Open Agenda

Pensions Advisory Panel

Wednesday 29 September 2021
3.00 pm
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Membership

Councillor Rebecca Lury (Chair)
Councillor Jon Hartley
Councillor Eliza Mann

Staff Representatives
Chris Cooper
Julie Timbrell
Derrick Bennett

Officers
Duncan Whitfield
Caroline Watson
Barry Berkengoff

Advisors
David Cullinan
Colin Cartwright

INFORMATION FOR MEMBERS

Contact
Andrew Weir by email: andrew.weir@southwark.gov.uk

Members of the committee are summoned to attend this meeting
Eleanor Kelly
Chief Executive
Date: 24 September 2021

Pensions Advisory Panel

Wednesday 29 September 2021
3.00 pm
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Order of Business

Item No.	Title	Page No.

EXCLUSION OF PRESS AND PUBLIC

The following motion should be moved, seconded and approved if the sub-committee wishes to exclude the press and public to deal with reports revealing exempt information:

> "That the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 1-7, Access to Information Procedure rules of the Constitution."

ANY OTHER CLOSED BUSINESS

Date: 24 September 2021

Agenda Item 5

Southwark Council
southwark.gov.uk

Pensions Advisory Panel

MINUTES of the OPEN section of the Pensions Advisory Panel held on Wednesday 23 June 2021 at 3.00 pm at Online/Virtual

---

PRESENT: Councillor Rebecca Lury (Chair)
Duncan Whitfield
Caroline Watson
Chris Cooper
Julie Timbrell
Colin Cartwright
Jonathan Taylor
David Cullinan
James Gilliland
Jack Emery
Andrew Weir

1. APOLOGIES

Apologies were received from Councillor Eliza Mann (due to technical issues), Derrick Bennett, Mike Ellsmore and Barry Berkengoff.

2. CONFIRMATION OF VOTING MEMBERS

Councillor Rebecca Lury, Caroline Watson and James Gilliland were confirmed as voting members at the beginning of the meeting.

3. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT

There were none.

4. DISCLOSURE OF INTERESTS AND DISPENSATIONS

There were none.

5. MINUTES

RESOLVED:

That the minutes of the meeting held on 3 March 2021 be agreed as a correct record.

6. INTRODUCTIONS

Everyone present introduced themselves.

7. ASSET ALLOCATION

Caroline Watson, Senior Finance Manager, presented the report on the asset allocation of the Fund.

It was noted that £160 million had been transferred to the BlackRock Low Carbon Equity Fund in April and that the remaining passive developed market equities currently invested with Legal and General would be sold with the proceeds being transferred to the BlackRock Liquidity Fund, to be held until required to fund drawdowns for investment commitments.

It was also noted that the Fund had increased in value by £30 million since the previous quarter.

RESOLVED:

That the Fund's asset allocation at 31 March 2021 be noted.

8. CARBON FOOTPRINT UPDATE

Caroline Watson presented the report on the carbon footprint update.

It was noted that the Fund's carbon exposure had been reduced by 34% since September 2017. It was also noted that Newton had now fully divested fossil fuels from its mandate.

There was a discussion regarding the increase in the proportion of the value of the Fund invested in emerging market equities over the quarter. It was noted that this was as a result of market movements and that this allocation would shortly be moved to a low carbon active fund, thereby reducing its carbon intensity going forward.

It was noted that the fund would see fluctuations like this until 2030 and that the Fund should not set hard targets as many global factors were out of the Fund's control.

RESOLVED:

That the Fund's updated carbon footprint as at 31 March 2021 be noted.

9. QUARTERLY INVESTMENT UPDATE

David Cullinan updated the panel. He advised that the Fund had performed well in the March quarter. It was noted that the Fund was in the top quartile of local authority pension funds.

Colin Cartwright and Jonathan Taylor from Aon addressed the panel. They provided an overview of the range of products that the Fund was invested in and how they rated these.

Caroline Watson advised that Aon were appointed as the investment advisors to the fund from 1 April 2021.

It was noted that Newton were behind on their target but that the target was an ambitious target.

RESOLVED:

That the quarterly investment updates be noted.

10. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PRIORITY ALLOCATION

Colin Cartwright from Aon presented the report. He advised that Aon had researched some funds that were familiar to both Aon and Southwark officers.

There was a discussion regarding the suggestions in the report. It was noted that the Fund was targeting being carbon neutral by 2030 and that the asset allocation may require to go through multiple iterations in order to achieve this.

There was a discussion regarding the Fund's objectives in relation to social and governance issues when it comes to making investments. It was noted that the Fund had to be careful about excluding a wide range of investments as this would increase the overall risk.

It was noted that officers and Aon would hold a meeting with selected fund managers on 28 July 2021.

RESOLVED:

That the report on Environment, Social and Governance (ESG) Priority Allocation be noted.

11. PENSIONS SERVICES UPDATE

The Pensions Manager was not present and the panel noted the report.

RESOLVED:

That the update on the pensions administration function be noted.

12. LOCAL PENSION BOARD UPDATE

Duncan Whitfield, the Strategic Director of Finance and Governance advised that the local pension board were currently looking at a process in relation to declarations of interest. In addition, this would also be looked into, in relation to the pensions advisory panel.

There were no questions.

RESOLVED:

That the update from the local pension board (LPB) meeting of 7 April 2021 be noted.

13. QUARTERLY ACTUARIAL FUNDING UPDATE

Caroline Watson presented the report on the update.

It was noted that the funding level at 31 March 2021 was 111%.

RESOLVED:

That the updated funding position at 31 March 2021 be noted.

14. ANY OTHER OPEN BUSINESS

It was noted that the next meeting would take place on 29 September 2021.

The meeting ended at 4.08pm.

CHAIR:

DATED:

Agenda Item 7

Item No. 7	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report title:		Asset Allocation June 2021	
From:		Divisional Accountant, Treasury and Pensions	

Recommendations

The PAP is asked to:

- Note the Fund’s asset allocation at 30 June 2021

Asset Class	Manager	Start of Quarter	End of Quarter	Start of Quarter	End of Quarter	Strategic Benchmark	Difference
		£000	£000	%	%	%	%
Global Equity	BlackRock	448,194	465,222	23.1	22.9	20	2.9
	Legal & General	458,876	393,781	23.6	19.4	20	(0.6)
	Newton	239,918	255,209	12.4	12.6	10	2.6
Total Global Equity		**1,146,988**	**1,114,212**	**59**	**54.8**	**50**	**4.8**
Diversified Growth	BlackRock	192,740	197,122	9.9	14.1	10	4.1
Total Diversified Growth		**192,740**	**197,122**	**9.9**	**14.1**	**10**	**4.1**
Absolute Return Bonds	BlackRock	135,739	135,308	7	6.7	5	1.7
Total Absolute Return Bonds		**135,739**	**135,308**	**7**	**6.7**	**5**	**1.7**
Property	Nuveen	194,899	202,844	10	10.0	15	(5.0)
	M&G	22,421	22,511	1.6	1.1	1.5	(0.4)
	Invesco	30,271	30,289	1.2	1.5	1.5	0.0
	Frogmore	7,365	7,352	0.4	0.4	1	(0.6)
	Brockton	5,425	5,591	0.3	0.3	1	(0.7)
Total Property		**260,381**	**268,587**	**13.4**	**13.2**	**20**	**(6.8)**
Sustainable Infrastructure	Glennmont	13,959	14,787	0.7	0.7	2	(1.3)
	BlackRock	3,486	3,004	0.2	0.1	1.5	(1.4)
	Temporis	23,818	23,979	1.2	1.2	1.5	(0.3)
Total Sustainable Infrastructure		**41,263**	**41,769**	**2.1**	**2.1**	**5**	**(2.9)**
Index Linked Gilts	BlackRock	72,214	87,588	3.7	4.3	5	(0.7)

Asset Class	Manager	Start of Quarter	End of Quarter	Start of Quarter	End of Quarter	Strategic Benchmark	Difference
		£000	£000	%	%	%	%
	Legal & General	87,638	91,280	4.5	4.5	5	(0.5)
Total Index Linked Gilts		**159,852**	**178,868**	**8.2**	**8.8**	**10**	**(1.2)**
Cash & Cash Equivalents	Nuveen	5,516	6,014	0.3	0.3	0	0.3
	Blackrock	0	90,000	0	4.4	0	4.4
Total Cash & Cash Equivalents		**5,516**	**96,014**	**0.3**	**5**	**0**	**4.7**
Total		**1,942,479**	**2,031,881**	**100**	**100**	**100**	

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	James Gilliland	
Version	Final	
Dated	22 September 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		22 September 2021

Item No. 8	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint – 30 June 2021	
From:		CIPFA Trainee, Treasury & Pensions	

Recommendations

The PAP is asked to:

- Note the Fund’s updated carbon footprint as at 30 June 2021.

Since December 2018 the Fund has engaged Sustainalytics to assist with assessments of the CO2 equivalent exposure of its equity holdings. The table below sets out the weighted carbon intensity by asset class since September 2017.

Asset Class	Fund Managers	Current Target Asset Allocation	Weighted Carbon Intensity (tCO_2e/$m revenue)											
			September 2017	December 2017	March 2018	June 2018	September 2018	December 2018	December 2019	June 2020	September 2020	December 2020	March 2021	June 2021
Equity – Developed & Low Carbon	**Blackrock, LGIM**	35.0%	98.7	98.7	81.2	63.9	63.9	49.6	62.9	50.8	55.1	44.1	47.2	25.5
Equity – Global	**Newton**	10.0%	10.6	10.6	10.4	10.4	10.4	4.7	3.7	3.7	7.0	7.0	4.4	4.6
Equity – Emerging Markets	**Blackrock**	5.0%	18.1	18.1	18.1	18.1	18.1	16.0	14.7	13.9	14.1	15.0	19.1	18.3
Diversified Growth	**Blackrock**	10.0%	26.7	22.4	17.6	20.0	10.1	15.0	15.1	20.9	15.9	16.0	15.6	14.2
Absolute Return Fixed Income	**Blackrock**	5.0%	22.4	16.9	14.3	13.4	15.9	11.5	8.3	15.6	7.1	8.7	10.0	9.8
Property	**Invesco, M&G, TH, Brockton, Frogmore**	20.0%	23.2	23.2	23.1	22.8	22.8	21.5	21.5	21.5	21.5	21.5	21.5	21.5
Sustainable Infrastructure	**Glenmont, Temporis, BlackRock**	5.0%												
Il Gilts	**LGIM, Blackrock**	10.0%	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	26.0
Total		**100.0%**	**213.7**	**204.0**	**178.7**	**162.5**	**155.2**	**132.3**	**140.2**	**140.4**	**134.6**	**126.3**	**131.7**	**120.0**
Change Equity %				**0.0%**	**-13.9%**	**-27.5%**	**-27.5%**	**-44.8%**	**-36.2%**	**-46.4%**	**-40.2%**	**-48.2%**	**-44.5%**	**-62.0%**
Change Diversified Growth %				**-16.0%**	**-34.0%**	**-25.0%**	**-62.1%**	**-43.7%**	**-43.4%**	**-21.4%**	**-40.5%**	**-39.8%**	**-41.5%**	**-46.9%**
Change Absolute Return Fixed Income %				**-24.3%**	**-36.3%**	**-40.2%**	**-28.7%**	**-48.8%**	**-62.8%**	**-30.0%**	**-68.4%**	**-61.2%**	**-55.4%**	**-56.1%**
Change Property %				**0.0%**	**-0.2%**	**-1.7%**	**-1.7%**	**-7.1%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**
Total Change in Footprint %				**-4.5%**	**-16.3%**	**-23.9%**	**-27.4%**	**-38.1%**	**-34.4%**	**-34.3%**	**-37.0%**	**-40.9%**	**-38.3%**	**-43.8%**

Change of Approach

1. Measuring index linked gilts is not currently possible as it involves trying to measure the footprint of the UK government. In order to be prudent, a proxy value has been generated based upon the asset class with the highest carbon footprint. In order to offer consistency in reporting, index-linked gilts are now included in all month's calculations, where previously they were only included from December 2019. Additionally, for the most recent quarter, the assessment of the proxy figure has been changed to reflect our latest assumptions. We will continue to work to improve the carbon footprint measurement over time and the continuing suitability of the index linked gilts holdings will be reviewed before March 2022 as part of the investment strategy review.

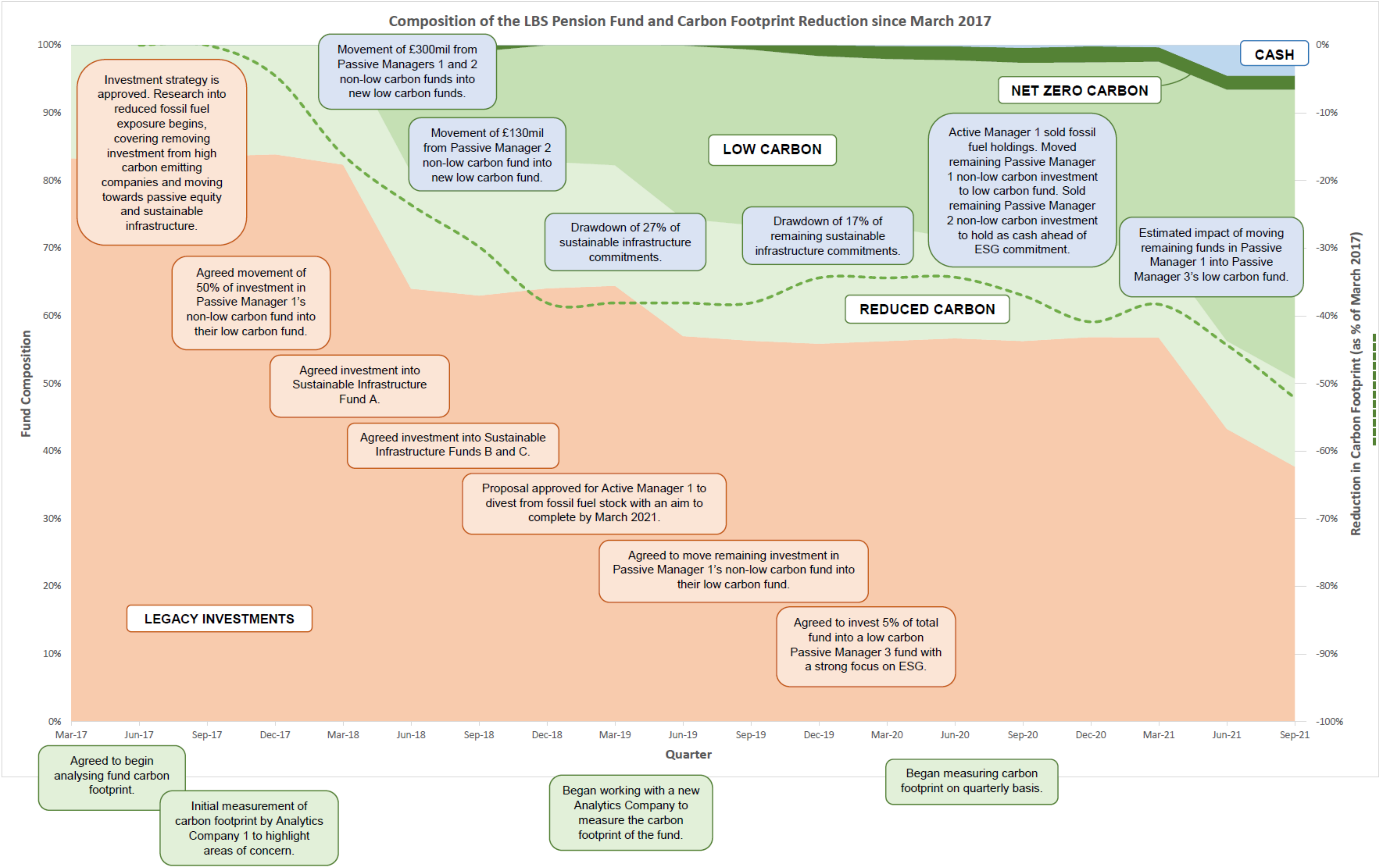
Results

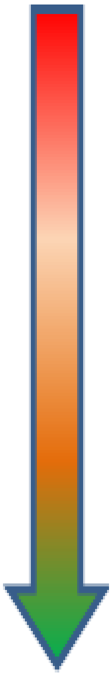
2. The results for June 2021 show that the Fund has reduced its weighted carbon exposure by 44% since September 2017. This is predominantly driven by the movement of the holdings in passive developed market equities to low carbon funds.

3. The unweighted exposure for each investment is set out below ranked in order of carbon footprint, from lowest to highest exposure.

Asset Class	Fund Manager	Jun-21 Unweighted Carbon Intensity (tCO2e/$M revenue)
Equity – Active	Newton	37.4
Equity – Developed Low Carbon	Blackrock, LGIM	88.5
Diversified Growth	Blackrock	145.0
Il Gilts	LGIM, Blackrock	145.0
Absolute Return Fixed Income	Blackrock	146.4
Property	Invesco, M&G, TH, Brockton, Frogmore	215.4
Equity - Emerging Markets	Blackrock	330.1

4. An infographic (set out below, with further information on the following page) has been produced in order to demonstrate the changes in the composition of the Fund in terms of carbon emissions against the reduction of the carbon footprint over time. The graph is intended for use as a way of easily displaying the Fund's progress towards net zero and can be easily updated over time.


Composition of the LBS Pension Fund and Carbon Footprint Reduction since March 2017
Fund Composition
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Reduction in Carbon Footprint (as % of March 2017)
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
-80%
-90%
-100%
Mar-17
Jun-17
Sep-17
Dec-17
Mar-18
Jun-18
Sep-18
Dec-18
Mar-19
Jun-19
Sep-19
Dec-19
Mar-20
Jun-20
Sep-20
Dec-20
Mar-21
Jun-21
Sep-21
Quarter
CASH
NET ZERO CARBON
LOW CARBON
REDUCED CARBON
LEGACY INVESTMENTS
Investment strategy is approved. Research into reduced fossil fuel exposure begins, covering removing investment from high carbon emitting companies and moving towards passive equity and sustainable infrastructure.
Movement of £300mil from Passive Managers 1 and 2 non-low carbon funds into new low carbon funds.
Movement of £130mil from Passive Manager 2 non-low carbon fund into new low carbon fund.
Drawdown of 27% of sustainable infrastructure commitments.
Drawdown of 17% of remaining sustainable infrastructure commitments.
Active Manager 1 sold fossil fuel holdings. Moved remaining Passive Manager 1 non-low carbon investment to low carbon fund. Sold remaining Passive Manager 2 non-low carbon investment to hold as cash ahead of ESG commitment.
Estimated impact of moving remaining funds in Passive Manager 1 into Passive Manager 3's low carbon fund.
Agreed movement of 50% of investment in Passive Manager 1's non-low carbon fund into their low carbon fund.
Agreed investment into Sustainable Infrastructure Fund A.
Agreed investment into Sustainable Infrastructure Funds B and C.
Proposal approved for Active Manager 1 to divest from fossil fuel stock with an aim to complete by March 2021.
Agreed to move remaining investment in Passive Manager 1's non-low carbon fund into their low carbon fund.
Agreed to invest 5% of total fund into a low carbon Passive Manager 3 fund with a strong focus on ESG.
Agreed to begin analysing fund carbon footprint.
Initial measurement of carbon footprint by Analytics Company 1 to highlight areas of concern.
Began working with a new Analytics Company to measure the carbon footprint of the fund.
Began measuring carbon footprint on quarterly basis.



LEGACY INVESTMENTS: Investment products that are not actively targeting reduced carbon emissions. Some of these may potentially have exposure to fossil fuels; however we are working to understand the extent of this and will address this in our strategy going forwards. The Fund intends to make no new investments in such products.

REDUCED CARBON: Investments either in property or in funds with specific oil and gas exclusions.

LOW CARBON: Funds specifically set up as 'low carbon' funds. All products within this category are currently index tracking developed market equities.

ZERO CARBON: Investments in vehicles that produce zero carbon or in some cases have a measurable offsetting impact on carbon emissions. Currently this category contains sustainable infrastructure products.

CASH: Held in the pension fund, usually pending anticipated drawdown requests or in advance of an acquisition.

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	Jack Emery	
Version	Final	
Dated	22 September 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		24 September 2021

Agenda Item 9

Item No. 9.	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report title:		Draft Updated Investment Strategy	
From:		Senior Finance Manager, Treasury & Pensions	

RECOMMENDATIONS

1. The PAP is asked to:

   a. Consider the updated Investment Strategy Statement and make recommendations as appropriate.
   b. Consider the draft updated investment strategy and make recommendations as appropriate.

Background

2. In accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, an Administering Authority must prepare and maintain a written Investment Strategy Statement ("ISS") of the principles governing its decisions on the investment of the Fund. The ISS must be in accordance with guidance issued by MHCLG.

3. The Fund's existing ISS was published in April 2017 and there is a requirement to review the policy from time to time and at least every three years.

4. The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments that the Fund will invest in particular investments or classes of investment.

5. As part of the 2017 Investment Strategy Statement, and following the council's commitment to reduce fossil fuel exposure in the pension fund's investments over time, an investment strategy setting out how this would be achieved was agreed.

Revised Investment Strategy

6. The previous strategy has acted to counteract the risk to the Fund of exposure to fossil fuels. When this strategy was agreed, we set out a short, medium and long term plan.

7. During this time significant progress has been made, whilst maintaining investment performance. This strong performance, along with the Fund's conviction that strong investment performance can be delivered alongside reducing carbon exposure, has demonstrated that it is now appropriate to move

to the next stage of revising the strategy to make further progress towards a net zero carbon commitment by 2030.

Next Steps

8. PAP members are asked to provide feedback and proposed amendments on the updated Investment Strategy Statement and Investment Strategy.

9. The final version of both documents will be agreed at the next PAP meeting in December 2021, when the new Investment Strategy will be launched.

APPENDICES

Appendix	Title
1	Investment Strategy Statement

AUDIT TRAIL

<table>
<tr><td>Lead Officer</td><td colspan="2">Duncan Whitfield</td></tr>
<tr><td>Report Author</td><td colspan="2">Caroline Watson</td></tr>
<tr><td>Version</td><td colspan="2">Final</td></tr>
<tr><td>Dated</td><td colspan="2">24 September 2021</td></tr>
<tr><td>Key Decision?</td><td colspan="2">N/A</td></tr>
<tr><td colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</td></tr>
<tr><td>Officer Title</td><td>Comments Sought</td><td>Comments Included</td></tr>
<tr><td>Director of Law and Governance</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Strategic Director of Finance and Governance</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Cabinet Member</td><td>N/A</td><td>N/A</td></tr>
<tr><td colspan="2">Date final report sent to Constitutional Team</td><td>24 September 2021</td></tr>
</table>

Investment Strategy Statement

London Borough of Southwark Pension Fund

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 requires administering authorities to formulate and to publish a statement of their investment strategy (ISS), in accordance with guidance issued from time to time by the Secretary of State.

This ISS has been designed to be a living document and is an important governance tool for the London Borough of Southwark Pension Fund (the Fund). This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, outlines the Fund's approach to managing risk, how environmental, social and governance issues are taken into account and the approach with regard to pooling of investments. This document replaces the Fund's Statement of Investment Principles.

This statement will be reviewed by the Pensions Advisory Panel annually, or more frequently should any significant change occur, with any resulting recommendations made to the Strategic Director of Finance and Governance.

Southwark Council is the administering authority for the Southwark Local Government Pension Fund and bears ultimate responsibility for the funding of member pensions. The management and strategic direction of the Fund, whilst separate from the council, will always take into consideration the council's long term objectives.

In this regard the Fund's investment principles are aligned with the council's fairer future principles as defined in the Council Plan, in particular, the fairer future value of "spending money as if it were from our own pocket" and the "fit for the future" principles to ensure financial sustainability.

https://moderngov.southwark.gov.uk/documents/s90466/Appendix%201%20Council%20Plan%202018-2022%20refresh%20updated.pdf

The pension fund has its own climate strategy and goals which go over and above those of the borough, ensuring it is as a minimum in line with the Council's commitment to make the borough carbon neutral by 2030. This is also ahead of the UK government's commitment to achieve net zero by 2050.

The Fund is fully committed to collaboration with other local authority partners and in 2015 invested in the London Collective Investment Vehicle (CIV). The London CIV is a collaborative venture between local authorities to deliver benefits of investment scale and efficiency to the participating Funds. The Fund will continue to support the development of the London CIV as an investment vehicle.

2. Investment objectives and principles

The Fund is an open, defined-benefit pension fund as part of the national Local Government Pension Scheme. The Scheme rules are determined at national level and cover many elements of the Fund, such as employee benefits and employee contributions. The nature of the Fund and scheme design means that payment of pensions will extend over the very long term.

In setting the investment strategy the Fund seeks to balance twin objectives: first, to achieve sufficient long-term returns for the Fund to be affordable and second, to keep the employers' contribution rate as stable as possible.

The Fund will seek to operate a long term, sustainable strategy; one which does not rely upon the pursuit of short term returns or adherence to asset management trends, but utilises a well structured asset and fund manager investment allocation to target long term socially responsible investment performance. The Fund's uncomplicated investment structure provides significant flexibility and adaptability if required.

To achieve the twin objectives, the Fund needs to invest in a diverse range of assets which provide higher returns relative to the growth of pension liabilities whilst taking account of the volatility inherent in investment markets. The principles set out below provide high level guidance on how the Fund seeks to meet these objectives and manage the associated risks.

Governance

- The Fund seeks at all times to adopt best practice governance standards within a structured framework, compliant with regulatory requirements and with expert independent advice taken throughout the decision making process.
- The Fund will operate with transparency and be accountable for decision making to stakeholders and scrutiny bodies.
- The Fund will ensure that officers and members of the Pensions Advisory Panel and Local Pension Board have the necessary skills, expertise and resources to ensure effective and evidence based decision making regarding the Fund's investment strategy.

Investment structure and risk management

- The Fund is a long term investor and as such the Fund invests in a wide range of investment assets, which may be volatile (such as equity) or illiquid (such as property), but that over the long term can generate a sufficient return to at least meet the Fund's pension obligations.
- The Fund operates an evidence and research based approach to investment; continually utilising research and guidance from investment professionals and peers, and seeking continual development in the understanding of investment.

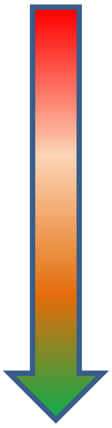
- The Fund recognises the importance of having the right asset allocation, but also the value of developing the most appropriate structure and appointing suitable investment managers. The Fund will take account of market movements, cycles and the economic background in decision making, but will avoid making decisions on a purely short term basis.
- The Fund will be comprehensive in the consideration of risks; the Fund will base assessments of risk on future pension liabilities and contributions, will consider financial and non-financial risks, diversify investment assets in an appropriate manner, but also recognise the limits of that diversification. As a long term investor the Fund understands that investment success depends significantly on the sustainable growth of the economy.
- The Fund will seek the most efficient and cost-effective solutions to achieving the Fund’s objectives. This may involve active management and other services where additional costs are justified. Fees will always be considered in the context of overall performance and it is recognised that higher performance may be associated with higher fees.
- The Fund is a shareholder in the London CIV, with the Fund making regular contributions to the London CIV to assist in the development and expansion of the collaborative venture. Any future investments within the London CIV will be dependent upon the satisfactory completion of detailed due diligence and review to the same high standard that would be undertaken outside the investment pool.

Responsible investment and stewardship

- The Fund is a responsible investor; holding the belief that integrating responsible investment factors such as ESG in the investment process will protect, if not generate better returns over the long term.
- The Fund seeks to integrate responsible investment factors into the investment process across all asset classes.
- The Fund is prepared to be innovative in its investment strategy in order to cultivate positive social impact, within a framework of prudence and fiduciary duty.
- The Fund will proactively exercise responsible stewardship of assets held and act as a responsible voice in the broader investment community through platforms such as the Local Authority Pension Fund Forum.
- The Fund will collaborate with others whenever possible to share ideas and best practice, and to improve effectiveness and to reduce costs.
- The Fund considers the impacts and opportunities provided by climate change on both a Fund and wider social level, and so holds a commitment to meeting net zero carbon emissions from pension fund investment by 2030 with no direct investment in companies exposed to fossil fuels.

Categorisation of Investments

There is currently no standardised way of measuring the relative performance of different funds' carbon profiles; however, Southwark continues to work on its carbon footprint and investment classifications (see key below) to illustrate the progress being made.



NON LOW CARBON Investment products that are not actively targeting reduced carbon emissions. Some of these may potentially have exposure to fossil fuels; however we are working to understand the extent of this and will address this in our strategy going forwards. The Fund intends to make no new investments in such products.

REDUCED CARBON: Investments either in property or in funds with specific oil and gas exclusions
.

LOW CARBON: Funds specifically set up as 'low carbon' funds. All products within this category are currently index tracking developed market equities.

ZERO CARBON: Investments in vehicles that produce zero carbon or in some cases have a measurable offsetting impact on carbon emissions. Currently this category contains sustainable infrastructure products.

CASH: Held in the pension fund, usually pending anticipated drawdown requests or in advance of an acquisition.

The Fund will at all times monitor investments that are specifically reduced, low and zero carbon to ensure the Fund progresses towards the stated objectives of this strategy.

Within the context of achieving sustainable long-term returns, the Fund will always seek, as part of any reallocation of assets, to achieve a lower carbon footprint following the reallocation. Every new investment made will endeavour to be lower carbon than the one it is replacing.

The chart in Appendix B shows how the investment strategy has been implemented to date, with progressively greater proportions of the overall Fund invested in "greener" funds.

3. Investment strategy and the process for ensuring suitability of investments

The Fund's asset strategy, along with an overview of the role each asset plays is set out in the table below:

Asset class	Target Allocation %	Investment Style %	Maximum Allocation %	Role (s) within the strategy	Carbon Classification
Equity	50.0	Passive 35.0	65.0	Expected long term growth in capital and income in excess of inflation over the long term.	Low Carbon
		Active - Direct 10.0			Reduced Carbon
		Active – Indirect 5.0			Low Carbon
Diversified Growth	10.0	Active 10.0	20.0	Primarily for diversification from equities. Equity like returns over time with a lower level of risk.	Non low carbon
Absolute Return Fixed Income	5.0	Active 5.0	10.0	Diversified approach to fixed income investing which is not solely dependent on the direction of interest rates.	Non low carbon
Index Linked Gilts	10.0	Passive 10.0	40.0	Low risk (relative to the liabilities) asset that provides inflation linked income and protection from falling interest rates.	Non low carbon
Property	20.0	Direct 14.0	30.0	Provides diversification from equities and fixed income. Generates investment income and provides some	Reduced Carbon
		Pooled Fund 6.0			Reduced Carbon

				inflation protection.	
Sustainable Infrastructur e	5.0	Limited Partnership 5.0	10.0	Asset class provides additional diversification from traditional asset classes. Generates sustainable, reliable income with significant linkage to inflation. Provides risk mitigation from declining fossil fuel usage.	Zero carbon

The above table sets out the Fund's asset allocation strategy with a target allocation to each asset class. If the actual asset allocation as at a reporting quarter end moves outside a target range for a particular asset class, (plus or minus 5% of total investment assets) the Strategic Director of Finance and Governance will review the portfolio(s) and prevailing market conditions to determine if a corrective rebalancing action is required. A breach of the target range will not automatically trigger a portfolio rebalance.

Under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Fund is required to set maximum investment limits pertaining to different asset classes so that actual allocation to those asset classes will not breach this maximum limit. The limits as applied to the Fund are set out in the above table.

Appendix A shows the Fund's current investment manager appointments and mandates.

The Fund's asset allocation is reviewed on an ongoing basis and undergoes a triennial strategy review as part of the actuarial valuation process. The triennial review, which reflects updated actuarial and capital market assumptions, looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund is able to meet its future benefit obligations as they fall due.
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and associated surplus/deficit.
- An analysis of the order of magnitude of the various risks facing the Fund, so that the Fund can focus upon the most significant risks.

- The desire for diversification across asset class, region, sector, and type of security.

4. Risk measurement and management

The risks inherent within the Fund are assessed both qualitatively and quantitatively as part of regular investment strategy reviews by the Strategic Director of Finance and Governance and the Pensions Advisory Panel. The Fund uses specialist external investment advisers under contract, to support these reviews and on an ongoing basis. The Fund highly values the use of specialist support in the management of performance and risk.

The table below, based on the 31 March 2019 Actuarial Valuation results and estimates, shows how a range of events could impact on the Fund:

Event	Event movement	Impact on the Fund
Fall in equity markets	25% fall in equities	£223m
Rise in inflation	1% increase in inflation	£314m
Fall in interest rates	1% fall in interest rates	£314m
Underperformance by the active managers	3% collective underperformance	£31m

The Fund's overall investment strategy is designed to mitigate much of the underlying risk through the holding of a variety of different, diverse asset classes (e.g. long term directly held property investments).

Equity risk

The largest asset risk to the Fund is in relation to its equity holdings. Should equity markets deteriorate significantly this will have a large negative impact on the Fund's assets. The Fund invests in equities in order to provide the necessary long term expected returns to help ensure that the Fund remains affordable. The Fund believes that the extra returns that are expected to be generated by equities compensate for the level of risk equities bring to the Fund. However, the Fund is aware of the need for diversification in growth assets, and the Fund's strategy reflects this via allocations to absolute return investment mandates (with an asymmetric profile) and property (with a lower correlation to equity).

Inflation

CPI inflation will increase the value of pension benefits accrued by active and deferred members of the Fund as well as increasing the value of pensions in payment. The Fund has an allocation to index linked gilts for explicit inflation protection and other investment assets, such as property and equities, in the expectation that these will achieve returns in excess of inflation over time.

Active manager risk

Active investment managers are appointed to manage a portion of the Fund's assets. This brings with it the risk of underperformance relative to the market but also brings the chance of additional returns and diversification. The additional risk is small relative to other risks. Extensive due diligence is undertaken before managers are selected and investment managers are also monitored regularly by Fund officers, the Pensions Advisory Panel, and by the Fund's investment advisors.

Liquidity risk

The Fund recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon and the potential for an illiquidity premium in investment returns, the degree of liquidity risk within the portfolio is considered as acceptable. The Fund has a large allocation to property and is building and exposure to sustainable infrastructure, but the majority of the Fund's assets are realisable at short notice.

The table below sets out a summarised cash flow position of the Fund over the last five financial years.

	2016-17 £000	**2017-18 £000**	**2018-19 £000**	**2019-20 £000**	**2020-21 £000**
Contributions and Transfers In	55,789	54,711	58,891	65,787	69,712
Benefits and Transfers Out	(60,269)	(63,406)	(71,384)	(71,384)	(67,580)

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Investment Income	14,324	15,432	15,287)	15,287	12,636
Net Position	**9,844**	**10,054**	**10,917**	**9,690**	**14,768**

The Fund is currently cash flow positive; in that the sum of contributions received and investment income is greater than the benefits paid out to pensioners. During 2020-21 the Fund received £14.8m more in contributions and investment income than was paid out in benefits. As such the Fund is not currently exposed to unplanned and inefficient divestment of assets.

Exchange rate risk

This risk arises from investing in unhedged overseas (non GBP denominated) assets, with all pension benefits due to be paid in sterling. As a long term investor the Fund takes the view that currency volatility can be tolerated. Sterling has for many years been a depreciating currency and the Fund has benefitted significantly in return terms from not hedging this risk. The Fund's portfolio is well diversified across asset classes, geography and investment managers.

Demographic risks

The Fund is subject to a range of demographic risks, but with particular importance to the investment strategy is the possibility of a maturing Fund membership profile. This would involve a change in the ratio between active members contributing into the Fund and pensioner members drawing pension benefits from the Fund. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments is greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

Environmental, social and corporate governance policy

The Fund is a long term investor that aims to deliver a truly sustainable pension fund; ensuring that it is affordable, delivers financially to meet the objectives of the Fund employers, and is invested responsibly.

The fiduciary duty of the Fund is to act in the best long term interests of Fund members. To do so properly requires the Fund to recognise that environmental, social and governance issues can impact on the Fund's financial performance and that they should be taken into account in funding and investment strategies, and throughout the funding and investment decision making process.

The Fund will seek to incorporate ESG considerations at all stages in the investment process; from the overall asset allocation, to individual investment selections, and continued engagement and responsible stewardship of Fund assets.

The responsible investment objectives of the Fund are promoted through membership of the Local Authority Pension Fund Forum (LAPFF). As a LAPFF member the Fund allies itself with 89 other shareholders with combined assets of over £300 billion to influence key areas of responsible investment interest.

Fund engagement is crucial in relation to improving standards of corporate governance, which over the long term is expected to enhance investment returns. Details of the Fund's approach are set out in section 6 as well as the approach for the implementation of moving towards a zero carbon commitment as Appendix D.

The Fund's key responsible investment principles are set out below:

- Apply long term thinking to deliver long term sustainable returns.
- Seek sustainable returns from well governed and sustainable assets.
- Apply a robust approach to effective stewardship.
- Engagement through voting, meetings, and the LAPFF is a valuable tool to influence organisations in areas of responsible investment interest.
- Ensure that responsible investment is a core competency and skill to support decision making.
- Seek to innovate, demonstrate and promote responsible investment leadership and ESG best practice.
- Apply evidence based decision making in the implementation of responsible investment.
- Achieve improvements in ESG through effective partnerships with the London CIV and LAPFF.
- Share ideas and best practice to achieve wider and more valuable responsible investment outcomes.
- Be transparent and accountable in all Fund activities.
- Consider the costs of responsible investment decisions alongside fiduciary responsibilities.
- To continue with a structured, measured process of reducing with an aim of eliminating investments in fossil fuels.

Environmental, social and governance risks

The Fund may consider investments that have an explicit focus on delivering wider social and environmental impacts provided there is no risk of significant financial detriment to the Fund.

The Fund recognises the growing financial risks associated with investment in traditional energy sources and is fully committed to the achievement of carbon neutrality. The Fund commits to transferring any current investments in these traditional energy sources in a way that is both structured and affordable and also meets the Fund's fiduciary duties.

The Fund is committed to a process to achieve a neutral carbon footprint by 2030. This will be accomplished through a phased divestment and transfer of assets into reduced, low and zero carbon products.

Appendix D outlines the approach by which the Fund will achieve this objective, how the risks and other considerations associated with such a commitment will be managed and how the divestment will be incorporated into the asset allocation strategy for the Fund.

5. Approach to asset pooling

The Fund is a shareholder of the London Collective Investment Vehicle (CIV). The London CIV was created in 2015 and continues to progress the opening of a range of sub-funds for potential investment. As part of any future changes to investment strategy, the Fund will look first to the availability of appropriate investment products within the London CIV.

The transition of any assets into the pool will follow the normal due diligence process with consideration of: transition costs, fit with overall strategy, fees (direct and indirect), reporting arrangements, ESG requirements and, most importantly, expectations for future performance.

The Fund currently pays a contribution to London CIV for passive investments. This amounts to approximately £50,000 per annum. This fee arose from collective fee arrangements with the CIV, although these are not assets under management of the London CIV (value as at 30 June 2021 £1.07 billion, approximately 55% of the Fund).

The Fund has a target allocation of 20% of the assets to illiquid property and the cost of exiting these strategies early in favour of a CIV alternative would have a significant negative financial impact on the Fund.

6. Policy of the exercise of rights (including voting rights) attaching to investments

The Fund follows the principles of the UK Stewardship Code and exercises the voting rights attached to its investments wherever it is possible and cost effective to do so.

The aim is to promote and support good corporate governance principles and best practice. Voting rights should be exercised in accordance with the best financial interests of both the beneficiaries and contributors to the Fund. Environmental, social and ethical considerations may be taken into account when exercising votes where this acts in these parties' best interests.

Fund managers have been instructed to vote in accordance with their house policies and practices, whilst also taking into account the Combined Code on Corporate Governance. Where practical, managers should vote in line with the council's priority themes.

Fund managers report in advance of all voting rights they intend to exercise on behalf of the Fund. They provide details of their house view and on how they intend to vote. They ensure that this is consistent with the council's key themes and also with the LAPFF principles.
Fund managers' views are compared with the voting recommendations of LAPFF. Where the fund managers' house views are not consistent with those of LAPFF, the fund manager is instructed by the Fund to vote in line with the recommendations of the LAPFF.

Fund managers provide a quarterly report on corporate governance activity. This lists all votes which have been exercised and all engagement with companies which has taken place. It allows for checks to be carried out in order to ensure all the Fund's voting rights have been exercised in accordance with policy. Summary reports outlining voting and engagement activity are provided at quarterly Pensions Advisory Panel meetings.

Myners Principles

The Government introduced a code in October 2001 based on the results of HM Treasury's review of institutional investment in the UK, carried out by Paul Myners. This code set out ten principles that were intended to improve the investment management of pension funds. These were updated in October 2008 and previously LGPS administering authorities were required to prepare, publish and maintain statements of compliance against a set of six principles within the Statement of Investment Principles. Although not specifically required by the Regulations the Fund sees the Myners Principles as a relevant governance tool and will continue to report on compliance.

The Fund is fully compliant with the six principles and Appendix C sets out the compliance statement.

Advice Taken

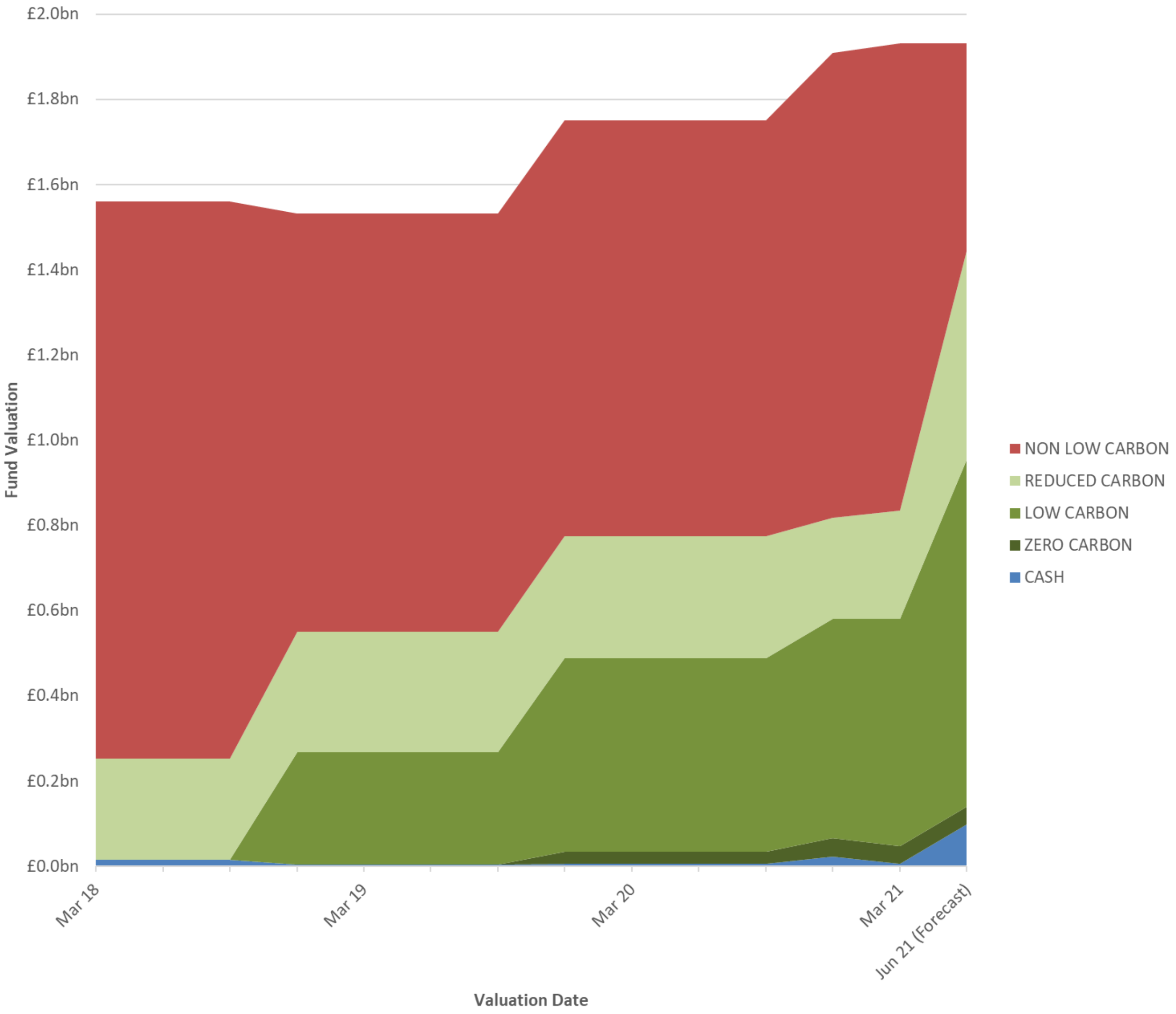
In creating this statement, the Fund has taken advice from its investment consultant, independent adviser and has sought the views of the Local Pension Board. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, advice has been taken from its investment consultant and scheme actuary Aon.

Appendix A – Current investment managers and mandates.

Manager	Mandate	Benchmark	Benchmark Weight (%)	Outperformance target (% p.a.)	Carbon Classification
BlackRock	Low carbon passive Global Equities	MSCI World Low Carbon Target Reduced Fossil Fuel Select Net Index	15.0	-	Low Carbon
BlackRock	Index Linked Gilts	FTSE UK Gilts Index-Linked over 5 Years Index	5.0	-	Non low carbon
BlackRock	Dynamic Diversified Fund	LIBOR	10.0	+3.0% net of fees	Non low carbon
BlackRock	Absolute Return Bonds	LIBOR	5.0	+4.0% net of fees	Non low carbon
Legal & General	Low carbon passive Global Equities	MSCI World Low Carbon Target	20.0	-	Low carbon
Legal & General	Index Linked Gilts	FTSE Index-Linked Over 5 Years	5.0	-	Non low carbon
Newton	Global Equity	FTSE All World	10.0	+3.0% net of fees	Reduced carbon
Nuveen	Core Property	7.0% p.a. absolute return	14.0		Reduced carbon
Frogmore	Opportunistic Property	16.5% p.a. absolute return	1.5	-	Reduced carbon
Brockton	Opportunistic Property	15.0% p.a. absolute return	1.5	-	Reduced carbon
Invesco	PRS Property	8.5% p.a. absolute	1.5	-	Reduced

		return			carbon
M&G	PRS Property	8.0% p.a. absolute return	1.5	-	Reduced carbon
Comgest	Active Emerging Market Equities	MSCI Emerging Markets – Net Return	5.0	-	Low Carbon
Glennmont	Sustainable Infrastructure	10% p.a. absolute return	2.0	-	Zero carbon
Temporis	Sustainable Infrastructure	10% p.a. absolute return	1.5	-	Zero carbon
BlackRock	Sustainable Infrastructure	10% p.a. absolute return	1.5	-	Zero carbon

Appendix B – Carbon Profile Allocation over Time



Appendix C

Myners Principles – Assessment of Compliance

1. Effective Decision-Making

Principle

Administering authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Pensions Advisory Panel is supported by suitably qualified officers and external advisors. All members of the Panel are offered training on appropriate topics.

2. Clear Objectives

Principle

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administering authority and scheme employers and these should be clearly communicated to advisors and investment managers.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Fund's objectives are set out in the Investment Strategy Statement and the Funding Strategy Statement. The objective, benchmark and risk parameters are clearly stated in the Investment Management Agreements with each investment manager.

- Covenants of all scheme employers are reviewed on an ongoing basis.

3. Risk and Liabilities

Principle

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The asset allocation strategy is reviewed every three years. Aon is commissioned to carry out an asset liability study which models the risk/reward characteristics of different investment strategies.

- The study follows the triennial actuarial valuation and the form and structure of liabilities are fully taken into account.

4. Performance Assessment

Principle

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Pensions Advisory Panel monitors the performance of the investment managers and the suitability of the investment strategy on a regular basis.

- Performance measurement is provided by JP Morgan and Aon.

- Assessment of the effectiveness of the administering authority is reflected through the effectiveness of the decision making in the investment returns achieved. Further, with the establishment of the Local Pensions Board, scrutiny of the Pensions Advisory Panel is now being undertaken.

- A procurement exercise was carried out in 2020-21 which resulted in the appointment of Aon as the fund’s investment advisors. They were appointed through the National

LGPS Frameworks and as such are subject to ongoing review at the framework level. Feedback is provided to the framework on an annual basis.

5. Responsible Ownership

Principle

Administering authorities should:

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

- Include a statement of their policy on responsible ownership in the statement of investment principles.

- Report periodically to scheme members on the discharge of such responsibilities.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Fund has adopted the investment managers' policies on activism and each has adopted the Institutional Shareholders' Committee Statement of Principles. All investment managers adopt a policy of engagement with companies.

- The Fund's policy on responsible ownership is set out in its Investment Strategy Statement.

- Investment managers report on the exercise of voting rights and this is monitored by officers and the Pensions Advisory Panel to ensure consistency with the Fund's policy.

- The pension fund is a member of the LAPFF, the UK's leading collaborative shareholder engagement group.

- Responsible ownership is periodically reported to the Pensions Advisory Panel and states how active fund managers are discharging these responsibilities.

- A section on responsible ownership is included in the Pension Fund Annual Report and a member survey has been completed. These ensure that members are both provided with the relevant information and are able to input their views into the responsible ownership process going forward.

6. Transparency and Reporting

Principle

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

- Provide regular communication to scheme members in the form they consider most appropriate.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- Documents relating to the Pension Fund are published on the pension fund website.

- The annual report sets out the arrangements during the year for the management of investment, governance and risks and other relevant information.

- Members can also request information directly from the council.

- The Pension Advisory Panel meeting papers are published on the council's website.

Investment Strategy Statement: Appendix D

Southwark Pension Fund Investment Strategy to Achieve Net Zero Carbon Exposure by 2030: A Draft Approach

Introduction

The London Borough of Southwark Pension Fund is an open, defined-benefit pension fund as part of the national Local Government Pension Scheme. The nature of the Fund and scheme design means that payment of pensions will extend over the very long term.

In setting the investment strategy the Fund seeks to balance twin objectives: first, to achieve sufficient long-term returns for the Fund to be affordable and second, to keep the employer contribution rate as stable as possible.

In this respect, the Fund seeks to operate a long term, sustainable strategy; one which does not rely upon the pursuit of short term returns but utilises a well structured asset and fund manager investment allocation to target long term socially responsible, sustainable investment performance. The Fund avoids unnecessary complexity within its investment structure, appointing best in class managers within an asset class to achieve the strategic asset allocation. Having stronger relationships with a smaller number of managers provides significant flexibility and adaptability if required.

To achieve the twin objectives, the Fund needs to invest in a diverse range of assets, which provide higher returns relative to the growth of pension liabilities whilst taking account of the volatility inherent in investment markets.

As a long term investor, with significant investment assets and pension liabilities the Fund must be comprehensive in the consideration and mitigation of risks that the portfolio faces. The Fund will base assessments of risk on future pension liabilities and contributions, will consider financial and non-financial risks, diversify investment assets in an appropriate manner, but also recognise the limits of that diversification.

A developing risk to the Fund is from investment exposure to fossil fuels. Extraction and combustion of fossil fuels generate significant carbon dioxide (CO_2) output. There is a growing scientific consensus[1] that continued CO_2 production will have a detrimental impact upon the earth's climate.

The Fund, through its diversified portfolio of investments, is exposed to assets where a portion of the market value is derived from current or future extraction and production of fossil fuels. Global and local regulatory restrictions on fossil fuel extraction and usage, in addition to changing consumer trends, may degrade the viability of fossil fuel extraction and usage. The value of investments in companies that derive much of their revenue or value from these resources would be at risk.

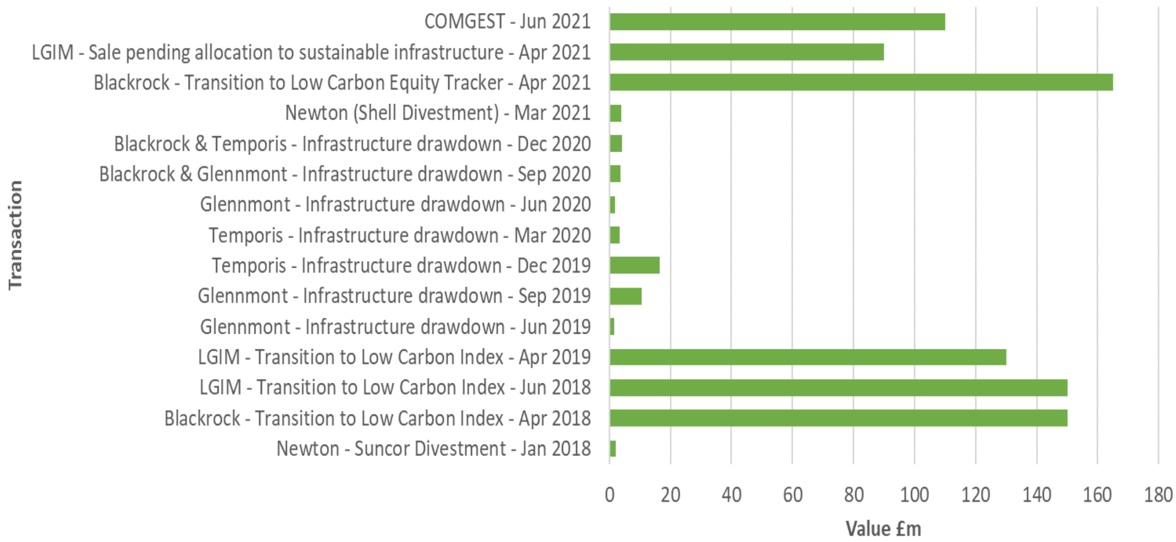
On 13 December 2016, after due consideration of the long term risk to the Fund; the Fund announced that investments in fossil fuel companies would be cut over the long term. This commitment was incorporated into the Investment Strategy Statement for the Fund published in March 2017 and updated in December 2021. Southwark is one of the first LGPS Funds to make such a commitment and places the Fund at the forefront of sustainable fossil fuel aware investment.

(Link to updated ISS to be inserted when published)

The Fund recognises the growing financial risks associated with investment in traditional energy sources and is fully committed to transferring any current investments in these traditional energy sources in a way that is both structured and affordable and also meets the Fund's fiduciary duties.

[1] IPCC report, 'code red' for human driven global heating, warns UN chief / / UN News

The previous investment strategy committed to a reduction in exposure to fossil fuel generated significant CO_2 output. It was adopted in 2017 and has acted to counteract the risk to the Fund of investment exposure to fossil fuels, in line with other Fund responsibilities. In the period between 2017 and the adoption of the new strategy, the Fund's carbon exposure has reduced by 43%. When the previous strategy was agreed we set out a short, medium and long term plan. Over the last four years significant progress has been made in transitioning investments exposed to fossil fuels to products with lower carbon exposure, as set out in the chart below:



Equities

The Fund's holdings in passive developed market equities have been transitioned to passive low carbon equity funds. Emerging market passive equities have been switched to a new emerging market active equity strategic asset allocation. Investment has been made in the Comgest Emerging Markets Plus Fund, which demonstrates strong ESG credentials whilst maintaining performance targets. The Fund's active equities portfolio has divested from fossil fuel investments and a restriction has been placed on the portfolio preventing further investments in these companies or their industry peers.

The above changes have resulted in the Fund's 50% strategic allocation to equities now being entirely in low carbon holdings, whilst maintaining exposure to this asset class in a manner that continues to achieve the required level of risk and return.

New ESG Priority Allocation

A strategic allocation of 5% to alternative investments has been agreed. This allocation will have both low carbon and strong ESG credentials. (*Details of investments made within this allocation to be added here once ratified at September 2021 pensions advisory panel meeting)*.

New Allocation to Sustainable Infrastructure

Following the agreement to allocate 5% of the Fund to this asset class, commitments have been made to investments in three funds which specifically include investments in solar and wind power technologies identified by the fund managers.

During this time it has been possible to test performance against our commitment through the use of carbon foot printing. We have developed our approach and made ongoing improvements. Further work is required as the market develops and there are improvements in the availability and accuracy of the measurement of carbon intensity data.

The Fund has increased in value from £1.5bn in September 2017 to over £1.9bn in March 2021. Performance has remained strong in the short to medium term with returns at March 2021 as follows: 1 year 24.4%, 3 years 9.6%, and 5 years 10.4%. The one year return out-performed the average local authority return of 22.8% and the Fund has achieved top quartile performance in the longer term when compared to other local authorities.

These strong performance results give confidence in moving forward with a more definite plan to take the Fund to 2030. The Fund has reduced its carbon footprint by over 43% during this time whilst maintaining investment performance. Looking forward there remains a conviction that strong investment performance can be delivered alongside reducing carbon exposure, and it is appropriate to move to the next stage of making further progress towards a net zero carbon commitment by 2030.

This document outlines how the Fund will approach this divestment, how the risks and other considerations associated with such a commitment will be managed and how the divestment will be incorporated into the asset allocation strategy for the Fund.

Transition to Net Zero Carbon Principles:

The overall approach of the Fund to incorporating wider environmental, social and governance issues (ESG) is set out in more detail within the Investment Strategy Statement.

This applies throughout the investment process from the initial investment to ongoing engagement and responsible stewardship of Fund assets.

This document will specifically address the Fund's principles for the transition to net zero carbon: The four key principles for the document for divestment are set out below:

- Climate related risks and opportunities will be incorporated into the overall asset allocation strategy
- The commitment to reduction in fossil fuel investment is more than a long term risk mitigation strategy.
- Divestment is not risk free.
- Engagement and local authority partnerships - LCIV

Principle 1: Incorporation into asset allocation strategy

The primary purpose of the Fund is to meet the pension benefits for the members of the Fund. Every three years the Fund undergoes an actuarial valuation, which estimates the value of pensions due to be paid to members. The result of which allows the Fund to review the asset and investment strategy in order to establish the most appropriate mix of assets to best achieve the required level of net of fees investment return on an appropriate risk adjusted basis, whilst ensuring diversity of assets, sufficient liquidity and appropriate governance of the investments.

The Fund will seek to fully integrate fossil fuel risk and opportunities into the investment strategy review process, from overarching asset allocation to individual investment choices. All investments will be considered through the lens of fossil fuel risk, but that any investment cannot be separated from the overall investment objectives for the Fund and must be subject to a full business case in consideration of the overall portfolio as well as fees and transition costs.

Principle 2: More than a long-term risk mitigation strategy

The Fund has a fiduciary duty to all the employers within the Fund and for the scheme members, and as such must manage the investment assets effectively with an investment time horizon in line with the liabilities for the Fund and have due regard to the investment risk inherent within the portfolio.

The Fund recognises the risk that fossil fuel investment places upon the Fund for future investment and as such, this document largely involves the desire to mitigate risk.

However, purely focussing upon those investments that are negatively exposed to the decline in profitability and viability of fossil fuel extraction and usage excludes a key consideration for the Fund; identifying those investments that are positioned to gain from such a transition.

The Fund therefore will proactively seek to identify suitable investments that fit within the overall asset allocation strategy and will be the beneficiaries from a low carbon regulatory and investment environment. The Fund will target both a downside risk mitigation strategy and a desire to invest in positive 'green' focussed assets.

Principle 3: Divestment is not risk free – Potential for negative implications

It is imperative that, as set out in Principle 2, the Fund must seek to incorporate fossil fuel considerations into the overarching investment strategy rather than seeking to separately implement fossil fuel risk mitigation approaches.

The Fund has long held a large portion of equity investments as passive (investments that are held in the same proportion as that of the market as a whole) with a current target allocation of 35%. This approach acknowledges the challenges and typically higher costs involved in seeking to predict future investment winners and losers. The inclusion of a fossil fuel risk mitigation strategy within this leads to a risk that in the short term the Fund may be negatively exposed to overall market returns if fossil fuel based investments outperform the wider market. Global usage of fossil fuels is still predicted to comprise a significant portion of global energy usage in years to come and as such the Fund must be cognisant of the potential investment returns forgone should fossil fuel usage decline at a rate slower than the market has priced in.

There are likely to be additional management expenses within equity investment mandates that have some element of fossil fuel exclusion. As such the Fund must be confident that the additional risk from holding a portion of the Fund that is exposed to fossil fuels must be considered to be greater than the additional burden of higher management fees and any associated costs of transitioning assets from one mandate to another. It is therefore important for the Fund to collaborate with other local authority partners to work to reduce the costs for such reduced fossil fuel investments. The Fund works with its advisers and asset managers to ensure that there is no expected financial detriment associated with asset allocation shifts made to low carbon alternatives.

The measurement and assessment of which investments are most exposed to fossil fuels is not straightforward. Some companies may hold fossil fuel reserves or operations which are more damaging to the environment as a result of greater CO_2 output but that might be paradoxically less exposed to changing regulatory environment due to lower extraction costs. Companies not directly involved in the production or extraction of fossil fuel may derive significant portions of their revenue from fossil fuel companies. The Fund must ensure that any assessment of exposure to fossil fuels risk is sophisticated, and that investments are not distorted by inaccurate data.

Principle 4: Engagement and Local Authority Partnerships - LCIV

There is growing appreciation of the growing risks and opportunities that Pension Funds face from the transition away from traditional fossil fuel usage, including among Local Government Pension Funds. It is important that the Fund works with other Local Authority partners to share knowledge and best practice as well as utilising collective assets to push for the most effective and efficient implementation of reduced fossil fuel strategies.

The Fund will work with local authority partners as well as the LCIV, the pooled investment vehicle of which the Fund is a shareholder and active supporter, in the application of this commitment. The Fund will also seek to be an active voice in the investment community for the advancement of investment outside of fossil fuels.

Timeline:

The Fund’s implementation period to achieve net zero carbon is split into three main time horizons, encompassing short medium and long-term objectives.

- The short term: one-four years (2022-2026)
- The medium term: four-six years (2026-2028)
- The long term: six-eight (2028-2030)

Given the difficulty in predicting the global investment and technological environment in addition to Fund specific liability and investment requirements, longer term periods will likely be subject to significant variability and uncertainty.

Short Term – From 2022 to 2026

Triennial Actuarial Valuation and Investment Strategy Review

- The Fund will publish the results of the 2022 actuarial valuation in March 2023, the results of which will be the foundation for the subsequent investment strategy review. The asset allocation review aims to ensure that the current investment allocation is appropriate to meet the required investment return to fund future pensions within a suitable risk profile. Where investment underperformance is identified or risk profile changes, either across an asset class or manager specific, any subsequent reallocation will be considered with regard to overall fossil fuel exposure.

Local Authority Collaboration and Pooling

- It is important that the Fund works together with other likeminded local authority partners, in order to develop suitable fossil fuel reduction opportunities. Collaboration will also seek to mitigate some of the fee and transition cost implications of changing investment allocation.
- The Fund will engage with the LCIV through representation by officers and members on key LCIV governance panels to push for the availability of reduced fossil fuel investment mandates within the LCIV.

Fund Managers

- Re-allocation of investments from opportunistic property as these funds reach the end of their life cycles.
- Initial review of property holdings, with any necessary action being taken in the medium term.
- Low carbon passive equity investments will be moved to zero carbon alternatives, subject to the availability of products. The transition of these assets will take place in a phased manner with a proportion being transferred in the short term and the remainder in the medium term once performance of these new investments has been reviewed.
- Initial review of the active equity mandate to ensure it achieves zero carbon over the long term.
- Seek alternatives to replace the holdings in the defensive allocation which currently includes index linked gilts and absolute return bonds. Replacements will be required to either be low or zero carbon, whilst providing an equivalent level of risk and serving the same purpose within the asset allocation. It is recognised that if suitable products are not available in the short term, further review of this allocation may be required in the medium to long term.
- Initial review of the Fund's diversified growth holding in terms of its continuing suitability within the strategic asset allocation, whilst also identifying suitable low or zero carbon replacements.

- The Fund will use this period to identify developments in low and zero carbon equity investments being brought to the market and the opportunities they present to the Fund in its journey to achieving net zero carbon.

General

- The Fund will continue to develop and improve its approach to the measurement of its carbon footprint to ensure it is kept current and accurate. This will be a key metric in monitoring progress towards becoming net zero carbon. We will work with fund managers and data providers to establish actual data which will replace proxies. All new investment products that the Fund invests in will be required to provide the Fund with regular data on their carbon intensity.
- The Fund will lobby the fund management industry for the introduction of new products that meet our objectives.
- The Fund will continue to support the work of the Local Authority Pension Fund Forum (LAPFF) as representing 90 local authority pension funds in their engagement with companies to promote best practice climate aware business activities
- Any changes to investment allocations will need to be communicated with key advisers, such as the Fund actuary, as well as the Fund’s external auditors.
- The Fund will engage with the investment advisers who support the Fund in monitoring and engaging with buy-rated investment strategies held outside of the LCIV.

Medium Term – From 2026 to 2028

Triennial Actuarial Valuation and Investment Strategy Review

- The medium term will incorporate the results of the 2025 triennial valuation and will constitute key points for major review of assets and investments to ensure that these are best placed to meet the payment of benefits to members of the scheme. Fossil fuel risks and opportunities will be incorporated in the consideration for any amendments to the asset allocation strategy.
- The carbon footprint will be re-calculated quarterly and incorporated into the overall portfolio risk assessment.

Local Authority Collaboration and Pooling

- The Fund is committed to working with the LCIV and will seek to comply with the government requirements for pooled investments. The Fund will continue to seek to exert influence over the strategic direction of the available investments within the LCIV, alongside other local authority partners, to ensure that these are appropriate for the sustainable strategy that the Fund wishes to implement. The opportunity for reduced fossil fuel or sustainable investment in multi asset mandates will likely develop as part of continued engagement between the Fund and other likeminded members of the LCIV.

Fund Managers

- Continued engagement with fund managers to ensure that fossil fuel risks and opportunities are consistently and appropriately taken into consideration throughout the decision making process.
- Review of private residential holdings within the Fund in terms of their continuing suitability within the investment strategy and their contribution to the Fund's zero carbon targets.
- Balance of low carbon equities will be moved to zero carbon equivalents. This will be subject to satisfactory performance of assets transferred in the short term and the availability of suitable investment products in this asset class.
- Review of direct property investments to seek zero carbon options. This will be subject to availability of zero carbon investments in the commercial property sector and also the satisfactory performance of markets to avoid crystallisation of losses, thereby protecting the value of the Fund.
- Further review of the defensive allocation, identifying developments in the market which will facilitate the transition of the absolute return bonds and index linked gilts to alternative zero carbon investments, whilst maintaining the overall role and purpose of this allocation to the risk and return profile of the Fund.
- Formal review of the performance of the sustainable infrastructure investments and maintenance of the pipeline of commitments to maintain the strategic allocation to this asset class.

- Review low carbon emerging market equity holding, in terms of its performance as well as its contribution to the Fund's carbon footprint. Review of market to identify opportunities for investment in zero carbon alternatives.

General

- The Fund will continue a policy of engaging with companies through membership of the LAPFF and the LCIV to encourage companies to adopt the highest of standards with regard to fossil fuels and energy efficiency.
- The measurement of the Fund's carbon footprint will include advanced metrics which will measure progress towards the Fund's net zero carbon targets. The use of scenario analysis will facilitate the Fund to understand where it could be by 2030 based on its current investment strategy, planned changes, and alternative investment strategies and asset allocations. This will enable action to be taken in the medium to long term, to identify holdings which cannot continue to be held in the asset allocation, ensuring that the 2030 target is achieved. An assessment of the Fund's alignment with the Paris Agreement will be conducted providing temperature scores of the portfolio. This will also provide useful information for decision making.
- The Fund will continue to lobby the fund management industry to encourage the development of new zero carbon investment products.

<u>Long Term: 2028 to 2030</u>

Triennial Actuarial Valuation and Investment Strategy Review

- The long term will incorporate the results of the 2028 triennial valuation. The Fund will continue to assess the overall investment strategy as required to meet the pension benefits for members based upon the calculations within the triennial actuarial valuation. As and when asset and manager allocations require amending, the risk of fossil fuel exposure will be incorporated into any due diligence regarding risk and reward decision making.

Local Authority Collaboration and Pooling

- In the long term, the Fund may be required to invest the majority of its assets through the LCIV, depending on government requirements for pooling of assets. The availability of suitable opportunities within the LCIV will be key for the continued reduction in fossil fuel investments as well as positioning the Fund to benefit from clean technology and low carbon industries. This will allow the Fund to invest across a variety of disparate asset classes without compromising the ambition to be a long-term sustainable investor.

Fund Managers

- All investments in the Fund will be reviewed to identify any remaining allocations which are not at least low carbon, with the majority now being zero or negative carbon. Investments which do not meet this criterion will be transitioned to suitable alternative products. As with the short and medium term, this will be subject to the ongoing availability of investment products that meet the Fund’s risk and return requirements.
- The activity required at this stage will depend on progress made in earlier years towards ensuring the majority of the Fund’s investments are, as a minimum, low carbon.

General

- The Fund will have fully incorporated fossil fuel risk, through regular and sophisticated monitoring and portfolio analysis into the investment decision making process. Carbon reduction targets as part of the overall portfolio will play a key role in achieving the net zero carbon target by 2030.

LONDON BOROUGH OF SOUTHWARK - Quarterly Report June 2021

Market Background

Risk assets drove markets over the quarter delivering a fifth successive quarter of strong gains. Growing evidence of vaccine efficacy and accompanying global resilience to the pandemic bolstered growth forecasts.

Equity and bond markets both rose, the latter a little surprisingly so given the spectre of higher inflation.

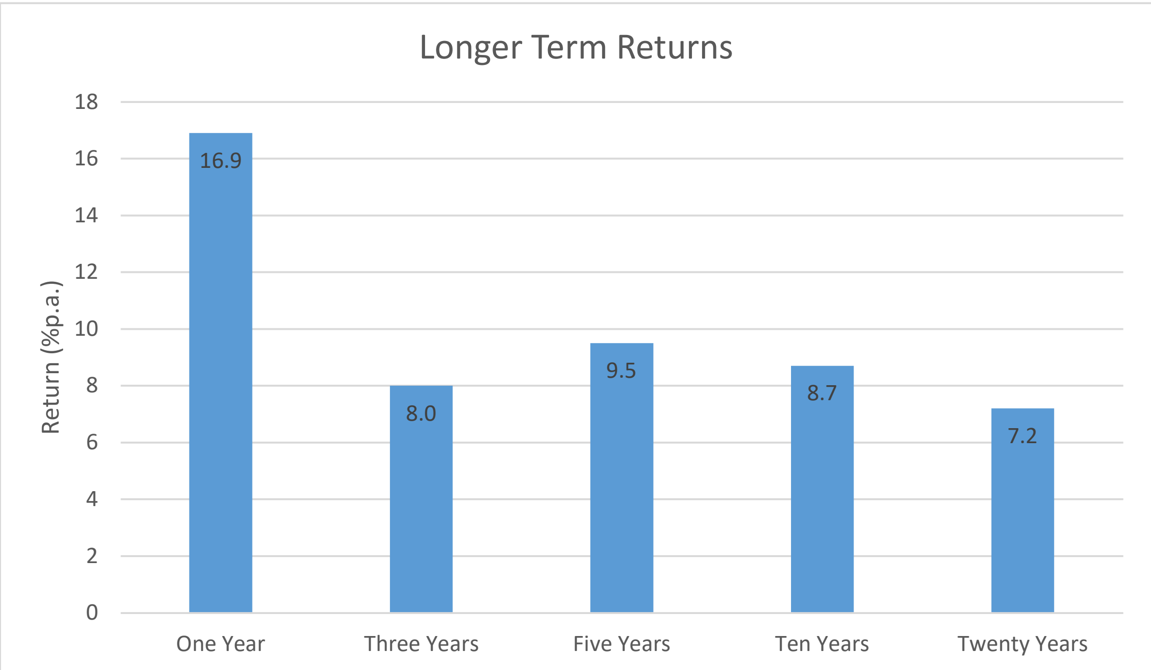
Regional equity market performance was generally positive with the exception of Japan, where an increased number of Covid cases and a lower vaccination rate resulted in fresh restrictions.

Sectoral variations were more dominant over the quarter. Cyclical sectors, such as financials, industrials and materials, which had performed well since the start of the vaccine roll-out, underperformed. Portfolios with a value slant are likely therefore to have lagged those with a growth focus.

The outlook for the property sector has improved markedly. Capital growth has returned although sectoral differences remain pronounced (industrial performing well whilst retail and office properties continue to languish).

LGPS Funds
The average LGPS funds is expected to have returned a very healthy 5% over the quarter.

Longer Term
The one-year number remains strongly positive at 17%, driven by buoyant equity returns.
The three-year number is back to 8% p.a., well ahead of most funds' expectations. Over the medium term, the returns remain strong with the ten-year result now nudging 9% p.a. and the twenty-year return +7% p.a.



Total Fund

The Fund returned 5.5% over the quarter, almost half a percent ahead of the benchmark.

Performance from the Fund's managers was mixed as might be expected. The analysis below shows the make-up of the returns, absolute and relative.

			Returns			Contributions		
Manager	Brief	Start Value (£m)	Fund	Benchmark	Relative	Fund	Benchmark	Relative
BLK	Equity/ILG	520,715	7.0	6.4	0.5	1.9	1.7	0.1
LGIM	Equity/ILG	546,736	6.9	6.5	0.4	1.9	1.8	0.1
BLK	Diversified Growth	192,740	2.4	0.8	1.6	0.2	0.1	0.2
BLK	Absolute Return Bond	135,739	-0.3	1.0	-1.3	-	0.1	-0.1
Newton	Equity	239,918	6.3	7.9	-1.5	0.8	1.0	-0.2
Brockton	Property	5,425	3.1	3.6	-0.5	-	-	-
Nuveen	Property (Core)	200,415	5.1	4.2	0.8	0.5	0.4	0.1
Invesco	Property	30,271	0.1	1.9	-1.8	-	-	-
M&G	Property	22,421	0.4	1.9	-1.5	-	-	-
Frogmore	Property	7,365	-2.0	3.9	-5.7	-	-	-
Glenmont	Infrastructure	13,959	6.4	2.4	3.9	-	-	-
Temporis	Infrastructure	23,818	0.7	2.4	-1.7	-	-	-
BLK	Infrastructure	3,486	0.3	2.4	-2.0	-	-	-
Cash	Cash	18	0.0			-	-	-
Total		**1,943,025**	**5.5**	**5.1**	**0.4**	**5.5**	**5.1**	**0.4**

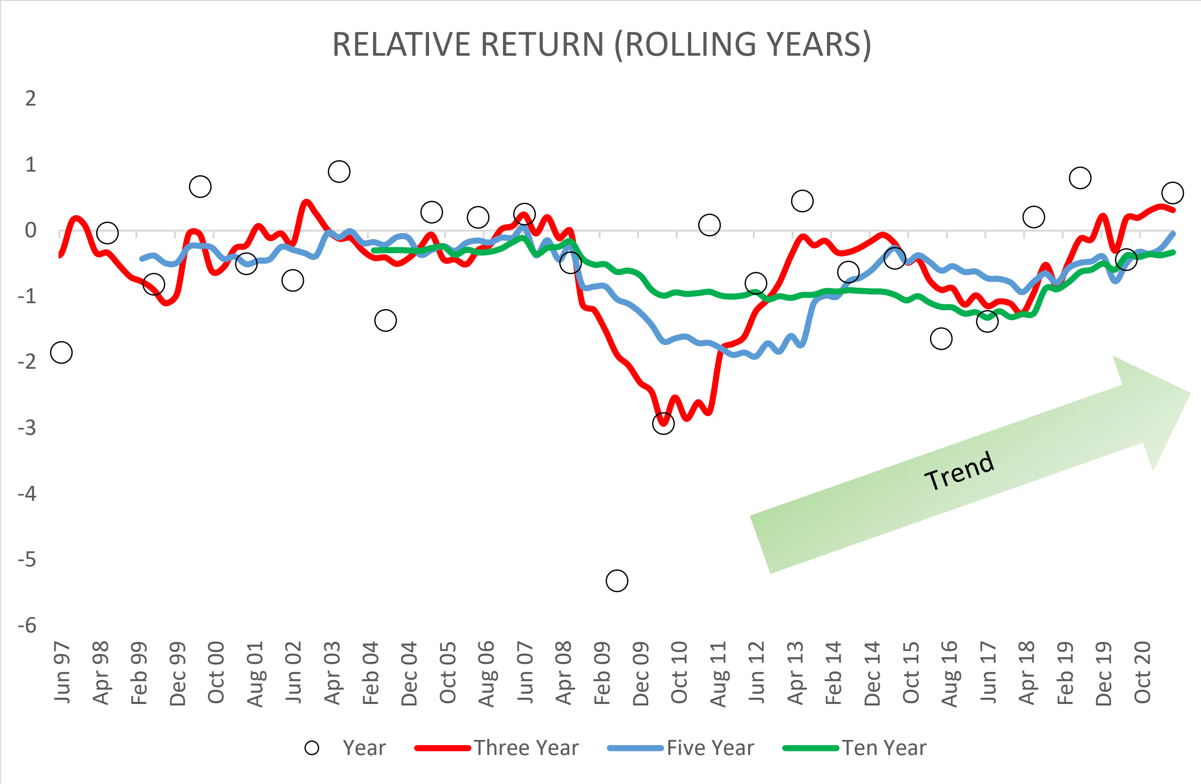
The third column from the right shows how much the managers have contributed to the overall return of 5.5%. Both passive balanced portfolios contributed almost 2% each whilst none of the managers registered a meaningful negative contribution. The column on the right-hand side shows how much the managers have contributed to the excess return of 0.4%. The DDG portfolio added 0.2% whilst Newton reduced the excess by 0.2%.

The one-year return for the Fund was an extremely healthy 16.4% almost 0.7% above benchmark.

Medium-term, the Fund has returned between 10%p.a. and 10.4%p.a. over the three and five-year periods. The shorter period return was ahead of benchmark, the longer period almost exactly in line.

Over the last ten-years, the Fund has delivered a very valuable 9.9%%p.a. return but still 0.3%p.a. off the target.

Returns have been improving of late and while long-term returns are still sub-benchmark, the margin is reducing. The legacy of poor active equity performance which had the Fund trailing by 2% to 3% p.a. a few years ago is diminishing. To illustrate this point, I enclose a chart plotting the Fund's returns over a number of rolling periods relative to the benchmark. I have selected a 15-year period to review.



There is quite a bit to take away from this busy chart but in summary,

- Individual annual returns (the black discs) have more often than not been below the horizon i.e., behind benchmark. Of the 15 years, nine have been below but most significantly in 2009 and 2010 where the Fund suffered from poor asset manager performance.
- What is clear is that the returns are on an improving trend e.g., three of the last five years are above benchmark and the rolling 'trails' are trending in the right direction
- Importantly, annual return volatility has become more contained

Newton – Active Global Equity

Newton underperformed the world index by around 1% over the quarter. Stock selection within the financials and consumer discretionary sectors was crucial.

Relative to the stretched (index plus target aspiration) benchmark, the portfolio lagged by 1.7%.

The portfolio's annual return was strongly positive but significantly behind the benchmark index (moreso the target) for a fifth quarter – fund 21.7%, benchmark (inc. stretch) 28.2%.

Longer-term numbers are very solid in absolute terms but remain some way short of target (particularly nearer-term).

I'll provide a deeper dive for my next quarterly report.

BlackRock - Active

It will come as little surprise again that the two active positions performed quite differently over the quarter.

Performance in the ARBF portfolio was negative against a backdrop of positive returns generally from traditional bonds. The portfolio's short duration positioning detracted as yields rose in this space.

The return from the DG portfolio was positive driven primarily from developed equities.

Since their inception, returns from both strategies have been low digit single figures. In combination, the result has been generally ahead of the 3-4% absolute return sought.

These two portfolios hold traditional assets, but return profiles are designed to deliver results differently. In strong growth environments, returns will appear pedestrian, but in down markets, returns should be less impacted. Importantly, overall Fund volatility should reduce in any prevailing market condition – growth or cyclical.

The chart below illustrates the impact over the full year to June. The actual Fund outcome is the green plot, the notional outcome (excl. ARB/DG) is the red plot.

This albeit short-term picture has remained 'normal' in a return sense as growth assets have re-exerted dominance. What we see here is that the addition of these assets has dampened volatility, as expected, but has had a more pronounced detrimental effect on returns. This is the trade-off!

Nuveen Real Estate – Core Property

The portfolio performance was positive over the quarter, returning 3.9% (Nuveen numbers). Capital appreciation and income both added value. The return of positive valuation growth is very encouraging, with the portfolio's industrial assets performing well and by a greater margin than the falls in its retail and office holdings.

The portfolio's direct investments performed better than the indirect holdings, of which there is now only one, the Retail Warehouse Fund. This has suffered considerable capital decline over the last 12 months, however, the positive return for the latest quarter is a sign that the retail warehouse sector is now recovering.

Near-term returns are disappointing for the asset class generally, but medium and longer-term numbers stack up very well. The current seven-year number of 5.6%p.a. is behind the 7%p.a. target set by the Panel.

The manager summarises the outlook well -

"*Despite an expectation that 'value loss' from 2020 will be recovered; exceeding the Fund's performance objective looks challenging in the near term, yet we maintain our conviction that the Fund strategy, portfolio composition and risk profile has been built for the long term and over this time horizon we expect the performance objective to be achieved. The 1-year total return of 6.9% is a good indication of this, with further positive returns forecast as asset management incentives across the portfolio are completed*."

Other Real Estate

Reported returns were typically behind benchmark over the quarter and the full year. Quarterly reporting helps little in understanding investments in this sector.

Southwark's Property Allocation

The core and added value/opportunistic assets continue to perform quite differently.

As mentioned previously, the added value/opportunistic portfolios are still early stage so a measure of underperformance against their relatively challenging benchmarks and volatility thereof should not cause undue concern.

The core allocation is just shy of 80%, so this will realistically dictate how the Fund's real estate assets perform.

The Fund's large commitment to the asset class is an important differentiator in its overall strategy.

The chart below shows the impact on risk and return over consecutive rolling three-year periods.

In the latest three-year period, without property the overall return would have been higher (around 0.6%p.a.) but volatility significantly higher (by around 1.6%p.a.). This continues to be a very acceptable trade-off.

Passive Portfolios

The passive mandates have largely tracked the respective benchmarks as we would expect.

Summary

- Another positive quarter for the Fund despite the gyrations over the period!
- Funds have performed extremely well in general and ours is no different
- Despite recent market turbulence, assets have grown more than actuarial assumptions and so funding levels will have improved
- The moving parts that underly the Fund's performance have generally moved in the right direction.
- Newton continues to generate positive returns but lags the target aspiration. I'll do some more work on this for my next report.
- Returns from the newer infrastructure and smaller property portfolios appear behind target but we should remind ourselves that these are longer-term investments. Short-term performance measures are often spurious

Quarterly Investment Dashboard Q2 2021

London Borough of Southwark Pension Fund

Prepared for: The Pensions Advisory Panel
Prepared by: Aon
Date: 29 September 2021

At a glance…

Assets

£2031.9m

Assets increased by £89.4m over the quarter.

Funding

114%

Funding increased by 3% over the quarter.

Surplus

£255m

Surplus increased by £68m over the quarter.

Manager ratings

9 **Buy rated** 5 **Not rated**
1 **Qualified** 0 **Not recommended**

Performance (short term)

+5.5%

Fund outperformed benchmark returning 5.5% vs 5.1% over the quarter.

Performance (longer term)

+10%

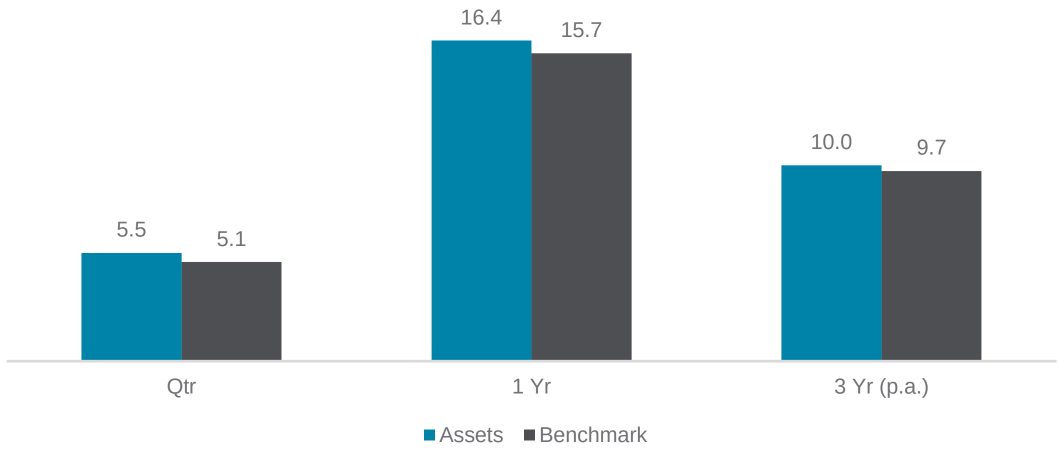
Over 3 years the Fund has outperformed benchmark returning 10% vs 9.7%.

Comments

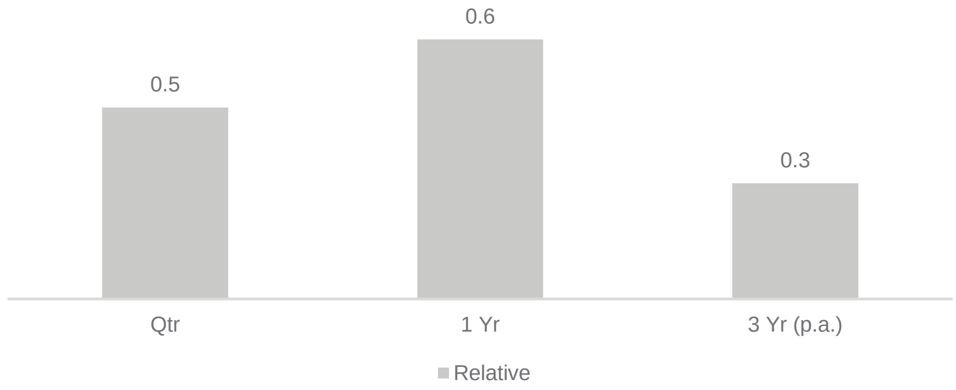
- The Fund's total assets increased by £89.4m over the quarter, from £1942.5m to £2031.9m.
- The Fund performance over the quarter was +5.5%, this was 0.4% higher than the benchmark return. The Fund also outperformed the benchmark over the 1 and 3 year periods, generating 16.4% and 10% p.a. respectively.
- The Fund's funding level increased by 3% over the quarter from 111% to 114% due to greater than expected return on assets in Q2.
- LGIM have recently been upgraded to Advanced ESG Rating for their equity index funds.
- There have been other developments in relation to M&G Residential Property, Temporis Operational Renewable Energy Strategy, Glenmont Clean Energy Fund III. More information can be found within the full quarterly report.

Scheme performance – Snapshot

Scheme performance & benchmark



Relative performance



Quarterly (relative)

+0.4%

The Fund returned 5.5% vs 5.1% over the quarter

3 year (relative)

+0.3%

The scheme returned 10% vs 9.71% over the period

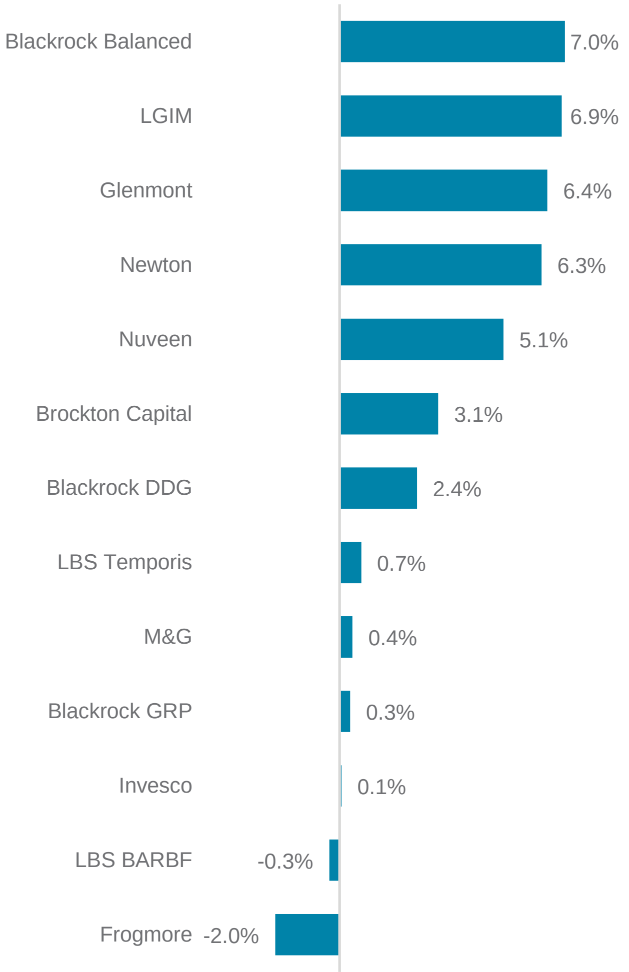
Comments

Over the quarter, the Fund outperformed the benchmark.
Notable positive contributors were Brockton Capital III Fund , BlackRock Diversified Growth Fund and Nuveen Real Estate Fund.

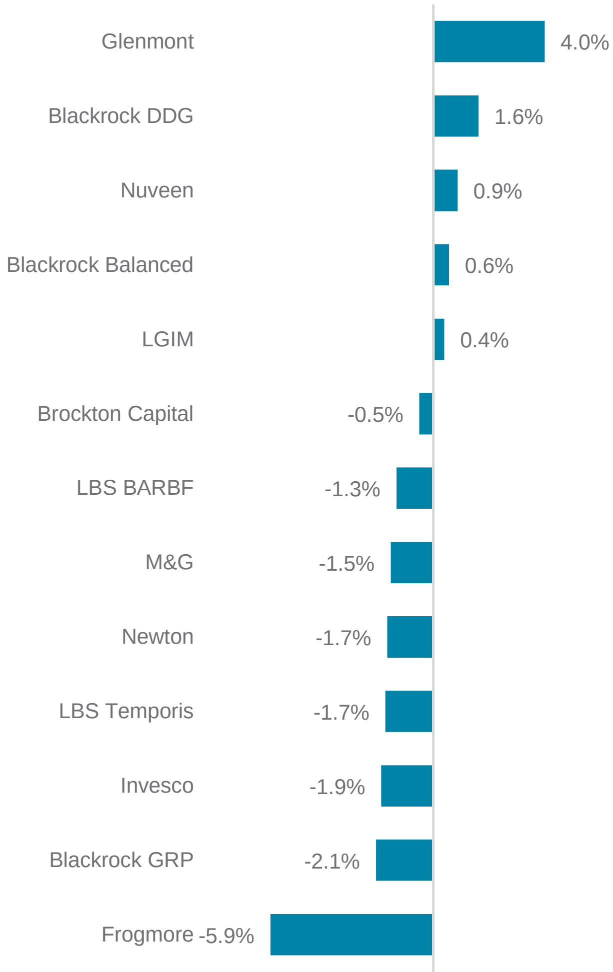
Source: J.P.Morgan and fund managers as required. Totals may not sum due to rounding

Manager performance – Quarter Snapshot

Absolute performance



Relative performance



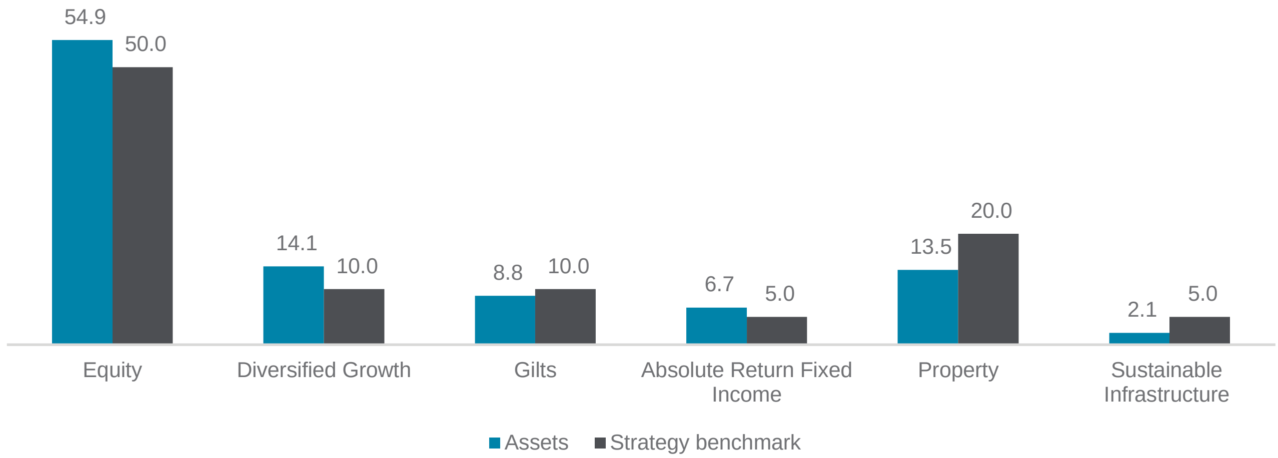
Rating summary

Manager Ratings	# of Funds
Buy	9
In review	0
Qualified	1
Sell	0
Not rated	5
Not recommended	0

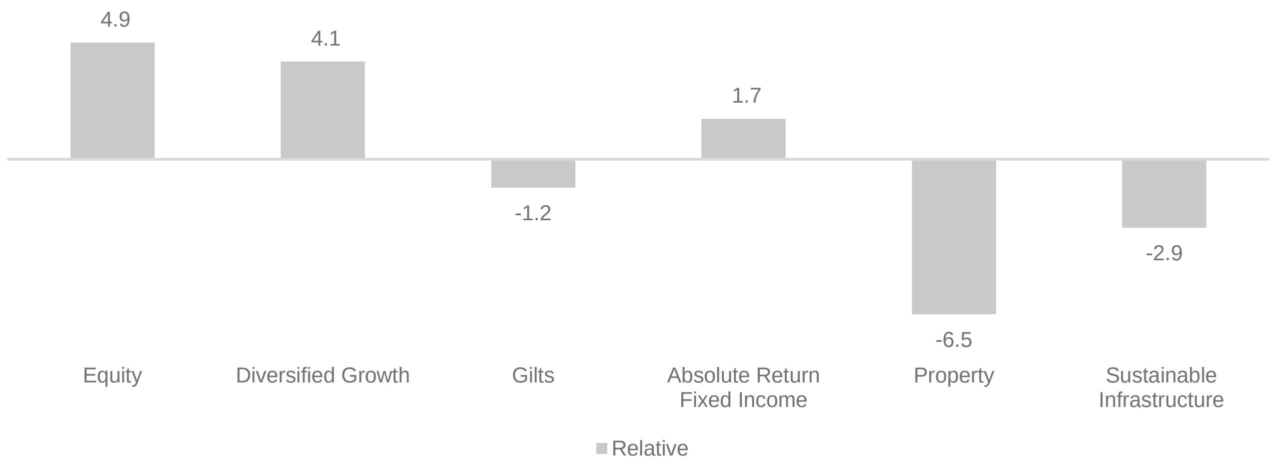
Fees shown are net. Source: J.P.Morgan and fund managers as required.

Strategic allocation – Snapshot

Strategic allocation & benchmark (%)



Relative allocation



Assets

£2031.9m

Assets increased by £89.4m over the quarter.

Comments

- Equity, absolute return fixed income and diversified growth are overweight relative to strategic target for the asset class, while sustainable infrastructure and property are underweight target exposure.
- However, all asset classes are well within the maximum strategic allocation limit.
- Following quarter end, assets were transitioned from the BlackRock Emerging market index funds to the Comgest Growth Emerging Markets Plus

Source: J.P.Morgan and fund managers as required. Totals may not sum due to rounding

Explanation of Ratings – Overall ratings

Overall ratings

An overall rating is then derived taking into account both the above outcomes for the product. The table lists how the overall rating can be interpreted.

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Differences between the qualitative and Aon InForm outcome can occur and if meaningful these will be explained within the Key Monitoring Points section. Although the Aon InForm Assessment forms a valuable part of our manager research process, it does not automatically alter the overall rating where we already have a qualitative assessment. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

Overall Rating	What does this mean?
Buy	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products
Buy (Closed)	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors
Qualified	A number of criteria have been met and we consider the investment manager to be qualified to manage client assets
Not Recommended	A quantitative assessment of this strategy indicates it does not meet our desired criteria for investment. This strategy is not recommended.
Sell	We recommend termination of client investments in this product
In Review	The rating is under review as we evaluate factors that may cause us to change the current rating

Disclaimer:
This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document.
Notwithstanding the level of skill and care used in conducting due diligence into any organisation that is the subject of a rating in this document, it is not always possible to detect the negligence, fraud, or other misconduct of the organisation being assessed or any weaknesses in that organisation's systems and controls or operations.
This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence).
This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.
Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we can not research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard.
Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.
Aon Solutions UK Limited's Delegated Consulting Services (DCS) in the UK are managed by Aon Investments Limited, a wholly owned subsidiary, which is authorised and regulated by the Financial Conduct Authority.

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Item No. 12.	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report Title		Actuarial Funding Update – June 2021	
From		Senior Finance Manager, Treasury and Pensions	

Recommendation

1. The pensions advisory panel is asked to note the updated funding position at 30 June 2021 (as set out in the closed Appendix 1).

Background

2. The last triennial actuarial valuation of the Fund took place as at 31 March 2019. The valuation determined the Fund was 103% funded and had a surplus of £47million.

3. The actuaries provide quarterly funding updates which are projected from the results of the 2019 valuation. The purpose of the funding updates is to give a broad picture of the direction of funding changes since the actuarial valuation.

Funding Position

4. The funding level at 30 June 2021 was 114% (111% at 31 March 2021). The surplus has increased by £68m in the quarter to June 2021. This improvement is due to a greater than expected return on the assets.

APPENDICES

Name	Title
Appendix 1 (Closed agenda)	London Borough of Southwark Pension Fund – Funding Update as at 30 June 2021

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Caroline Watson, Senior Finance Manager, Treasury and Pensions	
Version	Final	
Dated	22 September 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		22 September 2021

Agenda Item 13

Item No. 13.	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report Title		Local Pension Board Update	
From		Chair of the Local Pension Board	

RECOMMENDATION

1. The Pensions Advisory Panel is asked to note he update from the Local Pension Board (LPB) meeting of 21 July 2021.

KEY AREAS OF DISCUSSION

2. A training session on the Scheme Advisory Board Good Governance Project was provided by Aon.

3. The main business included an update on pensions administration; an update on the implementation of the pensions regulator's code of practice 14 (COP14) improvement plan; a briefing on the pensions regulator's new single code of practice and a review of the pensions advisory panel (PAP) meeting papers.

Pensions administration

4. This covered an update on the work with the first contact resource centre, including progress on recruitment; procurement and implementation of new pensions administration software; work on communications; and the expanded training and development material.

Pensions Regulator code of practice 14

5. An update was provided on the progress to date in implementing the COP14 action plan. A draft conflicts of interest policy for the LPB was tabled. It was noted that it may need to be amended in future to cover the whole pension fund.

6. The chair recommended that the pensions advisory panel commence preparing a fund-specific conflicts of interest policy as recommended in the good governance project.

Pensions Regulator new single code of practice

7. Members were briefed on the plans to consolidate ten existing codes of practice into one single code. It was recognised that the impact for Southwark will need to be assessed and may require amendments to the existing COP14 action plan.

Training plan

8. The Chartered Institute of Public finance and Accountancy (CIPFA) has recently published the Code of Practice on Knowledge and Skills 2021. It was noted that consideration of the new framework will be given to identify necessary changes to the current LPB training plan.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report Author	Mike Ellsmore, Chair of the Local Pension Board		
Version	Final		
Dated	22 September 2021		
Key Decision?	N/A		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Director of Law and Governance		N/A	N/A
Strategic Director of Finance and Governance		N/A	N/A
Cabinet Member		N/A	N/A
Date final report sent to Constitutional Team			22 September 2021

Agenda Item 14

Item No. 14.	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report Title		Pension Services - Administration Function Update	
From		Pensions Manager, Finance and Governance	

Recommendation

1. The pensions advisory panel (PAP) is asked to note this update on the pensions administration function.

Introduction

2. The Panel received an update in June 2021 which set out information about staff changes, IT/systems, communications and complaint management.

3. This update brings the Panel up-to-date on the current position.

Covid-19 implications

4. Due to current lockdown levels, all staff are being asked to work remotely wherever possible, although this is starting to be relaxed across the council.

Contact Centre

5. First Contact Officer interviews have now taken place resulting in two appointments being made.

~~6.~~ The First Contact Resource Team went live on 22 September 2021 and deal with all member and employer enquiries.

IT/systems

7. 8*8 phone system and Civica's Contact Manager software is planned for managing all calls and incoming enquiries into the First Contact Resource Team. Whilst this is not an integrated telephony/CRM system, it will allow Pension Services to accurately monitor all incoming enquiry work and produce accurate Management Information.

8. Civica have delivered the first UPM test environment with member data from Altair. The Data Systems Team have begun testing and will work with Civica to resolve any data issues.

9. Documents/imaging - existing Word documents and imaged documents from the Heywoods (Altair) system will be migrated to the Civica (UPM) system via a VPN.

10. SAP payroll migration - a further data cut will be performed shortly with the new UPM database being populated with core pensioner data from the former admin system (Altair). Our new Pensions Payroll Manager (Iain Hunter) started in August 2021 and will play an active role in the transition of SAP payroll to UPM.

11. SAP General Ledger requirements have now been specified by F&G and will be delivered either in interface or report format following each payrun.

Recruitment/staffing

12. The recruitment for key roles is now complete.

13. The final roles to be filled are at assistant level, and in this respect we are introducing a two-year apprenticeship programme to home grow new talent, with access to professional study and recognised qualifications through the Pensions Management Institute https://www.pensions-pmi.org.uk/

Progress to September 2021

14. Since the last Panel update, further progress has been made in the following areas.

Communication and initiatives

15. Pensions awareness - a fortnightly email campaign to begin in October 2021.

16. UPM/pensioner payroll communication planning has started for members and employers.

17. The Annual Benefit Statement (ABS) exercise was completed in August 2021 with 13,200 statements being issued on time to active and deferred members.

18. Annual Allowance tax checks underway for 2020/21 - any affected members will be contacted in early October 2021.

19. Communication review underway for all pensions admin letters/statements as part of the move to new UPM software.

20. Website initiatives underway to improve member engagement and interest.

21. Training continues to be delivered to members and employers.

22. Autumn 2021 newsletter in the process of being finalised and will be issued in both paper and digital formats.

Complaint management

23. A list of recent complaints and how they have been managed is set out below:

- General Complaint – the member was due a pension contribution refund and had been advised that claim forms had been sent in the post. When the claim forms did not arrive the member queried it but there was no record of forms being sent. Forms were resent and the matter is now resolved.

- General Complaint – the member contacted pensions to enquire about their retirement date. Initial call went through contact centre but member received no response and made a complaint. The matter now resolved.

- General Complaint – the member was due a pension contribution refund and had returned their claim forms and was advised payment would be made shortly. After a week the member contacted the pensions team complaining that no payment had been made. In this case the vendor creation process had been delayed. Payment has now been made and the matter is now resolved.

- General Complaint – the member had been sent trivial commutation options and had returned claim forms but received no payment. The case was investigated and no forms could be seen as being returned to Aon (who managed the initial exercise). Communication is ongoing with member to resolve matters.

- General Complaint – the member had made contact with pensions team to update personal details we held. No response was received by member and details had not been updated. The matter is now resolved.

- General Complaint – contacted by Co-Op Legal in relation to the balance of pension due to the estate of a deceased member. Vendor creation process had delayed payment. The balance has now been paid and the case is closed.

- General Complaint – the member was on hold on the telephone for 40 minutes with the contact centre whilst trying to make contact with pension services. The member was uncomfortable in using email instead. The matter is now resolved.

Performance monitoring

24. Attached as Appendix 1 is data collected between 1 June and 31 August 2021. As explained in previous updates, the information focuses on statutory requirements.

25. Longer-term aspirations are to benchmark against CIPFA guidance (or better).

Conclusions

26. Implementation of the new structure is almost complete.

27. Retention of appropriate staff with necessary skills is critical to the achievement of future plans.

28. There will continue to be some reliance on specialist external support. However, with internal training now in place, 95% of all business as usual and project work is managed in-house by Pension Services.

29. Performance monitoring remains an important part of the pensions administration function. The procurement of new Civica software will allow pension services to develop workflow and task management, where more detailed Management Information can be extracted around performance. However, PAP is also asked to consider that processing speed is not the only indicator of success, and that attention to detail and the customer journey must also be considered.

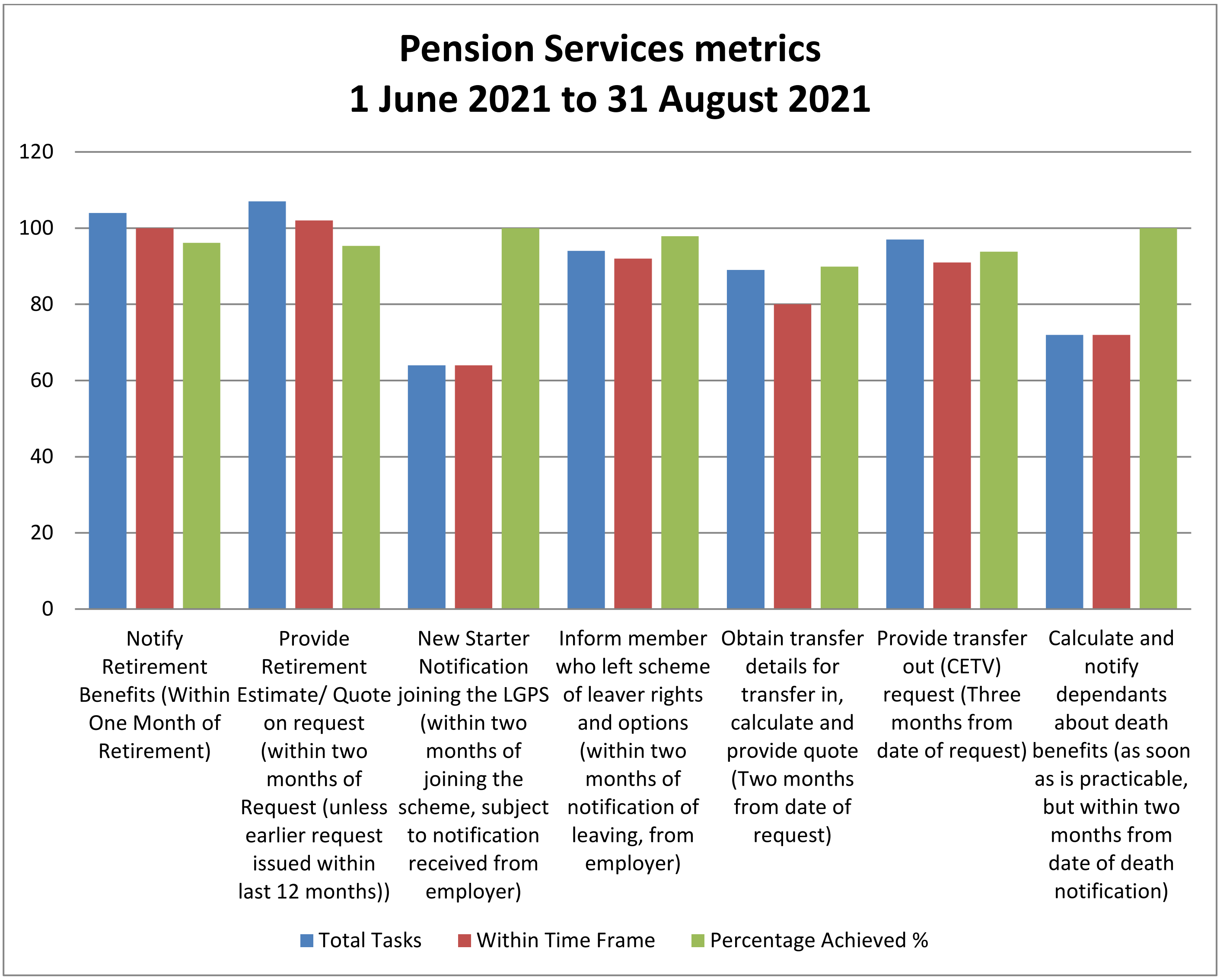
APPENDICES

Name	Title
Appendix 1	London Borough of Southwark Pension Fund Performance metrics as at 31 August 2021

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Barry Berkengoff, Pensions Manager	
Version	Final	
Dated	22 September 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		22 September 2021

APPENDIX 1



	Total Tasks	Within Time Frame	Achieved %
Notify Retirement Benefits (Within One Month of Retirement)	104	100	96
Provide Retirement Estimate/ Quote on request	107	102	95
New Starter Notification joining the LGPS	64	64	100
Inform member who left scheme of leaver rights and options	94	92	98
Obtain transfer details for transfer in, calculate and provide quote	89	80	90
Provide transfer out (CETV) request (Three months from date of request)	97	91	94
Calculate and notify dependants about death benefits	72	72	100

MUNICIPAL YEAR 2021/22

COMMITTEE: Pensions Advisory Panel

NOTE: Original held by Constitutional Team. All amendments/queries to Andrew Weir Tel: 020 7525 7222. Email: Andrew.weir@southwark.gov.uk

OPEN

MEMBERSHIP	No. of copies	OTHER PARTIES	No. of copies
Councillors		**Other officers**	
Councillor Rebecca Lury (Chair)	By email	Rob Woollatt	By email
Councillor Jon Hartley	By email	Jamie Abbott	By email
Councillor Eliza Mann	By email	**External**	
Officers		Mike Ellsmore	By email
Duncan Whitfield	By email		
Caroline Watson	By email		
Barry Berkengoff	By email		
Staff Representatives		Andrew Weir (spares)	0
		Total printed copies:	**0**
Chris Cooper	By email	**Dated:** 24 September 2021	
Julie Timbrell	By email		
Derrick Bennett	By email		
Advisors			
David Cullinan	By email		
Colin Cartwright	By email		
Last updated – June 2021			