

Pensions Advisory Panel

Monday 30 September 2024

2.00 pm

Ground Floor Meeting Room G02C - 160 Tooley Street, London SE1 2QH

Membership

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

Officers

Clive Palfreyman
Caroline Watson
Barry Berkengoff

Staff Representatives

Roger Stocker
Helen Laker
Derrick Bennett

Advisors

David Cullinan
Colin Cartwright

INFORMATION FOR MEMBERS

Contact

020 7525 7222 or email: andrew.weir@southwark.gov.uk

Members of the committee are summoned to attend this meeting

Althea Loderick

Chief Executive

Date: 19 September 2024



Pensions Advisory Panel

Monday 30 September 2024
2.00 pm
Ground Floor Meeting Room G02C - 160 Tooley Street, London SE1 2QH

Order of Business

Item No.	Title	Page No.
1.	APOLOGIES	
	To receive any apologies for absence.	
2.	CONFIRMATION OF VOTING MEMBERS	
	Voting members of the committee to be confirmed at this point in the meeting.	
3.	NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT	
4.	DISCLOSURE OF INTERESTS AND DISPENSATIONS	
	Members of the committee to declare any interests and dispensation in respect of any item of business to be considered at this meeting.	
5.	TRAINING SESSION - LOCAL GOVERNMENT PENSION SCHEME POOLING UPDATE (15 MINUTES)	
6.	MINUTES (5 MINUTES)	1 - 6
	To agree as correct records, the open minutes of the meetings held on 26 February 2024.	
7.	MATTERS ARISING	
8.	UPDATE ON THE LOCAL PENSION BOARD (5 MINUTES)	7 - 10

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11.	MULTI-ASSET CREDIT UPDATE (5 MINUTES)	40 - 42
12.	ADVISORS' UPDATES - QUARTER TO SEPTEMBER 2024 (20 MINUTES) — DAVID CULLINAN — AON	43 - 74
13.	CARBON FOOTPRINT UPDATE - 30 JUNE 2024 (10 MINUTES)	75 - 81
14.	UPDATE ON APPROACH TO ENGAGEMENT AND VOTING (10 MINUTES)	82 - 88
15.	EQUALITY, DIVERSITY, AND INCLUSION POLICY (10 MINUTES)	89 - 100
16.	PENSION FUND STATEMENT OF ACCOUNTS & AUDIT FINDINGS REPORTS 2021-22 AND 2022-23 (5 MINUTES)	101 - 150

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.”

- 17. QUARTERLY INVESTMENT UPDATE - AON CLOSED REPORT**
- 18. ACTUARIAL FUNDING UPDATE - JUNE 2024 (10 MINUTES)**
- 19. UPDATE ON STEWARDSHIP CODE APPLICATION (10 MINUTES)**

Date: 19 September 2024



Pensions Advisory Panel

MINUTES of the OPEN section of the Pensions Advisory Panel held on Monday 26 February 2024 at 1.00 pm at Meeting Room 225 - 160 Tooley Street, London SE1 2QH

PRESENT

Councillor Stephanie Cryan (Chair)
Councillor Rachel Bentley
Councillor Emily Hickson
Clive Palfreyman
Caroline Watson
Tracy Milner
Roger Stocker
Spandan Shah
Mike Ellsmore
Colin Cartwright
David Cullinan
Andrew Weir

1. APOLOGIES

Apologies were received from Barry Berkengoff and Helen Laker.

2. CONFIRMATION OF VOTING MEMBERS

Councillor Stephanie Cryan, Councillor Emily Hickson, Councillor Rachel Bentley and Caroline Watson were confirmed as voting members.

3. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT

There were none.

4. DISCLOSURE OF INTERESTS AND DISPENSATIONS

The voting members confirmed their interest in the actuarial funding item.

5. MINUTES**RESOLVED:**

That the minutes of the meeting held on 17 July 2023 be agreed as a correct record.

6. EQUALITIES, DIVERSITY AND INCLUSION ORAL UPDATE

Spandan Shah, Interim ESG Manager, Finance and Governance, provide a short verbal update on the topic of equalities, diversity and inclusion (EDI).

He advised that he had reached out to the head of diversity (EDI) within the council in order to align with the wider council on EDI.

RESOLVED:

That the EDI oral update be noted.

7. 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, particularly about training for members and staff representatives.

RESOLVED:

That the update from the local pension board (LPB) meeting of 24 January 2024 be noted.

8. PENSION SERVICES – ADMINISTRATION FUNCTION UPDATE

Barry Berkengoff, the Pensions Manager, sent apologies and was therefore not at the meeting to present the report.

The Strategic Director of Finance advised that there were no more members in the pensions team.

There was a brief discussion regarding the rebranding of the pension fund website and expanded content.

RESOLVED:

That the update on the pensions administration function be noted.

9. ASSET ALLOCATION AND NET ZERO STRATEGY UPDATE - DECEMBER 2023

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

There were questions on the report and a discussion.

RESOLVED:

That 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, be noted.

10. GLENMONT CLEAN ENERGY FUND IV

Tracey Milner, Interim Pension Investments Manager presented the report.

There were questions on the report and a discussion.

RESOLVED:

1. That it be noted that, in line with the governance arrangements for new investments, voting members of the pensions advisory panel made an offline recommendation to the Strategic Director of Finance to progress a commitment in the Glenmont Clean Energy Fund IV.
2. That the decision to progress the commitment to Glenmont Clean Energy Fund IV be ratified.

11. ADVISERS' UPDATES - QUARTER TO DECEMBER 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 one of the upcoming advisory panel meetings.

RESOLVED:

That the quarterly investment updates be noted.

12. MULTI-ASSET CREDIT

Tracey Milner, Interim Pension Investments Manager presented the report.

There were questions on the report and a discussion.

RESOLVED:

3. That the progress in evaluating the market for multi-asset credit managers be noted.
4. That the officer proposal to invite managers and LCIV to attend a meeting for voting members of the pensions advisory panel on 4 March be agreed.

13. CARBON FOOTPRINT UPDATE - 31 DECEMBER 2023

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 31 December 2023 be noted.

14. UPDATE ON APPROACH TO ENGAGEMENT AND VOTING

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

There were questions on the report and a discussion.

RESOLVED:

That the update on the engagement and voting activity for the underlying investments of the fund be noted.

15. ACTUARIAL FUNDING UPDATE - DECEMBER 2023

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

There were no questions on the report

RESOLVED:

1. That the updated funding position at 31 December 2023 be noted.
2. That the amended funding strategy statement attached at Appendix 1 to the report be noted.

EXCLUSION OF THE PRESS AND PUBLIC

That the press and 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 category 3 of paragraph 10.4 of the access to information procedure rules of the Southwark Constitution.

The following is a summary of the decisions taken in the closed part of the meeting.

16. GLENMONT CLEAN ENERGY FUND IV

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

17. 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 11 for the decision.

18. MULTI-ASSET CREDIT

The voting members of the pensions advisory panel considered the closed information relating to this item. Please see item 12 for the decision.

19. ACTUARIAL FUNDING UPDATE - DECEMBER 2023

The voting members of the pensions advisory panel considered the closed information relating to this item. Please see item 15 for the decision.

The meeting ended at 2.32pm.

CHAIR:

DATED:

Meeting Name:	Pensions Advisory Panel
Date:	30 September 2024
Report title:	Update on the Local Pension Board
Ward(s) or groups affected:	Not applicable
Classification:	Open
Reason for lateness (if applicable):	Not applicable
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 3 July 2024.

KEY AREAS OF DISCUSSION

2. A training session was provided on the LGPS pooling mandate, including implications from a fund administration perspective and readiness of the Fund in relation to the pooling mandate.
3. The main business included an update on assessing the Fund's compliance with the General Code of Practice, Pension Services, Breaches Log, the Annual Cyber Security Assessment, Statement of Accounts and Audit Findings for 2021-22 and 2022-23, discussion on SAB Guidance on preparing Annual Reports, an investment update, the LPB annual report and an update on current LGPS issues.

Pension Services

4. The Head of Pensions Operations presented the report. An update was provided on progress made to date on recruitment within the Fund administration team and the IT systems in place.
5. There was a discussion on the ongoing work in relation to data migration, the National Pension Dashboard (NPD), the issuance of annual benefit statements (ABS) and complaint management.
6. Go live date for the National Pensions Dashboard remains unchanged. In parallel, a review of the Fund Administration Strategy is also underway.

Breaches Log

7. The Head of Pensions Operations provided an update regarding the breaches log, including instances which are not addressed, and scenarios which are being carried forward and/or reported to the regulator.

Annual Cyber Security Assessment

8. An update was provided regarding the work undertaken in assessing preparedness of the Fund's investment managers, custodian and banker in complying with the recommendations of the UK National Cyber Security Centre's (NCSC) Cyber Essentials Standards for IT Infrastructure in relation to cyber security risks.
9. The assessment outlines five core technical control areas: firewalls, secure configuration, security update management, user access control and malware protection.
10. All of the Fund's external stakeholders have policies and processes in place across all the core technical control areas as a means to proactively manage and mitigate any cyber security risks.

Statement of Account and Audit findings for 2021-22 and 2022-23

11. An update was provided on the status of the audits recently concluded by Grant Thornton for the financial years 2021-22 and 2022-23.

Local Pension Board Annual Report

12. The Chair outlined the key focus areas for the Board during 2023-24, which included the Fund administration services, particularly, delivery of the ABS and complaint management.
13. Going forward, the Board will continue to focus on cyber security and other governance-focused aspects of the Fund in light of evolving regulatory requirements.

SAB Guidance on preparing Annual Reports

14. There was a discussion on the work undertaken to map the new requirements for preparing annual reports under SAB's latest guidance and the Fund's level of readiness based on the Fund's 2022-23 Annual Report.
15. The Board will continue to monitor progress in light of the increased disclosure requirements and additional KPIs and data points to be considered as part of the latest SAB guidance on preparation of the Annual Report.

Update on current LGPS issues

16. An update was provided on the SAB Scheme Cost Assessment; letter from SAB to the Chief Secretary to the Treasury in relation to gender pensions gap and work required to perform gender pay gap analysis consistently across public sector employees; dissolution of Parliament due to the general elections and impact on the Economic Affairs of Public Bodies (Overseas Matters) Bill; new LGPS Informer Document launched by SAB along with Institute for Chartered Accountants in England and Wales; and the publication of the 11th Scheme Annual Report by SAB and key highlights from an LGPS perspective from the report.

Investment Updates

17. A high-level update was provided on the Fund's performance as at 31 March 2024 including an overview of the latest mandate with LCIV.
18. The report also covered a summary of performance of the Fund over a 1-year, 3-year, 5-year and 10-year timeline in comparison with other LGPS as highlighted in the recently released report 'Local Authority Fund Statistics 2023-24'.

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

Community impact statement

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Mike Ellsmore, Independent Chair - Local Pension Board	
Version	Final	
Dated	15 September 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 Resources	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	17 September 2024	

Meeting Name:	Pensions Advisory Panel
Date:	30 September 2024
Report title:	Pension Services – Administration and Operational Update
Ward(s) or groups affected:	Not applicable
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	Head of Pensions Operations, Resources

RECOMMENDATION

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

BACKGROUND INFORMATION

2. The Panel last received an update in June 2024 setting out specific information on recruitment, IT/systems, Cyber security, National Dashboard Programme, McCloud remedy, communication initiatives and complaint management.

RECRUITMENT

3. Recruitment is stable albeit some vacancies exist within First Contact, Admin and Data teams.
4. An existing member of staff who was on secondment to the new Teachers' Pensions Team (now part of Schools HR) will be returning to the Data team.

IT/SYSTEMS

5. Following the circulation of the Cyber Risk Assessment (where overall findings were positive), recommendations have been shared with the software provider. We will share any feedback and next steps with the Panel in due course.

6. A 2024 HealthCheck is underway with the pensions admin provider. This will focus on critical functionality and set out configuration improvements around Employer Hub, Member Portal and Contact Manager software (used to record and manage all inbound member and employer enquiries via phone and email).

NATIONAL DASHBOARD PROGRAMME

7. The pensions admin provider continues to develop a dashboard 'ecosystem' as part of the legal requirement for all administering authorities to adhere to the new Pensions Dashboards Regulations 2022.
8. Southwark Council's "connect by" date remains unchanged as 31 October 2025.

PROGRESS TO SEPTEMBER 2024

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

COMMUNICATION INITIATIVES

9. The 2024 Annual Benefit Statement (**ABS**) exercise was completed as follows:
 - ABS for deferred members (ex-staff) were posted on 15th August 2024.
 - ABS for Council staff were issued electronically on 20th August 2024.
 - ABS for Council Depot staff were posted to home addresses and Depot work addresses as per agreement with Unions and HR.
 - ABS for Schools staff were issued in phases from late August due to additional work that was needed on third party payroll data. Primary focus was on the three main providers who have 80% of schools/external employer payroll services (Strictly Education, EPM and Dataplan).
10. Pension Savings Statements (**PSS**) for Annual Allowance (**AA**) purposes are currently being prepared. Anyone affected or with a tax charge will receive a PSS in early October 2024 for the period 2023/24.
11. The standard AA increased from £40,000 to £60,000 on 6th April 2023 which should be beneficial to many Southwark staff.
12. A re-modelled Southwark Pension Fund website is due to go live shortly. This will include up-to-date Southwark house style, improved user navigation, and a dedicated section for Pension Fund Finance and Investments.

COMPLAINT MANAGEMENT

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

Against Employer:

- 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 a medical assessment, but the employer makes the final decision.

Case Open - with Ombudsman pending formal decision.

- Pensions Ombudsman single complaint - protracted complaint from a former member of Council staff about pension benefits and a Settlement Agreement.

Case Open - Southwark has provided its formal response and now awaits a final decision from the Ombudsman.

- IDRP stage 1 - ill-health complaint against the Council as employer. Whilst the ill-health tiering award was not in dispute, a disagreement existed over contractual hours which affected the final value of pension benefits to be paid.

Case Closed - Council HR upheld complaint in favour of member and benefits were re-calculated and put into payment.

Against Administering Authority (i.e. Pension Fund):

- Pensions Ombudsman single complaint - a cohabiting partners' pension and death grant claim made against the pension fund. The applicant alleged both he and the deceased were financially dependent on one another and living together as husband and wife. **Complaint formally determined and upheld in part. The Ombudsman found no evidence of a cohabiting relationship and said the Administering Authority had reached the correct decision based on all the evidence available. Complainant has appealed the Ombudsman's decision.**

Case Open - likely to be appealed at High Court of Justice in October 2024.

- Pensions Ombudsman single complaint - pensions liberation claim that pension fund undertook no receiving scheme due diligence when a transfer out was paid in 2016.

Case Open - Pension Fund denies all allegations. Complainant has now taken an identical matter to the Crown Court, meaning the Ombudsman may have to discontinue its own investigation.

- IDRP stage 2 - dispute over the allocation of a lump sum death grant.

Case Open - new evidence being considered by IDRP stage 2 Adjudicator.

ADMINISTRATIVE PERFORMANCE MONITORING

Performance metrics are detailed in Appendix 1 covering the period June to August 2024.

FUTURE WORK PLANNING

14. Pension Services has signed up to a wider Finance Directorate Business Plan over 2024/25. All admin and IT related objectives will be shared with the Panel in due course.

CONCLUSIONS

15. Recruitment and retention of key staff with the necessary skills is critical to the achievement of all future plans, as is succession planning.
16. 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

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

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

Community impact statement

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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Legal implications

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

Financial implications

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

Consultation

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

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**Assistant Chief Executive – Governance and Assurance**

26. Not applicable.

Strategic Director of Resources

27. Not applicable.

Other officers

28. Not applicable.

APPENDICES

Name	Title
Appendix 1	Administration Metrics: June, July and August 2024

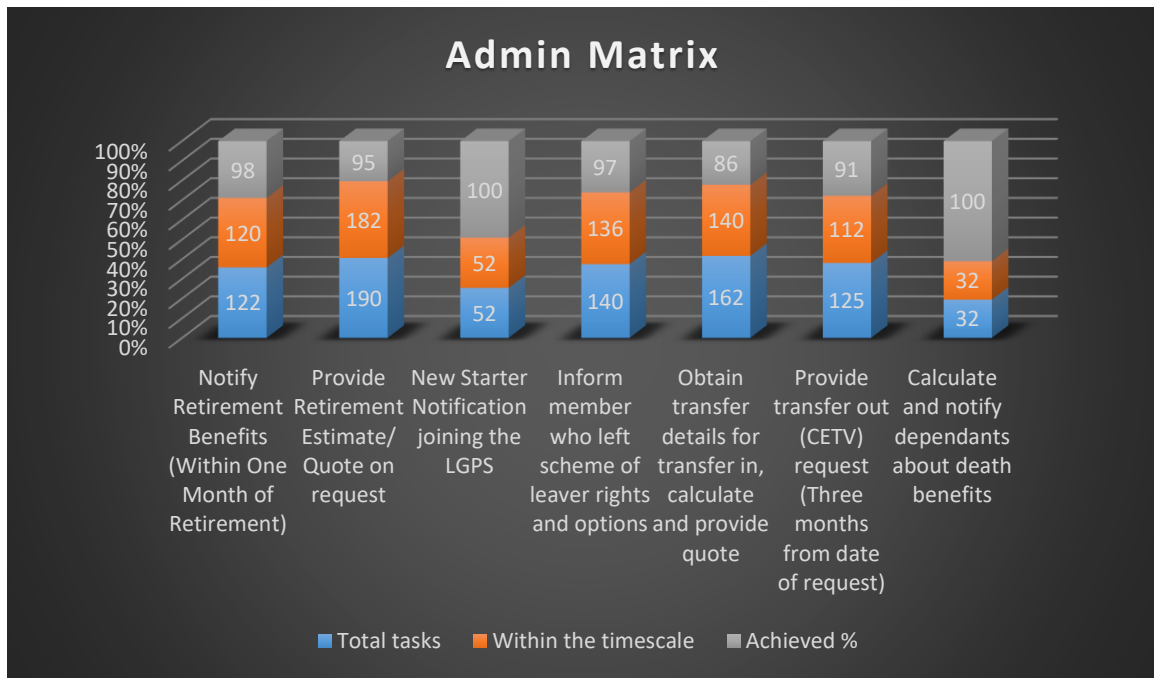
AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Barry Berkengoff, Head of Pensions Operations, Resources	
Version	Final	
Dated	17 September 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 Resources	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	17 September 2024	



Admin Metrics – June, July and August 2024

	Total Tasks	Within Time frame	Achieved	
Notify Retirement Benefits (Within One Month of Retirement)	122	120	98%	↑
Provide Retirement Estimate/ Quote on request	190	182	95%	↓
New Starter Notification joining the LGPS	52	52	100%	→
Inform member who left scheme of leaver rights and options	140	136	97%	↑
Obtain transfer details for transfer in, calculate and provide quote	162	140	86%	↓
Provide transfer out (CETV) request (Three months from date of request)	125	112	91%	↑
Calculate and notify dependants about death benefits	32	32	100%	→



Meeting Name:	Pensions Advisory Panel
Date:	30 September 2024
Report title:	Asset Allocation and Net Zero Strategy Update – 30 June 2024
Ward(s) or groups affected:	Not applicable
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	Chief Investment Officer

Recommendation

1. The Pensions Advisory Panel is asked to note the Fund's asset allocation at 30 June 2024, overall performance and other matters considered by the officers and advisers of the Fund during the quarter to the end of June 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 – June Quarter 2024

Position Statement at 30 June 2024

4. The market value of the Fund increased during the quarter from £2,238.9m to £2,257.8m, an increase of £18.9m (+0.8%). In contrast, in the previous quarter the market value of the Fund increased by £73.1m.

5. The value of the major asset classes at 30 June compared to 31 March is as follows:

	31 March		30 June	
	£m	%	£m	%
Low carbon passive equities	815.340	36.4	810.920	35.9
Active Emerging Market equities	94.974	4.2	97.140	4.3
Active global equities	306.951	13.7	314.917	14.0
Total Global Equities	1,217,265	54.4	1,222.977	54.2
Total Multi-Asset Credit	205.828	9.2	208.185	9.2
Total Index Linked Gilts	153.080	6.8	159.437	7.1
Total Property	348.897	15.6	355.793	15.7
Total ESG Priority	287.311	12.8	295.291	13.1
Total Cash & Cash Equivalents	26.560	1.2	16.125	0.7
Total Fund	2,238,942	100.0	2,257,809	100.0

6. The following table shows the breakdown of the market valuation as at 30 June 2024 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	408,605	18.1	17.5	+0.6
		402,314	17.8	17.5	+0.3
Active Emerging Market equity	Comgest	97,140	4.3	5.0	-0.7
Active global equity	Newton	314,917	13.9	10.0	+3.9
Total Global Equity		1,222,977	54.2	50.0	+4.2
Total Multi-Asset Credit	Robeco LCIV-CQS	105,804	4.7	5.0	-0.3
		102,381	4.5	5.0	-0.5
Total Index Linked Gilts	Blackrock LGIM	101,593	4.5	5.0	-0.5
		57,845	2.5	5.0	-2.5
Total Property	See table below (Para 9)	355,793	15.8	20.0	-4.2
Total ESG Priority	See table below (Para 16)	295,291	13.1	10.0	+3.1
Total Cash & Cash Equivalents	LGIM	5,021	0.2	0.0	+0.2
	Northern Trust	-	0.0	0.0	0.0
	Blackrock	1,051	0.1	0.0	+0.1
	Newton	5,952	0.3	0.0	+0.2
	Nuveen	4,100	0.2	0.0	+0.2
		+0.7			
TOTAL Fund		2,257,809	100.0	100.0	0.0
31 st March		2,238,942			
31 st December 2023		2,165,880			
30 th September 2023		2,057,902			

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 Global Equity via Newton (+3.9%) and ESG Priority Funds (+3.1%). In contrast, the key underweights are in Property (-4.2% excluding cash held by Nuveen) and Index-linked gilts (-2.9%).
8. The majority of the (minor) changes in over and underweight positions are linked to market movements, where there has been ongoing strong absolute performance in equity markets. The + 0.3% movement in the overweight to ESG priority is predominantly due to the first drawdown into the Glennmont IV renewable energy fund (see paragraph 16).

Fund Manager Activity – public market assets

9. Some rebalancing of equities took place in the quarter to fund private market drawdowns. In total, £14.3m was taken out of the LGIM equity fund. Despite this, the overweight in equities reduced only marginally (from 4.4% at 31 March to 4.2% at 30 June). In addition, £5m of cash was returned by Newton. See paragraph 19 for further detail.

Fund Manager Activity – property

10. The table below breaks down the property holdings showing the valuation of the direct and indirect fund holdings as at 30 June 2024.

Manager	Description	Market Value £m	Actual %	Target %
Nuveen	Direct property UK Retail Warehouse Fund	225.750 2.025	10.1	14.0
Invesco	UK Residential Fund	46.733	2.1	1.5
M&G	UK Residential Property Fund	42.885	1.9	1.5
Darwin	Leisure Development Fund	24.957	1.1	1.5
Frogmore	Frogmore Real Estate Fund III	4.915	0.2	0.75
Brockton	Brockton Capital Fund III	8.528	0.4	0.75
Total Property		355.793	15.8	20.0
Last quarter		348.897	15.6	20.0

11. The table shows that there is a significant underweight in the core property mandate run by **Nuveen** (-3.9%, 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.
12. In April £4m was transferred to **Nuveen** to fund the purchase of an industrial unit in Northamptonshire.

13. Following the quarter end, officers and Aon have been liaising with Nuveen over operational changes to the direct property benchmark. The purpose is to improve alignment with the market environment within which Nuveen is operating on behalf of the Fund. It is expected that the benchmark change (from an absolute cash basis to a real-estate index-based benchmark) will be effective from 1 October 2024.
14. As previously advised, in the March quarter officers met with **London CIV and M&G** (separately) to discuss the potential for the investment in the M&G Residential Property Fund to be aggregated with that of three other London Boroughs to access a lower fee share-class.
15. Officers subsequently completed the paperwork and transferred to the lower fee share-class on 1st July. The assets held in the M&G fund are now deemed to be pooled since they fall under the supervision of LCIV. A net fee saving of 5bps applies.
16. Following the quarter end, officers instigated a conversation between LCIV and Invesco with the aim of achieving a similar outcome for the Invesco UK Residential Housing Fund.

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

17. The below table breaks down the ESG priority holdings (excluding property) showing the valuation of underlying funds as at 30 June 2024 against the original commitments:

Manager	Fund	Commitment	Market Value £m	Last Quarter £m
Glennmont	Glennmont Clean Energy Fund III	€35m	32.404	31.154
Glennmont	Glennmont Clean Energy Fund IV	€50m	11.353	-
Temporis	Operational Renewable Energy	£33.3m	56.387	65.711
	Renewable Energy	£30.6m	25.951	31.621
	Impact Strategy	£31.0m	25.425	21.781
Blackrock	Global Renewable Power Infrastructure	\$40m	27.907	24.996
Darwin	Bereavement Services Fund	£20m	22.790	22.694
Blackstone	Strategic Capital Holdings II	\$110m	56.431	53.289
BTG Pactual	Core US Timberland	\$40m	36.642	36.064
TOTAL			295.291	287.311

18. As advised at the meeting of PAP on 27th February 2024, LBS PF was admitted as an investor to the **Glennmont Clean Energy Fund IV** on 20 December 2023. The first cash drawdown (€15.9m/£13.6m) was made on 19th April.
19. As previously advised, on the 21st of March officers had an update call with **Glennmont** regarding the status of fundraising for Fund IV. The key issue was that the final closure of the Fund was to be delayed, enabling three investors to finalise their paperwork having missed the original deadline. Having completed the paperwork required to enable this to take place, officers received confirmation on 27th July that the Fund's first close has taken place with total fundraising of €1.9bn.
20. The following table shows the private market cash transactions (excluding property) for the June quarter:

	Net Drawdowns	Net Distributions
Blackrock GRP	-£2.5m	
Blackstone		£0.5m
Glennmont IV	-£13.6m	
Temporis Impact V	-£5.7m	
Total impact on LBSPF cash balances	-£21.8m	+£0.5m
Last Q total	-£6.6m	+£0m

21. Given that net drawdowns exceeded distributions for the quarter (and in conjunction with the property drawdowns discussed in paragraph 11 and an excess of other payments out compared to payments into the pension fund bank account), there were several transactions to fund the drawdowns:
- £11.5m redemption directly from the LGIM equity portfolio
 - £5m redemption from the LGIM liquidity fund.
 - £2.8m redemption from the LGIM equity portfolio to top up the LGIM liquidity fund to the minimum balance of £5m (as required by the cash management policy). A further £3m was used to rebalance on 1/7.
 - £5m redemption from the Newton global equity custody cash account – no sale of assets was required to fund this.
22. The activity described above demonstrates that the Pension Fund cashflow management framework policy (approved in March 2023, see Appendix 1) is working effectively.

UK Holdings

23. Under new annual reporting guidelines, LGPS funds are now expected to declare what proportion of their total portfolio is allocated to UK assets. This is in line with both the previous and new government's aim to increase pension fund investment in the UK (see paragraph 32). To increase transparency on a Business as Usual (BAU) basis, the following table identifies the Fund's UK based assets as at quarter end (30th June 2024):

		% of manager portfolio	£m	% of LBS Fund
UK listed equity	Blackrock	3.7%	15.0	0.7
	LGIM	3.6%	14.4	0.6
	Newton	7.3%	23.4	1.0
Index-Linked Gilts	Blackrock} LGIM}	100%	159.4	7.1
Multi-Asset Credit	Robeco	11.5%	12.2	0.5
	LCIV-CQS	19.2%	19.7	0.9
UK Residential Housing	Invesco} M&G}	100%	89.6	4.0
Direct Property	Nuveen	100%	227.8	10.1
Opportunistic Property	Brockton} Frogmore}	100%	13.4	0.6
Leisure Development	Darwin	100%	25.0	1.1
Bereavement Services	Darwin	100%	22.8	1.0
Renewable Infrastructure	Temporis	100%	107.8	4.8
	Blackrock	6%	1.7	0.1
Private Equity	Blackstone	5%	2.8	0.1
TOTAL			735.1	32.6

*If a manager is not shown above, it is because there is zero exposure to UK.

24. In some instances, estimates have been made based on reporting or advice received from the relevant fund managers. Many of the above mandates or funds have a global reach and reporting may be denominated in currency other than GBP and on a lagged basis.

Investment Performance Results for the Period

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

	Quarter to 30 June	Year to 30 June	3 Years to 30 June p.a.	Inception to 30 June p.a.
Fund	1.1	9.7	4.0	8.4
Benchmark ¹	1.9	13.4	6.2	7.6
Relative	-0.8	-3.7	-2.2	+0.8

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

26. The Fund made a return of 1.1% in the quarter, behind the benchmark return of +1.9%. The total fund return for the year to the end of June 2024 was 9.7%, which was below the benchmark return of 13.4%. Over 3 years, the Fund returned 4.0% p.a. compared to a benchmark return of 6.2% p.a., a difference of -2.2% p.a. An annualised return of 8.4% since inception means that the Fund has exceeded, by some margin, the 2022 actuarial valuation's assumed investment returns of 4.05% p.a.
27. Further information on the performance of underlying managers will be provided in the adviser update (Item 12).

Manager meetings

28. Officers had update meetings with Invesco (residential property), Temporis (renewable energy), Newton (global equity), Nuveen (direct property), Darwin Alternatives (leisure and bereavement services funds) and Robeco (credit fund). There were no notable matters arising.
29. Post quarter end, officers attended the Frogmore annual investor meeting, had an update with Blackrock on the passive funds and met with LCIV.

LGPS Next Steps on Investments – ongoing activity

30. As discussed at the PAP meeting of 26 February, in November 2023 government issued a response to the LGPS Next Steps on Investments consultation. PAP was advised that the key areas of interest were 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.
31. As advised in the March quarter officer update circulated to PAP members, on 15 May the then Minister for Local Government, Simon Hoare MP, issued a letter to Chief Executives and S151 officers of all LGPS administering authorities (AA) in England: asking that each AA set out the approach to efficiencies in the management, governance, and administration of the LGPS.
32. Officers prepared and submitted a response by the deadline, which did not change following the General Election announcement.
33. Since the election, it has become increasingly clear that the new government intends to continue with the direction of travel set by the previous government: namely with a view to accelerating the pooling of assets and with the potential

to consolidate either individual LGPS funds or, over the longer-term, the pools themselves.

34. To this end, on the 20 July, the new Chancellor of the Exchequer, Rachel Reeves, announced a “landmark” pensions review to “boost investment, increase pension pots and tackle waste in the pensions system” and that “action will be taken to unleash the full investment might of the £360billion LGPS to make it an engine for UK growth”.
35. On the 16 August the terms of reference of the review were published and specified that the review would have regard to “improving the affordability and sustainability of the LGPS in the interest of members, employers and local taxpayers”. Further information can be found in the Hymans Robertson Policy Briefing note at Appendix 2.
36. On the 4 September, government issued a call for evidence to inform the Pensions Investments Review. The request is focussed on Defined Contribution and the LGPS (not the wider Defined Benefit Landscape). A full list of the questions can be found at Appendix 3, with those relevant to LBS PF highlighted. Officers prepared a response on behalf of LBS PF in time for the 25 September deadline.

Further Areas of Progress

37. 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

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

APPENDICES

Name	Title
Appendix 1	Cash Flow Management Policy Covering Report – March 2023
Appendix 2	Pensions Review
Appendix 3	Call for Evidence – Pensions Investment Review

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Tracey Milner, Pensions Investments Manager, Treasury and Pensions	
Version	Final	
Dated	17 September 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 Resources	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	17 September 2024	

Appendix 1: Cash Flow Management Policy Cover Report – March 2023

Recommendations

The PAP is asked to:

- Note the need for a formalised cash flow management policy to be implemented for the London Borough of Southwark Pension Fund (LBSPF, 'the Fund').
- Agree the recommended approach to the Fund's cash flow management as set out below and in further detail in Appendix A.

Background

1. Due to the increasing maturity of its membership profile, the Fund is cash negative as monthly cash outgoings are no longer met by contributions and lump sum payments in.
2. This is expected to increase when pension benefit payments increase by 10.1% from April 2023 whilst contributions in are likely to remain fairly stable.
3. As the Fund moves further with its Net Zero carbon emission targets, there has been an increase in illiquid investment, which is expected to grow in the coming years. The Fund commits a given value of capital to each of these illiquid investments which are drawn down and paid as cash to fund managers over each investment's lifetime.
4. The current cash shortfall over the 2023-24 financial year is expected to be c. £34m, however additional capital drawdowns will exacerbate the cash negative status of the Fund beyond this.
5. As per LGPS regulations, the Fund holds operational cash balances in a bank account and additional cash is invested in a liquidity fund with an existing manager.
6. The current liquidity fund requires five clear working days to access cash, limiting the Fund's ability to be reactive to any unexpected large-scale payments.
7. A new cash flow management policy is required in order to allow officers to react more efficiently to capital drawdowns and minimise cash balances held in order to maximise potential investment returns and avoid the sale of other assets to fund illiquid asset needs.

Proposed Cash Flow Management Policy

8. The proposed cash flow management policy splits the Fund's assets into a five-tier structure, with the intention to reflect which assets should be used in order to meet obligations as they fall due.

9. Limits and thresholds on cash balances will be reviewed on a quarterly basis in the short-term to ensure they are suitable in practice.
10. Aon's Cash Flow Management report is set out for consideration in Appendix A.
11. Allocation of the Fund's assets as at 31 December 2022 into each of these tiers is included for reference in Appendix B.

Tier 1: Primary Cash Vehicle: Bank Account and Money Market Funds

12. A minimum of c. £7m to be held in this tier, split across the Fund bank account (£0.75m) and two money market funds (c. £6.25m) to be used to meet operational cash flows.
13. Assets at this level are highly liquid and should be accessible within at least one working days' notice whilst generating low returns through the money market funds.
14. If the balance on Tier 1 falls below an agreed lower limit, additional resource would be called down from Tier 2, or if it remains consistently above an agreed upper limit, additional resource would be invested into Tier 2.

Tier 2: Secondary Cash Vehicle: Liquidity Fund

15. The Fund is currently invested in the BlackRock Sterling Liquidity Fund but, on the agreement of this policy, the Fund will be divesting from this and investing the proceeds in the LGIM Sterling Liquidity Fund, selected due to shorter timeframes for accessing invested cash resources.
16. A minimum of c. £5m would be held at this tier to be accessed in order to meet larger expenses to the Fund or larger capital drawdowns.
17. These funds are less liquid than those in Tier 1 but will generate greater returns than money market funds to reward investors for lower liquidity.

Tier 3: Main Source of Liquidity to Fund New Investments

18. Assets at this level can be redeemed in order to meet substantial obligations that would exhaust balances at Tier 1 and 2, such as investments into new assets.
19. Historically, the Fund has relied on redeeming passive equity holdings to meet investments due to an ongoing overweight allocation to passive equities and low transaction costs incurred in redeeming passive assets. The Fund would continue to use passive equities to replenish low cash balances in Tier 2 assets.

20. The Investment Management Agreement between LBSPF and LGIM can be amended to trigger an automatic transfer of assets from the LGIM passive equity fund (a Tier 3 asset) to the LGIM Sterling Liquidity Fund (a Tier 2 asset) where balances on the liquidity fund reach a lower threshold.
21. The defensive allocation of the Fund is deemed as sitting within Tier 3:
- a. Blackrock DGF and ARB funds can be used to fund new investment once the upcoming allocation to multi-asset credit has been made
 - i. The incoming Multi-Asset Credit allocation would sit under Tier 4
 - b. It is non-advisable to redeem index-linked gilts to meet new investment obligations due to the protection they offer to the Fund's value against rises in inflation.

Tier 4: Other Sources of Liquidity

22. Assets in this tier are those which have low liquidity characteristics but can be redeemed if assets at Tier 3 need to be replenished to maintain the Fund structure within the framework of the strategic asset allocation.
23. These assets are actively managed with the intention of applying fund manager expertise to deliver above-market returns and as such, redemption of these assets should be exercised with caution.

Tier 5: Illiquid Investments

24. These investments are often those which form the backbone for the Fund's progress to Net Zero and should not be considered where the Fund requires liquid resources to meet obligations.
25. Prior to investing in new illiquid assets, it is recommended that sustainability of the Fund's overall liquidity should be assessed to ascertain if the Fund can meet commitments whilst mitigating ongoing liquidity risk

Next Steps

26. Officers have begun the process to find suitable money market funds for Tier 1 as part of a wider project to improve the Fund's ability to respond efficiently to requests for large cash outflows.

27. Following agreement of this policy by the PAP, the following actions will be taken:
- a. The Fund's Investment Strategy Statement will be updated to reflect the new cash flow management policy
 - b. Onboard the LGIM Sterling Liquidity Fund and divest from the current BlackRock Liquidity Fund
 - c. Ongoing monitoring and assessment of the suitability of the cash flow policy to meet cash flow requirements, particularly around cash balance buffers

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

28. Community Impact Statement

No immediate implications arising

29. Equalities (including socio-economic) Impact Statement

No immediate implications arising

30. Health Impact Statement

No immediate implications arising

31. Climate Change Implications

No immediate implications arising

32. Resource Implications

No immediate implications arising

33. Legal Implications

No immediate implications arising

34. Financial Implications

No immediate implications arising

35. Consultation

No immediate implications arising

APPENDICES

Name	Title
Appendix A	Aon Cashflow Management Framework Report
Appendix B	LBSPF Asset Structure: Tier Allocation

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jack Emery – Divisional Accountant, Pensions and Investments	
Version	Final	
<i>Dated</i>	24 February 2023	
<i>Key Decision?</i>	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 and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		

POLICY BRIEFING NOTE:

Pensions review – Phase 1: LGPS Terms of Reference

On 16 August, the [Terms of Reference for Phase 1](#) of the new Government's Pensions Review were released. Despite being unlikely bedfellows, the phase will focus on defined contribution schemes and the LGPS in England and Wales. The initial findings will be reported later this year and ahead of the introduction of the Pension Schemes Bill.

The joint Treasury and Pensions Minister, Emma Reynolds, has been appointed to lead the review, but will work closely with MHCLG Minister, Jim McMahon.

Aims of the review

The overall aims of the review are to “boost investment, increase saver returns and tackle waste in the pensions system”. This first phase of the review will focus on “investment” and flag areas for policy development. Two of these are directed at the LGPS:

- Tackling fragmentation and inefficiency, through consolidation and improved governance;
- Encouraging further pension investment into UK assets to boost growth across the country.

In developing its recommendations, the review will have regard to various guidance, including the following areas most relevant to the LGPS:

1. Improving the affordability and sustainability of the LGPS in the interest of members, employers and local taxpayers.
2. The role of pension funds in capital and financial markets to boost returns and UK growth.
3. Any implications for wider Government financial stability policy objectives such as with respect to the gilt market.
4. Fiscal impacts, which will need to be considered in the context of the public finances.

External engagement with the review

The terms of reference point to the importance of “co-creation” with industry and the LGPS. It promises to “consult widely” and seek views from “employers, trade unions, the pensions industry, financial services, local government and consumer voices.”

Second phase

The second phase will start later this year with a focus on improving pension outcomes alongside investment, including assessing retirement adequacy. It's not clear whether the LGPS is in scope for phase 2.

Comment

Given the undeniable success of the LGPS delivering in alignment with local government, it's disappointing that the premise of the Pensions Review is tackling "fragmentation and inefficiency".

However, considering the costs and structure of the LGPS, this review is perhaps only a means to an end. The new Government's key focus is measures to boost UK growth. For the LGPS, this begins and ends with more investment in UK-based "productive assets", and at pace.

Get in touch

If you'd like to discuss anything further, please contact your usual Hymans Robertson consultant or get in touch [here](#).

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CALL FOR EVIDENCE – PENSIONS INVESTMENT REVIEW

A Call for Evidence has been published inviting input, data and information from interested parties to inform the first phase of the Pensions Investment Review. This first phase aims to boost investment, increase pension pots and tackle waste in the pensions system.

This call for evidence closes at
11:59pm on 25 September 2024

Call for evidence description

The Chancellor has launched a landmark pensions review to boost investment, increase saver returns and tackle waste in the pensions system. The Chancellor has appointed the Minister for Pensions to lead the review. The review will focus on defined contribution workplace schemes and the Local Government Pension Scheme.

In its initial stages the review will be considering evidence on a range of questions including those listed below. These will guide our stakeholder engagement with more targeted questions being considered with particular stakeholder groups.

The review intends to engage extensively with stakeholders via meetings and workshops but would also welcome written submissions through the survey link provided from relevant organisations and individuals on these topics.

We also invite stakeholders with existing data or unpublished analysis or reports relevant to the questions below to consider sharing these with the review.

Asset pooling policy in the Local Government Pension Scheme in England & Wales (LGPS) was consulted on in 2023^[1]. In addition to the below request for evidence, the review will engage extensively on next steps with regard to LGPS consolidation, with funds, pools and representative groups including the LGA and trade unions. With regard to investing in the UK, the questions set out below are applied to both DC and LGPS funds, and where relevant stakeholders should feel free to make submissions focused solely on the LGPS or solely on DC. Apart from the LGPS, the rest of the DB market is out of scope of this review.

Scale and consolidation

1. What are the potential advantages, and any risks, for UK pension savers and UK economic growth from a more consolidated future DC market consisting of a higher concentration of savers and assets in schemes or providers with scale?
2. What should the role of Single Employer Trusts be in a more consolidated future DC market?
3. What should the relative role of master trusts and GPPs be in the future pensions landscape? How do the roles and responsibilities of trustees and IGCs compare? Which players in a market with more scale are more likely to adopt new investment strategies that include exposure to UK productive assets? Are master trusts (with a fiduciary duty to their members) or GPPs more likely to pursue diversified portfolios and deliver both higher investment in UK productive finance assets and better saver outcomes?
4. What are the barriers to commercial or regulation-driven consolidation in the DC market, including competitive and legal factors?
5. To what extent has LGPS asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?

Costs vs Value

1. What are the respective roles and relative influence of employers, advisers, trustees/IGCs and pension providers in setting costs in the workplace DC market, and the impact of intense price competition on asset allocation?
2. Is there a case for Government interventions, aimed at employers or other participants in the market, designed to encourage pension schemes to increase their investment budgets in order to seek higher investment returns from a wider range of asset classes?

Investing in the UK

1. What is the potential for a more consolidated LGPS and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?
2. What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities),

- such as past and predicted asset price performance and cost factors?
3. Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth? In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?

Meeting Name:	Pensions Advisory Panel
Date:	30 September 2024
Report title:	Multi-Asset Credit Update
Ward(s) or groups affected:	Not applicable
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	Pensions Investments Manager

Recommendation

1. The Pensions Advisory Panel is asked to ratify the decision, made at the special meeting of 4 March 2024, to appoint LCIV (Alternative Credit Fund) as multi-asset credit manager with a £100m allocation.

Background

2. As part of the 2022 investment strategy review, PAP agreed to a new 10% strategic allocation to multi asset credit, to be funded from the legacy absolute return bond and diversified growth holdings.
3. On 9 March 2023 a special meeting of voting members of PAP met and having received presentations from three shortlisted managers, recommended that Robeco (Climate Global Credits Fund) be appointed as the preferred manager for a £100m pooled fund investment. This decision was ratified at the PAP meeting of 17 July 2023.
4. Following this decision, officers and Aon continued to review and assess potential Multi-Asset Credit (MAC) strategies to ensure that the 10% strategic allocation could be achieved in 2023-2024.

LCIV-CQS

5. At the PAP meeting of 26 February 2024 officers presented a paper which updated on progress to date in identifying additional MAC strategies. It was agreed that LCIV (LBS PF's LGPS investment pool) and CQS (the underlying manager of the LCIV Alternative Credit Fund) be invited to present to a special meeting of voting members of PAP on 4 March 2024.

6. Following the meeting, a recommendation was made to appoint LCIV-CQS as the preferred manager for the remaining £100m MAC allocation. This will be ratified at this meeting.
7. The LCIV Alternative Credit Fund (ACF, managed by CQS) provides good diversification within the overall LBS MAC allocation, with a focus on higher yielding credit (such as loans and structured credit) than the Robeco fund, which is predominantly focussed on investment grade credit. The ACF also complements the Robeco allocation, both in terms of LBS PF's financial objectives and net-zero aspirations. In addition, allocating to an LCIV fund is in line with the government imperative to pool liquid assets by 31 March 2025.
8. Following completion of due diligence, and signing off documentation with LCIV, the allocation was made on 28 March 2024 ahead of the end of the financial year. The allocation was funded through full divestment of the Fund's absolute return bond holding.

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

Community impact statement

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Tracey Milner, Pensions Investments Manager, Treasury and Pensions	
Version	Final	
Dated	17 September 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 Resources	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	17 September 2024	

Meeting Name:	Pensions Advisory Panel
Date:	30 September 2024
Report title:	Advisors' Updates - Quarter to September 2024
Ward(s) or groups affected:	Not applicable
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	Chief Investment Officer

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 from this report.

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

APPENDICES

Name	Title
Appendix 1	Independent Adviser's Report – Quarter to September 2024
Appendix 2	Aon's Quarterly Investment Dashboard – Quarter to September 2024

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Caroline Watson, Chief Investment Officer	
Version	Final	
Dated	17 September 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 Resources	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	17 September 2024	

LONDON BOROUGH OF SOUTHWARK - Quarterly Report June 2024

Executive Summary

- The economic outlook improved further this quarter. Equities responded positively whilst bond markets weakened as widely anticipated interest rate cuts remained elusive
- The Fund returned 1% over the period, but lagged the benchmark
- The Fund returned a very healthy 9.7% 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 largely unchanged - optimism around the direction of interest rates and inflation is being tempered by political tensions. 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

In many respects, the themes I highlighted last quarter that had generated positive sentiment were very similar to those providing momentum in the latest quarter. Global equity markets delivered positive returns over the quarter driven very much by resilient growth, and companies exposed to AI. Unsurprisingly in such an environment, classic 'value' sectors such as basic materials, consumer basics and industrials underperformed. Regionally, the US performed well but the best performances were seen in emerging and the smaller Asia Pacific markets, helped in part by the Chinese authorities support for the troubled real estate sector. Europe and Japan lagged over the period. Political uncertainty weighed heavily on the former whilst currency concerns impacted the latter. UK equities performed reasonably well on the back of an improving domestic economic environment.

With inflation proving somewhat 'sticky', expectations continued to suggest that interest rate cuts might be slower than previously anticipated and sovereign bond yields rose over the period. Corporate bonds outperformed as credit spreads widened.

We may finally be seeing some signs of a nascent recovery in the real estate sector with headline indices recording capital growth in all sectors with the exception of offices. A number of commentators see 2024 as a turning point, as lower inflation and falling interest should raise confidence and increase activity.

LGPS Funds

The average LGPS fund is expected to have returned around about 2% over the quarter.

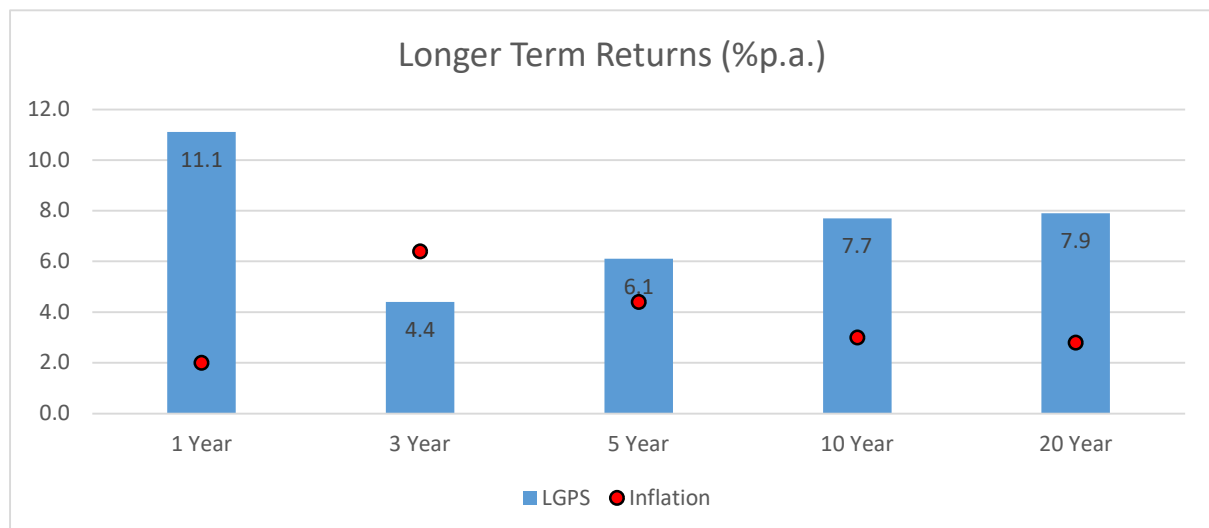
Longer-Term

The full-year outcome is predicted to be in the region of 11%, around double that of the same period a year ago.

The three-year return, an important measurement point for the LGPS, is likely to have eased marginally to 4%p.a. still lagging stubbornly high inflation of more than 6%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 1.1% over the quarter. Compared to a benchmark return of 1.9%, this represents a relative underperformance of 0.8%.

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 graphically in relative terms:

	Manager	Returns		
		Fund	Benchmark	Relative
Global Equity	BLK	3.0	2.8	
	LGIM	3.0	2.9	
	Newton	3.9	3.5	
	Comgest	2.1	4.9	
MAC	Robeco	-0.0	0.0	
	LCIV	2.4	2.4	
Property	Nuveen	-0.6	1.7	
	Invesco	0.7	1.9	
	M&G	0.6	1.9	
	Darwin Leisure	-0.4	1.5	
	Frogmore	-5.4	3.9	
	Brockton	-4.9	3.6	
ESG Priority	Glenmont	-4.8	2.3	
	Temporis	-14.2	2.4	
	Temporis (New)	-17.9	1.7	
	Temporis (Impact)	-7.6	2.4	
	BLK	1.7	2.4	
	Darwin Bereavement	0.4	1.5	
	Blackstone	17.1	2.9	
	BTG	1.6	1.5	
Index-Linked	BLK	-2.9	-2.9	
	LGIM	-2.9	-2.9	
ARB	BLK			
Cash	LGIM/BLK/NT/Mgr Frictional	1.8	1.3	0.5
Total Fund		1.1	1.9	-0.8

During the quarter, performance from the illiquid portfolios, property and ESG priority, was generally disappointing.

This first table doesn't account for the size of any position and the resulting influence on the bottom line.

The table below groups the portfolios into our preferred asset classifications and this time, the size of the positions is accounted for:

	Fund Weight	BM Weight	Fund Return	BM Return	Relative Return	Asset Allocation Policy	Investment Selection
Global Equity	54.7	50.0	3.2	3.2	-0.0	0.1	
MAC	9.2	10.0	1.1	1.2	-0.1		
Property	15.8	20.0	-0.4	2.0	-2.4		-0.4
ESG Priority	12.8	10.0	-2.8	2.2	-4.9		-0.6
Index-Linked	6.8	10.0	-2.9	-2.9	-0.0	0.1	
Cash	0.7	0.0	4.7				
	100.0	100.0	1.1	1.9	-0.8	0.2	-1.0

Over the quarter, the Fund underperformed by 0.8%.

The aggregate over/underweights with respect to the target benchmark (“asset allocation policy” in the table) added 0.2%, but this was more than offset by the performance of our managers (“selection” in the table) which cost 1%. The most significant drag came from our illiquid property and ‘ESG Priority’ assets.

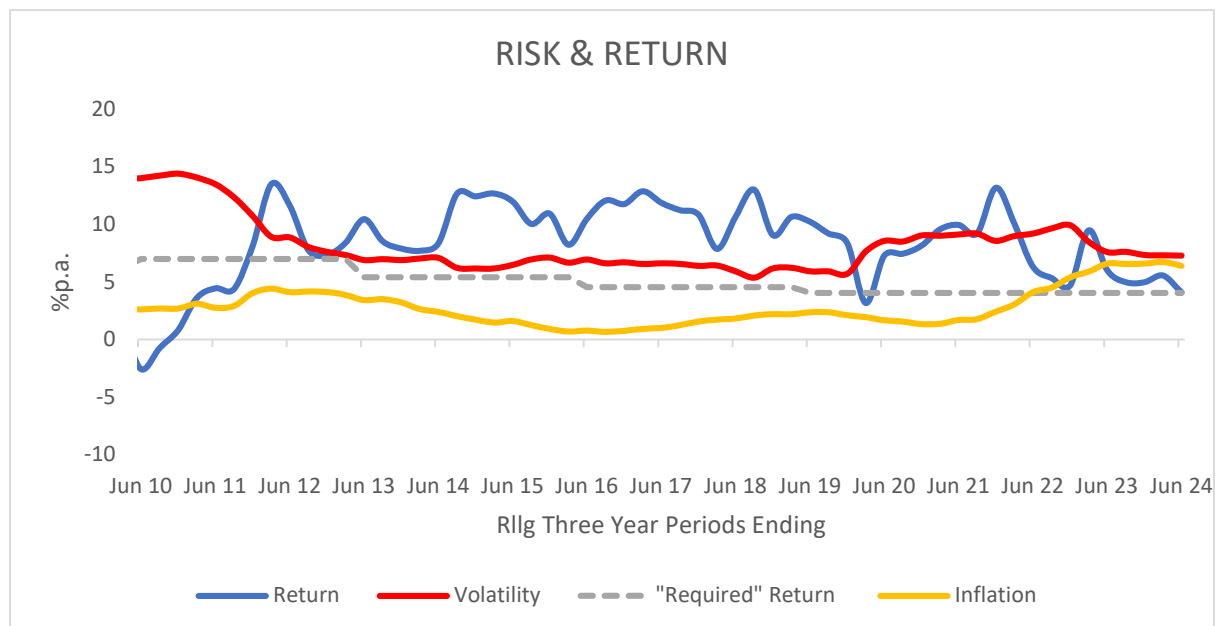
For illustrative purposes, overweights are shaded blue as are manager outperformances.

Over the **full year**, the Fund returned a very strong 9.7% but lagged the benchmark by more than 3%. The main contributors to the underperformance were active equity and the illiquid property and ESG priority portfolios.

Medium-term, the Fund has returned roughly 4%p.a. over the three-years and 7%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 0.9%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. This is expected to trend back towards some semblance of normality but in the immediate short-term, this continues to cause concern

Newton – Active Global Equity

Newton recorded a return of 3.8% in the quarter, 0.9% ahead of the global equity index the manager aims to beat. This was the third consecutive quarter of outperformance, something we haven’t seen in a considerable time. This outperformance was driven by positive stock selection in the healthcare and consumer discretionary sectors. Not holding Nvidia for much of the quarter provided a partial offset.

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. Over the quarter, the adjusted benchmark was quite a bit ahead of the headline index and so the overall impact on the bottom line was supportive for Newton.

The portfolio’s annual return was a very substantial 18.6% but behind the benchmark due largely to the sharp underperformance in the September quarter.

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

Newton comment on the potential short-term disruption a US election may have on the generally benign climate, but in their words “seek out those businesses with credible net zero commitments, durable returns and enduring financial resilience”. This sounds an appropriate strategy.

Comgest – Active Emerging Market Equity

Comgest returned 2.1% during the quarter, lagging the index benchmark by a sizeable 2.7%. In contrast to Newton, this was a fifth consecutive quarter of underperformance.

Unfortunately, it is difficult from Comgest’s reports to accurately isolate the attributes making up the relative performance. From a geographical viewpoint, country selection subtracted value overall due to underweighting China which performed well and overweighting Mexico and Brazil which performed poorly. From an industry perspective, positioning in industrials and consumer staples were detrimental.

Over the full year, the portfolio returned 5.2%, trailing the index by a very uncomfortable 7% margin.

Since inception returns have been disappointing in both absolute and relative terms (portfolio - 4.8%p.a., index -1%p.a.).

Nuveen Real Estate – Core Property

The portfolio return was 0.9% over the quarter (Nuveen’s number). Income of 1.1% more than offset a modest capital reduction of 0.2%.

Valuations were pretty static over the period with a modest drag after transaction costs. The office assets held fell in value by a further 2+%, but increases elsewhere, notably in industrials made up any shortfall.

There was some activity during the quarter, the portfolio picking up the freehold of an industrial asset near to Silverstone, boasting excellent ESG credentials and a secure tenant.

The full year return reported by Nuveen was 0.2%, a small positive but significant improvement on recent quarters.

The current seven-year number of c2.5p.a. is the same as last quarter and remains some way behind the 7%p.a. target set by the Panel.

The portfolio’s one indirect holding performed quite well over the quarter but had a very poor 12 months.

There is some optimism in Nuveen’s latest report, and they remain confident that the current strategy and assets will exceed the performance objective over the longer-term.

Residential/Oppportunistic Real Estate

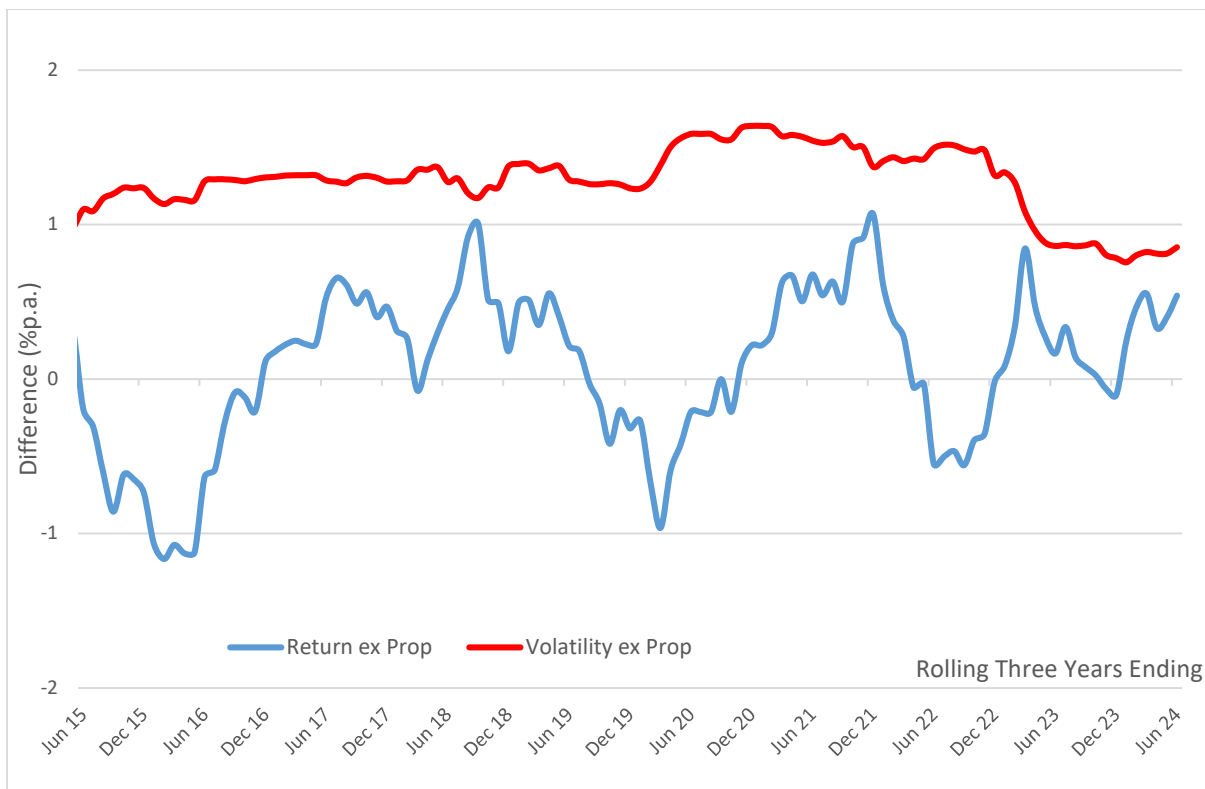
As can be seen from the graphic on page 3 above, the non-core portfolio struggled over the quarter, with all of the managers failing to hit benchmark. In the round, the aggregate returned around -0.2%.

Southwark’s Property Allocation

Both the core and aggregate added value/opportunistic assets performed weakly over the quarter and lagged their respective benchmarks. Over the full year, the story was similar, with both core and non-core delivering single figure negative returns thereby falling somewhat short of benchmark. The following table gives a flavour of this.

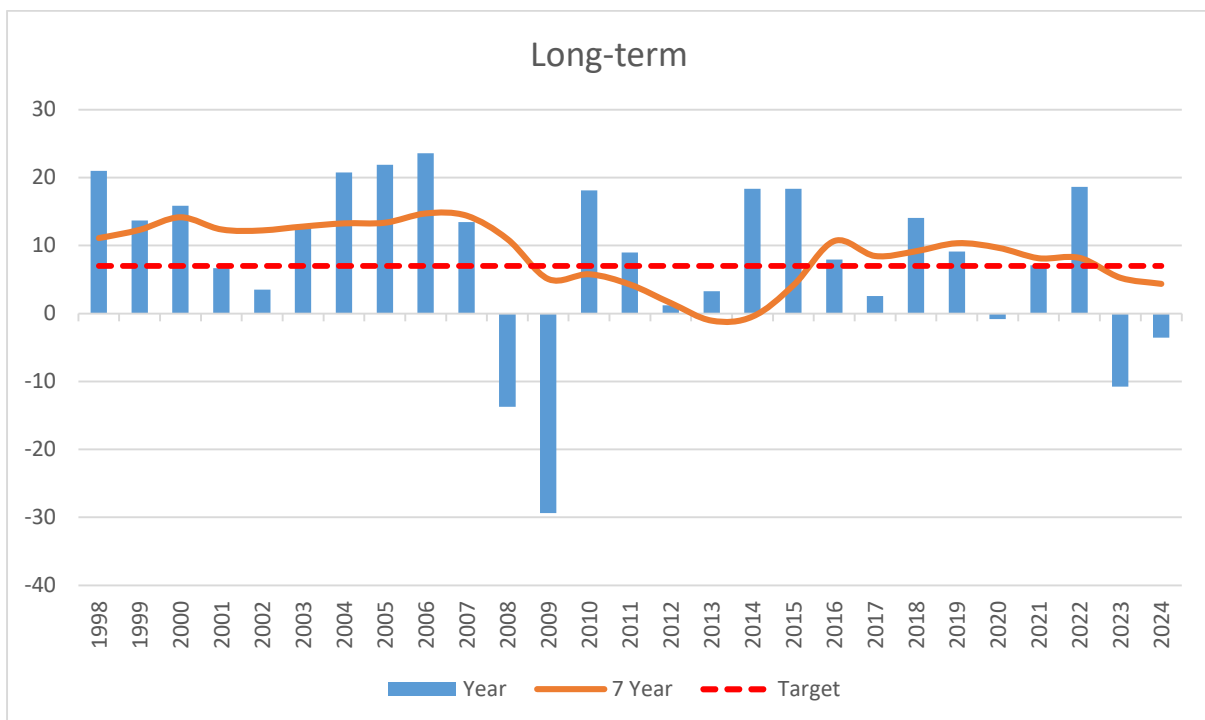
	Quarter			Year		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative
All Property	-0.4	1.8	-2.2	-3.5	7.5	-10.3
Core	-0.6	1.7	-2.3	-4.8	7.0	-11.0
Ex Core	-0.2	2.0	-2.2	-2.7	8.4	-10.2

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 impacted negatively by our real estate holdings (by around 0.5%p.a.). Volatility overall has been reduced by a slightly higher margin (around 0.9%p.a.). There has therefore been a small benefit in terms of risk/return trade-off.

I've commented often about the long-term nature of the asset class and illustrate this in the chart below.



This shows that, notwithstanding the global financial crisis period, property had been a steady generator of positive and relatively stable returns over time. The last couple of years have been challenging for the asset class, however. Whilst high inflation and the cost of borrowing have depressed valuations and reduced activity, these influences may well prove relatively short-lived. What has and continues to challenge the traditional investment case is the post-pandemic shift to remote working and growth in e-commerce. These influences have significantly impacted the office and retail sectors meaning that managers have had to reappraise their asset selection. Nuveen address this in their quarterly reports and the Panel needs to be across this also.

Robeco – Global Credit

The portfolio performed very much in line with the benchmark over the quarter, both recording returns of 0%. I reported last quarter that we are unlikely to see wide variances in relative performance as we move ahead, and this has been borne out. Since inception however, they have made a solid start.

CQS – Global Credit

The Fund Invested £100mn in a new credit fund managed by CQS In March of this year. This portfolio is part of the LCIV pool's fund range. In its first full quarter, the portfolio returned 2.4%, exactly in line with the target benchmark (SONIA +4.5%p.a.).

“ESG Priority” Allocation

The performance of the Fund's infrastructure and other diversified alternative investments was disappointing over the quarter, with the Temporis funds standing out. As I've mentioned in the past, these are long-term investments that need time to come to fruition, so comments on a quarterly basis whilst interesting, don't add a huge amount of useful information. A 'deep dive' as the funds begin to mature may be worthwhile next year.

Passive Portfolios

The portfolios tracked within tolerance over the quarter.

Strategic Investment Dashboard Q2 2024

London Borough of Southwark Pension Fund

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Prepared for: The Pension Advisory Panel

Prepared by: Aon

18 September 2024

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1

Executive Summary



Long-term strategy



Funding level

31 March 2024 30 June 2024

Funding Level	115%	116%	▲
Surplus	£293M	£313M	▲



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

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

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

Investment Performance

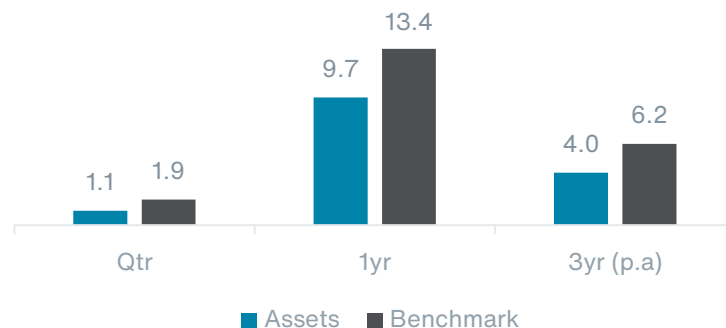


Expected Return

7.2% ▲

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

Performance



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

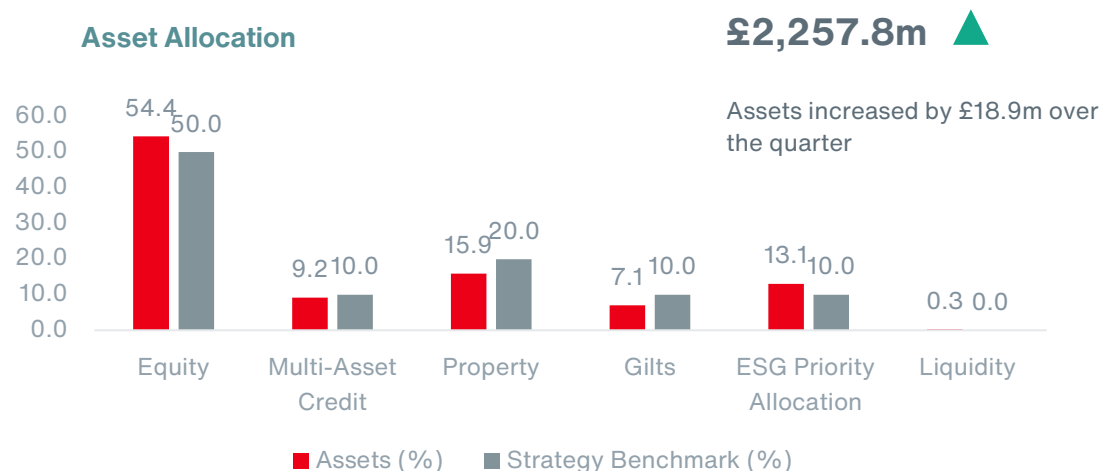
Over the quarter, the Fund's equity managers (excl. Comgest), contributed positively to performance. The Fund's Property and ESG Priority Mandate were the main contributors to underperformance over the quarter. Further detail can be found in the manager performance section.

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

Strategic Positioning



Asset Allocation



£2,257.8m ▲

Assets increased by £18.9m over the quarter



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

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

2

Asset Allocation

AON



Asset Allocation – Asset Class

31 March 2024

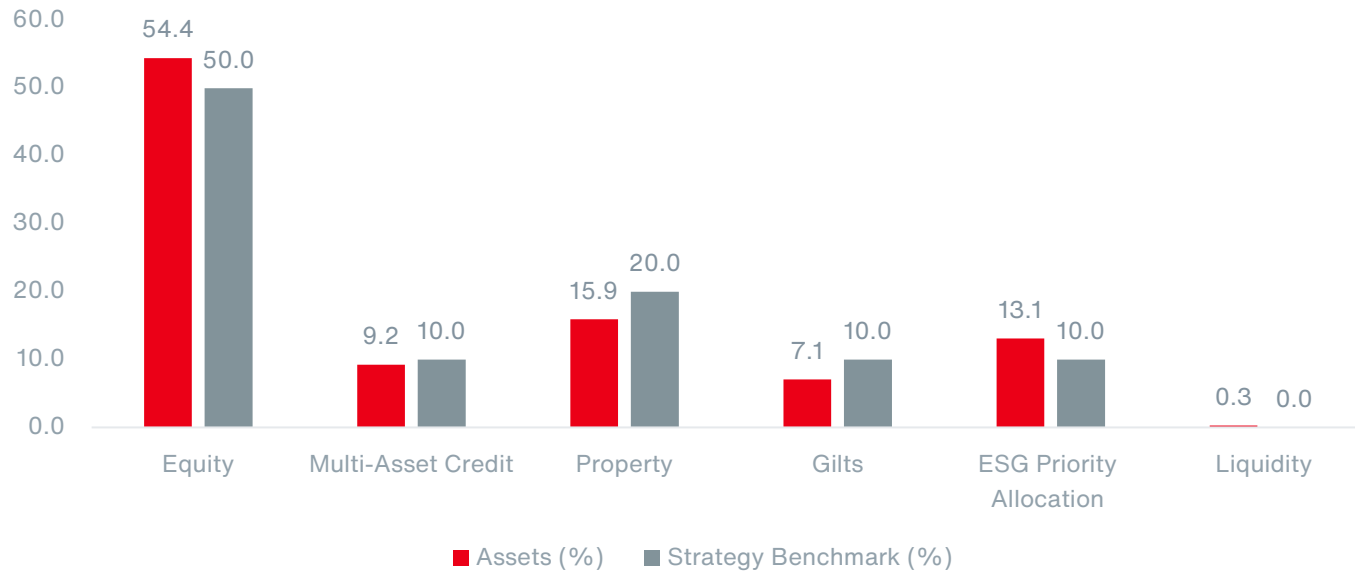
30 June 2024

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

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Asset Allocation – Current vs Strategic

Strategic allocation & Benchmark



£2,257.8m ▲

Assets increased by £18.9m over the quarter

Comments

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

30th June 2024

7.2%

Expected Absolute Return

30th June 2024

4.2%

Standard Deviation*

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

Strategic Allocation

7.1%

Expected Absolute Return

Strategic Allocation

4.0%

Standard Deviation*

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

3

Manager Performance



Manager focus – returns relative to benchmark (%)

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

Market Commentary & Outlook

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

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

Fund Manager News

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

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

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

Multi-Asset Credit Mandate

Market Commentary & Outlook

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

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

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

Fund Manager News

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

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

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

Market Commentary & Outlook

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

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

General comments

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

Fund Manager News

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

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

Fund Manager News

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

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

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

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

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

ESG Priority Allocation Mandate

Market Commentary & Outlook

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

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

Fund Manager News

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

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

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

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

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

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

Matching Portfolio

Market Commentary & Outlook

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

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

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

Fund Manager News

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

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

4

Appendix

AON



Funding level since latest Valuation

as at 30 June 2024

Change to funding level since 31 March 2022



Change to surplus/(deficit) since 31 March 2022







Please note that the graphs are based on unaudited, provisional value of assets as at 30 June 2024 (provided by JPM). In rolling forward the liabilities we have used an estimate of cashflows paid out to the Fund, based on those at the level of the 2022 valuation.

Explanation of Ratings – Overall Ratings

Overall Ratings

An overall rating is then derived taking into account both the above outcomes for the product. The table lists how the overall rating can be interpreted.

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Differences between the qualitative and Aon InForm outcome can occur and if meaningful these will be explained within the Key Monitoring Points section. Although the Aon InForm Assessment forms a valuable part of our manager research process, it does not automatically alter the overall rating where we already have a qualitative assessment. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

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

Explanation of Ratings – Overall Ratings

Overall Ratings

An overall rating is then derived taking into account both the above outcomes for the product. The table lists how the overall rating can be interpreted.

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Differences between the qualitative and Aon InForm outcome can occur and if meaningful these will be explained within the Key Monitoring Points section. Although the Aon InForm Assessment forms a valuable part of our manager research process, it does not automatically alter the overall rating where we already have a qualitative assessment. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

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

Key assumptions of the model (1)

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

Key assumptions of the model (2)

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

TAS compliance

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

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

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

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Meeting Name:	Pensions Advisory Panel
Date:	30 September 2024
Report title:	Carbon Footprint Update – 30 June 2024
Ward(s) or groups affected:	Not applicable
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	ESG Manager – Treasury and Pensions

Recommendation

1. The Pensions Advisory Panel is asked to note the Fund's updated carbon footprint as at 30 June 2024.

2. 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. For the calculations, we rely on the Weighted Average Carbon Intensity (WACI) calculations undertaken by our fund managers and available from Trucost, our carbon data provider. In our calculations, we currently consider Scope 1 and Scope 2 carbon emissions only.

Weighted Carbon Intensity over time		Weighted Carbon Intensity (Scope 1 & Scope 2) tCO2e/\$m revenue					
Asset Class	Fund Managers	Sept 2017 (baseline)	March 2021	March 2022	March 2023	March 2024	June 2024
Equity - Developed	Blackrock, LGIM	98.7	23.0				
Equity - Developed Market Low Carbon	Blackrock, LGIM		24.2	51.0	17.5	13.7	11.5
Equity - Emerging Markets	Blackrock	18.1	19.1				
Equity - Emerging Markets	Comgest			0.2	0.4	2.2	2.5
Equity - Global	Newton	10.6	4.4	5.8	6.9	4.5	3.6
Diversified Growth Fund	Blackrock	26.7	15.6	16.5	12.6		
Absolute Return Bonds	Blackrock	22.4	10.0	6.8	19.6		
Multi-Asset Credit	Robeco, LCIV					5.1	5.1
Core Property	Nuveen	14.3	10.6	12.0	1.8	1.7	1.5
ESG Priority Allocation - Property	Invesco, M&G, Brockton, Frogmore	8.8	10.9	4.6	4.8	0.8	0.7
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin			0.1	0.5	1.1	1.2
Sustainable Infrastructure	Blackrock, Glennmont, Temporis	0.0	0.0	0.0	0.0	1.8	1.8
IL Gilts	Blackrock, LGIM	14.0	14.0	24.2	21.4	8.8	8.3
Cash And Equivalent	Blackrock, Nuveen, Newton	0.0	0.0	0.0	0.0	0.0	0.0
Total Weighted Carbon Intensity		213.7	131.7	121.4	85.5	39.7	36.0
Total Change in Footprint			-38.3%	-43.2%	-60.0%	-81.4%	-83.1%

Results

3. The results for 30 June 2024 show 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 by ~83%.
4. The reduction in Weighted Carbon Intensity ('WCI') for the period from 1 April 2024 to 30 June 2024 has been driven by a combination of the following:
 - a. Developed market equities (positive impact): The decrease in WCI for the BlackRock and LGIM developed market low-carbon equities (11.5 vs 13.7) is due to improvement in carbon footprint of the underlying portfolio companies. Based on the data received from the fund managers, there is an 8% decrease in the carbon footprint of BlackRock fund and a 23% decrease in the carbon footprint of the LGIM fund.
 - b. Nuveen (positive impact): There is an improvement in the WCI for the quarter (1.5 vs 1.7) driven by results of various decarbonisation-focused initiatives that have been implemented across the portfolio over recent years.
 - c. Comgest (negative impact): There is an increase in the WCI of the portfolio (2.5 vs 2.2), primarily due to recent investment in SK Hynix during the quarter, which represents a significant portion of the portfolio's WACI. Comgest is engaging with the company, with the expectation of seeing an improvement over time.
 - d. Newton Global Equity (positive impact): Newton continues to actively engage with underlying portfolio companies on their decarbonisation agenda. The data shared by Newton shows a 21% reduction in the WACI of the portfolio, leading to a corresponding improvement in the WCI for the quarter (3.6 vs 4.5).
 - e. Multi-asset credit funds with LCIV and Robeco (neutral): Overall WCI for both the multi-asset credits funds is the same as previous quarter and hence has had no impact on the overall weighted carbon intensity of the Fund.
 - f. ESG Priority Allocation (neutral): Overall WCI for all the investments in the ESG Priority Allocation category for both the property assets (Invesco, M&G, Brockton, etc) and wider infrastructure assets (BTG Pactual, Darwin) is the same as previous quarter (1.9) and hence has had no impact on the overall weighted carbon intensity of the Fund.
 - g. Sustainable Infrastructure (neutral): We continue to use WACI from BlackRock in relation to our investment in Global Renewable Power III Fund as a proxy for other investments in the sustainable infrastructure category. Overall, the WCI for all investments in the category is the same

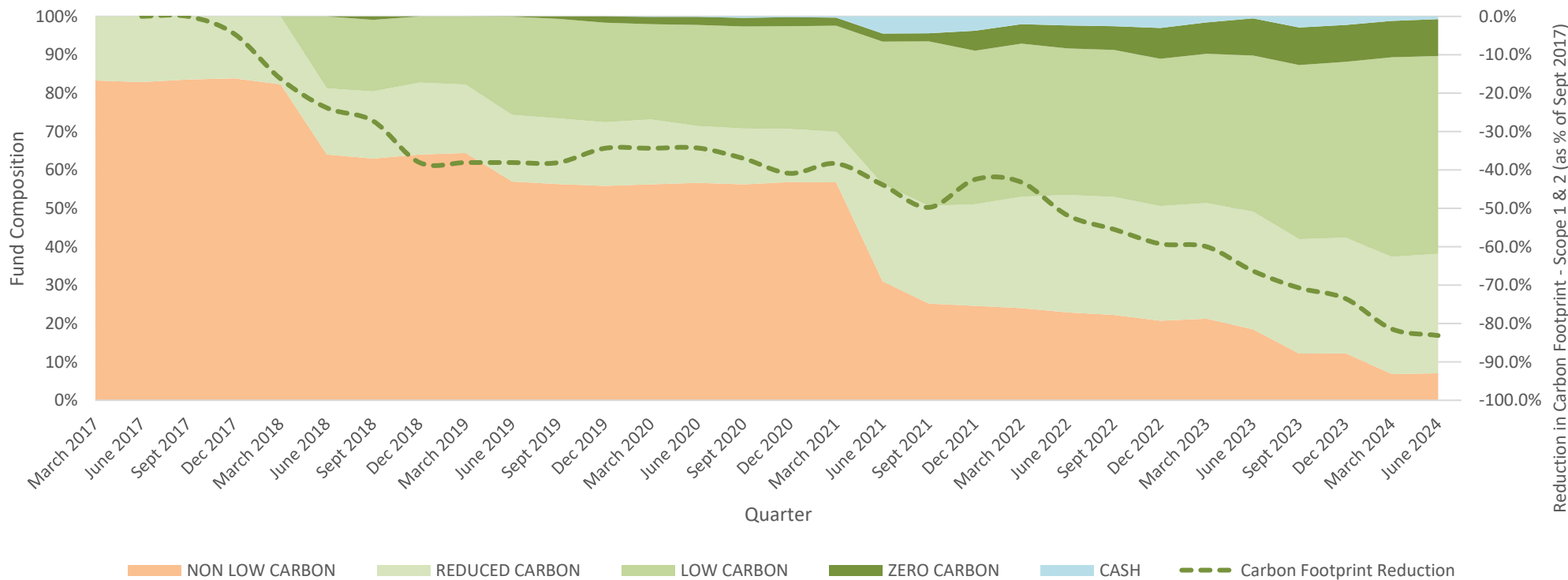
as previous quarter and hence has had no impact on the overall weighted carbon intensity of the Fund.

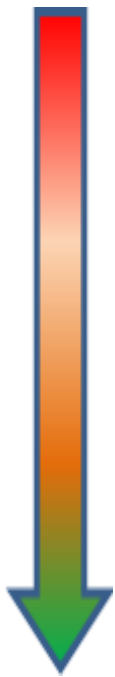
- h. Index-linked Gilts (positive impact): WCI for the index-linked gilts over the quarter has improved marginally (8.3 vs 8.8). We have used WACI provided by BlackRock and LGIM.
5. The unweighted exposure for each investment is set out below ranked in order of carbon footprint, from lowest to highest exposure.

Unweighted Carbon Intensity		Unweighted Carbon Intensity tCO2e/\$m revenue
Asset Class	Fund Manager(s)	June 2024
Core Property	Nuveen	15.00
Global Equities	Newton	25.80
Low Carbon Equity	LGIM	28.80
Low Carbon Equity	BlackRock	35.00
Equity – Emerging markets	Comgest	58.00
ESG Priority Allocation - Property	Brockton, Frogmore, Invesco, M&G	60.00
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin Bereavement & Leisure Dev	96.90
Multi-asset credit Fund	Robeco, LCIV	110.4
Sustainable Infrastructure	BlackRock, Glenmont, Temporis	112.5
Index Linked Gilts	Blackrock, LGIM	238.90
Total		781.30

6. During the quarter, the holdings in the Zero Carbon, Low Carbon and Reduced Carbon investments are ~92% of our total investment (in line with 31 March 2024).
7. The carbon footprint reduction infographic (set out below, with further information on the following page) has been produced 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





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 from this report.

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Spandan Shah, ESG Manager – Treasury and Pensions	
Version	Final	
Dated	15 September 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 Resources	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	17 September 2024	

Meeting Name:	Pensions Advisory Panel
Date:	30 September 2024
Report title:	Update on Approach to Engagement and Voting
Ward(s) or groups affected:	Not applicable
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	ESG Manager – Treasury and Pensions

RECOMMENDATION

1. The Pension Advisory Panel is asked to note the Fund’s engagement and voting activity for the quarter ended 30 June 2024 for the underlying investments of the Fund.

UPDATE ON THE FUND’S ENGAGEMENT AND VOTING ACTIVITY

2. This report outlines the key engagement and voting themes across the Fund’s listed assets for both segregated and pooled mandates. It also summarises the engagement and voting activity undertaken by LAPFF, active equities managers (Newton and Comgest) and passive equities managers (LGIM and Blackrock) up to the quarter ended 30 June 2024.

KEY ENGAGEMENT AND VOTING THEMES

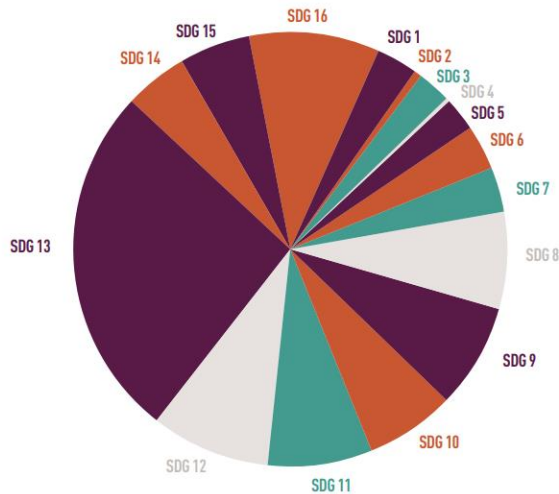
3. Through the investment managers, the Fund engages with and votes on various ESG-focused themes and topics.
4. During the quarter, some of the key ESG-focused engagement and voting themes for the listed assets are listed below:
 - a. Environment-focused themes:
 - i. Climate change
 - ii. Environmental risk

- b. Social themes:
 - i. Human Rights
 - ii. Employee Diversity
 - c. Governance related themes:
 - i. Board and leadership quality
 - ii. Lobbying.
5. 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.
6. The above themes, particularly the focus on climate change, are aligned with the Fund's net-zero agenda. There is limited oversight and follow up with the investment managers on their wider ESG-focused engagement and voting decisions.

ENGAGEMENT AND VOTING SUMMARY

LAPFF (Quarter ended 30 June 2024)

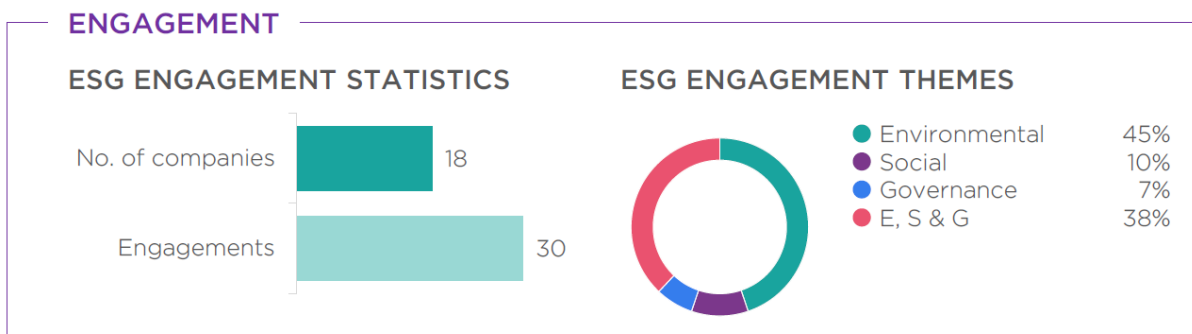
7. The link to the LAPFF website which includes historical reports of the stakeholder engagement activity it undertakes on an ongoing basis is available at:
- <https://lapfforum.org/engagements/>
8. The report for the period 1 April 2024 to 30 June 2024 is available at:
- https://lapfforum.org/wp-content/uploads/2024/07/LAPFF_QER_Q2_2024.pdf
9. During the quarter from April to June 2024, LAPFF engaged with 101 companies through meetings, AGM attendance and letters/email correspondences.
10. The primary areas of engagement were climate change and environmental risk, followed by human rights, governance, and social risk.
11. Other engagement topics include employment standards, supply chain management, diversity, equity and inclusion, and finance and accounting.
12. An overview of the engagement themes undertaken by LAPFF across the 17 UN Sustainable Development Goals is captured in the below chart:



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	8
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	6
SDG 4: Quality Education	1
SDG 5: Gender Equality	6
SDG 6: Clean Water and Sanitation	8
SDG 7: Affordable and Clean Energy	8
SDG 8: Decent Work and Economic Growth	17
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	16
SDG 11: Sustainable Cities and Communities	19
SDG 12: Responsible Production and Consumption	21
SDG 13: Climate Action	64
SDG 14: Life Below Water	11
SDG 15: Life on Land	13
SDG 16: Peace, Justice, and Strong Institutions	23
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

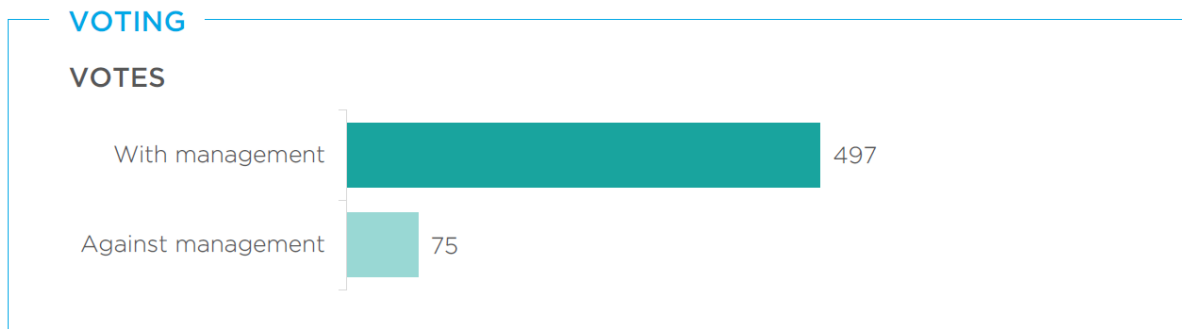
Comgest (1 April 2023 – 31 March 2024) ¹

- 13. Comgest’s Voting and Engagement Policy can be found at:
<https://www.comgest.com/-/media/comgest/esg-library/esg-en/voting-and-engagement-policy.pdf>.
- 14. On a quarterly basis Comgest provides information on the voting undertaken and their engagement across ESG matters over the previous 12 month period.
- 15. Over the 12 month period from 1 April 2023 to 31 March 2024, Comgest had 30 engagements with 18 companies. Breakdown of the engagement themes is captured in the chart below.



- 16. The voting activity for the 12 month period is captured below:

¹ Source: Comgest Quarterly Report shared on 09/07/2024



Newton (April – June 2024)

17. Newton's Voting and Engagement Policy can be found at:

<https://www.newtonim.com/uk-lgps/special-document/governance-principles-and-voting-guidelines/>

and

<https://www.newtonim.com/uk-lgps/special-document/stewardship-and-sustainability-policy/>

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

19. During the period from April – June 2024², for our segregated portfolio, Newton had stewardship meetings with various companies on:

- a. Environmental aspects like use climate transition risk and net-zero strategy.
- b. Social aspects like human capital including safety, working conditions, employee engagement and diversity and inclusion aspects.
- c. Governance aspects like Board and leadership quality, skills and experience, conduct and culture, lobbying, internal controls, risk management, audit and tax.

20. During the quarter, Newton voted with the management of portfolio companies on 15 resolutions and against the management on 12 resolutions.

LGIM (12-month period ended 30 June 2024)

21. 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>

² Source: Newton Quarterly RI Report shared on 15/08/2024

22. LGIM also publishes its approach to voting in the public domain. Its voting intentions for 2024 are outlined in a blog available at:

<https://blog.lgim.com/categories/esg-and-long-term-themes/lgims-voting-intentions-for-2024/>

23. For the Low Carbon Transition Developed Markets Equity Index Fund, LGIM voted with the management on 78.32% resolutions and against the management on 21.20% of the resolutions. Total resolutions where LGIM was eligible to vote were 21,781.
24. During the 12 month period, Low Carbon Transition Developed Markets Equity Index Fund, LGIM had 1,116 engagements with 677 companies comprising 72% of the fund value.
25. Top five engagement topics were Climate Impact pledge, climate change, remuneration, corporate strategy, and capital management.
26. The summary of the engagement activity is captured below³.

Engagement (12 month period)^{xx}



BlackRock (1 April 2024 - 30 June 2024)

27. BlackRock's policies and approach to Investment Stewardship and Engagement can be found at:

<https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-engprinciples-global.pdf>

and

<https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf>

³ https://fundcentres.lgim.com/srp/lit/XaeGby/ESG-report_Low-Carbon-Transition-Developed-Markets-Equity-Index-Fund_30-06-2024.pdf

28. BlackRock's voting intentions and approach differs by geographies. Its proxy voting guidelines for equity assets in various are available at:

<https://www.blackrock.com/corporate/insights/investment-stewardship>

29. During the quarter, for the ACS World Low Carbon Equity Tracker Fund, BlackRock voted with the management on 89.95% resolutions and against the management on 2.93% of the resolutions. It did not vote on 7.2% of the resolutions. Total resolutions where BlackRock was eligible to vote were 9,357.

ENGAGEMENT AND VOTING ACTIVITY NEXT STEPS

30. The Fund intends to adopt a more proactive approach to engagement and voting activity.
31. The Fund is in discussions with the investment managers to explore 'pass-through' voting for the pooled equity assets, to better align with the priorities in the Responsible Investment Policy.
32. The Fund will also review the voting and engagement activity and provide specific guidance and action points to the fund managers to ensure it is aligned with our strategic priorities and the ISS and RI Policy.

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

Community impact statement

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Spandan Shah, ESG Manager – Treasury and Pensions	
Version	Final	
Dated	15 September 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 Resources	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		17 September 2024

Meeting Name:	Pensions Advisory Panel
Date:	30 September 2024
Report title:	Equality, Diversity, and Inclusion Policy
Ward(s) or groups affected:	Not applicable
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	ESG Manager – Treasury and Pensions

RECOMMENDATIONS

1. The Pension Advisory Panel is asked to review and agree the standalone Equality, Diversity, and Inclusion ('EDI') policy (or 'the Policy') for the Fund, attached as Appendix 1 of this report.

BACKGROUND

2. In March 2023, The Pensions Regulator (TPR) published guidance on equality, diversity, and inclusion (EDI) for pension scheme governing bodies and employers, with an aim to improve the EDI of the scheme's board and governance activity.
3. Following the publication of this guidance, there has been an increasing focus on EDI considerations of a pension scheme's internal operations as well as the external stakeholders it engages with.
4. The TPR guidance suggests pension schemes have an EDI policy covering the scheme's governance and wider operational aspects. In line with this guidance, officers of the Fund have developed a standalone EDI policy aimed at reinforcing the commitment to EDI parameters as part of the Fund's internal and external operations.
5. The Fund's EDI policy covers the following key areas:
 - a. Scope and Aim of the Policy
 - b. Definitions of EDI adopted by the Fund for implementing the Policy
 - c. Initiatives to be taken by the Fund to deliver its EDI aims
 - d. Ways in which the Fund will monitor progress of its EDI aims
 - e. Reporting the Fund's progress on EDI aims.

6. The Policy applies to the Fund Governance structure (including the Local Pension Board, Strategic Director of Resources ('Section 151 officer') and the PAP), the Fund Management (including the Pensions and Treasury Investment team and the Pensions Operations team) and the Fund's external stakeholders (investment managers, consultants, etc.).
7. The Policy has been drafted internally by the interim ESG manager in line with industry best practice and has also been reviewed by Aon.
8. Further amendments and changes have been done in line with the feedback received from Aon. The final version of the Policy is circulated for formal sign-off.

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

Community impact statement

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

APPENDICES

Name	Title
Appendix 1	Equality, Diversity and Inclusion Policy

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Spandan Shah, ESG Manager – Treasury and Pensions	
Version	Final	
Dated	15 September 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 Resources	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	17 September 2024	

The London Borough of Southwark Pension Fund

Equality, Diversity & Inclusion Policy

Introduction

The London Borough of Southwark Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered by Southwark Council.

The London Borough of Southwark Pension Fund ('the Fund' or 'us' or 'we') is committed to encouraging Equality, Diversity and Inclusion ('EDI') amongst its workforce, and in its dealings with pension fund members, employers and other internal and external stakeholders.

With this background, the Fund has developed this Equality, Diversity and Inclusion policy ('EDI policy' or 'Policy'). The aim of the Policy is to reinforce the Fund's commitment to EDI as part of its internal and external operations. The Fund will also consider Southwark Council's Equality Framework ('the Southwark Equality Framework') while implementing the Policy.

The Policy has been reviewed and agreed by the Pensions Advisory Panel ('PAP'). The Policy will be reviewed annually by Fund officers and its external investment advisors and amended as required. Any changes to the Policy will be agreed by PAP.

Scope of the Policy

The Policy applies to all employees of the Fund, and all members of the Local Pension Board (LPB) and the PAP, including scheme member and employer representatives, whether they are Fund employees and/or voting members.

This Policy looks at EDI aspects in relation to the Fund's internal activities as well as in managing the Fund's engagement with external third parties like investment managers, consultants, external experts, etc.

The Fund has a number of objectives within its key strategies and policies. Those which are most relevant to this policy include:

- ensuring we use the most appropriate means of communication, taking into account the different needs of different stakeholders. Please see Appendix 1 for more details.
- considering EDI parameters, where practical, as part of the investment decisions.
- considering EDI parameters as part of engagement and stewardship activity with the portfolio companies of the Fund.

Responsibility for the Policy

The PAP is responsible for agreeing the Policy and for ensuring oversight, accountability, and effective application of the Policy. The LPB will also review the suitability of, and compliance, with the Policy as part of its scrutiny function.

The responsibility for establishing the Policy lies with the Strategic Director of Finance ('s151 officer') of the Fund, who also incorporates the advice of the Fund's external investment advisers and considers applicable regulatory requirements.

The Pensions and Treasury Investment team and the Pensions Operations team are responsible for implementation and ongoing monitoring of the Policy, including periodic reporting to the PAP and LPB from a governance perspective.

Legislative and related context

The Equality Act 2010

The Equality Act 2010¹ legally protects individuals from discrimination in the workplace and wider society. The Act also contains a specific public sector equality duty which applies to the Southwark Council and therefore the Fund. This duty requires public authorities to have regard to the need to:

- remove or reduce disadvantages suffered by people because of protected characteristics.
- meet the needs of people with protected characteristics.
- encourage people with protected characteristics to participate in public life and other activities.

Guidance from the Pensions Regulator

The Pensions Regulator (TPR)'s guidance on EDI² (issued 2023) suggests that the administering authority should develop and maintain an EDI policy which includes:

- an agreed definition of EDI
- the EDI aims of the Fund and
- an EDI training plan for the Fund

TPR's General Code³ also outlines the following expectations for the "governing body" or fund governance, i.e., those responsible for running the scheme:

¹ <https://www.legislation.gov.uk/ukpga/2010/15/contents>

² <https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/governing-body-detailed-guidance/equality-diversity-and-inclusion/governing-body-edi-guidance>

³ <https://www.thepensionsregulator.gov.uk/en/document-library/code-of-practice/the-governing-body>

- should be well balanced and diverse with its members demonstrating varied skills, knowledge, and experience.
- may wish to consider good practice approaches to make sure their recruitment practices are inclusive.
- should regularly review their membership to ensure a diverse spread of members with varied technical skills and experience.

This Policy seeks to address the TPR's expectations where it is practical to do so within the governance arrangements for local authority pension funds.

Definitions

The Fund has considered the following definitions in relation to EDI:

- Equality – for the Fund, equality is about ensuring that all members and employers have equal access to information about the Fund, the benefits it offers and what the Fund needs from them to administer the benefits. The Fund also recognises that enhancing the diversity and inclusion of those involved in managing the Fund, including officers, LPB and PAP members can improve equality.
- Diversity – the Fund considers diversity to relate all characteristics which make individuals different; from protected characteristics such as age, disability, race, religion, sex and sexual orientation and broader characteristics such as socio-economic background, life experiences, education levels and languages.
- Inclusion – the Fund aims to create an environment in which all those individuals involved in managing the Fund can thrive and reach their full potential.

The Aim of the Policy

The aim of the Policy is to:

- promote an inclusive and diverse workforce and culture at the Fund, including at the Fund's governing bodies, the LPB and the PAP.
- promote a working environment where all employees are treated fairly, with respect and dignity.
- encourage EDI-focused practices while engaging with external stakeholders like consultants and investment managers.

The Fund's aims

Fund Governance

In relation to EDI, the Fund aims to ensure that wherever possible, those involved in governance of the Fund, including the LPB, PAP and the Strategic Director of Finance

('s151 officer'), comprise individuals with a broad range of characteristics, life experiences, expertise, and skills.

We believe this will enable more effective Fund operations through:

- decision-making that reflects individual pension fund members' needs and values.
- better, more inclusive decision-making that benefits members and employers.
- greater understanding, insight, and empathy for members.
- improved communications with the members.

The Chair of both the PAP and the LPB can play a key role in embedding the Fund's EDI aims in relation to how PAP and LPB meetings are run. Support and training will be provided as required to support the Chairs in fulfilling that role.

Fund Management

The Fund Management includes the Pensions & Treasury Investment team (led by the Chief Investment Officer) and the Pensions Operations team (led by the Head of Pensions Operations) and all officers/employees in the teams in the investment, treasury, pensions management and other operational activities.

The Fund's commitment is that regardless of the contract type, every employee, is entitled to a working environment that promotes dignity, equality and respect for all. The Fund will not tolerate any acts of unlawful or unfair discrimination committed against an employee, contractor, job applicant or visitor because of any protected characteristics, like sex, gender, marital status, race (including ethnic origin, colour, nationality and national origin), disability, sexual orientation, religion or belief, and age.

Selection for employment, promotion, training, or any other benefit will be solely based on aptitude and ability. During employment, the Fund will not discriminate based on work pattern (part-time working, fixed term contract, flexible working).

Dealings with external stakeholder(s)

The Fund regularly deals with external investment managers and consultants as part of its strategic and investment activities, including organisations like London Collective Investment Vehicle (LCIV) where it is a shareholder.

As part of its dealing with such external stakeholders, where possible, the Fund will consider various EDI aspects as part of decision-making processes involving the Fund operations. The Fund will also encourage such stakeholders to adopt various EDI initiatives, where practical, as part of the stakeholders' own governance structures and internal operations.

Delivering our EDI aims

Fund Governance

The Fund will encourage diversity and inclusion amongst those involved in the Fund Governance activities, (noting that the Elected Members on the PAP, LPB and s151 officer are employed by the Council and not the Fund), through the following:

- considering the need for diversity in skill set and experience as part of appointment process for LPB and PAP members and employer representatives on the PAP.
- supporting all those involved in the Fund's Governance in understanding unconscious bias and the benefits of EDI through training and other methods.
- encouraging inclusive behaviours and providing a supportive environment for discussions at the PAP and LPB meetings, encouraging members to contribute to the discussion regardless of expertise level.
- actively applying a diversity and inclusion lens in day-to-day activities, including in relation to the exercise of administering authority discretions where appropriate.
- actively challenging unconscious biases by asking questions and considering counter-factual views.
- ensuring all those involved in Fund's Governance remain committed to continuously address and consider biases when making decisions.
- ensuring EDI considerations are considered when Fund policies and strategies are developed or reviewed, whether these relate to administration, other operational work, communications, governance, funding or investment.
- considering the EDI policies and initiatives of external stakeholders we work with as part of the procurement process.
- seeking expert and/or legal guidance when interpreting changes to LGPS Regulations to ensure fair and proportionate application across the Fund membership.

Fund Management

In respect of the Fund Management, the Fund will take the following EDI-focused actions covering various stages of the employment lifecycle.

Recruitment

Selection for employment will be based on aptitude and ability. Where possible, the Fund will capture applicants' diversity demographics as part of its recruitment processes to promote the elimination of unlawful discrimination.

Training

In order to encourage the promotion of the principles of this Policy, from time to time, the Fund may require its employees, as well as members of the Fund Governance (i.e., PAP, LPB and s151 officer) to participate in training and development activities in line with the applicable training policy of the Fund and the Southwark Equality Framework.

Career progression

All career progression decisions, including promotion, will be made on the basis of merit, and will not be influenced by any of the protected characteristics discussed earlier. Promotion opportunities will be monitored to ensure equality of opportunity at all levels.

During employment

The benefits, terms and conditions of employment and facilities available to Fund employees will be reviewed on a regular basis to ensure that access is not restricted by unlawful means and/or on the basis of any of the protected characteristics discussed earlier.

Grievances, Disciplinary Action and Termination of Employment

The Chief Investment Officer can be contacted in the first instance for any informal resolution in case an employee wants to raise any issue(s).

Additionally, the Fund will ensure that, where applicable, grievance and disciplinary procedures are carried out fairly and uniformly for all employees, including in line with the Southwark Equality Framework, whether they result in the giving of disciplinary warnings, dismissal or other disciplinary action.

Dealings with external stakeholders

While working with external stakeholders such as investment managers and consultants, where possible, the Fund will take the following actions to deliver the aims of this Policy:

- considering various EDI aspects including diversity at Board level and senior management and client service teams at such investment managers and consultants.
- encouraging its investment managers and consultants to embed EDI principles as part of their day-to-day operations.
- ensuring the investment managers are able to demonstrate the actions that they are taking to encourage a more diverse workforce and their commitments to encouraging minority groups to apply for senior role.
- encouraging its investment managers and consultants to participate in EDI-focused industry and sector initiatives.

- overlay EDI parameters while selecting and/or continuing to engage with existing external service providers, including investment managers and consultants.
- encouraging the investment managers to consider EDI as an important factor and a stewardship priority and increase focus on EDI parameters as part of their voting and engagement efforts.
- asking the investment manager managers to give examples of engagement and evidencing improvement on EDI aspects with underlying portfolio companies, as required.
- encouraging advisers to point out any diversity and inclusion angles to decisions being made by the administering authority.
- engaging with these service providers to request EDI-related data (as relevant), including applicable EDI policies, and monitor/understand progress overtime on various EDI parameters and initiatives.

Monitoring progress against our EDI aims and objectives

We will monitor our progress in achieving our policy aims in the following ways:

Fund Governance

- EDI-focused discussions/agenda items are part of the PAP and LPB meetings.
- number of training/workshop sessions conducted on EDI topics and member attendance/ coverage.

Fund Management

- asking employees about their views on the Fund's approach to, and its success in, implementing EDI-focused initiatives as part of periodic feedback.
- number of training/workshop sessions conducted on EDI topics and their coverage.

Dealing with external stakeholders

- gathering EDI policies from fund managers and other third-party providers to help inform/codify the Fund's internal EDI Policy.
- seeking details about EDI-focused internal governance structure and initiatives considered by the investment managers and consultants.
- seeking details of membership of EDI-focused initiatives or sector initiatives investment managers and consultants are part of.
- requesting EDI-focused data from the investment managers and consultants periodically to understand progress over time.

- seeking feedback and information on EDI-focused engagement and voting efforts as part of the stewardship.

Reporting the Fund's progress on EDI aims

As appropriate, the Fund will report progress on its EDI aims and objectives as part of the Annual Report and Accounts.

Approval and Review

This Equality, Diversity & Inclusion Policy was reviewed by the PAP and approved by the s151 officer. It will be formally reviewed and updated at least every three years or sooner if any matters included within it merit reconsideration, including if there are any changes to the Council's requirements, or to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this EDI Policy, please contact Caroline Watson, Chief Investment Officer of the Fund at caroline.watson@southwark.gov.uk.

DRAFT

Appendix 1

In order to reflect inclusion in member communications, the Fund ensures that communications issued reflect our values and beliefs.

The Fund complies with the TPR General Code and has particular regard for vulnerable members when issuing communications.

It is a priority for the Fund to ensure that there is the correct use of pronouns, and members are encouraged to inform the officers of their identifying status.

The Fund is committed to enhance wellbeing and engagement. We consider the needs of our membership both as a whole and at an individual level having particular concern for;

Physical Accessibility

The Fund take the necessary steps to ensure communications have regard for accessibility for those with a physical disability. For example, other formats for printed material are considered e.g., large print, Braille, non-English / Colour vision deficiency.

Mental Accessibility

Pensions are a complex topic and it is important to the Fund that members feel comfortable and understand all communications issued by the Fund. The communications issued reflect the values and beliefs outlined in the policy.

Use of Imagery

The Fund ensures that inclusive and diverse imagery and language is included within all communications, including when advertising for vacancies on the PAP / LPB.

Digital Accessibility

The Fund is mindful that not all of our members have digital access or are perhaps not confident in the use of that format. In order to ensure that members receive information in a format they can access and understand.

In line with legal requirements, we ensure that hard copies of communications are issued as appropriate.

Meeting Name:	Pensions Advisory Panel
Date:	30 September 2024
Report title:	Pension Fund Statement of Accounts and Audit Findings Reports 2021-22 and 2022-23
Ward(s) or groups affected:	Not applicable
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	Chief Investment Officer

Recommendations

1. The Pensions Advisory Panel is asked to:
 - Note the update provided in this report on the audit of the pension fund statement of accounts for 2021-22 and 2022-23.
 - Note the Pension Fund Audit Findings reports as issued by Grant Thornton, as Appendix 1.

Background Information

2. The pension fund statement of accounts for 2022-23 was published on 30 June 2023, with the audit of the accounts commencing in November 2023. The statement of accounts for 2021-22 and 2022-23 can be accessed via the following link: [Statement of accounts - Southwark Council](#)

Audit Opinion

3. Grant Thornton has granted an unqualified opinion on the council and pension fund statement of accounts for both 2021-22 and 2022-23. The audit findings reports (AFR) by Grant Thornton on the pension fund statement of accounts are attached as Appendix A.
4. The purpose of Grant Thornton's AFR is to detail their findings and matters arising during the course of auditing the financial statements.
5. The 2022-23 AFR sets out an action plan which includes management recommendations regarding the financial statements. This is set out on page 20 of the report. Following Grant Thornton issuing the AFR, we have provided a management response to each recommendation as follows:

Recommendation	Management Response
Management should review the UPM system and ensure that key reports to support the audit are available to be run	The process of building a full suite of Audit, Finance and Management reports is ongoing and Civica is providing support for this vital function. Additionally, in recent weeks a number of Pension Fund Data/IT Officers have been appointed with direct SQL database knowledge to ensure this process can be fully automated.
We recommend that management obtain a formal IAS26 report to state the year end actuarial liability on an annual basis	Our interpretation of the application of option B under IAS26 has been applied since 2012. This approach has been taken on the advice of the Fund's actuaries, and hasn't previously been challenged during pension fund audits. However, management will take this recommendation on board and ensure that the gross liability is updated on an annual basis, thereby improving the quality and clarity of the information available to readers of the pension fund accounts.
We recommend that management perform Analytical Reviews of the key notes in the accounts and ensures all significant movements are understood to avoid the risk of errors in the financial statements	A process has been implemented which includes quarterly reconciliations of custodian to fund manager valuations. This will ensure such potential overstatements will be identified and avoided in future. To ensure a robust review process is fully in place, an analytical review will be conducted as part of the 2023-24 closing process.

6. Key adjustments to the accounts which were identified during the audit related to level 3 investment valuations. Between the accounts being prepared and the commencement of the audit, more up to date valuation information became available for level 3 investments held by the Fund. Details are set out on page 23 of the AFR. These were deemed to be an adjusting event and were therefore adjusted in the pension fund accounts.

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

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

Equalities (including socio-economic) impact statement

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

Health impact statement

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

Climate change implications

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

Resource implications

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

Legal implications

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

Financial implications

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

Consultation

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

APPENDICES

Name	Title
Appendix 1	Audit Findings Reports – 2021-22 and 2022-23

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Caroline Watson, Chief Investment Officer	
Version	Final	
Dated	17 September 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 Resources	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	17 September 2024	

The Audit Findings for London borough of Southwark Pension Fund

Year ended 31 March 2022

Southwark Council

October 2023

Southwark Council

This is an update to the Interim report previously presented to the Audit, Governance and Standards Committee in November. Updates to the Interim report have been made in red text.

January 2024



Contents



Your key Grant Thornton team members are:

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Section

1. Headlines
2. Financial statements
3. Independence and ethics

Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees
- D Audit Opinion

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Southwark Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our work on the Pension Fund took place concurrently with the audit of the Council. Our work was scheduled to be completed from October 2022 to January 2023. The team continued working on the audit in February and March 2023 due to some delays on the Pension Fund and Council audit.

Our work is nearing completion, and we are working towards completing our audit work by the end of the 2023 calendar year. Due to the passage of time, there have been internal changes to the staff meaning the Key Audit Partner and Senior Manager have changed. Due to the changes in team members, there is a requirement for us to rereview work and areas requiring further work to bring them to completion. To enable us to complete the work as effectively as possible we will be sharing a log of what remains left to complete the audit.

Due to us having to work on Health audit clients and other Local authorities audits due to the overall audit backlog the team began work on the Council in mid-October. Since that point there have been changes to the audit team and we have not yet started the closure of the Pension Fund 2021-22 audit. This was to allow the Pension Fund team time to prioritise updating the financial statements in relation to adjustments identified from September valuations to the 2022-23 financial statements. We therefore need to pick up with the Pension Fund team about the status of the above queries and appreciate the above list may not be fully updated

The team have now completed their review of the remaining work. From this one significant adjustment has been agreed with management in relation to the Investments held. This was due to more up to date valuation becoming available after the accounts were prepared. This led to the accounts requiring the Investments to be increased by £18.4m. This has also resulted in a number of other related notes requiring adjustment in the financial statements. Our work is now near completion, with the following work left noted below:

- Completion of final file reviews.
- receipt of management representation letter and
- review of the final set of financial statements – we are currently performing our final quality checks on this.
- Receipt of final information required to complete Member data testing for LGPS members on school payroll systems.

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit, Governance and Standards Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

Our work is nearing completion following the conclusion of the outstanding matters noted on page 3 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. We note the overall audit backlog in the sector is frustrating for both parties and we thank the team for their patience as we have worked through the audit process.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have been updated since the audit plan to reflect the increased net assets position at the Pension Fund. We have continued to apply 1% to the net asset base in determining the materiality levels.

Pension Fund Amount (£) Qualitative factors considered

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	21 million	This represents 1% of the Net Assets reported at 31 March 2022.
Performance materiality	14.7 million	This represents 70% of the Materiality threshold above.
Trivial matters	1.1 million	This represents 5% of the overall materiality.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and its stewardship of its funds, this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Pension Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our work is now complete, and no issues were identified in relation to Management override of Controls.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Level 3 investments (including Private Equity, Pooled properties and Infrastructure)

You value your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.

By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

We therefore have identified Valuation of Level 3 Investments as a significant risk for Private Equity and Infrastructure investments.

We have:

- evaluated management's processes for valuing Level 3 investments and gain an understanding over the role of the custodian in the valuation process;
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met;
- independently requested year-end confirmations from investment managers and the custodian;
- for the private equity (£28.12m) and infrastructure funds (£75.98m), obtained audited financial statements for the investments as at 31 December 2021 and we have reconciled any cash movements between the intervening period to 31 March 2022.
- performed additional testing for the full pooled property investments (£92.88m) by using indices obtained externally to benchmark against those used by the Fund Manager.
- evaluated the competence, capabilities and objectivity of the valuation expert; and
- review investment manager service auditor report on design and operating effectiveness of internal controls.

Following our work performed on 3 level 3 investments held there were variances identified totalling £18.4m, which indicated the Investments at the Year-end were understated. The reason for this difference was at the date the accounts were prepared these more up to date valuations were not available. In our assessment of IAS 10 we deem this an adjusting post balance sheet event and it has been agreed with management that this will be updated in the final accounts.

Our work is substantially complete, with the final quality checks being undertaken.

The valuation of Direct Property is incorrect (Level 3)

The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£230.6 million) and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2022.

We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

During the audit, we have undertaken the following work:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- independently request year-end confirmations from investment managers and custodian and assessed their responses as part of our work.
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation.
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records
- where available, we have reviewed investment manager service auditor report on design effectiveness of internal controls.

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Pension Fund to be signed alongside the final draft of the financial statements in advance of the conclusion of the audit.

2. Financial Statements - other communication requirements



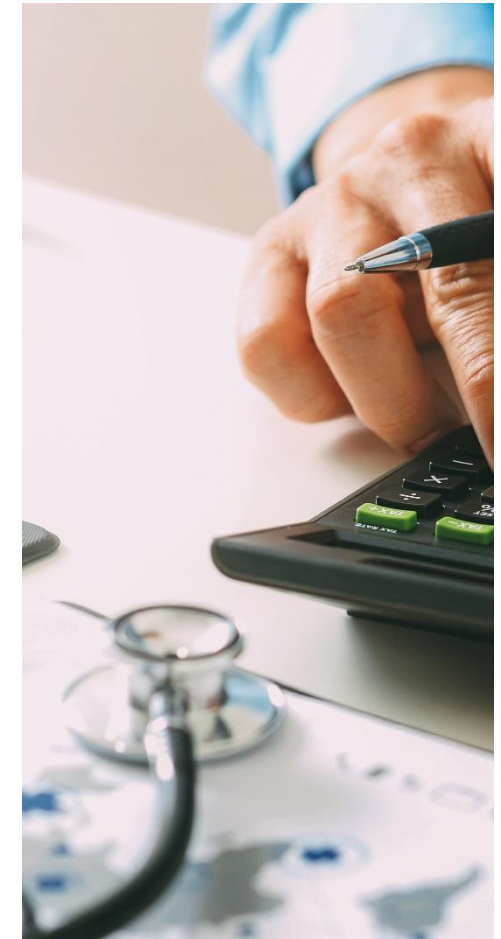
Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates the Pension Fund's financial reporting framework the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. <i>We have completed our review of the Pension Fund Annual Report and expect to issue our Consistency statement at the same date we issue the opinion to the financial statements.</i>



3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Pension Fund's 2020/21 financial statements, which resulted in 1 recommendations being reported in our 2020/21 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p>Issues over Member Data</p> <p>In 2016/17 we identified errors during our testing of the client's Member Data, which thus could have a potential impact on the accuracy of the data provided to the Actuary. This could then have a potential impact on the valuation provided by the Actuary to the Fund, although the risk of this is low.</p> <p>The Council has undertaken extensive data cleansing during 2017-18 and 2018-19 as part of the production of the annual benefit statements and also through the implementation of i-Connect software in all admitted bodies, scheduled bodies and schools which has significantly improved the quality of data held. The enhanced Member Self Service portal which facilitates member updates of data is now live and members will be made aware of this through newsletters. These will include activation keys which it is hoped will encourage them to log in.</p>	<p>The Pension Fund has procured new pensions administrations software to replace its current system. This is a phased project and as part of the implementation process a full data quality check will be undertaken. The new system provides for much improved Member and Employer Self-Service Portals, allowing members to log in securely and check/update basic member data.</p> <p>Employers will be able to submit monthly returns though the secure portal and see any outstanding tasks, such as outstanding leaver forms or requests for data. Forms will be able to be completed 'online' rather than paper-based which is hoped will further improve employer compliance via increased convenience.</p> <p>The fund is aware of the increased scrutiny on LGPS data by The Pension Regulator has taken measures to ensure member data is as accurate as it can be.</p> <p>We have performed testing on Member data as part of our final Accounts audit visit. The review and conclusion of this work is yet to be completed and we will provide an update on our findings and this control point in the final Audit Findings report.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Audit Adjustments – Main Statements

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Fund Account £m	Net Asset Statement £m
<p>Variances identified in level 3 Investments</p> <p>Due to the timing of when the accounts were prepared and the audit period more up to date valuation information came available for 3 Investments held. This indicated Investments were understated by £18.4m. Per our consideration of IAS 10 we deem this to be an adjusting Event after the reporting period and therefore have agreed with management this will be adjusted in the final Pension Fund accounts.</p>	<p>Profit and losses on disposal of investments and changes in market value of investments CR 18.4m</p>	<p>Investment Assets</p> <p>DR – 18.4m</p>
Overall impact	CR £18.4m	DR £18.4m

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of misstatements

We are still in discussion with management regarding audit queries relating to Investments balances held at the year end. To date we have not finalised our work regarding any misstatements to the Fund Account or Net Asset Statement.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Fund Account	The Prior period figures in the Fund Account were changed for Investment Income and Management expenses in the draft accounts. Following discussions with officers it was determined this was not required and the figures have changed back to the previously audited balances.	✓
Accounting policies and Other notes –minor presentational adjustments	In our work a number of minor presentational amendments were identified and agreed with management.	✓
Note 6 Contributions receivable	The AVC balance which is significantly below materiality disclosed as a narrative has not been updated in 21-22 with the prior year figure being used of £3.6m.	X
Audit fees- Note 10	Per note 10 the audit fees were stated at £21k which is £16k different to the fee communicated per the Audit plan.	TBC
Note 12 Investments	Note 12 Investments required updates to reflect the adjustments noted on the previous page. In addition a prior period adjustment that was not deemed as required had been put through on the prior year figures and this also required updating in the final version of the accounts.	✓
Note 12 Investments	Note 12 Investments discloses £73m of other Investments. Per IAS 1 requirements the category other should not be used for material classes of transactions. From our work we have established £43m of the Investments relate to money market Investments and £30m relate to natural resource funds in this category.	✓
Note 19 –Funding Arrangements	The information in this note required updating with the more up to date information resulting from the triennial Pension Valuation.	✓
Note 20 – Actuarial Present Value of Promised Retirement Benefits	As noted earlier the Pension Fund had to consider the more up to date triggered by the triennial Pension Valuation, leading to material adjustments in the note.	✓

C. Fees

We confirm below our final fees charged for the audit and.

Audit fees	2020-21 Final Fee	2021-22 Fee
Per Audit Plan	£36,770	£36,770
Additional work relating to Triennial Pension Fund valuation	Nil	£6,000
Additional work required on Investment Valuations	Nil	3,500
Total audit fees (excluding VAT)	£36,770	£46,270

We have not identified any non-audit fees for the Pension Fund.

Status of the audit and opinion

Appendix D - Audit opinion

Our anticipated audit report opinion will be unmodified dependent on the satisfactory resolution of the matters noted in this report and no matters coming to our attention that would materially impact the Financial Statements.



The Audit Findings for London borough of Southwark Pension Fund

Year ended 31 March 2023

31 March 2023 [DRAFT FOR DISCUSSION AND
SUBJECT TO COMPLETION OF OUR AUDIT
PROCEDURES]



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of SSW Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2023 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit fieldwork was undertaken from January 2024 to March 2024. Our findings are summarised on pages 4 to 14. We have identified 4 adjustments to the financial statements that have resulted in a £39m upward adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

From the work performed it was identified that from the draft accounts prepared on the 30th June that the Net assets had increased by £43m. Our work is nearing completion complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;

- Completion of final file reviews.
- receipt of management representation letter and
- review of the final set of financial statements –which has appropriately accounted for the adjustments set out in Appendix D.
- Receipt of updated response from Actuary in relation to actuarial disclosures

Whilst our work on the Pension Fund financial statements is complete, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of the Administering Authority is complete.

Our anticipated audit report opinion will be unmodified.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report on the same date we issue our audit opinion.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice (‘the Code’). Its contents have been discussed with management and the Audit, Governance and Standards Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund’s business and is risk based, and in particular included:

- An evaluation of the Pension Fund’s internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

Our work is nearing completion following the conclusion of the outstanding matters noted on page 3 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. We note the overall audit backlog in the sector is frustrating for both parties and we thank the team for their patience as we have worked through the audit process.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Note for the Main statements materiality we have applied a performance materiality of £14.2m. And for our Fund Account audit a Performance materiality of £4.9m.

Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	20.3m	Based on a percentage of the Assets held.
Trivial matters	1.15m	This is our reporting threshold for the audit.
Materiality for fund account	7m	This is set as a percentage of the total expenditure of the Fund which is largely made up of Benefits Payable. This is applied to Benefits Payable and Contributions in the Fund Account. And a lower materiality is set to ensure sufficient procedures are undertaken on the Fund Account.



2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and its stewardship of its funds, this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Pension Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our work is now complete, and no issues were identified in relation to Management override of Controls.</p>

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of Level 3 investments (including Private Equity, Pooled properties and Infrastructure)

You value your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.

By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

We therefore have identified Valuation of Level 3 Investments as a significant risk for Private Equity and Infrastructure investments.

Commentary

We have:

- evaluated management's processes for valuing Level 3 investments and gain an understanding over the role of the custodian in the valuation process;
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met;
- independently requested year-end confirmations from investment managers and the custodian;
- for the private equity (£50.4m) and infrastructure funds (£190.4m), obtained audited financial statements for the investments as at 31 December 2021 and we have reconciled any cash movements between the intervening period to 31 March 2023.
- performed additional testing for the full pooled property investments (£92.7m) by using indices obtained externally to benchmark against those used by the Fund Manager.
- evaluated the competence, capabilities and objectivity of the valuation expert; and
- review investment manager service auditor report on design and operating effectiveness of internal controls.

Compared to the draft Financial statements we identified adjustments totalling 26.3m which indicated the investments in the year end draft accounts were understated. The reason for this difference was at the date the accounts were prepared these more up to date valuations were not available. In our assessment of IAS 10 we deem this an adjusting post balance sheet-event and it has been agreed with management that this will be updated in the final accounts.

In addition, when reviewing the most recent valuation date of the Funds two variances were identified both below our materiality levels and netted of too 1.4m. This is not a factual error, but an uncertainty identified in the balance.

Our work is now complete with no further issues identified.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

The valuation of Direct Property is incorrect [Level 3]

The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£194,3 million) and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2023.

We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

During the audit, we have undertaken the following work:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- independently request year-end confirmations from investment managers and custodian and assessed their responses as part of our work.
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation.
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records
- where available, we have reviewed investment manager service auditor report on design effectiveness of internal controls.

In the directly held property the assets showed a reduction in their valuation by £22.3m compared to the prior year. From our work there are no matters we are required to report to those charged with Governance and our work is now complete on this area.

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

This review focuses on the design of controls in place around each system and not their operating effectiveness.

ITGC control area rating

IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Additional work performed	Findings
SAP	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Additional work was required when reviewing Journal users to consider the risks identified around users within the system. Note it was identified the users with these super user access rights were not significantly involved in the financial accounts closedown process upon our review.	See Appendix C for findings.
NEC	ITGC assessment (design, implementation and operating effectiveness)	●	●	●	●	Additional work was required when reviewing Journal users to consider the risks identified around users within the system. Note it was identified the users with these super user access rights were not significantly involved in the financial accounts closedown process upon our review.	See Appendix C for findings.





Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.





This review focuses on the design of controls in place around each system and not their operating effectiveness.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Additional work performed	Findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
UPM	Detailed ITGC assessment (design and implementation)					No additional work identified from ITGC work findings.	Although we did not identify any significant control deficiencies around the UPM system, there were specific challenges in obtaining data from the new system. This review relates to the controls design and did not review the operation of the new system.

We also performed specific procedures in relation to the significant changes during the audit period, specifically the new system. We observed the following results:

IT system	Event	Result	Related significant risks / risk / observations
UPM	New System Implementation		N/A

Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

2. Financial Statements: Information Technology

This section provides details of additional work undertaken around the IT system change.

Work Undertaken

Transfer of Member Data between Systems

On the 1st May 2022 the Pension Fund transferred its data from Altair to Oracle UPM. This required the transfer of all member held records on the outgoing system onto the new system, this information is key to the calculation of a number of key Pension tasks such as the Pensions due to members upon retirement. Thus in our work we had to consider the risk that the data transfer was not accurate and that members could be paid incorrect balances. Therefore, this was a new risk for this year's audit.

As noted on the previous slide our IT team performed a review of the controls in place regarding this. In doing so they noted they were appropriate and therefore we identified this as an Other risk and not a significant risk.

Commentary

In respect of this area, we have performed the following work:

- Reviewed the processes and controls which have been put in place by the Pension Fund to ensure the effective transfer of data between the two systems.
- Reviewed internal reconciliations performed regarding the internal transfer.
- Engaged our IT specialists to undertake a detailed review of the controls around the systems change to ensure their appropriateness.
- Undertaken detailed upstream and downstream testing of the transfer of data. This involved testing information from the old system to the new system and vice versa.

From our work although we identified no issues around the data transfer. We did identify that there were challenges around the usage of the new system and running reports of the system to support the audit. These issues are noted on the next slide.

No further issues were identified from our work.

2. Financial Statements: matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit

Significant matter	Commentary
UPM system- Obtaining Key reports	<p>We encountered challenges obtaining data from the new UPM system, in relation to Benefits Payable and Membership data. These two aspects are key parts of the audit requests, and this impacted the timeliness of the audit.</p> <p>Although we are satisfied sufficient data was provided to support the member data held at the year end and the Benefits payable listing it did mean we were not able to substantively test benefits paid in April 2022. Given the amounts spent were in line with our analytical procedures and the monthly spend itself was not material we were able to gain comfort over this balance, regarding the risk of material misstatement. But note this did limit our audit procedures on this month's spend, which totalled £5m.</p>
Valuation Of Investments and changes in disposals and purchase figures	<p>As in the previous year our audit identified material changes in the Pension Investment valuations. This was also the case for purchase and sales data. This issue arose due to the fact more up to date information had been provided on these figures after the accounts were prepared. We had agreed with management that we would delay the start of the audit so these amendments could be made prior to our audit. However, due to changes in key staff personal this did not take place and material adjustments were identified following our audit process.</p>
Key Changes in staff personnel	<p>The Pension Fund had employed a contractor to prepare the draft Pension Fund accounts. Due to this staff member leaving the team a newly hired team member had to respond to the audit queries as the primary point of contact. This did create some inefficiencies in the audit process due to them having to familiarise themselves with the Pension Fund and the fact they had not prepared the accounts we were auditing.</p> <p>In addition, since the draft accounts prepared on the 30th June 2023 which was approved an updated version was prepared for the audit on the 29th November. We had requested management for a list of the changes made between versions and the reasons for the changes, this was not provided or available. With key staff then leaving we have been unable to receive detailed explanations for the movements between the versions. We have undertaken our audit on the updated accounts in November but for transparency in Appendix D we have identified the lines that have been amended in the Main statements between versions.</p> <p>We appreciate the support the team have offered us in undertaking the audit in what were challenging circumstances. However, the factors noted above did elongate the time spent concluding our audit procedures.</p>
Actuarial disclosure	<p>In the CIPFA code there are three options set out for Pension Funds to consider within the Actuarial note. The Pension Fund has elected to follow option B which states the latest annual valuation should be presented in the note. Our interpretation and that of management differs, in that our view this means that on an annual basis the Pension Fund should obtain from the actuary the gross liability of the Pension fund. We consider this key information for the Pension Fund and to the readers of the accounts as this effectively shows the overall surplus/deficit the Fund is on an annual basis.</p> <p>We have requested management obtain confirmation from the actuary what the Year end value is relating to this and add this to the financial statements. Management have agreed to restate this note with the latest information and have requested this from the actuary.</p>

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Pension Fund to be signed alongside the final draft of the financial statements in advance of the conclusion of the audit.

2. Financial Statements: other communication requirements



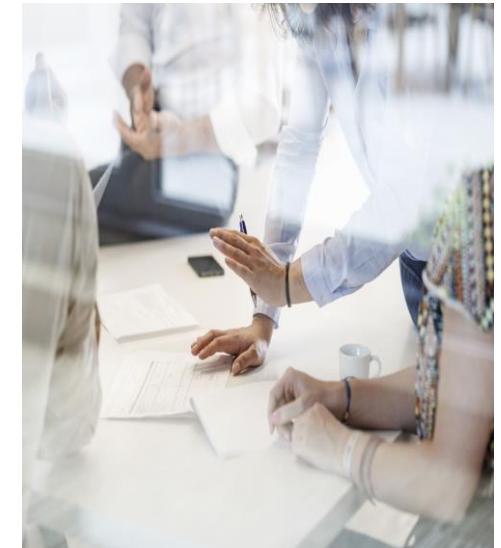
Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates the Pension Fund's financial reporting framework the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	<p>The Pension Fund is administered by Southwark Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified although a number of audit adjustments noted in Appendix D have required amending.</p>
Matters on which we report by exception	<p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Fund's Annual Report on the same day we issue our financial statements opinion.</p> <p>We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.</p>



3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Grant Thornton International Transparency report 2023](#).

3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff.

We confirm that we have not identified any non audit fees related to the Pension Fund. Given this we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action plan – audit of financial statements

Assessment	Issue and risk	Recommendations
● High	<p>Key reports being run of the UPM system</p> <p>We encountered challenges obtaining Benefits payable and member data listing from the UPM system. We understood from discussions there had been challenges on the new system having reports written to enable this to take place. This meant that instead a more manual and time-consuming process was required to provide the information we required to audit these balances.</p> <p>It also meant that we were unable to obtain these listings for the April period the month prior to the transfer to the UPM system.</p>	<p>Management should review the UPM system and ensure that key reports to support the audit are available to be run.</p> <p>Management response</p> <p>xxx</p>
● High	<p>Management should obtain from the Actuary on an annual basis the latest Actuarial liability position on an annual basis to comply with the Code requirements</p> <p>In the CIPFA code there are three options set out for Pension Funds to consider within the Actuarial note. The Pension Fund has elected to follow option B which states the latest annual valuation should be presented in the note. Our interpretation and that of management differs, in that our view this means that on an annual basis the Pension Fund should obtain from the actuary the gross liability of the Pension fund. We consider this key information for the Pension Fund and to the readers of the accounts as this effectively shows the overall surplus/deficit the Fund is on an annual basis.</p> <p>We consider this key information to the Accounts and to inform the Pension fund on how it is performing in meeting the future needs of the Fund.</p>	<p>We recommend that management obtain a formal IAS 26 report to state the year end actuarial liability on an annual basis.</p> <p>Management response</p>
● Medium	<p>Management should perform an Analytical review and understand unusual movements in the Pension Fund Accounts</p> <p>In our review of the Fund Accounts, we identified an unusual increase in Other Current liabilities, which had significantly increased year on year. Typically, at a Pension Fund the overall Non current liability balance would not be high. However, at the year-end there had been a significant increase, which was largely explained by an £11.5m Journal posting that had been misallocated.</p> <p>We note we would of expected this type of error to have been identified in managements review of the Pension Fund accounts.</p>	<p>We recommend that management performs Analytical reviews of the key notes in the accounts and ensures all significant movements are understood to avoid the risk of errors in the Financial statements.</p> <p>Management response</p> <p>xxxx</p>

- High – Significant effect on financial statements
- Medium – Limited effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Pension Fund's 2021/22 financial statements, which resulted in 1 recommendations being reported in our 2021/22 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Issues over Member Data</p> <p>In 2016/17 we identified errors during our testing of the client's Member Data, which thus could have a potential impact on the accuracy of the data provided to the Actuary. This could then have a potential impact on the valuation provided by the Actuary to the Fund, although the risk of this is low.</p> <p>The Council has undertaken extensive data cleansing during 2017-18 and 2018-19 as part of the production of the annual benefit statements and also through the implementation of i-Connect software in all admitted bodies, scheduled bodies and schools which has significantly improved the quality of data held. The enhanced Member Self Service portal which facilitates member updates of data is now live and members will be made aware of this through newsletters. These will include activation keys which it is hoped will encourage them to log in.</p>	<p>The Pension Fund has procured new pensions administrations software to replace its current system.</p> <p>Following this implementation, we encountered challenges obtaining information from this new system to audit both the membership data and benefits Payable. Following the receipt of this information we found similar issues as in previous years in relation to obtaining data that sits outside the Councils payroll system and for older cases.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

D. Audit/Management Adjustments – Main Statements

Impact of adjusted misstatements

As noted in our significant matters section the Pension Fund produced draft accounts on the 30th June 2023. This version of the accounts was superseded prior to the audit commencing with an updated version being provided for audit on the 29th November 2023. Below are the changes above our reporting threshold in the Main statements.

Detail	Fund Account £	Net Asset Statement £m
Adjustments between draft accounts June 30 th and version submitted for audit as of 29 th November	CR Contributions 830k	DR Current Assets £23,986k
Due to turnover of key staff, we have not had a detailed explanation provided for the movements between the versions of the Accounts. In completing our audit, the trial balance and workings provided supported the accounts submitted as of November 29 th .	CR transfers in from other Pension Funds 28k	CR Current Liabilities £8,352k
The next slide summarises our audit adjustments to this version.	CR Management expenses 1,098k	
	CR Investment Income £15,058	
	DR Benefits paid £2,114k	
	DR Profit and Loss on changes in market value £6,028k	
	DR Taxes paid £519k	
Overall impact	CR £8,353k	DR £8,353k

D. Audit Adjustments – Main Statements

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Fund Account £m	Net Asset Statement £m
<p>Variances identified in level 3 Investments</p> <p>Due to the timing of when the accounts were prepared and the audit period more up to date valuation information came available for 3 Investments held. This indicated Investments were understated by £26,300k. Per our consideration of IAS 10 we deem this to be an adjusting Event after the reporting period and therefore have agreed with management this will be adjusted in the final Pension Fund accounts.</p>	Profit and losses on disposal of investments and changes in market value of investments CR 26,318k	Investment Assets DR – £26,318k
<p>Adjustment to Current liabilities and Fund Account</p> <p>From our review of the Pension Fund accounts Current liabilities significantly increased year on year, due to other liabilities increasing from £72k to £12,143k. Given most Pension Funds do not have significant current liabilities this was an unusual movement which we queried with management on first review of the Accounts.</p> <p>From review this was due to a Journal mis posting of £11,500k that lead to current liabilities being overstated and reduced the Profit and Loss on changes in market value by the same value.</p>	Profit and losses on disposal of investments and changes in market value of investments CR £11,500k	Current liabilities DR £11,500
<p>Adjustment to Current assets held by Fund Manager</p> <p>From our work it was identified that there was a variance between the draft accounts deferred debtors and that held by JP Morgan of £3,374k . This led to the Current assets balance being overstated by £3,374k.</p>	Profit and losses on disposal of investments and changes in market value of investments DR £3,374k	Current Assets CR 3,374k
<p>Adjustment to Current assets held by Fund Manager</p> <p>From our Investment income testing it was identified that accrued debtors were overstated by £3,962k and investment income was also overstated by this value.</p>	Investment Income DR £3,962k	Current Assets CR 3,962k
<p>Changes to Opening Balance of Fund</p> <p>Adjustments to Investments identified in the 2021-22 audit had to be made to the accounts. This resulted in the Opening Net assets increasing by £18,400k. This has not impact on the Net Asset statement but does mean the Fund account movement in Investments valuations are impacted.</p>	Opening Net asset statement £18,400k Increase Profit and losses on disposal of investments and changes in market value of investments DR 18,400k <i>*Note this change has been made in the 2021-22 accounts</i>	
Overall impact to audited November Accounts	CR £30,492k	DR £30,492k
Overall impact to draft Accounts (including adjustments on previous page)	CR £38,835k	DR £38,835k

D. Audit Adjustments- Disclosure changes

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Accounting policies and Other notes –minor presentational adjustments	In our work a number of minor presentational amendments were identified and agreed with management. This included the removal of a critical judgement made by the Pension fund which per IAS 1 did not meet the requirements of a critical judgement. The Critical judgement did not express a judgement but the fact the Fund was applying the standards appropriately for property assets.	✓
Audit fees- Note 10	The audit fees note required adjusting to the final figure.	✓
Note 14A- reconciliation of movements in Investments	For the purchases and sales in the accounts the Fund Manager had provided more up to date information to the accounts.. This resulted in the Purchases data increasing across four asset types by £163,488k. The Sales information also contained material adjustments totalling 194,078k increases to the sales.	✓
Note 17 Financial instruments	The financial instruments note was misstated to include statutory liabilities which do not meet the definition of being financial instruments under IFRS 9. This lead to a £4,173k adjustment to this note.	✓
Note 19 and 20 – Actuarial Present Value of Promised Retirement Benefits	The Pension Fund in the preparation of this note had not included the latest valuation data as of the 31 st March 2023. This was based on their interpretation of the Code requirements that the latest full triennial data should be used. This is not in line with our understanding of the CODE which requires the Pension Fund to state the total Pension Fund liabilities for each reporting year. Given the significance of this information to the readers of the accounts we considered this as requiring adjustment.	✓
Note 26 Unfunded Commitments	The Draft statement of accounts had the value at £105.8m however upon review this was overstated and has been restated to 89.9m following the audit adjustments identified.	✓
Other Information including Pension Fund Annual report	The other information noted in the Pension Fund Annual report and other parts of the Accounts required updating to reflect the material changes in the prior and current year Financial statements.	✓

E. Fees and non-audit services

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Proposed fee
Scale fee per PSAA for 2022-23	24,920
New System Implementation (this reflects the UPM system and the cost of our additional work the estimated fee captures the cost of this review of the data transfer and controls regarding the implementation)	12,500
ISA 540	3,600
ISA 315	6,000
Journals testing	2,000
Fee Per Audit plan	49,020
Additional work on Investment Valuations and challenges obtaining data from Fund Managers	3,400
Challenges obtaining information from UPM system and other key reports	2,800
Quality and preparation of accounts issues resulting in key staff turnover during the preparation and audit period	5,750
Total audit fees (excluding VAT)	£60,970

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	<p>The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:</p> <ul style="list-style-type: none"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures the identification and extent of work effort needed for indirect and direct controls in the system of internal control the controls for which design and implementation needs to be assess and how that impacts sampling the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	<p>Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.</p>
Professional scepticism	<p>The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:</p> <ul style="list-style-type: none"> increased emphasis on the exercise of professional judgement and professional scepticism an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence increased guidance on management and auditor bias additional focus on the authenticity of information used as audit evidence a focus on response to inquiries that appear implausible
Definition of engagement team	<p>The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.</p> <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	<p>The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:</p> <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance
Documentation	<p>The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.</p>

G. Audit opinion

We anticipate that we will provide the Authority with an unmodified audit report.



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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

OPEN

MEMBERSHIP	No. of copies	OTHER PARTIES	No. of copies
Councillors		Other officers	
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		External	
Officers		Mike Ellsmore	By email
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Caroline Watson	By email		
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Staff Representatives		Andrew Weir (spares)	0
Roger Stocker	By email	Total printed copies:	0
Helen Laker	By email		
Derrick Bennett	By email	Dated: 19 September 2024	
Advisors			
David Cullinan	By email		
Colin Cartwright	By email		

Last updated – September 2024