
Pension Fund Accounts

**DRAFT
PENSION
FUND
ACCOUNTS**

2017/18

Pension Fund Accounts

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

Pension Fund Accounts

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2017/18.

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

INTRODUCTION

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

ORGANISATION

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

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

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

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

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

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A statement of the Fund's corporate governance, Funding Strategy and Investment Strategy can be found on the authority's pensions website, at the following address:

www.lewishampensions.org

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

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

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

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

- (a) Fund Assets at 31 March 2018 – the below table outlines the fund managers, asset classes, and values of those assets held by the fund as at 31 March 2018:

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

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

- (b) Basis of Preparation - The accounts have been prepared on an accruals basis (i.e. income and expenditure attributable to the financial year have been included) even where payment has not actually been made or received, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes
- (c) Investments - Investments in the Net Assets Statement are shown at Fair Value, the basis of measurement being market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2017/18 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.
- (d) The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.
- (e) Income - Dividend income earned from equity and bonds with BlackRock is reinvested and not repaid directly to the fund as cash, but from UBS is repaid to the Fund. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors.
- (f) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2018 is the actual fair value using the latest available valuation on or after 31 December 2017, plus an estimated valuation for the period up to 31 March 2018.
- (g) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schrodgers, to invest in pooled property/unit trust funds. The Schrodgers funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards at Fair Value based on their Open Market Value (OMV).

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

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

Full time pay for the post	Contribution rate 2017/18
Up to £13,700	5.5%
£13,701 to £21,400	5.8%
£21,401 to £34,700	6.5%
£34,701 to £43,900	6.8%
£43,901 to £61,300	8.5%
£61,301 to £86,800	9.9%
£86,801 to £102,200	10.5%
£102,201 to £153,300	11.4%
More than £153,301	12.5%

The employer's contribution is reviewed every three years and is determined by the fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation. The employer's contribution rate for 2017/18 is 22.5% and for 2018/19 it will remain unchanged.

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

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

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

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

* Consumer Price Index

** Guaranteed Minimum Pension

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

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

- (q)** Actuarial Present Value of Promised Retirement Benefits - The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 19 basis) to be £1.934m as at 31 March 2018 (£1,847 million as at 31 March 2016).
- (r)** Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. Some managers invoice fees, others deduct fees from asset holdings; in the latter instance, the fees are added back to the accounts to accurately reflect the management expense.
- (s)** Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
 - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
 - Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.
- (t)** Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts; please see note 11.
- (u)** Financial Instruments –
- (i) Financial Liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.
- (ii) Financial Assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial Assets are classified into two types:
- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
 - Fair value through profit or loss – assets that are held for trading.
- (v)** Critical judgements in applying accounting policies and assumptions made about the future and other major sources of estimation uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the future or that are

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

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

(w) Additional Voluntary Contributions ("AVCs")

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

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FUND ACCOUNT FOR THE YEAR

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

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

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

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NET ASSETS STATEMENT

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2018.

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

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

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

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVED

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

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

2. BENEFITS PAID

By Category

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

By Authority

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

3. MANAGEMENT EXPENSES

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

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

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

4. INVESTMENT INCOME

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

5. INVESTMENT ANALYSIS

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

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

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

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

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

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An analysis of investment movements is set out below:

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

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

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

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

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

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

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

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As at 31 March 2017:

INVESTMENT MOVEMENTS 2016/17	Value at 31 March 2016	Purchases at Cost	Sales Proceeds	Change in Capital Value	Change in Market Value	Value at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000
UK Equities	8,735	0	0	0	3,042	11,777
Global Equities	10,714	2	0	(57)	3,146	13,805
Equities	656,010	11,567	(33,820)	0	196,849	830,606
Property	96,263	11,400	(9,371)	(83)	(35)	98,174
Fixed Interest Securities	162,329	26,746	(2,985)	0	20,142	206,232
Index Linked Securities	33,177	3,716	(2,341)	0	7,047	41,599
Other Assets*	33,077	5,278	(11,266)	(27)	5,800	32,862
Derivatives	0	0	0	0	0	0
	1,000,305	58,709	(59,783)	(167)	235,991	1,235,055
Cash Deposits	40,667				984	36,517
Other Investment Balances	389				0	(336)
Total Investments	1,041,361				236,975	1,271,236

* Includes Venture Capital, Credit Mandates and Private Equity.

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5A. FINANCIAL INSTRUMENTS

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

31 March 2018				31 March 2017		
Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
11,487			Equities	25,582		
			Managed Funds			
108,401			Property	98,174		
710,103			Managed Equity	830,606		
210,101			Fixed Interest	206,232		
42,600			Index Linked	41,599		
135,223			Other Alternative Assets	32,862		
1,069			Derivative contracts			
	86,154		Cash deposits		36,517	
	361		Pending Trades		2,700	
	2,740		Dividends & Income		418	
	189		Contributions Due		645	
	843		Cash Balances		3,107	
	98		Other Current Assets		57	
1,218,984	90,385	0	Total Financial Assets	1,235,055	43,444	0

Pension Fund Accounts

31 March 2018				31 March 2017		
Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Liabilities			
		(1,069)	Derivative Contracts			
		(3,085)	Pending Trades			(3,453)
			Unpaid benefits			
		(1,689)	Other current Liabilities			(475)
		(5,843)	Total Financial Liabilities			(3,928)
1,218,984	90,385	(5,843)	Net Financial Assets	1,235,055	43,444	(3,928)

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

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

Valuation of Financial Instruments carried at Fair Value

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

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

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

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

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

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

5B. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

i) Market Risk

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

a) Other Price Risk – Market

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

b) Other Price Risk – Sensitivity Analysis

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period.

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

Pension Fund Accounts

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

Asset Type	Final Market Value as at 31 March 2018	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Equities	408,655	9.6	447,753	369,557
Global Equities	312,935	10.1	344,577	281,293
Bonds and Index Linked	252,700	9.3	276,156	229,244
Other Assets	135,223	4.6	141,396	129,050
Property	108,401	2.9	111,498	105,304
Cash	86,154	0.8	86,875	85,433
Total Assets*	1,304,068	**7.0	**1,395,092	**1,213,044

* This figure excludes derivatives and other investment balances.

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

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

d) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£GBP). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31 March 2018 with the previous year in brackets:

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

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

e) Currency Risk – Sensitivity Analysis

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

Pension Fund Accounts

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

ii) Credit Risk

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

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

iii) Liquidity Risk

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

6. PRIOR YEAR ADJUSTMENT

No prior year adjustments have been made to these accounts.

Pension Fund Accounts

7. DERIVATIVE CONTRACTS

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

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

8. DEBTORS & CREDITORS

These comprise the following amounts:

Investment Transactions**Debtors**

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

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

Creditors

Pending Trades

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

Non-Investment Transactions**Debtors**

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

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

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

9. CASH AND BANK

Cash Held With Custodian

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

Pension Fund Bank Account

The Lewisham cash balance represents uninvested cash held in the Pension Fund bank account as at 31 March 2018.

10. POST YEAR END EVENTS

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

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

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

Pension Fund Accounts

11. COMMITMENTS

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

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

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

12. RELATED PARTY TRANSACTIONS

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

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

During the year the following declarations were made:

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

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

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

Pension Fund Accounts

No other trustees or Council chief officers with direct responsibility for pension fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2018.

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

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

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

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

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

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

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

Pension Fund Accounts

14. SCHEDULED BODIES

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

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

15. ADMITTED BODIES

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

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

16. STOCK LENDING

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

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

Pension Fund Accounts

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

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

Collateral

The collateral held as security on loans cannot be sold or repledged in the absence of default by the borrower. The Council entered into stock lending transactions during the financial year earning £3k net of direct expenses (compared to £8k in 2016/17). The value of collateral held as at 31 March 2017 was £0m (£9.8m as at 31 March 2017).

17. MEMBERSHIP

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

18. AUTHORISATION

These accounts were approved by Council on