

**DRAFT**

LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

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**Pension Fund Accounts**

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**DRAFT  
PENSION  
FUND  
ACCOUNTS**

**2013/14**

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

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## **Pension Fund Accounts**

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### **PENSION FUND ACCOUNTS**

#### **FOREWORD**

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

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

#### **INTRODUCTION**

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

#### **ORGANISATION**

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

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

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

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

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

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

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## **Pension Fund Accounts**

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### **ACCOUNTING POLICIES**

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

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

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

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

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

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

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## **Pension Fund Accounts**

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

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

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## Pension Fund Accounts

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

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

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

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

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

**Pension Fund Accounts**

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

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

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

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

**Actuarial Present Value of Promised Retirement Benefits**

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

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## Pension Fund Accounts

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

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

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

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

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

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



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## Pension Fund Accounts

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

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**Pension Fund Accounts**  
**NET ASSETS STATEMENT**

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The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2014.

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

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## Pension Fund Accounts

### NOTES TO THE PENSION FUND ACCOUNTS

#### 1. CONTRIBUTIONS RECEIVABLE

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

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

#### 2. BENEFITS PAYABLE

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

#### 3. ADMINISTRATION COSTS

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

#### 4. INVESTMENT INCOME

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

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## Pension Fund Accounts

### 5. INVESTMENT ANALYSIS

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

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

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

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

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## Pension Fund Accounts

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

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## Pension Fund Accounts

An analysis of investment movements is set out below:

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

\* Includes Commodities, Venture Capital and Credit Mandates

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

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

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

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## Pension Fund Accounts

As at 31<sup>st</sup> March 2013:

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

# DRAFT

LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## Pension Fund Accounts

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



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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## Pension Fund Accounts

### Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

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

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

### Valuation of Financial Instruments carried at Fair Value

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

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

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

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

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## Pension Fund Accounts

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

## FINANCIAL RISK MANAGEMENT

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

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

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

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

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## Pension Fund Accounts

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

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

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

### i) Market Risk

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

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

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

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

\* This figure excludes derivatives and other investment balances.

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

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

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

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## Pension Fund Accounts

Asset Type	Asset Value @ 31/3/2014 £'000	% Change	Value on Increase £'000	% Change	Value on Decrease £'000
Overseas Equities	240,584	+6.09%	255,247	-6.09%	225,922
Other Assets	56,974	+6.09%	60,447	-6.09%	53,502
Other Alternatives	60,191	+6.09%	63,860	-6.09%	56,523
<b>Total</b>	<b>357,749</b>	<b>+6.09%</b>	<b>379,554</b>	<b>+6.09%</b>	<b>335,947</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 risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection of and monitoring of counterparties including brokers, custodian and investment managers seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

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

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

### iii) Liquidity Risk

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## Pension Fund Accounts

### **6. INVESTMENT MANAGEMENT FEES**

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

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

### **7. PRIOR YEAR ADJUSTMENT**

No prior year adjustments have been made to these accounts.

### **8. DERIVATIVE CONTRACTS**

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

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

### **9. DEBTORS & CREDITORS**

These comprise the following amounts:

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## Pension Fund Accounts

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

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

### 10. CASH DEPOSITS

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

#### Cash in Hand

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

### 11. TRANSACTION COSTS

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

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

### 12. POST YEAR END EVENTS

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

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## Pension Fund Accounts

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### 13. COMMITMENTS

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

#### Harbourvest

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

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

### 14. RELATED PARTY TRANSACTIONS

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

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

During the year the following declarations were made:

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



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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## 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 2014.

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

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

### 15. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

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

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

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

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

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## **Pension Fund Accounts**

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### **16. SCHEDULED BODIES**

The following are scheduled bodies to the fund as at 31<sup>st</sup> March 2014:

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

### **17. ADMITTED BODIES**

The following are admitted bodies to the fund as at 31<sup>st</sup> March 2014:

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

### **18. STOCK LENDING**

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

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LONDON BOROUGH OF LEWISHAM STATEMENT OF ACCOUNTS 2013/14

## Pension Fund Accounts

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

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

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

### Collateral

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

### 19. MEMBERSHIP

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

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