

ANNUAL REPORT

LAMBETH PENSION FUND

2017

Despite a challenging year, the fund has weathered the storm with strong returns and an improved funding .Fund assets grew by 18% and had net assets of £1,346.8m as at 31 March 2017 with 80% funded at the latest valuation.

London Borough of Lambeth

Contents

Scheme Management and Advisors	2
Report from the Pension Committee Chairman	3
Pension Board Chairman's Report	5
Risk Management	7
Financial Performance	9
Administrative Management Performance	13
Investment Policy and Performance Report	15
Actuarial Report on Funds	19
Pension Fund Accounts Reporting Requirement	19
Governance Compliance Statement	21
Fund Account, Net Assets and Notes	24
Funding Strategy Statement	51
Investment Strategy Statement	52
Communications Policy Statement	53
Compliance Statement	54
Statement of Responsibilities	55
Independent Auditor's Statement	56

Appendices

1. Statement of Investment Principles
2. Funding Strategy Statement
3. Communications Policy

Scheme Management and Advisors

Administering Authority:	London Borough of Lambeth
Administrator:	Christina Thompson Chief Financial Officer
Council Officers: Hamant Bharadia Andrien Meyers Nemashe Sivayogan Saul Omuco Linda D'Souza Linda Osborne	Assistant Director – Finance Group Manager –Treasury and Pensions Senior Treasury and Pensions Officer Senior Treasury and Pensions Officer Interim Head of HR Operations Pensions Manager
Bank:	National Westminster Bank Plc
Legal Advisors:	Council Lawyers
Fund Managers: Adam Street Partnership Insight Investment Management Majedie Asset Management RREEF Standard Life Investment London CIV	Aviva Investors Invesco Perpetual MFS Investment Management PAAMCO State Street Liquidity Fund
AVC Providers: Equitable Life Prudential	Clerical Medical
Adviser:	Mercer Ltd. JLT
Custodian:	State Street Global Advisors
Actuary:	Hymans Robertson
Auditor:	KPMG LLP,UK

Report from the Pension Committee Chairman



As Chairman of the Lambeth Pension Fund, I am pleased to introduce the Pension Fund's Annual Report and Accounts for 2016-17.

Triennial Valuation: It is a statutory requirement that the Fund liabilities are valued every three years. For the 2016 valuation the Lambeth Pension Fund, with the support of our actuary, adopted a new approach to valuing its liabilities (circa £1.4bn) by adopting a "stabilisation approach" which will save the council £6.5m over three

years. The funding level improved to 80% (72.6% in March 2013) with a deficit of £287m (£359m in March 2013)

Investment Strategy Review: The Lambeth Pension Fund has also adopted best practice (similar to that of the private sector) by being one of only a handful of Local Government Pension Scheme (LGPS) Funds to review its investment strategy alongside the Triennial Valuation. Officers of the Fund have worked with the Fund's investment adviser to develop recommendations, which were subsequently adopted by the Council. These modify the existing strategy and build on its success. In 2017-18 the Fund will look to implement its new strategy.

Fund Performance: In terms of the Fund size and investment returns, 2017 has been highly positive. The value of the Lambeth Pension Fund significantly increased during the year by £205m and showed a net asset value of £1,346.8m as at 31 March 2017. At the end of March 2017, the Fund returned 17.4% against a benchmark of 15.9%. The investment management costs of the Fund as a percentage of assets under management over the past year is 0.50% vs. the LGPS average of 0.63%, an impressive achievement considering the fund is 100% actively managed.

London Collective Investment Vehicle (CIV): As part of working collaboratively with other LGPS funds, the Lambeth Pension Fund has signed up to the London CIV and is represented by myself as Chair on the CIV's Pension Sectorial Joint Committee; further one of the Fund's officers has also been appointed to the CIV's Investment Advisory Committee. The Pension Fund Committee agreed to work collaboratively with its London neighbours, and approved this arrangement. Currently the Fund has £363m, or 27% of its investment, managed via the CIV. With LGPS Asset Pooling officially starting in April 2018, it is the Fund's intention to follow Government Regulation and use the CIV as its first point of call.

Governance: A new Pensions Committee has been created with full decision-making powers since April 2015. The new committee is all-encompassing and has responsibility for all Fund matters, including governance, investments, funding, accounting, employer and scheme member engagement, communications, and administration. Best practice within the LGPS is to have a diverse Committee; the Lambeth Fund has already moved to meet these requirements by electing two employees, and two pensioner representatives to its Committee to sit alongside five elected councillors.

Further all training needs were assessed in accordance with CIPFA knowledge and skills framework, and delivered.

I am pleased to be elected as Chairman in 2016 and very much appreciate all support from the existing members especially Cllr Garden who I thank for his time as Chair of the Committee. I would also like to thank Cllr Sabharwal for his work on the Committee over the past years and welcome Cllr Morris to the Committee. Further at an officer level, I am pleased to welcome back Andrien Meyers as Head of Treasury and Pensions, Andrien will commence his duties in the second quarter of 2017.

The Pensions Act 2013 also requires a mandatory Pension Board to be in place. The role of the Board is to review the diligence of decision-making but not the decision itself, a new Board has been created for that purpose. Cllr Holborn has reported separately on this within the report.

The Fund intends to carry out a Governance Review in 2017-18.

Responsible Investing: The Fund continues to focus on responsible investment. In addition to giving the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations through the statement of investment principles, the Fund is one of the few funds that ranks the managers with whom it invests on their ethical credentials as well as on their investment returns, using research information from investment consultants. I am proud to say that once again the Fund engaged positively on responsible investment issues in the year, via the Local Authority Pension Fund Forum.

New Employers to the Fund: Two employers were admitted to the Fund over the past year, thereby helping to support the Council's Co-operative agenda.

Publicity: Over the year officers have represented the Fund at various conferences; notably key talks given and panel appearances at the LGC Investments and the Local Authority Pension Fund. Further, the Fund has engaged with various Central Government bodies to discuss and work collaboratively on the government proposal of pooling all 89 LGPS funds into six wealth funds by 2018. The Fund's ultimate objective of providing a steady and secure benefit to its members is primary in all its decisions.

The outlook for local authority pension funds is uncertain, given not only continuing growth in liabilities and a difficult investment environment, but ongoing government reviews of the pension and investment regulatory framework. However, Lambeth is well placed to meet these challenges. This has been made possible by valuable contributions from many stakeholders; so thanks are due to members of the Pension Committee and Board, both councillors and lay members, officers of the Council, and our advisers. All have approached their responsibilities in recent years with a serious and open minded sense of purpose which ensured that the Fund is better placed than some to face these continuing uncertainties.

Cllr. Iain Simpson

Chairman – Lambeth Pension Committee

Pension Board Chairman's Report



Once again as the Chair of the Lambeth Pension Board I am very pleased to talk about the Lambeth Pension Board and its second year in operation.

Structure and attendance

The Board was constituted under the Public Service Pensions Act 2013 and held its first meeting on the 08 July 2015 before the recommended Scheme Advisory Board (SAB) deadline of 31 July 2015. The Board consists of three representatives of the scheme employers, and three representing scheme members.

Lambeth Pension Board Membership as at 31 March 2017

Employer Representatives		Member Representatives	
Cllr. Jack Holborn	Chair	Peter Davis	Pensioner Rep
Cllr. Linda Bray		Glenis Williamson	Staff Rep
Cllr. Amélie Treppass		Angela Boyle	Trade Union Rep, Vice-Chair

The Board met on three occasions during the year ending 31 March 2017 and all meetings were quorate.

Functions and Operation of the Board

The two primary functions of a Local Pension Board are to assist the Administering Authority to:

- Ensure effective and efficient governance and administration of the Local Government Pension Scheme Regulations 2013 (LGPS); and,
- Ensure compliance with relevant laws and regulation.

It therefore has a monitoring remit, rather than being a decision-making body. It could be seen as being a critical friend. As such, the general approach of the Board is to seek assurances with evidence from the Fund that it is meeting its objectives set out above.

The Board is effectively helping to manage the reputational risk of the Fund and Administering Authority, which are under considerable scrutiny by a number of stakeholders as well as the two main oversight bodies: the Pensions Regulator and the Department for Communities and Local Government (DCLG).

The Board operates under Terms of Reference which were approved at its inception and is appended here again. The Board recognises the need to prioritise and differentiates in its agenda between items for detailed discussion, and those for awareness or noting, and prioritises its time accordingly.

Scheme documents

In the year the Board reviewed scheme policies and a range of key documents covering the items below captured in the work plan section.

Training

Each Board member has to be conversant with the details of the Scheme, which translates as having a good working knowledge. The Fund has offered a number of training opportunities for Board members where possible.

Assessment of training needs, and how they are met, will be a standing item on the Board's agenda. Both formal and informal (cascade) training will be considered.

Work plan

In considering the work of the Board to ensure the continued good governance of the scheme, the following key areas have been highlighted and members will prioritise reviews based on information gleaned from quarterly compliance updates.

- Meeting legislative requirement on pooling
- Improving data quality
- Ensuring strength in employer covenants
- Admission and Termination of other employers to the scheme
- Accounts
- Administration
- Audit and Risk Management
- Governance
- Training

All the Pension Board papers and minutes are held on the Council's website

<http://moderngov.lambeth.gov.uk/ieListMeetings.aspx?Committeeld=733>,

There will be a degree of flexibility to allow for any additional reviews by either the Scheme Advisory Board or the Pensions Regulator.

As the Chair of the Lambeth Pension Board I would like to thank fellow Board members who have volunteered their time and energies towards the role, and for their ongoing support. I would also like to express my thanks to the Pensions Committee for their support and also to the Council's Officers, for their commitment and hard work, making particular mention of the extensive work undertaken for the Triennial Valuation.

Cllr. Jack Holborn

Chairman – Lambeth Pension Board

Risk Management

The Fund recognises that its primary long-term risk is that its assets fall short of its liabilities such that there are insufficient assets to pay promised benefits to members. The investment objectives have been set with the aim of maximising investment returns over the long term within specified risk tolerances. This aims to optimise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled.

The Fund recognises that there are a number of risks that need to be factored into managing the fund and ensuring it can meet its primary objective of providing benefits to its members.

The risks can be categorised as investment, financial, demographic and regulatory risks. These risks have been identified and addressed in the Fund's Investment Strategy Statement and the Funding Strategy Statement.

The Investment Strategy Statement address the financial risks for the Fund, in particular the risk of the performance of the Fund's assets not achieving the actuary's expected rate of return.

In considering the Fund's investment strategy, it must bear in mind this balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising downside risk, within agreed parameters.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund and some of the key risks are considered below:

Solvency Risk and Mismatching Risk

These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities. These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

Manager Risk including the London CIV

This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy. It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by monitoring and replacing any managers where concerns exist over their continued ability to deliver the investment mandate.

The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's external investment managers are required to invest in line with the investment guidelines set by the Fund. Independent custodians safe keep the assets on behalf of the Fund.

Liquidity Risk

This is monitored according to the level of cash flows required by the Fund over a specified period. It is managed by holding an appropriate amount of readily realisable investments. The Fund's

assets are invested in pooled funds which are readily realisable. As a result the investments in less liquid asset classes such as property, hedge funds, private equity and infrastructure are limited.

Corporate Governance Risk

This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance. It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Committee from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Fund's advantage.

Legislative Risk

This is the risk that legislative changes will require action from the Committee so as to comply with any such changes in legislation. The Committee acknowledge that this risk is unavoidable but will seek to address any required changes to comply with changes in legislation.

Market Risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers. Market risk comprises of interest rate risk, inflation and currency risk.

Financial Risks

Action is taken to review performance against the investment strategy on a regular basis in accordance with LGPS regulations. The Fund's financial management framework is the same as that of Lambeth Council. Council Officers monitor the budget, which is set annually as part of the three year forward looking service plan. The financial accounting system is integrated with the Council's, and the segregation of duties and control structure is agreed with and annually reviewed by Internal Audit. A key financial risk is the non-payment of contributions by employers. The regulations provide a sanction for late payments, and processes are in place to ensure that contributions are reconciled regularly.

The administration risks relate mainly to the obligation to administer the Fund and pay benefits accurately and on time as agreed with employers or under statute. The main areas of risk are non-payment or late payment of members' benefits or incorrect calculation of benefits, breach of Data Protection Regulations and failure to comply with Freedom of Information Act requests or Disclosure of Information requirements. Such risks can lead to adverse publicity, loss of reputation and ultimately statutory fines. These are addressed in the Business Continuity Plan.

Financial Performance

In 2016-17 the Fund's net assets saw a significant increase compared to 2015-16. The Fund's asset value increased by £205m (18%) to stand at £1.35bn at 31 March 2017. The Fund's investments in property performed well over the benchmark for the year, while diversified products failed to meet benchmark results.

The Fund has outperformed the benchmark over the quarter to 31 March 2017 primarily due to outperformance in the global equity portfolios. This outperformance was somewhat offset by underperformance in the UK equity portfolio for the quarter. However the Fund has outperformed the benchmark over the one and five year periods and has underperformed the benchmark over the three year period to 31 March 2017.

At the beginning of the year the fund moved its Global Equity investment managed by Baillie Gifford onto London CIV Global Alpha portfolio which again is managed by Baillie Gifford. This is the Fund's first investment into the London CIV. Since the transition the portfolio value has increased by £54m and showing a closing value of £214m as at 31 March 2017. As at to date the Fund made a further two investments UK equity and diversified growth thorough LCIV. The total invested on the LCIV platform stands at £350m.

After observing a continued underperformance of hedge funds in September 2016 the Pension Committee decided to bring its allocation to zero and approved the termination of its hedge fund manager PAAMCO. The Pension Committee also approved to re-allocate the 7% from hedge funds to Diversified Growth. This helped to maintain the allocation to alternatives at 15%. As a result of that the pension committee also approved in LCIV diversified growth Funds. The hedge fund investment was redeemed at 31 March 2017 price and the proceeds were invested on Ruffer Absolute Return on the LCIV platform.

As part of portfolio rebalancing and to capitalise on the gain to date on UK Equity the Fund moved £30m from its UK equity portfolio into diversified growth investment. Again to manage the exposure to one single manager the fund appointed Aviva investors in addition to Standard life and transferred £50m of investment from Standard Life to Aviva Investors in the year.

The Fund had an allocation of 5% to Liability Driven Investment (LDI) Mandate following the 2013 triennial valuation and the investment strategy review. In 2016-17 the Fund implemented the strategy by allocating part of the Bond portfolio towards LDI bond portfolio with its existing fixed income manager Insight Investment.

Asset Class	Last Quarter		Last Year		Last 3 Years		Last 5 Years	
	Fund %	B'mark %	Fund %	B'mark %	Fund (% p.a.)	B'mark (% p.a.)	Fund (% p.a.)	B'mark (% p.a.)
UK Equity	1.5	4	25	22	7.6	7.7	12.5	9.7
Global Equity	7.4	5.4	32.6	32.4	16.6	16.2	16.3	14.7
Property	1.7	2	12.9	8	7.7	8	7.1	8
Diversified Growth	-0.7	1.2	1.3	5.1	2.1	5	3.2	5.1
Hedge Funds	1.6	1.3	5.3	5.6	-0.1	5.6	3.1	5.7
Bonds	2.2	1.9	10	9.2	7.6	7.5	7.7	7.1
LDI	-2.5	-2.7	-	-	-	-	-	-
Total (ex-Adams Street)	3.2	2.8	17.4	15.9	8.8	9.8	9.4	9.3

The fund's cash flow from dealing with members for the first time showed a net outflow in the year. During the year, the Fund received £59.3m in contributions and transfers in and paid out £60.1m in benefits and payments to leavers. This showed a net withdrawals of £828k from dealing with members. The total income to the Fund was £91.2m and the total expenditure incurred was £63.7m (68.5m - with the management fee deducted at source).

The Fund's contribution income is largely used to pay retirement benefits. In 2016-17 following the Council's enhanced redundancy offer as at 31 March 2016 we saw a larger number of Council staff taking the offer and that had had an impact on the pension fund contribution income and benefits paid. The increase in payments were mainly due to the increase in lump sum payments and the increase in monthly pension payroll. In the long run this move will contribute to a reduction in gross pension liability.

The Fund used the distribution from property investments (£3.8m) and part of the private equity distribution to meet its cash flow needs. The rest of the investment income was reinvested into the same portfolio in the year to maximise the return on investment.

The table below summarises the Fund's income and expenditure for the past three years to 2016/17.

Description	2016-17 £000	2015-16 £000	2014-15 £000
Income	91,217	89,704	88,446
Expenditure	(63,650)	(57,753)	(57,501)
Surplus for the year	27,567	31,951	30,945

Contribution cash-flow

Lambeth Pension Fund is a mature Fund with more pensioners than contributing members. For the first time and due to the enhanced redundancy offer the contribution income was just break even to meet the benefits payments. In the past contribution income was sufficient to pay the benefit mainly by the deficit funding of £20m received from the Fund's major employer, the Lambeth Council.

The table below details the Fund's total cash flow in 2016-17.

Cash Movement	£'000
Contributions receivable:	
from employers	47,757
from employees	8,756
from employees transferring from other pension funds	2,769
Income earned on investments	31,935
Total inflow	91,217
Benefits payable:	
Pension payments	(44,211)
Lump Sum payments due when people retire	(10,540)
Lump Sum death benefits	(1,043)
Payments to and on account of leavers:	
Refunds to employees who leave the scheme	(140)
Payments where employees transfer to other funds	(4,176)
Tax paid on Investment Income	(254)
Administrative and Management expenses borne by the scheme	(3,286)
Total outflow	(63,650)
Net cash flow	27,567

Fund's Triennial Valuation (based on 2016 valuation)

Assets

The Fund had its last actuarial valuation in March 2016. The Fund's liabilities were 80% funded and this is a 7.4% increase from previous valuation.

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in future expected investment returns, although this has partially been offset by lower than expected pay and benefit growth.

As part of the 2016 triennial valuation the Fund carried out a review of its investment strategy. This is to understand how assets are positioned to meet the funds fully funded status in 20 years.

The Fund's Pension committee which is the decision making body decided to structure an investment strategy which will help to reduce the pressure on the contribution strategy, specifically for the administering authority and the main employer, which is responsible for 99% of the Fund's liabilities.

On this basis the fund has added new asset classes' emerging market equity, private debt and Multi Asset credit to its portfolio expecting that the returns from these asset classes along with the traditional assets will help to meet the funding requirements.

JLT the Funds strategic investment consultant and actuary Hymans Roberson worked along with the officers to arrive at the above strategy. In 2017-18 the Fund will be implementing this strategy giving priority to investments made available through the LCIV platform.

Liabilities

The continued decrease in the real yield from gilts has served to increase the value of the Fund's liabilities.

In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required in order to discount future benefit payments back to the valuation date.

In setting the discount rate the Fund is determining the extent to which it relies on future investment returns required to meet benefit payments in excess of the monies already held at the valuation date.

The discount rate is required by the Regulations to incorporate a degree of prudence. The discount rate is therefore set by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term.

At the 2016 valuation, the Fund had assets of £1,142m and liabilities of £1,429m. Even though the total liability has increase since last valuation the deficit has reduced from £359m to £287m.

Members' contributions

In the year all non-Lambeth employers paid their pension contributions by the due date therefore the option to levy interest was not exercised. For a number of years Lambeth has participated in the National Fraud Initiative (NFI). Where overpayments have been identified, for example where a pensioner has died, action has been taken to arrange recovery in line with Council policies.

Administrative Management Performance

The Lambeth Pension Fund has an in-house team to manage its administration function. The team of eight staff provides services and manages the records of over 21,000 scheme members and 20 active employers. Key achievements of the team in 2016-17 were taking over responsibility for managing the pension's payroll, and implementing Member Self Service.

The table below details the key administration performance indicators used for the year.

Performance against LGPC Targets 2016/17

Performance indicator (from point at which all required information has been received)	LGPC Target	Achieved %
Letter detailing transfer <i>in</i> quote	10 days	86.0
Letter detailing transfer <i>out</i> quote	10 days	91.0
Process and <u>pay</u> refund	5 days	82.0
Letter notifying estimate of retirement benefits	10 days	90.0
Process and <u>pay</u> lump sum retirement grant	5 days	95.0
Calculate and notify deferred benefits	10 days	53.0

The table below shows the movement in membership for the past five years. Increased active membership is partly due to auto enrolment. The increase in pensioner members is largely due to redundancy retirements.

Five-year analysis of membership data

Description	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13
Active	5,586	5,378	5,239	4,832	4,543
Deferred pensioner	8,285	8,151	8,074	7,816	7,438
Pensioner	7,071	6,801	6,626	6,525	6,394
Total	20,942	20,330	19,939	19,173	18,375

Key documents for Lambeth Pension Fund, including the discretionary policy statement, can be found on the Lambeth Internet (www.lambeth.gov.uk/pensions) and intranet sites.

The Internal Dispute Resolution Procedure (IDRP) is based on standard guidance for all Local Government Pension Scheme (LGPS) funds. Stage 1 cases are reviewed by the Director: HR & Organisational Development; and Stage 2 cases by the Head of Legal Services. In the financial year 2016/17 there were two new appeals, one of these related to early retirement and the other case was about reduction of compensatory added years following re-employment.

The table below shows the Lambeth employers and their members' details as at 31 March 2017

Employer	Active	Deferred	Pensioners
Lambeth	5235	8147	7028
Oasis Southbank Academy	48	1	0
Hyde Housing Association	1	12	17
Ethelred	0	8	2
Excelcare	3	7	6
Blenheim Gardens	6	3	2
Metra Housing	2	4	0
Research Machine	1	2	0
Lambeth Academy	48	50	6
Evelyn Grace Academy	49	24	1
Stockwell Park Academy	45	16	5
Oasis Community Learning	31	4	0
Future UN Ltd	2	1	0
Lambeth Elfrida Rathborne Society	2	0	0
Aspire wellbeing community	5	0	1
ML community Centre	3	0	0
Blackfriars Settlement	0	1	0
City Height Academy	17	1	0
Parallel Learning	72	4	1
Mears Limited	9	0	1
Kings College London	1	0	0
Trinity Academy	4	0	0
Swisspost	2	0	1
	5586	8285	7071

Investment Policy and Performance Report

Following the government intention of LGPS pooling the way the LGPS funds make the investment decision has changed. This changes the way Lambeth approaches its investment strategy.

The Triennial valuation 2016 (where funding levels improved to 80%) saw it introduce a new approach in which it sets its investment strategy at the same time as considering its funding strategy and contribution plan, basing all three on a sophisticated model but crucially applying a practical, qualitative (human) overlay.

Contribution rates and investment strategy were considered in tandem; balancing risk with the need for stability, in terms of certainty with regard to contribution rates. The Council as the largest employer in the Fund (99% of the total Fund) achieved more stability. The cash flow position was also considered at the same time where an in-house exercise was carried out to assess the need for cash.

Being a mature fund and to be better prepared to meet its liability and have sufficient protection on inflation and interest the fund implemented its LDI strategy in late 2016. The strategy was approved by the committee back in 2010 as part strategy review at that time. Due to the unfavourable market condition the strategy wasn't implanted up until now. This portfolio is managed by Fund's existing Bond Manger Insight investment.

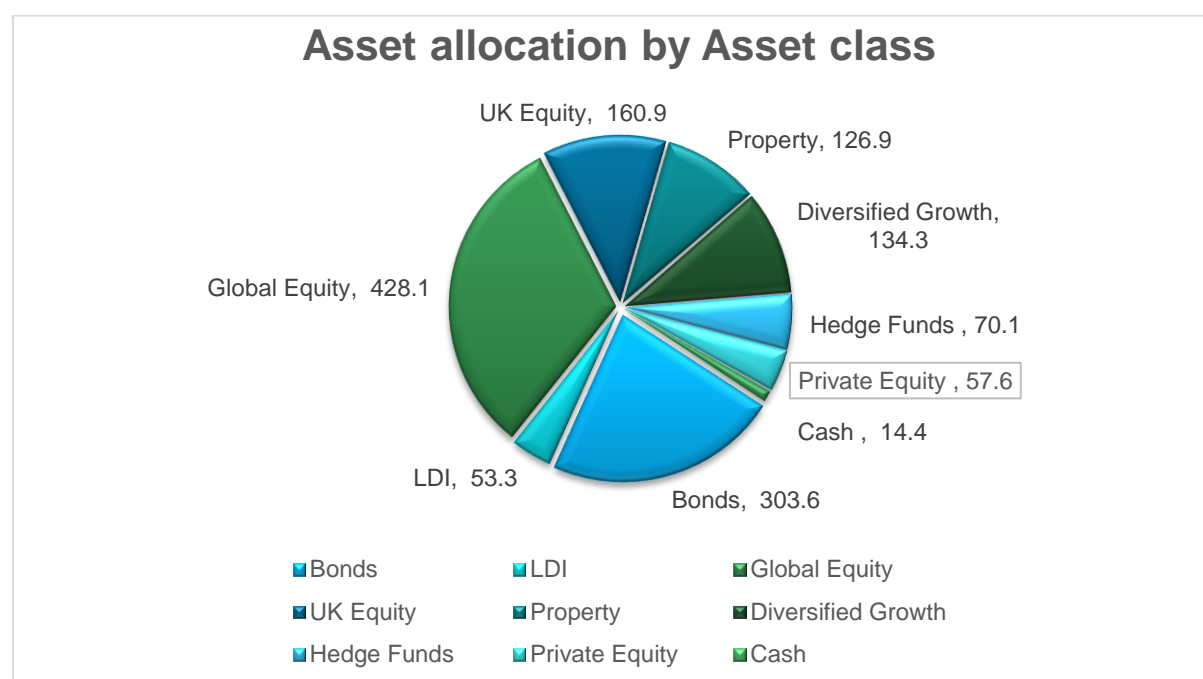
In the year the fund added two investment managers, Aviva investors and London CIV (LCIV). With these, the Fund invests its assets through eight external Fund managers in seven different asset classes. During 2016-17, the Fund's net asset value grew by £205m made up of a return on investments of £32m offset by a reduction in the market value of those investments of 26.7m. The table below shows the planned asset allocation along with the actual asset allocation for the beginning and end of the financial year.

Manager	2017			2016		
	Value (£m)	Actual (%)	Planned (%)	Value (£m)	Actual (%)	Planned (%)
Adams Street	57.6	4.3	5.0	46.3	4.0	5.0
Aviva	80.5	6.0	4.0			
LCIV (Baillie Gifford)	214.1	15.9	13.5	159.8	13.9	13.5
Insight- Bond	303.6	22.5	15.0	326.7	28.3	30.0
Insight- LDI	53.3	4.0	15.0			
Invesco	123.7	9.2	12.0	113.2	9.8	12.0
Majedie	160.9	11.9	11.0	151.8	13.2	11.0
MFS	214.0	15.9	13.5	163.7	14.2	13.5
PAAMCO	70.1	5.2	7.0	68.2	5.9	7.0
RREEF	2.1	0.2	-	2.2	0.2	-
Standard Life	53.8	4.0	4.0	104.0	9.0	8.0
Cash Account	13.6	1.0	-	17.1	1.5	-
Total	1,347.3	100.0	100.0	1,153.0	100.0	100.0

The Council holds Fund managers accountable for decisions on asset allocation within the benchmark under which they operate. In order to follow the recommendations of the Myners' Committee, managers are challenged robustly and formally about asset allocation proposals. Managers' performance is reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and they are called to a Committee meeting if there are issues that need to be addressed. Officers meet managers regularly and advice is taken from the Investment Adviser on matters relating to fund manager arrangements and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in Investment Strategy Statement. The asset allocation of the Pension Fund at the start and end of the financial year is set out above.

The chart below shows the asset allocations by major asset classes as at 31 March 2017.



The Fund has outperformed the benchmark over the quarter to 31 March 2017 primarily due to outperformance in the global equity portfolios managed by LCIV (Baillie Gifford) and MFS. This outperformance was somewhat offset by underperformance in the UK equity portfolio managed by Majedie.

The Fund has outperformed the benchmark over the one and five year periods and has underperformed the benchmark over the three year period to 31 March 2017.

The table below shows the individual fund managers performance for the quarter, one year, three years, and five years against their benchmark.

Asset Class	Last Quarter		Last Year		Last 3 Years		Last 5 Years	
	Fund %	B'mark %	Fund %	B'mark %	Fund (% p.a.)	B'mark (% p.a.)	Fund (% p.a.)	B'mark (% p.a.)
UK Equity	1.5	4.0	25.0	22.0	7.6	7.7	12.5	9.7
Global Equity	7.4	5.4	32.6	32.4	16.6	16.2	16.3	14.7
Property	1.7	2.0	12.9	8.0	7.7	8.0	7.1	8.0
Diversified Growth	-0.7	1.2	1.3	5.1	2.1	5.0	3.2	5.1
Hedge Funds (FoFs)	1.6	1.3	5.3	5.6	-0.1	5.6	3.1	5.7
Bonds	2.2	1.9	10.0	9.2	7.6	7.5	7.7	7.1
LDI	-2.5	-2.7	-	-	-	-	-	-
Total (ex-Adams Street)	3.2	2.8	17.4	15.9	8.8	9.8	9.4	9.3

Environmental, Social and Governance

Good corporate management includes assessing, reporting, and addressing material risks associated with corporate governance and environmental and social issues. Companies should have regard to the environmental and social consequences of their activities in all their decisions, because pro-environment and society approaches to business are usually good for the business in the long run. Where the Fund considers that disclosure on these risks is inadequate, the Fund will generally support requests for improved disclosure and this is done via quarterly meetings with managers.

- Pension Regulation 7(2) (e) requires administering authorities to demonstrate that it considers any factors that are financially material to the performance of the fund's investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.
- The London Borough of Lambeth Pension Fund is a long-term active investor that takes seriously its role in fostering stewardship. We believe that sound corporate governance contributes to long-term value for our clients. The Fund's investment Strategy Statement (high-level Policies) set out the Funds' philosophy on corporate governance and its approach to voting on behalf of clients.
- Voting rights give shareholders both the opportunity and responsibility to participate in the stewardship of companies, and the Fund's policy on exercising voting rights is explained in section 7 of the Fund's Investment strategy Statement.
- The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

- The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.
- The Fund is a member of the Local Authority Pension Fund Forum), a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility. The Fund uses this forum to put its views forward on ESG.
- The Fund will demonstrate action it has taken to show compliance with the Myners principles, where appropriate.

Actuarial Report on Funds

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Lambeth Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 March 2017	31 March 2016
Active members (£m)	608	613
Deferred members (£m)	590	462
Pensioners (£m)	742	570
Total (£m)	1,940	1,645

The promised retirement benefits at 31 March 2017 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £266m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £29m.

Financial assumptions

Year ended (% p.a.)	31 March 2017	31 March 2016
Pension Increase Rate	2.4%	2.2%
Salary Increase Rate	2.8%	4.2%
Discount Rate	2.6%	3.5%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.6 years	23.9 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.8 years	26.0 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	157
0.5% p.a. increase in the Salary Increase Rate	2%	43
0.5% p.a. decrease in the Real Discount Rate	10%	203

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. The covering report identifies the appropriate reliance's and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-



Steven Law FFA
27 April 2017

Governance Compliance Statement

This compliance statement is required by the provision of Regulation 55 of the Local Government Pension Scheme (Scheme) Regulations 2013. The provision requires London Borough of Lambeth as the Administering Authority to prepare a written statement setting out where the authority delegates its function, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;

At Lambeth Council the Pension Committee makes the decision on Pension Fund management. The Council has dedicated its responsibility of looking after the Pension Fund to the Pension Committee. This is a formal committee of the Council, subject to the usual rules of political balance and access to information.

The Pensions Committee has full decision-making powers. It has responsibility for all Fund matters including governance, investments, funding, accounting, employer, and scheme member engagement, communications and administration.

The Pensions Act 2013 also required mandatory pension boards to be in place. The role of the Board is to review the diligence of decision-making but not the decision itself. As such, a new Board was created.

Both the new Committee and Board came into effect on 1 April 2015 and will both be in power till the next election. Following next year's local elections like all the other committees the Pension committee and the Board will have its new elected members. A separate election will be held to appoint the co-opted members (the staff and the pensioner representatives) The new Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 required an Administering Authority to establish a local Pension Board by 1 April 2015. The Board is responsible for:

Delegation of functions

Lambeth Council has delegated its pension fund management to the Pension Committee, 'the Committee'.

In addition and in accordance with the Public Service Pensions Act 2013, Lambeth Council has established a local Pensions Board 'the Board', for the purposes of assisting the administering authority (Lambeth) in the governance of the scheme.

The Committee is advised by the Strategic Director: Corporate Resources, Finance Strategic Director: Corporate Resources, Finance and the Fund's investment consultants.

The Strategic Director: Corporate Resources, Finance is responsible for ensuring that the in-house team provides adequate support to both the Committee and the Board. In between the Committee meetings, the fund managers' report to the Strategic Director: Corporate Resources, Finance on investment performance and the implementation of the investment strategy.

The Fund's procedures are subject to audit and scrutiny by both the Council's internal audit team and its external auditor, KPMG LLP.

This delegation of functions complies with the current guidance issued by the Secretary of State.

The terms, structure, and operational procedures of the delegation effective from 1 April 2015.

The terms of reference for the Pension Committee are:

- Determining the overall investment strategy in accordance with the Local Government Pension Scheme (LGPS) Regulations and, ensuring that the Fund is invested in suitable types of investments and sufficiently diversified having regard to its investment objectives.
- Determining the Statement of Investment Principles, and modification as appropriate.
- Ensuring adequate monitoring and compliance with the overall investment strategy and the Statement of Investment Principles.
- The appointment of investment managers and any external service providers and advisers it considers to be necessary.
- Maintaining effective arrangements for reviewing on a regular basis investment managers' performance against established benchmarks and being satisfied as to manager expertise and the quality of their internal systems.

The investment managers make presentations to the Committee at its formal meetings on the Fund performance, implementation of the investment policy and any other developments. Reports to the Committee are published on the Council's website.

The frequency of meetings

The Committee meets at least three to four times per year; additional meetings are convened as and when required. A yearly calendar giving details of the times and venue of the Committee's meetings is posted on the Council's website.

Currently the committee meetings are held in International House, Brixton, and are open to members of the public. Once the 'Your New Town Hall' project is completed the meetings will be held in the Town Hall as it used to be. It is expected that the new Town Hall will be ready for use by end of this calendar year.

Representatives

The Committee draws its membership from "interested parties" as follows:

- Five elected councillor members
- One employee representative (who is a member of the Fund)
- One trade union representative
- One pensioner representative (who is a member of the Fund)

Only the councillor members have voting rights. The non-voting employee and pensioner representatives are elected through a postal ballot.

Provision is made for councillor members and representatives to undergo training sessions to assist them in making informed decisions about investments and other matters related to the Local Government Pension Scheme.

Pensions Board

A local pension's board was established in April 2015 to assist the administering authority in the governance and administration of the Local Government Pension Scheme.

The frequency of meetings

The Board will meet at least twice per year, but may choose to meet more regularly. A yearly calendar giving details of the times and venue of the Board's meetings is posted on the Council's website.

Currently the committee meetings are held in International House, Brixton, and are open to members of the public. Once the 'Your New Town Hall' project is completed the meetings will be held in Town Hall as it used to be.

Representatives

The Board draws its membership from "interested parties" as follows:

- Three elected councillor members serving as employer representatives.
- One employee representative (who is a member of the Fund)
- One trade union representative
- One pensioner representative (who is a member of the Fund)

All six members have voting rights. The employee and pensioner representatives are elected through a postal ballot.

The terms of reference for the Pension Board are:

- Assist in securing compliance with the Scheme Regulations, the Public Service Pensions Act 2013 and any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator.
- Ensure the effective and efficient governance and administration of the Scheme.

Lambeth Council will ensure that all members of both the Committee and the Board receive appropriate training and formally declare that they do not have conflicts of interest

During 2016/17 the Pension Committee met every quarter to review investment performance and had few more additional meeting to discuss and finalise the 2016 valuation, contribution strategy and the investment strategy statement. The Fund advisor Mercer presented the quarterly performance report and provided advice to the committee. An attendance level for the committee was 82% and the Pension Board was 50% for the year.

Fund Account, Net Assets and Notes

FUND ACCOUNT		2016/17 £000	2015/16 £000
Dealing with members, employers and others directly involved in the fund:			
Contributions	7	(56,513)	(54,598)
Transfers in from other pension funds	8	(2,769)	(2,790)
		(59,282)	(57,388)
Benefits	9	55,794	50,765
Payments to and on account of leavers	10	4,316	3,023
		60,110	53,788
Net (additions)/withdrawals from dealing with members.		828	(3,600)
Management expenses	11	3,285	3,378
Net additions/withdrawals including fund management expenses		4,113	(222)
Returns on investments:			
Investment Income	12	(31,935)	(32,434)
Tax on Income	13	253	654
Profit and loss on disposal of investments and changes in the market value of investments and currency	14a	(176,201)	26,698
Foreign Exchange gain		(1,069)	(337)
Net return on investments		(208,951)	(5,419)
Net increase in the net assets available for benefits during the year		(204,838)	(5,641)
Net Assets of the fund at 1 April		(1,141,917)	(1,136,276)
Net Assets of the fund at 31 March		(1,346,755)	(1,141,917)

NET ASSET STATEMENT	Notes	2016-17 £000	2015-16 £000
Investment Assets	14	1,334,976	1,134,656
Cash Deposits	14	5,103	10,072
Total Net Assets		1,340,079	1,144,728
Investment Liabilities:			
Current Assets	20	9,399	13,612
Current Liabilities	21	(2,723)	(16,423)
Net assets of the fund available to fund benefits at the period end.		1,346,755	1,141,917

The accompanying notes form an integral part of the financial statements.

Note 1: Description of the Fund

The Lambeth Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by London Borough of Lambeth Council. The council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Lambeth Pension Fund Annual Report 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations 2013 (as amended).

1) General

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

The Local Government Pension Scheme Regulations 2013 (as amended)

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Lambeth Council to provide pensions and other benefits for pensionable employees of Lambeth Council and a range of other scheduled and admitted bodies within the borough area.

The fund is overseen by the Lambeth Pension Fund Committee, which is a committee of Lambeth Council.

2) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme, or make their own personal arrangements outside the scheme.

Organisations participating in the Lambeth Pension Fund include:

Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.

Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable, and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 21 employer organisations within Lambeth Pension Fund including the Lambeth council itself, as detailed below.

Lambeth Pension Fund	31-Mar-17	31-Mar-16
Number of employers with active members	21	23
Number of employees in scheme:		
Lambeth council	5,235	5,032
Other employers	351	346
Total	5,586	5,378
Number of pensioners:		
Lambeth council	7,028	6,746
Other employers	43	55
Total	7,071	6,801
Deferred pensioners:		
Lambeth council	8,147	7,994
Other employers	138	157
Total	8,285	8,151
Total number of members in pension scheme	20,942	20,330

3) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions that are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 17% to 42% of pensionable pay.

4) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Lambeth Pension Fund scheme handbook available from Town Hall.

Note 2: Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year.

Note 3: Summary of Significant Accounting Policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current asset. Amounts not due until future years are classed as long term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations 2013 (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise of all realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The fund is a registered public service scheme under section 1(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 a fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its total pension fund management expenses in note 11. This is in accordance with the CIPFA guidance on *Accounting for Local Government Pension Scheme Management Costs (2016)*.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and governance costs

All oversight and governance expenses, including staffing, are accounted for on an accruals basis and charged direct to the fund. Associated management, accommodation, and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2016/17, £0.1m of fees is based on such estimates (2015/16: £0.7m).

The cost of the council's Investment management team is charged to the fund, and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

Net asset statement

g) Financial assets

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 assets 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 fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting or, where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.

Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

The unquoted securities typically include private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited. Partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

iv) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income that is reinvested in the fund, net of applicable withholding tax.

h) Foreign currency transactions

Dividends, interest, and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short-term, liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial liabilities

The fund recognises financial liabilities 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.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

m) Additional voluntary contributions

Lambeth Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential, Equitable Life, and Clerical Medical as its AVC providers.

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. AVC contributors receive an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1) (b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 22)

Note 4: Critical Judgements in Applying Accounting Policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2017 was £57.2m (31 March 2016: £47.1m).

Pension fund liability

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Note 5: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends, and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 19)	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £167m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £36.8m, and a one-year increase in assumed life expectancy would increase the liability by approximately £52m.
Private equity (Note 14)	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publically listed and as such, there is a degree of estimation involved in the valuation. The valuation shown as at 31 March 2017 is £57.6m.	The total (called) private equity investment in the financial statements is £57.6m. There is a risk that this investment may be under- or overstated in the accounts. Private Equity is illiquid for holding until its maturity of 12 years.
Hedge fund of funds (Note 14)	The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge necessary. These investments are not publically listed and as such, there is a degree of estimation involved in the valuation.	The total hedge fund of funds value in the financial statements is £70.1m. There is a risk that the investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 5% in respect of the net asset values on which the hedge funds of funds valuation is based. This equates to a tolerance of +/- £3.5m.

Note 6: Events after the Reporting Date

There have been no events since 31 March 2017, up to the date when these accounts were authorised that require any adjustments to these accounts.

Note 7: Contributions Receivable

Category	2016/17 £000	2015/16 £000
Members	8,757	9,180
Employer:		
Normal contribution	26,368	25,418
Deficit recovery contribution	21,388	20,000
Total employer's contribution	47,756	45,418
Total	56,513	54,598

Authority	2016/17 £000	2015/16 £000
Administering authority	52,686	51,920
Scheduled bodies	1,892	1,961
Admitted bodies	304	323
Community admission body	1,476	294
Transferee admission body	155	100
Total	56,513	54,598

Note 8: Transfers in from Other Pension Funds

	2016/17 £'000	2015/16 £'000
Individual transfer	2,769	2,790
Total	2,769	2,790

Note 9: Benefits Payable

Category	2016/17 £'000	2015/16 £'000
Pensions	44,211	42,479
Commutation and lump sum retirement benefits	10,540	7,525
Lump sum death benefits	1,043	761
Total	55,794	50,765

Authority	2016/17 £000	2015/16 £000
Administering authority	55,466	50,607
Scheduled bodies	34	0
Admitted bodies	169	84
Community admission body	125	74
Total	55,794	50,765

Note 10: Payments to and on Account of Leavers

	2016/17 £000	2015/16 £000
Refund to members leaving service	140	141
Individual transfers	4,176	2,882
Total	4,316	3,023

Note 11: Management Expenses

	2016/17 £000	2015/16 £000
Administrative costs	1,341	1,037
Investment management expenses	1,945	2,341
Total	3,286	3,378

Note 11a: Investment Management Expenses

	2016/17 £000	2015/16 £000
Management fees	1,784	2,304
Custody fees	42	37
Transaction costs	119	0
Total	1,945	2,341

This analysis of the costs of managing the Lambeth Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The total management expenses incurred for the year was £6.8m (2015-16 6.0m) of which only £2.2m was actually remitted; the remainder was deducted in the daily pricing of the individual portfolios.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. This is reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (Note 14a).

Note 12: Investment Income

	2016/17 £000	2015/16 £000
Fixed interest securities	11,352	11,901
Equity dividends	5,281	5,793
Private equity income	9,211	9,603
Pooled property investments	4,101	3,946
Pooled investments - unit trust and other managed funds	1,279	276
Interest on cash deposits	20	132
Other	691	783
Total	31,935	32,434

Note 13a: Taxes on Income

	2016/17 £000	2015/16 £000
Tax – equities	53	565
Withholding tax – pooled	200	89
Total	253	654

Note 13b: External Audit Costs

	2016/17 £000	2015/16 £000
Payable in respect of external audit	21	21
Total	21	21

Note 14: Investments

	2016/17 £000	2015/16 £000
Fixed interest securities	356,898	326,659
Equities	160,335	151,084
Pooled investments	632,605	495,733
Pooled property investments	126,868	113,285
Private equity	57,595	47,067
London CIV	150	150
Cash deposits	5,103	10,072
Investment income due	525	678
Total	1,340,079	1,144,728

Note 14a: Reconciliation of Movements in Investments

	Market value 1 April 2016	Purchases during the year	Transfers – IN	Sales during the year	Transfers - OUT	Movement in cash during the year	Change in market value	Market value 31 March 2017
	£000	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities	326,658	116,274		(104,957)			18,891	356,866
Equities	151,084	110,035		(134,662)			33,904	160,361
Pooled investments	495,734	1,279	238,655	(50,000)	(158,774)		105,711	632,605
Pooled property investments	113,285			(467)			14,050	126,868
Private equity	47,067	6,883					3,645	57,595
London CIV	150							150
Cash Deposits	10,072					(4,969)		5,103
Investment Manager Cash balance						6		6
Investment income due	678					(153)		525
Total	1,144,728	234,471	238,655	(290,086)	(158,774)	(5,116)	176,201	1,340,079

	Market value 1 April 2015	Purchases during the year	Sales during the year	Movement in cash during the year	Change in market value during the year	Market value 31 March 2016
	£000	£000	£000	£000	£000	£000
Fixed interest Securities	325,857	11,901	(3)		(11,097)	326,658
Equities	160,770	73,416	(68,311)		(14,791)	151,084
Pooled investments	473,703	60,650	(30,374)		(8,245)	495,734
Pooled property investments	101,110				12,175	113,285
Private equity	44,309	7,498			(4,740)	47,067
London CIV		150				150
Cash deposits	24,990			(14,918)		10,072
Investment income due	427			251		678
Total	1,131,166	153,615	(98,688)	(14,667)	(26,698)	1,144,728

Note 14b: Analysis of Investments

	31-Mar-17 £000	31-Mar-16 £000
Fixed interest securities		
UK		
Corporate quoted	356,898	326,659
Equities		
UK		
Quoted	135,511	120,299
Cash investment	7,680	3,260
Overseas		
Quoted	17,144	27,525
Pooled funds - additional analysis		
Overseas		
Unit trusts	562,487	427,629
Hedge fund of funds	70,118	68,104
Pooled property investments	126,868	113,285
Private equity	57,595	47,067
London CIV	150	150
Cash deposits	5,103	10,072
Investment income due	525	678
Total investment assets	1,340,079	1,144,728

Note 14c: Investments Analysed by Fund Manager

	Market value 31 March 2017		Market value 31 March 2016	
	£000	%	£000	%
Adam Street	57,595	4.3	47,067	4.1
Aviva	80,532	6.0	0	-
Baillie Gifford		-	159,759	14.0
Invesco	125,357	9.4	111,460	9.7
Insight	356,898	26.6	326,659	28.5
London CIV	150	0.0	150	0.0
London CIV (BG Global Equity)	214,106	16.0	0	-
Majedie	160,860	12.0	151,762	13.3
MFS	214,015	16.0	163,741	14.3
PAAMCO	70,118	5.2	68,104	5.9
RREEF	1,511	0.1	1,826	0.2
Standard Life	53,834	4.0	104,128	9.1
State Street	5,103	0.4	10,072	0.9
Total	1,340,079	100	1,144,728	100.0

Note 15: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided ³²
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments – hedge funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to the expected cash flows, by any difference between audited and unaudited accounts.
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audit and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

	Valuation range (+/-)	Value at 31 Mar-17	Value on increase £000	Value on decrease £000
Pooled investments – Hedge funds	10%	70,118	77,129	63,106
Private equity	15%	57,595	66,234	48,956
Total		127,713	143,363	112,062

NOTE 15a: Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted 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.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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

Values at 31 March 2017	Quoted Market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial Assets at fair value through profit and loss	1,094,897	126,868	127,713	1,349,478
Financial Liabilities at fair value through profit and loss	(2,723)			(2,723)
Net investment assets	1,092,174	126,868	127,713	1,346,755

Values at 31 March 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets at fair value through profit and loss	929,883	113,286	115,171	1,158,340
Financial Liabilities at fair value through profit and loss	(16,423)			(16,423)
Net investment assets	913,460	113,286	115,171	1,141,917

Note 15b: Reconciliation of Fair Value Measurements within Level 3

Period 2016/17	Market value 01 Apr 2016	Transfer into level 3	Transfer out of level 3	Purchases	Sales	Unrealised gain (loss)	Realised gain (loss)	Market Value 31 March 2017
	£000	£000	£000	£000	£000	£000	£000	£000
Overseas unit trust	111,463					13,894		125,357
Hedge Fund of Funds	68,104					2,014		70,118
Private equity	47,067			6,883		3,645		57,595
	226,634	0	0	6,883	0	19,553	0	253,070

Note 16: Financial Instruments

Note 16a: Classification of Financial Instruments

	2016/17			2015/16		
	Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost	Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
Fixed interest Securities	356,898			326,659		
Equities	160,335			151,084		
Pooled investments	632,605			495,733		
Pooled property investments	126,868			113,285		
Private equity	57,595			47,067		
London CIV	150			150		
Cash instruments	5,103			10,072		
Investment income due	525			678		
Debtors		9,399			13,612	
Financial Liabilities						
Creditors			(2,723)			(16,423)
Total	1,340,079	9,399	(2,723)	1,144,728	13,612	(16,423)

Note 16b: Net Gains and Losses on Financial Instruments

	31-Mar-17 £000	31-Mar-16 £'000
Financial Assets		
Fair Value through profit and loss	1,340,079	1,144,728
Loans and receivables	9,399	13,612
Financial Liabilities		
Fair Value through profit and loss		
Loans and receivables	(2,723)	(16,423)
Total	1,346,755	1,141,917

Note 17: Nature and Extent of Risks Arising from Financial Instruments

Risk and 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). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest risk) to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manage these investments risks as part of its overall Pension Fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Pension Committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage, and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

1. The exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
2. Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movement %
Corporate Bonds	3.30%
Bonds- LDI	17.60%
UK equities	17.00%
Global Equities	18.70%
Pooled property investments	14.50%
Other pooled investments	8.00%
Private Equity	24.30%

Had the market price of the fund investments increased/decreased the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset type	Value as at 31 Mar 17 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
UK Equities	160,335	27,257	187,592	133,078
Global Equities	428,122	80,059	508,180	348,062
Diversified Growth	134,366	10,749	145,115	123,617
Hedge Funds	70,118	5,329	75,447	64,789
Private Equity	57,595	13,996	71,591	43,599
Corporate Bonds	303,602	10,019	313,621	293,583
Bonds- LDI	53,295	9,380	62,675	43,915
Cash	5,103		5,103	5,103
Property	126,868	18,396	145,264	108,472
London CIV	150		150	150
Investment income due	525	89	614	436
Total	1,340,079	175,274	1,515,352	1,164,804

Asset type	Value as at 31 Mar 16 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
UK Equities	151,084	15,985	167,069	135,099
Global Equities	323,501	31,283	354,784	292,218
Diversified Growth	104,128	5,029	109,157	99,099
Hedge Funds	68,104	3,119	71,223	64,985
Private Equity	47,067	2,151	49,218	44,916
Corporate Bonds	326,659	19,404	346,063	307,255
Cash	10,072	1	10,073	10,071
Property	113,285	2,708	115,993	110,577
London CIV	150	0	150	150
Investment income due	678	0	678	678
Total	1,144,728	79,680	1,224,408	1,065,048

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis points movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPs change in interest rates.

Asset exposed to interest rate risk	Value as at 31 Mar 17 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	13,588		13,588	13,588
Cash balances	844		844	844
Fixed interest securities	356,898	3,569	360,467	353,329
Total	371,330	3,569	374,899	367,761

Asset exposed to interest rate risk	Value as at 31 Mar 16 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	13,333		13,333	13,333
Cash balances	384		384	384
Fixed interest securities	326,659	3,267	329,926	323,392
Total	340,376	3,267	343,643	337,109

Income exposed to interest rate risk	Amount Receivable as at 31 Mar 17 £000	Potential market movement on 1% in interest £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	20		20	20
Fixed interest securities	11,352	114	11,466	11,238
Total	11,372	114	11,486	11,258

Income exposed to interest rate risk	Amount Receivable as at 31 Mar 16 £000	Potential market movement on 1% in interest rates £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	132		132	132
Fixed interest securities	11,901	119	12,020	11,782
Total	12,033	119	12,152	11,914

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not influence the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign 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 holds both monetary and non-monetary assets denominated in currencies other than GBP.

The fund's currency rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the council considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one standard deviation).

A 10% fluctuation in the currency is considered reasonable based on the fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables – in particular interest rates – remain constant. A 10% strengthening / weakening of the pound against the various currencies in which the fund holds investments would increase / decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Value as at 31 Mar 17 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas unquoted securities	57,595	5,759	63,354	51,836
Overseas unit trusts	125,357	12,536	137,893	112,821
Total	182,952	18,295	201,247	164,657

Assets exposed to currency risk	Value as at 31 Mar 16 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas unquoted securities	47,067	3,663	50,730	43,404
Overseas unit trusts	111,460	7,548	119,008	103,912
Total	158,527	11,211	169,738	147,316

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit 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 council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2017 was £21.3m (31 March 2016: £20.4m). This was held with the following institutions.

	Rating	31 Mar 17 £000	31 Mar 16 £000
Money Market Funds			
State Street- Liquidity Fund	AAA	5,103	10,072
Majedie Asset Management		7,680	3,261
Bank deposits and current account			
Royal Bank of Scotland	BBB+	8,484	7,107
Total		21,267	20,440

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and cash to meet investment commitments. The council has immediate access to its pension fund cash holding.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert in to cash. As at 31 March 2017 the value of liquid assets was £1,094.7m, which represented 89.6% of the total fund assets (31 March 2016: £1,105.3m, which represented 88.0% of the total fund assets).

The Fund's Investment Management team prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2017 are due within one year.

Refinancing risk

The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its investment strategy.

Note 18: Funding Arrangements

In line with The Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- To ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment.

- To ensure that employer contribution rates are as stable as possible.
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return.
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so.
- To use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a reasonable period. Solvency is achieved when the funds held, future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the 2016 actuarial valuation, the fund was assessed as 80% funded (72.6% at the March 2013 valuation). This corresponded to a deficit of £287m (2013 valuation: £359m) at that time.

Contribution increases were phased in over the three-year from April 2017 to 31 March 2020 for both scheme employers and admitted bodies. The common contribution rate (i.e. the rate that all employers in the fund pay) is 18.5% until the next triennial valuation in 2019.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the fund's website.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement, or withdrawal from scheme. The principal assumptions were as follows:

Demographic assumptions

The post-retirement mortality tables are the S1PA tables with a multiplier of 110% for males and 100% for females. These base tables are then projected using the CMI 2012 Model, allowing for a long-term rate of improvement of 1.5% pa. Assumed life expectancy from age 65 is as follows.

	31-Mar-17	31-Mar-16
Retiring today		
Males	21.6	21.7
Females	23.9	24
Retiring in 20 years		
Males	23.8	24.3
Females	26.0	26.6

Commutation assumption

It is assumed that future retirees will take 25% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 63% of the maximum for post-April 2008 service.

Note 19: Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also used valued ill health and death benefits in line with IAS 19.

Calculated on an IAS 19 basis, the actuarial present value of promised retirement benefits at 31 March 2017 was £1,940m (31 March 2016: £1,645m). The net assets available to pay benefits as at 31 March 2017 was £1,974m (31 March 2016: £1,165m). The implied fund deficit as at 31 March 2017 was therefore £654m (31 March 2016: £480m).

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2013 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate that reflects market rates.

Assumptions used	2016/17 %	2015/16 %
Inflation/pension increase rate	2.4	2.2
Salary increase rate	2.8	4.2
Discount rate	2.6	3.5

Note 20: Current Assets

	31-Mar-17	31-Mar-16
Sundry debtors	69	6,122
Cash balances	9,329	7,490
Total	9,399	13,612

Note 21: Current Liabilities

	31-Mar-17	31-Mar-16
Outstanding settlement	0	6,110
Sundry creditors	2,723	10,313
Total	2,723	16,423

Note 22: Additional Voluntary Contributions

	31-Mar-17	31-Mar-16
Prudential	1,741	1,320
Equitable Life	488	217
Clerical Medical	139	112
Total	2,368	1,649

Note 23: Related Party Transactions

Lambeth Council administers the Lambeth Pension Fund. Consequently, there is a strong relationship between the council and the pension fund.

During the reporting period, the Council incurred costs of £1.2m (2015/16: £0.9m) in relation to the administration of the fund and these costs were reimbursed by the Fund. The council is also the single largest employer of members of the pension fund and contributed £43.6m to the fund in 2016/17 (2015/16: £43.4m). The amount payable to the council as at 31 March 2017 shown as current liability.

Governance

There are no elected members of the Pension Committee in receipt of pension benefits from the Lambeth Pension Fund but two pensioner representatives are in receipt of pension benefits from the Lambeth Pension Fund. In addition, pension committee staff representatives K White and trade union representative J Rogers are active members of the pension fund.

Members of the Pension Committee are required to declare their interest at each meeting.

Note 24: Contingent Liabilities and Contractual Commitments

The total commitments as at 31 March 2017 are £106.2m and the outstanding capital commitments (investments) are £25.9m (31 March 2016: total commitment £106.2m and outstanding was £24.0m).

These commitments relate to outstanding call payments due on Private Equity parts of portfolio. The amounts 'called' by this fund are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

Note 25: Contingent Assets

Admitted body employers in the Lambeth Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

Funding Strategy Statement

The Funding Strategy Statement has been prepared by the Administering Authority in collaboration with the Fund's actuary Hymans Robertson, and after consultation with the Fund's employers and investment adviser.

Following the 2016 valuation the Funding Strategy Statement was reviewed and updated in February 2017. In preparing the Funding strategy Statement the officers and the actuary took into consideration the guidance issued by CIPFA and the Scheme Advisory Board.

- Purpose of the Pension Fund.
- Aims of the funding policy.
- Solvency issues and target funding levels.
- Identification of risks and counter measures.
- Links to investment policy set out in the Statement of Investment Principles.

The full version of the Funding Strategy Statement is attached as appendix 2 to this report and also available on the Pension Fund's website at: <https://www.lambeth.gov.uk/elections-and-council/finance-and-payments/financial-information-guide>

Investment Strategy Statement

Under powers contained in The Public Service Pensions Act 2013 Act and The Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and these regulations came into force on 1st November 2016.

Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement (ISS) is a document that replaces, and largely replicates, the Statement of Investment Principles under the proposed Investment Regulations. Administering Authorities will be required to prepare and maintain an ISS documenting how the investment strategy for the fund is determined and implemented. The ISS will be required to cover a number of areas, specifically:

- (a) A requirement to invest money in a wide variety of investments;
- (b) The authority's assessment of the suitability of particular investments and types of investments;
- (c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- (e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

Lambeth published the ISS statement in February 2017 and will be regularly reviewed and at least every three years. This document is designed to comply with the guidance given by the Secretary of State.

The ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Policy Statement
- The Pension Fund Annual Report and Accounts
- Actuarial Valuation.

The full version of the Investment Strategy Statement is attached as appendix 1 to this report and also available on the Pension Fund's website at <https://www.lambeth.gov.uk/elections-and-council/finance-and-payments/financial-information-guide>

Communications Policy Statement

As required by Regulation 67 of the Administration Regulations the fund should prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities.

Effective communication with all members and Scheme Employers is very important. The Fund's Communications Policy Statement formalises the processes by which this will be achieved. The full version of the communication policy attached as appendix 3 to this report is also available on the Fund's website at www.lambeth.gov.uk/pensions.

The Fund uses the following ways to provide up-to-date and accurate information to its members.

Website

The Fund's dedicated website has all the relevant information on joining the Pension Fund, Fund performance, and latest changes in LGPS Regulations.

Website: <https://www.lambeth.gov.uk/elections-and-council/finance-and-payments/financial-information>

The Lambeth Pension Fund Annual Report will be available to all Scheme Employees. The Annual Report has the Fund Statement of Account for the year ended 31 March and further useful information on Fund operations. The annual report is also available on the Fund webpage.

Annual Benefit Statements

Annual Benefit Statements are sent out to all active and deferred members. This statement provides details of their pension benefits. It is hoped that our members will find them a useful aid in assessing the benefits they have accrued and their prospective benefits at retirement. The Fund plans to continue improving and updating the statements to ensure the information provided is accurate, clear and understandable.

Contact Details:

Pension Administration

Lambeth Pension Services
1st Floor, Olive Morris House
18 Brixton Hill
Brixton
London SW2 1RL

Telephone: 0207 926 9572
email: pensions@lambeth.gov.uk

Investment Management

Treasury and Pension Fund
9th Floor, Phoenix House
10 Wandsworth Road
Vauxhall
London SW8 2LL

Telephone: 02079269699
Email: pensionfund@lambeth.gov.uk

Compliance Statement

The purpose of this Compliance Statement is primarily to disclose some additional information required by law, but which is not considered to be of such significance to Members.

Taxation

The Fund is approved under the Income and Corporation Taxes Act 1988. Although exempt from UK income and capital gains taxes, the Fund is unable to recover the tax credit on UK dividends.

Investment Strategy Statement

The Public Service Pensions Act 2013 (The Act) Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issue by the Secretary of State.

The Investment Strategy Statement (ISS) is a document that replaces, and largely replicates, the Statement of Investment Principles under the proposed Investment Regulations. Administering Authorities prepared and maintain an ISS documenting how the investment strategy for the fund is determined and implemented.

Transfer Values

Transfer values for Members leaving pensionable service during the year were calculated in accordance with the Pension Schemes Act 1993, (as amended by the Pensions Act 1995). No transfer values were reduced because of under-funding. The Rules of the Fund have always provided that deferred pensioners may transfer the value of their benefits to another approved scheme at any time before any benefits have been paid from the Fund.

Pension Increases

Pensions are increased in accordance with the pension increase (Review) Order 2009 Statutory Instrument 2009 No 692.

Statement of Responsibilities

Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs (usually that officer is the S151 officer who in the Councils case is the Chief Financial Officer);
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the statement of accounts.

The Chief Financial Officer Responsibilities

The Chief Financial Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Government Accounting.

In preparing this statement of accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the Lambeth Pension Fund as at 31 March 2017 and its income and expenditure for the year then ended.



Christina Thompson

Chief Financial Officer

Independent Auditor's Statement

Independent auditor's report to the members of the London Borough of Lambeth on the pension fund financial statements published with the *Pension Fund Annual Report*

We have examined the pension fund financial statements for the year ended 31 March 2017 on pages 24 to 50.

Respective responsibilities of the Director of Finance and the auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities *the Director of Finance* is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the *Pension Fund Annual Report* with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Lambeth, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

In addition, we read the information given in the *Pension Fund Annual Report* to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Lambeth for the year ended 31 March 2017 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.



Neil Thomas

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, Canary Wharf, London, E14 5GL

28 September 2017