

**DRAFT  
PENSION  
FUND  
ACCOUNTS**

**2011/12**

---

**Pension Fund Accounts**

---

**DRAFT PENSION FUND ACCOUNTS**

**INTRODUCTION**

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme. The Fund is a contributory defined 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 operated under various sets of regulations made under the Superannuation Act 1972. The fund is administered with the following secondary legislation:

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

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

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

["www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm"](http://www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm)

**ACCOUNTING POLICIES**

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 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 actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note (k) below.

---

**Pension Fund Accounts**

---

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

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

The accounting policies and the basis of preparation of the accounts are shown below:

- (a)** Basis of Preparation - The accounts have been prepared on an accruals basis, i.e. income and expenditure attributable to the financial year have been included, even where payment has not actually been made or received, excepting Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (b)** Investments - Investments in the Net Assets Statement are shown at market value based on bid prices, as required by the 2011/12 Local Authority SORP and the IAS 26 Retirement Benefit Plans. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.
- (c)** The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.
- (d)** 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.
- (e)** The Pension Fund's Hedge Fund assets are held in the Jubilee Absolute Return Fund, which is a collective investment scheme structured as a protected cell of Jubilee Absolute Return Fund PCC Limited, an open ended investment company listed on the Irish Stock Exchange. The Jubilee Absolute Return Fund produces an official single-priced NAV and hence there are no bid-offer prices for subscriptions or redemptions. The official single-priced NAV is produced on a monthly basis by the independent administrator, HSBC Securities Services (Ireland) Limited ("HSBC").

---

**Pension Fund Accounts**


---

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

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

- (g) The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs.
- (h) The fair value of the Investec commodities is based on their quoted market prices at the Balance Sheet date. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for a non-exchange traded financial instrument, the fair value of the instrument is estimated using valuation techniques.
- (i) Contributions – there are seven employee contribution bands (revised annually in line with inflation) ranging from 5.5% for members earning under £13,500 a year to 7.5% for members earning over £85,300 a year. The employer's contribution is reviewed every three years and is determined as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation.

<b>Full time pay for the post</b>	<b>Contribution rate</b>
Up to £13,500	5.5%
£13,501 to £15,800	5.8%
£15,801 to £20,400	5.9%
£20,401 to £34,000	6.5%
£34,001 to £45,500	6.8%
£45,501 to £85,300	7.2%
More than £85,300	7.5%

- (j) 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.

---

**Pension Fund Accounts**

---

- (k) The most recent actuarial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2010.

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

In order to value liabilities which have accrued at the valuation date and those accruing in respect of future service the Actuary has assumed that the Fund's assets will generate a return of 6.1% per annum (5.8% 2007). The Actuary set the employer contribution accordingly to recover the deficit over future periods.

The actuarial review carried out for 31 March 2010 resulted in an increase to the Council's contribution rate from 20% to 20.5%, with effect from 1<sup>st</sup> April 2011 and annual increases of 0.5% for the subsequent two years. The next actuarial valuation of the Fund will have an effective date of 1 April 2013, with new employer contribution rates taking effect from 2014/15.

The Actuary has calculated the actuarial present value of retirement benefits (on an IAS 26 basis) to be £1,158 million as at 31<sup>st</sup> March 2012 (£1,044 million 31<sup>st</sup> March 2011).

**Actuarial Present Value of Promised Retirement Benefits**

The triennial valuation on the 31<sup>st</sup> March 2010 revealed that the Fund's assets, which at 31 March 2010 were valued at £715 million, were sufficient to meet 75.4% (87.4% 2007) of the liabilities valued at £949 million (£840 million 2007) accrued up to that date. The resulting deficit at the 2010 valuation was £234 million (£106 million 2007).

- (l) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.
- (m) Foreign currency transactions are made using the WM/ Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
  - Stock holdings: the converted foreign exchange rate is used at stock valuation date.

---

**Pension Fund Accounts**


---

- Dividend receipts: the rate applicable on the day prior to the date the dividend is received is used.

**(n) 2011/12 Financial Year Summary of Fund Value**

<b>Fund Manager</b>	<b>Assets</b>	<b>Assets Value 31<sup>st</sup> March 2012 £000</b>	<b>Assets Value 31<sup>st</sup> March 2011 £000</b>	<b>Proportion of the Fund 31<sup>st</sup> March 2012 (%)</b>
<b>UBS</b>	Bonds	138,140	124,672	17.82
<b>Alliance Bernstein</b>	Global Equities	165,817	177,416	21.40
<b>RCM</b>	Global Equities incl. UK	171,255	169,067	22.10
<b>Schroders Property</b>	Property	68,846	68,386	8.88
<b>HarbourVest (*Incl Legacy Stock)</b>	Private Equity	31,234	30,020	4.03
<b>UBS passive equity</b>	UK Tracker fund	128,474	125,728	16.58
<b>Fauchier</b>	Hedge Fund of Fund	21,077	22,054	2.72
<b>Investec</b>	Commodities	37,587	40,062	4.85
<b>M&amp;G</b>	Credit	10,827	5,314	1.40
<b>Securities Lending</b>	Securities Lending	8	150	0
<b>Lewisham</b>	Cash and Net Current Assets	1,735	-74	0.22
<b>Total Fund</b>		<b>£775,000</b>	<b>£762,795</b>	<b>100</b>

**Pension Fund Accounts**  
**FUND ACCOUNT FOR THE YEAR**

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

2010/11 Restated £'000s	<b><u>FUND ACCOUNT FOR THE YEAR ENDED</u></b> <b><u>31st MARCH 2012</u></b>	2011/12 £000s	2010/11 £000s	Note
	<b><u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS</u></b> <b><u>DIRECTLY INVOLVED WITH THE SCHEME</u></b>			
	Contributions Receivable:			
28,898	- from Employer	26,583	29,504	1
9,330	- from Employees	9,072	9,330	1
606	- Reimbursement for Early Retirement	1,951		
3,266	Transfer Values In	2,936	3,266	
0	Other Income	8	0	
<b>42,100</b>	<b>Sub-Total: Income</b>	<b>40,550</b>	<b>42,100</b>	
	Benefits Payable:			
27,724	- Pensions	30,041	27,724	2
4,757	- Lump Sums: Retirement allowances	8,826	4,757	
535	- Lump Sums: Death grants	1,167	535	
	Payments to and on account of leavers:			
1	- Refunds of Contributions	1	1	
8,210	- Transfer Values Out	6,059	8,210	
1,021	Administrative and other expenses borne by the scheme	860	1,021	3
<b>42,248</b>	<b>Sub-Total: Expenses</b>	<b>46,954</b>	<b>42,248</b>	
(147)	<b>Total Net additions (withdrawals) from Dealings with Scheme Members</b>	<b>(6,404)</b>	<b>(147)</b>	
	<b><u>RETURNS ON INVESTMENTS</u></b>			

---

**Pension Fund Accounts**


---

11,800	Investment Income	11,280	11,800	4
40,118	Change in market value of investments (Realised and Unrealised)	11,052	40,243	
	<b>Investment Expenses:</b>			
(1,649)	- Fund Managers' Fees	(3,211)	(1,649)	
(739)	- Tax on Dividends	(514)	(739)	
(1,735)	- Other Direct Expenses		(1,735)	
<b>47,795</b>	<b>Total Net Returns on Investments</b>	<b>18,607</b>	<b>47,920</b>	
47,648	NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	12,203	47,773	
715,146	OPENING NET ASSETS OF THE SCHEME	762,794	715,146	
<b>762,794</b>	<b>CLOSING NET ASSETS OF THE SCHEME</b>	<b>774,997</b>	<b>762,919</b>	

**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 2012.

2010/11 Restated £'000s	<b><u>NET ASSETS STATEMENT AT 31 MARCH 2012</u></b>	<b>31<sup>st</sup> March 2012 £000s</b>	<b>31<sup>st</sup> March 2011 £000s</b>	<b>Note</b>
-	<b>EQUITIES</b>			5
36,454	Equities: UK	41,716	36,454	
282,468	Equities: Global	271,495	282,468	
<b>318,922</b>		<b>313,211</b>	<b>318,922</b>	
	<b>MANAGED FUNDS</b>			5
62,831	Property	66,993	62,831	
149,430	Equity	151,512	149,430	
82,110	Fixed Interest	88,581	82,110	
42,516	Index Linked	49,552	42,516	
93,217	Other Assets	96,245	93,342	
<b>430,104</b>		<b>452,883</b>	<b>430,229</b>	
13,332	<b>CASH DEPOSITS</b>	6,196	13,332	9
	<b>DERIVATIVE CONTRACTS</b>			7
203	Assets	4	203	
(249)	Liabilities	(21)	(249)	
	<b>OTHER INVESTMENT BALANCES</b>			8
3,333	Debtors: Investment Transactions	2,164	3,333	
(2,777)	Creditors: Investment Transactions	(1,174)	(2,777)	
<b>762,868</b>	<b>TOTAL INVESTMENTS</b>	<b>773,263</b>	<b>762,993</b>	
	<b>NET CURRENT ASSETS AND LIABILITIES</b>			
547	Debtors	489	547	8
(663)	Creditors	(2,273)	(663)	8
41	Cash in Hand	3,518	41	9
<b>762,794</b>	<b>TOTAL NET ASSETS</b>	<b>774,997</b>	<b>762,919</b>	

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

## Pension Fund Accounts

## NOTES TO THE PENSION FUND ACCOUNTS

**1. CONTRIBUTIONS RECEIVABLE**

<b><u>Employer Contributions</u></b>	<b>2011/12</b> <b>£000s</b>	<b>2010/11</b> <b>£000s</b>
Administering: Normal	22,752	24,344
Admitted: Normal	984	817
Scheduled	2,847	3,738
	<b>26,583</b>	<b>28,899</b>

<b><u>Employee Contributions</u></b>	<b>2011/12</b> <b>£000s</b>	<b>2010/11</b> <b>£000s</b>
Administering	7,448	8,241
Admitted	322	206
Scheduled	1,302	883
	<b>9,072</b>	<b>9,330</b>

<b><u>2. BENEFITS PAYABLE</u></b>	<b>2011/12</b> <b>£000s</b>	<b>2010/11</b> <b>£000s</b>
Administering	17,910	16,642
Admitted	192	174
Scheduled	730	745
Dependants Pensions	1,224	1,225
Pensions Increases	9,985	8,938
	<b>30,041</b>	<b>27,724</b>

<b><u>3. ADMINISTRATION COSTS</u></b>	<b>2011/12</b> <b>£000s</b>	<b>2010/11</b> <b>£000s</b>
Lewisham Administration	547	466
Advisory Costs Incl. Audit Fees	310	550
Bank Charges	3	5
	<b>860</b>	<b>1,021</b>

<b><u>4. INVESTMENT INCOME</u></b>	<b>2011/12</b> <b>£000s</b>	<b>2010/11</b> <b>£000s</b>
Cash	195	160
Equity	7,608	6,311
Fixed Interest	618	2,594
Managed Funds Incl. Property	2,067	2,535
Securities Lending	140	200
Other*	652	0
	<b>11,280</b>	<b>11,800</b>

\* Includes Commodities, Hedge Fund, Venture Capital and Credit Mandates

---

**Pension Fund Accounts**


---

**5. INVESTMENT ANALYSIS**

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

An analysis of investment movements is set out below:

Investments	Value at 31/03/2011 £000s	Purchases at Cost £000s	Sales Proceeds £000s	Change in Market Value £000s	Value at 31/03/2012 £000s
UK Equities	36,454	17,005	(9,064)	(2,679)	41,716
Global Equities	282,468	121,728	(130,245)	(2,456)	271,495
Equities	149,430	1,830	0	252	151,512
Property	62,831	12,517	(8,785)	430	66,993
Fixed Interest Securities	82,110	613	(3,855)	9,713	88,581
Index Linked Securities	42,516	0	(2,145)	9,181	49,552
Other*	93,217	8,496	(2,049)	(3,419)	96,245
Derivatives	(46)	0	0	29	(17)
	<b>748,980</b>	<b>162,189</b>	<b>(156,143)</b>	<b>11,052</b>	<b>766,077</b>
Cash deposits	13,332				6,196
Other Investment Balances	556				990
	<b>762,868</b>				<b>773,263</b>

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

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

**EQUITY HOLDINGS  
ANALYSIS**

	31 <sup>st</sup> March 2012		31 <sup>st</sup> March 2011	
	UK £000	Overseas £000	UK £000	Overseas £000
<b>EQUITY</b>				
Listed	41,716	271,495	36,454	282,468
Unlisted	0	0	0	0
	<b>41,716</b>	<b>271,495</b>	<b>36,454</b>	<b>282,468</b>
<b>TOTAL EQUITY</b>		<b>313,211</b>		<b>318,922</b>

<b>Pension Fund Accounts</b>				
<b>EQUITY MANAGED FUNDS</b>	<b>UK</b>	<b>Overseas</b>	<b>UK</b>	<b>Overseas</b>
*Unit Trust Equities	151,512	0	149,430	0
<b>TOTAL EQUITY MANAGED FUNDS</b>	<b>151,512</b>		<b>149,430</b>	
<b>TOTAL EQUITY INVESTMENTS</b>	<b>464,723</b>		<b>468,352</b>	

## FINANCIAL INSTRUMENTS

The following categories of financial instruments are carried in the Net Asset Statement

<b>2011/12</b>		<b>2010/2011</b>
£'000		£'000
(794)	Loans and receivables	441
766,094	Available-for-sale financial assets	749,026
4	Financial assets at fair value through profit or loss	61
(21)	Financial liabilities at fair value through profit or loss	(107)
9,714	Cash	13,373
<b>774,997</b>		<b>762,794</b>

## FINANCIAL RISK MANAGEMENT

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

The main risks from the Fund's holding of financial instruments are market risk, credit risk and liquidity risk.

Market risk includes price risk, interest rate risk and currency risk. The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Lewisham Pension Investment Committee (PIC) has determined that the

---

**Pension Fund Accounts**


---

investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager, and its investment consultant (Hymans) advises on the nature of the investments made and associated risks.

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

**i) Market Risk**

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

**a) Market Price Risk**

Market price risk represents the risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines. The Council and its investment advisors also undertake appropriate monitoring of market conditions and benchmark analysis. The Fund has a long term view on expected investment returns which smooths 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 2012/13 reporting period.

<b>Asset Type</b>	<b>Potential Market Movement +/- (%p.a.)</b>
UK Equities	14.6
Overseas Equities	17.0
UK Bonds	5.6
Index Linked	6.9
Cash	0.1
Property	8.0

---

**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 £'000	Percentage Change	Value on Increase £'000	Value on Decrease £'000
<b>UK Equities</b>	193,228	14.6	221,441	165,018
<b>Overseas Equities</b>	271,495	17.0	317,650	225,342
<b>UK Bonds</b>	88,581	5.6	93,542	83,620
<b>Index Linked</b>	49,552	6.9	52,971	46,133
<b>Cash</b>	6,196	0.1	6,203	6,190
<b>Other Assets</b>	96,245	9.0	104,906	87,582
<b>Property</b>	66,993	8.0	72,352	61,633
<b>Total Assets*</b>	<b>772,290</b>		<b>869,065</b>	<b>675,518</b>

\* This figure excludes derivatives and other investment balances.

**b) Interest Rate Risk** is the risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on bonds held on a segregated basis and cash held by investment managers, a 1% change in the interest rate would result in an approximate change in income of £68,146.

**c) Currency Risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The global equity managers Alliance Bernstein and RCM are instructed to operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of sterling against the local currencies of assets held. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer. As at

31 March 2012, forward foreign exchange contracts were the only derivative contracts held. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

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 10.6%.

---

**Pension Fund Accounts**


---

This volatility is applied to the fund's overseas assets as follows:

<b>Asset Type</b>	<b>Asset Value @ 31/12/12 £'000</b>	<b>+10.6% £'000</b>	<b>-10.6% £'000</b>
<b>Overseas Equities</b>	271,496	300,148	242,844
<b>Other Assets</b>	64,344	71,134	57,553
<b>Total</b>	<b>335,840</b>	<b>371,282</b>	<b>300,397</b>

**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 in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection of and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur through the failure to settle transactions in a timely manner.

The Pension Fund is exposed to credit risk through Securities Lending and Forward Currency Contracts. The Securities Lending programme is run by the Fund's custodian Northern Trust who 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.

Forward Currency Contracts are with Alliance and Bernstein and RCM who operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of sterling against the local currencies of assets held. The Fund manages its risk by monitoring the credit quality and financial position of its fund managers. The investment managers' research process for selecting and monitoring securities or funds for investment mitigates the risk of fraud.

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

**iii) Liquidity Risk** – This is the risk that the Pension Fund will have difficulties in paying its financial obligations. 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 2012 these assets totalled approximately £604m, with a further £6.2m held in cash by fund managers.

---

**Pension Fund Accounts**


---

**6. PRIOR YEAR ADJUSTMENT**

Some Private Equities held with Harbourvest were previously included in the accounts at mid value of instead of bid value. These assets have been restated at bid value in 2010/11 resulting in a reduction in value of £125k as at 31<sup>st</sup> March 2011.

The Council makes a cash re-imburement to the fund as a contribution towards early retirement benefits paid during the year. In 2010/11, this was included in the Employer Contributions, but has now been restated as a separate item in the accounts. This totalled £606k in 2010/11.

**7. DERIVATIVE CONTRACTS**

The global equity managers Alliance Bernstein and RCM are instructed to operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of assets held. This is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer.

At 31 March 2012, forward foreign exchange contracts were the only derivative contracts held. Forward foreign exchange contracts are disclosed in the accounts at market value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

Foreign Exchange Gains	
Total Gains	4
Foreign Exchange Losses	
Total Losses	(21)
<b>Total Unrealised Gains/(Losses)</b>	<b>(17)</b>

**8. DEBTORS & CREDITORS**

These comprise the following amounts:

<b>Debtors</b>	<b>2011/12</b> <b>£000s</b>	<b>2010/11</b> <b>£000s</b>
Contributions due from Admitted / Scheduled Bodies	489	547
Equity Dividends / Income from Managed Funds	484	483
Interest and Other Income	0	151
Pending Trades	1,680	2,699
	<b>2,653</b>	<b>3,880</b>
<b>Creditors</b>	<b>2011/12</b> <b>£000s</b>	<b>2010/11</b> <b>£000s</b>

<b>Pension Fund Accounts</b>		
Fund Manager and Custody Fees	(516)	(662)
Consultancy / Advisory Fees (Incl Audit Fee)	(27)	0
Pension Payments Due to Employees	(167)	0
Taxes Due	0	0
Pending Trades	(1,174)	(2,777)
LB Lewisham	(1,563)	0
	<u><b>(3,447)</b></u>	<u><b>(3,439)</b></u>

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

## 9. CASH DEPOSITS

The Northern Trust Company is the fund global custodian and the cash is held in an interest bearing account to meet the cash flow requirements of our fund managers. The total cash held for this purpose as at 31<sup>st</sup> March 2012 was £6.19m. Approximately £1.72m of this cash was held for Schroders, £0.8m for Alliance Bernstein and £3.35m for RCM. The Lewisham cash balance represents Pension Fund contributions held in the Pension Fund bank account as at 31<sup>st</sup> March 2012.

### Cash in Hand

The increase in the cash in hand figure from 2010/11 to 2011/12 is mainly due to the Fund operating its own bank account, which necessitates the availability of cash. The cash in hand figure includes a figure of £1.5m owed by the Fund to the council for items described in note 13b below.

## 10. TRANSACTION COSTS

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

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000s</b>	<b>£000s</b>
<b>Total Purchases</b>	130	167
<b>Total Sales</b>	138	239
<b>Total transactions</b>	<u><b>268</b></u>	<u><b>406</b></u>

## 11. POST YEAR END EVENTS

A restructure of the Fund's investment portfolio will take place in 2012/13. The Fund will move from being actively managed to being passively managed. This will result in the change of some fund managers.

Since March 2012, there has been a marked decline in the global stock markets which would impact upon the market value of the fund's investments were they to be valued as at the date these accounts were prepared.

These changes are deemed to be non-adjusting post balance sheet events. There have been no events since March 2012, and up to the date when these accounts were prepared, that require any adjustment to these accounts.

---

**Pension Fund Accounts**

---

## **12. COMMITMENTS**

The Pension Fund was committed to the following capital contributions as at the 31<sup>st</sup> March 2012:

### **Harbourvest**

HarbourVest Partners VIII – Venture Fund £1,632,029

HarbourVest Partners VIII – Buyout Fund £4,189,394

HarbourVest International Private Equity Partners V – Partnership Fund £3,355,240

HarbourVest International Private Equity Partners V – Direct Fund £215,694

Total HarbourVest Commitments - £9,392,357

**M&G** - £9,107,145

## **13. 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. Five Councillors of this Committee are members of the pension scheme. At each meeting of the Pensions Investment Committee Councillors are asked to make declarations of interest which are minuted at the meeting. During the year no trustees or Council chief officers with direct responsibility for pension fund issues have undertaken any declarable transactions with the Pension Fund.

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

- a) Recharges from the Council for the in-house administration costs and other expenses borne by the scheme were transacted for £547k (see note 3).
- b) 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. Any interest receivable/payable on such balances is paid to/from the Pension Fund annually at an interest rate equating to that earned by the Council on temporary investments.

## **14. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)**

Contributing members have the right to make additional voluntary contributions (AVCs) to enhance their pension. 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.

---

**Pension Fund Accounts**


---

	<b>£000s</b>
<b>Value at 1 April 2011</b>	1,441
Contributions and Transfers Received	248
Investment Return	52
Paid Out	222
<b>Value at 31 March 2012</b>	<b>1,519</b>

**16. SCHEDULED BODIES**

The following are scheduled bodies to the fund:

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

**17. ADMITTED BODIES**

The following are admitted bodies to the fund:

National Car Parks Ltd  
 Excalibur Tenant Management Project  
 PLUS  
 Housing 21  
 Lewisham Nexus Services  
 Lewisham Way Youth and Community  
 Centre  
 SAGE Educational Trust  
 CIS Securities  
 Wide Horizons  
 Phoenix  
 INSPACE  
 T Brown & Sons  
 Quality Heating  
 Blenheim CDP  
 RSM Tenon formerly RSM Bentley  
 Jennison  
 Broomleigh Housing Association  
 Penrose  
 Skanska  
 One Housing  
 Fusions Leisure Management  
 3 C's Support

**18. STOCK LENDING**

The Statement of Investment Principles permits the Fund to enter into stock lending (whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan). The council entered into stock lending transactions during the financial year

---

**Pension Fund Accounts**


---

earning £0.14million net of direct expenses. At the balance sheet date the value of aggregate stock on loan was £25.5m and the value of collateral held was £27.2m.

**19. MEMBERSHIP**

	<b>Employees</b>		<b>Deferred Beneficiaries</b>		<b>Retired Former Employees</b>	
	<b>2011/12</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2010/11</b>
<b>Administering Authority Scheduled Bodies Admitted Bodies</b>	5,035	5,436	6,958	6,694	6,448	6,201
	666	642	243	194	39	91
	162	128	66	51	106	35
	<b>5,863</b>	<b>6,206</b>	<b>7,267</b>	<b>6,939</b>	<b>6,593</b>	<b>6,327</b>