009	1,057
Contributions & Transfers Received	335
Investment Return	151
Paid Out	(122)
Value at 30 March 2010	1,421

12. SCHEDULED BODIES

The following are scheduled bodies to the fund:

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

13. ADMITTED BODIES

The following are admitted bodies to the fund:

National Car Parks Ltd
Excalibur Tenant Management Project
PLUS
Housing 21
Lewisham Nexus Services
Lewisham Way Youth and Community Centre
Lewisham Park Housing Association
SAGE Educational Trust
Lewisham Elders Resource Centre
CIS Securities

Wide Horizons
Phoenix
INSPACE
T Brown & Sons
Quality Heating
VT Group
Bentley Jenison
Broomleigh Housing Association

14. STOCK LENDING

The Statement of Investment Principles permits the Fund to enter into stock lending (whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan). The council has agreed to stock lending although none was undertaken in the year.

15. MEMBERSHIP

	Employees		Deferred Beneficiaries		Retired Former Employees	
	2009/10	**2008/09**	**2009/10**	**2008/09**	**2009/10**	**2008/09**
Administering Authority	**5860**	**5599**	**6267**	**6085**	**6117**	**6026**
Scheduled Bodies	**582**	**602**	**122**	**90**	**76**	**49**
Admitted Bodies	**131**	**144**	**44**	**36**	**32**	**26**
	6,573	6,345	6,433	6,211	6,225	6,101

Appendix D
Statement of Investment Principles

1. Introduction

This is the Funding Strategy Statement (FSS) of the Lewisham Pension Fund ("the Fund"), which is administered by Lewisham Council, ("the Administering Authority").

It has been reviewed by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson, and after consultation with the Fund's employers and investment adviser. This revised version replaces the previous FSS and is effective from 31 March 2008.

1.1 Regulatory Framework

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

The FSS forms part of a framework which includes:

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

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

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years alongside of triennial valuations being carried out, with the next full review due to be completed by 31 March 2011.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues.

2. Purpose

2.1 Purpose of FSS

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

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

These objectives are desirable individually, but may be mutually conflicting.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

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

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

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

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

2.3 Aims of the Funding Policy

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

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;

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

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

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

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

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

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

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

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

---

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

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

For some employers it may be agreed to pool contributions, see Section 3.7.3.

Annex A contains a breakdown of each employer's contributions following the 2007 valuation for the financial years 2009/10, 2009/10 and 2010/011. Certain employers' contributions have been pooled with others.

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

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

3.2 Solvency and Target Funding Levels

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

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

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

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

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Allowance has been made for improvements in line with the PMA/PFA92 series projections up to calendar year 2017 for pensioners and 2033 for non-pensioners, with age ratings applied to fit past LGPS experience. Employers are aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

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

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

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

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2007 valuation, it is assumed that the Fund's investments will deliver an average additional return of 1.3% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. For the 2007 valuation, the future service rate has been calculated separately for all the employers although employers within a pool will pay the contribution rate applicable to the pool as a whole.

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

3.4.1 Employers that admit new entrants

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

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

3.4.2 Employers that do not admit new entrants

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

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

Both funding methods are described in the Actuary's report on the valuation.

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

3.5 Adjustments for Individual Employers

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

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

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

- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between the 2004 and 2007 valuations and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers. unless the circumstances dictate otherwise.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation [where Hymans Robertson calculates asset shares – see section 3.6 below, including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

3.6 Asset Share Calculations for Individual Employers

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

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

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

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

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

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies with tax raising powers	a period to be agreed with each employer not exceeding 20 years
Community Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 20 years
Best Value Admission Bodies that admit new entrants	the period from the start of the revised contributions to the end of the employer's contract or the date when it is expected that all employee members will have left active membership of the Fund, if earlier
Community Admission Bodies that are closed to new entrants e.g. Bus Companies, whose admission agreements continue after last active member retires	a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers.
Closed employers and Community Admission Bodies	The average period from the start of the revised contributions to the date when it is expected that all employee members will have left active membership of the Fund.
All other types of employer	To be agreed

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

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2008 for 2007 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.2 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.

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

3.7.3 Phasing in of Contribution Rises

Best Value Admission Bodies are not eligible for phasing in of contribution rises. Other employers may be allowed to phase in contribution rises over a period of six years;

3.7.4 Phasing in of Contribution Reductions

Any contribution reductions will be phased in over six years for all employers except Best Value Admission Bodies who can take the reduction with immediate effect.

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

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

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

3.7.6 Pooled Contributions

3.7.6.1 Smaller Employers

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

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

Employers who are eligible for pooling at the 2004 valuation have been asked to give their written consent to participate in the pool.

3.7.6.2 Other Contribution Pools

Schools are also pooled with their funding Council.

Some Admission Bodies with guarantors are pooled with their Council.

3.8 Admission Bodies ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

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

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

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

(a) For Best Value Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the Actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

(c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

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

3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements

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

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired "early".

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

3.9.2 Ill health monitoring

An allowance is made by the actuary for ill health retirement. The allowance made in the fund reflects the experience of London Borough pension funds. The funds actual ill health experience corresponds to the London figures used by the actuary.

4. Links to Investment Strategy

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

4.1 Investment Strategy

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

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2007, the proportion held in equities and property was 82% of the total Fund assets.

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

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

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

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

4.2 Consistency with Funding Basis

The funding basis adopts an asset outperformance assumption of 1.3% per annum over and above the redemption yield in index-linked gilts. Both the Fund's Actuary and its investment advisor consider that the funding basis does conform to the requirement to take a "prudent longer term" approach to funding.

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

4.3 Balance between risk and reward

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

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

5. Key Risks & Controls

5.1 Types of Risk

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

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

5.2 Financial Risks

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

benchmark	*index benchmark.* *This is now supplemented with an analysis of absolute returns against those under-pinning the valuation.*
Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in index-linked bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading and phasing in of contribution rises.*

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Ill health retirements significantly more than anticipated	*Monitoring of each employer's ill health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill health assumption built in.*
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life*

	expectancy. *Sensitivity analysis in triennial valuation calculations helps employers understand the potential impact of life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.*
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*

5.4 Regulatory

Risk	**Summary of Control Mechanisms**
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.*

Changes to national pension requirements and/or HM Revenue & Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006	*It considers all consultation papers issued by the ODPM and comments where appropriate.* *The Administering Authority will inform employers where it considers that it is appropriate.*

5.5 Governance

Risk	**Summary of Control Mechanisms**
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	*The Administering Authority monitors membership movements on an annual basis.* *The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations* *Deficit contributions may be expressed in monetary amounts (see Annex A).*
Administering Authority not advised of an employer closing to new entrants.	
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers with Best Value contractors to inform it of orthcoming changes.*
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • *Seeking a funding guarantee from another scheme employer, or external*

	body, where-ever possible. • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.*

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2007 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2007 valuation report are as follows:

Employer Code	Employer	Minimum contributions for the year ending (% payroll)		
		31 March 2009	31 March 2010	31 March 2011
1	L B LEWISHAM	19.0%	19.5%	20.0%
2	CHRIST THE KING COLLEGE	20.7%	20.7%	20.7%
3	HABERDASHER'S ASKES HATCHAM COLLEGE	15.9%	15.9%	15.9%
4	LEWISHAM HOMES	17.2%	17.2%	17.2%
50	NATIONAL CAR PARKS	21.4%	21.4%	21.4%
52	EXCALIBUR TENANT MANAGEMENT	19.0%	19.5%	20.0%
53	PLUS	19.0%	19.5%	20.0%
56	HOUSING 21	19.0%	19.5%	20.0%
57	LEWISHAM NEXUS	19.0%	19.5%	20.0%
58	LEWISHAM WAY YOUTH & COMMUNITY CENTRE	19.0%	19.5%	20.0%
60	LEWISHAM PARK HOUSING ASSN	19.0%	19.5%	20.0%
61	SAGE	19.0%	19.5%	20.0%
63	LEWISHAM ELDERS RESOURCE CENTRE	19.0%	19.5%	20.0%
64	CIS SECURITIES	19.4%	19.4%	19.4%
65	WIDE HORIZONS	19.0%	19.5%	20.0%

Annex B – Responsibilities of Key Parties

The Administering Authority should:-

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;

- prepare and maintain an FSS and a SIP, both after proper consultation with interested parties; and

- monitor all aspects of the fund's performance and funding and amend FSS/SIP

The Individual Employer should:-

- deduct contributions from employees' pay correctly;

- pay all contributions, including their own as determined by the actuary, promptly by the due date;

- exercise discretions within the regulatory framework;

- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, excess ill-health early retirements if appropriate; and

- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:-

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

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

Lewisham

London Borough of Lewisham Pension Fund

Statement of Investment Principles

Revised June 2010

Appendix D
Statement of Investment Principles

Contents

Appendices

Appendix D
Statement of Investment Principles

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

> **The Local Government Pension Scheme was established by statute as a final salary defined benefit pension scheme to provide death and retirement benefits for eligible members and their dependents. The benefits are defined by statute and increased each year in line with movements in the retail prices index.**
>
> **The fund at the 31st March 2010 had assets of approximately £714 million.**

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

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

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

2. Responsibility for Fund Governance

2.1 Pensions Investment Committee

The Pensions Investment Committee adopted this statement at their meeting on the 1st September 2010.

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

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

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

- Prepare the Statement of Investment Principles

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

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

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

2.2 Investment Managers

The investment management structure of the fund will be determined after obtaining appropriate advice. Implementation of the current specialist mandate structure was completed in 2009.

The responsibilities of the investment managers are to:

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

2.3 Custodian Bank

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

The Custodian's specific responsibilities are to:

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

2.4 Independent Investment Adviser

The independent investment adviser is Scott Jamieson.

His specific responsibilities are to advise the Executive Director for Resources and the Committee in respect of the:

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

2.5 The Actuary

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

The actuary's responsibilities are to:

- Undertake the statutory valuation of the Fund
- Provide advice on the funding level to aid the Committee in balancing the short and long term objectives of the Fund
- Provide FRS 17 reports on pension costs.
- Calculation of initial employers contributions for admitted and scheduled bodies.
- To review bond and guarantee levels for admitted bodies.

2.6 The Investment Consultant

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

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

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

2.7 **The Executive Director for Resources**

The Executive Director for Resources, Head of Corporate Resources and Capital and Treasury Group are responsible for:

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

3 Investment Objectives of the Fund

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

- Optimise the return consistent with a prudent level of risk and adequate level of liquidity
- Ensure that there are sufficient resources to meet the liabilities

- Ensure the suitability of assets in relation to the needs of the Fund.

4 Realisation of Investments

The majority of stocks held by the Fund are quoted on major stock markets and may be realised quickly to meet cash flow requirements. Property and venture capital investments, which are relatively illiquid comprise approximately 13% of the assets. The Fund currently does not require such a high proportion of highly liquid assets.

5 Investment Manager Structure and Fund Details

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

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

6 Investment Strategy and Asset Mix

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

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

Investment policy is influenced by the fundamental view that over the longer term, investment in real assets is likely to provide superior returns to other investment classes. Historically, equities have accounted for between 70 to 75% of Lewisham's Fund, and in the current structure constitute approximately 65% of the Fund. Recently the Fund has awarded a specifically commodity and natural resources mandate to ensure exposure to primary, real assets likely to experience less variable demand and unchallenged by the structural issues confronting financial assets. This exposure is expected to offer meaningful protection against future inflation.

The investment managers set their individual investment strategies to meet the performance objectives set by the Fund. The benchmarks, performance targets and operating ranges are outlined in Appendix II. With the exception of the passive UK equity mandate, the Fund's assets are managed on an active basis and are expected to outperform their respective benchmarks by the performance targets shown over a rolling three year period.

In choosing the benchmark, the funding position and maturity profile of the Fund, together with the risk tolerance level of the Council, are key considerations. Property is less volatile than equities and therefore provides diversification. Furthermore, the projected long-term future returns of property appear attractive relative to bonds and cash. The Fund has invested in several large pooled property funds, which to some extent counterbalance the illiquid nature of property. Furthermore, part of the private equity mandate has been achieved by investing in an equity based offering, again helping to offset illiquidity.

The Council recognises the potential value to the Fund of a long term investment horizon and the extra return that may be secured on more relatively illiquid investment. The Council will therefore pursue an investment policy that seeks to maximise the safe capture of this illiquidity premium.

7 Freedom of information

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

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

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

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

8 Policy on Socially Responsible Investment

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

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

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

9 Corporate governance

The proper corporate governance of companies in which the Fund invests, as set out in the Combined Code of Corporate Governance, is of importance to the London Borough of Lewisham. Investment managers have delegated responsibility to instruct the Custodian on the exercise of the voting rights of the investments, on the understanding that these rights are to be exercised to enhance the value of the relevant securities, and are in accordance with the SRI objectives set out above. The managers will report periodically to the Committee on the exercise of these powers and will consult the Fund if in any doubt on related issues.

10 Monitoring of investment performance

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

The Council schedules meeting with Investment Managers on the basis of their strategic importance to the fund, the perceived risk associated with the investment portfolio and the advice of the professional advisors. On this basis major portfolio managers are required to present to the Committee quarterly and to officers half yearly where they will be given the opportunity to justify their past performance and communicate the rationale behind their investment strategies for the shorter and longer term. Smaller investment managers such as the private equity and hedge fund managers will be expected to report annually to Committee and annually to officers. They must also be prepared to answer questions tabled by Members of the Committee. Each investment manager is required to present on a more frequent basis, if required.

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

11 Risk

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

The Fund is subject to the following risks:

- Funding Risk

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

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

- Liquidity/Cashflow Risk
  Investments are held until such time as they are required to fund payment of pensions. Currently the fund is relatively immature and consequently there is a net inflow of funds from contributors The Council manages its cashflows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met

- Manager Risk
  Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Council when fund managers are selected and their performance is reviewed regularly by the Investment Committee as part of the manager monitoring process. In addition the management structure is based on complimentary management styles in

an attempt to ensure that the portfolio has an element of counter-balancing to ensure there is exposure to different phases in the economic cycle.

- Concentration Risk

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

- Demographic Risk

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

- Counterparty Risk

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

- Currency Risk

  The strategic asset allocation adopted by the Council provides for an substantial element to be held overseas to provide diversification and exposure to different economies. Such investment is however subject to fluctuations in exchange rates with an associated positive or adverse impact on performance. Managers of global equities have been provided with an element of discretion to hedge currencies to protect returns. The Council will resolve and evolve a conscious attitude to currency translation risk.

- Environmental, Social and Ethical Issues Risk

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

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

12. STOCK LENDING

The Council entered into a stocklending arrangement with the Custodian Northern Trust in April 2010.

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

Appendix D
Statement of Investment Principles

Appendix 1: Who's Who

1. Investment Committee	
Councillors **Cllr Whittle (Chair)** **Cllr Maslin (Vice Chair)** **Cllr Allison** **Cllr Best** **Cllr Feakes** **Cllr Fletcher** **Cllr Muldoon** **Cllr Wise**	**Union Representatives** **Mr J Hale** UNISON Vacant UNITE **Pensioner Representatives** **Mrs C Humble** **Mr D Tucker** **Admitted Body Representative** Vacant
2. Executive Director for Resources **Janet Senior** Town Hall, London, SE6 4RU	
3. Investment Managers	
Alliance Bernstein Devonshire House, 1 Mayfair Place , London WIJ 8AJ	**UBS Global Asset Management** 21 Lombard Street, London EC3V 9AH
Schroders 31 Gresham Street, London EC2V 7QA	**HarbourVest** 8th floor, Suite 7,Berkeley Square House, Berkeley Square. London
RCM (UK) Limited **155 Bishopsgate** **London EC2M 3AD**	**Fauchier Partners** **72 Welbeck Street London** **W1G 0AY**

Investec Asset Management **2 Gresham Street** **London EC2V 7QP**	**M&G**
4. Custodian Bank **The Northern Trust Company** 50 Bank Street, Canary Wharf, London E14 5NT	**5. Actuar**y **Hymans Robertson LLP** 20 Waterloo Street Glasgow G2 6DB
6. Investment Consultant **Hymans Robertson LLP** 20 Waterloo Street Glasgow G2 6DB	**7. Solicitors** **Legal Services** Town Hall, London, SE6 4RU
8. Performance Measurement **The Northern Trust Company** 50 Bank Street, Canary Wharf, London E14 5NT	**The W.M. Company** (a subsidiary of State Street Bank) World Markets House, Crewe Toll, Edinburgh, EH4 2PY
9. Commission Recapture Agent **Lynch, Jones & Ryan, In** 3 Times Square, New York, NY 10036, U.S.A.	**10. Bankers** **The Co-operative Bank** Regional Public Sector Manager Public Sector The Co-operative Bank 4th Floor, 9 Prescot Street London. E1 8BE.
11. Auditors **Audit Commission** First floor Millbank Tower, Millbank, London. SW1P 4HQ.	**12. Independent Investment Adviser** **Scott Jamieson** 51 Braidpark Drive, Giffnock Glasgow. G46 6LY

11. Officers (investment) **Guy Ware :** Interim Head of Corporate Resources **Jim Ricketts:** Interim Group Manager, Capital & Treasury **Alex Robertson:** Treasury and Pension Fund Accountant	**12. Officers (Administration)** **Carol Eldridge:** Group Manager **Mike Dobson:** Team Leader
13. AVC providers **Clerical Medical** PO Box 174 Walton Street Aylesbury Bucks. HP21 7YP.	**Equitable Life** PO Box 177 Walton Street Aylesbury Bucks. HP21 7YH.
14. Membership of Professional Associations National Association of Pension Funds Local Authority Pension Fund Forum	

Appendix D
Statement of Investment Principles

Appendix 2: Target Structure of Fund

Manager	Mandate	Target Allocation
Bernstein	Global Equities	22.00%
RCM	Global Equities	22.00%
UBS: Equity	UK Equities	16.00%
UBS: Bonds	Fixed Interest	16.00%
Schroder	Property	10.00%
Fauchier	Hedge Funds	3.00%
Harbour Vest	Venture Capital	3.00%
M&G Credit	Credit	3.00%
Investec	Commodities	5.00%
LBL Cash		
		100.00%

APPENDIX 3: INVESTMENT PERFORMANCE TARGETS, BENCHMARKS AND OPERATING RANGES

Alliance Bernstein

Portfolio: Global equities including the UK

Target: To seek to out-perform the benchmark return by + 1.5% per annum over rolling three year periods net of fees

Benchmark and Operating Ranges:

Asset Class	%	Index
Global Equities	100	MSCI ACWI
Cash	0	

Alliance Bernstein will operate a half hedge. This is where only half the portfolio is exchanged back into sterling allowing the portfolio to benefit from the currencies which appreciate against sterling and thus increasing the return in the portfolio through limited active portfolio management of the currency exposure.

RCM

Portfolio: Global equities including the UK

Target: To seek to outperform the benchmark return by + 1.5% per annum over rolling three year periods net of fees

Benchmark and Operating Ranges:

Asset Class		Index
Global Equities	100	MSCI ACWI
Cash	0	

A currency hedge similar to that operated by the other global manager will be negotiated.

Appendix D
Statement of Investment Principles

UBS

Portfolio: UK passive equities and Global fixed interest plus

Target: To seek to out-perform the benchmark return by +1.1% per annum over rolling three year periods net of fees on bonds. On passive equities and assets under transition the target is to match the benchmark – i.e. no out-performance.

Benchmarks:

Asset Class		**Index**
UK Equities		FTSE All share Index
Fixed Interest:		
UK Corporate Bonds	21.7	iBoxx Sterling Non-gilt Over 15 year Index
UK Fixed Interest Gilts	28.3	FTSE-AGS Over 15 years Gilts Index
UK Index Linked Gilts	34.8	FTSE-AGS Over 5 years Gilts Index
Overseas Bonds	15.2	J P Morgan(ex UK) Government Bond Index

Schroder Property Investment Management

Portfolio : A Fund of funds approach in global property

Target : To seek to outperform the benchmark return by +0.75% per annum over rolling three year periods net of fees.

Benchmark

Asset Class	**%**	**Index**
UK property	>60	HSBC / IPD Pooled Property Fund Index-All Balanced Funds Median
Non UK property	<40	Absolute return of 8%
Cash	**0**	

Appendix D
Statement of Investment Principles

Fauchier Partners

Portfolio: A fund of funds Hedge Fund investment in the Jubilee Absolute Return Fund.
Target: To seek to out-perform one month LIBOR by 5% over a rolling three year period.
Benchmark LIBOR

Investec

Portfolio: A pooled fund to invest in commodities and resource based company shares

Target: An annualised absolute returns, net of fees, of 15% per annum over a three year period.

HarbourVest Partners (U.K.) Limited

Portfolio: A fund of funds limited partnership investing in Private Equity.

Target: To seek to outperform the benchmark return by 5.00% per annum over a rolling ten year period net of fees.

Benchmark

Private Equity MSCI All World Developed Index

The private equity allocation is invested in four limited partnership vehicles and an equity offering quoted on the Dutch stock exchange.

Fund	Capital committed
HarbourVest International PE Partners V	
Partnership Europe & Rest of the World	€17.5m
Direct Fund Europe & Rest of the World	€4.5m
	€22.0m
HarbourVest Partners VIII	
Venture Partnership Fund U.S Venture	$9.5m
Buyout Partnership Fund U.S Buyouts	$18.5m
	$28.0m
HarbourVest PE equity	**$10.0m**
Total value contributed	

INVESTMENT MANAGERS FEE STRUCTURE:

All investment managers fees are based on a percentage rate fee scale per annum chargeable on the market value of funds under management.

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

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

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

Principle 1: Effective Decision-Making
Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Compliance statement - full compliance

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

Principle 2: Clear Objectives
Trustees should set out an overall investment objective(s) for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Compliance statement – full compliance

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

property, private equity, hedge funds, corporate credit, commodities and bonds.
- Each investment manager has a specific benchmark and target set for it and a time horizon, typically three years, for being measured against their target.

Principle 3: Risk and Liabilities
In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.
These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

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

Principle 4: Performance Assessment
Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.
Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Compliance statement – partial compliance
- The Committee reviews investment performance on a quarterly basis and cross examines investment managers on wither a half-yearly or annual basis. Mandates are generally structured so that formal reviews of investment managers occur on a rolling three year basis.
- The Fund employs the services of a Custodian who produces quarterly reports on performance to the Fund.
- The establishment of an Investment Sub-Committee will assist trustees to assess their own effectiveness.

Principle 5: Responsible Ownership
Trustees should adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
Trustees should report periodically to members on the discharge of such responsibilities.

Compliance statement – Full compliance

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

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
Trustees should provide regular communication to members in the form they consider most appropriate.
The report should contain a commentary on how any commitments made in the Statement of Investment Principles have been progressed during the reporting period.

Compliance statement – full compliance

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

Policy statement

Communications policy statement

London Borough of Lewisham
April 2006

Appendix E
Communications policy statement

Contents

Appendix E
Communications policy statement

1 Introduction

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

The Fund liaises with more than 10 employers and approximately 17,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

It is effective from 1 April 2006.

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

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

Tel: 020 8314 7277.

2 Regulatory framework

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

"prepare, maintain and publish a written statement setting out their policy concerning communications with:
(a) members
(b) representatives of members
(c) prospective members
(d) employing authorities."

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

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

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements are to be introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a 'reasonable period'. The draft Code of Practice[3] issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements is set out in the Performance Measurement section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

3 Responsibilities and resources

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

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

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

4 Communication with key audience groups

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

- active members
- deferred members
- pensioner members

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

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

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

How we communicate

General communication

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

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

Branding

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

Accessibility

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

Policy on communication with active, deferred and pensioner members

Appendix E
Communications policy statement

Our objectives with regard to communication with members are:

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

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

Appendix E
Communications policy statement

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

Appendix E
Communications policy statement

Explanation of communications

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

Newsletters – A newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as national changes to pensions, forthcoming events, a summary of the accounts for the year, contact details, etc.

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

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

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

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

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

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

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

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

Appendix E
Communications policy statement

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

Our objectives with regard to communication with prospective members are:

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

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

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

Explanation of communications

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

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

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

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

Appendix E
Communications policy statement

Policy on communication with employing authorities

Our objectives with regard to communication with employers are:

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

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Employers' Guide	Paper based and employer intranet site	At joining and updated as necessary	Post or via email	Main contact for all employers
Newsletters	Electronic (email) and pensions intranet website	Annually or more frequent if necessary	Email	All contacts for all employers
Employer meetings	Face to face	As and when necessary	Post or via email	All contacts for all employers
Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	Main contact for all employers
Meeting with adviser	Face to face	On request	Invite sent by post or email	Senior management involved in funding and HR issues

Explanation of communications

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

Newsletter – A technical briefing newsletter that will include recent changes to the scheme, the way the Pensions Section is run and other relevant information so as to keep employers fully up to date.

Employer meeting – An informal event covering topical LGPS issues.

Appendix E
Communications policy statement

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

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

Policy on communication with senior managers

Our objectives with regard to communication with senior managers are:

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

Policy on communication with union representatives

Our objectives with regard to communication with union representatives are:

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

Appendix E
Communications policy statement

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

Copies of all newsletters – To ensure that the Unions are aware of the information that is being sent to pension scheme members.

Policy on communication with elected members/the Pensions Committee

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

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

Our objectives will be met by providing the following communications:

Appendix E
Communications policy statement

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

Explanation of communications

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

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

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

Policy on communication with Pensions Section staff

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

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

Our objectives will be met by providing the following communications:

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

Appendix E
Communications policy statement

Explanation of communications

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

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

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

Policy on communication with the media

Our objectives with regard to communication with the media are:

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

Policy on communication with other stakeholders/interested parties

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

- to meet our obligations under various legislative requirements

- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- to administer the Fund's AVC scheme.

Our objectives will be met by providing the following communications:

Method of communication	**Media**	**Frequency of issue**	**Method of distribution**	**Audience group**
Pension Fund valuation reports • R&A certificates • revised R&A certificates • cessation valuations	Electronic	Every three years	Via email	Office of the Deputy Prime Minister (ODPM)/Her Majesty's Revenue and Customs (HMRC)/all scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	ODPM/HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/the Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	ODPM/HMRC/the Pensions Regulator

Explanation of communications

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

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

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

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

5 Performance measurement

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

Timeliness

We will measure against the following target delivery timescales:

Appendix E
Communications policy statement

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

Appendix E
Communications policy statement

Quality

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

Results

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

6 Review process

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