

Pensions Advisory Panel

Monday 17 July 2023

3.00 pm

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

Membership

Councillor Stephanie Cryan (Chair)
Councillor Rachel Bentley
Councillor Emily Hickson

Officers

Clive Palfreyman
Caroline Watson
Barry Berkengoff

Staff Representatives

Roger Stocker
Julie Timbrell
Derrick Bennett

Advisors

David Cullinan
Colin Cartwright

INFORMATION FOR MEMBERS

Contact

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

Members of the committee are summoned to attend this meeting

Althea Loderick

Chief Executive

Date: 7 July 2023



Pensions Advisory Panel

Monday 17 July 2023
3.00 pm
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Order of Business

Item No.	Title	Page No.
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 (5 MINUTES)	1 - 5
	To agree as correct records, the open minutes of the meetings held on 6 March 2023.	
6.	MATTERS ARISING	
	Officers to provide an update on the money market funds selected under the fund's new cash policy.	

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8.	ASSET ALLOCATION (5 MINUTES)	25 - 27
9.	CARBON FOOTPRINT UPDATE (10 MINUTES)	28 - 33
10.	ADVISERS' UPDATES - QUARTER TO MARCH 2023 (15 MINUTES)	34 - 51
11.	ZERO CARBON INVESTMENT STRATEGY: IMPLEMENTATION PROGRESS UPDATE (15 MINUTES)	52 - 56
12.	UPDATE ON NEWTON PORTFOLIO (10 MINUTES)	57 - 59
13.	UPDATE ON TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (15 MINUTES)	60 - 64
14.	PENSION SERVICES - ADMINISTRATION FUNCTION UPDATE (10 MINUTES)	65 - 70
15.	LOCAL PENSION BOARD UPDATE (5 MINUTES)	71 - 73

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.”

16. **QUARTERLY INVESTMENT UPDATE - AON**
17. **ZERO CARBON INVESTMENT STRATEGY: IMPLEMENTATION
PROGRESS UPDATE**
18. **UPDATE ON NEWTON PORTFOLIO**
19. **QUARTERLY ACTUARIAL FUNDING UPDATE**

Date: 7 July 2023



Pensions Advisory Panel

MINUTES of the OPEN section of the Pensions Advisory Panel held on Monday 6 March 2023 at 10.30 am at Meeting Room 225 - 160 Tooley Street, London SE1 2QH

PRESENT: Councillor Stephanie Cryan (Chair)
Councillor Rachel Bentley
Councillor Andy Simmons
Duncan Whitfield
Derrick Bennett
David Cullinan
Roger Stocker
Caroline Watson
Tracey Milner
Barry Berkengoff
Geraldine Chadwick
Tim Jones
Aisling Hargadon, CIPFA trainee
Jack Emery
Mike Ellsmore
Julie Timbrell
Colin Cartwright
Richard Antrobus
Virginia Wynn-Jones

1. APOLOGIES

There were no apologies.

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

There were none.

5. MINUTES

That the minutes of the meeting held on 5 December 2022 be agreed as a correct record, with the minor amendment that Roger Stocker was present.

6. ASSET ALLOCATION DECEMBER 2022

Jack Emery, Divisional Accountant - Pensions and Investments presented the report.

There were questions on the report and a discussion.

RESOLVED:

That the fund's asset allocation at 31 December 2022 be noted.

7. CARBON FOOTPRINT UPDATE - 31 DECEMBER 2022

Jack Emery presented the report.

There were questions on the report and a discussion.

RESOLVED:

That the fund's carbon footprint at 31 December 2022 be noted.

8. QUARTERLY INVESTMENT UPDATE

David Cullinan presented his report and updated the panel.

Colin Cartwright from Aon presented his report and updated the panel.

There were questions and a discussion on the reports.

RESOLVED:

That the quarterly investment updates be noted.

9. REVISED INVESTMENT STRATEGY STATEMENT

Caroline Watson introduced the report.

There were questions on the report and a discussion.

RESOLVED:

That the panel agreed the revised version of the Investment Strategy Statement as Appendix 1 of the report.

10. ZERO CARBON INVESTMENT STRATEGY: IMPLEMENTATION PROGRESS UPDATE

Caroline Watson introduced the report.

There were questions on the report and a discussion.

RESOLVED:

That the panel noted the report.

11. CASH FLOW MANAGEMENT POLICY

Jack Emery introduced the report.

There were questions on the report and a discussion.

It was confirmed that selection of money market funds is an operational decision, and therefore does not require PAP approval. Officers undertook to bring an update on the money market funds selected to a future meeting.

RESOLVED:

- The panel agreed the recommended approach to the Fund's cash flow management as set out in the report.

12. DRAFT CONFLICT OF INTEREST POLICY

Geraldine Chadwick introduced the report.

There were questions and debate on the report.

Officers undertook to circulate the updated policy.

Officers undertook to bring the item back in June 2023 with a legal concurrent.

Officers undertook to reframe the policy to confirm that members referred to all members

of PAP, including officers, and not just elected members.

RESOLVED:

The panel deferred this item until June 2023.

13. PENSION SERVICES - ADMINISTRATION FUNCTION UPDATE

Barry Berkengoff introduced the report.

There was debate on the report.

Officers undertook to update the format of appendix 1 to ensure it is fit for purpose.

Officers undertook to bring performance data to the panel to review.

Officers undertook to confirm the HR contact details with Julie Timbrell.

RESOLVED:

That the panel noted the report.

14. LOCAL PENSION BOARD UPDATE

Mike Ellsmore introduced the report.

There were no questions.

RESOLVED:

That the panel note the report.

15. MINUTES

The closed minutes of the meeting held on 5 December 2022 were agreed as a correct record.

16. QUARTERLY INVESTMENT UPDATE

There was no debate.

RESOLVED:

The panel noted the report.

Meeting ended at 12.00 pm

CHAIR:

DATED:

Item No. 7.	Classification: Open	Date: 17 July 2023	Meeting Name: Pensions Advisory Panel
Report title:		Conflicts of Interest Policy	
From:		Technical Accountant	

Recommendation

1. To approve the conflicts 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.
5. This draft policy was presented to the PAP on the 6 March 2023. The PAP asked that this was re-presented at the next meeting with a legal concurrent. This has been added at paragraph 18-21.

PAP Conflict of Interest Policy

6. 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.

7. The draft conflicts 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.
8. 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.
9. 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

10. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

11. There are no immediate implications arising.

Health Impact Statement

12. There are no immediate implications arising.

Climate Change Implications

13. There are no immediate implications arising.

Resource Implications

14. There are no immediate implications arising.

Legal Implications

15. There are no immediate implications arising

Consultation

16. There are no immediate implications arising.

Financial Implications

17. There are no immediate implications arising.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Assistant Chief Executive - Governance and Assurance

18. The report is asking the panel to approve a conflict of interest policy which will apply to members of the panel and to anyone advising or reporting to the panel.
19. There is no legal requirement for such a policy to be in place, although it is a recommendation of the Good Governance project (referred to in the policy) and has been referred to in previous guidance relating to pension committees and panels. The Good Governance Project envisages that statutory guidance will be produced advising authorities to establish such conflict of interest policies.
20. This policy builds on the conduct requirements that are already relevant for councillors and officers. Councillors have a responsibility to comply with the council's code of conduct for members, setting out any interests in the council's register of interests and ensuring that do not deal with any matter where they have a disclosable pecuniary interest. Officers have to declare any potential conflict of interests in accordance with their code of conduct. Officers and councillors also have to complete an annual declaration of any related party interests.
21. The policy additionally makes provision for others who advise the panel to declare any potential conflict of interest in order that these can be dealt with appropriately. Adherence to the conflict of interest policy should be included in the terms and conditions of any appointment of advisers.

APPENDICES

Name	Title
Appendix 1	Draft conflict of interest policy

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director, Finance	
Report Author	Geraldine Chadwick, Technical Accountant	
Version	Final	
Dated	5 July 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive - Governance and Assurance	Yes	Yes
Strategic Director, Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		5 July 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 to 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 Conducts 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 and officers and advisers (see paragraph 11) 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. Council officers are required to adhere to the officer code of conduct. 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>

<http://thesource/tools-and-resources/business-managers-handbook/people/code-of-conduct/>

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</p>

	<p>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

1. The statutory requirements for Local Pension Board members are made explicit in the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations 2013. These are restated below.
2. To comply with the values set out in the Good Governance project², the same principles should be applied to those decision making committees such as the PAP. This will ensure that all those involved in the administration of the Pension Fund abide by the same principals in relation to any potential or actual conflicts of interest.

The Public Service Pensions Act 2013

3. 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.
4. 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).”
5. 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

6. 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.
7. 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.

² https://lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf ‘The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB’

The Pensions Act 2004

8. 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.
9. 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.
10. 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

11. 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

12. 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.

13. 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

14. 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

15. 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.

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.

DRAFT

Item No. 8.	Classification: Open	Date: 17 July 2023	Meeting Name: Pensions Advisory Panel
Report title:		Asset Allocation March 2023	
From:		Divisional Accountant – Pensions and Investments	

Recommendation

- The pensions advisory panel is asked to note the Fund's asset allocation at 31 March 2023.

Asset Class	Manager	31 March 2023 £000	% of Total Fund	Strategic Benchmark %	Difference %
Global Equity	BlackRock	336,151	16.7	17.5	-0.8
	Legal & General	331,840	16.5	17.5	-1.0
	Newton	261,558	13.0	10.0	3.0
	Comgest	93,431	4.6	5.0	-0.4
Total Global Equity		1,022,980	50.8	50.0	0.8
Diversified Growth	BlackRock	141,523	7.0	0.0	7.0
Total Diversified Growth		141,523	7.0	-	7.0
Absolute Return Bonds	BlackRock	133,397	6.6	0.0	6.6
Total Absolute Return Bonds		133,397	6.6	-	6.9
Multi-Asset Credit	Robeco	-	-	10.0	-10.0
Total Multi-Asset Credit		-	0.0	10.0	- 10.0
Core Property	Nuveen	197,339	9.8	14.0	-4.2
Total Core Property		197,339	9.8	14.0	- 4.2
ESG Priority Allocation	Invesco	33,068	1.6	1.5	0.1
	M&G	43,231	2.1	1.5	0.6
	Frogmore	6,799	0.3	1.5	-1.2
	Brockton	6,839	0.3	1.5	-1.2
	Glennmont	26,437	1.3	1.1	0.2
	Temporis	86,627	4.3	3.5	0.8
	BlackRock	15,921	0.8	0.4	0.4
	Darwin	21,620	1.1	0.5	0.6
	Blackstone	48,179	2.4	3.5	-1.1
	BTG Pactual	35,743	1.8	1.0	0.8
Total ESG Priority Allocation		324,464	16.1	16.0	0.1
Index Linked Gilts	BlackRock	88,970	4.4	5.0	-0.6
	Legal & General	63,924	3.2	5.0	-1.8
Total Index Linked Gilts		152,894	7.6	10.0	- 2.4
Cash & Cash Equivalents	BlackRock	31,404	1.6	0.0	1.6
	Newton	5,328	0.3	0.0	0.3
	Nuveen	4,423	0.2	0.0	0.2
Total Cash & Cash Equivalents		41,155	2.0	-	2.0
Total Fund		2,013,752	100.0	100.0	-

Asset Class	Sub Category	31 Mar 2023 £000	Strategic Benchmark %	Actual Allocation %
Global Equities	Low Carbon Passive Equities	667,991	35.0	33.2
	Active Pooled Emerging Market Equities	93,431	5.0	4.6
	Segregated Active Global Equities	261,558	10.0	13.0
Total Global Equities		1,022,980	50.0	50.8
Total Diversified Growth		141,523	0.0	7.0
Total Absolute Return Bonds		133,397	0.0	6.6
Total Multi-Asset Credit		0	10.0	0.0
Core Property	UK Direct Property	194,310	14.0	9.8
	UK Commercial Property Pooled Funds	3,029		
Total Core Property		197,339	14.0	9.8
ESG Priority Allocation	Pooled Funds - UK Private Residential	76,299	3.0	3.8
	Pooled Funds - UK Opportunistic Property	13,639	3.0	0.7
	Sustainable Infrastructure	128,985	5.0	6.4
	Timberland	34,743	1.0	1.8
	Bereavement Services	21,620	0.5	1.1
	Private Equity	48,179	3.5	2.4
Total ESG Priority Allocation		324,465	16.0	16.1
Total Index Linked Gilts		152,894	10.0	7.6
Cash & Cash Equivalents	Sterling Liquidity Fund	31,404	0.0	1.6
	Fund Manager Held Derivatives	5,328	0.0	0.3
	Fund Manager Operational Cash	4,423	0.0	0.2
Total Cash & Cash Equivalents		41,155	0.0	2.0
Total Fund		2,013,753	100.0	100.0

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

Community Impact Statement

2. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

3. There are no immediate implications arising.

Health Impact Statement

4. There are no immediate implications arising.

Climate Change Implications

5. There are no immediate implications arising.

Resource Implications

6. There are no immediate implications arising.

Legal Implications

7. There are no immediate implications arising

Consultation

8. There are no immediate implications arising.

Financial Implications

9. There are no immediate implications arising.

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director, Finance	
Report Author	Jack Emery, Divisional Accountant – Pensions and Investments	
Version	Final	
Dated	5 July 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director, Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		5 July 2023

Item No. 9.	Classification: Open	Date: 17 July 2023	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint Update – 31 March 2023	
From:		Interim ESG Manager	

1. The pensions advisory panel is asked to note the fund’s updated carbon footprint as at 31 March 2023.

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	March 2023
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	17.5
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	0.4
Equity - Global	Newton	10.6	7.0	4.4	4.6	4.3	4.5	5.8	5.9	5.6	4.0	6.9
Diversified Growth Fund	Blackrock	26.7	16.0	15.6	14.2	15.8	17.1	16.5	13.7	14.4	10.7	12.6
Absolute Return Bonds	Blackrock	22.4	8.7	10.0	9.8	10.2	8.7	6.8	11.2	12.5	14.0	19.6
Core Property	Nuveen	14.3	12.0	10.6	10.5	10.7	11.2	12.0	12.9	12.7	11.2	1.8
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	4.8
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin							0.1	0.2	0.3	0.3	0.5
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	21.4
Cash And Equivalent	Blackrock, Nuveen, Newton	0.0	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	85.5
Total Change in Footprint			-40.9%	-38.3%	-43.8%	-49.8%	-42.5%	-43.2%	-51.9%	-55.5%	-59.2%	-60.0%

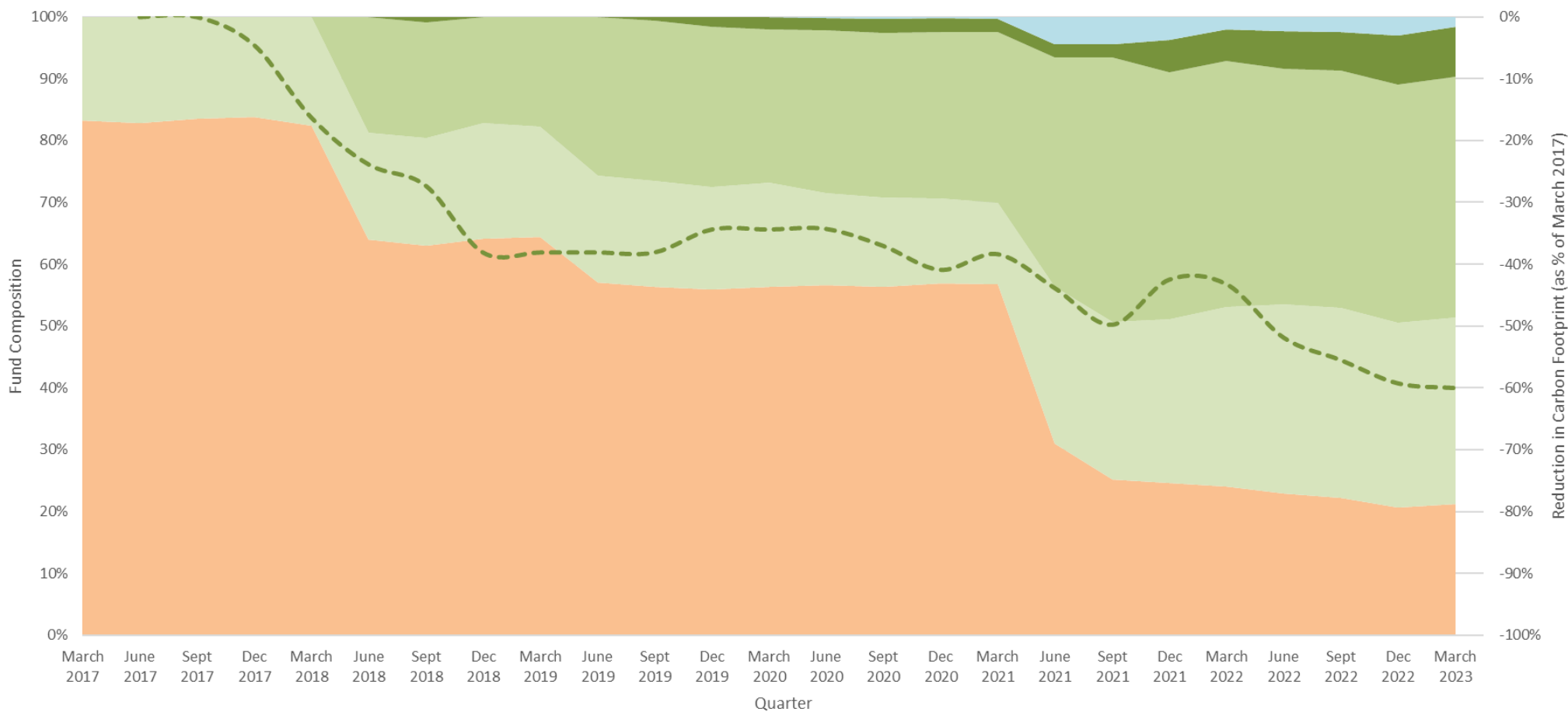
Results

2. The results for 31 March 2023 show that the improvement in the carbon footprint reduction for the Fund continues. Since September 2017, The Fund has reduced its weighted carbon intensity by 60%.
3. The reduction in the quarter to March 2023 has been driven by a combination of movement of capital (both existing capital commitments and transition from legacy investments) to zero and low carbon investments and more accurate carbon calculations available for our core property assets. Reduction in carbon footprint has however been slightly negated by an increase in emissions from the absolute return bonds. We are working to identify replacement investments for holdings in absolute return bonds to improve our carbon footprint over time.
4. The unweighted exposure for each investment is set out below ranked in order of carbon footprint, from lowest to highest exposure.

Unweighted Carbon Intensity		Unweighted Carbon Intensity tCO2e/\$m March 2023
Asset Class	Fund Manager(s)	March 2023
Cash And Equivalents	Blackrock, Nuveen, Newton	0.00
Equity – Emerging markets	Comgest	9.25
Core Property	Nuveen	18.00
ESG Priority Allocation - Alternatives	Blackrock, Blackstone, BTG Pactual, Glennmont, Temporis	27.76
Diversified Growth	Blackrock	179.00
Global Equity	LGIM, Blackrock, Newton	226.40
Absolute Return Bonds	Blackrock	295.20
ESG Priority Allocation - Property	Brockton, Frogmore, Invesco, M&G	430.80
Index Linked Gilts	Blackrock, LGIM	564.80
Total		1751.21

5. During the year, there has been an increase in holdings in the zero carbon, low carbon and reduced carbon investments, resulting from drawdown of existing capital commitments, including to an additional sustainable infrastructure fund.
6. The total funds moved from legacy to zero/ low/ reduced carbon investment categories is £50.4m.
7. 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

8. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

9. There are no immediate implications arising.

Health Impact Statement

10. There are no immediate implications arising.

Climate Change Implications

11. There are no immediate implications arising.

Resource Implications

12. There are no immediate implications arising.

Legal Implications

13. There are no immediate implications arising

Consultation

14. There are no immediate implications arising.

Financial Implications

15. There are no immediate implications arising.

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director, Finance	
Report Author	Spandan Shah, Interim ESG Manager	
Version	Final	
Dated	7 July 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director, Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		7 July 2023

Item No. 10.	Classification: Open	Date: 17 July 2023	Meeting Name: Pensions Advisory Panel
Report title:		Advisers' Updates - Quarter to March 2023	
From:		Senior Finance Manager - Treasury and 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

1. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

2. There are no immediate implications arising.

Health Impact Statement

3. There are no immediate implications arising.

Climate Change Implications

4. There are no immediate implications arising.

Resource Implications

5. There are no immediate implications arising.

Legal Implications

6. There are no immediate implications arising

Consultation

7. There are no immediate implications arising.

Financial Implications

8. There are no immediate implications arising.

APPENDICES

Name	Title
Appendix 1	Independent adviser's report – quarter to March 2023
Appendix 2	Aon's quarterly investment dashboard – quarter to March 2023

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director, Finance	
Report Author	Caroline Watson, Senior Finance Manager - Treasury and Pensions	
Version	Final	
Dated	5 July 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director, Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		5 July 2023

LONDON BOROUGH OF SOUTHWARK - Quarterly Report March 2023

Executive Summary

- This was the final quarter of a very challenging fiscal year for the sector and Southwark. Equities, bonds and property all delivered sub-zero returns
- The Fund underperformed by a small margin in the March quarter returning 2.8% compared to a benchmark of 3.1%
- The Fund struggled over the fiscal year as a whole due primarily to the performance of our real estate holdings. Whilst the asset performance was disappointing (around -9%) the comparative benchmark was very challenging
- The performance of the diversified growth and absolute return bond portfolios also impaired the Fund's annual return. Both are in the process of being unwound due primarily to their lack of alignment with the Fund's overarching strategy
- The medium and long-term returns for the Fund are strong, ahead of both heightened inflation and actuarial assumption, but behind benchmark
- 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

Market Background

Markets closed off the fiscal year on a positive note with both equities and bonds gaining over the quarter. Global growth was better than many expected, with energy prices falling, labour markets showing some resilience and business confidence improving. Recession appears to have been averted in the UK and prospects have picked up in most developed economies. Importantly, whilst central banks continued to raise rates, inflation fell in anticipation of an easing of the pace of recent tightening.

The quarter was a volatile one for equities with the collapse of Silicon Valley Bank and Signature Bank weighing on the banking sector. Growth stocks were buoyed by the potential for lower rates and falling bond yields, outperforming value stocks by a significant margin reversing the recent trend.

All regions recorded positive returns, but Europe posted the strongest gains with falling energy prices bolstering confidence. Further appreciation in Sterling reduced gains to the unhedged UK investor.

In sector terms, energy and financials underperformed. These are areas typically underrepresented in our active portfolio and that of many public sector funds, and so a measure of outperformance may be expected.

Bond market performance was volatile over the quarter but generally positive. In terms of GBP bonds, conventional (gilts and corporate) and index-linked bonds returned between 2% and 4%.

The poorest performing of the major asset classes over the quarter was real estate. Return estimates vary but a near zero outcome may be reasonable with income offsetting continued falls in capital values. The pace of decline in capital values appears to have slowed however which will be welcome news for investors who have built up relatively large stakes in the asset in recent years.

LGPS Funds

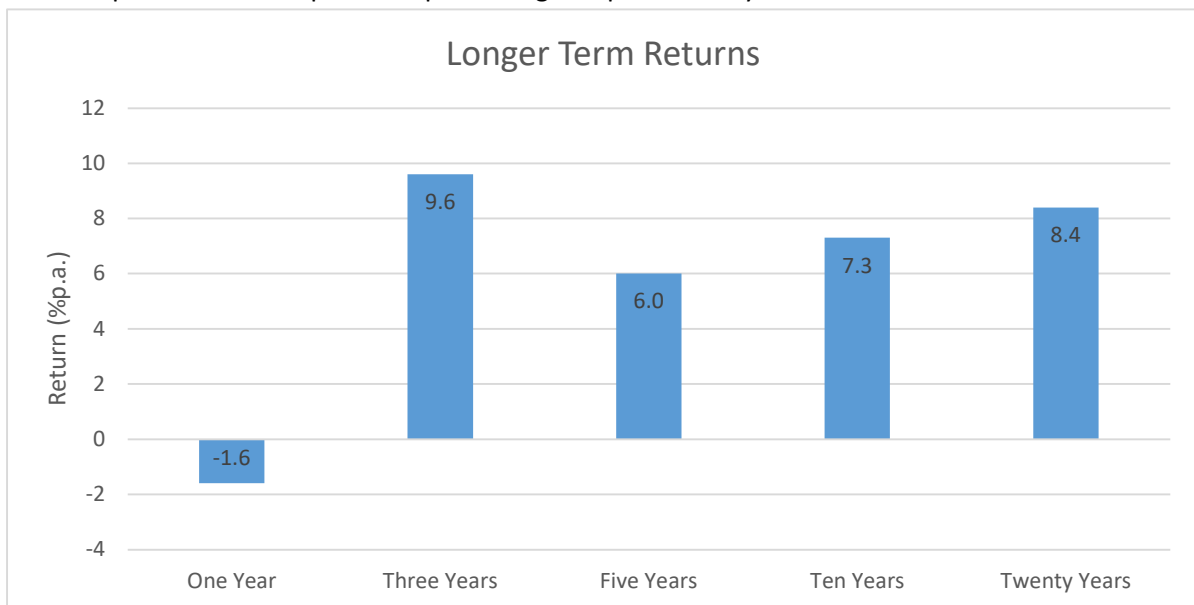
The average LGPS fund returned c3%, delivering some respite from the negative returns posted in each of the 2022 calendar quarters.

Longer-Term

Unsurprisingly, the one-year number remained in negative territory with a return in of -1.6%.

The three-year return, always an important measurement point for the LGPS is running at a healthy 9.6%p.a. or 3%p.a. ahead of inflation.

Over the last ten years the average fund has delivered a return of c7% p.a. and over 20 years, c8%p.a. Over all longer-term periods, funds which have had a relatively high equity commitment are likely to have outperformed their peers despite facing sharper volatility.



Total Fund

The Fund returned 2.8% over the quarter, marginally underperforming the benchmark which came in at 3.1%.

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.

Column			A	B	C	D	E	F
Manager	Brief	Start Value (£m)	Returns			Contributions		
			Fund	Benchmark	Relative Return	Fund	Benchmark	Relative
BLK *	Equity/ILG	410,447	3.6	4.1	-0.5	0.8	0.9	-0.1
LGIM *	Equity/ILG	376,800	5.1	4.4	0.7	1.0	0.8	0.1
BLK	Diversified Growth	126,115	3.1	1.0	2.1	0.2	0.1	0.1
BLK	Absolute Return Bond	134,917	-1.2	1.0	-2.2	-0.1	0.1	-0.2
Newton	Global Equity	249,499	7.4	5.0	2.3	0.9	0.6	0.3
Comgest	EM Equity	91,122	2.4	1.1	1.2	0.1	0.1	0.1
Brockton	Property	7,179	-4.7	3.6	-8.0	-	-	-
Nuveen	Property (Core)	210,418	0.6	1.7	-1.1	0.1	0.2	-0.1
Invesco	Property	34,830	-5.0	1.9	-6.8	-0.1	-	-0.1
M&G	Property	43,562	-0.8	1.9	-2.6	-	-	-0.1
Frogmore	Property	8,195	-17.6	3.9	-20.7	-0.1	-	-0.1
Glenmont	Infrastructure	23,059	14.7	2.4	12.0	0.2	-	0.1
Temporis	Infrastructure	43,392	0.0	2.4	-2.3	-	0.1	-0.1
Temporis (New)	Infrastructure	30,590	0.0	1.7	-1.7	-	-	-
Temporis Impact	Infrastructure	12,646	0.0	2.4	-2.4	-	-	-
BLK	Infrastructure	12,691	7.2	2.4	4.7	-	-	-
Blackstone	Diversified Alternatives	46,373	-10.4	2.9	-12.9	-0.2	0.1	-0.3
BTG	Diversified Alternatives	34,943	2.3	1.5	0.8	-	-	-
Darwin	Diversified Alternatives	21,416	1.0	1.5	-0.5	-	-	-
BLK/LBS	Cash	45,039	0.9	0.9	-0.0	-	-	-
Total		1,963,231	2.8	3.1	-0.3	2.8	3.1	-0.3

*** 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.**

There are a lot of numbers in the table but by way of explanation;

- Column A shows the returns generated by each of our managers and the aggregate outcome
- Column B shows the returns targeted by the managers and the aggregate
- Column C shows how each of the managers has fared relative to their own benchmark i.e. value add
- Column D is simply the weighted contribution to the total from each of the managers e.g. a portfolio returning 10% representing 5% of the Fund's assets would contribute 0.5%
- Columns E is the same but for the benchmark returns
- Column F is the same but for the relative returns

The takeaways for the latest quarter are;

- In terms of the overall outcome of 2.8% (column D), the key positive contributors were the two 'balanced' tracker portfolios (LGIM and BlackRock) and Newton. Unsurprisingly, these are our largest portfolios.
- There were some very large deviations from benchmark (column C). The largest deviations, both positive and negative, came mostly from the smaller specialist or niche portfolios e.g. Darwin Bereavement Services. These deviations are not untypical as the investments are long-term in nature and cashflows (payments to and from the Fund) are unpredictable and irregular. In a number of cases, the success (or otherwise) of such investments will only be determined after a number of years.

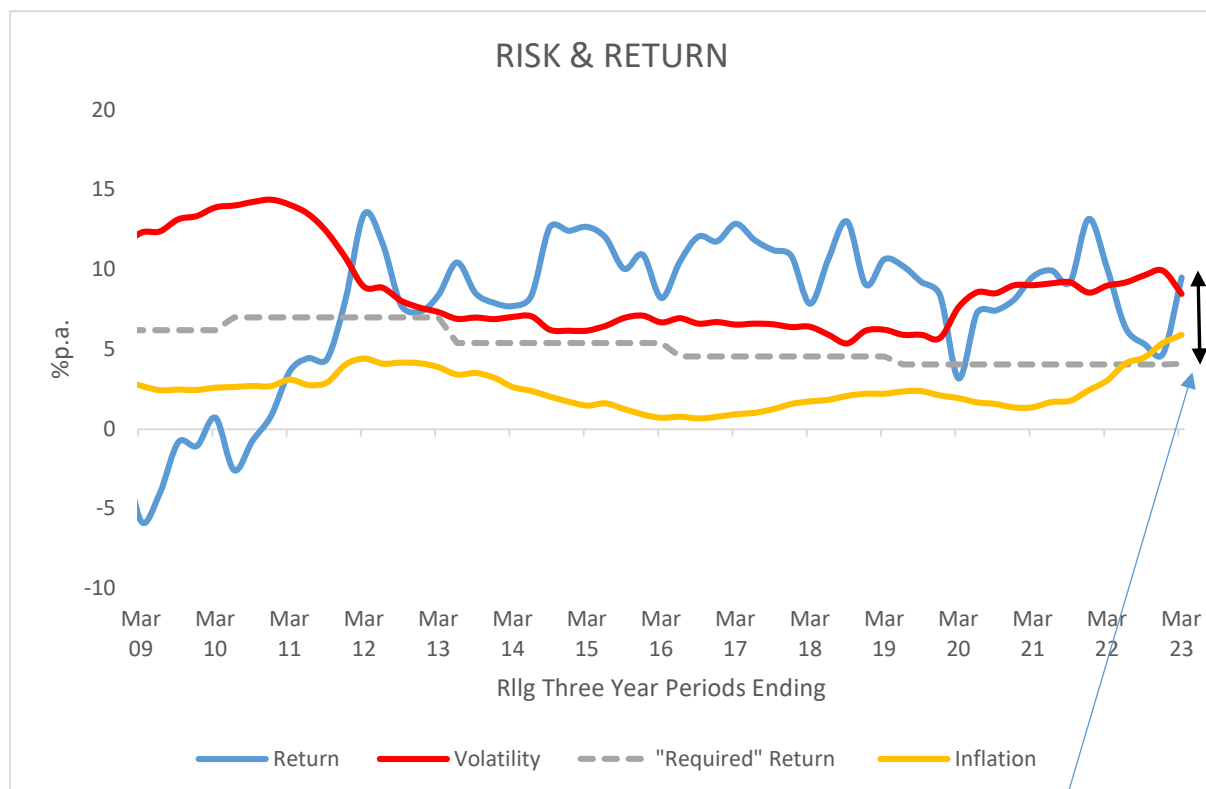
- In terms of contributions to the overall excess return of -0.3% (column F), the absolute return bond portfolio managed by BlackRock and the private equity portfolio managed by Blackstone were the key detractors. Our active equity portfolio (Newton) recouped 0.3%.

Over the **full fiscal year**, the Fund returned a disappointing -4.3%, some way behind the benchmark of -0.6%. The bulk of the underperformance came from our property holdings which alone detracted 2.7%. Also detracting value were the absolute return bond and diversified growth portfolios managed by BlackRock.

Medium-term, the Fund has returned between 9.5%p.a. and 6.8%p.a. over the three and five-year periods. Both periods' returns have been behind benchmark, the latter by a smaller margin.

Longer-term, over the last ten-years, the Fund has delivered a very valuable 8.2%p.a. return but 0.7%p.a. off the target.

Repeating the analysis I've been showing for the last few quarters charting the progress of the Fund's return in the context of inflation and the return assumed by the actuary;



In summary,

- 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 latest quarter has widened the margin quite considerably
- The red line shows the volatility of the returns being delivered (sometimes, and arguably unhelpfully, termed "risk"). This has remained heightened post pandemic due to global factors
- The extreme right hand side of the chart shows that inflation (the yellow line) 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

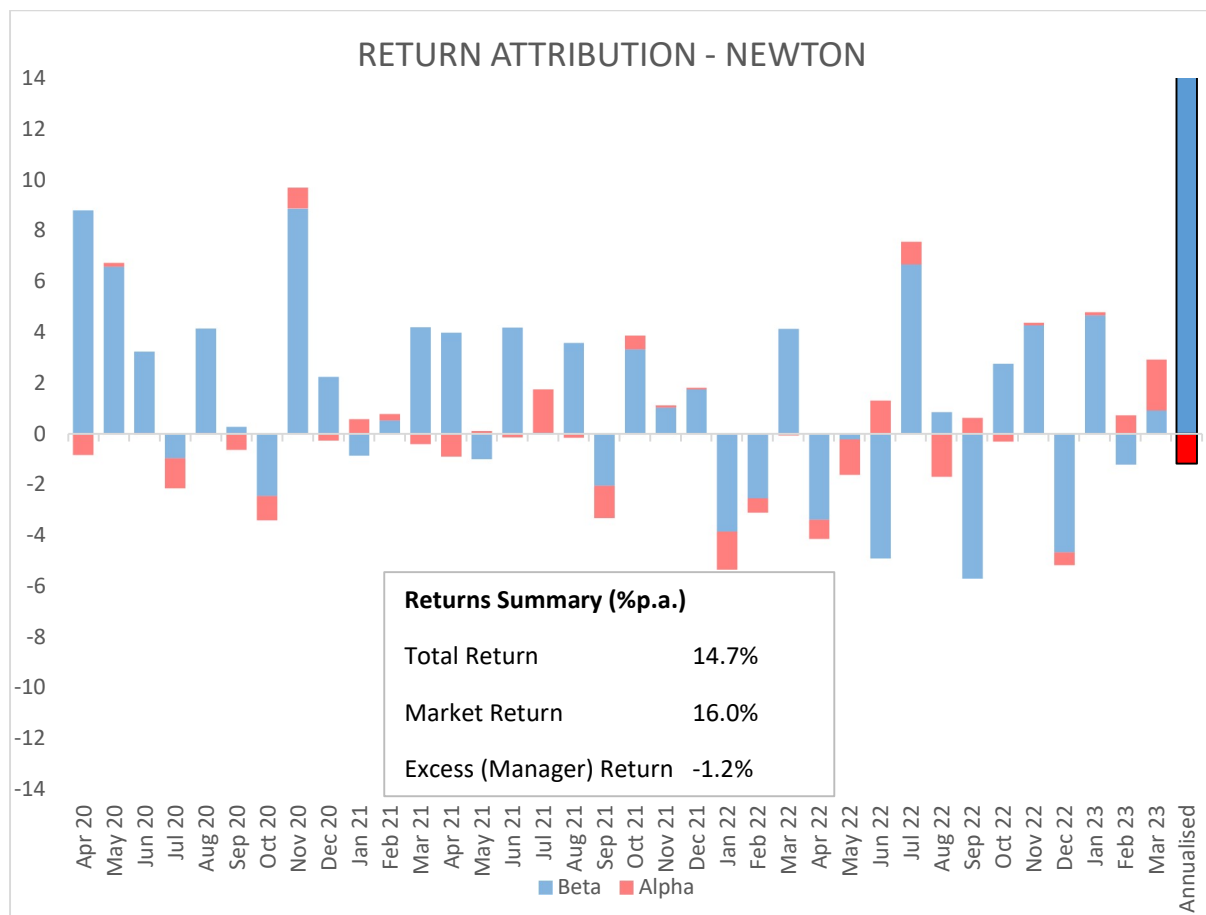
Newton – Active Global Equity

Newton enjoyed an excellent quarter, outperforming the World Index by around 3%. This is their best showing in more than a decade. Over the period, stock selection within healthcare, industrials and consumer discretionary were additive. A zero weighting in energy and overweights to the consumer discretionary and technology were also beneficial.

The portfolio's annual return was barely positive but ahead of the comparative index. The return fell short of the target (index +3%) however.

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

As a brief aside, a question was asked at the last PAP meeting regarding how much of the return came from the actions of a manager. Whilst not specifically asked in relation to Newton, I've used this portfolio as an example. In the chart below, I plot the returns generated each month over the last three years;



The simple takeaway from this chart is that by far the largest portion of the return delivered comes from the market (sometimes described as “beta” and shown in blue in the above plots) rather than the manager (sometimes known as “alpha” and shown in red in the plots). *This is not a Southwark nor Newton phenomenon; it is quite universal.*

For completeness, volatility (or risk) can be similarly attributed with the market itself dictating the outcome;

- Observed volatility 13.4%p.a.
- Market risk 12.7%p.a.
- Manager risk 3.0%p.a.

Comgest – Active Emerging Market Equity

The portfolio, in place now for over a year, performed strongly over the quarter outperforming the benchmark index by 1.2% (portfolio 2.4%, index 1.1%).

Over the full year, the portfolio returned -5.2%, underperforming the benchmark by 0.3%.

BlackRock - Active

The active positions performed quite differently over the quarter.

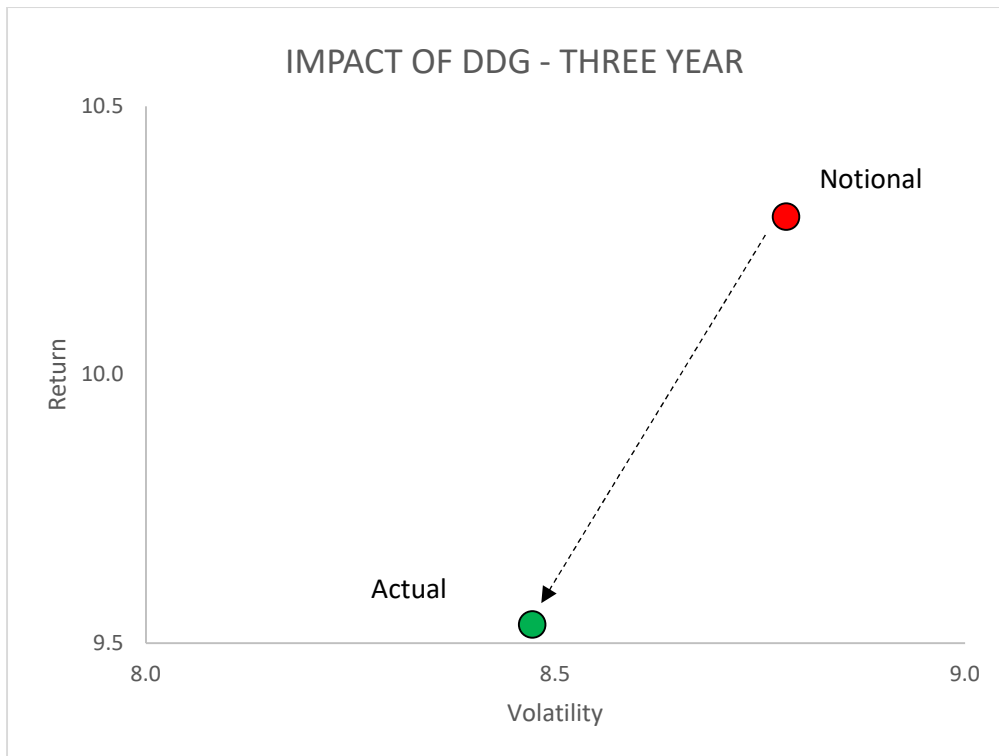
The DDG portfolio returned 3.1%, outperforming the cash benchmark. Equities, as usual, were the main positive but non-government bonds also added value.

In contrast, the ARB portfolio underperformed the cash benchmark by 2.2% over the quarter. Longer duration positions in developed market government debt weighed on returns as yields rose.

Since their inception, returns from both strategies have been disappointing, delivering less than 2%p.a. and some way behind our modest expectation (cash plus 3 or 4%).

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.

I show again a chart illustrating how this has worked in practice. As a reminder, 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 shows is that volatility has been reduced through the addition of the DDG investment but very marginally (by 0.3%p.a.) but at the cost of some potential return (0.8%).

In terms of the balance between risk and return, the trade-off is poor. One of the main reasons for this is that the returns being generated are highly correlated to equities, the Fund's primary growth driver. ***This is not an ideal fit for our baseline strategy and one of the key reasons the position is being wound down.***

Nuveen Real Estate – Core Property

The portfolio return was zero for the final fiscal quarter (manager figures). Income of around 1% was offset by capital depreciation of -1%.

Office valuations decreased most significantly by 2.9%, industrial valuations by 0.2% whilst retail increased by 0.1%. The portfolio's single indirect investment (UK Retail Warehouse Fund) performed reasonably well returning 4.7%.

The full year return reported by Nuveen was -12.4 %, a modest improvement on the calendar year. The medium-term numbers remain impaired (three and five year numbers are around 2.5%p.a.) and longer-term returns solid at 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 all behind benchmark over the quarter and for 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 time-specifically 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	-0.8	1.8	-2.6	-8.7	7.6	-15.2
<i>Core</i>	<i>0.6</i>	<i>1.7</i>	<i>-1.1</i>	<i>-12.6</i>	<i>7.0</i>	<i>-18.4</i>
<i>Ex Core</i>	<i>-3.8</i>	<i>2.2</i>	<i>-5.9</i>	<i>0.5</i>	<i>9.2</i>	<i>-8.0</i>

The core portfolio is around two-thirds of the overall allocation and so will so this will realistically dictate how the Fund's real estate assets perform.

The table shows that over the quarter, the non-core assets underperformed and dampened the overall return. Over the full year, the opposite has been the case, where the non-core assets have enhanced the overall return.

The Fund has a sizeable allocation to real estate. This has, and will have, a significant bearing on the performance (and volatility) of the Fund and 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, the overall Fund return has been impacted negatively by our real estate holdings (by nearly 0.9%). Volatility overall has been reduced but by a similar margin. There has therefore been little benefit in terms of risk/return trade-off.

Infrastructure

The Fund's infrastructure investments are relatively new and comprise just over 6% of the overall asset value. It is too early to provide any meaningful commentary on performance, but early signs are quite encouraging. Over the fiscal year, I estimate the assets to have added in the region of 0.3% to the bottom line.

"ESG Priority Allocation"

It's a similar story for these portfolios i.e. it's very early to provide any meaningful commentary on performance but early signs are of returns ahead of expectation.

Passive Portfolios

The portfolios tracked within tolerance over the quarter.

Quarterly Investment Dashboard Q1 2023

London Borough of Southwark Pension Fund



Prepared for: The Pension Advisory Panel

Prepared by: Aon

Date: 23 June 2023



At a glance...

Assets

£2,015.0m ▲

Assets increased by £52.1m over the quarter.

Funding

109%

No change
vs 31 Mar 2022

Surplus

£169M

▼ £8M
vs 31 Mar 2022

Manager ratings

11 Buy rated 10 Not rated
1 Qualified 0 Not recommended

Relative performance (short term)

-0.3% ▼

The scheme returned 2.8% vs 3.1% over the quarter.

Relative performance (3 year p.a.)

-0.7% ▼

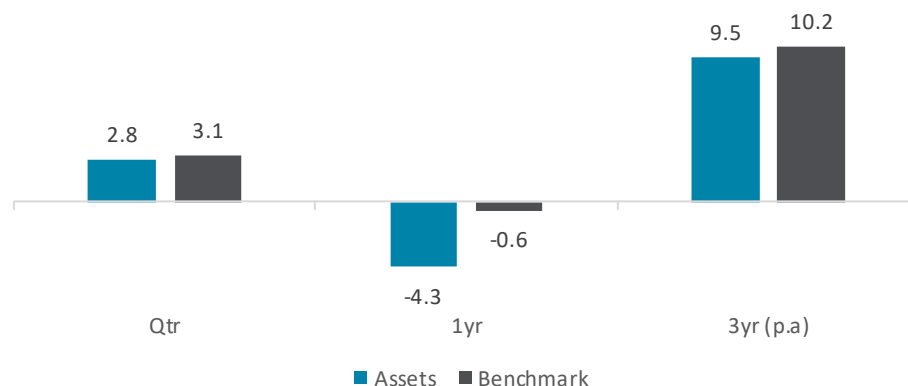
The scheme returned 9.5% p.a. vs 10.2% p.a. over the three-year period.

Comments

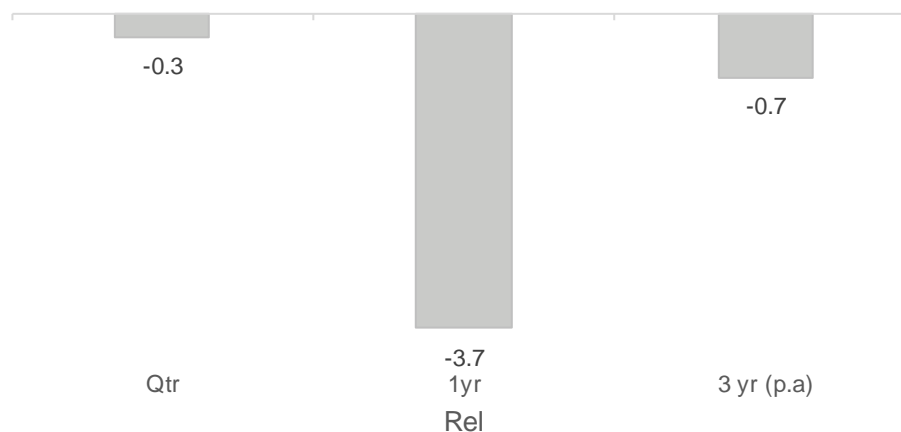
- The Fund's total assets increased by £52.1m over the quarter, from £1,962.9m to £2,012.5m.
- We note that the PAP has agreed to switch the 10% allocation from Diversified Growth to Multi-Asset Credit. **This has been reflected in our report with a caveat that the Fund remained invested in a diversified growth fund over the quarter and it is in the process of transitioning the assets across.**
- During the quarter, following Aon's recommendations, 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 as part of their wider objective to reach net-zero by 2030.
- Following the Fixed Income Manager Selection Day on 9 March 2023, the PAP agreed to invest c.£100m in the Robeco Climate Global Credits Fund with the monies being sourced from the Blackrock Diversified Dynamic Growth Fund ("DDG"). This decision will be ratified at the next PAP meeting.
- As part of the Fund's cashflow management framework, the Officers fully redeemed their holdings in the Blackrock Sterling Liquidity Fund (SLF) and invested the proceeds into money market funds and the LGIM Sterling Liquidity Fund. The amounts invested in both of these vehicles should be monitored against the agreed framework and the Officers have the authority to move monies where required or deemed appropriate.
- More information on notable developments can be found in the Manager Review section

Fund performance – Snapshot

Fund performance & benchmark



Relative performance



Quarterly (relative)

-0.3%



The scheme returned 2.8% vs 3.1% over the quarter.

3 year (relative) p.a.

-0.7%



The scheme returned 9.5% p.a. vs 10.2% p.a. over the period.

Comments

Over the quarter, the Fund underperformed the benchmark.

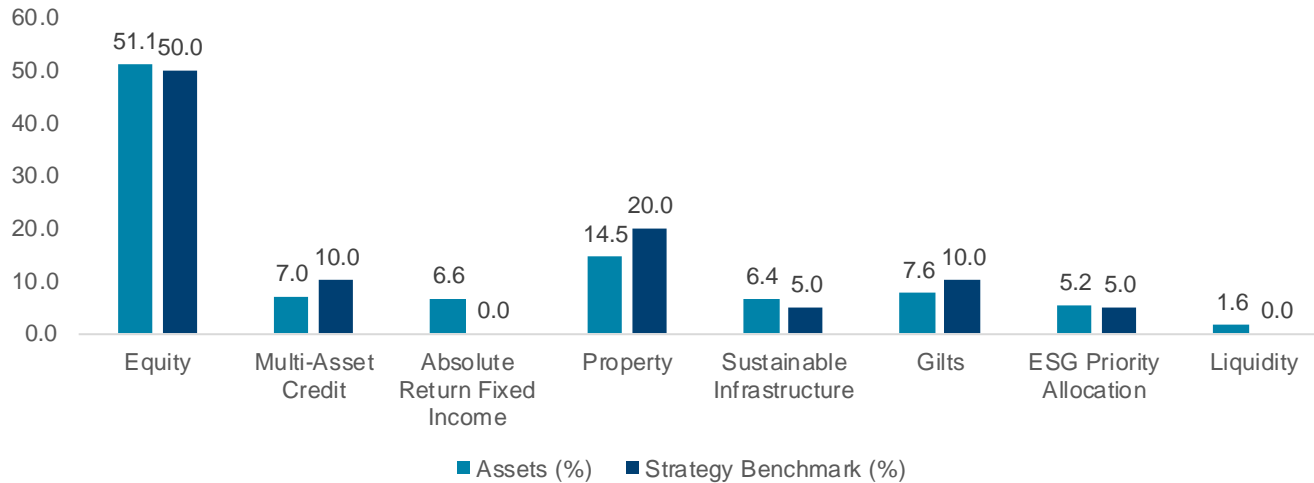
The property portfolio, particularly Frogmore and Brockton were notable detractors to performance whilst the sustainable infrastructure portfolio, particularly Glennmont and Blackrock were notable contributors to performance

Manager performance – 31 March 2023

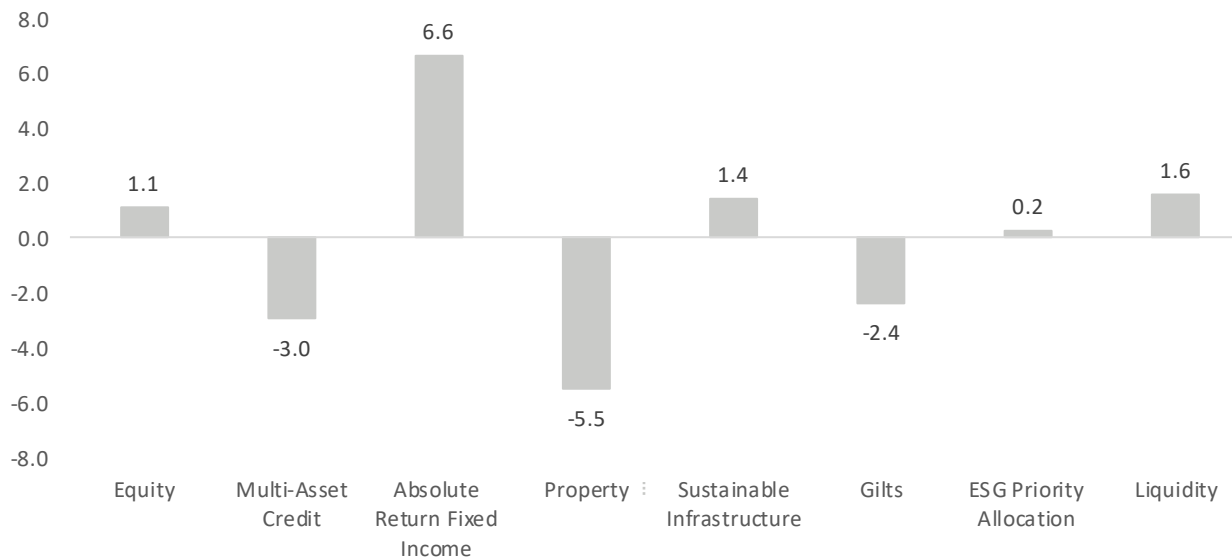
	3 month		1 year		3 years (p.a.)	
	Return	Relative	Return	Relative	Return	Relative
Blackrock Bal. (Low Carbon Equity & ILG)	3.6	-0.5	-9.7	-3.1	10.6	-0.1
LGIM (Low Carbon Equity and ILG)	4.9	0.5	-7.5	0.4	11.3	1.1
Newton Active Global Equity	7.3	2.4	0.2	-1.3	14.7	-4.2
Comgest Growth Emerging Markets Plus	2.4	1.2	-5.2	-0.3	-	-
Blackrock Diversified Dynamic Growth	3.1	2.1	-3.6	-6.3	3.9	1.1
LBS Blackrock Absolute Return Fixed Income	-1.2	-2.2	0.7	-2.0	3.3	0.0
Nuveen Real Estate	0.6	-1.1	-12.6	-19.6	4.0	-4.8
Invesco Real Estate UK Residential Fund	-5.0	-6.9	5.3	-2.7	3.7	-4.3
M&G UK Residential Property Fund	-0.8	-2.7	0.7	-7.3	0.9	-7.1
Frogmore Real Estate Partners III	-17.6	-21.5	-20.4	-36.9	-7.9	-24.4
Brockton Capital Fund III	-4.7	-8.3	-2.8	-17.8	4.5	-10.5
Glennmont Clean Energy Fund	14.6	12.3	37.5	27.5	14.6	4.6
Blackrock Global Renewable Power	7.2	4.8	19.4	9.4	-	-
BTG Pactual OEF Fund	2.3	0.8	20.0	14.0	-	-
Darwin Bereavement Services Fund	1.0	-0.5	5.8	-0.2	-	-
Temporis Impact Fund	0.7	-1.7	2.2	-7.8	-	-
Temporis Renewable Energy Fund	0.0	-2.4	20.3	10.3	11.3	1.3
Blackstone Strategic Capital Holdings GP Stakes Fund II	-10.4	-13.2	17.7	5.7	-	-
Blackrock Sterling Liquidity Fund	0.9	0.0	2.2	0/0		

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

£2,015.0m ▲

Assets increased by £52.1m over the quarter.

Comments

- All asset classes remain well within the maximum strategic allocation limit.
- 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.**
- Following the Fixed Income Manager Selection Day on 9 March 2023, the PAP agreed to invest c.£100m in the Robeco Climate Global Credits Fund with the monies being sourced from the Blackrock Diversified Dynamic Growth Fund (“DDG”). This decision will be ratified at the next PAP meeting.
- As part of the Fund’s cashflow management framework, the Officers fully redeemed their holdings in the Blackrock Sterling Liquidity Fund (SLF) and invested the proceeds into money market funds and the LGIM Sterling Liquidity Fund. The amounts invested in both of these vehicles should be monitored against the agreed framework and the Officers have the authority to move monies where required or deemed appropriate.

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. 11.	Classification: Open	Date: 17 July 2023	Meeting Name: Pensions Advisory Panel
Report title:		Zero Carbon Investment Strategy: Implementation Progress Update	
From:		Senior Finance Manager - Treasury and Pensions	

Recommendations

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.
 - Ratify the decision, made at the special meeting of 9 March 2023, to appoint Robeco as multi-asset credit manager with a £100m allocation.
 - Ratify the decision to invest £30m in the Darwin Leisure Development Fund.

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. A report setting out details on the Low Carbon Transition Fund was tabled at the October 2022 PAP meeting.
4. Half of the holding in the Low Carbon Target Index Fund (c. £165m) was transitioned to the Low Carbon Transition Fund in January 2023.
5. The investment performance and carbon footprint of the new holding has subsequently been monitored by officers and Aon ahead of transitioning the remaining balance to the Low Carbon Transition Fund.
6. In an advice note provided to officers on 30 June 2023, Aon has confirmed that the LGIM Low Carbon Transition Fund remains suitable for the investment objectives and long-term strategy of the Pension Fund.
7. The remaining balance will therefore be transferred to the Low Carbon Transition Fund in the current quarter (i.e. before the end of September 2023).

Multi Asset Credit

8. As part of the recent investment strategy review, PAP agreed to a new 10% strategic allocation to multi asset credit, to be funded from the legacy absolute return bond and diversified growth holdings.
9. A shortlist of proposed managers (provided by Aon) presented to a selection panel, which included voting PAP members and the Fund's advisers, on 9 March.
10. Following the selection process, a recommendation to appoint Robeco as the preferred manager for a £100m pooled fund investment will be ratified at this meeting.
11. The Robeco Climate Global Credits fund is an active global credit strategy which is focused on delivering attractive, above benchmark, returns with a lower carbon intensity and investing in line with a Paris aligned benchmark. The Fund can invest in Investment Grade credit, High Yield and Emerging Market Debt and is expected to have a 7% year-on-year decarbonisation pathway.
12. At the time of writing, officers, in consultation with Pinsent Mason, are carrying out a legal review of the Terms and Conditions of the Robeco documentation ahead of investing in the Fund. This is expected to take place in July 2023.
13. Officers and Aon continue to review and assess potential Multi-Asset Credit strategies to ensure that the 10% strategic allocation can be achieved in 2023.

Newton Global Equity Mandate

14. A report on recent activity to transition the Newton global equity portfolio to progress the implementation of the Fund's net-zero carbon strategy is presented as Item 12 on the agenda for this meeting.

Darwin Leisure Development Fund

15. The Southwark fund has been invested in the Darwin Bereavement Services Fund since 2021 and the performance target has been met during this time. As an existing investor with Darwin, an opportunity arose in March 2023 for the Fund to invest in the Darwin Leisure Development Fund (DLDF).
16. The Fund has invested £30m in the DLDF and this has been funded from the legacy diversified growth strategic asset allocation.
17. DLDF invests in land and sites across the UK that focus on outdoor, leisure and accommodation. This investment displays low correlation with other asset classes and existing property holdings in the Fund, thereby achieving diversification benefits.
18. The expected return of 10-14%p.a. aligns with the recently agreed framework for selecting illiquid assets which is set out in the investment strategy statement.

Responsible Investment Policy

19. As a commitment to our focus on net-zero and also given the increasing wider discussions on Environmental, Social & Governance (ESG) aspects of business operations, and in-line with industry best practices, we will be developing a standalone responsible investment policy (RI Policy) outlining our overall process and approach to making investments to achieve a positive environmental and social outcome, whilst also fulfilling our fiduciary duties to our scheme members.
20. The RI Policy will outline how the Fund will implement responsible investment strategies considering climate (as a key investment criteria) and other ESG considerations across the end-to-end investment lifecycle. The RI policy will complement the existing documentation we already have in place within the Fund – particularly the Investment Strategy Statement. The policy will be tabled at a future PAP meeting.

LAPF Award shortlist

21. In recognition of the significant progress made in implementing the zero carbon investment strategy, officers made a submission to the LAPF Investment Awards (Sustainable Investment Strategy – Climate).
22. The entry covered the following points:
 - How LBS pension fund formally recognised climate related risks and opportunities in 2017 and subsequently set an ambitious and challenging target of Net Zero by 2030.
 - That LBS pension fund has reduced the carbon footprint of the portfolio by investing in new opportunities thus increasing diversification while achieving strong returns.
 - That the Weighted Carbon Intensity of the LBS pension fund has reduced by 43% in the five years to 31 March 2022, and during this time it achieved an investment return of 5.8% p.a. ahead of the local authority average of 5.6%.
23. The Southwark Pension Fund has been shortlisted for this award together with Avon Pension Fund, Newham and NILGOSC. The winner will be announced on 14 September.

Further Areas of Progress

24. 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. The PAP will be updated on progress in these areas at future meetings.

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

25. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

26. There are no immediate implications arising.

Health Impact Statement

27. There are no immediate implications arising.

Climate Change Implications

28. There are no immediate implications arising.

Resource Implications

29. There are no immediate implications arising.

Legal Implications

30. There are no immediate implications arising

Consultation

31. There are no immediate implications arising.

Financial Implications

32. There are no immediate implications arising.

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director, Finance	
Report Author	Caroline Watson, Senior Finance Manager - Treasury and Pensions	
Version	Final	
Dated	7 July 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director, Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		7 July 2023

Item No. 12.	Classification: Open	Date: 17 July 2023	Meeting Name: Pensions Advisory Panel
Report title:		Update on Newton Portfolio	
From:		Interim Pensions Investments Manager	

Recommendation

1. The pensions advisory panel is asked to note recent activity to transition the Newton global equity portfolio to progress the implementation of the Fund's net-zero carbon strategy, as set out in this report.

Background

2. Newton has been LBS PF's active global equity manager since 31 March 2007. As at 31 March 2023 the portfolio value was £267.2m, representing 13% of the total fund.
3. Newton's historic investment objective and benchmark was to outperform the FTSE All World Index by 3% per annum (net of fees) over rolling 3 year periods.
4. Since 2021 officers and AON have been in discussion with Newton regarding adapting the mandate to further progress the Fund's net-zero objectives. Following officer meetings on 14 and 15 March, a satisfactory conclusion to these discussions was reached and the Investment Management Agreement (IMA) between Newton and LBSPF was revised.

Newton's proposal

5. The following summarises the new approach:
 - a) Newton will use a proprietary Net Zero score and projected emissions pathways to construct a new portfolio consisting only of companies it assesses to have the best emission reduction plans.
 - b) Day 1 emissions were expected to reduce by c20% and the portfolio's projected future emissions profile was expected to improve, with all stocks in the portfolio awarded high Net Zero scores.
 - c) Newton's existing philosophy, process and people are unchanged and existing portfolio restrictions (e.g. exclusion of oil, gas and tobacco stocks) remain in place.
 - d) The new investment objective is as follows:

“The Manager will seek to outperform the FTSE ALL World Index (net of fees) over rolling 5-year periods through investing only in companies assessed by the Manager as having credible transition plans to reduce emissions and align with a “below 2°C” or “net zero 2050” emission reduction pathway.”

- e) Given the smaller opportunity set of companies with leading carbon scores and the potential for deviation from benchmark sectors and geographies, the financial outperformance target has been removed, although officers will still monitor Newton against the existing +3% p.a. target.
- f) Newton will use data from a third-party vendor to calculate and monitor the portfolio carbon level at the end of each calendar month and report the calculations to LBSPF on a quarterly basis.

Fees

- 6. As part of negotiations with Newton, officers requested a fee review. As a consequence the fee rate has changed, resulting in an estimated annual fee reduction of £150,000.

Transition

- 7. The portfolio “go-live” date was 30 April 2023 when trading activity took place.
- 8. The impact of the trading activity was as follows:
 - a) The total number of stocks in the portfolio reduced from 42 to 40.
 - b) The post-transition WACI (Weighted Average Carbon Intensity) reduced by 20.8% on Day 1 (marginally ahead of expectation).
 - c) WACI reduced from 57.87 tCO₂e/£1m revenue (pre-trade portfolio) to 45.81 tCO₂e/£1m revenue (post-trade portfolio) as measured by ISS. Going forward, Newton will actively measure the portfolio against this Day 1 ‘high watermark’.
 - d) Explicit trading costs (including brokers’ commissions and market trading costs) of 0.066% were incurred.

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	Clive Palfreyman, Strategic Director, Finance	
Report Author	Tracey Milner, Interim Pensions Investments Manager	
Version	Final	
Dated	19 June 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director, Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		5 July 2023

Item No. 13.	Classification: Open	Date: 17 July 2023	Meeting Name: Pensions Advisory Panel
Report title:		Update on Taskforce on Climate-related Financial Disclosures	
From:		Senior Finance Manager - Treasury and Pensions	

RECOMMENDATION

1. The pensions advisory panel is asked to note the update provided in this report on the requirements of the Taskforce on Climate-related Financial Disclosures (TCFD) and how the fund is preparing for this.

TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

BACKGROUND

2. Published in 2017, the Taskforce on Climate-related Financial Disclosure's (TCFD) recommendations establish a set of 11 clear, comparable and consistent disclosures for companies about the risks and opportunities presented by climate change.
3. From 1 October 2021 the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 introduced new requirements relating to reporting in line with the TCFD recommendations, to improve both the quality of governance and the level of action of pension fund trustees in identifying, assessing and managing climate risk.
4. Following on from the implementation of TCFD reporting for private sector schemes, regulatory initiatives are underway to mandate Local Government Pension Scheme (LGPS) administering authorities to assess, manage and report climate-related risks in line with the recommendations of the TCFD.
5. The outcome of the public consultation on such climate-related reporting by the Department for Levelling Up, Housing and Communities (DLUHC) ending 24 November 2022 is still pending, but it is likely that such reporting requirements would apply to all LGPS administering authorities for the financial year 2024-2025. The deadline for the first report would be 1 December 2025.
6. While the exact reporting requirements are not clear, they will mostly be in line with TCFD recommendations. DLUHC will also release statutory guidance to help LGPS meet the reporting requirements. Anecdotally, a number of LGPS Funds have, or are expected to, produce TCFD reporting ahead of the statutory guidance being released.

7. In light of this, we have outlined below an overview of the requirements of TCFD and what we at Southwark are proactively working on to meet such reporting requirements.

TCFD RECOMMENDATIONS

8. The regulations require disclosures across the following four pillars:

Governance Requirements

9. Disclose the Fund's governance around climate-related risks and opportunities.
10. Disclosure requirements include outlining the PAP and Local Pension Board's role in the oversight process and officers' role in assessing and managing the material climate-related risks and opportunities.

Strategy Requirements

11. Disclose the actual and potential impacts of climate-related risks and opportunities on the Fund's businesses, strategy, and financial planning where such information is material in the short, medium and long term.
12. Assets, liabilities, investment strategy and funding needs to be evaluated against climate risks and opportunities in at least two climate scenarios, including a "Paris-aligned" 1.5 degrees (or lower).
13. For pension funds, the scenario analysis will be required to be carried out at least once every valuation cycle (three years) and the findings will be used to evaluate investment and funding decisions.

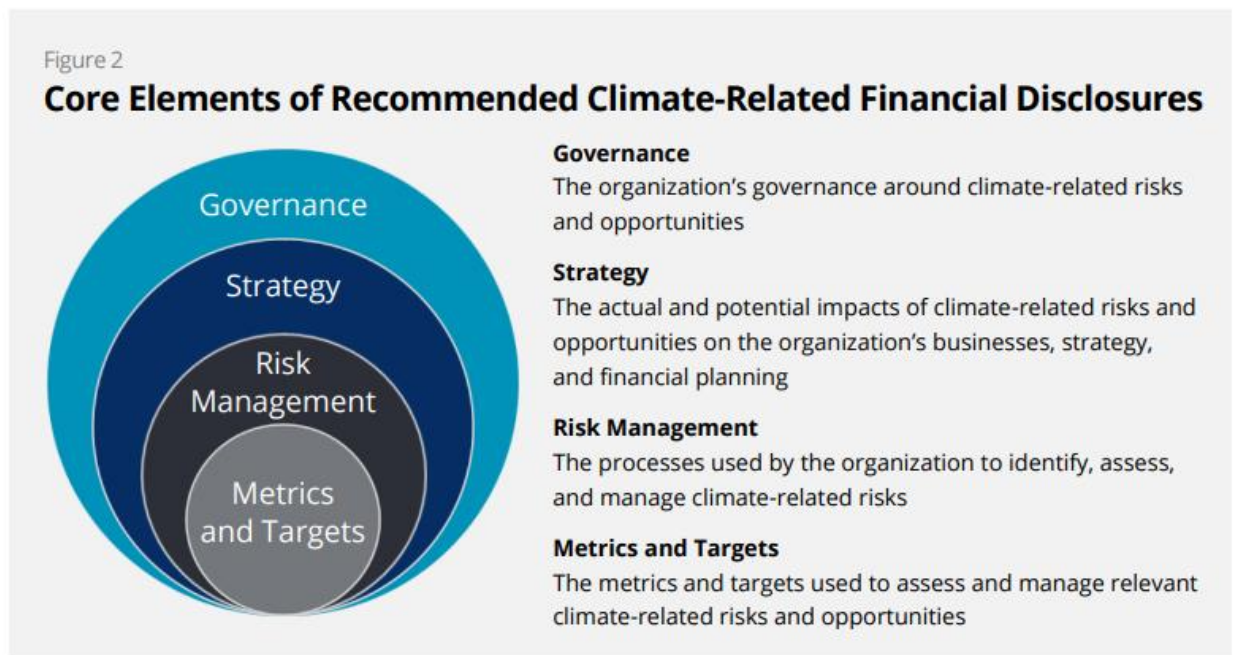
Risk Management Requirements

14. Disclose how the Fund identifies, assesses, and manages climate-related risks. The climate-related risks must be integrated into the overall risk management on an ongoing basis.
15. Climate-related risks to be considered into the analyses include both physical – resulting from climatic events - and transitional – resulting from policy action taken to move away from fossil fuels - risks, their relative importance to the organisation when the risk would happen and the likelihood of the risk occurring.

Metrics and Targets Requirements

16. Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
17. Funds will have to consider metrics in line with its strategy and risk management processes. Some of the key metrics include total (absolute) carbon emissions and carbon footprint intensity. These should be reported at the whole fund level, providing separate values for scope 1, 2 and 3 emissions.

18. A key difference to private sector reporting requirements is that the LGPS is likely to also have to report on data quality.
19. Another requirement is for the LGPS to choose a metric (absolute emissions, emission intensity, data quality or Paris-alignment) and set a target in relation to it. Progress against this target must then be annually assessed.
20. Below is a snapshot of the core elements of the TCFD recommendations:



REPORTING ON CLIMATE-RELATED RISKS

21. A Climate Risk Report must be published annually alongside the annual report and be made freely available to encourage transparency.
22. Guidance on governance and the Climate Risk Report will be supplied to accompany changes in regulation by DLUHC. The Scheme Advisory Board (SAB) has been asked to produce detailed operational guidance and a standard template for the Climate Risk Report.

MEASURES ALREADY TAKEN BY SOUTHWARK

23. London Borough of Southwark (LBS) pension fund already fulfils a number of required metrics and can provide reports on scope 1 and scope 2 carbon emissions, emission intensity and data quality of the fund. The LBS pension fund already has an investment strategy in place - to achieve net zero carbon exposure by 2030 - that sets out the short, medium, and long term goals for meeting this target.

24. There is data available to the pension fund that would help to provide information on data quality. The current measurement provider records whether carbon data is reported, estimated or without data, which can easily be translated into the percentage of the value of assets to which they correspond.
25. We have hired an interim ESG manager to help us with the formal documentation on governance, strategy and risk management requirements. The interim ESG manager will also be working on preparing the initial TCFD report for financial year 2022-23. This is ahead of the expected implementation date for the LGPS.
26. We will be working with Aon, our investment advisor, on some of the more technical analysis required as part of TCFD – specifically, the scenario analysis and quantifying the financial impact of climate change on our portfolio across the scenarios considered as part of our analysis. Additionally, we will also continue engagement with external fund managers and industry associations to understand best practices in preparing TCFD to make it a more efficient process for us internally in the first year and going forward.

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

Community Impact Statement

27. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

28. There are no immediate implications arising.

Health Impact Statement

29. There are no immediate implications arising.

Climate Change Implications

30. There are no immediate implications arising.

Resource Implications

31. There are no immediate implications arising.

Legal Implications

32. There are no immediate implications arising

Consultation

33. There are no immediate implications arising.

Financial Implications

34. There are no immediate implications arising.

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director, Finance	
Report Author	Caroline Watson, Senior Finance Manager - Treasury and Pensions	
Version	Final	
Dated	7 July 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director, Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		7 July 2023

Item No. 14.	Classification: Open	Date: 17 July 2023	Meeting Name: Pensions Advisory Panel
Report title:		Pension Services - Administration Function Update	
From:		Pensions Manager	

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 March 2023 which set out specific information on recruitment, IT/systems, National Dashboard Programme, communication initiatives and complaint management.

RECRUITMENT

3. Senior Pensions Officer interviews started in June. Two vacant positions exist with further interviews planned. Initial interviews identified an excellent candidate and an offer of employment has been made. This is with HR to progress.
4. We will shortly be re-advertising the Data Systems Manager, Senior Data Officer and Data Officer roles.
5. Interviews took place in May for two Assistant Pensions Officers. These are, in essence, apprenticeship roles where a two year programme of study will be combined with mentoring and development within the Pension Services team. Although interest was high, in the end only one appointment was made.

IT/SYSTEMS

6. Ongoing discussions continue with Civica UK. Whilst excellent progress has been made on wider known issues such as member portal and employer hub, we have, following discussions with our Data/Systems team and an update provided to the Strategic Director, Finance, agreed to undertake further 'end to end testing' to ensure some of the more uncommon data fields have been captured properly. This includes data taken from the Councils Payroll system, specifically additional pension contracts such as added years, AVCs and APCs.

7. This does not impact on the majority of members and BAU continues as normal, however additional checks are in place to ensure output is as expected.
8. The 2023 Pension Increase exercise was successfully run from new UPM payroll software at 10 April 2023 where a full 10.1% increase was applied to pensions in payment (including dependants and other beneficiaries). Anyone retiring mid-year and during the 2022/23 period received a pro-rata increase.
9. As part of this process, P60s were also run and sent out before the end of May statutory deadline.
10. We are currently working with a well-known third party who specialise in overseas pensioner payroll services. This will enable us to pay overseas pensions quickly through BACS, removing the need to send out cheques.
11. As previously agreed with the Local Pension Board, a detailed Cyber Risk assessment of all controls in place will be undertaken against new pension fund software shortly. Whilst the new software has been extensively tested and secured against cyber-attack (and conforms to the Government's highest Impact Level security rating, IL3), an independent review will be helpful, particularly in light of recent cyber incidents with Capita and at the Pensions Ombudsman.

UK PENSIONS DASHBOARD PROGRAMME

12. Go-live for LGPS employers had expected to be during 2023/24, however this has been further delayed at a national level.
13. Pensions Minister, Laura Trott, recently provided an update on the Pensions Dashboards Programme 'reset', with amended regulations to include a connection deadline of 31 October 2026.
14. The Southwark Pension Fund will continue to test new dashboard functionality following the next Civica UPM release planned for summer 2023.

PROGRESS TO JULY 2023

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

COMMUNICATION INITIATIVES

16. The 2023 ABS exercise is underway where as in previous years, deferred members will be contacted first, followed by active members and staff.
17. Following the ABS exercise we will be issuing Annual Allowance statements in October 2023 (covering the 2022/23 tax period). The recent

tax changes are expected to impact on the number of Southwark staff affected as the standard Annual Allowance has increased from £40,000 to £60,000 with effect from 6 April 2023 meaning there is scope to increase 'pension's growth' from £2,500 to £3,750 over the financial year without tax implications.

18. A new initiative has been rolled out to a number of Southwark schools faced with closure. Redundancy is a significant life altering event for the majority of people, therefore our communications team is working with the Teachers' Pensions team and Schools HR to deliver a co-ordinated leaving package to affected staff, with all three teams on site at the same time to answer any questions staff may have.

COMPLAINT MANAGEMENT

19. A list of recent complaints and how they have been managed is set out below:
 - Pensions Ombudsman - ill-health tiering award appeal against a former school employer. All ill-health tiering awards are recommended by Occupational Health following medical assessment, but the employer makes the final decision. **The matter is still with the Pensions Ombudsman pending a formal decision.**
 - Pensions Ombudsman - cohabiting partners' pension award claim made against the pension fund where the applicant alleges that both he and the deceased were financially dependent on one another but there is no evidence of that. Under the IDR process the complainant was asked to provide specific evidence of inter-dependency but no information was provided. **Pending a response from the Pensions Ombudsman.**
 - 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 some cases was expected at financial year end as the payroll system makes a year-end adjustment to pension contributions. An update has been requested from HR colleagues.**
 - IDRP stage 2 - dispute over the distribution of a death grant between siblings. No Expression of Wish form was held on file and the Last Will and Testament / Death Certificate provided indicated a sole Executor and next of kin was dealing with the deceased's estate. The stage 2 adjudicator reviewed the evidence and additional information supplied but upheld the stage 1 decision as being reasonable. The pension fund had absolute discretion when making death grant payments and it had acted properly when dealing with

the Executor whose role was to distribute any death benefits more widely in this case. It was not the role of the pension fund to intrude, interfere or attempt to uncover possible disputes between family members. **The stage 2 adjudicator did not uphold the complaint and confirmed that any grievance between a sibling and the Executor was a civil matter, where any financial redress should be claimed through the Courts. Referral rights to the Pensions Ombudsman was provided.**

- IDRP stage 1/2 - an AVC transfer delay where a former member could not contact the AVC provider to discuss further. A letter of authority was provided to the member and provider allowing the member to speak to the AVC provider. The member claimed the delay was financially detrimental had the transfer been processed sooner. The stage 1 decision had included an offer to honour the higher AVC value either at the original and earlier disinvestment date, or at the later date should the transfer be finalised. The complainant did not respond for a period of 10 weeks indicating this was not an urgent matter. **The Pensions Manager responded to the complainant stating the outcome under stage 2 would be no different to stage 1 and recommended the member contact Pension Wise or seek advice from a regulated IFA before making any transfer decision, and if member remained unhappy with the outcome the matter could be referred to the Pensions Ombudsman.**

PERFORMANCE MONITORING

20. Performance metrics will be reinstated once Civica UPM functionality is tested and signed off. All available resource has been directed towards the remaining IT/data migration issues.
21. Despite the absence of performance metrics the admin team continue to process all financially sensitive transactions around payroll cut off dates. And, although the main transaction metrics are not available, the Pensions Manager is confident no material breach has occurred.

FUTURE WORK PLANNING

22. Due to existing resourcing levels across Pension Services, a work plan and their implementation timeframes are still to be signed off by the Pensions Manager.

CONCLUSIONS

23. Recruitment and retention of key staff with the necessary skills is critical to the achievement of all future plans, as is succession planning.
24. There will continue to be some reliance on specialist external support. However, with internal training now firmly established and taking place

each week, 95% of all BAU and project work is managed in-house by Pension Services.

25. 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 performance.

KEY ISSUES FOR CONSIDERATION

Policy framework implications

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

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

Community impact statement

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director, Finance	
Report Author	Barry Berkengoff, Pensions Manager	
Version	Final	
Dated	5 July 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	No	No
Strategic Director, Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	5 July 2023	

Item No. 15.	Classification: Open	Date: 17 July 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 (PAP) is asked to note the update from the local pension board (LPB) meeting of 5 April 2023.

KEY AREAS OF DISCUSSION

2. Caroline Watson and Barry Berkengoff provided a training session on the impact of the Spring Budget on the London Borough of Southwark (LBS) Pension Fund.
3. The main business included an update on Pension Services, DLUHC's cost management process consultation, current issues within the LGPS, updates to the risk register and the triennial valuation.

Pension Services

4. An update was provided around staffing within the Pension Services function as a new pension manager had joined. A number of vacancies still exist and there are continuing difficulties finding a Systems and Data manager, though there is an existing senior officer currently acting up in this role.
5. It was noted that difficulties were being encountered in recruiting specialist staff and that the issue will be raised with the Strategic Director of Finance in order to discuss possible solutions.
6. There was a discussion on the impact of staff shortages on the work of Pension Services. Operational activities have not been impacted but strategic projects have been delayed, such as finding a new AVC provider. It was also noted that information on key performance indicators continues to be unavailable.
7. Most issues surrounding Civica have been resolved and a technical resource at Civica has been secured to help complete outstanding tasks.

DLUHC's Cost Management Process Consultation

8. This involved a report on the results of DLUHC's consultation on changes to the cost management process and the recommendations made, including increasing valuations to every four years, changes to the cost corridor and further implementation of economic checks.

Current issues

9. There were no updates to the Scheme Advisory Board's Good Governance Project or Climate reports at the time of the LPB meeting.
10. Members of the LPB questioned the underlying reasons for previous years' pension fund statement of accounts not yet being signed off by external audit. It was explained that there are national issues with audits that are yet to be resolved. Once these issues have been rectified, the accounts should be closed.
11. An update was given on the restructure of the pension fund investments and accounting team, which will increase the number of staff in the team with particular support for the wider investment team.
12. The new Pension Regulator's General Code of Practice is yet to be released but was confirmed to largely combine existing codes with further information to follow in a webinar in May 2023.

Risk Register

13. This covered an update of the Pension Fund register of key financial, operational and reputational risks and the controls in place to mitigate them. These are kept in line with council risk management procedures.
14. The main updates involved reweighting the impact and likelihood scores, reviewing and amending mitigation measures and addition of a column with a revised risk score after mitigations.

Triennial Valuation

15. The Board received confirmation that the funding strategy statement was updated on time and sent out for consultation with no comments received.

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

Community impact statement

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director, Finance	
Report Author	Mike Ellsmore, Chair of Local Pension Board	
Version	Final	
Dated	19 May 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	No	No
Strategic Director, Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	5 July 2023	

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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