



AGENDA

PENSIONS INVESTMENT COMMITTEE

Date: THURSDAY, 26 JUNE 2014 at 7.00 pm

**Committee room 3,
Civic Suite,
Catford Road,
London, SE6 4RU**

**Enquiries to Kevin Flaherty
(Direct line 020 8314 49327, email kevin.flaherty@lewisham.gov.uk)**

COUNCILLORS

Councillor Chris Best
Councillor Kevin Bonavia
Councillor Maja Hilton
Councillor Simon Hooks
Councillor Mark Ingleby
Councillor Paul Maslin
Councillor John Muldoon
Councillor Joan Reid

Independent Advisor

William Marshall, Hymans Robertson

Officers

Adeola Odeneye Principal Accountant
Strategic Finance
David Austin, Interim Head of Corporate
Resources
Janet Senior, Executive Director for
Resources & Regeneration
Helen Glass, Principal Lawyer
Carol Eldridge, Group Manager - Pensions
& Payroll

Members are summoned to attend this meeting

**Barry Quirk, Chief Executive
Laurence House, Catford, London SE6 4RU
Date: Tuesday, 17 June 2014**



INVESTOR IN PEOPLE

The public are welcome to attend our committee meetings, however occasionally committees may have to consider some business in private. Copies of reports can be made available in additional formats on request.

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Agenda Item 1

PENSIONS INVESTMENT COMMITTEE		
Report Title	APPOINTMENT OF CHAIR AND VICE CHAIR	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 26 JUNE 2014

Recommendation

To elect a Chair and Vice Chair of the Committee for the municipal year 2014/15.

Agenda Item 2

PENSIONS INVESTMENT COMMITTEE			
Report Title	MINUTES		
Key Decision			Item No. 2
Ward			
Contributors	CHIEF EXECUTIVE		
Class	Part 1	Date: 26 June 2014	

Recommendation

That the Minutes of that part of the meeting of the Committee, which was open to the press and public, held on 20 February 2014 be confirmed and signed.

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Thursday, 20 February 2014 at 7.00 pm

PRESENT: Councillors Dan Whittle (Chair), Paul Maslin (Vice-Chair), Chris Best, Julia Fletcher, John Muldoon, Eva Stamirowski and Susan Wise.

ALSO PRESENT: Helen Glass, David Austin, Scott Donaldson, Selwyn Thompson and Shola Ojo.

Apologies for absence were received from Councillor Stamirowski.

1. Minutes

Feedback and discussion on training at UBS on Alternative Beta investments. UBS to provide slides from the presentation with graphs updated to show net of fees. Paper proposing possible investment in this area to be put forward as part of rebalancing due in 2014.

RESOLVED that the Minutes of the Pensions Investment Committee held on 14 November 2013 be confirmed and signed.

2. Declarations of Interest

Councillor Muldoon declared a personal interest in Item 6 as a friend of Sir Paul Judge, the Chair of Schroder Income Growth Fund plc.

3 Presentation from Schroders

A presentation was made by Schroders. Discussion on opportunities to invest in infrastructure, in particular social housing. View was that while possible social housing not generally an investment for pension funds as private sector housing out performs social housing investments.

RESOLVED that the report be noted.

4 Presentation for M & G

A presentation was made by M&G. Discussion on experience with social housing debt fund which has now closed. Overall low take up from registered social landlords. Now shifted to look at long leased property fund.

RESOLVED that the report be noted.

5 Quarterly Investment Performance Report – Hymans

A presentation was made by Hymans. Proportion of Lewisham fund (>80%) invested in equities noted in the context of possible interest in Alternative Beta investment to mitigate herd risk of tracking indices.

Would be interesting to have one graph that presented three lines for cumulative performance, inflation and liabilities.

RESOLVED that the report be noted

6. Update on Pension Fund Reforms

Officers presented a paper on developments to date on the Community Investment Vehicle (CIV) proposal for a jointly owned model for London Boroughs. This is being coordinated by London Councils. For Lewisham the initial shareholding would be £1 with initial set up costs estimated at £25,000. Clarity on the governance around decision making (whether Lewisham participates) and what part of it's Pension portfolio Lewisham chooses to invest are being assessed. A further update with recommendations will be brought back in due course.

RESOLVED that the report be noted.

The meeting ended at 9.15 pm.

Chair

Agenda Item 3

PENSIONS INVESTMENT COMMITTEE		
Report Title	DECLARATIONS OF INTERESTS	
Key Decision	No	Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 26 June 2014

Declaration of interests

Members are asked to declare any personal interest they have in any item on the agenda.

Personal interests

There are two types of personal interest :-

- (a) an interest which you must enter in the Register of Members' Interests*
- (b) an interest where the wellbeing or financial position of you, (or a "relevant person") is likely to be affected by a matter more than it would affect the majority of inhabitants of the ward or electoral division affected by the decision.

*Full details of registerable interests appear on the Council's website.

("Relevant" person includes you, a member of your family, a close associate, and their employer, a firm in which they are a partner, a company where they are a director, any body in which they have securities with a nominal value of £25,000 and (i) any body of which they are a member, or in a position of general control or management to which they were appointed or nominated by the Council, and (ii) any body exercising functions of a public nature, or directed to charitable purposes or one of whose principal purpose includes the influence of public opinion or policy, including any trade union or political party) where they hold a position of general management or control,

If you have a personal interest you must declare the nature and extent of it before the matter is discussed or as soon as it becomes apparent, except in limited circumstances. Even if the interest is in the Register of Interests, you must declare it in meetings where matters relating to it are under discussion, unless an exemption applies.

Exemptions to the need to declare personal interest to the meeting

You do not need to declare a personal interest where it arises solely from membership of, or position of control or management on:

- (a) any other body to which you were appointed or nominated by the Council
- (b) any other body exercising functions of a public nature.

In these exceptional cases, unless your interest is also prejudicial, you only need to declare your interest if and when you speak on the matter .

Sensitive information

If the entry of a personal interest in the Register of Interests would lead to the disclosure of information whose availability for inspection creates or is likely to create a serious risk of violence to you or a person living with you, the interest need not be entered in the Register of Interests, provided the Monitoring Officer accepts that the information is sensitive. Where this is the case, if such an interest arises at a meeting, it must be declared but you need not disclose the sensitive information.

Prejudicial interests

Your personal interest will also be prejudicial if all of the following conditions are met:

- (a) it does not fall into an exempt category (see below)
- (b) the matter affects either your financial interests or relates to regulatory matters - the determining of any consent, approval, licence, permission or registration
- (c) a member of the public who knows the relevant facts would reasonably think your personal interest so significant that it is likely to prejudice your judgement of the public interest.

Categories exempt from being prejudicial interest

- (a) Housing – holding a tenancy or lease with the Council unless the matter relates to your particular tenancy or lease; (subject to arrears exception)
- (b) School meals, school transport and travelling expenses; if you are a parent or guardian of a child in full time education, or a school governor unless the matter relates particularly to the school your child attends or of which you are a governor;
- (c) Statutory sick pay; if you are in receipt
- (d) Allowances, payment or indemnity for members
- (e) Ceremonial honours for members
- (f) Setting Council Tax or precept (subject to arrears exception)

Effect of having a prejudicial interest

If your personal interest is also prejudicial, you must not speak on the matter. Subject to the exception below, you must leave the room when it is being discussed and not seek to influence the decision improperly in any way.

Exception

The exception to this general rule applies to allow a member to act as a community advocate notwithstanding the existence of a prejudicial interest. It only applies where members of the public also have a right to attend to make representation, give evidence or answer questions about the matter. Where this is the case, the member with a prejudicial interest may also attend the meeting for that purpose. However the member must still declare the prejudicial interest, and must leave the room once they

have finished making representations, or when the meeting decides they have finished, if that is earlier. The member cannot vote on the matter, nor remain in the public gallery to observe the vote.

Prejudicial interests and overview and scrutiny

In addition, members also have a prejudicial interest in any matter before an Overview and Scrutiny body where the business relates to a decision by the Executive or by a committee or sub committee of the Council if at the time the decision was made the member was on the Executive/Council committee or sub-committee and was present when the decision was taken. In short, members are not allowed to scrutinise decisions to which they were party.

Agenda Item 4

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Terms of Reference		
KEY DECISION	No	Item No:	4
WARD	N/A		
CONTRIBUTORS	Chief Executive		
CLASS	Part 1	Date:	26 June 2014

RECOMMENDATION

It is recommended that the terms of reference of the Pensions Investment Committee as set out below be noted.

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. By way of illustration 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 Panel 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.'

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Draft Pension Fund accounts – Year Ending 31 March 2014		
KEY DECISION	No	Item No:	5
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	24 June 2014

1. PURPOSE

- 1.1 This report sets out the draft Pension Fund accounts for the financial year ending 31 March 2014.
- 1.2 Members are asked in accordance with best practice to note the draft accounts prior to them being signed off by the Chief Financial Officer as being available for external audit.

2. RECOMMENDATION

- 2.1 Members are recommended to note the draft Pension Fund accounts for the year ended 31 March 2014, as set out at Appendix 1.

3. DRAFT PENSION FUND ACCOUNTS

- 3.1 The Council as an administering authority under the Local Government Pension Scheme Regulations, is required to produce a separate set of accounts for the schemes financial activities and assets and liabilities.
- 3.2 The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Statement of Recommended Practice (SORP).
- 3.3 The Pension Fund Accounts will be subject to a separate audit by the Council's external auditors Grant Thornton which must be completed by the 30 September 2014.
- 3.4 There is a related requirement for Councils to publish an annual report which incorporates elements of the financial accounts, before the 1 December 2014. This document will be the subject of a further report to this Committee when the audit is substantially complete.

- 3.5 The accounts comprise two main statements with supporting notes. The main statements are:
- Dealings with Members Employers and Others which is essentially the Fund's revenue account
 - The Net assets Statement which can be considered as the Fund's balance sheet
- 3.6 The 'Dealings with Members Employers and Other' sets out the movement in the net worth of the Fund in the year by analysing the relevant financial transactions and movements in the market value of the investment portfolio.
- The statement has two main sections:
- The financial transactions relating to administration of the Fund.
 - The transactions relating to its role as an investor.
- 3.7 The administration section principally relates to the receipt of contributions from employers and active members and the payment of pensions. This section indicates that the Fund is cash negative, in that the benefits payable, exceed the contributions receivable by £2.5m.
- 3.8 The investment section details the income received from the investment portfolio and the impact of managers activities and investment markets on the value of investments.
- 3.9 The section indicates that the value of investments has increased by £36m as a result of improved conditions in investment markets, and the overall value of the Fund has increased by £37m.
- 3.10 The net asset statement represents the net worth of the Fund as the 31 March 2014. The statement reflects how the transactions outlined in the other statement have impacted on the value of the Fund's assets.
- 3.11 Members should note that these accounts are draft and may be subject to change between now and the final sign off by the Chief Financial Officer. Any such changes will be detailed in working papers for presentation to external audit.

4. FINANCIAL IMPLICATIONS

- 4.1 This entire report relates to the draft Pension Fund accounts for 2013/14, the details of which have been attached at Appendix 1.

5. LEGAL IMPLICATIONS

- 5.1 The Accounts and Audit Regulations (England) 2011 as amended, specify the process by which the Authority's accounts are initially approved and then examined by the external auditor. This process and the dates by which the various stages have to be achieved are set out in Regulations and are binding on the Authority.

6. CRIME AND DISORDER IMPLICATIONS

6.1 There are no crime and disorder implications directly arising from this report.

7. EQUALITIES IMPLICATIONS

7.1 There are no equalities implications directly arising from this report.

8. ENVIRONMENTAL IMPLICATIONS

8.1 There are no environmental implications directly arising from this report.

BACKGROUND PAPERS

None

APPENDIX

Appendix 1 – Draft Pension Fund Accounts 2013/14.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact either:

David Austin, Head of Corporate Resources on 020 8314 4119 or

Shola Ojo, Principal Accountant, Strategic Finance on 020 8314 4778 or

Adeola Odeneye, Principal Accountant, Strategic Finance on 020 8314 6147

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

Pension Fund Accounts

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PENSION
FUND
ACCOUNTS**

2013/14

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

Pension Fund Accounts

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2013/14.

The Pension Fund's value rose over the year by £36m, mainly due to an increase in stock valuation during the year.

INTRODUCTION

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

ORGANISATION

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

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

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

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

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

Pension Fund Accounts

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

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

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

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

- (a)** Basis of Preparation - The accounts have been prepared on an accruals basis (i.e. income and expenditure attributable to the financial year have been included) even where payment has not actually been made or received, excepting Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (b)** Investments - Investments in the Net Assets Statement are shown at market value based on bid prices, as required by the 2013/14 Local Authority Code of Practice and the IAS 26 Retirement Benefit Plans. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.
- (c)** The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.

Pension Fund Accounts

- (d) Dividend income earned from equity and bonds (excluding Private Equity) is reinvested by Investment Managers and not repaid directly to the fund as cash.
- (e) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31st March 2014 is the actual fair value using the latest available valuation on or after 31st December 2013, plus an estimated valuation for the period up to 31st March 2014.
- (f) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schrodgers, to invest in pooled property funds. The Schrodgers funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards on the basis of their open market value (OMV).

The only non UK funds are the Continental European Fund 1 and Lend Lease Real Estate Partners 3. Their net asset values are derived from the net asset values of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies. All the funds are independently valued on a rolling basis at least annually.

- (g) The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31st March 2014 is the actual fair value using the latest available valuation on or after 31st December 2013, plus an estimated valuation for the period up to 31st March 2014.
- (h) The fair value of the Investec commodities is based on their quoted market prices at the Balance Sheet date. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for a non-exchange traded financial instrument, the fair value of the instrument is estimated using Investec's valuation techniques.
- (i) Contributions – These represent the total amounts receivable from employers within the scheme in respect of their own contributions and any of their employees contributions who are members of the scheme. There are seven employee contribution bands (revised annually in line with inflation) ranging from 5.5% for members earning up to £13,700 a year to 7.5% for members earning over £87,100 a year.

Pension Fund Accounts

Full time pay for the post	Contribution rate
Up to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%

The employer's contribution is reviewed every three years and is determined by the fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation.

- (j) **Benefits** – Benefits payable are made up of pension payments and lump sums payable to members of the Fund upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.
- (k) **Transfer Values** – Transfer values are those sums paid to, or received from, other pension schemes relating to periods of previous pensionable employment. Transfer values are calculated in accordance with the Local Government Pension Scheme Regulations and have been brought into the accounts on a cash basis.
- (l) **Taxation** – The fund is a registered public service scheme under section (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.
- (m) **VAT** – By virtue of Lewisham Council being the administering authority, VAT input tax is recoverable on fund activities. Any irrecoverable VAT is accounted for as an expense.
- (n) **Actuarial** – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 77 of the Local Government Scheme Regulations 1997. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent actuarial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2013.

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

Pension Fund Accounts

Financial assumption	March 2013 %	March 2010 %
Discount Rate	4.6	6.1
Price Inflation	3.3	3.8
Pay Increases	4.3	5.3*
Pension Increase:		
Pension in excess of GMP	2.5	3.3
Post -88 GMP	2.5	2.8
Pre-88 GMP	0.0	0.0
Revaluation of Deferred Pension	2.5	3.3
Expenses	0.7	0.6

* The assumption for 2010 was actually 1% p.a for 2010/11 and 2011/12 and 5.3% thereafter.

With effect from the 1 April 2014, the actuarial review carried out for 31 March 2013 resulted in no increase to the Council's contribution rate of 21.5% for 2014/15 and annual increases of 0.5% for the subsequent two years (2015/16 and 2016/17). The next actuarial valuation of the Fund will be carried out as at 31 March 2016, with new employer contribution rates taking effect from 1 April 2017.

The triennial valuation on the 31st March 2013 revealed that the Fund's assets, which at 31 March 2013 were valued at £868 million, were sufficient to meet 71.4% (75.4% in 2010) of the current liabilities valued at £1,216 million (£949 in million 2010) accrued up to that date. The resulting deficit at the 2013 valuation was £348million (£234 million in 2010).

Actuarial Present Value of Promised Retirement Benefits

The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1,416 million as at 31st March 2014 (£1,353 million 31st March 2013).

- (o) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.
- (p) 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.

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

Pension Fund Accounts

- Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
- Dividend receipts: the rate applicable on the day prior to the date the dividend is received is used.

(q) 2013/14 Financial Year Summary of the Fund's Market Value

Fund Manager	Assets	Assets Value 2013/14 £000	Assets Value 2012/13 £000	Proportion of Fund 2013/14 (%)
Schroders Property	Property	76,179	69,598	8.4
HarbourVest	Private Equity	39,136	37,515	4.3
UBS	Passive Equity and Bonds	371,042	340,486	41.0
Blackrock	Passive Equity and Bonds	369,472	338,769	41.0
Investec	Commodities	33,651	37,889	3.7
M&G	Credit	13,981	13,411	1.6
Securities Lending	Securities Lending	93	88	-
Unallocated Funds	Cash	1,202	29,836	-
Lewisham	Cash and Net Current Assets	38	-43	-
Total Fund		904,794	£867,549	100.0

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

Pension Fund Accounts
FUND ACCOUNT FOR THE YEAR

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

<u>FUND ACCOUNT FOR THE YEAR ENDED</u> <u>31st MARCH 2014</u>	2013/14 £000s	2012/13 £'000s	Note
<u>DEALINGS WITH MEMBERS, EMPLOYERS</u> <u>AND OTHERS</u> <u>DIRECTLY INVOLVED WITH THE SCHEME</u>			
Contributions Receivable:			
- from Employer	29,147	26,934	1
- from Employees	9,095	8,612	1
- Reimbursement for Early Retirement	1,380	308	
Transfer Values In	1,407	3,084	
Other Income	11	10	
Sub-Total: Income	41,040	38,948	
Benefits Payable:			
- Pensions	(33,841)	(32,857)	2
- Lump Sums: Retirement allowances	(6,539)	(5,413)	
- Lump Sums: Death grants	(368)	(1,249)	
Payments to and on account of leavers:			
- Refunds of Contributions	(3)	(1)	
- Transfer Values Out	(2,012)	(2,376)	
Administrative and other expenses borne by the scheme	(836)	(752)	3
Sub-Total: Expenses	(43,599)	(42,648)	
Total Net additions (withdrawals) from Dealings with Scheme Members	(2,559)	(3,700)	

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

Pension Fund Accounts

<u>FUND ACCOUNT FOR THE YEAR ENDED</u> <u>31st MARCH 2014</u>	2013/14 £000s	2012/13 £'000s	Note
<u>RETURNS ON INVESTMENTS</u>			
Investment Income	5,477	10,981	4
Change in market value of investments (Realised and Unrealised)	36,147	85,404	5
Investment Expenses:			
- Investment Management Fees	(1,467)	(2,162)	6
- Tax on Dividends	(353)	(438)	
Total Net Returns on Investments	39,804	93,785	
NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	37,245	90,085	
OPENING NET ASSETS OF THE SCHEME	867,549	777,464	
CLOSING NET ASSETS OF THE SCHEME	904,794	867,549	

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

Pension Fund Accounts
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 2014.

<u>NET ASSETS STATEMENT AT 31 MARCH 2014</u>	2013/14 £000s	2012/13 £000s	Note
EQUITIES			
Equities: UK	6,505	5,861	5
Equities: Global	10,389	11,499	5
	16,894	17,360	
MANAGED FUNDS			
Property	75,732	68,794	5
Equity	558,575	510,346	5
Fixed Interest	142,268	130,160	5
Index Linked	28,476	26,496	5
Other Assets	71,689	80,290	5
	876,740	816,086	
CASH DEPOSITS	10,651	33,502	10
DERIVATIVE CONTRACTS			
Assets	0	0	8
Liabilities	0	0	8
OTHER INVESTMENT BALANCES			
Debtors: Investment Transactions	491	3,771	9
Creditors: Investment Transactions	(20)	(3,127)	9
TOTAL INVESTMENTS	904,756	867,592	
NET CURRENT ASSETS AND LIABILITIES			
Debtors	1,107	590	9
Creditors	(1,222)	(1,777)	9
Cash in Hand	153	1,144	10
TOTAL NET ASSETS	904,794	867,549	

The financial statements of the fund do not take account of the liability to pay pensions or benefits after 31st March 2014. This liability is included within the Authority's balance sheet.

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NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

<u>Employer Contributions</u>	2013/14 £000s	2012/13 £000s
Administering: Normal	24,400	22,313
Admitted: Normal	826	1,026
Scheduled	3,921	3,595
	29,147	26,934

<u>Employee Contributions</u>	2013/14 £000s	2012/13 £000s
Administering	7,521	7,102
Admitted	317	328
Scheduled	1,257	1,182
	9,095	8,612

<u>2. BENEFITS PAYABLE</u>	2013/14 £000s	2012/13 £000s
Administering	20,278	19,010
Admitted	262	224
Scheduled	1,000	946
Dependants' Pensions	1,328	1,259
Pensions Increases	10,973	11,418
	33,841	32,857

<u>3. ADMINISTRATION COSTS</u>	2013/14 £000s	2012/13 £000s
Lewisham Administration	581	623
Administrative Costs	249	124
Bank Charges	6	5
	836	752

<u>4. INVESTMENT INCOME</u>	2013/14 £000s	2012/13 £000s
Cash	67	140
Equity	570	6,003
Fixed Interest	1,869	1,945
Index Linked	0	177
Managed Funds Incl. Property	2,962	2,626
Securities Lending	9	89
Other	0	1
	5,477	10,981

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5. INVESTMENT ANALYSIS

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

Asset	Manager	31 st March 2014	
		Value £000	%
Aquila Life US Equity Index Fund	Blackrock	111,601	12.9
UBS GBL Asset Life North America Equity Tracker	UBS	107,733	12.4
UBS Global Life UK Equity Tracker Fund	UBS	76,670	8.8
Aquila Life UK Equity Index Fund	Blackrock	75,627	8.7

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

Asset	Manager	31 st March 2014	
		Value £000	%
UK Equities			
Harbourvest GE PE Shares	Harbourvest	6,505	100
Global Equities			
Commonwealth Bank of Australia	UBS	621	6.0
BHP Billiton Ltd	UBS	588	5.7
Westpaac BKG Corp	UBS	535	5.2
Property			
Standard Life Pooled property Fund	Schroder	9,229	12.2
Schroder Uk Prop.	Schroder	9,697	12.8
Real Continental European Fund	Schroder	6,026	8.0
Hermes Property UT	Schroder	6,424	8.5
Legal and General Property Fund	Schroder	9,214	12.2
Blackrock UK Fund	Schroder	10,996	14.5
Lend Lease Real REIT Fund	Schroder	4,903	6.5
Real Income Fund	Schroder	4,797	6.3
Hercules Unit Property	Schroder	4,386	5.8
West End of London Unit Trust	Schroder	4,075	5.4
Managed Equities			
UBS Global AM Life Equity Tracker	UBS	76,670	13.7
UBS Global Life North America	UBS	107,732	19.3
Life European Equity Index Fund	Blackrock	38,411	6.9

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UBS Global Life European EX UK Equity Tracker Fund		34,710	6.2
Aquila Life US Equity Index Fund	Blackrock	111,488	19.9
Aquila Life UK Equity Index Fund	Blackrock	75,548	13.5
Fixed Interest			
UBS Global Asset Management Corporate Bond Fund	UBS	28,706	20.2
Blackrock Am Uk Corporate Bond Index	Blackrock	28,268	19.9
Aquila Life over 5 yrs Index Fund	Blackrock	28,854	20.3
Barclays Global Aquila Life	Blackrock	28,060	19.7
Index Linked			
UK 0.75% I/L Stock	UBS	1,474	5.2
UK 1.125% I/L Stock	UBS	1,613	5.7
UK 1.25% Index-Linked	UBS	1,795	6.3
UK 1.25% Index –Linked Gilt	UBS	1,706	6.0
UK 1.875% I/L Stock	UBS	1,946	6.8
UK 2% I/L Stock	UBS	1,512	5.3
UK 2.5% I/L Gilt	UBS	1,878	6.6
UK 2.5% I/L Stock	UBS	1,945	6.8
UK 1.25 I/L Stock	UBS	1,546	5.4
Others			
Global Commodities and Resources	Investec	33,651	47.0
Cayman Partnership Fund	Harbourvest	10,602	14.8
UK Companies Financing Fund	M&G	13,981	19.5
Cayman Buyout Fund	Harbourvest	7,967	11.1
Cayman Venture Fund	Harbourvest	4,999	7.0

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An analysis of investment movements is set out below:

<u>5. INVESTMENT ANALYSIS</u>	Value at 31/03/2013	Purchases at Cost	Sales Proceeds	Change in Capital Value	Change in Market Value	Value at 31/03/2014
Investments	£000s	£000s	£000s	£000s	£000s	£000s
UK Equities	5,861	0	0	(150)	794	6,505
Global Equities	11,499	0	(3)	13	(1,120)	10,389
Property	68,794	8,760	(4,933)	(871)	3,982	75,732
Managed Equities	510,346	12,280	(3,500)	(6)	39,455	558,575
Fixed Interest Securities	130,160	17,983	(2,822)	0	(3,053)	142,268
Index Linked Securities	26,496	6,079	(2,791)	0	(1,308)	28,476
Other*	80,290	1,917	(7,915)	0	(2,603)	71,689
Derivatives	0	0	0	0	0	0
	833,446	47,019	(21,964)	(1,014)	36,147	893,634
Cash deposits	33,502					10,651
Other Investment Balances	644					471
	867,592					904,756

* Includes Commodities, Venture Capital and Credit Mandates

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

Apart from Global Equities and bonds, the only other overseas investments held by the Fund, fall under the 'Other' category and are namely Private Equity £31.7m and Commodities £37.9m.

The total value of unquoted securities held by the fund as at 31st March 2014 was £643m, this includes equities, bonds and other assets.

The total value of quoted securities held by the fund as at 31st March 2014 was £176m, this includes equities and bonds.

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As at 31st March 2013:

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

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FINANCIAL INSTRUMENTS

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

31 st March 2014			Financial Assets	31 st March 2013		
Fair Value through Profit and Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Fair Value through Profit and Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
16,894			Equities	17,360		
			Managed Funds			
75,732			Property	68,794		
558,575			Equity	510,346		
142,268			Fixed Interest	130,160		
28,476			Index Linked	26,496		
71,689			Other Assets	80,290		
0			Derivative contracts	0		
	10,651		Cash deposits		33,502	
	326		Pending Trades		2,670	
	165		Dividends & Income		1,153	
	611		Contributions Due		538	
	153		Cash Balances		1,144	
0	496		Other Current Assets			
893,634	12,402		Total Financial Assets		39,007	
			Financial Liabilities			
0			Derivative Contracts			
		(20)	Pending Trades			(3,127)
		(955)	Unpaid benefits			(584)
		(267)	Other current Liabilities			(1,193)
0	0	(1,242)	Total Financial Liabilities	0	0	(4,904)
893,634	12,402	(1,242)	Net Financial Assets	833,446	39,007	(4,904)

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Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

31 March 2014		31 March 2013
£'000	Financial Assets	£'000
36,147	Fair Value through Profit and Loss	85,404
0	Loans and Receivables	0
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
36,147	Total	85,404

The fund also received bank interest totalling £996 during the year.

Valuation of Financial Instruments carried at Fair Value

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Level 1 - consists of assets where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities (e.g. quoted equities).

Level 2 - consists of assets where quoted market prices are not available (e.g. where an instrument is traded in a market that is not considered to be active).

Level 3 - consists of assets where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Values as at 31 st March 2014	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	16,894	844,109	32,631	893,634
Loans and Receivables	12,402			12,402
Total Financial Assets	29,296	844,109	32,631	906,036
Financial Liabilities				
Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost	(1,242)			(1,242)
Total Financial Liabilities	(1,242)			(1,242)
Net Financial Assets	28,054	844,109	32,631	904,794

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Values as at 31 st March 2013	Quoted Market Price Level 1 £'000	Using Observable Inputs Level 2 £'000	With Significant Unobservable Inputs Level 3 £'000	Total £'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	17,360	786,519	29,567	833,446
Loans and Receivables	39,007			39,007
Total Financial Assets	56,367	786,519	29,567	872,453
Financial Liabilities				
Fair Value through Profit and Loss	0			0
Financial Liabilities at Amortised Cost	(4,904)			(4,904)
Total Financial Liabilities	(4,904)	0	0	(4,904)
Net Financial Assets	51,463	786,519	29,567	867,549

FINANCIAL RISK MANAGEMENT

As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for an accepted level of risk. Therefore the Fund holds a mix of financial instruments such as securities (equities, bonds), collective investment schemes (pooled funds), and cash equivalents. In addition, debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

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

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

The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets

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managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus.

The Committee has determined that the current largely passive investment management structure is appropriate and is in accordance with its revised investment strategy.

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

i) Market Risk

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

a) Market Price Risk represents the risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines. The Council and its investment advisors also undertake appropriate monitoring of market conditions and benchmark analysis. The Fund has a long term view on expected investment returns which smoothes out short term price volatility. Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period.

Asset Type	Potential Market Movement +/- (%p.a.)
UK Equities	12.21
Overseas Equities	11.77
Total Bonds	6.85
Cash	0.02
Alternatives	6.96
Property	2.09

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The potential volatilities are broadly consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset Type	Final Market Value as at 31/3/2014 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	334,884	12.21	375,774	293,995
Overseas Equities	240,584	11.77	268,901	212,268
Property	75,732	2.09	77,315	66,700
Total Bonds	170,744	6.85	182,440	159,048
Other Assets	71,690	6.96	76,679	74,149
Cash	10,651	0.02	10,653	10,649
Total Assets	904,285*	7.37**	970,931	837,639

* This figure excludes derivatives and other investment balances.

**This is the average variance in proportion to the value of asset type held.

b) Interest Rate Risk is the risk the Pension Fund is exposed to from changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on bonds held on a segregated basis and cash held by investment managers, a 0.5% change in interest rates would result in an approximate annualised change in income of £765k.

c) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer. 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. As at 31 March 2014, there were no derivative contracts held.

Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 6.09%. This volatility is applied to the fund's overseas assets as follows:

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Asset Type	Asset Value @ 31/3/2014 £'000	% Change	Value on Increase £'000	% Change	Value on Decrease £'000
Overseas Equities	240,584	+6.09%	255,247	-6.09%	225,922
Other Assets	56,974	+6.09%	60,447	-6.09%	53,502
Other Alternatives	60,191	+6.09%	63,860	-6.09%	56,523
Total	357,749	+6.09%	379,554	+6.09%	335,947

ii) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection of and monitoring of counterparties including brokers, custodian and investment managers seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

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

The Financing Fund (M&G) is also exposed to credit risk. The fund gains exposure by investing in private placements. This risk is managed by the manager assigning a credit analyst to all investments, who continually monitors the asset, its direct peers and its sector.

iii) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due, for example the benefits payable costs and capital commitments. The fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2014 these assets totalled approximately £746m, with a further £10.6m held in cash by the custodian on behalf of the Fund and fund managers.

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6. INVESTMENT MANAGEMENT FEES

	2013/14 £000s	2012/13 £000s
Fund Managers' Fees	1,389	1,872
Custodian Fees	48	227*
Advisory Costs	30	63
	1,467	2,162

*These fees included the cost of transition management from active to passive.

7. PRIOR YEAR ADJUSTMENT

No prior year adjustments have been made to these accounts.

8. DERIVATIVE CONTRACTS

As at 31 March 2014, there were no foreign exchange contracts held.

Asset Type	31 st March 2014	31 st March 2013
Foreign Exchange Gains		
Total Gains	0	0
Foreign Exchange Losses		
Total Losses	0	0
Total Unrealised Gains/(Losses)	0	0

9. DEBTORS & CREDITORS

These comprise the following amounts:

Debtors	2013/14 £000	2012/13 £000
Contributions due from Admitted / Scheduled Bodies	611	538
Equity Dividends / Income from Managed Funds	4	711
Interest and Other Income	161	390
LB Lewisham	496	0
Tax Refunds	0	52
Pending Trades	326	2,670
	1,598	4,361

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Creditors	2013/14 £000	2012/13 £000
Fund Manager and Custody Fees	(267)	(171)
Consultancy / Advisory Fees	0	(94)
Pension Payments Due to Employees	(955)	(584)
Pending Trades	(20)	(3,127)
LB Lewisham	0	(926)
	<u>(1,242)</u>	<u>4,904</u>

The pending trades relate to purchases and sales by managers which have yet to be the subject of cash settlement. Pending trade sales and purchases at the year end are treated as investment debtors and creditors.

10. CASH DEPOSITS

The Northern Trust Company is the fund's global custodian and the cash is held to meet the cash flow requirements of the fund and its managers. Part of the cash held last year was re-invested in equal shares of £12.5m in both Blackrock and UBS according to their existing benchmarks. The total cash held as at 31st March 2014 was £10.7m (£33.5m as at 31st March 2013). Approximately £6.0m of the cash held was from Harbourvest, and £2.5m from M&G. Only approximately £0.8m was being held on behalf of managers.

Cash in Hand

The Lewisham cash balance represents uninvested cash held in the Pension Fund bank account as at 31st March 2014. The cash in hand figure excludes a figure of £496K to be paid by the Council to the Fund for items described in note 14a below.

11. TRANSACTION COSTS

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

	2013/14 £000	2012/13 £000
Total Purchases	1	261
Total Sales	2	148
Total transactions	3	409

12. POST YEAR END EVENTS

There have been no events since March 2014, and up to the date when these accounts were prepared, that require any adjustment to these accounts.

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13. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31st March 2014

Harbourvest

Fund	Amount '000s	Translated £'000s
Harbourvest Partners VIII – Cayman Venture Fund L.P	\$998	727
Harbourvest Partners VIII – Cayman Buyout Fund L.P	\$3,515	1,960
Harbourvest International Private Equity Partners V – Cayman Partnership Fund L.P	€1,575	1,302
Harbourvest International Private Equity Partners V – Cayman Direct Fund L.P	€180	149
Total		4,138

The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31st March 2014. This compares to the total Harbourvest commitments at 31st March 2013 £6.7m.

14. RELATED PARTY TRANSACTIONS

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

Eight Councillors sit on the Pensions Investment Committee which oversees the Fund. Six Councillors of this Committee were members of the pension scheme as at 31st March 2014. At each meeting of the Pensions Investment Committee, Councillors are required to make declarations of interest which are minuted at the meeting.

During the year the following declarations were made:

- Cllr Muldoon declared a personal interest, that he has been appointed as substitute member of the Cost and Contribution Sub-Committee of the Shadow Advisory Board of the Local Government Pension Scheme. This will become a (non Shadow) full Advisory Board in April 2014.
- Cllr Maslin declared an interest in UBS. He is a Director of Hales Gallery of which UBS is an occasional customer. Cllr Maslin has not taken part in any of the decisions taken during the year involving UBS.
- Councillor Muldoon declared a personal interest, as a friend of the Chair of Schroder Income Growth Fund plc.

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No other trustees or Council chief officers with direct responsibility for pension fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2014.

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

- a) Recharges from the Council for the in-house administration costs and other expenses, such as interest payable on balances, borne by the scheme were transacted for £581k (see note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time and vice versa.
- b) The salary of the Executive Director for Resources and Regeneration is disclosed in the Council's full set of accounts.

15. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 48 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

The fund has two AVC providers: Clerical Medical and Equitable Life. The value of AVC investments is shown below. The contributions are held by the providers and do not form part of the Lewisham fund's assets in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

	Total	Equitable	Clerical
	£000s	£000s	Medical
			£000s
2013/14			
Value at 1 April 2013	1,493	527	966
Contributions and Transfers Received	335	5	330
Investment Return	74	21	53
Paid Out	(332)	(57)	(275)
Value at 31 March 2014	1,570	496	1,074

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

DRAFT

LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

Pension Fund Accounts

16. SCHEDULED BODIES

The following are scheduled bodies to the fund as at 31st March 2014:

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

17. ADMITTED BODIES

The following are admitted bodies to the fund as at 31st March 2014:

National Car Parks Ltd
Excalibur Tenant Management Project
PLUS
Housing 21
Lewisham Nexus Services
Lewisham Way Youth and Community Centre
SAGE Educational Trust
CIS Securities **Ceased 31st May 2013**
Wide Horizons
Phoenix
INSPACE
T Brown & Sons
Quality Heating
Blenheim CDP
RSM Tenon formerly RSM Bentley Jennison now Baker Tilly
Broomleigh Housing Association **Ceased 30th June 2013**
Penrose now Crime Reduction Initiatives (CRI)
Skanska
One Housing
Fusions Leisure Management
3 C's Support
Children's Society
Pre-School Learning Alliance
Chequers Contract Services

18. STOCK LENDING

The Statement of Investment Principles permits the Fund to enter into stock lending whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan. Equities and fixed income assets held in segregated accounts in custody may be lent. The Fund actively lends in 50 different equity and fixed income markets worldwide. Northern Trust conducts this activity on behalf of the Fund.

DRAFT

LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

Pension Fund Accounts

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

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

As at the 31st March 2014, the value of aggregate stock on loan was £1.3m (£1.0m as at 31st March 2013). These have been carried in the accounts at this value. There are no liabilities associated with these assets.

Collateral

The collateral held as security on loans cannot be sold or repledged in the absence of default by the borrower. The Council entered into stock lending transactions during the financial year earning £93k net of direct expenses (compared to £88k in 2012/13). The value of collateral held as at 31 March 2014 was £1.4m (£1.1m as at 31st March 2013).

19. MEMBERSHIP

	Active Members 2013/14	Active Members 2012/13	Deferred Benefits 2013/14	Deferred Benefits 2012/13	Retired Former Members 2013/14	Retired Former Members 2012/13
Admin. Authority	5,715	5,322	7,714	7,284	6,645	6,530
Scheduled Bodies	705	655	385	303	147	127
Admitted Bodies	397	180	207	92	98	43
Totals	6,817	6,157	8,306	7,679	6,890	6,700

20. These accounts were authorised on the **xxxxx** by the Executive Director for Resources and Regeneration.

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Investment Performance for the quarter end 31 March 2014		
KEY DECISION	No	Item No:	6
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	26 June 2014

1. SUMMARY

1.1 This report sets out the performance of the Pension Fund investment portfolio and that of the individual managers for the quarter ended 31 March 2014.

1.2 The report comprises the following sections:

2. Recommendation
3. Background
4. Portfolio Summary
5. Conclusions
6. Financial Implications
7. Legal Implications
8. Crime and disorder Implications
9. Equalities Implications
10. Environmental Implications

2. RECOMMENDATION

2.1 The Committee is recommended to note the contents of the report.

3. BACKGROUND

3.1 This report sets out the performance for the quarter ended 31 March 2014 and since inception, as provided by the Fund's investment advisors Hymans Robertson. The full report and performance commentary will be provided at the meeting by the investment advisors.

4. PORTFOLIO SUMMARY

4.1 The Pensions Fund had an overall market value of £905m for the quarter ended 31 March 2014. The Fund's value has increased by £7.5m over the quarter, with the Fund's equity mandates being the main enhancers to performance. The Fund underperformed its benchmark by 0.4%, returning 1%.

4.2 The Fund's valuation summary has been set out below in Table 1.

Table 1 – Portfolio Valuation Summary

Manager	Mandate	*Asset Value Qtr 3 (Dec 2013) £m	*Asset Value Qtr 4 (Mar 2014) £m	Actual Proportion %	Target Proportion %
Blackrock	Passive Multi-asset	366.6	369.5	40.8	39.0
Harbourvest	Venture Capital	38.9	39.1	4.3	3.0
Investec	Commodities	34.2	33.6	3.7	5.0
M&G	UK Financing Fund	13.8	14.0	1.6	1.0
Schroders	Property	74.9	76.1	8.4	10.0
UBS	Passive Multi-asset	367.6	371.0	41.0	39.0
Cash		1.3	1.3	0.2	3.0
Total Fund		897.3	904.8	100.0	100.0

*Asset values based on custodian valuation

4.3 The performance of the individual managers relative to the appropriate benchmarks is as set out in Table 2. This indicates the volatility of returns and the continuing mixed performance of all mandates.

Table 2: Managers Performance Relative to Target

Manager	Quarter Ended 31 Mar 14	12 Months to 31 Mar 2014	Since Inception
Blackrock – Passive Multi-asset	0.0%	0.0%	-0.2%
Harbourvest – Venture Capital	0.0%	-4.2%	-0.5%
Investec – Commodities	-7.6%	-0.4%	-0.9%
M&G – UK Financing Fund	1.0%	3.7%	3.0%
Schroders – Property	0.1%	-2.4%	-0.9%
UBS – Passive Multi-asset	0.0%	0.0%	0.0%

4.4 The performance of individual managers will be analysed and appraised by the Council's Investment Advisor, Hymans Robertson, at the meeting.

5. CONCLUSION

5.1 Relative performance for the quarter from the Fund's active managers was mixed. The M&G UK Financing Fund performed relatively well, and Schroders (Property) were just above their benchmark. However, Investec (Commodities) significantly underperformed.

6. FINANCIAL IMPLICATIONS

6.1 The comments of the Executive Director for Resources & Regeneration have been incorporated into the report.

7. LEGAL IMPLICATIONS

- 7.1 As the administering authority for the Fund, the Council must review the performance of the Fund's investments at regular intervals and review the investments made by Fund Managers quarterly.
- 7.2 The Pension Regulations require that the Council has regard to the proper advice of its expert independent advisers in relation to decisions affecting the Pension Fund. They must also have regard to the separate advice of the Chief Financial Officer who has statutory responsibility to ensure the proper administration of the Council's financial affairs, including the administration of the Pension Fund.

8. CRIME AND DISORDER IMPLICATIONS

- 8.1 There are no crime and disorder implications directly arising from this report.

9. EQUALITIES IMPLICATIONS

- 9.1 There are no equalities implications directly arising from this report.

10. ENVIRONMENTAL IMPLICATIONS

- 10.1 There are no environmental implications directly arising from this report.

APPENDICES

The full report and performance is attached. Commentary will be provided at the meeting by the Council's investment advisors, Hymans Robertson.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact:

David Austin, Head of Corporate Resources on 020 831 49114.

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for First Quarter of 2014

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 Prepared By:

Scott Donaldson - Partner
Albert Chen - Investment Consultant
Jordan Irvine- Investment Analyst

For and on behalf of Hymans Robertson LLP
June 2014

Real people. Real skills. Real results.

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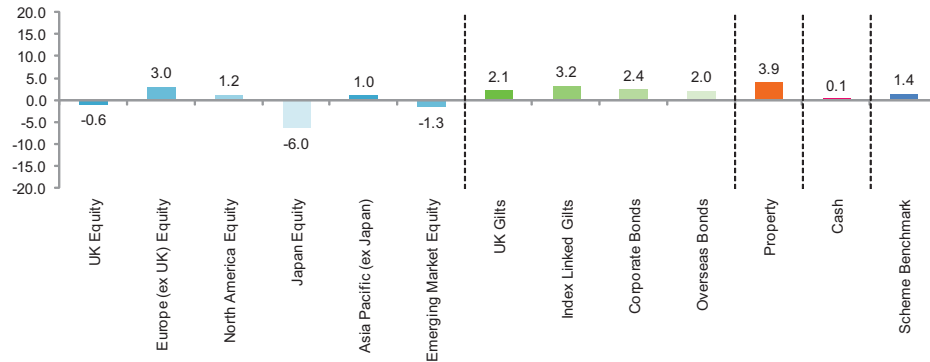
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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Historic Returns for World Markets to 31 March 2014

3 Months (%)



Historic Returns - Comment

In the March budget, branded as a budget for 'savers', the Chancellor of the Exchequer announced an increase in the threshold for tax free savings and greater flexibility in the operation of defined contribution pension plans. At the same time, the Office for Budget Responsibility (OBR) revised its forecast for UK economic growth in 2014, from 2.4% to 2.7%. On this basis, the economy will surpass its pre-crisis peak later this year. Despite the more optimistic tone of published economic data, a number of commentators expressed concerns over the strength and breadth of the recovery and whether it is sufficient to resolve problems of a more structural nature. Consequently, further austerity measures remain on the agenda.

In the US, strong economic growth and improved labour market conditions provided the Central Bank with the opportunity to reduce further its bond buying programme. In addition, policy statements from senior officials indicated that short term interest rates may rise in early 2015. In the UK, the Bank of England was less forthright, with the Governor warning that the economic recovery is not yet secure and that when interest rates rise they will do so only gradually.

Far-East equity markets were unsettled by the prospect of less supportive policy in the US but quickly recovered their losses. Other negative influences affecting equity markets included continuing tensions in the Middle-East and the stand-off between Russia and Ukraine over Crimea.

Key events during the quarter were:

Global Economy

- Forecasts of UK economic growth for 2014 and 2015 were revised upwards by the Office for Budget Responsibility;
- UK inflation (CPI) fell to a four year low of 1.7% (v. target of 2%) in February;
- Eurozone inflation fell to 0.5% in March (the lowest rate since November 2009);
- Japan reported a record trade deficit in 2013, as a weak Yen pushed up the cost of imports;
- China set an economic growth target of 7.5% for 2014 (same as 2013);
- Short-term interest rates were unchanged in the UK, Eurozone, US and Japan.

Equities

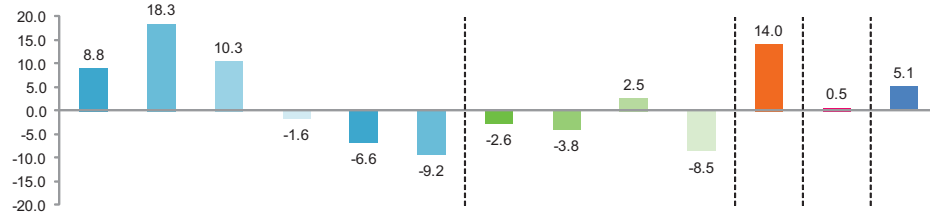
- The best performing sectors relative to the 'All World' Index were Utilities (+6.4%) and Health Care (+5.2%); the worst were Telecommunications (-3.3%) and Consumer Services (-2.5%);
- The UK government announced a plan to sell further shares in Lloyds Banking Group, to bring its holding down to 25%.

Bonds and Currencies

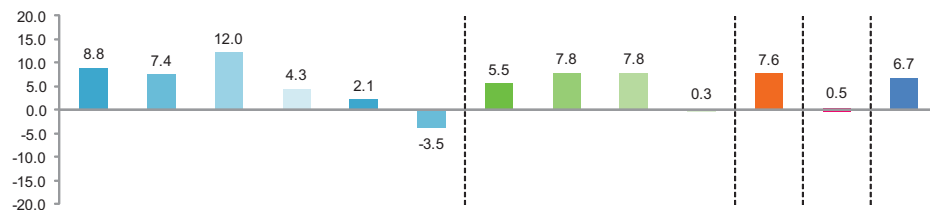
- Bond markets rose (yields fell) on easing of inflationary pressures in the UK, Europe and US;
- Argentinian devaluation caused sharp fluctuations in other emerging market currencies.

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2 Months (%)



3 Years (% p.a.)



Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2013	Q1 2014			
Global Equity	567.4	569.1	62.7	60.0	2.7
Bonds	166.2	171.6	18.9	17.9	1.0
Property	75.1	77.8	8.6	10.0	-1.4
Private Equity	38.9	39.2	4.3	3.0	1.3
Trustee Bank Account	1.6	1.7	0.2	3.0	-2.8
UK Financing Fund	13.8	14.0	1.5	1.0	0.5
Commodities	34.9	33.7	3.7	5.0	-1.3
Total inc. Trustee Bank Account	898.0	907.0	100.0	100.0	

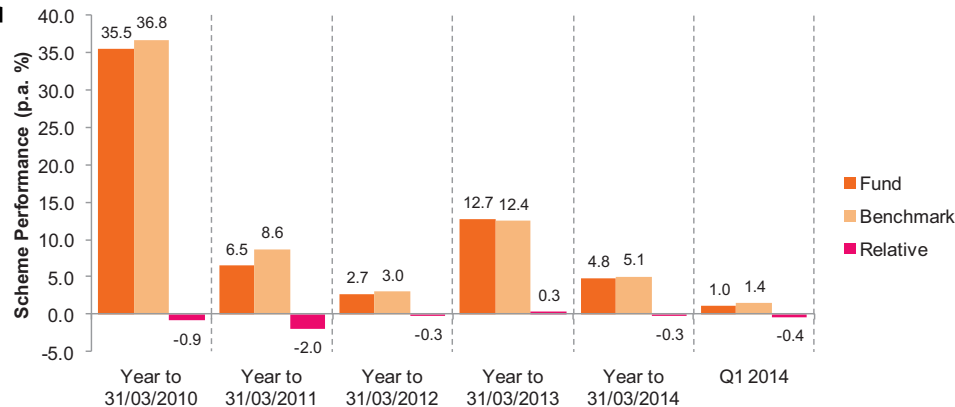
Comments

The value of the Fund's assets rose by £9.0m over the quarter to £907.0m as at 31 March 2014. The Fund returned 1.0% over the quarter, underperforming its benchmark return by 0.4%.

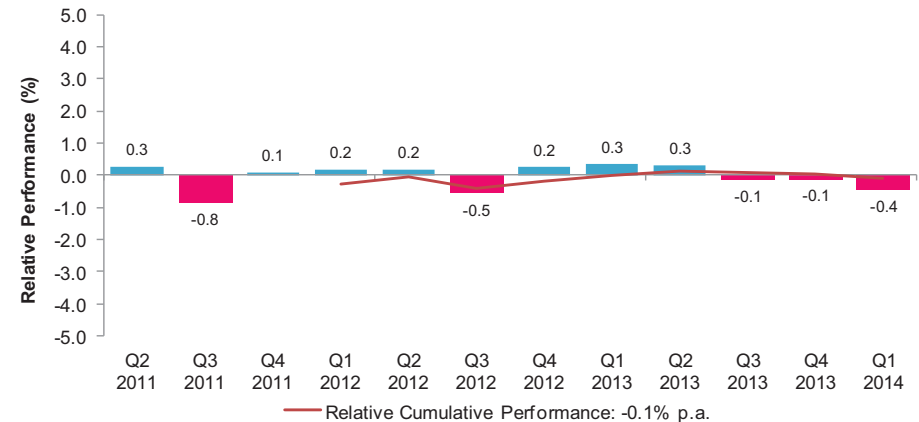
The Fund's underperformance was due largely to underperformance from the Investec Commodities mandate, although this was partially offset by positive relative performance from the Schroders Property mandate and M&G UK Financing Fund. The HarbourVest mandate performed broadly in line with its benchmark.

As expected, the passive multi-asset mandates with BlackRock and UBS performed broadly in line with their composite benchmarks for the quarter.

Performance Summary [i]



Relative Quarterly and Relative Cumulative Performance

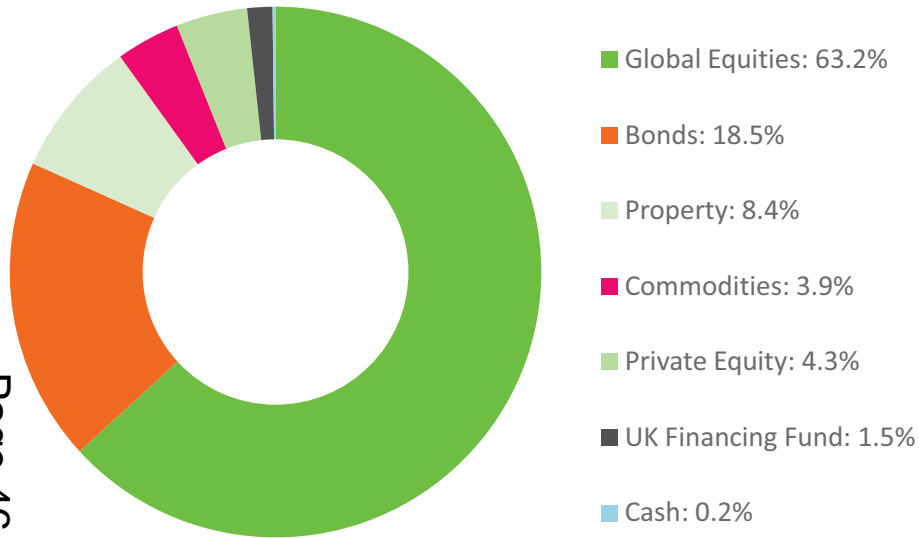


Source: [i] DataStream, Fund Manager, Hymans Robertson

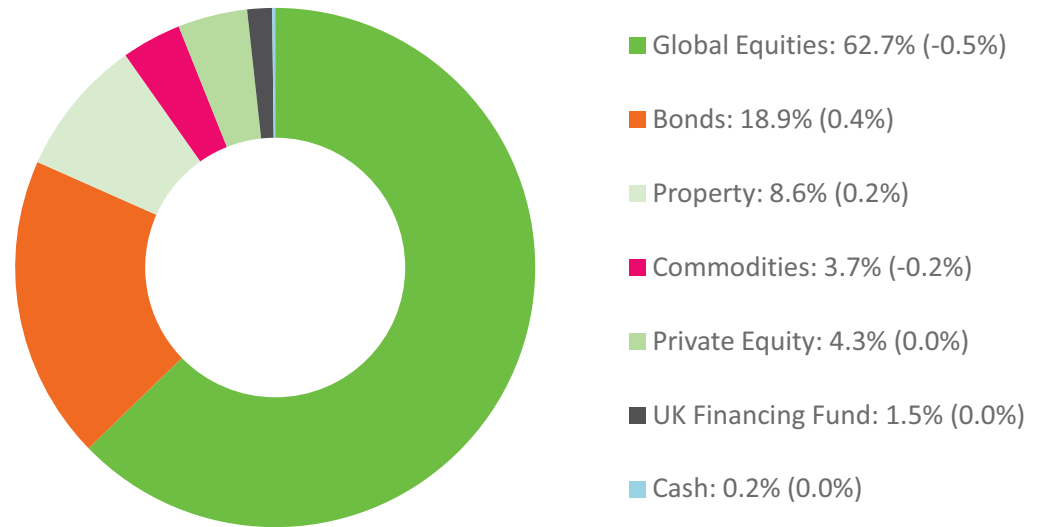


Fund Asset Allocation^[1]

Asset allocation as at 31 December 2013



Asset allocation as at 31 March 2014



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Source: ^[1] Fund Manager, Hymans Robertson

Comments ^[1]

The charts above show the Fund's asset allocation as at 31 December 2013 and 31 March 2014. The figures in brackets as at 31 March 2014 represent the net changes over the quarter.

There were no significant changes to the Fund's asset allocation over the quarter, with minor changes in the allocations attributable to relative market movements and the relative performance of the Fund's mandates.



Manager Summary

Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2013	Q1 2014			
BlackRock - Passive Multi-asset	366.0	370.0	40.8	39.0	1.8
UBS - Passive Multi-asset	367.6	370.7	40.9	39.0	1.9
Schroders - Property	75.1	77.8	8.6	10.0	-1.4
Investec - Commodities	34.9	33.7	3.7	5.0	-1.3
Harbourvest - Venture Capital	38.9	39.2	4.3	3.0	1.3
M&G - UK Companies Financing Fund	13.8	14.0	1.5	1.0	0.5
Cash	1.6	1.7	0.2	3.0	-2.8
Total	898.0	907.0	100.0	100.0	0.0

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Manager Summary

Manager	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
BlackRock - Passive Multi-asset	20 Nov 2012	Composite	-	
UBS - Passive Multi-asset	15 Nov 2012	Composite	-	
Schroders - Property	12 Oct 2004	IPD Pooled Property Fund Index	0.75% p.a. above benchmark	
Investec - Commodities	25 Feb 2010	Dow Jones-UBS Commodities Total Return Index	-	
Harbourvest - Venture Capital	29 Jun 2006	MSCI All Country World Developed Index	5% p.a. above benchmark	
M&G - UK Companies Financing Fund	01 May 2010	LIBOR	4-6% p.a. above benchmark	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain



Performance Summary - Managers

Performance Summary ^[1]

		BlackRock - Passive Multi-asset	UBS - Passive Multi-asset	Schroders - Property	Investec - Commodities	Harbourvest - Venture Capital	M&G - UK Companies Financing Fund	Cash	Total Fund
3 Months (%)	Absolute Benchmark	0.9	0.9	3.4	-1.8	0.7	1.1	N/A	1.0
		0.9	0.9	3.3	6.3	0.7	0.1	N/A	1.4
	Relative	0.0	0.0	0.1			1.0	N/A	
12 Months (%)	Absolute Benchmark	5.2	5.1	9.2	-11.2	4.5	4.3	N/A	4.8
		5.2	5.1	11.9	-10.8	9.0	0.5	N/A	5.1
	Relative	0.0					3.7	N/A	
3 Years (% p.a.)	Absolute Benchmark	N/A	N/A	4.6	-5.8	6.8	4.1	N/A	6.6
		N/A	N/A	5.7	-8.6	9.4	0.6	N/A	6.7
	Relative	N/A	N/A		3.1		3.4	N/A	
Since Inception (% p.a.)	Absolute Benchmark	14.9	14.8	2.8	-1.7	6.0	3.6	N/A	7.4
		15.1	14.8	3.8	-1.8	6.6	0.7	N/A	7.8
	Relative		0.0		0.2		3.0	N/A	
		-0.2		-0.9		-0.5			-0.3

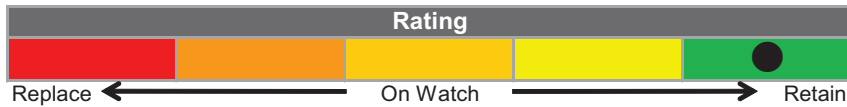
[1] Since inception: BlackRock (20 Nov 12), UBS (15 Nov 12), Schroders (12 Oct 04), Investec (25 Feb 10), HarbourVest (29 Jun 06), M&G (01 May 10)

Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited



BlackRock - Passive Multi-Asset

HR View Comment & Rating



There was no significant news to report for the BlackRock passive business during the quarter.

BlackRock remains one of our preferred passive managers.

Performance Summary to 31 March 2014

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.9	5.2	N/A	14.9
Benchmark	0.9	5.2	N/A	15.1
Relative	0.0	0.0	N/A	-0.2

* Inception date 20 Nov 2012.

Performance Summary - Comment

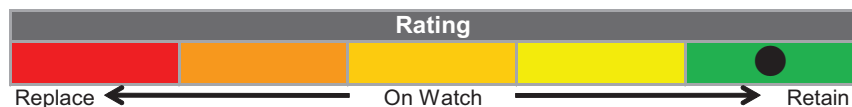
The BlackRock composite benchmark comprises the FTSE All Share (20.5%), MSCI AC World (56.5%), FTSE All Stocks Index-Linked Gilts (7.7%), FTSE All Stocks Gilts Index (7.6%), and iBoxx £ Non-Gilts All Stocks (7.7%).

Over the quarter, the BlackRock multi-asset mandate delivered a positive return of 0.9%, matching its composite benchmark return. All of the underlying allocations within the mandate performed broadly in line with their respective benchmarks, as we would expect from a passive manager. Three underlying funds; the UK Equity index, the Japanese Equity index and the Emerging Market index produced negative absolute returns. All other underlying funds produced positive absolute returns, broadly reflecting the underlying index returns.



UBS - Passive Multi-Asset

HR View Comment & Rating



There was no significant news to report for the UBS passive business during the quarter.

UBS remains one of our preferred passive managers.

Performance Summary to 31 March 2014

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.9	5.1	N/A	14.8
Benchmark	0.9	5.1	N/A	14.8
Relative	0.0	-0.0	N/A	0.0

* Inception date 15 Nov 2012.

Performance Summary - Comment

The UBS composite benchmark comprises the FTSE All Share (20.5%), FTSE All World (inc UK) (56.5%), FTSE > 15 Year Fixed Gilts (7.6%), FTSE > 5 Year Index Linked Gilts (7.7%) and iBoxx Sterling Non-Gilts All Stocks (7.7%) indices.

During the quarter, the UBS multi-asset mandate delivered a positive return of 0.9%, performing in line with its composite benchmark. All of the underlying allocations within the mandate performed broadly in line with their respective benchmarks, as we would expect.



Schroders - Property

HR View Comment & Rating



We continue to rate Schroder's Multi Manager team highly. We note that Schroders have announced further developments to the Schroders UK Property fund management team (the portfolio includes a c12.8% allocation to this particular pooled fund). James Lass is to take sole responsibility for the UK fund whilst Ian Mason is moving on to the role of Fund Advisor on the West End of London Property Unit Trust and Hercules Unit Trust (sector specialist funds run by Schroders). Lass has been Fund Manager of SPF for the past year while Mason directed the strategy. Lass will now be solely responsible for both framing and the implementation of SPF's strategy, overseen by Schroders' Investment Committee. The portfolio remains well positioned and Mason will continue to lead the ongoing projects in Bracknell and Croydon on behalf of SPF. This does not impact our view on the Multi Manager team, which remains positive.

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Performance Summary - Comment

The Schroder UK Property Fund returned 3.4% over the quarter outperforming its benchmark by 0.1%. Longer term, the fund has underperformed its benchmark over the 12 month and 3 year periods.

The recovery in UK commercial property that we witnessed in the second half of 2013 continued into 2014. Schroders expect London to continue to record the strongest rental growth over the remainder of 2014 and have therefore remained overweight to central London and South East.

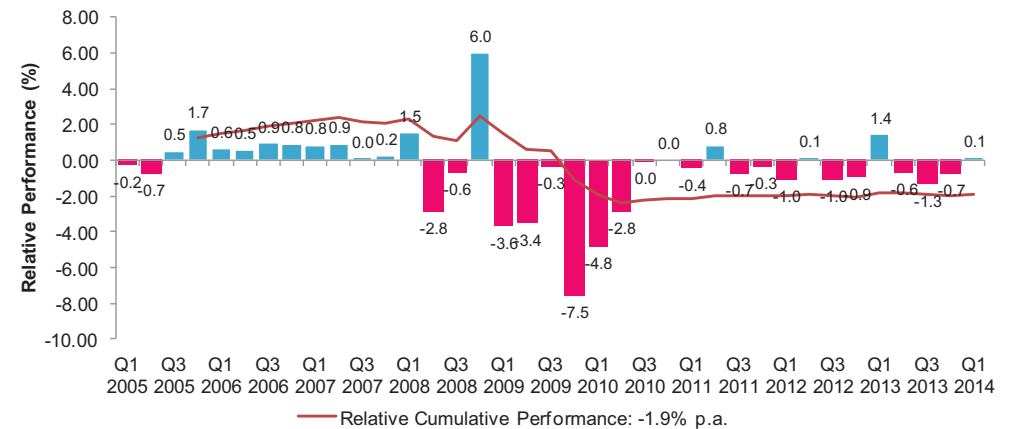
The Threadneedle Strategic Property fund and the Schroders UK Property fund both contributed positively to performance during the quarter. The Continental European Fund continues to be the poorest performing core fund, generating negative returns of -0.3% for three months and -2.1% for 12 months.

Performance Summary to 31 March 2014 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.4	9.2	4.6	2.8
Benchmark	3.3	11.9	5.7	3.8
Relative	0.1	-2.4	-1.0	-0.9

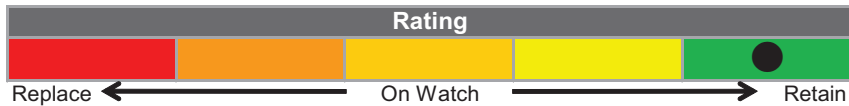
* Inception date 12 Oct 2004.

Relative Quarterly and Relative Cumulative Performance



Investec - Commodities

HR View Comment & Rating



There was no significant news to report over the quarter.

While performance has been below benchmark this quarter, we note that this level of volatility is not uncommon for this mandate, and performance remains ahead of benchmark over the past 3 years and since inception.

Performance Summary to 31 March 2014 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-1.8	-11.2	-5.8	-1.7
Benchmark	6.3	-10.8	-8.6	-1.8
Relative	-7.6	-0.4	3.1	0.2

* Inception date 25 Feb 2010.

Performance Summary - Comment

The Investec Global Commodities & Resources Fund delivered a disappointing return for the quarter, underperforming its Dow Jones-UBS Commodities Total Return benchmark by 7.6%. Despite this, the mandate is strongly ahead over the longer term period of 3 years, and remains marginally ahead of its benchmark since inception.

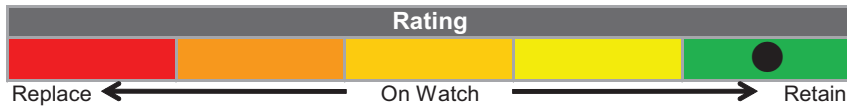
The fund's stock selection within the energy sector was the major contributor to underperformance over the quarter. The biggest detractors included the mandate's short position in Chenire Energy and long positions in Ophir Energy and CNOOC. Base & Bulk metals holdings also detracted from performance as concerns intensified over a potential slowdown in Chinese GDP growth.

Against this backdrop, the fund's exposure to precious metal equities contributed positively, as did holdings in the agriculture & soft commodities sector.



Harbourvest - Venture Capital

HR View Comment & Rating



HarbourVest remains one of our favoured private equity fund of funds, being well placed to exploit any opportunities that may arise in the secondary market.

Recent personnel changes at the firm include the departure of Claudio Siniscalco, a Principal based in the London office, the promotion of a couple of Principals to Managing Director and the addition of Kathleen Bacon to the Global Investment Committee. George Anson's tenure as Chair of the EVCA is about to come to an end so he will be able to devote more time to his day job at HarbourVest. The firm was approved as AIFMD-compliant in April 2014 and will shortly be raising AIFM-compliant funds.

Performance Summary to 31 March 2014 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.7	4.5	6.8	6.0
Benchmark	0.7	9.0	9.4	6.6
Relative	-0.0	-4.2	-2.4	-0.5

* Inception date 29 Jun 2006.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-2.4	5.0

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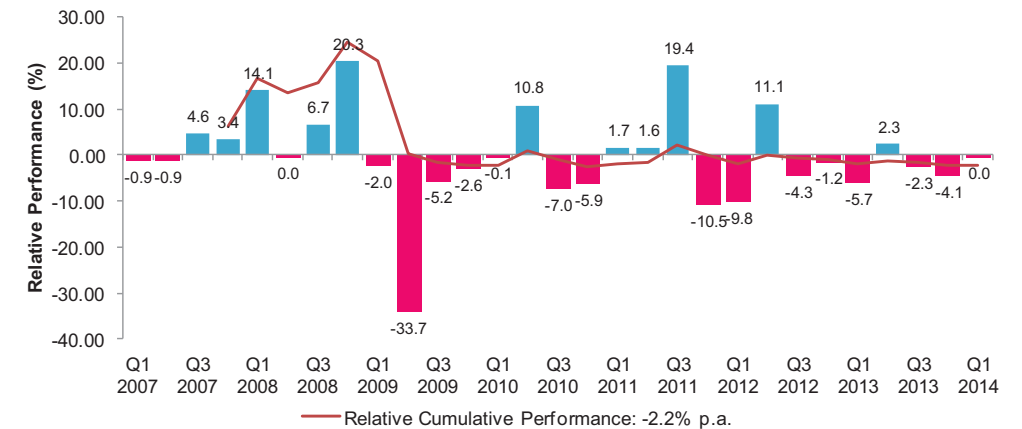
Performance Summary - Comment

The HarbourVest mandate returned 0.7% over the quarter, matching its benchmark return. The mandate has underperformed its benchmark over 12 months, 3 years and since inception.

Given the volatility and pricing of this asset class, it can be misleading to place too much emphasis on short-term performance.

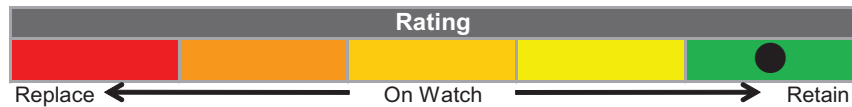
The returns shown are sourced from Northern Trust.

Relative Quarterly and Relative Cumulative Performance



M&G - UK Companies Financing Fund

HR View Comment & Rating



There was no significant news to report over the quarter.

Performance Summary to 31 March 2014 ^[i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.1	4.3	3.6
Benchmark	0.1	0.5	0.7
Relative	1.0	3.7	3.0

* Inception date 01 May 2010.

Performance Summary - Comment

The UK Companies Financing Fund (UKCFF) returned 1.1% over the quarter, outperforming its LIBOR benchmark return of 0.1%

The weighted average credit rating was stable at BB+, with an average maturity of 5.2 years. The weighted average credit spread was 445bp at the end of the period.

The returns shown are sourced from Northern Trust.



Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\left(\frac{1 + \text{Fund Performance}}{1 + \text{Benchmark Performance}} \right) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

Period	Arithmetic Method			Geometric Method			Difference
	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	0.10%
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	-1.24%
Linked 6 months			-0.25%			0.96%	-1.21%
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	0.34%

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.

If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.

If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.



Agenda Item 7

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Rebalancing of asset allocation		
KEY DECISION	No	Item No:	7
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	26 June 2014

1. SUMMARY

- 1.1 This report provides members with a review of the asset allocation of the Pension Fund and compares the current asset allocation position to the strategic benchmark set in the Pension Fund's Statements of Investment Policy (SIP). The aim of this review is to set the context for a rebalancing policy. This report precedes a paper that will be presented at the next PIC. At the next PIC, members will be recommended to formally adopt a rebalancing policy that has been informed by the Fund's investment advisors.

2. RECOMMENDATION

- 2.1 The Committee is recommended:

- (1) To note the current asset allocation of the Pension Fund, and
- (2) To agree no rebalancing is required at this stage until a rebalancing policy has been agreed.

3. BACKGROUND

- 3.1 Rebalancing is the process of realigning the weightings of the funds assets to its strategic benchmarks. Benchmarks are set in order to ensure that the fund meets optimal return that is consistent with the prudent level of risk.
- 3.2 Rebalancing ensures that these benchmarks are maintained. The Statement of Investment Principles sets out the current benchmark position for each asset class and was originally agreed in 2012. It was agreed at the last Committee meeting that a rebalancing paper would be brought to this meeting..
- 3.3 As market values move over time, and as managers over and underperform, the proportions actually held in different asset classes will move away from the target allocations Rebalancing of the Fund is currently done on an periodic basis due to the costs involved and other complications associated with transfer of assets from one manager to another. Although, a review of target allocation is currently undertaken periodically, a formal process for rebalancing the portfolio in between reviews has not been agreed by the Committee.

4. TARGET ASSET ALLOCATION

4.1 The last review of the target asset allocation was undertaken during the 2012 transition of the Fund from active to passive management. The following table shows the current allocation targets as set out in the Statement of Investment Principles versus the actual allocations as at 31 May 2014.

Asset Class	Manager	Value as at 31 st May 14 £'000	Target Allocation	Actual Allocation as at 31 st May 14	Direction of Travel (31 st May 13)
Private equity	Harbourvest	34,154	3.0 %	3.7%	↓
Passive Equity	Blackrock & UBS	584,191	60.0 %	63.0%	→
Passive Bonds:	Blackrock & UBS	175,853	18.0 %	18.9%	→
Property	Schroders	76,823	10.0 %	8.3%	→
UK Financing Fund	M&G	9,537	1.0 %	1.0%	↓
Commodities	Investec	34,679	5.0 %	3.7%	↓
Temporary Cash Holding		12,700	3.0 %	1.4%	↑
		927,937	100.0 %	100.0 %	

4.2 The table above shows that the greatest drift is in passive equity. The allocation to passive equity is 3% greater than the strategic benchmark. In 2013, PIC made the decision to invest some of the uninvested cash held into Blackrock and UBS according to their existing benchmarks and each Manager received £12.5m. This is a contributing factor to the increase in market value of these assets.

4.3 Property is 1.7% less than its strategic benchmark. All of the other asset classes have variances of less than 2%.

4.4 It is officers opinion that the costs involved in rebalancing, which will include transaction costs and advisory costs, will outweigh the potential benefits to be gained from the exercise, especially looking at the current performance of Commodities.

4.5 A rebalancing policy is being developed to ensure that a consistent approach to the reallocation of the assets is adopted.

4.6 In light of this, we would not recommend rebalancing at this stage.

5. REBALANCING POLICY

5.1 A rebalancing policy is important as it provides a framework for allocating investments and disinvestments, and insures against large deviation from the strategic benchmark. A rebalancing policy should be set in such a way as to avoid excessive rebalancing during volatile markets.

5.2 The framework of a policy will be discussed with our investment advisors Hymans Robertson. After Hymans have advised the Fund on the best policy, the PIC will be asked to approve this policy in the September meeting. This policy will also be added to the Statement of Investment Principles (SIP) which will be included in the 2013/14 annual report.

6. FINANCIAL IMPLICATIONS

- 6.1 The Fund's approach to asset allocation links with its investment strategy. The investment strategy is set for the long-term. A significant proportion of the asset allocation is with growth assets because they are expected to achieve a higher rate of return. However this strategy carries with it a greater risk of volatility in the short and possibly medium-term. As a result, a rebalancing policy that involves a regular review may not be appropriate. And a rebalancing policy that includes highly sensitive tolerance levels may not take into account the long-term picture. Therefore it is important to get counsel from our investment advisors on the most appropriate rebalancing policy.

7. LEGAL IMPLICATIONS

- 7.1 Any rebalancing of the Fund must be in accordance with the Authority's statement of investment principles (SIP) which govern decisions about the investment of Fund money, including amongst other things, the types of investment to be held, the balance between different types of investments, risk, (including the ways in which risks are to be measured and managed) and the expected return on investments. The rebalancing policy itself will be added to the SIP as set out in this Report.
- 7.3 Any movement of assets from other parts of the Fund or the use of cash to achieve a rebalancing of particular investment funds must also comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Regulations) which set out restrictions on types of investments by limiting the proportion of Fund money which may be invested in that type of investment.
- 7.4 The Committees must consider obtain and consider proper independent advice and act prudently in taking any steps in relation to the Fund's investments. This, it is being recommended to do.

8. CRIME AND DISORDER IMPLICATIONS

- 8.1 There are no crime and disorder implications directly arising from this report.

9. EQUALITIES IMPLICATIONS

- 9.1 There are no equalities implications directly arising from this report.

10. ENVIRONMENTAL IMPLICATIONS

- 10.1 There are no environmental implications directly arising from this report.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact:

David Austin on 020 8314 9114, or Adeola Odeneye Principal Accountant Strategic Finance on 020 8314 6147

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	London LGPS Collective Investment Vehicle		
KEY DECISION	No	Item No:	8
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	26 th June 2014

1. SUMMARY

- 1.1 This report provides members with a summary of the presentation made by the Pensions Working Group (PWG) to the London Council's leader committee on 11th February 2014 with respect to establishing a London Local Government Pension Scheme (LGPS) Collective Investment Vehicle (CIV). The presentation consisted of a business case and formal proposal to inform decisions for implementation of a London LGPS CIV, in the form of a UK based, Financial Conduct Authority (FCA) Authorised Contractual Scheme (ACS).
- 1.2 The Pension Investment Committee will need to approve membership of the ACS and will be asked to approve a contribution of £25,000 towards the set up costs of the ACS and operator, and an initial shareholder investment of £1 at this stage to register an interest in participating. There is no further obligation to participate or invest at this stage.

2. RECOMMENDATION

- 2.1 The Committee is recommended to:
- (1) Agree in principle to join in the formation of the Collective Investment Vehicle,
 - (2) Seek approval of Mayor and Cabinet, and Full Council to:
 - A. Become a shareholder in the ACS Operator,
 - B. Agree to appoint an elected Councillor who will have power to act for the local authority in exercising its rights as a shareholder of the ACS Operator, and
 - C. Agree that that Councillors from the London Boroughs are appointed as interim directors of the ACS Operator, subject to the consent of their relevant authorities to the appointments. These directors may be replaced once FCA authorisation is formally applied for.

Subject to section (2) above:

- (3) Agree in principle that the fund invests £1 to the ACS Operator as initial shareholder capital, and
- (4) Agree in principle to contribute £25,000 towards the establishment of the ACS.

3. BACKGROUND

- 3.1 In June 2013, the Government issued a call for evidence on the future structure of the LGPS, and sought professional advice to consider either Collective Investment Vehicles or merger of funds as potential routes forward.
- 3.2 According to Hymans Robertson; 'A CIV invests the capital supplied by its investors to produce an investment return. The subscribed capital is supplied by investors either as monetary amounts or by transferring existing assets into the vehicle. The CIV can be set up as a single pool of assets (including multiple asset categories) or as an umbrella arrangement which includes a number of sub-funds, each of which is usually specific to a particular asset class.'
- 3.3 The aim of setting up a CIV for London is to achieve similar financial gains to a merger, but without the disadvantages, such as loss of governance, and control.
- 3.4 London Councils Leaders committee set up a small member/officer group, the Pensions Working Group (PWG), to work with London Councils to take forward further exploration of options for greater collaboration across London's 34 Pension Funds. In February 2014, the PWG presented to the Leaders Committee a progress report and business case for the next steps of a London LGPS CIV.
- 3.5 It was agreed at the meeting for the committee to recommend to each local authority which decided to participate that they resolve to agree:
 - 3.5.1 (A) a private company limited by shares be incorporated to be the Authorised Contractual Scheme Operator (the "ACS Operator"), structured and governed as outlined in this report, and that the local authority agrees :–
 - (i) to become a shareholder in the ACS Operator,
 - (ii) to contribute £1 to the ACS Operator as initial capital,
 - (iii) to appoint an elected Councillor who will have power to act for the local authority in exercising its rights as a shareholder of the ACS Operator, and
 - (iv) that Councillors from the London Boroughs are appointed as interim directors of the ACS Operator, subject to the consent of their relevant authorities to the appointments. These directors may be replaced once FCA authorisation is formally applied for.
 - 3.5.2 (B) a representative body, in the form of a new sectoral joint committee (the "Pensions CIV Joint Committee"), is established (pursuant to the existing London Councils Governing Agreement, dated 13 December 2001 (as amended)) to act as a representative body for those local authorities that resolve, in accordance with

- 2(a) above, to participate in the Arrangement (or in the alternative, should all 33 London authorities resolve to participate, that Leaders' Committee exercise these functions and the Governing Agreement be varied accordingly).
- 3.5.3 (C) All London local authorities respond in writing to the London Councils Chief Executive, by 14 April 2014, or before the day of the local government elections (22 May 2014), to advise of their decisions regarding the matters set out at paragraphs 3.6.1 and 3.6.2 above.
- 3.6 Lewisham has not yet responded in writing to the London Councils Chief Executive.
- 3.7 A number of the local authorities agreed to contribute £25-£50k towards exploring the proposal. This money is held in a designated fund by London Councils. Lewisham has yet to agree whether to make a contribution. These contributions will fund the professional costs associated with development of the proposed Authorised Contractual Scheme (ACS) and its Operator.
- 3.8 A copy of the full report can be found on the following link:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5562
- 4. MAIN POINTS FROM THE PENSIONS WORKING GROUP PRESENTATION**
- 4.1 It was previously agreed that the most appropriate structure for the CIV is an ACS fund. The ACS will require an FCA regulated ACS Operator to be established. The board of directors and employees of this company will have overall responsibility for the operation of the ACS.
- 4.2 In broad terms, the proposed structure is that the participating boroughs will own all the share capital of the ACS Operator. Initially this will require minimal share capital (£1 per borough from those who wish to participate) but this capital requirement increase once the operator is authorised and investments are made in the ACS.
- 4.3 A new 'Pensions CIV Joint Committee' will be established to assist in the appointment of key directors of the ACS Operator, such as the Chairman and Chief Executive Officer. The Pensions CIV Joint Committee will comprise elected Councillors nominated by participating boroughs. Information will be provided regularly by the ACS Operator to investors in the ACS and borough Pension Committees and officers, and the Pensions CIV Joint Committee.
- 4.4 The exact mandate of the joint committee will require further consideration. The frequency of meetings of the joint committee also needs to be decided. It is proposed that up to three elected Councillors from the Pensions CIV Joint Committee could be directors of the ACS Operator. The directors have to be approved by the FCA and will have fiduciary duties and responsibilities. The decision as to who could be in these roles is to be decided.
- 4.5 The ACS is expected to be launched in February 2015. The proposed timetable for launch can be found in Appendix A.
- 4.6 At the National Association of Pension Funds (NAPF) Local Authority Conference in May 2014, DCLG minister Brandon Lewis told the conference that the

government is keen to learn from local authorities that have achieved value in their funds.

Financial benefits

4.7 The 33 London boroughs currently have over £20bn of pension assets under management. Previous work undertaken by PwC estimated savings in the region of £120m per annum from the creation of a CIV, provided there was close to full participation by authorities. Costs of running the ACS were estimated to be between 1 and 5 basis points (0.01% to 0.05%) of assets under management with the estimated costs, for full participation from all 33 London local authorities, estimated to be £4.8m per annum. At lower levels of participation, both the financial benefits and the costs would reduce.

4.8 Indicative costs and potential savings are set out in the table below, for assets under management of £24bn, £10bn, and the minimum target size of £5bn.

4.9 For Lewisham, with a largely passive fund the savings will likely be in the respect of management fees rather than in improved performance.

4.10 Summary of potential savings and costs

	Assets under management	Assets under management	Assets under management
	£24bn	£10bn	£5bn
	£ 000's	£000's	£ 000's
Expected savings per annum(1)			
Investment management fees - 15 bps	36,000	15,000	7,500
Improved performance - 35 bps	84,000	35,000	17,500
Total expected savings	120,000	50,000	25,000
On-going Costs per annum(2)			
Custody costs	(8,400)	(4,000)	(2,500)
Custody costs (at 3.5bp, 4bp and 5bp)			
<i>Incurring in existing third party funds (3)</i>	3,600	1,500	750
Net Custody Cost	(4,800)	(2,500)	(1,750)
Other Costs			
Salaries –e.g. COO/Admin	(400)	(400)	(400)
- Audit/advice	(200)	(150)	(100)
- Offices/expenses	(200)	(200)	(200)
- Misc. Advisory	(500)	(400)	(300)
Total On-going Costs	(6,100)	(3,650)	(2,750)
Establishment costs (2)(3)			
- Transition advisory including custody selection	(700)	(500)	(400)
- Other misc. fund advisory	(500)	(500)	(500)
- Legal, regulatory, and financial advice (funded already)	(600)	(600)	(600)
Total Establishment Costs	(1,700)	(1,500)	(1,400)

Custody costs

- 4.11 The main cost associated with running the ACS is from the custody of the assets. Custody costs are calculated as a basis point fee on the amount of assets, with the basis point fee reducing on a sliding scale as the amount of assets under custody increases.
- 4.12 In relation to existing segregated mandates, it is likely that savings would be achieved through moving such mandates to an ACS as this would reduce custody costs. This is because most existing segregated mandates are relatively small and accordingly consolidating these mandates in the ACS should increase the amount invested in each mandate which in turn would result in a lower basis point custody charge.

Other costs and benefits

- 4.13 Other on-going costs of the ACS are likely to include staff costs, FCA fees, consultancy fees and administration costs including audit and taxation. These fees would be charged directly to the fund, as they would be now. Consultancy fees might include professional advice on investment manager selection. As this would be performed centrally at the ACS level rather than multiple times at individual borough level, it is likely that savings would be achieved in this regard. Admin costs would not be expected to be significant compared to the benefits identified.

Establishment costs

- 4.14 There will be a number of establishment costs incurred in setting up the fund. These will be one-off costs in the first year. £625,000 has already been contributed to these costs by the boroughs, in order to engage professional advisors to perform the necessary financial and regulatory work. It is currently expected that this work will be performed within this existing budget.
- 4.15 As the project progresses, additional professional fees are likely to be incurred. For example, to assist in training relevant individuals on their regulatory roles and to assist in the development of procedure manuals. It will become clearer in due course where costs may arise in this regard.
- 4.16 The transition of assets into the fund will also need to be considered, as assets are moved from existing managers to new managers appointed to the ACS. To a large extent, boroughs already incur similar costs as they transition assets to different managers in the ordinary course of their pension activities. As such these costs may well simply offset existing costs incurred by boroughs although clearly this depends on the level of fees currently charged and the number of transitions.

5. FINANCIAL IMPLICATIONS

- 5.1 So far 28 boroughs have said that they agree with the principle and that they are willing to pay £25,000 to pay for implementation measures. Lewisham would also make a contribution of £25,000, and the £1 initial share capital. Other than these costs, there are no immediate financial implications from accepting the recommendations of this report. The council will still have its existing freedoms and obligations to invest its pension fund assets as it considers most appropriate, whether via the CIV proposed in this report or elsewhere.

- 5.2 However, there are good grounds for believing that the CIV will be able to deliver small reductions to fund managers' fees and hence that, over time, it will prove an attractive option in which to invest and deliver better net investment returns.

6. LEGAL IMPLICATIONS

- 6.1. London Councils are taking external expert legal advice upon the relevant powers for London Councils to participate in a London LGPS Collective Investment Vehicle (CIV) and on the appropriate structure and governance arrangements for the ACS Operator to ensure compliance with each Administering Authority's Statutory duties in relation to the Fund . Any decision to enter into such an arrangement and the checks and balances which will be required to protect the Fund will be considered in the light of such advice.
- 6.2. The ACS will be subject to the regulatory control of the Financial Conduct Authority.
- 6.3. If the Council does determine to invest in the CIV, then such investment will be subject to the Council's published Statement of Investment Principles, (which itself will need amending to reflect the establishment of the CIV) and the relevant investment thresholds prescribed in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended which set limits on the percentage of the fund which can be invested in different types of investment.

7. CRIME AND DISORDER IMPLICATIONS

- 7.1 There are no crime and disorder implications directly arising from this report.

8. EQUALITIES IMPLICATIONS

- 8.1 There are no equalities implications directly arising from this report.

9. ENVIRONMENTAL IMPLICATIONS

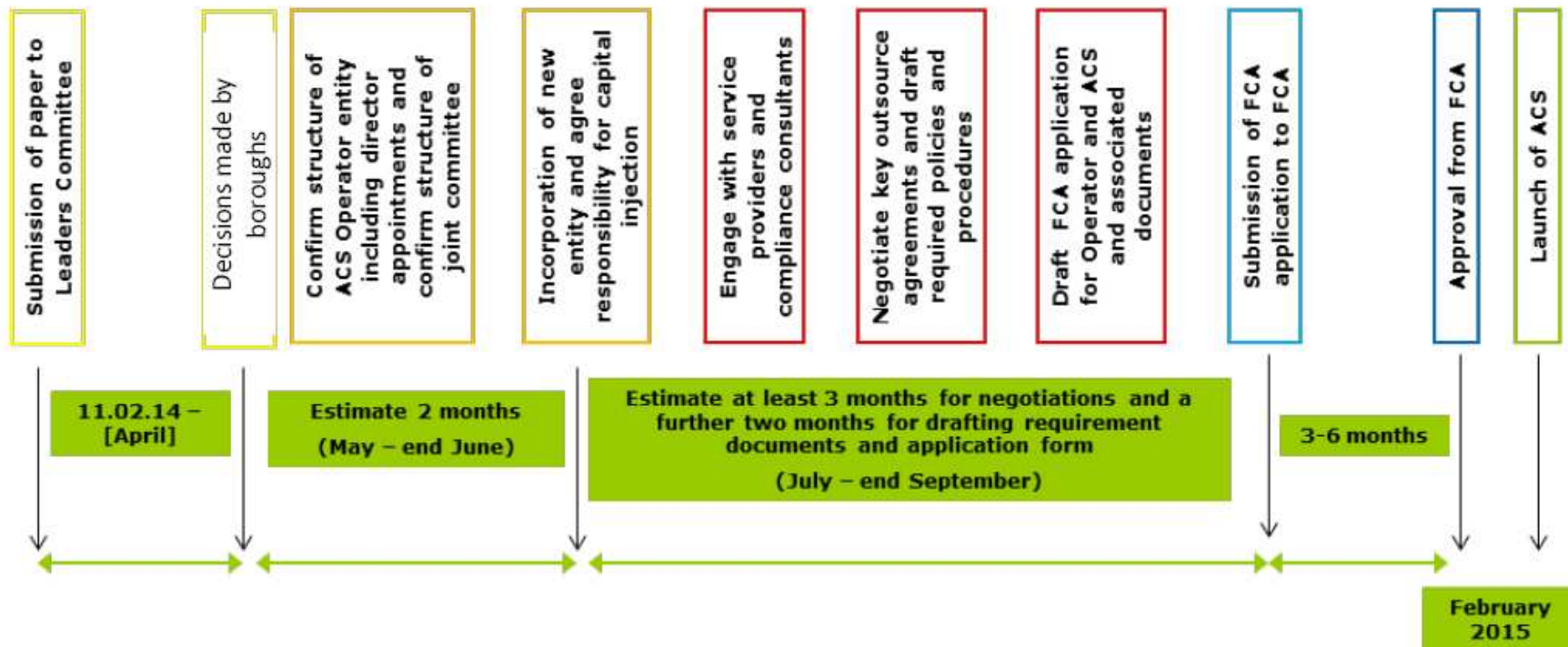
- 9.1 There are no environmental implications directly arising from this report.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact:

David Austin on 020 8314 9114, or Adeola Odeneye Principal Accountant
Strategic Finance on 020 8314 6147

Proposed timeline for launch of ACS and ACS Operator



Important note: The above timeline is an estimated timeline and assumes that there will be no undue delay in the project. We would suggest that 3 months prepare the FCA applications, to negotiate contracts and prepare documents is a minimum and this is more likely to take up to 6 months. The FCA can take up to 6 months to review the application for the ACS Operator (on the basis the application is complete) and usually an application for an ACS will not be considered by the FCA before the ACS Operator is approved however we would hope that the two applications can be run concurrently and that 6 months would be the maximum period for review, although this cannot be guaranteed.

Agenda Item 9

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Pension Fund Investment Committee Business Plan 2014/15		
KEY DECISION	No	Item No:	9
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	26 June 2014

1. PURPOSE OF THE REPORT

- 1.1 This report sets out the Pension Fund Management Business plan for 2014-15. The Plan includes the key objectives for the Fund, major milestones and issues; training; and the risk register for the Fund.

2. RECOMMENDATION

- 2.1 Members are recommended:

- (1) To approve the Business Plan 2014/15 as set out in Appendix 1
- (2) To agree to complete the skills and knowledge self assessment form (Appendix A) by 11th July 2014

3. BACKGROUND

- 3.1 In the guidance document "Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012", it is recommended that organisations have in place a business plan. The guidance recommends the plan set out formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.

4. SUMMARY

- 4.1 The business plan comprises of the following:

1. Introduction
2. Key Documents To Be Considered By The Committee
3. Major Milestones
4. Knowledge, Development And Training
5. Monitoring the Performance of Fund Managers
6. Administrative Targets For The Committee Members
7. Pension Fund Committee Meetings Timetable

8. Appendices:

- A Skills And Knowledge Audit
- B Training And Conferences During 2014-15
- C PIC Detailed Workplan
- D Risk Register

5. FINANCIAL IMPLICATIONS

5.1 The financial implications are contained within the detail of the appended document.

6. LEGAL IMPLICATIONS

6.1 There are no legal implications directly arising from this report.

7. ENVIRONMENTAL IMPLICATIONS

7.1 There are no environmental implications directly arising from this report.

8. HUMAN RESOURCES IMPLICATIONS

8.1 There are no human resources implications directly arising from this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 There are no crime and disorder implications directly arising from this report.

10. EQUALITIES IMPLICATIONS

10.1 There are no equalities implications directly arising from this report.

11. CONCLUSIONS

11.1 This report must be updated on an annual basis

APPENDICES

Appendix One – Business Plan 2014-15

FURTHER INFORMATION

For any further information on this report, please contact David Austin 020 8314 9114

LONDON BOROUGH OF LEWISHAM PENSION FUND

BUSINESS PLAN 2014-15

CONTENTS

- 1. INTRODUCTION**
- 2. KEY DOCUMENTS TO BE CONSIDERED BY THE COMMITTEE**
- 3. MAJOR MILESTONES**
- 4. KNOWLEDGE, DEVELOPMENT AND TRAINING**
- 5. MONITORING THE PERFORMANCE OF FUND MANAGERS**
- 6. ADMINISTRATIVE TARGETS FOR THE COMMITTEE MEMBERS**
- 7. PENSION FUND COMMITTEE MEETINGS TIMETABLE**
- 8. APPENDICES:**
 - A SKILLS AND KNOWLEDGE AUDIT**
 - B TRAINING AND CONFERENCES DURING 2014-15**
 - C PIC DETAILED WORKPLAN**
 - D RISK REGISTER**

1. INTRODUCTION

1.1 Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008, the London Borough of Lewisham maintains a Pension Fund for approximately 13,000 individuals employed by 29 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.

1.2 This Business Plan (BP) provides an overview of the Fund's key objectives for 2014/15.

The key high level objectives of the fund are summarised as:

- Optimise Fund returns consistent with a prudent level of risk
- Ensure that there are sufficient resources available to meet the investment Fund's liabilities, and
- Ensure the suitability of assets in relation to the needs of the Fund.

1.3 A bespoke training and development program for this administration will be added to the BP after agreement by Members at the September Committee.

1.4 The governance of the Fund is the responsibility of the Executive Director of Resources and Regeneration for the London Borough of Lewisham and the London Borough of Lewisham Pension Fund Investment Committee. The day to day management of the Fund is delegated to Officers with specific responsibility delegated to the Head of Corporate Resources. He is supported in this role by the Principal Accountant for Pensions and Treasury Management, and the Group Manager for Payroll and Pensions.

1.5 The Pensions Investment Committee (PIC) aims to ensure the maximising of investment returns over the long term within an acceptable level of risk. Performance is monitored by asset performance being compared with their strategic benchmarks. This includes reviewing the Fund Managers' quarterly performance reports and discussing their strategy and performance with the Fund Managers.

2. KEY DOCUMENTS TO BE CONSIDERED BY THE PENSION INVESTMENT COMMITTEE

2.1 There are a number of key policy and strategy documents which the Local Government Pension Scheme (LGPS) Regulations require to be kept under regular review. These are listed below:

2.2 *Annual Report*

This report sets out the Pension Fund activities for the previous financial year. The Council is required to publish the report by December of each year to accompany an audited financial statement. Within the Annual Report are the following documents: Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement, Communications Policy and Pension Fund accounts.

2.3 *Funding Strategy Statement*

This sets down the strategy for prudently meeting the Fund's future pension liabilities over the longer term, including the maintenance, as far as possible, of stable levels of employer contributions. It also identifies the key risks and controls facing the Fund and includes details of employer contribution rates following the Fund's triennial valuation.

2.4 *Statement of Investment Principles*

This document identifies the investment responsibilities of the various parties involved. For example, Pension Committee, Officers, Investment Managers, Custodian, and Investment Advisors. It also details the Fund's investment policies and asset allocation approach as well as its compliance with the six Myners' investment principles. These six principles cover: Effective Decision Making; Clear Objectives; Risk and Liabilities; Performance Assessment; Responsible Ownership; and Transparency and Reporting.

2.5 *Communications Policy*

This details how the Fund provides information and publicity about the Pension scheme to its existing members and their employers and methods of promoting the Pension scheme to prospective members and their employers. It also identifies the format, frequency and method of distributing such information or publicity.

2.6 *Governance Compliance Statement*

This is a written statement setting out the administering authority's compliance with good practice governance principles. These principles are grouped within eight categories and are listed within the statement. The Fund's compliance against each of these principles is also detailed, including evidence of compliance and, if appropriate, reasons if there is not full compliance.

3. MAJOR MILESTONES FOR THE PENSION FUND IN 2014-15

- 3.1 The PIC will review and revise the BP annually at its June meeting and will evaluate performance against the action plan. The Committee will be provided with a BP update at its quarterly meetings.

Milestone	Date
Review and Evaluation of the Business Plan	Agreed by Committee 26 th June 2014
Re-balancing Review	Changes actioned following the review 26 th June 2014
Draft Pension Fund Accounts presented	26 th June 2014
Approval of the audited Pension Fund annual accounts and annual report	9 th September 2014
Knowledge and Skills audit completed	30 th July 2014
Review performance of fund managers	Considered by Committee at each meetings
Training sessions attended by members	As per training plan
Policy documents reviewed	Agreed as per schedule in Appendix C

4. KNOWLEDGE, DEVELOPMENT AND TRAINING

4.1 Following completion and analysis of the Knowledge and Skills returns (Appendix A) by Committee Members a bespoke training programme will be developed for the Committee to agree at its September meeting.

4.2 A. General training and annual events will be provided and are outlined below:

Induction	On joining the Pension Fund Committee all new members will receive a briefing on the responsibilities of the Committee and an introduction to the major policy and other documents setting out the Fund's management arrangements and investment strategy.
Pension Investment Committee papers	This consists of key policy documents such as the statement of investment principles, the funding strategy statement, the communication strategy, risk management and also refers to the main regulations affecting the administration of the fund.
Annual meetings with Fund Managers	Each fund manager is scheduled to attend PIC. These meetings are specific to each fund manager and have a bespoke agenda to ensure additional information on the asset class managed is provided to Committee Members as well as covering areas of performance and governance.
A range of seminars and conferences	This will be available to Members, including specific training for new Committee Members provided by the Local Government Employers. An example of the sort of seminars/ conferences that are available during the year is attached as Appendix B.
Quarterly economic updates	This is arranged for Committee Members throughout the year through the Fund's Investment advisor Hymans Robertson.

4.3 B. Core Technical Requirements:

There are six areas of knowledge and skills relating to the LGPS, which CIPFA has identified as being the core technical requirements for those involved in decision-making. They are:

1. legislative and governance context;
2. accounting and auditing standards;
3. procurement of financial services and relationship management;
4. investment performance and risk management;
5. financial markets and knowledge of investment products; and
6. actuarial methods, standards and practices.

The major matters covered under each of the six areas are set out in Appendix A.

4.4 C. Training programme

Training is provided in separate meetings, and can take place before each Investment Committee meeting, with attendance restricted to Committee members, other Council members and Trades Union representatives. A log is maintained of members' attendance at training meetings. The proposed 2014/15 programme will be based on an assessment of training needs, and will be identified from the self assessment form in Appendix A.

The London Borough of Lewisham Pension Fund has a suggested three year rolling training and development plan that is to be approved by the PIC. This ensures that Trustees and

Officers responsible for the Fund continue to refresh and develop their knowledge and skills to allow them to discharge their responsibilities and meet the requirements of The Chartered Institute of Public Finance and Accountancy (CIPFA) knowledge and skills framework.

	General	Intermediary	Advanced
Year 1	Introductory courses: <ul style="list-style-type: none"> • A review of Myners' Principles • An in-depth look at equity investment • An in-depth look at bond investment • LGPS • Legal Matters 	<ul style="list-style-type: none"> • Good Governance • Legislation Pensions & LGPS • Pension Regulators & Advisors 	<ul style="list-style-type: none"> • General pensions framework
Year 2	<ul style="list-style-type: none"> • Refresher Courses • Performance of the Fund committee • Performance of support services 	<ul style="list-style-type: none"> • Procurement of financial Services • Accounts and Audit regulations • Role of internal and external audit 	<ul style="list-style-type: none"> • Monitoring of investment performance • Performance of advisors • Financial markets • Investment strategy
Year 3	<ul style="list-style-type: none"> • Refresher Courses • Ill-health and early retirement • Admitted bodies 	<ul style="list-style-type: none"> • Outsourcing and bulk transfers • Regulatory requirements regarding investment products 	<ul style="list-style-type: none"> • Valuations, funding strategy and inter-valuation monitoring • Supplier risk management

4.5 In addition to these formal sessions, those charged with the governance of the Fund also seeks to keep up to date with the latest developments LGPS and the wider Pensions industry through briefings and attendance at appropriate seminars and conferences. The Fund will only attend sessions that directly impact upon the London Borough of Lewisham Pension Fund in that they:

- Will provide information on the latest developments within the LGPS and particularly LGPS 2014;
- Provide the Fund with opportunities to develop knowledge of key developments and best practice within other LGPS Funds;
- Provide the Fund with an opportunity to research new asset classes within the investment universe; or
- Are specific client conferences run by the Funds existing Fund managers or external advisors.

5. MONITORING PERFORMANCE FOR THE FUND MANAGERS

5.1 The monitoring of the returns on the Fund Investments are undertaken by Northern Trust who provide monthly, quarterly, annual, and three-yearly investment returns. A report on the latest quarterly investment performance of the Fund Managers against their agreed benchmarks is presented by our adviser Hymans Robertson at each PIC meeting.

5.2 The Committee, investment advisors and officers have the opportunity to discuss performance with the Fund Managers and any other related investment issues that may arise. In times where performance is poor the Committee will request that the Fund Manager sets out their strategy for improving performance and meeting agreed targets.

6. ADMINISTRATIVE TARGETS FOR THE COMMITTEE MEMBERS

6.1 Administrative targets:

- Members to attend at least 75% of Pension Committee meetings each year.
- Draft committee minutes to be issued within seven weeks of a meeting
- Committee papers to be sent out at least five working days before a meeting.
- To regularly review and agree changes to strategy/policy documents. All strategy/policy documents will be considered by Committee at least every two years, even if no changes are recommended.

7. PENSION FUND COMMITTEE MEETINGS TIMETABLE

7.1 Work programme

The committee's work programme for the coming year will be as follows:

<u>At each meeting</u>	To review the current economic background and recent investment market returns.
	To review the Fund's asset allocation, investment activity since the last meeting and the current investment portfolio.
	To approve investment strategy in the light of recommendations from the Executive Director of Resources and the Fund's independent advisers
	To review investment performance
	To receive the minutes of the Local Authorities Pension Fund Forum (LAPFF)
	To consider the Executive Director of Resource's report in respect of Corporate Governance issues
	To consider the Executive Director of Resource's report in respect of Risk
<u>Annually</u>	To approve a Business Plan for the forthcoming year
	To approve the Fund's Treasury Management Strategy for the forthcoming year
	To approve the Pension Fund's Annual Report.
	To review the Pension Fund's Statement of Investment Principles (SIP)
	To consider the Committee's training requirements
<u>As required</u>	To review any changes to investment regulations
	To consider matters relating to investments
	To review the appointment of advisers/managers

A detailed schedule can be found in Appendix C.

SKILLS AND KNOWLEDGE AUDIT:

Every public sector organisation should secure adequate resources and appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and/or oversight role.

Are you financially Qualified?	Yes/No
If yes, please state the qualification	
Have you served on a Pensions Committee before?	Yes/No
If yes, please provide dates	From: To:

M	Minimal level of understanding
I	Intermediate level of understanding
A	Advanced level of understanding

Core technical areas	Areas of knowledge	Level of Understanding: M,I,A
Legislative and governance framework	General pensions framework	
	Scheme-specific legislation for LGPS	
	Pensions regulators and advisors	
	Constitutional framework for Fund committees within administering authorities	
	Pension scheme governance	
Accounting and auditing standards	Accounts and Audit regulations	
	Role of internal and external audit	
Procurement of financial services and relationship management	Procurement requirements of UK and EU legislation	
	Supplier risk management	
Investment performance and risk management	Monitoring of investment performance	
	Performance of advisors	
	Performance of the Fund committee	
	Performance of support services	
Financial markets and investment products	Investment strategy	
	Financial markets	
	Regulatory requirements regarding investment products	
Actuarial methods, standards and practices	Valuations, funding strategy and inter-valuation monitoring	
	Ill-health and early retirement	
	Admitted bodies	
	Outsourcing and bulk transfers	

Please list any other relevant topics that are of interest to you	
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TRAINING AND CONFERENCES DURING 2014-15

Date	Conference /Event	Run By	Delegates/Cost
04.07.14	CIPFA Pensions Network – Implementing Governance and Efficiency, hosted by UBS	CIPFA	£325 + VAT
11.09.14	SPS Alternative Investment Strategy for Pension Funds	SPS Conferences	Free, up to 2 places available
12.09.14	Pensions Age Autumn Conference: Striving for success	Pensions Age	Free
17.09.14	Introductory Trustee Training	CAPITA	£495 + VAT per place
18.09.14	CIPFA Pensions Network – Introduction to LGPS	CIPFA	TBC
30.09.14	Trustee Master class	Professional Pensions	Free
30.09.14 or 04.12.14	Trustee Training – Trustee knowledge and understanding (intensive)	Punter Southall	£495 + VAT per place
09.10.14	SPS Property & Real Asset Investment Strategies for Pension Funds	SPS Conferences	Free, up to 2 places available
05.11.14	Professional Pensions Investment Conference 2014	Professional Pensions	Free
06.11.14 - 07.11.14	Focused Trustee Training for defined Benefit Schemes	CAPITA	£495 + VAT per place
06.11.14	First Steps: new trustees who are not familiar with financial markets	UBS	Free
19.11.14	Second Steps: examines in more detail the role that equities, bonds and alternatives can play in your investment strategy.	UBS	Free
03.12.14 - 05.12.14	Local Authority Pensions Fund Forum (LAPFF) - annual conference	LAPFF	*Up to 2 places available
03.12.14	National Association of Pension Funds (NAPF) – Trustee Conference	NAPF	TBC
04.12.14	Pensions in Action	Professional Pensions	Free
11.03.15 - 13.03.15	National Association of Pension Funds (NAPF) – Investment Conference 2015	NAPF	TBC
18.05.15 - 20.05.15	National Association of Pension Funds (NAPF) - Local Authority Conference	NAPF	TBC
TBA	Pension Fund Service: Risk Management Training	Pension Fund Service	Free

APPENDIX B

TBA	Pension Fund: Investment Performance Training	Pension Fund Service	Free
TBA	Local Government Chronicle (LGC) - LGPS Investment Summit	LGC	*Up to 2 places available

Pension Investment Committee schedule 2014/15

Deadline / Task					
Spend to end of:		31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-14
Performance data available from Northern Trust (NT)					
Actual Date NT performance data needed		28-May-14	30-Jul-14	08-Oct-14	21-Jan-15
Report written by Treasury and Pension Fund Acct		06-Jun-14	21-Aug-14	24-Oct-14	30-Jan-15
Reviewed by Senior Mngt and despatch to PIC		10-Jun-14	25-Aug-14	29-Oct-14	03-Feb-15
Send out Agenda		16-Jun-14	28-Aug-14	03-Nov-14	09-Feb-15
PIC MEETING		26-Jun-14	09-Sep-14	13-Nov-14	19-Feb-15

Interval after period end

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44

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Key decisions to be made

Appointment of Chair and Vice Chair
 Rebalancing
 Terms of Reference
 Draft Pension Fund a/cs
 Business Plan

Statement of Investment Principles
 Governance Policy and Compliance Statement
 Funding Strategy Statement
 Rebalancing

Pension Fund Report & Accounts (statutory deadline 1st December)

 Annual budget

Papers to be provided

- PIC Busines Plan
- Terms of Reference
- Draft Pension Fund a/cs
- Collective Investment Vehicle
- Quarterly Investment Performance Report
- Pension updates
- Rebalancing review

- Statement of Investment Principles
- Performance Stats (W M Perf)
- Governance Policy and Compliance Statement
- Funding Strategy Statement
- Quarterly Investment Performance Report
- Fund Manager report (s)
- Pension updates
- Training Plan review

- Pension Fund Report & Accounts
- Annual budget
- Quarterly Investment Performance Report
- Fund Manager report (s)
- Pension updates
- Training Plan review

- Quarterly Investment Performance Report
- Fund Manager report (s)
- Pension updates
- Forward planning
- Feedback on PIC
- Training Plan review

Pension Fund Investments Risk Register 2014

Risk Owner Key	Likelihood Key	Impact Key	Risk movement since last Committee report
Principal Accountant Pensions & Treasury – PA	1 – Rare	1 – Insignificant	▲ increased risk
Executive Director of Resources – MT	2 – Unlikely	2 – Minor	▼ decreased risk
Head of Corporate Resources - HCR	3 – Possible	3 – Moderate	► no change
Pensions Investment Committee – PIC	4 – Likely	4 – Major	
	5 – Almost Certain	5 – Extreme	

Identification of Risk				Scoring			Risk Mitigation/ Controls / Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements	Previous Score	Direction of Travel	Risk Owner
Governance Risks											
G0079	New Members lack of knowledge /understanding of their roles and responsibilities Members lack sufficient investment knowledge/ expertise to make decisions	Change of membership Lack of or non-attendance at training sessions	Inappropriate or bad decision making in relation to investments	3	3	9	CIPFA have issued a Code of Practice on the Knowledge and Skills Framework for the Pension Fund and the Section 151 Officer has responsibility for the implementation of its requirements. The Head of Corporate Resources will ensure that the Code is implemented and that a policy statement is included in the Annual Report & Accounts Training programme for Committee Members to ensure that they have the requisite knowledge and skills to be in a position to question and understand the agenda and recommendations put before them to make high level strategic decisions.	Members given induction training when they join the committee as well as subsequent opportunities to attend courses and seminars Review membership of Professional bodies		▲	PIC/ HCR

APPENDIX D

Identification of Risk				Scoring			Risk Mitigation/ Controls / Procedures		Review			
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements	Previous Score	Direction of Travel	Risk Owner	
G02	Inappropriate investment strategy is adopted		Fund returns are not sufficient to met obligations to members forcing emergency employers contributions and potentially more risk.									2
G03	Poor/lack of advice from advisors to Committee members	Appointment of inadequate advisors	PIC members not up to date with investment issues Inappropriate decisions are taken leading to increased employers costs	2	4	8	Robust recruitment procedures in place Professional qualified consultants. Use of consultants with experience across a number of LGPS funds. Officers and Members review and challenge advice received.	Make use of the training material available to trustees to develop knowledge and understanding. Trustee training programme is maintained.			▶	HCR
G04	Lack of effective performance management	No regular review of performance	Poor performance goes undetected resulting in fund governance failings.	1	4	4	A performance management framework involving quarterly performance reports to PIC is in place. Poor performance is highlighted and addressed directly by PIC on the advice of the Pension Fund advisors.	Existing arrangements are sufficient and will continue. The move in 2012/13 to a majority passive fund significantly simplifies performance monitoring.			▶	PIC/ HCR

Identification of Risk				Scoring			Risk Mitigation/ Controls / Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements	Previous Score	Direction of Travel	Risk Owner
Operational Risks											
001	Failure to comply with pension fund accounting requirements	Inadequate staffing resources /knowledge	accounts qualified by auditors	1	5	5	Officers receive adequate training and attend conferences and LPFF in order to receive up to date information. Pension accounts are reviewed on a quarterly basis. Audit recommendations are implemented			▶	PA
002	Poor/lack of advice from officers to Committee members	Inadequate staffing resources /knowledge	Decisions are sub-optimal in terms of their governance and performance of the fund.	2	4	8	Attendance at conferences. Training undertaken by officers, and linked to officer performance appraisals.			▶	PA
003	Failure to adhere to relevant statutory regulations including updates from LGPS and CLG	Lack of technical expertise/staff resources to research regulations, IT systems do not adhere to latest legislation	Investment in disallowed, investments vehicles or failure to comply with governance standards	2	5	10	Monitor statutory requirements via CLG website and attend LPFF meetings. Monitor proposed changes and respond to consultations to influence outcome. Amend systems, processes to ensure compliance, use of specialist advisors to prepare for anticipated changes Ensure processes and policies in place to meet regulatory compliance Ensure adequate training and specialist knowledge and skills for both staff and Members charged with governance			▲	PA

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Identification of Risk				Scoring			Risk Mitigation/ Controls / Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements	Previous Score	Direction of Travel	Risk Owner
004	Custody arrangements may not be sufficient to safeguard Pension Fund assets	Custody agents fail to comply with contract	Investment funds are lost.	1	5	5	<p>Complete and authorised agreements are in place with existing custodian Northern Trust</p> <p>Contact with custodian is made on a regular basis to keep informed of any issues arising</p> <p>Officers meet custodian once a year to discuss the arrangements and any issues arising</p>			▶	HCR
Financial Risks											
F00	Fund assets are not sufficient to meet its obligations and liabilities in the medium term/long term	<p>Assets and liabilities impacted by investment performance</p> <p>Assets could fail to increase at the same rate as liabilities</p>	The Fund is not able to meet its obligations to members in full.	3	4	12	<p>Controls in place to monitor assets and liabilities of the pension fund and to review asset allocation on a regular basis to ensure it remains appropriate.</p> <p>Use of external advisers– actuarial and investment, to advise the Fund on how to manage the asset/liability mismatch</p> <p>Set strategic goals to achieve full funding and set targets to make changes to the assets when appropriate to do so</p> <p>Triennial Valuation assesses the funding position, intervaluation monitoring ensures that movements in the Funding position can be assessed and strategies to manage any deterioration are put in place.</p>	Additional employer contributions will help make up valuation shortfall.		▶	PIC/ HCR

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APPENDIX D

Identification of Risk				Scoring			Risk Mitigation/ Controls / Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements	Previous Score	Direction of Travel	Risk Owner
F02	Insufficient cashflow to meet the funds day to day cash requirements	The monthly contributions are less than benefits paid	Increased transaction costs, failure to meet obligations to members.	1	3	3	Proper cash flow forecast maintained and reviewed periodically. Cash balance held by custodian reviewed periodically to ensure sufficiency.	Report to be presented to members for authorisation to withdraw income or liquidate assets to generate cash		▶	HCR
F03	Pension fund Underlying financial information is incorrect	Information contained in Report & Accounts is inaccurate due to poor financial controls and recording of financial information	possible qualification of accounts and inaccurate valuations with financial and reputational impact	1	4	4	Monthly, quarterly & annual reconciliations of all accounting data			▶	PA
F04	Poor performance of investments	Poor investment performance either as a result of the types of assets invested in or performance of individual fund managers.	Assets fail to achieve strategic benchmark and fund fails to grow	2	4	8	Regular monitoring of asset allocation, monitoring of investment performance of fund managers to ensure both are on target to achieve the targeted returns. Use of external advisers to assist in making investment decisions and ensuring that decision takers understand the investments of the fund	Rebuilding Pensions reserve to buffer against future valuations variations		▶	HCR

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Likelihood and impact:

		IMPACT				
		5 (Extreme)	4 (Major)	3 (Moderate)	2 (Minor)	1 (Insignificant)
LIKELIHOOD	5 (Almost Certain)	25	20	15	10	5
	4 (Likely)	20	16	12	8	4
	3 (Possible)	15	12	9	6	3
	2 (Unlikely)	10	8	6	4	2
	1 (Rare)	5	4	3	2	1

RISK CATEGORY	HOW THE RISK SHOULD BE MANAGED	No. of risks
Red (16-25)	Immediate action required, Senior Management involved	0
Amber/ Red (10-15)	Senior Management attention needed and Management responsibility specified	3
Amber/ Green (5-9)	Manage by specific monitoring or response procedures	6
Green (1-4)	Manage by routine procedures, unlikely to need specific or significant application of resources	3