



London Borough of Lewisham Pension Fund

2020/21 Annual Report

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

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1. FOREWORD BY THE EXECUTIVE DIRECTOR OF CORPORATE RESOURCES

- 1.1. Welcome to the 2020/21 Annual Report for the Lewisham Pension Fund. The requirement for, and contents of, the annual report is set out in Regulation 57 of the Local Government Pension Scheme Regulations 2013.
- 1.2. The Pension Fund Annual Report details the financial position of the Fund and the performance of the 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 London Borough of Lewisham, as administering authority, runs the Fund on behalf of its members, with the overriding objective of ensuring its assets are sufficient to pay the benefits owing to members. To achieve this, it must ensure:
 - The proper receipt of contributions from employers and employees;
 - The appropriate investment of those contributions to achieve both investment income and capital growth; and
 - The timely payment of benefits as and when members retire, for the rest of their lives, and their dependents where relevant.
- 1.4. To achieve these objectives the Fund operates within a framework of strategies, aligned with investment beliefs, which meet the requirements of the Regulations and clearly set out a route to achieve full funding of the Fund's obligations within a set timeframe. These take the form of the Funding Strategy Statement and Investment Strategy Statement, both of which are appended to this report, and a Statement of Investment Beliefs formed by the Pensions Investment Committee, which is responsible for exercising all functions of the administering authority in relation to local government pensions. The Statement of Investment Beliefs sets out a list of high level overriding principles by which the Committee make investment decisions, including governance, investment strategy and structure, responsible investment, and climate change; the full statement is available on the Fund's website at www.lewishampensions.org.
- 1.5. The results of the most recent triennial valuation, based on the Fund's position as at 31 March 2019, showed an improved funding level of 90% of its liabilities, compared to a funding level of 78% as at the 2016 valuation. The resulting deficit as at the 2019 valuation was £154m (£287m in 2016). The improved funding level and reduced deficit are predominantly the result of a large increase in the value of the Fund's assets since the previous valuation (£1.041bn at 31 March 2016 to £1.387bn at 31 March 2019), which partially offsets an increase in liabilities of £123m due to a reduction in the assumed rate of future investment returns. The next triennial valuation will take place as at 31 March 2022.
- 1.6. Over the three year valuation period, active membership decreased by approximately 2% whilst the number of deferred members and pensioners both increased, by 17% and 7% respectively. The Fund continues to mature and the net cash withdrawal in 2020/21, excluding Fund management expenses, was £8.8m (£4.4m in 2019/20).

- 1.7. The Covid-19 outbreak, declared a pandemic by the World Health Organisation on 11th March 2020, has had an unprecedented impact on global and UK economies, with full recovery expected to take several years. The Fund saw a significant recovery in the short term as at the end of March 2021 in its asset values, particularly equities compared to the fall in 2019/20. The net asset value of the Fund rose by £249m, or 18.4%, from £1.352bn to £1.601bn (compared to a decrease of £35m, or -2.5%, in 2019/20). However, performance for the year was under benchmark by 1.14% in spite of the significant rise in valuation (compared to 0.56% over benchmark in 2019/20), with the rise in equities and cash being partially offset by the lack of diversified growth in year. Much of the gain in value was in the first half of 2020/21, with the Fund's value increasing to £1.502bn as at 30 September 2020. This was primarily due to the reduction of uncertainty and how the ongoing response to the virus would impact the markets and the future valuation of the Fund.
- 1.8. This was the eighth full year of the Fund's mainly passive strategy and the performance of the Fund's passive equities and bonds, in aggregate, has marginally dropped below benchmark expectations, after it exceeded expectations for the first time since inception in 2019/20. In February 2020, following the results of the 2019 triennial valuation, new funding and investment strategies for the Fund were agreed which target a fully funded position within 17 years, with a 70% likelihood of achieving this; however, the disruption caused by the coronavirus outbreak will have a mixed and uncertain impact on the underlying assumptions and required performance to meet this target. Officers and Members will continue to monitor the impact of the pandemic on funding levels, including working with employers to review their contribution rates if necessary following amendments to the LGPS regulations which now allow employer contributions to be reviewed outside of formal valuations.
- 1.9. The new investment strategy will retain but reduce a majority passive growth strategy, diversifying the Fund away from fossil fuels to low-carbon mandates, whilst investing in income assets to generate regular cash returns and help manage the Fund's overall cash position. Members and officers continue to work with the Fund's advisers and the London Collective Investment Vehicle (LCIV) to develop suitable mandates and a clear plan for the transition of assets into these mandates within this valuation cycle. Fund performance will be impacted by how quickly and successfully these funds are deployed by managers, in line with their performance objectives.
- 1.10. Lewisham remains committed to pooling its assets with the LCIV when suitable mandates become available, something that was being developed with the LCIV and other shareholders through 2019/20 and into 2020/21. Lewisham took action in 2021/22 to make our first direct investment with the pool which was previously set out in the 2019/20 annual report.
- 1.11. The Pensions Investment Committee agreed a revised investment strategy which moved from the carbon foot-printing of the Fund's equity holdings, to agreeing a separate set of climate objectives. In doing so, ESG issues will remain a key consideration for the Fund going forward, which will continue to position itself to prioritise the interests and benefits of its members.

Kathy Freeman
Executive Director of Corporate Resources (S151 Officer)

2. FOREWORD BY THE CHAIR OF THE PENSIONS INVESTMENT COMMITTEE

- 2.1. 2020/21 was a year that few could have predicted. Covid-19 brought the world to a standstill in March 2020, and resulted in imposition of restrictions and multiple lockdowns across the nation. Unlike the market crashes of decades past, the outbreak of Covid-19 led to an abrupt disruption of not just the financial markets but the real economy too, decimating both supply and demand, something that is expected to continue until the world re-opens. The focus now is recovery, which is reaffirmed by the modest growth of 1.3% in GDP for the quarter ending December 2020, and measures including the continuation of furlough as well as stamp duty breaks, along with other financial support packages for people and businesses.
- 2.2. In the second quarter of 2020, UK GDP contracted by 19.5%, the largest quarterly contraction in the UK economy since records began in 1955. With a resurgence in virus cases and new support measures announced in the autumn of 2020, a balance between economic recovery and containment of the virus was necessary. The effect of these measures, of the reopening of the economy and of people's return to economic activity, was felt by the end of the third quarter of 2020 as UK GDP rose by 16.9%, the largest quarterly gain in the UK economy since records began. UK GDP continues to rise: in the second quarter of 2021, UK GDP rose by 4.8%, and prospects for the rest of the 2021/22 financial year remain highly promising.
- 2.3. The initial impact of the coronavirus outbreak saw global markets tumble with equity markets losing a quarter of their value, and the wider uncertainty making many alternative asset classes difficult to value or subject to material uncertainty clauses. Lewisham's Pension Fund assets saw strong growth over a period of 3-5 years prior to the pandemic, rising from £1.041bn in 2015/16 to £1.601bn in 2020/21. Though 2019/20 was the first year in which assets reduced in value from the previous financial year, falling by £35m (2.5%), this was attributed to the coronavirus pandemic.
- 2.4. Despite the uncertainty and volatility in the market as a result of coronavirus, the Fund saw a healthy rise of 18.4% in the value of assets between 1 April 2020 and 31 March 2021, from £1.352bn to £1.601bn. However, as the pandemic continues to spread across the globe and further containment measures remain likely, the effect on the Fund in the medium-term, not just in terms of asset values but the funding assumptions underlying the strategic direction of the Fund, remains uncertain.
- 2.5. Approximately 58% of the Fund at March 2021 was invested in growth assets, 17% in income assets and 25% in protection assets including passive bonds and cash. The latest triennial valuation took place on 31 March 2019 and the Committee, in conjunction with officers, analysed the results to determine a suitable Funding Strategy and Investment Strategy for the next three year cycle. The Committee continues to plan for a fully-funded position, the Fund having risen from 78% to 90% funded in the last three years, largely on the crest of equity investment returns.
- 2.6. The Fund's new Investment Strategy will see the transfer of existing passive equities into low-carbon rules-based ESG passive equity mandates, as well as new investments in low-carbon income generating assets. This will ensure the Fund continues to align investments with the wider climate objectives of the Fund, while still preserving the resources necessary for securing the long-term payment of members' benefits. These investments will include

some diversification into a build-to-rent residential property mandate as a more illiquid and less volatile asset class with steady bond-like returns.

- 2.7. The year has seen significant development towards the creation of a London Collective Investment Vehicle (LCIV) low carbon passive equity fund, a process which the previous Chair has been leading and prompting over the last year amongst the other London Pension Committee Chairs. As a voluntary founding member of LCIV, the Fund remains committed to pooling our assets onto the platform. We are actively engaging with LCIV to identify mandates which are aligned with the beliefs of the Committee and the overall Fund strategy. Alongside most of the other 32 London Borough shareholders, we hope to see LCIV 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, and to develop closer and more informed working relationships with borough shareholders.
- 2.8. One such development is the creation of LCIV's first Seed Investor Groups (SIGs) for proposed fund launches. These groups provide a forum for interested boroughs to discuss and develop a mandate, in conjunction with LCIV, which best suits the needs of the group. Progress has been made in the first half of 2020/21, particularly in regards to a 100% renewable energy infrastructure SIG that launched in early 2021. This progress has continued following the launch of a low carbon and ESG passive equities SIG.
- 2.9. The Committee will continue to work to ensure the Fund is well managed to the benefit of all its members. I thank the members of the Pensions Investment Committee and the Council's officers for their work over the last year, and would like to thank the outgoing Chair in particular for his work to ensure the Fund is well managed and increasingly aligned with our wider climate objectives. I look forward to continuing to work with all concerned to ensure the Fund continues to be effectively and responsibly managed.

Councillor James Royston
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 was established 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. It is governed by the Public Service Pensions Act 2013, and administered in accordance with secondary legislation including the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016 (referred to henceforth as 'the Regulations').
- 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 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, and has ultimate responsibility for, the investment policy most suitable to meet the liabilities of the Fund. It comprises eight elected representatives of the Council, all of whom have voting rights. Members of scheduled and admitted bodies to the Fund, and representatives of the Local Pension Board, may attend Committee meetings as observers but have no voting rights.
- 3.4. The Committee reports to Full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Executive Director of Corporate Resources and her officers, and the Fund's appointed actuary, investment adviser and fund managers.
- 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.

C. ASSET POOLING

- 3.6. The London Borough of Lewisham is one of thirty-two shareholders in the London Collective Investment Vehicle (LCIV), one of eight pooling vehicles established as part of the reform of investment management in the LGPS which began in 2015 with the publication of criteria and guidance on pooling of LGPS assets to deliver significantly reduced costs while maintaining overall investment performance and achieving benefits of scale.
- 3.7. The new pools have significantly changed the previous approach to investing, although the responsibility for determining asset allocations and the investment strategy remains with each individual Pension Fund.

- 3.8. As at 31 March 2021, the London Borough of Lewisham Pension Fund did not have any actively pooled assets with the LCIV. Further information on asset pooling is provided in section 10 of this report.

4. SCHEME MANAGEMENT, RISK AND BUDGET

A. SCHEME MANAGEMENT AND ADMINISTRATION

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

Pensions Investment Committee:	Cllr. Mark Ingleby – Chair
	Cllr. Louise Krupski - Vice Chair
	Cllr. Chris Best
	Cllr. Patrick Codd
	Cllr. Caroline Kalu
	Cllr. Paul Maslin
	Cllr. John Muldoon
	Cllr. Stephen Penfold
Local Pension Board:	Stephen Warren - Chair
	Suki Binjal - Employer Representative - LB Lewisham
	Gary Cummins - Employer Representative - LB Lewisham
	Rowann Limond - Scheme Representative - Lewisham Homes
	Elizabeth Sclater - Scheme Representative - Pensioner Member
Administrator:	Kathy Freeman - Executive Director of Corporate Resources
Responsible Officers:	Shida Ashrafi - Group Manager for Pensions & Payroll
	David Austin – Director of Corporate Resources
Adviser:	Hymans Robertson LLP
Actuary:	Hymans Robertson LLP
Asset Pool:	The London Collective Investment Vehicle (LCIV)
Custodian:	Northern Trust
Legal Advisers:	LB Lewisham Legal Services
Bank:	Barclays Bank
Performance Measurement:	Northern Trust, Hymans Robertson, PIRC
AVC Providers:	Clerical Medical and Utmost
External Auditors:	Grant Thornton UK LLP
Asset Managers:	BlackRock (Passive Equities and Bonds)
	HarbourVest (Private Equity)
	Invesco (Diversified Growth)

	J.P. Morgan (Infrastructure)
	M&G (Company Finance)
	Partners Group (Multi Asset Credit)
	Pemberton (Multi Asset Credit)
	Schroders (Property)
	UBS (Passive Equities and Bonds)

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 Chief Finance Officer 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 which codify best practice in investment decision-making, as updated and consolidated post 2008 by the Government and set out in the Chartered Institute of Public Finance and Accountancy’s (CIPFA’s) Principles for Investment Decision Making and Disclosure in the LGPS (2012). The Committee manages the Pension Fund’s assets in accordance with the relevant Regulations.
- 4.4. The Fund maintains a Risk Management Policy which sets out the risk philosophy for the management of the Fund, the Fund’s attitudes to risk, and how risk management is implemented and monitored. The risk management process is consistent with the Regulations and guidance issued by CIPFA, Managing Risk in the Local Government Pension Scheme (2018), and is a continuous process as outlined in the table below.



Risk Management Stage	Description of Process
<p>1. Risk Identification</p>	<p>Assessing risks in the context of the objectives and targets of the Fund, which is both a proactive and reactive process. Risks are identified by a number of means, including:</p> <ul style="list-style-type: none"> i/ Formal risk assessment exercises managed by the Pensions Investment Committee; ii/ Regular performance measurement against agreed objectives or benchmarks; iii/ Findings of internal and external audit; iv/ Feedback from Local Pensions Board, employers and other stakeholders; v/ Liaison with regional and national associations, professional groups and other sector organisations. <p>Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the analysis and classification, control and monitoring of those risks.</p>
<p>2. Risk Analysis and Evaluation</p>	<p>Once identified, the potential risks are assessed and scored according to their likelihood of occurring (from rare to almost certain) and the impact on the Fund should they occur (from insignificant to extreme).</p>
<p>3. Risk Response</p>	<p>These scores are then used to prioritise the risk from low risk to high risk according to the level of response required, as shown in the graphic below. Senior officers will review the extent to which the identified risks are mitigated by existing controls and whether any further action is required to address the risk. Before any such action can be taken, PIC approval may be required where appropriate officer delegations are not in place. Actions taken may result in risk elimination, risk reduction, or risk transfer.</p>
<p>4. Monitor and Review</p>	<p>The ultimate responsibility of PIC, in monitoring risk management activity the Committee will consider whether:</p> <ul style="list-style-type: none"> i/ The risk controls in place achieve the desired outcomes; ii/ The procedures in place for assessing risk are appropriate; iii/ Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk; iv/ There are any lessons to be learned for the future assessment and management of risks.

4.5. The risk register is incorporated within the annual business plan which is approved by PIC and reviewed periodically to ensure that risks are updated and the relevant mitigations are put in place to manage them. The Local Pension Board is also expected to consider risk at every meeting, and assists the authority in ensuring it adequately mitigates against risk and that the direction of travel shows movement towards target scores. Senior officers and those named as responsible officers on the register will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur.

4.6. The Fund's Investment Strategy Statement also outlines a number of risks taken to meet the funding objectives and the approaches taken to managing those risks, and include the following:

1. Funding Risks – broken down into:

- a. Insufficient asset growth** – 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. The PIC also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.
- b. Changing demographics** – the risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits. This is mitigated by the PIC seeking 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 can be assessed.
- 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. The Fund invests in a range of mandates, each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help to reduce the Fund's concentration risk.
- 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, as well as property, 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 (i.e. the currency of the liabilities). The Fund invests in a range of overseas markets which provides a diversified approach to currency markets. The Fund has also considered, and will continue to consider at periodic intervals, the potential need for any currency hedging to reduce currency risk.
- d. Environmental, Social and Governance (ESG)** – the risk of embedding ESG factors to the extent that the ability of the Fund to meet its long-term funding obligations is significantly reduced. 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, and to use their influence as major institutional investors to promote good practice in the investee companies and markets to which the Fund is exposed.

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.

4.7. The Pension Fund Statement of Accounts as appended at Appendix A sets out additional financial risk management in place for the Fund and provides some sensitivity analysis of market price risk and currency risk, and the potential impact on the Fund's market value.

4.8. The Fund also gains assurance from the work of internal audit, which undertakes an annual audit to provide an opinion on the effectiveness of controls in place and makes recommendations to management on how to improve those controls. The findings of the 2020/21 internal audit were issued in May 2021, with the Fund achieving a limited assurance level. The recommendations from the audit include the need to regularly review accuracy of payments to pensioners along with the contribution rates of both the employee and employer to ensure no under/over payments. Reconciliation reviews and actions to resolve variances need to be dealt with in a timely manner, and procedure notes for calculating member pension benefits need to be kept up to date and reviewed periodically.

4.9. Areas that were identified by internal audit as working well include the pension lump sum payments and monthly payments as per the benefits calculation forms. Segregation of duties was another area that worked well as transfer calculations were completed by one officer and checked by a second officer for accuracy. Finally, employee contribution bandings and rates on Oracle matched those published on the LGPS website which shows payroll input was accurate.

C. FINANCIAL PERFORMANCE

4.10. The 2020/21 Pension Fund annual budget for controllable expenditure was increased by approximately 9% on the 2019/20 budget, largely to allow for full year management expenses from the Fund's infrastructure and private debt mandates, along with administration an oversight & governance expenses relating to actuarial fees and advisor services on low carbon and renewable procurement. Actuals against budget are illustrated in the table below:

	2020/21			2019/20	2020/21 v 2019/20 Year on Year Variance	
	Actuals	Budget	Variance	Actuals		
	£'000	£'000	£'000	£'000	£'000	%
Administration Expenses	691	730	(39)	698	(7)	(1.0)
Oversight and Governance Expenses	509	418	91	403	106	26.3
	1,200	1,148	52	1,101	99	9.0
Investment Management Expenses:						
Transaction Costs	15	20	(5)	13	2	15.4
Management Fees	2,332	2,443	(111)	2,444	(112)	(4.6)
Custody Fees	36	35	1	35	1	2.9
	2,383	2,498	(115)	2,492	(109)	(4.4)
Total Expenses	3,583	3,646	(63)	3,593	(10)	(0.3)

- 4.11. Administration expenses consist of all expenses the administering authority must incur in performing its duties to administer entitlements and provide benefit information. This includes staff costs, IT costs, general costs such as stationary and postage, membership fees, and costs associated with the provision of additional voluntary contributions. Oversight and governance expenses can include the cost of selection, appointment and performance monitoring of fund managers, investment advisory services, legal and actuarial services, and audit fees.
- 4.12. The increased oversight and governance costs in 2020/21 is predominantly the result of increased spend against actuarial and advisory services, from £271,000 in 2019/20 to £318,000 in 2020/21, which was more than budgeted; this can be attributed to the 2019 triennial valuation taking place and the associated actuarial costs, as well as advisory assistance with new regulations, along with advisory services on low carbon and renewable procurement.
- 4.13. Management expenses in 2020/21 reduced by £112,000 on 2019/20, as it was thought that spend would reflect the effect of investments in new mandates carrying forward from 2018/19. The expenditure under budget is a result of an overestimation of manager fees on multiple mandates.

5. INVESTMENT STRATEGY AND PERFORMANCE

A. INVESTMENT STRATEGY

- 5.1. The Council's investment policy encompasses its approach to funding its liabilities as per the Funding Strategy Statement (FSS) and is outlined in its Investment Strategy Statement (ISS). The ISS is included at Appendix B and the FSS at Appendix C. 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 main outcomes of the 2019 triennial valuation (2019 – 2022) incorporated into the strategy include:
- Divesting from over £650m of current passive equity mandates and reinvesting into a single low carbon index 'passive like' tracking fund;
 - Divesting over £75m from the current diversified growth fund mandate which has not performed in line with expectations;
 - Identifying one or two new low carbon income mandates, most likely in the infrastructure and/or multi asset credit space which also deliver the necessary cash flows for the fund;
 - Considering divestment from the current property fund over the next investment period and directing the fund's property investment to a more low carbon orientated mandate; and
 - Rebalancing the other existing mandates where necessary in-line with the agreed investment strategy allocations.
- 5.3. The administration of the investment side of the Fund is managed internally by officers within the Council's Strategic Finance team. The Fund's custodian is the main depository for investment assets, and provides performance reporting and accounting support for all transactional activity in relation to the Fund's investments which is used to update the Fund's ledger and compile the annual accounts. The Fund also maintains its own bank account for day to day cash flow requirements.

B. UK STEWARDSHIP CODE

- 5.4. In 2019 the Financial Reporting Council consulted on a new UK Stewardship Code that sets substantially higher expectations for investor stewardship policy and practice than the 2012 Code. The result of that consultation was the UK Stewardship Code 2020, which came into force on 1 January 2020.
- 5.5. The Code defines stewardship as the "responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society", and consists of twelve Principles for asset managers and owners, and six for service providers, to which signatories to the Code are expected to evidence compliance through the publication of an annual Stewardship Report. Managers, owners and service providers are tiered based on the quality of their Code statements, distinguishing between those who report well and demonstrate their commitment to stewardship, and those where reporting improvements are required.
- 5.6. Although not currently a direct signatory to the new Code, the Fund will consider its impact and align its expectations of asset managers and service providers accordingly. The Fund will use the revised Code as a basis for reviewing and strengthening its approach to responsible investment, and fully endorses the principles embedded within the Code. It expects its external fund managers to be signatories to the Code, and to seek to transition from the old 2012 Code to the new 2020 Code, reaching Tier One level of compliance or seeking to achieve it within a reasonable timeframe.
- 5.7. The twelve principles of the UK Stewardship Code 2020 are set out below with brief examples of how the Fund works to meet each one in line with the expectations set out in the Code, although this does not constitute a statement of compliance and is by no means exhaustive.

Category	Code Principle	Examples of Compliance
Purpose and Governance	<ol style="list-style-type: none"> 1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. 2. Signatories' governance, resources and incentives support stewardship. 3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first. 4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system. 5. Signatories review their policies, assure their processes and assess the effectiveness of their activities. 	<p>PIC Members have contributed to a Statement of Investment beliefs that when considered with the Funding Strategy Statement translate Fund objectives into a well-defined Investment Strategy. Taken in conjunction with PIC's Climate Objectives, the Fund seeks to make ESG focussed investments to achieve the overriding purpose of preserving the resources necessary to secure the long-term payment of members' benefits.</p> <p>The Fund's Pension Board assists the Council, as administering authority, to monitor adherence to legislation and best practice relating to the administration and governance of the Fund. 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 and its beneficiaries are put first.</p> <p>The Fund's stewardship responsibilities are set out in the ISS, including its approach to systemic risks which includes maintaining a diversified portfolio to reduce the impact of any market or business group failure.</p> <p>The fund is audited, both externally and internally, annually. The Pension Board in April 2019 commissioned an external review to measure the Fund's compliance to the Pension Regulator's Code of Practice and the Local Government Pension Scheme Advisory Board's guidance.</p>
Investment Approach	<ol style="list-style-type: none"> 6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them. 7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance 	<p>The Fund publishes its Statement of Accounts and Annual Report every year which details the breakdown of the Fund and its investments, the membership of the Fund and how officers deal with member queries, and how decisions are taken to meet the Fund's liabilities and continue to pay member benefits. The FSS and ISS set out in greater detail the stewardship of the Fund, the former being consulted on with Fund employers prior to publication.</p> <p>The Fund has integrated stewardship and ESG factors into its new Investment Strategy, which will see the Fund transition its equity holdings into low carbon ESG passive equities and pursue investments in other low carbon assets including renewable energy infrastructure, to continue to</p>

Category	Code Principle	Examples of Compliance
	<p>issues, and climate change, to fulfil their responsibilities.</p> <p>8. Signatories monitor and hold to account managers and/or service providers.</p>	<p>provide benefits for its members whilst addressing wider ESG issues such as climate change and decarbonisation.</p> <p>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 monthly and quarterly reports for officers' attention, and attend PIC at least annually to update Members on fund performance.</p>
Engagement, Exercising Rights and Responsibilities	<p>9. Signatories engage with issuers to maintain or enhance the value of assets.</p> <p>10. Signatories, where necessary, participate in collaborative engagement to influence issuers.</p> <p>11. Signatories, where necessary, escalate stewardship activities to influence issuers.</p> <p>12. Signatories actively exercise their rights and responsibilities.</p>	<p>The Fund has established a set of Investment Consultant Objectives which includes objectives on strategic advice, effective implementation and research, all of which require the Fund's advisers to use its more extensive resources and engage with asset managers and other stakeholders on the Fund's behalf.</p> <p>Officers regularly engage with asset managers on all issues of asset administration and performance. The Fund participates in collective engagement and is actively committed to the LCIV for the pooling of its assets into centrally managed Funds, whilst liaising and working with other shareholders of the LCIV to achieve shared objectives, outside of the larger pool if necessary but always in the spirit of collaboration to achieve shared goals.</p> <p>PIC has delegated the exercise of voting rights to its investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.</p>

- 5.8. The Fund is also a member/subscriber of the following bodies:
- a. Pensions and Lifetime Savings Association (PLSA);
 - b. Local Authority Pension Fund Forum (LAPFF);
 - c. Local Government Pension Committee (LGPC).

C. APPLICATION OF CIPFA PRINCIPLES FOR INVESTMENT DECISION MAKING

- 5.9. The Fund is required to demonstrate compliance with CIPFA's Principles for Investment Decision Making and Disclosure, 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.

D. INVESTMENT PERFORMANCE

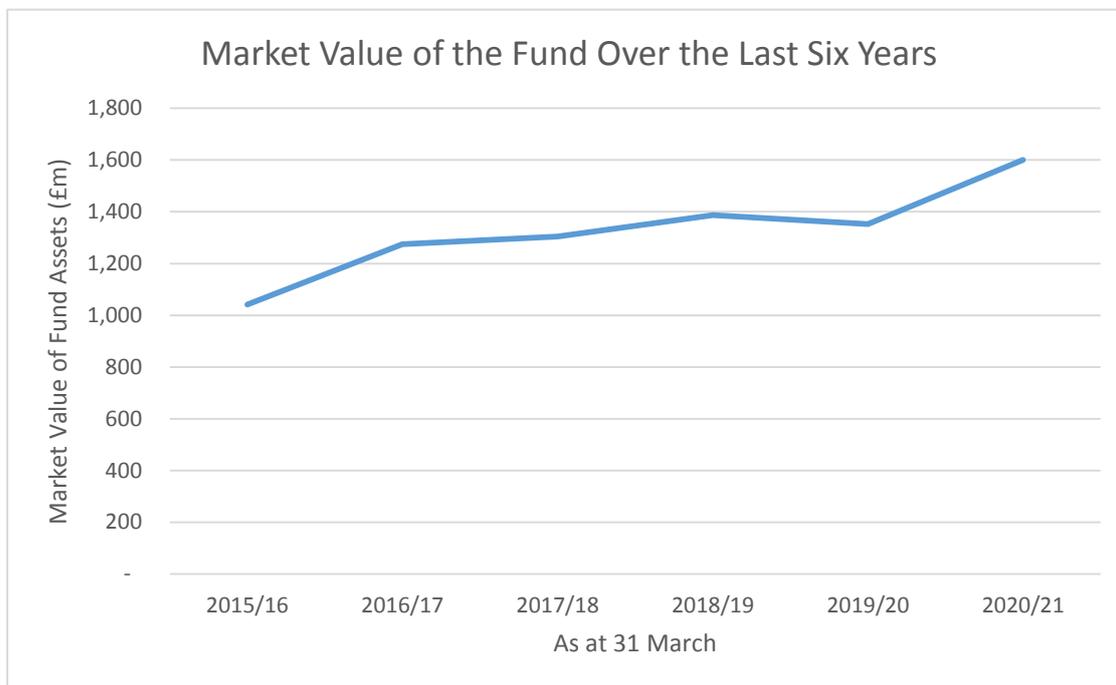
- 5.10. The overriding investment objective is to ensure that the Fund's investments increase the likelihood that benefits will be paid to members as they fall due, by maximising investment returns over the long term within acceptable risk tolerances.
- 5.11. Since November 2012, the majority of the Fund has been under passive management (73% as at 31 March 2021). The investment strategy has previously allocated a significant proportion of the Fund for investment into growth assets. After the 2016 valuation, the strategy was adapted to seek a more diversified portfolio and reduce the heavy exposure to the volatility of equities by investing in income assets such as infrastructure and private debt. As at 31 March 2021 approximately 58% of the Fund was invested in growth assets, 17% in income assets and 25% in protection assets including passive bonds and cash.
- 5.12. The Fund's asset allocation as at 31 March 2021 has eight active managers with six mandates, as below.

D1. STRATEGIC ASSET ALLOCATION AT 31 MARCH 2021:

Mandate	2020/21			2019/20
	Asset Value £'000	Target Allocation %	Actual Allocation %	Actual Allocation %
Passive Equities and Bonds	1,167,345	68.0	72.9	68.6
Property	112,036	10.0	7.0	7.9
Infrastructure	76,420	6.0	4.8	5.8
Diversified Growth / Targeted Returns	0	6.0	0.0	5.7
Private Equity	67,694	3.0	4.2	4.2
Multi-Asset Credit	71,302	6.0	4.5	5.6
Credit Financing	0	0.0	0.0	0.0
Cash and Net Current Assets	106,281	1.0	6.6	2.2
Total	1,601,078	100%	100%	100%

- 5.13. 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.

5.14. The graph below depicts the changing value of the Fund’s assets as at 31 March over the last six years. The Fund has steadily increased in value over the period, from £1,041bn at 31 March 2016 to a high of £1,601bn at 31 March 2021. The Fund rebounded from a fall in value in 2019/20, and rose by approximately £249m in 2020/21.



5.15. The annualised return of the Fund’s investments over the last 12 months was 18.35%, which was 1.14% below the benchmark return (a composite of the benchmarks employed by each mandate). Over the last five years, the Fund’s absolute return on its investments is 9.67%, which is approximately 0.26% below the benchmark return of 9.93% as depicted in the below table.

D2. AGGREGATE FUND – COMPARATIVE PERFORMANCE:

As at 31 March 2021	One Year %	Three Year %	Five Years %
Fund Performance	18.35	7.71	9.67
Benchmark	19.49	8.22	9.93
Relative performance	(1.14)	(0.51)	(0.26)

5.16. Individual fund manager performance is assessed against customised benchmarks. The performance of each manager against their composite benchmark over a one year period, three year period and their inception is as set out in the table below.

D3. INDIVIDUAL MANAGER PERFORMANCE:

		Blackrock	UBS	Schroders	J.P. Morgan	Invesco	HarbourVest	Partners Group	Pemberton
		(Passive Equities & Bonds)	(Passive Equities & Bonds)	(Property)	(Infrastructure)	(Diversified Growth/ Targeted Returns)	(Private Equity)	(Multi-Asset Credit)	(Multi-Asset Credit)
		%	%	%	%	%	%	%	%
1 year	Absolute	26.5	24.3	2.9	(2.2)	(1.6)	11.80	2.5	5.9
	Benchmark	26.0	24.3	2.8	7.0	5.2	40.00	4.4	8.0
	Relative	0.4	0.0	0.1	(8.6)	(6.5)	(20.1)	(1.7)	(1.9)
3 years	Absolute	9.4	8.8	2.8	N/A	(0.3)	14.0	N/A	N/A
	Benchmark	9.1	8.9	2.9	N/A	5.7	14.4	N/A	N/A
	Relative	0.3	(0.1)	(0.1)	N/A	5.7	(0.3)	N/A	N/A
Since Inception*	Absolute	11.1	10.7	4.5	3.4	(0.2)	10.1	4.0	6.4
	Benchmark	10.8	10.7	5.3	7.0	5.7	10.1	4.8	8.0
	Relative	0.3	0.0	(0.7)	(3.3)	(5.6)	0.1	(0.8)	(1.5)

*Blackrock Nov 2012; UBS Nov 2012; Schroders Oct 2004; J.P. Morgan Jan 2019; Invesco Sep 2017; HarbourVest Dec 2006; Partners Group Apr 2018; Pemberton Jan 2018.

5.17. The table above shows that there has been a varied performance over time. 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, and account for approximately 73% of the Fund. No other manager, apart from Schroders, accounts for more than 6% of the Fund, in line with their target allocations. Pemberton was a new fund in 2017/18, whilst Partners Group and J.P. Morgan were new funds in 2018/19, hence the lack of historical performance data. The 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.

5.18. A description of the benchmark for each fund manager is set out below.

D4. FUND MANAGER BENCHMARKS:

Manager	Mandate	Benchmark / Performance Target
BlackRock	Mixed Passive Mandate	Composite benchmark. Index Tracker Funds depending on market and asset class; performance should correspond to the average return.
UBS	Mixed Passive Mandate	Composite benchmark. Index Tracker Funds depending on market and asset class; performance should correspond to the average return.
Schroders	Property	To outperform the MSCI/AREF UK Quarterly Property Fund Index All Balanced Funds Weighted Average by 0.75% on a three year rolling basis net of fees.
J.P. Morgan	Infrastructure	Hurdle rate of 7%. The fund targets a return of 8-12% per annum net of fees.
Invesco	Diversified Growth/Targeted Returns	3m LIBOR. The fund targets a gross return of 5% per annum above UK three month London Inter-Bank Offer Rate (LIBOR), over a three year rolling period.
HarbourVest	Private Equity	To outperform the Morgan Stanley Capital International (MSCI) World Index by 5% over a five year rolling period, net of fees.
Partners Group	Multi-Asset Credit	The fund targets a return of LIBOR +4-6% net of fees, with a 5% cash yield
Pemberton	Multi-Asset Credit	The fund targets a gross Internal Rate of Return (IRR) of 7-8%.

5.19. The value of assets under management (AUM) by asset class and fund manager is shown in the Pension Fund Accounts in Appendix A.

5.20. 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

A. SCHEME ADMINISTRATION / PENSIONS ADMINISTRATION AND ASSURANCE

6.1. As at 31 March 2021 there were 26,882 members of the Fund; 6,928 of these were active, 11,865 deferred (undecided, deferred and frozen) and 8,089 retired. Besides the administering authority, the Fund also comprised 8 active scheduled bodies and 18 active admitted bodies, along with 2 admitted bodies that left the fund in 2020/21.

6.2. Scheme member administration and pensioner administration is undertaken by a small in-house Pensions 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. Further information about the administration of

the scheme including forms and publications, information on complaints and disputes, and details on how members are kept informed, including relevant contact details, can be found on the Fund's website at www.lewishampensions.org. Scheme administration is audited annually and a short summary of the 2020/21 audit findings can be found in sections 4.8 and 4.9 of this report. A copy of the internal report can be provided upon request.

- 6.3. The number of key administrative activities carried out in 2020/21 and across the previous four years are shown in the table below.

A1. KEY ADMINISTRATIVE ACTIVITIES:

	2020/21	2019/20	2018/19	2017/18	2016/17
New scheme members	638	1,072	1,181	1,157	1,021
Estimate of benefits	794	1,393	1,839	1,801	1,915
Responding to correspondence	1,714	1,472	557	557	625
Deferred benefits	290	298	330	186	238
Calculation of quotations and actuals relating to transfers into the Local Government Pension scheme	335	420	304	246	232
Retirements	322	410	410	335	491
Death cases (with dependants)	376	292	264	192	287
Calculation of quotations and actuals relating to transfers out of the Local Government Pension scheme	335	262	247	246	263
Additional contributions	25	50	46	40	21
Refunds of contributions	170	434	507	187	328
Overall Performance	4,999	6,103	5,685	4,947	5,421

- 6.4. The role of the pensions section in the administering authority during 2020/21 was carried out by five Full Time Equivalent (FTE) staff serving almost 27,000 members. Relevant data and staffing ratios are as set out below, and indicate an increasing number of transactions over time being undertaken by the same number of FTE staff.

A2. KEY STAFF INDICATORS:

FTE Staff:	2020/21	2019/20	2018/19	2017/18	2016/17
Lewisham	7.5	7.5	7.5	7.5	7.5
Made up of:					
Work for other schemes	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Other work	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Administration of LGPS	5.0	5.0	5.0	5.0	5.0

Scheme Membership:	2020/21	2019/20	2018/19	2017/18	2016/17
Number of contributors	6,928	6,754	6,726	6,821	6,867
Number of deferred members	11,865	11,860	11,469	10,950	10,621
Number of pensioners	8,089	8,024	7,779	7,622	7,431
Total	26,882	26,638	25,964	25,393	24,919

Staff Performance:	2020/21	2019/20	2018/19	2017/18	2016/17
Ratio of members to 1 FTE staff	5,376	5,328	5,193	5,079	4,984
Transactions per member of staff	1,000	1,221	1,137	989	1,084

6.5. The age profile of the membership calculated as at 31 March 2021 is show in the table below.

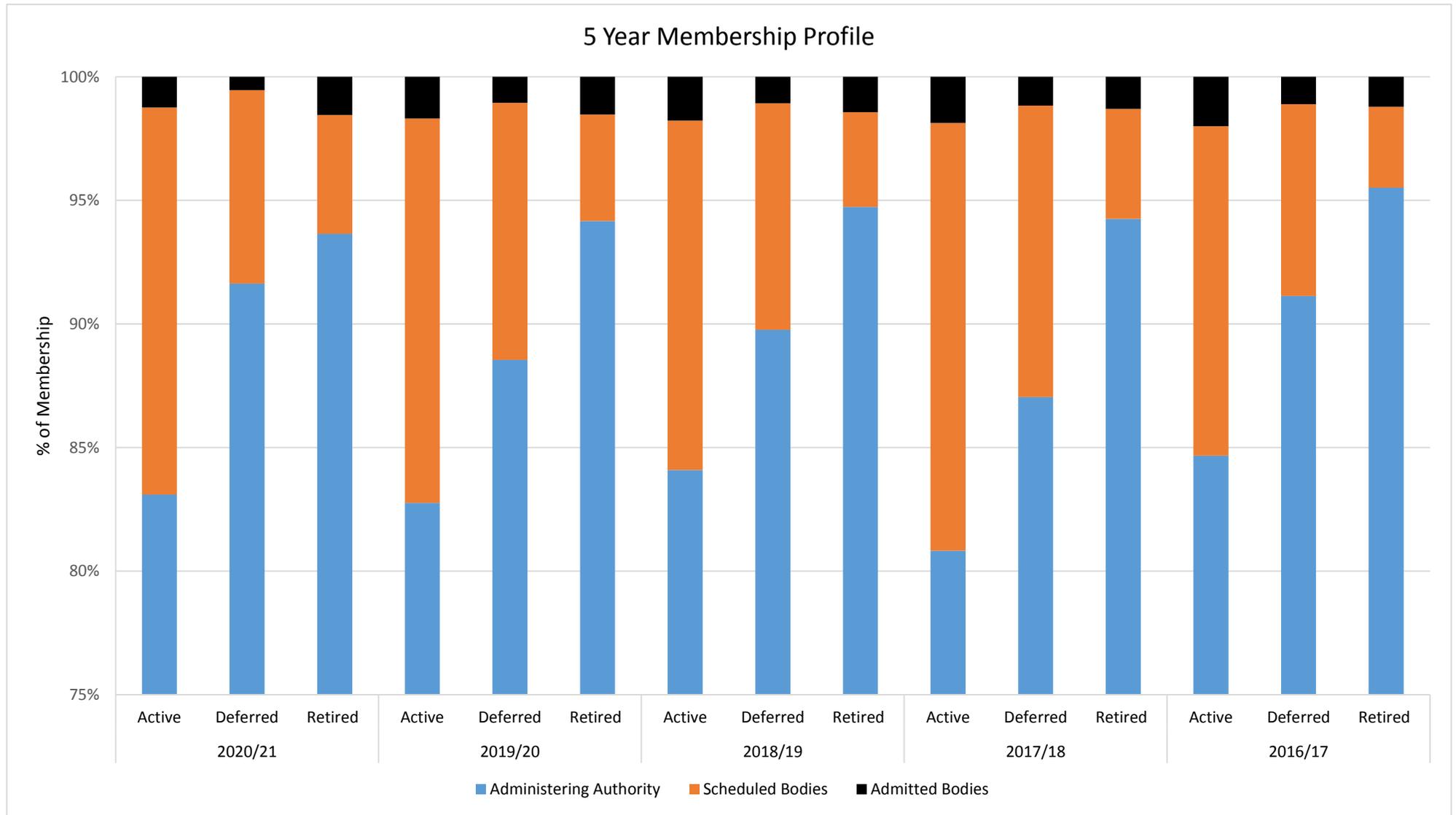
A3. AGE PROFILE OF MEMBERSHIP:

A	Contributing	Deferred	Pensioners/ Dependents
0-4	0	0	4
5-9	0	0	5
10-14	0	0	17
15-19	11	0	28
20-24	217	8	18
25-29	462	150	2
30-34	608	446	1
35-39	693	672	3
40-44	794	793	11
45-49	891	934	20
50-54	1131	1508	46
55-59	1185	1756	424
60-64	680	840	1363
65-69	218	179	1727
70-74	38	33	1650
75-79		7	1151
80-84		2	847
85-89			493
90-94			225
95-99			45
100-104			9
Total	6928	7328*	8089

*Does not include undecided leavers or frozen accounts shown in the deferred membership numbers above.

6.6. 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 cots per active, deferred and retired member in terms of both administrative and investment management expenses. Administrative expenses in this context include oversight and governance expenses as outlined in section 4.11, whilst management expenses relate to fund manager fees, transaction costs and custody fees.

A4. 5 YEAR MEMBERSHIP PROFILE:



A5. FIVE YEAR ANALYSIS: MEMBERSHIP AND ADMINISTRATIVE UNIT COSTS:

	2020/21			2019/20			2018/19			2017/18			2016/17		
Membership	Active	Deferred	Retired												
Administering Authority	5,757	10,873	7,575	5,590	10,502	7,556	5,656	10,295	7,360	5,513	9,531	7,184	5,814	9,679	7,098
Scheduled Bodies	1,085	928	389	1,050	1,234	346	951	1,051	298	1,181	1,292	339	916	825	243
Admitted Bodies	86	64	125	114	124	122	119	123	111	127	127	99	137	117	90
Total	6,928	11,865	8,089	6,754	11,860	8,024	6,726	11,469	7,769	6,821	10,950	7,622	6,867	10,621	7,431
Unit Costs	£	£	£												
Administrative Unit Cost (£)	121	20	15	114	19	14	90	15	11	98	17	13	116	21	15
Investment Management Unit Cost (£)	241	40	29	258	42	31	205	34	25	100	18	13	102	19	14
Total Unit Cost (£)	362	60	44	372	61	45	295	49	36	198	35	26	218	40	29

6.7 A list of contributing employers and the amounts contributed by the employers in 2020/21 is shown below:

A6. EMPLOYER CONTRIBUTIONS:

Employer	Contributions Paid £'000	Comments
Administering Authority		
Lewisham Council	28,555	
Scheduled Bodies		
Lewisham Homes	3,548	
Haberdashers' Aske's Knights Academy	968	
Christ The King Sixth Form College	492	
St Matthew's Academy	221	
Childeric	169	
Tidemill Academy	169	
St George's	88	
Sedgehill Academy	115	Started 01/09/2020
Admitted Bodies		
Youth First Ltd	166	
Phoenix Agency Services	117	
Phoenix	115	
DB Services	20	
Lewisham Music	13	
Skanska	16	
Chartwells	0	
One Housing	N/A	Ceased
Change Grow Live	13	
Nviro	5	
NSL	0	
Fusions Leisure Management	5	
Quality Heating	0	
Housing 21	4	
Pre-School Learning Alliance	3	
Tower Services	2	
3 C's Support	0	
Wide Horizons	N/A	Ceased
Chequers Contract Services – Lee Manor	N/A	Ceased
City West Services	6	
Greenwich Leisure Ltd (GLL)	8	Started 08/10/2020

6.8 The Statement of Accounts summarises the contributions received from employees and employers by type of body; the total contributions received per establishment are shown in the table further below.

6.9 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.

A7. TOTAL CONTRIBUTIONS RECEIVED FROM EMPLOYEES AND EMPLOYERS:

Employer	Total Contributions Received £'000	% Returns Received by Due Date
Administering Authority		
Lewisham Council	37,120	
Scheduled Bodies		
Lewisham Homes	4,928	
Haberdashers' Aske's Knights Academy	1,307	
Christ The King Sixth Form College	631	
St Matthew's Academy	288	
Childeric	210	
Tidemill Academy	216	
St George's	111	
Sedgehill Academy	137	
Admitted Bodies		
Youth First Ltd	216	
Phoenix	174	
Phoenix Agency Services	156	
DB Services	23	
Lewisham Music	14	
Skanska	23	
Chartwells	0	
One Housing	N/A	
Change Grow Live	17	
NSL	3	
Nviro	5	
Fusions Leisure Management	5	
Quality Heating	9	
3 C's Support	4	
Housing 21	5	
Pre-School Learning Alliance	4	
Tower Services	2	
Wide Horizons	N/A	
City West Services	6	
Greenwich Leisure Ltd (GLL)	9	

B. INTERNAL DISPUTE PROCEDURE

6.10 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:

- 6.11 Stage one: the member's complaint is referred to the Executive Director of Corporate Resources, who is nominated by the London Borough of Lewisham to act as an independent referee. Any decision made must be given in writing.
- 6.12 If the member is dissatisfied with the stage one decision, they can take the matter to stage two of the IDRPs.
- 6.13 Stage two: the stage one decision is reviewed by the Director of Law, Governance and HR who is nominated by the London Borough of Lewisham to act as an independent referee.
- 6.14 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 two months of the receipt of the appeal.
- 6.15 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).
- 6.16 Lewisham Pension Fund did not have any disputed cases in 2020/21.

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 as at 31 March 2019, and the final valuation report is available on the Lewisham Pensions website at www.lewishampensions.org. The actuarial review assessed the Fund as being 90% funded; this represents an increase of 12% in the funding level since the last valuation in 2016, from 78% funded.
- 7.3. The 2019 valuation resulted in the actuary assessing Lewisham's employers' contribution rate to provide for future pensions entitlements to be a minimum of 17.6% for financial years 2020/21 through to 2022/23, plus a lump sum component increasing year on year. The equivalent rate remains unchanged from the previous valuation at 22.5%.
- 7.4. Lewisham, as the administering authority for the Fund, set an employer contribution rate of 22.5% for 2020/21, which remains unchanged for 2021/22 as per the actuarial Rates and Adjustment certificate. It paid a lump sum employer contribution of £240,000 in 2020/21 to ensure that total contributions paid into the Fund across the valuation period remained in line with the actuarial recommendation.
- 7.5. The next triennial valuation will take place as at March 2022.

8. FUND GOVERNANCE

A. GOVERNANCE STRUCTURE

- 8.1. Lewisham's Annual Governance Statement has been adopted by the PIC on behalf of the Fund.
- 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 of the Superannuation Act 1972 and all other relevant pension legislation. This includes:
- To review with fund managers the investment performance of the Fund's assets 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 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, taking account of 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. Responsibility for day-to-day administration and preparation of the Pension Fund accounts and annual report has been delegated to the Executive Director for Corporate Resources.
- 8.4. Details of the Council's Code of Corporate Governance is set out in Part V of the Council's Constitution which is available at:
www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/our-constitution
- 8.5. 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/statement-of-accounts

B. MEMBERSHIP – PENSIONS INVESTMENT COMMITTEE

- 8.6. The Pensions Investment Committee comprises eight Members of the Council who have voting rights, and meets at least quarterly. 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 its independent investment consultant (Hymans Robertson) and permits attendance from non-voting observers comprised of pensioners, admitted and scheduled bodies, union officials, and members of the Local Pension Board.
- 8.7. The following table sets out attendance by the eight Councillors who were Members of the Pensions Investment Committee for the scheduled meetings in 2020/21. Note four meetings

are scheduled in each financial year although the November 2020 meeting was cancelled. Each Councillor has one vote with the Chair having the casting vote.

Member	23 Jul 2020	1 Oct 2020	30 Nov 2020	17 Feb 2021
Cllr. Ingleby – Chair	✓	✓	N/A	✓
Cllr. Krupski - Vice Chair	✓	✓	N/A	✓
Cllr. Best	✓	✓	N/A	✓
Cllr. Codd	✓	Apologies	N/A	✓
Cllr. Kalu	✓	✓	N/A	✓
Cllr. Maslin	✓	✓	N/A	✓
Cllr. Muldoon	✓	✓	N/A	✓
Cllr. Penfold	✓	✓	N/A	✓

C. 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 2020/21 Members notified officers of their attendance at the following training sessions and events:

Date	Description	Provider	Members
01/06/2020	Renewable Infrastructure Fact-find	Hymans Robertson	Cllr. Ingleby, Cllr. Codd, Cllr. Krupski, Cllr. Penfold
04/08/2020	ESG: Impact Investing (Webinar)	Barnett Waddingham	Cllr. Ingleby
05/08/2020	COVID-19 Impact on Responsible Investment and Climate Risk (Webinar)	Hymans Robertson	Cllr. Ingleby
05/08/2020	LGPS-Live: Scheme Advisory Board Update, Responsible Investment, and Investment Income (Webinar)	DG Publishing	Cllr. Ingleby
11/09/2020	Residential Property Fact-find	Hymans Robertson	Cllr. Ingleby
03/12/2020	ESG and Impact Investing for Pension Funds	SPS Conferences	Cllr. Ingleby, Cllr. Krupski

Date	Description	Provider	Members
04/12/2020	Scheme Advisory Board: webinar: 'MAC [Multi Asset Credit] – Finding Yield in a Zero Interest World'	LPGS/LAPFF	Cllr. Ingleby
17/12/2020	UK Residential Property Training	Hymans Robertson	Cllr. Ingleby, Cllr. Maslin, Cllr. Codd, Cllr. Penfold, Cllr. Kalu
21/01/2021	ESG Plus - the fossil-free global equity strategy	Storebrand Global	Cllr. Ingleby
27/01/2021	ESG – Regulation Developments, Practical Implications and Trustee Issues	Pension Investment Academy	Cllr. Krupski
02/02/2021	Facing the Challenge of Global Warming”	Pensions For Purpose / Invesco	Cllr. Codd, Cllr. Ingleby
24/02/2021	LGIM: webinar: 'Measuring Climate Risk in portfolios'	LGIM	Cllr. Ingleby

- 8.10. Members are also aware of their obligations under the Markets in Financial Instruments Directive (MiFID) II, under which the Fund has opted up to professional status with its fund managers and relevant service providers, committing to develop and maintain their knowledge of the LGPS in order to preserve the Fund's professional client status.
- 8.11. 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 strategic direction of the Fund.
- 8.12. 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, which is also supported by presentations from fund managers on their respective asset classes.
- 8.13. Members are recommended, where they have not already, to make use of and complete the Pension Regulator's online toolkit for Trustees.

9. REPORT FROM THE LOCAL PENSION BOARD

A. INTRODUCTION

- 9.1. The Board has an important role of assisting the administering authority with the efficient management of the Fund and ensuring its compliance with legislation and best practice. The Board met once in the 2020/21 financial year. A further scheduled meeting was postponed as a quorum could not be secured. The Board's focus has been on:

- Enhancing its understanding of the arrangements put in place by the administering authority, including through consideration of minutes and agendas of the Pensions Investment Committee and receipt of documentation by management;
- Commissioning a baseline assessment of the Board's and the administering authority's compliance with legislation and best practice and receiving the results. The Board has agreed its own action plan in response to the findings and has reviewed and commented on the administering authority's draft action plan; and
- Ensuring that appropriate arrangements are put in place for developing and maintaining the knowledge and understanding of members of the Board.

Further information about the Board and its operation, including its terms of reference, is available on the Council's website at:

<https://councilmeetings.lewisham.gov.uk/ieListMeetings.aspx?CId=353&Year=0> and on the Fund's website at the following link:

<https://www.lewishampensions.org/resources/>

B. MEMBERSHIP OF THE BOARD

- 9.2. The Board consists of five members; two employer representatives, two scheme (member) representatives, and an Independent Chair.

Name	Capacity	Role	Meetings attended in 2020/21
Stephen Warren	Independent Chair (Non-Voting)		0/1
Suki Binjal	Employer Representative	Director of Law, Governance and HR, Lewisham Council (from July 2020)	0/1
Gary Cummins	Employer Representative	Housing Partnership and Contract Manager	0/1
Rowann Limond	Scheme Representative	Director of Finance and Technology, Lewisham Homes	0/1
Elizabeth Sclater	Scheme Representative	Pensioner Member	1/1

C. KNOWLEDGE AND UNDERSTANDING

- 9.3. Relevant training via attendance at external events is made available to members of the Board. A record of training, including completion of the Pension Regulator's Toolkit, is maintained. An induction process for new members of the Board is being developed.

D. WORK PROGRAMME FOR THE FUTURE

- 9.4. The Board only met once in 2020/21 due to the impact of Covid-19 along with members leaving. At the time of writing the Annual Report (October 2021), it is noted that no meetings have been held in 2021/22.

9.5. The Board has agreed to reconstitute itself with new members and agree that:

- It will schedule four meetings a year;
- It will adopt a cyclical report that will allow it to review, over the course of the year, compliance with relevant legislation and Codes of Practice issued by the Pensions Regulator;
- It will monitor implementation of the action plans prepared in response to the baseline assessment of the Board's and the administering authority's compliance with legislation;
- It will receive and review the administering authority's risk register for the Fund; and,
- It will evaluate the robustness of the administering authority's arrangements for obtaining assurance about the operation of the London CIV, the collective investment vehicle for London Local Authorities' Pension Funds, to which the Fund anticipates migrating some of its investments.

10. ASSET POOLING

A. FINANCIAL YEAR 2020/21

- 10.1. The London Collective Investment Vehicle (LCIV) is the investment vehicle established for the pooling of London Local Authority (LLA) Pension Fund assets, created to deliver broader investment opportunities and more enhanced cost efficiencies than LLAs can achieve individually. It is authorised and regulated by the Financial Conduct Authority (FCA) as an Alternative Investment Fund Manager (AIFM) with permission to manage authorised and unauthorised Alternative Investment Funds (AIFs) via an Authorised Contractual Scheme (ACS) pooling structure and as an Exempt Unauthorised Unit Trust (EUUT).
- 10.2. Each LLA is a shareholder in the LCIV, and the Fund has £150,000 of non-voting redeemable shares as a subscriber to the pool. It and contributes to the financial operation of the vehicle via an annual service charge and Development Funding Charge (DFC). The annual service charge is akin to a membership fee, providing access to LCIV services. The DFC is designed to cover the cash flow imbalance between the LCIV's annual revenues and annual costs until LCIV generates sufficient management fee income to cover annual operating costs. The service charge for 2020/21 was £30,000, whilst the DFC was £102,000.
- 10.3. As at 31 March 2021 the Fund has yet to directly pool any assets with the LCIV, although an arrangement with BlackRock, one of the Fund's passive equity and bond managers, and the LCIV made in 2017 allowed for a fee reduction backdated to January 2017 in consideration for the passive pooling of the mandate outside of the ACS. The value of the Fund's BlackRock holdings pooled passively as at 31 March 2021 was approximately £636m; in exchange for negotiating the preferential annual management charges, LCIV charge an annual arrangement fee based on the value of those holdings and in 2020/21 this charge was approximately £33,500 (£28,000 in 2019/20).
- 10.4. The Fund is committed to the principles of pooling and to the transitioning of assets to the LCIV. However, the nature of the LCIV's setup in its first few years has meant the funds it has created and established have been of little interest to Lewisham, or incompatible with our strategy. Fund officers and Members maintain a close relationship with the LCIV, and the PIC considers pooling obligations in all investment decisions.

- 10.5. The Fund has been working in conjunction with LCIV and interested shareholder boroughs to develop a renewable infrastructure mandate via a specific Seed Investor Group (SIG); it is expected that this will represent the Fund's first investment via the pool, likely to take place sometime in mid-2021.
- 10.6. Members and officers will continue to work with LCIV to develop mandates in line with the Fund's strategy.

B. AT TIME OF WRITING ANNUAL REPORT

- 10.7. In respect of asset pooling, it is noted that at the time of writing the annual report (October 2021) the Fund has taken the decision to divest its passive equity funds from Blackrock and UBS and to move 60% of the total passive equity allocation into the LCIV Passive Equity Progressive Paris Aligned Fund (PEPPA).

11. FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

- 11.1. The Pension Fund accounts, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, were approved by Council on **DD-MM-YYYY** and have been audited by the Council's external auditors Grant Thornton. The Accounts are set out in Appendix A.

12. FUNDING STRATEGY STATEMENT

- 12.1. 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 in November 2019, effective from 1 April 2020; it can be found in Appendix C or on the Fund's website at the following link: www.lewishampensions.org/resources
- 12.2. 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.
- 12.3. The purpose of the FSS is to:
- Establish a clear and transparent fund-specific 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.
- 12.4. 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.
- 12.5. 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 2.0%

per annum over and above long-term government bond yields at the time of the 2019 valuation.

12.6. 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

12.7. The 2019 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 (%/£)		
	2020/21	2021/22	2022/23
LB Lewisham	17.6% plus £6,400,000	17.6% plus £6,400,000	17.6% plus £6,400,000
Christ The King Sixth Form College	22.4%	21.4%	21.4%
Haberdashers' Aske's Knights Academy	17.9% plus £170,000	17.9% plus £170,000	17.9% plus £170,000
Lewisham Homes	19.0%	19.0%	19.0%
St Matthew's Academy	17.6%	17.6%	17.6%
Tidemill Academy	22.0%	22.0%	22.0%
Childeric	23.6%	23.6%	23.6%
St George's	23.7%	23.7%	23.7%
NSL	0.0%	0.0%	0.0%
Phoenix	14.4%	14.4%	14.4%
Skanska	17.1%	17.1%	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	12.6%	12.6%	12.6%
Chartwells	25.7%	25.7%	25.7%
Change Grow Live	18.0%	18.0%	18.0%
Quality Heating	0.0%	0.0%	0.0%
Youth First	22.9%	22.9%	22.9%
Phoenix Agency Services	20.4%	20.4%	20.4%

Employer/Pool Name	Total Contribution Rate (%/£)		
	2020/21	2021/22	2022/23
DB Services	32.5%	32.5%	32.5%
Lewisham Music	33.2%	33.2%	33.2%
Nviro	36.6%	36.6%	36.6%

13. INVESTMENT STRATEGY STATEMENT

13.1. 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) which must be in accordance with guidance issued by the Secretary of State. 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.

13.2. Appendix B sets out the latest ISS for the Fund as at September 2018, which as well as the considerations above includes the Fund asset allocation, rebalancing policy, and compliance with CIPFA’s Principles for Investment Decision Making. At the time of writing the annual report, our advisors have confirmed that the ISS will be updated to reflect the triennial valuation due in 2022 and the new strategy will be adopted by the Fund once it has been approved. Once complete, it will be available on the Fund’s website at the following link:

www.lewishampensions.org/resources

14. COMMUNICATIONS POLICY STATEMENT

14.1. 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 included at Appendix D, and is also available on the Fund’s website at the following link:

www.lewishampensions.org/resources

14.2. The statement has been prepared to meet the provisions of Regulation 61 of The Local Government Pension Scheme Regulations (2013), as well as the Public Service Pensions Act (2013) and the Pensions Regulator’s Code of Practice No.14, in particular by setting out the following:

- How scheme information has been provided to members, their representatives and employers,
- In what format it is presented, how frequently it is presented, and the method of distributing information, and;
- The steps the Fund has taken to promote scheme membership to prospective members and their employers.

15. ADDITIONAL DATA

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

15.2. 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	8	0	8
Admitted Bodies	18	2	20
Total	26	2	28

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

Asset Class	UK £m	Non-UK £m	Total £m
Equities	463	390	853
Bonds	207	107	314
Property	112	0	112
Infrastructure	0	76	76
Diversified Growth	0	0	0
Private Equity	0	68	68
Multi-Asset Credit	0	71	71
Cash	106	0	106
Net Current Assets	0	0	0
Total	888	712	1,600

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

Asset Class	UK £000	Non-UK £000	Total £000
Bonds	0	996	996
Property	3,233	0	3,233
Alternatives	0	13,966	13,966
Cash	59	0	59
Total	3,292	14,932	18,253