An aerial photograph of a vast, flat, brown field, likely a desert or a large-scale agricultural site. A small red tractor is positioned in the lower center of the frame, moving away from the viewer. The tractor's path is marked by several parallel tracks in the sand. The overall scene is desolate and emphasizes scale and movement.

Strategic Investment Dashboard Q2 2024

London Borough of Southwark Pension Fund

Prepared for: The Pension Advisory Panel

Prepared by: Aon

18 September 2024

For professional clients only. Private and Confidential

1

Executive Summary



Long-term strategy



Funding level

31 March 2024 30 June 2024

	31 March 2024	30 June 2024	
Funding Level	115%	116%	▲
Surplus	£293M	£313M	▲

Over the quarter, the funding level improved due to the slight increase to the net discount rate used to value the liabilities.

Since the last actuarial valuation, the surplus and funding level have increased (see more detail on slide 10). This is due to a reduction in liabilities given the net discount rate has increased, which has more than offset the lower than expected return on assets

The PAP may wish to consider the Fund's surplus position as it approaches the 2025 valuation



Investment Performance

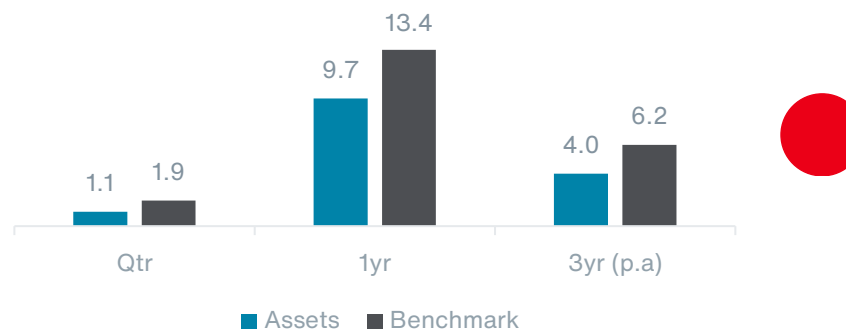


Expected Return

7.2% ▲

The 30 June 2024 expected return for the portfolio is 7.2% compared to the strategic asset allocation expected return of 7.1%.

Performance



The Fund underperformed over the quarter, 1 and 3-year period relative to the composite benchmark (on an annualised basis).

Over the quarter, the Fund's equity managers (excl. Comgest), contributed positively to performance. The Fund's Property and ESG Priority Mandate were the main contributors to underperformance over the quarter. Further detail can be found in the manager performance section.

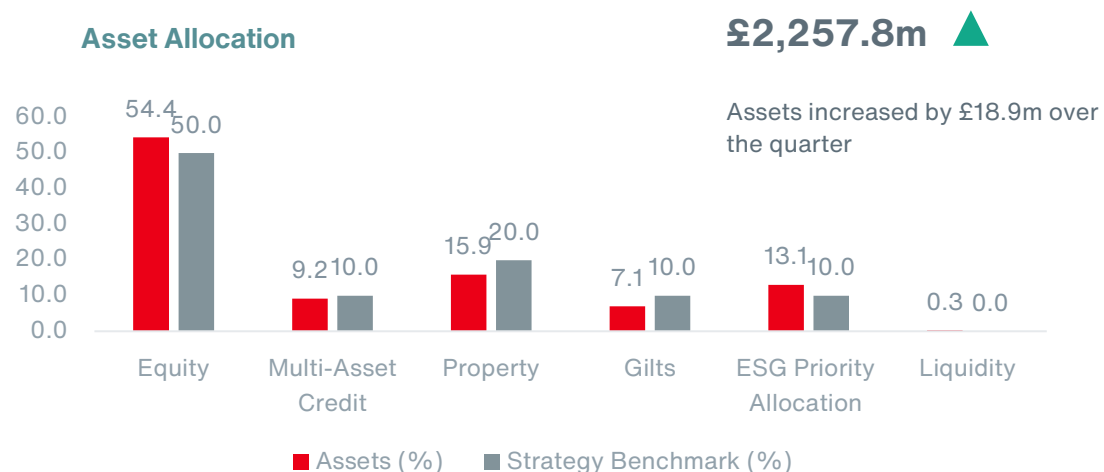
Update: Aon continues to monitor the performance of the Fund's investments and will notify the PAP of any concerns. We have recently carried out a benchmark review for the Nuveen Real Estate holdings.



Strategic Positioning



Asset Allocation



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

Update: In Q4 2023, following Aon and the Officer's recommendation, the PAP agreed to commit €50m into the Glenmont Clean Energy Fund IV. Over the quarter, the fund issued a capital call of £14.1m which included an equalisation payment.



2

Asset Allocation

AON



Asset Allocation – Asset Class

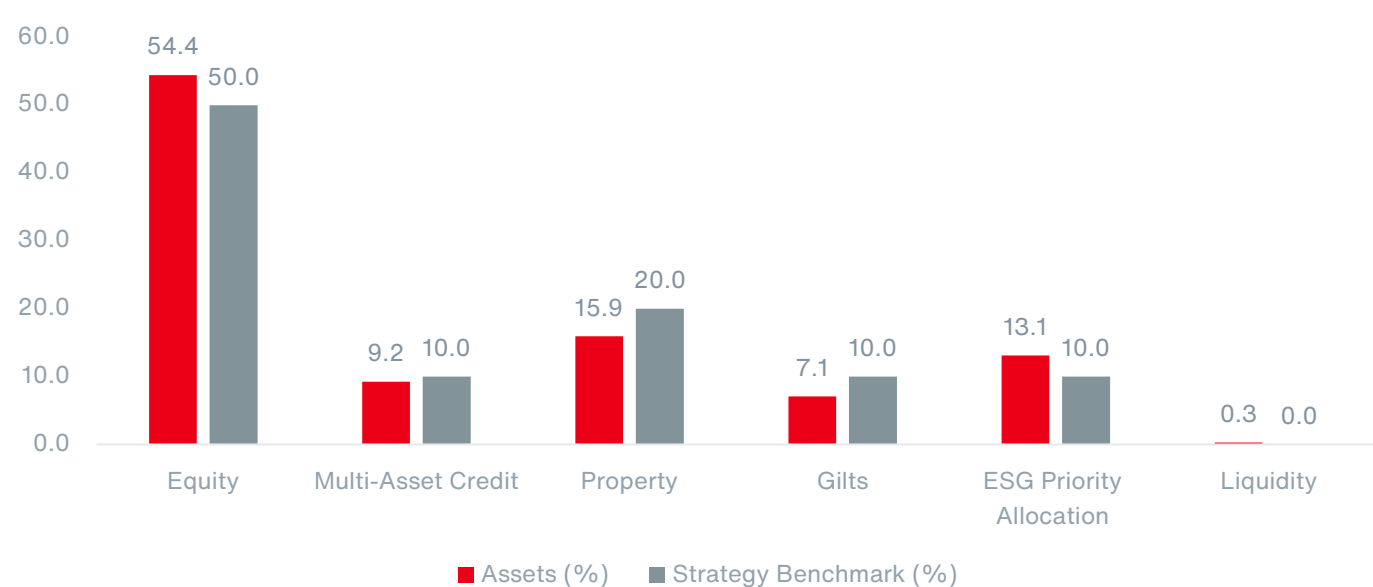
31 March 2024

30 June 2024

	Valuation (£m)	Weight	Valuation (£m)	Weight (%)	Strategic	Relative
Growth	£2,071.1	92.5	£2,092.3	92.7%	90.0%	2.7%
Equity	£1,223.9	54.7%	£1,228.9	54.4%	50.0%	4.4%
Multi-Asset Credit	£205.8	9.2%	£208.2	9.2%	10.0%	-0.8%
Property	£354.1	15.8%	£359.9	15.9%	20.0%	-4.1%
ESG Priority Allocation*	£287.3	12.8%	£295.3	13.1%	10.0%	3.1%
Matching	£167.8	7.5%	£165.5	7.3%	10.0%	-2.7%
Index-Linked Gilts	£153.1	6.8%	£159.4	7.1%	10.0%	-2.9%
Liquidity Fund	£14.7	0.7%	£6.1	0.3%	0.0%	0.3%
Total	£2,238.9	100%	£2,257.8	100%	100%	-

Asset Allocation – Current vs Strategic

Strategic allocation & Benchmark



£2,257.8m ▲

Assets increased by £18.9m over the quarter

Comments

- As at 30 June 2024, the Fund is overweight to the equity and ESG Priority Allocation mandates, whilst being underweight to the government bond, multi-asset credit and property asset classes.
- In Q4 2023, the PAP agreed to make a commitment of €50m into the Glennmont Clean Energy Fund IV ("Glennmont IV"). Over the quarter, the Fund issued a capital call of £14.1m which included an equalisation payment. As per the Fund's cashflow management policy, the holdings in the LGIM Sterling Liquidity Fund were topped up using the passive equity mandate to ensure that sufficient monies were available to meet the drawdown of capital.
- Post quarter-end, Aon and the PAP are liaising with Nuveen to amend the Fund's benchmark from an absolute cash basis benchmark to a real-estate-based benchmark.
- In April 2024, Frogmore received approval from investors to extend the life of the fund until 2026. The situation has deteriorated significantly in recent months and as a result, the Fund is now cash constrained and at a critical point. We will investigate further with Frogmore to understand the potential implications for the Fund's holdings.

30th June 2024

7.2%

Expected Absolute Return

30th June 2024

4.2%

Standard Deviation*

Strategic Allocation

7.1%

Expected Absolute Return

Strategic Allocation

4.0%

Standard Deviation*

*This is a measure of portfolio volatility versus the mean return

*This is a measure of portfolio volatility versus the mean return



3

Manager Performance



Manager focus – returns relative to benchmark (%)

	3 month (%)		1 year (%)		3 year (%)	
	Return	Relative	Return	Relative	Return	Relative
LGIM Low Carbon Transition Developed Markets Index Fund	3.0	0.1	21.1	0.4	-	-
Newton Active Global Equity	3.9	0.4	18.6	-4.9	8.0	-3.7
Comgest Growth Emerging Markets Plus	2.1	-2.8	5.2	-8.0	-	-
BlackRock World Low Carbon Equities Fund	3.0	0.2	22.3	0.4	-	-
Robeco Multi-Asset Credit	0.0	-0.1	-	-	-	-
Nuveen Real Estate	-0.6	-2.3	-4.8	-11.8	0.1	-9.1
Invesco Real Estate UK Residential Fund	0.7	-1.3	-3.1	-11.1	2.0	-6.0
M&G UK Residential Property Fund	0.6	-1.3	-2.1	-10.1	0.4	-7.6
Frogmore Real Estate Partners III	-5.4	-9.3	-31.6	-48.1	-15.5	-32.0
Brockton Capital Fund III	-4.9	-8.4	-8.4	-23.4	-3.8	-18.8
Darwin Leisure Development Fund	-0.4	-1.9	-15.4	-21.4	-	-
Glenmont Clean Energy Fund III	-0.5	-2.9	1.3	-8.7	13.4	3.4
Blackrock Global Renewable Power	1.7	-0.7	10.0	0.0	12.1	2.1
BTG Pactual OEF Fund	1.6	0.1	5.6	-0.4	-	-
Darwin Bereavement Services Fund	0.4	-1.0	4.7	-1.3	-	-
Temporis Operational Renewable Energy Strategy	-14.2	-16.6	-8.4	-18.4	19.0	9.0
Temporis Impact Fund	-7.6	-10.0	-6.3	-16.3	-	-
Temporis Renewable Energy Fund	-17.9	-19.6	-11.3	-18.3	-	-
Blackstone Strategic Capital Holdings GP Stakes Fund II	17.0	14.2	7.4	-4.6	-	-
LGIM Over 5y Index Linked Gilts	-2.9	0.0	-1.9	0.0	-	-
BlackRock Aquila Over 5y Index Linked Gilts	-2.9	0.0	-1.5	0.3	-3.7	-0.1
BlackRock Sterling Liquidity Fund	6.5	5.3	10.8	5.7	-	-
Glenmont Clean Energy Fund IV	-16.7	-18.6	-	-	-	-
LCIV Alternative Credit CQS	2.4	0.0	-	-	-	-
Total performance	1.1	-0.8	9.7	-3.7	4.0	-2.2

Market Commentary & Outlook

Global equity markets saw continued growth over the quarter, with the MSCI ACWI rose 3.5% in local currency terms. US equities were the second best-performing market both in local currency and sterling terms over the quarter supported by strong earnings growth in the Communication Services and Information Technology Sectors. Several amongst the “Magnificent-7” stocks performed well after reporting solid earnings amidst high demand for A.I. technology. Emerging Markets were the best performing sector in both local currency and sterling terms. All major equity markets, except for Brazilian equities (which fell by 2.5%), delivered positive returns.

We believe that global term equities are likely to continue their rally in the near term as Artificial Intelligence (AI) continues to be a key driver of returns for the US tech giants. The effects of monetary and liquidity tightening, and a falling equity risk premium will challenge equities in the medium term. However, there are no obvious immediate catalysts (other than perhaps seasonality) to suggest markets are rolling over any time soon.

Fund Manager News

Newton – Performance Commentary: The fund outperformed over the quarter and remains ahead of its performance benchmark year to date. Stock selection in the healthcare, consumer discretionary and basic material sectors were notable contributors to performance whilst stock selection in utilities was the main detractor to performance. Investors were surprised at the scale of National Grid’s higher-growth investment expansion plans following the announcement of a £7bn capital raise which resulted in a downward movement in the stock price. The fund’s decision to not hold Nvidia was the most significant drag to performance as shares surged over the quarter due to a perceived view of the company being best positioned to gain from the rollout and adoption of AI.

Comgest – Performance Commentary & Portfolio Positioning: The Fund’s underweight positions to India and China and overweight positions to Brazil and Mexico were the largest contributors to underperformance from a sector perspective. In particular, the portfolio’s holdings in Localiza, Wal-Mart de Mexico and FEMSA were amongst the largest detractors to performance. Delays to interest rate cuts and a continued downward trend in second-hand car prices caused Brazilian car rental company Localiza to decline. The latter two stock names were impacted an increased risk perception to Mexican equities and the broader underperformance of the consumer staple market in emerging markets as a whole.

IT companies, situated in North Asia and exposed to the AI supply chain, contributed to performance as a result of the continued high-demand in AI Technology seen across the globe. The portfolio has increased portfolio's exposure with new names added including SK Hynix (the dominant provider of high bandwidth memory chips for Nvidia's graphics processing units) among others. In order to maintain exposure to the semiconductor sector, the portfolio's position size in ASML was increased while Tokyo Electron was added. The portfolio's Vietnamese companies contributed positively to performance, with FPT (bought in H1'24) and Mobile World Group both rising strongly year to date. Vietnam's macro environment is noticeably improving, compared to 2023, and is helping the outlook for earnings as seen in recent company results.

Multi-Asset Credit Mandate

Market Commentary & Outlook

Global bond yields trended higher on a shift in expectations towards slower interest rate cuts. Investment grade credit spreads marginally widened over the quarter, rising by 2 basis points to 1.03% over the quarter.

The higher rates environment means that globally we're seeing pension scheme investors de-risk, and shift portfolios into investment grade credit. This has caused spreads in traditional IG corporate bonds markets to fall to what we consider to be unattractive levels across all markets.

Spreads in return seeking credit (high yield) have picked up a little over the last couple of months, but they remain tight, thanks to resilient corporate earnings and a supportive technical backdrop. As defaults increase on slower US growth, we expect high yield bond spreads to rise to around 400 bps, halfway back to their 15-year average. This still means positive expected returns over the medium term. The US higher-for-longer rate environment and the upcoming US election are headwinds to emerging market assets, but USD emerging market debt ("EMD) nominal yields and local EMD real yields are attractive.

Fund Manager News

Robeco – The funds two main performance drivers are issuer selection and beta positioning (total risk taken in the portfolio relative to the benchmark index). Beta positioning had limited impact on performance. The portfolio had a small overweight beta position during the quarter. This position worked well during the first two months of the quarter, but not in June when credit spreads widened. Issuer selection made a positive return contribution during the period. From a stock selection perspective, Deutsche Bank was the largest contributor to performance due to a rally in a position held in additional tier 1 capital. The underweight in TenneT bonds also helped, as spreads widened on the news that the planned sale of TenneT Germany to Germany has been cancelled.

LCIV Alternative Credit Fund – Performance: The fund performed well over Q2 and 1-year period, outperforming its objective. All asset classes performed well, with the main driver of returns over the period being senior secured loans, in a backdrop of rising yields, higher income and lower than expected defaults. There were no defaults in Q2 however the fund did experience minor defaults in Q1. A rise in defaults is on the horizon and navigating past future credit events will be crucial for ongoing positive performance however the manager believes they are well positioned based on their experience of similar market conditions. Asset backed securities (ABS) delivered positive returns, particularly through European Collateralised Loan Obligations (CLOs) and regulatory capital products that banks are using to strengthen capital positions. As the sub-fund has a bias towards Europe this paid off as European loans outperformed other regions especially their US counterparts. This is in line with ABS performance we have seen across the market.

LCIV Alternative Credit Fund - Fund Update: The yield to maturity declined from 8.5% to 8.1%. Duration is currently low (0.5 years), spread duration remains consistent and the portfolio continues to hold high quality debt. The most notable change in positioning came from an increase of c.5% in senior secured loans. This now represents 48.4% of the fund with most increases directed to US loans while high yield and financials were decreased. The fund has carried out 'liability management exercises' leading to restructurings which are not captured in the headline default numbers but are used to obtain better terms from lenders. The fund is focusing on segments of the sub-investment grade market where credit event risk is well compensated. There has also been an increase in the number of loans held, especially loans to U.S. companies, to contain borrower specific risk. The manager fully acquired Manulife in April, and an annual in-depth review was carried out 6 months earlier to evaluate the outcome of the acquisition with the views presented to partner funds in June 2024. The summary of the findings showed no immediate concerns from the acquisition but have noted a few items as watch points.

Market Commentary & Outlook

The UK property market, like all other global real estate markets, has been materially impacted by rising interest rates. The higher interest rate environment has led to an increase in property yields (decreasing property valuations), higher debt costs and reduced transactions as uncertainty prevailed. UK valuers have incorporated an element of sentiment in their valuations given reduced transactional evidence and changed macro environment and as a result valuations within the UK have declined quickly with other regions following more slowly. As a result, the UK is expected to recover more quickly, as buyer and seller pricing expectations become more aligned. There is evidence of that in the UK market property yields, and hence valuations are now stabilised, except for the offices sector which has continued to suffer in the post covid environment. Industrial, which includes logistics and data centres have done much better, and according to INREV data, have now overtaken offices and residential as the largest sector for non-listed funds in Europe as well as the US now.

Going forward over the short to medium term, returns will likely be driven by income and improved operational efficiency rather than capital gains from falling yields. Further falling interest rates are likely to support current yields rather than reduce them meaningfully.

General comments

Over the quarter, one-year and three-year periods all of the Fund's property investments have underperformed against their respective benchmarks. All of the property mandates are benchmarked against an absolute return target. Given the headwinds faced by property markets over the past 12-18 months and the higher interest rate environment, we do not believe that the significant underperformance reported for some of the mandates are a result of manager skill and competence and, in our view, it would be more sensible to judge the performance of these investments against an appropriate real estate index.

Fund Manager News

Nuveen: The Fund delivered a total return of 0.9% over the first quarter of 2024, comprising an income return of 1.1% and capital growth of -0.2%. On a like-for-like basis, office valuations decreased the most by -2.3%, whilst the other sectors saw positive growth. Industrials increased by 1.4%, the retail, hotel and care home values remained flat over the quarter. Underperformance in the office sector was led by outward yield movements which was based on new market evidence and weak sentiment. Offices continue to feel the challenges brought on by remote work and rising occupation costs, causing many businesses to rethink their office requirements over the medium to long term. Valuers also took a more pessimistic view on industrials over the quarter as the impact of rising costs begins to trickle down to occupiers within this sector. That said, from an occupational perspective, the continued demand for industrial space and the shortage of quality supply has meant rental values grew by 0.5% over the quarter.

Frogmore: In April 2024, investors voted to extend the life of the Fund till September 2026. Since then, Frogmore have been working on the extension business plans with the objective of avoiding the need to sell assets at December 2023 valuation numbers which would have resulted in loss of equity of -£97.5m. The 2-year extension plans suggested how that loss might be reduced to -£25.1m although additional equity of £15/£20m may be required to deliver the plans and fund projects for the further 2 years. The situation has deteriorated significantly in recent months. Frogmore have made attempts to sell assets in the portfolio to release equity, however they have not been able to obtain a desired price. In addition, the refinancing of Darlington is proving more costly than projected due to falling values affecting the LTV; and the Loveday care home portfolio is now significantly underperforming. As a result, the Fund is now cash constrained and at a critical point. Frogmore are working on a revised, realistic cashflow forecast for the Fund and will provide further information or a revised report at the earliest opportunity.

Fund Manager News

Darwin Leisure Development Fund – Portfolio Update: The portfolio was slightly affected by poor weather in the quarter and the slow economy which hindered holiday rental bookings and sales. Delays to the development projects mean that the Fund is not generating development gains at present, which is having a negative impact on performance. On the other hand, Norfolk Woods, Rivendale and Plas Isaf performed well during the quarter for holiday rentals

Darwin Leisure Development Fund – ESG Update: Darwin have been exploring solar opportunities at across a number of the portfolio sites. Installing solar panels or arrays would feed on-site electrical demand and generate additional revenue through exporting excess electricity production back to the grid.

A new all-electric lodge is currently being trialled over coming months, which has been designed specifically for Darwin by Bentley Rowe (the lodge manufacturer that the Fund owns a stake in). The lodge has components that have been selected to maximise energy conservation and smart technology for operational efficiency i.e., solar panels, battery storage, smart controls to provide hot water from the solar panels and provide power to an EV charger.

Darwin Bereavement Services Fund – Portfolio Update: GreenAcres and Memoria both had strong quarters with GreenAcres seeing its strongest month of pre-arranged revenue on record so far (March 2024). Kemnal Park finalised the bulk contract for 100 burial plots that will provide guaranteed revenue over the next four years. With a higher volume of cremations being carried out than anticipated for Memoria, some of the planned cremator maintenance was brought forward, which meant that costs were higher than budgeted in the quarter, but this will create savings later in the year. The funeral planning division at Affordable Funerals has seen another poor set of quarterly results which the cancellation of many funeral plans in recent times having a significant impact due not only to the loss of revenue but also because of the cost of acquiring these customers initially.

Darwin Bereavement Services Fund – ESG Update: CO2 emissions in the Memoria portfolio are still falling due to the new electric cremators installed earlier last year. Affordable Funerals has continued to provide direct cremations to bereaved families which offer a more cost-effective funeral option. Their basic direct cremation packages, which include an unattended cremation, are around £3,000 cheaper than the average funeral. Around 31% of cremations held at Memoria crematoria this quarter have been direct cremations, and a quarter of these utilised electric cremators.

ESG Priority Allocation Mandate

Market Commentary & Outlook

Private infrastructure has continued to perform well despite a backdrop of higher rates, which increased borrowing costs and put pressure on valuations. As with many private asset classes, infrastructure fundraising slowed in 2023 as investors await more clarity over the path of interest rates. As a cyclical inflation slowdown and GDP growth uncertainty plays out, we think infrastructure's resilient return profile and exposure to secular growth trends would be particularly attractive.

We believe that investing in private infrastructure assets is more attractive outlook than traditional real estate, with energy transition providing an attractive opportunity for 'value add' managers. Huge levels of investment in the last two will be required globally if countries are to achieve their commitments to limit global greenhouse gas emissions, and we think that in some countries this will create attractive opportunities for investors prepared to take development risk.

Fund Manager News

We note that JPM have reported that the all of the Fund's holdings in Temporis have significantly underperformed on an absolute and relative basis over the quarter and one-year period. We do not have a strong conviction in the figures being reported given that the TORES fund has delivered a Gross IRR of 17.3% since inception (as at 31 December 2023) with a distribution yield of 10.9% and the TIS V Fund has delivered a Gross IRR of 12.9% (as at 31 December 2021).

BTG Pactual Open Ended Core US Timberland Fund: The Fund generated \$10.1m in revenue in Q2 2024 led by timber sales across various sites in the portfolio as well as land sales.

- **US South key developments (69% of portfolio):** US South assets generated \$2.1m in timber revenue in Q2 2024, led by timber sales on CNC, GP Dinwiddie and Bear Island. Significant rainfall in Q2 2024 created temporary market opportunities to sell timber at above market rates. Other ancillary revenue opportunities, such as solar energy, mitigation banking and conservation easements, continue to be vetted for their value-add potential.

Temporis Impact Strategy Fund ('TIS V') - Both the Scottish and England wind assets underperformed in the quarter, largely due to poor wind resource in May. All three of the portfolio's hydro assets marginally performed below expectations because of weather conditions in April being fairly dry. During the reporting quarter, TIS V closed the acquisition of a stake in Blackcraig Wind Farm, both into the Fund and by way of a co-investment with a longstanding LP.

Temporis Operational Renewable Energy Strategy ('TORES') - Fund Update: During Q1, the Blackcraig holding suffered a prolonged power outage due to a mechanical failure in the Scottish power transition network. Due to its large size this was a major detractor to the Fund's performance in Q2 with portfolio generation being 92.1% of the P50 budget. When excluding this, the assets remaining performed at 100.1% of the cumulative P50 budget*. Blackcraig has now been returned to its original grid connection bay, and all remedial works have been completed. The Asset management team have approached insurers and are in the process of appointing lawyers around Blackcraig's potential contractual rights to damages from the grid counterparty because of these outages.

*P50 refers to a 50% likelihood that the final project cost will not exceed this value.

Matching Portfolio

Market Commentary & Outlook

Global bond yields trended higher on a shift in expectations towards slower interest rate cuts by major central banks. The index-linked gilt yield curve shifted upwards over the quarter as yields rose, resulting in the FTSE All Stocks Index-Linked Gilts Index falling by 2.1%.

There are lots of counteracting forces on UK gilt yields now. Inflation is coming down, but demand is showing some strength, with growth rebounding from a technical recession at the end of 2023.

The UK elections proved to be a non-event for the gilt market. The bigger potential shock to the supply-demand balance for gilts could come from the new government's desired to "unlock" pension funds' UK capital investment. Regulatory and perhaps tax changes that incentivise DB Schemes to shift assets away from gilts, could bring back volatility, and would require the Debt Management Office ("DMO") to shift issuance towards much shorter-dated bonds.

Fund Manager News

Blackrock Sterling Liquidity Fund - The Fund performed in line with its benchmark (SONIA) over the second quarter of 2024. The Fund is positioned with large amounts of liquidity with 43% of the fund maturing within a week and a weighted average maturity of 53 days.

LGIM Sterling Liquidity Fund - The Sterling Liquidity Fund marginally outperformed its benchmark of SONIA during the second quarter of 2024 (on an annualised basis). Sterling money market rates were mixed over the quarter. The one-month and three-month SONIA reference rates rose on the back of market expectations that interest rate cuts would be pushed back following the announcement of the general election, and the six-month and one-year rates contracted as more interest rate cuts have been priced in the market over the next year. The two largest sectors within the fund as at the end of the quarter were Certificate of Deposits and Overnight Deposits at 53.9% and 14.1%, respectively.

4

Appendix

AON



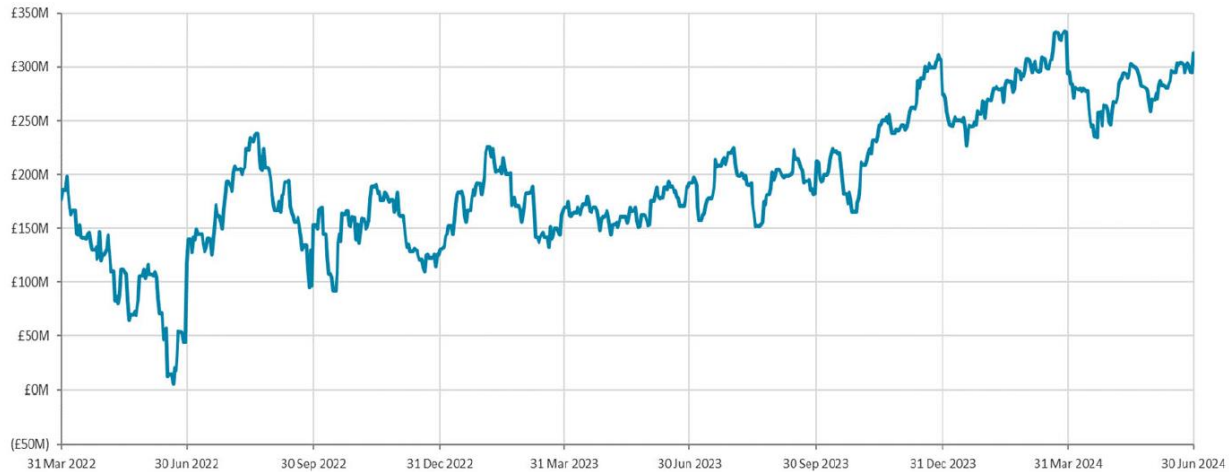
Funding level since latest Valuation

as at 30 June 2024

Change to funding level since 31 March 2022



Change to surplus/(deficit) since 31 March 2022







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.

Colour	Rating	Explanation
	Buy-rated	The strategy is rated as best in class by Aon's manager research specialists
	Qualified	The strategy is rated as suitable for pension scheme investment by Aon's manager research specialists
	Sell	The strategy is rated as not suitable for pension scheme investment by Aon's manager research specialists
	Not Rated	The strategy is not monitored on an ongoing basis by Aon's manager research specialists

Explanation of Ratings – Overall Ratings

Overall Ratings

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Rating	Explanation
Advanced	The fund management team demonstrates an advanced awareness of potential ESG risks in the investment strategy. The fund management team can demonstrate advanced processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.
Integrated	The fund management team has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.
Limited	The fund management team has taken limited steps to address ESG considerations in the portfolio.
N/A (Not Applicable)	ESG risks and considerations are not applicable to this strategy, for example, on the grounds of materiality or asset class relevance.
NR (Not Rated)	An evaluation of ESG risks is not yet available for this strategy.

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.

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