Open Agenda

Pensions Advisory Panel

Monday 5 December 2022
10.00 am
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Membership

Councillor Stephanie Cryan (Chair)
Councillor Andy Simmons
Councillor Rachel Bentley

Staff Representatives
Roger Stocker
Julie Timbrell
Derrick Bennett

Officers
Duncan Whitfield
Caroline Watson
Barry Berkengoff

Advisors
David Cullinan
Colin Cartwright

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

Members of the committee are summoned to attend this meeting
Althea Loderick
Chief Executive
Date: 28 November 2022

PRINTED ON RECYCLED PAPER

Southwark Council
southwark.gov.uk

Pensions Advisory Panel

Monday 5 December 2022
10.00 am
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Order of Business

ANY OTHER OPEN BUSINESS AS NOTIFIED AT THE START OF THE MEETING AND ACCEPTED BY THE CHAIR AS URGENT.

PART B - CLOSED BUSINESS

EXCLUSION OF PRESS AND PUBLIC

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

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

Item No.	Title	Page No.
16.	**INVESTMENT STRATEGY REVIEW - AON**	

Date: 28 November 2022

Agenda Item 5

Pensions Advisory Panel

MINUTES of the OPEN section of the Pensions Advisory Panel held on Monday 31 October 2022 at 10.00 am at Meeting Room 225 - 160 Tooley Street, London SE1 2QH

PRESENT: Councillor Andy Simmons (in the chair)
Councillor Rachel Bentley
Duncan Whitfield
Caroline Watson
Jack Emery
Colin Cartwright
Mike Ellsmore
David Cullinan
Roger Stocker
Tim Jones
Julie Timbrell
Andrew Weir

1. APOLOGIES

Apologies were received from Councillor Stephanie Cryan and Barry Berkengoff.

It was confirmed that, in the absence of Councillor Stephanie Cryan, Councillor Andy Simmons would chair the meeting.

2. CONFIRMATION OF VOTING MEMBERS

Councillor Andy Simmons, Councillor Rachel Bentley and Caroline Watson were confirmed as voting members.

Everyone introduced themselves.

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

That the minutes of the meeting held on 3 March 2022 be agreed as a correct record

6. INTRODUCTION TO NEW PENSIONS ADVISORY PANEL MEMBERS

Everyone in attendance at the meeting had already introduced themselves at the beginning of the meeting.

7. ASSET ALLOCATION

Jack Emery, Divisional Accountant, Treasury & Pensions presented the report.

There were questions on the report and a discussion.

RESOLVED:

That the fund's asset allocation at 30 June 2022 be noted.

8. CARBON FOOTPRINT UPDATE

Jack Emery presented the report.

There were questions on the report and a discussion.

RESOLVED:

That the Fund's updated carbon footprint as at 30 June 2022 be noted.

9. QUARTERLY INVESTMENT UPDATE

David Cullinan updated the panel. He advised that the Fund had lost around 6% of its value over the quarter to June 2022. However, over the previous 10 years it had gone from underperforming its benchmark to being above its benchmark.

Colin Cartwright from Aon then addressed the panel. He advised that Aon had not produced a funding update due to the fact that the Fund was currently going through its triennial actuarial process.

There were questions and a discussion regarding the recent market turbulence.

RESOLVED:

That the quarterly investment updates be noted.

10. ZERO CARBON INVESTMENT STRATEGY: IMPLEMENTATION PROGRESS UPDATE

Caroline Watson, senior finance manager, addressed the panel. The item was presented in reports 10.1, 10.2 and 10.3.

There were questions and a discussion on the reports.

During the discussions it was agreed that there should be an independent review of the impact on investment performance of the changes made to the investments to date in relation to the zero carbon strategy. It was agreed that this would be conducted next year.

RESOLVED:

Item 10.1:

1. That it be noted that the Fund's holdings in the Legal and General Investment Management (LGIM) Low Carbon Target Index Fund will be transitioned to the LGIM Low Carbon Transition Fund.

2. That the approach to this transition and the benefits to the Fund towards achieving its net-zero carbon target be noted.

3. That the enhancements to be implemented by BlackRock in the MSCI World Low Carbon Target Reduced Fossil Fuel Select Fund, and how this will assist the Fund in its journey towards achieving its net-zero carbon target, be noted.

4. That there shall be an independent review of the impact of the zero carbon policy on investment performance next year.

Item 10.2

1. That the options set out in this report to replace the Fund's strategic allocation to the BlackRock Dynamic Diversified Growth Fund (DDG) be

noted.

2. That the pensions advisory panel shall hold off making any concrete decisions with respect to the fund’s holdings in the BlackRock DDG fund until the outputs and analysis generated as part of the upcoming investment strategy review are discussed at the December pensions advisory panel meeting.

Item 10.3

1. That the options set out in the report to replace the Fund’s strategic allocation to the BlackRock Absolute Return Bond Fund (BARBF) be noted.

2. That the pensions advisory panel shall hold off making any concrete decisions with respect to the Fund’s holdings in the BARBF until the outputs and analysis generated as part of the upcoming investment strategy review are discussed at the December pensions advisory panel meeting.

11. INVESTMENT STRATEGY REVIEW BRIEFING - AON

Colin Cartwright from Aon presented the report.

There were no questions.

RESOLVED:

That the investment strategy review briefing be noted.

12. PENSIONS SERVICES - ADMINISTRATION FUNCTION UPDATE

In the absence of Barry Berkengoff, Duncan Whitfield, the strategic director of finance and governance, gave an overview of the report.

There was a discussion regarding vacancies in the pensions team and data transfer issues in relation to new software that had been implemented.

Mike Ellsmore, the chair of the local pension board, confirmed that the pensions manager had reassured him that there was an action plan in place to address the six legal operational deadlines.

There was also a discussion regarding four recent complaints and how they had been managed.

RESOLVED:

1. That the update on the pensions administration function be noted.

2. That the complaint outcomes shall be included in future reports, as well as complaints raised.

3. That a copy of the action plan shall be provided at the March 2023 pensions advisory panel meeting.

13. LOCAL PENSION BOARD UPDATE

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

It was agreed that the local pension board will review the cyber security of the council's systems, in relation to the security of pensions data, at a future meeting.

RESOLVED:

That the update from the local pension board (LPB) meeting of 6 July 2022 be noted.

At this juncture, there was a discussion regarding training.

It was suggested that a good way for members and other attendees to gain further knowledge was to attend fund manager events.

Caroline Watson advised that she would forward any events to members and attendees that she thought might be useful.

It was also requested that Caroline Watson circulate the TCFD consultation for the LGPS report, which was tabled at the 19 October 2022 meeting of the local pension board.

The meeting ended at 12.04pm.

CHAIR:

DATED:

Agenda Item 6

Item No. 6.	Classification: Open	Date: 5 December 2022	Meeting Name: Pensions Advisory Panel
Report title:		Asset Allocation September 2022	
From:		Divisional Accountant, Pensions and Investments	

Recommendation

1. The pensions advisory panel is asked to:

- Note the Fund's asset allocation at 30 September 2022

Asset Class	Manager	30 Sept 2022 £000	% of Total Fund	Strategic Benchmark %	Difference %
Global Equity	BlackRock	343,308	17.2	15.0	2.2
	Legal & General	309,711	15.5	15.0	0.5
	Newton	235,506	11.8	10.0	1.8
	Comgest	89,442	4.5	5.0	-0.5
Total Global Equity		**977,967**	**49.0**	**45.0**	**4.0**
Diversified Growth	BlackRock	174,911	8.8	10.0	-1.2
Total Diversified Growth		**174,911**	**8.8**	**10.0**	**- 1.2**
Absolute Return Bonds	BlackRock	130,755	6.6	5.0	1.6
Total Absolute Return Bonds		**130,755**	**6.6**	**5.0**	**1.6**
Core Property	Nuveen	234,464	11.8	14.0	-2.2
Total Core Property		**234,464**	**11.8**	**14.0**	**- 2.2**
ESG Priority Allocation	Invesco	33,241	1.7	1.5	0.2
	M&G	44,265	2.2	1.5	0.7
	Frogmore	7,990	0.4	1.5	-1.1
	Brockton	7,191	0.4	1.5	-1.1
	Glennmont	20,566	1.0	1.8	-0.7
	Temporis	57,526	2.9	2.3	0.6
	BlackRock	9,451	0.5	1.5	-1.0
	Darwin	21,082	1.1	1.0	0.1
	Blackstone	50,044	2.5	2.3	0.3
	BTG Pactual	36,522	1.8	1.3	0.6
Total ESG Priority Allocation		**287,878**	**14.4**	**16.0**	**- 1.6**
Index Linked Gilts	BlackRock	71,810	3.6	5.0	-1.4
	Legal & General	65,873	3.3	5.0	-1.7

Total Index Linked Gilts		**137,683**	**6.9**	**10.0**	**- 3.1**
Cash & Cash Equivalents	BlackRock	33,767	1.7	0.0	1.7
	Newton	10,183	0.5	0.0	0.5
	Nuveen	6,320	0.3	0.0	0.3
Total Cash & Cash Equivalents		**50,270**	**2.5**	**-**	**2.5**
Total		**1,993,928**	**100.0**	**100.0**	**-**

Asset Class	**Sub Category**	**30 Sept 2022 £000**	**Strategic Benchmark %**	**Actual Allocation %**
Global Equities	Low Carbon Passive Equities	653,020	30.0	32.8
	Active Pooled Emerging Market Equities	89,442	5.0	4.5
	Segregated Active Global Equities	235,506	10.0	11.8
Total Global Equities		**977,968**	**45.0**	**49.0**
Total Diversified Growth		**174,911**	**10.0**	**8.8**
Total Absolute Return Bonds		**130,755**	**5.0**	**6.6**
Core Property	UK Direct Property	230,875	14.0	11.8
	UK Commercial Property Pooled Funds	3,589		
Total Core Property		**234,464**	**14.0**	**11.8**
ESG Priority Allocation	Pooled Funds - UK Private Residential	77,506	3.0	3.9
	Pooled Funds - UK Opportunistic Property	15,181	3.0	0.8
	Sustainable Infrastructure	87,543	5.5	4.4
	Timberland	36,522	1.3	1.8
	Bereavement Services	21,082	1.0	1.1
	Private Equity	50,044	2.3	2.5
Total ESG Priority Allocation		**287,878**	**16.0**	**14.4**
Total Index Linked Gilts		**137,683**	**10.0**	**6.9**
Cash & Cash Equivalents	Sterling Liquidity Fund	33,767	0.0	1.7
	Fund Manager Held Derivatives	10,183	0.0	0.5
	Fund Manager Operational Cash	6,320	0.0	0.3
Total Cash & Cash Equivalents		**50,270**	**0.0**	**2.5**
Total		**1,993,929**	**100.0**	**100.0**

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

Community Impact Statement

2. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

3. There are no immediate implications arising.

Health Impact Statement

4. There are no immediate implications arising.

Climate Change Implications

5. There are no immediate implications arising.

Resource Implications

6. There are no immediate implications arising.

Legal Implications

7. There are no immediate implications arising

Consultation

8. There are no immediate implications arising.

Financial Implications

9. There are no immediate implications arising.

AUDIT TRAIL

<table>
<tr><th>Lead Officer</th><td colspan="2">Duncan Whitfield, Strategic Director of Finance and Governance</td></tr>
<tr><th>Report Author</th><td colspan="2">Jack Emery, Divisional Accountant – Pensions and Investments</td></tr>
<tr><th>Version</th><td colspan="2">Final</td></tr>
<tr><th>Dated</th><td colspan="2">10 November 2022</td></tr>
<tr><th>Key Decision?</th><td colspan="2">N/A</td></tr>
<tr><th colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</th></tr>
<tr><th>Officer Title</th><th>Comments Sought</th><th>Comments Included</th></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><th>Cabinet Member</th><td>N/A</td><td>N/A</td></tr>
<tr><th colspan="2">Date final report sent to Constitutional Team</th><td>28 November 2022</td></tr>
</table>

Agenda Item 7

Item No. 7.	Classification: Open	Date: 5 December 2022	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint Update – 30 September 2022	
From:		Divisional Accountant, Pensions and Investments	

Recommendations

1. The pensions advisory panel is asked to:

- Note the Fund's updated carbon footprint as at 30 September 2022.

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

Weighted Carbon Intensity over time

		Weighted Carbon Intensity tCO2e/$m									
Asset Class	Fund Managers	Sept 2017	Sept 2020	Dec 2020	March 2021	June 2021	Sept 2021	Dec 2021	March 2022	June 2022	Sept 2022
Equity - Developed	Blackrock, LGIM	98.7	21.4	20.4	23.0						
Equity - Developed Market Low Carbon	Blackrock, LGIM		33.7	23.7	24.2	25.5	29.8	51.1	51.0	33.2	24.9
Equity - Emerging Markets	Blackrock, Comgest	18.1	14.1	15.0	19.1	18.3	0.5	0.5	0.2	0.2	0.2
Equity - Global	Newton	10.6	7.0	7.0	4.4	4.6	4.3	4.5	5.8	5.9	5.6
Diversified Growth Fund	Blackrock	26.7	15.9	16.0	15.6	14.2	15.8	17.1	16.5	13.7	14.4
Absolute Return Bonds	Blackrock	22.4	7.1	8.7	10.0	9.8	10.2	8.7	6.8	11.2	12.5
Core Property	Nuveen	14.3	12.6	12.0	10.6	10.5	10.7	11.2	12.0	12.9	12.7
ESG Priority Allocation - Property	Invesco, M&G, Brockton, Frogmore	8.8	8.9	9.5	10.9	11.0	10.9	4.4	4.6	5.0	5.0
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin								0.1	0.2	0.3
Sustainable Infrastructure	Blackrock, Glennmont, Temporis										
IL Gilts	Blackrock, LGIM	14.0	14.0	14.0	14.0	26.0	25.2	25.4	24.2	20.6	19.5
Cash And Equivalents	Blackrock, Nuveen, Newton	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Weighted Carbon Intensity		213.7	134.6	126.3	131.7	120.0	107.3	122.9	121.4	102.9	92.7
Total Change in Footprint			-37.0%	-40.9%	-38.3%	-43.8%	-49.8%	-42.5%	-43.2%	-51.9%	-55.5%

Results

2. The results for 30 September 2022 show that the Fund has reduced its weighted carbon intensity by 56% since September 2017. The reduction in the quarter to September 2022 has been primarily driven by a decrease in carbon intensity of one of the developed, low carbon equity funds due a change in their underlying holdings.

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

Unweighted Carbon Intensity		Unweighted Carbon Intensity tCO2e/$m
Asset Class	Fund Manager(s)	Sept 2022
Cash And Equivalents	Blackrock, Nuveen, Newton	0.00
ESG Priority Allocation - Alternatives	Blackrock, Blackstone, BTG Pactual, Glennmont, Temporis	15.14
Core Property	Nuveen	107.70
Diversified Growth	Blackrock	164.40
Absolute Return Bonds	Blackrock	190.50
Global Equity	LGIM, Blackrock, Newton	205.65
ESG Priority Allocation - Property	Brockton, Frogmore, Invesco, M&G	430.80
Index Linked Gilts	Blackrock, LGIM	564.80
	Total	**1678.99**

4. As noted above, one of the fund's passive equity funds altered their underlying holdings, which has led to a decrease in this fund's carbon footprint. Where the highest carbon contributor in this fund previously sat at a weighted carbon intensity of 62.1 tCO2e/$m, the highest is now only 7.0 tCO2e/$m. This is the main driver for the change in the carbon footprint to 30 September 2022.

5. The market value of LBS' low carbon developed market equities dropped in the quarter to June 2022, mirroring global markets. The value of these assets began to show growth again in the following quarter, slightly increasing the proportion of the fund's allocation to the low carbon category and a reduction in the footprint.

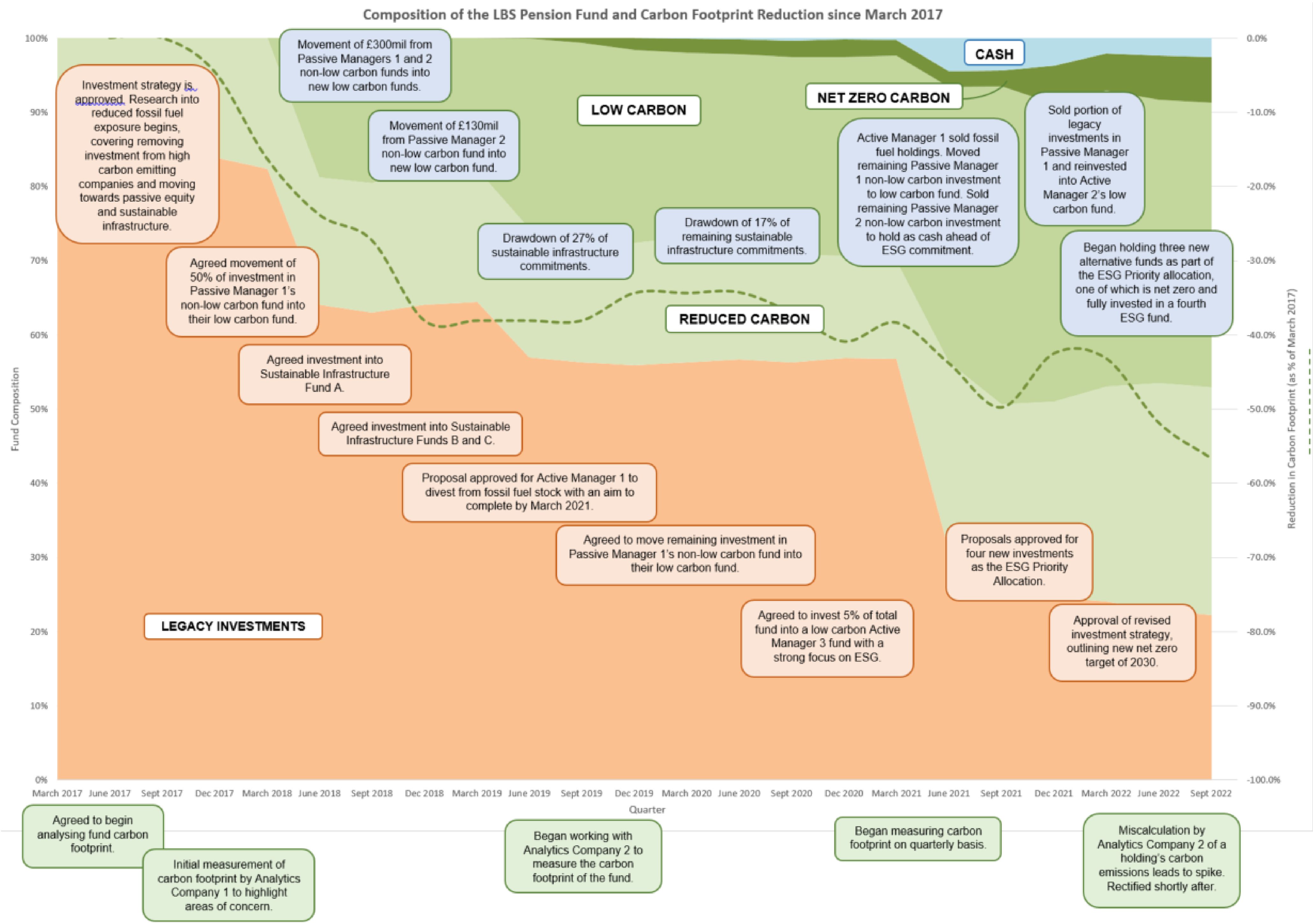
6. The fund's index-linked gilts allocation saw a minor reduction in market value from 30 June to 30 September 2022, which reduced the fund's weighting towards these assets' carbon intensity. These remain as the highest contributors to the fund's weighted carbon intensity but it is worth noting that these assets are held for defensive properties, with their value increasing with inflation.

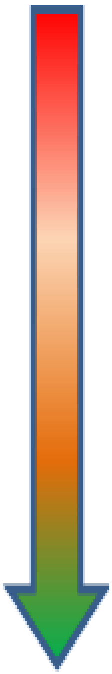
7. There are a number of upcoming changes expected in the quarter to December 2022, which will have an impact on the pension fund’s carbon footprint over time.

   a. A key movement is the upcoming investment in the Temporis Renewable Energy Fund, a fund which invests in renewable energy on behalf of investors. The current intention is to fund this investment through divesting from the Blackrock Diversified Growth Fund, which would reduce the Fund’s exposure to the high carbon asset and replace it with increased exposure to zero carbon assets.

   b. Both of the fund’s passive equity funds are implementing new screens to their underlying holdings, with the intention of further ‘greening’ of the funds alongside other ESG factors. It should be noted that these changes will include scope 3 emissions, meaning there is a chance the funds may increase their carbon emissions before they reduce over time.

8. 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)
0.0%
-10.0%
-20.0%
-30.0%
-40.0%
-50.0%
-60.0%
-70.0%
-80.0%
-90.0%
-100.0%
March 2017
June 2017
Sept 2017
Dec 2017
March 2018
June 2018
Sept 2018
Dec 2018
March 2019
June 2019
Sept 2019
Dec 2019
March 2020
June 2020
Sept 2020
Dec 2020
March 2021
June 2021
Sept 2021
Dec 2021
March 2022
June 2022
Sept 2022
Quarter
CASH
NET ZERO CARBON
LOW CARBON
REDUCED CARBON
LEGACY INVESTMENTS
Investment strategy is approved. Research into reduced fossil fuel exposure begins, covering removing investment from high carbon emitting companies and moving towards passive equity and sustainable infrastructure.
Movement of £300mil from Passive Managers 1 and 2 non-low carbon funds into new low carbon funds.
Movement of £130mil from Passive Manager 2 non-low carbon fund into new low carbon fund.
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.
Drawdown of 27% of sustainable infrastructure commitments.
Proposal approved for Active Manager 1 to divest from fossil fuel stock with an aim to complete by March 2021.
Drawdown of 17% of remaining sustainable infrastructure commitments.
Agreed to move remaining investment in Passive Manager 1's non-low carbon fund into their low carbon fund.
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.
Agreed to invest 5% of total fund into a low carbon Active Manager 3 fund with a strong focus on ESG.
Sold portion of legacy investments in Passive Manager 1 and reinvested into Active Manager 2's low carbon fund.
Began holding three new alternative funds as part of the ESG Priority allocation, one of which is net zero and fully invested in a fourth ESG fund.
Proposals approved for four new investments as the ESG Priority Allocation.
Approval of revised investment strategy, outlining new net zero target of 2030.
Agreed to begin analysing fund carbon footprint.
Initial measurement of carbon footprint by Analytics Company 1 to highlight areas of concern.
Began working with Analytics Company 2 to measure the carbon footprint of the fund.
Began measuring carbon footprint on quarterly basis.
Miscalculation by Analytics Company 2 of a holding's carbon emissions leads to spike. Rectified shortly after.



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.

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

Community Impact Statement

9. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

10. There are no immediate implications arising.

Health Impact Statement

11. There are no immediate implications arising.

Climate Change Implications

12. There are no immediate implications arising.

Resource Implications

13. There are no immediate implications arising.

Legal Implications

14. There are no immediate implications arising

Consultation

15. There are no immediate implications arising.

Financial Implications

16. There are no immediate implications arising.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jack Emery, Divisional Accountant – Pensions and Investments	
Version	Final	
Dated	10 November 2022	
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		28 November 2022

Agenda Item 9

Item No. 9.	Classification: Open	Date: 5 December 2022	Meeting Name: Pensions Advisory Panel
Report title:		Advisers' Updates - Quarter to September 2022	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

1. The pensions advisory panel is asked to:

- Note David Cullinan's investment report attached as Appendix 1.
- Note Aon's quarterly investment dashboard attached as Appendix 2.

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

Community Impact Statement

2. No immediate implications arising.

Equalities (including socio-economic) Impact Statement

3. No immediate implications arising.

Health Impact Statement

4. No immediate implications arising.

Climate Change Implications

5. No immediate implications arising.

Resource Implications

6. No immediate implications arising.

Legal Implications

7. No immediate implications arising

Financial Implications

8. No immediate implications arising.

Consultation

9. No immediate implications arising.

Financial Implications

10. There are no immediate implications arising.

APPENDICES

Name	Title
Appendix 1	Independent adviser's report – quarter to September 2022
Appendix 2	Aon's quarterly investment dashboard – quarter to September 2022

AUDIT TRAIL

<table>
<tr><th>Lead Officer</th><td colspan="2">Duncan Whitfield, Strategic Director of Finance and Governance</td></tr>
<tr><th>Report Author</th><td colspan="2">Caroline Watson, Senior Finance Manager, Treasury and Pensions</td></tr>
<tr><th>Version</th><td colspan="2">Final</td></tr>
<tr><th>Dated</th><td colspan="2">25 November 2022</td></tr>
<tr><th>Key Decision?</th><td colspan="2">N/A</td></tr>
<tr><th colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</th></tr>
<tr><th>Officer Title</th><th>Comments Sought</th><th>Comments Included</th></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><th>Cabinet Member</th><td>N/A</td><td>N/A</td></tr>
<tr><th colspan="2">Date final report sent to Constitutional Team</th><td>28 November 2022</td></tr>
</table>

APPENDIX 1

LONDON BOROUGH OF SOUTHWARK - Quarterly Report September 2022

Market Background

Further losses were incurred in the September quarter with investors facing now familiar headwinds. The most dominant of these over the quarter was continued heightened inflation and central banks' actions to mitigate the effects.

As in the previous quarter, both equity and bond markets fell as rising interest rates (central banks' blunt instrument response to rising inflation) reduced bond valuations and the net present value of future earnings for shares.

Global equities retreated by around 5% over the period although most UK investors will have 'enjoyed' marginally positive returns due to the weakness in sterling.

Regionally, the UK and Japan were better performers due in part to their weaker currencies but the former also benefitted from a higher exposure to energy stocks.

Conventional and inflation linked bonds fell sharply, with UK debt losses sharpened by Kwasi Kwarteng's controversial mini budget proposing supply side economic reforms and unfunded tax cuts.

Property markets were not immune from the global influences of higher for longer inflation and low growth. Return expectations have been pegged back with CBRE forecasting returns in the region of 5%p.a. in the near-term.

LGPS Funds

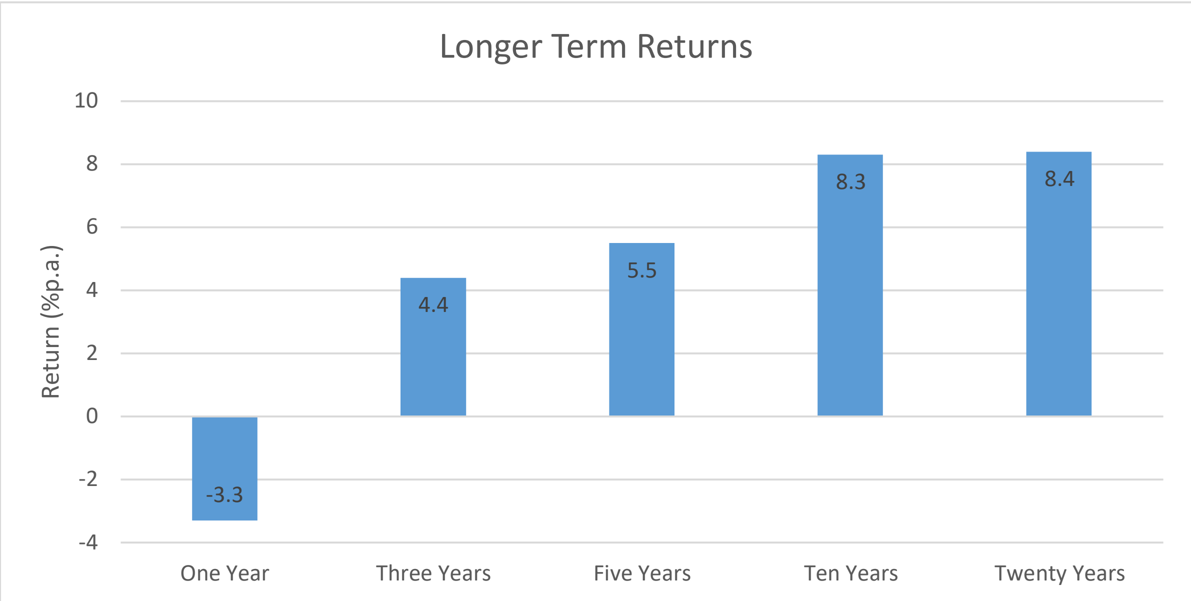
The average LGPS funds is expected to have returned -0.3%, a third successive negative showing.

Longer-Term

The one-year number has remained in negative territory and the three- and five-year returns range between 4-6%p.a.

Over the last ten years the average fund has delivered a return of 8% p.a.

Over all longer-term periods, funds which have had a relatively high equity commitment are likely to have outperformed their peers despite facing sharper volatility.



Total Fund

The Fund returned started off the quarter brightly, returning 4% in July before falling back in September to close flat over the quarter. Over the period, the Fund underperformed the benchmark modestly (0.2% behind).

Performance from the Fund's managers was mixed as might be expected.

The analysis below shows the make-up of the returns, both absolute and relative.

			Returns			Contributions		
Manager	Brief	Start Value (£m)	Fund	Benchmark	Relative Return	Fund	Benchmark	Relative
BLK *	Equity/ILG	411,212	1.0	-1.3	2.3	0.2	-0.3	0.5
LGIM *	Equity/ILG	377,352	-0.4	-1.1	0.7	-0.1	-0.2	0.1
BLK	Diversified Growth	176,458	-0.9	0.6	-1.5	-0.1	-	-0.1
BLK	Absolute Return Bond	132,064	-1.0	0.6	-1.5	-0.1	-	-0.1
Newton	Global Equity	242,349	1.3	2.1	-0.8	0.2	0.3	-0.1
Comgest	EM Equity	89,652	-0.4	-3.8	3.5	-	-0.2	0.2
Brockton	Property	6,862	1.4	3.6	-2.1	-	-	-
Nuveen	Property (Core)	247,044	-3.4	1.7	-5.0	-0.4	0.2	-0.6
Invesco	Property	32,626	1.9	1.9	-0.1		-	-
M&G	Property	43,515	1.7	1.9	-0.2	-	-	-
Frogmore	Property	8,045	-2.1	3.9	-5.8	-	-	-
Glenmont	Infrastructure	20,361	2.3	2.4	-0.2	-	-	-
Temporis	Infrastructure	44,634	0.7	2.4	-1.6	-	0.1	-
Temporis Impact	Infrastructure	12,347	1.7	2.4	-0.7	-	-	-
BLK	Infrastructure	7,785	9.2	2.4	6.6	-	-	-
Blackstone	Diversified Alternatives	41,614	-0.5	2.9	-3.3	-	0.1	-0.1
BTG	Diversified Alternatives	33,080	10.4	1.5	8.8	0.2	-	0.1
Darwin	Diversified Alternatives	20,758	1.6	1.5	0.1	-	-	-
BLK/LBS	Cash	43,116	0.4	0.4	0.0	-	-	-
Total		**1,990,875**	**0.0**	**0.2**	**-0.2**	**0.0**	**0.2**	**-0.2**

**** The benchmarks calculated by JPM for these portfolios are under review and are subject to change. As a result, the relative returns and hence contributions to relative performance are probably closer to zero.***

The third column from the right shows how much the managers have contributed to the overall return of 0%. The column on the extreme right-hand side shows how much the managers have contributed to the excess return of -0.2%. On both the absolute and relative measures, Nuveen had the most significant negative impact.

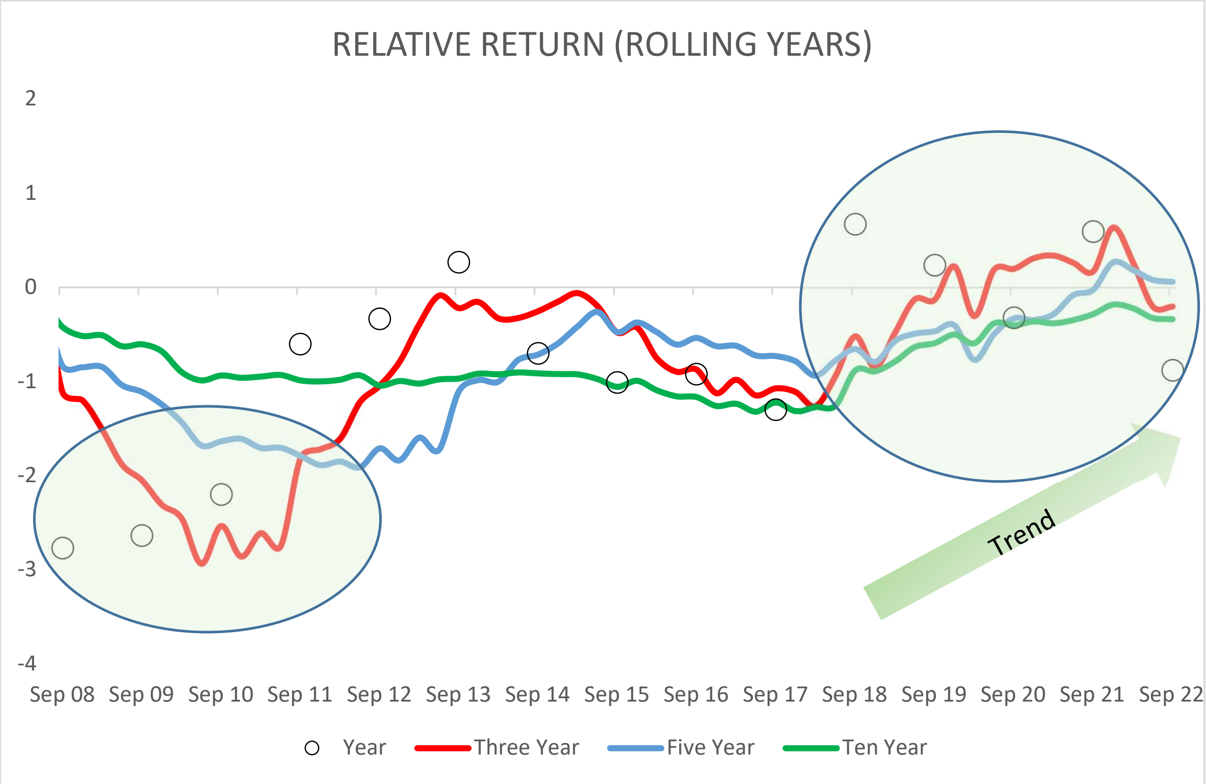
The one-year return for the Fund was disappointing both in absolute terms (-3.1%) and in relative terms (0.9% behind benchmark).

Medium-term, the Fund has returned between 5.3%p.a. and 6.8%p.a. over the three and five-year periods. The shorter period return was behind benchmark, the longer period almost exactly in line.

Over the last ten-years, the Fund has delivered a very valuable 9.3%p.a. return but still 0.3%p.a. off the target.

Returns have generally been improving of late (despite the last few quarters) 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.

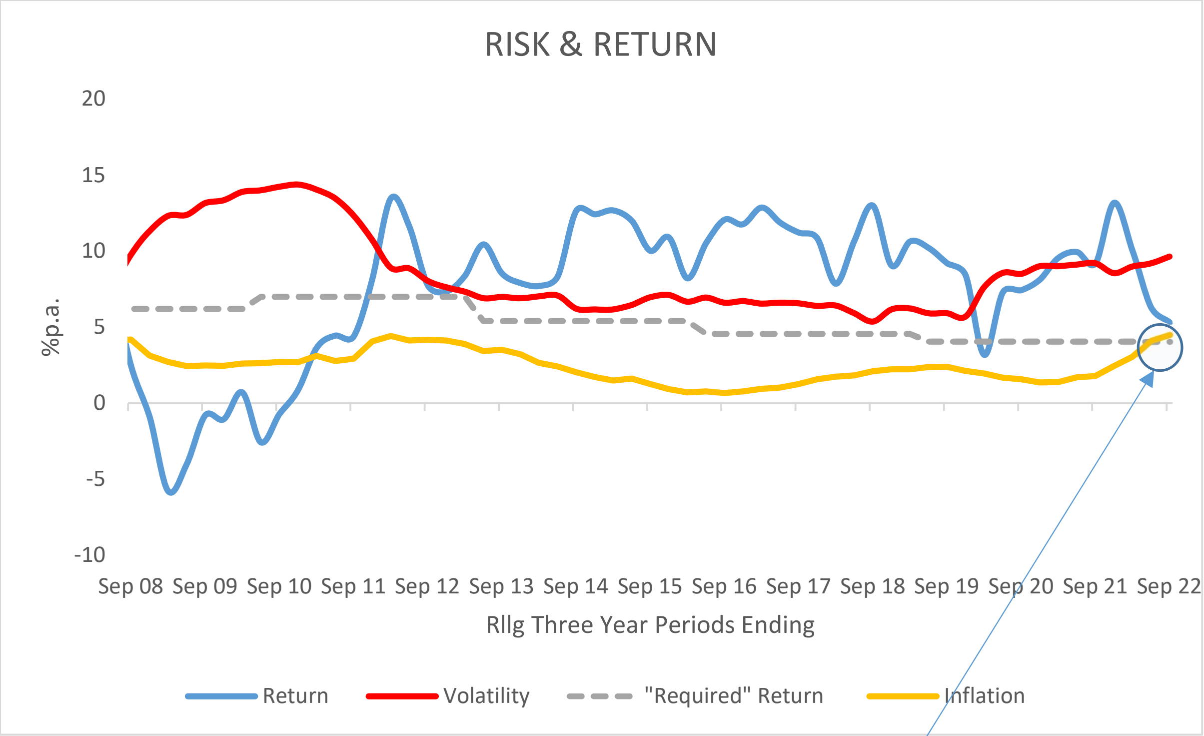
I enclose again a chart plotting the Fund's returns over a number of rolling periods relative to the benchmark. I have selected a 15-year period to review.



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 (highlighted) 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.



Again, there's a lot of information in this chart but what this shows is,

- Once the impact of the global financial crisis dropped out of the observations (the left hand side of the chart), both return and volatility had 'mean reverted', tracking within a reasonably narrow range
- Somewhat surprisingly, the impact on the rolling return of the pandemic was relatively short-lived although volatility (the red trail) has remained heightened
- Over almost all post financial crisis periods, returns delivered have consistently outpaced the return assumption used in the Actuary's modelling (the dotted line on the chart) i.e. investment performance has done the heavy lifting
- It is worth remarking again that the right hand side of the chart shows the actuary's return assumption and observed inflation converging. This is a concern. At the time of writing, annual inflation (as measured by CPI) has nudged past 11% and is expected to remain at or above this rate in the immediate near-term.

Newton – Active Global Equity

Newton underperformed the World index by around 0.2% over the quarter. Stock selection was key to the underperformance over the period due to weakness in the financials, health care and consumer discretionary sectors. Asset allocation provided a partial offset, avoiding telecoms and real estate helped.

Relative to the stretched (index plus target aspiration) benchmark, the portfolio lagged by 0.8%.

The portfolio's annual return was sharply negative (4.7% short of the stretched benchmark) with three quarters behind. When they last presented to PAP, one analysis they tabled showed resilient performance in down markets. This has not been our experience over the year.

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

In terms of activity, despite quite significant underperformance, Newton have made few changes since (in their words) they are comfortable with the structure of the portfolio against a backdrop of more volatile market conditions.

When they last presented to PAP, one analysis they tabled showed resilient performance in down markets. This has not been our experience, and over the last five years, there has been no discernible correlation between their relative performance and the direction of markets.

Comgest – Active Emerging Market Equity

The portfolio, in place now for a year, outperformed the index benchmark by a sizeable margin, despite posting a negative return (portfolio -0.4%, index -3.8%). In terms of positives, country allocation was favourable particularly underweighting China and overweighting Brazil. The portfolio was holding just under 10% in cash which also added to the bottom line.

Over the full year, the portfolio returned -15.3%, in itself disappointing but worse when compared to the benchmark at -13.2%. It is far too early to draw any conclusions from this short-term performance.

BlackRock - Active

Unfortunately, both active positions delivered negative returns and performed poorly relative to the cash benchmark over the quarter.

Performance in the ARBF portfolio was negative but much less severely so than the main traditional bond indices.

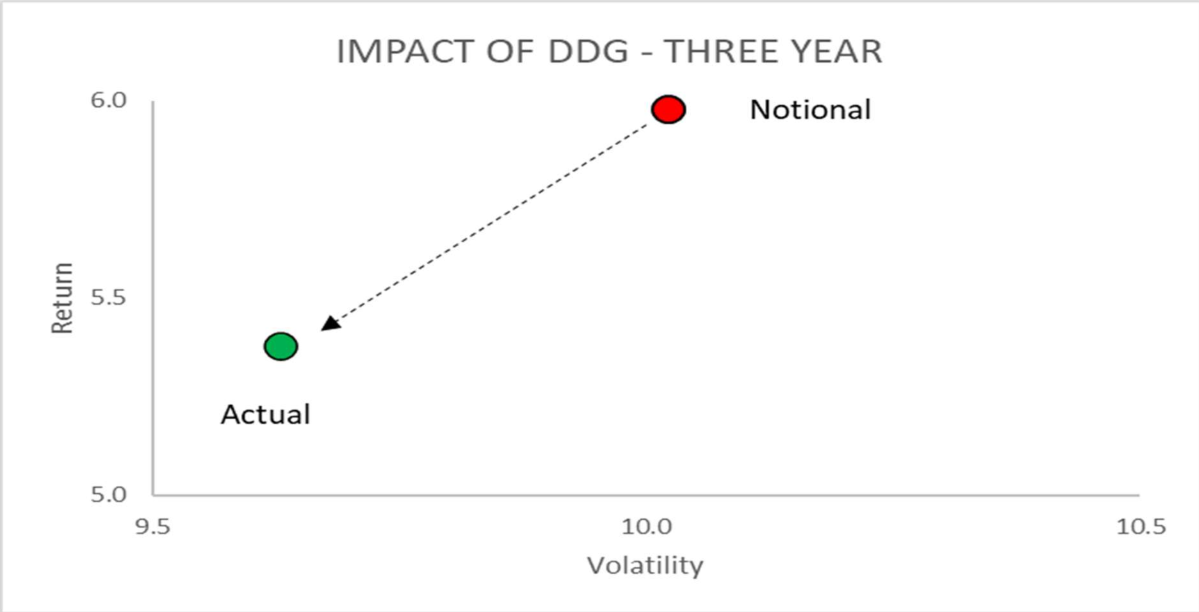
The negative return from the DG portfolio stemmed from the developed equity and credit positions.

Since their inception, returns from both strategies have been in modest low digit single figures and disappointingly behind our modest expectation (cash plus 3 or 4%).

These two portfolios hold traditional assets, but return profiles are designed to deliver results differently. Both aim simply to produce capital growth i.e. positive returns. It is anticipated that in strong growth environments, returns will appear pedestrian, but in down markets, returns should be less impacted and ideally positive.

Looking at the DDG portfolio, whilst seeking to offer downside protection, return generation is intended to be uncorrelated to that of any single asset class and as such, the overall Fund volatility should reduce in any prevailing market condition.

To see how this has worked in practice the chart below looks at the impact the diversified growth portfolio has on the whole Fund. The actual Fund outcome is the green plot, the notional outcome i.e. what would the Fund have looked like without the DDG investment the red plot.



What this clearly shows is that volatility has been reduced through the addition of the DDG investment (by 0.4%p.a.) but at the cost of some potential return (0.6%).

In terms of the balance between risk and return, the trade-off is arguably quite poor. One of the main reasons for this is that the returns being generated are quite highly correlated (on my crude calculations) to equites, the Fund's primary growth driver.

Nuveen Real Estate – Core Property

The portfolio returned -3.3% over the quarter (Nuveen numbers). The overall return comprised an income return of 1.0% and capital reduction of -4.2%. The capital depreciation was led very much by reduced activity brought about by market uncertainty and a resultant weakening in sentiment. Unsurprisingly, the return fell short of the benchmark (7%p.a.) but was marginally better than comparable real estate measures. The portfolio's industrial assets were the weakest over the period reversing some very positive performance in recent periods.

The full year return reported by Nuveen is a very healthy 13.8%. This has improved medium-term numbers (three and five year numbers are in the region of 6%p.a.).

The current seven-year number of 5%p.a. has fallen back and remains behind the 7%p.a. target set by the Panel.

There are many headwinds facing the commercial real estate sector and returns are likely to be behind expectation until such times as inflation and interest rates revert to some semblance of normality and activity picks up.

Please note that JPM and Nuveen returns are now being calculated on a consistent basis.

Residential/Opportunistic Real Estate

Reported returns were typically behind benchmark over the quarter and the full year. Going on JP Morgan's returns, Invesco has been the better performer over the full year but since inception, all four non-core portfolios have lagged their respective (and challenging) benchmarks.

Southwark's Property Allocation

The core and added value/opportunistic assets continue to perform quite differently. The following table gives a flavour of this.

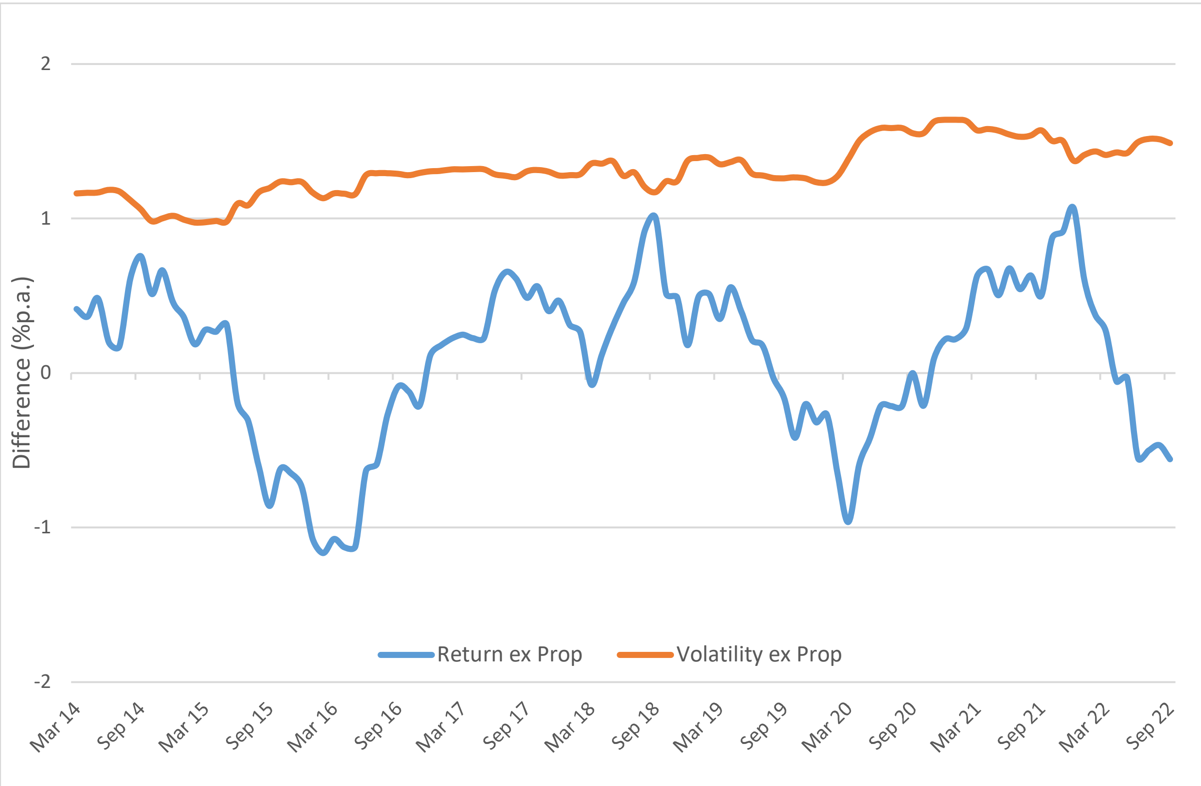
	Quarter *			Year		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative
All Property	-2.0	1.8	-3.8	12.6	7.6	4.6
Core	-3.4	1.7	-5.0	14.4	7.0	6.9
Ex Core	1.4	2.2	-0.8	6.5	9.3	-2.5

**The benchmark numbers shown are calculated from first principles and not those quoted by JP Morgan*

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 table shows the non-core assets impairing the overall return.

The Fund's large commitment to the asset class as a whole 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, had the Fund not held property, the return would have been 0.6%p.a. worse off and the volatility significantly higher (by around 1.5%p.a.).

This continues to be a very acceptable trade-off.

Infrastructure

The Fund's infrastructure investments are relatively new and comprise just over 4% of the overall asset value. They are very early stage but returns so far have been encouraging.

"ESG Priority Allocation"

These portfolios (Darwin, Blackstone and BTG) are too new to warrant commentary. At quarter end, they comprised just upwards of 5% of the Fund's assets.

Passive Portfolios

The BLK equity mandate exhibited some abnormal tracking in the latest quarter, but this is likely to wash out over time. Elsewhere, the passive mandates have largely tracked the respective benchmarks.

Summary

- This was a third very difficult quarter for the sector and Southwark with flat to negative returns and heightened volatility in evidence
- The Fund had a lacklustre September quarter and has not kept pace with the benchmark
- There is very little by way of good news on the horizon – inflation is back to levels last seen forty years ago, recession in the UK and other developed economies is becoming a reality and interest rates are at their highest since early 2009
- Actuarial models are calibrated in such a way that ensures short-term spikes in inflation or other defining factors have a limited impact on valuation results. The 2022 valuation results due soon will however likely include a provision for higher costs
- The valuation results notwithstanding, pension uplifts are explicitly linked to September CPI so funds will be liable for a c10% increase in costs from April next year and a resulting demand for increased investment income
- The Fund's asset allocation strategy continues to develop with increased diversification and explicit investments in targeted ESG strategies. The increased diversification has proven timely!

Quarterly Investment Dashboard Q2 2022

London Borough of Southwark Pension Fund

Prepared for: The Pensions Advisory Panel
Prepared by: Aon
Date: 30 June 2022

At a glance…

Assets

£1,994.0m ▲

Assets increased by £3.5m over the quarter.

Funding

-

Surplus

-

Manager ratings

10	Buy rated	9	Not rated
1	Qualified	0	Not recommended

Performance (short term)

-0.2% ▼

The scheme returned 0.0% vs 0.2% over the quarter.

Performance (longer term)

-0.3% ▼

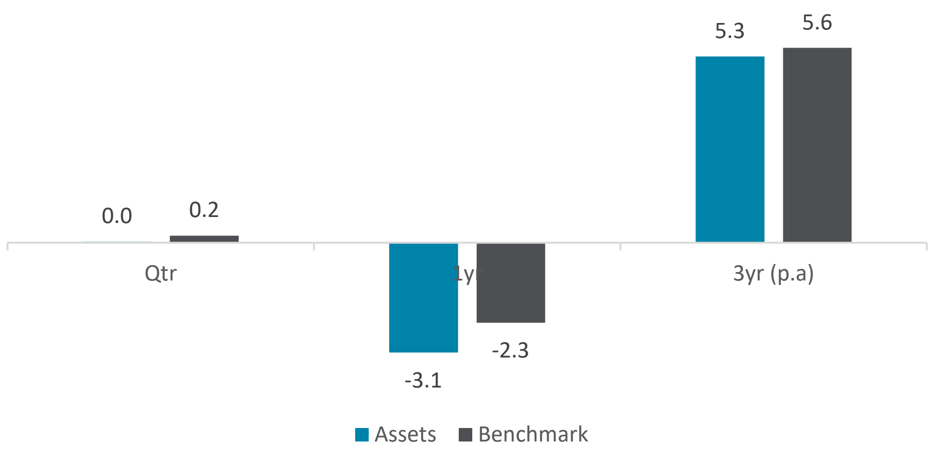
The scheme returned 5.3% vs 5.6% over the three-year period.

Comments

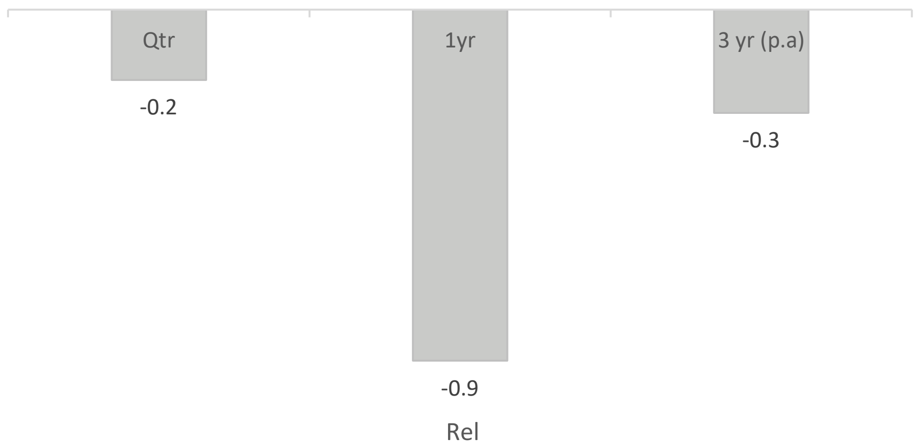
- The Fund's total assets increased by £3.5m over the quarter, from £1,990.5m to £1,994.0m.
- More information on notable developments are found in the Manager Review section

Fund performance – Snapshot

Fund performance & benchmark



Relative performance



Quarterly (relative)

-0.2%

The scheme returned 0.0% vs 0.2% over the quarter.

3 year (relative)

-0.3%

The scheme returned 5.3% vs 5.8% over the period.

Comments

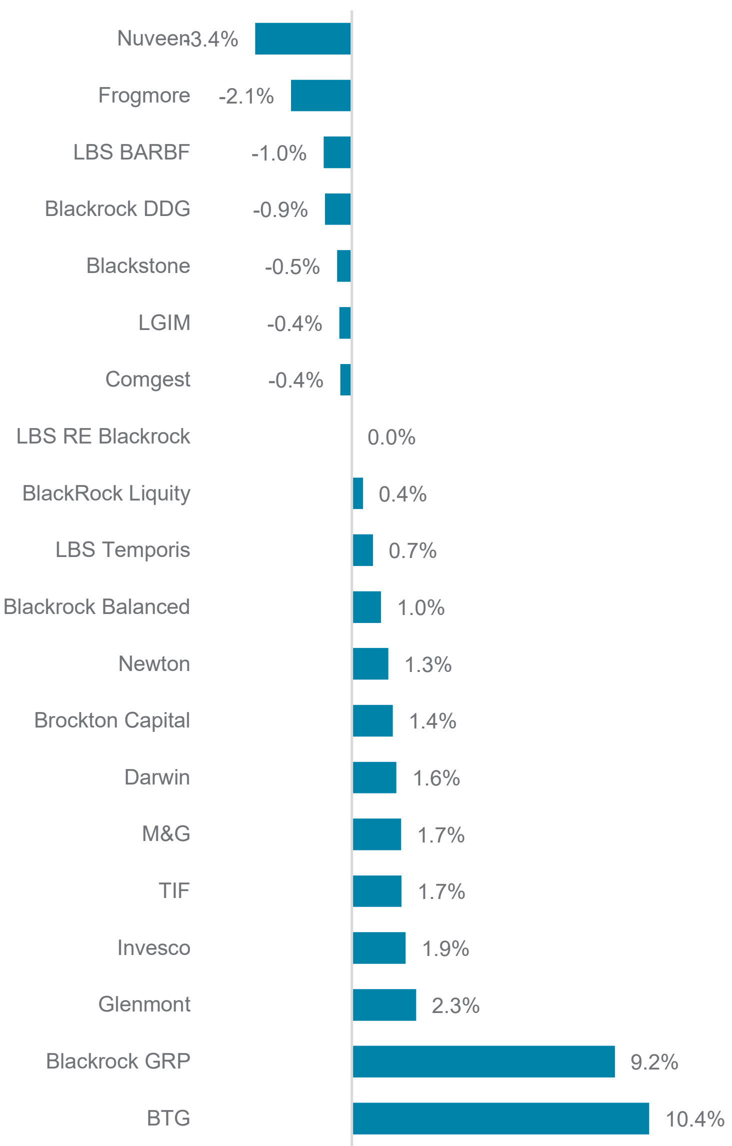
Over the quarter, the Fund marginally underperformed the benchmark

Notable detractors to performance were the Blackrock Dynamic Diversified Growth Fund, Brockton Capital III Fund, and the Blackstone GP Stakes Fund II while positive contributors included the Frogmore Real Estate Partners Fund III and the Glennmont Clean Energy Fund

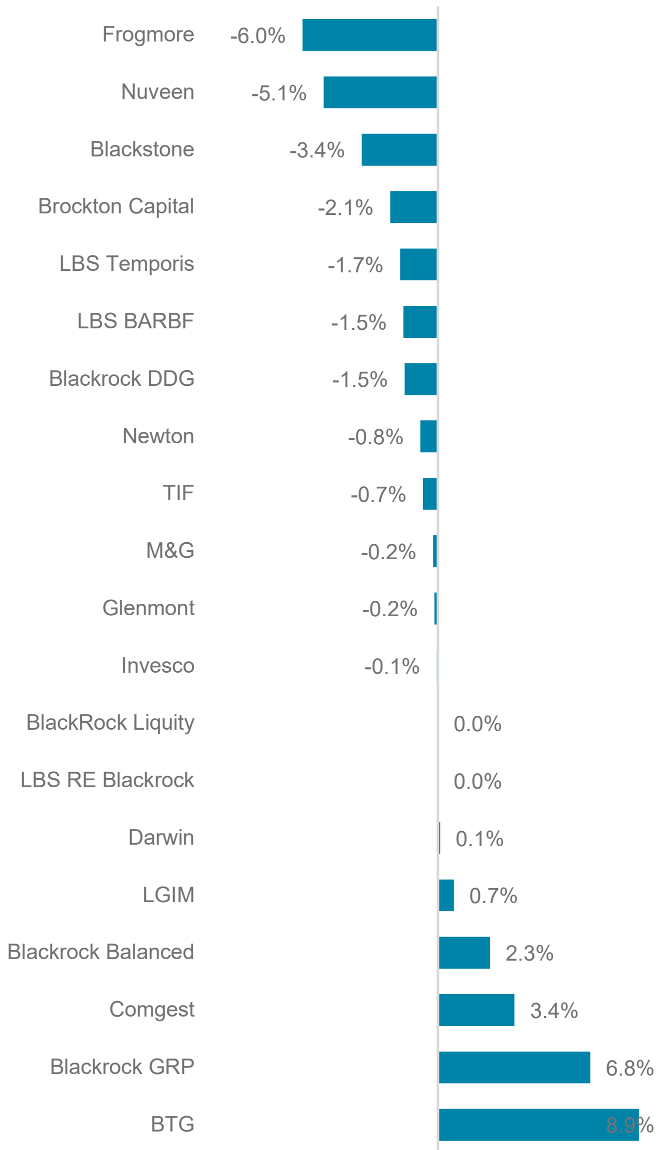
Source: J.P.Morgan and fund managers as required. Totals may not sum due to rounding

Manager performance

Absolute performance

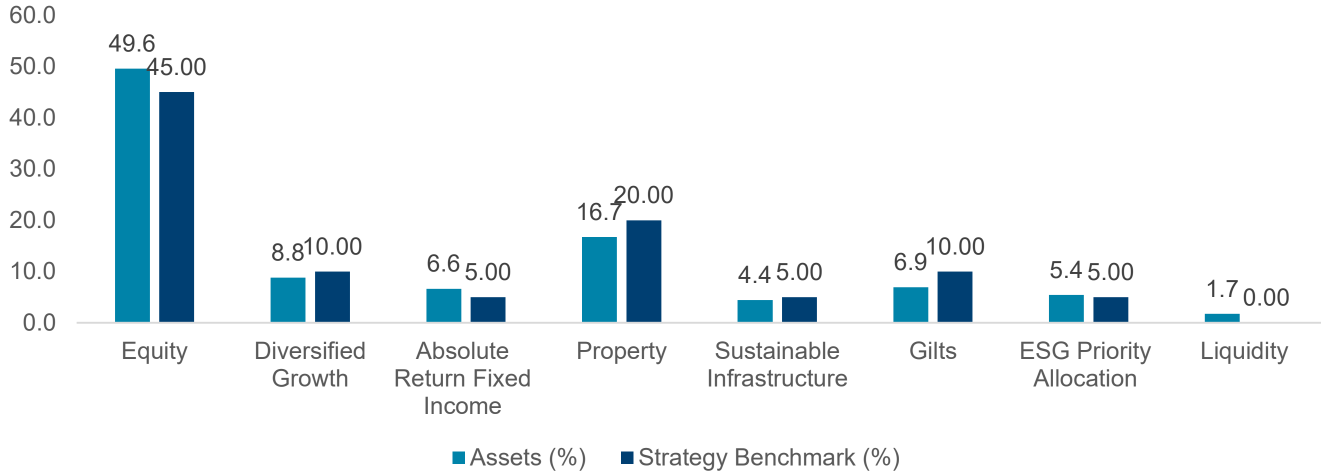


Relative performance



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

£1,994.0m

Assets increased by £3.5m over the quarter.

Comments

- Equity, absolute return fixed income and the ESG Priority Allocation are overweight relative to strategic target for the asset class, while Property, Diversified Growth and Gilts are notably underweight target exposure.
- All asset classes remain well within the maximum strategic allocation limit.
- Post-quarter end, the PAP agreed to invest £30m in the Temporis Renewable Energy Fund ("TREF") thus increasing the allocation the Fund's allocation to the sustainable infrastructure portfolio.
- Aon will look to review the Fund's strategic asset allocations as part of the triennial investment strategy review following the results of the 2022 Actuarial Valuation.

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 10

Item No. 10.	Classification: Open	Date: 5 December 2022	Meeting Name: Pensions Advisory Panel
Report title:		Investment Strategy Review	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

1. The pensions advisorypanel is asked to:

   1) Confirm the recommendation agreed via email correspondence to extend the Fund’s investments with Temporis Capital, by investing circa £30m in the Temporis Renewable Energy Fund, subject to satisfactory completion of legal due diligence.

   2) Recommend the following actions as part of the investment strategy review:

      i. Reallocate the 10% current strategic asset allocation to diversified growth funds to the other underlying asset classes in the Fund.
      ii. Agree a new 10% strategic asset allocation to multi asset credit.
      iii. Remove the current 5% strategic asset allocation to absolute return bonds once suitable multi asset credit funds are found.

   3) Agree the proposed framework, as set out in the closed Appendix A, as a minimum set of requirements to be met prior to agreeing a new investment within the illiquid assets allocation.

   4) Note the modelling results, as set out in the closed Appendix A, which set out the investment returns and value at risk for the current and proposed strategy.
   5) Note the next steps as set out in the closed Appendix A.

Investment Strategy Review Objectives

2. The investment strategy of the Southwark Fund is developed as part of a three year cycle, involving the triennial actuarial valuation and a formal review of investment strategy as influenced by the results of the valuation.

3. The triennial valuation provides the Fund with the most accurate indication of pension liabilities, the expected rate of investment return required to meet future pension benefits and potential impact on the Fund’s cash flow from forecast changes in membership.

4. The objective of a subsequent review is to ensure that the asset class and manager allocations will best capture investment opportunities with an optimal level of risk exposure to meet future pension payments over the long term.

5. In the event that the asset or manager allocation mix is no longer deemed to be appropriate or that more beneficial investment opportunities are available, the Fund will assess the cost and benefit implications of a potential change in strategy.

6. The officers, in conjunction with Aon, have commenced a review of the investment strategy. The review assessed the current investment portfolio in the context of the overall investment return requirements as set out in the Fund's actuarial valuation and regarding overall as well as specific risk exposures for the Fund.

7. The strategy review also sought to incorporate the Fund's commitment to achieving net zero carbon exposure within its investments by 2030.

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

Community Impact Statement

8. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

9. There are no immediate implications arising.

Health Impact Statement

10. There are no immediate implications arising.

Climate Change Implications

11. There are no immediate implications arising.

Resource Implications

12. There are no immediate implications arising.

Legal Implications

13. There are no immediate implications arising

Consultation

14. There are no immediate implications arising.

Financial Implications

15. There are no immediate implications arising.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Caroline Watson, Senior Finance Manager, Treasury and Pensions	
Version	Final	
Dated	25 November 2022	
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		28 November 2022

Item No. 11.	Classification: Open	Date: 5 December 2022	Meeting Name: Pensions Advisory Panel
Report title:		CMA Order – Objectives for Fund's Investment Consultants	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

1. The PAP is asked to:

   1) Note the requirements set out in this report for administering authorities to set objectives for their investment consultant and monitor these annually.

   2) Note the objectives which have been set to comply with this requirement and the arrangements in place to ensure ongoing compliance.

   3) Note the scoring mechanism as set out in Appendix 1.

Background

2. In June 2019 the Competition and Markets Authority (CMA) introduced new duties for trustees via an Order which took effect from December 2019. The Order aims to address several problems that the CMA found as part of its Investment Management Market Investigation. Although the CMA Order refers to trustees, the Order is also applicable to the Local Government Pension Scheme.

3. These duties were brought into pensions regulations in October 2022. The law now requires trustees to set objectives for investment consultants and review performance against those objectives at least annually. The objectives must also be formally reviewed and revised at least every three years. Regulation of these obligations has been transferred under the new regulations from the DWP to the Pensions Regulator.

Assessing Objectives

4. The administering authority is responsible for setting and reviewing the objectives and, to ensure continuity of assessment, officers will conduct this role.

5. The objectives that Aon will be assessed against are split into four categories: investment strategy; performance review; advice; and client servicing and relationship management. The detailed objectives are set out in the table below:

Category	Objective
Investment Strategy	Does the Fund have a clear and coherent investment strategy?
	Is the asset allocation appropriately diversified?
	Does the strategy incorporate a clear bias towards low carbon investment?
Performance Review	Is the Fund's performance regularly monitored and are reasons for variations from benchmark clearly explained?
	Are recommendations to change or review mandates made when appropriate?
	Is the risk profile of the Fund monitored and are variations from the agreed strategy explained?
Advice	Does the consultant respond in a timely manner to requests for advice?
	Is the advice received incisive and clear?
	Has the consultant been sufficiently pro-active in raising new suitable investment opportunities or risk mitigation opportunities?
Client Servicing and Relationship Management	Has the consultant produced papers in good time ahead of meetings?
	Has the consultant maintained fees in line with pre-agreed budgets?

6. Officers will assess Aon's performance against the above objectives annually in advance of submitting the annual compliance statement which will be signed by the strategic director of finance and governance. This annual assessment will form part of the ongoing review of the performance of the investment consultancy contract throughout its duration. The scoring mechanism which will be applied in the assessment is set out in Appendix 1 of this report.

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

Community Impact Statement

7. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

8. There are no immediate implications arising.

Health Impact Statement

9. There are no immediate implications arising.

Climate Change Implications

10. There are no immediate implications arising.

Resource Implications

11. There are no immediate implications arising.

Legal Implications

12. There are no immediate implications arising

Consultation

13. There are no immediate implications arising.

Financial Implications

14. There are no immediate implications arising.

APPENDICES

Name	Title
Appendix 1	Scoring Mechanism

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Caroline Watson, Senior Finance Manager, Treasury and Pensions	
Version	Final	
Dated	21 November 2022	
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		28 November 2022

Appendix 1 – Scoring Mechanism

Weightings have been assigned to each objective to determine the most important aspects of the service. These weightings reflect the Fund's priorities with regards to progressing its zero carbon target. The weightings are set out in the following scorecard:

Objective	**Rating**	**Weight**
Investment Strategy		30%
Performance Review		25%
Advice		35%
Client Servicing and Relationship Management		10%
Overall Score		**100%**

A sliding numeric scale of 1-4 will be applied, and a simple average will be used to determine the overall rating.

Agenda Item 12

Item No.	Classification:	Date:	Meeting Name:
12.	Open	5 December 2022	Pensions Advisory Panel
Report title:		Pension Services - Administration Function Update	
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 on 31 October 2022 which set out information on IT/systems, staff changes, communications and complaint management.

Return to work post-covid

3. All staff are in the office two or three days each week as part of agreed hybrid flexible working.

Recruitment/staffing

4. Higher than average staff sickness (including long-term sickness absence) continues to affect Pension Services.

5. Pensions Administration Manager interviews took place over 17/18 November. We are very pleased to announce that the successful candidate was Agne Svencionyte. Agne has been acting Deputy Pensions Manager for the last six months (with another colleague), and is also responsible for the First Contact Resource team. Agne takes up her new position effective from 1 December.

6. Pensions Payroll Manager interviews took place over 11/14 November. Louise Charman was the successful candidate and has 20 years payroll (and pensions and finance) experience with the London Pensions Fund Authority (LPFA) and London Pensions Partnership Administration (LPPA). Start date expected to be around January 2023.

7. Senior Pensions Officer interviews are scheduled for later in November. We will update the Panel at future meetings.

Pensions administration action plan

8. A detailed action plan will be tabled at the March 2023 Panel meeting setting out any remaining data issues following the software migration. All key issues have already been escalated to Senior Management within Civica. The Data systems team monitors progress each day with Civica's Helpdesk and Account Manager.

9. Performance Metrics will be reinstated where Key Performance Indicators are provided to the Local Pension Board. This functionality exists but has not been tested due to all available resources being transferred to address the wider data migration issues, and to ensure Annual Benefit Statements could be produced.

10. Despite the absence of reporting against statutory deadlines, the admin team has, throughout this period, prioritised all financially sensitive transactions around payroll cut off dates. This includes payment of lump sums and pensions on retirement, and processing death benefits where dependent pensions and death grants become payable. Although the performance metrics are not available, the Pensions Manager is confident no material breach has occurred.

Cyber security – new pensions administration system

11. Mike Ellsmore, Chair of the Local Pension Board has confirmed cyber security would be reviewed, particularly as the Council had moved onto new pensions software. The results will be communicated to the Panel in due course.

12. However, a brief report was provided to the Board back in July 2022 which confirmed the new pensions administration system had been extensively tested and secured against cyber-attack. The system only allows access from pre-approved IP addresses, limited to the Southwark Council network and Aon. User access is controlled by the Pension Services Data Systems team, with strict password and user access protocols in place.

13. Data is stored in cloud servers hosted by Civica in a UK data centre. ISO certifications (27001, 20000, 22301, 14001, 9001) provide confidence that Civica operations meet the highest levels of information security, IT service management, business continuity and have the Government's IL3 accreditation rating, the highest security rating available. A secondary disaster recovery database is continuously running, and so in the event of a cyber-attack or other downtime the system can switch to a backup with limited data loss. Every keystroke on the system is fully logged and audited.

14. The new online Member Portal and Employer Hub have been penetration tested against cyber-attack by an independent third party, with no issues raised. Two factor authentication is required for members to register and

log in to ensure the security of their data. Internal policies ensure any suspicious requests are interrogated and verified.

15. The Pension Fund will be engaging Aon (the funds actuaries and advisors) to undertake a detailed cyber assessment (as compared to other LGPS funds). Results will be passed to the Board and shared with the Panel in due course.

Complaint management

16. Reports will now include complaint outcomes and whether the complaint was resolved, upheld or not upheld, together with details of any financial redress.

17. Any complaint that has been finally determined by an Ombudsman is published on their website. A copy of the determination will be provided to the panel.

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

- The Pensions Ombudsman - ill-health award tiering appeal made against a former employer (school). All ill-health tiering awards are recommended by Occupational Health following medical assessment, but it is the employer that makes the final decision. A Schools HR Business Partner has now provided a formal response to the Pensions Ombudsman. Decision awaited.

- IDRP stage 1 - three complaints are with the Council concerning incorrect employee pension deductions made from the SAP payroll system. As these complaints are against the principal employer the complaints are all being assessed by Council HR acting as the stage 1 adjudicator. The Council is yet to respond to each stage 1 complainant.

- IDRP stage 1 - two complaints were made against the pension fund due to delayed transfer values. Both cases have now been resolved.

- IDRP stage 1 - complaint raised against the pension fund due to a death grant not being paid. The widow believed a death grant was payable after finding a deferred benefit statement. However, the member had since retired and his pension had been paid for many years. The complaint was not upheld.

Performance monitoring

The Data Systems team will be testing UPM workflow and task management functionality shortly and we will provide a full report and metrics at future meetings.

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

Conclusions

19. Recruitment and retention of key staff with the necessary skills is critical to the achievement of future plans.

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

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.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Barry Berkengoff, Pensions Manager, Finance and Governance	
Version	Final	
Dated	25 November 2022	
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
List other officers here		
Cabinet Member	No	N/a
Date final report sent to Constitutional Team		28 November 2022

Agenda Item 13

Item No. 13.	Date: 31 October 2022	Meeting Name: Pensions Advisory Panel
Report title:		Update on the Local Pension Board
From:		Chair of the Local Pension Board

RECOMMENDATION

1. The pensions advisory panel is asked to note the update from the local pension board (LPB) meeting of 19 October 2022.

KEY AREAS OF DISCUSSION

2. AON provided a training session on the actuarial valuation process.

3. The main business included an update on pensions services, a draft policy on formal board appointments, TCFD consultation for the LGPS, an update on current issues in the LGPS, an investment update and the reappointment of the LPB chair.

Pensions services

4. This primarily covered the improved payment system through Civica allowing weekly payroll and payment of lump sums closer to date of retirement.

5. Discussion was had over improvements required on the UPM side of Civica, focusing on data migration and bulk calculations issues and it was noted that four other local authorities moved to Civica at the same time, with the same issues.

6. The LPB chair encouraged an action plan to be put in place to address ongoing issues, along with engaging with Civica at a senior level and the other impacted authorities.

7. An update was provided around staffing within the Services function as the Pensions Payroll Manager has handed in their notice and staff sickness being higher than usual.

8. Recruitment is underway for a Deputy Pensions Manager and Senior Pensions Officer, with a new First Contact Officer due to start at the end of November 2022.

Formal board appointments

9. This covered a draft policy for appointing board members, including scheme and employer representatives and substitute members.

10. This was deferred to the LPB meeting in January 2023 to allow board members to have more time to consider the proposals included in the report.

TCFD consultation for LGPS

11. This involved an update on what the upcoming TCFD disclosures will require, outlining that new reporting requirements will come into force from December 2024.

12. Concerns were raised over the additional resource that will be required to meet the new reporting requirements but it was noted that Officers of the fund already meet a number of the new requirements.

Update on current issues in the LGPS

13. Initial consultation has completed on phase one of the Good Governance project, with phase two to be undertaken next year.

14. There is due to be ongoing monitoring of diversity and inclusion on the Board, in line with The Pensions Regulator action plan.

15. The Scheme Advisory Board has written to Government Ministers to recommend separation of Local Authority and Pension Fund accounts at year-end to avoid ongoing issues around delays on signing off the Pension Fund accounts based on issues with the Local Authority accounts.

Investment update

16. Affirmation that the ongoing volatility in the market following the recent mini-budget has had minimal impact on the long term funding position of the LBS Pension Fund.

17. This update provided an opportunity to remind the Board that there is an upcoming Investment Strategy review due in December 2022.

18. There was a further update that the Fund intends to recall a portion of investment returns from fund managers if the upcoming increase in pension benefits poses liquidity risk.

Re-appointment of the local pension board chair

19. The board voted in favour of retaining Mike Ellsmore as Chair of the local pension board

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

Community impact statement

20. No immediate implications arising

Equalities (including socio-economic) Impact Statement

21. No immediate implications arising

Health Impact Statement

22. No immediate implications arising

Climate Change Implications

23. No immediate implications arising

Resource Implications

24. No immediate implications arising

Legal Implications

25. No immediate implications arising

Financial Implications

26. No immediate implications arising

Consultation

27. No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report Author	Mike Ellsmore, Chair of the Local Pension Board		
Version	Final		
Dated	24 November 2022		
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			28 November 2022

This page is intentionally blank.

MUNICIPAL YEAR 2022/23

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 Stephanie Cryan (Chair)	By email
Councillor Rachel Bentley	By email
Councillor Andy Simmons	By email
Officers	
Duncan Whitfield	By email
Caroline Watson	By email
Barry Berkengoff	By email
Staff Representatives	
Roger Stocker	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	
Tim Jones	By email
Jack Emery	By email
External	
Mike Ellsmore	By email
Andrew Weir (spares)	0
Total printed copies:	**0**

Dated: 28 November 2022

Last updated – May 2022