Open Agenda

Southwark Council

Pensions Advisory Panel

Monday 26 February 2024
1.00 pm
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Membership	**Reserves**
Councillor Stephanie Cryan (Chair) Councillor Rachel Bentley Councillor Emily Hickson	

INFORMATION FOR MEMBERS OF THE PUBLIC

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Contact
Paula Thornton on or email:

Members of the committee are summoned to attend this meeting
Althea Loderick
Chief Executive
Date: Date Not Specified

Southwark Council

Pensions Advisory Panel

Monday 26 February 2024
1.00 pm
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Order of Business

Item No.	Title	Page No.
1.	**APOLOGIES** To receive any apologies for absence.	
1.	**CONFIRMATION OF VOTING MEMBERS** Voting members of the committee to be confirmed at this point in the meeting.	
3.	**NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT**	
4.	**DISCLOSURE OF INTERESTS AND DISPENSATIONS** Members of the committee to declare any interests and dispensation in respect of any item of business to be considered at this meeting.	
5.	**MINUTES** To agree as correct records, the open minutes of the meetings held on 27 September 2024.	1 - 6
6.	**EQUALITIES, DIVERSITY AND INCLUSION ORAL UPDATE**	
7.	**UPDATE ON THE LOCAL PENSION BOARD**	7 - 9
8.	**PENSION SERVICES – ADMINISTRATION FUNCTION UPDATE**	10 - 17
9.	**ASSET ALLOCATION AND NET ZERO STRATEGY UPDATE - DECEMBER 2023**	18 - 28

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10.	**GLENNMONT CLEAN ENERGY FUND IV**	29 - 30
11.	**ADVISERS' UPDATES - QUARTER TO DECEMBER 2023**	31 - 51
	— **DAVID CULLINAN** — **AON**	
12.	**MULTI-ASSET CREDIT**	
13.	**CARBON FOOTPRINT UPDATE - 31 DECEMBER 2023**	52 - 58
14.	**UPDATE ON APPROACH TO ENGAGEMENT AND VOTING**	59 - 65
15.	**ACTUARIAL FUNDING UPDATE - DECEMBER 2023**	66 - 106
	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."

Item No.	Title	Page No.
16.	**GLENNMONT CLEAN ENERGY FUND IV**	
17.	**QUARTERLY INVESTMENT UPDATE - AON**	
18.	**MULTI-ASSET CREDIT**	
19.	**ACTUARIAL FUNDING UPDATE - DECEMBER 2023**	

Date: Date Not Specified

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."

Agenda Item 5

Pensions Advisory Panel

MINUTES of the OPEN section of the Pensions Advisory Panel held on Wednesday 27 September 2023 at 10.00 am at Ground Floor Meeting Room G01C - 160 Tooley Street, London SE1 2QH

PRESENT: Councillor Stephanie Cryan (Chair)
Councillor Emily Hickson
Clive Palfreyman
Caroline Watson
Tracey Milner
Barry Berkengoff
Roger Stocker
Spandan Shah
Mike Ellsmore
Colin Cartwright
David Cullinan
Marco Gonzalez
Helen Laker
Andrew Weir

1. APOLOGIES

Apologies were received from Councillor Rachel Bentley and Derrick Bennett.

2. CONFIRMATION OF VOTING MEMBERS

Councillor Stephanie Cryan, Councillor Emily Hickson, Caroline Watson and Barry Berkengoff 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 meeting held on 17 July 2023 be agreed as a correct record.

6. EQUALITY, DIVERSITY AND INCLUSION UPDATE

Caroline Watson, Senior Finance Manager, Treasury and Pensions, introduced the report.

There were questions on the report and a discussion.

RESOLVED:

1. That the following points be noted:

    a) The requirements of The Pensions Regulator guidance on equality, diversity and inclusion (EDI) as set out in the report.

    b) The actions being taken to comply with the guidance and incorporate EDI into Fund activities.

7. ASSET ALLOCATION AND NET ZERO STRATEGY UPDATE - JUNE 2023

Caroline Watson, Senior Finance Manager, Treasury and Pensions, introduced the report.

There were questions on the report and a discussion.

RESOLVED:

a) That the fund's asset allocation at 30 June 2023, overall performance and other matters considered by the officers and advisers of the fund during the

quarter and post quarter end, be noted.

b) That the recent progress in the implementation of the net-zero carbon strategy be noted.

8. ADVISERS' UPDATES - QUARTER TO JUNE 2023

David Cullinan presented his report and updated the panel.

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

There were questions and a discussion on the reports.

It was agreed that Newton would be invited to the next pensions advisory panel meeting.

RESOLVED:

That the quarterly investment updates be noted.

9. CARBON FOOTPRINT UPDATE

Spandan Shah, Interim ESG Manager, Finance and Governance, presented the report.

There were questions on the report and a discussion.

RESOLVED:

That the fund’s carbon footprint at 30 June 2023 be noted.

10. LOCAL GOVERNMENT PENSION SCHEME POOLING CONSULTATION

Tracey Milner, Interim Pension Investments Manager, presented the report.

There were questions on the report and a discussion.

Officers gave an undertaking to circulate the response to the consultation to the pensions advisory panel members for comment before the final sign off by the chair.

The chair also advised officers to liaise with the communications team and the public affairs team.

RESOLVED:

1. That the content of the LGPS pooling consultation 2023 be noted.

2. That the final response shall be circulated to members of the pensions advisory panel ahead of being submitted by the S151 officer.

11. PENSION FUND DRAFT TRAINING POLICY

Tracey Milner, Interim Pensions Investments Manager, presented the report.

There were questions on the report and a discussion on the draft training policy (Appendix 1) for the pensions advisory panel members, local pensions board members and for those officers dealing with matters relating to the pension scheme.

RESOLVED:

That the policy be agreed in principle and recommended to the local pension board of 11 October 2023.

12. RESPONSIBLE INVESTMENT POLICY

Caroline Watson, Senior Finance Manager, Treasury and Pensions, introduced the report.

There were questions on the report and a discussion.

Officers were requested to provide the panel with an update on the voting record of the fund managers.

RESOLVED:

That the standalone responsible investment policy for the fund, at Appendix 1 of the report be agreed.

13. PENSION SERVICES - ADMINISTRATION FUNCTION UPDATE

Barry Berkengoff, the Pensions Manager, introduced the report.

There were questions on the report and a discussion.

It was requested that the Pensions Manager brought an action plan, relating to avoiding delays to the annual benefit statements, to the local pension board in January 2024.

RESOLVED:

That the update on the pensions administration function be noted.

14. UPDATE ON THE LOCAL PENSION BOARD

Mike Ellsmore, Chair of the Local Pension Board, updated the pensions advisory panel on the last meeting of the local pension board.

There was a brief discussion.

RESOLVED:

That the update from the local pension board (LPB) meeting of 10 July 2023 be noted.

15. QUARTERLY INVESTMENT UPDATE - AON

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

16. QUARTERLY ACTUARIAL FUNDING UPDATE

The voting members of the penisons advisory panel considered the closed information relating to this item.

RESOLVED:

That the updated funding position at 30 June 2023, as set out in Appendix 1 of the closed agenda, be noted.

17. LOCAL GOVERNMENT PENSION SCHEME POOLING CONSULTATION

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

The meeting ended at 11.58am.

CHAIR:

DATED:

Item No. 7.	Classification: Open	Date: 26 February 2024	Meeting Name: Pensions Advisory Panel
Report title:		Update on the Local Pension Board	
From:		Chair of the Local Pension Board	

RECOMMENDATION

1. The Pension Advisory Panel (PAP) is asked to note the update from the Local Pension Board (LPB) meeting of 24 January 2024.

KEY AREAS OF DISCUSSION

2. Aon representatives provided a training session on conflicts of interest. PAP members were invited to attend and a recording was provided afterwards.

3. The main business included an update on Pension Services, the Fund's breaches log, Pensions Regulator annual survey, an update on current LGPS issues, and agreement of the 2024-25 forward plan and training plan.

Pension Services

4. An update was provided on the progress being made regarding recruitment into vacant positions in the team.

5. The Board were advised that the distribution of some annual benefit statements had been delayed and that there was a revised target date for this to be resolved. Board members raised concerns and requested a detailed report to be provided at the next meeting.

6. There was a discussion around issues with schools data and how this could be addressed.

Breaches Log

7. An update was provided on any new items added to the Breaches Log.

8. The Chair queried if the outstanding unaudited Statement of Accounts should be included as a breach, but was assured that as this sits outside of the Pension Fund's control, it does not need to be added as a breach.

The Pensions Regulator Annual Survey

9. A summary was provided of the key findings of the Pensions Regulator's 2022-23 report on governance and administration practices in public sector pension schemes. The top risks identified in the survey were cyber risks and the

recruitment and retention of staff. It was noted that these are topical issues for the Southwark fund, and that Aon are undertaking a cyber-assessment which covers the UPM system.

Current LGPS Issues

10. The Pensions Regulator has published its new General Code of Practice. Details were provided to the Board and it was agreed that a third party will be engaged to review the Fund's compliance with the new General Code. Once this exercise has been completed, an action plan will be produced and this will be agreed by PAP with progress being monitored by the Board.

Forward Plan 2024-25

11. Outlined the business plan for the coming financial year and the items that would be covered in each meeting of the Board as part of the agenda, ensuring this was not exhaustive and items could be added as they arise across the year.

Training Plan 2024-25

12. Outlined the training to be provided at each meeting of the Board during 2024-25 and it was agreed that a report would be tabled at the April 2024 meeting on the results of the training needs analysis that has recently been conducted.

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

Community impact statement

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Finance	
Report Author	Mike Ellsmore, Independent Chair - Local Pension Board	
Version	Final	
Dated	14 February 2024	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Assistant Chief Executive – Governance and Assurance	No	No
Strategic Director, Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		19 February 2024

Agenda Item 8

Item No. 8.	Classification: Open	Date: 26 February 2024	Meeting Name: Pensions Advisory Panel
Report title:		Pension Services – Administration Function Update	
Ward(s) or groups affected:		None	
From:		Pensions Manager, Finance	

RECOMMENDATION

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

BACKGROUND INFORMATION

2. The Panel last received an update in September 2023 setting out specific information on recruitment, IT/systems, National Dashboard Programme, communication initiatives and complaint management. This report looks to combine the (cancelled) December 2023 and March 2024 Panel meetings.

RECRUITMENT

3. Pensions Officer interviews took place in late October 2023 where an internal candidate already working within Corporate Risk and Insurance was successful.

4. An experienced Senior Pensions Officer (with Mercers TPA background) joined the pensions admin team in November 2023.

5. Following interviews in November 2023 an existing Pensions Officer was appointed to Senior Pensions Officer. In line with our Career Progression Policy, this was managed as an internal recruitment campaign where a number of other Southwark candidates applied. One Pensions Officer role remains vacant.

6. A new Data Officer and Senior Data Officer started in November and December 2023 respectively. Both Officers have a SQL reporting (Structured Query Language) and IT/data management background.

7. Since the last Panel update, a formal review of the Data/Systems team function has been undertaken, relevant to future pension fund IT/software needs and work volumes. As a result, two distinct teams are being formed to manage all pension fund data/interface and IT/technology support

requirements[1]. A number of vacant roles exist and recruitment has already begun.

IT/SYSTEMS

8. Ongoing 'end to end testing' and data analysis continues on IT/admin software to ensure all data fields were captured following the original data migration.

9. Southwark's Senior Management Pensions Team met with Civica's MD and new Client Account Manager in November 2023. An open and honest discussion took place about Southwark's day-to-day user experience of UPM. We believe this will pave the way forward to conclude any remaining data migration issues.

10. To re-iterate, ongoing remediation work does not affect BAU/transactional work (processing retirements, death benefits etc.) within the admin team. It does however mean additional quality assurance checks remain in place at this time.

11. We still await the results of a Cyber Risk assessment against new pension fund software. An independent review is being undertaken through Aon and the results will be initially communicated to the Local Pension Board (the **Board**) and then the Panel at a later date.

NATIONAL DASHBOARD PROGRAMME

12. It has been confirmed that the proposed staging date for public service pension schemes will now be around 30 September 2025.

13. The admin system supplier is developing a dashboard ecosystem as part of the legal requirement for all administering authorities to adhere to the new Pensions Dashboards Regulations 2022.

PROGRESS TO FEBRUARY 2024

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

COMMUNICATION INITIATIVES

14. Annual Benefit Statements (**ABS**) were issued to staff earlier in February, starting with members who had CARE only benefits.

15. An ABS Action Plan will be in place for 2024 and will be communicated to all external employers and payroll providers, and followed up with Employer Hub training. Details of the Action Plan will be shared with the Board shortly.

[1] Appendix 1 provides a high-level breakdown of team structure.

16. Weekly training continues to be provided to staff. The training service has also been extended to the LB of Haringey, Berkshire Council, and more recently the LB of Harrow and North Yorkshire Council. The pension fund will now consider making LGPS training part of a chargeable service going forward as it attracts other interested local authorities.

17. Pension Increase 2024 planning is now underway where LGPS pensions will increase by 6.7% from 8 April 2024. A lower, pro-rata increase will apply to pensions that started after 23 April 2023.

18. The pension fund website is currently being re-branded and will also take into account the Council's recent 'refresh to visual identity'. As part of the changes being made there will also now be a dedicated finance and investment section.

COMPLAINT MANAGEMENT

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

 - Pensions Ombudsman single complaint - ill-health tiering award appeal against a former school employer. All ill-health tiering awards are recommended by Occupational Health following medical assessment, but the employer makes the final decision. **Matter still with Ombudsman pending a formal decision**.

 - Pensions Ombudsman single complaint - a cohabiting partners' pension claim and a claim for the death grant was made against the pension fund where the applicant alleged that both he and the deceased were financially dependent on one another and living together as husband and wife, however there was no evidence of that. **Complaint was partially upheld. The Ombudsman found no evidence that the Administering Authority had made an incorrect decision. Applicant was awarded £500 to cover a non-financial injustice.**

 - Pensions Ombudsman single complaint - a protracted employer complaint from a former member of Council staff about pension benefits detailed in a Settlement Agreement. **Southwark has submitted its formal response.**

 - Pensions Ombudsman single complaint - pensions liberation matter where the applicant contests that the pension fund undertook no receiving scheme due diligence when a transfer out was paid back in 2016. **Southwark is investigating and will provide a formal response shortly.**

 - IDRP stage 1 - approximately 10 formal complaints with the Council concerning claimed incorrect employee pension deductions made from the Council's payroll system. All complaints are with Council

HR as the stage 1 adjudicator. The pension fund is monitoring and is aware of Union involvement in some cases. **This forms part of a wider piece of work and has oversight from the Director of People and Organisational Development. The Council has indicated it will make refund payments for 2022/23 in February 2024 pay.**

ADMIN PERFORMANCE MONITORING

Metrics will be system reinstated once all data migration issues are resolved. For now, all transactional work is recorded outside of the admin system.

Performance metrics were provided to the Board in January 2024 covering the period October, November and December 2023 and are detailed in Appendix 2 for the Panel.

FUTURE WORK PLANNING

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

CONCLUSIONS

21. Recruitment and retention of key staff with the necessary skills is critical to the achievement of all future plans, as is succession planning.

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

KEY ISSUES FOR CONSIDERATION

Policy framework implications

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

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

Community impact statement

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Assistant Chief Executive – Governance and Assurance

32. Not applicable.

Strategic Director of Finance

33. Not applicable.

Other officers

34. Not applicable.

APPENDICES

No.	Title
Appendix 1	High-level breakdown of team structure
Appendix 2	Admin metrics – October/November/December 2023

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Finance	
Report Author	Barry Berkengoff, Pensions Manager, Finance	
Version	Final	
Dated	13 February 2024	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Assistant Chief Executive – Governance and Assurance	No	No
Strategic Director of Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		14 February 2024

APPENDIX 1

Team A – Data Management and Interfacing

- Responsible for all Employer Hub work, i.e. all inbound data/interfaces from around 90 employers, including principal employer (Southwark Council) and external pension fund employers such as maintained schools who sign up to a number of different HR and payroll service providers.

- All outbound data interfaces including NI Database, DWP 'Tell Us Once' database, LPFA and NHS annual data returns.

- Annual scheme return to Pensions Regulator capturing common data and scheme-specific data scores.

- All data cleansing initiatives as identified from data migration, valuation process, Fraud Hub (NFI) data matching service, and any pre-agreed data improvement exercises.

- Responsible for data management best practice in accordance with the fund's Data Management Policy, TPR guidelines, including regular IT housekeeping and reporting in line with agreed Audit/Internal Audit recommendations.

Team B – IT/System pension fund support

- Supports Pension Services operations and staff.

- Provides admin support on UPM processes and calculations.

- Manages Civica Service Desk enquiries and third party relationship.

- Responsible for all UAT/testing, cyber security, software updates and annual LGPS factor updates through LGA or GAD.

- Provides UPM online Portal support to members and general systems support to employers/outsourced payroll providers and other stakeholders such as HR.

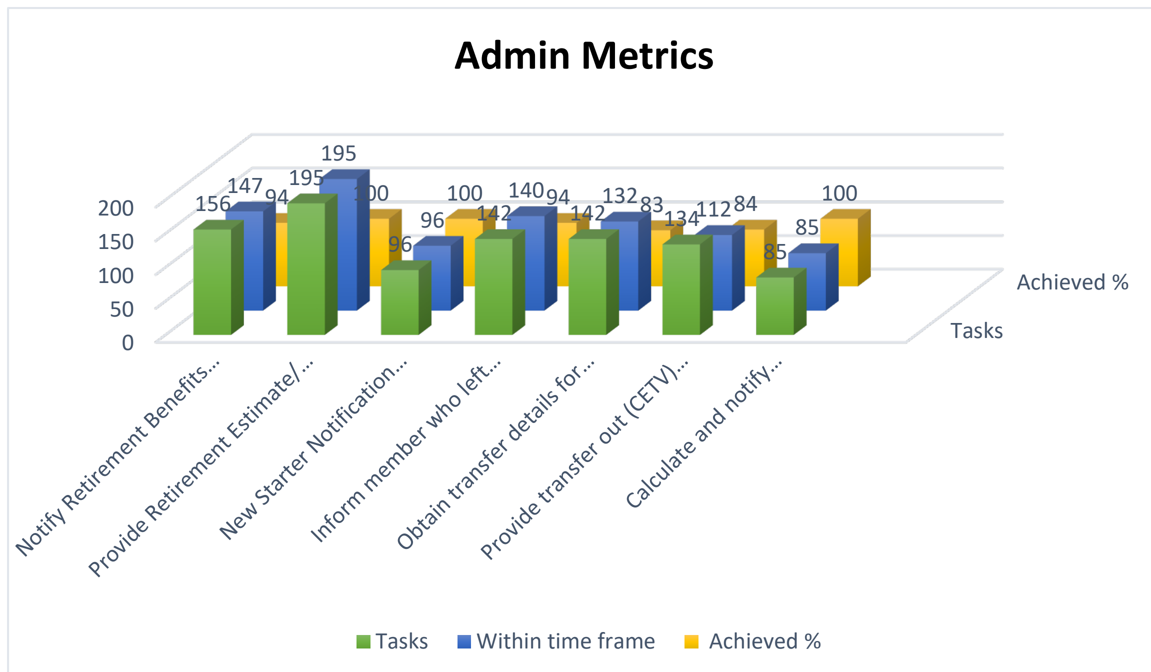
- Provides IT support to all pension fund staff.

- Manages all UPM (SQL) reporting requirements (specification, building and testing) to the wider pension fund team (i.e. Pensions Finance colleagues).

APPENDIX 2

Admin Metrics – October/November/December 2023

	Total Tasks	Within Time Frame	Achieved %
Notify Retirement Benefits (Within One Month of Retirement)	156	147	94%
Provide Retirement Estimate/ Quote on request	195	195	100%
New Starter Notification joining the LGPS	96	96	100 %
Inform member who left scheme of leaver rights and options	142	140	94%
Obtain transfer details for transfer in, calculate and provide quote	142	132	92%
Provide transfer out (CETV) request (Three months from date of request)	134	112	84%
Calculate and notify dependants about death benefits	85	85	100 %



Agenda Item 9

Item No. 9.	Classification: Open	Date: 26 February 2024	Meeting Name: Pensions Advisory Panel
Report title:		Asset Allocation and Net Zero Strategy Update – December 2023	
From:		Senior Finance Manager, Treasury and Pensions	

Recommendation

1. The Pensions Advisory Panel is asked to note the Fund's asset allocation at 31 December 2023, overall performance and other matters considered by the officers and advisers of the Fund during the six months to the end of December and post quarter end.

Background

2. Decision making for the Southwark Pension Fund is a bipartite mutual responsibility between the Strategic Director of Finance (S151 officer) and the Pensions Advisory Panel (PAP). London Borough of Southwark, as administering authority for the Southwark Pension Fund, has delegated responsibility for the management and decision making for the Fund to the S151 officer. All Fund investment decision making, ongoing investment monitoring and risk management by the S151 officer must be made with regard to advice received from PAP.

3. Additional oversight of the decision-making process is provided via the Local Pension Board.

Pension Fund Investments – December Quarter 2023

Position Statement at 31 December 2023

4. The market value of the Fund increased during the quarter from £2,057.9m to £2,165.9m, an increase of £108m (+5.2%). In contrast, in the previous quarter the market value of the Fund increased by £4.3m.

5. The value of the major asset classes at 31 December 2023 compared to 30 June and 30 September 2023 is as follows:

	30 June		30 September		31 December	
	£m	%	£m	%	£m	%
Low carbon passive equities	699.239	34.0	702.903	34.2	745.500	34.4
Active Emerging Market equities	91.762	4.5	91.012	4.4	93.903	4.3

	30 June		30 September		31 December	
Active global equities	266.911	13.0	256.615	12.5	277.634	12.8
Total Global Equities	**1,057.912**	**51.5**	**1,050.529**	**51.0**	**1,117.037**	**51.6**
Total Diversified Growth	**100.085**	**4.9**	**0.0**	**0.0**	**0.0**	**0.0**
Total Multi-Asset Credit	**-**	**-**	**98.576**	**4.8**	**105.756**	**4.9**
Total Absolute Return Bonds	**128.956**	**6.3**	**120.335**	**5.8**	**108.709**	**5.0**
Total Index Linked Gilts	**140.966**	**6.9**	**132.102**	**6.4**	**156.791**	**7.2**
Total Property	**318.564**	**15.5**	**322.521**	**15.7**	**322.392**	**14.9**
Total ESG Priority	**262.570**	**12.8**	**274.016**	**13.2**	**278.241**	**12.8**
Total Cash & Cash Equivalents	**44.508**	**2.2**	**34.199**	**2.9**	**76.952**	**3.6**
Total Fund	**2,053.591**	**100.0**	**2,057.902**	**100.0**	**2,165.880**	**100.0**

6. The following table shows the breakdown of the market valuation as at 31 December 2023 by asset class/manager and compares the totals with the target asset allocation, which was agreed by PAP in December 2022:

	Manager(s)	**TOTAL FUND £000**	**Actual %**	**Target %**	**(Under) Overweight**
Low carbon passive equity	Blackrock LGIM	372,209 373,291	17.2 17.2	17.5 17.5	-0.3 -0.3 -0.6
Active Emerging Market equity	Comgest	93.903	4.3	5.0	-0.7
Active global equity	Newton	277,634	12.8	10.0	+2.8
Total Global Equity			**51.5**	**50.0**	**+1.5**
Total Diversified Growth*	Blackrock	**0.0**	**0.0**	**0.0**	0.0
Total Absolute Return Bonds	Blackrock	**108,708**	**5.0**	**0.0**	+5.0
Total Multi-Asset Credit	Robeco	**105,756**	**4.9**	**10.0**	-5.1
Total Index Linked Gilts	Blackrock LGIM	**95,784** **61,007**	**4.4** **2.8**	**5.0** **5.0**	**-0.6** **-2.2**
Total Property	See table below (Para 10)	**322,393**	**14.9**	**20.0**	-5.1
Total ESG Priority	See table below (Para 18)	**278,241**	**12.8**	**10.0**	+2.8
Total Cash & Cash Equivalents	LGIM Northern Trust Blackrock Newton Nuveen	**7,425** **29,763** **10,441** **7,621** **21,702**	**0.3** **1.4** **0.5** **0.4** **1.0**	0.0 0.0 0.0 0.0 0.0	+0.3 +1.4 +0.5 +0.4 +1.0 **+3.6**

	Manager(s)	TOTAL FUND £000	Actual %	Target %	(Under) Overweight
Total Fund		**2,165,880**	**100.0**		
30 September		2,057,902			
30 June		2,053.591			

7. The Fund's Strategic Asset Allocation (SAA) has tolerance, within specific ranges, for deviation from the target allocation for each manager/asset class. All allocations are within the maximum permitted by the SAA. The key overweight positions are in Absolute Return Bonds (+5.0%) and ESG Priority Funds (+2.8%). In contrast, the key underweights are in Multi-Asset Credit (-5.1%) and Property (-5.1% excluding cash held by Nuveen).

8. Aside from changes due to market movements, compared to the end of June the main changes in the asset allocation weightings are seen in:

   - A reduction in the overweight to the Diversified Growth Fund (from +4.9%) due to a full redemption to fund the new allocation to the Robeco Global Climate Credits Fund in September 2023. Consequently, the underweight to Multi-Asset Credit (MAC) has reduced from -10% to -5.1%.

   - A reduction in the overweight to the Absolute Return Bond Fund (from +6.3% at the end of June to +5.0% at the December) due to a partial redemption to fund the new allocation to the Robeco Fund as above.

   - An increase in the overweight to cash (from +2.2% to +3.6%). The majority of this increase is due to an increase in the cash held by Nuveen ahead of property purchases.

9. A report on progress to appoint additional manager(s) to run the allocation to Multi-Asset Credit (with a view to being fully funded by the end of 2023-2024) is to be considered under Item 12 of this meeting. The source of funding will be the Absolute Return Bond fund managed by Blackrock.

Fund Manager Activity – public market assets

10. As mentioned in Para 7, on 6 September a £100m allocation to Robeco's Climate Global credit fund, part of the Fund's new allocation to Multi-Asset Credit, was made. This was funded by full redemption from the Blackrock Dynamic Diversified Growth fund and partial redemption (£12m) from the Blackrock Absolute Return Bond fund.

Fund Manager Activity – property

11. The table below breaks down the property holdings showing the valuation of the direct and indirect fund holdings as at 31 December 2023:

Manager	Description	Market Value £m	Actual %	Target %
Nuveen	Direct property UK Retail Warehouse Fund	191.175 2.003	8.9	14.0
Invesco	UK Residential Fund	47.803	2.2	1.5
M&G	UK Residential Property Fund	42.723	2.0	1.5
Darwin	Leisure Development Fund	25.068	1.2	0.5
Frogmore	Frogmore Real Estate Fund III	6.765	0.3	1.2
Brockton	Brockton Capital Fund III	6.856	0.3	1.3
Total Property		**322.393**	**14.9**	**20.0**
Last quarter		**322.521**	**15.7**	**20.0**

12. The table shows that there is a significant underweight in the core property mandate run by Nuveen (-5.1%, excluding cash). However, it should be noted that Nuveen have permission to draw down cash, which is held within the Pension Fund's cash balances, as and when appropriate investment opportunities arise.

13. The overall target allocation to property is 20%, which includes ESG priority allocations to Invesco, M&G, Frogmore, Darwin (Leisure Development Fund) and Brockton Capital. As at 31 December, the total actual property allocation was 14.9%, with another 1.0% held in cash by Nuveen ahead of making new investments (Para 16).

14. At the start of the September quarter there was an outstanding commitment of £15m to the Invesco UK Residential Property Fund. During the September quarter a capital call of £10m was drawn down, with the remaining commitment being funded in October. The commitments were both funded from cash.

15. In August the Section 151 officer agreed to vote in favour of an extension to the fund life of the Nuveen UK Retail Warehouse fund, to 30 June 2024. This was to enable the manager to take more time to sell the remaining assets in the fund when it is likely that valuations will be more favourable. The vote was passed unanimously.

16. Nuveen advised that the 16 Colonial Way (a Watford Industrial Unit) asset has been independently verified as having an EPC A+ rating, which makes it LBS pensions fund's first Net Zero holding in the direct property portfolio.

17. In December Nuveen advised that offers had been made on a number of properties on behalf of the Fund. The purchase of one of the properties was to be funded through cash held by Nuveen, together with £13.4m of cash held within the Pension Fund's cash balances. This was transferred to Nuveen in mid-December. However, due to a last minute query on some of the legal documentation, completion on the property did not happen until January. Hence Nuveen was holding a higher cash balance than had been expected (£21.7m compared to £6.6m at the 30 September). This was placed on deposit with a money market fund, earning interest of 5.5%, ahead of the rescheduled January

completion date. Following the quarter end, an additional £6m of cash was transferred to Nuveen to fund a further property purchase.

18. Darwin advised that there had been a significant decrease in the Net Asset Value of the Leisure Development Fund during September. This was driven by a change in the way that the assets are valued reflecting, amongst other things, an increase in the cost of borrowing. The impact on LBS PF is that the valuation of the Fund's holding reduced by £4.5m (15%) since fully funding in the June quarter. It should be noted, however, that Darwin has maintained the valuation methodology for a number of years and that this may change should market conditions be favourable.

Fund Manager Activity – ESG Priority allocations (ex-property)

19. The below table breaks down the ESG priority holdings (excluding property) showing the valuation of underlying funds as at 31 December 2023 against the original commitments:

Manager	Fund	Commitment	Market Value £m
Glennmont	Glennmont Clean Energy Fund III	€35m	30.102
Temporis	Operational Renewable Energy Renewable Energy Impact Strategy	£33.3m £30.6m £31.0m	65.711 31.621 21.781
Blackrock	Global Renewable Power Infrastructure	$40m	24.258
Darwin	Bereavement Services Fund	£20m	22.450
Blackstone	Strategic Capital Holdings II	$110m	47.855
BTG Pactual	Core US Timberland	$40m	34.463
TOTAL			**278.241**
Last Quarter			**274.016**

20. It should be noted that a number of the above funds are fully committed (e.g. Darwin Bereavement Fund), whereas others will be drawing down cash to invest over the coming months and years (e.g. Blackstone). Some of the older funds are starting to return capital, which can be considered for reinvestment to ensure that the ESG priority allocation is maintained. This is covered in some detail at Item 10 of this meeting.

21. The following table shows the private market cash transactions (excluding property) for the September and December quarters:

	Net Drawdowns		Net Distributions	
	September	December	September	December
Blackstone	£5.9m		£5.1m	£0.6m
Glennmont	£1.8m		£0.2m	£0.5m
Temporis Impact Fund (TIF)	£0.8m	£4.3m	£0.2m	-
Temporis Operational Renewable Energy Strategy (TORES)				£3.3m
Temporis Renewable Energy (TREF)				£1.1m
Total impact on LBSPF cash balances	**-£8.5m**	**-£4.3m**	**+£5.5m**	**+£5.5m**

Investment Performance Results for the Period

22. The following table shows the total fund returns for the quarter and for longer-term assessment periods:

	Quarter to 31 December	**Year to 31 December**	**3 Years to 31 December p.a.**	**10 Years to 31 December p.a.**
Fund	5.9	10.5	5.0	8.5
Benchmark[1]	5.8	11.4	6.3	9.2
Relative	+0.1	-0.9	-1.3	-0.7

[1] The benchmark figures are subject to change given outstanding queries with JP Morgan (custodian)

23. The Fund made a return of 5.9% in the quarter, marginally ahead of the benchmark return of +5.8%. The total fund return for the year to the end of December 2023 was 10.5%, which was below the benchmark return of 11.4%. Over 3 years, the Fund returned 5.0% p.a. compared to a benchmark return of 6.3% p.a., a difference of -1.3% p.a. An annualised return of 8.5% over 10 years means that the Fund has exceeded, by some margin, the 2022 actuarial valuation's assumed investment returns of 4.05% p.a..

24. Further information on the performance of underlying managers will be provided during the adviser update (Item 11).

Manager meetings

25. Officers had update meetings with Glennmont (sustainable infrastructure), Newton (global equity), Nuveen (core property), Frogmore (property) and LCIV. An oral update on any matters arising will be given at this PAP meeting.

LGPS Next Steps on Investments Consultation – Government Response

26. As discussed at the PAP meeting of 27 September, officers submitted a response to the LGPS pooling consultation following circulation of the submission to members of PAP.

27. The consultation closed on 2 October 2023 and, having considered 152 submissions, the government issued a response on 22nd November 2023. A summary of the government response can be found at Appendix 1 of this report.

28. The key areas of interest to PAP are that government is progressing proposals (that were set out in the consultation) to accelerate and expand pooling, and increase investment in levelling up and private equity.

Further Areas of Progress

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

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

Community Impact Statement

30. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

31. There are no immediate implications arising.

Health Impact Statement

32. There are no immediate implications arising.

Climate Change Implications

33. There are no immediate implications arising.

Resource Implications

34. There are no immediate implications arising.

Legal Implications

35. There are no immediate implications arising

Consultation

36. There are no immediate implications arising.

Financial Implications

37. There are no immediate implications arising.

AUDIT TRAIL

<table>
<tr><th>Lead Officer</th><td colspan="2">Clive Palfreyman, Strategic Director of Finance</td></tr>
<tr><th>Report Author</th><td colspan="2">Tracey Milner, Pensions Investments Manager, Treasury and Pensions</td></tr>
<tr><th>Version</th><td colspan="2">Final</td></tr>
<tr><th>Dated</th><td colspan="2">14 February 2024</td></tr>
<tr><th>Key Decision?</th><td colspan="2">No</td></tr>
<tr><th colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</th></tr>
<tr><th>Officer Title</th><th>Comments Sought</th><th>Comments Included</th></tr>
<tr><td>Assistant Chief Executive - Governance and Assurance</td><td>No</td><td>No</td></tr>
<tr><td>Strategic Director, Finance</td><td>No</td><td>No</td></tr>
<tr><td>Cabinet Member</td><td>No</td><td>No</td></tr>
<tr><td colspan="2">Date final report sent to Constitutional Team</td><td>16 February 2024</td></tr>
</table>

Lead Officer	Clive Palfreyman, Strategic Director of Finance
Report Author	Tracey Milner, Pensions Investments Manager, Treasury and Pensions
Version	Final
Dated	14 February 2024
Key Decision?	N/A

CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		

APPENDIX 1 – LGPS Next Steps on Investments Consultation – Government Response

Introduction

1. The Government has issued a response to the LGPS consultation which closed on 2 October 2023. Given the 2025 deadline for the transfer of assets is being maintained, it is hoped that guidance will be issued soon to enable funds to identify the steps they will need to take to fully comply with the requirements.

2. The key points from the consultation response are set out below:

Pooling

- 2025 stays as the pooling transition deadline for transition of liquid assets to the pool on a comply or explain basis.

- The Government Actuary's Department estimate that the LGPS could reach around £950 billion in assets in 2040, the government is therefore looking towards a smaller number of pools with assets under management averaging £200 billion.

- Revised guidance will include a preferred model of pooling which is expected to be adopted over time based on "characteristics and outcomes" rather than prescribed structures. Inter-pool collaboration will be encouraged.

- Investment in other pools should only be done via a Fund's existing pool.

- Greater transparency on reporting to be developed in conjunction with the Scheme Advisory Board (SAB).

Levelling Up

- Government keen to maintain a broad definition of levelling up but UK wide.

- Where scale for local investment is an issue funds may wish to continue to invest outside the pool.

- Five percent investment in levelling up remains an ambition, but recognises it is not a separate asset class.

Private Equity

- On private equity the Government remains committed to unlocking capital to support growth businesses. However, "investment in the UK is particularly welcome but it is not proposed to restrict this ambition to investments in private equity in the UK".

- Ten percent investment in private equity remains an ambition and would not be mandated (need to still take into account fiduciary duty). Ten percent does relate

to private equity, but funds can also include other investments in private markets outside of this where appropriate on risk/return grounds.

- Pools to be encouraged to strengthen partnerships with British Business Bank to support opportunities in venture capital and growth equity.

CMA Objective Setting for Advisers

- LGPS regulations will be amended to require objective setting for all advisers including consultants, pools and independent advisers when providing advice on investments, investment strategy statements, strategic asset allocation and manager selection.

Governance and Other

- Requirement to formally publish a training policy for the pensions advisory panel and to report on training undertaken.

- LGPS definition of investments amendment to be made in regulations.

- Guidance to be issued to increase consistency of reporting on asset allocation in annual reports, working with the Scheme Advisory Board.

Item No. 10.	Classification: Open	Date: 26 February 2024	Meeting Name: Pensions Advisory Panel
Report title:		Glennmont Clean Energy Fund IV	
From:		Pensions Investment Manager	

Recommendations

1. To note that, in line with the governance arrangements for new investments, voting members of PAP made an offline recommendation to the Strategic Director of Finance to progress a commitment in the Glennmont Clean Energy Fund IV.

2. To ratify the decision to progress the commitment to Glennmont Clean Energy Fund IV.

Background information

3. A report on a proposal to make a commitment to the Glennmont Clean Energy Fund IV ("the Fund") was prepared as part of the closed agenda for the December meeting of PAP, which was postponed.

4. The report outlined the investment case for making a commitment to the Fund. Given that the deadline for making the commitment was 31 December 2023, the Strategic Director of Finance requested the agreement of voting members of PAP via email to approve the investment in this Fund. The report mentioned in Paragraph 3 was provided as part of this process.

5. Following circulation of email approvals, the Strategic Director of Finance and officers progressed the commitment. This due diligence included a review of legal documentation by external lawyers, ahead of completion of LBSPF's application to subscribe on 19 December.

6. LBSPF subsequently received confirmation that the application to become a Limited Partner in the Fund, with a commitment of €50 million, was effective from 20 December 2023.

Next Steps

7. It is expected that the first cash contribution to the Fund will be requested by Glennmont in April 2024.

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

Community Impact Statement

8. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

9. There are no immediate implications arising.

Health Impact Statement

10. There are no immediate implications arising.

Climate Change Implications

11. There are no immediate implications arising.

Resource Implications

12. There are no immediate implications arising.

Legal Implications

13. There are no immediate implications arising

Consultation

14. There are no immediate implications arising.

Financial Implications

15. There are no immediate implications arising.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

16. Not applicable.

AUDIT TRAIL

<table>
<tr><th>Lead Officer</th><td colspan="3">Clive Palfreyman, Strategic Director of Finance</td></tr>
<tr><th>Report Author</th><td colspan="3">Tracey Milner, Interim Pensions Investments Manager</td></tr>
<tr><th>Version</th><td colspan="3">Final</td></tr>
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<tr><th>Key Decision?</th><td colspan="3">No</td></tr>
<tr><th colspan="4">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</th></tr>
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<tr><th colspan="3">Date final report sent to Constitutional Team</th><td>14 February 2024</td></tr>
</table>

Agenda Item 11

Item No. 11.	Classification: Open	Date: 26 February 2024	Meeting Name: Pensions Advisory Panel
Report title:		Advisers' Updates - Quarter to December 2023	
From:		Senior Finance Manager - Treasury and Pensions	

Recommendations

1. The pensions advisory panel is asked to:

- Note David Cullinan's investment report attached as Appendix 1.
- Note Aon's quarterly investment dashboard attached as Appendix 2.

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

Community Impact Statement

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.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

10. Not applicable.

APPENDICES

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

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Finance	
Report Author	Caroline Watson, Senior Finance Manager - Treasury and Pensions	
Version	Final	
Dated	14 February 2024	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director of Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		14 February 2024

APPENDIX 1

LONDON BOROUGH OF SOUTHWARK - Quarterly Report December 2023

Executive Summary

- The economic outlook improved again this quarter and both real and monetary assets advanced
- The Fund returned almost 6% over the period, performing just ahead of the benchmark
- The Fund returned a very healthy 10.5% over the full year but remained some way behind the benchmark
- The medium and long-term returns for the Fund remain solid, ahead of both heightened inflation and actuarial assumption, but behind benchmark
- The near-term outlook for markets remains quite uncertain. Optimism around the direction of interest rates and inflation is being tempered by political tensions both at home and overseas. It is likely to remain a challenging environment for both our own investment strategy and the managers we employ to manage the assets

Market Background

The economic background improved in the final calendar quarter with inflation easing and investors becoming more optimistic about the prospect of rate cuts earlier in 2024 than previously expected. Headline equity and bond markets rose whilst credit spreads narrowed.

Despite a strong Pound paring back returns, global equities returned more than 6% over the quarter resulting in the best annual performance since 2019. Developed markets outperformed emerging markets which were impacted by on-going concerns over China's real estate sector. Regionally, the US performed best due largely to its high technology exposure. The UK and Japan underperformed, both impacted by currency strength and in the former, a high weighting to energy stocks which performed poorly.

Bonds had a very strong quarter with both nominal and inflation linked securities returning upwards of 8%. Corporate bond returns were of a similar magnitude.

Despite the modest improvement in the economic outlook, uncertainty and the persistence of high interest rates meant that property transaction activity has remained very subdued and capital values declined again over the quarter, most notably in the office sector. Property will always lag other asset classes in responding to macroeconomic sentiment, however.

LGPS Funds

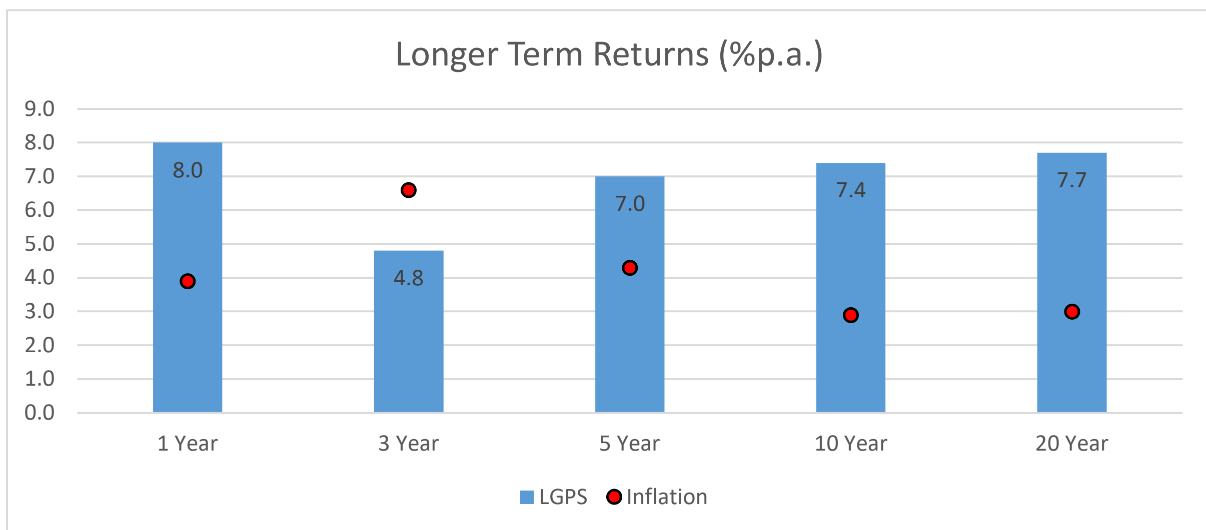
The average LGPS fund is expected to have returned around 5%.

Longer-Term

The one year at around 8% is positive and the three-year return, an important measurement point for the LGPS, is running just under 5%p.a.

Over the last ten and 20 years the average fund has delivered a return in the region of 7-8% p.a. Despite the recent spike in inflation, the longer-term returns represent a near 5%p.a. buffer.

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. Compared to a benchmark return of 5.8%, this represents an outperformance of 0.1%.

Performance from the Fund's managers was mixed, as is normally the case, and the analysis below shows the make-up of the returns, both absolute and relative.

	Manager	Returns		
		Fund	Benchmark	Relative
Global Equity	BLK	7.7	6.7	
	LGIM	7.3	7.6	
	Newton	8.5	7.0	
	Comgest	3.0	3.3	
MAC	Robeco	7.3	7.3	
Property	Nuveen	5.6	1.7	
	Invesco	10.3	1.9	
	M&G	-2.5	1.9	
	Darwin Leisure	0.4	1.5	
	Frogmore	-2.9	3.9	
	Brockton	0.0	3.6	
ESG Priority	Glenmont	0.5	2.4	
	Temporis	5.7	2.4	
	Temporis (New)	4.1	1.7	
	Temporis (Impact)	0.4	2.4	
	BLK	-2.2	2.4	
	Darwin Bereavement	1.8	1.5	
	Blackstone	-2.7	2.9	
	BTG	-4.1	1.5	
Index-Linked	BLK	10.8	10.5	
	LGIM	10.5	10.5	
ARB	BLK	3.5		
Cash	LGIM/BLK/NT/Mgr Frictional	1.3	1.3	0.0
Total Fund		**5.9**	**5.8**	**0.1**

In a key change this quarter, we have changed the calculation basis of the benchmark.

Until now, the weights used to determine the aggregate benchmark return were the actual portfolio weights, but we will now be using the weights prescribed by the Fund's strategic asset allocation.

The implication of the previous methodology was that the only contribution to the overall relative return came from the actions of the managers. From this quarter, both the manager performances **and** any over or underweight relative to the overarching strategy will have a measurable impact on the bottom line.

The table below shows what this looks like for the December quarter:

	Fund Weight	BM Weight	Fund Return	BM Return	Asset Allocation Policy	Investment Selection
Global Equity	51.3	50.0	7.4	6.7		0.3
MAC	4.9	10.0	7.3	7.3	-0.1	
Property	16.0	20.5	4.4	2.0	0.2	0.4
ESG Priority	13.3	9.5	0.8	2.3	-0.1	-0.2
Index-Linked	6.4	10.0	10.7	10.5	-0.2	
ARB	5.8	0.0	3.5		-0.1	
Cash	2.3	0.0	1.3		-0.1	
	100.0	**100.0**	**5.9**	**5.8**	**-0.4**	**0.5**

Over the quarter, the Fund outperformed by 0.1%. During the quarter, over/underweights ("asset allocation policy" in the table) cost 0.4% but this was offset by good aggregate manager performance of 0.5% ("selection" in the table). In terms of policy, by way of an example, the best performing asset over the period was index-linked with a market return of 10.5%. We were below target weight hence the negative contribution.

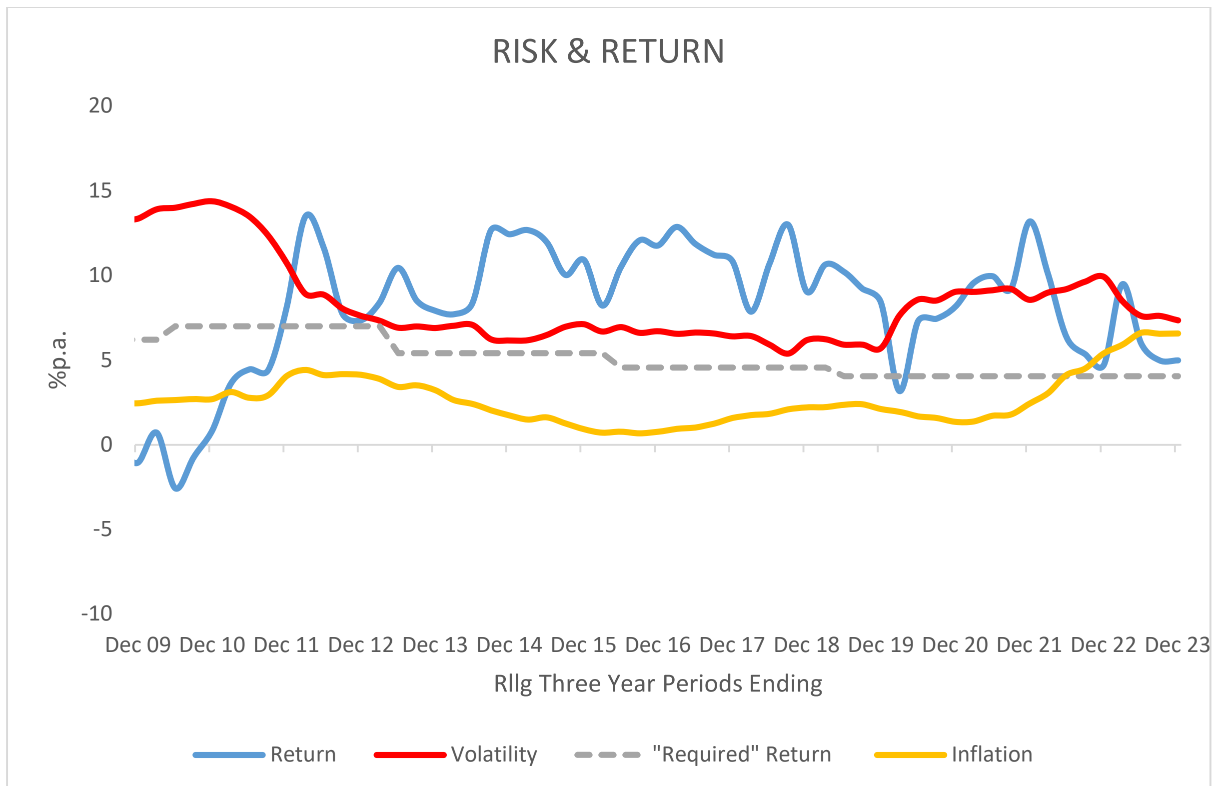
For illustrative purposes, overweights are shaded blue as are manager outperformances.

Over the **full year**, the Fund returned a very strong 10.5%, but lagged the benchmark by around 0.9%. The two biggest contributors to the underperformance were Newton (active global equity) and Blackstone (private equity). It is worth pointing out however, that the valuation for the latter, as with any of our early-stage illiquid investments will fluctuate widely as monies are drawn-down ("called") or distributed, factors largely out with our control.

Medium-term, the Fund has returned roughly 5%p.a. over the three-years and nearer 8%p.a. over the five-year period. Both periods' returns have been behind benchmark, the latter by a smaller margin.

Longer-term, over the last ten-years, the Fund has delivered a very valuable 8.5%p.a. return but 0.7%p.a. off the target.

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



In summary,

- The blue line shows that over almost all post financial crisis periods, returns delivered have consistently outpaced the return assumption used in the Actuary's modelling (the dotted line on the chart).
- The red line shows the volatility of the returns being delivered (sometimes, and arguably unhelpfully, termed "risk"). This has remained heightened post pandemic but has begun to reduce
- The extreme right-hand side of the chart shows that inflation (the yellow line) has now overtaken both the Fund return and the 'base' return set by the actuary. With CPI likely to remain well ahead of the Government's target in the immediate short-term, this continues to cause concern

Newton – Active Global Equity

Newton recorded a return of 8.5% in the quarter, 1.5% ahead of benchmark. This outperformance was driven by positive stock selection in the health care and consumer discretionary sectors. As oil prices slid over the period, the portfolio's zero exposure to energy was also beneficial.

In their report they now show a comparison of the portfolio relative to a notional benchmark adjusted for the adjusted 'opportunity set' arising from the net-zero transition. Unsurprisingly given the performance of energy stocks, the adjusted benchmark was higher than the headline by more than 1%, reversing the opposite effect last quarter. Newton outperformed the adjusted benchmark, however.

This is a very helpful metric that shows the Panel the impact of their decisions around the net-zero transition alongside Newton's contribution.

The portfolio's annual return was a very substantial 13.8% but considerably behind the benchmark due to last quarter's sharp underperformance.

Longer-term numbers have been disappointing in benchmark relative terms, but the delivered returns have been extremely positive.

Newton are rightly cautious over the near-term outlook for stock markets given the pain of high interest rates has yet to feed into the real economy. A focus on companies with resilient long-term prospective earnings and credible net zero commitments remains a prudent strategy.

Comgest – Active Emerging Market Equity

Comgest returned 3% during the quarter, lagging the index benchmark by 0.3%.

Unfortunately, it is difficult from Comgest's reports to accurately isolate the attributes making up the relative performance, but geographical allocation had a more material impact than sector selection.

Over the full year, the portfolio returned 0.4% (JP Morgan quoted return), trailing the index by a sizeable 3.2%.

Since inception returns have been disappointing in both absolute and relative terms.

BlackRock - Active

The ARB portfolio performed well over the quarter, returning 3.5% and outperforming the cash benchmark by 2.2%. Longer duration positions were helpful as was stock selection in credit markets.

The full year outcome was a disappointing shortfall of 3.6% and returns since inception have been very poor in absolute and in relative terms.

Nuveen Real Estate – Core Property

The portfolio return was -0.8% for the quarter (manager number). Income of 1.2% was more than offset by capital falls of -2%.

Falls in valuations were evidenced in all sectors with the portfolios industrial and office holdings falling furthest.

The full year return reported by Nuveen was near zero which represents a significant improvement on the numbers reported earlier in the year.

The current seven-year number of c3p.a. has stayed broadly the same and remains some way behind the 7%p.a. target set by the Panel.

The portfolio's one indirect holding performed poorly over the quarter and since inception but is due to be redeemed early in 2024.

There are many headwinds facing the commercial real estate sector and returns are likely to be behind expectation until such times as inflation and interest rates revert to some semblance of normality and activity picks up.

Residential/Opportunistic Real Estate

Of the non-core property portfolios, only Invesco reported a positive return. Going by JP Morgan's returns, all portfolios have lagged their respective (and time-specifically challenging) benchmarks.

Southwark's Property Allocation

Both the core and aggregate added value/opportunistic assets performed positively over the quarter and added value over and above benchmark. Over the full year, the core and non-core portfolios performed quite differently but fell someway short of benchmark. The following table gives a flavour of this.

	Quarter			Year		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative
All Property	5.0	1.9	3.1	4.9	7.7	-2.6
Core	5.6	1.7	3.8	6.9	7.0	-0.1
Ex Core	3.4	2.2	1.2	0.1	9.1	-8.2

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

The Fund has a sizeable allocation to real estate. This has, and will have, a significant bearing on the performance (and volatility) of the Fund and is an important differentiator in its overall strategy. The chart below shows the impact on risk and return over consecutive rolling three-year periods.

In the latest three-year period, the overall Fund return was improved marginally by our real estate holdings. Volatility overall has been reduced by a more significant margin – around 0.8%p.a. There has therefore been a beneficial risk/return trade-off.

Robeco

This is a new multi-asset credit portfolio valued at £105m by quarter end. It got off to a positive start posting a return of 7.3%, very much in line with the benchmark.

"ESG Priority" Allocation

The Fund's infrastructure and other diversified alternative investments are relatively new but comprise an increasingly significant c13% of the overall asset value. It is too early to provide any meaningful commentary on performance however, but early signs are reasonably encouraging. Over the full year, I estimate the assets to have added in the region of 0.5% to the bottom line.

Passive Portfolios

The portfolios tracked within tolerance over the quarter.

APPENDIX 2

Strategic Investment Dashboard Q4 2023

London Borough of Southwark Pension Fund

Prepared for: The Pension Advisory Panel
Prepared by: Aon
Date: 9 February 2024

For professional clients only

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Executive summary

Long-term funding strategy

Funding level

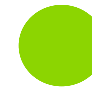
115% ▲

The Funding level increased by 3% vs 30 September 2023

Surplus

£275m ▲

The surplus increased by £63m vs 30 September 2023



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

No further action is required at this stage

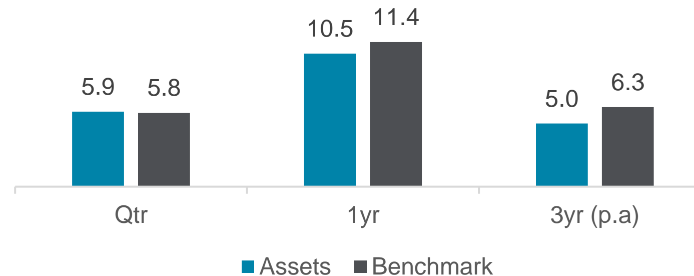
Investment Performance

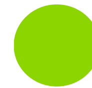
Expected return

7.1%

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

Performance





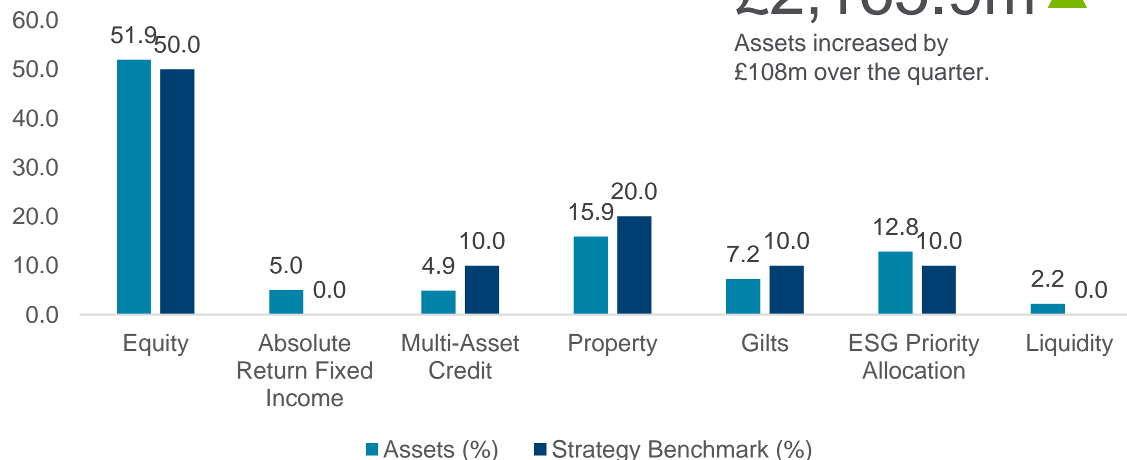
Southwark outperformed over the quarter relative to the composite benchmark but underperformed over the 1 and 3-year period (on an annualised basis)

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

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

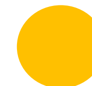
Strategic Positioning

Asset Allocation



£2,165.9m ▲

Assets increased by £108m over the quarter.



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

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

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Asset allocation – Asset Class

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

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

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

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

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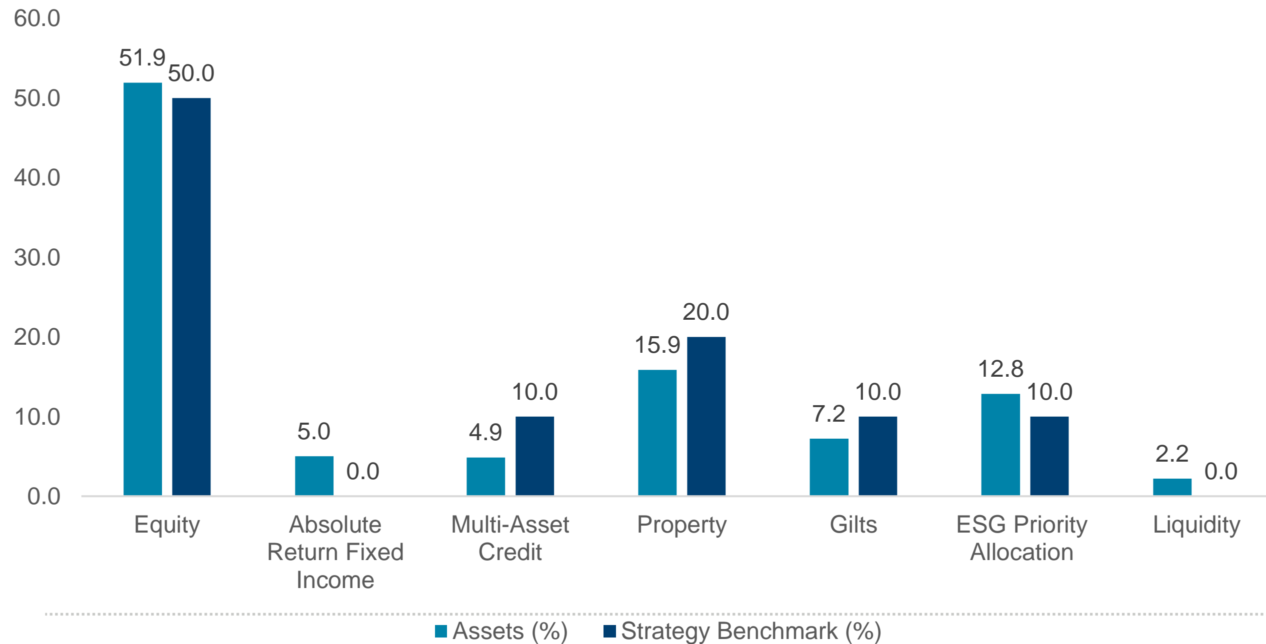
Strategic allocation – Snapshot

Strategic allocation & benchmark



	31 December 2023	Strategic Allocation
Expected Absolute Return	**7.1%**	**7.0%**
Standard Deviation **This is a measure of portfolio volatility versus the mean return**	**4.1%**	**4.1%**

Assets

£2,165.9m ▲

Assets increased by £108m over the quarter.

Comments

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

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

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Manager performance – 31 Dec 2023

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

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

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Fund Manager News and Strategy Updates

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

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

Further information

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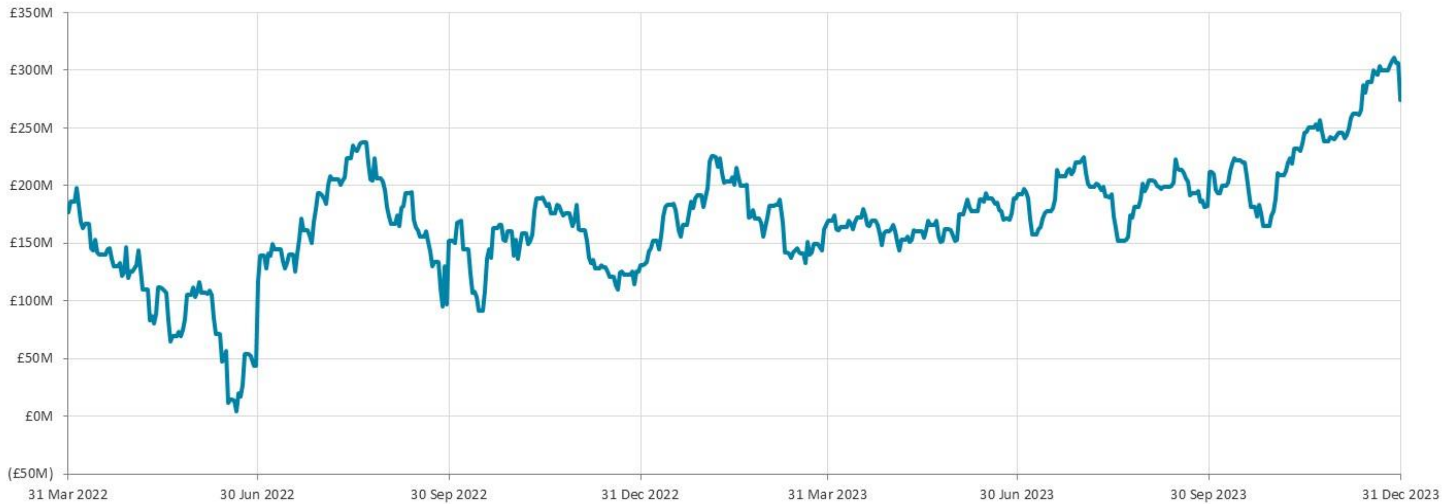
Funding level since latest Valuation

as at 31 December 2023

Change to funding level since 31 March 2022

Change to surplus/(deficit) since 31 March 2022



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

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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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Agenda Item 13

Item No. 13.	Classification: Open	Date: 26 February 2024	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint Update – 31 December 2023	
From:		Interim ESG Manager – Treasury and Pensions	

Recommendation

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

We continue to use Sustainalytics to assist with assessments of the CO2 equivalent exposure of our passive listed holdings. We also rely on the Weighted Average Carbon Intensity (WACI) calculations undertaken by our fund managers for our active assets. The table below sets out the weighted carbon intensity (with $ million revenue as a base) by asset class against our benchmark period of September 2017. In our calculations, we currently only capture Scope 1 and Scope 2 carbon emissions.

Weighted Carbon Intensity over time		Weighted Carbon Intensity (Scope 1 & Scope 2) tCO2e/$m revenue						
Asset Class	**Fund Managers**	**Sept 2017**	**March 2021**	**March 2022**	**March 2023**	**June 2023**	**Sept 2023**	**Dec 2023**
Equity - Developed	Blackrock, LGIM	98.7	23.0					
Equity - Developed Market Low Carbon	Blackrock, LGIM		24.2	51.0	17.5	18.9	17.1	16.6
Equity - Emerging Markets	Blackrock	18.1	19.1					
Equity - Emerging Markets	Comgest			0.2	0.4	2.4	2.4	2.2
Equity - Global	Newton	10.6	4.4	5.8	6.9	6.1	5.2	5.2
Diversified Growth Fund	Blackrock	26.7	15.6	16.5	12.6	7.3		
Absolute Return Bonds	Blackrock	22.4	10.0	6.8	19.6	15.1	12.6	7.9
Multi-Asset Credit	Robeco						2.7	1.4
Core Property	Nuveen	14.3	10.6	12.0	1.8	1.8	1.8	1.8
ESG Priority Allocation - Property	Invesco, M&G, Brockton, Frogmore	8.8	10.9	4.6	4.8	4.9	5.2	5.2
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin			0.1	0.5	2.7	4.1	3.7
Sustainable Infrastructure	Blackrock, Glennmont, Temporis	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IL Gilts	Blackrock, LGIM	14.0	14.0	24.2	21.4	12.6	11.4	12.6
Cash And Equivalents	Blackrock, Nuveen, Newton	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Weighted Carbon Intensity		213.7	131.7	121.4	85.5	71.1	62.5	56.6
Total Change in Footprint			**-38.3%**	**-43.2%**	**-60.0%**	**-66.3%**	**-70.7%**	**-73.5%**

Results

2. The results for 31 December 2023 show a continuing improvement in the carbon footprint (Scope 1 and Scope 2) for the Fund. Since September 2017, the Fund has reduced its weighted carbon intensity considering Scope 1 and Scope 2 emissions by ~73%.

3. The reduction in Weighted Carbon Intensity for the six month period from 1 July 2023 to 31 December 2023 has been driven by a combination of the following:

   a. Developed market equities (positive impact): The decrease in WACI for the Blackrock and LGIM developed market equities (16.6 vs 18.9) is due to an improvement in the carbon footprint of the underlying portfolio companies based on the data available from Sustainalytics.

   b. Nuveen (neutral): Nuveen WACI is the same as previous quarter and hence has had no impact on the overall weighted carbon intensity of the Fund.

   c. Comgest (positive impact): The decrease in WACI for the Comgest equities (2.2 vs 2.4) is due to improvement in the carbon footprint of the underlying portfolio companies. WACI is based on the report shared by Comgest.

   d. Newton Global Equity (positive impact): Newton continues to actively engage with the underlying portfolio companies on their carbon footprint. WACI for the six months has shown an improvement (5.2 vs 6.1) as reflected in the report shared by Newton.

   e. BlackRock Dynamic Diversified Growth Fund (DDGF): We have now fully divested from the BlackRock DDGF and have in-turn invested the proceeds in a low carbon multi-asset credit fund with Robeco, which will have a more reduced carbon footprint over time.

   f. BlackRock Absolute Return Bonds (ARB) (positive impact): The decrease in WACI for BlackRock ARB (7.9 vs 15.1) is due to an improvement in carbon footprint of the underlying portfolio companies based on the data shared with us by BlackRock.

   g. Multi-asset Credit Fund with Robeco: This is the first reporting for the investment with Robeco. WACI is based on the details shared with us by Robeco. There is an agreed mandate with Robeco to reduce the carbon footprint of the underlying portfolio so we expect to see a decrease in the carbon footprint of the portfolio over time.

   h. ESG Priority Allocation (negative impact): In absence of actual data available, we have used WACI from Comgest and our property assets as a proxy for our investments in the ESG Priority Allocation category which include Blackstone Strategic Capital Holdings II Fund, BTG Pactual Open Ended Core US Timberland Fund, Darwin Leisure Development Fund, and

the Darwin Bereavement Services Fund. Due to this, overall WACI for this asset category is higher compared to the previous quarter.

i. Index-linked Gilts (neutral): WACI for the index-linked gilts holdings over the six month period is the same as previous quarter as at 30 June 2023 (12.6). We have used actual WACI from BlackRock and continue to use proxy WACI for LGIM.

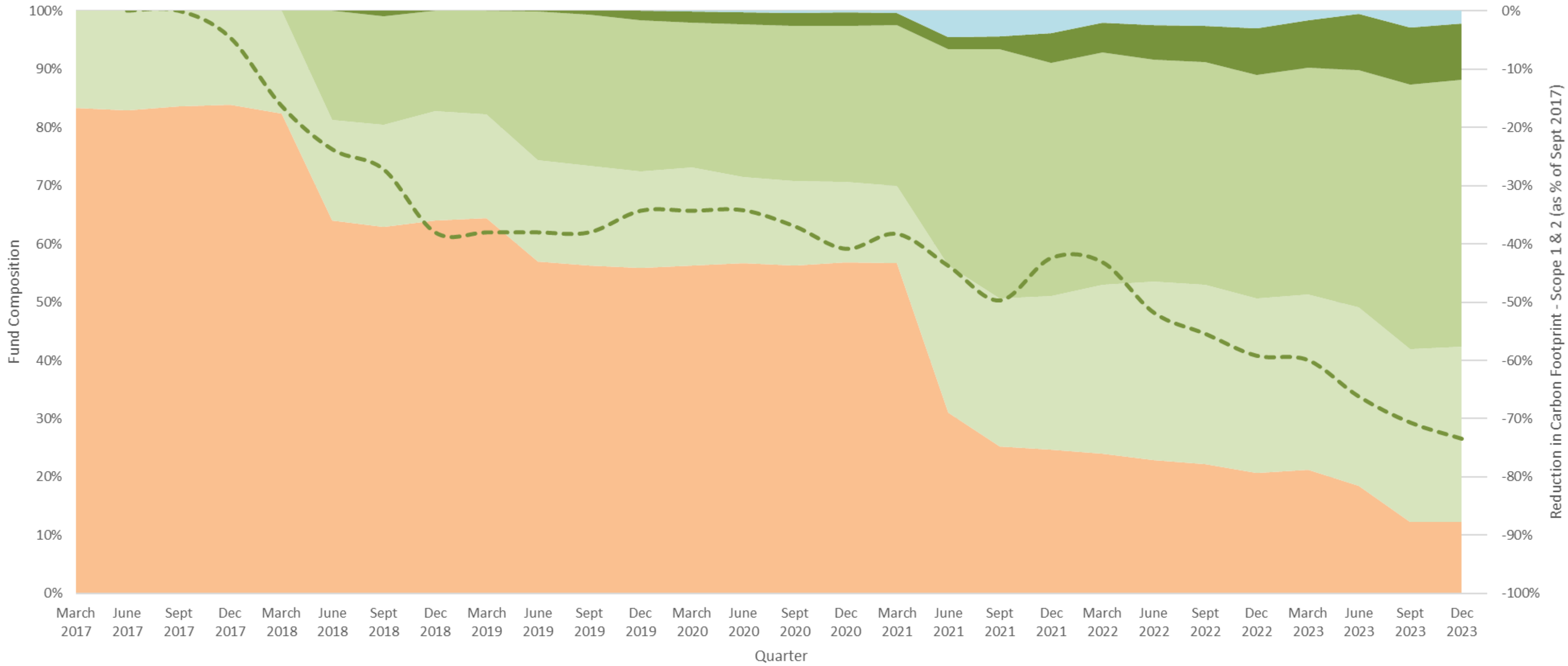
4. We continue to use historical WACI as a proxy for our indirect property assets. We consider the carbon footprint of our sustainable infrastructure assets to be zero. We are working on improving engagement with the fund managers to achieve a more accurate carbon footprint measurement of these assets.

5. The unweighted exposure for each investment is set out below ranked in order of carbon footprint, from lowest to highest exposure.

Unweighted Carbon Intensity		**Unweighted Carbon Intensity tCO2e/$m revenue**
Asset Class	**Fund Manager(s)**	**Dec 2023**
Cash And Equivalents	BlackRock, Nuveen, Newton	0.00
Sustainable Infrastructure	BlackRock, Glennmont, Temporis	0.00
Core Property	Nuveen	18.00
Multi-asset credit Fund	Robeco	29.40
Low Carbon Equity	BlackRock	37.40
Global Equities	Newton	39.40
Equity – Emerging markets	Comgest	51.00
Low Carbon Equity	LGIM	59.00
Absolute Return Bonds	Blackrock	157.00
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin Bereavement & Leisure Dev	260.70
Index Linked Gilts	Blackrock, LGIM	387.60
ESG Priority Allocation - Property	Brockton, Frogmore, Invesco, M&G	430.80
Total		**1470.30**

6. During the six month period, there has been an increase in holdings in the Zero Carbon, Low Carbon and Reduced Carbon categories, with the holdings now making up ~ 85% of our total investment (up from ~80% as at 30 June 2023).

7. The carbon footprint reduction infographic (set out below, with further information on the following page) has been produced in order to demonstrate the changes in the composition of the Fund in terms of carbon emissions against the reduction of the carbon footprint over time. The graph is intended for use as a way of easily displaying the Fund's progress towards net zero.


Composition of the LBS Pension Fund and Carbon Footprint Reduction since Sept 2017
Fund Composition
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Reduction in Carbon Footprint - Scope 1 & 2 (as % of Sept 2017)
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
-80%
-90%
-100%
March 2017
June 2017
Sept 2017
Dec 2017
March 2018
June 2018
Sept 2018
Dec 2018
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June 2019
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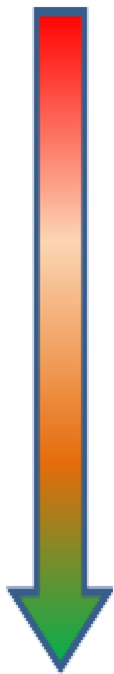
Sept 2023
Dec 2023
Quarter



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

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

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

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

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

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

Community Impact Statement

8. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

9. There are no immediate implications arising.

Health Impact Statement

10. There are no immediate implications arising.

Climate Change Implications

11. There are no immediate implications arising.

Resource Implications

12. There are no immediate implications arising.

Legal Implications

13. There are no immediate implications arising

Consultation

14. There are no immediate implications arising.

Financial Implications

15. There are no immediate implications arising.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

16. Not applicable.

AUDIT TRAIL

<table>
<tr><th>Lead Officer</th><td colspan="2">Clive Palfreyman, Strategic Director of Finance</td></tr>
<tr><th>Report Author</th><td colspan="2">Spandan Shah, Interim ESG Manager - Treasury and Pensions</td></tr>
<tr><th>Version</th><td colspan="2">Final</td></tr>
<tr><th>Dated</th><td colspan="2">13 February 2024</td></tr>
<tr><th>Key Decision?</th><td colspan="2">No</td></tr>
<tr><th colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</th></tr>
<tr><th>Officer Title</th><th>Comments Sought</th><th>Comments Included</th></tr>
<tr><td>Assistant Chief Executive - Governance and Assurance</td><td>No</td><td>No</td></tr>
<tr><td>Strategic Director of Finance</td><td>No</td><td>No</td></tr>
<tr><td>Cabinet Member</td><td>No</td><td>No</td></tr>
<tr><td colspan="2">Date final report sent to Constitutional Team</td><td>14 February 2024</td></tr>
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Agenda Item 14

Item No. 14.	Classification: Open	Date: 26 February 2024	Meeting Name: Pensions Advisory Panel
Report title:		Update on approach to Engagement and Voting	
From:		Interim ESG Manager – Treasury and Pensions	

RECOMMENDATION

1. The Pension Advisory Panel is asked to note the update provided in this report on the engagement and voting activity for the underlying investments of the Fund.

AN UPDATE ON THE FUND'S ENGAGEMENT AND VOTING ACTIVITY

BACKGROUND

2. The Fund adopts a responsible approach to environmental, social and governance (ESG) parameters of its investments. This is managed through ongoing engagement on various ESG themes with the underlying portfolio companies as part of the Fund's engagement and voting activity.

3. For all assets, the Fund undertakes this primarily through delegation to the investment managers who engage with various underlying portfolio companies on a regular basis and also vote (where applicable) on the Fund's behalf at the annual/quarterly meetings.

4. The Fund has more control of the voting and engagement activity of the segregated global equity mandate run by Newton. For pooled equity mandates (BlackRock, Legal and General Investment Management (LGIM), and Comgest), the voting and engagement activity is informed primarily by the investment managers' own internal policies. Through their size and scale, these managers - particularly BlackRock and LGIM - have significant influence in engaging with companies and exercising voting rights to address company-specific and market-wide ESG risks and opportunities.

5. In both instances (segregated and pooled mandates), officers discuss ESG priorities with the Fund's investment managers, which they may consider while engaging and voting on the Fund's behalf. The Fund's approach is articulated in its Investment Strategy Statement (ISS) and Responsible Investment Policy (RI Policy).

6. For all listed assets, the investment managers typically follow an active engagement approach through a combination of discussions with management and application of voting powers to identify and achieve improvements on various ESG themes.

7. Most of the investment managers (LGIM, BlackRock, Robeco, Newton, Comgest) managing our listed assets have an in-house investment stewardship or responsible investment teams or dedicated team members sitting within the wider investment or portfolio management team. These are responsible for engaging in discussions with the management of portfolio companies (and prospective portfolio companies) and for voting decisions on multiple ESG themes in line with their internal policies and, where relevant, the Fund's strategic mandates.

8. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which promotes the investment interests of local authority pension funds and works to maximise their influence as shareholders, whilst promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. All of our investment managers are encouraged to follow LAPFF's recommendations as they engage with portfolio companies and vote at the meetings on behalf of the Fund.

9. For private assets, the investment managers use engagement as a mechanism to influence the portfolio companies in improving their performance on ESG parameters. Internally, the investment managers (e.g. Blackstone) have a defined set of ESG metrics/standards. Through ongoing engagement, they monitor the portfolio companies for compliance with minimum ESG metrics/standards and gradual improvement over time.

10. This report outlines the key engagement and voting themes across the listed asset classes for both our segregated and pooled mandates. It also summarises the engagement and voting activity over the past quarter(s) for LAPFF, active equities portfolios (Newton and Comgest), and passive equities portfolio with LGIM.

KEY ENGAGEMENT AND VOTING THEMES

11. Through the investment managers, the Fund engages and votes on, various ESG-focused themes and topics.

12. During the six-month period from July to December 2023, some of the key ESG-focused engagement and voting themes for the listed assets are outlined below:

    - Environment focused themes:
        - Climate change
        - Decarbonisation
        - Deforestation
        - Biodiversity

    - Social themes:
        - Human rights
        - Employee diversity

- Governance related themes:
  - Company disclosure and transparency
  - Board composition
  - Executive remuneration.

13. The investment managers summarise their engagement themes and voting decisions in reports which are subsequently shared with us on a quarterly and an annual basis.

14. The above themes, in particular the focus on climate change and decarbonisation, are aligned with the Fund's net-zero agenda.

ENGAGEMENT AND VOTING SUMMARY – SELECT LISTED FUNDS

LAPFF (Quarters 2 and 3: July to December 2023)

15. Attached is a link to the LAPFF website which includes historical reports of the stakeholder engagement activity it undertakes on an ongoing basis: https://lapfforum.org/engagements/

16. During the quarter from July to September 2023, LAPFF engaged with 182 companies including through its "Nature Action 100" and "Say on Climate" initiatives. Engagements included meetings, AGM attendance and letters/email correspondences.

17. The primary areas of engagement were environmental risk (120) and climate change (c. 45), followed by human rights (c. 20). Other topics include supply chain management, employment standards, governance, social risk, Board composition, diversity and inclusion and audit risks.

18. The detailed report for the period July to September 2023 is available at: https://lapfforum.org/engagements/q3-quarterly-engagement-report-2/

19. During the quarter from October to December 2023, LAPPF engaged with 44 companies.

20. The primary areas of engagement were climate change (c. 35) and environmental risk (15), followed by supply chain management (c. 6) and human rights (c. 6). Other topics include governance, social risk, Board composition, and diversity and inclusion.

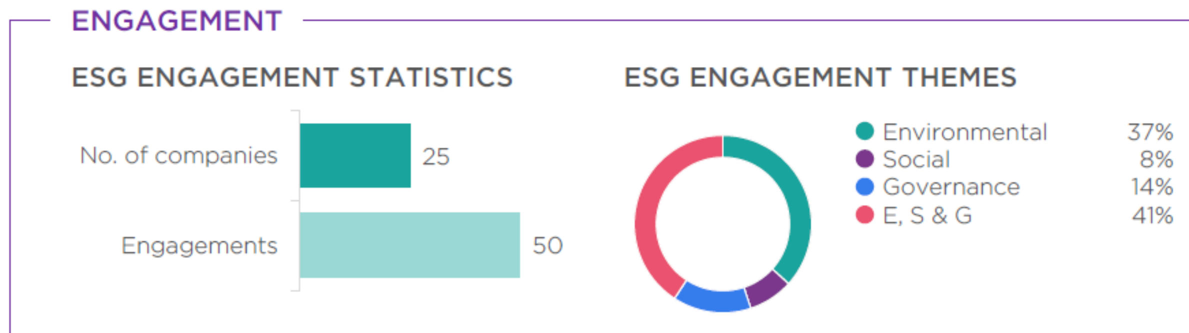
21. The detailed report for the period October to December 2023 is available at: https://lapfforum.org/wp-content/uploads/2024/02/LAPFF_QER04_2023.pdf

Comgest (12-month period ended Sept 2023)

22. Comgest's approach to voting and engagement is covered as part of its Active Ownership Policy and can be found at https://www.comgest.com/-/media/comgest/esg-library/esg-en/active-ownership-policy.pdf

23. On a quarterly basis Comgest provides information on the voting undertaken and their engagement across ESG matters. Data provided in each quarterly report is for the 12 month period up to the previous quarter.

24. Over the 12 month period to 30 September 2023, Comgest conducted 50 engagements with 25 companies. Breakdown of the engagement themes is captured in the charts below[1].



25. Over the 12 month period to 30 September 2023, Comgest voted with management on 487 resolutions and against management on 70 resolutions.

Newton (Quarter 3 July – Sept 2023)

26. Newton's Governance Principles and Voting Guidelines can be found at: https://www.newtonim.com/uk-lgps/special-document/governance-principles-and-voting-guidelines/

27. Newton's Stewardship and Sustainability Policy can be found at: https://www.newtonim.com/uk-lgps/special-document/stewardship-and-sustainability-policy/

28. On a quarterly basis Newton provides information on the voting undertaken and their engagement across ESG matters.

29. During the period from July to September 2023, for our segregated fund, Newton had engagements with Accenture on the topic of human capital and with Goldman Sachs on climate transition risk and net-zero strategy.

30. From October to December 2023, Newton engaged with Boston Scientific on the topic of Product safety and quality.

31. Newton also had stewardship meetings with various companies on social aspects such as supply chain risk management and human capital, environmental aspects like use of natural resources and governance aspects such as Board and leadership quality, skills and experience.

32. During the six month period, Newton voted with the management of portfolio companies on two resolutions and against the management on two resolutions.

[1] Source: Comgest Quarterly Report shared on 11/01/2024

LGIM (12-month period ended Sept 2023)

33. LGIM's Corporate Governance Policy can be found at https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-uk-corporate-governance-and-responsible-investment-policy.pdf

34. LGIM also publishes its approach to voting in the public domain. Its voting intentions for 2023 are outlined in a blog available at: https://www.lgimblog.com/categories/esg-and-long-term-themes/lgims-voting-intentions-for-2023/

35. During the 12 month period, Low Carbon Transition Emerging Markets Equity Index Fund, LGIM had 635 engagements with 398 companies, representing 51% of the fund value.

36. The top five engagement topics were climate impact pledge, remuneration, climate change, deforestation, and board composition.

37. The summary of the engagement activity is captured below[2].

ENGAGEMENT AND VOTING ACTIVITY NEXT STEPS

38. Going forward, the Fund intends to adopt a more proactive approach to engagement and voting activity through participation in LAPFF meetings and regular reviews of fund manager policies and reporting

39. We will continue to report on voting and engagement activity via the quarterly Pensions Advisory Panel. The Fund will also aim to review the voting and engagement activity and provide specific guidance and action points to the fund

[2] https://fundcentres.lgim.com/srp/lit/7vjVYA/ESG-report_Low-Carbon-Transition-Developed-Markets-Equity-Index-Fund_30-09-2023.pdf

managers to ensure that, where possible, there is alignment with our strategic priorities and the ISS and RI Policy.

Policy framework implications

40. There are no immediate implications arising.

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

Community Impact Statement

41. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

42. There are no immediate implications arising.

Health Impact Statement

43. There are no immediate implications arising.

Climate Change Implications

44. There are no immediate implications arising.

Resource Implications

45. There are no immediate implications arising.

Legal Implications

46. There are no immediate implications arising

Consultation

47. There are no immediate implications arising.

Financial Implications

48. There are no immediate implications arising.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

49. Not applicable.

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Finance	
Report Author	Spandan Shah, Interim ESG Manager - Treasury and Pensions	
Version	Final	
Dated	13 February 2024	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director of Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		16 February 2024

Agenda Item 15

Item No. 15.	Classification: Open	Date: 26 February 2024	Meeting Name: Pensions Advisory Panel
Report title:		Actuarial Funding Update – December 2023	
From:		Senior Finance Manager – Treasury and Pensions	

Recommendation

1. The Pensions Advisory Panel is asked to:

- Note the updated funding position at 31 December 2023.
- Note the amended funding strategy statement attached at Appendix 1 to this report.

Background

2. The last triennial actuarial valuation of the Fund took place as at 31 March 2022. The valuation determined the Fund was 109% funded and had a surplus of £177m.

3. The actuaries provide quarterly funding updates which are projected from the results of the 2022 valuation. The purpose of the funding updates is to give a broad picture of the direction of funding changes since the actuarial valuation.

Funding Position

4. Since the 2022 valuation, the funding level has increased marginally to 115%, and the surplus has increased (to £275m). This is due to asset returns being higher than expected over the quarter.

5. Allowance has been made for the actual pensions increase since the 2022 valuation up to the 10% loading for short term inflationary impacts that was allowed for at the 2022 valuation. The expected April 2024 pension increase of 6.7% has not yet been fully allowed for.

Revised Southwark Council Contribution Rate

6. Southwark Council, as administering authority of the London Borough of Southwark Pension Fund, received a request from Southwark Council in its role as a scheme employer to review the contribution rate set at the 2022 valuation with a view to removing the secondary contribution rate from 1 April 2024.

7. Advice was obtained from the Fund's actuaries, who recommended we go through the process of amending the funding strategy statement (FSS) to cover this particular situation, which is recognised as unique and clarifies that the

administering authority is only permitting this given the employer is effectively "overpaying" and the review would not result in the contributions being reduced below the primary rate.

8. Once the changes to the FSS were agreed with the actuaries, a consultation of scheme employers was conducted on the proposed changes. No responses were received and, following the end of the consultation period, the actuaries issued a revised Rates and Adjustments Certificate, reflecting the change in contribution rate payable by Southwark Council from 1 April 2024.

9. The removal of the secondary rate equates to a reduction of c.£1.6m in the contributions payable annually by the council to the Fund.

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

Community Impact Statement

10. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

11. There are no immediate implications arising.

Health Impact Statement

12. There are no immediate implications arising.

Climate Change Implications

13. There are no immediate implications arising.

Resource Implications

14. There are no immediate implications arising.

Legal Implications

15. There are no immediate implications arising

Consultation

16. There are no immediate implications arising.

Financial Implications

17. There are no immediate implications arising.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

18. Not applicable.

APPENDICES

Name	Title
Appendix 1	Funding Strategy Statement

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Finance
Report Author	Caroline Watson, Senior Finance Manager - Treasury and Pensions
Version	Final
Dated	15 February 2024
Key Decision?	No

CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director of Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		19 February 2024

APPENDIX 1

Funding Strategy Statement

SECTION 1
INTRODUCTION

Overview

This Statement, originally prepared in accordance with Regulation 76A of the Local Government Regulations 1997, has been reviewed in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) (the Regulations). The Statement describes the London Borough of Southwark's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the London Borough of Southwark Pension Fund (the Fund).

As required by Regulation 58, the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA. The statement has also been reviewed having regard to updated guidance published by CIPFA in September 2016, and not the original guidance issued in October 2012 as referred to in the LGPS Regulations at time of writing this Statement.

In preparing the FSS, the Administering Authority must also have regard to the supplementary statutory guidance issued by MHCLG (now DLUHC): Guidance on Preparing and Maintaining Policies on Review of Employer Contributions, Employer Exit Payments and Deferred Debt Agreements. The Administering Authority has also considered the Scheme Advisory Board's Guide to Employer Flexibilities for Administering Authorities and Employers in developing the FSS and associated policies in Section 7 of this Funding Strategy Statement.

Consultation

In accordance with Regulation 58, the Administering Authority has consulted such persons as it considers appropriate on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Investment Strategy Statement published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

The Fund Actuary, Aon Solutions UK Limited, has also been consulted on the contents of this Statement.

Policy Purpose

The purpose of this Funding Strategy Statement is to document the processes by which the Administering Authority:

- establishes a clear and transparent fund-specific strategy that will identify how employer's pension liabilities are best met going forward.
- supports the regulatory requirement in relation to the desirability of maintaining as nearly constant primary employer contribution rates as possible.

- Ensures that the regulatory requirements to set contributions as to ensure the solvency and long-term cost efficiency of the Fund are met.
- takes a prudent longer-term view of funding the Fund's liabilities.

Links to investment policy set out in the Statement of Investment Principles

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Investment Strategy Statement and the funding strategy set out in this Statement.

The assets that most closely match the liabilities of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the Investment Strategy Statement invests a significant proportion of the Fund in assets such as equities which are expected but not guaranteed to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher anticipated return. However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved the solvency position of the Fund will deteriorate.

The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which are consistent with the expected return on the investments held by the Fund, and by including measures that can be used to smooth out the impact of such volatility.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, commissioning asset liability modelling or other analysis techniques.

Review of this Statement

The Administering Authority undertook its latest substantive review of this Statement in January 2023.

The Administering Authority will formally review this Statement as part of the triennial valuation following the 31 March 2022 valuation, currently expected to be as at 31 March2025, unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

SECTION 2
AIMS AND PURPOSE OF THE FUND

Purpose of the Fund
The purpose of the Fund is to invest monies in respect of contributions, transfer values and investment income in order to:

- produce a Fund to pay Scheme benefits, transfer values, costs, charges and expenses as defined in the LGPS Regulations and as required in the Investment Regulations over the long term and in so doing;
- to smooth out the contributions required from employers over the long term.

Aims of the Fund
The main aims of the Fund are:

a) To comply with Regulation 62 of the Regulations and specifically to:

- adequately fund benefits to secure the Fund's solvency and long term cost efficiency, which should be assessed in light of the risk profile of the Fund and Employers
- while taking account of the desirability of maintaining as nearly constant primary employer contribution rates as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled (as defined in Part 1 or deemed employers as per Part 4 of Schedule 2 of the LGPS Regulations), resolution (as defined in Part 2 of Schedule 2 of the LGPS Regulations), and admitted bodies
- enable overall employer contributions to be kept as constant as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

The Administering Authority recognises that the requirement to keep employer total contribution levels as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency, which should be assessed in light of the risk profile of the Fund and risk appetite of the Administering Authority and employers
- the requirement that the costs should be reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and
- maximising income from investments within reasonable risk parameters (see later)

Producing low volatility in the funding position requires material investment in assets which ‘match’ the employer’s liabilities. In this context, ‘match’ means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

Other classes of assets, such as stocks and property, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments within reasonable risk parameters, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in

volatile returns over short term periods, and a failure to deliver anticipated returns in the long term.

This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive actuarial valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

b) To ensure that sufficient resources are available to meet all liabilities as they fall due.

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

c) To manage employers' liabilities effectively.

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers are properly informed and consulted, and through regular monitoring of the funding position and the outlook for employers' contributions.

d) To maximise the income from investments within reasonable risk parameters.

The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on Government stocks are sought through investment in other asset classes such as stocks and property. The Administering Authority ensures that risk parameters are reasonable by:

- Complying with any restrictions set out in the Investment Regulations.
- Restricting investment to asset classes generally recognised as appropriate for UK pension funds.
- Analysing the potential volatility and absolute return risks, and funding risk represented by those asset classes in collaboration with Investment Advisors and Fund Managers, the Fund Actuary and the London CIV and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy.

- Limiting concentration of risk by developing a diversified investment strategy.
- Monitoring the mis-matching risk that the investments do not move in line with the Fund's liabilities.

SECTION 3
RESPONSIBILITIES OF THE KEY PARTIES

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority will:

- Administer the Fund
- Collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in LGPS regulations and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.
- Pay from the Fund the relevant entitlements as stipulated by the Regulations
- Invest surplus monies in accordance with the Investment Regulations and the Fund's Investment Strategy Statement.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the Fund's Actuary
- Ensure it communicates effectively with the Fund Actuary to:

  Agree timescales for the provision of information and provision of valuation results

  Ensure provision of data of suitable accuracy

  Ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement

  Ensure that participating employers receive appropriate communication throughout the process

  Ensure that reports are made available as required by relevant guidance and Regulations

  Provide information required by the Government Actuary's Department in relation to Section 13 of the Public Service Pensions Act 2013
- Prepare and maintain an Investment Strategy Statement and a Funding Strategy Statement after due consultation with persons the Administering Authority considers appropriate, and amend these two documents if required.
- Monitor all aspects of the Fund's performance and funding.
- Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and Scheme Employer.
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.
- Take measures as set out in the regulations to safeguard the fund against the consequences of employer default.
- Exercise discretions within the regulatory framework, taking into account the cost of decisions.

- Ensure consistent use of policies relating to revising employer contributions between formal valuations, entering into deferred debt agreements and spreading exit payments, and ensure the process of applying those policies is clear and transparent to all fund employers

Individual Employers

Individual Employers will:

- Deduct contributions from employees' pay correctly.
- Pay all ongoing contributions, including their employer's contribution as determined by the Fund Actuary and where relevant set out in the rates and adjustment certificate, promptly by the due date (including contributions due under a Deferred Debt Agreement).
- Develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework.
- Pay for additional membership or pension, augmentation, early release of benefits or other one off strain costs (including in relation to ill health retirements) in accordance with agreed arrangements.
- Notify the Administering Authority promptly of all changes to membership, or other changes with affect future funding.
- Notify the Administering Authority promptly of possible or intended changes that could affect the basis of participation in the Fund which affect future funding.
- Note and if desired respond to any consultation regarding the Funding Strategy Statement, the Investment Strategy Statement or other policies.
- Pay any exit payments as required in the event of their ceasing participation in the Fund
- Be aware that responsibility for compensatory added years, which the Administering Authority pays on behalf of the employer as a paying agent, lies with the employer which awards and is recharged for the cost of compensatory added years;

Fund Actuary

The Fund Actuary will prepare advice and calculations and provide advice on:

- Funding strategy and the preparation of the Funding Strategy Statement
- Actuarial valuations including the setting of employers' contribution rates and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and the LGPS Regulations.
- Any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B.
- Bulk transfers and individual benefit-related matters such as pension strain costs, compensatory added years costs, etc.
- Valuations of exiting employers.
- Bonds and other forms of security for the Administering Authority against the financial effect on the Fund of Employers' default.

Such advice will take account of the funding position and Funding Strategy Statement of the Fund, along with other relevant matters.

The Fund Actuary will assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as permitted or required by the Regulations, in particular in relation to any review of contributions between triennial valuations under Regulation 64A.

The Fund Actuary will ensure that the Administering Authority is aware of any professional guidance requirements which may be of relevance to his or her role in advising the Administering Authority.

SECTION 4

FUNDING TARGET, SOLVENCY AND NOTIONAL SUB FUNDS

Risk based approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund wants to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by risk modelling carried out by the Fund's Actuary, define the define the discount rates (investment return assumption) to be adopted and, by extension, appropriate levels of contribution payable. Together they measure the riskiness (and hence also the degree of prudence) of the funding strategy.
These three terms are considered in more detail below.

Solvency Target and Funding Target

<u>Solvency and 'funding success'</u>

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that the liabilities can be met over the long term, using appropriate actuarial assumptions. The Solvency Target is the amount of assets which the Fund, having taken advice from the Fund Actuary, wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

The Fund is deemed to be solvent when the assets held are equal to or greater than of the Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate methods and assumptions.

The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, i.e. if the funding level falls below 100%.

For secure tax raising Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit, the Solvency Target will use appropriate actuarial methods and assumptions that are believed appropriate in the long term for those Bodies. For the 2022 valuation the Solvency Target will be set using an assumed rate of return of 2% in excess of the assumed long term annual increase in the Consumer Prices Index, which is intended to be a prudent outperformance assumption based on assumed future asset holdings.

For Admission Bodies and other bodies whose liabilities are expected to be orphaned following exit, the required Solvency Target will be set at a more prudent level dependent on circumstances. For most such bodies, the chance of achieving

solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

For deferred employers it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the Deferred Debt Agreement (DDA) ends.

Probability of Funding Success

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers, and asset-liability modelling carried out by the Fund Actuary.

Consistent with the Administering Authority's aim of enabling employers' contribution levels to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

Trajectory Periods

The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

Maintaining a stable Trajectory Period avoids undue volatility when setting long term assumptions for the Fund, where the Administering Authority would in ideal circumstances look to reduce the Recovery Period over time in order to achieve full funding. A Trajectory Period of 25 years will be used for the valuation at 31 March 2022.

Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. It is a product of the actuarial valuation exercise and is not the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serves to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).

The discount rate, and hence the overall required level of employer contributions, has been set at the valuation at 31 March 2022 such that the Fund Actuary estimates there an 83% chance that the Fund would reach or exceed its Solvency Target after 25 years.

Consistent with the aim of enabling employers' contribution levels to be kept as nearly constant as possible:

- Primary contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as

a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.

- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.
- For admission bodies the Administering Authority will take into account the potential for participation to cease, the potential timing of such exit, and any likely change in investment strategy regarding the assets held in respect of the admission body's liabilities at the date of exit.

For all funding targets an allowance will be made for future pension increases and revaluation of pension accounts using an assumption for future CPI increases which is derived consistently with the modelling underpinning the discount rates. At the 2022 valuation this is a long-term best estimate CPI assumption of 2.3% p.a. Allowance may also be made for any short-term inflationary pressures where this is considered appropriate and prudent. At the 2022 valuation an adjustment of 10% will be added to the liabilities. This adjustment will be reviewed at future calculation dates to ensure it remains appropriate in light of prevailing market conditions.

Application to different types of body

Some comments on the principles used to derive the Solvency and Funding Target for different bodies in the Fund are set out below.

Scheduled Bodies and certain other bodies of sound covenant

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for secure tax raising Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite and certain other bodies which are long term in nature i.e. Admission Bodies with a subsumption commitment from such Scheduled Bodies. This is known as the scheduled and subsumption body funding target.

For other Scheduled Bodies the Administering Authority may without limitation, take into account the following factors when setting the funding target for such bodies:

- the type/group of the employer
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

Admission Bodies falling under London Borough of Southwark policy

London Borough of Southwark, as an employer, introduced an admissions policy following the actuarial valuation at 31 March 2010 whereby the pensions risk of new admission bodies is underwritten by London Borough of Southwark, and in return the employer's contribution is fixed at the rate at initial entry to the Fund (potentially subject to certain provisos). The Administering Authority has agreed that these

contribution rates can be reflected in the actuarial valuation and set out in the Rates and Adjustment Certificate.

London Borough of Southwark subsequently extended this approach to admission bodies which joined the Fund prior to the introduction of this admissions policy with contributions payable at a fixed rate as determined as part of the 31 March 2013 valuation process.

Admission Bodies and certain other bodies whose participation is limited and not subject to a guarantee

For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities). This is known as the (ongoing) orphan admission bodies funding target. It is not the same as the exit basis.

At the 2022 valuation no employers fell into this category.

Full Funding

The Fund is deemed to be fully funded when the assets held are equal to or greater than the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers / groups of employers. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency

Other Aspects of Funding Strategy

Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficit against the Funding Target, employers' contribution rates may be adjusted to target restoration of fully funding the solvent position over a period of years (the Recovery Period). The Recovery Period to an employer or group of employers is therefore the period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable.

The Recovery Period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund, and whether the employer is in surplus or deficit on the appropriate Funding Target.

Where an employer is in surplus, and where an employer's expected exit date is unknown or expected to be later than the date the revised rates and adjustments certificate will come into force following the next valuation, this surplus will only lead to an adjustment in an employer's contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities valued relative to the

appropriate Funding Target (i.e. to the extent that the employer's funding level is greater than 110%).

London Borough of Southwark (which is the largest employer in the Fund) had a surplus of less than 10% of their liabilities at the valuation at 31 March 2022, and so no recovery period has been used for the London Borough of Southwark group of employers.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, and where the employer is in deficit, the Administering Authority may be prepared to agree to Recovery Periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution levels as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery Periods and has agreed with the Fund Actuary a limit of 30 years, for employers which are assessed by the Administering Authority as being a long term secure employer.

Where employers are in deficit, the Administering Authority's policy is to agree Recovery Periods with each employer which are typically shorter where possible within the above framework. For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation.

If any employers enter into deferred debt agreement the recovery period for the deferred employer will be the remaining period of the deferred debt agreement.

Grouping

In some circumstances it may be desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution requirements). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at the initial grouping and at each valuation and to notify each employer that is grouped which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be set its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted, unless the grouping is with the letting authority for the purpose of risk sharing arrangements.

Where employers are grouped together for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such

benefits is shared across the employers in the Fund. Such lump sum benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Stepping

Again, consistent with the desirability of keeping primary (and overall) employer contribution levels as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three annual steps will be permitted. Further steps may be permitted in extreme cases in consultation with the Fund Actuary, but the total is very unlikely to exceed six steps.

Pre-payment of contributions

The Administering Authority may, after considering the advice of the Fund Actuary, permit particular employers to pay contributions early as a lump sum that would otherwise be payable over the following year (or a longer period not exceeding three years). An appropriate discount, as determined by the Fund Actuary, would be applied to the contributions to reflect the early payment. A true-up adjustment may be required if the early payment of contributions based on an estimated payroll results in lower contributions being paid into the Fund (after allowing for the discount) than would otherwise have been the case.

Inter-valuation funding calculations

In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate roll forward of asset and liability values, and liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to review as occurs at formal funding valuations.

The Administering Authority will consider reviewing employer contributions between formal valuations in certain circumstances. The policy on this is set out in Section 7 – Policy on Employer Flexibilities and reviewing Employer Contributions between Triennial Valuations.

Asset shares notionally allocated to individual employers

<u>Notional asset shares</u>

In order to establish contribution requirements for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers (or group of employers where grouping operates), as if each employer had its own notional asset share within the Fund. Admission bodies with fixed contribution rates are grouped with London Borough of Southwark for this purpose.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Roll-forward of notional asset shares

The notional asset shares allocated to each employer will be rolled forward allowing for all cash flows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cash flows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cash flows will not exist for these transfers). The Fund Actuary will assume an estimated cash flow equal to the value of the liabilities determined consistent with the Funding Target transferred from one employer to the other unless some other approach has been agreed between the two employers.
- Allowance for lump sum death in service and any other benefits shared across all employers (see earlier).
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cash flow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is of low materiality, or where estimated cashflows can be produced with reasonable accuracy, estimated cash flows will be used
- Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is material, or difficult to estimate with necessary accuracy, the Fund Actuary may instead use an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains and losses methods are less precise than use of cash flows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.
- Analysis of gains and losses methods will also be used where the results of the cash flow approach appears to give unreliable results perhaps because of unknown internal transfers.

Fund maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay, the

Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will consider requiring top up payments where deficit contributions fall below a minimum level, or further alternative approaches as it deems appropriate.

Long-term cost efficiency

In order to ensure that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the Fund, the Administering Authority has assessed the actual contributions payable by considering:

- The implied average recovery period, allowing for the stepping of employer contribution changes;
- The investment return required to achieve full funding over the recovery period; and
- How the investment return compares to the Administering Authority's view of the expected future return being targeted by the Fund’s investment strategy.

SECTION 5

SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A. Further details of the Administering Authority's policy in relation to reviewing contributions is set out in section 7.

Guarantors

Some employer may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors, and monitors the exposure of the Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer ceases and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.
- During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Targets for the employer, which would probably lead to reduced contribution requirements.

New employers

Initial Rate

When a new employer joins the Fund, the Fund's Actuary determines the initial employer contribution rate payable.

An interim contribution rate may be set pending a more accurate calculation by the Fund's Actuary of the employer contribution rate payable. The Administering Authority will determine these interim contribution rates following each Actuarial Valuation and at any other time at its discretion.

The employer contribution rate will be set in accordance with the Funding Strategy Statement, taking into consideration elements such as:

- Any past service or transferred liabilities

- Whether the new employer is open or closed to new entrants
- The funding target that applies to the employer
- The funding level on commencement and, where there is a surplus or deficit, whether the admission agreement is fixed term or not, whether open or closed and the period of any fixed term contract period or average future working lifetime of the employee membership (as appropriate)
- Other relevant circumstances as determined by the Administering Authority on the advice of the Fund Actuary

New Admission Bodies

Where the Administering Authority makes an admission agreement with a body (the New Body), the default stance of the Fund is that the relevant Scheme employer, as defined in Part 3 of Schedule 2 of the LGPS Regulation 2013, will be required to retain ultimate responsibility for funding the liabilities of new admission body, with the admission body paying contributions in accordance with terms of the Admission Agreement or side agreement. This applies to both the liabilities of the initial transferring membership and, in the case of an open admission agreement, any liabilities of the New Body relating to members that commence participation after the initial transfer under the terms of the Admission Agreement.

Bonds and other securitization

Paragraph 6 of Part 3, Schedule 2 of the Regulations creates a requirement for a new admission body to carry out, to the satisfaction of the Administering Authority (and Scheme Employer in the case of an Admission Body admitted under paragraph 1(d)(i) of that Part), an assessment taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it, the Admission Body shall enter into an indemnity or bond with an appropriate party. Where for any reason it is not desirable for an Admission Body to enter into an indemnity bond, the Admission Body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of that admission body.

The Administering Authority's approach in this area is as follows:

- In the case of Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer or Guarantor on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of bond required from the Admission Body, if any. In this case, the Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer or Guarantor, but this should not be construed as advice to the relevant Scheme Employer or Guarantor on this matter. Once the Scheme Employer or Guarantor confirms their agreement to the level of bond cover proposed, the

Administering Authority will be happy to provide a separate document to the Admission Body setting out the level of cover which the Administering Authority and Scheme Employer/ Guarantor consider suitable, but this should not be constructed as advice relevant to the Admission Body on this matter.

- In the case of:
  - Admission bodies admitted under paragraph 1(e) of Part 3, Schedule 2
  - Admission bodies admitted under paragraph 1(d) of Part 3, Schedule 2 where the Administering Authority does not judge the Scheme Employer to be of sufficiently strong covenant
  - Other Admission bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant;

  the admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. As such, the Administering Authority will obtain some "standard" calculations from the Fund Actuary to assist them to form a view on what level of bond would be satisfactory. The Administering Authority will be pleased to supply this calculation to the Scheme Employer or Guarantor, where relevant, but this should not be construed as advice to the relevant Scheme Employer or Guarantor on this matter. Once the Scheme Employer or Guarantor, where relevant, confirms their agreement to the level of bond proposed, the Administering Authority will be happy to provide a separate document to the Admission Body setting out the level of cover which the Administering Authority and Scheme Employer/ Guarantor, where relevant, consider suitable but this should not be constructed as advice relevant to the Admission Body on this matter.
- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommend that the Scheme Employer reviews, the required cover at least once a year.

Subsumed liabilities

Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in a mix of growth and matching assets.

Orphan liabilities

Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been

paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the other employers' notional assets between the exit date of the employer and each subsequent funding valuation of the Fund. Assets will then be reallocated within the Fund to ensure the orphan liabilities remain 100% funded on a low risk basis after taking account of any outstanding exit payments payable to, or due from the exiting employer, with any investment profit or loss allocated to the contributing employers in proportion to their notional asset share.

Cessation of participation (i.e. Exiting the Fund)

Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of exit of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund. When employees do not transfer to another employer they will retain pension rights within the Fund, i.e. either as a deferred pensioner or immediately taking retirement benefits.

The assumptions adopted to value the departing employer’s liabilities for the exit valuation will depend upon the circumstances. In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers and will take account of any contractual guarantees where possible and notified to the Administering Authority.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the exit valuation will determine final payments required to make good the funding position revealed unless a contractual agreement sets out that another employer will take responsibility for all the assets and liabilities relating to the exiting employer. In other words, the fact that liabilities may become subsumed liabilities does not necessarily remove the possibility of an exit payment being required.

Any deficit or surplus in the Fund in respect of the employer will generally be due to the Fund as a termination contribution, or payable by the Fund to the employer as an exit credit respectively, where the exit date is on or after 14 May 2018.

Further details on the Administering Authority’s policy on employer exits and interim reviews is included in Section 7.

Academies

Academies are scheduled bodies and, as such, have an automatic right to join the LGPS. Guidance has been issued by the Secretaries of State for Education and

Communities and Local Government but in practice differing approaches are being taken when setting the funding strategy for academies.

With effect from the 2019 valuation, the fund will no longer be assessing individual funding positions and contribution rates for each academy where those academies are part of a Multi Academy Trust (MAT). These will instead be assessed at a combined MAT level (based on academies participating in the Southwark Fund for each MAT), given the regulations set out that it is the MAT that is the Scheme Employer and not the individual academy. The Actuary will therefore assess a combined MAT position only for the value of the assets, liabilities and employer cost of benefits accruing to active members. Contribution rates will be determined based on the active membership of the MAT as a whole and the combined academies' funding deficit or surplus.

Where a new academy joins an existing Multi Academy Trust which has been certified a contribution rate in the Fund, the Fund will require that the Multi Academy Trust ensures that contributions are paid in respect of this academies membership of the Fund.

If the relevant Multi Academy Trust has not previously been certified a contribution rate in the Fund an initial rate will be calculated by the Fund Actuary as set out in the section above.

In future for a new academy conversion while the London Borough of Southwark's asset share is in deficit, the Administering Authority's standard approach will be to:

- Allocate liabilities to the academy in relation to its current employees only, with the London Borough of Southwark asset share retaining liability for former employees;
- Allocate a notional share of assets from the London Borough of Southwark's asset share to the new academy's asset share based on what is known as a "capped prioritised share of fund" approach. This means that the academy will inherit an appropriate share of any deficit attributable at conversion to the London Borough of Southwark's former employees as well as the academy's own employees. Where the prioritised share of Fund is greater than the value of the transferring membership, calculated using the appropriate Funding Target, the notional asset share to be transferred will be capped at 100% of the value of the transferring membership.

Where an academy transfers from one Multi Academy Trust participating in the Fund to another Multi Academy Trust participating in the Fund the notional reallocation of assets between the relevant Multi Academy Trusts will be calculated using the "capped prioritised share of fund" approach set out above, unless the transfer of the academy results in cessation of participation in the Fund of a Multi Academy Trust, in which case additional considerations will apply and the method for determining the notional reallocation of assets will be determined by the Administering Authority in consultation with the Fund Actuary.

SECTION 6
IDENTIFICATION OF RISKS AND COUNTER MEASURES

Approach

The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these before, and after they emerge, wherever possible. The main risks to the Fund are considered below:

Choice of Solvency and Funding Targets

The Administering Authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made in determining the Solvency and Funding Targets, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Solvency and Funding Targets calculated by reference to those assumptions.

The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

The Administering Authority's policy will be to monitor an underlying 'low risk' position (making no allowance for returns in excess of those available on Government stocks) to ensure that the Funding Target remains realistic.

Investment Risk

This covers items such as the performance of financial markets and the Fund's Investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- Assets not delivering the required return (for whatever reason, including manager underperformance)
- Systematic risk with the possibility of interlinked and simultaneous financial market volatility
- Insufficient funds to meet liabilities as they fall due
- Inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- Counterparty failure

The specific risks associated with assets and asset classes are:

- Equities – industry, country size and stock risks
- Fixed income – yield curve, credit risks, duration risks and market risks
- Alternative assets – liquidity risks, property risks, alpha risk
- Money market – credit risk and liquidity risk

- Currency risk
- Macroeconomic risks
- environmental; social and corporate governance risks

The Fund mitigates these risks through diversification, investing in a wide variety of markets and assets, and through the use of specialist managers with differing mandates in addition to access to the range of managers via the Wales Pension Partnership investment pool.

The Administering Authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting with its Investment Advisors, Fund Managers and Fund Actuary. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

If there are significant market movements between the valuation date and the date the valuation is signed off the Administering Authority, on the advice of the Actuary, will consider what allowance should be made, if any, when finalising employer contributions .

Employer Risk

The risks arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a deficit in payments and/or orphaned liabilities. Public sector spending challenges and inflation may have adverse consequences for employer finances and their ability to make contributions. The Administering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64(4) or 64A and the terms of the Administering Authority's policy, as set out in Section 7 below, are met.

The Administering Authority will put in place a funding strategy statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admitted) and other pension fund stakeholders.

The Administering Authority will maintain a knowledge base on their admitted bodies and their legal status (charities, companies limited by guarantee, group/subsidiary arrangements) and use this information to inform the Funding Strategy Statement.

Climate change

The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The Administering Authority and Investment Advisory Panel keeps the effect of climate change on future returns under review and will commission modelling or advice from the Fund Actuary on the potential effect on funding as required.

The Administering Authority has commissioned scenario analysis modelling on the potential effect on funding from the Fund's Actuary which will be reported in the 2022 valuation report. This modelling is expected to meet the Government Actuary's requirements for the 2022 valuations as well as supporting the Fund's reporting under

DLUHC's proposed new TCFD (Taskforce on Climate-Related Financial Disclosures) regime for LGPS funds.

Liquidity and maturity risk

This is the risk of a reduction in cash flows into the Fund (including investment income – e.g. potentially resulting from changes in investment holdings), or an increase in cash flows out of the Fund, or both, which can be linked to changes in the membership and, in particular, a shift in the balance from contributing members to members drawing their pensions. Changes in the funding position and hence (secondary) employer contributions can also affect the cashflow position since it is not always possible to deliver complete stability of contributions. Timing of contribution payments by employers can also impact on liquidity requirements were flexibility is granted by the Administering Authority. Changes within the public sector and to the LGPS itself may affect the maturity profile of the LGPS and have potential cash flow implications. For example,

- Budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
- An increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed),
- Public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the LGPS),
- Lower member contribution rates or a change in the contribution rates, agreed as part of the Cost Management Process or otherwise, may lead to lower income if not immediately matched by higher employer contributions,
- An increase in opt-outs and the take-up of the 50/50 option (whether on affordability grounds which may currently be considered to be an increased risk due to current cost of living pressures) will reduce member contributions to the Fund
- Improved funding positions may lead to employer contribution rates being reduced.

The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity or other changes leading to cashflow or liquidity issues. The Administering Authority also commissions the Fund Actuary to provide projections of benefit payments and contributions based at each valuation and monitors the cashflow position on a regular basis.

Governance Risk

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), or establishment of a wholly owned company which does not participate in the Fund, or only partially participates, and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Particular examples of risk mitigation are set out below:

- Early retirement and ill health strain payments - No allowance is made in actuarial valuations of the Fund for the additional value of the benefits when a member is made redundant, is in ill health or leaves on the grounds of efficiency. To counter the potential 'strain' (or cost) emerging at the next valuation early retirement strain payments are required from the employer to the Fund to meet this additional cost over a period of no longer than 3 years.
- Bodies ceasing to exist with unpaid deficiency **-** Some employers can cease to exist and become insolvent leaving the employers in the Fund open to the risk of an unpaid deficit. For admission bodies admitted under paragraph 1(d) of Part 3, Schedule 2, any such deficit will be met by the relevant Scheme Employer and there is therefore little risk to other employers in the Fund (provided of course that the relevant Scheme Employer is itself regarded to be of good covenant).

Other employers are more problematic and the Administering Authority will as far as practicable look to reduce risks by:

- Use of bond arrangements or,
- Ensuring there is a guarantor to back the liabilities of the body, or,
- Monitoring other employers with small or declining membership to ensure that funding is close to 100% on the solvency measure by the time the last member leaves service and this may affect the funding strategy accordingly

Statistical/Financial Risk

This covers such items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority policy will regularly assess such aspects to ensure that all assumptions used are still justified.

Liability Risk

The main risks include discount rates, pay and price inflation, life expectancy, changing retirement pattern and other demographic changes.

The Administering Authority will ensure that the Fund Actuary investigates demographic, pay and pension increase experience at each valuation and reports on developments. The demographic assumptions are intended to be best estimate, informed by Fund experience and wider evidence where needed, e.g. the mortality assumptions are informed by a postcode analysis carried out by the Fund Actuary's specialist longevity team and the projections model released by the Continuous Mortality Investigation of the Institute and Faculty of Actuaries. If the Administering Authority becomes aware of any material changes in population mortality which may also be reflected in the Fund's experience it will ask the Fund Actuary to report on the effect on the funding position and employer contributions.

The Fund Actuary will also provide quarterly funding updates to assist the Administering Authority in its monitoring of the financial liability risks. The Administering Authority will, as far as practical, monitor changes in the age profile of the Fund membership, early retirements and redundancies and, if any changes are

considered to be material, ask the Fund Actuary to report on their effect on the funding position and employer contributions.

Allowance has been made for prevailing high levels of consumer price inflation in the calculation of the liabilities as at 31 March 2022 as set out in paragraph 4.17 above If significant changes in the value of the liabilities become apparent between valuations, including inflation above the levels allowed for in the 2022 valuation, the Administering Authority will notify the affected employers of the anticipated impact on costs that will emerge at the next valuation and consider whether any bonds that are in place for Admission Bodies require review. It will also consider the extent to which such changes can or should be allowed for in exit valuations, taking advice from the Fund Actuary.

Regulatory and Compliance Risk

The risks relate to changes to both general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.

The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify employers of the possible impact and the timing of any change.

There are a number of consultations which have been issued in recent years, some of which represent proposed changes which were first raised a number of years ago, including a cap on exit payments by public sector employers and new Fair Deal arrangements. Some of these may affect funding and pose a risk to the Fund. The Government has also consulted on changes to the valuation cycle although the 2022 valuation is going ahead as previously planned.

There are a number of additional uncertainties associated with the benefit structure at the time of the latest formal review of this Statement, including:

- The timing and detail of any final regulations in relation to the McCloud/Sargeant cases which ruled that the transitional protections implemented in the Firefighters' and Judges' Pension Schemes are illegal age discrimination.
- The outcome of the cost management process as at 31 March 2020 (and the Judicial Review of the 2016 process).
- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the Chief Secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.

For the purposes of the 2022 valuation, an approximate employer specific allowance will be made in respect of the McCloud remedy based upon a high-level analysis of the employer’s fund membership. Members’ benefits will be valued as required by

relevant legislation as in force as at 31 March 2022, except for the following assumptions:

i. It will be assumed that the current underpin (which only applies to those members within 10 years of their Normal Pension Age at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the 2014 Scheme without a disqualifying service gap.
ii. The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).
iii. Where a member remains in active service beyond 31 March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (whichever is sooner).
iv. Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.
v. The underpin will consider when members take their benefits, so they can be assured they are getting the higher benefit.

Smoothing Risk

The Administering Authority recognises that utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position. Where such an adjustment is used, the Administering Authority will review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits to ensure that it does not alter the disclosed solvency level by more than 5%.

Recovery Period Risk

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

Stepping Risk

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority will limit the number of permitted steps as appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

Section 7: Policy on Employer Flexibilities and reviewing Employer Contributions between Triennial Valuations

Review of Employer Contribution Rates

The Regulations require a triennial Actuarial Valuation of the Fund. As part of each Actuarial Valuation the contributions paid by each employer in the Fund are reviewed and may be increased or reduced.

The employer contributions payable by employers may also be reviewed outside of the triennial Actuarial Valuations where:

i. it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
ii. it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme;
iii. it appears to the Administering Authority that it is likely that the Scheme employer will become an exiting employer; or
iv. a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

For the avoidance of doubt, the Administering Authority will not consider a review of contributions under 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

Details of the Fund's policy on reviewing employer contributions under these provisions are set out below.

In addition, in exceptional circumstances contributions may be reviewed between valuations where this is indicated in the Rates and Adjustments Certificate.

Factors used to determine when a review is appropriate

In determining whether or not a review should take place under 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as the restructuring of a Multi-Academy Trust, a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract
- the materiality of any change in the employer's membership or liabilities, taking account of the Actuary's view of how this might affect its funding position, primary or secondary contribution rate
- whether, having taken advice from the Actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, or other form of indemnity in relation to the employer's liabilities in the Fund
- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and

supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund

- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pensions Administration Strategy Statement and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms
- whether the employer was both in surplus at the previous valuation date, and paying contributions in excess of the primary rate certified in the resulting Rates and Adjustments Certificate. If this is the case the administering authority would then also take into account the Fund Actuary’s view on whether the employer is still in a surplus position at the date of the review.

For an admission body where contributions may be reviewed under Regulation 64(4), the following considerations will apply:

- Where the date of exit is known, and is more than three years hence, or is unknown and participation is assumed to be indefinite, the Administering Authority will generally not deem it necessary to carry out an interim valuation.
- For Admission Bodies admitted under paragraph 1(d) of Part 3 Schedule 2 of the Regulations falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.
- For an employer whose participation is due to cease within the next three years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) applies.

Assessment of the risk/impact on other employers

In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. As a matter of principle, the Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Fund employers.

Where contributions are being reviewed for an employer with links to another Fund employer, particularly where this is a formal organisational or contractual link, e.g. there is a tripartite admission agreement, an ownership relationship or a formal

guarantee or subsumption commitment is in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the Fund Actuary as required.

Employer involvement and consultation

It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities. The requirements on employers to inform the Fund of certain events are set out in the Pensions Administration Strategy.

In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. In all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related/linked employer in the Fund and the proximity to the next formal valuation.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related/linked employers (including any guarantor or employer providing a subsumption commitment) with a view to seeking their agreement to this approach.

Process for requesting a review

Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact the Administering Authority and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. Employers should be aware that all advisory fees incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

Other considerations

The Administering Authority may carry out a review at any time during the valuation cycle where it becomes aware that a review is required. In such cases the employer will be expected to provide the requested information within one month of request and the review will be completed within 6 weeks of the provision of all requested information, or completion of the risk/covenant assessment if later.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also take into account the timing of contribution changes flowing from the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12-month period from the valuation date although if there were any material changes to the expected liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the valuation.

Where a review is being carried out in the circumstances that the employer was both in surplus at the previous valuation date, and paying contributions in excess of the primary rate (i.e. positive secondary contributions), the revised contributions following the review will not be set at a level below the primary rate certified at the previous valuation.

Cessation of participation, Deferred Debt Agreements and Exit Payments

An employer can cease participation in the following circumstances:

- an active employer ceases to be a Scheme employer (including ceasing to be an admission body participating in the Fund), or has no active members contributing to the Fund and does not enter into a Deferred Debt Agreement,
- a deferred employer ceases to participate where the Deferred Debt Agreement ends.

Where participation ceases, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund. When employees do not transfer to another employer they will retain pension rights within the Fund, i.e. either as a deferred pensioner or immediately taking retirement benefits.

London Borough of Southwark's admission policy generally includes a guarantee that it will take on all the assets and liabilities on exit, with no exit payment falling on the exiting employer. For clarity, no exit credit will be payable to such employers on exit. The Fund Actuary will provide the Administering Authority with an exit valuation confirming that no exit deficit or surplus is due to be paid at the exit date and a revised rates and adjustments certificate showing the nil exit payment due from the exiting employer, as required under Regulation 64(2) of the LGPS Regulations.

The assumptions adopted to value the departing employer's liabilities for the exit valuation (including on termination of any Deferred Debt Agreement) will depend upon the circumstances. In particular, the cessation valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers.

For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. This is to protect the other employers in the Fund, as upon exit, the employer's liabilities will become "orphan" liabilities within the Fund, and there is no recourse to that (former) employer if a shortfall emerges in relation to these liabilities after the exit date.

For subsumed liabilities the Administering Authority's policy is that the funding target for assessing the liabilities on exit is the ongoing funding target appropriate to the subsuming body, updated for financial conditions at the exit date.

In exceptional circumstances the funding target for subsumed liabilities may be varied if deemed appropriate by the Administering Authority, on the advice of the Fund Actuary. For example, the Administering Authority may, at its discretion, include additional margins for prudence compared to the approach used for determining ongoing contributions, for example in relation to regulatory uncertainty..
The assumptions adopted to value the departing employer’s liabilities for the exit valuation will depend upon the circumstances. In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers and will take account of any contractual guarantees where possible and notified to the Administering Authority.

For exits where the calculations are undertaken on or after the date this statement comes into force, the following refinements will be made to the approach at the 2022 funding valuation:

- the allowance made for the potential liabilities arising from the McCloud judgement remedy will be refined as required once the final remedy is known and as the data required to accurately assess any additional liabilities becomes available, as advised by the fund actuary
- the allowance for short-term inflation above the long-term assumption underpinning the exit funding target will be reviewed and updated on the advice of the Fund Actuary

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position disclosed by the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required from the outgoing employer.

However, where agreed between the parties the deficit (or any exit credit) may be transferred to the subsuming employer or guarantor, in which case it may be possible to simply transfer the former admission body’s members and assets to the subsuming body, without needing to crystallise any deficit or pay an exit credit. This is the case with admission bodies admitted using London Borough of Southwark’s admission policy, where no exit debt or credit is payable on exit.

If there are liabilities which cannot be recovered from the exiting employer or any bond/indemnity. These will fall to be met by the Fund as a whole (i.e. all other employers) unless there is a guarantor or successor body within the Fund.

At successive triennial Actuarial Valuations the Actuary will allocate assets within the Fund equal to the value of the orphan liabilities so that these liabilities are fully funded. This may require a notional reallocation of assets from the ongoing employers in the Fund.

Employers should be aware that advisory and other costs incurred by the Administering Authority in relation to the exit of an employer from the Fund will be re-charged to the exiting employer.

Regulation 64(4) of the Regulations provides the Administering Authority with a power to carry out valuations in respect of employers which are expected to exit at some point in the future, and for the Fund Actuary to certify revised contribution rates, between funding valuation dates.

The Administering Authority's overriding objective at all times in relation to employers is that, where possible, there is clarity over the Funding Target for that employer, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any date of exit of participation may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

The Administering Authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than three years hence, or is unknown and participation is assumed to be indefinite, the Administering Authority will generally not deem it necessary to carry out an interim valuation.
- For Admission Bodies admitted under paragraph 1(d) of Part 3 Schedule 2 of the Regulations falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.
- For an employer whose participation is due to cease within the next three years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) applies.

Exit payments

Any deficit would normally be levied on the departing employer as a single capital payment although, the Administering Authority may, allow phased payments as permitted under Regulation 64B. The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64B is set out below.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage/consult with the employer to consider its application and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital payment;

- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be three years but longer periods of up to ten years will be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. Exiting employers will be advised of the exit deficit and the spreading of any payment will only be considered at the request of the employer. Where there is a guarantor, the guarantor will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level quarterly amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Where the exit amount is significant, monthly payments may be required or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable* and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

*Employers will be asked to pay all advisory costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).

The Administering Authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pensions Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether or not there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

Suspension notices

Regulation 64(2A) permits the suspension of an employer's liability to make an exit payment for up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice.

The Administering Authority considers that it is appropriate to exercise that discretion in relation to any employer where there is a reasonable expectation that a member will join in the near future (e.g. before the next triennial Actuarial Valuation). In that case, the Fund will advise the employer of the exit amount calculated by the Actuary and serve a written suspension notice on the employer.

Whilst under such a suspension notice, the employer must continue to pay any deficit payments certified to the Fund as if it were an ongoing employer and the actuary will recalculate any deficit and contributions due at the next Actuarial Valuation. If there are no new members by the time the suspension notice expires the Fund Actuary will carry out an exit valuation as at the date the suspension notice expires.

Deferred Debt Agreement (DDAs)

Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a deferred debt agreement").

The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64(7A) is set out below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- the materiality of the employer and any exit deficit in terms of the Fund as a whole;
- the risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser

- the rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit; and
- whether an up-front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

It is envisaged that DDAs will only be entered into at the request of an employer. In any case the Administering Authority will engage/consult with the employer to consider the application and determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. It is expected that DDAs will be monitored on an annual basis unless circumstances dictate otherwise. Monitoring may be more frequent as the end of the period of the DDA approaches

Employers should be aware that all advisory fees incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

The matters which the Administering Authority will reflect in a DDA, include:

- an undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;
- a provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;
- a provision that the DDA will terminate on the first date on which one of the following events occurs-

a) the deferred employer enrols new active members;
b) the period specified, or as varied, elapses;
c) the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
d) the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
e) the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.

- the responsibilities of the deferred employer
- the circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund
- where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred employer's ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months
- where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary.

Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).

Employers should be aware that all advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on request. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set

out in the Pensions Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

Appeals

Any appeal against the administering authority's decision in relation to any of the matters in this section of the funding strategy must be made in writing within 6 months of being notified of the decision.

An appeal will require the employer to evidence one of the following:
- a deviation from the published policy or process by the administering authority, or
- any further information (or interpretation of information provided) which could influence the outcome, noting new evidence to be considered at the discretion of the Administering Authority.

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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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Dated: 20 September 2023

Last updated – September 2023