Open Agenda

Pensions Advisory Panel

Monday 31 October 2022
10.00 am
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Membership

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

Staff Representatives
Roger Stocker
Julie Timbrell
Derrick Bennett

Officers
Duncan Whitfield
Caroline Watson
Barry Berkengoff

Advisors
David Cullinan
Colin Cartwright

INFORMATION FOR MEMBERS

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

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Members of the committee are summoned to attend this meeting
Althea Loderick
Chief Executive
Date: 24 October 2022

PRINTED ON RECYCLED PAPER

Pensions Advisory Panel

Monday 31 October 2022
10.00 am
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Order of Business

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

PART B - CLOSED BUSINESS

EXCLUSION OF PRESS AND PUBLIC

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

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

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

Date: 24October 2022

Agenda Item 5

Pensions Advisory Panel

MINUTES of the OPEN section of the Pensions Advisory Panel held on Wednesday 9 March 2022 at 1.00 pm at Meeting Room 225 - 160 Tooley Street, London SE1 2QH

PRESENT: Councillor Rebecca Lury (Chair)
Councillor Jon Hartley
Duncan Whitfield
Caroline Watson
Barry Berkengoff
Julie Timbrell
Roger Stocker
Colin Cartwright
Jonathan Taylor
David Cullinan
Mike Ellsmore
Andrew Weir

1. APOLOGIES

Apologies were received from Councillor Eliza Mann and Derrick Bennett.

2. CONFIRMATION OF VOTING MEMBERS

Councillor Rebecca Lury, Councillor Jon Hartley 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

RESOLVED:

That the minutes of the meetings held on 22 December 2021 and 26 January 2022 be agreed as a correct record subject to recording that Roger Stocker was present at the meeting on 26 January 2022.

6. CARBON FOOTPRINT UPDATE

Before the report on the carbon footprint update, Colin Cartwright from Aon gave an update on the global situation affecting the markets.

He also advised that the fund had only one £500,000 exposure to Russia. Duncan Whitfield advised that it was not possible to sell the one holding due to the markets being closed.

There was a brief discussion regarding the blend of assets held by the fund and the reasons for this.

Caroline Watson, Senior Finance Manager, then presented the report on the carbon footprint update.

She advised that the carbon emissions data for September 2021 show that the Fund has reduced its weighted carbon exposure by 50% since September 2017.

The carbon emissions data as at 31 December 2021 was currently being assessed within the context of the updated investment strategy statement and as such had not been included at this stage.

There was a discussion about measuring carbon footprints. It was also noted that there were plans to recruit an internal carbon footprint analyst.

There was then a brief discussion regarding what the fund would have to look at over the next eight years and the types of funds and investments that would be suitable for the fund.

RESOLVED:

That the fund's progress on reducing the carbon footprint from 30 September 2017 to 30 September 2021 be noted.

7. QUARTERLY INVESTMENT UPDATES

David Cullinan updated the panel. He advised that equities now accounted for 55% of the fund's assets. He noted that the returns over the last four years had outperformed the bench mark.

He advised that volatility had picked up but the fund was well diversified.

Colin Cartwright and Jonathan Taylor from Aon had nothing to add to their update, which they had given before the carbon footprint update.

RESOLVED:

That the quarterly investment updates be noted.

8. QUARTERLY ACTUARIAL FUNDING UPDATE

Caroline Watson presented the report.

It was noted that at the end of December 2021, the fund was 118% funded, up from 114% in the previous quarter.

The actuarial valuation would begin at the end of March and would be finalised by the end of March 2023. It was noted that there would be no quarterly updates until the completion of the actuarial valuation.

Roger Stocker enquired about the London CIV. Duncan Whitfield advised that the fund did not invest in the LCIV as the LCIV did not have a carbon neutral target.

RESOLVED:

That the updated funding position at 31 December 2021 be noted.

9. LOCAL PENSION BOARD UPDATE

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

Mike Ellsmore provided the panel with a summary of the key areas of work from the last four years and highlighted areas that the local pensions board would work on over the next four years.

There was a discussion regarding the quality of data from non-Southwark Council employers, such as schools.

RESOLVED:

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

10. PENSION SERVICES - ADMINISTRATION FUNCTION YEAR END UPDATE

Barry Berkengoff, the pensions manager presented the report and provided the panel with a year-end update covering the achievements of the pensions team over the past four years, together with forward planning goals over the next four years.

He advised that a full restructure undertaken to create a robust pensions team specialising in administration, data/IT, communications, training and project management.

There had been a focus on updating the technology used by the pensions team, which included the implementation of the new Civica UPM pensions administration, payroll, and contact centre software to replace legacy LGPS pensions administration system.

Also, Southwark was the only borough in London to be able to accurately report all enquiries received within the section.

Going forward there were plans to move to a new additional voluntary contributions provider. The pensions team was also in the process of creating new video resources and they would look into how improvements could be made in relation to the data provided from schools.

RESOLVED:

That the year-end update covering achievements over the past four years, together with forward planning goals over the next four years, be noted.

11. ANY OTHER BUSINESS

Duncan Whitfield thanked the pensions advisory panel for their work over the last four years and gave thanks to Aon, Mike Ellsmore and the local pensions board and to Councillor Rebecca Lury also.

Councillor Lury added her thanks for all the progress made over the last four years.

The meeting ended at 2.38 pm.

CHAIR:

DATED:

Agenda Item 7

Item No.	Classification:	Date:	Meeting Name:
7.	Open	31 October 2022	Pensions Advisory Panel
Report title:		Asset Allocation June 2022	
From:		Divisional Accountant, Pensions & Investments	

Recommendation

1. The pensions advisory panel is asked to:

- Note the fund's asset allocation at 30 June 2022

Asset Class	Manager	30 June 2022 £000	% of Total Fund	Strategic Benchmark %	Difference %
Global Equity	BlackRock	340,324	17.1	15.0	2.1
	Legal & General	303,560	15.3	15.0	0.3
	Newton	242,349	12.2	10.0	2.2
	Comgest	89,652	4.5	5.0	-0.5
Total Global Equity		**975,885**	**49.0**	**45.0**	**4.0**
Diversified Growth	BlackRock	176,458	8.9	10.0	-1.1
Total Diversified Growth		**176,458**	**8.9**	**10.0**	**- 1.1**
Absolute Return Bonds	BlackRock	132,064	6.6	5.0	1.6
Total Absolute Return Bonds		**132,064**	**6.6**	**5.0**	**1.6**
Core Property	Nuveen	241,174	12.1	14.0	-1.9
Core Property		**241,174**	**12.1**	**14.0**	**- 1.9**
ESG Priority Allocation	Invesco	32,626	1.6	1.5	0.1
	M&G	43,515	2.2	1.5	0.7
	Frogmore	8,045	0.4	1.5	-1.1
	Brockton	6,862	0.3	1.5	-1.2
	Glennmont	20,361	1.0	1.8	-0.7
	Temporis	56,980	2.9	2.3	0.6
	BlackRock	7,785	0.4	1.5	-1.1
	Darwin	20,758	1.0	1.0	0.0
	Blackstone	41,614	2.1	2.3	-0.2
	BTG Pactual	33,080	1.7	1.3	0.4
Total ESG Priority Allocation		**271,626**	**13.6**	**16.0**	**- 2.4**
Index Linked Gilts	BlackRock	70,591	3.5	5.0	-1.5
	Legal & General	73,652	3.7	5.0	-1.3
Total Index Linked Gilts		**144,243**	**7.2**	**10.0**	**- 2.8**
Cash & Cash Equivalents	BlackRock	43,116	2.2	0.0	2.2
	Nuveen	5,870	0.3	0.0	0.3
Total Cash & Cash Equivalents		**48,986**	**2.5**	**-**	**2.5**
Total		**1,990,436**	**100.0**	**100.0**	**-**

Asset Class	Sub Category	30 June 2022 £000	Strategic Benchmark %	Actual Allocation %
Global Equities	Low Carbon Passive Equities	643,884	30.0	32.3
	Active Pooled Emerging Market Equities	89,652	5.0	4.5
	Segregated Active Global Equities	242,349	10.0	12.2
Total Global Equities		**975,885**	**45.0**	**49.0**
Diversified Growth		**176,458**	**10.0**	**8.9**
Absolute Return Bonds		**132,064**	**5.0**	**6.6**
Core Property	UK Direct Property	237,350	14.0	12.1
	UK Commercial Property Pooled Funds	3,824		
Core Property		**241,174**	**14.0**	**12.1**
ESG Priority Allocation	Pooled Funds - UK Private Residential	76,141	3.0	3.8
	Pooled Funds - UK Opportunistic Property	14,907	3.0	0.7
	Sustainable Infrastructure	85,126	5.5	4.3
	Timberland	33,080	1.3	1.7
	Bereavement Services	20,758	1.0	1.0
	Private Equity	41,614	2.3	2.1
Total ESG Priority Allocation		**271,626**	**16.0**	**13.6**
Index Linked Gilts		**144,243**	**10.0**	**7.2**
Cash & Cash Equivalents	Sterling Liquidity Fund	43,116	0.0	2.2
	Fund Manager Operational Cash	5,870	0.0	0.3
Cash		**48,986**	**0.0**	**2.5**
Total		**1,990,436**	**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	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jack Emery, CIPFA Trainee, Treasury & Pensions	
Version	Final	
Dated	30 August 2022	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		20 October 2022

Item No. 8.	Classification: Open	Date: 31 October 2022	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint Update – 30 June 2022	
From:		Divisional Accountant, Pensions & Investments	

Recommendations

1. The pensions advisory panel is asked to:

- Note the Fund’s updated carbon footprint as at 30 June 2022.

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

Weighted Carbon Intensity over time

		Weighted Carbon Intensity tCO2e/$m									
Asset Class	Fund Managers	Sept 2017	June 2020	Sept 2020	Dec 2020	March 2021	June 2021	Sept 2021	Dec 2021	March 2022	June 2022
Equity - Developed	Blackrock, LGIM	98.7	21.2	21.4	20.4	23.0					
Equity - Developed Market Low Carbon	Blackrock, LGIM		29.7	33.7	23.7	24.2	25.5	29.8	51.1	51.0	33.2
Equity - Emerging Markets	Blackrock, Comgest	18.1	13.9	14.1	15.0	19.1	18.3	0.5	0.5	0.2	0.2
Equity - Global	Newton	10.6	3.7	7.0	7.0	4.4	4.6	4.3	4.5	5.8	5.9
Diversified Growth Fund	Blackrock	26.7	20.9	15.9	16.0	15.6	14.2	15.8	17.1	16.5	13.7
Absolute Return Bonds	Blackrock	22.4	15.6	7.1	8.7	10.0	9.8	10.2	8.7	6.8	11.2
Core Property	Nuveen	14.3	12.8	12.6	12.0	10.6	10.5	10.7	11.2	12.0	12.9
ESG Priority Allocation - Property	Invesco, M&G, Brockton, Frogmore	8.8	8.7	8.9	9.5	10.9	11.0	10.9	4.4	4.6	5.0
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin									0.1	0.2
Sustainable Infrastructure	Blackrock, Glennmont, Temporis										
Index-linked Gilts	Blackrock, LGIM	14.0	14.0	14.0	14.0	14.0	26.0	25.2	25.4	24.2	20.6
Cash	Blackrock, Nuveen	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	140.4	134.6	126.3	131.7	120.0	107.3	122.9	121.4	102.9
Total Change in Footprint			-34.3%	-37.0%	-40.9%	-38.3%	-43.8%	-49.8%	-42.5%	-43.2%	-51.9%

Results

3. The results for June 2022 show that the Fund has reduced its weighted carbon intensity by 52% since September 2017. The reduction in the quarter to June 2022 has been driven primarily by a decrease in carbon intensity of one of the developed, low carbon equity funds due to remeasurement of an underlying holding.

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 over time		Unweighted Carbon Intensity tCO2e/$m
Asset Class	Fund Manager(s)	June 2022
Cash	Blackrock, Nuveen	0.00
ESG Priority Allocation - Alternatives	Blackrock, Blackstone, BTG Pactual, Glennmont, Temporis	13.24
Core Property	Nuveen	107.70
Diversified Growth	Blackrock	153.00
Absolute Return Bonds	Blackrock	168.25
Global Equity	LGIM, Blackrock, Newton	261.91
ESG Priority Allocation - Property	Brockton, Frogmore, Invesco, M&G	430.80
Index Linked Gilts	Blackrock, LGIM	564.80
	Total	**1699.70**

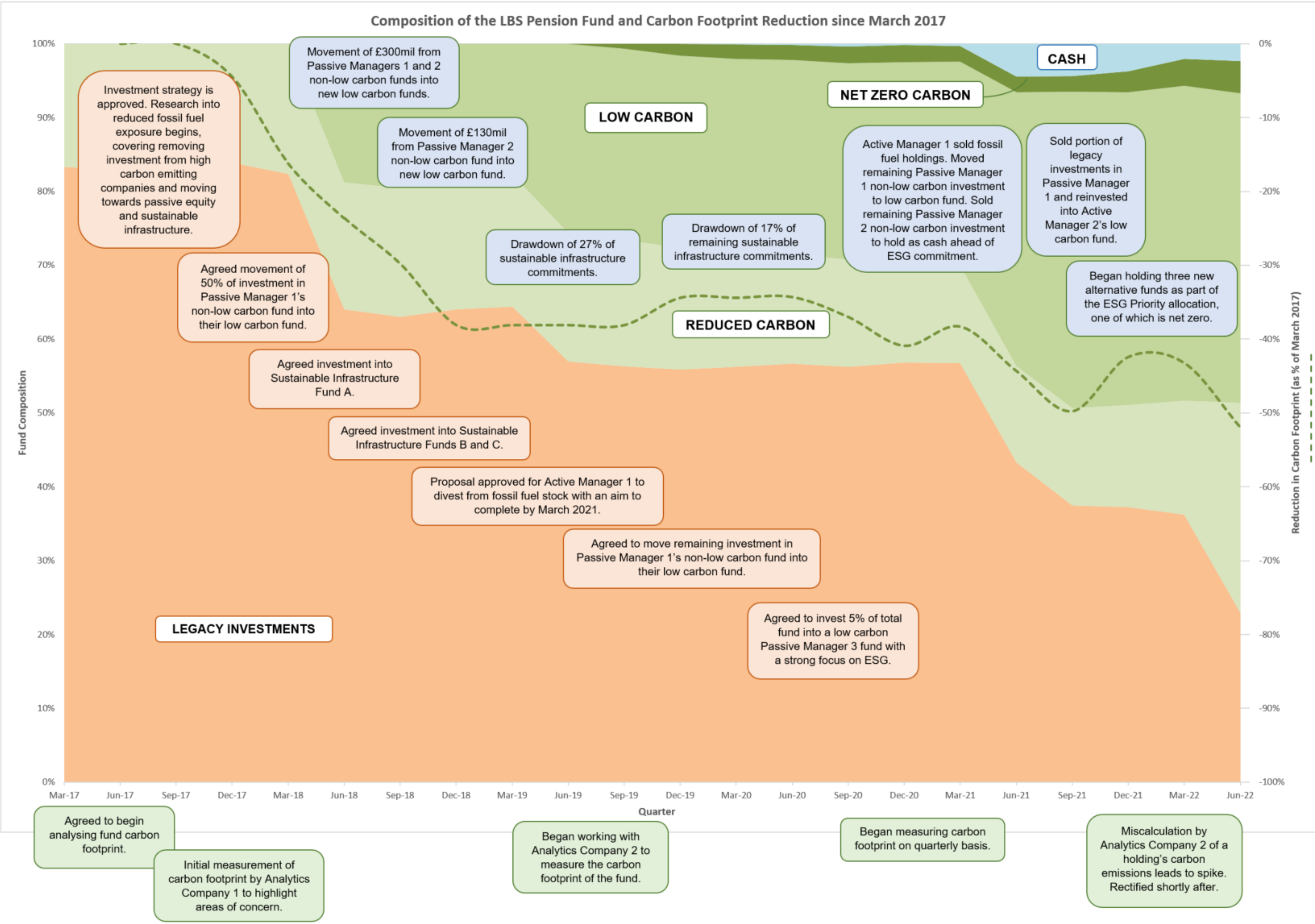
5. The market value of LBS' low carbon developed market equities dropped in the quarter to June 2022, mirroring global markets. This led to a decrease in the carbon reduction as the Fund is proportionately weighted towards higher carbon asset classes, which did not see a matching reduction in their value.

6. The previously noted decrease in reduction has been mitigated by correcting an underlying mistake in the measurement provider's calculations relating to LGIM low carbon developed market equities that had led to the asset class' carbon intensity being overstated for two quarters.

7. There have been a number of new mandates on boarded since the last presentation of the carbon footprint report, all of which are categorised reduced carbon or better. The reduced carbon asset is on a journey to greening and will improve with time. Given their marginal weighting within the Fund as a whole, they have an immaterial impact on the Fund's carbon footprint, contributing only 0.1tCO2e/$m in total to the weighted carbon intensity.

8. The carbon footprint reduction infographic (set out below, with further information on the following page) has been produced in order to demonstrate the changes

in the composition of the Fund in terms of carbon emissions against the reduction of the carbon footprint over time. The graph is intended for use as a way of easily displaying the Fund’s progress towards net zero and can be easily updated over time.


Composition of the LBS Pension Fund and Carbon Footprint Reduction since March 2017
Fund Composition
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Reduction in Carbon Footprint (as % of March 2017)
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
-80%
-90%
-100%
Mar-17
Jun-17
Sep-17
Dec-17
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Jun-18
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Sep-19
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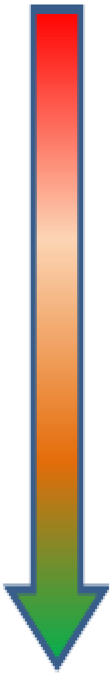
Sep-21
Dec-21
Mar-22
Jun-22
Quarter
CASH
NET ZERO CARBON
LOW CARBON
REDUCED CARBON
LEGACY INVESTMENTS
Investment strategy is approved. Research into reduced fossil fuel exposure begins, covering removing investment from high carbon emitting companies and moving towards passive equity and sustainable infrastructure.
Movement of £300mil from Passive Managers 1 and 2 non-low carbon funds into new low carbon funds.
Movement of £130mil from Passive Manager 2 non-low carbon fund into new low carbon fund.
Drawdown of 27% of sustainable infrastructure commitments.
Drawdown of 17% of remaining sustainable infrastructure commitments.
Active Manager 1 sold fossil fuel holdings. Moved remaining Passive Manager 1 non-low carbon investment to low carbon fund. Sold remaining Passive Manager 2 non-low carbon investment to hold as cash ahead of ESG commitment.
Sold portion of legacy investments in Passive Manager 1 and reinvested into Active Manager 2's low carbon fund.
Began holding three new alternative funds as part of the ESG Priority allocation, one of which is net zero.
Agreed movement of 50% of investment in Passive Manager 1's non-low carbon fund into their low carbon fund.
Agreed investment into Sustainable Infrastructure Fund A.
Agreed investment into Sustainable Infrastructure Funds B and C.
Proposal approved for Active Manager 1 to divest from fossil fuel stock with an aim to complete by March 2021.
Agreed to move remaining investment in Passive Manager 1's non-low carbon fund into their low carbon fund.
Agreed to invest 5% of total fund into a low carbon Passive Manager 3 fund with a strong focus on ESG.
Agreed to begin analysing fund carbon footprint.
Initial measurement of carbon footprint by Analytics Company 1 to highlight areas of concern.
Began working with Analytics Company 2 to measure the carbon footprint of the fund.
Began measuring carbon footprint on quarterly basis.
Miscalculation by Analytics Company 2 of a holding's carbon emissions leads to spike. Rectified shortly after.



LEGACY INVESTMENTS: Investment products that are not actively targeting reduced carbon emissions. Some of these may potentially have exposure to fossil fuels; however we are working to understand the extent of this and will address this in our strategy going forwards. The Fund intends to make no new investments in such products.

REDUCED CARBON: Investments either in property or in funds with specific oil and gas exclusions.

LOW CARBON: Funds specifically set up as 'low carbon' funds. All products within this category are currently index tracking developed market equities.

ZERO CARBON: Investments in vehicles that produce zero carbon or in some cases have a measurable offsetting impact on carbon emissions. Currently this category contains sustainable infrastructure products.

CASH: Held in the pension fund, usually pending anticipated drawdown requests or in advance of an acquisition.

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

Community Impact Statement

9. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

10. There are no immediate implications arising.

Health Impact Statement

11. There are no immediate implications arising.

Climate Change Implications

12. There are no immediate implications arising.

Resource Implications

13. There are no immediate implications arising.

Legal Implications

14. There are no immediate implications arising

Consultation

15. There are no immediate implications arising.

Financial Implications

16. There are no immediate implications arising.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jack Emery, CIPFA Trainee, Treasury & Pensions	
Version	Final	
Dated	8 September 2022	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		8 September 2022

LONDON BOROUGH OF SOUTHWARK - Quarterly Report June 2022

Market Background

Where do we start describing market conditions as we head into a new fiscal year?

Only a few short months ago, markets were buoyant emerging from the pandemic but nonetheless cautious. Inflation was rising, governments were looking increasingly hawkish and Russia's intentions towards Ukraine were a concern. The latter crystalised during the fourth quarter as Russia invaded. Whilst barely registering in terms of global GDP, Russia and Ukraine produce a sizeable proportion of key commodities such as oil, gas and wheat.

A sharp spike in inflation to levels last seen in the 1980's, central governments' response by way of increased interest rates and a severely disrupted supply chain have meant the word "recession" is now on everyone's lips.

In normal circumstances a risk-off environment sees investors shun equities in favour of bonds but in this current climate both equities and bonds have declined. With these accounting for more than 70% of funds' assets, this is a near perfect storm. Diversification in these conditions is very difficult to achieve.

In terms of global equity markets, the World Index gave up 8.3% over the quarter, cushioned to some extent by a weaker Pound. All regions lost ground to greater or lesser extents. The US was the worst performer due to its large exposure to tech' stocks (hit particularly hard by rising interest rates) whereas the 'best' performers were the UK due to an overweighting to energy and mining and emerging markets supported by China's easing of lockdown restrictions.

The differential sectoral returns are of some significance to the LGPS which has tended to focus on active growth strategies favouring tech' in favour of energy and materials, sectors increasingly eschewed by environmentally cognisant investors.

Nominal sovereign and corporate bonds suffered high single figure losses whilst linkers retreated by nearly 18% (FTSE all maturities).

Property returns were solid with estimates suggesting returns in the region of 4% for the quarter.

LGPS Funds

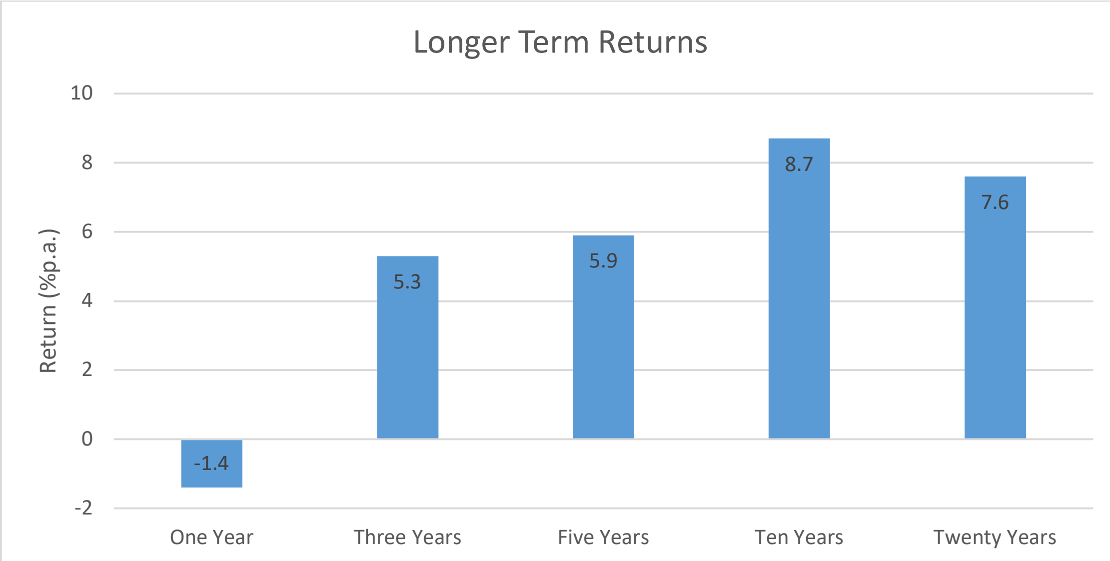
The average LGPS funds is expected to have returned -5%, a second successive negative showing.

Longer-Term

The one-year number has now slipped into negative territory and the three and five year returns rang between 5-6%p.a.

Over the last ten years the average fund has delivered a return of 9% 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 -5.9% over the quarter underperforming the benchmark by 0.9%.

Performance from the Fund's managers was mixed as might be expected but the negatives were more pronounced. The analysis below shows the make-up of the returns, absolute and relative.

			Returns			Contributions		
Manager	Brief	Start Value (£m)	Fund	Benchmark	Relative Return	Fund	Benchmark	Relative
BLK *	Equity/ILG	470,831	-12.7	-9.7	-3.3	-2.8	-2.2	-0.7
LGIM *	Equity/ILG	427,283	-11.7	-10.8	-1.0	-2.4	-2.2	-0.2
BLK	Diversified Growth	191,389	-7.9	0.3	-8.1	-0.7	-	-0.7
BLK	Absolute Return Bond	132,310	-0.2	0.3	-0.5	-	-	-
Newton	Global Equity	266,290	-9.1	-7.8	-1.5	-1.1	-1.0	-0.2
Comgest	EM Equity	97,913	-8.6	-4.0	-4.8	-0.4	-0.2	-0.2
Brockton	Property	6,810	0.8	3.6	-2.7	-	-	-
Nuveen	Property (Core)	239,790	3.0	1.7	1.2	0.3	0.2	0.1
Invesco	Property	31,432	3.8	1.9	1.8	0.1	-	-
M&G	Property	42,927	1.4	1.9	-0.6	-	-	-
Frogmore	Property	8,011	-1.5	3.9	-5.2	-	-	-
Glenmont	Infrastructure	19,930	3.1	2.4	0.7	-	-	-
Temporis	Infrastructure	37,682	18.5	2.4	15.7	0.3	-	0.3
Temporis Impact	Infrastructure	12,372	-0.2	2.4	-2.5	-	-	-
BLK	Infrastructure	5,991	9.3	2.4	6.8	-	-	-
Blackstone	Diversified Alternatives	28,123	43.2	2.9	39.2	0.6	-	0.5
BTG	Diversified Alternatives	30,380	10.0	1.5	8.4	0.1	-	0.1
Darwin	Diversified Alternatives	20,428	1.6	1.5	0.1	-	-	-
BLK/LBS	Cash	43,027	0.2	0.2	-0.0	-	-	-
Total		**2,112,920**	**-5.9**	**-5.0**	**-1.0**	**-5.9**	**-5.0**	**-1.0**

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

The third column from the right shows how much the managers have contributed to the overall return of -5.9%. Both passive balanced portfolios and the Newton equity property portfolio detracted most.

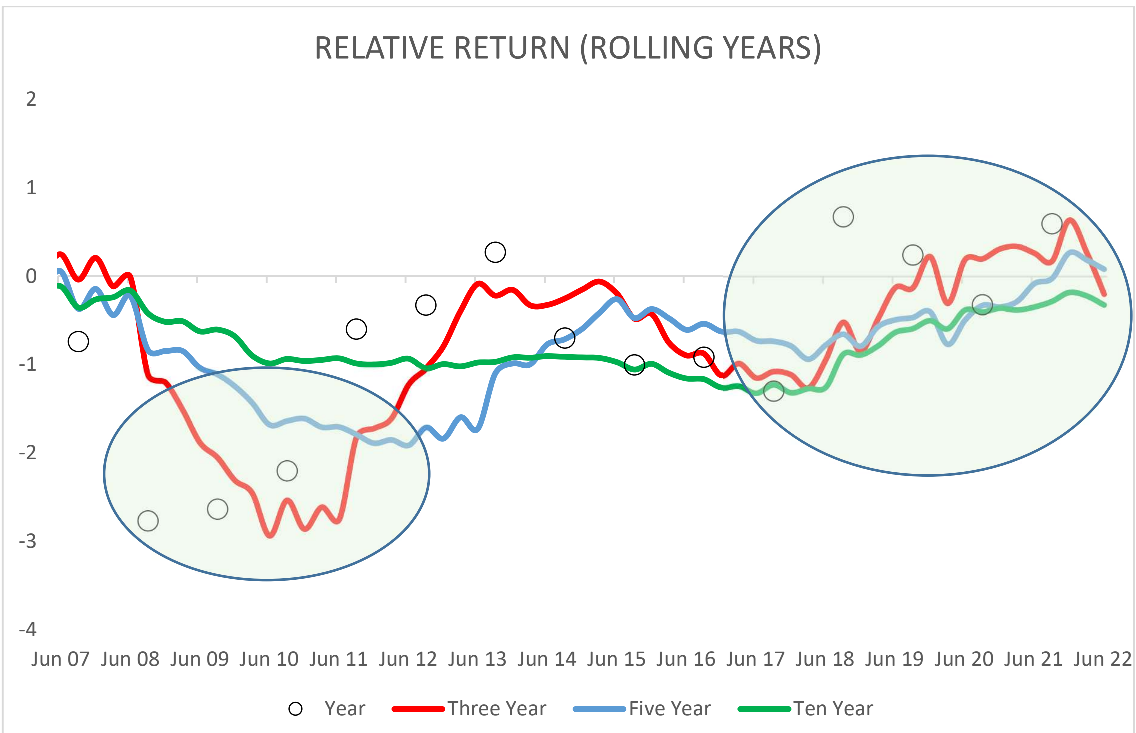
The column on the right-hand side shows how much the managers have contributed to the excess return of -1%.

The one-year return for the Fund was a disappointing -1.5% almost 0.6% behind benchmark.

Medium-term, the Fund has returned between 6.3%p.a. and 7.2%p.a. over the three and five-year periods. The shorter period return was behind benchmark, the longer period almost exactly in line.

Over the last ten-years, the Fund has delivered a very valuable 9.6%p.a. return but still 0.3%p.a. off the target.

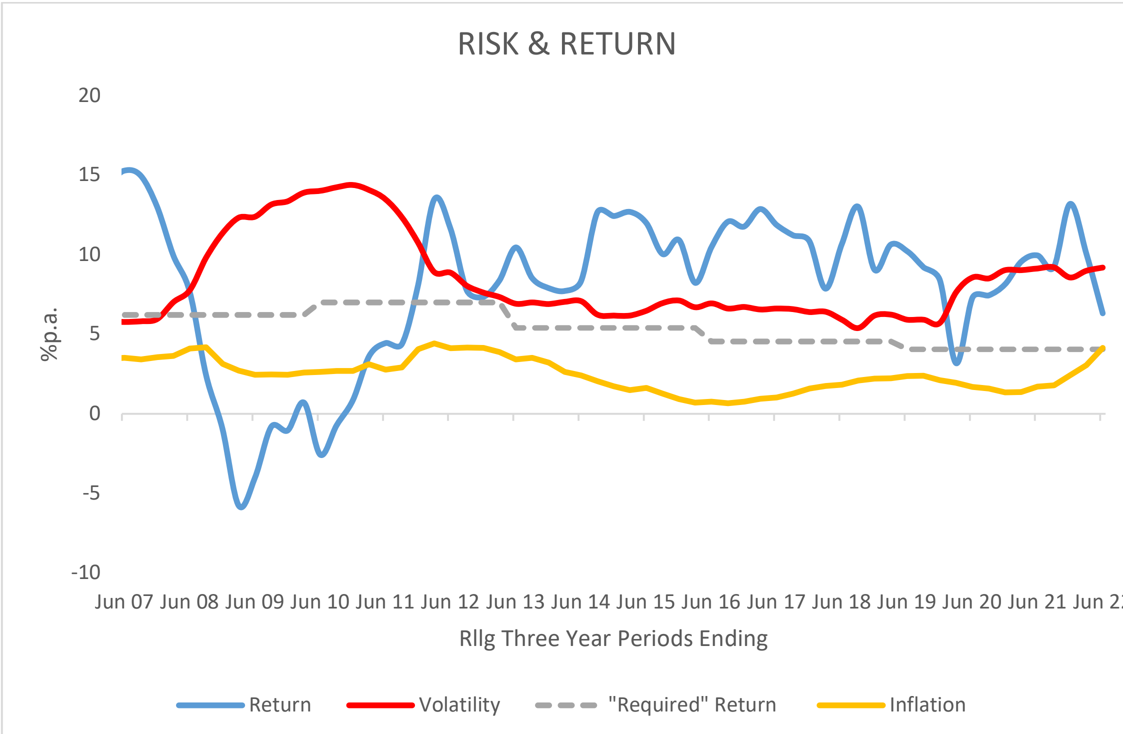
Returns have been improving of late (despite the latest quarter shortfall) and while long-term returns are still sub-benchmark, the margin is reducing. The legacy of poor active equity performance which had the Fund trailing by 2% to 3% p.a. a few years ago is diminishing. I enclose again a chart plotting the Fund's returns over a number of rolling periods relative to the benchmark. I have selected a 15-year period to review.



There is quite a bit to take away from this busy chart but in summary,

- Individual annual returns (the black discs) have more often than not been below the horizon i.e., behind benchmark. Of the 15 years, 11 have been below but most significantly in 2008 to 2010 where the Fund suffered from poor asset manager performance.
- What is clear is that the returns are on an improving trend e.g., three of the last five years are above benchmark and the rolling 'trails' are trending in the right direction
- Importantly, annual return volatility has become more contained

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



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

- Once the impact of the global financial crisis dropped out of the observations (the left hand side of the chart), both return and volatility had 'mean reverted', tracking within a reasonably narrow range
- Somewhat surprisingly, the impact of the pandemic was relatively short-lived although volatility (the red trail) has remained heightened
- Over almost all post financial crisis periods, returns delivered have consistently outpaced the return assumption used in the Actuary's modelling (the dotted line on the chart) i.e. investment performance has done the heavy lifting
- Importantly however, the extreme right hand side of the chart shows the actuary's return assumption and observed inflation converging. This is a concern. At the time of writing, annual inflation (as measured by CPI) has nudged past 10% and is expected to remain above this rate in the immediate near-term.

Newton – Active Global Equity

Newton underperformed the World index by around 0.9% over the quarter. Asset allocation was the key to the underperformance. Voiding energy was the biggest single detractor but Newton found themselves on the wrong side of a number of sector calls e.g. overweighting tech' and consumer discretionary. Their cash holding offered a small buffer.

Relative to the stretched (index plus target aspiration) benchmark, the portfolio lagged by 1.4%.

The portfolio's annual return was sharply negative (4.3% short of the stretched benchmark) due largely to the last two quarters.

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

BlackRock - Active

Once again, the two active positions performed quite differently over the quarter, but both lagged the SONIA benchmark.

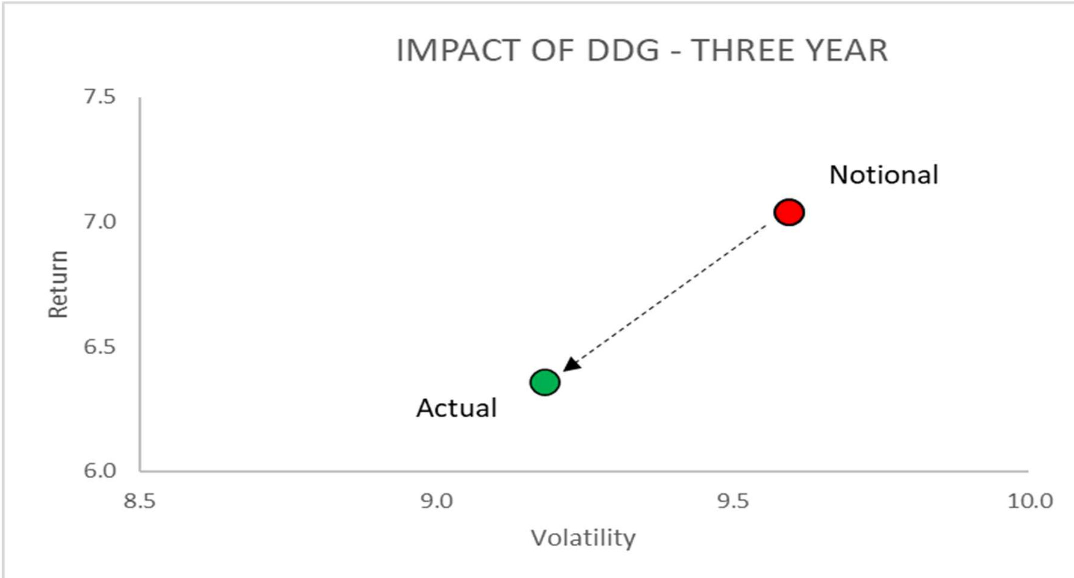
Performance in the ARBF portfolio was negative but less severely so than the main traditional bond indices.

The return from the DG portfolio was a more pronounced negative driven by developed equity and corporate bond performance.

Since their inception, returns from both strategies have been modest low digit single figures.

These two portfolios hold traditional assets, but return profiles are designed to deliver results differently. In strong growth environments, returns will appear pedestrian, but in down markets, returns should be less impacted. Importantly, overall Fund volatility should reduce in any prevailing market condition – growth or cyclical.

As an example, the chart below looks at the impact the diversified growth portfolio has on the whole Fund. The actual Fund outcome is the green plot, the notional outcome i.e. what would the Fund have looked like without the DDG investment the red plot.



What this clearly shows is that volatility has been reduced through the addition of the DDG investment but at the cost of some potential return.

How good a trade-off this is depends on one's viewpoint however.

Nuveen Real Estate – Core Property

The portfolio performance was positive over the quarter, returning 3.5% (Nuveen numbers). The overall return comprised an income return of 1.0% and capital growth of 2.5% led by strong performance from the industrial assets. Direct holdings, the bulk of the portfolio, returned 3.5% whilst the remaining indirect holding (Retail Warehouse Fund) delivered 5.3%.

The full year return reported by Nuveen is a very healthy 22.3%. This has improved medium-term numbers (three and five year numbers are 7-8%p.a.).

The current seven-year number of 6.1%p.a. continues to improve but remains behind the 7%p.a. target set by the Panel.

There are many headwinds facing the commercial real estate sector and many believe the recent strong gains to be pared back in the second half of the year.

Residential/Opportunistic Real Estate

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

Southwark's Property Allocation

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

	Quarter			Year		
	Fund	Benchmark *	Relative	Fund	Benchmark *	Relative
All Property	2.7	1.9	0.8	18.6	7.6	10.2
Core	3.0	1.7	1.2	23.2	7.0	15.2
Ex Core	1.9	2.2	-0.3	5.5	9.4	-3.5

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

The core portfolio is around three-quarters of the overall allocation so this will realistically dictate how the Fund's real estate assets perform. The table shows the non-core assets impairing the overall return.

The Fund's large commitment to the asset class as a whole is an important differentiator in its overall strategy.

The chart below shows the impact on risk and return over consecutive rolling three-year periods.

In the latest three-year period, without property the overall return would have been lower (around 0.6%p.a.) but volatility significantly higher (by around 1.5%p.a.). This continues to be a very acceptable trade-off.

Infrastructure

The Fund's infrastructure investments are relatively new and comprise just over 4% of the overall asset value. They are very early stage but appear to be generative in terms of excess return.

"ESG Priority Allocation"

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

Passive Portfolios

The passive mandates have largely tracked the respective benchmarks as we would expect.

Summary

- A second very difficult quarter for the sector and Southwark with negative returns and heightened volatility in evidence
- The Fund has not kept pace with the benchmark although both are the subject of an on-going review with JP Morgan and may change (for better or worse)
- There is very little by way of good news on the horizon – inflation is back to levels last seen forty years ago, growth is forecast to be tepid at best and interest rates are at their highest since early 2009
- Our recent experience of strong asset growth outperforming growth in liabilities is being challenged
- Actuarial models are calibrated in such a way that ensures short-term spikes in inflation or other defining factors have a limited impact on valuation results. The 2022 valuation results due soon will however likely include a provision for higher costs
- The valuation results notwithstanding, pension uplifts are explicitly linked to September CPI so funds will be liable for a c10% increase in costs from April next year and a resulting demand for increased investment income
- Our one active equity portfolio, Newton, has struggled in recent months with sector allocation being a key factor. They have claimed previously to perform less badly (than punchy active growth managers) in falling markets, but this isn't playing out. I hate sounding like a broken record, but there is nothing but bland comment surrounding the outlook either for markets or their intentions
- The Fund's asset allocation strategy continues to develop with increased diversification and explicit investments in targeted ESG strategies

Quarterly Investment Dashboard Q2 2022

London Borough of Southwark Pension Fund

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

At a glance…

Assets

£1,990.5m ▼

Assets decreased by £122.0m over the quarter.

Funding

-

Surplus

-

Manager ratings

10 Buy rated

9 Not rated

1 Qualified

0 Not recommended

Performance (short term)

-5.9% ▼

The scheme returned -5.9% vs -5.0% over the quarter.

Performance (longer term)

+0.3% ▲

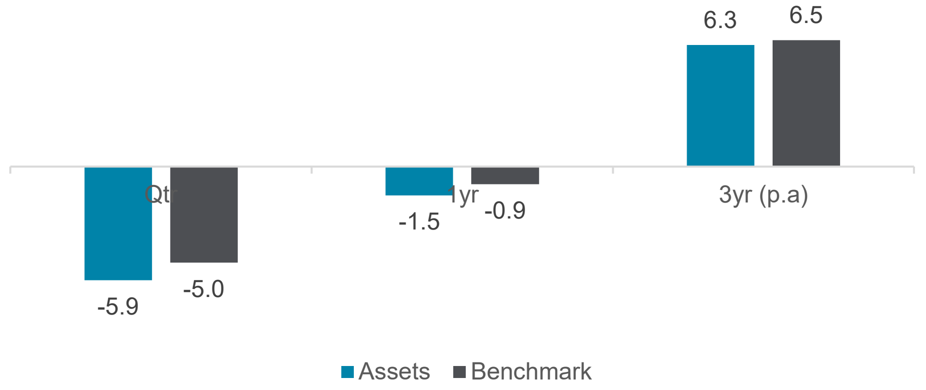
The scheme returned 10.0% vs 9.8% over the three-year period.

Comments

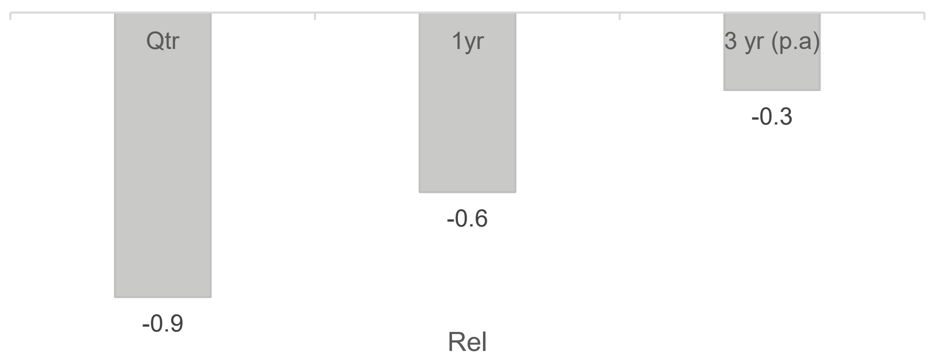
- The Fund's total assets decreased by £122.0m over the quarter, from £2,112.5m to £1,990.5m.
- Aon no longer believe Diversified Growth Fund ("DGF") strategies provide clients with a cost-effective solution for the primary reasons they are held by clients which are diversification or growth. As such, over the quarter, we have downgraded our Buy rated strategies (including the Blackrock Dynamic Diversified Growth Fund) to Qualified to reflect our reduced confidence in DGF's delivering the desired client outcomes.
- More information on notable developments are found in the Manager Review section

Fund performance – Snapshot

Fund performance & benchmark



Relative performance



Quarterly (relative)

-0.9%

The scheme returned -5.9% vs -5.0% over the quarter.

3 year (relative)

-0.3%

The scheme returned 6.3% vs 6.5% over the period.

Comments

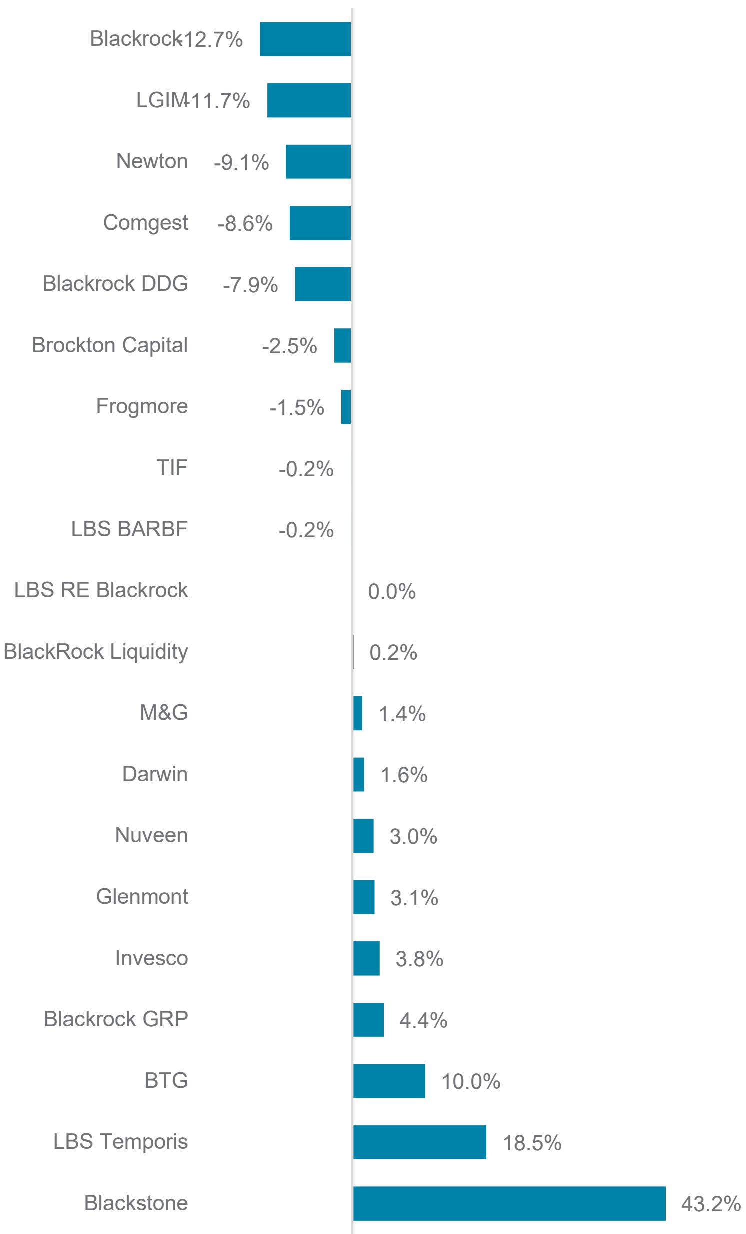
Over the quarter, the Fund marginally underperformed the benchmark

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

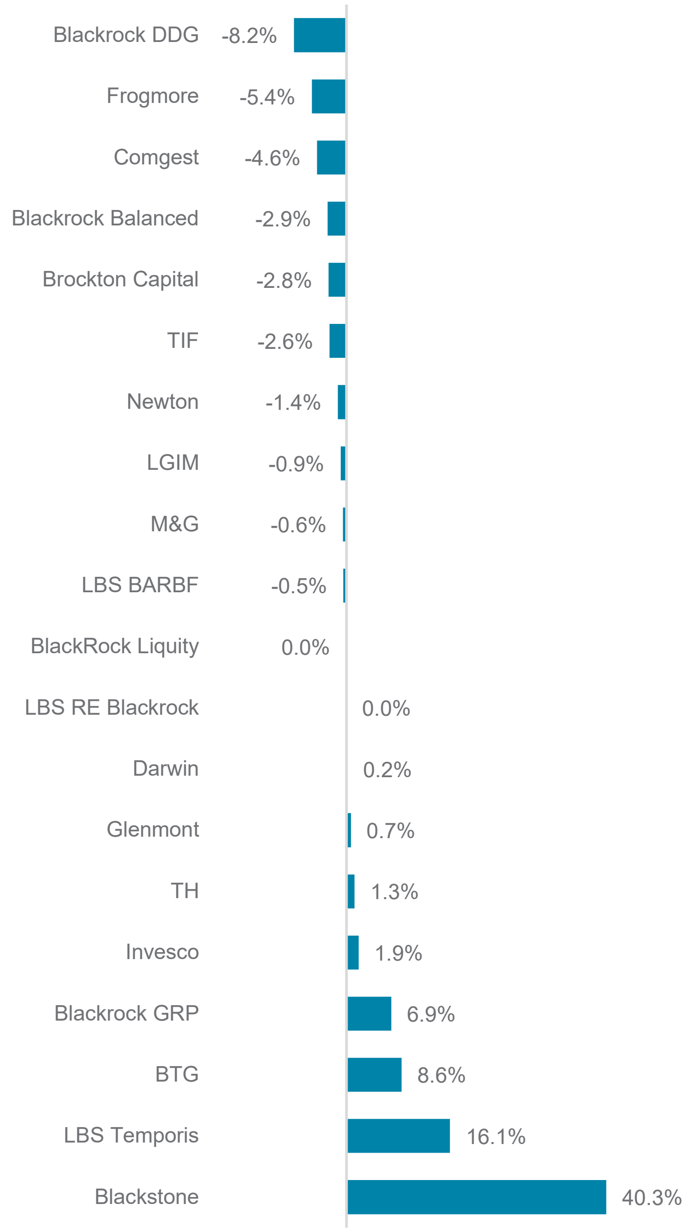
Source: J.P.Morgan and fund managers as required. Totals may not sum due to rounding

Manager performance

Absolute performance

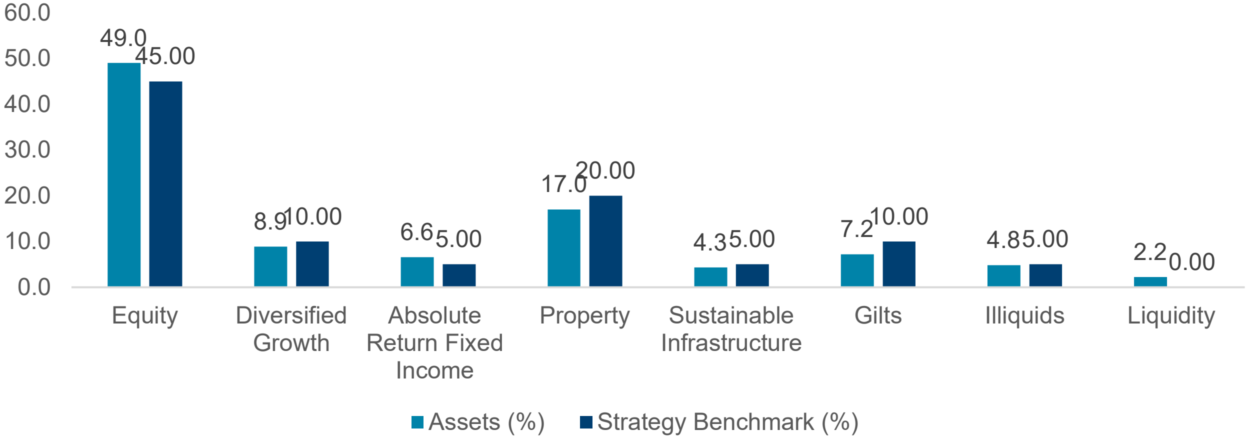


Relative performance

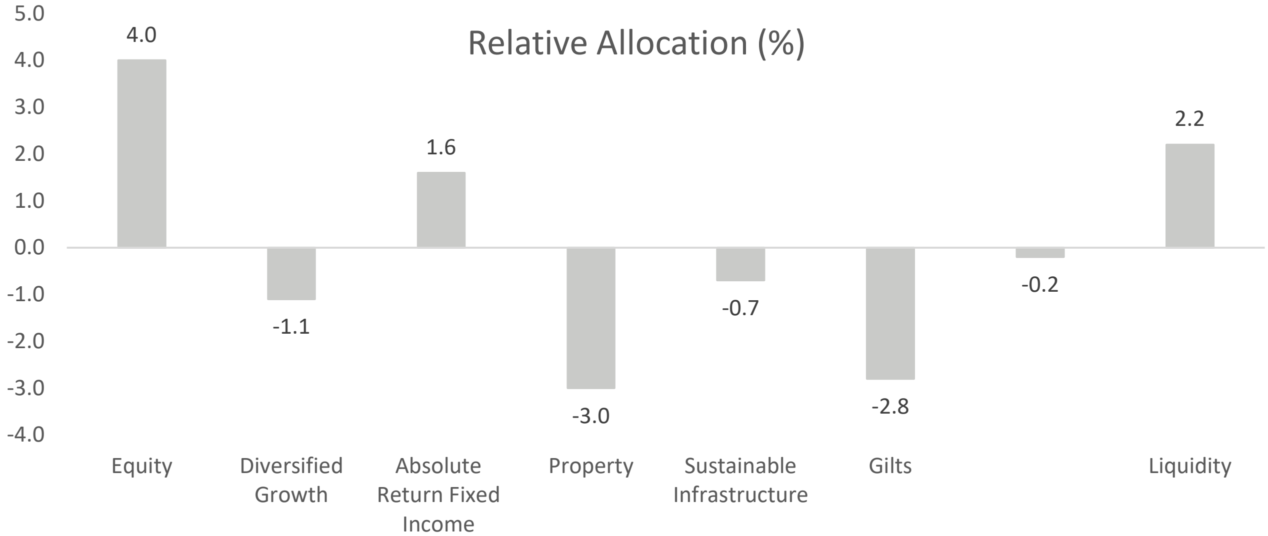


Strategic allocation – Snapshot

Strategic allocation & benchmark



Relative allocation



Assets

£1,990.5m

Assets decreased by £122.0m over the quarter.

Comments

- Equity and absolute return fixed income remain overweight relative to strategic target for the asset class, while Sustainable Infrastructure, Property and ESG priority allocation are notably underweight target exposure.
- All asset classes remain well within the maximum strategic allocation limit.

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

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

Agenda Item 10

Item No. 10.1.	Classification: Open	Date: 31 October 2022	Meeting Name: Pensions Advisory Panel
Report title:		Zero Carbon Investment Strategy: Low Carbon Equity Update	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

1. The pensions advisory panel is asked to:

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

   ii. Note the approach to this transition and the benefits to the Fund towards achieving its net-zero carbon target.

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

Background

2. The Fund's 30% strategic allocation to passive index tracking equities is held with LGIM and BlackRock. This allocation has been transitioned in a managed way as set out below, to protect the value of the Fund, from developed market equities to low carbon equity funds.

3. In January 2018 PAP agreed an initial investment of 50% of the existing BlackRock developed market equity assets into a new BlackRock low carbon target index fund. An investment of £150m of existing LGIM developed market equities into their low carbon index fund was also agreed.

4. The agreed approach was that performance of these investments would be monitored to ensure the required levels of risk and return were maintained, with the expected reduction in carbon intensity also being achieved. Once reassurance was obtained regarding this, the balance of holdings with each manager would then be transitioned to the low carbon funds.

5. The initial transfer of BlackRock assets to their low carbon equity fund was completed in April 2018, and the LGIM transfer was completed in June 2018.

6. Following a review of performance, the remaining BlackRock passive developed market equities were transitioned to the low carbon fund in April 2021. The sale of the remaining LGIM equities to fund the new ESG priority allocation and sustainable infrastructure commitments also took place in April 2021.

Current Benchmark Methodology

7. The MSCI Low Carbon Target Index is designed to minimise the carbon exposure within the parent index. This is achieved through adjusting the existing free float market capitalisation weighting of companies within the parent index to be underweight those companies that have a higher proportion of carbon emissions relative to sales and those that have a high potential carbon exposure relative to market capitalisation.

8. The index also seeks to maintain a low tracking error as well a low sector, country and regional biases to that of the parent index.

Carbon Footprint Measurement – Approach

9. The current approach to measuring the carbon exposure of the Fund's equity holdings is to calculate the carbon intensity (scope 1 and 2 emissions/$m sales) for each portfolio company and calculate the weighted average by portfolio weight.

10. LGIM and BlackRock have replaced the above approach with EVIC as this has been recommended by regulators as the approach to be applied going forward. The EVIC approach is to calculate the weighted average carbon intensity normalised by enterprise value including cash (unit: tons of CO_2/$m enterprise value including cash).

11. The Fund's current measurement provider (Sustainalytics) uses the first approach above. Work is currently being conducted on identifying the most suitable approach to carbon footprint measurement going forward, to ensure both consistency of measurement across fund holdings and application of the most up to date approaches to measurement.

LGIM Low Carbon Transition Fund

12. A number of solutions have been put forward for consideration by LGIM. However, taking into consideration the Fund's investment objectives, investment strategy, and the role of passive equity within the Fund's asset allocation and diversification, the Low Carbon Transition Fund has been identified as the most suitable option.

13. The Low Carbon Transition Fund applies detailed methodology including exclusions and the creation of a climate score.

Climate Objectives

14. Initial 70% emissions intensity reduction vs. benchmark (including Scope 1, 2 and 3), with further decarbonisation to reach net-zero by 2050.

Approach to Moving Holdings to Low Carbon Transition Fund

15. The Fund's holding in the MSCI World Low Carbon Target Index will be transitioned to the new low carbon transition fund with a phased approach. Fifty per cent of the holding (approx. £115m) will be transferred to the new fund in January 2023. The investment performance and carbon footprint of the new holding will be monitored over the following six months and, subject to satisfactory performance, the balance will then be transitioned. This approach will protect the Fund against any underperformance.

Aon's Advice and Recommendations

16. Aon believe that LGIM has an experienced and capable passive management team which takes a pragmatic approach to index tracking. The manager has the scale and structure to track a wide range of equity indices and has continued to deliver positive tracking differences across the majority of its fund range. Furthermore, LGIM's suite of ESG/low-carbon/impact/climate-focused funds sit amongst some of Aon's highest conviction strategies within this sub-section of the investment universe. As such, they believe that it is in the best interest of the Southwark fund to continue holding assets with LGIM when seeking alternative passive equity solutions that are aligned to the Fund's target of achieving net-zero by 2030 as a replacement for the MSCI Low-Carbon Fund.

17. Whilst Aon see merit in investing in many of the fund solutions available from LGIM, they believe that the low carbon transition fund is the most suitable option to meet the Fund's objectives.

Proposed Enhancements to the BlackRock ACS World Low Carbon Equity Tracker Fund

18. BlackRock continually evolve their index strategies to meet changing investor requirements and in response to changes in the investment environment. In February 2021, the benchmark of the fund was changed to the MSCI World Low Carbon Target Reduced Fossil Fuel Select Index. This change resulted in the carbon intensity reduction relative to the parent index (MSCI World Index) increasing from 50% to 75%.

Proposal to Evolve the Methodology

19. A number of changes will be made in November 2022 to evolve the methodology of the fund. These include a change to the threshold for revenue from thermal coal mining; phasing in scope 3 emissions; and introducing a new exclusion based on involvement with controversial weapons and very severe ESG controversies.

Proposed Enhancements vs Current

20. The enhancements to the existing fund will result in an initial increase in Scope 1 and 2 figures. However this will be aligned over time to achieve an 80% reduction relative to the index. The real initial improvement is with the inclusion of Scope 3 as demonstrated by a 77% reduction in carbon intensity.

21. The addition of Scope 3 will change the sector concentration in this new index as it is more evenly distributed over sectors, compared to Scope 1 and 2. As the changes are more aggressive, the tracking error will need to be increased.

Aon's Advice and Recommendations

22. Aon support these changes on the basis that they are a step forward in the right direction with respect to the investment universe reallocating capital to support a transition to a low-carbon society and will support with the Fund's ambition to further reduce the portfolio's carbon intensity and overall carbon-weighted exposures.

23. However, it should be noted that, in the context of the Southwark Fund's wider investment strategy, the changes being proposed are less 'aggressive' in nature in comparison to the changes that would be required in order to be in alignment to the Fund's goal of reaching net-zero by 2030.

24. On balance, taking everything into consideration, Aon advise that it is in the best interest of the Southwark Fund to continue holding assets with BlackRock in the short-term when seeking low-carbon passive equity solutions that are aligned to the Fund's target of achieving net-zero by 2030.

Conclusions

25. The transition of the LGIM holdings and the upcoming enhancements to the BlackRock fund will assist the pension fund's progress towards achieving its net-zero target. However, this is only one step on the journey to achieving net-zero carbon in the Fund's passive equity allocation. As net-zero carbon products develop and there is availability of suitable products in the market, the Fund will take further steps towards achieving the target. We will continue to monitor developments and work closely with both our advisers and investment managers to make further progress.

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

Community Impact Statement

26. No immediate implications arising.

Equalities (including socio-economic) Impact Statement

27. No immediate implications arising.

Health Impact Statement

28. No immediate implications arising.

Climate Change Implications

29. No immediate implications arising.

Resource Implications

30. No immediate implications arising.

Legal Implications

31. No immediate implications arising

Financial Implications

32. No immediate implications arising.

Consultation

33. No immediate implications arising.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report Author	Caroline Watson, Senior Finance Manager, Treasury and Pensions		
Version	Final		
Dated	7 September 2022		
Key Decision?	N/A		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Director of Law and Governance		N/A	N/A
Strategic Director of Finance and Governance		N/A	N/A
Cabinet Member		N/A	N/A
Date final report sent to Constitutional Team			20 October 2022

Item No. 10.2.	Classification: Open	Date: 31 October 2022	Meeting Name: Pensions Advisory Panel
Report title:		Zero Carbon Investment Strategy: BlackRock Dynamic Diversified Growth Fund	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendation

1. The pensions advisory panel s asked to note the options set out in this report to replace the Fund's strategic allocation to the BlackRock Dynamic Diversified Growth Fund (DDG).

Background

2. The Fund currently has a 10% strategic asset allocation to the BlackRock DDG Fund. The DDG fund's objective is to seek capital growth. The fund seeks to achieve its investment objective by investing primarily in a diversified portfolio of equities, bonds, property and cash. The benchmark is 3 MONTH SONIA.

3. The DDG fund has underperformed its benchmark over time. Also, within the pension fund's carbon emissions classification applied to each investment mandate, the DDG fund sits within the 'red' legacy investments category as it is not actively targeting reduced carbon emissions.

Performance and Carbon Emissions – DDG Fund

4. The performance against benchmark and weighted carbon intensity are set out in the following tables:

	Fund	Benchmark	Relative Return
1 year	(11.26)	2.02	(13.27)
3 years	0.80	2.92	(2.12)

Date	Weighted Carbon Intensity tCO2 emissions/$m
September 2021	15.8
December 2021	17.1
March 2022	16.5
June 2022	13.7

5. Ongoing fluctuations in the DDG fund's carbon intensity are subject to changes in the asset allocation of the underlying holdings.

6. Given both the underperformance and carbon exposure of the fund, there is a need to identify a suitable replacement for this holding within the pension fund's strategic asset allocation.

Options to Replace the DDG Holding

7. Consideration has been given to whether the BlackRock Climate Action Multi-Asset (CAMA) Fund is a suitable replacement for the DDG holding.

8. CAMA invests in climate solutions. Asset allocation spreads out from low carbon equity indices into renewable infrastructure, green bonds, thematic equities and forestry sustainable bonds. It is focused on allocation of capital towards solutions to help deliver the transition.

9. CAMA's benchmark allocates 65% to equities and this indicates that the pension fund's exposure to equities would increase compared to the DDG fund. This contradicts the required diversification benefits of a multi-asset fund. Given the pension fund's strategic allocation to equities, allocation to a fund with a high equity allocation would not achieve the required level of diversification.

10. The carbon intensity on an EVIC basis (weighted to the 10% strategic asset allocation) would result in a weighted average carbon intensity of 10.6 compared to the most recent figure for the DDG fund of 13.7. Given that CAMA's approach to allocating capital is to target those companies that demonstrate a contribution to the transition of their sector, this is likely to lead to a fluctuation in the carbon exposure of the fund over time.

Aon Advice

11. Upon having a review of the multi-asset credit solution proposed by Blackrock (CAMA), whilst there is merit in investing in the fund based on its sustainability credentials, from a wider strategic perspective, Aon believe that it would increase the Fund's exposure and sensitivity to equities, thus contradicting the diversification benefits that diversified growth and multi-asset credit funds are intended to provide.

12. Aon no longer believe that diversified growth strategies provide clients with a cost-effective solution for the primary reasons they are held by clients which are diversification or growth. As such, they believe that this is an opportune time to consider transitioning the Fund's existing holding in diversified growth to alternative asset classes that are better aligned to the Fund's investment objectives. This might involve increasing the Fund's committed capital amount to one of the underlying funds or gaining additional exposure to a particular asset class by investing in a new solution that is aligned to Southwark's investment strategy.

Allocation of Underlying DDG Fund Holdings across Wider Fund

13. The DDG allocates assets to equities, bonds and alternatives. The Fund's holding could be reallocated over the wider assets to maintain the benefits of diversification.

14. Consideration could be given to an allocation of the underlying DDG assets to the BlackRock Global Infrastructure Fund IV. This would be in addition to the

Fund's existing investment in BlackRock's Global Renewable Power Infrastructure Fund III.

Consideration of Upcoming Investment Strategy Review

15. It is recommended that the PAP should hold off making any concrete decisions with respect to the Fund's holdings in the BlackRock DDG fund until the outputs and analysis generated as part of the upcoming investment strategy review are discussed at the December PAP meeting.

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

Community Impact Statement

16. No immediate implications arising.

Equalities (including socio-economic) Impact Statement

17. No immediate implications arising.

Health Impact Statement

18. No immediate implications arising.

Climate Change Implications

19. No immediate implications arising.

Resource Implications

20. No immediate implications arising.

Legal Implications

21. No immediate implications arising

Financial Implications

22. No immediate implications arising.

Consultation

23. No immediate implications arising.

AUDIT TRAIL

<table>
<tr><td>Lead Officer</td><td colspan="2">Duncan Whitfield, Strategic Director of Finance and Governance</td></tr>
<tr><td>Report Author</td><td colspan="2">Caroline Watson, Senior Finance Manager, Treasury and Pensions</td></tr>
<tr><td>Version</td><td colspan="2">Final</td></tr>
<tr><td>Dated</td><td colspan="2">7 September 2022</td></tr>
<tr><td>Key Decision?</td><td colspan="2">N/A</td></tr>
<tr><td colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</td></tr>
<tr><td>Officer Title</td><td>Comments Sought</td><td>Comments Included</td></tr>
<tr><td>Director of Law and Governance</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Strategic Director of Finance and Governance</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Cabinet Member</td><td>N/A</td><td>N/A</td></tr>
<tr><td colspan="2">Date final report sent to Constitutional Team</td><td>20 October 2022</td></tr>
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Item No. 10.3.	Classification: Open	Date: 31 October 2022	Meeting Name: Pensions Advisory Panel
Report title:		Zero Carbon Investment Strategy: BlackRock Absolute Return Bond Fund	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendation

1. The pensions advisory panel is asked to note the options set out in this report to replace the Fund's strategic allocation to the BlackRock Absolute Return Bond Fund (BARBF).

Background

2. The Fund currently has a 5% strategic asset allocation to the BARBF. The BARBF'S objective is to aim to deliver absolute returns on a 12 month basis in any market conditions. However, an absolute return is not guaranteed over a 12 month or any other period. The fund is actively managed and is not constrained by any benchmark. Investors can compare the performance of the fund using the 3 month Sterling overnight index rate (SONIA) compounded in arrears.

3. The BARBF has underperformed its benchmark over time. Also, within the pension fund's carbon emissions classification applied to each investment mandate, the BARBF sits within the 'red' legacy investments category as it is not actively targeting reduced carbon emissions.

Performance and Carbon Emissions – BARBF

4. The net performance against benchmark and weighted carbon intensity are set out in the following tables:

	Fund	Benchmark	Relative Return
1 year	(2.40)	2.51	(4.91)
3 years	1.74	3.75	(2.01)

Date	Weighted Carbon Intensity tCO2 emissions/$m
September 2021	10.2
December 2021	8.7
March 2022	6.8
June 2022	11.2

5. Given both the underperformance and carbon exposure of the fund, there is a need to identify a suitable replacement for this holding within the pension fund's strategic asset allocation.

Options to Replace the BARBF Holding

i. BlackRock Sustainable Absolute Return Bond Strategy (BSARBF)

6. The BSARBF applies an extension of the ESG integration in the BARBF. It invests in global fixed income assets and has a green bonds allocation. The underlying sectors in the portfolio are tilted towards companies and issuers that demonstrate a positive E, S or G impact.

7. The fund's approach is to remove carbon intensive issuers and to invest in companies setting targets or alignment metrics. It therefore invests in companies on the transition pathway to decarbonisation. This approach could potentially lead to a fluctuation in the carbon exposure of the fund over time.

ii. Green/Climate Transition Bond Strategies

8. Aon's advice, including the considerations to be made regarding investment in such strategies, is set out in paragraphs 12 and 13 below.

9. One of the key considerations of investing in such strategies is the implications on expected returns and volatility. The underlying holdings of some of the green bond/climate bond strategies in the market have been observed to have shorter durations and higher credit spreads compared to the holdings in a standard bond strategy.

10. Green bonds can often be exposed to a higher level of political risk compared to a straight vanilla bond due to factors such as greenwashing which can have an impact on the spread applied to the bond. Additionally, the vast majority of green bond portfolios tend to pursue a long-only strategy and limit the use of derivatives which would otherwise provide protection in a volatile market and weakened economic outlook. As such replacing the existing BARBF with green bonds will change the investment characteristics of the fund and would therefore need to be considered in terms of the impact on the wider investment strategy.

iii. Tender for new Bond Mandate

11. In order to ensure a suitable replacement for the Fund's investment in BARBF can be identified, a tender for a new bond mandate may be considered.

Aon Advice

12. One of the main challenges with the fixed-income universe is the pace at which it has been able to integrate ESG factors into the investment process compared to equities. This is largely driven by the complex, broad nature of the asset class with different borrower types (corporate, country, consumer); instrument types (bonds, loans); quality (investment grade, high yield); maturity (short versus

longer duration); and place in the capital structure (senior versus junior). As such, fixed-income managers have historically struggled to develop an ESG framework and low-carbon investment strategy that can be applied to the various sub-asset classes. In addition, the wide spectrum of debt instruments has made it difficult to accurately capture data on ESG practices. Thus, there is a limited availability of suitable low-carbon investment products within the fixed income universe.

13. ESG factors are currently integrated into Blackrock's fundamental analysis using a proprietary framework to assign an ESG risk rating to all debt issuers. Having reviewed the investment opportunity that has been proposed by Blackrock with our internal research terms, the level of ESG integration within the Sustainable Absolute Return Bond Fund (BSARBF) appears to be nothing other than an extension of the current process to include further exclusions when assessing fixed-income issuers. As such, in our view, making an investment into the Fund will add very little value in the context of the Fund's objectives to reduce the portfolio's overall carbon-weighted exposures as well as reach net-zero by 2030.

Consideration of Upcoming Investment Strategy Review

14. It is recommended that the PAP should hold off making any concrete decisions with respect to the Fund's holdings in the BARBF until the outputs and analysis generated as part of the upcoming investment strategy review are discussed at the December PAP meeting.

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

Community Impact Statement

15. No immediate implications arising.

Equalities (including socio-economic) Impact Statement

16. No immediate implications arising.

Health Impact Statement

17. No immediate implications arising.

Climate Change Implications

18. No immediate implications arising.

Resource Implications

19. No immediate implications arising.

Legal Implications

20. No immediate implications arising.

Financial Implications

21. No immediate implications arising.

Consultation

22. No immediate implications arising.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report Author	Caroline Watson, Senior Finance Manager, Treasury and Pensions		
Version	Final		
Dated	7 September 2022		
Key Decision?	N/A		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Director of Law and Governance		N/A	N/A
Strategic Director of Finance and Governance		N/A	N/A
Cabinet Member		N/A	N/A
Date final report sent to Constitutional Team			20 October 2022

Pension Advisory Panel

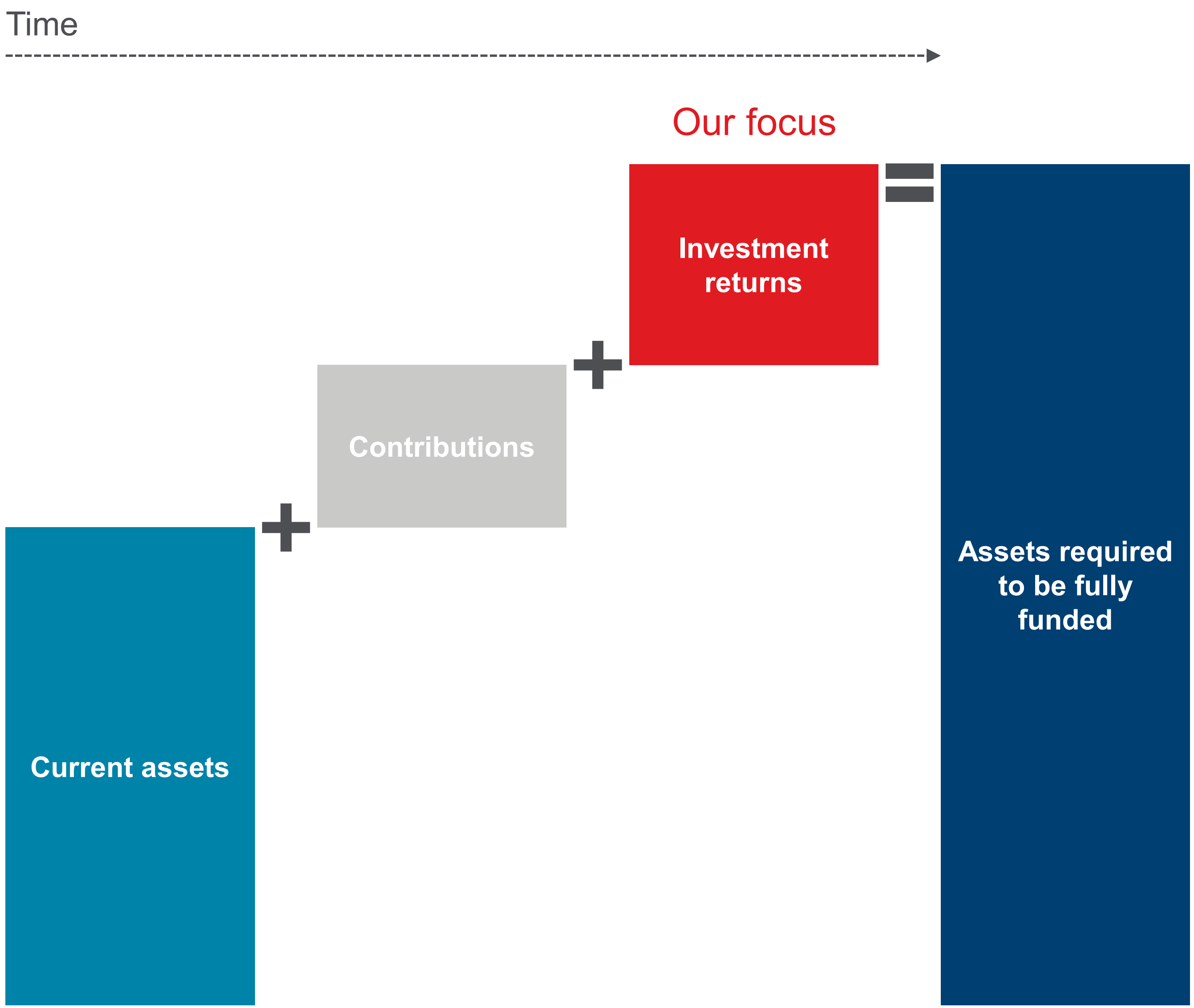
Setting an investment strategy

Prepared for: London Borough of Southwark Pensions Advisory Panel
Prepared by: Aon
Date: 9 September 2022

Signatory of: UK STEWARDSHIP CODE | 2021

AON

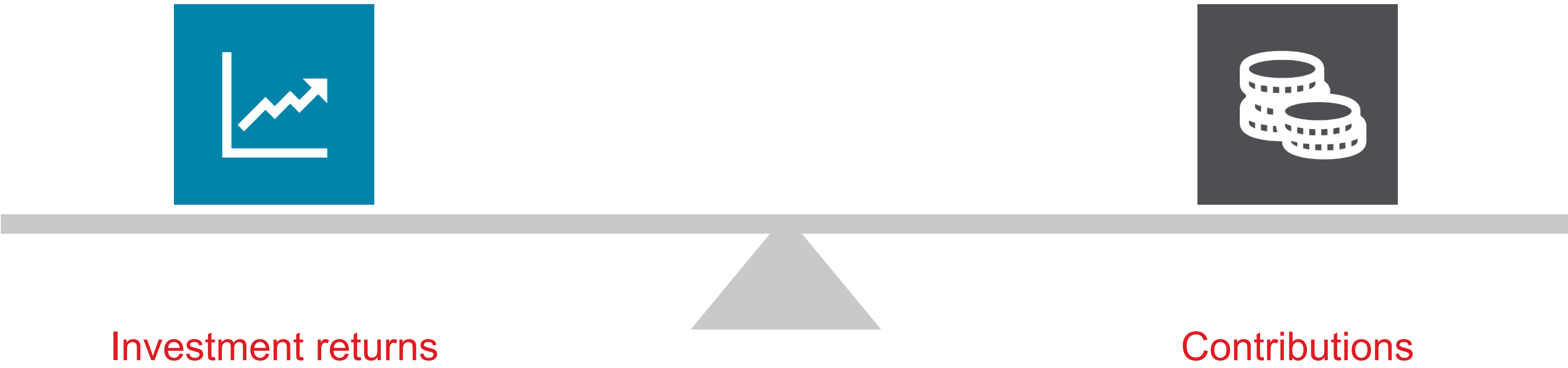
Investment objectives – the big picture



Key objectives

- Ensure that benefits are paid to members
- Ensure suitability of assets
- Optimise the anticipated return consistent with a prudent level of risk

Relationship between strategy and contributions



Key takeaway

Aiming for **higher** investment returns enables you to set **lower** contribution rates today… but means a **higher risk** of not achieving the desired returns in future

What do we mean by risk

What output will we consider?

Establish strategic objectives

- Expected return
- Risk i.e. VaR
- Understand the contributors to risk and retun

Define role of parts of the portfolio

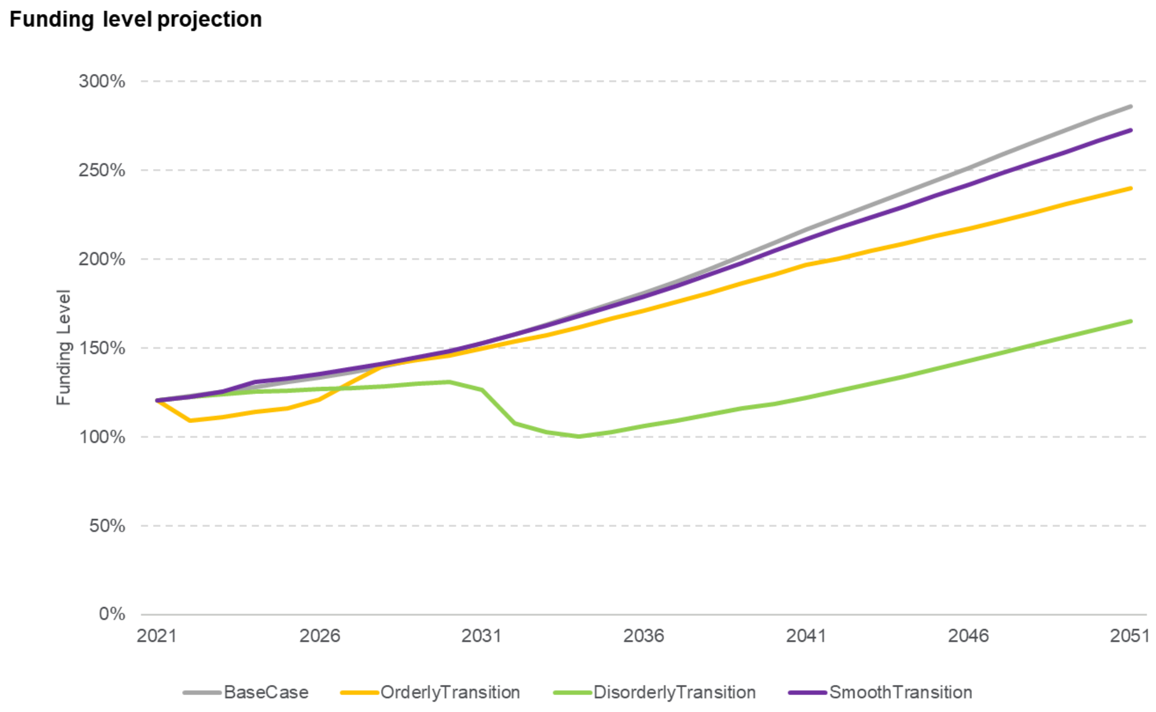
- For example what are we trying to achieve from illquids
- This will help us consider opportunities

Decision making framework

- Putting the above together will create a framework to consider opportunities
- This will help us identify ways to get to net zero

Example output looking at climate scenario risk

Funding level projections under each climate scenario



Comments

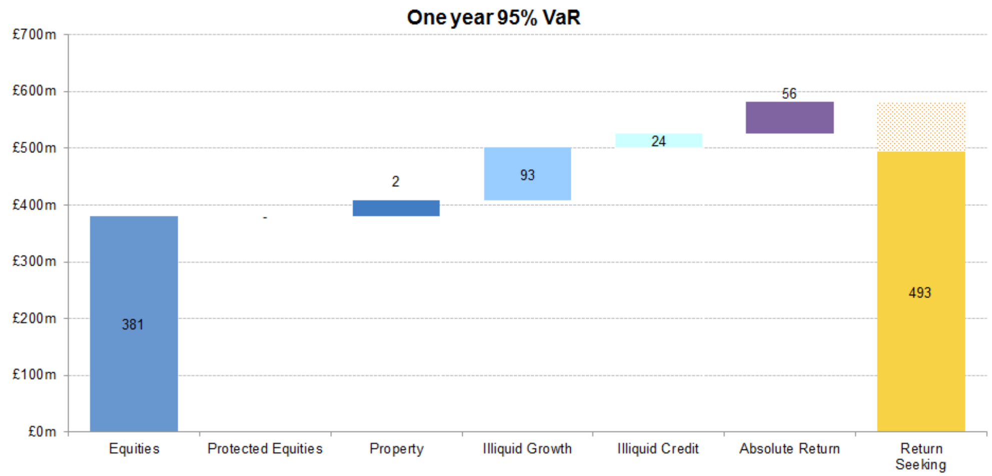
Orderly Transition
Immediate, coordinated global action is taken to aggressively tackle climate change

Disorderly Transition
Limited action, insufficient consideration given to sustainable long-term policies to manage global temperatures effectively

Smooth Transition
Rapid advancement of green technology and government action on climate change drives a smooth transition to a low carbon economy

Example Value at Risk distribution

- The chart on the right shows the distribution of risk for a generic local authority client
- Most of the risk will come from the equity holdings as their price is traditionally volatile and most of the assets are held in this asset class
- Additional volatility comes from property and other illiquid holdings
- Different asset classes have different reactions to market events and the diversification of returns due to this is represented by the total risk being lower than adding up the individual risk exposures



Setting a Long Term Investment Strategy

1

Strategic Asset Allocation

Create an efficient portfolio by setting the allocation across broad asset groups

2

Strategy Detail

Determine the underlying assets within each asset group

3

Manager Selection

Meet with and agree to appoint any new investment managers

Investment Strategy | London Borough of Southwark Pension Fund Investment Strategy (30 June 2022)

Asset class	Strategic Allocation (%)	Actual Allocation (%)
Active Global Equities	15	49
Passive Low Carbon Global Equities	30	
Total Equities	**45**	**49**
Property	20	17
Diversified Growth Funds	10	8.9
Absolute Return Fixed Income	5	6.6
Renewable Energy Infrastructure	5	4.3
Index Linked Gilts	10	7.2
Illiquid Investments*	5	4.8
Liquidity	0	2.2
Total	**100**	**100**

Observations

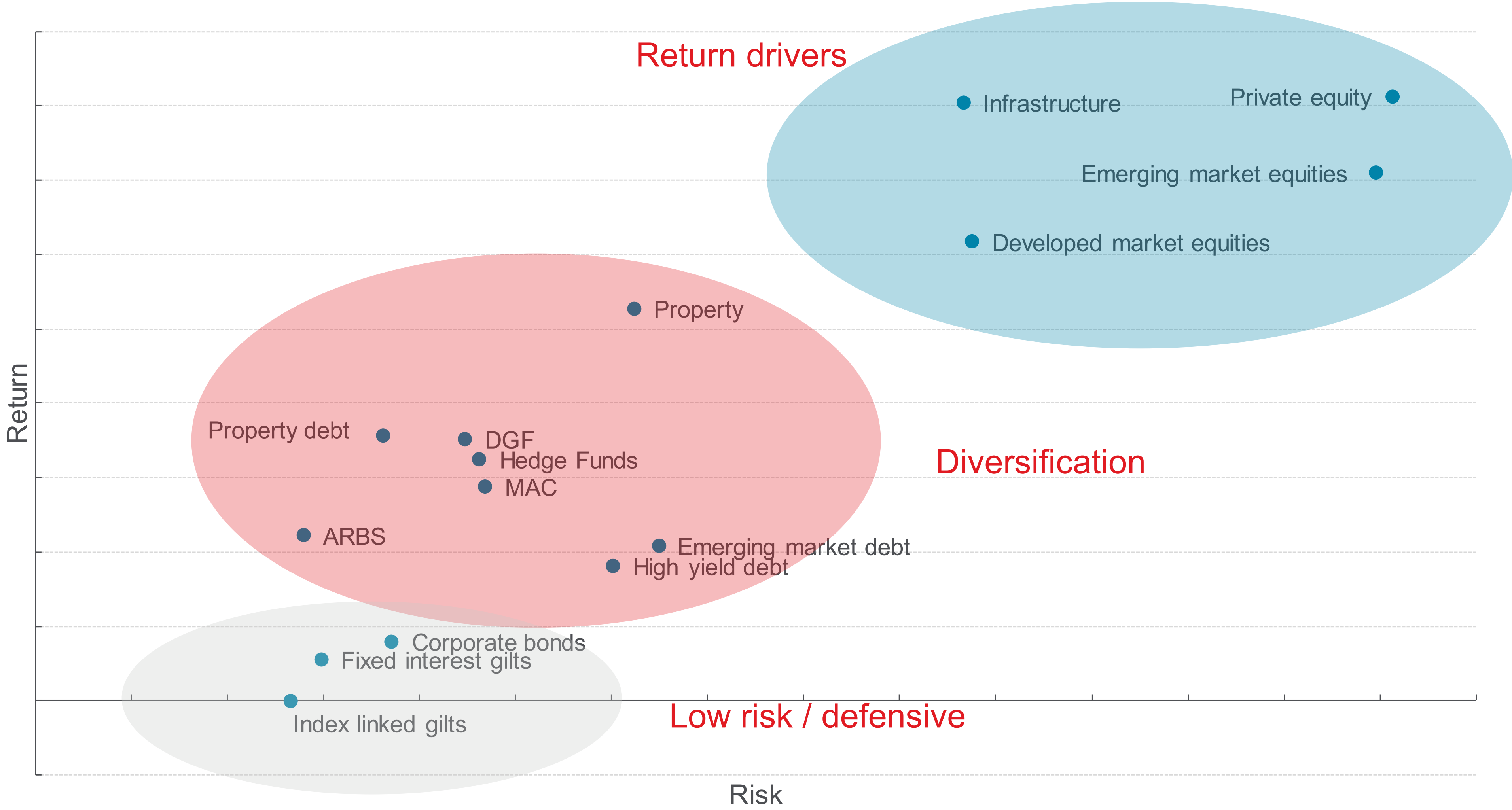
- Equities are the key driver of returns
- Diversification through property, DGFs and infrastructure
- Index linked gilts and, to a lesser extent infrastructure, provide inflation linkage
- ESG incorporated into equity allocation, renewables and illiquid investments

Focus for this session

We want to review the 10% strategic allocation to Diversified Growth Funds

Source: London Borough of Southwark Pension Fund, Investment Strategy Statement
*Illiquid investment asset class includes the recent investments to timberland, bereavement services and private equity strategies

Risk and return



Alternative to DGF

By allocating the assets invested in the DGF to other asset classes, for example equities and index-linked gilts, we can achieve a similar overall risk/return profile

What strategic changes will we consider?

Strategic changes

- Role of DGFs and ARBS
- Illiquid assets
- Moving to net zero

Next steps

- Consider output form Strategy Review in December

AON

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Item No. 12.	Classification: Open	Date: 31 October 2022	Meeting Name: Pensions Advisory Panel
Report title:		Pension Services - Administration Function Update	
Ward(s) or groups affected:		None	
From:		Pensions Manager, Finance and Governance	

RECOMMENDATION

1. The Pensions Advisory Panel (the panel) is asked to note this update on the pensions administration function.

BACKGROUND INFORMATION

2. The panel received an update in March 2022 which set out information on IT/systems, staff changes, communications and complaint management.

RETURN TO WORK - POST COVID IMPLICATIONS

3. From 3 October 2022 'hybrid flexible working' is in place and staff are now in the office two or three days each week.

IT/SYSTEMS

4. New Civica UPM software has now been live for six months.

5. UPM Payroll software has been successfully run since May 2022 ensuring no loss of service to retired staff. Prior to this date pensions in payment were paid by Southwark Council.

6. The UPM 'single payments system' allows tax-free cash payments on retirement and death grants to be paid on a weekly basis and has been very successful. However, additional work is needed around cash flow forecasting to ensure sufficient funds exist within the pension fund bank account. This system ensures members receive much needed funds up to six weeks earlier had they otherwise missed payroll cut-off dates due to paperwork not being submitted on time.

7. UPM Pensions Admin software has proven to be more challenging to work with on a day-to-day basis. This is due to how data was held on the legacy admin system and how it was migrated over to UPM. A considerable amount of work has already been undertaken by the Data Systems team (alongside our benefit consultants, Aon) to ensure business as usual processing can be performed.

8. The legacy admin system was finally decommissioned on 1 August 2022. However, plans were in place to ensure all historic data was not lost, and we are in the process of creating an Access database of historical member data which can then be accessed electronically (much in the same way that old microfiche records were used in the past).

9. The UPM Employer Portal is up and running and the majority of pension fund employers are now submitting monthly data returns online. We expect all employers (or their outsourced payroll providers) to be submitting data through the portal by December 2022.

10. The UPM Member Portal has required some IT snagging due to a more complicated authentication process. Once we are satisfied it is fully operational we will be communicating with all member categories to sign up where possible. In the meantime, members are contacting our First Contact Resource team if they require retirement projections and 'what if' pension benefit forecasts.

RECRUITMENT/STAFFING

11. Higher than average staff sickness (including long-term sickness absence) and other HR related matters affecting Pension Services over the last three months.

12. Following the resignation of the former Deputy Pensions Manager (Admin), internal changes were made to appoint two acting Deputy Managers to cover the Admin and First Contact teams.

13. An updated Pensions Admin Manager JD has been evaluated by HR and the role was advertised on 13 October 2022, with interviews planned for November.

14. Our Pensions Payroll Manager resigned on 28 September 2022 and will be leaving Southwark on 31 January 2023 to take up a new post with PayFit, a payroll software company. The Payroll Manager role has been advertised and we hope to interview prospective candidates later in November.

15. We have a vacancy for a Senior Pensions Officer who resigned some months ago and are actively recruiting to fill that post.

16. The First Contact team are looking to replace a member of support staff who retired recently. Interviews are taking place week commencing 17 October 2022.

17. Recruitment at assistant/apprentice level has been postponed for the time being.

18. Recruitment matters are dependent on working alongside HR colleagues but sometimes the process can be delayed due to internal resourcing issues and ongoing transformation that is happening across council HR.

UK PENSIONS DASHBOARD PROGRAMME

19. Limited news to report except that it is likely that go-live for LGPS employers will be late 2023 or into 2024.

20. Civica UPM software is under development to extract the data that is required for the national Dashboard Programme, or it can be developed in-house.

PROGRESS TO OCTOBER 2022

21. Since the last panel update, further progress has been made in the following areas.

COMMUNICATION INITIATIVES

22. Annual Benefit Statements (ABS) for deferred members were issued in May 2022 for 7,950 members (including suspended tier 3 and pension credit statements).

23. The main ABS exercise for active staff which is usually issued no later than 31 August each year has been delayed due to additional data checking that was deemed necessary following the migration of pension data from the legacy admin system to new UPM software earlier this year. This is a legal breach and the delay was reported to the Pensions Regulator (tPR).

24. As a risk-based regulator, tPR takes a more pragmatic approach to breaches of this nature and prefers for accurate statements to be issued later, rather than inaccurate statements to be issued on time. Statements are expected to be issued later in October to active members.

25. Pension Savings Statements for Annual Allowance purposes were issued on 6 October 2022 to affected members along with details of ‘Scheme Pays’, should the member wish for the pension fund to pay the tax charge directly to HMRC.

26. A training day was held in September for schools staff. The Pensions Liaison Officer delivered a basic pensions presentation to give non-teaching staff more knowledge into how the pension fund works. Attendance was high over the 4 sessions. Some schools have booked in further presentations with our Liaison Officer on inset days. We have been liaising with the Southwark Schools Unison Rep to add further training dates for staff to attend. An ABS training session is also being prepared and will be rolled out to all LGPS schools staff over the next month. This training will explain how ABS benefits are calculated and how to interpret the information detailed within the annual statement.

COMPLAINT MANAGEMENT

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

- The Pensions Ombudsman - ill-health award tiering appeal made against a former employer (school). All ill-health tiering awards are recommended by Occupational Health following medical assessment, but it is the employer that makes the final decision. The matter is being dealt with by a senior Business Partner in Schools HR who is preparing a formal response to the Ombudsman.

- IDRP stage 1 - a number of cases are with the council as principal employer concerning incorrect employee pension deductions made from the main payroll system. As these complaints are against the employer the complaints are all being assessed by council HR acting as the stage 1 adjudicator.

- IDRP stage 1 - complaint raised against the pension fund by a member who was looking to elect voluntary early retirement. There had been some delays whilst pensionable pay queries were being investigated following a substantial back pay award that had been made in 2020/21. Union involvement also questioned how accuracy of information was measured, together with timeliness and response times to member's questions and complaints.

- IDRP stage 1 - complaint raised against the pension fund due to essential information not being readily available to a member which was needed to assess an annual allowance tax charge. In particular, the member was also unhappy that annual benefit statements had not been issued on time

PERFORMANCE MONITORING

28. No performance data has been obtained for the last quarter due to business as usual snagging priorities and data checking for the main ABS exercise.

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

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

CONCLUSIONS

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

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

33. Performance monitoring remains an important part of the pensions function. The procurement of new Civica UPM software will allow Pension Services to develop much improved workflow and task management, where more detailed Management Information can be extracted around admin and enquiry performance.

KEY ISSUES FOR CONSIDERATION

34. N/a

Policy framework implications

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

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

Community impact statement

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report Author	Barry Berkengoff, Pensions Manager, Finance and Governance		
Version	Final		
Dated	14 October 2022		
Key Decision?	No		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Director of Law and Governance		No	N/a
Strategic Director of Finance and Governance		No	N/a
Cabinet Member		No	N/a
Date final report sent to Constitutional Team			21 October 2022

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

RECOMMENDATION

1. The pensions advisory panel (PAP) is asked to note:

   - The update from the local pension board (LPB) meeting of 6 July 2022.

KEY AREAS OF DISCUSSION

2. Peter Hughes provided a training session on breaches of pension law.

3. The main business included an update on pensions services, current issues within the LGPS and the results of a cybersecurity audit.

Pensions Services

4. This mainly covered an update on the new UPM system and its increased functionality compared with the old system. The board commented that they would like to see increased employee engagement with the online portal.

Current Issues in the LGPS

5. The LPB were reminded that following local elections in May 2022, there would be a change of membership on the PAP with the panel now being chaired by Councillor Cryan. The board emphasised the need for continuity of membership of the PAP.

6. LPB also noted that a review was currently in progress of the pensions and investment team which is likely to recommend an increase in staffing in order to manage the increase in investment mandates and in order to achieve the target of net zero carbon emissions by 2030.

Cybersecurity

7. A report outlining the results of an audit of cybersecurity policies of the fund’s custodian, banking provider and investment managers was tabled.

8. Officers assured the board that policies would continue to be monitored and the cybersecurity audit and report would become an annual standing item on the LPB’s work plan.

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

Community Impact Statement

9. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

10. There are no immediate implications arising.

Health Impact Statement

11. There are no immediate implications arising.

Climate Change Implications

12. There are no immediate implications arising.

Resource Implications

13. There are no immediate implications arising.

Legal Implications

14. There are no immediate implications arising

Consultation

15. There are no immediate implications arising.

Financial Implications

16. There are no immediate implications arising.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report Author	Mike Ellsmore, Chair of the Local Pension Board		
Version	Final		
Dated	6 September 2022		
Key Decision?	N/A		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Director of Law and Governance		N/A	N/A
Strategic Director of Finance and Governance		N/A	N/A
Cabinet Member		N/A	N/A
Date final report sent to Constitutional Team			8 September 2022

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MUNICIPAL YEAR 2022/23

COMMITTEE: Pensions Advisory Panel

NOTE: Original held by Constitutional Team. All amendments/queries to Andrew Weir Tel: 020 7525 7222. Email: Andrew.weir@southwark.gov.uk

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Last updated – March 2022