

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year ending 31 March 2021.

The Pension Fund's value increased over the year by £249m (18%), from £1.352bn to £1.601bn. (In 2019/20 the fund reduced in value by £35m in large part caused by the Covid Outbreak in the last months of the financial year). The increase in 2020/21 more than reversed the reduction in 2019/20.

INTRODUCTION

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS). 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 (Transitional 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 and published online (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 or codes of practice relating to the governance and administration of the Scheme. Further information about the Board, together with its Terms of Reference, can be found online at the web address below.

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

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

www.lewishampensions.org

Pension Fund Accounts

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ('the Code') 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 are valued on an International Accounting Standard (IAS) 26 basis.

The Local Government Pension Scheme (Administration) Regulations 2013 require 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, valuation techniques, and the basis of preparation of the accounts are shown below:

- (a) Fund Assets at 31 March 2021 – the below table outlines the fund managers, asset classes, and values of those assets held by the Fund as at 31 March 2021.

Fund Manager	Asset	Asset Value 31 March 2021 £000	Proportion of the Fund 31 March 2021 %	Asset Value 31 March 2020 £000
Blackrock	Passive Equity and Bonds	636,109	39.7%	501,591
UBS	Passive Equity and Bonds	531,236	33.2%	426,666
Schroders Property	Property	112,036	7.0%	106,328
J.P. Morgan	Infrastructure	76,420	4.8%	78,098
HarbourVest	Private Equity	67,694	4.2%	57,267
Pemberton	Multi-Asset Credit	38,127	2.4%	34,873
Partners Group	Multi-Asset Credit	33,175	2.1%	40,400
Invesco	Diversified Growth/Targeted Returns	0	0.0%	77,726
Various Managers	Cash and Net Current Assets	105,579	6.6%	29,683
Lewisham	Cash and Net Current Assets/(Liabilities)	702	0.0%	(424)
Total Fund Assets		1,601,078	100.0%	1,352,208

Pension Fund Accounts

- (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 values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016). 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) Passive equity and bonds - dividend income earned from equity and bonds with BlackRock and UBS is reinvested and not repaid directly to the Fund as cash. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the notes for 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 these investments, the value carried in the accounts as at 31 March 2021 is the fair value using the latest available valuation at 31 December 2020, rolled forward to include known fund level activity up to 31 March 2021, and adjusted for market valuation changes.
- (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 Institute of Chartered Surveyors' (RICS) Valuation Standards at Fair Value based on their Open Market Value (OMV).
- The only non-UK fund is the Real Continental European Fund. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies, and will be based on the price frequency of the underlying assets.
- (h) Diversified Growth/Targeted Returns Fund – The 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. This fund was fully exited in March 2021 with the assets held as cash at year end.

Pension Fund Accounts

- (i) Multi-Asset Credit Funds – 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. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2021 is the fair value at 31 December 2020 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2021.

Partners Group values its instruments using private credit estimates or public ratings for the issuer if available and above a rating of B- from Standard & Poor's. Below that, broker quotes are used where available, or Fair Values are derived based on widely recognised market and income valuation methods. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2021 is the fair value at 31 December 2020 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2021.

- (j) Infrastructure Fund – Being illiquid and not publicly traded assets, J.P. Morgan appoint external valuers at least annually to determine the Fair Value of fund assets, whilst J.P. Morgan itself calculates the Net Asset Value (NAV) of each investment quarterly in accordance with their internal valuation policies which align with market best practice. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2021 is the fair value at 31 December 2020 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2021.
- (k) Contributions – These represent the total amounts receivable from the employers and employees within the scheme. Rates will differ between bodies in the scheme; from 01 April 2020 the employee contribution bands (revised annually in line with inflation) for the administering authority are as follows:

Pensionable Pay for the Post	Contribution Rates 2020/21	
	Main Section	50/50 Section
Up to £14,600	5.50%	2.75%
£14,601 to £22,800	5.80%	2.90%
£22,801 to £37,100	6.50%	3.25%
£37,101 to £46,900	6.80%	3.40%
£46,901 to £65,600	8.50%	4.25%
£65,601 to £93,000	9.90%	4.95%
£93,001 to £109,500	10.50%	5.25%
£109,501 to £164,200	11.40%	5.70%
More than £164,201	12.50%	6.25%

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 the administering authority in 2020/21 is 22.5%, unchanged from 2019/20.

- (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.

Pension Fund Accounts

- (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 administrating 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 62 of the Local Government Pension Scheme Regulations 2013. 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 by the actuaries was as at 31 March 2019. Some of the financial assumptions made, with comparison to the previous valuation, are presented in the table below:

Financial Assumption	March 2019 (%)	March 2016 (%)
Discount Rate	3.5	4.0
Price Inflation (CPI*)	2.3	2.1
Pay Increases	3.0	2.9
Benefit Increase	2.3	2.1
CARE Revaluation	2.3	2.1
Expenses	0.7	0.6

* Consumer Price Index

With effect from 1 April 2017 to 31 March 2019, the actuarial review carried out for 31 March 2016 resulted in the Council's employer contribution rate being set at 22.5%.

The recent triennial valuation as at the 31 March 2019 revealed that the Fund's assets, which at 31 March 2019 were valued at £1.387bn, were sufficient to meet 90% (78% in 2016) of the past service liabilities valued at £1.541bn (£1.328bn in 2016) accrued up to that date. The resulting deficit as at the 2019 valuation was £154m (£287m in 2016).

- (q) Actuarial Present Value of Promised Retirement Benefits – The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the Pension Fund financial statements include a note disclosing the actuarial present value of retirement benefits (see Note 9).

The longevity assumptions for current pensioners are average future life expectancies at age 65, whilst future pensioners are assumed to be aged 45 at the last formal valuation; these longevity assumptions have changed since the previous IAS26 disclosures for year ending 31 March 2020.

For sensitivity purposes, the actuary estimates that a 1 year increase in life expectancy would increase liabilities by approximately 3-5%.

- (r) Investment Management and Administration - Regulation 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council, as the administering authority, 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. Management fees of the Fund's investment managers are typically calculated as a set percentage of the market value of funds under management at regular intervals, although some agreements also allow for performance fees above a defined hurdle rate. Of the Fund's nine fund managers, four

Pension Fund Accounts

charge fees by invoice, the remaining five deduct them at source; in the latter instance, adjustments have been made to the Fund Account to recognise the net return on those investments.

- (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 10.
- (u)** Financial Instruments
- (i) Financial Liabilities are recognised at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund
- (ii) Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.
- The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13
- (v)** The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made.

There are two areas in the accounts for which there is a significant risk of material adjustment the following year and which might also be impacted by the pandemic:

- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of complex assumptions including the discount rate, salary increases, 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. However, the market disruption caused by the coronavirus outbreak will have mixed and uncertain impacts on all of those assumptions, possibly resulting in material changes to the disclosed present value of promised retirement benefits as at 31 March 2021. Further sensitivity analysis is included in note p) above
- Property, private equity, infrastructure and private debt valuations – these investments are not publicly listed and involve estimation techniques in their valuation. In addition, timing issues in producing capital statements for inclusion in the statement of accounts means that several assets are valued in the accounts at previous quarter valuations or later, and rolled forward to 31 March 2021 with adjustments and estimations where possible for known activity such as disbursements and capital calls. The Fund's private equity and infrastructure holdings (all level 3 investments) are impacted by this delay; as such, the final realised value of those assets may differ from the valuations presented in the accounts.

Pension Fund Accounts

- (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 Regulations, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed as transfers-in. Further details about the AVC arrangements are disclosed in note 13 to the financial statements.

Pension Fund Accounts

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2021

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

	2020/21 £000	2019/20 £000	See note
<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME</u>			
Contributions Receivable:			
- from Employers	(35,439)	(35,027)	1
- from Employees	(10,822)	(10,369)	1
Transfer Values In	(3,605)	(10,708)	
Other Income	(347)	(79)	
Sub-Total: Income	(50,213)	(56,183)	
Benefits Payable:			
- Pensions	45,729	44,347	2
- Lump Sums: Retirement allowances	5,905	9,726	2
- Lump Sums: Death grants	1,983	1,080	2
Payments to and on account of leavers:			
- Refunds of Contributions	51	105	
- Transfer Values Out	5,351	5,314	
Sub-Total: Expenses	59,019	60,572	
Sub-Total: Net (Additions)/ Withdrawals from dealings with members	8,806	4,389	
Management Expenses	3,583	3,593	3
Sub-Total: Net (Additions)/ Withdrawals including fund management expenses	12,389	7,982	
<u>RETURNS ON INVESTMENTS</u>			
Investment Income	(18,254)	(14,952)	4
Change in market value of investments (Realised & Unrealised)	(243,196)	41,344	5b
Taxes on Income	191	145	
Total Net Returns on Investments	(261,259)	26,537	
NET (INCREASE) / DECREASE IN THE FUND DURING YEAR	(248,870)	34,519	
OPENING NET ASSETS OF THE FUND	(1,352,208)	(1,386,727)	
CLOSING NET ASSETS OF THE FUND	(1,601,078)	(1,352,208)	

Pension Fund Accounts

NET ASSETS STATEMENT AS AT 31 MARCH 2021

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2021.

	31/03/21	31/03/20	See note
	£000	£000	
INVESTMENT ASSETS			
Equities			
United Kingdom	0	0	5
Global	19,271	13,342	5
	19,271	13,342	
Managed Funds			
Property	112,040	106,332	5
Equities	852,936	663,396	5
Fixed Interest	207,213	176,092	5
Index Linked	107,210	88,785	5
Other Assets	193,414	275,021	5
	1,472,813	1,309,626	
Cash Held with Custodian	105,524	28,393	8
Derivative Contracts			
Assets	0	1,815	6
Liabilities	0	(1,815)	6
Other Investment Balances	2,769	1,272	7a
TOTAL INVESTMENTS	1,600,377	1,352,633	
Current Assets	4,340	5,070	7b
Current Liabilities	(3,639)	(5,495)	7b
TOTAL NET ASSETS	1,601,078	1,352,208	

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2021. This liability is included within the Authority's balance sheet.

Pension Fund Accounts

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

	2020/21 £000	2019/20 £000
Employer Contributions		
Administering Authority	(28,556)	(28,555)
Scheduled Bodies	(6,191)	(5,824)
Admitted Bodies	(692)	(648)
	(35,439)	(35,027)
Employee Contributions		
Administering Authority	(8,566)	(8,251)
Scheduled Bodies	(2,062)	(1,900)
Admitted Bodies	(194)	(218)
	(10,822)	(10,369)

Contributions receivable from employers are shown below:

	2020/21 £000	2019/20 £000
Employer Contributions		
Normal	(34,672)	(33,302)
Early Retirement Strain	(357)	(1,024)
Deficit Funding	(410)	(701)
	(35,439)	(35,027)

2. BENEFITS PAYABLE

<u>By Category</u>	2020/21 £000	2019/20 £000
Pensions	45,729	44,347
Commutation and Lump Sum Retirement Benefits	5,905	9,726
Lump Sum Death Grants	1,983	1,080
	53,617	55,153

<u>By Authority</u>	2020/21 £000	2019/20 £000
Administering Authority	48,055	50,057
Scheduled Bodies	4,007	3,808
Admitted Bodies	1,555	1,288
	53,617	55,153

Pension Fund Accounts

3. MANAGEMENT EXPENSES

	2020/21 £000	2019/20 £000
Administration Expenses	691	698
Oversight and Governance Expenses	509	403
<u>Investment Management Expenses:</u>		
- Transaction Costs	15	13
- Management Fees	2,332	2,444
- Performance Fees	0	0
- Custody Fees	36	35
	3,583	3,593

3A. EXTERNAL AUDIT COSTS

	2020/21 £000	2019/20 £000
External Audit Services	36	25
	36	25

4. INVESTMENT INCOME

	2020/21 £000	Restated 2019/20 £000
Cash	(59)	(1,003)
Global Equities	0	0
Fixed Interest	0	0
Index Linked	0	0
Property	(3,233)	(4,204)
Managed Equities	(9,798)	(8,078)
Securities Lending	0	(1)
Other Alternative Assets	(5,164)	(1,666)
	(18,254)	(14,952)

5A. INVESTMENT ANALYSIS

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

Asset	Manager	31 March 2021	
		£000	%
UBS Asset Management Life World Equity Tracker	UBS	240,024	15.0
Aquila Life US Equity Index Fund	Blackrock	214,030	13.4
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	126,901	7.9
UBS Asset Management Life UK Equity Tracker A Nav	UBS	95,341	6.0

Pension Fund Accounts

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

Asset	Manager	31 March 2021	
		£000	%
Global Equities			
Harbourvest Global PE Shares	Harbourvest	19,275	100.0
Property			
Schroder Unit TST UK Real Estate	Schroders	15,663	14.0
IPIF Feeder Unit Trust Fund	Schroders	15,439	13.8
Hermes Property Unit	Schroders	11,634	10.4
Metro Ppty Unit Trust	Schroders	11,591	10.3
Real Income Fund	Schroders	9,635	8.6
Blackrock UK FD	Schroders	9,650	8.6
Mayfair Cap Ppty (MCPUT)	Schroders	8,524	7.6
Multi-Let INDL Property Unit Trust	Schroders	8,648	7.7
Legal and General Managed Property Fund	Schroders	5,844	5.2
Managed Equities			
UBS Asset Management Life World Equity Tracker	UBS	240,024	28.1
Aquila Life US Equity Index Fund	Blackrock	214,030	25.1
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	126,901	14.9
UBS Asset Management Life UK Equity Tracker A Nav	UBS	95,341	11.2
Aquila Life European Equity Index Fund	Blackrock	47,196	5.5
Blackrock AM (IE) ISHS EMG Markets Index IE FLX	Blackrock	45,707	5.4
Fixed Interest			
UBS Asset Mgmt STG Corp Bond Index Fund	UBS	53,393	25.8
UBS GBL Asset Life UK Over 15 Year Gilt Tracker Fund	UBS	52,820	25.5
Blackrock AM (IE) iShares UK Credit Bond Index Fund	Blackrock	52,309	25.2
Blackrock Pensions Aquila Life Over 15 Years UK Gilt Index Fund	Blackrock	48,692	23.5
Index Linked			
Aquila Life Over 5 Yrs Index Fund	Blackrock	54,294	50.6
UBS Asset Mgmt Life Over 5 Year Index Linked Gilt Tracker	UBS	52,916	49.4
Other Alternative Assets			
JP Morgan IIF UK I LP	JP Morgan	73,689	38.1
Partners Group Comp MAC 2017 IV	Partners Group	33,175	17.2
Pemberton Euro Debt Investments Jersey II	Pemberton	38,127	19.7
HIPEP VII (AIF) Partnership Fund LP	Harbourvest	19,803	10.2
HarbourVest Partners X AIF LP	Harbourvest	15,757	8.1

LEWISHAM STATEMENT OF ACCOUNTS 2020/21

Pension Fund Accounts

An analysis of investment movements in 2020/21 is set out below:

5B. INVESTMENT MOVEMENTS

INVESTMENT MOVEMENTS 2020/21	Value at 31 March 2020 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2021 £000
Global Equities	13,342	0	0	0	5,929	19,271
Managed Equities	663,396	1,677	(46,054)	(4,819)	238,736	852,936
Property	106,332	8,552	(3,119)	0	275	112,040
Fixed Interest Securities	176,092	31,592	(750)	3,246	(2,967)	207,213
Index Linked Securities	88,785	14,483	0	1,573	2,369	107,210
Other Alternative Assets *	275,021	15,574	(96,874)	(2)	(305)	193,414
	1,322,968	71,878	(146,797)	(2)	244,037	1,492,084
Cash Deposits	28,393				(834)	105,524
Other Investment Balances	1,272				(7)	2,769
Total Investments	1,352,633				243,196	1,600,377

* Includes Overseas Hedge Funds, UK Venture Capital & Overseas Venture Capital

As at 31 March 2020:

INVESTMENT MOVEMENTS 2019/20	Value at 31 March 2019 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2020 £000
Global Equities	13,747	0	0	0	(406)	13,342
Managed Equities	695,931	40,119	(10,600)	1,247	(63,301)	663,396
Property	112,285	3,534	(3,856)	(730)	(4,900)	106,332
Fixed Interest Securities	183,854	6,650	(28,526)	(1,247)	15,360	176,092
Index Linked Securities	92,934	4,550	(11,089)	0	2,390	88,785
Other Alternative Assets *	259,751	32,421	(26,236)	(11)	9,096	275,021
	1,358,502	87,274	(80,307)	(741)	(41,761)	1,322,968
Cash Deposits	28,593				409	28,393
Other Investment Balances	70				7	1,272
Total Investments	1,387,165				(41,345)	1,352,633

* Includes Overseas Hedge Funds, UK Venture Capital & Overseas Venture Capital

5C. 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 between accounting categories during the year ended 31 March 2021.

Pension Fund Accounts

	31-Mar-21			31-Mar-20		
	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost
	£000	£000	£000	£000	£000	£000
Financial Assets						
Equities	19,271			13,342		
Managed Funds:						
Property	112,040			106,332		
Managed Equity	852,936			663,396		
Fixed Interest	207,213			176,092		
Index Linked	107,210			88,785		
Other Alternative Assets	193,414			275,021		
Derivative contracts	0			1,815		
Cash deposits		105,524			28,393	
Pending Trades		12,085			17,500	
Dividends & Income Due		1,484			1,276	
Cash Balances		3,877			4,691	
Other Current Assets		463			188	
Total Financial Assets	1,492,084	123,433	0	1,324,783	52,048	0
Financial Liabilities						
Derivative Contracts			0			(1,815)
Pending Trades			(10,793)			(17,511)
Unpaid benefits			0			0
Other Current Liabilities			(3,646)			(5,488)
Total Financial Liabilities	0	0	(14,439)	0	0	(24,814)
Net Financial Assets	1,492,084	123,433	(14,439)	1,324,783	52,048	(24,814)

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

	31/03/21 £000	31/03/20 £000
Financial Assets		
Fair Value through Profit and Loss	244,037	(41,760)
Assets at Amortised Cost	(834)	409
Financial Liabilities		
Liabilities at Amortised Cost	(7)	7
	243,196	(41,344)

Valuation of Financial Instruments carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 – where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts). Listed investments are shown at bid prices. The bid value is based on the market quotation of the relevant stock exchange.

LEWISHAM STATEMENT OF ACCOUNTS 2020/21

Pension Fund Accounts

Level 2 – where market prices are not available, for example, 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 and where these techniques use inputs that are based significantly on observable market data.

Level 3 – where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data. Such instruments would include infrastructure, which the Fund holds assets in, unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable:

Values as at 31 March 2021	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/21 £000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	19,271	1,350,702	122,111	1,492,084
Financial Assets at Amortised Cost	123,433	0	0	123,433
	142,704	1,350,702	122,111	1,615,517
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(14,439)	0	0	(14,439)
	(14,439)	0	0	(14,439)
Net Financial Assets	128,265	1,350,702	122,111	1,601,078

Values as at 31 March 2020	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/20 £000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	13,342	1,187,605	122,022	1,322,969
Financial Assets at Amortised Cost	52,238	0	0	52,238
	65,580	1,187,605	122,022	1,375,207
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(22,999)	0	0	(22,999)
	(22,999)	0	0	(22,999)
Net Financial Assets	42,581	1,187,605	122,022	1,352,208

5D. FINANCIAL RISK MANAGEMENT

The Fund’s primary long term risk is that the Fund’s assets will fall short of its liabilities (i.e. promised benefits payable to members). As an investment fund, the Lewisham Pension Fund’s objective is to generate positive investment returns for an accepted level of risk. Therefore the Fund holds a mix of financial instruments such as securities (equities, bonds), interests in collective investment schemes

Pension Fund Accounts

(pooled funds), and cash equivalents. In addition, debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

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

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

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

The 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 pooled 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 investments by asset class and establishing mandate guidelines with 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.

Pension Fund Accounts

Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the following asset level percentages of volatility can be applied to the Fund's assets in 2020/21, assuming all other variables such as foreign exchange rates and interest rates remain the same:

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	17.1
Global Equities	14.7
Bonds and Index Linked	7.9
Other Alternative Assets	4.2
Property	1.9
Cash	1.8

Applied to the period end asset mix, the potential impact on the Fund's market value in the next financial year is as follows:

Asset Type	Final Market Value as at 31 March 2021	Percentage Change	Value on Increase	Value on Decrease
	£000		£000	£000
UK Equities	462,781	17.1	541,917	383,645
Global Equities	409,426	14.7	469,612	349,240
Bonds and Index Linked	314,424	7.9	339,263	289,585
Other Alternative Assets	193,414	4.2	201,541	185,287
Property	112,040	1.9	114,211	109,869
Cash	105,524	1.8	107,413	103,635
Total Assets (*), (**)	1,597,609	7.9	1,723,853	1,471,365

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

*** The % change and value change for Total Assets is the average impact across the 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 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) at the 31 March 2021, with the previous year in brackets:

Euro	€10.6m	(€9.9m)
US Dollars	\$230.4m	(\$196.4m)

The remaining exposures arise from much smaller holdings of other currencies including Swiss Francs, Norwegian Krone and Australian Dollars.

Pension Fund Accounts

e) 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.

f) 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 2021 these assets totalled approximately £1,187m, comprising of bonds and equities, with a further £105.5m held in cash by the custodian on behalf of the Fund and fund managers.

6. DERIVATIVE CONTRACTS

As at 31 March 2021 there were no pending foreign exchange purchases or sales. The net losses related to foreign exchange forward contracts was £6k in 2020/21 (£0k in 2019/20).

7A. OTHER INVESTMENT BALANCES

These comprise the following amounts:

	31/03/21 £000	31/03/20 £000
Debtors		
Equity Dividends / Income from Managed Funds	1,494	1,244
Interest and Other Income	(10)	32
Pending Trades	12,085	17,500
Creditors		
Interest and Other Expenditure	(7)	7
Pending Trades	(10,793)	(17,511)
Net	2,769	1,272

Pension Fund Accounts

7B. NET CURRENT ASSETS

These comprise the following amounts:

Current Assets

	31/03/21 £000	31/03/20 £000
Contributions Due from Admitted/ Scheduled Employers/ Employees	341	191
Interest and Other Income	0	0
Other Current Assets	122	188
Cash in Hand	3,877	4,691
	4,340	5,070

Current Liabilities

	31/03/21 £000	31/03/20 £000
Fund Manager and Custody Fees	(357)	(283)
Consultancy/ Advisory Fees	(33)	(35)
Other Current Liabilities	(3,249)	(5,177)
	(3,639)	(5,495)

8. CASH AND BANK

Cash Held With Custodian

The Northern Trust Company is the Fund's global custodian and cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2021 was £105.5m (£28.4m as at 31 March 2020). The table below shows how this was split between the Fund Managers.

Fund Manager	31-Mar-21 £'000	31-Mar-20 £'000
Cash Account (Formerly Invesco)	76,471	0
HarbourVest	9,267	5,962
Schroders	8,689	10,941
JP Morgan	6,423	4,655
Partners Group	4,263	1,525
Cash Account (Formerly Fauchier)	365	472
Securities Lending	14	125
UBS	1	21
Pemberton	0	4,018
M&G	0	673
Cash Account (Formerly Investec)	0	1
	105,493	28,393

Pension Fund Bank Account

The Lewisham cash in hand balance of £3.9m represents uninvested cash held in the Pension Fund bank accounts as at 31 March 2021. The Fund's accounts are held with Barclays Bank.

Pension Fund Accounts

9. ACTUARIAL PRESENT VALUE

	31-Mar-21	31-Mar-20
	£m	£m
Present value of promised retirement benefits	-2,369	-1,817
Fair Value of Scheme Assets	1,601	1,352
Net Liability	-768	-465

Financial Assumptions	31-Mar-21 (%)	31-Mar-20 (%)
Discount Rate	2.0	2.3
Salary Increases	3.6	2.6
Pension Increases	2.9	1.9

Longevity Assumptions for year ended 31 March 2021	Males	Females
Current Pensioners	21.4 years	24.0 years
Future Pensioners	22.8 years	25.8 years

Sensitivity to the assumptions for year ended 31 March 2021	Approximate increase to liabilities (%)	Approximate monetary amount (£m)
0.5% p.a. decrease in the Real Discount Rate	10	233
0.5% p.a. increase in the Salary Increase Rate	1	15
0.5% p.a. increase in the Pension Increase Rate	9	214

10. POST YEAR END EVENTS

The audited Pension Fund Statement of Accounts was authorised for issue by the Executive Director of Corporate Resources on 30 November 2021. Events taking place after this date are not reflected in the accounts. Where events took place before this date which materially altered the conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect these altered conditions. There are no events after the balance sheet date to report for 2020/21.

Pension Fund Accounts

11. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31 March 2021:

Fund Manager	Fund	Amount ('000)	Translated (£'000)
HarbourVest	HIPEP IX AIF SCSp	\$25,000	18,121
HarbourVest	HarbourVest Partners XI AIF L.P.	\$16,688	12,096
HarbourVest	HarbourVest Partners X AIF L.P.	\$12,045	8,731
Pemberton	European Debt Investments Jersey II L.P.	£4,907	4,907
HarbourVest	HIPEP VII (AIF) Partnership Fund L.P.	\$4,875	3,534
HarbourVest	Harbourvest Partners VIII - Cayman Buyout Fund L.P.	\$555	402
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Partnership Fund L.P.	€ 700	596
HarbourVest	Harbourvest Partners VIII - Cayman Venture Fund L.P.	\$190	138
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Direct Fund L.P.	€ 124	106
	Total		48,631

12. RELATED PARTY TRANSACTIONS

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

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

During the year the following declarations were made:

- Councillor John Muldoon declared an interest as a member of Lewisham's Pension Fund.
- Councillor Caroline Kalu declared an interest as a board member of Lewisham Homes, the Council's housing subsidiary.
- The Chair of the Investment Committee Councillor Mark Ingleby declared an interest as a Councillor elected Director of Lewisham Homes, the Council's housing subsidiary, not in receipt of pension.

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.

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 2021.

Pension Fund Accounts

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

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £730k (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.

Key Management Personnel Remuneration

The key management personnel of the Fund are the Executive Director of Corporate Resources and the Director of Finance.

There were no costs apportioned to the Pension Fund in respect of the Executive Director of Corporate Resources post for 2019/20 and 2020/21.

Total remuneration payable to key management personnel from the Pension Fund is set out below:

	2020/21 £'000	2019/20 £'000
Short Term Benefits	21	24
Post-Employment Benefits	4	3
Total	25	27

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 45 '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 Utmost (formerly 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.

	2020/21			2019/20		
	Utmost £000	Clerical Medical £000	Total £000	Equitable Life £000	Clerical Medical £000	Total £000
Value at the Beginning of Year	421	986	1,407	428	964	1,392
Contributions and Transfers Received	0	286	286	3	182	185
Investment Return	29	156	185	81	(83)	(2)
Paid Out	(94)	(322)	(416)	(91)	(77)	(168)
Value at the End of the Year	356	1,106	1,462	421	986	1,407

14. SCHEDULED BODIES

The following are scheduled bodies to the Fund as at 31 March 2021, arranged in descending order by the value of their contributions in 2020/21:

Lewisham Homes Limited
Haberdashers' Aske's Knights Academy
Christ The King Sixth Form College

Pension Fund Accounts

St Matthews Academy
Tidemill Academy
Childeric Primary School
Sedgehill School
St George's Academy

15. ADMITTED BODIES

The following are admitted bodies to the Fund as at 31 March 2021, arranged in descending order by the value of their contributions in 2020/21:

Youth First Ltd
Phoenix
Inspace/ BS Phoenix
DB Services (left during 2020/21)
Skanska
Change Grow Live / CIS / Penrose
Lewisham Music
Quality Heating
GLL
City West Services
3 C's Support
Fusions Leisure Management
Nviro (left during 2020/21)
Housing 21
Pre-School Learning Alliance
NSL (formerly known as National Car Parks Ltd)
Tower Services

16. MEMBERSHIP

	Active Members		Deferred Beneficiaries		Retired Members	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
Administering Authority	5,745	5,590	10,593	10,502	7,629	7,556
Scheduled Bodies	1,083	1,050	1,323	1,234	389	346
Admitted Bodies	79	114	60	124	76	122
	6,907	6,754	11,976	11,860	8,094	8,024

17. AUTHORISATION

These accounts were approved by Council on XXXXXX.