



AGENDA

PENSIONS INVESTMENT COMMITTEE

Date: THURSDAY, 28 JUNE 2018 at 7.00 pm

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

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COUNCILLORS

Councillor Chris Best
Councillor Mark Ingleby (Chair)
Councillor Paul Maslin
Councillor John Muldoon
Councillor Patrick Codd
Councillor Feis-Bryce
Councillor Louise Krupski
Councillor Sakina Sheikh

Observers

Independent

Officers

Robert Browning, Principal Accountant –
Treasury & Pensions
David Austin, Head of Corporate Resources
Janet Senior, Executive Director for
Resources & Regeneration

Members are summoned to attend this meeting

**Ian Thomas
Chief Executive
Lewisham Town Hall
Catford
London SE6 4
Date: Wednesday 20 June 2018**



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	ELECTION OF CHAIR AND VICE CHAIR	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 28 June 2018

Recommendation

It is recommended that a Chair and Vice Chair of the Committee be appointed for the Municipal Year 2018/19.

Agenda Item 2

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

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 3

PENSIONS INVESTMENT COMMITTEE		
Report Title	MINUTES	
Key Decision	No	Item No. 2
Ward	All	
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 28 JUNE 2018

Recommendation

That the Minutes of the meeting of the Committee, held on 8 February 2018 be confirmed and signed.

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Thursday 8 February 2018 at 7pm

PRESENT: Councillors Ingleby (Chair), Hooks (Vice-Chair), Johnston-Franklin, Muldoon, Ogunbadewa, Maslin. David Austin (Head of Corporate Resources), Sarah Assibey (Clerk).

Also Present: Andrew Elliot (Hymans Robertson), Rebecca Craddock-Taylor (Hymans Robertson), Katie Jupp, Paul Tebbit and Andrew Graver (BlackRock).

Apologies: Councillor Best.

1. Declarations of Interest

No interests were declared.

2. Minutes of 14 November and 25 September

The minutes were declared as an accurate record.

3. BlackRock Fund Manager Selection

BlackRock representatives, Katie Jupp, Paul Tebbit and Andrew Graver, gave a presentation on their Lewisham Pension Fund mandate. The following points were discussed:

- 3.1. Regarding the assets BlackRock are managing on behalf of LBL, the total value as at December 2017 is £503m. The performance of the portfolio, the benchmark return for 2017 was 11.05% and the return of the portfolio was 11.44%.
- 3.2. Attribution does not change too dramatically quarter on quarter. Relative performance tends to come from securities lending (these funds lends assets out to borrowers in exchange for an income) and from index changes and trading (indices periodically change- the index providers will re-cut which companies are eligible to be in the benchmark).
- 3.3. From the UK funds in Aquila Life, there were 7bps from litigation- this was from the class action against RBS from the financial crisis. The class action paid some money back to shareholders so that went back into the Fund for the benefit of the Fund.

- 3.4. When rebalancing transaction cost, they are not significantly different from life funds- transaction costs are really levied at the stock level. What BlackRock then seek to do within an index fund, is to take advantage of their internal market rate, for example. Different portfolios will trade different stocks in different directions because the different investors will have different motivations.
- 3.5. The impact over a period of time is not very volatile. There other market participants that look at index rebalance trades with the objective to make money out of those looking to track benchmarks. Therefore BlackRock are very mindful of this and what other index fund managers are doing and the available liquidity.
- 3.6. In terms of dividends- all of the funds are returned funds, so every dividend that's been paid into the portfolio is re-invested into the portfolio. There will be periods of time where there is more income, particularly in a market like Europe where there is a dividend season. The funds themselves are not distributing any income, they are re-investing that. The yield of the fund will be around 2% which will represent the income being re-invested. Regarding securities lending, there are lending trades which are around dividends.
- 3.7. With pooled fund investments, BlackRock run the engagement and corporate governance on behalf of the client under a corporate governance policy. A delegated team of people deal with corporate governance and they exercise the rights to vote.
- 3.8. The BlackRock UK property fund is a large fund, offering scale, yield, diversification and liquidity. There are 288 investors, trading £1.2bn traded on the secondary market since 2012. There are 79 investments with a net asset value of £3.38bn and a historic yield on 3.2%.
- 3.9. With Brexit and current retail challenges, it is ideal to be weighted away from central London offices, high street retail and towards those sectors that will perform in a counter-cyclical manner e.g. primary healthcare, student housing and industrial and logistics.
- 3.10. The fund is overweight in industrial sectors. The fund has a unique holding in alternative aspects- 99 doctors surgeries are letting long leases, backed by the government spread around the country. The fund also has prime student accommodation. It is underweight in offices more likely to be vulnerable under Brexit and the UK's high street.
- 3.11. A property fund should be defensive and long term. BlackRock are focused on growing distributable income i.e. core income (primary

healthcare), enhanced income (BlackRock Industrial Trust and student accommodation) and manufactured income (build-to-hold logistics). The core income seeks income driven returns from core defensive investments. The enhanced income aims to generate alpha by enhancing income through asset management and the manufactured income looks to create alpha through development to create long term income.

- 3.12. BlackRock also have a team focused on driving value from the portfolio. There are assets which can add value by finding a more valuable use for them. In Southwark, they are working to secure planning consent for a mixed use scheme.
- 3.13. Last year, the fund returned 10.3%, which is just above the benchmark. The property fund's overweight sectors forecast to outperform post Brexit. Strategies are focused on income generation across the risk curve. The fund offers scale, diversification and liquidity. Blackrock's portfolio is very liquid- holding approximately 4% in cash.
- 3.14. BlackRock's alternative assets are great to have in a stabilized market and in a forming market, but are unlikely to perform as well as other assets like central London offices in a rising market.
- 3.15. This is fund which is believed to outperform in Brexit times. The strategies are clear which is important for a large and long term fund. The fund has development and leasing opportunities to be able to push performance ahead of the market levels. In any investment in real estate, this is an unusual fund because it can offer scale, diversification and liquidity- not just property level liquidity but also the secondary market liquidity.
- 3.16. Replication is if an index has 100 constituents, the manager will hold 100 stocks at the benchmark weight, so it will fully replicate that index exposure. This is possible where the portfolio is sufficiently liquid. Where a representative sample is held, this will in addition be sufficient to what looks like the full benchmark.

After the presentation, the Committee discussed the following:

- 3.17. As a core strategy, BlackRock is a manager LBL has supported in the past. Although this fund is big enough to trade units on the secondary market, lower cost is not always attainable. A property fund is a long term investment- fundamentally it is a buy and hold investment.

- 3.18. No property managers are CIV compatible as property is not yet an asset under the London CIV. It would appear that BlackRock are one of the likely candidates, although there is no certainty.

RESOLVED that along with the CIV update, the Committee will defer further action and revisit this decision in the Business Plan in the new financial year.

4. Infrastructure Shortlist and Manager Summary

- 4.1. From the Investment Strategy Review in 2016, it was concluded that LBL can improve the risk of balance and return within its fund by reducing the allocation to equities and therefore reducing the equity risk exposure, and diversifying the portfolio into some alternative asset classes- one of those being infrastructure.
- 4.2. The report asks for the Committees agreement to bring all 3 of the managers discussed to the interview. If there is a preference to interview just 2, that is also an option. Ultimately, Hyman's would recommend that just one manager is appointed. It is a 6% allocation, and based on end of December figures, is approximately £80m. The governance and monitoring that is required around infrastructure, which is generally alternative asset classes, is slightly higher so one manager is recommended.
- 4.3. There are various ways of gaining exposure to the asset in infrastructure. Hyman's preference would be to invest in an open-ended fund. Most infrastructure funds are generally closed-ended which would mean an investor would commit an amount of money to the fund. The investment manager would then go out and seek deals and overtime they withdraw that money down, hold it for a period of time and then return it back. With open-ended funds, they already have a number of underlying assets, so are very transparent as to what is being purchased. Open-ended funds are also slightly longer term and hold assets for a much longer period of time.
- 4.4. Because of the reduction of equity exposure it is desirable to have a short draw-down period. The draw-down period does range quite drastically, but generally, closed ended funds take much longer to invest money.
- 4.5. The benefits of investing in infrastructure include a stable, predictable cash-flow as the assets are a monopoly. There is also a large initial cash outlay- when managers are purchasing infrastructure assets they will pay a big sum, and that will be made back over time. It requires

commitment from a large number of investors as well and they offer long term protection as well.

- 4.6. All the managers recommended by Hymans are open-ended funds. Of the 3 shortlisted, 2 are more traditional- JP Morgan and IFM- they invest globally in generally economic infrastructure assets. Aviva on the other hand is UK focused, buying assets only within the UK. They have a focus on renewables and that sector of the infrastructure market. IFM and JP Morgan are both US dollar based so will carry some currency risk. IFM do offer a GPP-hedged share class however.
- 4.7. The CIV does not currently offer infrastructure investment options. Understanding that there may be some time before the CIV develop some solutions, Hymans are still supportive of moving forward with this investment now, and using managers outside of the CIV.
- 4.8. The purpose of investing in infrastructure is to provide the better balance of risk and return across the LBL portfolio and ultimately reducing equity exposure. Infrastructure takes some time to invest in, so there are decisions to be made as to whether to continue to hold equities until the appointed manager pulls down that capital. Another option is to subsequently dis-invest and hold it as cash. Other options were detailed in the report.

RESOLVED that the Committee will hold a meeting in March to interview managers for the Fund.

5. Investment Strategy Statement Update

- 5.1. David Austin presented draft updates to the Fund's Investment Strategy Statement (ISS), which are reviewed annually to ensure it is compliant and meets the requirements of the LBL Fund.
- 5.2. The Committee discussed and considered that the following should be included:
 - Climate change is a financial risk and must be considered, alongside the opportunities set created by low carbon transition across all asset classes
 - Divestment- particularly to use as a consistent response for any potential lobbying groups

6. Draft Business Plan 2018

- 6.1. Head of Corporate Resources presented the draft Business Plan for 2018, prepared by the Fund's advisors Hyman Robertson. It is to evaluate the main investment items that are to arise during the year and should be updated and reviewed regularly by officers and Members.
- 6.2. The draft is subject to change depending on the needs of the Committee, but should be used as a guidance tool to aid longer term planning for the Fund.
- 6.3. The Chair suggested that Members of the Committee should undergo training to gain wider understanding of "green" investing, climate change affecting fiduciary responsibilities and private equities. Fund of Fund training in private equity was also suggested by Hymans representatives

RESOLVED Committee agree to the contents of the Business Plan and the suggestions put forward have been noted.

7. Quarterly Performance Update

- 7.1. Hymans representatives presented this report which summarises the quarterly performance of the Pension Fund investment portfolio. The following key points were made:
 - The Investment Perspectives Publication which is titled "Capital Markets" was cascaded to members as a document which evaluates various opportunities in the investment market currently and options for LGPS
 - Investments have increased to 46.9m over the quarter. Generally, performance was good over the quarter. Schroder's and Blackrock are both in line with their benchmarks.
 - Invesco and HarbourVest did underperform. Invesco underperformed as their strategy was quite defensive.
 - 3% allocation of the Fund has been committed to Pemberton and was finalised during the quarter. A Partners update will be provided after consultation with international legislation.

RESOLVED the report was noted.

8. General Update

8.1. David Austin presented the report summarising important updates from the last meeting. The following key updates were given:

- Since the last meeting, The Pension Board convened. The board will meet again in March
- To maintain professional status and under MiFid regulations, it is imperative that new membership continue training under the Committee.
- Eleven applications to opt-up to professional client status were submitted to fund managers, the Fund's advisors and custodians, and the London CIV ahead of the MiFID II deadline on the 3rd January 2018. All applications were successfully approved
- None of the funds launched by the CIV have been funds Lewisham are invested in or planning to invest in; there are plans to launch additional equity funds later in the year
- Following the decision to invest with Partners Group and Pemberton at the meeting of PIC on 25th September 2017, and in accordance with the Committee's decision to allocate 6% of the Fund's assets to multi-asset credit mandates.

RESOLVED that the report was noted.

The meeting finished at 9.25pm

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Representation from the London Borough of Hackney		
KEY DECISION	No	Item No:	5
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	28 June 2018

1. PURPOSE

- 1.1. This report is to introduce a representation from the London Borough of Hackney, who have been invited to attend PIC at the request of the Chair.

2. RECOMMENDATIONS

- 2.1. The Committee is recommended to take note of the comments made and discussion held with representatives from the London Borough of Hackney.

3. SUMMARY

- 3.1. The Chair of Hackney's Pension Investment Committee and Director of Finance have been invited to PIC to discuss with Members how they approached, reached and are implementing their decision to exit their Fund from fossil fuel investments, and how this relates and aligns with the London CIV's strategy.

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.

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

PENSION INVESTMENT COMMITTEE		
Report Title	Exclusion of the Press and Public	
Key Decision		Item No. 3
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 28 June 2018

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:-

Appendices to item numbers 6.8 and 9.

Agenda Item 6

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Investment Beliefs Questionnaire – Report by Hymans Robertson		
KEY DECISION	No	Item No:	6
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	28 June 2018

1. PURPOSE

- 1.1. This report from the Fund's advisors Hymans Robertson includes the draft Investment Beliefs questionnaire. Once agreed and completed by Members, results will be collated into a formal Statement of Investment Beliefs.

2. RECOMMENDATIONS

- 2.1. Members are asked to complete the questionnaire and return completed papers to officers by 31 July 2018.

3. SUMMARY

- 3.1. The Committee's Investment Beliefs were last set in November 2017 but, with a new Committee following the May 2018 elections, the Chair has requested the exercise is repeated for all Members to incorporate the beliefs of the new membership.
- 3.2. The questionnaire contains questions in four separate sections; governance, investment strategy, investment structure and responsible investment. Members are asked to answer all questions and return their completed responses to officers by 31 July 2018. Hymans Robertson will then collate responses for discussion at September's Committee meeting together with a draft statement of 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

Agenda Item 7

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Pension Fund Risk Register 2018/19		
KEY DECISION	No	Item No:	3
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	28 June 2018

1. PURPOSE

- 1.1. This paper sets out the Fund's risk register for the financial year 2018/19.

2. RECOMMENDATIONS

- 2.1. Members are asked to review and note the risk register and suggest any amendments as necessary.

3. BACKGROUND

- 3.1. The legal responsibility for the prudent and effective stewardship of the Fund's assets rests with the Pensions Investment Committee. The Committee has full delegated authority to make investment decisions, the terms of which are set out in its terms of reference in the Council's constitution. It receives advice from the Executive Director for Resources and Regeneration and, as necessary, from the Fund's appointed actuary, investment managers, custodian and investment adviser.
- 3.2. The Fund's risk register sets out the nature of the individual risks to the Fund, with an assessment of the level of risk, and the controls and procedures in place to mitigate those risks. It is the responsibility of the Committee to review the register periodically to ensure risks are updated and the relevant mitigations in place are adequate.

4. RISK REGISTER

- 4.1. The risk register is attached at Appendix 1; its design is based on a template provided by the Pensions Regulator. Risk ratings fall into four categories:

RISK CATEGORY	HOW THE RISK SHOULD BE MANAGED	NUMBER OF RISKS
Red (16-25)	Immediate action required, senior management involved	0
Amber/Red (10-15)	Senior management attention needed and management responsibility specified	4
Amber/Green (5-9)	Manage by specific monitoring or response procedures	5

Green (1-4)	Manage by routine procedures, unlikely to need specific or significant application of resources	3
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- 4.2. No risks have been recognised as requiring immediate remedial action; four risks have been identified as requiring senior management attention, as per the following table:

Ref	Risk	Risk Rating
G01	New Members lack of knowledge/ understanding of their roles and responsibilities; Members lack sufficient investment knowledge/ expertise to make decisions.	12
G02	Inappropriate Investment Strategy is adopted.	10
O01	Failure to comply with pension fund accounting requirements.	10
F01	Financial mismatch - Fund assets are not sufficient to meet its obligations and liabilities in the medium/ long term.	15

- 4.3. Current controls and risk mitigating processes are outlined in the register, together with previous scores and risk owners.
- 4.4. Officers will continue to monitor and update the risk register as necessary, informing the Committee of any changes which may negatively impact the Fund or present an immediate risk.

5. FINANCIAL IMPLICATIONS

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

6. LEGAL IMPLICATIONS

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

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 – Risk Register 2018/19

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

Lewisham Pension Fund Risk Register 2018/19

Risk Owner Key	Likelihood Key	Impact Key	Risk Movement
Pensions Investment Committee – PIC	1 – Rare	1 – Insignificant	↑ - Increased Risk
Executive Director of Resources & Regeneration - DIR	2 – Unlikely	2 – Minor	↓ - Decreased Risk
Head of Corporate Resources – HCR	3 – Possible	3 – Moderate	↔ - No Change
Principal Accountant - PA	4 – Likely	4 – Major	
Pensions Board - PB	5 – Almost Certain	5 – Extreme	

Ref Page	Identification of Risk			Scoring			Risk Mitigation/Controls/Procedures		Review		
	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements/ Procedures	Previous Score	Direction of Travel	Risk Owner
Governance Risks											
88 81	New Members lack of knowledge/ understanding of their roles and responsibilities; Members lack sufficient investment knowledge/ expertise to make decisions.	Change of membership; lack of, or non-attendance at training sessions.	Inappropriate or bad decision making in relation to investments.	3	4	12	<p>CIPFA have issued a Code of Practice on Public Sector Pensions Finance Knowledge and Skills, which puts into a formal structure the skills and knowledge requirements of those charged with pension scheme governance. The Executive Director for Resources & Regeneration has delegated responsibility for the implementation of the Code and the Head of Corporate Resources will ensure that the relevant policy statements are adopted in the Annual Report.</p> <p>Programme of training events/workshops/conferences for Members is communicated throughout the year to highlight opportunities to acquire and</p>	<p>Members are provided with induction training when they join the PIC.</p> <p>Training is provided by the Fund's investment adviser, particularly in those specific asset classes relevant to the Fund and when acquiring new mandates.</p> <p>A training log is maintained and reported on in the Annual Report. Members have committed to attending a minimum of 5 hours of training each per year, to satisfy the requirements of MiFID II.</p>	9	↑	PIC/ HCR

Identification of Risk				Scoring			Risk Mitigation/Controls/Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements/ Procedures	Previous Score	Direction of Travel	Risk Owner
							develop the knowledge required to understand the Fund and make high level strategic decisions and/ or carry out effective scrutiny of the Fund.	Members are requested to complete the Pensions Regulator's Public Service Toolkit.			
G02	Inappropriate Investment Strategy is adopted.	Incorrect advice followed; poor decision-making.	Fund returns are not sufficient to meet obligations to members, forcing emergency employer contributions and potentially more risk to cover the shortfall.	2	5	10	The Investment Strategy Statement is in line with the requirements of LGPS legislation. It is drafted by the Fund's advisors, reviewed and amended where appropriate by the Committee, and put out to consultation with employer bodies before being published as an official document of the Fund. It takes account of the Fund's liabilities and the need to ensure returns meet the funding liability.		10	↔	PIC/ HCR
G03	Poor/lack of advice from Fund advisors.	Appointment of inadequate advisors; change in key personnel and relationship team.	PIC Members receive incorrect or out-of-date advice in regards to investment issues; inappropriate decisions taken which negatively impact Fund returns.	2	4	8	The procurement and appointment of professionally qualified and experienced advisors; regular re-tendering of those services to ensure the service being offered is the best available. Regular communication with advisors.	Members should ensure their training is of a high enough level to form opinions on the advice received from advisors, and to review and challenge where appropriate. Member training should be monitored and actively encouraged.	8	↔	HCR
G04	Lack of effective performance measurement.	No regular review of performance; no interpretation and understanding of the data.	Poor performance goes undetected, resulting in governance failings and potential losses or poor returns to the Fund.	1	3	3	The Committee receives regular quarterly monitoring reports from the Fund's advisers. Poor performance is highlighted and addressed by the Committee. The Fund receives benchmarking reports to measure its performance against a Universe of Funds. The Fund's custodian sends monthly performance reports which		4	↓	PIC/ HCR/ PA

Identification of Risk				Scoring			Risk Mitigation/Controls/Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements/ Procedures	Previous Score	Direction of Travel	Risk Owner
							report on fund performance relative to target benchmarks.				
Operational Risks											
O01	Failure to comply with pension fund accounting requirements.	Inadequate staffing/ resources/ knowledge.	Accounts qualified by the auditors.	1	5	10	Officers are encouraged to attend relevant training and conferences to network with fellow professionals and ensure any changes in pension fund accounting are reflected in the accounts. Audit recommendations are implemented.	Additional staff issues can be addressed to increase the number of officers working on the accounts and reduce any possibility of error.	5	↔	PA
O02	Poor/lack of advice from officers to the Committee.	Inadequate staffing/ resources/ knowledge.	Decisions are sub-optimal in terms of the governance and performance of the Fund; potential breaches of legislation and action taken by the Pensions Regulator.	2	4	8	Leading officers for the Pension Fund are qualified accountants. Attendance at conferences/seminars/workshops to ensure knowledge is up-to-date.	Additional insights now available via the London Collective Investment Vehicle	8	↔	HCR/ PA
O03	Failure to adhere to relevant statutory regulations.	Inadequate staffing/ lack of technical expertise/ resources to research legislation.	Potential breaches of legislation and action taken by the Pensions Regulator.	1	5	5	The Fund's Local Pension Board assists the administering authority to ensure compliance with governance and administrative requirements. Membership of relevant trade bodies to ensure up-to-date knowledge of incoming legislative changes. Monitoring of proposed changes and responding to consultations. Amending systems and processes if necessary to ensure compliance.	Ensure Pension Board members are adequately skilled and knowledgeable about LGPS legislation. Ensure the Pension Board work plan covers all areas of Fund governance and administration to avoid statutory breaches.	10	↓	DIR/ HCR / PA / PB
O04	Custody arrangements may not be sufficient to safeguard Fund assets.	Custody agents fail to comply with	Investment funds are lost or	1	5	5	Complete and authorised agreements are in place with the existing custodian Northern Trust.		5	↔	HCR/ PA

Identification of Risk				Scoring			Risk Mitigation/Controls/Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements/ Procedures	Previous Score	Direction of Travel	Risk Owner
		contract; frequent staff changes.	reported incorrectly.				Regular contact is maintained with the custodian to inform them of any changes to the Fund and vice versa. Annual meeting between officers and the custodian to discuss the arrangements and any issues arising.				
Financial and Funding Risks											
F01	Financial mismatch - Fund assets are not sufficient to meet its obligations and liabilities in the medium/ long term.	Assets and liabilities affected by investment performance. Asset value could fail to increase at the same rate as liabilities.	The Fund is not able to meet its obligations to members in full.	3	5	15	Asset performance is monitored regularly; the Investment Strategy Statement sets out the strategic asset allocation to best meet the Fund's liabilities, and must be reviewed every three years as a minimum. The Funding Strategy Statement sits in conjunction with the Investment Strategy Statement, and outlines how the Fund's liabilities are measured and are to be funded. Use of external advisers, actuarial and investment, to advise the Fund on how to manage the asset/liability mismatch. Triennial valuation assesses the funding position, inter-valuation monitoring ensures that movements in the funding position can be assessed and strategies put in place to manage any deterioration.	Monitor the impact of: <ul style="list-style-type: none"> continuing public sector austerity on fund members funding position over time (from 2014) with the move to career average pensions long-term expectations for investment returns following the 2008 crisis 	12	↑	PIC / HCR
F02	Insufficient cashflow to meet the Fund's day-to-day cash requirements.	Monthly contributions are less than benefits paid; not enough cash maintained	Increased transaction costs to realise cash from invested assets; failure to	1	3	3	Minimum cash balance is held in the Fund's bank account to meet day-to-day requirements.	Cash flow forecasts should be maintained and reviewed periodically.	3	↔	PA

Identification of Risk				Scoring			Risk Mitigation/Controls/Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements/ Procedures	Previous Score	Direction of Travel	Risk Owner
		in the Fund's bank accounts.	meet obligations to members.				Member approval sought before assets liquidated to generate cash.	Maintain a sufficient allocation to liquid assets.			
F03	Underlying pension fund financial information is incorrect.	Information contained in the accounts and annual report is inaccurate due to prior year errors or poor financial controls.	Possible qualification of the accounts/ inaccurate valuations, with financial and reputational repercussions.	1	4	4	Quarterly and annual reconciliations of all accounting data, comparing data prepared by the custodian to the accounts.		4	↔	PA
F04	Poor performance of investments	Poor investment performance caused either as a result of market conditions, poor choice of asset class or concentration, or individual fund manager performance. On a more extreme basis, an interlinked and simultaneous failure of several asset classes and/ or managers.	Assets fail to achieve benchmark performance and Fund fails to grow. An increase in the cost of meeting the Fund's liabilities.	2	4	8	Regular monitoring of strategic asset allocation and manager performance to ensure both are on target to achieve returns. Use of external advisors to assist in making investment decisions and ensuring decision takers understand the impact of their decisions. ² Rebalancing policies within the passive mandates to ensure allocation to particular asset classes does not deviate from the benchmark. Fund managers present to PIC at least annually, providing Members with an opportunity to scrutinise managers.	Operate a diversified portfolio to mitigate systemic risk of multiple asset/ manager failure, and reduce concentration risk.	8	↔	HCR/ PA

Likelihood and Impact:

IMPACT

LIKELIHOOD

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

RISK CATEGORY	HOW THE RISK SHOULD BE MANAGED	NUMBER OF RISKS
Red (16-25)	Immediate action required, senior management involved	0
Amber/Red (10-15)	Senior management attention needed and management responsibility specified	4
Amber/Green (5-9)	Manage by specific monitoring or response procedures	5
Green (1-4)	Manage by routine procedures, unlikely to need specific or significant application of resources	3

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Investment Performance for the Quarter End March 2018		
KEY DECISION	No	Item No:	8
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	28 June 2018

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 2018.
 - 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 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

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Pensions Investment Committee – General Update		
KEY DECISION	No	Item No:	9
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	28 June 2018

1. PURPOSE

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

2. RECOMMENDATIONS

- 2.1. Members are asked to note the contents of the report, and agree to the following recommendations:

- To agree to the dissolution of the London Pensions CIV Sectoral Joint Committee (PCSJC) in light of the new governance framework, and to delegate the signing of the written notice to the Chief Executive, as per section 4.5.
- To sell off 6% of the Fund from our equity holdings with UBS in order to fund the new infrastructure mandate, as per sections 4.6 to 4.12.
- To agree that officers review the procurement strategy for pensions advice and actuarial services to ensure this is in line with good practice, as per sections 4.18 to 4.19.
- To complete the confidence assessment tool as per section 4.29, to support Members' future training needs.

3. BACKGROUND

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

4. CURRENT CONSIDERATIONS

London Collective Investment Vehicle (CIV) – General Update

- 4.1. The Pensions CIV Sectoral Joint Committee (PCSJC) last met on 14 March and are due to meet again on 12 July for the AGM; the Chair of PIC represents Lewisham Pension Fund's interests at meetings, whilst the Head of Corporate Resources and Principal Accountant are also in regular contact with the CIV.

- 4.2. Officers met with the CIV in early June, providing updates on Lewisham's Fund and reiterating our commitment to the pool. The CIV presented their draft Responsible Investment Policy, see Appendix 1, detailing the approach the pool aims to follow in integrating ESG issues in its investments. The framework recognises that there are a range of views across London and that the CIV's policy should not cut across strategies adopted by individual funds.
- 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 manages thirteen operational funds; eight are equity funds, four are multi-asset funds, and there is also a multi-asset credit/fixed income fund; there are plans to launch additional fixed income funds later in the year, including global bonds, liquid loans and private debt.
- 4.4. A letter from the Chief Executive of the CIV sent to London Boroughs on 13 June set out the new governance framework to be implemented from 12 July onwards, pending approval at the AGM. The key changes are as follows:
- The appointment of two more Non-Executive Directors to the London CIV board, representative of the shareholders, for three year terms. A Treasurer will also be nominated as an Observer.
 - A new Shareholder Committee which will act on behalf of shareholders as a consultative body, comprising 12 Members (8 local authority Pension Committee Chairs or leaders of local authorities, and 4 local authority Treasurers). Nominations for membership will be made via the London Councils collective political processes and the Society of London Treasurers in the case of the Treasurers, for ratification at the CIV AGM on 12 July.
 - The first meeting of the Shareholder Committee will be held on 19th September. There will be two shareholder meetings per year, one to approve the budget and an AGM.
 - To complement the new shareholder governance arrangements there will also be an improved framework for client services, informed by shareholder consultation, including a Service Level Agreement and programme of events for clients collectively.
 - These new arrangements will replace the Pensions CIV Sectoral Joint Committee (PCSJC), which will be dissolved. Existing shareholder rights under the Shareholders' Agreement will not be altered, and a Deed of Amendment will be drafted by the CIV to update the Agreement where necessary.
- 4.5. Written notice is required to be given by London local authorities to revoke the delegation of the discharge of relevant functions to the sectoral joint committee, and Members are asked to authorise this dissolution and delegate signing of the notice to the Chief Executive.

Infrastructure Procurement and Funding

- 4.6. Following the decision to invest in J.P. Morgan's Infrastructure Investment Fund at the meeting of PIC on 28 March 2018, officers are seeking to obtain external legal advice on the fund documentation which has now been received. The next capital call for the fund is on 2 July; should the necessary legal assurance be

received in time, officers will seek to complete on-boarding to meet the July capital call.

- 4.7. The 6% investment into the fund will require the sale of equities from our passive mandates with BlackRock and UBS. As at 31 March 2018, this equated to approximately £78m. For the first phase of the Fund's rebalancing, equities were sold in equal proportion across both passive mandates; Members are asked to instruct officers how to allocate the equity sales between managers to generate the cash required for the infrastructure investment.
- 4.8. The options available to Members are as follows:
 - A. Sell equities in equal proportion between UBS and BlackRock
 - B. Sell equities from BlackRock only
 - C. Sell equities from UBS only
- 4.9. Since the last Fund rebalancing reduced manager fees have been negotiated with Blackrock such that UK and global equities attract a fee of 0.005% per annum, and emerging market equities 0.010 % p.a. (or a minimum of £15,000 in total per year). In comparison UBS fees are on a tiered basis, with the first £150m of assets under management charged at 0.05%, and everything above £150m at 0.04% (with a minimum annual fee of £50,000).
- 4.10. The BlackRock fee reduction negotiated by the CIV also results in the Fund's assets being considered as pooled assets under the government's definition of pooling.
- 4.11. Over the past 12 months UBS report overall fund performance (including bonds) at +2.4%, exactly in line with its tracking benchmarks; over 3 years it was 8.8%, again in line with its tracking benchmarks. Blackrock report their 12 month performance as +2.64%, +0.29% higher than the benchmark indices, and over 3 years 9.10%, 0.33% higher than benchmarks.
- 4.12. Officers recommend option C given the comparisons between BlackRock and UBS in cost and performance, and the link to the CIV that the Fund would maintain by keeping its BlackRock holdings.

Low Carbon Passive Funds

- 4.13. Officers have been passed information on a selection of low carbon passive equity funds offered by BlackRock and Legal and General (LGIM), which are being brought to the attention of Members. Although there are no current plans to bring any of the funds onto the CIV platform, those which are ACS funds could theoretically be integrated at some future point. Both BlackRock and LGIM offer funds that track the MSCI Low Carbon Index which minimises carbon exposure and targets a 0.30% tracking error to the parent tracker, the MSCI All Country World Index. The index reduces exposure to carbon emitting companies along two main dimensions, current carbon emissions and potential emission from fossil fuel reserves, whilst maintaining global equity exposure. Constraints built into the index are designed to limit deviation from the parent tracker with regards country and sector, although there is no weight constraint to the energy sector. The 0.30% target tracking error is estimated to result in an 80% reduction in carbon exposure.

- 4.14. Alternatively, LGIM's 'Future World Fund' tracks the FTSE Russell All World Index but excludes companies involved in the production of controversial weapons and uses balanced factor weighting to create a 'Climate Balanced Factor' Index which is deliberately tilted to be underweight on high carbon stocks and favour low carbon /green stocks. This inbuilt tilting reduces the weighting of stocks in coal companies by 75%, coal and gas producers by 25%, and tilts the fund towards companies with lower emissions on a sector neutral basis, and those companies with greener revenues.
- 4.15. The BlackRock fund was launched in December 2017 and is a Tax Transparent Fund (TTF) which may be held in a LGPS Pool ACS structure, avoiding future transition costs should the fund move into the CIV. It has an annual charge of 0.03%, which compares to our current CIV-reduced BlackRock fee of 0.005%. Since launch its performance relative to benchmark is + 0.29%.
- 4.16. The LGIM MSCI World Low Carbon Target Index Fund is a Unit Linked Life Insurance Fund and was launched in July 2015. Its quoted annual charge is 0.24%. Since launch its performance relative to its benchmark is +0.02%.
- 4.17. The LGIM Future World Fund is a Unit Linked Life Insurance Fund and was launched in February 2017. It has a total annual fee of between 0.275% and 0.35% depending on the size of the investment. Since launch its performance relative to its benchmark is +0.05%.

Retendering of Advisory Services

- 4.18. The Fund's current pension advisors and actuary, Hymans Robertson, have been contracted to the Council for many years on a rolling contract basis. Fees for regular work are agreed each year or quoted for on an as needed basis for one off pieces of work, e.g. procurement of new mandates. The Council also subscribes to a number of their core products paid for annually, e.g. the Lewisham Pension website and Club Vita.
- 4.19. Good procurement practice recommends regular retendering of services to ensure that the scope, service standards and cost effectiveness of suppliers is challenged to support continuous improvement. Officers therefore propose to review the Council's procurement strategy for both the advisory and actuarial elements of support. This will ensure the Pension Fund can be reassured it continues to secure the correct advice and support in a manner that represents value for money.

General Data Protection Regulation (GDPR)

- 4.20. The GDPR came into effect on 25 May 2018 and replaces the Data Protection Act (DPA) 1998 legislation. Overall the GDPR gives individuals more say over what organisations can do with their data, introduces tougher fines for non-compliance and breaches, and makes data protection rules more or less identical throughout the EU.
- 4.21. As a data controller, Lewisham Pension Fund's use of individual data is principally on the administration side in the processing of member contributions and benefits, and as such an updated Privacy Notice has been created by the Council's internal Pensions Team based on an LGA template created by law firm Squire Patton Boggs. The Notice is available on the Fund's website at

<http://www.lewishampensions.org/media/3916/full-privacy-policy.pdf>, and is also included at Appendix 2.

- 4.22. Officers have completed contract variations with the Fund's custodian and investment advisor in relation to GDPR, and will continue to work with fund managers and other bodies as necessary to ensure GDPR compliance post May 2018.

Fund Benchmarking

- 4.23. The Fund's benchmarking and performance analytics provider PIRC have released their final league tables for 2017/18, comparing overall Fund performance and asset class performance across all Funds in their Universe (which comprises 61 Funds). The final report is appended at Appendix 3, and some of the findings from their analysis (not included in the report) include the following points:
- In 2017/18 the average fund achieved a return of 4.5%, which was below the long term average but ahead of inflation at 3.3%. Lewisham Pension Fund's return on investments was 2.9%, ranking the Fund in the bottom quartile of the Universe.
 - In general asset returns across the Universe were tightly grouped, and as a result strategic asset allocation had less of an impact than usual. Bonds returned 1% for the year, equities 4%, and alternatives 6%.
 - Property was the best performing of the major asset classes, returning 10% for the year. Diversified growth funds, with an average return under 2%, performed poorly relative to other assets and their benchmarks.
 - Equity exposure fell to its lowest level since the LGPS began, reducing from 62% to 55% of the average Fund.
 - Multi asset credit and diversified income strategies gained ground.
 - For the first time there has been a year on year reduction in the level of passive investment (albeit small).

Pension Board – General Update

- 4.24. The Pension Board last met on the 6th March 2018. The Board agreed on an updated Terms of Reference as well as Code of Conduct and Conflicts of Interest Policies. Members were asked to complete a learning needs analysis to identify areas of low or limited knowledge, and a work plan will be devised to focus on the results of these analyses as well as review key areas of governance and administration that the administering authority is responsible for.
- 4.25. The next meeting of the Board is scheduled to take place in July 2018.

Training

- 4.26. A selection of conferences, workshops and seminars for the second half of 2018 has been listed in Appendix 4. 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.
- 4.27. The recommended sessions form part of the main training offering to Members; other sessions arranged by fund members or the Fund's advisors will also form

part of regular Committee business. It is vital that Members develop and maintain their knowledge of the overall sector, and in particular the LGPS, for preserving our professional client status under MiFID II regulations; should Fund Managers deem the Committee to be lacking in knowledge or ability, it is within their powers to withdraw their services.

- 4.28. Hymans Robertson have developed the first ever LGPS National Confidence Assessment to assess Members' confidence on eight topics regarding the roles and responsibilities of pension fund management. The results of this survey will help to prioritise and focus future training for Members.
- 4.29. Members were emailed the link to the survey on 8 June 2018. Officers recommend that Members complete the survey as soon as possible, so that the results can be analysed and reported back to us by the Fund's advisors to inform future development needs.
- 4.30. 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>.
- 4.31. In addition, as members have previously reported that this was a helpful resource, Russell's Fiduciary Handbook – "A step-by-step guide to pension fund investment strategy" is available online at: <https://russellinvestments.com/-/media/files/emea/institutions/russell-investments-fiduciary-handbook-combined.pdf>.

5. FINANCIAL IMPLICATIONS

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

6. LEGAL IMPLICATIONS

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

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 – London CIV Responsible Investment Policy

Appendix 2 – Lewisham Pension Fund Privacy Notice

Appendix 3 – PIRC League Tables

Appendix 4 – Training and Conference Programme 2018, Quarters 3 and 4

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 2 – Lewisham Pension Fund Privacy Notice

FULL PRIVACY NOTICE

For members and beneficiaries of the Lewisham Local Government Pension Fund

This notice is for members and beneficiaries of the Lewisham Local Government Pension Fund. It has been prepared by Lewisham Pensions in its capacity as the administering authority of the Fund.

Why we are providing this notice to you

As the Administering Authority of the Fund we hold certain information about you (“personal data”) which we use to administer the Fund and to pay benefits from it. This notice is designed to give you information about the data we hold about you, how we use it, your rights in relation to it and the safeguards that are in place to protect it.

The Technical bit

The Administering Authority holds personal data about you in its capacity as data controller for the proper handling of all matters relating to the Fund, including its administration and management. This includes the need to process your data to contact you, to calculate, secure and pay your benefits, for statistical and financial modelling and for reference purposes (for example, when we assess how much money is needed to provide members’ benefits and how that money should be invested), and to manage liabilities and administer the Fund generally. Further information about how we use your personal data is provided below.

The legal basis for our use of your personal data will generally be one or more of the following:

- a) We need to process your personal data for the legitimate interests of administering and managing the Fund and liabilities under it, calculating, securing and paying benefits and performing our obligations and exercising any rights, duties and discretions the Administering Authority has in relation to the Fund; and
- b) Because we need to process your personal data to meet our contractual obligations to you in relation to the Fund (for example, under an agreement that you will pay additional voluntary contributions to the Fund), or to take steps, at your request, before entering into a contract.

What personal data we hold, and how we obtain it

The types of personal data we hold and process about you can include:

- Contact details, including name, address, telephone numbers and email address.
- Identifying details, including date of birth, national insurance number and employee and membership numbers.
- Information that is used to calculate and assess eligibility for benefits, for example, length of service or membership and salary information.
- Financial information relevant to the calculation or payment of benefits, for example, bank account and tax details.
- Information about your family, dependents or personal circumstances, for example, marital status and information relevant to the distribution and allocation of benefits payable on death.

- Information about your health, for example, to assess eligibility for benefits payable on ill health, or where your health is relevant to a claim for benefits following the death of a member of the Fund.
- Information about a criminal conviction if this has resulted in you owing money to your employer or the Fund and the employer or Fund may be reimbursed from your benefits.

We obtain some of this personal data directly from you. We may also obtain data (for example, salary information) from your current or past employer(s) or companies that succeeded them in business, from a member of the Fund (where you are or could be a beneficiary of the Fund as a consequence of that person's membership of the Fund) and from a variety of other sources including public databases (such as the Register of Births, Deaths and Marriages), our advisers and government or regulatory bodies, including those in the list of organisations that we may share your personal data with set out below.

Where we obtain information concerning certain "special categories" of particularly sensitive data, such as health information, extra protections apply under the data protection legislation. We will only process your personal data falling within one of the special categories with your consent, unless we can lawfully process this data for another reason permitted by that legislation. You have the right to withdraw your consent to the processing at any time by notifying the Administering Authority in writing. However, if you do not give consent, or subsequently withdraw it, the Administering Authority may not be able to process the relevant information to make decisions based on it, including decisions regarding the payment of your benefits.

Where you have provided us with personal data about other individuals, such as family members, dependants or potential beneficiaries under the Fund, please ensure that those individuals are aware of the information contained within this notice.

How we will use your personal data

We will use this data to deal with all matters relating to the Fund, including its administration and management. This can include the processing of your personal data for all or any of the following purposes:

- to contact you.
- to assess eligibility for, calculate and provide you (and, if you are a member of the Fund, your beneficiaries upon your death) with benefits.
- to identify your potential or actual benefit options.
- for statistical and financial modelling and reference purposes (for example, when we assess how much money is needed to provide members' benefits and how that money should be invested).
- to comply with our legal and regulatory obligations as the administering authority of the Fund.
- to address queries from members and other beneficiaries and to respond to any actual or potential disputes concerning the Fund.
- the management of the Fund's liabilities, including the entering into of insurance arrangements and selection of Fund investments.
- in connection with the sale, merger or corporate reorganisation of or transfer of a business by the employers that participate in the Fund and their group companies.

Organisations that we may share your personal data with

From time to time we will share your personal data with advisers and service providers so that they can help us carry out our duties, rights and discretions in relation to the Fund. Some of those organisations will simply process your personal data on our behalf and in

accordance with our instructions. Other organisations will be responsible to you directly for their use of personal data that we share with them. They are referred to as data controllers and we have highlighted them in the table below. You will be able to find out about their own data protection policies (which will apply to their use of your data) on their websites.

These organisations include the Fund's:

Data processors	Data controllers
<ul style="list-style-type: none"> • Administrator – currently Lewisham Pensions Team • Printing companies – currently FDM PLC • Pensions software provider – currently Aquila Heywood 	<ul style="list-style-type: none"> • Actuarial consultant – (currently Hymans Robertson LLP) • Additional Voluntary Contribution providers – currently Clerical Medical and Equitable Life • Legal adviser – LB Lewisham • Fund Actuary – currently Hymans Robertson LLP • External auditor – Grant Thornton UK LLP • Internal auditor – Mazars LLP • LGPS National Insurance database – (South Yorkshire Pensions Authority) • The Department for Work and Pensions • The Government Actuary's Department • The Cabinet Office – for the purposes of the National Fraud Initiative • HMRC • The Courts of England and Wales – for the purpose of processing pension sharing orders on divorce • Tell Us Once (TUO) – Linked to the Department for Work and Pensions (DWP)

In each case we will only do this to the extent that we consider the information is reasonably required for these purposes.

In addition, where we make Fund investments or seek to provide benefits for Fund members in other ways, such as through the use of insurance, then we may need to share personal data with providers of investments, insurers and other pension scheme operators. In each case we will only do this to the extent that we consider the information is reasonably required for these purposes.

From time to time we may provide some of your data to your employer and their relevant subsidiaries (and potential purchasers of their businesses) and advisers for the purposes of enabling your employer to understand its liabilities to the Scheme. Your employer would generally be a controller of the personal data shared with it in those circumstances. For example, where your employment is engaged in providing services subject to an outsourcing arrangement, the Administering Authority may provide information about your pension benefits to your employer and to potential bidders for that contract when it ends or is renewed.

Where requested or if we consider that it is reasonably required, we may also provide your data to government bodies and dispute resolution and law enforcement organisations, including those listed above, the Pensions Regulator, the Pensions Ombudsman and Her Majesty's Revenue and Customs (HMRC). They may then use the data to carry out their legal functions.

The organisations referred to in the paragraphs above may use the personal data to perform their functions in relation to the Fund as well as for statistical and financial modelling (such as calculating expected average benefit costs and mortality rates) and planning, business administration and regulatory purposes. They may also pass the data to other third parties (for example, insurers may pass personal data to other insurance companies for the purpose of obtaining reinsurance), to the extent they consider the information is reasonably required for a legitimate purpose.

In some cases these recipients may be outside the UK. This means your personal data may be transferred outside the EEA to a jurisdiction that may not offer an equivalent level of protection as is required by EEA countries. If this occurs, we are obliged to verify that appropriate safeguards are implemented with a view to protecting your data in accordance with applicable laws. Please use the contact details below if you want more information about the safeguards that are currently in place.

We do not use your personal data for marketing purposes and will not share this data with anyone for the purpose of marketing to you or any beneficiary.

How long we keep your personal data

We will only keep your personal data for as long as we need to in order to fulfil the purpose(s) for which it was collected and for so long afterwards as we consider may be required to deal with any questions or complaints that we may receive about our administration of the Fund, unless we elect to retain your data for a longer period to comply with our legal and regulatory obligations. In practice, this means that your personal data will be retained for such period as you (or any beneficiary who receives benefits after your death) are entitled to benefits from the Fund and for a period of 15 years after those benefits stop being paid. For the same reason, your personal data may also need to be retained where you have received a transfer, or refund, from the Fund in respect of your benefit entitlement.

Your rights

You have a right to access and obtain a copy of the personal data that the Administering Authority holds about you and to ask the Administering Authority to correct your personal data if there are any errors or it is out of date. In some circumstances you may also have a right to ask the Administering Authority to restrict the processing of your personal data until any errors are corrected, to object to processing or to transfer or (in very limited circumstances) erase your personal data. You can obtain further information about these rights from the Information Commissioner's Office at: www.ico.org.uk or via their telephone helpline (0303 123 1113).

If you wish to exercise any of these rights or have any queries or concerns regarding the processing of your personal data, please contact the Fund Administrator as indicated below. You also have the right to lodge a complaint in relation to this privacy notice or the Administering Authority's processing activities with the Information Commissioner's Office which you can do through the website above or their telephone helpline.

The personal data we hold about you is used to administer your Fund benefits and we may from time to time ask for further information from you for this purpose. If you do not provide such information, or ask that the personal data we already hold is deleted or restricted this

may affect the payment of benefits to you (or your beneficiaries) under the Fund. In some cases it could mean the Administering Authority is unable to put your pension into payment or has to stop your pension (if already in payment).

Updates

We may update this notice periodically. Where we do this we will inform members of the changes and the date on which the changes take effect.

Contacting us

Please contact the Lewisham Pensions for further information.

Telephone: 020 8314 7277

Email: pensionsteam@lewisham.gov.uk

You may also contact our Information and Data Protection Team.

Telephone: 020 8314 9928

Email: infoanddataprotection@lewisham.gov.uk

Valid from 25th May 2018

APPENDIX 4 – Suggested Training Programme 2018 Quarters 3 and 4

Date	Conference/Event	Organiser	Venue	Cost & Additional Information
04/07/18	Introduction to Trusteeship – Part 1: The Theory	PLSA	Cheapside House, London, EC2V	Free for Fund Members All Day Event Enquiries via Website
30/08/18	Credit & Private Debt Investing for Pension Funds	SPS Conferences	Le Meridien Piccadilly, London, W1	2 Free Places Day Event Enquiries via Website
13/09/18	Alternative & Innovative Investment Strategies for Pension Funds	SPS Conferences	Le Meridien Piccadilly, London, W1	2 Free Places Day Event Enquiries via Website
26/09/18	Understanding Investment (Virtual Training)	PLSA	Online	Free for Fund Members Online session in 2 parts from 11:00 – 12:00, and 14:00 – 15:00. Enquiries via Website
26/09/18	Introduction to the LGPS	CIPFA	50 Bank Street, London, E14 5NT	Day Event £345 Book via CIPFA website
04/10/18	Introduction to Trusteeship – Part 2: The Practice	PLSA	Cheapside House, London, EC2V	Free for Fund Members Day Event Enquiries via Website
10/10/18 + 30/10/18 + 04/12/18	Fundamentals XVII (LGPS Training Course)	Local Government Association	18 Smith Square, London, SW1P 3HZ	£780 for all 3 days Enquiries to Robert Browning (Robert.Browning@lewisham.gov.uk)
12/10/18	Schroders Trustee Training – Part 1: The Building Blocks of Investment	Schroders	Schroders Offices, 31 Gresham Street, London, EC2V 7QA	Free 09:00-13:00 Enquiries to Robert Browning (Robert.Browning@lewisham.gov.uk)
02/11/18	Schroders Trustee Training – Part 2: Managing Scheme Strategy	Schroders	Schroders Offices, 31 Gresham Street, London, EC2V 7QA	Free 09:00-13:00 Enquiries to Robert Browning (Robert.Browning@lewisham.gov.uk)
08/11/18	Current Investment Issues for Pension Funds	SPS Conferences	Le Meridien Piccadilly, London, W1	2 Free Places Day Event Enquiries via Website

Agenda Item 10

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Draft Pension Fund Accounts – Year Ending 31 March 2018		
KEY DECISION	No	Item No:	10
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	28 June 2018

1. PURPOSE

- 1.1. This report sets out the draft Pension Fund accounts for the financial year ending 31 March 2018.
- 1.2. The accounts were signed off by the Chief Financial Officer and presented to the external auditors Grant Thornton at the end of May 2018.

2. RECOMMENDATION

- 2.1. Members are asked to note the draft Pension Fund accounts for the year ended 31 March 2018, 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 in time for the accounts to be published by the statutory deadline of 31 July 2018.
- 3.4. The Council is also required to publish an Annual Report which incorporates elements of the financial accounts before 1 December 2018. 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 £6.4m.
 - 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 £8.3m.
 - 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 £37.3m, £30.9m of which was due to an increase in market value. Overall, the value of the Fund increased by £29m during the period.
 - 3.9. The Net Assets Statement represents the net worth of the Fund as at 31 March 2018, 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 are 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 2018, 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 Page 43

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 2017/18

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**

2017/18

Pension Fund Accounts

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

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 2017/18.

The Pension Fund's value increased over the year by £29m (2.3%), a year which saw the Fund initiate a rebalancing exercise by selling a proportion of its equity holdings to reinvest in alternative asset classes, being diversified growth and multi-asset credit, in line with the Fund's agreed Investment and Funding Strategies following the triennial valuation of 2016.

INTRODUCTION

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

ORGANISATION

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

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (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 Board operates independently of PIC and assists the administering authority in securing compliance with the Regulations and any other legislation relating to the governance and administration of the Scheme. Further information about the Board, together with its Terms of Reference, can be found at the website further 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.

Pension Fund Accounts

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

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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 2013 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) Fund Assets at 31 March 2018 – the below table outlines the fund managers, asset classes, and values of those assets held by the fund as at 31 March 2018:

Fund Manager	Asset	Asset Value 31 March 2018	Proportion of the Fund	Asset Value 31 March 2017
		£'000	(%)	£'000
Blackrock	Passive Equity and Bonds	484,194	37.2	549,121
UBS	Passive Equity and Bonds	478,595	36.7	544,085
Schroders	Property	111,446	8.5	100,946
Invesco	Diversified Growth/Targeted Returns	77,240	5.9	0.0
Pemberton	Multi-Asset Credit	27,717	2.1	0.0
HarbourVest	Private Equity	51,036	3.9	49,481
M&G	Credit	8,927	0.7	8,822
Securities Lending	Securities Lending	122	0.0	119
Cash	Cash	64,809	5.0	18,662

Pension Fund Accounts

Lewisham	Cash in Hand and Net Current Liabilities	(560)	0.0	3,333
Total Fund Assets		1,303,526	100.0	1,274,569

- (b) Basis of Preparation - The accounts have been prepared on an accruals basis (i.e. income and expenditure attributable to the financial year have been included) even where payment has not actually been made or received, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes
- (c) Investments - Investments in the Net Assets Statement are shown at Fair Value, the basis of measurement being market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2017/18 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.
- (d) The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.
- (e) Income - Dividend income earned from equity and bonds with BlackRock is reinvested and not repaid directly to the fund as cash, but from UBS is repaid to the Fund. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors.
- (f) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2018 is the actual fair value using the latest available valuation on or after 31 December 2017, plus an estimated valuation for the period up to 31 March 2018.
- (g) 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/unit trust 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 at Fair Value based on their Open Market Value (OMV).

Pension Fund Accounts

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

- (h) Financing Fund - The fair value of the M&G fund is based on different pricing policies depending on the instrument being valued. The fund is close to maturity with debt instruments being repaid; at this stage of its life fund valuations are based on the manager's own internal valuation model which makes use of discounted cash flows. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2018 is the actual fair value using the latest available valuation on or after 31 December 2017, plus an estimated valuation for the period up to 31 March 2018.
- (i) Diversified Growth/Targeted Returns Fund – The pension fund is allocated notional units in the Invesco fund based on its overall contribution. Units will be valued on every business day in which units are created and realised. The value given to the fund's assets will be the recognised market quotation; if this is not available, the latest independent valuation will be used. Where no independent valuation can be used, the value will be determined by the manager in such manner as it deems appropriate.
- (j) Multi-Asset Credit Fund – the Pemberton private debt fund is valued at Fair Value using external benchmarks such as the equity values of comparable companies to borrowers, credit default swap or commodity price movements and macro-economic data.
- (k) Contributions – These represent the total amounts received from the employers and employees within the scheme. From 1 April 2017 the employee contribution bands (revised annually in line with inflation) are as follows:

Full time pay for the post	Contribution rate 2017/18
Up to £13,700	5.5%
£13,701 to £21,400	5.8%
£21,401 to £34,700	6.5%
£34,701 to £43,900	6.8%
£43,901 to £61,300	8.5%
£61,301 to £86,800	9.9%
£86,801 to £102,200	10.5%
£102,201 to £153,300	11.4%
More than £153,301	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 2017/18 is 22.5% and for 2018/19 it will remain unchanged.

Pension Fund Accounts

- (l) 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.
- (m) 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.
- (n) 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.
- (o) 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.
- (p) Actuarial – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 77 of the Local Government Scheme Regulations 1997. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent triennial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2016.

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%.

Pension Fund Accounts

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

- (q) Actuarial Present Value of Promised Retirement Benefits - The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 19 basis) to be £1.934m as at 31 March 2018 (£1,847 million as at 31 March 2016).
- (r) 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. Some managers invoice fees, others deduct fees from asset holdings; in the latter instance, the fees are added back to the accounts to accurately reflect the management expense.
- (s) 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.
- (t) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts; please see note 11.
- (u) 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.
- (v) 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

Pension Fund Accounts

otherwise uncertain. There are two areas in the accounts where critical judgements are applied which are materially significant to the accounts:

- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of assumptions including the discount rate, mortality rates and expected returns on fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised.
- Private Equity valuations – the value of the Fund's private equity holdings is calculated by the General Partners of the fund on the basis of their Valuation Policy, which follows best practice in the industry. However this is based upon a 31 December audited accounts valuation adjusted for estimated distributions and capital calls up to 31 March. Other mandates such as the diversified growth and multi-asset credit funds also adopt their own valuation policies when other quoted or comparable inputs are unavailable.

(w) Additional Voluntary Contributions ("AVCs")

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

Pension Fund Accounts
FUND ACCOUNT FOR THE YEAR

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

<u>FUND ACCOUNT FOR THE YEAR ENDED</u> <u>31 MARCH 2018</u>	2017/18 £'000	2016/17 £'000	Note
<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME</u>			
Contributions Receivable:			
- from Employers	30,417	33,411	1
- from Employees	9,211	9,099	1
- Reimbursement for Early Retirement	609	955	
Transfer Values In	6,136	2,123	
Other Income	30	72	
Subtotal: Income	46,403	45,660	
Benefits Payable:			
- Pensions	40,420	39,096	2
- Lump Sums: Retirement allowances	6,779	8,611	2
- Lump Sums: Death grants	1,039	1,720	2
Payments to and on account of leavers:			
- Refunds of Contributions	140	86	
- Transfer Values Out	4,438	4,331	
Subtotal: Expenses	52,816	53,844	
Subtotal: Net additions (withdrawals) from dealings with members	(6,413)	(8,184)	

Pension Fund Accounts			
Management Expenses	1,929	2,143	3
Subtotal: Net Additions (withdrawals) including fund management expenses	(8,342)	(10,327)	
<u>RETURNS ON INVESTMENTS</u>			
Investment Income	6,594	6,670	4
Change in market value of investments (Realised and Unrealised)	30,897	236,975	5a
Taxes on Income	(192)	(178)	
Total Net Returns on Investments	37,299	243,467	
NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	28,957	233,140	
OPENING NET ASSETS OF THE FUND	1,274,569	1,041,429	
CLOSING NET ASSETS OF THE FUND	1,303,526	1,274,569	

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 2018.

<u>NET ASSETS STATEMENT AS AT 31 MARCH 2018</u>	2017/18 £'000	2016/17 £'000	Note
EQUITIES			
Equities: UK	11,487	11,777	5
Equities: Global	0	13,805	5
	11,487	25,582	
MANAGED FUNDS			
Property	108,401	98,174	5
Equities	710,103	830,606	5
Fixed Interest	210,101	206,232	5
Index Linked	42,600	41,599	5
Other Assets	135,223	32,862	5
	1,206,428	1,209,473	
CASH HELD WITH CUSTODIAN	86,154	36,517	9
DERIVATIVE CONTRACTS			
Assets	1,069	800	7
Liabilities	(1,069)	(800)	7
OTHER INVESTMENT BALANCES			
Debtors: Investment Transactions	3,101	3,118	8
Creditors: Investment Transactions	(3,085)	(3,453)	8
TOTAL INVESTMENTS	1,304,085	1,271,236	
NET CURRENT ASSETS AND LIABILITIES			
Debtors	287	701	8
Creditors	(1,689)	(475)	8
Cash in Hand	843	3,107	9
TOTAL NET ASSETS	1,303,526	1,274,569	

The value for derivative contracts in 2016/17 has been restated but does not impact the total net assets value for 2016/17. It was previously shown as £0 for both assets and liabilities.

Pension Fund Accounts

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2018. This liability is included within the Authority's balance sheet.

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVED

<u>Employer Contributions</u>	2017/18 £'000	2016/17 £'000
Administering Authority	24,771	27,346
Scheduled Bodies	4,913	5,209
Admitted Bodies	733	856
	30,417	33,411

<u>Employee Contributions</u>	2017/18 £'000	2016/17 £'000
Administering Authority	7,281	7,265
Scheduled Bodies	1,687	1,607
Admitted Bodies	243	227
	9,211	9,099

2. BENEFITS PAID

By Category

	2017/18 £'000	2016/17 £'000
Pensions	40,420	39,096
Commutation and Lump Sum Retirement Benefits	6,779	8,611
Lump Sum Death Grants	1,039	1,720
	48,238	49,427

By Authority

	2017/18 £'000	2016/17 £'000
Administering Authority	44,572	45,788
Scheduled Bodies	2,748	2,912
Admitted Bodies	918	727
	48,238	49,427

3. MANAGEMENT EXPENSES

	2017/18 £'000	2016/17 £'000
Administration Expenses	696	705
Oversight and Governance Expenses	257	433
<u>Investment Management Expenses:</u>		

Pension Fund Accounts

- Transaction Costs	12	0
- Management Fees	917	978
- Performance Fees	0	0
- Custody Fees	47	27
	1,929	2,143

The reduction in Oversight and Governance expenses in 2017/18 is in part due to the mis-categorisation of Management Fees to Oversight and Governance expenses in 2016/17 of approximately £90k. Actuarial and advisory fees were also approximately £41k higher in 2016/17 due to the triennial valuation.

4. INVESTMENT INCOME

	2017/18 £'000	2016/17 £'000
Cash	90	100
Equities	216	467
Fixed Interest	430	955
Index Linked	88	208
Managed Funds (incl. Property)	5,416	4,561
Securities Lending	5	11
Other	349	368
	6,594	6,670

5. INVESTMENT ANALYSIS

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

Asset	Manager	31 March 2018	
		Value £'000	%
UBS Asset Management Life World Equity Tracker	UBS	221,735	17.0
Aquila Life US Equity Index Fund	Blackrock	145,507	11.2
Blackrock Pensions Aquila Life UK Equity Index Fund	Blackrock	90,457	6.9
UBS Asset Management Life UK Equity Tracker A Nav	UBS	89,239	6.8
Invesco Fund Managers Perpetual Targeted Returns	Invesco	77,240	5.9

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

Asset	Manager	31 March 2018	
		Value £'000	%
UK Equities			
HarbourVest GE PE Shares	HarbourVest	11,530	100

Pension Fund Accounts

Property			
Schroder Unit TST UK Real Estate	Schroders	15,677	14.4
Legal and General Managed Property Fund	Schroders	14,071	12.9
Hermes Property Unit	Schroders	10,658	9.8
Blackrock UK FD	Schroders	10,012	9.2
Real Income Fund	Schroders	9,720	8.9
Metro Pty Unit Trust	Schroders	9,221	8.5
Mayfair Cap Pty (MCPUT)	Schroders	8,725	8.0
Multi-Let INDL Property Unit Trust	Schroders	6,887	6.3
IPIF Feeder Unit Trust Fund	Schroders	6,372	5.9
Standard Life Pooled Property Fund	Schroders	6,240	5.7
Managed Equities			
UBS Asset Management Life World Equity Tracker	UBS	221,735	31.6
Aquila Life US Equity Index Fund	Blackrock	145,507	20.8
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	90,457	12.9
UBS Asset Management Life UK Equity Tracker A Nav	UBS	89,239	12.7
Aquila Life European Equity Index Fund	Blackrock	41,227	5.9
BlackRock AM (IE) ISHS Emerging Markets Index	Blackrock	35,961	5.1
Fixed Interest			
Blackrock Pensions Aquila Over 15 Years UK	Blackrock	43,384	20.6
Blackrock AM (IE) UK Credit	Blackrock	42,005	19.9
UBS Asset Mgmt STG Corp	UBS	42,090	20.0
Aquila Life Over 5 yrs Index Fund	Blackrock	40,223	19.1
UBS GBL Asset Life UK Over 15 Year Gilt	UBS	43,123	20.5
Index Linked			
UBS Asset Mgmt Life Over 5 Year Index Linked Gilt Tracker	UBS	42,808	100.0
Alternatives			
Invesco Fund Managers Perpetual Targeted Returns	Invesco	77,240	57.1
Pemberton Euro Debt Investments Jersey II	Pemberton	27,717	20.5
HIPEP VII (AIF) Partnership Fund LP	HarbourVest	11,309	8.4

Pension Fund Accounts

An analysis of investment movements is set out below:

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

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

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

Apart from global equities, overseas managed equities and bonds, the other overseas investments held by the Fund fall under the 'Other Assets' category comprising of private equity with a value of £29.4m and multi-asset credit/private debt, with a value of £27.7m

The total value of unquoted securities held by the fund as at 31 March 2018 was £884m, this includes equities, bonds, private equity, diversified growth and multi-asset credit funds.

The total value of quoted securities held by the fund as at 31 March 2018 was £217m, this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds unitised/unit-linked insurance policies valued at £877m and unit trusts valued at £187m, of which £109m relates to pooled property investments. The Fund also holds assets with value £28m as a Limited Partner in a compartment of a common limited partnership.

Pension Fund Accounts

As at 31 March 2017:

INVESTMENT MOVEMENTS 2016/17	Value at 31 March 2016	Purchases at Cost	Sales Proceeds	Change in Capital Value	Change in Market Value	Value at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000
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 Assets*	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				0	(336)
Total Investments	1,041,361				236,975	1,271,236

* Includes Venture Capital, Credit Mandates and Private Equity.

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 2018				31 March 2017		
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			
11,487			Equities	25,582		
			Managed Funds			
108,401			Property	98,174		
710,103			Managed Equity	830,606		
210,101			Fixed Interest	206,232		
42,600			Index Linked	41,599		
135,223			Other Alternative Assets	32,862		
1,069			Derivative contracts			
	86,154		Cash deposits		36,517	
	361		Pending Trades		2,700	
	2,740		Dividends & Income		418	
	189		Contributions Due		645	
	843		Cash Balances		3,107	
	98		Other Current Assets		57	
1,218,984	90,385	0	Total Financial Assets	1,235,055	43,444	0

Pension Fund Accounts

31 March 2018				31 March 2017		
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 Liabilities			
		(1,069)	Derivative Contracts			
		(3,085)	Pending Trades			(3,453)
			Unpaid benefits			
		(1,689)	Other current Liabilities			(475)
		(5,843)	Total Financial Liabilities			(3,928)
1,218,984	90,385	(5,843)	Net Financial Assets	1,235,055	43,444	(3,928)

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

31 March 2018		31 March 2017
£'000	Financial Assets	£'000
30,897	Fair Value through Profit and Loss	236,975
0	Loans and Receivables	0
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
30,897	Total	236,975

Valuation of Financial Instruments carried at Fair Value

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

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

Pension Fund Accounts

Level 2 - consists of assets where quoted market prices are not available (e.g. where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value).

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

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

Pension Fund Accounts

Values as at 31 March 2017	Quoted Market Price Level 1 £'000	Using Observable Inputs Level 2 £'000	With Significant Unobservable Inputs Level 3 £'000	Total £'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	25,582	1,176,611	32,862	1,235,055
Loans and Receivables	43,443	0	0	43,443
Total Financial Assets	69,025	1,176,611	32,862	1,278,498
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(3,929)	0	0	(3,929)
Total Financial Liabilities	(3,929)	0	0	(3,929)
Net Financial Assets	65,096	1,176,611	32,862	1,274,569

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 traditional securities (equities, bonds), collective investment and alternative funds (in property, multi asset credit and growth 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.

Pension Fund Accounts

The Committee has determined that the current largely passive investment management structure is appropriate and is in accordance with its latest investment strategy. In 2017/18 the Fund reduced its equity exposure by approximately 12% of the Fund's total value, committing the sales proceeds to new mandates in diversified growth and multi-asset credit, in line with the Funding Strategy and Investment Strategy Statements approved by PIC towards the end of 2016/17.

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

i) Market Risk

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

a) Other Price Risk – Market

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

b) Other Price Risk – Sensitivity Analysis

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

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 2017/18 reporting period.

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	9.6
Global Equities	10.1
Bonds and Index Linked	9.3
Alternatives	4.6
Property	2.9
Cash	0.8

Pension Fund Accounts

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 2018	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Equities	408,655	9.6	447,753	369,557
Global Equities	312,935	10.1	344,577	281,293
Bonds and Index Linked	252,700	9.3	276,156	229,244
Other Assets	135,223	4.6	141,396	129,050
Property	108,401	2.9	111,498	105,304
Cash	86,154	0.8	86,875	85,433
Total Assets*	1,304,068	**7.0	**1,395,092	**1,213,044

* This figure excludes derivatives and other investment balances.

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

c) Interest Rate Risk is the risk the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The risk is mitigated by the Fund holding minimum cash balances where possible 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 2018 with the previous year in brackets:

Euro	£16.9m (£15.8m)
US Dollars	£88.4m (£77.5m)

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

e) Currency Risk – Sensitivity Analysis

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges and the latter are "over the counter" agreements, which neither the purchaser nor the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date. As at 31 March 2018 there were pending foreign exchange purchases of £1.1m and corresponding sales of £1.1m. 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 9.2%. This volatility is applied to the Fund's overseas assets as follows:

Pension Fund Accounts

Asset Type	Asset Value at 31 March 2018 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	312,935	9.2	341,735	284,135
Overseas Fixed Income	84,025	9.2	91,758	76,292
Other Alternatives	57,094	9.2	62,348	51,840
Total	454,054	9.2	495,841	412,267

ii) Credit Risk

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

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

iii) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due. For example; the benefits payable costs and capital commitments. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2018 these assets totalled approximately £0.974m, comprising of bonds and equities, with a further £86.2m 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.

Pension Fund Accounts

7. DERIVATIVE CONTRACTS

As at 31 March 2018 there were pending forward foreign exchange purchases of £1.1m and sales of £1.1m, with an unrealised loss of £62. The gains and losses in the table below relate to foreign exchange forward contracts.

Asset Type	2017/18 £'000		2016/17 £'000
Foreign Exchange Gains	2		0
Foreign Exchange Losses	(4)		0
Total Realised Gains/(Losses)	(2)		0

8. DEBTORS & CREDITORS

These comprise the following amounts:

Investment Transactions**Debtors**

Equity Dividends / Income from Managed Funds
Interest and Other Income
Pending Trades

	2017/18 £'000	2016/17 £'000
	0	31
	2,740	387
	361	2,700
	3,101	3,118

Creditors

Pending Trades

	2017/18 £'000	2016/17 £'000
	(3,085)	(3,453)
	(3,085)	(3,453)

Non-Investment Transactions**Debtors**

Contributions Due from Admitted / Scheduled
Employers / Employees
Interest and Other Income
LB Lewisham
Tax Refunds

	2017/18 £'000	2016/17 £'000
	189	645
	0	21
	64	35
	34	0
	287	701

Pension Fund Accounts		
<u>Creditors</u>	2017/18 £'000	2016/17 £'000
Fund Manager and Custody Fees	(283)	(251)
Consultancy / Advisory Fees	(56)	(48)
LB Lewisham	(1,350)	(176)
	<u>(1,689)</u>	<u>(475)</u>

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 2018 was £86.2m (£36.5m as at 31 March 2017). Approximately £14.0m from the 2015/16 disinvestment in Investec was held by the custodian in a cash fund which is drawn down to meet cashflow requirements during the year, whilst £50.7m representing proceeds from equity sales as part of the Fund's rebalancing was held in a separate cash fund to meet commitments to the Fund's multi-asset credit mandate. £10.1m of the cash held was from HarbourVest, £8.1m from M&G, £3.0m from Schrodgers and approximately £138k 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 2018.

10. POST YEAR END EVENTS

The Fund executed the first stage of a rebalancing exercise in 2017/18, consistent with the Funding Strategy and Investment Strategy Statement amendments following the triennial valuation results, part of which was to procure two new fund managers with multi-asset credit mandates. As at 31 March 2018 the Fund had not yet been admitted to one of these funds, the Partners Group Multi Asset Credit 2017 (IV) GBP fund. In April 2018 Lewisham was successfully onboarded into the fund, with a commitment to invest £40m; the first capital call was issued and payment made of £20m on 23 April 2018.

The Fund also procured a new infrastructure mandate in March 2018 with J.P. Morgan, but as at 31 March 18 had not been admitted to the fund. Lewisham's commitment to the infrastructure fund will be approximately £80m, with a first capital call likely mid-year.

Following the local elections of May 2018, a new Pensions Investment Committee will convene for its first meeting on 28 June 2018. The Committee comprises four previously sitting Councillors, including the re-elected Chair, and four new Councillors with varying degrees of pensions knowledge and experience. The Fund's strategic direction, in line with its Funding and Investment Strategies, will be reassessed by Members in the coming months in conjunction with the results of the next triennial valuation to be carried out as at March 2019.

Pension Fund Accounts

11. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31 March 2018:

Fund Manager	Fund	Amount '000	Translated £'000
HarbourVest	HarbourVest Partners VIII – Cayman Venture Fund L.P	\$190	135
HarbourVest	HarbourVest Partners VIII – Cayman Buyout Fund L.P	\$833	593
HarbourVest	HarbourVest Partners X AIF L.P.	\$24,158	17,215
HarbourVest	HIPEP VII (AIF) Partnership Fund L.P.	\$14,550	10,368
HarbourVest	HarbourVest International Private Equity Partners V – Cayman Partnership Fund L.P	€700	613
HarbourVest	HarbourVest International Private Equity Partners V – Cayman Direct Fund L.P	€180	158
Pemberton	European Debt Investments Jersey II LP	£12,226	12,226
	Total		41,308

The HarbourVest commitments have been translated from either Euros or Dollars using exchange rates as at 31 March 2018. This compares to the total commitments at 31 March 2017 of £39.3m.

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 Simon Hooks declared he now works in the life insurance and pensions field.

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

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

Pension Fund Accounts

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 2018.

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

- a) Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £661k (included in Administration Expenses in Note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time and vice versa.
- b) The salary of the Executive Director for Resources and Regeneration for 2017/18 was £189,977 including employer pension contributions of £34,894. This total also includes an allowance for acting as Chief Executive following the resignation of the previous post holder.

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 40 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

The fund has two AVC providers: Clerical Medical and Equitable Life. The value of AVC investments is shown below. The contributions are held by the providers and do not form part of the Lewisham fund's assets in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

	Total	Equitable	Clerical
	£'000	Life	Medical
2017/18		£'000	£'000
Value at 1 April 2017	1,309	461	848
Contributions and Transfers Received	177	4	173
Investment Return	27	17	10
Paid Out	(203)	(48)	(155)
Value at 31 March 2018	1,310	434	876

	Total	Equitable	Clerical
	£'000	Life	Medical
2016/17		£'000	£'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

Pension Fund Accounts

14. SCHEDULED BODIES

The following are scheduled bodies to the Fund as at 31 March 2018, arranged in descending order by the value of their contributions in 2017/18:

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

15. ADMITTED BODIES

The following are admitted bodies to the Fund as at 31 March 2018, arranged in descending order by the value of their contributions in 2017/18:

Phoenix
Youth First LTD
Phoenix Agency Services
Chartwells Compass
Skanska
Lewisham Music
3 C's Support
One Housing
NSL (formerly known as National Car Parks Ltd)
Wide Horizons
Change Grow Live
Nviro
Fusions Leisure Management
Quality Heating
Housing 21
Pre-School Learning Alliance
Blenheim CDP (Ceased November 2017)
Excalibur (Ceased March 2017)
Tower Services
Chequers Contract Services – Lee Manor
Lewisham Nexus Services (Ceased April 2017)

16. STOCK LENDING

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

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

Pension Fund Accounts

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 2018 the value of aggregate stock on loan was £0m (£9.3m as at 31 March 2017). As part of the Fund's rebalancing in year and the sale of equities to finance investments in new mandates, assets in segregated accounts which participated in stock lending arrangements were sold or traded into pooled life funds.

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 £3k net of direct expenses (compared to £8k in 2016/17). The value of collateral held as at 31 March 2017 was £0m (£9.8m as at 31 March 2017).

17. MEMBERSHIP

	Active Members	Active Members	Deferred Beneficiaries	Deferred Beneficiaries	Retired Former Members	Retired Former Members
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Admin. Authority	5,331	5,814	8,701	9,679	7,184	7,098
Scheduled Bodies	1,180	916	1,166	825	339	243
Admitted Bodies	126	137	122	117	99	90
Totals	6,637	6,867	9,989	10,621	7,622	7,431

18. AUTHORISATION

These accounts were approved by Council on

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

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of the Local Government Act 1972.

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Agenda Item 13

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

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