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**Pension Fund Accounts**

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**DRAFT  
PENSION  
FUND  
ACCOUNTS**

**2015/16**

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**Pension Fund Accounts**

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**INSERT AUDIT LETTER**

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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 2015/16.

The Pension Fund's value fell over the year by approximately £800k, mainly due to a decrease in the value of equities during the year.

### **INTRODUCTION**

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

### **ORGANISATION**

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

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

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.lewishampensions.org/>

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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 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The Local Government Pension Scheme (Administration) Regulations 2008 requires administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Regulations summarise the Pension Code and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December following the end of the financial year. The Council will be taking its Annual Report to its Pensions Investment Committee 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, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (b)** Investments - Investments in the Net Assets Statement are shown at market value based on bid prices, as required by the 2015/16 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.
- (d)** Income - Dividend income earned from equity and bonds (excluding Private Equity) is reinvested by Investment Managers and not repaid directly to the fund

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as cash. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors.

- (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 2016 is the actual fair value using the latest available valuation on or after 31<sup>st</sup> December 2015, plus an estimated valuation for the period up to 31<sup>st</sup> March 2016.
- (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 are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards on the basis of their open market value (OMV).

The only non-UK fund is the Continental European Fund 1. 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 funds are independently valued on a rolling basis at least annually.

- (g) Financing - 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 2016 is the actual fair value using the latest available valuation on or after 31<sup>st</sup> December 2015, plus an estimated valuation for the period up to 31<sup>st</sup> March 2016.
- (h) Contributions – These represent the total amounts received from the employers and employees within the scheme. From 1<sup>st</sup> April 2015 the employee contribution bands (revised annually in line with inflation) are as follows:

| <b>Full time pay for the post</b> | <b>Contribution rate 15/16</b> |
|-----------------------------------|--------------------------------|
| Up to £13,600                     | 5.5%                           |
| £13,601 to £21,200                | 5.8%                           |
| £21,201 to £34,400                | 6.5%                           |
| £34,401 to £43,500                | 6.8%                           |
| £43,501 to £60,700                | 8.5%                           |
| £60,701 to £86,000                | 9.9%                           |
| £86,001 to £101,200               | 10.5%                          |
| £101,201 to £151,800              | 11.4%                          |
| More than £151,801                | 12.5%                          |

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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 2015/16 is 22.0% and for 2016/17 it will be 22.5%.

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

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

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

| <b>Financial assumption</b>     | <b>March 2013</b><br>% | <b>March 2010</b><br>% |
|---------------------------------|------------------------|------------------------|
| Discount Rate                   | 4.6                    | 6.1                    |
| Price Inflation                 | 3.3                    | 3.3                    |
| 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.

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With effect from the 1 April 2015, the actuarial review carried out for 31 March 2013 resulted in an increase to the Council's contribution rate of 0.5% (i.e. to 22%) for 2015/16. This will be followed by annual increases of 0.5% for 2016/17. The next actuarial valuation of the Fund is underway and will be carried out as at 31 March 2016, with new employer contribution rates taking effect from 1 April 2017 for the 2017/18 financial year.

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 million in 2010) accrued up to that date. The resulting deficit as at the 2013 valuation was £348million (£234 million in 2010).

**Actuarial Present Value of Promised Retirement Benefits**

- (n) The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1,570 million as at 31st March 2016 (£1,683 million as at 31st March 2015).
- (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.
  - 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.

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**(q) 2015/16 Financial Year Summary of the Fund's Market Value**

| <b>Fund Manager</b>       | <b>Assets</b>               | <b>Assets Value 2015/16<br/>£'000</b> | <b>Assets Value 2014/15<br/>£'000</b> | <b>Proportion of Fund 2014/15 (%)</b> |
|---------------------------|-----------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| <b>Schroders Property</b> | Property                    | 97,527                                | 88,262                                | 9.4                                   |
| <b>HarbourVest</b>        | Private Equity              | 41,247                                | 44,167                                | 4.0                                   |
| <b>UBS</b>                | Passive Equity and Bonds    | 430,848                               | 433,052                               | 41.4                                  |
| <b>Blackrock</b>          | Passive Equity and Bonds    | 432,402                               | 433,790                               | 41.5                                  |
| <b>Investec</b>           | Commodities                 | 0                                     | 31,784                                | 0.0                                   |
| <b>M&amp;G</b>            | Credit                      | 14,869                                | 14,447                                | 1.4                                   |
| <b>Securities Lending</b> | Securities Lending          | 109                                   | 100                                   | -                                     |
| <b>Unallocated Funds</b>  | Cash                        | 24,358                                | 198                                   | 2.3                                   |
| <b>Lewisham</b>           | Cash and Net Current Assets | 394                                   | (3,242)                               | -                                     |
| <b>Total Fund</b>         |                             | <b>1,041,754</b>                      | <b>1,042,558</b>                      | <b>100.0</b>                          |

**(r)** Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts. Please see note 13.

**(s)** 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.

**(t)** 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



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

- 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 and M&G 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 distributions and capital calls up to 31 March.

- (u)** Additional Voluntary Contributions (“AVCs”)  
Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main fund, and In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed within transfers-in. Further details about the AVC arrangements are disclosed in note 15 to the financial statements.

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## FUND ACCOUNT FOR THE YEAR

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

| <b><u>FUND ACCOUNT FOR THE YEAR ENDED</u></b><br><b><u>31st MARCH 2016</u></b> | <b>2015/16</b><br><b>£'000s</b> | <b>2014/15</b><br><b>£'000s</b> | <b>Note</b> |
|--|---------------------------------|---------------------------------|-------------|
| <b><u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS</u></b>                      |                                 |                                 |             |
| <b><u>DIRECTLY INVOLVED WITH THE SCHEME</u></b>                                |                                 |                                 |             |
| <b>Contributions Receivable:</b>   |                                 |                                 |             |
| - from Employer  | 31,019                          | 30,471                          | 1           |
| - from Employees   | 9,272                           | 9,774                           | 1           |
| - Reimbursement for Early Retirement   | 1,898                           | 1,604                           |             |
| Transfer Values In   | 1,409                           | 1,572                           |             |
| Other Income   | 221                             | 3                               |             |
| <b>Sub-Total: Income</b>   | <b>43,819</b>                   | <b>43,424</b>                   |             |
| <b>Benefits Payable:</b>   |                                 |                                 |             |
| - Pensions   | 37,629                          | 35,476                          | 2           |
| - Lump Sums: Retirement allowances   | 8,087                           | 8,478                           |             |
| - Lump Sums: Death grants  | 1,048                           | 528                             |             |
| <b>Payments to and on account of leavers:</b>                                  |                                 |                                 |             |
| - Refunds of Contributions   | 81                              | 52                              |             |
| - Transfer Values Out  | 2,709                           | 3,190                           |             |
| Administrative and other expenses borne by the scheme                          | 928                             | 941                             | 3           |
| <b>Sub-Total: Expenses</b>   | <b>50,581</b>                   | <b>48,665</b>                   |             |
| <b>Total Net additions (withdrawals) from Dealings with Scheme Members</b>     | <b>(6,762)</b>                  | <b>(5,241)</b>                  |             |

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| <b>RETURNS ON INVESTMENTS</b>                                      |                  |                  |    |
|--|------------------|------------------|----|
| Investment Income  | 6,436            | 6,978            | 4  |
| Change in market value of investments<br>(Realised and Unrealised) | 1,013            | 137,859          | 5a |
| <b>Investment Expenses:</b>  |                  |                  |    |
| - Investment Management Fees                                       | (1,383)          | (1,443)          | 6  |
| - Tax on Dividends   | (207)            | (389)            |    |
| <b>Total Net Returns on Investments</b>                            | <b>5,958</b>     | <b>143,005</b>   |    |
| NET INCREASE / (DECREASE) IN THE<br>FUND DURING<br>THE PERIOD      | (804)            | 137,764          |    |
| OPENING NET ASSETS OF THE SCHEME                                   | 1,042,558        | 904,794          |    |
| <b>CLOSING NET ASSETS OF THE SCHEME</b>                            | <b>1,041,754</b> | <b>1,042,558</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 2016.

| <b>NET ASSETS STATEMENT AT 31 MARCH 2015</b> | <b>2015/16</b>   | <b>2014/15</b>   | <b>Not e</b> |
|--|------------------|------------------|--------------|
|  | <b>£000s</b>     | <b>£000s</b>     |              |
| <b>-</b>                                     |                  |                  |              |
| <b>EQUITIES</b>                              |                  |                  |              |
| Equities: UK                                 | 8,734            | 8,777            | 5            |
| Equities: Global                             | 11,949           | 11,228           | 5            |
|  | <b>20,683</b>    | <b>20,005</b>    |              |
| <b>MANAGED FUNDS</b>                         |                  |                  |              |
| Property                                     | 96,286           | 82,286           | 5            |
| Equity                                       | 656,078          | 662,071          | 5            |
| Fixed Interest                               | 161,327          | 159,838          | 5            |
| Index Linked                                 | 32,876           | 32,410           | 5            |
| Other Assets                                 | 33,077           | 65,028           | 5            |
|  | <b>979,621</b>   | <b>1,001,633</b> |              |
| <b>CASH HELD WITH CUSTODIAN</b>              | 40,667           | 23,775           | 10           |
| <b>DERIVATIVE CONTRACTS</b>                  |                  |                  |              |
| Assets                                       | 0                | 0                | 8            |
| Liabilities                                  | 0                | 0                | 8            |
| <b>OTHER INVESTMENT BALANCES</b>             |                  |                  |              |
| Debtors: Investment Transactions             | 389              | 387              | 9            |
| Creditors: Investment Transactions           | (0)              | (0)              | 9            |
|  | <b>1,041,360</b> | <b>1,045,800</b> |              |
| <b>TOTAL INVESTMENTS</b>                     |                  |                  |              |
| <b>NET CURRENT ASSETS AND LIABILITIES</b>    |                  |                  |              |
| Debtors                                      | 974              | 1,226            | 9            |
| Creditors                                    | (853)            | (4,740)          | 9            |
| Cash in Hand                                 | 273              | 272              | 10           |
|  | <b>1,041,754</b> | <b>1,042,558</b> |              |
| <b>TOTAL NET ASSETS</b>                      |                  |                  |              |

**Pension Fund Accounts**

The financial statements of the fund do not take account of the liability to pay pensions or benefits after 31<sup>st</sup> March 2016. This liability is included within the Authority's balance sheet.

**NOTES TO THE PENSION FUND ACCOUNTS****1. CONTRIBUTIONS RECEIVABLE**

| <b><u>Employer Contributions</u></b> | <b>2015/16</b><br><b>£000s</b> | <b>2014/15</b><br><b>£000s</b> |
|--------------------------------------|--------------------------------|--------------------------------|
| Administering                        | 25,191                         | 24,974                         |
| Admitted                             | 638                            | 809                            |
| Scheduled                            | 5,190                          | 4,688                          |
|                                      | <u>31,019</u>                  | <u>30,471</u>                  |

| <b><u>Employee Contributions</u></b> | <b>2015/16</b><br><b>£000s</b> | <b>2014/15</b><br><b>£000s</b> |
|--------------------------------------|--------------------------------|--------------------------------|
| Administering                        | 7,479                          | 7868                           |
| Admitted                             | 219                            | 381                            |
| Scheduled                            | 1,574                          | 1,525                          |
|                                      | <u>9,272</u>                   | <u>9,774</u>                   |

| <b><u>2. BENEFITS PAYABLE</u></b> | <b>2015/16</b><br><b>£000s</b> | <b>2014/15</b><br><b>£000s</b> |
|-----------------------------------|--------------------------------|--------------------------------|
| Administering                     |                                | 22,652                         |
| Admitted                          |                                | 383                            |
| Scheduled                         |                                | 1,174                          |
| Pensions Increases                | 11,442                         | 11,267                         |
|                                   | <u>37,629*</u>                 | <u>35,476*</u>                 |

\* includes Dependents Pensions

| <b><u>3. ADMINISTRATION COSTS</u></b> | <b>2015/16</b><br><b>£000s</b> | <b>2014/15</b><br><b>£000s</b> |
|---------------------------------------|--------------------------------|--------------------------------|
| Lewisham Administration               | 586                            | 614                            |
| Administrative costs*                 | 334                            | 305                            |
| Other Costs                           | 0                              | 14                             |
| Bank Charges                          | 8                              | 8                              |
|                                       | <u>928</u>                     | <u>941</u>                     |

\*includes Grant Thornton Audit fees

| <b><u>4. INVESTMENT INCOME</u></b> | <b>2015/16</b><br><b>£000s</b> | <b>2014/15</b><br><b>£000s</b> |
|------------------------------------|--------------------------------|--------------------------------|
| Cash                               | 136                            | 184                            |
| Equity                             | 321                            | 1,536                          |
| Fixed Interest                     | 1,009                          | 0                              |
| Index Linked                       | 254                            | 277                            |

| <b>Pension Fund Accounts</b> |              |              |
|------------------------------|--------------|--------------|
| Managed Funds Incl Property  | 4,648        | 4,930        |
| Securities Lending           | 9            | 7            |
| Other                        | 59           | 44           |
|                              | <u>6,436</u> | <u>6,978</u> |

## 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 2016 |      |
|---|-----------|-----------------------------|------|
|   |           | Value £'000                 | %    |
| Aquila Life US Equity Index Fund                | Blackrock | 146,076                     | 15.1 |
| UBS GBL Asset Life North America Equity Tracker | UBS       | 134,737                     | 13.9 |
| UBS Global Life UK Equity Tracker Fund          | UBS       | 87,569                      | 9.0  |
| Blackrock Pensions Aquila Life UK Equity Index  | Blackrock | 86,527                      | 8.9  |

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

| Asset                                     | Manager     | 31 <sup>st</sup> March 2016 |      |
|---|-------------|-----------------------------|------|
|   |             | Value £'000                 | %    |
| <b>UK Equities</b>                        |             |                             |      |
| Harbourvest GE PE Shares                  | Harbourvest | 8,739                       | 100  |
| <b>Global Equities</b>                    |             |                             |      |
| Commonwealth Bank of Australia            | UBS         | 662                         | 6.5  |
| Westpac BKG Corp                          | UBS         | 511                         | 5.0  |
| <b>Property</b>                           |             |                             |      |
| Hercules Unit Property                    | Schroder    | 4,844                       | 5.0  |
| Hermes Property unit                      | Schroder    | 9,178                       | 9.5  |
| IPIF Feeder Unit Trust                    | Schroder    | 5,122                       | 5.3  |
| legal and General property Funds          | Schroder    | 12,543                      | 13.0 |
| Real Income FD                            | Schroder    | 8,681                       | 9.0  |
| Schroder unit TST Uk Real Estate Sref INC | Schroder    | 13,534                      | 14.0 |
| Standard Life Pooled Property Fund        | Schroder    | 11,798                      | 12.3 |
| <b>Managed Equities</b>                   |             |                             |      |
| UBS ASST MGMT Lift Uk Equity              | UBS         | 87,569                      | 13.3 |
| UBS GBL Asset Life North America          | UBS         | 134,737                     | 20.5 |

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|                                   |           |        |     |
|-----------------------------------|-----------|--------|-----|
| UBS ASST MGMT Life Euro Ex        | UBS       | 38,830 | 5.9 |
| Aquila Life European Equity index | Blackrock | 39,545 | 6.0 |

| Asset   | Manager     | 31 <sup>st</sup> March 2016 |      |
|---|-------------|-----------------------------|------|
|   |             | Value<br>£'000              | %    |
| BlackRock Pension Aquila Life UK              | Blackrock   | 86,477                      | 13.2 |
| Aquila Life Uk Equity Index Fund              | Blackrock   | 145,998                     | 22.2 |
|   |             |                             |      |
| <b>Fixed Interest</b>                         |             |                             |      |
| UBS Asst Management STG Corp                  | UBS         | 32,404                      | 19.9 |
| BlackRock AM (IE)Uk Credit                    | Blackrock   | 31,783                      | 19.6 |
| Aquila Life Over 5 Years                      | Blackrock   | 31,842                      | 19.6 |
| BlackRock Pension Aquila over 15 years UK     | Blackrock   | 33,011                      | 20.3 |
|   |             |                             |      |
| <b>Index Linked</b>                           |             |                             |      |
| UK(Government Of) 0.75% I/L 22/3/34 Gbp       | UBS         | 1,737                       | 5.2  |
| UK(Government Of) 1.25% I/L 22/11/2027        | UBS         | 1,730                       | 5.2  |
| UK(Government Of) 0.125% I/L Gilt 22/3/68 Gbp | UBS         | 1,674                       | 5.1  |
| UK (Govt Of) 0.375% Idx-Lkd Gilt 22/3/62      | UBS         | 1,821                       | 5.5  |
| UK(Govt)Of) 0.5% Idx/Lkd 22/3/50 Gbp          | UBS         | 1,682                       | 5.1  |
| UK (Govt Of) 0.625% Idx/Lkd 22/03/40 Gbp      | UBS         | 1,848                       | 5.6  |
| UK (Govt Of) 0.75% I/L Stk 22/11/2047         | UBS         | 1,694                       | 5.1  |
| UK (Govt Of) 1.25% Idx-Lkd Gilt 2055 Gbp      | UBS         | 2,044                       | 6.2  |
| UK( Govt Of) 1.875% I/L Stk 22/11/22 Gbp      | UBS         | 1,647                       | 5    |
|   |             |                             |      |
| <b>Others</b>                                 |             |                             |      |
| International PE Ptrs V Cayman Ptnship Fd     | Harbourvest | 7,101                       | 15   |
| Partners Viii Cayman Venture Fund LP          | Harbourvest | 5,471                       | 11.6 |
| HIPEP Vii (AIF) Partnership Fund LP           | Harbourvest | 3,998                       | 8.4  |
| Ptrs Viii Cayman Buyout                       | Harbourvest | 7,272                       | 15.4 |
| M&G UK Companies Financing Fund               | M&G         | 7,556                       | 16.0 |

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**Pension Fund Accounts**


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An analysis of investment movements is set out below:

| <b>5. INVESTMENT ANALYSIS</b>    | <b>Value at</b>   | <b>Purchases</b> | <b>Sales</b>    | <b>Change in</b>     | <b>Change in</b>    | <b>Value at</b>   |
|----------------------------------|-------------------|------------------|-----------------|----------------------|---------------------|-------------------|
| <b>Investments</b>               | <b>31/03/2015</b> | <b>at Cost</b>   | <b>Proceeds</b> | <b>Capital Value</b> | <b>Market Value</b> | <b>31/03/2016</b> |
|                                  | <b>£000s</b>      | <b>£000s</b>     | <b>£000s</b>    | <b>£000s</b>         | <b>£000s</b>        | <b>£000s</b>      |
| <b>UK Equities</b>               | 8,777             | 0                | 0               | 0                    | -43                 | 8,734             |
| <b>Global Equities</b>           | 11,228            | 2,152            | -1,450          | 17                   | 0                   | 11,947            |
| <b>Equities</b>                  | 662,071           | 17,736           | -15,525         | 29                   | -8,231              | 656,080           |
| <b>Property</b>                  | 82,286            | 8,906            | -58             | -830                 | 5,959               | 96,263            |
| <b>Fixed Interest Securities</b> | 159,838           | 0                | 0               | 0                    | 1,489               | 161,327           |
| <b>Index Linked Securities</b>   | 32,410            | 0                | 0               | 0                    | 466                 | 32,876            |
| <b>Other*</b>                    | 65,028            | 5,341            | -38,330         | -54                  | 1,092               | 33,077            |
| <b>Derivatives</b>               | 0                 | 0                | 0               | 0                    | 0                   | 0                 |
|                                  | <b>1,021,638</b>  | <b>34,135</b>    | <b>-55,363</b>  | <b>-838</b>          | <b>732</b>          | <b>1,000,304</b>  |
| <b>Cash deposits</b>             | 23,775            |                  |                 |                      | 281                 | 40,667            |
| <b>Other Investment Balances</b> | 387               |                  |                 |                      |                     | 389               |
|                                  | <b>1,045,800</b>  |                  |                 |                      | <b>1,013</b>        | <b>1,041,360</b>  |

\* Includes Venture Capital, Credit Mandates and Private equity (and Commodities in 2014/15 only).

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

Apart from Global Equities and bonds, the only other overseas investment held by the Fund fall under the 'Other' category and is namely Private Equity £25.4m.

The total value of unquoted securities held by the fund as at 31<sup>st</sup> March 2016 was £711m, this includes equities, bonds and other assets.



**Pension Fund Accounts**

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The total value of quoted securities held by the fund as at 31st March 2016 was £193m, this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds Unit Trusts valued at £490m, Unitised Insurance Policies valued at £363m, and other managed funds valued at £25m.

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**Pension Fund Accounts**


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As at 31<sup>st</sup> March 2015:**5.  
INVESTMENT  
ANALYSIS**

|  | <b>Value at<br/>31/03/14</b> | <b>Purchases<br/>At Cost</b> | <b>Sales<br/>Proceed<br/>s</b> | <b>Change<br/>in<br/>Capital<br/>Value</b> | <b>Change<br/>in<br/>Market<br/>Value</b> | <b>Value at<br/>31/03/15</b> |
|--|------------------------------|------------------------------|--------------------------------|--|---|------------------------------|
|  | £'000                        | £'000                        | £'000                          | £'000                                      | £'000                                     | £'000                        |
| <b>Investments</b>                       |                              |                              |                                |  |   |                              |
| <b>UK Equities</b>                       | 6,505                        | 0                            | 0                              | (152)                                      | 2,424                                     | 8,777                        |
| <b>Global Equities</b>                   | 10,389                       | 17                           | (1)                            | (73)                                       | 896                                       | 11,228                       |
| <b>Property<br/>Managed<br/>Equities</b> | 75,732                       | 12,059                       | (9,991)                        | (3,965)                                    | 8,451                                     | 82,286                       |
| <b>Fixed Interest<br/>Securities</b>     | 558,575                      | 13,627                       | (850)                          |  | 90,719                                    | 662,071                      |
| <b>Index Linked<br/>Securities</b>       | 142,268                      | 3,728                        | (12,436)                       |  | 26,278                                    | 159,838                      |
| <b>Other*</b>                            | 28,476                       | 3,515                        | (5,265)                        |  | 5,684                                     | 32,410                       |
| <b>Derivatives</b>                       | 71,689                       | 1,356                        | (11,266)                       |  | 3,249                                     | 65,028                       |
|  | 0                            | 0                            | 0                              |  |   |                              |
|  | <b>893,634</b>               | <b>34,302</b>                | <b>(39,809)</b>                | <b>(4,190)</b>                             | <b>137,701</b>                            | <b>1,021,638</b>             |
| <b>Cash deposits</b>                     | 10,651                       |                              |                                |  |   | 23,775                       |
| <b>Other Investment<br/>Balances</b>     | 471                          |                              |                                |  | 158                                       | 387                          |
|  | <b>904,756</b>               |                              |                                |  | <b>137,859</b>                            | <b>1,045,800</b>             |

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**Pension Fund Accounts**


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**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 <sup>st</sup> March 2016                 |                                |  | Financial Assets              | 31 <sup>st</sup> March 2015                 |                                |  |
|---|--------------------------------|--|-------------------------------|---|--------------------------------|--|
| Fair Value through Profit and Loss<br>£'000 | Loans and Receivables<br>£'000 | Financial Liabilities at Amortised Cost<br>£'000 |                               | Fair Value through Profit and Loss<br>£'000 | Loans and Receivables<br>£'000 | Financial Liabilities at Amortised Cost<br>£'000 |
| 20,683                                      |                                |  | Equities                      | 20,005                                      |                                |  |
|   |                                |  | Managed Funds                 |   |                                |  |
| 96,263                                      |                                |  | Property                      | 82,286                                      |                                |  |
| 656,078                                     |                                |  | Managed Equity                | 662,071                                     |                                |  |
| 161,327                                     |                                |  | Fixed Interest                | 159,838                                     |                                |  |
| 32,876                                      |                                |  | Index Linked                  | 32,410                                      |                                |  |
| 33,077                                      |                                |  | Other Assets                  | 65,028                                      |                                |  |
| 0   |                                |  | Derivative contracts          | 0   |                                |  |
|   | 40,667                         |  | Cash deposits                 |   | 23,775                         |  |
|   | 0                              |  | Pending Trades                |   | 0                              |  |
|   | 389                            |  | Dividends & Income            |   | 387                            |  |
|   | 953                            |  | Contributions Due             |   | 1,191                          |  |
|   | 273                            |  | Cash Balances                 |   | 272                            |  |
|   | 21                             |  | Other Current Assets          |   | 35                             |  |
| <b>1,000,304</b>                            | <b>42,303</b>                  |  | <b>Total Financial Assets</b> |   |                                |  |

## Pension Fund Accounts

| 31 <sup>st</sup> March 2016        |                       |   | Financial Assets                   | 31 <sup>st</sup> March 2015        |                       |   |
|------------------------------------|-----------------------|---|------------------------------------|------------------------------------|-----------------------|---|
| 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                                   |
|                                    |                       |   | <b>Financial Liabilities</b>       |                                    |                       |   |
|                                    |                       | 0                                       | Derivative Contracts               |                                    |                       | 0                                       |
|                                    |                       | 0                                       | Pending Trades                     |                                    |                       | 0                                       |
|                                    |                       | 0                                       | Unpaid benefits                    |                                    |                       | (374)                                   |
|                                    |                       | (853)                                   | Other current Liabilities          |                                    |                       | (4,366)                                 |
|                                    |                       | (853)                                   | <b>Total Financial Liabilities</b> |                                    |                       | (4,740)                                 |
| <b>1,000,304</b>                   | <b>42,303</b>         | <b>(853)</b>                            | <b>Net Financial Assets</b>        | <b>1,021,638</b>                   | <b>25,660</b>         | <b>(4,740)</b>                          |

## Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

| 31 March 2016 |                                    | 31 March 2015  |
|---------------|------------------------------------|----------------|
| £'000         | Financial Assets                   | £'000          |
| 1,013         | Fair Value through Profit and Loss | 137,859        |
| 0             | Loans and Receivables              | 0              |
|               |                                    |                |
|               | <b>Financial Liabilities</b>       |                |
| 0             | Fair Value through Profit and Loss | 0              |
|               |                                    |                |
| <b>1,013</b>  | <b>Total</b>                       | <b>137,859</b> |

## 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.

## Pension Fund Accounts

| Values as at 31 <sup>st</sup><br>March 2016            | Quoted<br>Market<br>Price | Using<br>Observable<br>Inputs | With<br>Significant<br>Unobservable<br>Inputs<br>Level 3 | Total             |
|--|---------------------------|-------------------------------|--|-------------------|
|  | Level 1                   | Level 2                       |  |                   |
|  | £'000                     | £'000                         | £'000  | £'000             |
| <b>Financial Assets</b>                                |                           |                               |  |                   |
| Financial Assets at Fair Value through Profit and Loss | 20,683                    | 946,544                       | 33,077   | <b>1,000,3047</b> |
| Loans and Receivables                                  | 42,303                    |                               |  | <b>42,303</b>     |
| <b>Total Financial Assets</b>                          | <b>62,986</b>             | <b>946,544</b>                | <b>33,077</b>  | <b>1,042,607</b>  |
| <b>Financial Liabilities</b>                           |                           |                               |  |                   |
| Fair Value through Profit and Loss                     |                           |                               |  |                   |
| Financial Liabilities at Amortised Cost                | (853)                     |                               |  | <b>(853)</b>      |
| <b>Total Financial Liabilities</b>                     | <b>(853)</b>              |                               |  | <b>(853)</b>      |
| <b>Net Financial Assets</b>                            | <b>62,133</b>             | <b>946,544</b>                | <b>33,077</b>  | <b>1,041,754</b>  |

| Values as at 31 <sup>st</sup><br>March 2015            | Quoted<br>Market<br>Price | Using<br>Observable<br>Inputs | With<br>Significant<br>Unobservable<br>Inputs<br>Level 3 | Total            |
|--|---------------------------|-------------------------------|--|------------------|
|  | Level 1                   | Level 2                       |  |                  |
|  | £'000                     | £'000                         | £'000  | £'000            |
| <b>Financial Assets</b>                                |                           |                               |  |                  |
| Financial Assets at Fair Value through Profit and Loss | 20,005                    | 966,243                       | 35,390   | 1,021,638        |
| Loans and Receivables                                  | 25,660                    |                               |  | 25,660           |
| <b>Total Financial Assets</b>                          | <b>45,665</b>             | <b>966,243</b>                | <b>35,390</b>  | <b>1,047,298</b> |
| <b>Financial Liabilities</b>                           |                           |                               |  |                  |
| Fair Value through Profit and Loss                     |                           |                               |  |                  |
| Financial Liabilities at Amortised Cost                | (4,740)                   |                               |  | (4,740)          |
| <b>Total Financial Liabilities</b>                     | <b>(4,740)</b>            |                               |  | <b>(4,740)</b>   |
| <b>Net Financial Assets</b>                            | <b>40,925</b>             | <b>966,243</b>                | <b>35,390</b>  | <b>1,042,558</b> |

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**Pension Fund Accounts**

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**5B. FINANCIAL RISK MANAGEMENT**

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

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

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

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

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

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**Pension Fund Accounts**


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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 2015/16 reporting period.

| <b>Asset Type</b> | <b>Potential Market Movement +/-<br/>(%p.a.)</b> |
|-------------------|--|
| UK Equities       |  |
| Overseas Equities |  |
| Total Bonds       |  |
| Cash              |  |
| Alternatives      |  |
| Property          |  |

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:

| <b>Asset Type</b>   | <b>Final Market Value as at 31/3/2016<br/>£'000</b> | <b>Percentage Change %</b> | <b>Value on Increase<br/>£'000</b> | <b>Value on Decrease<br/>£'000</b> |
|---------------------|---|----------------------------|------------------------------------|------------------------------------|
| UK Equities         |   |                            |                                    |                                    |
| Overseas Equities   |   |                            |                                    |                                    |
| Total Bonds         |   |                            |                                    |                                    |
| Other Assets        |   |                            |                                    |                                    |
| Property            |   |                            |                                    |                                    |
| Cash                |   |                            |                                    |                                    |
|                     |   |                            |                                    |                                    |
| <b>Total Assets</b> |   |                            |                                    |                                    |

\* This figure excludes derivatives and other investment balances.

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

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**Pension Fund Accounts**


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**c) 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 and cash held by investment managers, a 0.5% change in interest rates would result in an approximate annualised change in income of £7k. The risk is mitigated by the Fund holding minimum cash balances and a diversified portfolio.

**d) Currency Risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31<sup>st</sup> March 2016 with the previous year in brackets:

|                    |                 |
|--------------------|-----------------|
| Australian Dollars | £8.9m (£9.6m)   |
| Euro               | £17.2m (£22.4m) |
| Hong Kong Dollars  | £4.2m (£4.9m)   |
| US Dollars         | £70.3m (£127m)  |

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

**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, 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 2016, 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 xxx This volatility is applied to the fund's overseas assets as follows:

| <b>Asset Type</b>     | <b>Asset Value @<br/>31/3/2016<br/>£'000</b> | <b>%<br/>Change</b> | <b>Value on<br/>Increase<br/>£'000</b> | <b>%<br/>Change</b> | <b>Value on<br/>Decrease<br/>£'000</b> |
|-----------------------|--|---------------------|--|---------------------|--|
| Overseas<br>Equities  |  |                     |  |                     |  |
| Other Assets          |  |                     |  |                     |  |
| Other<br>Alternatives |  |                     |  |                     |  |
| <b>Total</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



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**Pension Fund Accounts**


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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 2016 these assets totalled approximately £870.9m, with a further £40.7m held in cash by the custodian on behalf of the Fund and fund managers.

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

|                          | <b>2015/16<br/>£'000</b> | <b>2014/15<br/>£'000</b> |
|--------------------------|--------------------------|--------------------------|
| Fund Managers' Fees      | 1,226                    | 1,351                    |
| Custodian Fees           | 40                       | 38                       |
| Advisory/Actuarial Costs | 117                      | 54                       |
|                          | <b>1,383</b>             | <b>1,443</b>             |

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

No prior year adjustments have been made to these accounts.

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**Pension Fund Accounts**


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**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<br/>2016</b> |  | <b>31<sup>st</sup> March<br/>2015</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>2015/16<br/>£'000</b> | <b>2014/15<br/>£'000</b> |
|---|--------------------------|--------------------------|
| Contributions due from Admitted / Scheduled Employers | 787                      | 1,031                    |
| Contributions due from Admitted / Scheduled Employees | 166                      | 160                      |
| Equity Dividends / Income from Managed Funds          |                          |                          |
| Interest and Other Income                             |                          | 387                      |
| LB Lewisham   | 0                        |                          |
| Tax Refunds   | 21                       | 35                       |
| Pending Trades  | 0                        |                          |
|   | <b>974</b>               | <b>1,613</b>             |
| <br>  |                          |                          |
| <b>Creditors</b>                                      | <b>2015/16<br/>£'000</b> | <b>2014/15<br/>£'000</b> |
| Fund Manager and Custody Fees                         | (171)                    | (243)                    |
| Consultancy / Advisory Fees                           | (43)                     | (56)                     |
| Pension Payments Due to Employees                     | 0                        | (374)                    |
| Pending Trades  | 0                        | 0                        |
| LB Lewisham   | (639)                    | (4,067)                  |
|   | <b>(853)</b>             | <b>(4,740)</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.

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**Pension Fund Accounts**


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**10. 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<sup>st</sup> March 2016 was £40.7m (£23.7m as at 31<sup>st</sup> March 2015). Approximately £24m was held from de-investment in Investec, £7m of the cash held was from Harbourvest, £7.0m from M&G, £1.0m of cash held was from Schroder. Approximately £0.9m 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<sup>st</sup> March 2016.

**11. TRANSACTION COSTS**

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

|                           | <b>2015/16</b> | <b>2014/15</b> |
|---------------------------|----------------|----------------|
|                           | <b>£'000</b>   | <b>£'000</b>   |
| Total Purchases           | 7              | 0              |
| Total Sales               | 1              | 0              |
| <b>Total transactions</b> | <b>8</b>       | <b>0</b>       |

**12. POST YEAR END EVENTS**

There were no post year end events to report. However the Fund is completing the procurement of a new multi-asset mandate to replace the disinvestment in Commodities (Investec) in 2015.

**13. COMMITMENTS**

The Pension Fund was committed to the following capital contributions as at the 31<sup>st</sup> December 2015

**Harbourvest**

| <b>Fund</b>   | <b>Amount<br/>'000</b> | <b>Translated<br/>£'000</b> |
|---|------------------------|-----------------------------|
| Harbourvest Partners VIII – Cayman Venture Fund L.P                               | \$285                  | 195                         |
| Harbourvest Partners VIII – Cayman Buyout Fund L.P                                | \$1,655                | 1,131                       |
| HarbourVest Partners X AIF L.P.   | \$29,160               | 19,919                      |
| HIPEP VII (AIF) Partnership Fund L.P.   | \$25,350               | 17,317                      |
| Harbourvest International Private Equity Partners V – Cayman Partnership Fund L.P | €180                   | 143                         |
| Harbourvest International Private Equity Partners V – Cayman Direct Fund L.P      | €1,050                 | 831                         |
| <b>Total</b>  |                        | <b>39,536</b>               |

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**Pension Fund Accounts**

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The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31<sup>st</sup> March 2016. This compares to the total Harbourvest commitments at 31<sup>st</sup> March 2015 £2.9m.

#### **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. 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:

- Councillor John Muldoon declared personal interests as a holder of preserved benefits in the Lewisham scheme which elected members had been able to join until May 2014 and as an independently selected substitute member on the Shadow Advisory Board of the LGPS scheme nationally.
- Councillor Muldoon declared a personal interest as a member of the Local Government Pensions Scheme Shadow Advisory Board.

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 2016.

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 £586k (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 41 '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.

## Pension Fund Accounts

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

\*estimate

|                                      | <b>Total</b> | <b>Equitable</b> | <b>Clerical<br/>Medical</b> |
|--------------------------------------|--------------|------------------|-----------------------------|
|                                      | <b>£'000</b> | <b>£'000</b>     | <b>£'000</b>                |
| <b>2014/15</b>                       |              |                  |                             |
| <b>Value at 1 April 2015</b>         | 1,570        | 496              | 1,074                       |
| Contributions and Transfers Received | 330          | 4                | 324                         |
| Investment Return                    | 151          | 18               | 134                         |
| Paid Out                             | (420)        | (46)             | (373)                       |
| <b>Value at 31 March 2015</b>        | <b>1,631</b> | <b>472</b>       | <b>1,159</b>                |

**16. SCHEDULED BODIES**

The following are scheduled bodies to the fund as at 31<sup>st</sup> March 2016:

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

**17. ADMITTED BODIES**

The following are admitted bodies to the fund as at 31<sup>st</sup> March 2016:

|  |
|--|
| NSL (formerly known as National Car Parks Ltd) |
| Excalibur Tenant Management Co-operative Ltd   |
| PLUS (Ceased December 2015)                    |
| Housing 21                                     |
| Lewisham Nexus Services                        |
| Wide Horizons                                  |
| Phoenix  |
| INSPACE  |
| T Brown & Sons (Ceased June 2015)              |
| Quality Heating                                |
| Blenheim CDP                                   |
| Crime Reduction Initiatives (CRI)              |
| Skanska  |
| One Housing                                    |
| Fusions Leisure Management                     |
| 3 C's Support                                  |

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**Pension Fund Accounts**


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|  |
|--|
| Pre-School Learning Alliance           |
| Chequers Contract Services – Lee Manor |
| Tower Services                         |
| Blenheim                               |
| Chartwells                             |
| Lifeline (Ceased October 2015)         |

**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.

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 2016, the value of aggregate stock on loan was £5.5m (£1.9m as at 31<sup>st</sup> March 2015). 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 £109k net of direct expenses (compared to £100k in 2014/15). The value of collateral held as at 31 March 2016 was £6.2m (£2.1m as at 31<sup>st</sup> March 2015).

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**Pension Fund Accounts**


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**19. MEMBERSHIP**

|                             | <b>Active<br/>Members<br/>2015/16</b> | <b>Active<br/>Members<br/>2014/15</b> | <b>Deferred<br/>Benefits<br/>2015/16</b> | <b>Deferred<br/>Benefits<br/>2014/15</b> | <b>Retired<br/>Former<br/>Members<br/>2015/16</b> | <b>Retired<br/>Former<br/>Members<br/>2014/15</b> |
|-----------------------------|---------------------------------------|---------------------------------------|--|--|---|---|
| <b>Admin.<br/>Authority</b> | 6,049                                 | 6,147                                 | 9,045                                    | 8,370                                    | 6,939   | 6,805   |
| <b>Scheduled<br/>Bodies</b> | 892                                   | 855                                   | 668                                      | 588                                      | 202   | 180   |
| <b>Admitted<br/>Bodies</b>  | 104                                   | 140                                   | 115                                      | 103                                      | 84  | 65  |
| <b>Totals</b>               | <b>7,045</b>                          | <b>7,142</b>                          | <b>9,828</b>                             | <b>9,061</b>                             | <b>7,225</b>                                      | <b>7,050</b>                                      |

20. These accounts were authorised on the XX XXX 2016 by the Executive Director for Resources and Regeneration.