

Pensions Advisory Panel

Monday 6 March 2023

10.30 am

Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Membership

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

Staff Representatives

Roger Stocker
Julie Timbrell
Derrick Bennett

Officers

Duncan Whitfield
Caroline Watson
Barry Berkengoff

Advisors

David Cullinan
Colin Cartwright

INFORMATION FOR MEMBERS

Contact

Andrew Weir on 020 7525 7222 or email: andrew.weir@southwark.gov.uk

Members of the committee are summoned to attend this meeting

Althea Loderick

Chief Executive

Date: 27 February 2023



Pensions Advisory Panel

Monday 6 March 2023
10.30 am
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Order of Business

Item No.	Title	Page No.
	PART A - OPEN BUSINESS	
1.	APOLOGIES	
	To receive any apologies for absence.	
2.	CONFIRMATION OF VOTING MEMBERS	
	Voting members of the committee to be confirmed at this point in the meeting.	
3.	NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT	
4.	DISCLOSURE OF INTERESTS AND DISPENSATIONS	
	Members of the committee to declare any interests and dispensation in respect of any item of business to be considered at this meeting.	
5.	MINUTES	1 - 6
	To agree as correct record, the open minutes of the meeting held on 5 December 2022.	
6.	ASSET ALLOCATION DECEMBER 2022	7 - 10
7.	CARBON FOOTPRINT UPDATE - 31 DECEMBER 2022	11 - 17

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	— DAVID CULLINAN	
	— AON	
9.	REVISED INVESTMENT STRATEGY STATEMENT	35 - 70
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**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.”

15. MINUTES

To agree as correct record, the closed minutes of the meeting held on 5 December 2022.

16. QUARTERLY INVESTMENT UPDATE

Date: 27 February 2023



Pensions Advisory Panel

MINUTES of the OPEN section of the Pensions Advisory Panel held on Monday 5 December 2022 at 10.00 am at Meeting Room 225 - 160 Tooley Street, London SE1 2QH

PRESENT

Councillor Stephanie Cryan (Chair)
Councillor Rachel Bentley
Councillor Andy Simmons
Councillor Margy Newens (observing)
Duncan Whitfield
Caroline Watson
Jack Emery
Tim Jones
Julie Timbrell
Mike Ellsmore
David Cullinan
Colin Cartwright
Richard Antrobus
Lauren Wynn
Laura Caudwell
Andrew Weir

1. APOLOGIES

Apologies for absence were received from Barry Berkengoff, the pensions manager.

2. CONFIRMATION OF VOTING MEMBERS

Councillor Stephanie Cryan, 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

It was noted that the following pensions advisory panel members who are involved in agreeing and setting budgets for the council (as administering authority for the pension fund) had interests to declare in items 8 and 14 relating to the triennial actuarial valuation results:

Councillor Stephanie Cryan
Councillor Andy Simmons
Councillor Rachel Bentley
Duncan Whitfield
Tim Jones.

5. MINUTES**RESOLVED:**

That the minutes of the meeting held on 31 October 2022 be agreed as a correct record.

6. ASSET ALLOCATION SEPTEMBER 2022

Jack Emery, Divisional Accountant, presented the report.

There were questions on the report and a discussion.

RESOLVED:

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

7. 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 September 2022 be noted.

8. 2022 TRIENNIAL ACTUARIAL VALUATION RESULTS - AON

Laura Caudwell and Loren Wynn from Aon presented the report.

There were questions on the report and a discussion.

RESOLVED:

- a) That the initial valuation results presentation attached as Appendix 1 be noted.
- b) That it be noted that scheme employers will have the opportunity to feedback on the amended funding strategy statement, via a consultation which will commence shortly.

9. QUARTERLY INVESTMENT UPDATE

David Cullinan presented his report and updated the panel. He advised that the fund's return over the quarter had been 0% but this was not bad considering the recent market volatility.

Colin Cartwright from Aon presented his report and updated the panel. He advised that 0% growth for the quarter was not a bad performance considering the market volatility.

There were questions and a discussion on the reports.

RESOLVED:

That the quarterly investment updates be noted.

10. INVESTMENT STRATEGY REVIEW - AON

Colin Cartwright from Aon presented the report.

There were questions on the report and a discussion.

RESOLVED:

1. That the recommendation agreed via email correspondence to extend the Fund's investments with Temporis Capital, by investing circa £30 million in the Temporis Renewable Energy Fund, subject to satisfactory completion of legal due diligence, be confirmed.
2. That the objectives and considerations for the investment strategy review as set out in full within closed Appendix A be noted.

3. That the following actions as part of the investment strategy review be confirmed:
 - i. Agree a new 10% strategic asset allocation to multi asset credit. The voting members of the panel shall conduct a manager selection exercise.
 - ii. Reallocate the 10% current strategic asset allocation to diversified growth funds to equities (5%) and multi asset credit (5%).
 - iii. Reallocate the 5% current strategic asset allocation to absolute return bonds to multi asset credit.
4. That the proposed framework, as set out in closed Appendix A, as a minimum set of requirements to be met prior to agreeing a new investment within the illiquid assets allocation be agreed.
5. That the modelling results, as set out in closed Appendix A, which set out the investment returns and value at risk for the current and proposed strategy be noted.
6. That the next steps as set out in the closed Appendix A be noted.

11. CMA ORDER - OBJECTIVES FOR THE FUND'S INVESTMENT CONSULTANT

Caroline Watson, senior finance manager, presented the report.

There were no questions.

RESOLVED:

1. That the requirements set out in the report for administering authorities to set objectives for their investment consultant and monitor these annually be noted.
2. That the objectives which have been set to comply with this requirement and the arrangements in place to ensure ongoing compliance be noted.
3. That the scoring mechanism as set out in Appendix 1 be noted.

12. PENSIONS SERVICES UPDATE

In the absence of Barry Berkengoff, the pensions manager, Duncan Whitfield, the strategic director of finance and governance, presented the report.

There was a brief discussion.

RESOLVED:

That the update on the pensions administration function be noted.

13. LOCAL PENSION BOARD UPDATE

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

RESOLVED:

That the update from the local pension board (LPB) meeting of 19 October 2022 be noted.

EXCLUSION OF THE PRESS AND PUBLIC

That the press and 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 category 3 of paragraph 10.4 of the access to information procedure rules of the Southwark Constitution.

The following is a summary of the decisions taken in the closed part of the meeting.

14. 2022 TRIENNIAL ACTUARIAL VALUATION RESULTS - AON

The voting members of the pensions advisory panel considered the closed information relating to this item. Please see item 8 for the decision.

15. QUARTERLY INVESTMENT UPDATE

The voting members of the pensions advisory panel considered the closed information relating to the Aon presentation section of this item. Please see item 9 for the decision.

16. INVESTMENT STRATEGY REVIEW - AON

The voting members of the pensions advisory panel considered the closed information relating to this item. Please see item 10 for the decision.

The meeting ended at 11.55am.

CHAIR:

DATED:

Item No. 6.	Classification: Open	Date: 6 March 2023	Meeting Name: Pensions Advisory Panel
Report title:		Asset Allocation December 2022	
From:		Divisional Accountant - Pensions & Investments	

Recommendation

1. The pensions advisory panel is asked to:

- Note the Fund's asset allocation at 31 December 2022

Asset Class	Manager	31 Dec 2022 £000	% of Total Fund	Strategic Benchmark %	Difference %
Global Equity	BlackRock	325,823	16.6	17.5	-0.9
	Legal & General	315,801	16.1	17.5	-1.4
	Newton	241,612	12.3	10.0	2.3
	Comgest	91,122	4.6	5.0	-0.4
Total Global Equity		974,358	49.6	50.0	- 0.4
Diversified Growth	BlackRock	126,115	6.4	0.0	6.4
Total Diversified Growth		126,115	6.4	-	6.4
Absolute Return Bonds	BlackRock	134,917	6.9	0.0	6.9
Total Absolute Return Bonds		134,917	6.9	-	6.9
Multi-Asset Credit	TBC	-	-	10.0	- 10.0
Total Multi-Asset Credit		-	0.0	10.0	- 10.0
Core Property	Nuveen	204,505	10.4	14.0	-3.6
Total Core Property		204,505	10.4	14.0	- 3.6
ESG Priority Allocation	Invesco	34,830	1.8	1.5	0.3
	M&G	43,562	2.2	1.5	0.7
	Frogmore	8,195	0.4	1.5	-1.1
	Brockton	7,179	0.4	1.5	-1.1
	Glennmont	23,059	1.2	1.1	0.1
	Temporis	86,627	4.4	3.5	0.9
	BlackRock	12,691	0.6	0.4	0.2
	Darwin	21,416	1.1	0.5	0.6
	Blackstone	46,373	2.4	3.5	-1.1
	BTG Pactual	34,943	1.8	1.0	0.8
Total ESG Priority Allocation		318,875	16.2	16.0	0.2
Index Linked Gilts	BlackRock	84,411	4.3	5.0	-0.7
	Legal & General	60,913	3.1	5.0	-1.9
Total Index Linked Gilts		145,324	7.4	10.0	- 2.6
Cash & Cash Equivalents	BlackRock	45,039	2.3	0.0	2.3
	Newton	7,887	0.4	0.0	0.4
	Nuveen	5,913	0.3	0.0	0.3
Total Cash & Cash Equivalents		58,839	3.0	-	3.0
Total Fund		1,962,933	100.0	100.0	-

Asset Class	Sub Category	31 Dec 2022 £000	Strategic Benchmark %	Actual Allocation %
Global Equities	Low Carbon Passive Equities	641,624	35.0	32.7
	Active Pooled Emerging Market Equities	91,122	5.0	4.6
	Segregated Active Global Equities	241,612	10.0	12.3
Total Global Equities		974,358	50.0	49.6
Total Diversified Growth		126,115	0.0	6.4
Total Absolute Return Bonds		134,917	0.0	6.9
Total Multi-Asset Credit		0	10.0	0.0
Core Property	UK Direct Property	201,575	14.0	10.4
	UK Commercial Property Pooled Funds	2,930		
Total Core Property		204,505	14.0	10.4
ESG Priority Allocation	Pooled Funds - UK Private Residential	78,392	3.0	4.0
	Pooled Funds - UK Opportunistic Property	15,375	3.0	0.8
	Sustainable Infrastructure	122,378	5.0	6.2
	Timberland	34,943	1.0	1.8
	Bereavement Services	21,416	0.5	1.1
	Private Equity	46,373	3.5	2.4
Total ESG Priority Allocation		318,877	16.0	16.2
Total Index Linked Gilts		145,324	10.0	7.4
Cash & Cash Equivalents	Sterling Liquidity Fund	45,039	0.0	2.3
	Fund Manager Held Derivatives	7,887	0.0	0.4
	Fund Manager Operational Cash	5,913	0.0	0.3
Total Cash & Cash Equivalents		58,839	0.0	3.0
Total Fund		1,962,935	100.0	100.0

2. Notes:

- There is a minor variance between this report and the asset allocation figures reported by Aon in their quarterly investment report. This is due to different approaches being taken to report the sustainable infrastructure allocations following the recent investment in the Temporis Renewable Energy Fund. Officers are working with Aon to agree a suitable approach to reporting on this going forward.
- Note that there are further variances given that this report has been prepared based on the updated strategic asset allocation agreed at the December 2022 pensions advisory panel meeting.

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

3. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

4. There are no immediate implications arising.

Health Impact Statement

5. There are no immediate implications arising.

Climate Change Implications

6. There are no immediate implications arising.

Resource Implications

7. There are no immediate implications arising.

Legal Implications

8. There are no immediate implications arising

Consultation

9. There are no immediate implications arising.

Financial Implications

10. 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	24 February 2023	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team	24 February 2023	

Item No. 7.	Classification: Open	Date: 6 March 2023	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint Update - 31 December 2022	
From:		Divisional Accountant - Pensions & Investments	

Recommendation

1. The pensions advisory panel is asked to:
 - Note the Fund's updated carbon footprint as at 31 December 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									
		Sept 2017	Dec 2020	March 2021	June 2021	Sept 2021	Dec 2021	March 2022	June 2022	Sept 2022	Dec 2022
Asset Class	Fund Managers										
Equity - Developed	Blackrock, LGIM	98.7	20.4	23.0							
Equity - Developed Market Low Carbon	Blackrock, LGIM		23.7	24.2	25.5	29.8	51.1	51.0	33.2	24.9	20.6
Equity - Emerging Markets	Blackrock, Comgest	18.1	15.0	19.1	18.3	0.5	0.5	0.2	0.2	0.2	0.2
Equity - Global	Newton	10.6	7.0	4.4	4.6	4.3	4.5	5.8	5.9	5.6	4.0
Diversified Growth Fund	Blackrock	26.7	16.0	15.6	14.2	15.8	17.1	16.5	13.7	14.4	10.7
Absolute Return Bonds	Blackrock	22.4	8.7	10.0	9.8	10.2	8.7	6.8	11.2	12.5	14.0
Core Property	Nuveen	14.3	12.0	10.6	10.5	10.7	11.2	12.0	12.9	12.7	11.2
ESG Priority Allocation - Property	Invesco, M&G, Brockton, Frogmore	8.8	9.5	10.9	11.0	10.9	4.4	4.6	5.0	5.0	5.1
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin							0.1	0.2	0.3	0.3
Sustainable Infrastructure	Blackrock, Glennmont, Temporis										
IL Gilts	Blackrock, LGIM	14.0	14.0	14.0	26.0	25.2	25.4	24.2	20.6	19.5	20.9
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	126.3	131.7	120.0	107.3	122.9	121.4	102.9	95.1	87.1
Total Change in Footprint			-40.9%	-38.3%	-43.8%	-49.8%	-42.5%	-43.2%	-51.9%	-55.5%	-59.2%

NS

Results

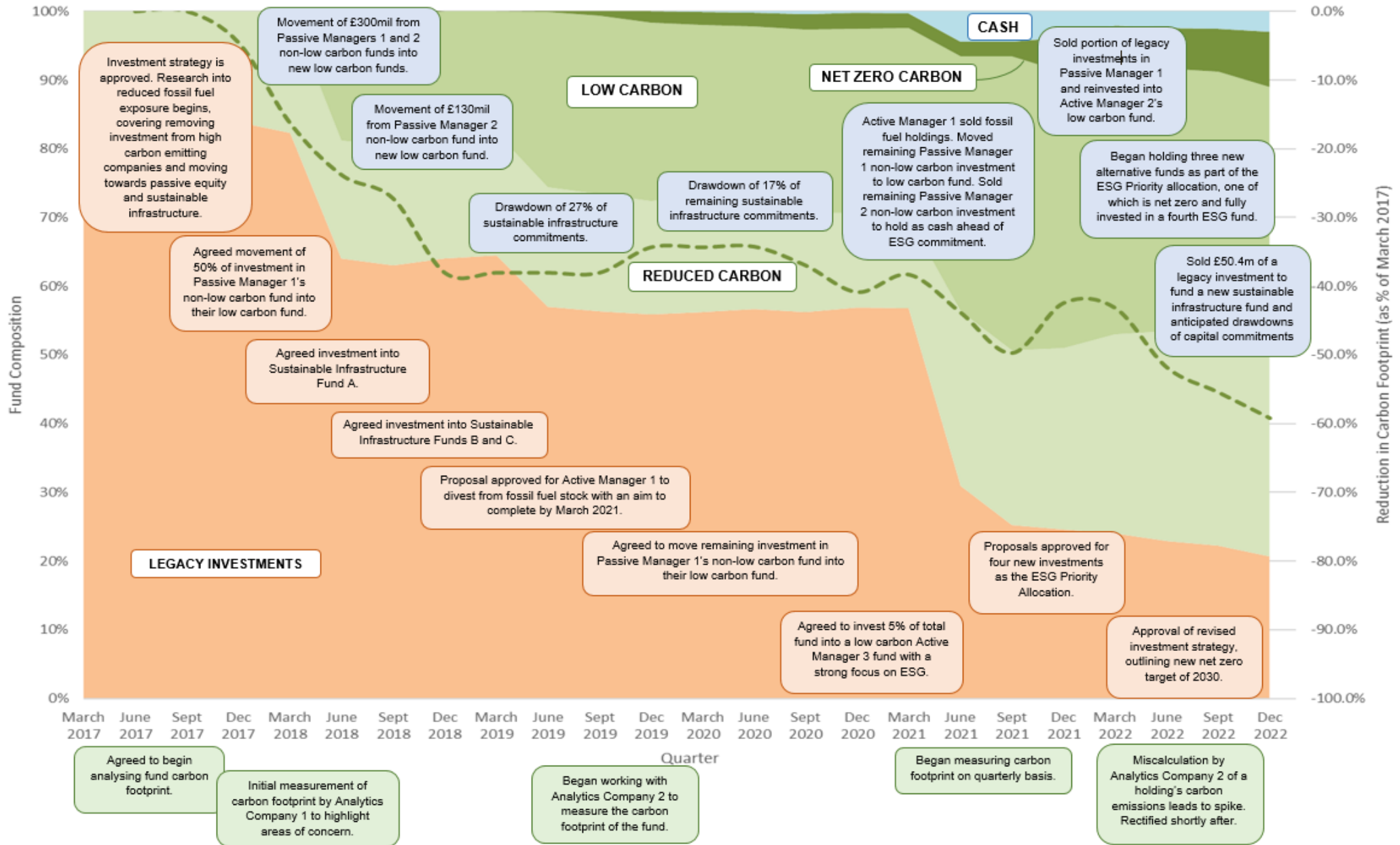
- The results for 31 December 2022 show that the Fund has reduced its weighted carbon intensity by 59% since September 2017. The reduction in the quarter to December 2022 has been primarily driven by the sale of a portion of a legacy fund to invest in the Temporis Renewable Energy Fund, and new screening methods introduced by the fund's passive equity funds.
- 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 tCO ₂ e/\$m
Asset Class	Fund Manager(s)	Dec 2022
Cash And Equivalent	Blackrock, Nuveen, Newton	0.00
ESG Priority Allocation - Alternatives	Blackrock, Blackstone, BTG Pactual, Glennmont, Temporis	16.10
Core Property	Nuveen	107.70
Global Equity	LGIM, Blackrock, Newton	164.47
Diversified Growth	Blackrock	167.00
Absolute Return Bonds	Blackrock	203.00
ESG Priority Allocation - Property	Brockton, Frogmore, Invesco, M&G	430.80
Index Linked Gilts	Blackrock, LGIM	564.80
Total		1653.86

- £50.3m was redeemed from a legacy holding in the Blackrock Diversified Growth Fund, of which, £30.6m was used to finance the purchase of a new net zero fund - the Temporis Renewable Energy Fund. This fund invests in renewable energy on behalf of investors. This new investment has reduced the fund's exposure to legacy high-carbon holdings and replaced it with increased zero carbon exposure. The remainder of the cash balance has been invested with the Blackrock Liquidity Fund to finance anticipated drawdowns of capital commitments'.
- Blackrock has implemented new screens to the underlying holdings of the fund's passive equity holdings, which has contributed to a 41% decrease in the weighted carbon intensity of this holding and is one of the key drivers for this quarter's change in carbon intensity.
- LGIM are holding a security which has a carbon intensity value being calculated incorrectly. Whilst officers of the fund address this, the carbon intensity measurement for LGIM's passive equities has been carried forward from the previous quarter.
- There are a number of upcoming changes expected in the quarter to March 2023, which will have an impact on the pension fund's carbon footprint over time:

- a. There are due to be Manager Selection exercises to choose alternative products to replace the current legacy holdings to Multi Asset Credit holdings with stronger low carbon credentials whilst maintaining the same risk profile, as previously agreed by PAP.
 - b. Our carbon measurement provider rebalanced their universe early in February. This process involves updating data relating to the carbon footprint of securities to what the individual organisations are publically reporting. The figures in this report were collated prior to the rebalance and the rebalance may positively or negatively affect the carbon intensity of the fund moving forward.
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





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 & Investments	
Version	Final	
Dated	20 February 2023	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team	24 February 2023	

Item No. 8.	Classification: Open	Date: 6 March 2023	Meeting Name: Pensions Advisory Panel
Report title:		Advisers' Updates - Quarter to December 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

Consultation

8. No immediate implications arising.

Financial Implications

9. 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

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Caroline Watson, Senior Finance Manager, Treasury and Pensions	
Version	Final	
Dated	22 February 2023	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		24 February 2023

LONDON BOROUGH OF SOUTHWARK - Quarterly Report December 2022

Market Background

Markets ended a very challenging calendar year on a slightly more positive note, despite persistently high inflation, tight monetary policy and lingering pessimism over the outlook for global GDP growth. Both equity and credit markets posted gains.

In terms of equities, European markets performed well with concerns over energy shortages easing and the UK recovering from the damage caused by the 'mini budget' whilst in Asia, the surprise relaxation of China's zero Covid policy provided support. In the round, global stock markets returned close to 8%, but appreciation in Sterling (or more accurately weakness in the Dollar) reduced gains to the unhedged UK investor of around 2%. Energy and related sectors (industrials and materials) outperformed whilst technology and consumer discretionary stocks performed poorly.

Bond market performance was mixed over the period; positive for conventional sterling issues and global credit, negative for inflation linked and non-UK sovereign debt.

The poorest performing asset class over the quarter was real estate, with some estimates showing capital declines of between 12% and 15%. Weak investor sentiment, and a high interest rate/low growth environment have slowed deal flows and led to sharp falls in capital values.

LGPS Funds

The average LGPS funds is expected to have returned +1%, arresting a series of quarterly losses.

Longer-Term

The one-year number has remained firmly in negative territory and the three- and five-year returns range between 4-5%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 was performing positively in October and November but gave up all, and more, of the gains in December to record a return of -1.1% for the quarter. This was behind the benchmark return of 1.3%.

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.

Manager	Brief	Start Value (£m)	Returns			Contributions		
			Fund	Benchmark	Relative Return	Fund	Benchmark	Relative
BLK *	Equity/ILG	415,384	-1.2	0.7	-1.9	-0.2	0.1	-0.4
LGIM *	Equity/ILG	375,668	0.3	0.1	0.2	0.1	-	-
BLK	Diversified Growth	174,911	2.4	0.9	1.5	0.2	0.1	0.1
BLK	Absolute Return Bond	130,755	3.2	0.9	2.3	0.2	0.1	0.1
Newton	Global Equity	245,690	1.4	2.8	-1.3	0.2	0.3	-0.2
Comgest	EM Equity	89,442	1.7	1.8	-0.1	0.1	0.1	-
Brockton	Property	7,191	-0.2	3.6	-3.6	-	-	-
Nuveen	Property (Core)	240,785	-12.7	1.7	-14.2	-1.5	0.2	-1.7
Invesco	Property	33,241	4.8	1.9	2.8	0.1	-	-
M&G	Property	44,265	-1.6	1.9	-3.5	-	-	-0.1
Frogmore	Property	7,990	0.2	3.9	-3.5	-	-	-
Glenmont	Infrastructure	20,566	13.8	2.4	11.1	0.1	-	0.1
Temporis	Infrastructure	44,965	0.8	2.4	-1.6	-	0.1	-
Temporis (New)	Infrastructure	0	0.0	0.0	0.0	-	-	-
Temporis Impact	Infrastructure	12,561	0.7	2.4	-1.7	-	-	-
BLK	Infrastructure	9,451	-6.7	2.4	-9.0	-	-	-
Blackstone	Diversified Alternatives	50,044	-7.8	2.9	-10.4	-0.2	0.1	-0.3
BTG	Diversified Alternatives	36,522	-3.4	1.5	-4.8	-0.1	-	-0.1
Darwin	Diversified Alternatives	21,082	1.6	1.5	0.1	-	-	-
BLK/LBS	Cash	33,767	0.7	0.7	0.0	-	-	-
Total		1,994,280	-1.1	1.3	-2.4	-1.1	1.3	-2.4

* 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.

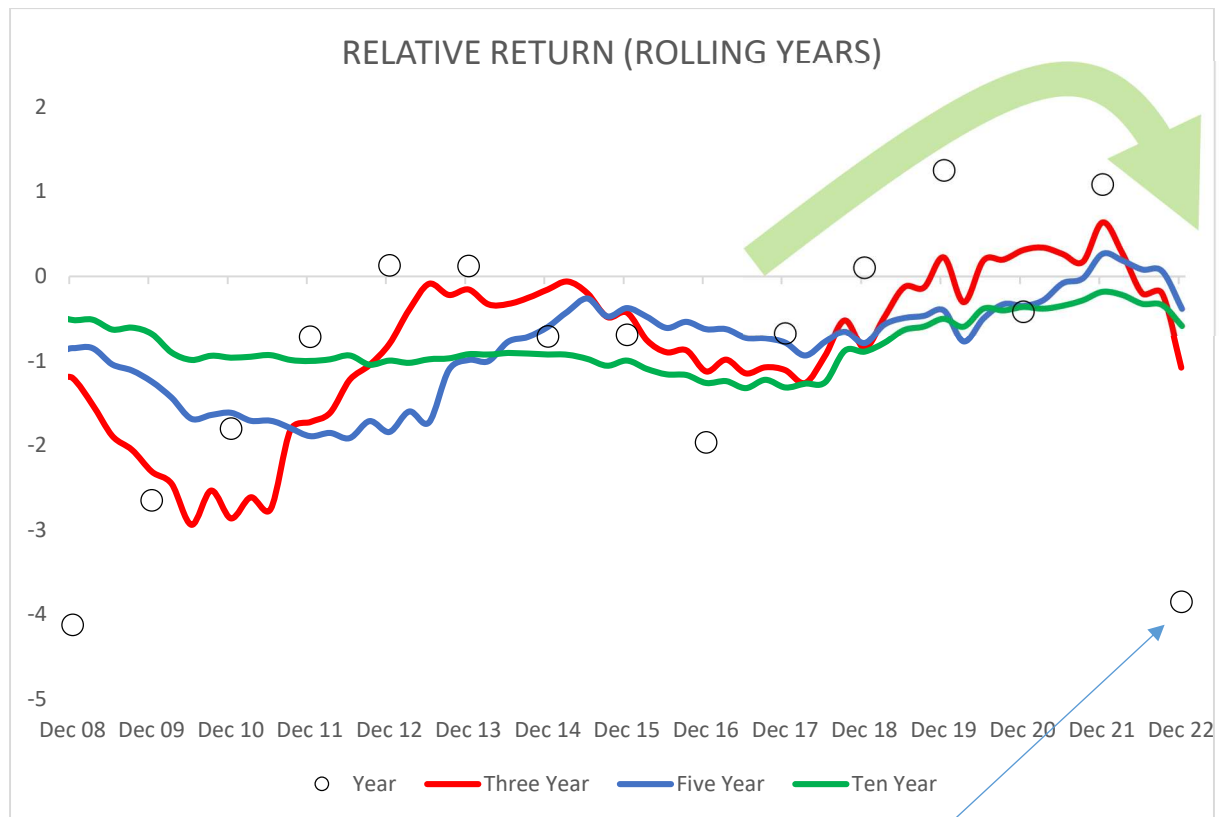
The third column from the right shows how much the managers have contributed to the overall return of -1.1%. The column on the extreme right-hand side shows how much the managers have contributed to the excess return of -2.4%. On both the absolute and relative measures, Nuveen had the most significant negative impact for a second successive quarter.

The one-year return for the Fund was disappointing both in absolute terms (-8.6%) and in relative terms (3.8% behind benchmark). Over the full year, the two biggest contributors to the sizeable shortfall were Nuveen and the DDG portfolio managed by BlackRock.

Medium-term, the Fund has returned between 4.7%p.a. and 5.8%p.a. over the three and five-year periods. Both periods' returns have been behind benchmark, the latter by a smaller margin.

Over the last ten-years, the Fund has delivered a very valuable 8.9%p.a. return but 0.6%p.a. off the target.

Over the course of the last couple of years, I have been reporting a general improvement in the Fund's relative performance; medium term returns above benchmark and longer-term returns behind but by ever decreasing margins. Performance throughout calendar year 2022 and in particular the last six months however, has reversed this trend quite markedly as is illustrated in my updated chart.



In summarising the chart,

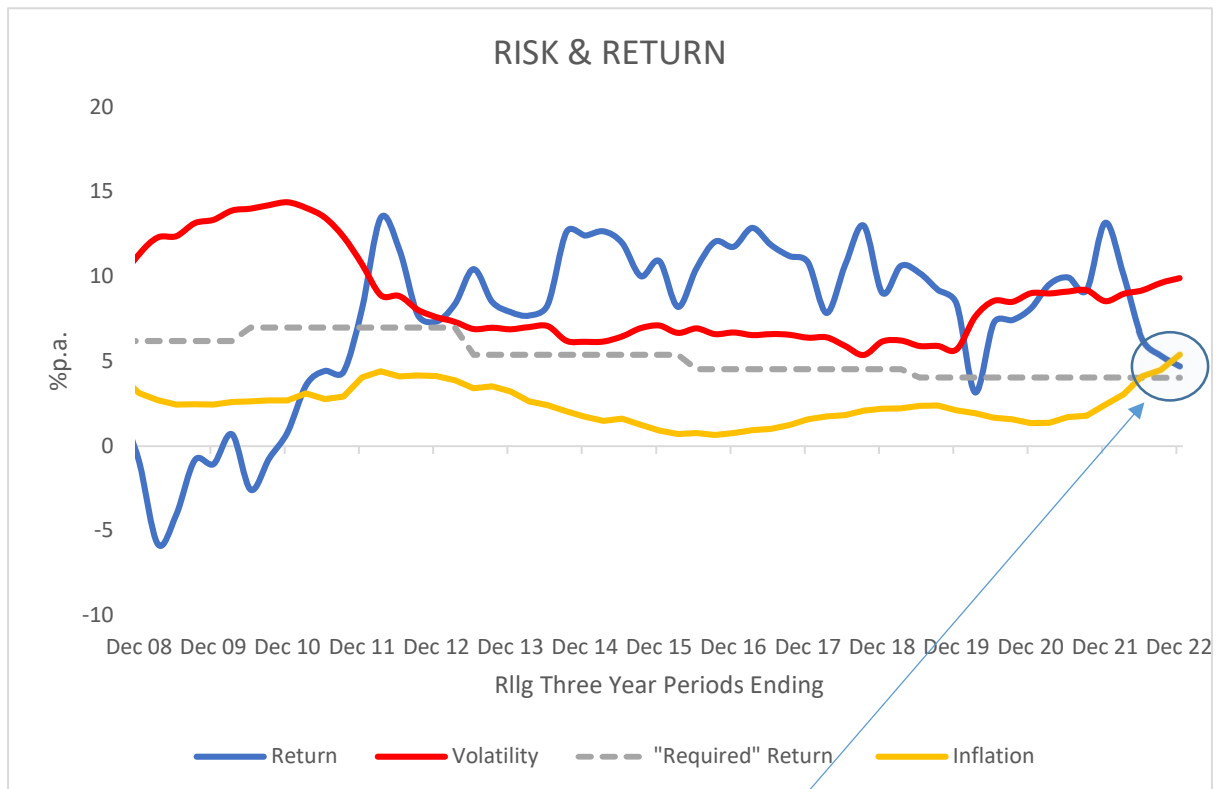
- The upward sloping trails toward the right of the chart (Dec 2017 – Dec 2021) highlight the pattern of improving returns
- The margin of underperformance in the latest year has had a pronounced bearing on the latest rolling results

It's probably worth putting some context around the sizeable underperformance in 2022. There were two primary detractors:

Nuveen – responsible for around 1.7% of the shortfall, it could be argued that the underperformance came not from lack of asset manager skill rather than the performance of the asset class itself. We have an aspiration of 7%p.a. for the asset but over a market cycle rather than year on year. A number of public sector funds have even more challenging aspirations e.g. inflation plus a percent or two and will have suffered even more!

BlackRock Diversified Growth – responsible for around 1.2% of the shortfall. We have appointed BLK to select from a broad universe of assets to deliver capital growth. Sold on the pretext of asymmetric and uncorrelated return, we appreciate there will of course be periods when the strategy will not deliver a positive return, but the magnitude of the underperformance is a concern and one which we are addressing. In contrast to Nuveen, the underperformance can be put down to manager skill (or lack thereof).

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



Again, as a reminder of what this is telling us,

- 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
- The return impact on the rolling return of the pandemic was relatively short-lived although volatility (the red trail) has remained heightened
- The blue line shows that 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). The performance in the latest year has reduced this margin however
- The extreme right hand side of the chart shows that inflation has now overtaken the 'base' return set by the actuary. With CPI likely to remain well ahead of the Government's target in the immediate short-term, this is a concern

Newton – Active Global Equity

Newton underperformed the World index by around 0.7% over the quarter. Stock selection and sector allocation weighed on returns. Disappointing performance in the health care and industrials sectors, underweighting energy and overweighting consumer discretionary and technology were key.

Relative to the stretched (index plus target aspiration) benchmark, the portfolio lagged by 1.3%.

The portfolio's annual return was sharply negative (5.8% short of the stretched benchmark) with each of the four quarters behind.

By way of some background, active managers in the round are unlikely to have performed well for their LGPS clients in recent quarters with many favouring 'growth' companies over 'value' companies. Over the calendar year, the value portion of the world index has gained around 4% whilst the growth index has lost around 19%.

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

I continue to track Newton's performance in both up and down markets. There remains 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, performed a touch behind benchmark over the quarter (portfolio 1.7%, index 1.8%).

Over the full year, the portfolio returned -9.7%, but outperformed the index by 0.4%.

BlackRock - Active

Both active positions delivered positive returns and outperformed the cash benchmark over the quarter.

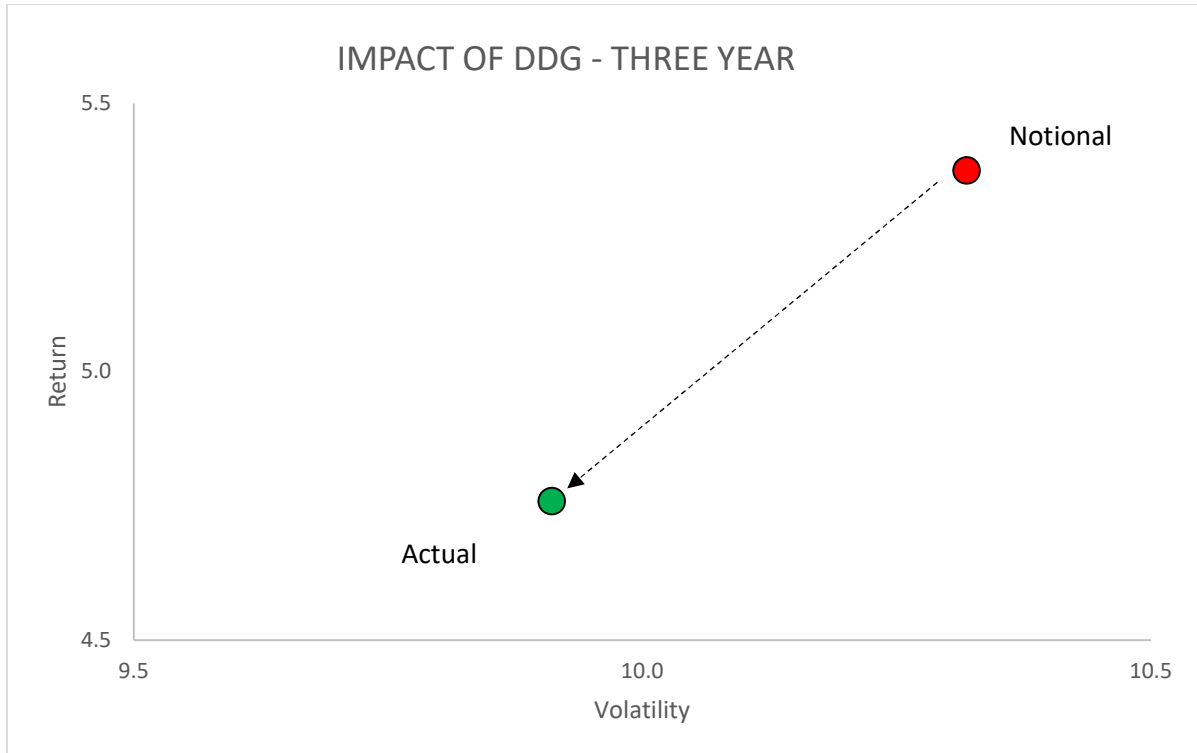
The ARB portfolio benefitted from a longer duration in government bonds as yields fell. The DG portfolio benefitted from the positive returns available from equities and credit.

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.

Focusing on 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 to equities, the Fund's primary growth driver.

Nuveen Real Estate – Core Property

The portfolio returned -12.4% over the quarter (Nuveen numbers). The overall return comprised an income return of 0.8% and capital reduction of -13.1%. The portfolio assets depreciated across the board with returns ranging from -10% from offices and 16% industrial holdings. The portfolio's single indirect asset, the UK Retail Warehouse Fund decreased by almost 18%.

The full year return reported by Nuveen was -7.4%, a significant reversal of the near +14% reported last quarter. This has dented medium-term numbers (three and five year numbers are between 1.5%p.a. and 2.5%p.a.) and longer-term returns (the ten year return is around 6%p.a.).

The current seven-year number of c2.7p.a. has fallen back sharply and remains some way 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.

Residential/Oppportunistic 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.

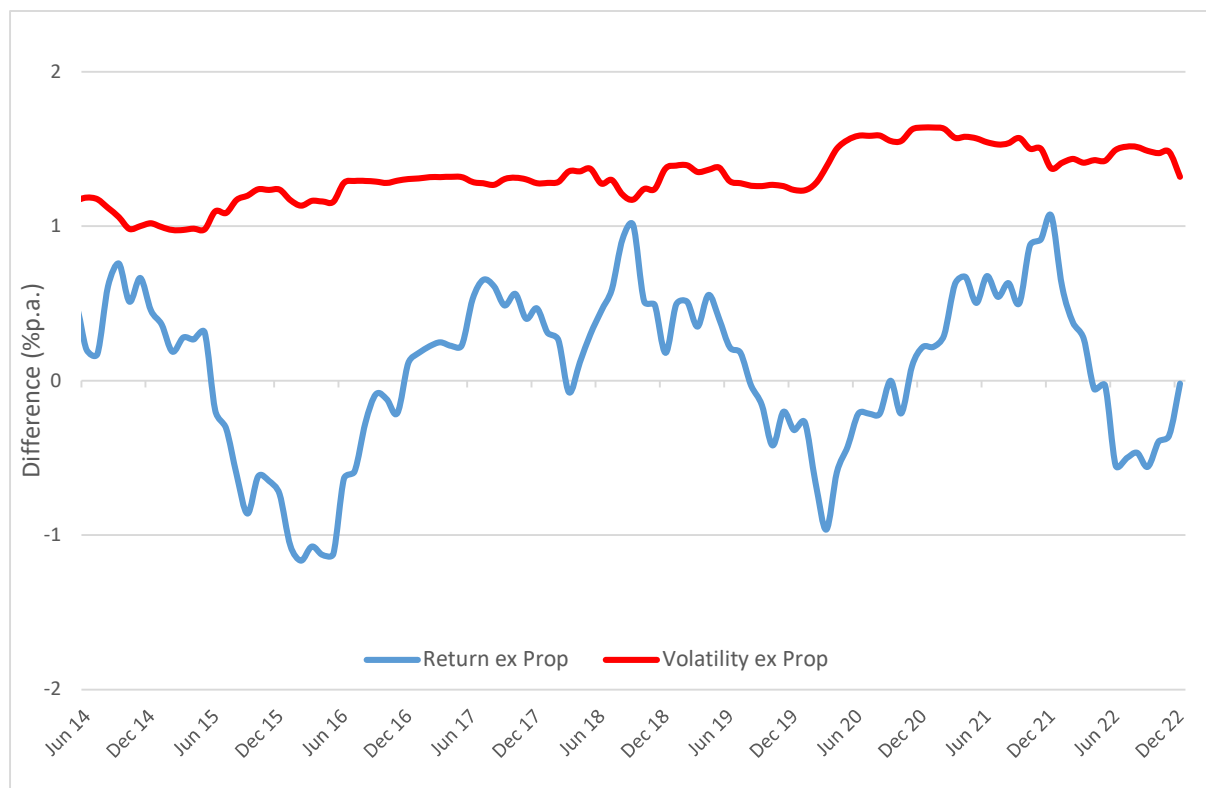
Southwark's Property Allocation

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	-8.5	1.9	-10.2	-3.3	7.6	-10.2
Core	-12.7	1.7	-14.2	-7.7	7.0	-13.7
Ex Core	1.0	2.2	-1.2	6.3	9.2	-2.7

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 outperforming and enhancing 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, holding property has not impacted the overall return but has significantly reduced the volatility significantly (by around 1.3%p.a.). This continues to be a very acceptable trade-off.

Infrastructure

The Fund's infrastructure investments are relatively new and comprise just over 6% of the overall asset value. They are very early stage but returns so far have been ahead of expectation, particularly from the earlier Temporis and Glenmont funds.

"ESG Priority Allocation"

These portfolios are also relatively new and comprise just about 5% of the Fund's assets. Returns so far are ahead of expectation.

Passive Portfolios

The portfolios tracked within tolerance over the quarter.

Summary

- This was the final quarter of a very challenging year for the sector and Southwark
- The Fund underperformed for a fourth successive quarter resulting in the poorest annual relative performance since 2008
- Property had a major impact on the outcome but as I explain above, due to the asset class as opposed to the asset manager
- Performance from the diversified growth portfolio was also a significant drag and has been a disappointing asset since inception. In light of this and other factors (notably the lack of climate awareness), the Panel believes DG no longer aligns appropriately with the overarching investment strategy and will be exited
- The short and medium-term outlook for markets remains very uncertain. Inflation remains abnormally high and interest rates continue to increase. It is hoped that the former has peaked and the need for higher rates will diminish, but until this happens both real and monetary assets will stay somewhat subdued
- The current asset allocation strategy continues to serve the Fund well and the performance from some of the newer investments has been quite encouraging

Quarterly Investment Dashboard Q4 2022

London Borough of Southwark Pension Fund



Prepared for: The Pension Advisory Panel

Prepared by: Aon

Date: 22 February 2023



At a glance...

Assets

£1,962.9m ▼

Assets decreased by £31.0m over the quarter.

Funding

-

Comments

- The Fund's total assets decreased by £31.0m over the quarter, from £1,994.0m to £1,962.9m.
- At the 5 December 2022 PAP Meeting, it was agreed, in consultation with Aon, to fully redeem the Fund's holdings in the Blackrock ARB and Blackrock DDG Fund.
- It was subsequently agreed to amend the Fund's strategic allocation to equities from 45% to 50% and the strategic allocation to credit from 5% to 0%. This has been reflected in our report.
- We note that it was also agreed to switch the 10% allocation from Diversified Growth to Multi-Asset Credit. **This has been reflected in our report with a caveat that the Fund remained invested in a diversified growth fund over the quarter and it is in the process of transitioning the assets across.**
- Over the quarter, 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.
- Post quarter end, following Aon's recommendation, the PAP agreed to switch 50% of their holdings in the LGIM MSCI Low Carbon target Index Fund to the LGIM Low Carbon Transition Developed Index.
- More information on notable developments are found in the Manager Review section.

Surplus

-

Manager ratings

10 **Buy rated** 10 **Not rated**
1 **Qualified** 0 **Not recommended**

Performance (short term)

-2.4% ▼

The scheme returned -1.1% vs 1.3% over the quarter.

Performance (longer term)

-1.2% ▼

The scheme returned 4.7% vs 5.9% over the three-year period.

Fund performance – Snapshot

Fund performance & benchmark



Relative performance



Quarterly (relative)

-2.4%



The scheme returned -1.1% vs 1.3% over the quarter.

3 year (relative)

-1.2%



The scheme returned 4.7% vs 5.9% over the period.

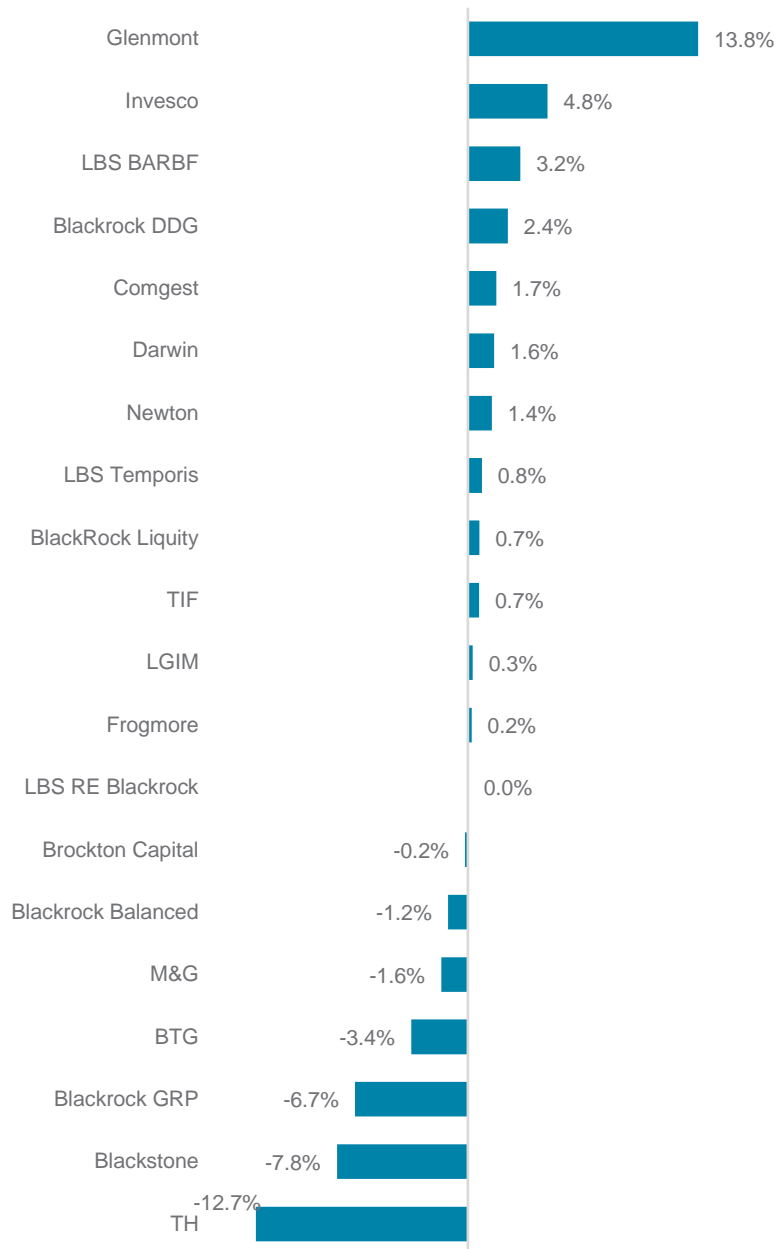
Comments

Over the quarter, the Fund underperformed the benchmark

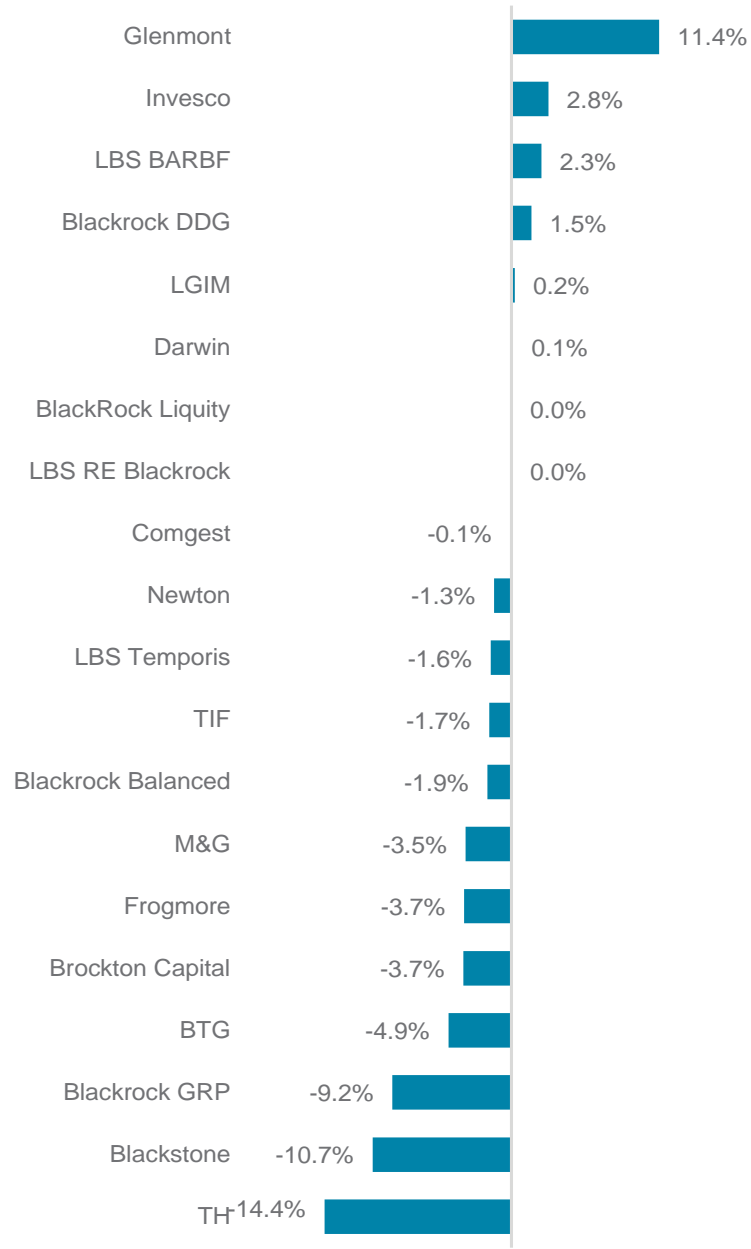
Notable detractors to performance were the Nuveen, Blackstone and BlackRock GRP funds, whilst the notable contributors to performance were the Glennmont, Invesco and the Blackrock ARB Funds

Manager performance

Absolute performance

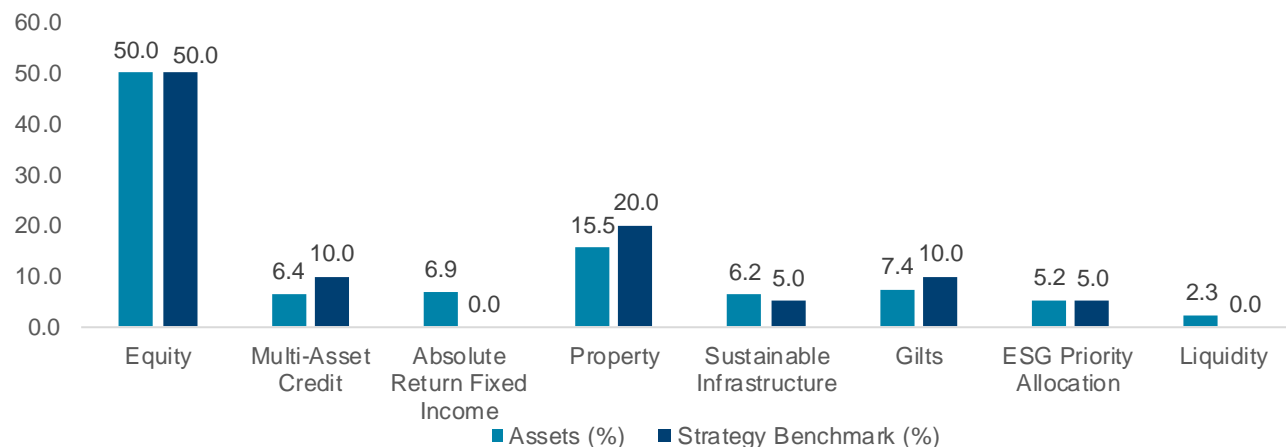


Relative performance

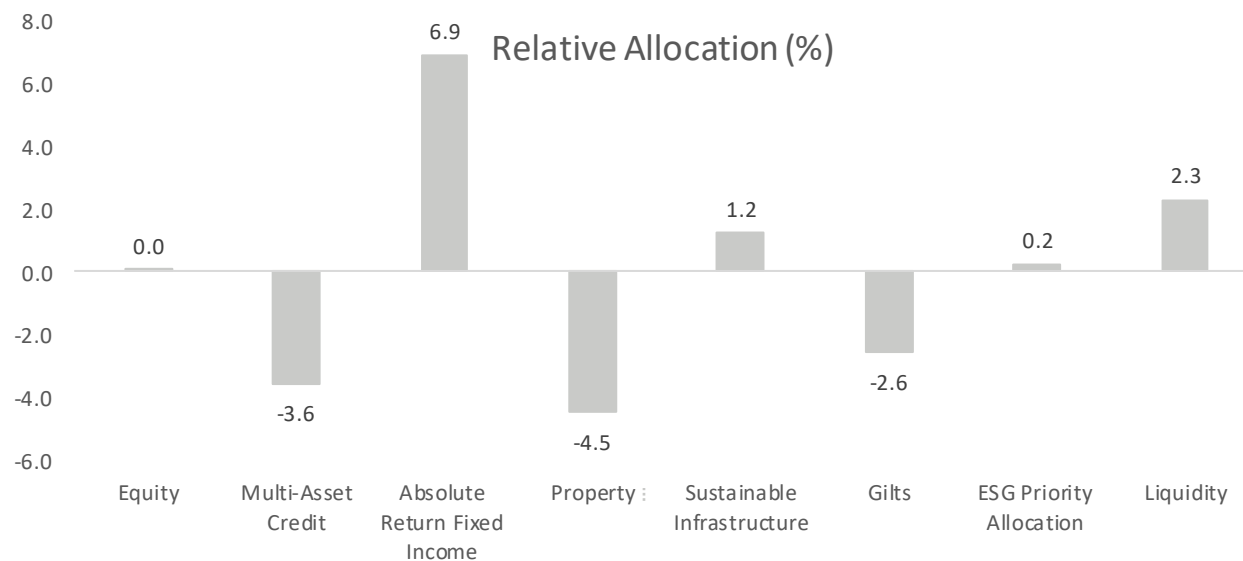


Strategic allocation – Snapshot

Strategic allocation & benchmark



Relative allocation



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

Assets

£1,962.9m ▼

Assets decreased by £31.0m over the quarter.

Comments

- All asset classes remain well within the maximum strategic allocation limit.
- At the 5 December 2022 PAP Meeting, it was agreed, in consultation with Aon, to fully redeem the Fund's holdings in the Blackrock ARB and Blackrock DDG Fund. The proceeds will be reinvested in equities and multi-asset credit as part of the move to a new strategy.
- It was subsequently agreed to amend the Fund's strategic allocation to equities from 45% to 50% and the strategic allocation to credit from 5% to 0%. This has been reflected in our report.
- We note that it was also agreed to switch the 10% allocation from Diversified Growth to Multi-Asset Credit. **This has been reflected in the charts and tables within this section with a caveat that the Fund remained invested in a diversified growth fund over the quarter and is in the process of transitioning the assets across.**
- The PAP agreed the 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

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Item No. 9.	Classification: Open	Date: 6 March 2023	Meeting Name: Pensions Advisory Panel
Report title:		Investment Strategy Statement	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendation

1. The pensions advisory panel is asked to:
 - Agree the revised version of the Investment Strategy Statement as Appendix 1.

Background

2. In accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, an Administering Authority must prepare and maintain a written Investment Strategy Statement (“ISS”) of the principles governing its decisions on the investment of the Fund. The ISS must be in accordance with guidance issued by DLUHC.
3. The Fund’s ISS was last formally reviewed in December 2021 and there is a requirement to review the policy when any changes have been made to the investment strategy, and at least every three years.
4. The ISS 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.

Revised Investment Strategy

5. The ISS has been updated to include the changes to the investment strategy and the framework for new illiquid investments agreed at the 5 December 2022 PAP meeting.

Next Steps

6. Following agreement by PAP, the revised ISS will be published on the pension fund website.

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

Community Impact Statement

7. No immediate implications arising.

Equalities (including socio-economic) Impact Statement

8. No immediate implications arising.

Health Impact Statement

9. No immediate implications arising.

Climate Change Implications

10. No immediate implications arising.

Resource Implications

11. No immediate implications arising.

Legal Implications

12. No immediate implications arising

Consultation

13. No immediate implications arising.

Financial Implications

14. There are no immediate implications arising.

APPENDICES

Name	Title
Appendix 1	Investment Strategy Statement

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	23 February 2023	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		24 February 2023

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.

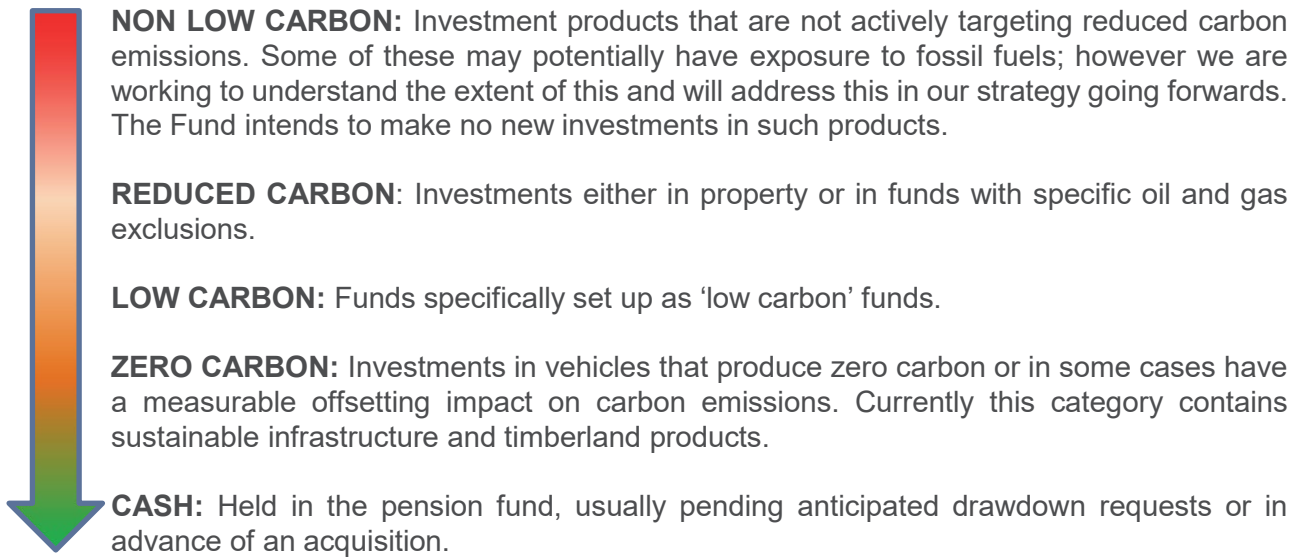
- The Fund will be comprehensive in the consideration of risks; the Fund will base assessments of risk on future pension liabilities and contributions, will consider financial and non-financial risks, diversify investment assets in an appropriate manner, but also recognise the limits of that diversification.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



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

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

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

Asset class	Target Allocation %	Investment Style %	Maximum Allocation %	Role (s) within the strategy	Carbon Classification
Equity	50.0	Passive 35.0	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
Multi-Asset Credit	10.0	Active 10.0	20.0	Diversified approach to fixed income investing which aims to deliver equity like returns over time with a lower level of risk.	Low Carbon
Index Linked Gilts	10.0	Passive 10.0	20.0	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.	Low Carbon
Timberland					Zero Carbon
Private Equity					Reduced Carbon

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

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

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

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

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

4. Risk measurement and management

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

The table below, based on the 31 March 2022 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	£275m
Rise in inflation	1% increase in inflation	£413m
Fall in interest rates	1% fall in interest rates	£413m
Underperformance by the active managers	3% collective underperformance	£33m

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.

	2017-18	2018-19	2019-20	2020-21	2021-22
	£000	£000	£000	£000	£000
Contributions and Transfers In	54,711	58,891	65,787	69,712	71,270
Benefits and Transfers Out	-63,406	-71,384	-71,384	-67,580	-72,050
Investment Income	15,432	15,287	15,287	10,036	7,425
Net Position	6,737	2,794	9,690	12,168	6,645

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 2021-22, the Fund received £6.6m 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.

As a result of the Fund's increased exposure to illiquid funds, there is an increased level of liquidity risk due to contractual obligations to meet capital drawdowns at the request of fund managers. The balance of unfunded commitments and available liquid assets is regularly monitored by officers of the fund to ensure a negative cash balance is avoided. This is continuously monitored in order to prevent the need for sale of assets in order to fund capital drawdowns.

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 83 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 E.

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 E 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 31 March 2022 £0.9 billion, approximately 42.5% 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 D 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	17.5	-	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	3M SONIA	10.0	+3.0% net of fees	Non low carbon
BlackRock	Absolute Return Bonds	3M SONIA	-	+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	8.5	-	Low carbon
Legal & General	Low carbon passive Global Equities	Low Carbon Transition Fund	9.0	-	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

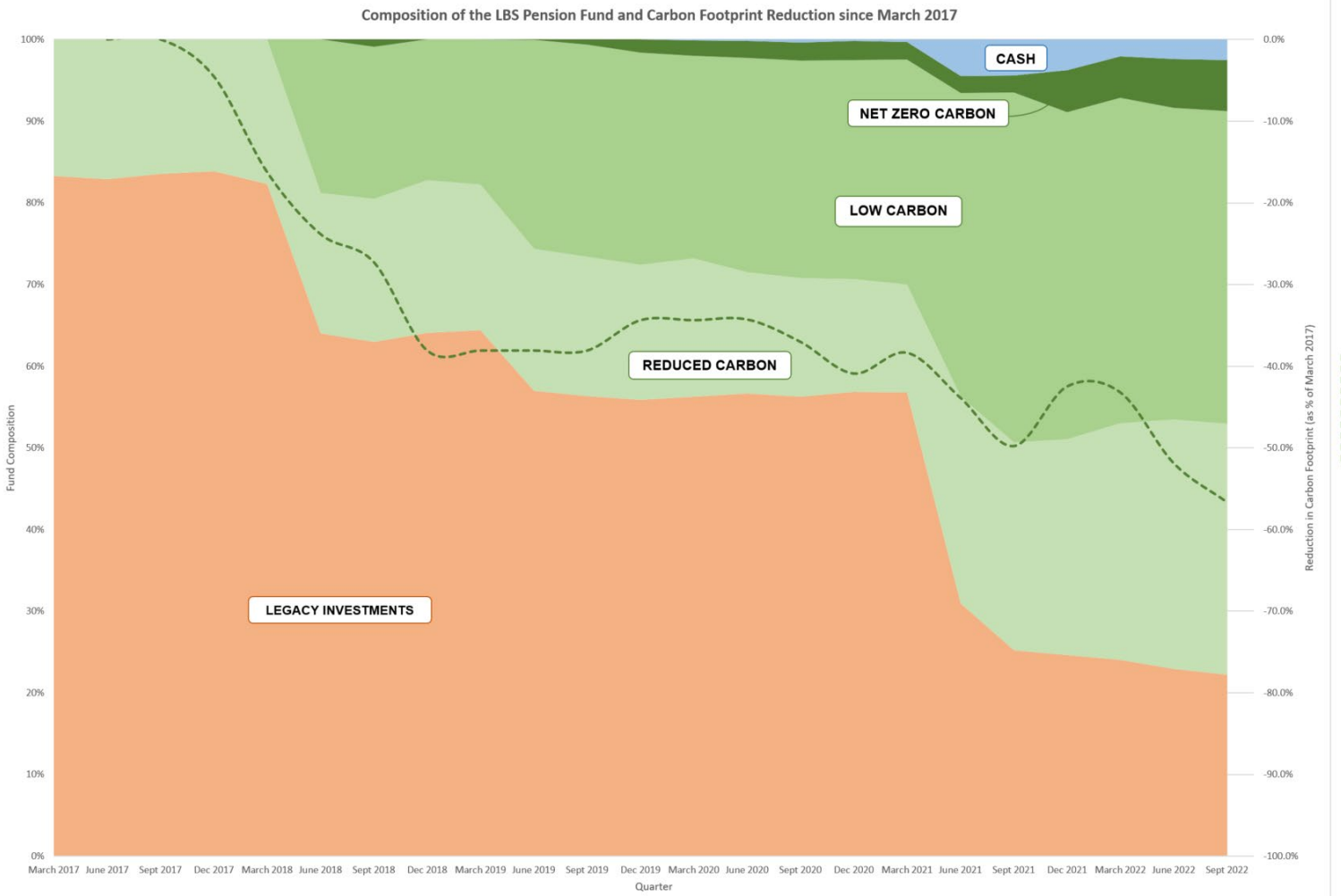
Brockton	Opportunistic Property	15.0% p.a. absolute return	1.5	-	Reduced carbon
Invesco	PRS Property	8.5% p.a. absolute return	1.5	-	Reduced carbon
M&G	PRS Property	8.0% p.a. absolute return	1.5	-	Reduced carbon
Glennmont	Sustainable Infrastructure	10% p.a. absolute return	2.0	-	Zero carbon
Temporis	Sustainable Infrastructure	10% p.a. absolute return	1.5	-	Zero carbon
Temporis	Sustainable Infrastructure	11-12% p.a. absolute return	1.0	-	Zero carbon
Temporis	Sustainable Infrastructure	7% p.a. absolute return	-	-	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 – Framework for new illiquid investments

This section outlines the Fund's framework for making investments in illiquid investments. Examples of illiquid investments include property, infrastructure, renewables, private equity, and any other alternative assets within the investment universe. Any potential investment opportunity should be assessed against the following criteria:

- 1) Return
 - The investment should aim to generate an expected return that contributes to an overall return of at least 8% of the illiquid portfolio.
 - This should be supported by independent analysis and monitored on a regular basis ex-post an investment is made.
- 2) Risk
 - Concentration of the portfolio (the Fund should seek to make investments in such a way that does not expose the portfolio to manager, asset class, sector or geographical concentration and the risks that they bring).
 - Volatility of returns (tracking error) should be in line with or lower than the wider equity market. This should be supported by independent analysis and monitored on a regular basis ex-post an investment is made.
 - Wider risks such as political/reputational risk should be considered when looking at specific underlying investments.
- 3) A move to any new investment must demonstrate evidence that the new one will be lower in carbon than the legacy investment holding it is replacing. Managers must be able to provide evidence to confirm this.
- 4) Seek opportunities where possible to obtain new mandates with existing fund managers.
- 5) Consideration of the fees imposed by the manager on the Fund and whether this is justified.

Appendix C – Carbon Profile Allocation over Time



Appendix D

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 E

Southwark Pension Fund Investment Strategy to Achieve Net Zero Carbon Exposure by 2030

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 (CO₂) output. There is a growing scientific consensus¹ that continued CO₂ 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

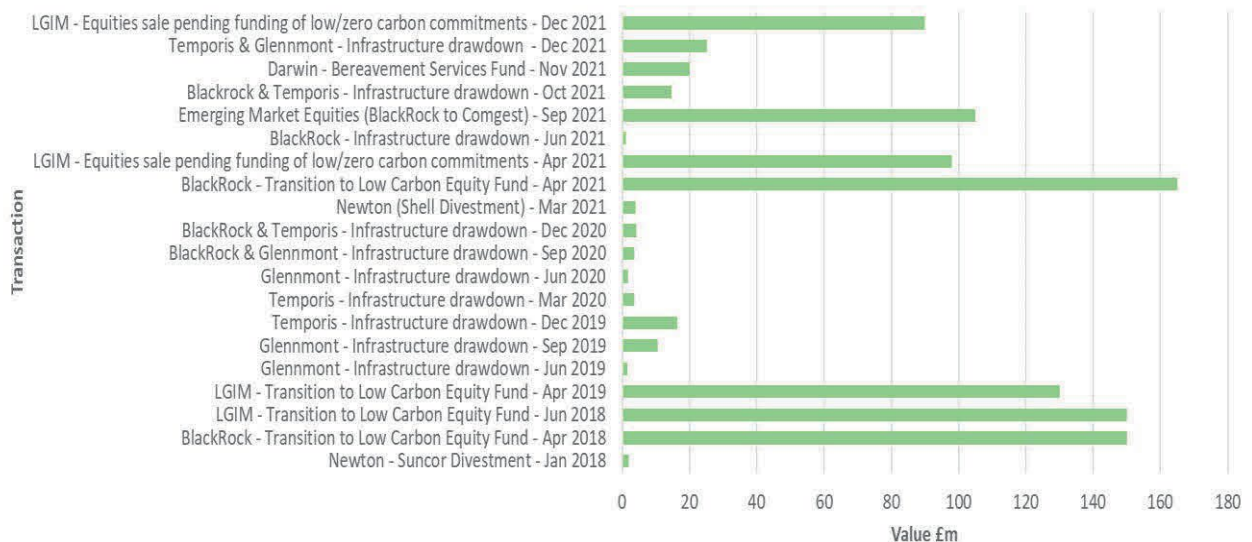
On 13 December 2016, after due consideration of the long term risk to the Fund; the Fund announced that investments in fossil fuel companies would be cut over the long term. This commitment was incorporated into the Investment Strategy Statement for the Fund published in March 2017 and updated in December 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 CO₂ 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 outperformed 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 focusing 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' focused 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 CO₂ 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.

Medium Term – From 2027 to 2029

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.

Long Term: 2030

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.

Item No. 10.	Classification: Open	Date: 6 March 2023	Meeting Name: Pensions Advisory Panel
Report title:		Zero Carbon Investment Strategy: Implementation Progress Update	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendation

1. The pensions advisory panel is asked to:
 - Note recent progress in the implementation of the net-zero carbon strategy, as set out in this report.

LGIM Low Carbon Transition Fund

2. Following a review of opportunities to move the holdings in the Legal and General (LGIM) Low Carbon Target Index Fund to an alternative fund that would further progress the net-zero carbon objectives, the LGIM Low Carbon Transition Fund was identified as the most suitable option.
3. Half of the holding in the Low Carbon Target Index Fund (c.£165m) was transitioned to the Low Carbon Transition Fund in January 2023. The investment performance and carbon footprint of the new holding will be monitored for six months and, subject to satisfactory performance, the balance will be transitioned in July 2023. This approach will protect the Fund against the risk of underperformance.
4. A report setting out details on the Low Carbon Transition Fund was tabled at the October 2022 PAP meeting.
5. It is expected that the transition of assets will have a positive impact on the Fund's carbon footprint going forward. It is estimated that the weighted average carbon intensity of this holding will reduce by a third.

Temporis Renewable Energy Fund

6. The recommendation to invest £30m in the Temporis Renewable Energy Fund was approved by PAP in December 2022. The full investment was drawn down by Temporis in mid-December. This holding adds to the Fund's strategic allocation to sustainable infrastructure, and is within the zero-carbon category. As such, it will assist in progressing the Fund's net-zero carbon target.

Multi Asset Credit

7. As part of the recent investment strategy review, PAP agreed to a new 10% strategic allocation to multi asset credit, which will be funded from the legacy absolute return bond and diversified growth holdings.
8. Aon have provided a shortlist of proposed managers who will present to a selection panel on 9 March. The shortlisted managers are as follows:
 - i. LGIM Global Diversified Credit SDG Fund
 - ii. Robeco Climate Global Credits Fund
 - iii. Abrdn Climate Transition Bond Fund.
9. Following the selection process, a recommendation to appoint the preferred manager(s) will be ratified at the June 2023 PAP meeting.

Further Areas of Progress

10. Further potential opportunities with new and existing managers in asset classes such as sustainable infrastructure, property, and wider alternatives, are being pursued by officers in conjunction with Aon. PAP will be updated on progress in these areas at future meetings.

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

Community Impact Statement

11. No immediate implications arising.

Equalities (including socio-economic) Impact Statement

12. No immediate implications arising.

Health Impact Statement

13. No immediate implications arising.

Climate Change Implications

14. No immediate implications arising.

Resource Implications

15. No immediate implications arising.

Legal Implications

16. No immediate implications arising.

Consultation

17. No immediate implications arising.

Financial Implications

18. 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	24 February 2023	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		24 February 2023

Item No. 11.	Classification: Open	Date: 6 March 2023	Meeting Name: Pensions Advisory Panel
Report title:		Cash Flow Management Policy	
From:		Divisional Accountant - Pensions & Investments	

Recommendation

1. The pensions advisory panel is asked to:
 - a) Note the need for a formalised cash flow management policy to be implemented for the London Borough of Southwark Pension Fund (LBSPF, 'the Fund').
 - b) Agree the recommended approach to the Fund's cash flow management as set out below and in further detail in Appendix A.

Background

2. Due to the increasing maturity of its membership profile, the Fund is cash negative as monthly cash outgoings are no longer met by contributions and lump sum payments in.
3. This is expected to increase when pension benefit payments increase by 10.1% from April 2023 whilst contributions in are likely to remain fairly stable.
4. As the Fund moves further with its Net Zero carbon emission targets, there has been an increase in illiquid investment, which is expected to grow in the coming years. The Fund commits a given value of capital to each of these illiquid investments which are drawn down and paid as cash to fund managers over each investment's lifetime.
5. The current cash shortfall over the 2023-24 financial year is expected to be c. £34m, however additional capital drawdowns will exacerbate the cash negative status of the Fund beyond this.
6. As per LGPS regulations, the Fund holds operational cash balances in a bank account and additional cash is invested in a liquidity fund with an existing manager.
7. The current liquidity fund requires five clear working days to access cash, limiting the Fund's ability to be reactive to any unexpected large-scale payments.
8. A new cash flow management policy is required in order to allow officers to react more efficiently to capital drawdowns and minimise cash balances held in order

to maximise potential investment returns and avoid the sale of other assets to fund illiquid asset needs.

Proposed Cash Flow Management Policy

9. The proposed cash flow management policy splits the Fund's assets into a five-tier structure, with the intention to reflect which assets should be used in order to meet obligations as they fall due.
10. Limits and thresholds on cash balances will be reviewed on a quarterly basis in the short-term to ensure they are suitable in practice.
11. Aon's Cash Flow Management report is set out for consideration in Appendix A.
12. Allocation of the Fund's assets as at 31 December 2022 into each of these tiers is included for reference in Appendix B.

Tier 1: Primary Cash Vehicle: Bank Account and Money Market Funds

13. A minimum of c. £7m to be held in this tier, split across the Fund bank account (£0.75m) and two money market funds (c. £6.25m) to be used to meet operational cash flows.
14. Assets at this level are highly liquid and should be accessible within at least one working days' notice whilst generating low returns through the money market funds.
15. If the balance on Tier 1 falls below an agreed lower limit, additional resource would be called down from Tier 2, or if it remains consistently above an agreed upper limit, additional resource would be invested into Tier 2.

Tier 2: Secondary Cash Vehicle: Liquidity Fund

16. The Fund is currently invested in the BlackRock Sterling Liquidity Fund but, on the agreement of this policy, the Fund will be divesting from this and investing the proceeds in the LGIM Sterling Liquidity Fund, selected due to shorter timeframes for accessing invested cash resources.
17. A minimum of c. £5m would be held at this tier to be accessed in order to meet larger expenses to the Fund or larger capital drawdowns.
18. These funds are less liquid than those in Tier 1 but will generate greater returns than money market funds to reward investors for lower liquidity.

Tier 3: Main Source of Liquidity to Fund New Investments

19. Assets at this level can be redeemed in order to meet substantial obligations that would exhaust balances at Tier 1 and 2, such as investments into new assets.

20. Historically, the Fund has relied on redeeming passive equity holdings to meet investments due to an ongoing overweight allocation to passive equities and low transaction costs incurred in redeeming passive assets. The Fund would continue to use passive equities to replenish low cash balances in Tier 2 assets.
21. The Investment Management Agreement between LBSPF and LGIM can be amended to trigger an automatic transfer of assets from the LGIM passive equity fund (a Tier 3 asset) to the LGIM Sterling Liquidity Fund (a Tier 2 asset) where balances on the liquidity fund reach a lower threshold.
22. The defensive allocation of the Fund is deemed as sitting within Tier 3:
 - a. Blackrock DGF and ARB funds can be used to fund new investment once the upcoming allocation to multi-asset credit has been made:
 - i. The incoming Multi-Asset Credit allocation would sit under Tier 4.
 - b. It is non-advisable to redeem index-linked gilts to meet new investment obligations due to the protection they offer to the Fund's value against rises in inflation.

Tier 4: Other Sources of Liquidity

23. Assets in this tier are those which have low liquidity characteristics but can be redeemed if assets at Tier 3 need to be replenished to maintain the Fund structure within the framework of the strategic asset allocation.
24. These assets are actively managed with the intention of applying fund manager expertise to deliver above-market returns and as such, redemption of these assets should be exercised with caution.

Tier 5: Illiquid Investments

25. These investments are often those which form the backbone for the Fund's progress to Net Zero and should not be considered where the Fund requires liquid resources to meet obligations.
26. Prior to investing in new illiquid assets, it is recommended that sustainability of the Fund's overall liquidity should be assessed to ascertain if the Fund can meet commitments whilst mitigating ongoing liquidity risk

Next Steps

27. Officers have begun the process to find suitable money market funds for Tier 1 as part of a wider project to improve the Fund's ability to respond efficiently to requests for large cash outflows.

28. Following agreement of this policy by the PAP, the following actions will be taken:
- a. The Fund's Investment Strategy Statement will be updated to reflect the new cash flow management policy.
 - b. Onboard the LGIM Sterling Liquidity Fund and divest from the current BlackRock Liquidity Fund.
 - c. Ongoing monitoring and assessment of the suitability of the cash flow policy to meet cash flow requirements, particularly around cash balance buffers.

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

Community Impact Statement

29. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

30. There are no immediate implications arising.

Health Impact Statement

31. There are no immediate implications arising.

Climate Change Implications

32. There are no immediate implications arising.

Resource Implications

33. There are no immediate implications arising.

Legal Implications

34. There are no immediate implications arising

Consultation

35. There are no immediate implications arising.

Financial Implications

36. There are no immediate implications arising.

APPENDICES

Name	Title
Appendix A	Aon Cashflow Management Framework Report
Appendix B	London Borough of Southwark Pension Fund Asset Structure: Tier Allocation

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jack Emery, Divisional Accountant – Pensions & Investments	
Version	Final	
Dated	24 February 2023	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		24 February 2023



Cashflow Management Framework

London Borough of Southwark Pension Fund

This paper provides information on the Fund's cashflow requirements.

At a glance...

The Officers of the London Borough of Southwark Pension Fund (the "Fund") have requested that Aon provide advice in relation to implementing a formal policy to support the Fund's ongoing cashflow requirements.

The Fund's cash outflows related to pension payments are set to increase from April 2023 (c.10%) to reflect the high levels of inflation observed in the UK economy over the past year.

Based on forecasts we estimate that the Scheme will be cashflow negative over the year. This could be greater than projected as the Fund looks to increase its allocation to illiquid investments and additional cash will be required to fund new investments. With no new commitments the cash shortfall (defined as the amount of cash outflow not covered by contributions, lump sum payments and investment income) over the next year is projected to be c.£34m.

Currently the Fund does not have a formal framework or policy in place to support ongoing cashflow requirements. To date, the Fund has utilised a combination of the bank account and the Blackrock Liquidity Fund as the primary sources of liquidity, with a large amount of cash (c.£45m as of 31 December 2022) held in the latter.

As such, we propose that the Pension's Advisory Panel ("PAP") agree a formal cashflow management policy to ensure that the Fund has access to sufficiently liquid assets to meet predicted cashflow requirements and flexibility to meet additional cashflow requirements. Also, the cashflow policy shall seek to minimise the level of cash balances held by the Fund to maximise investment returns.

Why bring you this note?

The purpose of this paper is to provide an overview of the Fund's cashflow requirements and propose a cashflow management strategy which reflects regular cashflows as well as recent and future commitments to illiquid investment mandates

Next steps

- PAP to formally agree on the cashflow management recommendations outlined in this paper
- Update the Fund's Investment Strategy Statement
- Review cashflow requirements on an annual basis

Prepared for: The Pensions Advisory Panel

Prepared by: Aon

Date: 21 February 2023

Background

The Blackrock Liquidity Fund, Blackrock Passive Equity Fund and LGIM Passive Equity Fund have historically been the main vehicles utilised to meet the Fund's cashflow requirements. Recently, the Fund held £45m (c.2.3% of assets) in the Blackrock Liquidity Fund, which is approximately 33% larger than the Fund's estimated cash shortfall for the next year. Holding excess assets in cash is inefficient from a portfolio management view but has been necessary to meet cashflow requirements.

Over the last 12-24 months, the Fund has made several investments into illiquid mandates which have different cashflow needs. As part of the move to net zero carbon emissions it has been agreed to allocate further assets to investments in the renewable infrastructure, ESG/Impact, low-carbon universe. These additional investments will each have their own cashflow profile. As such, it is likely that the Fund will have additional cashflow requirements beyond the estimated shortfall of c.£34m.

Currently there is no cashflow policy in place to fund these investments and surplus cash is being held in reserve to meet these needs alongside ad hoc disinvestments.

Recommendation

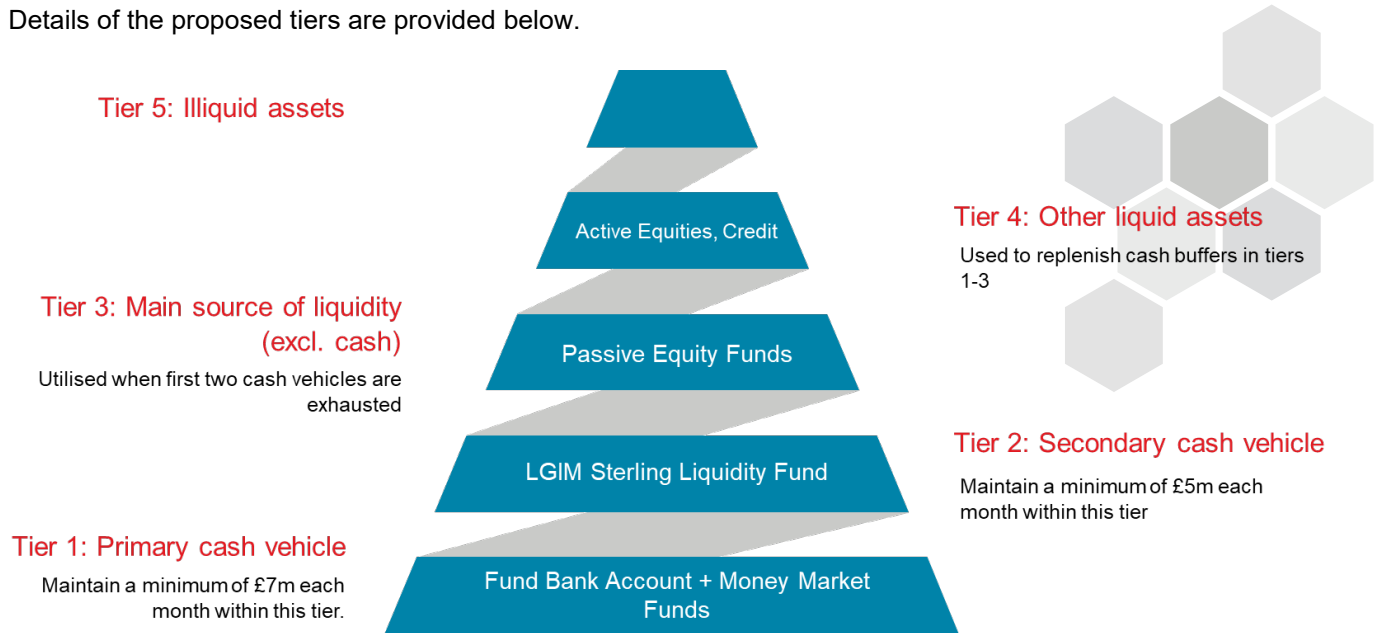
We propose a tiered cashflow policy to ensure there is sufficient liquidity to meet predicted cashflows and flexibility to meet unexpected liquidity requirements. The aim will be to reduce the governance requirements in managing cashflow and reduce the risk of not meeting payments as they fall due.

We have measured liquidity as the ease and speed with which the Fund is able to access cash. This will enable the Fund to achieve the following:

- 1) Ensure effective day-to-day liquidity management such that the Fund can meet its regular cashflow requirements (i.e., pension payments, transfers, and drawdowns of capital)
- 2) Hold a sufficient cash buffer to support any immediate, urgent, or unexpected cashflow requirements (e.g., one of the Fund's existing illiquid investments issues a larger than anticipated capital call due to favourable market conditions).
- 3) Meet capital calls in a timely manner and ensure that distributions of investment income are not held in the bank account for extending periods of time.
- 4) Through holding a lower accumulative amount of cash, albeit across multiple sources of liquidity, the Fund should be able to hold a greater amount of capital in return seeking assets
- 5) An established cashflow management policy will form the basis for implementing a framework for how capital is deployed to fund new investments



Details of the proposed tiers are provided below.



Tier 1: Primary cash vehicle

Regular cashflows are expected to be £6-7m per month with uncertainty around the exact timing and value of payments. To avoid the risk of not meeting payments we recommend that there is a minimum cash buffer of £7m, utilising the Fund bank account and money market instruments as appropriate vehicles for holding the cash. The money market instruments will be accessed via a portal which is also used by the Council.

The rationale for this level of cash is two-fold:

1. The Fund shouldn't maintain a cash balance which is too high given this would be considered an inefficient use of capital.
2. Similarly, it would be operationally inefficient if the cash buffer is insufficiently low and consistently needs topping up intra-month.

The bank account offers no investment return and so cash within this account should be held at a minimum to ensure the portfolio is as efficient as possible. Initially the minimum balance will be £750k although the Officers have authority to change this amount based on their experience of managing cashflows.

The Officers will monitor the cash buffer with a view to either top it up back to the minimum amount or reinvest any excess cash. This will be done using the assets held within Tier 2 (see below).

Tier 2: Secondary cash vehicle

The Blackrock Liquidity Fund is a low-risk investment but has a 5-day settlement period which is not ideal in meeting pension obligations or deploying cash to meet capital calls or invest in new opportunities. As such, we recommend that the Fund use a similar fund that is managed by LGIM – LGIM Sterling Liquidity Fund, which is daily dealt, has a two-day notice period, and a one-day settlement period.

We recommend that a minimum amount of £5m is held with LGIM, and the purpose of this holding would be to meet any larger than expected transfers out or drawdowns of capital while avoiding regular trading into and out of equities.

We recommend LGIM have delegated authority to top-up the fund or reinvest any excess cash monthly using the LGIM equities. This will be managed under an Investment Manager Agreement (“IMA”) with LGIM.

Tier 3: Main source of liquidity to fund new investments

The purpose of this tier is:

- Act as the main liquidity source to fund new investments
- Replenish cash buffers held in Level 2
- Offer a simple way to reinvest surplus cash and maintain expected returns

Historically the Fund has utilised the LGIM Passive Equity Fund and Blackrock Passive Equity Fund as alternative sources of liquidity to deploy capital in new investments. This has been driven by a combination of two factors 1) the Fund has traditionally held an overweight position to equities while we wait for opportunities to become available and 2) relatively lower transaction costs and favourable dealing terms vs. redeeming assets held in an active equity or active credit mandate.

We are comfortable in the passive equity funds being the preferred source to fund new investments and by default would categorise them to fall under this Tier. In addition, the upcoming Blackrock ARB and DGF fund redemptions can be used to offer additional Tier 3 liquidity until these assets are completely disinvested.

We would also consider the Fund's index-linked gilt funds to be part of this tier. However, fixed-income assets, in particular index-linked gilts, are key investments in helping pension schemes meet their liabilities by protecting the funding level from rises in inflation. As such, we advise a cautious approach is taken when considering redeeming assets held in these investments for cashflow purposes.

Tier 4: Other sources of liquidity

This includes the Fund's investments in active equity, active credit, and multi-asset strategies. Relative to other asset cases such as property, infrastructure, private equity, renewables and other alternatives, these assets have a better liquidity profile and therefore can be seen as an alternative liquidity source.

These assets are actively managed investments which are designed to use manager skill to deliver returns above the broad market. As such, depleting large amounts of capital from them would be an insufficient use of capital.

We view this tier as being a source to top-up the passive equity mandates and other cash vehicles if required with the purpose of supporting the Fund to quickly deploy capital to take advantage of new investment opportunities.



Tier 5: Illiquid investments

The Fund's illiquid investments, in particular the sustainable infrastructure and ESG priority allocation have been an integral part of the Fund's investment strategy to reduce carbon-weighted exposures over the last 5 years due to the nature of the underlying holdings. The pace of achieving net-zero by 2030 will very much be dependent upon how the global investment and technological environment evolves over the short-medium term. With many asset classes lagging the curve with respect to the availability of strategies with strong ESG/climate credentials, allocating more money to renewable infrastructure strategies in the short-term could prove to be an effective solution. This will offset the carbon exposures present in areas of the portfolio where it is currently impractical to transition towards greener assets. Thus enabling the Fund to continue making progress on its journey towards reaching net-zero by 2030.

Due to the nature of many illiquid investments, it is often the case that the Fund's capital commitment to illiquid mandates will be drawn down over a period of 2-3 years. As such, from a governance perspective, it is really important this framework is revisited to assess the level of available cash prior to making commitments to illiquid investments

We recommend that this framework, including the cash flow buffers suggested in Tier 1 and 2 is reviewed on an annual basis to ensure that it is consistent with the cashflow requirements of the Fund. It should also be reviewed upon making a new investment or when there is a change to contribution rates or an uplift in the pension payments.



Next Steps

Once we have an agreed cashflow policy, the following steps will be required:

- Make amendments to the Fund's Investment Strategy Statement to reflect the cashflow policy and any other changes that may be required
- Select an appropriate vehicle to invest in money market instruments (**Tier 1**)
- Arrange the paperwork to invest in the LGIM Sterling Liquidity Fund and associated cashflow management policies.
- Arrange for the full redemption disinvestment from the Blackrock Liquidity Fund and work with Aon to decide on the best way to allocate the proceeds
- The cashflow policy should be reviewed on an annual basis to ensure consistency with the cashflow requirements of the Fund.



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LBSPF Asset Structure: Tier Allocation

Fund Manager	Asset Class	Cash Flow Tier
NATWEST	BANK ACCOUNT	1
BLACKROCK	LIQUIDITY FUND	2
BLACKROCK	ABSOLUTE RETURN BONDS	3
BLACKROCK	DIVERSIFIED GROWTH FUND	3
BLACKROCK	INDEX LINKED GILTS	3
LGIM	INDEX LINKED GILTS	3
BLACKROCK	LOW CARBON PASSIVE EQUITIES	3
LGIM	LOW CARBON PASSIVE EQUITIES	3
COMGEST	EMERGING MARKET EQUITIES	4
NEWTON	GLOBAL ACTIVE EQUITIES	4
TBC	MULTI-ASSET CREDIT	4
BLACKSTONE	ALTERNATIVES	5
BTG PACTUAL TIMBERLAND	ALTERNATIVES	5
DARWIN BEREAVEMENT SERVICES	ALTERNATIVES	5
NUVEEN	DIRECT PROPERTY	5
BROCKTON	OPPORTUNISTIC PROPERTY	5
FROGMORE	OPPORTUNISTIC PROPERTY	5
INVESCO	PRIVATE RESIDENTIAL PROPERTY	5
M&G	PRIVATE RESIDENTIAL PROPERTY	5
BLACKROCK	SUSTAINABLE INFRASTRUCTURE	5
GLENNMONT	SUSTAINABLE INFRASTRUCTURE	5
TEMPORIS TORES	SUSTAINABLE INFRASTRUCTURE	5
TEMPORIS TREF	SUSTAINABLE INFRASTRUCTURE	5
TEMPORIS V	SUSTAINABLE INFRASTRUCTURE	5

Item No. 12	Classification: Open	Date: 6 March 2023	Meeting Name: Pensions Advisory Panel
Report title:		Draft Conflict of Interest Policy	
From:		Technical Accountant, Finance and Governance	

Recommendation

1. To approve the conflict of interest policy for the Pensions Advisory Panel (PAP) members and for those officers dealing with matters relating to the Pension Scheme.

Background information

2. Southwark Council undertakes the role of Administering Authority for the Southwark Local Government Pension Scheme. Whilst the Council is the major employer in the scheme, the scheme does include over 60 other employers. It is therefore important that these distinct roles are fully understood and any potential conflicts of interest are clearly stated.
3. The Local Pension Board (LPB) agreed a bespoke conflict of interest policy in July 2021. This was to ensure that LPB members are not conflicted or perceived to be conflicted both upon appointment and on an ongoing basis.
4. The primary objective of the Pensions Advisory Panel is to assist the Strategic Director of Finance in the management of the pensions function within the Council. The roles and functions are set out in Southwark's constitution. Given the strategic importance of the PAP and in the interests of good governance and the need to draw a distinction between Southwark Council's role as an employer member of the Fund and its separate role as an Administering Authority, it was suggested that a bespoke conflict of interest policy could be drafted for approval by PAP members.

PAP Conflict of Interest Policy

5. The intention of establishing a conflict of interest policy is to ensure that PAP members and the relevant officers follow sound governance principles and that conflicts of interest (and potential conflicts of interest) are properly managed.
6. The draft conflict of interest policy is at Appendix 1. If adopted, the policy will apply to all members of PAP whether voting or not and sets out the procedures in place to ensure that interests are declared, potential conflicts are identified and how any such conflicts or potential conflicts are to be managed.

7. The policy establishes an operational procedure for PAP members and the relevant officers (and new members prior to appointment) to ensure an ongoing review, monitoring and reporting of potential and actual conflicts of interest.
8. If adopted, a register of interests will be kept which will be circulated annually to PAP members for review.

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.

APPENDICES

Name	Title
Appendix 1	Draft conflict of interest policy

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Geraldine Chadwick, Technical Accountant, Finance and Governance	
Version	Final	
Dated	22 February 2023	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		24 February 2023

LONDON BOROUGH OF SOUTHWARK
PENSIONS ADVISORY PANEL
DRAFT CONFLICTS OF INTEREST POLICY

DRAFT

April 2023

Effective date: April 2023

Reviewed: Every 3 years

Introduction

1. This conflict of interest policy (hereafter the 'policy') is established to ensure that Pensions Advisory Panel (PAP) members follow sound governance principles and that conflicts of interest are properly managed. Failure to follow applicable codes of conduct or declare a conflict of interest can impact on good governance in a variety of ways and may result in the Pensions Advisory Panel acting improperly.
2. This policy sets out how Southwark Council (the "Council") will identify, manage and mitigate potential conflicts of interest that may arise in carrying out its role as the administering authority for the Southwark Council Pension Fund (the "Fund"). The Council recognises that its functions as an Administering Authority, managing the Fund, is quite different from its other functions and this policy has been developed with the specific requirements of Fund governance and is mindful that the PAP acts as quasi-trustees to the Pension Fund.
3. The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest. Furthermore, those individuals involved in managing, overseeing or advising the Fund may, from time to time, find that they face competing incentives, financial or otherwise, as a result of their professional or personal circumstances.
4. It is important, therefore, that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all the Fund's employers, scheme members and beneficiaries are treated fairly and equitably. This policy sets out the procedures in place to ensure that interests are declared, potential conflicts are identified and how any such conflicts or potential conflicts are to be managed.
5. The potential for conflicts of interest has always existed for those with Local Government Pension Scheme (LGPS) administering authority responsibilities and for advisers to LGPS funds. This reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the LGPS, as an elected member or board member of an employer participating in the LGPS or indeed as an adviser to more than one administering authority. Furthermore, any of those persons may have a personal, business or other interest which might conflict, or be perceived to conflict, with their role in advising LGPS funds.
6. It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the LGPS beneficiaries and participating employers. This, however, does not preclude those involved in the management of an LGPS fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a Policy how any such conflicts or potential conflicts are to be managed.

7. Further, the Good Governance Review¹ recommended that each fund should have a fund-wide published conflicts of interest policy. This recommendation is being considered by the Department for Levelling Up, Housing and Communities (DLUHC). It is understood that there is now ministerial approval and bring the recommendations into law and suggested that April 2023 is the most likely date for any changes to come into force. It is therefore timely that Southwark has already adopted a bespoke conflict of interest policy for Local Pension Board members and is now proactively considering a having a policy in place for its Pensions Advisory Panel.

Purpose and objectives

8. This Policy is established to guide the PAP members and advisers. Along with other constitutional documents, including the Code of Conduct and the Member and Officer Protocols (see paragraph 15), it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund.

To whom this Policy applies

9. The Policy applies to all members of the Pensions Advisory Panel whether voting members or not.
10. This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role.
11. The Policy also applies to all advisers to the PAP. In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the PAP. This includes, but is not limited to actuaries, investment consultants, independent advisers, officers, benefits consultants, any selection panel member involved in the appointment of Fund managers, third party administrators, fund managers, lawyers, and officers of the London CIV, custodians and Additional Voluntary Contributions (AVC) providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the PAP rather than the firm as a whole.
12. The Senior Finance Manager (Pensions and Treasury) will be responsible for ensuring that this policy is adhered to and that any processes for managing conflicts of interest are followed. In any situation where the Senior Finance Manager (Pensions and Treasury) may have a potential or actual conflict of interest, the responsibility for ensuring that this policy is adhered to and that any relevant processes are followed shall lie with the Monitoring Officer for the Council.

¹ Phase 3 report published February 2021

https://www.lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf and is being considered by DLUHC.

PAP members agree that they must:

- be open about any actual or potential conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- Plan ahead and agree with the Chair of the PAP how they will manage any potential conflicts of interest, which arise in future.

Legislative and related context

13. The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are detailed in Appendix 1.

Standards and Behaviours: Pension Advisory Panel (PAP) members

14. In addition to the requirements of this Policy, PAP members and the voting co-opted members are required to adhere to the Constitution of Southwark Council", Part 13 (Code of Conduct) and Part 14 (Member and Officer Protocol). This includes the requirement to register disclosable pecuniary interests. For the full text see the links below:

https://moderngov.southwark.gov.uk/documents/s109094/Code%20of%20conduct_May%202014.pdf

<https://moderngov.southwark.gov.uk/documents/s109095/Member%20and%20Officer%20Protocol%20February%202020.pdf>

Advisers

15. The Administering Authority appoints its own advisers. How conflicts of interest will be identified and managed should be addressed within the contractual arrangements.
16. There may be circumstances where advisers are asked to give advice to the Council as an employer, other employers, LGPS members or member representatives such as the trades unions in relation to pension matters. Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the Fund. An adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so.
17. Where the Local Pension Board decides to appoint an adviser, this can be the same person as is appointed to advise the Pension Advisory Panel or Fund officers if there is no conflict of interest between the two roles.

Conduct at Meetings

18. There may be circumstances where a representative of employers or members wishes to provide a specific point of view on behalf of an employer (or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, at a PAP meeting and that this is recorded in the minutes.

What is a Conflict or Potential Conflict and how will it be managed?

19. The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

Therefore, a conflict of interest may arise when an individual has a responsibility or duty in relation to the management of the Fund and at the same time has:

- a separate personal interest (financial or otherwise); or
- another responsibility in relation to that matter giving rise to a possible conflict with their first responsibility.

20. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.
21. The Council encourages a culture of openness and transparency, including in relation to its activities as Administering Authority. It encourages individuals to be vigilant and to have a clear understanding of their role, the circumstances in which they may have a conflict of interest and how potential conflicts should be managed. The Senior Finance Manager (Treasury and Pensions), with advice from the Monitoring Officer as required, will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on Fund operations and good governance were an actual conflict of interest to materialise.

22. Under the Member and Officer Protocol paragraph 28-30

'28. If the member is present at a meeting of the council assembly, or any committee, sub-committee, joint committee or joint sub-committee of the council, or any meeting of the cabinet or a committee of the cabinet, and they are aware they have a disclosable pecuniary interest in any matter to be considered or being considered at the meeting,

- *They may not participate in any discussion of the matter at the meeting*
- *They may not participate in any vote taken on the matter at the meeting*
- *If the interest is not registered, the member must disclose the interest to the meeting*
- *If the interest is not registered and is not the subject of a pending notification, the member must notify the monitoring officer of the interest within 28 days.*

29. Members who have a disclosable pecuniary interest in any matter to be considered or being considered at any meeting or by an individual cabinet member must not seek improperly to influence a decision about that business.

30. Where a cabinet member may discharge a function alone and becomes aware of a disclosable pecuniary interest in a matter being dealt with or to be dealt with by her/him, the cabinet member must notify the monitoring officer of the interest within 28 days and must not take any steps or further steps in the matter.'

23. Provided that the Administering Authority, (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, the Council shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, the individual will be required to resign from the Panel.
24. The areas where conflicts of interest may arise are detailed below and further examples are provided at appendix 2.

(i) Contribution setting for employers

The setting of employer contribution rates must be done in a way that is fair and transparent. No employer or individual should be in the position to unduly influence the contribution setting process.

The Fund achieves this in the following way:

The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund Actuary and is opened to consultation with all Fund employers before being formally adopted by the Panel. The approach to contribution setting is based on specific employer characteristics such as its time horizons and risk profiles. This approach ensures consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.

(ii) Delivering the LGPS function for all employers

All employers within the Fund are entitled to receive the same high-quality service and support from the Fund. Equally, the expectation on employers in respect of their obligations under the LGPS are the same for all employers. There should no perception that the Council receives more favourable terms with regards to the service received from, or the obligations expected to, the Fund.

The Fund's administration strategy will set out the way in which the Fund works with its employers and the mutual service standards expected. The strategy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations.

The pension fund is run for the benefit of its members and on behalf of all its employers. It is important therefore that the Fund's budget is set and

managed separately from the expenditure of the Council. Decisions regarding pension fund resources are approved by the Panel on recommendation from the S151 officer.

iii) Investment decisions

The primary investment objective of the Fund is to ensure that over the long term there will be sufficient assets to meet all pension liabilities as they fall due. Investment decisions have an impact on all employers within the Fund and so should reflect the long-term requirements of the Fund.

The Investment Strategy Statement sets out how the Fund's money will be invested in order to meet future liabilities and contains the Fund's investment objectives and the asset classes in which it will invest. It also contains the Fund's approach to assessing environmental, social and governance risks and how it will act as a responsible asset owner with regard to engagement and voting shares for companies in which it is invested. The Statement also explains the Fund's approach to investments which deliver a social impact as well as a purely financial return.

All investment decisions are taken in accordance with the Investment Strategy Statement, following appropriate professional advice. No person with a conflict of interest relating to a particular investment decision may take part in that decision.

From time to time the Council may pursue certain climate related goals. Actions taken in pursuit of these goals may impact on members and employees of the Council in certain ways, for example members and staff may be required to pursue low carbon travel options when travelling on Council business. Where this is the case, members and employees carrying out work related to the management of the Fund will be subject to the same policies as all other Council members or staff, insofar as they reflect operational matters. However, decisions in respect of Fund investments are made by the PAP on behalf of all employers in the Fund and as such will follow separate and distinct policies and strategies.

Responsibility

25. The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest to arise in certain areas. It is important that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all the Fund's employers and scheme members are treated fairly and equitably
26. Southwark Council, as the Administering Authority for the Fund must be satisfied that conflicts of interest are appropriately managed and maintain a register of interests. The register will be updated when an interest is declared by a member of the PAP.

27. The PAP should cultivate a culture of openness and transparency; it should identify, monitor and manage dual interests and responsibilities, which are or have the potential to become conflicts of interest.
28. The PAP should evaluate the nature of any dual interest and responsibilities and assess the impact on their operations and good governance if a conflict of interest were to materialise.
29. However, it is the responsibility of each individual covered by this policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties.

Operational procedure for Pensions Advisory Panel members

30. The PAP will operate a register of conflicts of interests for the recording of all declarations of interest. Further details of how potential conflicts of interest should be identified and managed are set out in the table below.

What is required	How this will be done
Step 1 - Initial identification of interests which do or could give rise to a conflict	<p>On appointment to their role or on the commencement of this Policy if later, all relevant individuals will be provided with a copy of this Policy and will be required to complete a Disclosure of Interests form.</p> <p>The information contained in disclosures will be collated into a register of interests. Each individual is responsible for maintaining their register on a continuous basis.</p>
Step 2 - Ongoing notification and management of potential or actual conflicts of interest	<p>Where possible, any conflicts should be advised in writing to the Senior Finance Manager (Treasury and Pensions) before the start of any PAP meeting. At the commencement of each PAP meeting, the Chair will ask all those present who are covered by this Policy to declare any new potential conflicts. Any disclosures will be recorded in the minutes of the meeting and in the register of interests. In addition, the latest version of the register will be made available by the Senior Finance Manager (Treasury and Pensions) to the Chair of every meeting prior to that meeting if required.</p> <p>The Chair, in consultation with the relevant officers will decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter.</p>

	<p>If such a conflict is identified outside of a meeting the notification must be made to the Senior Finance Manager (Treasury and Pensions) and, where it relates to the business of any meeting, also to the Chair of that meeting. Senior Finance Manager (Treasury and Pensions), in consultation with the Chair and with the advice of the Monitoring Officer where relevant, will consider any necessary action to manage the potential or actual conflict.</p> <p>Where information relating to any potential or actual conflict has been provided, the Senior Finance Manager (Treasury and Pensions) may seek such professional advice as he or she thinks fit on to how to address any identified conflicts.</p> <p>Any such potential or actual conflicts of interest and the action taken must be recorded on the register of interests and in the minutes of the meeting, if raised during a meeting.</p>
Step 3 - Periodic review of potential and actual conflicts	At least once every 12 months, the Senior Finance Manager (Treasury and Pensions) will provide to all individuals to whom this Policy applies a copy of their currently declared PAP register of interests. All individuals will confirm in writing that their information is correct or highlight any changes that need to be made

Operational procedure for advisers

31. All of the Fund's key advisers are expected to have their own policies on how conflicts of interest in their relationships with their clients are managed and these should be shared with the Administering Authority.
32. Although this Policy applies to advisers, the operational procedures outlined above relating to completing ongoing disclosures are not expected to apply to advisers. Instead all advisers must:
 - be provided with a copy of this Policy on appointment and whenever it is updated;
 - adhere to the principles of this Policy;
 - provide, on request, information in relation to how they manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to the Fund.; and
 - notify the Senior Finance Manager (Treasury and Pensions) immediately should a potential or actual conflict of interest arise, including declaring such actual or potential conflicts at the beginning of PAP meetings

33. All potential or actual conflicts notified by advisers will be recorded in the register of interests.

Monitoring and Reporting

34. In order to identify whether the objectives of the Policy are being met the Senior Finance Manager (Treasury and Pensions) will review the register on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity.

Key Risks

35. The key risks to the delivery of the Policy are outlined below.
- insufficient training or poor understanding in relation to individuals' roles on Fund matters;
 - insufficient training or failure to communicate the requirements of the Policy;
 - absence of the individual nominated to manage the operational aspects of the Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with the Policy; and
 - failure by a relevant Chair to take appropriate action when a conflict is highlighted at a meeting.
36. All of these could result in an actual conflict of interest arising and not being properly managed. The Senior Finance Manager (Treasury and Pensions) will monitor these and other key risks and consider how to respond to them.

Appendix 1

The Public Service Pensions Act 2013

1. Section 5 of the Act requires that the scheme manager (in the case of the LGPS this is the administering authority) must be satisfied that a pension board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires pension board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.
2. The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the LGPS or any connected scheme).”
3. Further, the Act requires that LGPS managers must have regard to any such guidance that the national Scheme Advisory Board issue (see below).

The Local Government Pension Scheme Regulations 2013

4. Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act 2013 to the LGPS, placing a duty on each administering authority to satisfy itself that pension board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.
5. Regulation 109 states that each administering authority must have regard to guidance issued by the Secretary of State in relation to pension boards. Further, regulation 110 provides that the national Scheme Advisory Board has a function of providing advice to administering authorities and pension boards. The LGPS national Scheme Advisory Board issued guidance relating to the establishment of pension boards including a section on conflicts of interest. This Policy has been developed having regard to that guidance.

The Pensions Act 2004

6. The Public Service Pensions Act 2013 also added several provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.
7. Section 90A requires The Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Policy has been developed having regard to that Code.

8. Further, under section 13, The Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for pension board members are not being adhered to.

Localism Act 2011

9. All members and co-opted members of the Pension Committee are required by the Localism Act 2011 to register and declare 'disclosable pecuniary interests' and 'other registerable interests' and abide by Southwark Council's Code of Conduct. That Code contains provisions relating to disclosable pecuniary interests, other registerable interests, non-registerable interests and sensitive interests including their disclosure and any limitations on members' participation where they have any such interest.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities Guidance

10. This Guidance states:

"the establishment of investment pooling arrangements creates a range of additional roles that committee members, representatives, officers and advisors might have."

It includes some examples of how conflicts of interest could arise in these new roles and highlights the need for administering authorities to:

- update their conflicts policies to have regard to asset pooling;
- remind all those involved with the management of the fund of the policy requirements and the potential for conflicts to arise in respect of asset pooling responsibilities;
- ensure declarations are updated appropriately.

11. This Policy has been updated to take account of the possibility of conflicts arising in relation to asset pooling in accordance with the CIPFA governance principles guidance.

Principles of Public Life

12. The Seven Principles of Public Life, otherwise known as the "Nolan Principles," apply to anyone who works as a public office holder. They cover everyone elected or appointed to an office within local government and many are integral to the successful implementation of this Policy. They are as follows:

- selflessness;
- integrity;
- objectivity;
- accountability;
- openness;
- honesty; and
- leadership.

Advisers' Professional Standards

- 13.** Many advisers are required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary is bound by the requirements of the Institute and Faculty of Actuaries. Any protocol or other arrangement between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

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Appendix 2

Further Examples of Potential Conflicts of Interest

- a) An elected member on the PAP may be required to provide views on a funding strategy which could result in an increase or decrease in employer contributions payable by the employer he or she represents.
- b) An elected member on the PAP may be a member of a political party or a special interest group that has specific areas of interest that might influence Fund decision making.
- c) In considering actuarial advice and reports PAP members have an overriding responsibility to protect the long-term solvency of the Fund which could conflict with short-term budgeting priorities of individual employers.
- d) A member of the PAP is on the board of, or employed by, an Investment Manager or other supplier that the PAP is considering appointing.
- e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.
- f) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Strategic Director of Finance, who has responsibility for the Council budget, is expected to approve the report to go to the PAP which, if agreed, would result in a material reduction in the charges to the Council from the Fund.
- g) An employer representative may be aware of a system which would help to improve standards of service and/or record keeping but would be expensive to implement and lead to increased contribution rates. A conflict could arise through the representative's dual interests.
- h) Officers of the Fund are asked to provide a report to the PAP on whether the administration services should be outsourced which, if it were to happen, could result in a change of employer or job insecurity for themselves.
- i) A Fund adviser is party to the development of a strategy which could result in additional work for his or her firm, for example, providing delegated or fiduciary management of Fund investments, providing assistance with monitoring the covenant of employers.
- j) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the PAP. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the PAP.

k) An officer of the Fund or member of the PAP accepts hospitality from an Investment Manager or other supplier who has submitted a bid as part of a tender process.

l). A proportion of the Fund's assets may be invested through the London CIV. Any members of the PAP or senior officers of the Fund who are members of the Board of the London CIV or its Shareholder Committee must also comply with any requirements relating to the management of actual or potential conflicts of interest for the governance of the London CIV. The Council is one of 32 equal shareholders in the London LGPS CIV Ltd ("LCIV"). The shareholders, as LGPS administering authorities, also purchase investment management services from LCIV. The nature of this relationship has the potential to lead to conflicts of interest that must be managed.

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Item No. 13.	Classification: Open	Date: 6 March 2023	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 December 2022 which set out specific information on recruitment, admin/IT action plan, metrics and cyber security.

RECRUITMENT

3. Louise Charman, our new Pensions Payroll Manager joined Southwark on 23 January 2023.
4. Although the Data Systems Manager role was advertised in November 2022 no candidate interviews took place following shortlisting. Instead, an existing Senior Data Officer is acting up for three months whilst we consider having the existing Job Description re-evaluated by HR. As part of this decision an existing Data Officer is undertaking the Senior Data Officer role on an interim basis.
5. Karina Codona joined us on a permanent basis as a Payroll Officer effective from 9 January 2023. Karina has considerable payroll/Civica UPM experience and previously worked for Hymans Roberston.
6. Recruitment is presently underway for a number of vacant Pensions Officer and First Contact Officer positions.

IT/SYSTEMS

7. A Civica UPM Improvement/Action Plan capturing all remaining issues (following the legacy software migration) is attached as an Appendix. All big ticket data migration issues have been resolved as part of the remediation work undertaken during the 2022 Annual Benefit Statement exercise.

8. The Pensions Manager has secured two Civica technical specialists to work directly with our Data team until the Action Plan is fully resolved. An escalation process is in place to ensure tasks are completed in a timely manner. As some work relates to UPM calculations it has been agreed that for the next few months the admin team will parallel check all UPM calculation output against manually performed calculations.
9. UPM 'Payroll' and 'Single Payment' software has however been very successful and run since May 2022, ensuring no loss of service to retired staff and no delays in making retirement lump sum or death grant payments each week.
10. The planning phase of the 2023 Pension Increase exercise has begun to ensure increases are effective from April's payroll-run. As the increase is high (10.1%) additional quality assurance checks will be in place.
11. A plan is now agreed to store all legacy pension fund data onto an Access Database. This will be strictly managed by the Data Team with limited staff having user access. This will however provide access to historical data going back 40+ years and will help deal with general enquiries or future audits.
12. IT snagging is now resolved on the UPM Member Portal and the Portal will be communicated to all member categories shortly (see comms initiatives below).
13. Whilst long-term aims are to reduce paper/postage and promote more online self-service use, there will continue to be a post mailbox, email inbox and a telephone helpdesk for those who may not have access to home IT/internet.

UK PENSIONS DASHBOARD PROGRAMME

14. Go-live for LGPS employers is still expected to be later in 2023 or early 2024. Data extract functionality is still to be signed off by Civica UPM developers.
15. It does however mean that pension fund data needs to be as accurate as possible to ensure uploads into the Dashboard are timely and not rejected. Particular focus will be placed on schools and their outsourced payroll providers. Data team resourcing will be considered later in 2023.

MCCLOUD

16. On 14 December 2022, HM Treasury made the Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022. They came into force on 19 December 2022.

17. For the LGPS, the Directions apply to the following powers in the Act:
- Section 82: an administering authority's power to pay compensation
 - Section 83: the power to make regulations compensating members by paying additional LGPS benefits.
 - Section 84(1)(a): the power to make regulations setting out how interest should be calculated and paid on amounts due to the McCloud remedy, and
 - Section 84(1)(B): the power to make regulations setting out the process to follow for paying amounts due to the McCloud remedy.
18. The making of the Directions now allows relevant departments to start consulting on regulations exercising these powers.

PROGRESS TO MARCH 2023

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

COMMUNICATION INITIATIVES

20. Annual Benefit Statements (ABS) were issued to 97% of active members with the remaining 3% being offered normal pension age projections, similar to the information contained within the ABS. As the 2022 exercise was delayed it was reported to the Pensions Regulator as a legal breach. As a result of all the data cleansing work undertaken in 2022 we do not anticipate similar issues for 2023.
21. ABS awareness/training has now been added to our portfolio of learning modules on MLS. A number of training sessions have been provided to both Council and Schools staff where interest and feedback was very positive.
22. The UPM Member Portal will be communicated shortly to all member categories but starting with active members/staff where more online functionality exists. This will also be communicated to non-pension fund members (i.e. employees who have opted-out of the pension fund) reminding them of the LGPS pension and protection benefits that come with Southwark Pension Fund membership.
23. Following the issue of Annual Allowance statements in October 2022, it has been decided to hold specific training on this because we anticipate more individuals may be affected by this in 2022/23, due to the fact that the April 2021 and April 2022 pay awards were both made in the same financial year. Training will be rolled out initially to pension fund staff and HR colleagues.

COMPLAINT MANAGEMENT

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

- The Pensions Ombudsman - ill-health tiering award appeal against a former employer (school). All ill-health tiering awards are recommended by Occupational Health following medical assessment, but the employer makes the final decision. No update; the matter is still with the Pensions Ombudsman pending a formal decision.
- The Pensions Ombudsman - original AVC investment instructions were not followed resulting in a possible financial loss. A second Opinion (partial uphold) has been accepted and the pension fund will be contacting Aegon to assess any potential loss. As with similar (past) complaints there may be no financial loss as funds were invested (albeit incorrectly) in less volatile funds.
- IDRP stage 1 - a number of complaints remain with the Council concerning claimed incorrect employee pension deductions made from the Council's payroll system. All complaints are with Council HR as the stage 1 adjudicator. The pension fund is monitoring and is aware of Union involvement in some cases. The outcome of the complaints will be known in March 2023 when SAP makes a final year-end adjustment to pension contributions.
- IDRP stage 1 - dispute over the distribution of a death grant between two siblings. No Expression of Wish form was held on file and the Last Will and Testament/death certificate provided to Pension Services indicated a sole executor dealing with the estate. Ongoing.

PERFORMANCE MONITORING

25. As confirmed to the Local Pension Board recently, performance metrics will be reinstated once Civica UPM functionality is tested and signed off. All available resource is directed towards the remaining data migration and IT issues.
26. Failure to provide performance metrics is not a legal breach. However, where statutory deadlines are missed that is where the breach occurs and those transactions are reported to the Pensions Regulator.
27. Despite the absence of performance metrics the admin team continue to process all financially sensitive transactions around payroll cut off dates. And, although performance metrics are not available, the Pensions Manager is confident no material breach has occurred.

FUTURE WORK PLANNING

- 28. Due to existing resourcing levels across Pension Services, a work plan and their timeframes are still to be signed off by the Pensions Manager.
- 29. An update will be communicated to the Panel at June's meeting.

CONCLUSIONS

- 30. Recruitment and retention of key staff with the necessary skills is critical to the achievement of all future plans.
- 31. 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.
- 32. Performance monitoring remains an important part of the pensions function. The procurement of Civica UPM software will allow Pension Services to develop much improved workflow and task management, where more detailed Management Information can be extracted around admin and enquiry performance.

Policy framework implications

- 33. There are no immediate implications arising from this report.

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

Community impact statement

- 34. There are no immediate implications arising from this report.

Equalities (including socio-economic) impact statement

- 35. There are no immediate implications arising from this report.

Health impact statement

- 36. There are no immediate implications arising from this report.

Climate change implications

- 37. There are no immediate implications arising from this report.

Resource implications

- 38. There are no immediate implications arising from this report.

Legal implications

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

Financial implications

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

Consultation

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

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**Director of Law and Governance**

42. Not applicable.

Strategic Director of Finance and Governance

43. Not applicable.

Other officers

44. Not applicable.

APPENDICES

Name	Title
Appendix 1	Civica UPM Improvement/Action Plan

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 March 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	No	N/a
Strategic Director of Finance and Governance	No	N/a
Cabinet Member	No	N/a
Date final report sent to Constitutional Team	24 February 2023	

Area	Issue	Target Date to be resolved	Update
Employer Hub	*Monthly Contribution Process Error: at the Data Validation - Stage 2 step, the process is giving error 2.21 "The previous Month's Contribution is missing" for all rows. But the previous month's contribution is not missing on any folder.	10th Jan 2023 - After meeting with Civica, the priority has been escalated and we expect issue to be resolved by end of Jan 2023 . Until then, manual intervention is needed.	Resolved.
	*Monthly Contribution Process Error: at the Data Validation - Stage 5, the process prevents employers from progressing further, the process loops to the beginning of Stage 5.	10th Jan 2023 - After meeting with Civica, the priority has been escalated and we expect issue to be resolved by end of Jan 2023 . Until then, manual intervention is needed.	Resolved.
	Error notification: SSRS report on the employer hub.	Middle of Feb 2023 , SQL technicians needed for allocation at Civica.	Sitting with the SQL team, 23rd Feb will be updated.
	An annual return for the employers who did not get onto the Hub this year is needed, and then to request monthly returns from April 2023.	March/April 2023 .	Friday 24th Feb 2023 , I push with AON to follow up with members and continue to import data, resolving the backlog.
	Streamline employer hub process, current validation has too many steps and takes unnecessary time.	23rd Feb 2023 , meeting with Andy Hatch to review validation steps. Import of data will be faster.	Tbc.
Member Portal	The portal is slow to load certain documents. When it does, process errors occur or it cannot be started. e.g. when clicking 'Update My Nomination', the error appears:	18th Dec 2022 - Changes were made to fix the nomination issue. Awaiting changes to be made in live by Civica service desk, by end of Jan 2023 latest . More testing is needed	Wed 22nd Feb and Thu 23rd Feb 2023 , will be looking into retirement projection issues with Tim. He recognises certain issues some members have been experiencing.

Area	Issue	Target Date to be resolved	Update
	'An error occurred creating the process'.	and member feedback to ensure all is working fine.	Performance is quicker and nomination issues now fixed.
	Members logins were not recognised by the system, authentication issue.	Resolved 21st Feb 2023, the members were missing client profile on web service logins.	Resolved.
UPM Calcs	Calc Error: Death in retirement.	Manual calcs are being performed and compared to UPM output for 3 months. Middle of Feb 2023 we expect progress to be made and issue resolved.	On course, meeting with Andy on 23rd Feb , he will be discussing calc team feedback.
	Death of a preserved refund (Calc error accounts elements)	Manual calcs are being performed and compared to UPM output for 3 months. Middle of Feb 2023 we expect progress to be made and issue resolved.	On course, meeting with Andy on 23rd Feb , he will be discussing calc team feedback.
	Late interest on pension not being paid.	Manual calcs are being performed and compared to UPM output for 3 months. Middle of Feb 2023 we expect progress to be made and issue resolved.	On course, meeting with Andy on 23rd Feb , he will be discussing calc team feedback.
	Death in Deferment: no grant pay.	Manual calcs are being performed and compared to UPM output for 3 months. Middle of Feb 2023 we expect progress to be made and issue resolved.	On course, meeting with Andy on 23rd Feb , he will be discussing calc team feedback.
	When reaching the calculation stage on the LG Trivial Commutation Quote process,	Manual calcs are being performed and compared to UPM output for 3 months.	On course, meeting with Andy on 23rd Feb , he will be discussing calc team feedback.

Area	Issue	Target Date to be resolved	Update
	we get error: "Unknown Doc Type" and are unable to continue.	Middle of Feb 2023 we expect progress to be made and issue resolved.	
ABS	Annual Allowance review, record check to see if update is happening and where data sits.	22nd Feb 2023, example cases sent to Andy Hatch. Currently being investigated. 23rd Feb 2023, should be updated.	Tbc.
	Altair to UPM transition, the CARE values were split in two screens on Altair. We need to investigate what data out of the two screens UPM picked up.	23rd Feb 2023, will receive update from Andy about where data sits.	Tbc.
	Reviewing the SQL behind ABS process on UPM to streamline.	24th Feb 2023, will work with AH.	Tbc.
Payroll Error	Effective date blocking movement of UPM process for payroll membership.	Resolved, tweaks were made to the process maps.	Resolved.
UPM Test	The test hub was never mirrored.	Now we have a test site that mirrors the live environment.	Resolved.

Item No. 14.	Date: 6 March 2023	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 18 January 2023.

KEY AREAS OF DISCUSSION

2. Aon delivered a presentation on the results of the 2022 actuarial valuation of the Fund
3. Main business included an update on Pension Services, the draft appointment process for Pension Board membership, the breaches log, the Forward Plan and the Training Plan for 2023-24

Pension Services

4. Update lead by Barry Berkengoff (BB).
5. A number of vacancies within the team have been filled, including the Pensions Payroll Manager and Pensions Admin Manager, both of whom are now in place.
6. Data Systems Manager had been filled on an acting-up basis, with a further recruitment exercise anticipated for later in the year to permanently fill the position.
7. A number of ongoing data migration/IT issues with UPM had been resolved as a result of the work on Annual Benefit Statements and any ongoing IT issues are with the system provider to fix with additional quality assurance controls in place whilst these fixes continue.
8. 97% of Annual Benefit Statements were issued, with the remaining 3% being contacted, offering a similar projection to the benefits at normal retirement age.
9. Additional work is being undertaken to ensure smooth processing of the updated pensions benefit increase of 10.1%, due to take place from April 2023. As this is the first benefits increase being applied through UPM, additional focus will be placed on quality assurance.

10. The anticipated launch date for the Pensions Dashboard for local authority employers is now late 2023 to early 2024.
11. Work resulting from the McCloud judgement is ongoing, but BB assured the board that this would only impact a small number of members and the work is due to commence in late 2023.
12. Outstanding complaints around claimed incorrect employee pension contribution deductions were discussed, with BB and Dominic Cain (DC) assuring those in attendance that the problems were in hand with an anticipated date of resolution as the end of the financial year.
13. It was noted that performance data for the Service continued to be unavailable but BB assured the Board that there were no reportable breaches in the area.

Draft Appointments Process

14. Delivered by Geraldine Chadwick (GC)
15. The report highlighted the following:
 - The LPB's terms of reference specify that the terms of office for Board members is 2 years, although these can be extended. Given the depth of knowledge and training required to be an effective member of the Board, the appointment process requests that potential members commit to a 3 year term of office. The Board approved this suggestion.
 - The Board consists of one independent non-voting member, the Chair, and six voting members, three scheme member representatives and three employer representatives. It was agreed that scheme member appointments would be made on the basis of two nominations from the recognised trade unions and one other nomination from the wider Fund membership, which would be advertised through the Southwark Pensions website.
 - It was agreed that clear and transparent criteria for any appointments would be set out in advance and reflect the Council's recruitment principles and commitment to equality and diversity.
16. Assurance was gained that there are substitutes currently in place to cover non-attendance of scheme member representatives on the Board. However, these have been infrequently enacted.
17. It was suggested by the Chair that contact should be made with any board members if multiple meetings are missed.

Breaches Log

- 18. Delivered by BB.
- 19. Confirmed that all data and legal breaches of pensions regulation were up to date as at January 2023 and are communicated to the Corporate Governance Panel every six months.

Forward Plan 2023-24

- 20. Lead by Caroline Watson (CW).
- 21. Outlined the business plan for the coming financial year and what would be covered in each meeting for the Local Pension Board as part of the agenda, ensuring this was not exhaustive and items could be added as they arise across the year.

Training Plan 2023-24

- 22. Lead by CW, outlining the key training being offered at each meeting of the LPB for 2023-24.

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

- 23. No immediate implications arising

Equalities (including socio-economic) Impact Statement

- 24. No immediate implications arising

Health Impact Statement

- 25. No immediate implications arising

Climate Change Implications

- 26. No immediate implications arising

Resource Implications

- 27. No immediate implications arising

Legal Implications

- 28. No immediate implications arising

Financial Implications

29. No immediate implications arising

Consultation

30. 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	22 February 2023	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		24 February 2023

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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

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