

Strategic Investment Dashboard Q4 2023

London Borough of Southwark Pension Fund



Prepared for: The Pension Advisory Panel

Prepared by: Aon

Date: 9 February 2024

Executive summary

Long-term funding strategy



Funding level

115% ▲

The Funding level increased by 3% vs 30 September 2023

Surplus

£275m ▲

The surplus increased by £63m vs 30 September 2023



The funding level has improved since the 2022 valuation, due to the increase in the net discount rate (expected return net of inflation), which has reduced the liabilities, and has more than offset the lower-than-expected returns on assets. The expected return is CPI+2% pa.

No further action is required at this stage

Investment Performance

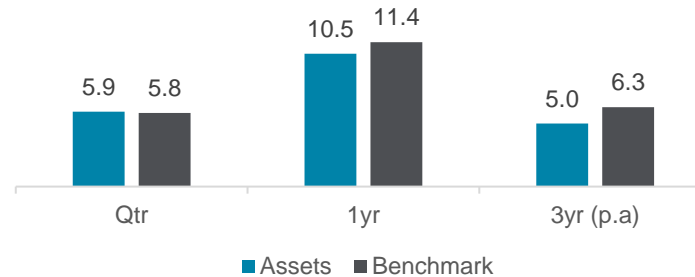


Expected return

7.1%

The 31 December 2023 expected return for the portfolio is 7.1% compared to the strategic asset allocation expected return of 7.0%.

Performance



Southwark outperformed over the quarter relative to the composite benchmark but underperformed over the 1 and 3-year period (on an annualised basis)

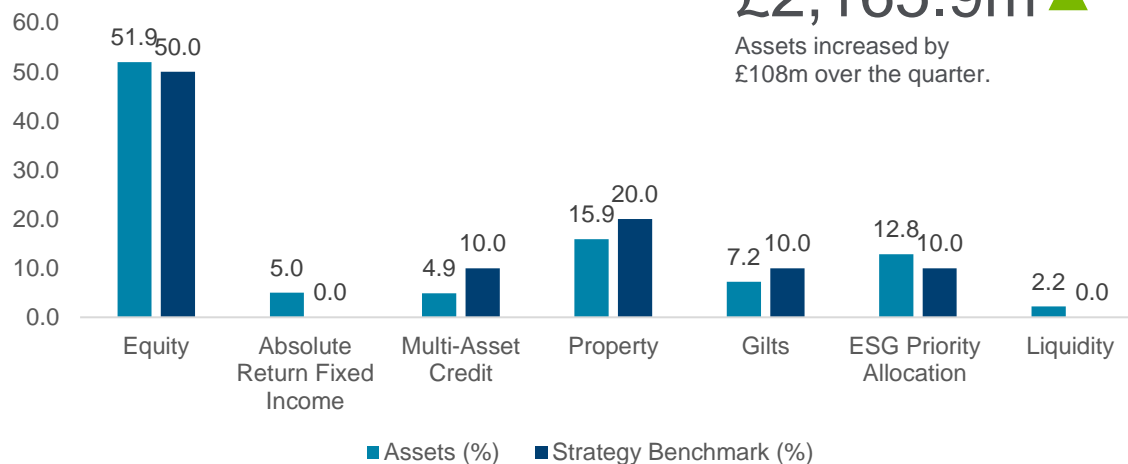
Over Q4, active equity and fixed income were the main contributors to the absolute performance. The Fund's property and alternative investments were notable detractors to performance, with the exception of Invesco - this had 8.4% relative performance in Q4. Temporis also had a positive relative of 3.2% and performed well across 1 and 3-year period.

Update: Aon continues to monitor the performance of the Fund's investments and notify the PAP of any concerns.

Strategic Positioning



Asset Allocation



£2,165.9m ▲

Assets increased by £108m over the quarter.



As at quarter end, the Fund remains underweight to the Multi-Asset Credit and Property asset classes and overweight to the Absolute Return Bond and ESG Priority Allocation asset classes.

Update: Aon and the Officers continue to review and assess potential strategies ensure that the remainder of the legacy holdings are allocated to a suitable mandate. We are currently reviewing available MAC options including those within the LCIV

Asset allocation – Asset Class

	30 Sep 2023		31 Dec 2023			
	Val (£m)	Weight	Val (£m)	Weight	Strategic	Relative
Growth	£1,878.7	91.3%	£1,961.4	90.6%	90.0%	0.6%
Equity	£1,056.6	51.3%	£1,124.6	51.9%	50.0%	1.9%
Multi-Asset Credit*	£98.6	4.8%	£105.8	4.9%	10.0%	-5.1%
Absolute Return Fixed Income**	£120.3	5.8%	£108.7	5.0%	0.0%	5.0%
Property	£329.1	16.0%	£344.1	15.9%	20.0%	-4.1%
ESG Priority Allocation	£274.0	13.3%	£278.2	12.8%	10.0%	2.8%
Matching	£179.2	8.7%	£204.4	9.4%	10.0%	-0.6%
Index-Linked Gilts	£132.1	6.4%	£156.8	7.2%	10.0%	-2.8%
Liquidity Fund	£47.1	2.3%	£47.6	2.2%	0.0%	2.2%
Total	£2,057.9	100%	£2,165.9	100%	100%	-

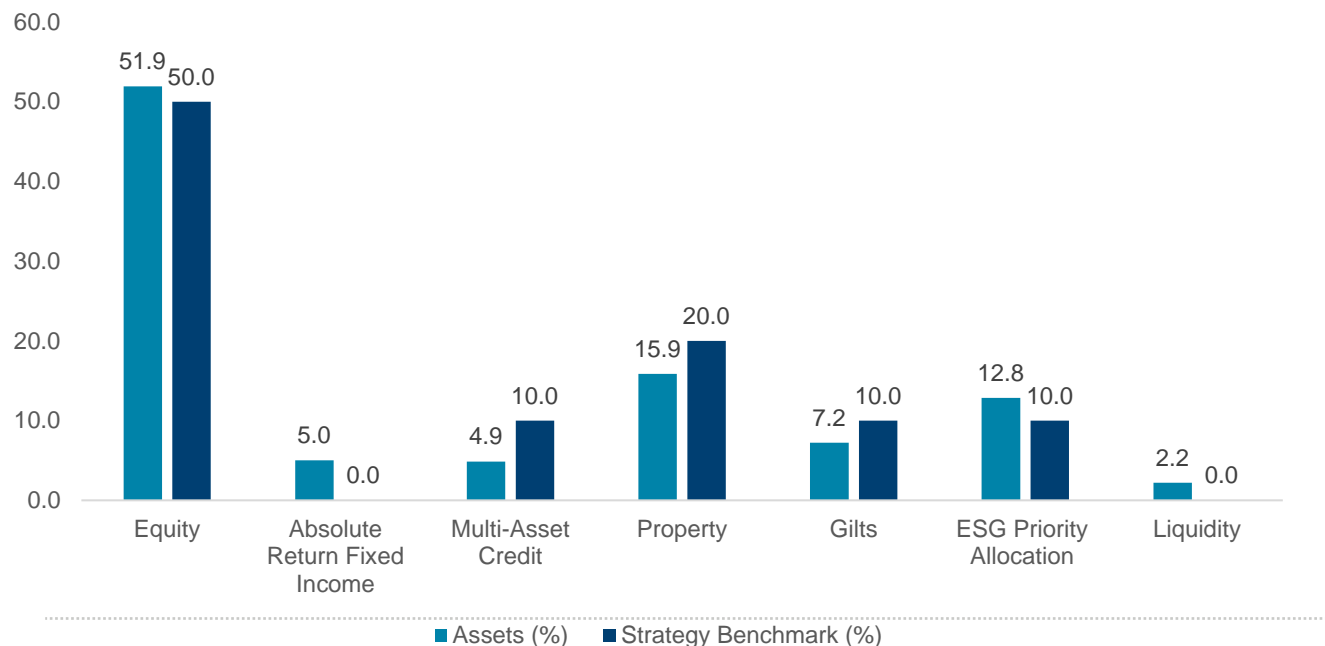
Source: J.P.Morgan.. Totals may not sum due to rounding.

*The investment in Robeco Multi Asset Credit was successfully implemented in early September with the majority of the monies sourced from the Blackrock Dynamic Diversified Growth ('DDG') Fund and the residual amount being sourced from Blackrock Absolute Return Fixed Income Fund.

**The Officers and Aon are in the process of transitioning the holdings in the Blackrock Absolute Return Bond Fund with the subsequent investment of the redemption proceeds yet to be agreed.

Strategic allocation – Snapshot

Strategic allocation & benchmark



31 December 2023 Strategic Allocation

Expected Absolute Return	7.1%	7.0%
Standard Deviation This is a measure of portfolio volatility versus the mean return	4.1%	4.1%

Assets

£2,165.9m

Assets increased by £108m over the quarter.

Comments

- All asset classes remain within the maximum strategic allocation limit.
- The £100m investment into the Robeco Climate Global Credits Fund was successfully implemented in early September with the majority of the monies sourced from the Blackrock Dynamic Diversified Growth ('DDG') Fund and the residual amount being sourced from Blackrock Absolute Return Fixed Income Fund.
- Over the quarter, the PAP agreed to make a commitment of €50m into the Glennmont Clean Energy Fund IV ("Glennmont IV"). Based on initial projections from the manager, the Fund expect to receive a drawdown payment of €10m in April.
- Over the quarter, the Fund transferred £14m in cash to Nuveen in support of the acquisition of the freehold of a care home occupied by Care U.K. and a multi-let industrial warehouse.
- Aon and the Officers continue to review and assess potential strategies to ensure that the remainder of the legacy holdings are allocated to a suitable credit mandate.

Manager performance – 31 Dec 2023

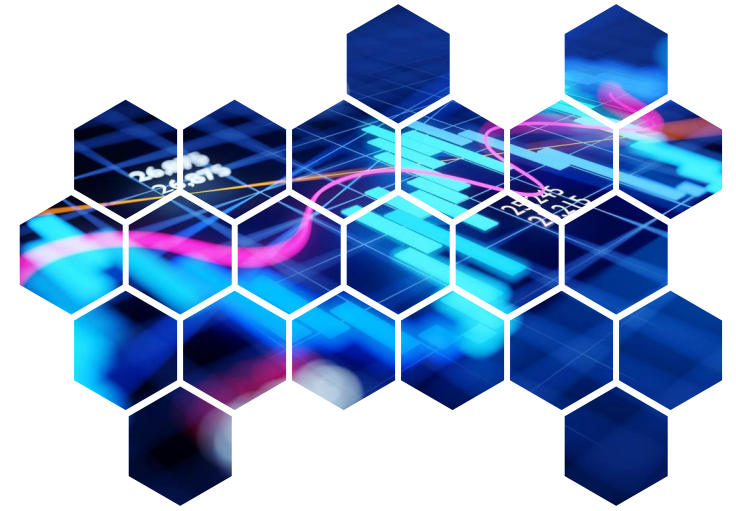
	3 month (%)		1 year (%)		3 years (p.a.) (%)	
	Return	Relative	Return	Relative	Return	Relative
LGIM Low Carbon Transition Developed Markets Index Fund	7.3	0.6	-	-	-	-
Newton Active Global Equity	8.5	1.5	13.8	-4.7	7.0	-4.5
Comgest Growth Emerging Markets Plus	3.0	-0.3	0.4	-3.2	-	-
BlackRock World Low Carbon Equities Fund	7.7	0.2	-	-	-	-
Robeco Multi-Asset Credit*	7.3	0.0	-	-	-	-
Blackrock Absolute Return Fixed Income	3.5	2.2	1.3	-3.6	0.6	-3.0
Nuveen Real Estate	5.6	3.9	6.9	-0.1	6.1	-4.2
Invesco Real Estate UK Residential Fund	10.3	8.4	5.5	-2.5	6.9	-1.1
M&G UK Residential Property Fund	-2.5	-4.4	-1.9	-9.9	0.5	-7.5
Frogmore Real Estate Partners III	-2.9	-6.8	-23.0	-39.5	-10.3	-26.8
Brockton Capital Fund III	0.0	-3.6	-4.5	-19.5	3.4	-11.6
Darwin Leisure Development Fund	0.4	-1.1	-	-	-	-
Glennmont Clean Energy Fund	0.5	-1.9	11.9	1.9	14.1	4.1
Blackrock Global Renewable Power	-2.2	-4.6	13.2	3.2	11.5	1.5
BTG Pactual OEF Fund	-4.1	-5.5	-1.4	-7.4	-	-
Darwin Bereavement Services Fund	1.7	0.3	4.8	-1.2	-	-
Temporis Operational Renewable Energy Strategy	5.7	3.2	59.2	49.2	25.5	15.5
Temporis Impact Fund	0.4	-2.0	33.9	23.9	-	-
Temporis Renewable Energy Fund	4.1	2.3	7.0	0.0	-	-
Blackstone Strategic Capital Holdings GP Stakes Fund II	-2.7	-5.6	-11.1	-23.1	-	-
LGIM Over 5y Index Linked Gilts	10.5	0.0	-	-	-	-
BlackRock Aquila Over 5y Index Linked Gilts	10.8	0.3	3.1	0.0	0.8	0.1
Northern Trust Liquidity Fund	1.3	0.1	-	-	-	-
BlackRock Sterling Liquidity Fund	1.3	0.0	-	-	-	-
Total Performance	5.9	0.1	10.5	-0.9	5.0	-1.3

Source: J.P.Morgan and fund managers as required. Totals may not sum due to rounding. *Robeco was invested in in September, so the performance shown above is one month performance

Fund Manager News and Strategy Updates

Below we highlight areas of note relating to changes in fund manager business, strategy and/or Aon's research rating.

- **BTG Pactual Open Ended Core US Timberland Fund – Market Commentary:** Global solid wood markets retreated slightly during the quarter while global pulp markets improved modestly but remained soft historically. US housing sales and construction improved in Q4 2023. However, homebuilder and homebuyer sentiment remained muted, driven in part by elevated borrowing costs and decreased affordability, among other factors. This contributed to a negative absolute performance across the board but high relative performance when compared against benchmark. (-4.1% vs -5.5% for Q4)
- **Comgest – Portfolio Positioning:** The fund increased its exposure to Globant and Maruti Suzuki over the year, to diversify risk at a sector and stock level. The portfolio is populated by what they consider high quality growth franchises, both domestically orientated as well as internationally exposed. Consequently, the aggregate earnings growth outlook for 2024 is significantly above the historical trend. With the possibility of growth outperforming value as interest rates decline and growth recovers, there are high hopes that this strong EPS growth will be realised in stock returns.
- **Darwin Bereavement Services Fund – Portfolio ESG Update:** The Memoria crematoria have continued to trade strongly in Q4 2023, partly driven a spike in volumes resulting from the recent increase in the death rate. The Fund has also benefitted from a reduction in energy prices compared to the levels seen last year. Since opening in August, Faversham is now taking almost all the cremations from GreenAcres Kemnal Park and is performing ahead of its budget. Doncaster, which opened in May, is also still ahead of expectations due to a high volume of attended cremations
- **Darwin Leisure Development Fund – ESG Update:** The development team has been working with Bentley Rowe, the lodge manufacturing company in which DLDF owns a stake, to design prototype lodges which are not only energy efficient but generate their own electricity through the use of solar panels. These would operate in combination with Air Source Heat Pumps (ASHP) which would provide hot water and heating. The solar panels will also assist in powering smart cloud-based Electric Vehicle chargers, which can recognise grid demand and regulate supply accordingly.
- **Newton – Portfolio Activity:** Outperformance was driven by some strong stock selection in health care and consumer discretionary, which performed well over the quarter. The mandate benefitted from having no exposure to the energy sector given the detraction in oil prices over the quarter despite the ongoing conflict in the Middle East. Novozymes registered as the portfolio's top contributor ahead of its merger with Chr. Hansen. Ingersoll Rand, Trane Technologies and Microsoft also contributed positively following strong quarterly results. On the other hand, stock selection in industrials detracted. Battery manufacturer Samsung SDI struggled over the quarter against an uncertain outlook for the electric-vehicle market.
- **Nuveen – Performance Update:** The Fund delivered a total return of -0.8% over the fourth quarter of 2023, comprising an income return of 1.2% and capital growth of -2.0%. All property assets saw a decrease in value of 1.9% on a like-for-like basis over the quarter, excluding cash and transactions. Post quarter end, the Fund acquired the freehold of a care home occupied by Care U.K. for £17,800,000, and a multi-let industrial warehouse in a prominently situated area of Warrington, adjacent to Junction 9 of the M62 motorway. The Fund has exchanged to acquire the freehold of an industrial unit occupied by City Technology (a subsidiary of Honeywell) for £6,300,000.



Further information

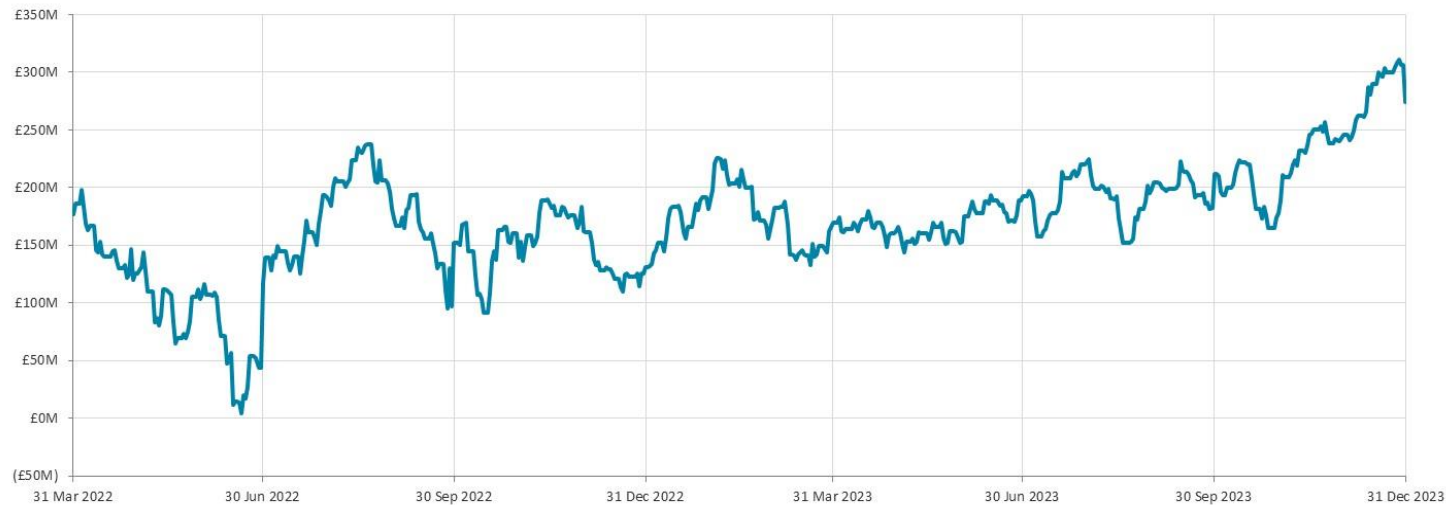
Funding level since latest Valuation

as at 31 December 2023

Change to funding level since 31 March 2022



Change to surplus/(deficit) since 31 March 2022



Please note these graphs are based on a roll forward of assets and liabilities from 31 March 2022.

Key assumptions of the model (1)



- The purpose of the model is to consider and monitor the return and risk characteristics of the long term investment strategy of the Scheme.
 - The analysis considers the expected return of the Scheme’s investment strategy, and the standard deviation (measure of portfolio volatility versus the mean return) implied by the strategy.
 - Return statistics are shown relative to the expected return of the Scheme’s liabilities.
 - There is only one outcome for inflation, benefit cashflows and contributions.
 - Unless otherwise stated, the parameters of the model (e.g. member movements, historic funding performance and contributions assumed) are unaltered from previous iterations of this quarterly report.
- In the calculation of risk and return, the Scheme’s liabilities are represented by a proxy of purely fixed and purely real investment instruments (“the liability proxy”).
- Investment risk is included in the model outputs but this is not the only risk that the Scheme faces; other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.



Key assumptions of the model (2)



- The calculation of portfolio risk is approximate;
 - The calculation considers (5000 stochastic) simulations of returns over a single year of the Scheme's investment strategy relative to simulations of the liability proxy.
 - The simulations are constructed using Aon Solution's Asset Model – the details and assumptions of which are outlined in this appendix.
 - The calculation does not take into account any cashflows payable over the year; if cashflows are expected to be material the result is likely to be different.
 - The calculation may not perfectly capture inflation risk in the liabilities; actual liability returns are likely to differ to the liability proxy due to any limited inflation linkage in benefits (e.g. benefits linked to the increase in RPI with a 5% cap).
 - The calculation does not take into account longevity risk (i.e. liability values increasing due to members living longer than assumed).
 - Owing to these approximations, a more detailed ALM study is likely to result in a different result to the VaR calculation.
 - Other portfolios with different risk and return characteristics may be available to the Scheme.



TAS compliance

This document has been prepared in accordance with the framework below.

This document, and the work relating to it, complies with 'Technical Actuarial Standard 100: General Actuarial Standards' ('TAS 100').

The compliance is on the basis that the Pension Advisory Panel of the London Borough of Southwark Pension Fund are the addressees and the only users. If you intend to make any other decisions after reviewing this document, please let me know and I will consider what further information I need to provide to help you make those decisions.

The document has been prepared under the terms of the Agreement covering Scheme Actuarial services between the Trustees and Aon Solutions UK Limited on the understanding that it is solely for the benefit of the addressees.

If you require further copies of this document, please let me know.