



AGENDA

PENSIONS INVESTMENT COMMITTEE

Date: THURSDAY, 22 JUNE 2017 at 7.00 pm

**Committee Rooms 1 & 2
Civic Suite
Catford Road
London SE6 4RU**

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COUNCILLORS

Councillor Best
Councillor Liz Johnston-Franklin
Councillor Simon Hooks
Councillor Mark Ingleby
Councillor Paul Maslin
Councillor Jamie Milne
Councillor John Muldoon
Councillor Olurotimi Ogunbadewa

Observers

Independent

Officers

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

This meeting is an open meeting and all items on the open agenda may be audio recorded and/or filmed

Members are summoned to attend this meeting

**Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: Wednesday 14 June 2017**



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	DECLARATIONS OF INTERESTS	
Key Decision	No	Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 22 June 2017

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 2

PENSIONS INVESTMENT COMMITTEE		
Report Title	MINUTES	
Key Decision	No	Item No. 2
Ward	All	
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 22 June 2017

Recommendation

That the Minutes of the meeting of the Committee, held on 7 February 2017 be confirmed and signed.

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE MEETING

Tuesday 7 February 2017 at 7pm

PRESENT: Councillors Ingleby (Chair), Hooks (Vice-Chair), Muldoon, Hilton, Johnston-Franklin and Maslin

Also present: David Austin (Head of Corporate Finance), Helen Glass (Principal Lawyer), William Marshall (Hymans Robertson Consultant), Rebecca Craddock- Taylor (Hymans Robertson Consultant),

Apologies: Councillor Best and Councillor Ogunbadewa

1. Declarations of Interest

No interests were declared by Members

2. Minutes

RESOLVED that the Minutes of the last meeting held on 15 November 2016 are agreed and signed as a correct record.

The order of items were agreed to be changed by the Chair as follows
The Chair pointed out that the government requires new FSS and investment strategy principles therefore the outcome of this meeting is crucial to that. Results will be on the triennial valuation.

3. Valuation and Investment Strategy

William and Rebecca presented this report on behalf of Hymans Robertson. The following statements were made by them.

The key driver of a good fund is Strategy- the 5 other key factors are Objectives, Investment Beliefs, Structure, Fit-for-purpose managers and Review and ongoing monitoring.

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund's members under the Scheme
Explaining the importance of bridging the gap between objectives and strategy, the committee looked at Actual objectives for 2 local government pension funds were displayed on slide 6. A pension funds strategy to achieving its objectives will vary, dependent on varying investment beliefs. Speaking on the investment beliefs of Hymans set out on slide 7, William advised that the Committee set out their own investment beliefs and ensure that match with the assets the Pension Fund holds. This will provide clarity, context and continuity. William also pointed out that it is important to have investment beliefs for the sake of public scrutiny as a public fund. For example, the belief that diversification provides stability goes with the belief that diversifying helps to reduce risk, in particular some of the potential extremes of risk, although it has its limits.

On slide 8, the graph showed that the probability of achieving funding was broadly the same under a high equity strategy or low equity strategy. However, both strategies displayed have a similar chance of obtaining the objective- but the one that is more diversified and more exposed to income assets gives much more of a “downside cushion” if markets were not in favour, thus making the diversified approach more attractive.

Three main asset classes- diversified growth fund, alternative credit and infrastructure. A 3% allocation of the DGF has already been agreed and selected- this is a low governance way of increasing the diversification within the portfolio. They target generally absolute returns but with much lower equity volatility, making it manageable within active markets.

Alternative credit is income generated from assets. Hymans suggest increase the allocation from 10% to 15%. It also has benefit of providing income. The income generated from those assets could be used to pay out some of the benefits that are going out at the moment.

Infrastructure provides a good source of income too. It is inflation linked to meet income requirements. There's currently quite an attraction to infrastructure. There is a scope to increase this allocation to approximately 6%, however, there is a consideration that comes with infrastructure that takes time so this is likely to be more of a long term target.

Further explaining the capital structure of alternative credit, HR explained that a lot of institutional investors are investing in this diversifier. They have a lower credit rating, so they carry more risk than corporate bonds, but default rates are quite low the return is high. The reason this would be preferable despite its high its high risk is because alternative credit assets are securitised, so have assets backing the bonds and loans that companies are taking out. Generally, the default rates that they carry have been quite low, and if there has been a default, the recovery of the asset has been relatively high. As a result, HR would deem this asset as attractive at this time.

In regards to infrastructure, HR suggested, for the fund, to focus more on income than growth when considering the range of options for risk and return. There are different stages to invest in infrastructure- there is a higher return opportunity in taking projects from the “opportunistic/greenfield” stage to the operating stage, but with the trade-off of higher development risk. The “core/brownfield” stage is where there is an existing income producing assets and where there is more focus on income.

Speaking on Blackrock's Global Renewable Power Fund and Foresight Solar Fund, HR stated that both a relatively specialist, particularly Foresight, focusing only on solar funds and assets. The investment company focuses on providing shareholders with dividend income by investing in UK ground based solar assets. Blackrock's fund is slightly more diversified globally. The Fund focuses on equity ownership in utility-scale wind and solar power projects. Their investment philosophy is based on a fundamental understanding of the investment manager's strategy, aligning incentives between manager and investor, exercising independent judgement and a focus on market inefficiencies.

Concluding and summarising potential diversifiers, HR asked the Committee to consider that it would take some time to invest in Infrastructure and the capital to be

drawn by the fund managers, excluding the consideration of the CIV as that would add a significant amount of time. They suggested having an interim period- so the overall strategic aim is to invest, so prioritising that, they suggested increasing the allocation of Diversified Growth to 6%.

For alternative credit, it would be preferable to have a multi-asset credit manager so they can so they can change between the different scopes of alternative credit. The recommendation would be to increase this allocation by 6%, bringing it up to 7%.

HR recommended requesting fund specifics from managers to review the progression of Infrastructure.

RESOLVED The Committee agreed the allocation increase of 6% under Diversified Growth.

4. Blackrock- Fund manager briefing

Blackrock representatives, presented LBL Investment Portfolio. They made the following points during their presentation

- Asset allocation as at 31 December 2016 totalled a value of £525m invested
- The relevant performance of Aquila life-relative performance being any difference in returns between the first fund and the index- he indices are being tracked very carefully

Blackrock have been carefully considering the best approach for their clients regarding the London CIV. The government has set certain specific constraints under the authorised contractual scheme which states that there can no longer be investments in life policies- which LBL are currently invested in. Blackrock have built a final solution for LBL which does not use life policies and have prepared a proposal to move into the final state solution. Based on feedback from other boroughs, Blackrock are confident that after the forthcoming meeting, Lewisham will have solutions to all their questions and that they will have a final solution they are pleased with.

Speaking on low carbon and ESG optimisation, these are 2 index options to consider for investors who are looking to reduce carbon exposure or increase exposure to positive environmental, social and governance (ESG) factors, while restricting tracking error to the market capitalisation weighed index. Either approach would result in more variability. The average/mean will still be the market return but in a recording cycle a 0.5% volatility difference could be expected.

Blackrock has conducted research to research to determine how a portfolio's Carbon Emissions and ESG ratings can change as tracking error limits vs the Parent Indices increase. For MSCI World, it was found that significant improvement could be made in reducing portfolio carbon emissions with 30bp tracking error to the parent index, which BR present in a diagram in their presentation. Similarly, ESG ratings improved with 50bp tracking error (also shown in their presentation). If we attempt to outperform a benchmark and we simply use positive ESG scores, we will outperform by a smaller margin. If we incorporate non-ESG indicators, like their dividend history for example, into the decision making process, the outperformance is higher because of the combination of the two, as BlackRock have experienced

The move from life policies -to which is where historically funds have been for years- to authorised contractual schemes, has displayed a big theme arising on the back of pooling. Within the authorised contractual scheme, to hold something within it, it has to be very transparent and, the life funds are not transparent. Other rivals have not launched an ACS and have kept their life fund policies, and in some way, this sector/industry appears to be working well. It appears to be a work-in-progress. It would have been beneficial for the committee to have seen something in writing from Blackrock on this topic.

The way HR view ESG, is that it is an additional aspect that managers should be looking at- it is a risk to the value that investors could eventually receive and it is their duty to then look at it. It is also the fiducial duty of LBL to ensure that the managers assessing all the risks across the board. There are 2 ways to look at the ESG “responsible” investment of which there are 2 aspects- the sustainable investment, which is incorporating ESG risks, additional opportunities within the decision making, probably more or active managers; and then the stewardship and governments aspect of investment, of which asset managers really ought to be showing their strengths because they are every long term holders of these assets. The only way they can really protect value is to ensure that company management are on the side of the investors

5. Hymans performance report

Given the American outcome, markets were relatively stable and quite strong performance from equities. Unlike previous periods, bonds fell in value due to increasing yields- that’s was a result of the expectation of less supportive central bank policy, and in particular inflation. Property was relatively strong as well, there was an increase in capital values. In the UK interest rate stayed at 0.25%. US equities reached an all-time high and they continue to climb as do UK equities. The only region that struggled was emerging markets. That was the view from the market that the President has quite a protectionist policy, so there are concerns around emerging markets. The oil price rose, so that supported commodities in the oil and gas industry and since the end of December we have continued to see rising performance of equities.

Assets at the end of December were at £1.2bn- an increase of £38m over the quarter. Most of those returns came from Lewisham’s equity holdings within passive managers. There is a divergence in Lewisham strategic allocation to the actual allocation- there is potential to consider some rebalancing here. HR believe it is a very good scheme to have and maintain within the strategic allocation.

Returns over the quarter for the total fund were 3.7% against a benchmark of 3.6%. Over the longer term, it is visible that the fund falls very much in line with the benchmark and that is due to fact the Lewisham has largely passive holders. Last year the fund was particularly strong at 22.5%, although a similar type of return is not expected over the next year just due to the volatility expected. RESOLVED the report was noted.

6. Pension Fund update/ London CIV

The Chair asked Hymans representatives to briefly discussing the nature of the strategies below before the Committee moved onto the final item.

Funding Strategy Statement

As mentioned in the February meeting, the FSS is part of the LGPS, set up by the UK government to provide retirement and death benefits for local government employees. The Lewisham Pension Fund uses the assets to pay Fund benefits to the members. Hymans asked that the strategy (set out in the report) is agreed to delegate this back and have it agreed, consulted and in place by 31 March 2017.

Investment Strategy Statement

The Fund historically has a statement of investment principles and the new investment regulations (2016) remove many of the investment restrictions that were in place for the LGPS and allow Funds considerable discretion about where and how to invest. Funds must have an ISS approved by April 2017 as a replacement of the statement of investment principles. Hymans discussed the rebalancing operation for the 2 main managers, UBS and Blackrock and the importance of ensuring these arrangements are in place for their passive multi-asset mandates.

Key priorities for the Business Plan include:

- rebalancing within the fund managers
- multi-asset credit- the scope is to go up to 12% (take 6% out of equities and hold in cash in advance of the start of the process). HR recommended taking this out of non-emerging markets
- consideration of investing in pooled funds- this is an investment decision rather than appointing a manager
- Infrastructure exploration and training

RESOLVED the reports were noted.

The meeting finished at 9:32p.m.

Agenda Item 3

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Introduction to Investment Beliefs – Report by Hymans Robertson		
KEY DECISION	No	Item No:	3
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	22 June 2017

1. PURPOSE

- 1.1. This report from the Fund's advisors Hymans Robertson is to introduce and remind members of the need to develop a Statement of Investment Beliefs; it recaps on the purpose of each element of the current Investment Strategy and surveys members for their current beliefs, which will lead to a further paper setting out the beliefs of the Committee based on their answers.

2. RECOMMENDATIONS

- 2.1. Members are asked to note the contents of the report.
- 2.2. Members are asked to respond to the beliefs questionnaire on an individual basis in advance of the next meeting of PIC.

3. SUMMARY

- 3.1. The contents of this report include:
 - Key characteristics of the Fund
 - How investment beliefs add value
 - Exploring members' investment beliefs

4. FINANCIAL IMPLICATIONS

- 4.1. There are no financial implications arising directly from this report.

5. LEGAL IMPLICATIONS

- 5.1. There are no legal implications arising directly from this report.

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.

APPENDICES

The full report is attached for members only. Commentary will be provided at the meeting by the Council's appointed advisors from 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 8314 9114 or at david.austin@lewisham.gov.uk

Robert Browning, Principal Accountant – Treasury & Pensions on 020 8314 6274 or at robert.browning@lewisham.gov.uk

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Agenda Item 4

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 5

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Investment Performance for the quarter end March 2017		
KEY DECISION	No	Item No:	5
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	22 June 2017

1. PURPOSE

- 1.1. This report sets out the quarterly performance of the Pension Fund investment portfolio – see attached report as presented by the Council’s advisors, Hymans Robertson.

2. RECOMMENDATIONS

- 2.1. The committee is asked to note the contents of the report.

3. SUMMARY

- 3.1. The report covers:
 - The value of the fund's assets and movements over the quarter to 31 March 2017
 - The returns generated by the Fund (net of fees) over the quarter, and how these compare to the agreed benchmarks.
 - An assessment of the fund managers and any recommendations for the next quarter.

4. FINANCIAL IMPLICATIONS

- 4.1. There are no financial implications arising directly from this report.

5. LEGAL IMPLICATIONS

- 5.1. 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.
- 5.2. The Pension Regulations require that the Council has regard to the proper advice of its expert independent advisors 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.

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.

APPENDICES

The full report and performance is attached for members only. Commentary will be provided at the meeting by the Council's appointed advisors from 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 8314 9114 or at david.austin@lewisham.gov.uk

Robert Browning, Principal Accountant – Treasury & Pensions on 020 8314 6274 or at robert.browning@lewisham.gov.uk

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Agenda Item 6

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Pensions Investment Committee – Pensions Update		
KEY DECISION	No	Item No:	6
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	22 June 2017

1. PURPOSE

- 1.1. This paper provides members with an update on several pension related matters in the last period.

2. RECOMMENDATIONS

- 2.1. Members are asked to agree to the following recommendations:

- As per section 4.11, option A:
To maintain the current life fund structure within the BlackRock mandate and take advantage of the fee reduction backdated to January 2017.
- As per section 4.13, to ask officers to approach UBS with a view to discussing similar arrangements to the BlackRock offer for a fee reduction.
- Agree the revision to the Investment Strategy Statement for rebalancing as set out in the table at 4.15.

- 2.2. Members are asked to note the remainder of the report.

3. BACKGROUND

- 3.1. This briefing will provide a summary of current topics relating to pensions and address standing items on the agenda, following on from actions requested in previous meetings.

4. CURRENT CONSIDERATIONS

Pension Board

- 4.1. The Pension Board has not met in the last quarter. Efforts are now being made to contact existing Board members to confirm their continued interest in serving, before any forthcoming meetings can be scheduled. Further developments will be reported on at the next meeting of the PIC.

London Collective Investment Vehicle (CIV) – General Update

- 4.2. The Pensions Sectoral Joint Committee (PSJC) continue to meet, with the Chair of PIC representing Lewisham Pension Fund's interests. The Head of Corporate Resources and Principal Accountant are also in regular contact with the CIV.
- 4.3. To date, none of the funds launched by the CIV have been funds Lewisham are invested in or planning to invest in. The CIV currently offers two global equity and four multi-asset funds; by September 2017 it will have launched a further six funds; one UK Equity and an additional five global equity funds.
- 4.4. The CIV is preparing to procure and launch a range of fixed income funds, including multi-asset income funds with targeted returns (e.g. 4-6% and 6-8%). This was originally scheduled for March 2018 but has been brought forward. The CIV is now working to have these fixed income funds available by December 2017.
- 4.5. The inaugural CIV annual conference was held in March 2017 and included opportunities to meet the managers of the funds on the CIV platform. Next year's meeting will be held in June 2018
- 4.6. The Training schedule in Appendix 2 includes CIV seminars and events suitable for members currently planned to take place this year. Further information on these events can be obtained by emailing jill.davys@londonciv.org.uk.

CIV – Transition to BlackRock ACS Structure

- 4.7. BlackRock have launched a new World ex-UK Authorised Contractual Scheme (ACS) equity fund for CIV members with opening assets of £2.1bn and are seeking to obtain final decisions from London Boroughs regarding their intentions on switching into the fund. This would be a two-step process, moving from the current life funds (from 2018 LGPS will not be able to open new life funds) to the ACS World ex-UK structure, before transitioning from BlackRock to the CIV platform.
- 4.8. The CIV is structured as an ACS so, under current regulations, cannot take on life funds. ACS are likely to grow and become the more common structure in the industry as they are being marketed to a range of investors besides pension funds. The ACS fund is slightly more tax efficient than life structures, and is no more complicated from an administrative point of view.
- 4.9. BlackRock have proposed a reduced fee structure for those Funds transitioning to the ACS mandate backdated to January 2017, but have also offered the same reduced fees for those Funds choosing to remain in their current state. At present the Government has accepted that life fund assets can remain outside of the CIV, although they may enforce the change to ACS at a later date.
- 4.10. If Lewisham opted to convert the current life fund structure there would be a transition cost incurred to move to the ACS mandate. Based on the fund value at the end of February 2017 this was quoted as 0.04% of the total value of BlackRock equity holdings (or approximately £150,000). Relative to the current fee structure this would represent an approximate nine month payback period.

- 4.11. The options available to members are as follows:
- A. Maintain the current life fund structure within the BlackRock mandate and take advantage of the fee reduction backdated to January 2017.
 - B. Move to the new ACS structure now and take advantage of the backdated fee reduction, with a view to transitioning to the CIV platform in 2018.
- 4.12. The advantages of both options are access to the offered fee savings from BlackRock. In both cases a levy as a proportion of the fee reduction will be paid to the London CIV by Lewisham. The disadvantage of option A is that it defers the decision to move to the emerging common industry ACS structure with the risk that the cost of change may be more expensive in the future. The disadvantage of option B is that it incurs cost now without a guarantee that the transition will be needed or whether this is a mandate that will move to the CIV.
- 4.13. The recommendation from the Fund's advisors Hymans Robertson is to pursue option A. Officers believe this option is also consistent with the majority of other London Pension Funds faced with the same choice.
- 4.14. Given the BlackRock proposals for fee reductions, there is a possibility that UBS would also consider fee reductions for the similar mandate Lewisham holds with them. Officers recommend approaching UBS to discuss fee arrangements.

Rebalancing of the Fund

- 4.15. The first phase of disinvestment from equities for investment into the Invesco Global Targeted Returns Fund (GTRF) and the pending alternative credit mandate is currently in progress and should be completed by the end of June 2017.
- 4.16. Approximately £155m of equities are being sold from the UBS and BlackRock mandates, representing 12% of the total assets held by the Fund as at 31 May 2017. Half of this will be invested with Invesco, the other half temporarily retained as cash for future investment into new the alternative credit mandate. Table 1 shows asset allocations following the completion of this stage of the disinvestment against the updated medium term benchmark allocations.

Table 1 – Asset Allocation Following Completion of Phase One

Fund Manager	Asset Class	Asset Value at 31 May 17	Adjusted Asset Value (Following Completion of Phase One)	Movement in Fund	Actual Asset Allocation	Updated Medium Term Benchmark
		£m	£m		%	%
BlackRock	Equities	433.12	355.57	(6.00%)	27.51%	27.45%
UBS	Equities	426.11	348.56	(6.00%)	26.96%	27.45%
BlackRock	Bonds	126.14	126.14	-	9.76%	9.55%
UBS	Bonds	126.03	126.03	-	9.75%	9.55%
Harbourvest	Private Equity	50.80	50.80	-	3.93%	3.00%

Fund Manager	Asset Class	Asset Value at 31 May 17 £m	Adjusted Asset Value (Following Completion of Phase One) £m	Movement in Fund	Actual Asset Allocation %	Updated Medium Term Benchmark %
Schroders	Property	102.59	102.59	-	7.94%	10.00%
M&G	Alternative Credit	8.88	8.88	-	0.69%	1.00%
To be confirmed	Alternative Credit	-	77.55	6.00%	6.00%	6.00%
Invesco	Diversified Growth	-	77.55	6.00%	6.00%	6.00%
Northern Trust	Securities Lending	0.12	0.12	-	0.01%	-
	Cash Holdings	18.71	18.71	-	1.45%	-
	Total	1,292.50	1,292.50	-	100.00%	100.00%

4.17. The second phase of rebalancing will take place later in the year and will form part of the agenda at the next PIC meeting in September.

4.18. Consistent with the agreed Funding Strategy and Investment Strategy at the end of 2016/17, PIC are asked to agree the update to the fund allocations following this rebalancing and that the Investment Strategy Statement be updated to reflect this.

Government Policy Changes

4.19. No specific changes. There have been some minor developments with regards to the MiFID II legislation coming into force on 1 January 2018. Pressure has continued to be applied to the Financial Conduct Authority (FCA) to consider its position with regards to the classification of local authority pension funds and treasury operations. Whilst no formal response has been received, feedback from the LGA and a recent meeting of the All Parliamentary Party Group for LGPS suggest that the opt-up process from retail to professional status will be simplified from initial proposals. A recent survey from CIPFA revealed that they are developing an online portal, 'Public Sector Link', which will allow authorities to upload their key organisational data in a consistent format which can be transmitted to multiple financial institutions, allowing them to be elected up to professional status. Further updates will be provided at the next meeting of the PIC.

Work Programme

4.20. The 2017/18 work programme for the Committee can be found in Appendix 1 and is consistent with the PIC's Terms of Reference as per the Council's Constitution. The programme is subject to amendment as the year progresses.

Training

- 4.21. A selection of conferences, workshops and seminars for the last two quarters of 2017 have been listed in Appendix 2. Should members find any of the sessions of interest, or have identified other training they would like to attend, please can they keep the Governance Team or Principal Accountant for Treasury and Pensions informed.
- 4.22. Officers continue to recommend the excellent training tools available via the Pensions Regulator at: <http://www.thepensionsregulator.gov.uk/public-service-schemes/learn-about-managing-public-service-schemes.aspx>. In addition, as members have previously reported that this was a helpful resource, copies (or links) to Russell's Fiduciary Handbook are also available.

Other Matters

- 4.23. None to note.

5. FINANCIAL IMPLICATIONS

- 5.1. The financial implications arising directly from this report relate to the options for accepting a fee reduction on the BlackRock passive mandate. These are set out in section 4 of the report and will reduce the funds costs in 2017/18.

6. LEGAL IMPLICATIONS

- 6.1. It is within the powers of this committee to agree changes to the fund mandates. Proper independent advice must be taken.

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.

APPENDICES

Appendix 1 – Work Programme for PIC 2017/18

Appendix 2 – Training Programme Quarters 3 & 4 2017

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 9114 or at david.austin@lewisham.gov.uk

Robert Browning, Principal Accountant – Treasury & Pensions on 020 8314 6274 or at robert.browning@lewisham.gov.uk

APPENDIX 1 – Work Programme for PIC 2017/18

Date	Task
At each meeting of PIC:	To review the current economic background and recent investment performance
	To review the Fund’s asset allocation and investment activity since the last meeting and the current investment portfolio
	To approve changes to investment strategy in the light of recommendations from the Executive Director of Resources and the Fund’s independent advisors
	To note updates to pension funds in general and consider standing items on the agenda including updates on the London CIV and any Government policy changes
	To consider the Committee’s training requirements
	To maintain and suggest updates as necessary to the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS)
Meeting of PIC – 22 June 2017	Introduction to Investment Beliefs – consider report from Hymans Robertson
	Alternative Credit Procurement – consider report from Hymans Robertson
	Review Draft Pension Fund Accounts 2016/17
July 2017	Proposed Interviews for Alternative Credit Manager procurement
2 August 2017	Proposed Infrastructure Training to be held by Hymans Robertson for members
Meeting of PIC – 5 September 2017	Review Audited Pension Fund Accounts 2016/17
	Discuss Phase Two of disinvestment from equities, specifically the procurement of an Infrastructure manager and an increase to the alternative credit asset allocation
	Investment Beliefs – built on results of questionnaires from June meeting
	Potential AVC Review
	Investment Manager Briefing – Invesco Investment Manager Briefing – Schroders

October 2017	Potential procurement of Infrastructure manager
Meeting of PIC – 14 November 2017	Review Pension Fund Annual Report 2016/17
	Review Private Equity allocation with regards to investment strategy
	Consider updates on MIFID and impact on the Fund
	Investment Manager Briefing – UBS Investment Manager Briefing – HarbourVest Investment Manager Briefing – New Manager – Alternative Credit
Meeting of PIC – 8 February 2018	Investment Manager Briefing – BlackRock Investment Manager Briefing – M&G Investment Manager Briefing – New Manager - Infrastructure

APPENDIX 2 – Training Programme Quarters 3 & 4 2017

Date	Conference/Event	Organiser	Venue	Cost & Additional Information
12/07/17	Governance in a Changing Environment	CIPFA	Bishopsgate, London	£345 Day Event
31/08/17	Alternative Credit and Private Debt Investing for Pension Funds	SPS Conferences	Le Meridien Piccadilly, London	2 Free Places Day Event
14/09/17	Emerging, Frontier, & Alternative Markets Investment Strategies for Pension Funds	SPS Conferences	Le Meridien Piccadilly, London	2 Free Places Day Event
19/09/17	Fixed Income/Cashflow Seminar	London CIV	TBA	Free - By Invitation
20/09/17	Introduction to Trusteeship – Part 1: The Theory	PLSA	Cheapside House, London	Free to Members Day Event
26/09/17	Introduction to Trusteeship – Part 2: The Practice	PLSA	Cheapside House, London	Free to Members Day Event
10/10/17	Global Equity Information Day Phase II	London CIV	TBA	Free - By Invitation
12/10/17	Property, Real Assets & Infrastructure Investing for Yield for Pension Funds	SPS Conferences	Le Meridien Piccadilly, London	2 Free Places Day Event
02/11/17	Introduction to Trusteeship – Part 1: The Theory	PLSA	Cheapside House, London	Free to Members Day Event
14/11/17	Introduction to Trusteeship – Part 2: The Practice	PLSA	Cheapside House, London	Free to Members Day Event
06-08/12/17	The LAPFF Annual Conference: Responsible Investment, Impact on Boards, Impact on Asset Management	LAPFF	Bournemouth	Multi-day Event Cost TBC
12/12/17	Property Seminar	London CIV	TBA	Free – By Invitation

Agenda Item 7

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Draft Pension Fund Accounts – Year Ending 31 March 2017		
KEY DECISION	No	Item No:	
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	June 2017

1. PURPOSE

- 1.1. This report sets out the draft Pension Fund accounts for the financial year ending 31 March 2017.
- 1.2. The accounts were signed off by the Chief Financial Officer on 2 June 2017 and sent to the external auditors.

2. RECOMMENDATION

- 2.1. Members are asked to note the draft Pension Fund accounts for the year ended 31 March 2017, as set out in 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 scheme's financial activities, 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 31 July 2017.
- 3.4. The Council is also required to publish an Annual Report which incorporates elements of the financial accounts before 1 December 2017. 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:
 - The Fund Account, which details dealings with members, employers and others directly involved in the scheme as well as returns on investments, and essentially represents the Fund's revenue account.

- The Net Assets Statement, which details the Fund’s asset holdings and liabilities, and essentially represents the Fund’s balance sheet.
- 3.6. Within the Fund Account, the section “Dealings with members, employers and others directly involved in the scheme” sets out the movement in the net worth of the Fund in year by analysing principally the receipt of contributions from employers and active members, and the payment of pensions. This section indicates the Fund is cash negative, in that the benefits payable exceed the contributions receivable by £8.2m.
 - 3.7. The line on management expenses is analysed in further detail within the notes to the accounts and includes investment management fees, administration expenses, and oversight and governance expenses. When including these expenses, net withdrawals from the Fund during the year total £10.3m.
 - 3.8. The section “Returns on investments” details the income received from the investment portfolio and the impact of manager’s activities and market activity on the value of investments. The net return on investments for the year was £243m, £237m of which was due to an increase in market value. Overall, the value of the Fund increased by £233m during the period.
 - 3.9. The Net Assets Statement represents the net worth of the Fund as at 31 March 2017, and reflects how the transactions outlined in the Fund Account have impacted on the value of the Fund’s assets.
 - 3.10. The section “Net Current Assets and Liabilities” includes debtors and creditors, which represent income and expenditure owing as a result of investment transactions such as interest income and pending trades, and non-investment transactions including contributions owing from admitted and scheduled bodies and fund manager fees.
 - 3.11. Members should note that these accounts are draft and may be subject to change between now and final sign-off. 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 the year ending 31 March 2017, which have been included in Appendix 1 of this report.

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 an external auditor. This process, and the dates by which the various stages have to be achieved, are set out in the 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.

APPENDICES

Appendix 1 – Draft Pension Fund Accounts 2016/17

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 9114 or at david.austin@lewisham.gov.uk

Robert Browning, Principal Accountant – Treasury & Pensions on 020 8314 6274 or at robert.browning@lewisham.gov.uk

Draft Pension Fund Accounts

OK
JRS.
2-6-17

**DRAFT
PENSION
FUND
ACCOUNTS

2016/17**

Draft Pension Fund Accounts

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH
OF LEWISHAM**

Draft 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 2016/17.

The Pension Fund's value increased over the year by £233.1m (22%), mainly due to an increase in market value of equities 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 benefit pension scheme administered by the London Borough of Lewisham to provide benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

ORGANISATION

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

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

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

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

www.lewishampensions.org

Draft 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 2016/17 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.

The Local Government Pension Scheme (Administration) Regulations 2008 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 later in the year to comply with this deadline.

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

- (a) **Basis of Preparation** - The accounts have been prepared on an accruals basis (i.e. income and expenditure attributable to the financial year have been included) even where payment has not actually been made or received, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (b) **Investments** - Investments in the Net Assets Statement are shown at market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2016/17 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. 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.
- (d) **Income** - Dividend income earned from equity and bonds (excluding Private Equity) is reinvested by Investment Managers and not repaid directly to the fund as cash. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors.

Draft Pension Fund Accounts

(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 31 March 2017 is the actual fair value using the latest available valuation on or after 31 December 2016, plus an estimated valuation for the period up to 31 March 2017.

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

(g) Financing Fund - 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 31 March 2017 is the actual fair value using the latest available valuation on or after 31 December 2016, plus an estimated valuation for the period up to 31 March 2017.

(h) Contributions – These represent the total amounts received from the employers and employees within the scheme. From 1 April 2016 the employee contribution bands (revised annually in line with inflation) are as follows:

Full time pay for the post	Contribution rate 16/17
Up to £13,600	5.5%
£13,601 to £21,200	5.8%
£21,201 to £34,400	6.5%
£34,401 to £43,500	6.8%
£43,501 to £60,700	8.5%
£60,701 to £86,000	9.9%
£86,001 to £101,200	10.5%
£101,201 to £151,800	11.4%
More than £151,801	12.5%

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. The employer's contribution rate for 2016/17 is 22.5% and for 2017/18 it will remain unchanged.

Draft Pension Fund Accounts

- (i) 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.
- (j) 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.
- (k) 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.
- (l) 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.
- (m) 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 2016.

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

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

* Consumer Price Index

** Guaranteed Minimum Pension

With effect from the 1 April 2016, the actuarial review carried out for 31 March 2013 resulted in increases to the Council's contribution rate up to 22.5%) for 2016/17.

The triennial valuation on the 31 March 2016 revealed that the Fund's assets, which at 31 March 2016 were valued at £1,041 million, were sufficient to meet 78%

Draft Pension Fund Accounts

(71% in 2013) of the past service liabilities valued at £1,328 million (£1,215 million in 2013) accrued up to that date. The resulting deficit as at the 2016 valuation was £288 million (£348 million in 2013).

Actuarial Present Value of Promised Retirement Benefits

- (n) The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1,847 million as at 31 March 2017 (£1,570 million as at 31 March 2016).
- (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.
- (p) The accounts for 2016/17 have adopted the recommendations of CIPFA's "Accounting for Local Government Pensions Scheme Management Expenses" (2016), and as such all expenses relating to investment management, administration and oversight and governance are recorded in one line on the face of Fund Account under Management Expenses, and a breakdown disclosed in the notes to the accounts. For comparative purposes, these changes have been applied retrospectively to the 2015/16 balances, although the changes are not material for a prior period adjustment to take place.
- (q) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
 - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
 - Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.

Draft Pension Fund Accounts

(r)

Fund Manager	Assets	Assets Value 2016/17	Assets Value 2015/16	Proportion of Fund 2016/17
		£'000	£'000	(%)
Schroders Property	Property	100,946	97,527	7.9
HarbourVest	Private Equity	49,481	41,247	3.9
UBS	Passive Equity and Bonds	544,085	430,848	42.7
Blackrock	Passive Equity and Bonds	549,121	432,402	43.1
M&G	Credit	8,822	14,869	0.7
Securities Lending	Securities Lending	119	109	-
Unallocated Funds	Cash	18,662	24,358	1.5
Lewisham	Cash and Net Current Assets	3,333	68	0.2
Total Fund		1,274,569	1,041,428	100.0

- (s) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts. Please see note 13.
- (t) Financial Instruments –
- (i) Financial Liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.
- (ii) Financial Assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial Assets are classified into two types:
- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
 - Fair value through profit or loss – assets that are held for trading.
- (u) Critical judgements in applying accounting policies and assumptions made about the future and other major sources of estimation uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the future or that are otherwise uncertain. There are two areas in the accounts where critical judgements are applied which are materially significant to the accounts:

Draft Pension Fund Accounts

- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of assumptions including the discount rate, mortality rates and expected returns on fund assets. The Pension Fund’s qualified actuary calculates this figure to ensure the risk of misstatement is minimised.
 - Private Equity valuations – the value of the Fund’s private equity holdings is calculated by the General Partners of the fund on the basis of their Valuation Policy, which follows best practice in the industry. However this is based upon a 31st December audited accounts valuation adjusted for estimated distributions and capital calls up to 31st March.
- (v) **Additional Voluntary Contributions (“AVCs”)**
Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main fund, and In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed as transfers-in. Further details about the AVC arrangements are disclosed in note 13 to the financial statements.

Draft Pension Fund Accounts
FUND ACCOUNT FOR THE YEAR

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

FUND ACCOUNT FOR THE YEAR ENDED
31 MARCH 2017

DEALINGS WITH MEMBERS,
EMPLOYERS AND OTHERS DIRECTLY
INVOLVED WITH THE SCHEME

Contributions Receivable:

	2016/17 £'000s	2015/16 £'000s	Note
- from Employer	33,411	30,542	1
- from Employees	9,099	9,339	1
- Reimbursement for Early Retirement	955	1,898	

Transfer Values In

2,123

1,409

Other Income

72

221

Subtotal: Income

45,660

43,409

Benefits Payable:

- Pensions	39,096	37,629	2
- Lump Sums: Retirement allowances	8,611	8,087	
- Lump Sums: Death grants	1,720	1,048	

Payments to and on account of leavers:

- Refunds of Contributions	86	(3)	
- Transfer Values Out	4,331	2,709	

Subtotal: Expenses

53,844

49,470

Subtotal: Net additions (withdrawals)
from dealings with members

(8,184)

(6,061)

Management Expenses

2,143

2,311

3

Draft Pension Fund Accounts

Subtotal: Net Additions (withdrawals) including fund management expenses	(10,327)	(8,372)	
<u>RETURNS ON INVESTMENTS</u>			
Investment Income	6,670	6,437	4
Change in market value of investments (Realised and Unrealised)	236,975	1,013	5a
Taxes on Income	(178)	(207)	
Total Net Returns on Investments	243,467	7,243	
NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	233,140	(1,129)	
OPENING NET ASSETS OF THE SCHEME	1,041,429	1,042,558	
CLOSING NET ASSETS OF THE SCHEME	1,274,569	1,041,429	

Draft 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 2017.

<u>NET ASSETS STATEMENT AT 31 MARCH 2017</u>	2016/17 £000s	2015/16 £000s	Note
EQUITIES			
Equities: UK	11,777	8,735	5
Equities: Global	13,805	10,714	5
	25,582	19,449	
MANAGED FUNDS			
Property	98,174	96,263	5
Equity	830,606	656,010	5
Fixed Interest	206,232	162,329	5
Index Linked	41,599	33,177	5
Other Assets	32,862	33,077	5
	1,209,473	980,856	
CASH HELD WITH CUSTODIAN	36,517	40,667	9
DERIVATIVE CONTRACTS			
Assets	0	0	7
Liabilities	0	0	7
OTHER INVESTMENT BALANCES			
Debtors: Investment Transactions	3,118	389	8
Creditors: Investment Transactions	(3,453)	0	8
TOTAL INVESTMENTS	1,271,236	1,041,361	
NET CURRENT ASSETS AND LIABILITIES			
Debtors	701	587	8
Creditors	(475)	(792)	8
Cash in Hand	3,107	273	9
TOTAL NET ASSETS	1,274,569	1,041,429	

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2017. This liability is included within the Authority's balance sheet.

Draft Pension Fund Accounts

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

<u>Employer Contributions</u>	2016/17 £000s	2015/16 £000s
Administering	27,346	25,593
Admitted	856	557
Scheduled	5,209	4,392
	33,411	30,542

<u>Employee Contributions</u>	2016/17 £000s	2015/16 £000s
Administering	7,265	7,593
Admitted	227	222
Scheduled	1,607	1,524
	9,099	9,339

2. BENEFITS PAYABLE

	2015/16 £000s	2015/16 £000s
Administering/Admitted/Scheduled Pensions	27,886	26,187
Increases	11,218	11,442
	*39,104	*37,629

* includes Dependents Pensions

3. MANAGEMENT EXPENSES

	2016/17 £000s	2015/16 £000s
Administration Expenses	705	586
Oversight and Governance Expenses	433	456
Investment Management Expenses:		
- Transaction Costs	0	8
- Management Fees	978	1,226
- Performance Fees	0	0
- Custody Fees	27	43
	2,143	2,319

Draft Pension Fund Accounts

Management expenses for 2015/16 have been restated and reclassified in accordance with CIPFA's Accounting for Local Government Pensions Scheme Management Expenses (2016), with balances re-categorised as per the following disclosure:

2015/16 Previous Note Categorisations	2015/16	Reclassified 2015/16	Management Expenses 2016/17	2016/17
	£000s	£000s		£000s
Lewisham Administration	586	586	Administration Expenses	705
Advisory Costs (incl. Audit Fees)	448	456	Oversight and Governance Expenses	433
Bank Charges	8		Investment Management Expenses:	
Fund Managers' Fees	1226	1,226	- Fund Value Based Management Fees	978
Custodian Fees	43	8	- Transaction Costs	0
		0	- Performance Fees	0
		43	- Custody Fees	27
	2,311	2,319		2,143

The restatement reflects:

- the reclassification of £8k bank charges and £448k of advisory and audit fees to the new expense category of oversight and governance expenses.
- The movement of £43k of custodial fees to the new expense category within investment management expenses.
- The grossing up and inclusion of transaction costs of £8k previously netted off asset values.

4. INVESTMENT INCOME

	2016/17 £000s	2015/16 £000s
Cash	100	19
Equity	467	670
Fixed Interest	955	1583
Index Linked	208	376
Managed Funds (incl. Property)	4,561	3,234
Securities Lending	11	9
Other	368	546
	6,670	6,437

Draft Pension Fund Accounts

5. INVESTMENT ANALYSIS

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

Asset	Manager	31 March 2017	
		Value £'000	%
Aquila Life US Equity Index Fund	Blackrock	176,523	14.7
UBS GBL Asset Life North America Equity Tracker	UBS	173,571	14.5
Blackrock Pensions Aquila Life UK Equity Index Fund	Blackrock	115,814	9.7
UBS Asset Management Life UK Equity Tracker A Nav	UBS	110,425	9.2

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

Asset	Manager	31 March 2017	
		Value £'000	%
UK Equities			
Harbourvest GE PE Shares	Harbourvest	11,781	100
Global Equities			
Commonwealth Bank of Australia	UBS	866	6.6
Westpac BKG Corp	UBS	674	5.1
Property			
Schroder Unit TST UK Real Estate	Schroders	13,957	14.2
Blackrock UK FD	Schroders	12,032	12.2
C - Managed Pty Property Fund Units	Schroders	13,032	13.2
Hermes Property Unit	Schroders	9,926	10.1
Real Income Fund	Schroders	8,863	9.0
Standard Life Pooled Property Fund	Schroders	7,538	7.7
Mayfair Cap Pty (MCPUT)	Schroders	7,343	7.5
Multi-Let INDL Property Unit Trust	Schroders	5,679	5.8
IPIF Feeder Unit Trust Fund	Schroders	5,261	5.3
Metro Pty Unit Trust	Schroders	5,024	5.1
Managed Equities			
Aquila Life US Equity Index Fund	Blackrock	176,523	21.1
UBS GBL Asset Life North America Equity Tracker	UBS	173,571	20.7
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	115,814	13.8
UBS Asset Management Life UK Equity Tracker A Nav	UBS	110,425	13.2

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Asset	Manager	31 March 2017	
		Value £'000	%
Aquila Life European Equity Index Fund	Blackrock	48,921	5.8
UBS Asset Management Life Europe Ex UK Equity Tracker	UBS	45,851	5.5
Fixed Interest			
Blackrock Pensions Aquila Over 15 Years UK	Blackrock	42,414	20.7
Blackrock AM (IE) UK Credit	Blackrock	41,475	20.3
UBS Asset Mgmt STG Corp	UBS	39,933	19.5
Aquila Life Over 5 yrs Index Fund	Blackrock	39,830	19.4
Index Linked			
UK(Govt Of) 1.25% IDX/LKD SNR 22/11/55	UBS	2,459	5.9
UK(Govt Of) 0.125% IDX/LKD SNR 22/03/68	UBS	2,365	5.7
UK(Govt Of) 0.375% IDX/LKD SNR 22/03/62	UBS	2,349	5.6
UK(Govt Of) 0.5% IDX/LKD SNR 22/03/50	UBS	2,083	5.0
UK(Govt Of) 1.125% IDX/LKD SNR 22/11/37	UBS	2,078	5.0
Others			
HIPEP VII (AIF) Partnership Fund LP	Harbourvest	8,438	25.7
Ptrs VIII Cayman Buyout	Harbourvest	7,104	21.6
Partners VIII Cayman Venture Fund LP	Harbourvest	5,584	17.0
International PE Ptrs V Cayman Ptnship Fund	Harbourvest	5,557	16.9
M&G UK Companies Financing Fund	M&G	3,224	9.8
Partners X AIF LP	Harbourvest	2,146	6.5

Draft Pension Fund Accounts

An analysis of investment movements is set out below:

5. INVESTMENT ANALYSIS	Value at	Purchases	Sales	Change in	Change in	Value at
Investments	31 March 2016	At Cost	Proceeds	Capital Value	Market Value	31 March 2017
	£000s	£000s	£000s	£000s	£000s	£000s
UK Equities	8,735	0	0	0	3,042	11,777
Global Equities	10,714	2	0	(57)	3,146	13,805
Equities	656,010	11,567	(33,820)	0	196,849	830,606
Property	96,263	11,400	(9,371)	(83)	(35)	98,174
Fixed Interest Securities	162,329	26,746	(2,985)	0	20,142	206,232
Index Linked Securities	33,177	3,716	(2,341)	0	7,047	41,599
Other*	33,077	5,278	(11,266)	(27)	5,800	32,862
Derivatives	0	0	0	0	0	0
	1,000,305	58,709	(59,783)	(167)	235,991	1,235,055
Cash deposits	40,667				984	36,517
Other Investment Balances	389					(336)
Total Investments	1,041,361				236,975	1,271,236

* Includes Venture Capital, Credit Mandates and Private Equity

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 fixed interest bonds comprise various government and corporate bonds.

Apart from global equities and bonds, the only other overseas investment held by the Fund fall under the 'Other' category and is namely Private Equity with a value of £29.6m.

The total value of unquoted securities held by the fund as at 31 March 2017 was £898m, this includes equities, bonds and other assets.

The total value of quoted securities held by the fund as at 31 March 2017 was £244m, this includes equities and bonds.

Draft Pension Fund Accounts

As at 31 March 2016:

5. INVESTMENT ANALYSIS	Value at	Purchases	Sales	Change in	Change in	Value at
Investments	31 March 2015	At Cost	Proceeds	Capital Value	Market Value	31 March 2016
	£000s	£000s	£000s	£000s	£000s	£000s
UK Equities	8,777	0	0		(42)	8,735
Global Equities	11,228	2,152	(1,450)	19	(1,235)	10,714
Equities	662,071	5,462	(4,511)	26	(7,038)	656,010
Property	82,286	8,907	(58)	(845)	5,973	96,263
Fixed Interest Securities	159,838	7,429	(6,446)	0	1,508	162,329
Index Linked Securities	32,410	4,845	(4,567)	0	489	33,177
Other*	65,028	5,341	(38,330)	(47)	1,085	33,077
Derivatives	0	0	0	0	0	0
	1,021,638	34,136	(55,362)	(847)	740	1,000,305
Cash deposits	23,775				273	40,667
Other Investment Balances	387					389
Total Investments	1,045,800				1,013	1,041,361

* Includes Venture Capital, Credit Mandates and Private Equity.

Draft Pension Fund Accounts

5A. FINANCIAL INSTRUMENTS

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

31 March 2017				31 March 2016		
Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
25,582			Equities	19,449		
			Managed Funds			
98,174			Property	96,263		
830,606			Managed Equity	656,010		
206,232			Fixed Interest	162,329		
41,599			Index Linked	33,177		
32,862			Other Assets	33,077		
0			Derivative contracts	0		
	36,517		Cash deposits		40,667	
	0		Pending Trades		0	
	(336)		Dividends & Income		389	
	645		Contributions Due		566	
	3,107		Cash Balances		273	
	118		Other Current Assets		186	
			Total Financial Assets			
1,235,055	40,051	0		1,000,305	42,081	0

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31 March 2017				31 March 2016		
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
			Financial Liabilities			
		0	Derivative Contracts			0
		0	Pending Trades			0
		0	Unpaid benefits			0
		(537)	Other current Liabilities			(957)
		(537)	Total Financial Liabilities			(957)
1,235,055	40,051	(537)	Net Financial Assets	1,000,305	42,081	(957)

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

31 March 2017 £'000		31 March 2016 £'000
	Financial Assets	
236,975	Fair Value through Profit and Loss	1,013
0	Loans and Receivables	0
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
236,975	Total	1,013

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.

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Values as at 31 March 2017	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs Level 3	Total
	Level 1	Level 2		
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	25,582	1,176,611	32,862	1,235,055
Loans and Receivables	43,443			43,443
Total Financial Assets	69,025	1,176,611	32,862	1,278,498
Financial Liabilities				
Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost	(3,929)			(3,929)
Total Financial Liabilities	(3,929)			(3,929)
Net Financial Assets	65,096	1,176,611	32,862	1,274,569

Values as at 31 March 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs Level 3	Total
	Level 1	Level 2		
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	19,449	947,779	33,077	1,000,305
Loans and Receivables	41,916			41,916
Total Financial Assets	61,365	947,779	33,077	1,042,221
Financial Liabilities				
Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost	(792)			(792)
Total Financial Liabilities	(792)			(792)
Net Financial Assets	60,573	947,779	33,077	1,041,429

5B. FINANCIAL RISK MANAGEMENT

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for an accepted level of risk. Therefore the Fund holds a mix of financial instruments such as securities (equities, bonds), 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 (PIC). Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. The main risks from the Fund's holding of financial instruments are market risk, credit risk, and liquidity risk. These policies are reviewed regularly to reflect change in activity and in market conditions.

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

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

The Committee has determined that the current largely passive investment management structure is appropriate and is in accordance with its latest investment strategy. However, following the most recent triennial valuation and current portfolio weighting towards equities the Committee agreed to extend the level of diversification of investments. The Fund will therefore be reducing its equity exposure in 2017/18 and increasing its holdings of other asset classes. This is set out and agreed in the Funding Strategy and Investment Strategy Statements approved by PIC towards the end of 2016/17.

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.

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a) Other Price Risk – Market

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

b) Other Price Risk – Sensitivity analysis

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

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 2016/17 reporting period.

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	9.6
Global Equities	10.3
Bonds and Index Linked	11.0
Alternatives	3.1
Property	5.0
Cash	1.3

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 March 2017	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
UK Equities	487,836	9.6	534,424	441,248
Global Equities	368,352	10.3	406,440	330,264
Bonds and Index Linked	247,831	11.0	275,018	220,644
Other Assets	32,862	3.1	101,178	31,856
Property	98,174	5.0	34,515	93,236
Cash	36,517	1.3	36,977	36,057
Total Assets*	1,271,572	**7.0	**1,363,634	**1,180,019

* This figure excludes derivatives and other investment balances.

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

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

d) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£GBP). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31 March 2017 with the previous year in brackets:

Australian Dollars	£10.1m (£8.9m)
Euro	£15.8m (£17.2m)
Hong Kong Dollars	£4.6m (£4.2m)
US Dollars	£77.5m (£70.3m)

The remaining exposures arise from smaller investments relating to other currencies such as the Singapore Dollar, New Zealand Dollar, and the Swiss Franc.

e) Currency risk – sensitivity analysis

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges and the latter are "over the counter" agreements, which neither the purchaser nor the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date. As at 31 March 2017, 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 9.1%. This volatility is applied to the Fund's overseas assets as follows:

Asset Type	Asset Value at 31 March 2017 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	368,352	9.1	401,968	334,736
Overseas Fixed Income	82,782	9.1	90,337	75,227
Other Alternatives	29,600	9.1	32,301	26,899
Total	480,734	9.1	524,606	436,862

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

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transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties – including; brokers, custodian and investment managers - seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

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

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 2017 these assets totalled approximately £1,104m, with a further £36.5m held in cash by the custodian on behalf of the Fund and fund managers.

6. PRIOR YEAR ADJUSTMENT

No prior year adjustments have been made to these accounts.

7. DERIVATIVE CONTRACTS

As at 31 March 2017, there were no foreign exchange contracts held.

Asset Type	31 March 2017 £'000	31 March 2016 £'000
Foreign Exchange Gains		
Total Gains	0	0
Foreign Exchange Losses		
Total Losses	0	0
Total Unrealised Gains/(Losses)	0	0

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8. DEBTORS & CREDITORS

These comprise the following amounts:

Investment Transactions**Debtors**

Equity Dividends / Income from Managed Funds	31	0
Interest and Other Income	387	389
Tax Refunds	0	0
Pending Trades	2,700	0

2016/17
£'000

2015/16
£'000

3,118

389

Creditors

Pending Trades	(3,453)	0
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2016/17
£'000

2015/16
£'000

(3,453)

0

Non-Investment Transactions**Debtors**

Contributions Due from Admitted / Scheduled Employers / Employees	659	566
Interest and Other Income	21	0
Tax Refunds	21	21

2016/17
£'000

2015/16
£'000

701

587

Creditors

Fund Manager and Custody Fees	(251)	(172)
Consultancy / Advisory Fees	(48)	(43)
LB Lewisham	(176)	(577)

2016/17
£'000

2015/16
£'000

(475)

(792)

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9. CASH AND BANK

Cash Held With Custodian

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. The total cash held as at 31 March 2017 was £36.5m (£40.7m as at 31 March 2016). Approximately £18.4m remains from the disinvestment in Investec; £8.1m of the cash held was from Harbourvest, £5.6m from M&G, £2.7m from Schroders and approximately £1.7m was being held on behalf of the other managers.

Pension Fund Bank Account

The Lewisham cash balance represents uninvested cash held in the Pension Fund bank account as at 31 March 2017.

10. POST YEAR END EVENTS

There were no post year end events to report. However, the Fund has completed the procurement of a new Diversified Growth Fund mandate to replace the disinvestment in Commodities (Investec), and will be re-balancing the portfolio to allocate a proportion of the fund to this new mandate shortly after year-end. In addition, a procurement exercise is underway to source a multi-asset credit manager. These rebalancing changes are consistent with the Funding Strategy and Investment Strategy Statement amendments following the triennial valuation results.

The results of the most recent triennial valuation saw the funding level improve from 71% in 2013 to 78% as at 31 March 2016. The improvement in funding position is mainly due to strong investment performance and favourable membership experience over the three year inter-valuation period. Past service liabilities increased by 9.3% on 2013 to £1,328m due to a reduction in future expected investment return, which was offset by a lower than expected pay and benefit growth (both between valuations and continuing over the longer term).

The Funding Strategy and Investment Strategy Statements were both updated and published by 1 April 2017. Amongst other considerations, the Investment Strategy Statement in particular outlines the Fund's approach to risk, Environmental, Social and Governance factors, and the pooling of investments via the London Collective Investment Vehicle. The impact of MIFID II on the Local Government Pension Scheme (LGPS) and continuing Public Sector austerity reducing active LGPS members are also likely to affect the Fund going forward.

11. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31 March 2017:

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Harbourvest

Fund	Amount '000	Translated £'000
Harbourvest Partners VIII – Cayman Venture Fund L.P	\$190	152
Harbourvest Partners VIII – Cayman Buyout Fund L.P	\$1,110	888
HarbourVest Partners X AIF L.P.	\$27,360	21,876
HIPEP VII (AIF) Partnership Fund L.P.	\$19,425	15,531
Harbourvest International Private Equity Partners V – Cayman Partnership Fund L.P	€875	748
Harbourvest International Private Equity Partners V – Cayman Direct Fund L.P	€180	154
Total		39,349

The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31 March 2017. This compares to the total Harbourvest commitments at 31 March 2016 of £39.5m.

12. RELATED PARTY TRANSACTIONS

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

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

During the year the following declarations were made:

- Councillor John Muldoon declared an interest as a substitute member of the Shadow Advisory Board for the Local Government Pension Scheme, and as a Councillor with preserved benefits in the LGPS.

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 2017.

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

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £612k (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.
- The salary of the Executive Director for Resources and Regeneration for 2016/17 was £174,607, including employer pension contributions of £32,071.

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13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 42 '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.

2016/17	Total £'000	Equitable Life £'000	Clerical Medical £'000
Value at 1 April 2016	1,234	442	792
Contributions and Transfers Received	116	4	112
Investment Return	98	18	80
Paid Out	(139)	(3)	(136)
Value at 31 March 2017	1,309	461	848

2015/16	Total £'000	Equitable Life £'000	Clerical Medical £'000
Value at 1 April 2015	1,631	472	1,159
Contributions and Transfers Received	163	4	159
Investment Return	6	12	(6)
Paid Out	(566)	(46)	(520)
Value at 31 March 2016	1,234	442	792

14. SCHEDULED BODIES

The following are scheduled bodies to the Fund as at 31 March 2017, arranged in descending order by the value of their contributions in 2016/17:

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

15. ADMITTED BODIES

The following are admitted bodies to the Fund as at 31 March 2017, arranged in descending order by the value of their contributions in 2016/17:

Phoenix
Phoenix Agency Services
Youth First LTD

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Chartwells
Skanska
3 C's Support
Quality Heating
One Housing
NSL (formerly known as National Car Parks Ltd)
Wide Horizons
Fusions Leisure Management
Change Grow Live
Excalibur Tenant Management Co-operative (Ceased 31 March 2017)
Blenheim CDP
Housing 21
Pre-School Learning Alliance
Lewisham Nexus Services
Tower Services
Chequers Contract Services – Lee Manor

16. STOCK LENDING

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

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

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

As at the 31 March 2017 the value of aggregate stock on loan was £9.3m (£5.5m as at 31 March 2016), which has 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 £8k net of direct expenses (compared to £9k in 2015/16). The value of collateral held as at 31 March 2017 was £9.8m (£6.2m as at 31 March 2016).

Draft Pension Fund Accounts

17. MEMBERSHIP

	Active Members	Active Members	Deferred Benefits	Deferred Benefits	Retired Former Members	Retired Former Members
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Admin. Authority	5,814	6,049	9,679	9,045	7,098	6,939
Scheduled Bodies	916	892	825	668	243	202
Admitted Bodies	137	104	117	115	90	84
Totals	6,867	7,045	10,621	9,828	7,431	7,225

18. These accounts were authorised on
Director for Resources and Regeneration.

by the Executive

PENSIONS INVESTMENT COMMITTEE		
Report Title	Exclusion of the Press and Public	
Key Decision	No	Item No. 8
Ward		
Contributors	Head of Corporate Resources	
Class	Part 1	Date: 22 June 2017

Recommendation

It is recommended that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act, as amended by the Local Authorities (Executive Arrangements) (Access to Information) (Amendments) (England) Regulations 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information:-

3. Introduction to Investment Beliefs – Hymans Robertson Appendix 1
4. Alternative Credit Procurement – Hymans Robertson
5. Investment Monitoring Report – Hymans Robertson Appendix 1