



London Borough of Lewisham Pension Fund

2016/17 Annual Report

Together we can make Lewisham the best place in
London to live, work and learn

Contents

1. Foreword by the Executive Director for Resources and Regeneration	3
2. Foreword by the Chair of the Pensions Investment Committee	4
3. Introduction	6
a. Overview of the Scheme	6
b. Management	6
4. Management and Financial Performance Report	7
a. Scheme Management and Advisers	7
b. Risk management	8
c. Financial Performance	10
d. Administrative Management Performance	10
5. Investment Policy and Performance Report	17
a. Investment Strategy	17
b. Investment Performance	18
6. Scheme Administration Report	22
a. Scheme Administration/Pension Admin and Assurance	22
b. Internal Dispute Procedure	22
7. Actuary's Report on Fund	23
8. Governance Compliance Statement	24
a. Governance Structure	24
b. Membership	24
c. Policy and Processes	25
9. Fund Account, Net Assets and Notes	27
10. Funding Strategy Statement	27
11. Investment Strategy Statement	29
12. Communications Policy Statement	29
13. Additional Data	30
14. Independent Auditor's Consistency Report	31

Appendices

- A 2016/17 Pension Fund Accounts**
- B Investment Strategy Statement**
- C Executive Summary of the 2016 Actuarial Valuation**

1 FOREWORD BY EXECUTIVE DIRECTOR OF RESOURCES & REGENERATION

- 1.1. Welcome to the 2016-17 Annual Report for the Lewisham Pension Fund. The requirement for and contents of the annual report was introduced under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.
- 1.2. The Pension Fund Annual Report details the financial position of the Fund and the performance of the professional managers appointed to administer the investment portfolio. It brings together a number of separate reporting strands into one comprehensive document that enables the public and employees to see how the Fund is managed and how it is performing.
- 1.3. The results of the most recent triennial valuation, based on the Fund's position as at 31 March 2016, showed an improved funding level of 78% of its liabilities, compared to a funding level of 71% as at the 2013 valuation. The resulting deficit as at the 2016 valuation was £288m (£348m in 2013).
- 1.4. Over the last three years active membership has changed very little, increasing by 50 members overall (0.7%) in that period. The Fund continues to mature and the net cash withdrawal in 2016/17, excluding Fund management expenses, was £8.2m compared to £6.1m in the previous year.
- 1.5. Over the year the net asset value of the Fund increased by 22% to £1,275m at 31 March 2017 (£1,041m the previous year). The return on assets was just 0.06% above benchmark for the year, and the overall increase in Fund value was predominantly due to an increase in the market value of the passive equity mandates, which made up 66% of the Fund's assets at 31 March 2017.
- 1.6. This was the fourth full year of the Fund's mainly passive strategy and the performance of the Fund's passive equities and bonds has been in-line with benchmark expectations. However, given the improved funding position and growing maturity, combined with the heavy weighting of the Fund to the more risky asset class of equities, a diversification strategy was agreed by Members of the Pensions Investment Committee in 2016/17. The aim being to rebalance the portfolio by procuring mandates in alternative lower-risk asset classes.
- 1.7. In a two phase process, mandates in diversified growth and multi-asset credit have been procured in the initial phased approach of disinvestment from equities and the Fund is looking to opportunities in infrastructure as part of the second phase.
- 1.8. With regard to development of pension reform, particularly around pooling, Lewisham remains committed to pooling its assets with the London Collective Investment Vehicle (LCIV) where suitable mandates become available. However, to date none of the funds launched by the LCIV have been funds Lewisham are invested in or planning to invest in. The Fund will continue to position itself to put the interest and benefit of its members first as a priority.

Janet Senior
Executive Director for Resources & Regeneration

2 FOREWORD BY CHAIR OF PENSION INVESTMENT COMMITTEE

- 2.1. I am delighted to sit in my fourth year as Chair of the Lewisham Pension Investment Committee (PIC).
- 2.2. The most recent Office for Budget Responsibility forecasts in the Chancellor's Budget identified that inflation was low in 2016/17, although it has been steadily rising in 2017/18. UK GDP Growth increased by 1.5% between Quarter 2 2016 and Quarter 2 2017 according to the latest figures from the Office for National Statistics, slowing from the 1.8% growth between Quarter 1 of 2016 and 2017. Growth is forecast to improve slightly on this level over the remainder of the year and into 2018, but domestic and global economic uncertainties continue to put pressure on public sector spending and the returns available from investing.
- 2.3. In 2016/17 equity markets have, however, performed extremely well despite their volatility; this contributed to the Fund increasing in value by £233m to £1,275m at 31 March 2017. The Fund continues to act on the 2016 triennial evaluation, re-balancing the Fund as appropriate towards alternative and more illiquid strategies. The regular returns from these assets can perform better than traditional bonds in the current climate of high but volatile equity prices, allowing for better management of the Fund's 'glide path' towards future liabilities.
- 2.4. During the last year we have appointed a new Fund Manager in multi asset credit as part of this drive towards diversification and smart illiquidity. This process has continued at the present time, appointing new mandates in private debt, as well as preparing for a potential investment within the infrastructure spectrum. Given the upcoming challenges presented by Carbon Transition, the Committee will also be looking at possible investment opportunities in renewable energy within this asset class, for both steady income and the avoidance of stranded assets.
- 2.5. Keeping up to date with legislative and regulatory developments has required the on-going attention of the Committee, not least the Government's now mandatory demand for the Fund to belong to a 'pool'. As a voluntary founding member of the London Collective Investment Vehicle (CIV), the Fund remains committed to pooling our assets onto the platform. We are actively engaged with the CIV to identify mandates which are aligned with the beliefs of the Committee and the overall Fund strategy.
- 2.6. Alongside most of the other 32 London Borough shareholders and Joint Sectoral Committee members of the CIV, we hope to see the CIV taking the opportunities of scale afforded to it to make significant and profitable investments in alternative asset classes which are already being successfully pursued by other UK Local Government Pension Funds in 'pools' and collaborations across the UK at present.
- 2.7. The Committee will continue to work to ensure the Fund is well managed to the benefit of all its members. Our latest Investment Strategy Statement was published in April 2017 which, when read in conjunction with the Funding Strategy Statement, provides an overview of the Fund's approach to investing its assets in order to fund its liabilities.

- 2.8. I thank the members of the Pensions Investment Committee and the Council's officers for their work over the last year. I look forward to continuing to work with all concerned to ensure the Fund continues to be effectively managed.

Councillor Mark Ingleby
Chair – Pensions Investment Committee

3 INTRODUCTION

A. OVERVIEW OF THE SCHEME

- 3.1. The London Borough of Lewisham Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is set up under the Superannuation Act 1972, which requires the Council to maintain a Pension Fund for its own employees and employees admitted to the Fund under an admission agreement.
- 3.2. The Fund's objectives as per its Investment Strategy Statement are to invest its assets so as to meet the long-term pension and other benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations 2013) for its members. The Fund's approach to investing is to optimise return consistent with a prudent level of risk, to ensure there are sufficient resources to meet the liabilities whilst ensuring the suitability of the assets in relation to the needs of the Fund.

B. MANAGEMENT

- 3.3. The Council has delegated the investment arrangements of the scheme to the Pensions Investment Committee (PIC). This Committee decides on the investment policy most suitable to meet the liabilities of the Fund and the ultimate responsibility for the investment policy lies with it. It comprises eight elected representatives of the Council, all of whom have voting rights. Members of the admitted bodies and representatives of Local Pensions Board may attend the Committee meetings as observers, but have no voting rights.
- 3.4. The Committee reports to the Full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Executive Director for Resources and Regeneration and the Fund's appointed actuary, investment managers and investment adviser.
- 3.5. The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the regulations, whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

4 MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

A. SCHEME MANAGEMENT AND ADVISERS

4.1. The individuals and organisations administering the Pension Fund are as set out below:

Pensions Investment Committee Members	Members as at 30 September 2017 Cllr Ingleby (Chair) Cllr Hooks (Vice Chair) Cllr Best Cllr Johnston-Franklin Cllr Maslin Cllr Milne Cllr Muldoon Cllr Ogunbadewa
Permitted Observers	Members of Lewisham's Pensions Board
Administrator	Executive Director for Resources & Regeneration - Janet Senior
Adviser	Hymans Robertson LLP
Actuary	Hymans Robertson LLP
Custodian Bank	The Northern Trust Company
Solicitors	LB Lewisham Legal Services
Bankers	Barclays Bank
Performance Measurement	The Northern Trust Company
Investment Managers	Managers with Assets Under Management as at 31 March 2017: Blackrock (Mixed Passive) HarbourVest (Private Equity) M&G (Company Finance) Schroder (Property) UBS (Mixed Passive)
AVC Providers	Equitable Life and Clerical Medical
Auditors	Grant Thornton UK LLP

B. RISK MANAGEMENT

- 4.2. The legal responsibility for the prudent and effective stewardship of the Fund’s assets rests with the PIC. This Committee has full delegated authority to make investment decisions, the terms of which are set out in its terms of reference in the Council’s constitution. It receives advice from the Executive Director for Resources and Regeneration and, as necessary, from the Fund’s appointed actuary, investment managers, custodian and investment adviser.
- 4.3. The Committee has regard to the Myners Principles, as updated and consolidated post 2008 by the Government. The Committee manages the Pension Fund’s assets in accordance with the relevant LGPS regulations.
- 4.4. The Fund risk register is incorporated within the annual business plan which is approved by the PIC. The risk register sets out the nature of the individual risks for the Fund with an assessment of the level of risk. Risk ratings fall into the following four categories:

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

- 4.5. The PIC reviews the risk register periodically to ensure that risks are updated and the relevant mitigations are put in place to manage them.
- 4.6. The Fund’s Investment Strategy Statement also outlines the risks taken to meet the funding objectives and the approaches taken to managing those risks.

Key Risks

- 4.7. The principal risks identified as affecting the Fund are as follows:

1. Funding Risks – broken down into:

- a. **Financial mismatch** – the risk that the Fund assets fail to grow in line with the developing costs of meeting the liabilities. This is mitigated by the PIC setting a strategic asset allocation benchmark for the Fund which takes into account probability of success and downside risk, and monitoring allocation and returns relative to the benchmark.
- b. **Changing demographics** – the risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits. This is mitigated by monitoring the delivery of benchmark returns relative to liabilities,

with the PIC also seeking to understand the assumptions used in any analysis and modelling so they can be compared to their own views.

- c. **Systemic risk** – the possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting the Fund’s liabilities. The PIC seeks to mitigate this as much as it can through a diversified portfolio.

2. Asset Risks – specifically:

- a. **Concentration** – the risk that a significant allocation to any single asset class and its underperformance relative to expectation would result in difficulties achieving funding objectives. The PIC strategic asset allocation invests in a diversified range of asset classes and has in place rebalancing arrangements to ensure actual allocation does not deviate substantially from the target.
- b. **Illiquidity** – the risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. By investing in liquid asset classes such as listed quoted equities and bonds, the PIC has recognised the need for access to liquidity in the short term.
- c. **Currency risk** – the risk that the currency of the Fund’s assets underperforms relative to Sterling (the currency of the Fund’s liabilities). The Fund invests in a range of overseas markets which provides a diversified approach to currency markets.
- d. **Environmental, Social and Governance (ESG)** – the risk that ESG factors reduce the ability of the Fund to generate long-term returns. The PIC expects all investment managers to undertake appropriate monitoring of investments with regards to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund, including corporate governance and environmental factors. It expects managers to integrate material ESG factors within its investment analysis and decision making.
- e. **Manager underperformance** – the failure of managers to achieve the returns as set out in their mandates. The PIC has attempted to reduce this risk by appointing more than one manager and having a large proportion of the Fund managed on a passive basis. The PIC assesses manager performance on a quarterly basis and will take steps if underperformance persists.

3. Other Provider Risk – comprising:

- a. **Transition risk** – the risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the PIC seeks suitable professional advice.
- b. **Custody risk** – the risk of losing economic rights to Fund assets, when held in custody or being traded.
- c. **Credit default** – the possibility of default of a counterparty in meeting its obligations.
- d. **Stock-lending** – the possibility of default and loss of economic rights to Fund assets.

The PIC monitors and manages risks in these areas through a process of regular scrutiny of its providers, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The PIC has the power to replace a provider should serious concerns exist.

C. FINANCIAL PERFORMANCE

4.8. The 2016/17 Pension Fund annual budget for controllable expenditure remained largely unchanged from 2015/16, apart from a reduction in management fees following the cessation of the commodities mandate in 2015/16. Actuals against budget are illustrated below:

	2016/17			2015/16	2015/16 v 2016/17 Year on Year Variance	
	Actuals	Budget	Variance	Actuals		
	£'000	£'000	£'000	£'000	£'000	%
Administration Expenses	705	577	128	586	119	20.3
Oversight and Governance Expenses	433	327	106	456	(23)	(5.0)
	1,138	904	234	1,042	96	9.2%
Investment Management Expenses:						
Transaction Costs	0	0	0	8	(8)	(100.0)
Management Fees	978	1132	(154)	1,226	(248)	(20.2)
Performance Fees	0	0	0	0	0	0.0
Custody Fees	27	67	(40)	43	(16)	(37.2)
	1,005	1,119	(194)	1,277	(272)	(21.3)
Total Expenses	2,143	2,103	40	2,319	(176)	(7.6)

4.9. The increase in administration expenses was due to a slight increase in staff costs charged to the Fund as well as costs which related to the Pension Fund but were incurred by the Council, for which they were due reimbursement. Oversight and governance costs remain largely unchanged although advisory costs increased within that overall category, due in part to: the additional work required to review the Fund's strategy in light of the 2016 valuation, the updating of the Funding Strategy Statement, and the creation of the first Investment Strategy Statement. Management fees decreased by 20% from 2015/16, largely due to the closure of the commodities mandate at the end of 2015/16.

D. ADMINISTRATIVE MANAGEMENT PERFORMANCE

4.10. The pension scheme, and its many Admitted and Scheduled bodies, is administered by a small in-house team which is also responsible for other areas of pension work including providing data to the LPFA, TPA and the NHS pension schemes. The team also carries out non-Pension Fund work such as providing estimates and calculating and paying redundancy and compensation payments.

KEY ADMINISTRATIVE ACTIVITIES:

	2016/17	2015/16	2014/15	2013/14	2012/13
New scheme members	1,021	1,232	1,470	1,670	747
Estimate of benefits	1,915	1,801	1,610	854	753
Responding to correspondence *	625	557	557	557	621
Deferred benefits	238	380	207	230	478
Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme	232	212	124	138	181
Retirements	491	406	386	323	274
Death cases (with dependants)	287	249	243	212	227
Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme	263	208	167	90	92
Additional contributions	21	7	32	33	25
Refunds of contributions	328	211	160	6	11
Overall Performance	5,421	5,263	4,956	4,113	3,409

*A large volume of correspondence has moved to email and is not recorded, therefore a proxy has been used.

- 4.11. The role of the pensions section in the Administering Authority during 2016/17 was carried out by five Full Time Equivalent (FTE) staff serving almost 25,000 members. Relevant data and staffing ratios are as set out below.

KEY STAFF INDICATORS:

FTE Staff	2016/17	2015/16	2014/15	2013/14	2012/13
Lewisham	7.5*	7.5*	6.4	5.8	5.8
Made up of:					
Work for other schemes	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Other work	(2.0)	(2.0)	(1.0)	(1.0)	(1.0)
Administration of LGPS	5.0	5.0	4.9	4.3	4.3

* Plus 2 apprentices

Scheme Membership	2016/17	2015/16	2014/15	2013/14	2012/13
Number of contributors	6,867	7,045	7,142	6,817	6,517
Number of deferred members	10,621	9,828	9,061	8,306	7,679
Number of pensioners	7,431	7,225	7,050	6,890	6,700
Total	24,919	24,098	23,253	22,013	20,896

Staff Performance	2016/17	2015/16	2014/15	2013/14	2012/13
Ratio of members to 1 FTE staff	4,984	4,819	4,745	5,119	4,776
Transactions per member of staff	1,084	1,052	964	957	770

4.12. The age profile of the membership calculated as at 31 March 2017 is show in the table below:

AGE PROFILE OF MEMBERSHIP:

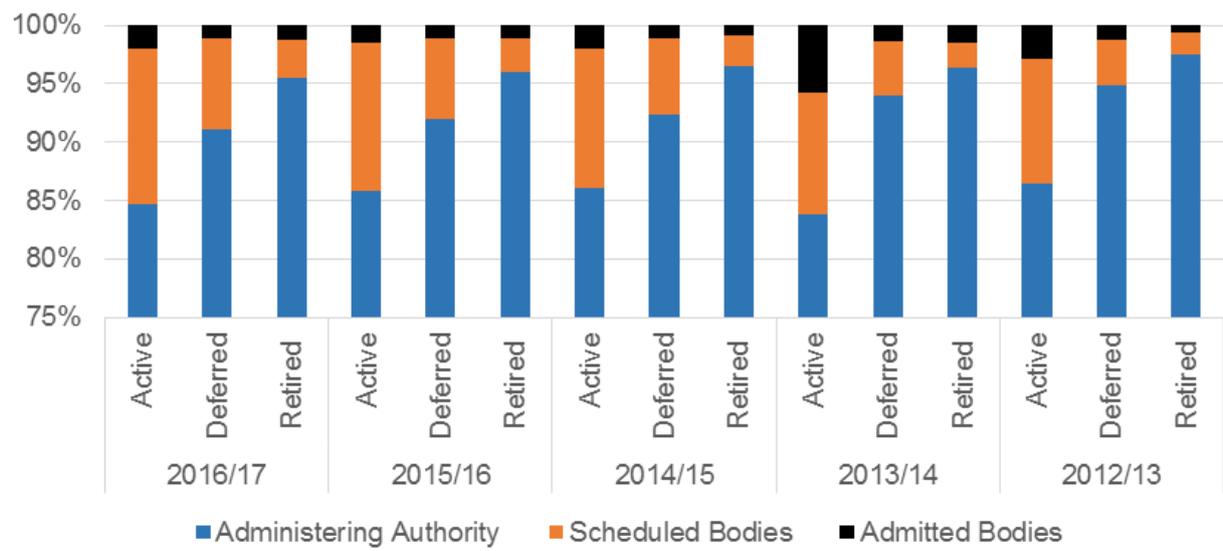
Age Band	Contributing	Deferred	Pensioners/ Dependents
0-4	0	0	1
5-9	0	0	4
10-14	0	0	17
15-19	26	1	27
20-24	299	49	18
25-29	541	284	1
30-34	648	530	0
35-39	725	688	5
40-44	750	765	7
45-49	1,067	1,251	32
50-54	1,235	1,798	79
55-59	965	1,572	432
60-64	480	462	1,320
65-69	113	50	1,713
70-74	188	10	1,283
75-79	0	4	996
80-84	0	0	768
85-89	0	0	476
90-94	0	0	192
95-99	0	0	55
100-104	0	0	5
Total	6,867	7,464*	7,431

*Does not include Status 2's (undecided leavers) shown in the membership numbers above.

4.13. A five year analysis of the Fund's membership (active, deferred, and retired) is shown in the next graph and table. The table also provides the unit costs per active, deferred and retired member in terms of both administrative and investment management expenses. Administrative expenses in this context include the cost of staff salaries recharged to the Fund, bank charges, and fees relating to advisory services, professional memberships and audit. Management expenses relate to Fund Manager fees, transaction costs and custody fees.

4.14. Administrative and management expenses for 2015/16 were reclassified in the 2016/17 Pension Fund accounts in accordance with CIPFA's Accounting for Local Government Pensions Scheme Management Expenses (2016). As a result, the table below includes adjusted unit costs at the expense level for 2015/16 to reflect this reclassification, although total unit costs remain the same.

5 Year Membership Profile



FIVE YEAR ANALYSIS: MEMBERSHIP AND ADMINISTRATIVE UNIT COSTS:

	2016/17			2015/16			2014/15			2013/14			2012/13		
Membership	Active	Deferred	Retired												
Administering Authority	5,814	9,679	7,098	6,049	9,045	6,939	6,147	8,370	6,805	5,715	7,807	6,639	5,322	7,284	6,530
Scheduled Bodies	916	825	243	892	668	202	855	588	180	705	385	147	655	303	127
Admitted Bodies	137	117	90	104	115	84	140	103	65	397	114	104	180	92	43
Totals	6,867	10,621	7,431	7,045	9,828	7,225	7,142	9,061	7,050	6,817	8,306	6,890	6,157	7,679	6,700
Unit Costs	£	£	£												
Administrative Unit Cost	116	21	15	104	21	14	91	20	13	86	20	12	86	20	11
Investment Management Unit Cost	102	19	14	127	26	18	141	32	20	151	35	21	246	56	32
Total Unit Cost	218	40	29	230	47	32	232	52	33	237	55	33	332	76	43

- 4.15. A list of contributing employers and the amounts contributed by the employers in 2016/17 is shown below:

EMPLOYER CONTRIBUTIONS:

Employer	Contributions Paid £	Comments
Administering Authority		
Lewisham Council	27,120,067	
Scheduled Bodies		
Lewisham Homes	3,311,223	
Haberdashers' Aske's Knights Academy	1,041,452	
Christ The King Sixth Form College	459,244	
St Matthew's Academy	224,037	
Tidemill Academy	149,601	
Griffin Schools Trust	4,268	
Admitted Bodies		
Phoenix	202,551	
Phoenix Agency Services	119,782	
Youth First Ltd	117,967	New in 2016/17
NSL	80,358	
One Housing	72,791	
Chartwells	54,164	
Skanska	38,445	
3 C's Support	37,510	
Quality Heating	30,790	
Fusions Leisure Management	16,446	
Wide Horizons	14,817	
Change Grow Live	13,298	
Excalibur Tenant Management Co-operative	9,494	Ceased 31 March 2017
Blenheim CDP	7,327	
Housing 21	7,283	
Pre-School Learning Alliance	4,667	
Lewisham Nexus Services	3,736	
Tower Services	1,810	
Chequers Contract Services – Lee Manor	871	

- 4.16. The Statement of Accounts summarises the contributions received from employees and employers; the total contributions received per establishment are shown in the table below.
- 4.17. The Fund has a number of bodies which participate in the Fund either as scheduled or admitted bodies. Scheduled bodies are organisations which have a statutory entitlement to be members of the scheme. Admitted bodies are those which have applied to join the scheme and the Council has formally approved their admission.

TOTAL CONTRIBUTIONS RECEIVED FROM EMPLOYEE (EE) AND EMPLOYER (ER):

Employer	Total Contributions Received (EE & ER) £'000	% Received by due date
Administering Authority		
Lewisham Council	34,385	100
Scheduled Bodies		
Lewisham Homes	4,354	100
Haberdashers' Aske's Knights Academy	1,356	100
Christ The King Sixth Form College	592	100
St Matthew's Academy	295	97
Tidemill Academy	193	100
Griffin Schools Trust	6	100
Admitted Bodies		
Phoenix	274	99
Phoenix Agency Services	161	99
Youth First Ltd	151	100
NSL	85	100
One Housing	80	100
Chartwells	66	100
Skanska	53	100
3 C's Support	48	10
Quality Heating	39	100
Wide Horizons	21	100
Fusions Leisure Management	20	99
Change Grow Live	18	100
Excalibur Tenant Management Co-operative	12	100
Blenheim CDP	9	99
Housing 21	9	100
Pre-School Learning Alliance	6	99
Lewisham Nexus Services	5	99
Tower Services	2	100
Chequers Contract Services – Lee Manor	1	90

Note: All payments were chased and received.

5 INVESTMENT POLICY AND PERFORMANCE REPORT

A. INVESTMENT STRATEGY

Investment Policy

- 5.1. The Council's investment policy encompasses its approach to funding its liabilities as per the Funding Statement Strategy (FSS) and is outlined in its Investment Strategy Statement (ISS). The ISS is included at Appendix B and a link to the FSS is provided in Section 10 of this report. The FSS sets out the strategy for prudently meeting the Fund's future pension liabilities over the longer term. The ISS sets out the Fund's policies in respect of asset allocation, rebalancing, and the approach to risk including environmental, social and governance considerations.
- 5.2. The only direct shares held by the Fund are in HarbourVest Partnership Ltd, the value of which stood at £11.8m at 31 March 2017. The Fund reviews each Fund Manager's Corporate Governance policies to ensure they are in-line with the Fund's investment principles.

UK Stewardship Code

- 5.3. The UK Stewardship Code sets out the principles for effective stewardship by institutional investors. In so doing, the Code assists institutional investors to better exercise their stewardship responsibilities, which in turn gives force to the "comply or explain" governance system.
- 5.4. The Fund fully endorses the principles embedded within the Code. It expects its external Fund Managers to be signatories of the Code, reaching Tier One level of compliance or seeking to achieve it within a reasonable timeframe.
- 5.5. The seven principles of the UK Stewardship code and how the Fund meets each one is described below:

1.	Publicly disclose policy on how stewardship responsibilities are discharged.	The Fund's stewardship responsibilities are set out in the ISS. Under the Regulations, the ISS must be reviewed and revised as necessary from time to time and at least every three years.
2.	Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.	PIC members declare any conflicts of interest before meetings begin. This is recorded in the minutes and published on the Council website. A decision is made by the Chair on the necessary steps to be taken to ensure the interests of the Fund are put first.
3.	Monitor investee companies.	The Fund's custodian produces monthly performance reports, whilst the Fund's advisor prepares quarterly performance reports which are reported at PIC. Fund Managers also prepare quarterly reports, and attend PIC at least annually to update Members.

4.	Establish clear guidelines on when and how stewardship activities will be escalated.	The Fund has established a rebalancing policy; This has been reviewed and agreed by our investment advisors and forms part of the ISS. In addition to regular PIC meetings, officers are in regular communication with Fund Managers and will escalate any concerns about performance, strategy or governance to PIC.
5.	Be willing to act collectively with other investors where appropriate.	The Fund is willing to act in collective engagement and is actively committed to the London Collective Investment Vehicle for the pooling of its assets into centrally managed Funds.
6.	Have a clear policy on voting and disclosure of voting activity.	The Fund makes use of proxy voting, with the PIC having delegated the exercise of voting rights to Fund Managers in line with the ISS.
7.	Report periodically on stewardship and voting activities.	This annual report forms part of the Fund's periodic reporting on its Stewardship duties.

- 5.6. The Fund is also a member of the following bodies:
- a. Pensions and Lifetime Savings Association PSLA (formerly known as The National Association of Pension Funds NAPF).
 - b. Local Authority Pension Fund Forum (LAPFF)

Application of CIPFA Principles for Investment

- 5.7. The Fund is required to demonstrate compliance with CIPFA's Principles for Investment Decision Making, which reflect principles of good investment practice issued by government in response to the Myners review. Actions taken to comply with the principles are set out in the Investment Strategy Statement in Appendix B.

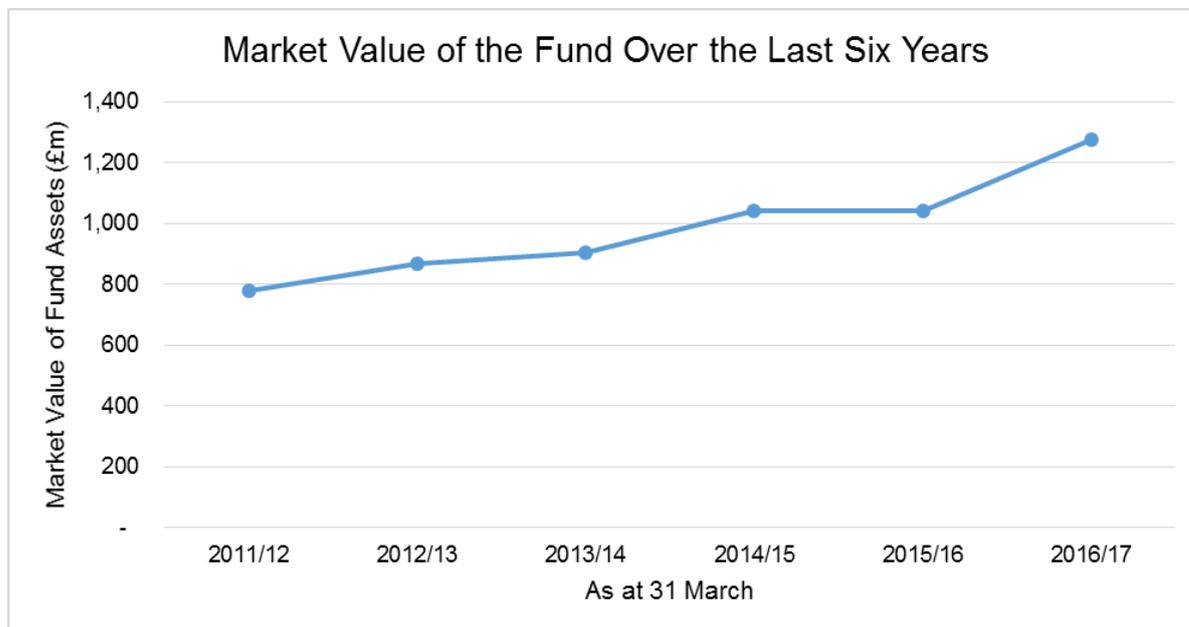
B. INVESTMENT PERFORMANCE

- 5.8. The investment objective is to ensure that the Fund's investments increase the likelihood that benefits will be paid to members as they fall due, by maximising investment returns over the long term within acceptable risk tolerances.
- 5.9. Since November 2012, at least 78% of the Fund has been under passive management. The investment strategy has previously been for a significant proportion of the Fund to be invested into growth assets. Following the 2016 valuation, the strategy has been adapted to seek a more diversified portfolio and reduce exposure to the volatility of equities. As at 31 March 2017, approximately 66% of the Fund was invested in equities but in 2017/18 the Fund reduced this by approximately 12% to allocate to alternative asset classes.
- 5.10. The Fund's asset allocation as at 31 March 2017 has five managers with four mandates.

STRATEGIC ASSET ALLOCATION AS AT 31 MARCH 2017:

Mandate	2016/17		2015/16
	Asset Value £'000	Target Allocation %	Actual Allocation %
Passive Equities and Bonds	1,093,206	81.0	82.9
Property	100,946	10.0	7.9
Private Equity	49,481	3.0	3.9
Credit	8,822	1.0	0.7
Cash	22,114	5.0	1.7
Total	1,274,569	100%	100%

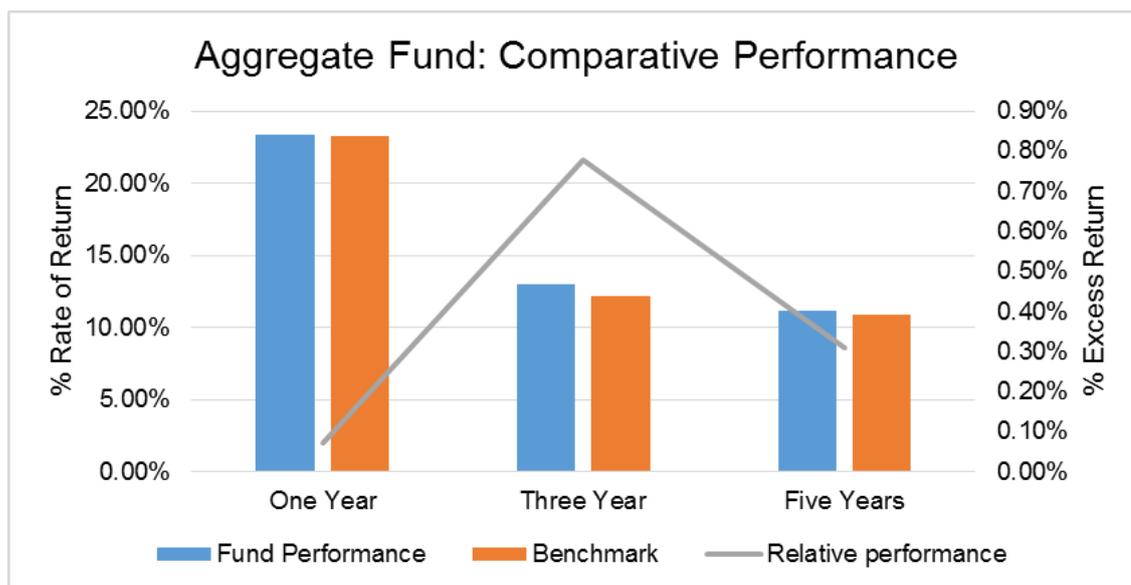
- 5.11. The differing short term performances of asset classes and Fund Managers inevitably results in the actual asset allocations deviating from their strategic targets over time. Periodically the Fund undertakes a re-balancing exercise to return to the agreed strategic allocation, whilst separate re-balancing arrangements are in place within the passive mandates as outlined within the ISS.
- 5.12. The graph below depicts the changing value of the Fund's assets as at 31 March over the last six years. The graph shows that the value of the Fund has been increasing year on year, apart from 2015/16 where there was a slight drop in value. The value of the Fund's total assets increased by just over £233m during 2016/17, largely due to the strong performance of equities.



- 5.13. The annualised return of the Fund's investments over the last 12 months was 23.4%, which was 0.1% above the benchmark return. Over the last five years, the Fund's investments absolute return is 11.2%, which is 0.3% above the benchmark return of 10.9% as depicted below:

AGGREGATE FUND – COMPARATIVE PERFORMANCE:

As at 31 March 2017	One Year %	Three Year %	Five Years %
Fund Performance	23.37	12.96	11.20
Benchmark	23.30	12.18	10.89
Relative performance	0.07	0.78	0.31



5.14. Individual Fund Managers' performance is assessed against customised benchmarks. The performance of each manager against their composite benchmark over the period of three years and their inception is as set out in the table below.

FUND MANAGER PERFORMANCE SUMMARY:

		Blackrock %	UBS %	Schroders %	HarbourVest %	M&G %
1 year	Absolute	19.99	21.49	2.67	22.79	2.74
	Benchmark	19.70	19.73	4.22	32.68	0.40
	Relative	0.29	1.76	(1.55)	(9.90)	2.34
3 years	Absolute	12.26	12.60	9.67	18.96	3.00
	Benchmark	12.01	12.04	10.73	16.79	0.49
	Relative	0.24	0.56	(1.06)	2.17	2.51
Since Inception *	Absolute	11.39	10.36	4.43	9.72	3.30
	Benchmark	11.17	9.84	5.40	9.64	0.57
	Relative	0.22	0.52	(0.97)	0.08	2.72

*Blackrock 20 Nov 2012; UBS 30 Nov 2012; Schroders 31 Oct 2004; HarbourVest 29 June 2006; M&G 01 May 2010.

- 5.15. The table above shows that there has been a varied performance over time, with some Fund Managers consistently performing well in comparison to their benchmark. It is to be noted that Blackrock and UBS are both passive funds which track their composite benchmarks instead of actively trying to outperform them, whilst HarbourVest and M&G hold relatively small proportions of the Fund. PIC continues to monitor the performance of all Fund Managers on a quarterly basis via the reports it receives from the Fund’s advisors. In addition, each manager is invited to discuss their performance at Committee meetings annually, and where necessary explain strategies for improvement.
- 5.16. A description of the benchmark for each Fund Manager is set out below.

FUND MANAGER BENCHMARKS:

Manager	Mandate	Performance Target
BlackRock	Mixed Passive Mandate	Index Tracker Funds depending on market and asset class; performance will correspond to the average return.
UBS	Mixed Passive Mandate	Index Tracker Funds depending on market and asset class; performance will correspond to the average return.
Schroders	Property	To outperform the Investment Property database (IPD) UK Quarterly Property Fund Index All Balanced Funds Weighted Average by 0.75% per annum, over a three year rolling period net of fees.
HarbourVest	Private Equity	To outperform the Morgan Stanley Capital International (MSCI) World Index by 5% over a five year rolling period, net of fees.
M & G	Credit	One Month London Inter-Bank Offer rate (LIBOR) + 4-6%, net of fees.

- 5.17. The value of assets under management (AUM) by asset class and Fund Manager is shown in the Pension Fund Accounts in Appendix A.
- 5.18. The Pension Fund’s top equity and unit trust holdings are also shown in the Pension Fund Accounts in Appendix A, under Section 5 - Investment Analysis.

6 SCHEME ADMINISTRATION REPORT

A. SCHEME ADMINISTRATION / PENSIONS ADMINISTRATION AND ASSURANCE

- 6.1. Scheme member administration and pensioner administration is undertaken by our in-house Pensions team. Scheme administration is audited annually. A copy of the internal report can be provided upon request.

B. INTERNAL DISPUTE PROCEDURE

- 6.2. The Local Government Pensions Scheme Regulations 2013 set out a two-stage 'Internal Dispute Resolution Procedure' (IDRP). The Fund's internal dispute resolution procedure is shown below:
- 6.3. Stage one: the member's complaint is referred to the Executive Director of Resources and Regeneration, who is nominated by the London Borough of Lewisham to act as an independent referee. Any decision made must be given in writing.
- 6.4. If the member is dissatisfied with the stage one decision, they can take the matter to stage two of the IDRP.
- 6.5. Stage two: the stage one decision is reviewed by the Head of Legal Services who is nominated by the London Borough of Lewisham to act as an independent referee.
- 6.6. There are time limits associated with each stage of the procedure, both for the applicant and the adjudicator. Appeals must normally be made within six months of the date of the decision that is being challenged and the adjudicator must normally give written notice of their decision within three months of the receipt of the appeal.
- 6.7. At any stage of the process, or before the process begins, the member can seek help and advice from The Pensions Advisory Service (TPAS). The Pensions Advisory Service is an independent non-profit organisation that provides free information and guidance to members of the public on pension matters generally. They can also help to resolve disputes and complaints about private pension arrangements (workplace pensions, personal pensions and stakeholder pensions).
- 6.8. Lewisham Pension Fund did not have any disputed cases in 2016/17.

7 ACTUARIAL REPORT ON FUND

- 7.1. The Regulations require that every three years all Local Government Pension Schemes be subject to actuarial review. The actuarial review sets assumptions about the level of investment returns, life expectancy and other relevant factors to determine the assets and liabilities of the Fund and the corresponding funding level.
- 7.2. The last revaluation was undertaken in March 2016; a link to the Executive Summary of the valuation report is provided in Appendix C. The full version can be obtained upon request, or is available from the Lewisham Pensions website at www.lewishampensions.org. The actuarial review assessed the Fund as being 78% funded; this represents an increase of 7% in the funding level since the last valuation in 2013.
- 7.3. The 2016 valuation resulted in the actuary assessing Lewisham's employers' contribution rate to provide for future pensions entitlements (the Future Service Rate) to be a minimum of 17.6% for financial years 2017/18 through to 2019/20, plus a lump sum component increasing year on year.

8 GOVERNANCE COMPLIANCE STATEMENT

A. GOVERNANCE STRUCTURE

- 8.1. Lewisham's Annual Governance Statement has been adopted by the PIC.
- 8.2. Article 9 of the Council's Constitution sets out the composition and terms of reference of the Pensions Investment Committee, to exercise all functions of the Council in relation to local government pensions under Section 7, 12 or 24 Superannuation Act 1972 and all other relevant pensions legislation. This includes:
- review with Fund Managers the investment performance of the superannuation Fund on a quarterly basis;
 - to examine the portfolio of investments, and its market value, at the end of each quarter for suitability and diversification;
 - to inform Fund Managers of the Council's policy regarding investment of its superannuation Funds, and to take advice on the possible effect on performance resulting from implementing the policy;
 - to review from time to time the appointment of Fund Managers
 - to determine the overall investment strategy and policies of the Fund on professional advice; and
 - responsibility for compliance with the six Myners principles set out in CIPFA's "Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012" and all other relevant guidance in relation to the Local Government Pension Scheme in force and issued by CIPFA from time to time.
- 8.3. Details of the governance structure for the Council is set out within the Council's Constitution which is available at:
www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Pages/constitution.aspx
- 8.4. The Council's latest Annual Governance Statement is available with the main Council Statement of Accounts at the following link:
www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/finances/Documents/StatementofAccounts16-17AuditedV3.pdf

B. MEMBERSHIP

- 8.5. The Pensions Investment Committee comprises eight Members of the Council who have voting rights. The Committee meets at least four times a year. At the start of each meeting Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. The Committee takes advice from an independent investment consultant (Hymans Robertson) and permits attendance from non-voting observers comprised of pensioners, admitted and scheduled bodies and union officials.

C. POLICY AND PROCESSES

8.6. Responsibility for day-to-day administration and preparation of the Pension Fund accounts and annual report has been delegated to the Executive Director for Resources and Regeneration.

8.7. The following table sets out attendance by the eight Councillors who were Members of the Pensions Investment Committee for the four scheduled meetings in 2016/17. Each Councillor has one vote with the Chair having the casting vote.

Member	9 Jun 2016	6 Sep 2016	15 Nov 2016	7 Feb 2017
Cllr. Ingleby (Chair)	✓	✓	✓	✓
Cllr. Hooks (Vice- Chair)	✓	✓	✓	✓
Cllr. Best	Apologies	✓	Apologies	Apologies
Cllr. Hilton	✓	✓	✓	✓
Cllr. Johnston-Franklin	✓	✓	✓	✓
Cllr. Maslin	Apologies	✓	✓	✓
Cllr. Muldoon	✓	✓	✓	✓
Cllr. Ogunbadewa	✓	✓	✓	Apologies

Member Training

8.8. Members attend training events and conferences to develop and maintain the relevant skills required as set out in the CIPFA Knowledge and Skills framework. The framework covers six key areas:

- 1) Legislative and governance framework
- 2) Accounting and auditing standards
- 3) Procurement of financial services and relationship management
- 4) Investment performance and risk management
- 5) Financial markets and investment products knowledge
- 6) Actuarial methods, standards and practices

8.9. During 2016/17 Members attended the following events outside of PIC:

Date	Description	Provider	Members
10 May 2016	Local Government Pensions Infrastructure & Illiquid Assets Conference	Financial Times Live	Cllr Muldoon
26 May 2016	Local Government Pensions Infrastructure & Illiquid Assets Conference	IIR & IBC Financial Events	Cllr Ingleby
21 July 2016	LAPFF and Carbon Tracker's Report Launch: Engaging for a Low Carbon Transition	LAPFF & Carbon Tracker Initiative	Cllr Ingleby
01 September 2016	Optimising Value from Bond Investments for Pension Funds	SPS Conferences	Cllr Ingleby

Date	Description	Provider	Members
27 September 2016	Investment Management Europe Summit 2016	Financial Times Live	Cllr Ingleby, Muldoon
28 September 2016	Keynote presentation by Baroness Ros Altmann - PIA Lecture	Pension Investment Academy	Cllr Muldoon
25 October 2016	Sustainable Investment in Emerging Markets	Financial Times Live	Cllr Muldoon
17 November 2016	Local Authority Pension Funds Investment Issues	SPS Conferences	Cllr Muldoon
06 to 08 December 2016	LAPFF Annual Conference	LAPFF	Cllr Ingleby
02 Feb 2017	Strategic Investment Forum	LAPF Investments	Cllr Muldoon
01 March 2017	London CIV Annual Conference	London CIV	Cllr Ingleby, Muldoon
23 March 2017	Local Authority Investment and Pooling Issues	SPS Conferences	Cllr Ingleby, Muldoon

- 8.10. Members are provided with a schedule of suggested training events and conferences throughout the year, provided at each quarterly meeting of PIC. The events are intended to cover a range of skillsets and provide insight as appropriate to the needs of Members and the broader developing strategic direction of the Fund.
- 8.11. In addition, the Fund's advisors present training on relevant topics both within PIC meetings and as separate events; these cover a wide range of subjects, from the impact of legislative changes to asset specific training.
- 8.12. Members are recommended, where they have not already, to make use of and complete the Pension Regulator's online toolkit for Trustees; they are also referred to Russell's Fiduciary Handbook as a helpful resource for refreshing their knowledge as appropriate.
- 8.13. Members also bring their professional experience to their roles on the Investment Committee; for example, one Member is a lawyer in financial services with specialism in life insurance and pensions and continues to develop these skills as part of their CPD requirements, whilst another is a financial advisor working in pensions-related areas and has served as a Shadow Member on the LGPS Scheme Advisory Board. The Chair also attends quarterly meetings of the London Pensions CIV Sectoral Joint Committee (PSJC).

9 FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

- 9.1. The Pension Fund accounts, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, were approved by Council on 20 September 2017 and have been audited by the Council's external auditors Grant Thornton. The Accounts are set out in Appendix A.

10 FUNDING STRATEGY STATEMENT

- 10.1. The Fund has a Funding Strategy Statement (FSS) which details the Fund's approach to funding its liabilities. The FSS is reviewed in detail at least every three years in line with the triennial valuation, and was last updated as at 1 April 2017. The Statement can be accessed at the following link: www.lewishampensions.org/lewisham-pension-fund/about-us/forms-and-publications/.
- 10.2. The FSS is developed by the Council in conjunction with the Fund's actuary, Hymans Robertson, and after consultation with employers. The FSS sets out any changes in the Fund's liabilities and obligations to pay pensions in the coming years, and how those liabilities are funded by investments and contributions. The FSS has links to the Investment Strategy Statement.
- 10.3. The purpose of the FSS is to:
- establish a clear and transparent strategy which will identify how employers' pension liabilities are best met going forward;
 - support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
 - take a prudent longer-term view of funding those liabilities.
- 10.4. The statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.
- 10.5. The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. The funding basis adopts an asset outperformance assumption of 1.8% per annum over and above the redemption yield in index-linked gilts at the time of the 2016 valuation.
- 10.6. The Fund has an active risk management programme in place. The measures that the Administering Authority has in place to mitigate key risks are summarised in the FSS under the following headings:
- financial;
 - demographic
 - regulatory; and
 - governance

10.7. The 2016 valuation specified the minimum employer contributions, expressed as a percentage of pensionable pay and shown in the Rates and Adjustment certificate, as follows:

Employer/Pool Name	Total Contribution Rate (%/£)		
	2017/18	2018/19	2019/20
LB Lewisham	17.6% plus £6,100,000	17.6% plus £6,300,000	17.6% plus £6,400,000
Christ The King Sixth Form College	18.5% plus £93,000	18.5% plus £93,000	18.5% plus £93,000
Haberdashers' Aske's Knights Academy	17.9% plus £170,000	17.9% plus £170,000	17.9% plus £170,000
Lewisham Homes	21.0%	20.0%	19.0%
St Matthew's Academy	19.6%	18.6%	17.6%
Tidemill Academy	22.0%	22.0%	22.0%
NSL	22.8%	22.8%	22.8%
Wide Horizons	14.6%	14.6%	14.6%
Phoenix Community Housing	18.4%	16.4%	14.4%
Blenheim CDP	15.0%	15.0%	15.0%
Skanska	21.1%	19.1%	17.1%
3 C's Support	0.0%	0.0%	0.0%
One Housing	22.0% plus £13,000	22.0% plus £13,000	22.0% plus £13,000
Fusions Leisure Management	24.0%	24.0%	24.0%
Pre-School Learning Alliance	18.6%	15.6%	12.6%
Chartwells	25.7%	25.7%	25.7%
Chequers Contract Services – Lee Manor	14.9%	11.9%	8.9%
Change Grow Live	18.0%	18.0%	18.0%
Quality Heating	0.0%	0.0%	0.0%
Phoenix	20.4%	20.4%	20.4%

11 INVESTMENT STRATEGY STATEMENT

- 11.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that administering authorities prepare, maintain and publish an Investment Strategy Statement (ISS) in accordance with the Regulations. The Statement must include the following:
- a requirement to invest money in a wide variety of investments;
 - the authority's assessment of the suitability of particular investments and types of investments;
 - the authority's approach to risk, including the ways in which risks are to be measured and managed;
 - the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
 - the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
 - the authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 11.2. Appendix B sets out the ISS as at April 2017 for the Fund, which as well as the considerations above includes the Fund asset allocation, rebalancing policy, and compliance with CIPFA's Principles for Investment Decision Making.

12 COMMUNICATIONS POLICY STATEMENT

- 12.1. Pension Funds are required to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. Lewisham's most recently published Communications Statement is available at the following link: www.lewishampensions.org/lewisham-pension-fund/about-us/forms-and-publications/.
- 12.2. The statement should contain a commentary on how the Fund has met the commitments set out in the Communications Policy Statement, which it is required to publish under the provisions of Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008. In particular:
- how scheme information has been provided to members, their representatives and employers,
 - in what format and how frequently information has been provided, and
 - what steps the Fund has taken to promote scheme membership to prospective members.

13 ADDITIONAL DATA

13.1. To assist in the production of the scheme annual report compiled by the LGPS Scheme Advisory Board, Funds are required to include the following:

13.2. A summary of the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members).

	Active	Ceased	Total
Scheduled Bodies	6	0	6
Admitted Bodies	19	0	19
Total	25	0	25

13.3. An analysis of Fund assets as at the reporting date, analysed as follows:

Asset Class	UK £m	Non-UK £m	Total £m
Equities	488	368	856
Bonds	165	83	248
Property	98	0	98
Alternatives	3	30	33
Cash	37	0	37
Net Current Assets	3	0	3
Total	794	481	1,275

13.4. An analysis of investment income accrued during the reporting year, analysed as follows:

Asset Class	UK £000	Non-UK £000	Total £000
Equities	0	467	467
Bonds	1,163	987	2,150
Property	3,574	0	3,574
Alternatives	0	368	368
Cash	111	0	111
Total	4,848	1,822	6,670

14 INDEPENDENT AUDITOR'S CONSISTENCY REPORT

Appendix A – 2016/17 Pension Fund Accounts

**PENSION
FUND
ACCOUNTS**

2016/17

Pension Fund Accounts

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

We have audited the pension fund financial statements of Lewisham Pension Fund (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director for Resources and Regeneration and auditor

As explained more fully in the Statement of Responsibilities, the Executive Director for Resources and Regeneration is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Resources and Regeneration; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Pension Fund Accounts

Opinion on the pension fund financial statements

In our opinion:

- the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

Darren Wells

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2nd Floor St Johns House
Haslett Avenue West
Crawley
RH10 1HS

September 2017

Pension Fund Accounts

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2016/17.

The Pension Fund's value increased over the year by £233.1m (22%), mainly due to an increase in market value of equities during the year.

INTRODUCTION

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

ORGANISATION

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

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

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

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

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

www.lewishampensions.org

Pension Fund Accounts

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The Local Government Pension Scheme (Administration) Regulations 2013 requires administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Regulations summarise the Pension Code and the minimum disclosure requirements.

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

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

- (a)** 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 Fair Value, the basis of measurement being market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2016/17 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.
- (c)** The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.
- (d)** Income - Dividend income earned from equity and bonds (excluding Private Equity) is reinvested by Investment Managers and not repaid directly to the fund as cash. Interest income is recognised in the Fund as it accrues. Any amount not received

Pension Fund Accounts

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 March 2017 is the actual fair value using the latest available valuation on or after 31 December 2016, plus an estimated valuation for the period up to 31 March 2017.
- (f) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schrodgers, to invest in pooled property funds. The Schrodgers funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards at Fair Value based on their Open Market Value (OMV).

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

- (g) Financing Fund - The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2017 is the actual fair value using the latest available valuation on or after 31 December 2016, plus an estimated valuation for the period up to 31 March 2017.
- (h) Contributions – These represent the total amounts received from the employers and employees within the scheme. From 1 April 2016 the employee contribution bands (revised annually in line with inflation) are as follows:

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

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

Pension Fund Accounts

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

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

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

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

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

* Consumer Price Index

** Guaranteed Minimum Pension

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

Pension Fund Accounts

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

Actuarial Present Value of Promised Retirement Benefits

- (n) The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1,847 million as at 31 March 2017 (£1,570 million as at 31 March 2016).
- (o) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters.
- (p) The accounts for 2016/17 have adopted the recommendations of CIPFA's "Accounting for Local Government Pensions Scheme Management Expenses" (2016), and as such all expenses relating to investment management, administration and oversight and governance are recorded in one line on the face of Fund Account under Management Expenses, and a breakdown disclosed in the notes to the accounts. For comparative purposes, these changes have been applied retrospectively to the 2015/16 balances, although the changes are not material for a prior period adjustment to take place.
- (q) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
 - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
 - Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.

Pension Fund Accounts

(r)

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

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

Pension Fund Accounts

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

Pension Fund Accounts
FUND ACCOUNT FOR THE YEAR

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

<u>FUND ACCOUNT FOR THE YEAR ENDED</u> <u>31 MARCH 2017</u>	2016/17 £'000s	2015/16 £'000s	Note
<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME</u>			
Contributions Receivable:			
- from Employer	33,411	30,542	1
- from Employees	9,099	9,339	1
- Reimbursement for Early Retirement	955	1,898	
Transfer Values In	2,123	1,409	
Other Income	72	221	
Subtotal: Income	45,660	43,409	
Benefits Payable:			
- Pensions	39,096	37,629	2
- Lump Sums: Retirement allowances	8,611	8,087	2
- Lump Sums: Death grants	1,720	1,048	2
Payments to and on account of leavers:			
- Refunds of Contributions	86	(3)	
- Transfer Values Out	4,331	2,709	
Subtotal: Expenses	53,844	49,470	
Subtotal: Net additions (withdrawals) from dealings with members	(8,184)	(6,061)	

Pension Fund Accounts

Management Expenses	2,143	2,319	3
Subtotal: Net Additions (withdrawals) including fund management expenses	(10,327)	(8,372)	
<u>RETURNS ON INVESTMENTS</u>			
Investment Income	6,670	6,437	4
Change in market value of investments (Realised and Unrealised)	236,975	1,013	5a
Taxes on Income	(178)	(207)	
Total Net Returns on Investments	243,467	7,243	
NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	233,140	(1,129)	
OPENING NET ASSETS OF THE SCHEME	1,041,429	1,042,558	
CLOSING NET ASSETS OF THE SCHEME	1,274,569	1,041,429	

Pension Fund Accounts
NET ASSETS STATEMENT

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2017.

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

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

Pension Fund Accounts

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

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

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

2. BENEFITS PAYABLE**By Category**

	2016/17 £000s	2015/16 £000s
Pensions	39,096	37,629
Commutation and Lump Sum Retirement Benefits	8,611	8,087
Lump Sum Death Grants	1,720	1,048
	49,427	46,764

By Authority

	2016/17 £000s	2015/16 £000s
Administering Authority	45,788	43,988
Scheduled Bodies	2,912	1,859
Admitted Bodies	727	917
	49,427	46,764

3. MANAGEMENT EXPENSES

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

Pension Fund Accounts

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

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

The restatement reflects:

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

4. INVESTMENT INCOME

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

Pension Fund Accounts

5. INVESTMENT ANALYSIS

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

Asset	Manager	31 March 2017	
		Value £'000	%
Aquila Life US Equity Index Fund	Blackrock	176,523	13.9
UBS GBL Asset Life North America Equity Tracker	UBS	173,571	13.7
Blackrock Pensions Aquila Life UK Equity Index Fund	Blackrock	115,814	9.1
UBS Asset Management Life UK Equity Tracker A Nav	UBS	110,425	8.7

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

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

Pension Fund Accounts

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

Pension Fund Accounts

An analysis of investment movements is set out below:

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

* Includes Venture Capital, Credit Mandates and Private Equity

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

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

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

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

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds unitised insurance policies valued at £853m and unit trusts valued at £173m, of which £98m relates to pooled property investments.

Pension Fund Accounts

As at 31 March 2016:

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

* Includes Venture Capital, Credit Mandates and Private Equity.

Pension Fund Accounts

5A. FINANCIAL INSTRUMENTS

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

31 March 2017				31 March 2016		
Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
25,582			Equities	19,449		
			Managed Funds			
98,174			Property	96,263		
830,606			Managed Equity	656,010		
206,232			Fixed Interest	162,329		
41,599			Index Linked	33,177		
32,862			Other Assets	33,077		
0			Derivative contracts	0		
	36,517		Cash deposits		40,667	
	2,700		Pending Trades		0	
	418		Dividends & Income		389	
	645		Contributions Due		566	
	3,107		Cash Balances		273	
	57		Other Current Assets		186	
1,235,055	43,444	0	Total Financial Assets	1,000,305	42,081	0

Pension Fund Accounts

31 March 2017				31 March 2016		
Fair Value through Profit and Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Fair Value through Profit and Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
			Financial Liabilities			
		0	Derivative Contracts			0
		(3,453)	Pending Trades			0
		0	Unpaid benefits			0
		(475)	Other current Liabilities			(957)
		(3,928)	Total Financial Liabilities			(957)
1,235,055	43,444	(3,928)	Net Financial Assets	1,000,305	42,081	(957)

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

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

Valuation of Financial Instruments carried at Fair Value

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

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

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

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

Pension Fund Accounts

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

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

Pension Fund Accounts

5B. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

i) Market Risk

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

Pension Fund Accounts

a) Other Price Risk – Market

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

b) Other Price Risk – Sensitivity analysis

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

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

The potential volatilities are broadly consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset Type	Final Market Value as at 31 March 2017	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
UK Equities	487,836	9.6	534,424	441,248
Global Equities	368,352	10.3	406,440	330,264
Bonds and Index Linked	247,831	11.0	275,018	220,644
Other Assets	32,862	5.0	34,515	31,209
Property	98,174	3.1	101,178	95,170
Cash	36,517	1.3	36,977	36,057
Total Assets*	1,271,572	**7.2	**1,363,634	**1,179,510

* This figure excludes derivatives and other investment balances.

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

Pension Fund Accounts

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

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

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

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

e) Currency risk – sensitivity analysis

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

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

ii) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the

Pension Fund Accounts

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

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

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

iii) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due. For example; the benefits payable costs and capital commitments. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2017 these assets totalled approximately £1,104m, with a further £36.5m held in cash by the custodian on behalf of the Fund and fund managers.

6. PRIOR YEAR ADJUSTMENT

No prior year adjustments have been made to these accounts.

7. DERIVATIVE CONTRACTS

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

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

Pension Fund Accounts

8. DEBTORS & CREDITORS

These comprise the following amounts:

Investment Transactions

<u>Debtors</u>	2016/17 £'000	2015/16 £'000
Equity Dividends / Income from Managed Funds	31	0
Interest and Other Income	387	389
Pending Trades	2,700	0
	3,118	389

<u>Creditors</u>	2016/17 £'000	2015/16 £'000
Pending Trades	(3,453)	0
	(3,453)	0

Non-Investment Transactions

<u>Debtors</u>	2016/17 £'000	2015/16 £'000
Contributions Due from Admitted / Scheduled Employers / Employees	645	566
Interest and Other Income	21	0
LB Lewisham	35	0
Tax Refunds	0	21
	701	587

<u>Creditors</u>	2016/17 £'000	2015/16 £'000
Fund Manager and Custody Fees	(251)	(172)
Consultancy / Advisory Fees	(48)	(43)
LB Lewisham	(176)	(577)
	(475)	(792)

Pension Fund Accounts

9. CASH AND BANK

Cash Held With Custodian

The Northern Trust Company is the Fund's global custodian and the cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2017 was £36.5m (£40.7m as at 31 March 2016). Approximately £18.4m from the disinvestment in Investec was held by the custodian in a cash fund pending investment in new asset classes; £8.1m of the cash held was from Harbourvest, £5.6m from M&G, £2.7m from Schrodgers and approximately £1.8m was being held on behalf of the other managers.

Pension Fund Bank Account

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

10. POST YEAR END EVENTS

The Fund has completed the procurement of a new Diversified Growth Fund mandate to replace the disinvestment in Commodities (Investec), and will be re-balancing the portfolio to allocate a proportion of the fund to this new mandate shortly after year-end. In addition, a procurement exercise is underway to source a multi-asset credit manager. These rebalancing changes are consistent with the Funding Strategy and Investment Strategy Statement amendments following the triennial valuation results.

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

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

Pension Fund Accounts

11. COMMITMENTS

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

Harbourvest

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

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

12. RELATED PARTY TRANSACTIONS

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

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

During the year the following declarations were made:

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

No other trustees or Council chief officers with direct responsibility for pension fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2017.

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

- a) Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £612k (see note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time and vice versa.

Pension Fund Accounts

- b) The salary of the Executive Director for Resources and Regeneration for 2016/17 was £174,607, including employer pension contributions of £32,071.

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 42 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

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

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

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

14. SCHEDULED BODIES

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

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

15. ADMITTED BODIES

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

Pension Fund Accounts

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

16. STOCK LENDING

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

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

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

As at the 31 March 2017 the value of aggregate stock on loan was £9.3m (£5.5m as at 31 March 2016), which has been carried in the accounts at this value. There are no liabilities associated with these assets.

Collateral

The collateral held as security on loans cannot be sold or repledged in the absence of default by the borrower. The Council entered into stock lending transactions during the financial year earning £8k net of direct expenses (compared to £9k in 2015/16). The value of collateral held as at 31 March 2017 was £9.8m (£6.2m as at 31 March 2016).

Pension Fund Accounts

17. MEMBERSHIP

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

18. AUTHORISATION

These accounts were approved by Council on 20th September 2017.

Appendix B – Investment Strategy Statement

Investment Strategy Statement: April 2017

Introduction and background

This is the Investment Strategy Statement (“ISS”) of the London Borough of Lewisham Pension Fund (“the Fund”), which is administered by Lewisham Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Fund’s Pension Investment Committee (“the PIC”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The PIC acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the PIC on 7th February 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

The PIC seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (dated March 2017).

The suitability of particular investments and types of investments

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund’s members under the Local Government Pension Scheme. Against this background, the Fund’s approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

The Fund’s funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The PIC aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed, but will take account of future salary and/or inflation increases.

The PIC has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. This benchmark is consistent with the PIC’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

It is intended that the Fund’s investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. An Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions.

In addition, the PIC monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The PIC also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. In September 2014 Pension Investment PIC meeting, the PIC adopted a rebalancing policy, as summarised below.

Existing rebalancing arrangements are currently in place for the BlackRock and UBS passive multi-asset mandates. Rebalancing operates within each mandate, as follows:

Table 1: BlackRock and UBS Rebalancing

Mandates	Policy
Blackrock	Rebalancing tolerance levels of +/- 2% for the following allocations: <ul style="list-style-type: none"> • UK Equity (20.5%) • Global Equity (56.5%) • Over 15 Year Gilts (7.6%) • Over 5 Year Gilts (7.7%) • UK Corporate Bonds (7.7%) Monitored on a daily basis, with rebalancing occurring at the next available dealing date if out with the tolerance range.
UBS	Strategic benchmarking is as follows: <ul style="list-style-type: none"> • UK Equity (20.5%) • Global Equity (56.5%) • UK fixed interest (7.6%) • UK Index linked (7.7%) • UK Corporate Bonds (7.7%) Monitoring and rebalancing occurs on a quarterly basis, with holdings rebalancing to the benchmark allocation.

Rebalancing arrangements for the Fund's mandates are set out below.

Table 2: Tolerance levels

Mandates	Deviation from Strategic Benchmark	Action
BlackRock (passive multi-asset)	+/- 3%	Monitored on a quarterly basis, with rebalancing to +/- 1.5% at the next available opportunity.
UBS (passive multi-asset)	+/- 3%	Monitored on a quarterly basis, with rebalancing to +/- 1.5% at the next available opportunity.
Schroders Property	+/- 2%	Monitored on a quarterly basis, with rebalancing to +/- 1% at the next available opportunity.
HarbourVest Private Equity	-	Rebalancing is not available for this mandate, given its structure (pre-arranged commitments and buy-and hold).
M&G UK Financing Fund	-	Rebalancing is not available for this mandate, given its buy-and-hold structure.

In order to avoid excessive rebalancing, the assets will not be brought back to the absolute strategic benchmark, but to a position that is approximately half way between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.

Where a mandate is underweight and breaches its tolerance level, the Fund's surplus cash flow will be used to bring assets back to within the tolerable range. If the surplus cash is not sufficient, the rebalancing will be undertaken by selling funds from the mandates that are most overweight, and using the proceeds to purchase assets that are the most underweight.

Where a mandate is overweight and breaches its tolerance level, assets will be disinvested from the mandate, and the proceeds reinvested in the most underweight mandate. Where multiple mandates qualify as being 'most underweight', the proceeds will be re-invested in relative proportions to bring the respective mandates to a similar level of underweight. This rebalancing is managed by the Fund's Officers.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The PIC reviews the nature of the Fund's investments on a regular basis, with particular reference to suitability and diversification. The PIC seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the PIC is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Fund allocation

Asset class	Manager	Benchmark	Benchmark Proportion %	Maximum %
Equities:				
Private Equity	HarbourVest	MSCI AC World Developed Index	3.0	6
Listed Equity	BlackRock (passive)	Composite	31.2	65
Listed Equity	UBS (passive)	Composite	31.2	65
Bonds:				
	Blackrock (passive)	Composite	9.3	20
	UBS (passive)	Composite	9.3	20
Equities and Bonds Subtotal			84.0	
Other:				
Property	Schroders	IPD Pooled Property Fund Index	10.0	20
UK Financing Fund	M&G	LIBOR	1.0	5
Temporary Cash Holding			5.0	10
Other Subtotal			16.0	
Total			100.0	

At 31 March 2016, the expected return of this portfolio was 4.3%p.a. with an expected volatility of 10.5%p.a. This volatility includes an assumed diversification benefit. In the absence of this diversification, the expected volatility

would have increased to 16.8%p.a. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Managers

The PIC has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The PIC, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The PIC is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and has put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that the Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The PIC measures and manages financial mismatch in two ways. As indicated above, the PIC has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2019 valuation process. The PIC assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The PIC also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The PIC also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The PIC seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The PIC has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the PIC has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the PIC also assess the Fund’s currency risk during their risk analysis. Details of the Fund’s approach to managing ESG risks is set out later in this document.

The PIC has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager and having a large proportion of the Fund’s assets managed on a passive basis. The PIC assesses the investment managers’ performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the PIC seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The PIC monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The PIC has the power to replace a provider should serious concerns exist.

A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in appendix 1. A separate schedule of risks that the Fund monitors is set out in the Fund’s Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the London CIV Pool. The proposed structure and basis on which the London CIV Pool will operate was set out in the July 2016 submission to Government.

The Fund's intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

- 1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- 2 That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

At the time of preparing this statement the Fund has not invested its assets via the London CIV Pool. Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

The Fund holds c. 4% of the Fund in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. It is expected that these assets will be held as legacy assets until such time as they mature and proceeds re-invested through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The PIC consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the PIC undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be

the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return. Climate change is a financial risk and must be considered, alongside the opportunity set created by low carbon transition across all asset classes.

The Fund, in preparing and reviewing its Investment Strategy Statement, will consult with interested stakeholders including, but not limited to, Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

The exercise of rights (including voting rights) attaching to investments

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The PIC has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

Accordingly, the Fund's managers have produced written guidelines of their processes and practices in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The PIC monitor the voting decisions made by all its investment managers on a regular basis.

The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council / Pension Fund website: <http://www.lewishampensions.org>

Stewardship

The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

The PIC expects both the London CIV Pool and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis.

Chartered Institute of Public Finance ("CIPFA") Pensions Panel Principles for Investment Decision Making set out the six principles of good investment practice issued by Government (Myners principles). The extent to which the Fund complies is set out in Appendix 2.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

In addition the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners

Appendices

Appendix 1 – Approach to risk

Investment invariably involves an element of risk. The Council in recognition of this has adopted a number of strategies to mitigate the impact of unavoidable risks on the Fund. The Fund is subject to the following risks:

Funding Risk: Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A Funding Strategy Statement (“FSS”) is prepared every three years as part of the triennial valuation and the Council monitors the Fund’s investment strategy and performance relative to the growth in the liabilities at least annually.

Financial mismatch risk: The Council recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate the risk an investment strategy is set which provides exposure to assets providing inflation protected growth as well as cash flow generating assets that match the Fund’s liabilities.

Liquidity/Cash flow Risk: Investments are held until such time as they are required to fund payment of pensions. In 2016/17 it is anticipated that the net payments from the fund to pensioners will exceed the contributions due, and the liquidity risk is therefore being very closely monitored. The Council manages its cash flows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

Manager Risk: Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Council when fund managers are selected and their performance is reviewed regularly by the PIC as part of the manager monitoring process. However, adopting a strategy largely based on passive investment for approximately 70% of the Fund’s assets makes the overall exposure to this risk relatively low.

Concentration Risk: This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund’s performance. The Council attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly and following a regular fund manager review process.

Demographic Risk: This relates to the uncertainty around longevity. The Council recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

Counterparty Risk: This risk relates to the other party(s) in a financial transaction (the counterparty) failing to meet its obligations to the Fund. The Council has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk by specifying minimum credit ratings and credit limits. It has similarly applied this strict criteria within its stock lending agreements to mitigate counterparty risk in these transactions.

Currency Risk: The strategic asset allocation adopted by the Council provides for an element to be held overseas to provide diversification and exposure to different economies. Such investment is however subject to fluctuations in exchange rates with an associated positive or adverse impact on performance. Managers of global equities have been provided with an element of discretion to hedge currencies to protect returns. The Council however recognises that it can adopt a long term perspective on investments and consequently is able to absorb short term fluctuations in exchange rates. However, the Council continues to monitor developments in the currency hedging environment to determine if adoption of currency hedging is beneficial.

Environmental, Social and Ethical Issues Risk: The Council recognises that environmental, social and ethical issues have the potential to impact on the long term financial viability of an organisation. The Council monitors both developments within the investment environment and the voting of its appointed managers through its participation in the LAPFF.

Appendix 2 – Compliance with CIPFA Principles for Investment

Regulations require administering authorities to assess the extent to which they comply with the CIPFA Principles for Investment Decision Making, and provide reasons for non-compliance. These reflect the principles of good investment practice issued by government in response to the Myners review. The six principles which underpin best practice and the assessment of Lewisham's compliance is as set out below.

Principle 1: Effective Decision-Making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Compliance statement - full compliance

- Decisions are taken by the PIC based on advice from officers, and the investment consultant. Specialist investment managers are employed who are responsible for day to day investment decisions.
- In conjunction with the Fund's Independent Investment Advisor, the Council will establish a training and development programme for Members of the PIC.
- There is a clear 'Conflicts of interest policy' and Members must make declarations of interest before each meeting of the PIC or as matters arise during the course of the PIC business.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Compliance statement – full compliance

- The PIC has set its investment objectives in the context of an actuarial review that considered the assets and liabilities and maturity profile of the fund, and it approves a Funding Strategy Statement for the Fund.
- The PIC has set a Fund specific benchmark, diversified to ensure that market volatility in the Fund's value is reduced through holding a proportion of the Fund's assets in alternative assets such as property, private equity, corporate credit, commodities and bonds.
- Each investment manager has a specific benchmark and target set for it and a time horizon, typically three years, for being measured against their target.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Compliance statement – full compliance

- The Funding Strategy Statement and triennial valuation are written specifically with the structure of liabilities in mind and also address risks to the Fund.
- The Administering Authority's strategy recognises the relatively immature liabilities of the Fund, the security of members' benefits and the secure nature of most employers' covenants. The strength of the sponsor covenant and the risk of sponsor default combined mean that the scheme's actuary can set a recovery period of 20 years.
- When setting the common contribution rate the Actuary is charged with increasing the future service rate by an amount equal to the Fund's solvency target to ensure a fully funded scheme (known as a "past service adjustment")

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Compliance statement – full compliance

- The PIC reviews investment performance on a quarterly basis and cross examines investment managers on whether a half-yearly or annual basis. Mandates are generally structured so that formal reviews of investment managers occur on a rolling three year basis.
- The Fund employs the services of a Custodian who produces quarterly reports on performance to the Fund.

Principle 5: Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

Compliance statement – Full compliance

- This Investment Strategy Statement sets out the Fund's approach to Socially Responsible Investment and Corporate Governance.
- PIC has delegated responsibility for the exercise of voting rights and engagement with companies to investment managers. Within that delegation investment managers are expected to support ethical and socially responsible corporate governance on the basis that in the longer term this will enhance the value of the companies concerned.
- Managers are held to account on their voting records.
- The Fund is a member of the Local Authority Pension Fund Forum

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate. The report should contain commentary on how any commitments made in the Statement of Investment Principles have been progressed during the reporting period.

Compliance statement – full compliance

- This Investment Strategy Statement sets out the responsibilities of the PIC, its advisers and investment managers and details of the mandates and fee basis of investment managers.
- The PIC papers are available for public inspection and are available on the Council's website. Formal statements such as the Communications Policy, Funding Strategy Statement, Statement of Investment Principles and Triennial Valuation are reported on at PIC meetings and are available on the web.
- A comprehensive annual pensioner's newsletter is produced and distributed to all pensioners of the Fund.

Appendix C – Executive Summary of the 2016 Actuarial Valuation

Executive summary

We have carried out an actuarial valuation of the London Borough of Lewisham Pension Fund ('the Fund') as at 31 March 2016. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the funding position of the Fund as at 31 March 2016 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2013).

	31 March 2013 (£m)	31 March 2016 (£m)
Past Service Position		
Past Service Liabilities	1,215	1,328
Market Value of Assets	868	1,041
Surplus / (Deficit)	(348)	(288)
Funding Level	71%	78%

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance and favourable membership experience over the inter-valuation period. The liabilities have increased due to a reduction in the future expected investment return, although this has been partially been offset by lower than expected pay and benefit growth (both over the inter-valuation period and continuing in the long term).

Contribution rates

The table below summarises the whole fund Primary and Secondary Contribution rates at this triennial valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary rate (%)	Secondary Rate (£)		
1 April 2017 - 31 March 2020	2017/18	2018/19	2019/20
15.8%	£9,447,000	£9,550,000	£9,545,000

The Primary rate also includes an allowance of 0.6% of pensionable pay for the Fund's expenses.

The average employee contribution rate is 6.6% of pensionable pay.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

Broadly, contributions required to be made by employers in respect of new benefits earned by members (the primary contribution rate) have increased as future expected investment returns have fallen. Changes to employer contributions targeted to fund the deficit have been variable across employers.

The minimum contributions to be paid by each employer from 1 April 2017 to 31 March 2020 are shown in the Rates and Adjustment Certificate in **Appendix H**.