Open Agenda

Southwark Council
southwark.gov.uk

Pensions Advisory Panel

Wednesday 22 December 2021
1.00 pm
Online/Virtual via Microsoft Teams

Membership

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

Officers
Duncan Whitfield
Caroline Watson
Barry Berkengoff

Staff Representatives
Chris Cooper
Julie Timbrell
Derrick Bennett

Advisors
David Cullinan
Colin Cartwright

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: 16 December 2021

PRINTED ON RECYCLED PAPER

Pensions Advisory Panel

Wednesday 22 December 2021
1.00 pm
Online/Virtual via Microsoft Teams

Order of Business

Date: 16 December 2021

Agenda Item 5

Pensions Advisory Panel

MINUTES of the OPEN section of the Pensions Advisory Panel held on Wednesday 29 September 2021 at 3.00 pm at Meeting Room 225 - 160 Tooley Street, London SE1 2QH

PRESENT:

Councillor Rebecca Lury (Chair)
Councillor Eliza Mann
Duncan Whitfield
Caroline Watson
Barry Berkengoff
Tim Jones
Chris Cooper
Julie Timbrell
Derrick Bennett
Colin Cartwright
David Cullinan
Mike Ellsmore
James Gilliland
Jack Emery
Andrew Weir

1. APOLOGIES

There were no apologies for absence.

2. CONFIRMATION OF VOTING MEMBERS

Councillor Rebecca Lury, Caroline Watson and Barry Berkengoff were confirmed as voting members at the beginning of the meeting. Councillor Eliza Mann was confirmed as a voting member also, on her arrival at 3.20pm.

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 23 June 2021 be agreed as a correct record.

At this point the chair agreed to vary the order of business to hear items 7 and 13 first.

6. NEWTON PRESENTATION

The pensions advisory panel received a presentation from Newton.

It was noted that Newton had outperformed the market in seven of the last ten years but had not met their long term performance target. Newton advised that they took a thematic approach to investing and took a long term view to add value for their clients.

Duncan Whitfield advised that Newton was an active manager with high targets. He thanked Newton for responding to the pension fund's low carbon objectives.

David Cullinan asked Newton to provide data on the mandate's performance against the markets. It was confirmed that this would be provided by email.

RESOLVED:

That the presentation from Newton be noted.

7. ASSET ALLOCATION

James Gilliland, Divisional Accountant, presented the report on the asset allocation of the Fund.

It was noted that the value of the pension fund had increased by £89 million since the previous quarter.

RESOLVED:

That the Fund's asset allocation at 30 June 2021 be noted.

8. CARBON FOOTPRINT UPDATE

Jack Emery, CIPFA Trainee, presented the report on the carbon footprint update.

It was noted 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.

The panel noted the infographic that had 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 was intended for use as a way of easily displaying the fund's progress towards net zero and would be easy to update over time.

The chair added that the availability of suitable products on the market were difficult to find as the fund was ahead of the market.

David Cullinan commented that this was a very good piece of work. He noted that the fund needed to invest in products that matched the direction of the fund's liabilities.

RESOLVED:

That the fund's carbon footprint at 30 June 2021 be noted.

9. DRAFT UPDATED INVESTMENT STRATEGY

Caroline Watson presented the report.

It was noted that there was a series of short, medium and long term targets in order to reach net zero by 2030.

Julie Timbrell requested that members of the fund were consulted on the strategy. Duncan Whitfield advised that it would be published and members would be consulted. She also asked if there would be another scheme member survey. It was agreed that this would be added to the revised investment strategy.

Mike Ellsmore asked whether we would be consulting with scheme employers. It was confirmed that the Investment Strategy Statement would be sent to all scheme employers as part of a formal consultation.

RESOLVED:

1. That the updated Investment Strategy Statement was considered and noted.

2. That the draft updated investment strategy was considered and noted.

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

Caroline Watson presented the report. She advised that a range of available illiquid investment funds were considered for the ESG priority allocation. It is recognised that investment opportunities in this area vary in strategy, fund structure and the degree of ESG integration and impact.

Attendees at the assessments were:

- PAP Voting Members – Cllr Rebecca Lury, Cllr Eliza Mann, Caroline Watson, and Barry Berkengoff
- Officers - Duncan Whitfield, Tim Jones
- Investment Advisors – Colin Cartwright, Jonathan Taylor, David Cullinan.

She advised that voting members of the pensions advisory panel were being asked to agree the recommended selection.

Duncan Whitfield advised that the recommendation was a recommendation from the panel to him, in his role as strategic director of finance and governance.

RESOLVED:

1. That it be noted that at the manager assessment sessions held on 28 July and 22 September 2021, Blackstone Capital Holdings GP Stakes Fund II; BTG Pactual Open Ended Core US Timberland Fund; and Darwin Bereavement Services Fund were considered the most suitable investment opportunities for the new ESG priority allocation.

2. That it be noted that the Temporis Impact Fund V was also identified as an investment opportunity to continue the pipeline in the 5% allocation to the sustainable infrastructure portion of the fund’s agreed strategic asset allocation.

3. That it be recommended that the fund makes commitments within the ranges set out below to each of the above investments, subject to legal due diligence:

i. Blackstone Capital Holdings GP Stakes Fund II (£50-£60m)
ii. BTG Pactual Open Ended Core US Timberland Fund (£25-30m)
iii. Darwin Bereavement Services Fund (£20m)
iv. Temporis Impact Fund V (£20-40m)

11. QUARTERLY INVESTMENT UPDATES

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

He advised that it had been a challenging six months but the fund was moving in the right direction and that the investment strategy was good.

Colin Cartwright from Aon addressed the panel. He advised that the markets had performed well but warned that inflation could lead to more volatility. He added that overall the fund was well positioned.

RESOLVED:

That the quarterly investment updates be noted.

12. QUARTERLY ACTUARIAL FUNDING UPDATE

Caroline Watson presented the report. She advised that the funding level at 30 June 2021 was 114% (111% at 31 March 2021). The surplus had increased by £68 million in the quarter to June 2021. This improvement is due to a greater than expected return on the assets.

Duncan Whitfield advised that this was a very good position to be in.

RESOLVED:

That the updated funding position at 30 June 2021 be noted.

13. LOCAL PENSION BOARD UPDATE

Mike Ellsmore updated the pensions advisory panel on the last meeting of the local pension board.

He advised that at the last pension board meeting 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 also tabled. This may need to be amended in future to cover the whole pension fund.

It was also recommended that the pensions advisory panel commence preparing a fund-specific conflicts of interest policy as recommended in the good governance project.

There were no questions.

RESOLVED:

That the update from the local pension board (LPB) meeting of 21 July 2021 be noted.

14. PENSION SERVICES UPDATE

Barry Berkengoff, Pensions Manager, presented a brief report (as time was short) and updated the panel on the performance of the pension services team and on a number of the team's initiatives.

He advised that the first contact officer interviews had now taken place resulting in two appointments being made. The First Contact resource team service went live on 22 September 2021 and deals with all member and employer enquiries.

He informed the panel that Civica had delivered the first UPM test environment with member data from Altair, and that the Data/Systems team had begun testing and would work with Civica to resolve any data issues.

It was noted that recruitment to key roles in the pensions team was now complete. Two apprentice roles would form the final stage of pensions recruitment.

Finally, it was noted that there were no serious complaints from members of the pension fund to report.

Duncan Whitfield thanked Barry and his team for all of their hard work.

RESOLVED:

That the update on the pensions administration function be noted.

15. ANY OTHER BUSINESS

There was none.

The meeting ended at 4.34pm.

CHAIR:

DATED:

Agenda Item 6

Item No. 6	Classification: Open	Date: 22 December 2021	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint Update – 30 Sept 2021	
From:		CIPFA Trainee, Treasury & Pensions	

Recommendations

The PAP is asked to:

- Note the Fund's updated carbon footprint as at 30 Sept 2021.

Since December 2018, the Fund has engaged Sustainalytics to assist with assessments of the CO_2 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	September 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	29.8
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	4.3
Equity – Emerging Markets	**Blackrock**	0.0%	18.1	18.1	18.1	18.1	18.1	16.0	14.7	13.9	14.1	15.0	19.1	18.3	0.0
Equity – Emerging Markets	**Comgest**	5.0%	-	-	-	-	-	-	-	-	-	-	-	-	0.5
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	15.8
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	10.2
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	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	25.2
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	107.3
Change Equity %				**0.0%**	**-13.9%**	**-27.5%**	**-27.5%**	**-44.8%**	**-36.2%**	**-46.4%**	**-40.2%**	**-48.2%**	**-44.5%**	**-62.0%**	**-72.8%**
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%**	**-40.8%**
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%**	**-54.4%**
Change Property %				**0.0%**	**-0.2%**	**-1.7%**	**-1.7%**	**-7.1%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.1%**
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%**	**-49.8%**

Change of Approach

1. Measuring the carbon intensity of index-linked gilts is not currently possible as it involves trying to measure the carbon footprint of the UK government. In order to be prudent, a proxy value has been calculated based upon the average carbon intensity of the fund's developed market funds since measurement began in September 2017 and has been used for the past two measurements. Developed market funds were selected as the baseline as these were the funds with the highest carbon intensity figures at the time. 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 in the short term as part of the relaunched investment strategy.

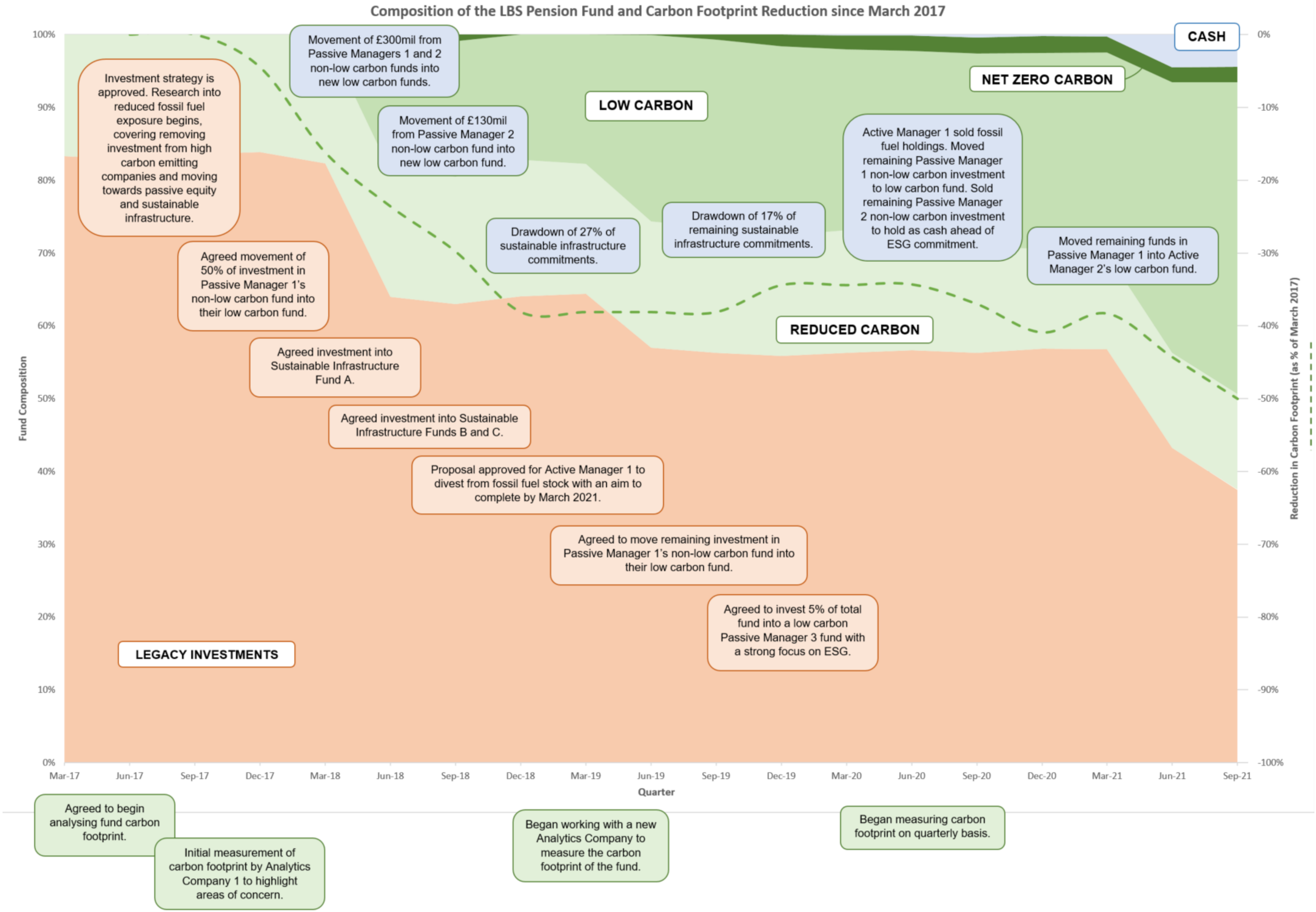
Results

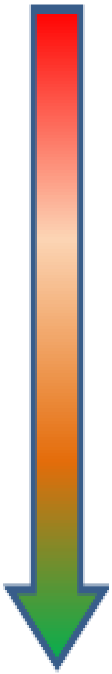
2. The results for September 2021 show that the Fund has reduced its weighted carbon exposure by 50% since September 2017. The movement of equities during the quarter to September 2021 from BlackRock passive emerging market holdings into the Comgest Global Emerging Markets Plus Fund has predominantly driven the reduction since the end of June 2021.

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	Sep-21 Unweighted Carbon Intensity (tCO_2e/$M revenue)
Equity - Developed	Blackrock, LGIM	0.0
Equity - Emerging Markets	Blackrock, Comgest from Sept 21	10.4
Equity – Active	Newton	35.0
Absolute Return Fixed Income	Blackrock	154.4
Equity – Developed Low Carbon	Blackrock, LGIM	155.0
Diversified Growth	Blackrock	163.0
Property	Invesco, M&G, TH, Brockton, Frogmore	215.4
Index Linked Gilts	LGIM, Blackrock	282.4

4. The carbon footprint reduction 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%
Quarter
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
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.
Moved remaining funds in Passive Manager 1 into Active Manager 2'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.

<u>Community, Equalities (including socio-economic) and Health Impacts</u>

5. **Community Impact Statement**

No immediate implications arising.

6. **Equalities (including socio-economic) Impact Statement**

No immediate implications arising.

7. **Health Impact Statement**

No immediate implications arising.

8. **Climate Change Implications**

No immediate implications arising.

9. **Resource Implications**

No immediate implications arising.

10. **Legal Implications**

No immediate implications arising

11. **Financial Implications**

No immediate implications arising.

12. **Consultation**

No immediate implications arising.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jack Emery, CIPFA Trainee, Treasury & Pensions	
Version	Final	
Dated	14 December 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		15 December 2021

LONDON BOROUGH OF SOUTHWARK - Quarterly Report September 2021

Market Background

A modest positive outcome for funds masked a quarter full of ups and downs. July opened on a down note with a new COVID variant and negative events in China undermining the outlook for global growth. A positive earnings season in developed regions coupled with lower infection/higher vaccination rates generally helped equities rise in August. Rising bond yields, the spectre of stagflation (high inflation/low growth) and continued worries over China weighed on sentiment and the result was a September sell-off.

Equity markets posted a small positive for UK investors, propped up by a weak pound. Regional performance was mixed. Japan was the standout performer with markets buoyed by a reopening of the economy and prospect of further monetary stimulus. Lesser Asian and emerging markets performed poorly weighed down by weak Chinese performance. At a sector level, energy stocks fared best on the back of rising prices and financials benefitted due to the prospect of higher interest rates.

Nominal bond markets posted negative returns as yields rose and linkers correspondingly returned positively as real yields fell.

Property returns are expected to be positive as capital values continue to rise in sectors such as industrials and stabilise in office and retail.

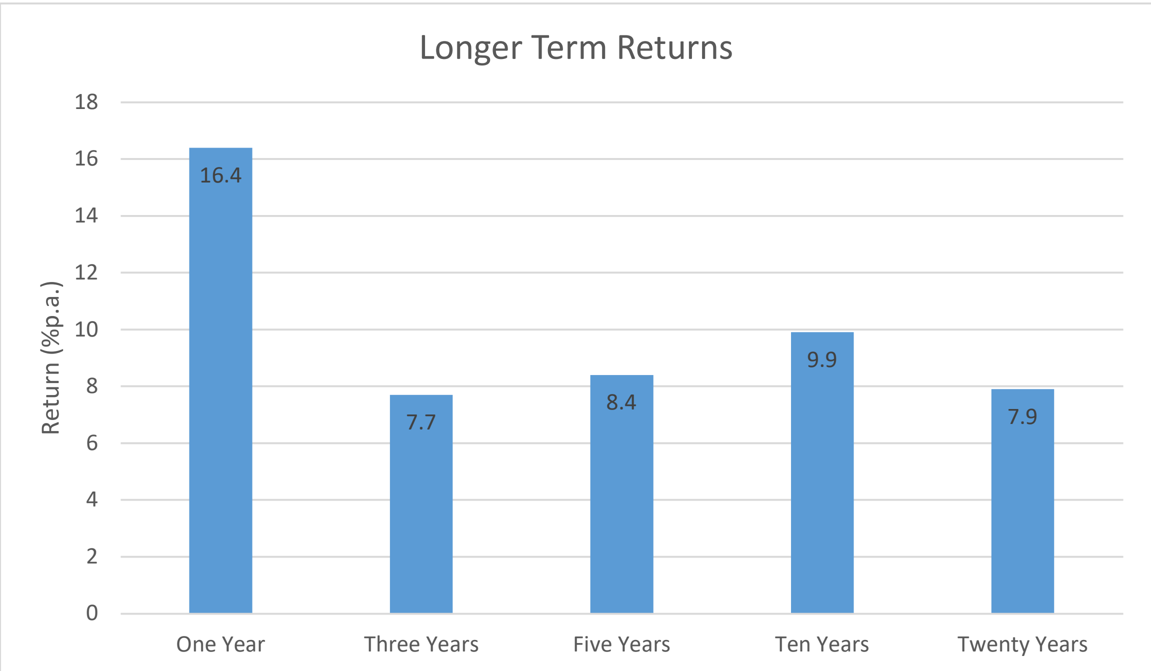
LGPS Funds

The average LGPS funds is expected to have returned a modest 1.4% over the quarter.

Longer-Term

The one-year number remains strongly positive at 16%, driven by buoyant equity returns.

The three-year number remains around 8% p.a., well ahead of most funds' expectations. Over the medium term, the returns remain strong with the ten-year result now nudging 10% p.a. and the twenty-year return +8% p.a.



Total Fund

The Fund returned 1.7% over the quarter outperforming the benchmark by a small margin.

Performance from the Fund's managers was mixed as might be expected but more negatives were posted than positives. The analysis below shows the make-up of the returns, absolute and relative.

			Returns			Contributions		
Manager	Brief	Start Value (£m)	Fund	Benchmark	Relative Return	Fund	Benchmark	Relative
BLK	Equity/ILG	553,145	1.7	0.6	1.1	0.5	0.2	0.3
LGIM	Equity/ILG	485,245	2.4	1.6	0.8	0.6	0.4	0.2
BLK	Diversified Growth	197,122	0.5	0.8	-0.3	-	0.1	-
BLK	Absolute Return Bond	135,308	-0.2	1.0	-1.2	-	0.1	-0.1
Newton	Global Equity	255,209	1.8	2.1	-0.3	0.2	0.3	-
Comgest	EM Equity	0	-	-	-	-	-	-
Brockton	Property	5,591	0.0	3.6	-3.4	-	-	-
Nuveen	Property (Core)	202,136	4.1	4.9	-0.7	0.4	0.5	-0.1
Invesco	Property	30,289	0.5	1.9	-1.4	-	-	-
M&G	Property	22,511	1.0	1.9	-1.0	-	-	-
Frogmore	Property	7,352	-0.7	3.9	-4.4	-	-	-
Glenmont	Infrastructure	14,787	0.8	2.4	-1.6	-	-	-
Temporis	Infrastructure	23,979	1.8	2.4	-0.7	-	-	-
BLK	Infrastructure	3,004	3.1	2.4	0.6	-	-	-
BLK/LBS	Cash	90,000	0.0			-	-	-
Total		**2,025,677**	**1.7**	**1.6**	**0.1**	**1.7**	**1.6**	**0.1**

The third column from the right shows how much the managers have contributed to the overall return of 1.7%. Both passive balanced portfolios* and the core property portfolio contributed most 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 0.1%.

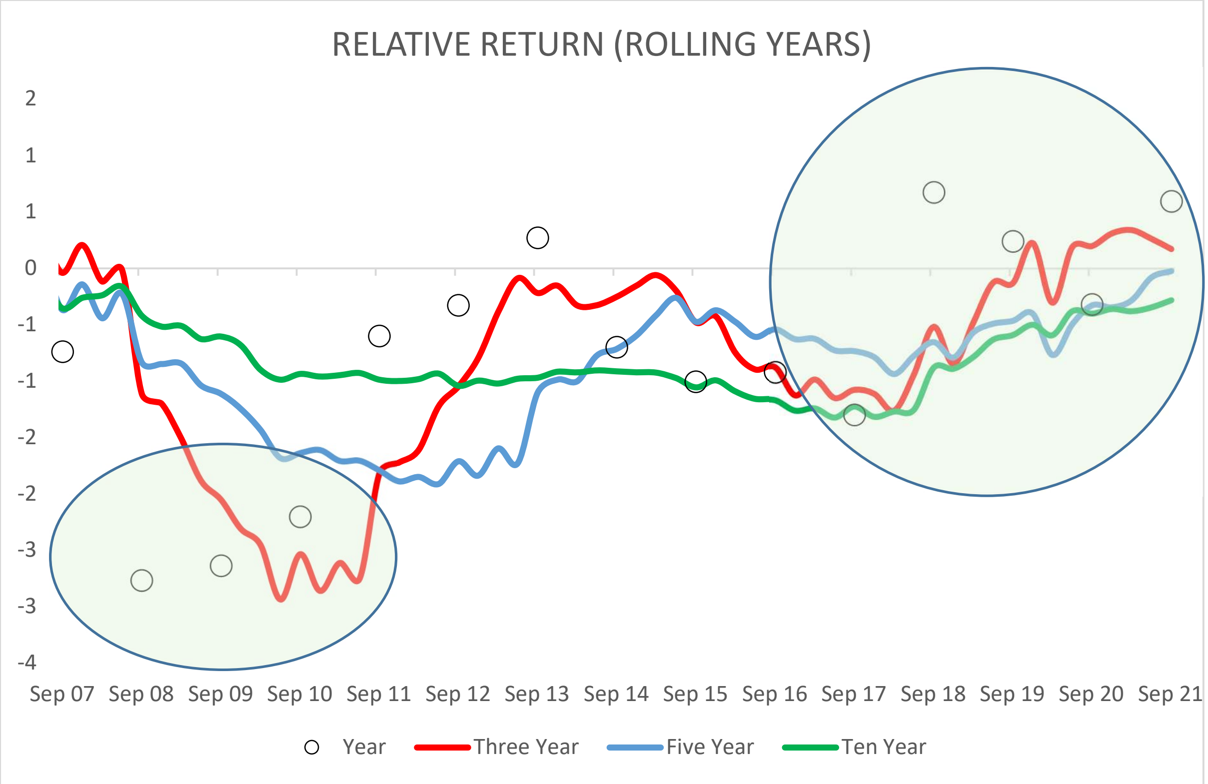
The one-year return for the Fund was an extremely healthy 15.8% almost 0.7% above benchmark.

Medium-term, the Fund has returned between 9.2%p.a. and 9.5%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 11.0%p.a. return but still 0.2%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. I enclose again 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.

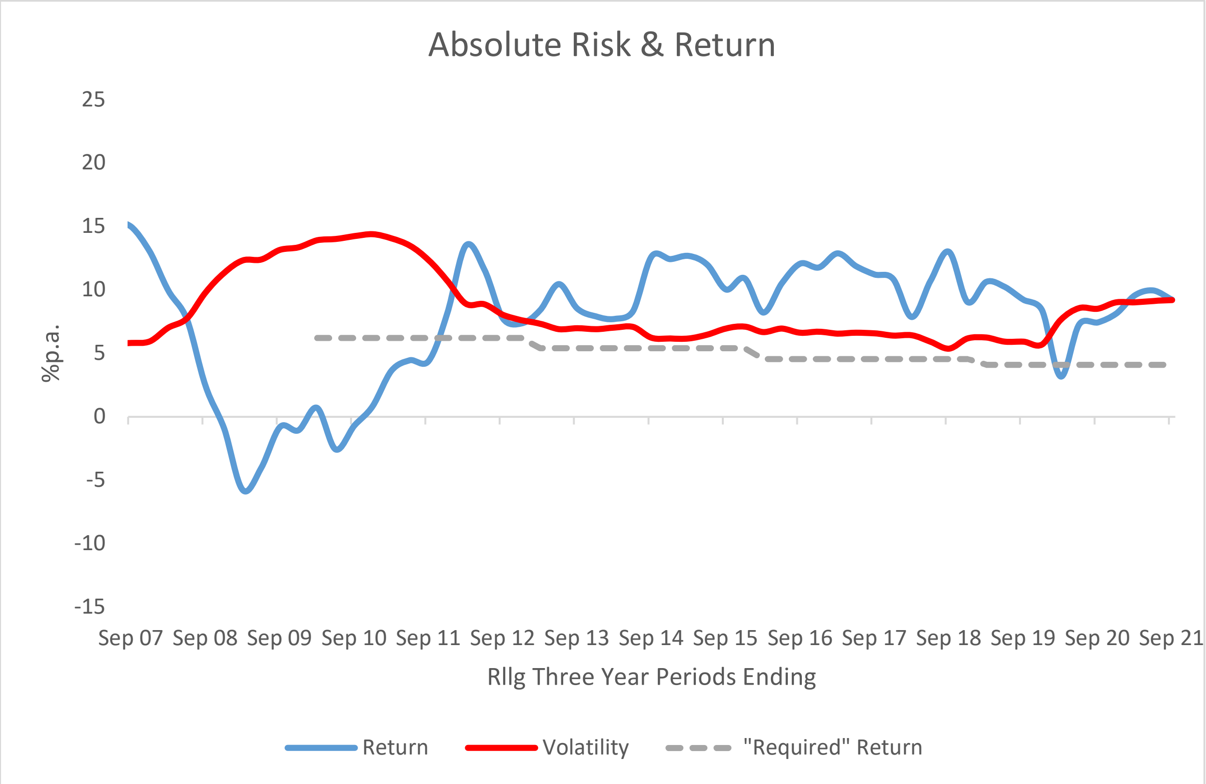
* The benchmarks calculated by JPM for these portfolios are under review



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, 11 have been below but most significantly in 2008 to 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

One final chart shows the progression of risk and return over time.



What this shows is,

- Once the impact of the global financial crisis drops out of the observations (the left hand side of the chart), both return and volatility track within a reasonably narrow range
- Over this same period, returns have consistently outpaced the return assumption used in the Actuary's modelling (the dotted line on the chart)
- Risk and return moreso have largely 'mean reverted' following the short sharp dip at the outset of the pandemic (right hand side of the chart)

Newton – Active Global Equity

Newton outperformed the World index by around 0.3% over the quarter. In a difficult market dominated by macro shifts, sector allocation was neutral, and it was stock selection that added value.

Relative to the stretched (index plus target aspiration) benchmark, the portfolio lagged by .3%.

The portfolio's annual return was strongly positive but quite a bit behind the benchmark – fund 22%, benchmark (inc. stretch) 25.8%.

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

BlackRock - Active

Once again, the two active positions performed quite differently over the quarter.

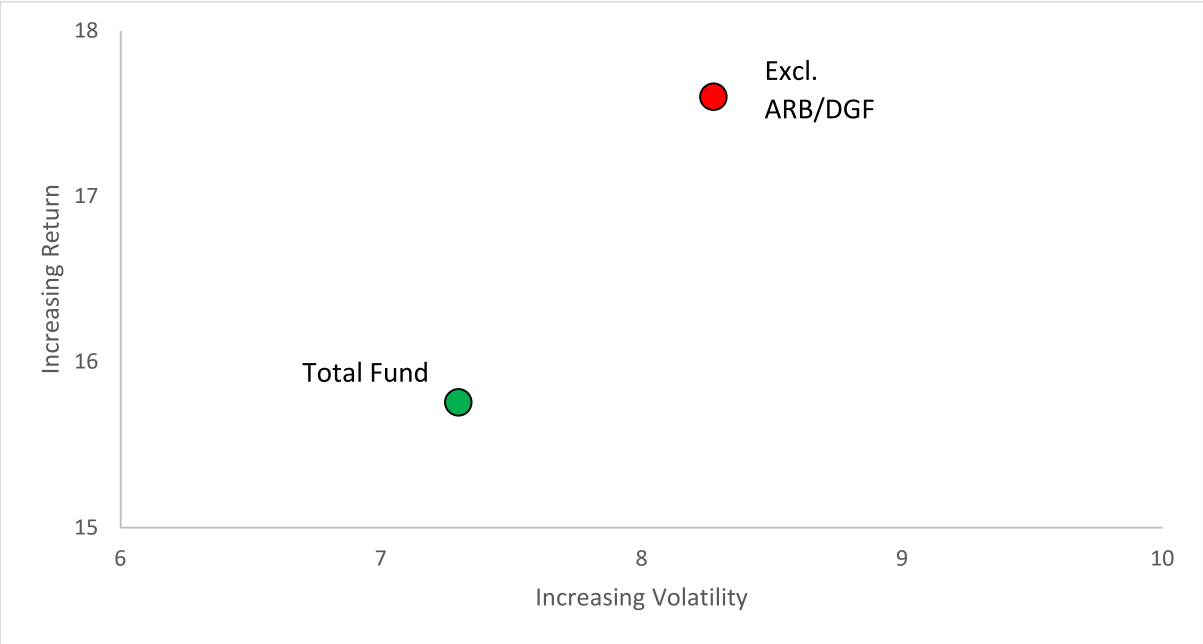
Performance in the ARBF portfolio was negative but less severely so than the main traditional bond indices. A shorter duration and exposure to Asian credit weighed on returns.

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

Since their inception, returns from both strategies have been modest 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 September. The actual Fund outcome is the green plot, the notional outcome (excl. ARB/DG) is the red plot.



This picture has remained 'normal' in a return sense as growth assets have re-exerted dominance.

In essence, the strategy has worked in terms of risk reduction but arguably, the return sacrifice has been greater than we would have liked. This is a very short-term view however.

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 indeed. The Fund's industrial assets benefited from a further strong quarter, delivering total returns of 8.9%. In terms of valuations, over the quarter industrial valuations increased by 7.8%, retail increased by 0.5% and office valuations increased marginally by 0.2%.

The portfolio's remaining indirect holding performed extremely well returning almost 23% over the period. Valuations have rebounded substantially post the easing of lockdown.

The full year return reported by Nuveen is 11%. This has improved medium-term numbers, but these remain disappointing not just for Southwark but for the asset class generally.

The current seven-year number of 5.4%p.a. is behind the 7%p.a. target set by the Panel.

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.

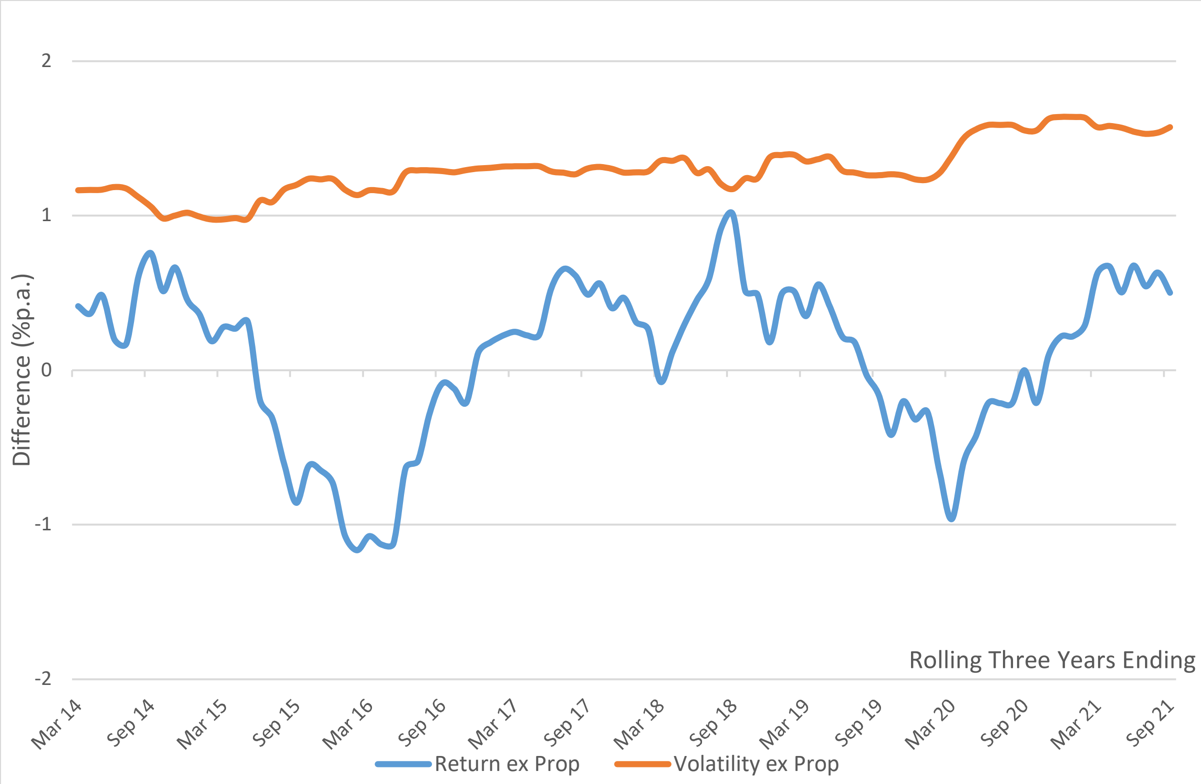
As mentioned previously, the added value/opportunistic portfolios are still early stage so a measure of underperformance against their relatively challenging benchmarks and volatility thereof should not cause undue concern.

The core portfolio is around three-quarters of the overall allocation 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 0.5%p.a.) but volatility significantly higher (by around 1.6%p.a.). This continues to be a very acceptable trade-off.



Infrastructure

The Fund's infrastructure investments are just over a year old and comprise around 2% of the overall asset value. They are very early stage and some way from being generative in terms of return.

Passive Portfolios

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

Summary

- Another positive quarter for the Fund despite continued fluctuations in sentiment over the period
- Funds have performed extremely well in general and ours, illustrated in the charts above is no different
- Highlights have been excellent returns from our growth assets and an improvement in the property returns
- Despite recent market turbulence, assets have grown more than actuarial assumptions and barring any significant return shocks, will see a significant improvement in funding levels at the next valuation
- 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 Q3 2021

London Borough of Southwark Pension Fund

Prepared for: The Pensions Advisory Panel
Prepared by: Aon
Date: 22 December 2021

At a glance…

Assets

£2060.7m

Assets increased by £35.5m over the quarter.

Funding

114% -

Funding decreased by 0.1% over the quarter.

Surplus

£251m -

Surplus largely unchanged (a slight fall of £4m).

Manager ratings

10	Buy rated	6	Not rated
0	Qualified	0	Not recommended

Performance (short term)

+1.7%

Scheme outperformed benchmark returning 1.7% vs 1.6% over the quarter.

Performance (longer term)

+9.2%

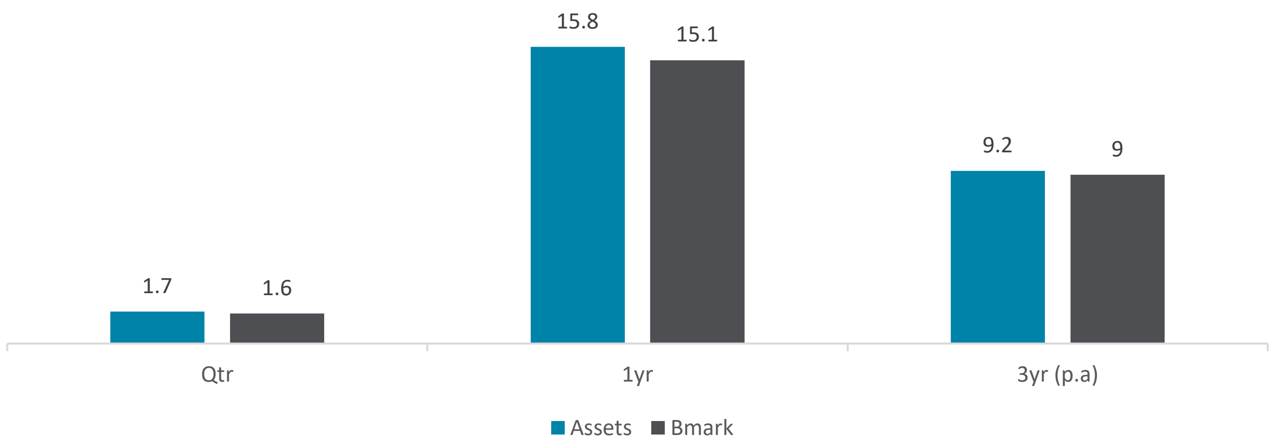
Over 3 years the scheme has outperformed benchmark returning 9.2% vs 9.0%.

Comments

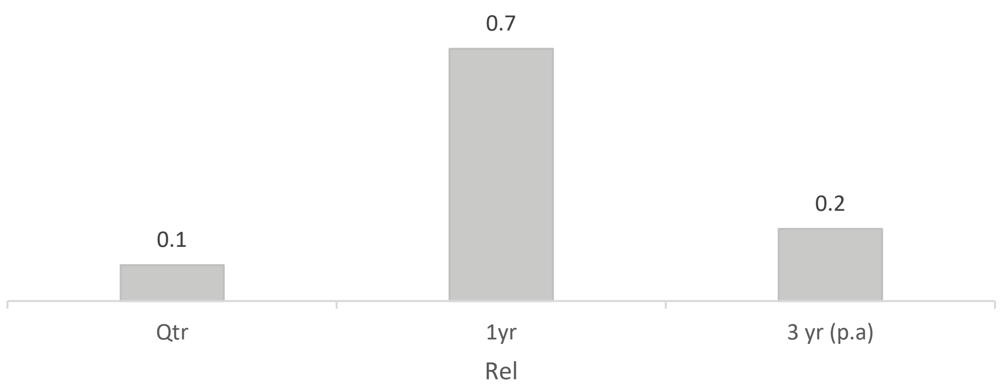
- The Fund's total assets increased by £35.5m over the quarter, from £2025.2m to £2060.7m.
- The Fund performance over the quarter was +1.7%, this was 0.1% higher than the benchmark return. The Fund also outperformed the benchmark over the 1 and 3 year periods, generating annualised performance of 15.8% and 9.2% respectively.
- The Fund’s funding level remained at 114% over the quarter. The surplus marginally decreased due to a slight fall in the discount rate (minus CPI) increasing liabilities. However this has mostly been offset by better than expected asset returns.
- The Fund transitioned all holdings (£107.8m) from the BlackRock Emerging Markets Index Funds into the Comgest Growth Emerging Markets Fund with the monies settling on 10 September 2021.

Fund performance – Snapshot

Fund performance & benchmark



Relative performance



Quarterly (relative)

+0.1%

The scheme returned 1.7% vs 1.6% over the quarter

3 year (relative)

+0.2%

The scheme returned 9.2% vs 9.0% over the period

Comments

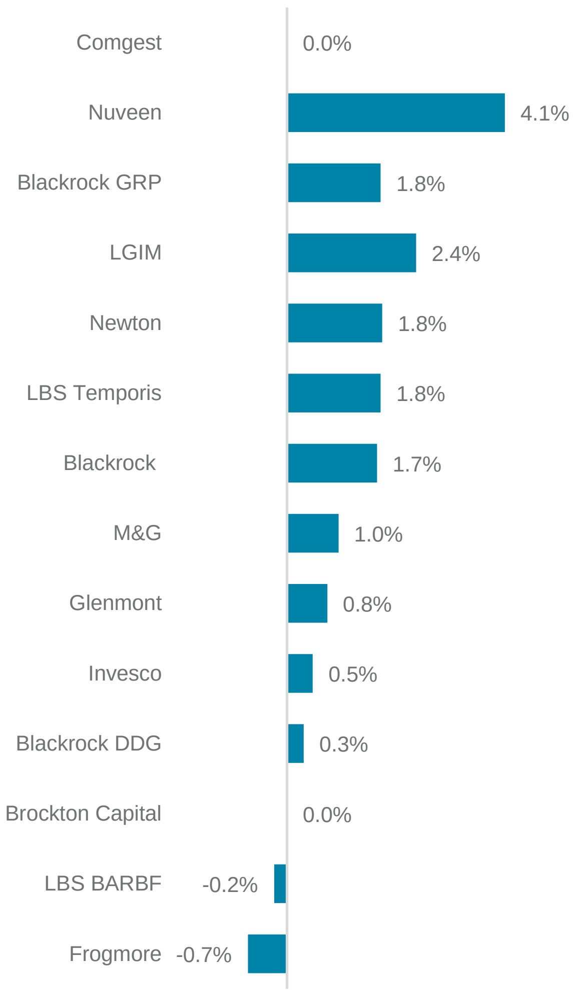
Over the quarter, the scheme marginally outperformed the benchmark.

Notable detractors to performance were Frogmore Real Estate Fund, Brockton Capital III Fund, Invesco Real Estate Fund while positive contributors included Blackrock GRP and the LGIM and BlackRock balanced portfolios.

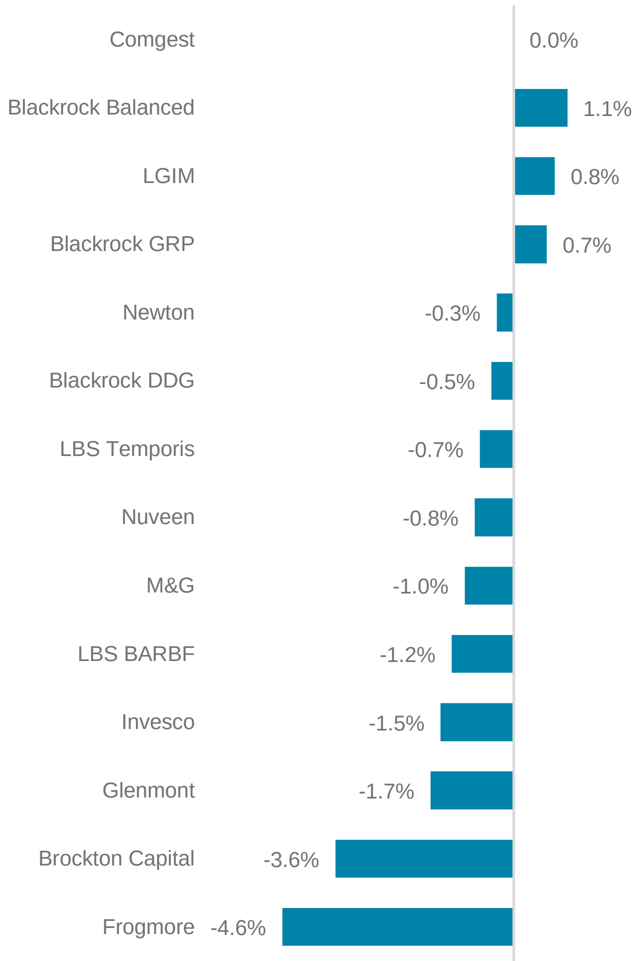
Source: J.P.Morgan and fund managers as required. Totals may not sum due to rounding

Manager performance – Quarter Snapshot

Absolute performance



Relative performance



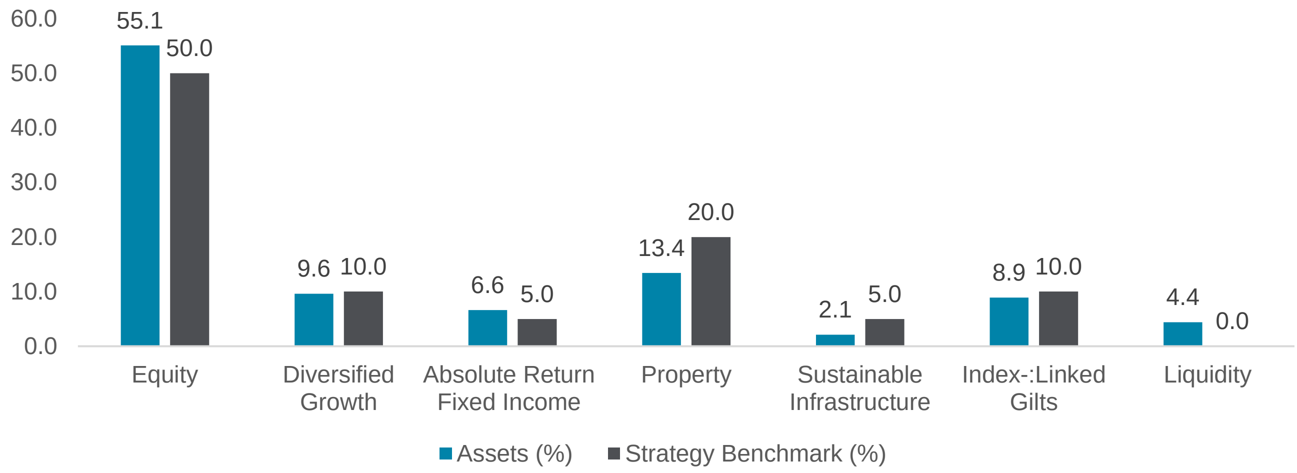
Rating summary

Manager Ratings	# of Funds
Buy	10
In review	0
Qualified	0
Sell	0
Not rated	6
Not recommended	0

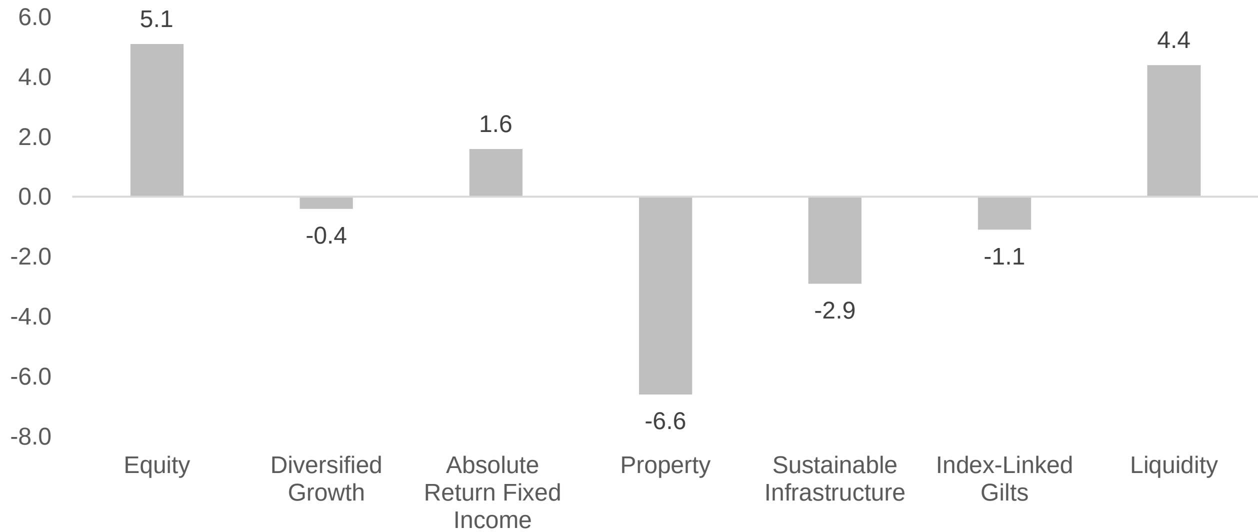
Fees shown are net. Source: J.P.Morgan and fund managers as required.

Strategic allocation – Snapshot

Strategic allocation & benchmark



Relative allocation



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

Assets

£2060.7m ▲

Assets increased by £35.5m over the quarter.

Comments

- Equity and absolute return fixed income are overweight relative to strategic target for the asset class, while diversified growth, index-linked gilts, sustainable infrastructure and property are underweight target exposure.
- However, all asset classes are well within the maximum strategic allocation limit.
- The Fund transitioned all holdings (£107.8m) from the BlackRock Emerging Markets Index Funds into the Comgest Growth Emerging Markets Fund with the monies settling on 10 September 2021.
- Following quarter end, assets were transitioned from the LGIM Passive Equity Fund to finance investments into the Blackstone GP Stakes Fund and the BTG Pactual Fund.

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.

Agenda Item 8

Item No. 8	Classification: Open	Date: 22 December 2021	Meeting Name: Pensions Advisory Panel
Report title:		Launch of New Investment Strategy	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

The PAP is asked to:

- Agree the final version of the Investment Strategy Statement as Appendix A.
- Agree the updated investment strategy to achieve net zero carbon exposure by 2030 as Appendix B.

1. **Background**

- 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.
- 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.
- 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.
- 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.

2. **Consultation**

- A two-week formal consultation on the new Investment Strategy Statement has been conducted with scheme employers, with no responses being received.

3. **Revised Investment Strategy**

- 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.
- 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.

4. **Next Steps**

- The investment strategy statement and revised investment strategy, to achieve net zero carbon by 2030, have been amended to take account of comments raised at the last PAP meeting in September 2021. PAP members are asked to agree the final version of both documents.
- Following agreement, the new investment strategy will be launched on the pension fund website.

Community, Equalities (including socio-economic) and Health Impacts

5. **Community Impact Statement**

No immediate implications arising.

6. **Equalities (including socio-economic) Impact Statement**

No immediate implications arising.

7. **Health Impact Statement**

No immediate implications arising.

8. **Climate Change Implications**

No immediate implications arising.

9. **Resource Implications**

No immediate implications arising.

10. **Legal Implications**

No immediate implications arising.

11. **Financial Implications**

No immediate implications arising.

12. **Consultation**

No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance
Report Author	Caroline Watson, Senior Finance Manager, Treasury & Pensions
Version	Final
Dated	14 December 2021
Key Decision?	No

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		15 December 2021

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 values as defined in the Borough Plan, in particular, the value of "spending money as if it were from our own pocket."

https://moderngov.southwark.gov.uk/documents/s92006/Appendix%20A%20Southwarks%20Borough%20Plan%202020.pdf

The pension fund has its own climate strategy and goals which are consistent with council targets to become carbon neutral by 2030. This is 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.

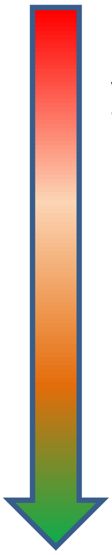
- The Fund will be comprehensive in the consideration of risks; the Fund will base assessments of risk on future pension liabilities and contributions, will consider financial and non-financial risks, diversify investment assets in an appropriate manner, but also recognise the limits of that diversification. 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.

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 and timberland 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	45.0	Passive 30.0	60.0	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 inflation protection.	Reduced Carbon
		Pooled Fund 6.0			Reduced Carbon

Sustainable Infrastructure	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
Bereavement Services	5.0	Limited partnership 5.0	10.0	ESG priority allocation. Focus on investments with strong ESG and, in particular, low carbon credentials.	Reduced
Timberland					Zero
Private Equity					Reduced

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 an 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)
Investment Income	14,324	15,432	15,287)	15,287	12,636

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
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.

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

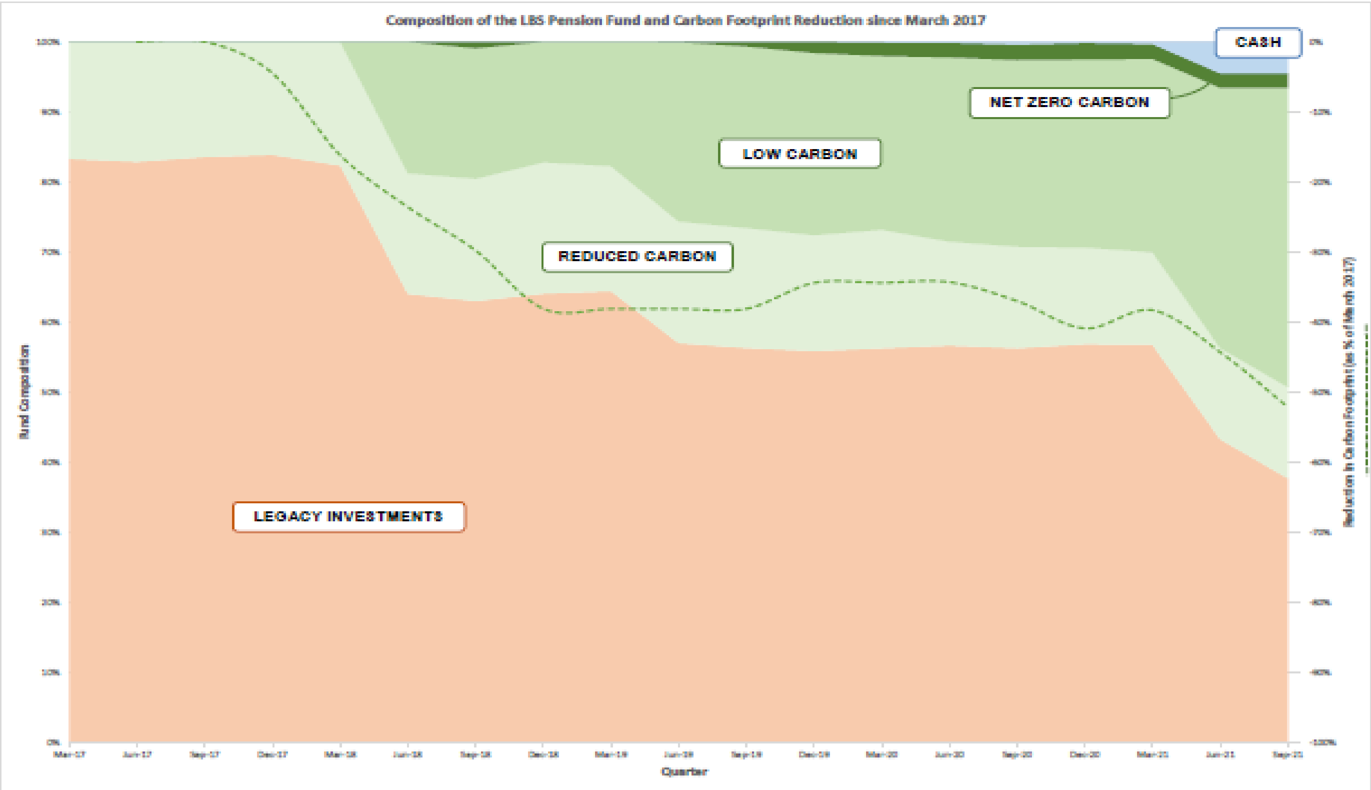
In creating this statement, the Fund has taken advice from its investment consultant, independent adviser and has sought the views of the Local Pension Board. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, advice has been taken from its investment 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 Growth 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
BlackRock	Sustainable Infrastructure	10% p.a. absolute return	1.5	-	Zero carbon
Legal & General	Low carbon passive Global Equities	MSCI World Low Carbon Target	15.0	-	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
Comgest	Active Emerging Market Equities	MSCI Emerging Markets – Net Return	5.0	-	Low 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 return	1.5	-	Reduced carbon
M&G	PRS Property	8.0% p.a. absolute return	1.5	-	Reduced 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
Temporis	Sustainable Infrastructure	11-12% p.a. absolute return	1.0	-	Zero carbon
Blackstone	Private Equity	12-14% p.a. absolute return	2.5	-	Reduced carbon
Darwin	Bereavement Services	6-8% p.a. absolute return	1.0	-	Reduced carbon
BTG Pactual	Timberland	12-14% 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. These objectives must now be considered in the context of the global climate emergency and the need to reduce exposure to carbon investments, a key thrust to this strategy.

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, but this will be challenged as the fund strives to reduce exposure to fossil fuels.

To achieve the twin objectives while reducing carbon exposure, 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. This will require additional resources, support and advice in order to deliver the positive outcomes being targeted. It will also require increasingly sophisticated management reporting for control and monitoring of performance.

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.

The Net Zero Challenge

A developing risk to investment and to the Southwark fund is from 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.

Recent Background

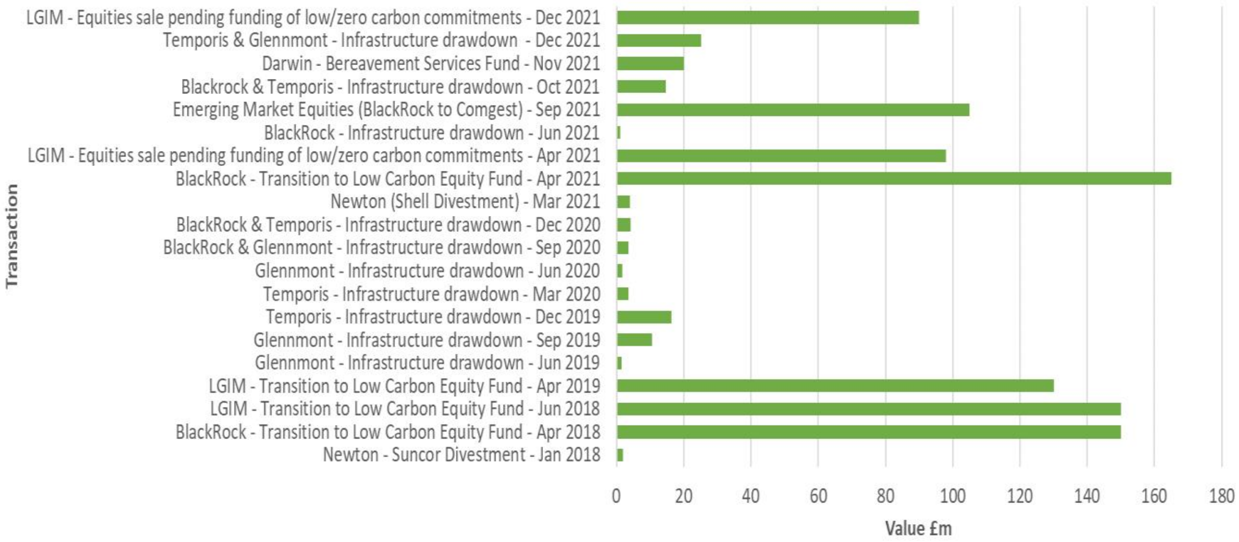
On 13 December 2016, after due consideration of the long term risk to the Fund; the Fund announced that investments in fossil fuel companies would be cut over the long term. This commitment was incorporated into the Investment Strategy Statement for the Fund published in March 2017 and updated in December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

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

make such a commitment and places the Fund at the forefront of sustainable fossil fuel aware investment.

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.

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 50%. 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:



Progress by Asset Class

The availability of suitable investment products, which meet the Fund's requirements, has influenced progress made within each asset class the Fund is invested in. This can be demonstrated by the fact that 100% of the Fund's holdings in equities had been transferred to low or reduced carbon investments by September 2021. In comparison, the Fund's defensive allocation, (15%) which includes investments in absolute return bonds and index linked gilts, remains in non-low carbon investments due to the lack of availability of suitable replacements. The progress to date by asset class is set out in detail 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 Global 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 45% strategic allocation to equities now being entirely in low or reduced 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 has both low carbon and strong ESG credentials. Commitments to three new investments have been approved within this allocation, with the majority expected to be invested by the end of March 2022. Commitments have been made with Blackstone Capital Holdings (private equity); Darwin Alternative Investment Management (bereavement services); and BTG Pactual Timberland Investment Group.

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 four funds that specifically include investments in solar and wind power technologies identified by the fund managers.

Measurement of Progress

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 50% 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 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 to 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 30%. 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 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. 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. Where appropriate, 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: five-seven years (2027-2029)
- The long term: year eight (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 short term will incorporate the results of the 2022 and 2025 triennial actuarial valuations. 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 direct 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 up to 50% being transferred in the short term and the remainder in the medium term once performance of these new investments has been reviewed.
- Active equity mandate to be assessed against zero carbon target and if not achieved move to new zero carbon mandate.
- 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.
- Review performance of holding in the Comgest Global Emerging Markets Plus Fund in terms of both performance against benchmark and carbon emissions.

- Consolidate new mandates allocated in 2021-22. (These include Comgest Global Emerging Markets Plus Fund, Blackstone Strategic Capital Holdings II, Temporis Impact V Fund, Darwin Bereavement Services Fund; and BTG Pactual Timberland Fund).
- Assess carbon objectives in the context of the results of the 2022 and 2025 triennial actuarial valuations.
- 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.
- A formal update and refresh of the investment strategy will take place in 2026.

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 achieving 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.
- Develop enhanced carbon measurement for property investments and review the management and monitoring of carbon in the property allocation.
- 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.

<u>Medium Term – From 2027 to 2029</u>

Triennial Actuarial Valuation and Investment Strategy Review

- The medium term will incorporate the results of the 2028 triennial actuarial valuation and will constitute a key point 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.
- 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. If it is not possible to achieve zero carbon within this asset class suitable alternative asset classes, which meet the Fund's strategic requirements, will be identified as a replacement.
- Balance of low carbon passive 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.
- Complete the migration of the current diversified growth, index linked gilts and absolute return bond holdings into reduced and zero carbon products.
- Further review of holding in the Comgest Emerging Markets Plus Fund, with action being taken if investment performance or zero carbon targets are not being achieved.

- Formal review of the performance of the zero carbon sustainable infrastructure investments and maintenance of the pipeline of commitments to maintain the strategic allocation to this asset class. Make adjustments to holdings in this asset class if necessary.
- Review the performance and carbon emissions of the reduced carbon private equity holding with Blackstone. Make adjustments if required, subject to the availability of alternatives.
- Review the holding in the Darwin Bereavement Services Fund and consider suitable replacements if performance and carbon targets are not being achieved.

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 strategic 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.
- A survey of scheme members will be conducted which will include scheme governance, administration and investments. The results will be considered when assessing actions to be taken over the long term.

<u>Long Term: 2030</u>

Triennial Actuarial Valuation and Investment Strategy Review

- The Fund will continue to assess the overall investment strategy as required to meet the pension benefits for members. 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 that 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.
- Final tuning to complete carbon neutral objectives.
- Final application of negative carbon offsets from the Fund's sustainable infrastructure holdings.
- Review carbon emissions performance of private equity holding.
- 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.

Agenda Item 10

Item No. 10	Classification: Open	Date: 22 December 2021	Meeting Name: Pensions Advisory Panel
Report title:		Pension Fund Statement of Accounts & Audit Findings Report 2020-21	
From:		Senior Finance Manager, Treasury and Pensions	

Recommendations

The PAP is asked to:

- Note the attached Pension Fund Statement of Accounts for the financial year 2020-21 as Appendix A.

- Note the draft Pension Fund Audit Findings report as issued by Grant Thornton as Appendix B.

Background Information

1. The pension fund statement of accounts for 2020-21 was submitted for audit by the 31 May 2021 statutory deadline, with the pension fund annual report following in November 2021.

2. Grant Thornton completed additional work this year including a hot review of the pension fund accounts. This was conducted by a technical team separate from the team auditing the accounts and resulted in additional queries and information requests during the course of the audit. Following the completion of the hot review, recommendations were agreed on improvements to the narrative in the notes to the accounts.

Audit Opinion

3. The audit of the pension fund is almost complete. It was delayed due to resource issues at Grant Thornton.

4. Grant Thornton has confirmed the intention is to grant an unqualified opinion on the council and pension fund statement of accounts. The draft findings report by Grant Thornton on the pension fund statement of accounts is attached as Appendix B.

5. The purpose of Grant Thornton's Audit Findings Report (AFR) is to detail their findings and matters arising during the course of auditing the financial statements. As part of the audit, a small number of

minor presentational issues were identified. No adjustments to the pension fund's overall reported financial position has been required.

6. At the time of writing this report, the audit opinion is expected by 17 December.

Community, Equalities (including socio-economic) and Health Impacts

7. **Community Impact Statement**

No immediate implications arising.

8. **Equalities (including socio-economic) Impact Statement**

No immediate implications arising

9. **Health Impact Statement**

No immediate implications arising

10. **Climate Change Implications**

No immediate implications arising

11. **Resource Implications**

No immediate implications arising

12. **Legal Implications**

No immediate implications arising

13. **Financial Implications**

No immediate implications arising

14. **Consultation**

No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Caroline Watson, Senior Finance Manager	
Version	Final	
Dated	14 December 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		15 December 2021

PENSION FUND

2020-21

LONDON BOROUGH OF SOUTHWARK PENSION FUND STATEMENT OF ACCOUNTS

FUND ACCOUNT

	Note	2020-21		2019-20	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	6	(60,237)		(55,151)	
Transfers in from other pension funds	7	(9,475)		(10,636)	
Subtotal			**(69,712)**		**(65,787)**
Benefits	8	61,446		59,692	
Payments to and on account of leavers	9	6,134		11,692	
Subtotal			**67,580**		**71,384**
Net reduction/(addition) from dealing with members of the fund			**(2,132)**		**5,597**
Management expenses	10		10,838		8,881
Net additions plus management expenses			**8,706**		**14,478**
Returns on investments					
Investment income	11	(13,175)		(15,578)	
Taxes on income	11	539		291	
Profit and losses on disposal of investments and changes in market value of investments	12	(363,153)		61,254	
Net return on investments			**(375,789)**		**45,967**
Net (increase)/decrease in the net assets available for benefits during the year			**(367,083)**		**60,445**
Opening net assets of the scheme			(1,581,541)		(1,641,986)
Net assets of the scheme available to fund benefits as at 31 March			**(1,948,624)**		**(1,581,541)**

NET ASSETS STATEMENT

	Note		31 March 2021 £000		31 March 2020 £000
Investment assets	12		1,928,101		1,542,755
Current assets	13		24,693		44,238
Current liabilities	13		(4,170)		(5,452)
Net assets of the scheme available to fund benefits as at 31 March			**1,948,624**		**1,581,541**

The fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The estimated actuarial present value of promised retirement benefits is disclosed at note 19.

NOTES TO THE PENSION FUND STATEMENTS

1.INTRODUCTION

The Pension Fund (the fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Southwark Council (the council).

The following description of the fund is a summary only. For more detail, reference should be made to the pension fund annual report and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the LGPS Regulations.

a) General

The scheme is governed by the Public Service Pension Act 2013. The fund is administered in accordance with the following secondary legislation:
- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit scheme that provides pensions and other benefits for former employees of the council and other admitted organisations.

The overall investment strategy is the responsibility of the council as the administering authority of the fund. This responsibility is delegated to the Strategic Director of Finance and Governance, taking account of the advice of the pensions advisory panel. In line with the provisions of the Public Services Pensions Act 2013, the council has set up a local pension board to assist the council in its role as scheme manager of the Pension Fund. The board meets on a quarterly basis and has its own terms of reference. Board members are independent of the pensions advisory panel.

b) Membership

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

Organisations participating in the fund include:

- Scheduled bodies, which are largely academies and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A list of participating organisations and their contributions for the financial year is included within the pension fund annual report. This is available from the council website.

	31 March 2021	**31 March 2020**
Number of contributors to the fund	7,126	6,888
Number of contributors and dependants receiving allowances	7,988	7,887
Number of contributors who have deferred their pensions	9,883	10,932

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2019. For the 2020-21 financial year primary employer contribution rates ranged from 7.3% to 18.4% of pensionable pay, plus additional deficit payments where appropriate.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014 the scheme became a career average scheme.

	Service pre 1 April 2008	Service post 31 March 2008	From 1 April 2014
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is accrued at 1/49 of pensionable pay for the year
Lump sum	Automatic lump sum of 3 x pension. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	

In June 2020 the pension fund made a self-declaration to the Pensions Regulator with regard to the late processing of pension uplifts due to a payroll issue. The issue was resolved and all increases and arrears were paid in July 2021.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2020-21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. The employer payroll contribution percentage rates are set by the fund based on advice of the fund actuary. Employee rates are set in Regulations.

Deficit funding contributions as advised by the fund actuary are accounted for on an accruals basis.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations. Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

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

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

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset. Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

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

d) Fund account – benefits payable

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

e) Fund account – taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

All administrative expenses are accounted for on an accruals basis. All staff costs of pensions administration are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

All investment management expenses are accounted for on an accruals basis. Fees for the fund managers and custodian are agreed in the respective mandates governing their appointments and are based broadly on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Net Asset Statement

g) Financial assets

Investment assets are included in the net assets statement on a fair value or amortised cost basis as at the reporting date. Cash held by fund managers and the funds own cash are at amortised cost.

A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. Details of the basis of valuation and disclosure levels within the fair value hierarchy are provided at note 13.

Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.

h) Freehold and leasehold property

Property assets have been included in the accounts at fair value as at 31 March each year. The valuation of direct property managed by Nuveen is carried out annually by an independent valuer.

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial liabilities

The fund recognises financial liabilities at fair value or amortised cost as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (note 19).

m) Additional voluntary contributions

The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVC assets are not included in the accounts but are disclosed as a note (note 6).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies in Note 3 the council has had to make critical judgements about complex transactions and those involving uncertainty about future events. There were no such critical judgements made during 2020-21.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The statements contain estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations, as indicated in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits	This applies to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The approximate impact of changing the key assumptions on the present value of retirement benefits are: - an 0.1% change in the discount rate would be +/- £51m - an 0.1% change in the rate at which salaries are projected to increase would be +/- £5m - an 0.1% change in the rate of pension increase would be +/- £47m - a one year change in mortality assumptions would be +/- £94m
Freehold and leasehold property and pooled property	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible, management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation, estimated to be 7% would be an increase or decrease in the value of property of £18m, on a fair value of £255m.

6. CONTRIBUTIONS RECEIVABLE

Contributions represent the total amount receivable from employees and employers of the scheme.

	2020-21			2019-20		
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark council	(12,463)	(42,334)	(54,797)	(11,904)	(38,308)	(50,212)
Admitted bodies	(315)	(884)	(1,199)	(270)	(805)	(1,075)
Scheduled bodies	(1,229)	(3,012)	(4,241)	(1,128)	(2,736)	(3,864)
Total	**(14,007)**	**(46,230)**	**(60,237)**	**(13,302)**	**(41,849)**	**(55,151)**

Contributions receivable from employers are shown below:

	2020-21 £000	2019-20 £000
Normal	(36,416)	(29,475)
Early retirement strain	(2,221)	(356)
Deficit funding	(7,593)	(12,018)
Total contributions from employers	**(46,230)**	**(41,849)**
Contributions from employees	(14,007)	(13,302)
Total	**(60,237)**	**(55,151)**

During 2020-21 employees made additional voluntary contributions (AVCs) of £0.3m (£0.3m in 2019-20). The value of the AVCs at 31 March 2021 was £3.6m (£2.8m at 31 March 2020).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2020-21 £000	2019-20 £000
Individual transfers	(9,475)	(10,636)
Total	**(9,475)**	**(10,636)**

8. BENEFITS PAYABLE

The table below shows the types of benefit payable by category:

	2020-21 £000	2019-20 £000
Pensions	53,003	50,347
Commutation of pensions and lump sum retirement benefits	7,147	8,108
Lump sums - death benefits	1,296	1,237
Total	**61,446**	**59,692**

The table below shows the total benefits payable grouped by entities:

	2020-21 £000	2019-20 £000
Southwark council	58,722	56,682
Admitted bodies	2,106	2,049
Scheduled bodies	618	961
Total	**61,446**	**59,692**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020-21 £000	2019-20 £000
Refund of contributions	121	430
Individual transfers out to other schemes	6,013	11,262
Total	**6,134**	**11,692**

10. MANAGEMENT EXPENSES

	2020-21 £000	2019-20 £000
Administrative costs	3,690	2,677
Investment and management expenses	6,661	5,632
Oversight and governance costs	487	572
Total	**10,838**	**8,881**

The 2020-21 fee for external audit services for the pension fund is £36,170 (£32,396 in 2019-20). Revised fees for both 2019-20 and 2020-21 are as agreed with the external auditor and the Public Sector Audit Appointments Ltd (PSAA).

The Pension Fund incurred expenses of £0.9m in relation to services provided by the council during 2020-21 (£0.9m during 2019-20).

The table below provides an analysis of investment and management expenses by fund manager:

	2020-21			2019-20		
	Fees £000	Transaction costs £000	Total £000	Fees £000	Transaction costs £000	Total £000
Nuveen	626	3,139	3,765	1,243	1,618	2,861
Newton Investment Management	1,038	-	1,038	1,019	-	1,019
BlackRock	702	-	702	473	-	473
Brockton Capital LLP	144	214	358	59	-	59
M and G Real Estate	205	-	205	201	-	201
London collective investment vehicle	205	-	205	89	-	89
Invesco Real Estate	158	-	158	167	-	167
Frogmore Real Estate Partners	65	-	65	130	-	130
Legal and General Investment Managers	53	-	53	73	-	73
Glenmont	-	-	-	470	-	470
Temporis	-	-	-	7	-	7
	3,196	**3,353**	**6,549**	**3,931**	**1,618**	**5,549**
Custody costs			112			83
Total			**6,661**			**5,632**

Performance fees in 2020-21 were nil (nil in 2019-20). Transaction costs include property management expenses.

11. INVESTMENT INCOME

	2020-21 £000	2019-20 £000
Dividends from equities	(4,278)	(4,533)
Income from pooled investment vehicles	(1,061)	(1,963)
Rent from properties	(7,814)	(9,069)
Interest on cash deposits	(22)	(13)
Total before taxes	**(13,175)**	**(15,578)**
Taxes on income	539	291
Total after taxes	**(12,636)**	**(15,287)**

12. INVESTMENT ASSETS

	31 March 2021 £000	31 March 2020 £000
Bonds		
Quoted overseas	-	6,177
Equity		
Quoted UK	34,648	25,195
Quoted overseas	198,877	140,725
Pooled Funds		
Fixed income overseas	135,739	120,788
Index linked gilts UK	159,852	153,575
Multi asset overseas	192,740	163,023
Unitised Insurance Policy		
Equity overseas	907,070	651,416
Property		
Direct property UK	187,470	189,550
Property unit trust UK	67,784	56,420
Infrastructure	41,247	31,803
Derivatives		
Forward currency contracts	-	222
London collective investment vehicle	150	150
Other investment balances	2,524	3,711
Total	**1,928,101**	**1,542,755**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year. The table below shows the movement in investment assets and the change in market value for the year:

	Opening balance	Purchases	Sales	Change in market value	Cash movement	Value as at 31 March 2021
	£000	£000	£000	£000	£000	£000
Bonds	6,177	8,731	(14,642)	(266)	-	-
Equity	165,920	54,707	(48,963)	61,861	-	233,525
Pooled funds	437,386	(11,563)	(8,658)	71,166	-	488,331
Unitised insurance policy	651,416	31,785	(11,040)	234,910	-	907,070
Property	245,970	19,777	(5,523)	(4,970)	-	255,254
Infrastructure	31,803	10,549	(2,031)	926	-	41,247
Derivatives	222	1,051	(799)	(474)	-	-
London collective investment vehicle	150	-	-	-	-	150
Other investment balances	3,711	-	-	-	(1,187)	2,524
Total	**1,542,755**	**115,037**	**(91,656)**	**363,153**	**(1,187)**	**1,928,101**

	Opening balance	Purchase	Sales	Change in market value	Cash movement	Value as at 31 March 2020
	£000	£000	£000	£000	£000	£000
Bonds	7,700	32,410	(34,393)	460	-	6,177
Equity	172,401	52,712	(47,120)	(12,073)	-	165,920
Pooled funds	441,856	383	-	(4,853)	-	437,386
Unitised insurance policy	716,671	122,200	(151,564)	(35,891)	-	651,416
Property	290,129	6,182	(41,289)	(9,052)	-	245,970
Infrastructure	-	32,454	(426)	(225)	-	31,803
Derivatives	90	3,101	(3,349)	380	-	222
London collective investment vehicle	150	-	-	-	-	150
Other investment balances	2,248	-	-	-	1,463	3,711
Total	**1,631,245**	**249,442**	**(278,141)**	**(61,254)**	**1,463**	**1,542,755**

The Pension Fund does not hold derivatives as a main asset class, but they are used by Newton Investment Management, the council's active equity fund manager, to hedge the currency risk of holding global equities. The currency forward contracts are traded over the counter.

The valuation of direct property managed by Nuveen is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2021. All properties have been valued at market value.

The investment strategy statement can be accessed on the council's website. Alternatively a copy can be obtained on request from the Strategic Director of Finance and Governance, Southwark council, finance and governance, PO Box 64529, London SE1P 5LX.

The following investments represent more than 5% of investment assets at 31 March 2021.

Name of investment	Fund manager	31 March 2021	% of investment assets	31 March 2020	% of investment assets
		£000	%	£000	%
Low Carbon Target	Legal and General	365,710	19%	263,047	17%
Diversified Growth Fund	BlackRock	192,740	9%	163,023	11%
Low Carbon Target	BlackRock	167,117	9%	123,200	8%
Absolute Return Bond Fund	BlackRock	135,739	7%	120,788	8%
US Equity Fund	BlackRock	107,691	6%	77,284	5%

The market value of assets (excluding cash and accruals) managed by the investment managers at the balance sheet date 31 March 2021 has been set out in the table below.

	31 March 2021		31 March 2020	
	£000	%	£000	%
BlackRock	852,375	44%	673,584	44%
Legal and General Investment Managers	546,514	27%	415,217	27%
Nuveen	189,772	13%	195,651	13%
Newton Investment Management	233,526	11%	172,320	11%
M and G Real Estate	22,421	1%	22,358	1%
Invesco Real Estate	30,271	1%	14,953	1%
Glennmont	13,940	1%	11,700	1%
Temporis	23,818	1%	20,103	1%
Frogmore Real Estate Partners	7,365	1%	8,822	1%
Brockton Capital LLP	5,425	0%	4,186	0%
London collective investment vehicle	150	0%	150	0%
Total	**1,925,577**	**100%**	**1,539,044**	**100%**

13. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

	31 March 2021 £000	31 March 2020 £000
Contribution due from employers	5,789	1,116
Other current assets	3,149	2,717
Cash at managers	10,568	18,448
Cash and bank	5,187	21,957
Total	**24,693**	**44,238**

The current liabilities of the fund are analysed as follows:

	31 March 2021 £000	31 March 2020 £000
Benefits	-	(15)
Professional fees	(1,964)	(2,283)
Investment	(1,518)	(2,072)
Taxes	(687)	(604)
Other	(1)	(478)
Total	**(4,170)**	**(5,452)**

14. RELATED PARTY TRANSACTIONS

The Pension Fund is required to disclose details of its financial relationship with related third parties. This has been defined as relationships that might materially prevent the fund from pursuing its separate interests or that might allow the fund to prevent another party from pursuing its interests independently, with material effect for the fund.

Through its administration of the fund, the fund has a related party interest with the council. The council charged the fund £0.9m in 2020-21 (£0.9m in 2019-20). Management of the Pension Fund is the responsibility of the council's Strategic Director of Finance and Governance and a small proportion of the costs of this post were apportioned to the fund in 2019-20 and 2020-21.

No officers' remuneration is paid directly by the fund; costs are instead recovered as part of the costs disclosed in note 10.

The pension advisory panel (PAP) offers advice to the Strategic Director of Finance and Governance. Councillor members of the PAP make an annual declaration of their interests which is available on the council's website.

The council is also the single largest employer of members of the Pension Fund and contributed £42.3m to the fund in 2020-21 (£38.3m in 2019-20).

15. FAIR VALUE HIERARCHY

The valuation of financial instruments has been classified into three levels in accordance with IFRS 13, according to the quality and reliability of information used to determine fair values.

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

Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments – overseas unit trusts and some property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required
Freehold, leasehold properties	Level 3	Valued at fair value at the year-end by independent valuers	Existing lease terms and rentals; Independent market research; Nature of tenancies; Covenant strength for existing tenants; Assumed vacancy levels; Estimated rental growth; Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Infrastructure funds	Level 3	Valued at fair value as provided by the fund manager	Purchase price at acquisition for newer or non-operational assets, estimated cash flows, government price support	Market prices and cash yields, government policies on energy subsidies, pace of shift to renewable and clean energy, discount rates

The following table shows the fair value valuation hierarchy of fund assets and liabilities.

Value as at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	1,300,447	328,629	109,031	**1,738,107**
Non-financial assets at fair value through profit and loss	-	-	187,470	**187,470**
Total	**1,300,447**	**328,629**	**296,501**	**1,925,577**

Value as at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	977,310	283,961	88,223	**1,349,494**
Non-financial assets at fair value through profit and loss	-	-	189,550	**189,550**
Total	**977,310**	**283,961**	**277,773**	**1,539,044**

The following table shows the reconciliation of fair value measurements within level 3.

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	Value as at 31 March 2021 £000
Property	245,970	19,777	(5,523)	3,098	(8,068)	**255,254**
Infrastructure	31,803	10,549	(2,031)	(260)	1,186	**41,247**
Total	**277,773**	**30,326**	**(7,554)**	**2,838**	**(6,882)**	**296,501**

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	Value as at 31 March 2020 £000
Property	290,129	6,182	(41,289)	5,001	(14,053)	**245,970**
Infrastructure	-	32,454	(426)	-	(225)	**31,803**
Total	**290,129**	**38,636**	**(41,715)**	**5,001**	**(14,278)**	**277,773**

Sensitivity of assets valued at level 3

Having analysed historical data, information received from valuers and the valuation techniques of fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges:

Value as at 31 March 2021	Assessed valuation range	Valuation as at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Property	7%	255,254	273,122	237,386
Infrastructure funds	5%	41,247	43,310	39,185
Total		**296,501**	**316,432**	**276,571**

16. FINANCIAL INSTRUMENTS

The following table shows the classification of the Pension Fund's financial instruments:

	31 March 2021 £000	31 March 2020 £000
Financial assets		
Fair value through profit and loss	1,738,105	1,349,494
Amortised cost	21,429	46,833
Financial liabilities		
Amortised cost	(4,170)	(5,452)
Total	**1,755,364**	**1,390,875**

17. CONTINGENT LIABILITIES AND CONTRACTUAL ARRANGEMENTS

Outstanding capital commitments (investments) at 31 March 2021 totalled £65.6m (31 March 2020: £76.8m).

These commitments relate to outstanding call payments due on property and infrastructure funds. The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of each original commitment.

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Pension Fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Strategic Director of Finance and Governance advised by the pensions advisory panel. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

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

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk

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

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

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

Potential price changes are determined based on historical data and volatility of asset class returns. For example, 'riskier' assets such as equities will display greater potential volatility than bonds. The following table demonstrates the change in the net assets available to pay benefits, if the market price had increased or decreased. In consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible:

2020-21 - asset type	**31 March 2021 £000**	**Change %**	**Value on increase £000**	**Value on decrease £000**
Total equities	1,140,745	13%	1,290,923	990,567
Total bonds and indexed linked	295,591	6%	312,883	278,299
Multi-asset	192,740	6%	204,316	181,164
Alternatives	41,247	3%	42,480	40,014
Property	255,254	2%	260,970	249,538
Other assets	2,524	0%	2,524	2,524
Total	**1,928,101**			

2019-20 - asset type	**31 March 2020 £000**	**Change %**	**Value on increase £000**	**Value on decrease £000**
Total equities	817,707	11%	904,377	731,079
Total bonds and indexed linked	280,541	5%	294,894	266,188
Multi-asset	163,023	5%	171,686	154,361
Alternatives	31,803	3%	32,672	30,933
Property	245,970	3%	253,766	238,172
Other assets	3,711	0%	3,711	3,711
Total	**1,542,755**			

The potential changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the table above.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Fixed interest securities are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%:

Assets exposed to interest rate risks	**Market value £000**	**Value on 1% rate increase £000**	**Value on 1% rate decrease £000**
As at 31 March 2021	**135,739**	**137,096**	**134,382**
As at 31 March 2020	**126,966**	**128,236**	**125,696**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. A strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

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

Assets exposed to currency risk	**Value**	**Change**	**Value on foreign exchange rate increase**	**Value on foreign exchange rate decrease**
	£000	**%**	**£000**	**£000**
As at 31 March 2021	1,239,367	10	1,363,304	1,115,430
As at 31 March 2020	912,962	10	1,004,258	821,666

Analysis by currency	**31 March 2021 £000**	**31 March 2020 £000**
GB pound sterling (GBP)	1,035,079	762,109
US dollar (USD)	111,500	77,694
Euro (EUR)	36,173	32,335
Japanese yen (JPY)	16,070	8,817
Hong Kong dollar (HKD)	13,216	5,391
Swiss franc (CHF)	9,918	12,843
South Korean won (KRW)	5,958	2,874
Swedish krona (SEK)	4,377	2,757
Thai baht (THB)	4,065	1,826
Danish krone (DKK)	3,011	-
Canadian dollar (CAD)	-	3,637
Norwegian krone (NOK)	-	2,679
Total	**1,239,367**	**912,962**

Credit risk

This is the risk the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. For example a stock may lose value or a dividend due may not be paid. The fund's entire investment portfolio is therefore exposed to some form of credit risk. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund has set out a series of restrictions in each investment manager's agreement. These restrictions are intended to limit the risks from each individual investment and prevent unsuitable investment activity. The Fund also employs a global custodian to ensure that all transactions are settled in a timely manner.

Liquidity risk

This is the risk that the Pension Fund may not have the funds available to meet payments as they fall due. Historically the Fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However, in recent years this has reversed with benefits paid now surpassing contributions received. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the Fund going forward.

The Fund currently has two bank accounts. One is held by the global custodian and holds cash relating to investment activities, the other is the Pension Fund bank account, which holds the cash relating to member activities.

There is a strategy in place to forecast all income and expenditure for the Fund to ensure that sufficient funds will be made available to meet short-term commitments. In the event that there are insufficient available assets to meet liabilities when they fall due, the Fund would be able to redeem investment assets and recall cash resources from investment managers at short notice to meet this requirement.

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

IAS 26 (retirement benefit plans) requires the 'actuarial present value of promised retirement benefits' to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2019.

	31 March 2019 £m	**31 March 2016 £m**
Fair value of net assets	1,642	1,256
Actuarial present value of promised retirement benefits	(2,192)	(1,671)
Surplus/(deficit) in the fund as measured for IAS 26	**(550)**	**(415)**

20. ACTUARIAL POSITION OF THE FUND

Statement of the Actuary for the year ended 31 March 2021

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £1,642.0m) covering 103% of the liabilities allowing, in the case of pre-1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay, and for other membership for future pension revaluation and increases.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

   18.3% p.a. of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

   Plus

   an allowance of 1.5% p.a. of pensionable pay for McCloud and Cost Management – see paragraph 9 below,

   Less

   1.5% p.a. of pensionable pay to remove surplus, over a recovery period of 20 years from 1 April 2020 (which together with the allowance above for McCloud and Cost Management comprises the secondary rate).

3. In practice, each individual employer's or group of employers' position is assessed separately taking into account other factors (see note 4 below) and contributions are set out in Aon's report dated 30 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities such as those arising from early retirements and ill-health retirements will be made to the Fund by the employers.

   Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£m)
2020	21.8	0.03
2021	21.6	-
2022	21.1	-

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate and stepping of contribution changes and grouping of employer contributions as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances. This included an agreement that where employers are in surplus, this has only led to an adjustment in contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities (i.e. to the extent that the employer's funding level is greater than 110%).

5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	4.05% p.a.
Discount rate for periods after leaving service	4.05% p.a.
Rate of pay increases	3.60% p.a.
Rate of increase to pension accounts	2.10% p.a.
(in excess of Guaranteed Minimum Pension)	2.10% p.a.

   The assets were valued at market value.

   Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2 Heavy mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic HorizonsTM longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Core Projections Model (CMI2018), with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	20.7	23.5
Future pensioners aged 45 at the valuation date	22.5	25.4

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 30 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

Increases to Guaranteed Minimum Pensions (GMPs):

The 2019 valuation allows for the extension of the ‘interim solution’ for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer-term solution to achieve equalisation for GMPs as required by the High Court Judgement in the Lloyds Bank case. The response set out its proposed longer-term solution, which is to extend the interim solution further to those reaching SPA after 1 April 2021.

The results of the 2019 valuation do not allow for the impact of this proposed longer-term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

Cost Management Process and McCloud judgement:

Initial results from the Scheme Advisory Board 2016 cost management process indicated that benefit improvements/ member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was issued in July 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 1.5% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which did not take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the details of the LGPS changes arising from the McCloud judgement and (if applicable) arising from the 2016 cost management process have been agreed.

Work on the 2020 cost management process has now started, and it is possible that further changes to benefits and/or contributions may ultimately be required under the process, although the outcome is not expected to be known for some time.

Goodwin

An Employment Tribunal ruling relating to Teachers' Pension Scheme concluded that provisions for survivor's benefits of a female member in an opposite sex marriage are less favourable than for a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. The chief secretary to the Treasury announced in a written ministerial statement on 20 July 2020 that he believed that changes would be required to other public service pension schemes with similar arrangements, although these changes are yet to be reflected in LGPS regulations. We expect the average additional liability to be less than 0.1%, however the impact will vary by employer depending on their membership profile.

10. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

    This Statement must not be considered without reference to the formal actuarial valuation report which details the context and limits of the actuarial valuation.

    Aon does not accept any responsibility or liability to any party other than our client, the London Borough of Southwark, the Administering Authority of the Fund, in respect of this Statement.

11. The report on the actuarial valuation as at 31 March 2019 is available on request from the London Borough of Southwark, the Administering Authority of the Fund.

Aon Hewitt Limited
May 2021

21. POST BALANCE SHEET EVENTS

No such material events have occurred.

Item No. 11	Classification: Open	Date: 22 December 2021	Meeting Name: Pensions Advisory Panel
Report title:		Actuarial Funding Update – September 2021	
From:		CIPFA Trainee, Treasury & Pensions	

Recommendation

The PAP is asked to:

- Note the updated funding position at 30 September 2021.

Background

1. 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 £47m.

2. 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

3. The funding level at 30 September 2021 was 114% (114% at 30 June 2021). The surplus has decreased by £4m in the quarter to September 2021. This small change is due to a slight fall in the net discount rate increasing liabilities. This has however mostly been offset by better than expected asset returns.

Community, Equalities (including socio-economic) and Health Impacts

4. **Community Impact Statement**

   No immediate implications arising.

5. **Equalities (including socio-economic) Impact Statement**

   No immediate implications arising.

6. **Health Impact Statement**

   No immediate implications arising.

7. **Climate Change Implications**

No immediate implications arising.

8. **Resource Implications**

No immediate implications arising.

9. **Legal Implications**

No immediate implications arising.

10. **Financial Implications**

No immediate implications arising.

11. **Consultation**

No immediate implications arising.

AUDIT TRAIL

<table>
<tr><td>Lead Officer</td><td colspan="2">Duncan Whitfield, Strategic Director of Finance and Governance</td></tr>
<tr><td>Report Author</td><td colspan="2">Jack Emery, CIPFA Trainee, Finance and Governance</td></tr>
<tr><td>Version</td><td colspan="2">Final</td></tr>
<tr><td>Dated</td><td colspan="2">14 December 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>15 December 2021</td></tr>
</table>

Item No. 13	Classification: Open	Date: 22 December 2021	Meeting Name: Pensions Advisory Panel
Report title:		Pension Services - administration function update	
Ward(s) or groups affected:		None	
From:		Pensions Manager, Finance and Governance	

RECOMMENDATION

1. The Pensions Advisory Panel (the **Panel**) is asked to note this update on the pensions administration function.

BACKGROUND INFORMATION

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

COVID-19 IMPLICATIONS

3. Prior to 13 December there had been a daily presence of pensions staff in Tooley Street. However, in line with recent Government guidance and Southwark HR advice, all staff have now been asked to work from home wherever possible.

IT/SYSTEMS

4. The Data Systems Team continue to test new Civica/UPM processes and data that has been mapped to the new system. Unfortunately, we have uncovered some formatting issues with SAP (pensioner) data which has meant Civica requiring more historical pensioner data from the existing admin system (Altair).

5. Whilst a go-live in Q1 2022 was achievable, it placed too much risk on three high profile projects - (employer year-end data submissions for Annual Benefit Statement production - Pension Increase for 8,000 members - and the data extraction requirements for the 2022 actuarial valuation). Therefore, go-live for both Pensioner Payroll and Admin will be aligned to 1 May 2022 (not phased).

6. Documents/imaging - the first transfer has been completed successfully with two more scheduled before the UPM system goes live.

7. The new system's web Member Portal and Employer Portal are in the development phase and will shortly move into the testing phase.

- The Member Portal includes many self-service enhancements on the current portal, particularly for pensioners, who will be able to manage their pension online and see monthly digital payslips.

- The **Employer** Portal includes monthly return functionality and adds a function for Pension Services to assign tasks to Southwark employers.

UK PENSIONS DASHBOARD PROGRAMME

8. Pension Services are staying informed and updated on the development of the nationwide Pensions Dashboard Programme, with team members attending webinars and receiving email updates. On-boarding and data/process testing begins in autumn 2022, carrying on until the public launch in autumn 2023.

9. The programme has published its preliminary data standards but not a specific data format. We have confirmed with Civica that once final data requirements are published, they will update the UPM system with the functionality to produce the data required. As it will be a national requirement for all pension schemes it will be introduced as a standard system function upgrade at no extra cost.

RECRUITMENT/STAFFING

10. In view of current Covid guidelines, recruitment of assistant level/apprentice roles will be postponed until early 2022.

PROGRESS TO DECEMBER 2021

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

COMMUNICATION INITIATIVES

11. An AVC information/awareness email will be issued shortly to active members.

12. Annual Allowance tax checks for 2020-21 are now complete with all affected members being contacted in early October 2021.

13. Communication review now underway for all pensions/payroll admin letters/statements as part of the move to UPM software. Wherever possible, communication will be in Plain English and Crystal Marked.

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

15. Training continues to be delivered to members, staff, HR and employers.

16. Winter 2021 newsletter will be finalised shortly and issued in paper and digital formats. It will include commentary on the Funds carbon journey.

COMPLAINT MANAGEMENT

- General Complaint - Co-Op Legal contacted the Fund in relation to the balance of pension due to the estate of a deceased member. Vendor creation process had delayed the payment. Balance has now been paid and case is closed.
- The Pensions Ombudsman (TPO) - a deferred member requested a transfer out to another pension provider but it was within 12 months of Normal Pension Age and is prohibited under the LGPS Regs/PSA93. Ongoing case with TPO.
- IDRP - lack of 'due diligence' claim against the Fund following the decision of a former deferred member to transfer out. As the transfer value was less than £30k the onus was on the former member/agent to obtain appropriate advice.
- General Complaint - member was kept on hold for 40 minutes on the phone with Contact Centre whilst trying to make contact with Pension Services. Member said they were 'uncomfortable' using email. Matter now resolved.
-

PERFORMANCE MONITORING

Attached as Appendix 1 is statutory data collected between 1 September 2021 and
30 November 2021. The format has been amended slightly to show how current performance compares to the previous metrics provided in September's report.

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

CONCLUSIONS

17. Retention of key staff with the necessary skills is critical to the achievement of future plans.

18. 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.

19. Performance monitoring remains an important part of the pensions function. The procurement of new Civica UPM software will allow Pension Services to develop workflow and task management, where more detailed Management Information can be extracted around performance. However, the Panel 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.

KEY ISSUES FOR CONSIDERATION

20. N/a

Policy framework implications

21. There are no immediate implications arising from this report.

Community, equalities (including socio-economic) and health impacts

Community impact statement

22. There are no immediate implications arising from this report.

Equalities (including socio-economic) impact statement

23. There are no immediate implications arising from this report.

Health impact statement

24. There are no immediate implications arising from this report.

Climate change implications

25. There are no immediate implications arising from this report.

Resource implications

26. There are no immediate implications arising from this report.

Legal implications

27. There are no immediate implications arising from this report.

Financial implications

28. There are no immediate implications arising from this report.

Consultation

29. There are no immediate implications arising from this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Governance

30. Not applicable.

Strategic Director of Finance and Governance

31. Not applicable.

Other officers

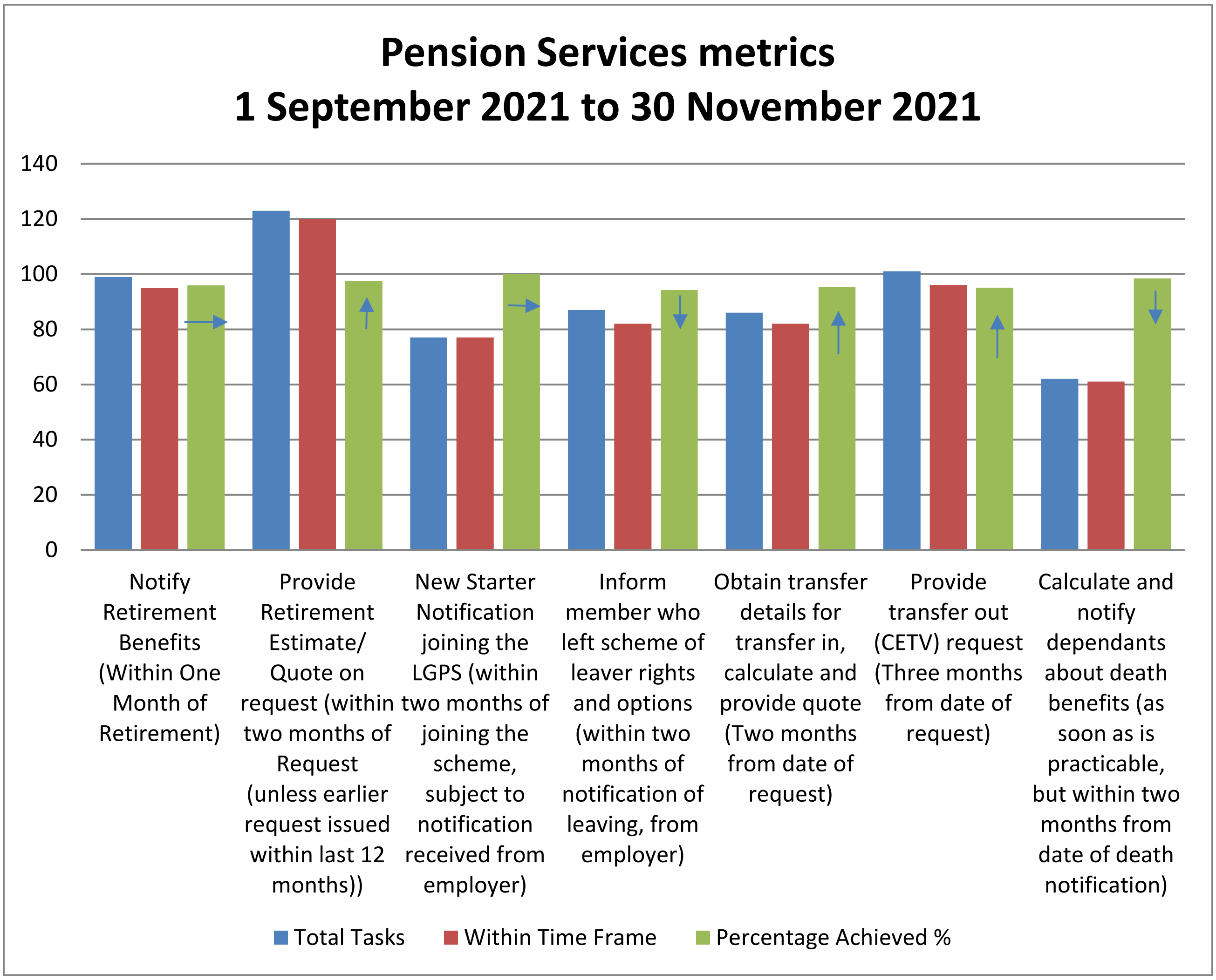
32. Not applicable.

APPENDICES

No.	Title
Appendix 1	Performance Metrics

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Barry Berkengoff, Pensions Manager, Finance and Governance	
Version	Final	
Dated	22 December 2021	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	No	N/a
Strategic Director of Finance and Governance	No	N/a
Cabinet Member	No	N/a
Date final report sent to Constitutional Team		15 December 2021



	Total Tasks	Within Time Frame	Achieved %
Notify Retirement Benefits (Within One Month of Retirement)	99	95	96
Provide Retirement Estimate/ Quote on request	123	120	98
New Starter Notification joining the LGPS	77	77	100
Inform member who left scheme of leaver rights and options	87	82	94
Obtain transfer details for transfer in, calculate and provide quote	86	82	95
Provide transfer out (CETV) request (Three months from date of request)	101	96	95
Calculate and notify dependants about death benefits	62	61	98

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
Councillors	
Councillor Rebecca Lury (Chair)	By email
Councillor Jon Hartley	By email
Councillor Eliza Mann	By email
Officers	
Duncan Whitfield	By email
Caroline Watson	By email
Barry Berkengoff	By email
Staff Representatives	
Chris Cooper	By email
Julie Timbrell	By email
Derrick Bennett	By email
Advisors	
David Cullinan	By email
Colin Cartwright	By email

OTHER PARTIES	No. of copies
Other officers	
Rob Woollatt	By email
Jamie Abbott	By email
External	
Mike Ellsmore	By email
Andrew Weir (spares)	0
Total printed copies:	**0**

Dated: 16 December 2021

Last updated – June 2021