Southwark Council
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Local Pension Board

Wednesday 20 October 2021
10.00 am
Online/Virtual

Membership

Mike Ellsmore (Independent Chair)

Dominic Cain (Vice Chair) – Employer Representative

Allan Wells – Employer Representative

Mike Antoniou – Schools Employer Representative

Diana Lupulesc – Employee Representative

Henry Mott – Employee Representative

Tony O’Brien – Retired Employee Representative

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Local Pension Board

Wednesday 20 October 2021
10.00 am
Online/Virtual

Order of Business

Item No. **Title**

PART A – OPEN BUSINESS

1. **TRAINING SESSION: ADDITIONAL VOLUNTARY CONTRIBUTIONS**

2. **APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

3. **NOTIFICATION OF INTENTION TO CONDUCT BUSINESS IN A CLOSED MEETING**

4. **DISCLOSURE OF INTERESTS AND DISPENSATIONS**

   Members of the board to declare any interests and dispensation in respect of any item of business to be considered at this meeting.

5. **MINUTES**

   To agree as a correct record, the open minutes of the meeting held on 21 July 2021.

6. **ACTION TRACKER**

7. **PENSIONS SERVICES**

Item No.	Title	Page No.
8.	PENSIONS REGULATOR CODE OF PRACTICE 14 UPDATE	
9.	INVESTMENT STRATEGY STATEMENT	
10.	SECTION 13 GAD REPORTS	
11.	CIPFA CODE OF PRACTICE ON KNOWLEDGE AND SKILLS 2021	
12.	LPB INSURANCE RENEWAL – DECEMBER 2021 (VERBAL UPDATE)	
13.	PENSIONS ADVISORY PANEL MEETING PAPERS – OPEN PAPERS	
14.	OPTION TO RE-APPOINT LPB CHAIR	
15.	ANY OTHER OPEN BUSINESS	

PART B – CLOSED BUSINESS

PENSIONS ADVISORY PANEL MEETING PAPERS – CLOSED PAPERS:

CLOSED APPENDIX 1 RELATING TO AGENDA ITEM 11 : QUARTERLY INVESTMENT UPDATES

CLOSED APPENDIX 2 RELATING TO AGENDA ITEM 12: QUARTERLY ACTUARIAL FUNDING UPDATE

EXCLUSION OF PRESS AND PUBLIC

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

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

ANY OTHER CLOSED BUSINESS

Date: 14 OCTOBER 2021

Local Pension Board

MINUTES of the Local Pension Board meeting held on Wednesday 21 July 2021 at 10.00am online using Microsoft Teams

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PRESENT:	Mike Ellsmore – Independent Chair
	Dominic Cain – Employer Representative
	Diana Lupulesc – Employee Representative
	Tony O'Brien – Retired Employee Representative
	Mike Antoniou – Schools Employer Representative
OTHERS PRESENT:	Caroline Watson – Senior Finance Manager
	Barry Berkengoff – Pensions Manager
	Geraldine Chadwick – Technical Accountant
	Jack Emery – CIPFA Trainee
	Laura Caudwell – Aon Representative (present for agenda item 1 only)
	Catherine Pearce – Aon Representative (present for agenda item 1 only)

1. **TRAINING SESSION: LAURA CAUDWELL, CATHERINE PEARCE – SCHEME ADVISORY BOARD GOOD GOVERNANCE PROJECT**

This training session was conducted by Laura Caudwell (LC) and Catherine Pearce (CP) of Aon, who went through the slides that had previously been circulated.

The key points covered the four phases of the project. It was noted that the final action plan had been taken to MHCLG. There has been no response as yet from MHCLG and no time frame of when to expect one. CP suggested beginning to implement some of the seventeen recommendations prior to the standards being approved by MHCLG.

Following the presentation, Mike Ellsmore (ME) outlined the importance of ensuring there is clarity between LGPS and employers in the fund. He went on to say that regulators currently focus on the board regarding conflicts of interest. However they are not the decision makers. He further noted the high turnover of PAP members to which CP responded that this is often largely driven by election and re-election of councillors. ME affirmed that robust, topical training based around upcoming areas of concern for the PAP should be implemented in order to maximise the use of a member's time on the panel, even if they are only short term. ME also suggested that councillors should commit to a minimum of a three year term.

Dominic Cain (DC) asked about pre-emptively implementing governance policy updates in line with the aforementioned recommendations and if these would then need to be revisited once the MHCLG guidance is released. CP said they would need to be revisited to ensure the guidance is completely covered, but would likely only need minor tweaks.

Following questions, CP provided a brief outline of a summer training series aimed at LPB members which can be taken as either new or refresher courses. This comprised of seven two-hour sessions occurring fortnightly, focusing on CIPFA competencies for board and committee members. These sessions would be streamed live but can be watched on demand in the future. The series ends at the end of September.

2. **APOLOGIES AND ABSENCES**

Apologies were received from Allan Wells and Neil Tasker (NT). NT has since changed roles and is being replaced by Henry Mott (HM) who will be attending the Local Pensions Board moving forward. Caroline Watson (CW) has offered HM induction training and ME has asked for future updates on HM's training.

3. NOTICE OF INTENTION TO CONDUCT BUSINESS IN A CLOSED MEETING

There was no business held in a closed meeting.

4. DISCLOSURE OF INTERESTS & DISPENSATIONS

ME declared an interest in October Work Plan (agenda item 11), reappointment of chair.

Resolved: The one declaration of interest was noted.

5. MINUTES OF LAST MEETING

Tony O'Brien (TOB) asked for an update and if anything was being done regarding existing self-service portal information which he thought to be out-of-date, and had been discussed during the last Local Pensions Board meeting. TOB requested deletion of this information or the inclusion of a note saying that it is to be updated. Barry Berkengoff (BB) said the portal information was not misleading but this could be picked up in the update as it concerns IT and is linked to admin system changes. ME confirmed it would be picked up when BB presents the Pension Services update (agenda item 7) later in the meeting.

Resolved: that the minutes of the meeting held on 21 July 2021 are agreed as correct by the board (subject to the amendment as set out above)

6. ACTION TRACKER

Caroline Watson (CW) provided an update. The action tracker was accepted.

7. PENSION SERVICES UPDATE

BB introduced this item.

COVID-19 has had a marginal impact on the pension services team as remote working measures were in place.

A new First Contact Team Leader was now in place and we are in the process of bringing all Contact Centre work back in-house.

BB provided an IT update regarding the migration to the new Civica UPM platform for payroll and admin. The implementation of Civica is currently 75% complete and now at the testing and delivery stage. However, a decision was taken to postpone payroll go-live until January/February 2022 and align with admin go-live.

Following this, BB responded to TOB's previous point (expressed in agenda point 5). BB clarified that the portal is there for members to model what their pension may look like in the future by running different scenarios, and updating certain personal information. However, the portal is not particularly intuitive hence one of the reasons why we are moving to Civica. BB further explained that the existing portal is caveated accordingly; clearly stating that figures/output is for information only and cannot be guaranteed. TOB said that some of the inaccuracies in calculations are due to the pensions team themselves. BB asked TOB to verify that statement and explained that the portal was in effect, the back-end of the pension admin system, and pensions staff did not run calculations and add the output onto the portal. BB reassured TOB that the portal was as accurate as the data provided by all Southwark employers. ME has asked TOB to email BB outside of the meeting and provide him with explicit examples to illustrate his point with some clarity.

BB went on to outline recruitment. A new Payroll Pensions Manager had now been appointed, starting in early August 2021, and who had considerable Civica experience. The role will be remote with the new staff member being based outside of London. Interviews took place recently for First Contact Officers and two offers were made, expected start date within the next six to eight weeks. Assistant/Apprentice Pensions Officer roles are to be advertised soon; this will initially be a two-year programme including access to professional qualifications and study with the PMI.

Other progress was outlined with more training becoming available to members, including those from schools (available on My Learning Source). Beyond this, more bespoke training will be offered and expanded for scheme employers.

Currently the focus is around year-end data and Annual Benefit Statement (ABS) production, which is due to be completed by end of August 2021. And for the first time, the ABS will also include data on Additional Voluntary Contributions.

Mike Antoniou (MA) asked what the recent recruitment experience had been like and if there had been changes candidate expectations regarding working patterns. BB said the pension fund had always been open to more flexible working and the priority was always to find the best possible candidate for the role. BB said (and as touched up I the earlier training session) one of the biggest recruitment hurdles was the requirement to follow Southwark Council's recruitment policy despite the fact the pension fund was a separate entity to the employer. BB said that pension fund candidates could now be sought from across the UK as a whole and did not have to be limited to say London or the South East.

DC raised the system transition and why payroll implementation had been further delayed. He asked if the problem was around data. BB confirmed it was not a data issue. The initial decision to postpone go-live to September was around recruitment and not having a suitable payroll manager in place. Part of the decision to postpone to early 2022 was because the new payroll manager would not be in place until August, and it was felt this was too tight for a September payroll launch. The primary reason for postponing to early 2022 was however around General Ledger and finance requirements, specifically the complexities in producing a system ‘interface’ to SAP. BB assured DC that the aim was to implement the new system as soon as possible and he would keep the Board updated.

DC went on to say that he was nervous about any backlog issues which were not reflected in the performance statistics. BB outlined that any historical backlogs were ‘data’ related and it had been agreed several years ago that they would be ring-fenced as an individual project. DC further asked if there was a timescale for clearing the backlog or if the size of the backlog had been assessed. BB confirmed there had been 1,500 schools cases with data gaps but we were nearing completion of this project and the backlog should be finally cleared within the next two to three months.

TOB questioned the hiring criteria of the Pensions Payroll Manager who lived outside of London. He emphasised that hiring within the borough can be done and should be done as these people would then be helping to build the local economy through living and spending locally. BB explained that hiring experienced LGPS staff locally was difficult due to demand. In the case of the payroll manager, we had used a specialist recruiter following the initial failed attempt to recruit locally, and the hire was made because of candidate’s payroll experience and was an experienced user of Civica software.

Resolved: that the pensions services report is noted by Board members.

8. LPB CHAIR ANNUAL REPORT

ME introduced the report. Caroline Watson (CW) noted that the formatting would be updated and asked for any further comments or amendments. No comments were made. ME expressed thanks for everyone’s hard work on the report.

Resolved: that the LPB annual report is noted, with no amendments or comments raised.

9. PENSIONS REGULATOR CODE OF PRACTICE 14 UPDATE - PROGRESS UPDATE

Geraldine Chadwick (GC) gave an update on the action plan, covering bases of the conflicts of interest and the administrative side of the project. The main issue covered was regarding internal dispute resolution and around pension breaches. These breaches will now need to go through the normal council process, going to a panel and then potentially on to a regulator if required. The Code will be updated as new governance issues arise. ME is happy with this and noted changes are expected to arise following the MHCLG Good Governance standards being published.

- PENSION FUND CONFLICTS OF INTEREST POLICY

Introduced by GC. The policy was required as part of the COP14 action plan and may need to be amended in future to cover the whole pension fund, rather than only the board. Future check ins with the legal team are expected and pre-emptive work may be completed ahead of the MHCLG Good Governance standards being published.

ME proposed that this policy remains focused on the board and recommended adoption of the policy. He also recommended that the Pensions Advisory Panel commence preparing a fund-specific conflict of interest policy as recommended in the ‘Next Steps’ phase of the Good Governance project. GC suggested that it may be useful for a register of interests to be set up and circulated annually following adoption of the conflict of interest policy.

Resolved:

- That the update on the action plan is noted.
- That the progress regarding the Board conflicts of interest policy is noted.

10. PENSIONS REGULATOR NEW SINGLE CODE OF PRACTICE

This agenda point was lead by CW. The pensions regulator is aiming to consolidate ten existing codes of practice into one single code. New governance aspects to be considered include the IAP2 directive, impacts of Brexit and any new expectations over interests of governance, such as stewardship and climate change. ME noted that regulators do not appear to completely understand the LGPS but that we should be assessing the impact on Southwark.

Resolved: that the report on the new single code of practice is noted.

11. WORK PLAN

ME asked for a progress update on the statement of accounts. CW confirmed that the statements have been completed and that there is an upcoming audit of the pension fund.

ME outlined potentially setting up pensions dashboards where one person's pensions data would be collated in one area, benefitting those employees who may have changed pensions schemes in the past. He clarified that this is a government suggestion.

12. TRAINING PLAN

CW noted page 42 of the new CIPFA training document. Expressed intention to table a report at the next Local Pensions Board meeting on this training point in order to see if it alters the currently implemented training plan. CW said that there is poor uptake on the CIPFA training sessions, as outlined in section one of the document. She emphasised that this training would satisfy individual training requirements and that it is flexible: we are only charged for the training sessions that are attended.

MA asked if there was any training which is suggested to be completed over the coming summer months. CW is not aware of anything specific at the moment but will circulate any training sessions which arise that may be useful for board members. ME suggested looking into training around climate change or the carbon footprint.

Resolved: report to be tabled at next Board meeting setting out the implications of the updated CIPFA document on the current Board training plan.

13. PENSIONS ADVISORY PANEL MEETING PAPERS – OPEN PAPERS

Introduced by ME but delivered by CW. ME expressed happiness over the current funding level of the pension fund but concern over the changing methodology of measuring the carbon footprint. CW clarified that all asset groups are now included in this measurement and that index-linked gilts would be measured comparatively against the asset class held in the Fund with the highest carbon intensity at any point in time. Measurement of index-linked gilts would be reassessed in future.

CW further outlined that Newton were currently failing to reach their stretch target of FTSE All World index + 3%. ME noted that if the target is no longer appropriate, it should be changed.

CW gave a brief review of benchmarking against other LGPS funds. Although we are divesting from fossil fuels, strong performance is still being achieved. The one year Fund return to March 2021 was 24.4% compared to the average local authority return of 22.7%. ME requested a copy of the analytics report.

CW explained that all Pensions Advisory Panel papers are to be published on the pensions fund website going forward following a request at the previous pensions advisory panel meeting for higher transparency. Local Pension Board papers will also be published.

CW gave an update on the investment strategy review. The remaining Blackrock passive developed market equity investments have been moved to a low carbon equity fund and all holdings in Legal and General Investment Management developed market equities have now been sold. The proceeds will be used to fund capital calls for the sustainable infrastructure and new ESG priority allocation going forward. Comgest has been appointed for a new active emerging market equities mandate. It is expected that Comgest will be fully invested during the quarter to September.

Resolved: that the PAP meeting papers are noted.

14. DATE OF NEXT MEETING

The meeting ended at 11:58am.

The next meeting will be at on 20 October 2021 at 10am.

Item 6
Local Pension Board - Action Tracker

Date of Meeting	Action Ref	Action	Due Date	Response	Status
07 April 2021	17	Report on remuneration of LPB members to be tabled at a future meeting.	TBC	Date to be agreed.	Outstanding
07 April 2021	18	Revised administration strategy to be tabled at a future LPB meeting.	TBC	Will be tabled at PAP first. Training on the administration strategy is scheduled for January 2022.	Outstanding
21 July 2021	21	Report on implications of updated CIPFA Knowledge and Skills Framework to be tabled at next meeting.	October 21	Included as agenda item 11 – October 2021.	Complete

Item No. 7	Classification: Open	Date: 20 October 2021	Meeting Name: Local Pension Board
Report title:		Pension Services - administration function update	
From:		Pensions Manager, Finance and Governance	

Recommendations

The Local Pension Board (the Board) is asked to note this update on the pensions administration function.

Introduction

1. The Board received an update in July 2021 which set out information about staff changes, IT/systems, communications and complaint management.

2. This update brings the Board up-to-date on the current position.

Covid-19 implications

Staff continue to work remotely wherever possible, although this is starting to be relaxed across the council. Pension Services have a staff presence in Tooley Street most weeks.

Contact Centre

First Contact Officer interviews have now taken place resulting in two appointments being made.

The First Contact Resource Team went live on 22 September 2021 and deal with all member and employer enquiries.

IT/systems

- 8*8 phone system and Civica's Contact Manager software is planned for managing all calls and incoming enquiries into the First Contact Resource Team. Whilst this is not an integrated telephony/CRM system, it will allow Pension Services to accurately monitor all incoming enquiry work and produce accurate Management Information.
- Civica have delivered the second revision of the UPM test environment with member data from Altair and more functionality in place. The Data Systems Team is currently testing the data and processes thoroughly.
- Documents/imaging - existing documents from the Heywoods (Altair) system will be migrated to the Civica (UPM) system via a VPN. The first transfer has been completed successfully, with two more scheduled before the UPM system goes live.
- SAP payroll migration - a further data cut will be performed shortly with the new UPM database being populated with core pensioner data from the former admin system (Altair). Our new Pensions Payroll Manager (Iain Hunter) started in August 2021 and will play an active role in the transition of SAP payroll to UPM.
- SAP General Ledger requirements have now been specified by F&G and will be delivered either in interface or report format following each payrun.

- The new system's web Member Portal and Employer Portal are in development and will shortly be in the testing phase.
    - The Member Portal includes several enhancements on the current portal, particularly for pensioners, who will be able to manage their pension online and see monthly digital payslips.
    - The Employer Portal includes the monthly return functionality, and adds the function for Pension Services to assign tasks to employers.

UK Pensions Dashboards Programme

Pension Services are staying informed and updated on the development of the nationwide Pensions Dashboard programme, with team members attending webinars and receiving email updates. On-boarding and testing of data will begin in autumn 2022, carrying on until the public launch in autumn 2023.

The programme has published preliminary data standards but not a specific data format. We have confirmed with Civica that once the final data requirements are published, they will update the UPM system with functionality to produce the data required. As it is will be a requirement for all pension schemes nationwide, it will be introduced as a standard system function at no extra cost.

Recruitment/staffing

3. Recruitment for key roles is now complete.

4. The final roles to be filled are at assistant level, and in this respect we are introducing a two-year apprenticeship programme to home grow new talent, with access to professional study and recognised qualifications through the Pensions Management Institute https://www.pensions-pmi.org.uk/

Progress to October 2021

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

Communication and initiatives

5. Pensions awareness - a fortnightly email campaign to begin in October 2021.

6. UPM/pensioner payroll communication planning has started for members and employers.

7. The Annual Benefit Statement (ABS) exercise was completed in August 2021 with 13,200 statements being issued on time to active and deferred members.

8. Annual Allowance tax checks for 2020-21 now done and all affected members were contacted in early October 2021.

9. Communication review underway for all pensions admin letters/statements as part of the move to new UPM software.

10. Website initiatives underway to improve member engagement and interest.

11. Training continues to be delivered to members, HR and employers.

12. Autumn 2021 newsletter in the process of being finalised and will be issued in both paper and digital formats.

McCloud

On 19 July 2021, a bill was put before Parliament amending the Public Service Pensions Act 2013 to fix unlawful discrimination in public service pension schemes. It is expected that draft LGPS Regulations will be issued for consultation by the end of 2021.

Complaint management

- General Complaint - contacted by Co-Op Legal in relation to the balance of pension due to the estate of a deceased member. Vendor creation process had delayed payment. Balance has now been paid and case is closed.
- General Complaint - member on hold on the phone for 40 minutes with Contact Centre whilst trying to make contact with Pension Services. Member was uncomfortable using email instead. Matter is now resolved.

Performance monitoring

Attached as Appendix 1 is data collected between 1 July and 30 September 2021. As explained in previous updates, the information focuses on statutory requirements.

We have amended the format slightly to show how current performance compares to the previous metrics in July 2021.

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

Conclusions

13. Implementation of the new structure is almost complete.

14. Retention of appropriate staff with necessary skills is critical to the achievement of future plans.

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

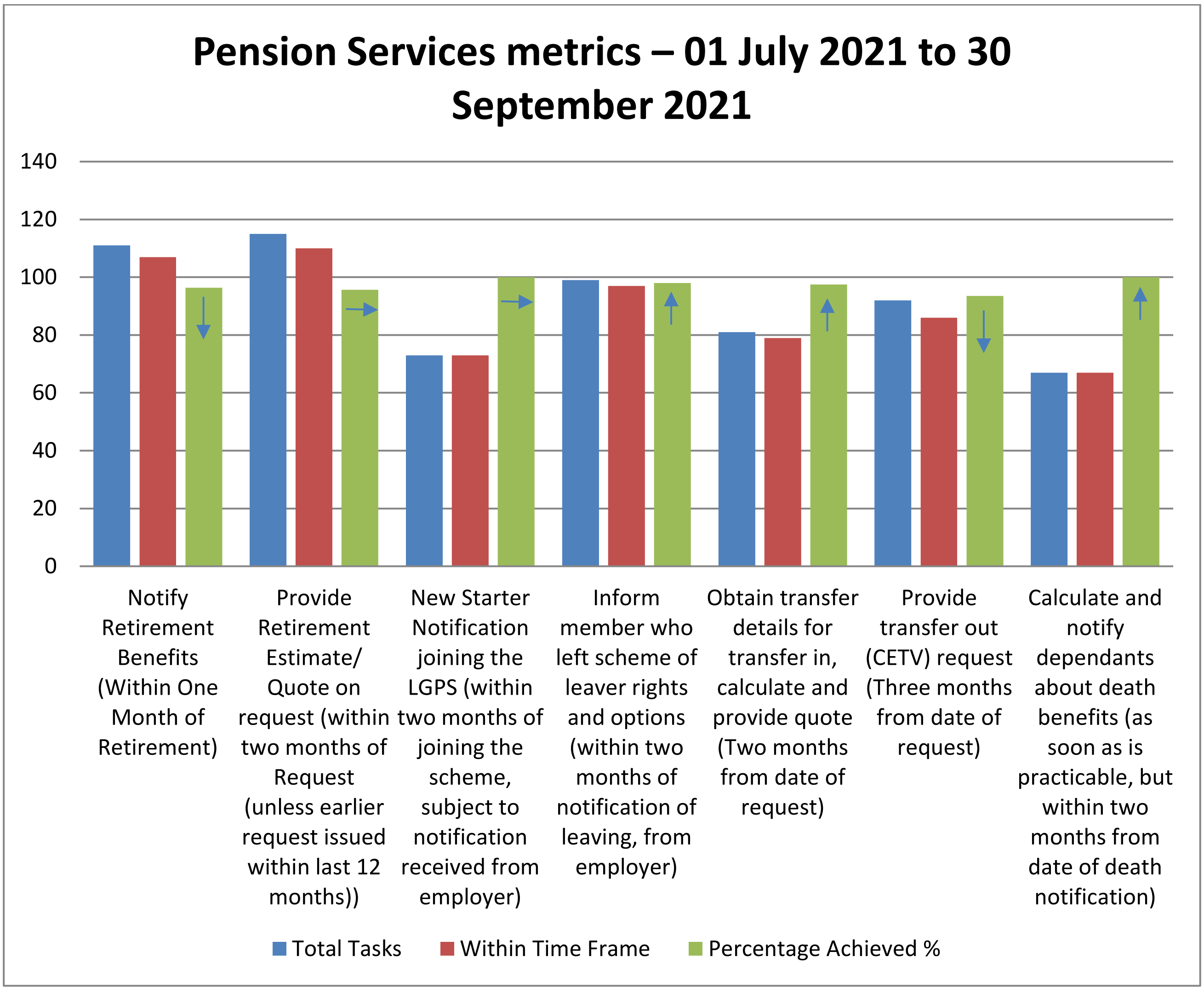
16. Performance monitoring remains an important part of the pensions administration function. The procurement of new Civica software will allow Pension Services to develop workflow and task management, where more detailed Management Information can be extracted around performance. However, the Board is also asked to consider that processing speed is not the only indicator of success, and that attention to detail and the customer journey must also be considered.

APPENDICES

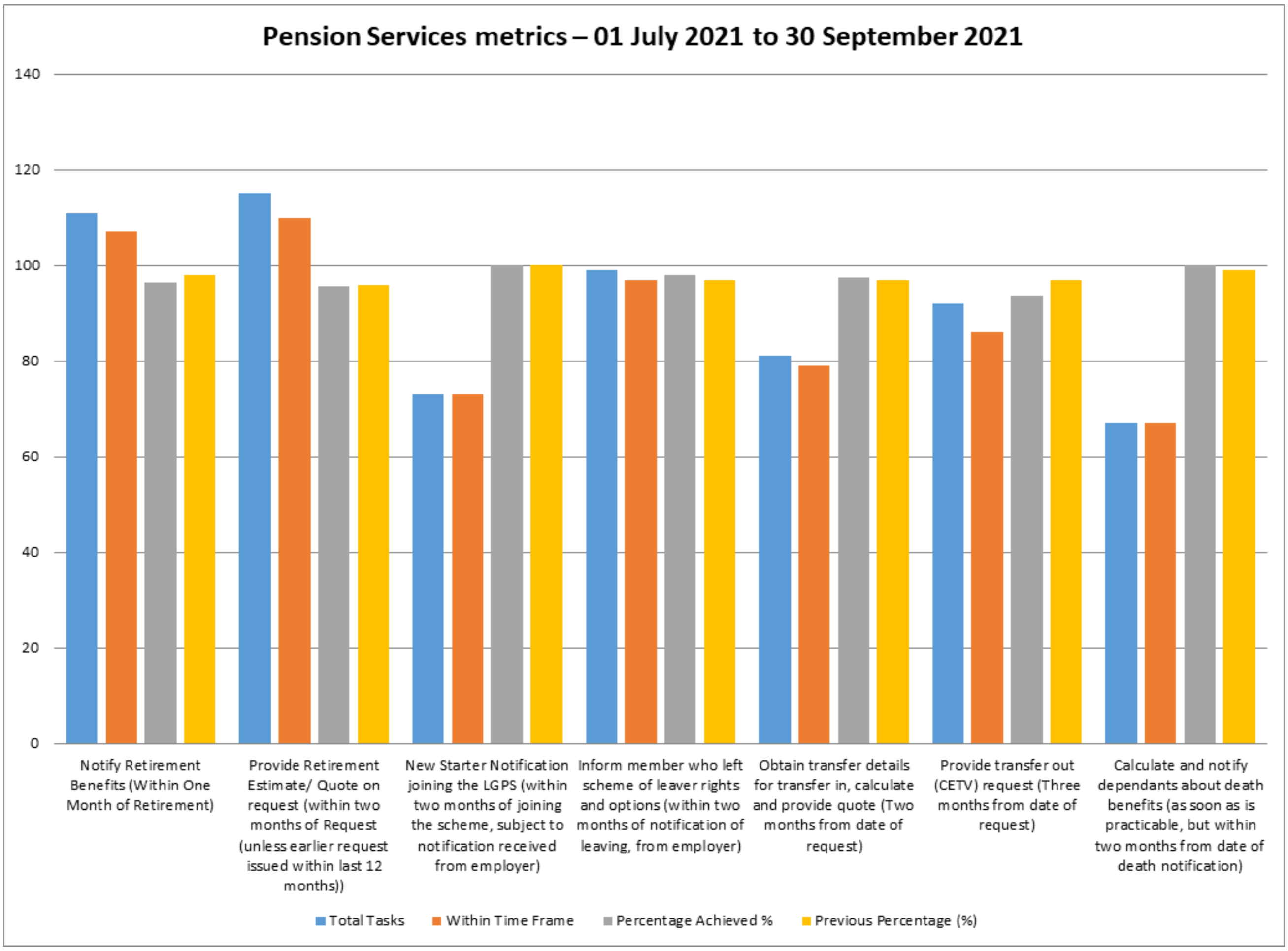
Name	Title
Appendix 1	London Borough of Southwark Pension Fund - performance metrics as at 30 September 2021

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report Author	Barry Berkengoff, Pensions Manager, Finance and Governance		
Version	Final		
Dated	20 October 2021		
Key Decision?	N/A		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Director of Law and Governance		N/A	N/A
Strategic Director of Finance and Governance		N/A	N/A
Cabinet Member		N/A	N/A
Date final report sent to Constitutional Team			20 October 2021



	Total Tasks	Within Time Frame	Achieved %
Notify Retirement Benefits (Within One Month of Retirement)	111	107	96
Provide Retirement Estimate/ Quote on request	115	110	96
New Starter Notification joining the LGPS	73	73	100
Inform member who left scheme of leaver rights and options	99	97	98
Obtain transfer details for transfer in, calculate and provide quote	81	79	98
Provide transfer out (CETV) request (Three months from date of request)	92	86	93
Calculate and notify dependants about death benefits	67	67	100



	Total Tasks	Within Time Frame	Achieved %
Notify Retirement Benefits (Within One Month of Retirement)	111	107	96
Provide Retirement Estimate/ Quote on request	115	110	96
New Starter Notification joining the LGPS	73	73	100
Inform member who left scheme of leaver rights and options	99	97	98
Obtain transfer details for transfer in, calculate and provide quote	81	79	98
Provide transfer out (CETV) request (Three months from date of request)	92	86	93
Calculate and notify dependants about death benefits	67	67	100

Item No. 8	Classification: Open	Date: 20 October 2021	Meeting Name: Local Pension Board
Report title:		Pensions Regulator Code of Practice 14 Update	
From:		Technical Accountant - Professional Finance Services	

RECOMMENDATIONS

The Local Pension Board (the Board) is asked to:

- Note the progress made to date.
- Note the Code of Practice (COP14) review improvement plan at appendix 1.
- Note the declaration of Interest form at appendix 2.

BACKGROUND INFORMATION

1. It was agreed at the January 2021 Board meeting that progress against the COP14 review improvement plan would be reported at future meetings.
2. This report updates the Board on progress made against the plan to October 2021.

PROGRESS ON ACTION PLAN

3. The action plan at appendix 1 has highlighted (**in gold**) actions or amendments since July. These are covered below. The plan also has updated timelines for delivery where appropriate.

Governing your Scheme

- Training on Additional Voluntary Contributions is at agenda item 1.
- Personalised training plan - to be updated for all members in line with the CIPFA code of practice on knowledge and skills (agenda item 12).
- Document list - the new website has a documents library with all key documents, policies, factsheets and reports available to Board members.
- Board appointment process - in progress and will be a presented at the January 2022 meeting.

- A bespoke declaration of interests form is in progress and will be presented at the January 2022 meeting. From the returned forms a register of interests will be compiled.

- Monitoring published information - a procedure is now in place to publish meeting packs within 7 working days following the meeting.

Managing Risks

- Pensions administration policies and procedures:

  - processes and procedures will be updated as part of the Civica UPM rollout;

  - the terms of reference for the audit review of internal controls has been agreed and the audit is due to start in the first week of November.

Administration

- Scheme specific data scores will be undertaken when the Civica implementation is completed in February/March 2022. Progress will be reported at the April 2022 LPB meeting.

- Data strategy document will be finalised once the new Civica/UPM software is implemented. An update will be reported at the April 2022 LPB meeting.

Resolving Issues

- Internal senior pensions' staff have all had Internal Dispute Resolution Procedure (IDPR) training, but this still needs to be rolled out to new and existing HR colleagues who are named as adjudicators under the IDRP policy. IDPR training will become a mandatory annual requirement for all IDPR adjudicators.

- Training on 'breaches of law'' will be arranged for the January 2022 meeting for Board members.

APPENDICES

Name	Title
Appendix 1	Updated Action Plan – October 2021
Appendix 2	Declaration of Interests Form

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	Geraldine Chadwick	
Version	Final version	
Dated	14 October 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

Appendix 1- Updated Action Plan for October 2021

Area	Category	Status	Recommendations	Timeframe / Responsible	Complete	Notes
1. Governing your Scheme						
1.1 Knowledge and Understanding Required by Pension Board Members						
Pension board members should have knowledge of how AVC arrangements operate, investments and performance and payment of contributions	Should	Not Met	Planned LPB training on AVC's should take place shortly (including content of COP45)	October 2021 LPB meeting - **BB**	√	AVC training on October 2021 agenda and will be delivered by Deborah Patten.
Comprehensive training plan in place - global and individual level (from induction onwards)	Should	Partially Met	1. That the training analysis exercise is completed and a comprehensive training plan is produced	**CW** - January 2021 LPB meeting	√	Comprehensive LPB training plan agreed at January 2021 LPB meeting
			2. Named person is designated to take responsibility for ensuring training plan is developed and implemented	**Complete - CW -** named person CW	√	
			3. Personalised training plan for each board member	**CW** - October 2021	√	Individualised training plans will be updated to incorporate the CIPFA knowledge training programme for audit committee members. This a separate agenda item.
			4. Update document list and establish a central document store for documents members may need	**CW - October** 2021	√	The new pensions website holds a section on key documents
1.2 Conflicts of Interest & Representation						
LPB members (and proposed appointments) must provide required documents to satisfy they don't have a conflict of interest	Must	Not Met	1. Annual declaration of interest exercise scheduled for completion by board members (and proposed appointments) to provide docs to scheme manager to satisfy no conflict of interest. Include in the pension board forward plan	**CW** - by January 2021 LPB meeting	√	1. Declaration of interests form will be distributed by email to LPB members by December 2020. 2. Receipt of forms and completion of exercise confirmed at January 2021 LPB meeting
	Should	Not Met	2. A Board appointment process is prepared and published	**CW** - January 2022 LPB meeting	In progress	Document drafted to be approved at January 2022 LPB meeting
			3. Keep a register of interests which is circulated annually to pension board members and is published	**CW** - January 2022 LPB meeting	In progress	Bespoke declaration of interest form at appendix 2 to the report and a register will be compiled from returns.
			4. New members disclose interests that could become a conflict before appointment 5. Prepare a conflicts policy and procedure for the board	**CW** - by July 2021 LPB meeting	√	Document approved at July 2021 LPB meeting
1.3 Publishing Information About the Scheme						
Published information about the pension board must be kept up to date	Must	Not Met	Bring website up to date with LPB membership	Complete - **BB/CW** - this is up to date on new website see https://southwarkpensions.co.uk/about-us/local-pension-board	√	
Schemes should have policies and processes to monitor all published information	Should	Not Met	1. Add a point to the checklist within a Board appointment procedure to be published	Q1 2021 - **BB/CW**	Will be undertaken with the Board appointment process	a) Draft the policy b) Agree/list all policy to publish c) do 3 month review
			2. Procedure to monitor published information such as latest Board minutes so members are aware	**CW - October** 2021	√	Meeting packs will be published within 7 working days
Properly constituted pension board should be in place	Should	Partially Met	Review Council approval process for LPB Terms of Reference and take actions to complete the approval of the latest version	**CW - April 2021**	√	LPB terms of reference within the council's constitution (24 March 2021)
2. Managing Risks						
2.1 Internal Controls						
Separate Council risk policy for pension fund	Should	Partially Met	That a risk policy is prepared for the pension function	Q2 2021 - **BB/CW**	√	
Risk register - ownership of risks	Should	Partially Met	Amend the risk register to include an owner for each risk	by December 2020 - **BB/CW**	√	
Risk register - frequency of review	Should	Partially Met	Risk register is reviewed by pensions board quarterly	Complete - **CW** - Current policy is to formally review twice a year unless critical amendments are made - considered to be adequate	√	
Pensions administration policies and procedures	Should	Partially Met	1. Processes and procedures for admin function reviewed on regular basis to ensure remain complete as the restructure of the administration function is completed	Q2 - 2021 - **BB**	√	a) Covered as part of Civica UPM roll out b) a full review of all processes, letters will be done
			2. Consider requesting Internal Audit to review of internal controls and operational efficiency once restructure is complete	October 2021 - **BB**	√	Terms of Reference now agreed with internal audit - agreed start date is first week of November.
			3. Further KPIs requested by the Board should be reviewed, put into action and reported on a quarterly basis	Q1 2021 - **BB**	√	a) The Chair will request any KPI's/changes from Pensions Manager. b) Pensions Manager will incorporate those changes into quarterly stats (or inform Chair if an alternative format is necessary due to current admin IT restrictions). c) A wider KPI review will take place post Civica/UPM implementation.
3. Administration						
3.1 Scheme Record Keeping						
Member data should be regularly evaluated, continually reviewed and a data review exercise carried out	Should	Not Met	Annual exercise to produce a Common and Scheme Specific data score. Reported in Scheme Return and to the Pension Board	April 2022 - **BB**	a) and b) is completed.	a) Data Team will manage this process. b) Common Score completed c) Process of reporting scheme specific scores will be undertaken when Civica implementation is completed in Feb/March 2022. The LPB will be updated on progress in April 2022.
Data improvement plan	Should	Not Met	Put data improvement plan in place where initiatives can be monitored	For January 2021 LPB meeting - **BB**	√	Data improvement plan in place that tackles common data issues with a particular focus on schools data and historical gaps in data. In addition there are a number of ongoing data cleansing initiatives as a result of project work that we do with the actuary Aon (year-end closure, ABS for example).
Data cleaning	Should	Not Met	Data cleaning, data flow, filling of vacancies should continue to have focus and resources applied to them to enable the requirements of the Code to be met	Q1 2021 - **BB**	√ and ongoing.	a) follows from data improvement plan being set up b) New Data Officer appointed c) Numerous clean up exercises taking place as part of migration of data from Altair to UPM.

Appendix 1- Updated Action Plan for October 2021

Area	Category	Status	Recommendations	Timeframe / Responsible	Complete	Notes
Data Strategy Document	Should	Not Met	1. The planned data strategy document should be completed and presented to the LPB and PAP	April 2022 - **BB**	In draft.	This will be completed once Civica/UPM is fully implemented, as the new system has different ways of capturing pensions data.
			2. Continue to encourage employers to use iConnect for submission of data	by December 2020 - **BB**	√	a) all employers now on boarded b) Process in place for monitoring month end submissions broken down by payroll provider and then appropriate school/employer c) Robust escalation process for employers who are repeat offenders is completed
3.2 Maintaining Contributions						
Maintain records of investigations of payment failures including asking the employer questions to form part of the decision to report to the Regulator	Should	Not Met	1. Reporting breaches of the law policy should be reviewed against the Code and updated to cover the potential to report non payment of employer contributions to members	**CW - January 2022**		1. Policy will be reviewed and updated to cover non payment of employer contributions 2. Process for considering notifying scheme members will be reviewed
Consider whether it is appropriate to report failure of employer contributions to scheme members						
Contributions monitor and Breaches of the Law Register should contain sufficient information to evidence requirements are fully met and if identified underpayments were paid.	Should	Partially Met	2. The breaches of the law register should be reviewed and revised to include evidence of when issues are resolved, that investigations have taken place and records kept. 3. Breaches of law register is fully completed to assess materiality and presented to LPB at each meeting	**CW - Jan 2022**	Will be completed as part of improvement plan for closing accounts	3. Document will be revised to include recommendations
Procedure on monitoring contributions	Should	Not Met	4. Contribution monitoring record enhanced to provide more detail to meet requirements of the code			4. contribution monitoring record will be revised to comply with code. The contributions reconciliation process is currently being reviewed to ensure it is fully robust and complies with all requirements.
3.3 Providing Information to Members						
Must provide certain information to scheme members under various legislation	Must	Not Met	Transfer deadlines and no evidence that basic scheme information is provided within two months of request	Q1 - 2021 - **BB**	√	Complete and being monitored as part of regular KPIs. All transfer work back with Pension Services from Aon. Missing schools data has now been sorted and transfers processed.
Annual Benefit Statements (ABS) delivered on time	Should	Partially Met	Communications such as ABS are shown and tested to the pensions board for comments on understanding	July 2021 (and annually thereafter) - **BB**	√	2021 ABS exercise includes additional process to share early draft ABS documents to Board. ABS newsletter is currently being produced by AON and will be shared with the Board by the end of July.
Auto-response should acknowledge email enquiry and give a timescale for when a response will be sent	Should	Partially Met	Sufficient resource or temporary resource should be incorporated into the team to enable correspondence to be addressed in a timely manner	Complete - **BB**	√	Out of office already exists. Email inbox checked regularly. CRM (Contact Centre) queries are dealt with (and can be reported on). 2 agency staff present.
4 Resolving Issues						
4.1 Internal Dispute Resolution						
Effectiveness of the arrangements should be assessed	Should	Not Met / Partially Met	1. The effectiveness of the IDRP arrangements are assessed, including that the requirements are complied with including timescales and the effectiveness of decision making 2. IDR document made reference to TPAS and not Money and Pensions Service	January 2021 - **BB**	√	a) Internal senior pensions staff have all had IDRP training but this needs to be rolled out to new and existing HR colleagues also named as adjudicators under IDPR policy. IDRP training will be an annual mandatory requirement for all IDRP adjudicators. b) IDRP is under continuous review c) Training is offered to all new IDRP adjudicators. d) Pensions Manager is former Senior Casework Manager at TPO and well versed in complaint management.
4.2 Reporting Breaches of the Law						
Breaches of the Law register should record the reporting of breaches	Should	Partially Met	Complete register on a timely basis. Assess materiality to demonstrate consideration has been given to judging whether a breach must be reported	by December 2020 (post training) - **BB/CW**	√	Register is kept of data breaches and updated monthly
Breaches of the Law register should be reported to the Pensions Board at each meeting.			All data breaches are reported to the information governance officer and monthly to the Section 151 officer. Twice yearly all breaches are reported to the Corporate Governance panel (CGP) to comply with internal procedures. Those breaches that must be reported to the Pensions Regulator are reported immediately to the CGP and to the LBP.		√	New procedure for reporting data breaches implemented in June 2021.
Breaches of the Law register - training programme	Should	Partially Met	Officers, the pensions advisory panel and pension board receive training on the procedure	**January 2022- BB**	In progress	Training to be delivered at the January 2022 meeting.

Appendix 2 -Local Pension Board member

Declaration of Interests Form

Name:	
Address:	

Please read the conflicts of interest policy, before completing the form below.

1.Potential Interest which could give rise to a conflict of interest	
As a member of the Local Pensions Board you will have a conflict of interest if you have a financial or other interest which is likely to prejudice your exercise of functions as a member of the board (but this does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme) I, or a member of my family, have the following interest (e.g. employment, directorship, business or property ownership, shareholding, or connection* with businesses or employers in either the LGPS or the Southwark pension fund) which may prejudice my exercise of functions as a member of the board.	
Interest	
Interest	
Interest	
Interest	
* a connection includes being employed by/in partnership with/acting as consultant to/a director of/a shareholder in a business . It also includes representatives of employers who are constituent members of the pension fund.	
'family' mean the interests of: (a) Your partner (which means spouse or civil partner, a person with whom you are living as husband or wife, or a person with whom you are living as if you are civil partners), and	

(b) Any other member of your family (whatever the relationship) where you have actual knowledge of the interests of that other family member. Only the interest need be stated, not the family connection.	
Signed:	**Date:**

2. DECLARATION	
In the event that I consider that I might have a conflict between my own interests and those of the Board, particularly in relation to any item to be discussed at a meeting of the Board, I will declare this, if possible in advance of the meeting.	
Signed:	**Date:**

Your Declarations of Interests will be treated as confidential. It will only be made available to officers on a need to know basis. Your declaration will be stored in accordance with the council's Retention and Disposal of Records policy.

In the event that your circumstances change you must make a further declaration within 21 days of the interest arising.

IF YOU ARE IN ANY DOUBT WHATSOEVER AS TO WHETHER YOU NEED TO DECLARE AN INTEREST, PLEASE MAKE A DECLARATION, AND IN THE FULLEST TERMS.

Item No. 9	Classification: Open	Date: 20 October 2021	Meeting Name: Local Pension Board
Report title:		Draft Updated Investment Strategy Statement	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

The LPB is asked to:

- Consider the updated Investment Strategy Statement (as Appendix 1) and make recommendations as appropriate.

Background

1. In accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, an Administering Authority must prepare and maintain a written Investment Strategy Statement ("ISS") of the principles governing its decisions on the investment of the Fund. The ISS must be in accordance with guidance issued by MHCLG.

2. The Fund's existing ISS was published in April 2017 and there is a requirement to review the policy from time to time and at least every three years

3. The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments that the Fund will invest in particular investments or classes of investment.

Next Steps

4. LPB members are asked to provide feedback and proposed amendments on the updated Investment Strategy Statement.

5. The final version of the investment strategy statement will be agreed at the next PAP meeting in December 2021.

APPENDICES

Name	Title
Appendix 1	London Borough of Southwark Pension Fund – draft investment strategy statement 2021

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	Caroline Watson	
Version	Final version	
Dated	14 October 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

Investment Strategy Statement

London Borough of Southwark Pension Fund

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 requires administering authorities to formulate and to publish a statement of their investment strategy (ISS), in accordance with guidance issued from time to time by the Secretary of State.

This ISS has been designed to be a living document and is an important governance tool for the London Borough of Southwark Pension Fund (the Fund). This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, outlines the Fund's approach to managing risk, how environmental, social and governance issues are taken into account and the approach with regard to pooling of investments. This document replaces the Fund's Statement of Investment Principles.

This statement will be reviewed by the Pensions Advisory Panel annually, or more frequently should any significant change occur, with any resulting recommendations made to the Strategic Director of Finance and Governance.

Southwark Council is the administering authority for the Southwark Local Government Pension Fund and bears ultimate responsibility for the funding of member pensions. The management and strategic direction of the Fund, whilst separate from the council, will always take into consideration the council's long term objectives.

In this regard the Fund's investment principles are aligned with the council's fairer future principles as defined in the Council Plan, in particular, the fairer future value of "spending money as if it were from our own pocket" and the "fit for the future" principles to ensure financial sustainability.

https://moderngov.southwark.gov.uk/documents/s90466/Appendix%201%20Council%20Plan%202018-2022%20refresh%20updated.pdf

The pension fund has its own climate strategy and goals which go over and above those of the borough, ensuring it is as a minimum in line with the Council's commitment to make the borough carbon neutral by 2030. This is also ahead of the UK government's commitment to achieve net zero by 2050.

The Fund is fully committed to collaboration with other local authority partners and in 2015 invested in the London Collective Investment Vehicle (CIV). The London CIV is a collaborative venture between local authorities to deliver benefits of investment scale and efficiency to the participating Funds. The Fund will continue to support the development of the London CIV as an investment vehicle.

2. Investment objectives and principles

The Fund is an open, defined-benefit pension fund as part of the national Local Government Pension Scheme. The Scheme rules are determined at national level and cover many elements of the Fund, such as employee benefits and employee contributions. The nature of the Fund and scheme design means that payment of pensions will extend over the very long term.

In setting the investment strategy the Fund seeks to balance twin objectives: first, to achieve sufficient long-term returns for the Fund to be affordable and second, to keep the employers' contribution rate as stable as possible.

The Fund will seek to operate a long term, sustainable strategy; one which does not rely upon the pursuit of short term returns or adherence to asset management trends, but utilises a well structured asset and fund manager investment allocation to target long term socially responsible investment performance. The Fund's uncomplicated investment structure provides significant flexibility and adaptability if required.

To achieve the twin objectives, the Fund needs to invest in a diverse range of assets which provide higher returns relative to the growth of pension liabilities whilst taking account of the volatility inherent in investment markets. The principles set out below provide high level guidance on how the Fund seeks to meet these objectives and manage the associated risks.

Governance

- The Fund seeks at all times to adopt best practice governance standards within a structured framework, compliant with regulatory requirements and with expert independent advice taken throughout the decision making process.
- The Fund will operate with transparency and be accountable for decision making to stakeholders and scrutiny bodies.
- The Fund will ensure that officers and members of the Pensions Advisory Panel and Local Pension Board have the necessary skills, expertise and resources to ensure effective and evidence based decision making regarding the Fund's investment strategy.

Investment structure and risk management

- The Fund is a long term investor and as such the Fund invests in a wide range of investment assets, which may be volatile (such as equity) or illiquid (such as property), but that over the long term can generate a sufficient return to at least meet the Fund's pension obligations.
- The Fund operates an evidence and research based approach to investment; continually utilising research and guidance from investment professionals and peers, and seeking continual development in the understanding of investment.

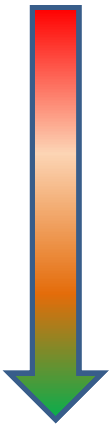
- The Fund recognises the importance of having the right asset allocation, but also the value of developing the most appropriate structure and appointing suitable investment managers. The Fund will take account of market movements, cycles and the economic background in decision making, but will avoid making decisions on a purely short term basis.
- The Fund will be comprehensive in the consideration of risks; the Fund will base assessments of risk on future pension liabilities and contributions, will consider financial and non-financial risks, diversify investment assets in an appropriate manner, but also recognise the limits of that diversification. As a long term investor the Fund understands that investment success depends significantly on the sustainable growth of the economy.
- The Fund will seek the most efficient and cost-effective solutions to achieving the Fund's objectives. This may involve active management and other services where additional costs are justified. Fees will always be considered in the context of overall performance and it is recognised that higher performance may be associated with higher fees.
- The Fund is a shareholder in the London CIV, with the Fund making regular contributions to the London CIV to assist in the development and expansion of the collaborative venture. Any future investments within the London CIV will be dependent upon the satisfactory completion of detailed due diligence and review to the same high standard that would be undertaken outside the investment pool.

Responsible investment and stewardship

- The Fund is a responsible investor; holding the belief that integrating responsible investment factors such as ESG in the investment process will protect, if not generate better returns over the long term.
- The Fund seeks to integrate responsible investment factors into the investment process across all asset classes.
- The Fund is prepared to be innovative in its investment strategy in order to cultivate positive social impact, within a framework of prudence and fiduciary duty.
- The Fund will proactively exercise responsible stewardship of assets held and act as a responsible voice in the broader investment community through platforms such as the Local Authority Pension Fund Forum.
- The Fund will collaborate with others whenever possible to share ideas and best practice, and to improve effectiveness and to reduce costs.
- The Fund considers the impacts and opportunities provided by climate change on both a Fund and wider social level, and so holds a commitment to meeting net zero carbon emissions from pension fund investment by 2030 with no direct investment in companies exposed to fossil fuels.

Categorisation of Investments

There is currently no standardised way of measuring the relative performance of different funds' carbon profiles; however, Southwark continues to work on its carbon footprint and investment classifications (see key below) to illustrate the progress being made.



NON LOW CARBON 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.

The Fund will at all times monitor investments that are specifically reduced, low and zero carbon to ensure the Fund progresses towards the stated objectives of this strategy.

Within the context of achieving sustainable long-term returns, the Fund will always seek, as part of any reallocation of assets, to achieve a lower carbon footprint following the reallocation. Every new investment made will endeavour to be lower carbon than the one it is replacing.

The chart in Appendix B shows how the investment strategy has been implemented to date, with progressively greater proportions of the overall Fund invested in "greener" funds.

3. Investment strategy and the process for ensuring suitability of investments

The Fund's asset strategy, along with an overview of the role each asset plays is set out in the table below:

Asset class	Target Allocation %	Investment Style %	Maximum Allocation %	Role (s) within the strategy	Carbon Classification
Equity	50.0	Passive 35.0	65.0	Expected long term growth in capital and income in excess of inflation over the long term.	Low Carbon
		Active - Direct 10.0			Reduced Carbon
		Active – Indirect 5.0			Low Carbon
Diversified Growth	10.0	Active 10.0	20.0	Primarily for diversification from equities. Equity like returns over time with a lower level of risk.	Non low carbon
Absolute Return Fixed Income	5.0	Active 5.0	10.0	Diversified approach to fixed income investing which is not solely dependent on the direction of interest rates.	Non low carbon
Index Linked Gilts	10.0	Passive 10.0	40.0	Low risk (relative to the liabilities) asset that provides inflation linked income and protection from falling interest rates.	Non low carbon
Property	20.0	Direct 14.0	30.0	Provides diversification from equities and fixed income. Generates investment income and provides some	Reduced Carbon
		Pooled Fund 6.0			Reduced Carbon

				inflation protection.	
Sustainable Infrastructure	5.0	Limited Partnership 5.0	10.0	Asset class provides additional diversification from traditional asset classes. Generates sustainable, reliable income with significant linkage to inflation. Provides risk mitigation from declining fossil fuel usage.	Zero carbon

The above table sets out the Fund's asset allocation strategy with a target allocation to each asset class. If the actual asset allocation as at a reporting quarter end moves outside a target range for a particular asset class, (plus or minus 5% of total investment assets) the Strategic Director of Finance and Governance will review the portfolio(s) and prevailing market conditions to determine if a corrective rebalancing action is required. A breach of the target range will not automatically trigger a portfolio rebalance.

Under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Fund is required to set maximum investment limits pertaining to different asset classes so that actual allocation to those asset classes will not breach this maximum limit. The limits as applied to the Fund are set out in the above table.

Appendix A shows the Fund's current investment manager appointments and mandates.

The Fund's asset allocation is reviewed on an ongoing basis and undergoes a triennial strategy review as part of the actuarial valuation process. The triennial review, which reflects updated actuarial and capital market assumptions, looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund is able to meet its future benefit obligations as they fall due.
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and associated surplus/deficit.
- An analysis of the order of magnitude of the various risks facing the Fund, so that the Fund can focus upon the most significant risks.

- The desire for diversification across asset class, region, sector, and type of security.

4. Risk measurement and management

The risks inherent within the Fund are assessed both qualitatively and quantitatively as part of regular investment strategy reviews by the Strategic Director of Finance and Governance and the Pensions Advisory Panel. The Fund uses specialist external investment advisers under contract, to support these reviews and on an ongoing basis. The Fund highly values the use of specialist support in the management of performance and risk.

The table below, based on the 31 March 2019 Actuarial Valuation results and estimates, shows how a range of events could impact on the Fund:

Event	Event movement	Impact on the Fund
Fall in equity markets	25% fall in equities	£223m
Rise in inflation	1% increase in inflation	£314m
Fall in interest rates	1% fall in interest rates	£314m
Underperformance by the active managers	3% collective underperformance	£31m

The Fund's overall investment strategy is designed to mitigate much of the underlying risk through the holding of a variety of different, diverse asset classes (e.g. long term directly held property investments).

Equity risk

The largest asset risk to the Fund is in relation to its equity holdings. Should equity markets deteriorate significantly this will have a large negative impact on the Fund's assets. The Fund invests in equities in order to provide the necessary long term expected returns to help ensure that the Fund remains affordable. The Fund believes that the extra returns that are expected to be generated by equities compensate for the level of risk equities bring to the Fund. However, the Fund is aware of the need for diversification in growth assets, and the Fund's strategy reflects this via allocations to absolute return investment mandates (with an asymmetric profile) and property (with a lower correlation to equity).

Inflation

CPI inflation will increase the value of pension benefits accrued by active and deferred members of the Fund as well as increasing the value of pensions in payment. The Fund has an allocation to index linked gilts for explicit inflation protection and other investment assets, such as property and equities, in the expectation that these will achieve returns in excess of inflation over time.

Active manager risk

Active investment managers are appointed to manage a portion of the Fund's assets. This brings with it the risk of underperformance relative to the market but also brings the chance of additional returns and diversification. The additional risk is small relative to other risks. Extensive due diligence is undertaken before managers are selected and investment managers are also monitored regularly by Fund officers, the Pensions Advisory Panel, and by the Fund's investment advisors.

Liquidity risk

The Fund recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon and the potential for an illiquidity premium in investment returns, the degree of liquidity risk within the portfolio is considered as acceptable. The Fund has a large allocation to property and is building and exposure to sustainable infrastructure, but the majority of the Fund's assets are realisable at short notice.

The table below sets out a summarised cash flow position of the Fund over the last five financial years.

	2016-17 £000	**2017-18 £000**	**2018-19 £000**	**2019-20 £000**	**2020-21 £000**
Contributions and Transfers In	55,789	54,711	58,891	65,787	69,712
Benefits and Transfers Out	(60,269)	(63,406)	(71,384)	(71,384)	(67,580)

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Investment Income	14,324	15,432	15,287)	15,287	12,636
Net Position	**9,844**	**10,054**	**10,917**	**9,690**	**14,768**

The Fund is currently cash flow positive; in that the sum of contributions received and investment income is greater than the benefits paid out to pensioners. During 2020-21 the Fund received £14.8m more in contributions and investment income than was paid out in benefits. As such the Fund is not currently exposed to unplanned and inefficient divestment of assets.

Exchange rate risk

This risk arises from investing in unhedged overseas (non GBP denominated) assets, with all pension benefits due to be paid in sterling. As a long term investor the Fund takes the view that currency volatility can be tolerated. Sterling has for many years been a depreciating currency and the Fund has benefitted significantly in return terms from not hedging this risk. The Fund's portfolio is well diversified across asset classes, geography and investment managers.

Demographic risks

The Fund is subject to a range of demographic risks, but with particular importance to the investment strategy is the possibility of a maturing Fund membership profile. This would involve a change in the ratio between active members contributing into the Fund and pensioner members drawing pension benefits from the Fund. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments is greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

Environmental, social and corporate governance policy

The Fund is a long term investor that aims to deliver a truly sustainable pension fund; ensuring that it is affordable, delivers financially to meet the objectives of the Fund employers, and is invested responsibly.

The fiduciary duty of the Fund is to act in the best long term interests of Fund members. To do so properly requires the Fund to recognise that environmental, social and governance issues can impact on the Fund's financial performance and that they should be taken into account in funding and investment strategies, and throughout the funding and investment decision making process.

The Fund will seek to incorporate ESG considerations at all stages in the investment process; from the overall asset allocation, to individual investment selections, and continued engagement and responsible stewardship of Fund assets.

The responsible investment objectives of the Fund are promoted through membership of the Local Authority Pension Fund Forum (LAPFF). As a LAPFF member the Fund allies itself with 89 other shareholders with combined assets of over £300 billion to influence key areas of responsible investment interest.

Fund engagement is crucial in relation to improving standards of corporate governance, which over the long term is expected to enhance investment returns. Details of the Fund's approach are set out in section 6 as well as the approach for the implementation of moving towards a zero carbon commitment as Appendix D.

The Fund's key responsible investment principles are set out below:

- Apply long term thinking to deliver long term sustainable returns.
- Seek sustainable returns from well governed and sustainable assets.
- Apply a robust approach to effective stewardship.
- Engagement through voting, meetings, and the LAPFF is a valuable tool to influence organisations in areas of responsible investment interest.
- Ensure that responsible investment is a core competency and skill to support decision making.
- Seek to innovate, demonstrate and promote responsible investment leadership and ESG best practice.
- Apply evidence based decision making in the implementation of responsible investment.
- Achieve improvements in ESG through effective partnerships with the London CIV and LAPFF.
- Share ideas and best practice to achieve wider and more valuable responsible investment outcomes.
- Be transparent and accountable in all Fund activities.
- Consider the costs of responsible investment decisions alongside fiduciary responsibilities.
- To continue with a structured, measured process of reducing with an aim of eliminating investments in fossil fuels.

Environmental, social and governance risks

The Fund may consider investments that have an explicit focus on delivering wider social and environmental impacts provided there is no risk of significant financial detriment to the Fund.

The Fund recognises the growing financial risks associated with investment in traditional energy sources and is fully committed to the achievement of carbon neutrality. The Fund commits to transferring any current investments in these traditional energy sources in a way that is both structured and affordable and also meets the Fund's fiduciary duties.

The Fund is committed to a process to achieve a neutral carbon footprint by 2030. This will be accomplished through a phased divestment and transfer of assets into reduced, low and zero carbon products.

Appendix D outlines the approach by which the Fund will achieve this objective, how the risks and other considerations associated with such a commitment will be managed and how the divestment will be incorporated into the asset allocation strategy for the Fund.

5. Approach to asset pooling

The Fund is a shareholder of the London Collective Investment Vehicle (CIV). The London CIV was created in 2015 and continues to progress the opening of a range of sub-funds for potential investment. As part of any future changes to investment strategy, the Fund will look first to the availability of appropriate investment products within the London CIV.

The transition of any assets into the pool will follow the normal due diligence process with consideration of: transition costs, fit with overall strategy, fees (direct and indirect), reporting arrangements, ESG requirements and, most importantly, expectations for future performance.

The Fund currently pays a contribution to London CIV for passive investments. This amounts to approximately £50,000 per annum. This fee arose from collective fee arrangements with the CIV, although these are not assets under management of the London CIV (value as at 30 June 2021 £1.07 billion, approximately 55% of the Fund).

The Fund has a target allocation of 20% of the assets to illiquid property and the cost of exiting these strategies early in favour of a CIV alternative would have a significant negative financial impact on the Fund.

6. Policy of the exercise of rights (including voting rights) attaching to investments

The Fund follows the principles of the UK Stewardship Code and exercises the voting rights attached to its investments wherever it is possible and cost effective to do so.

The aim is to promote and support good corporate governance principles and best practice. Voting rights should be exercised in accordance with the best financial interests of both the beneficiaries and contributors to the Fund. Environmental, social and ethical considerations may be taken into account when exercising votes where this acts in these parties' best interests.

Fund managers have been instructed to vote in accordance with their house policies and practices, whilst also taking into account the Combined Code on Corporate Governance. Where practical, managers should vote in line with the council's priority themes.

Fund managers report in advance of all voting rights they intend to exercise on behalf of the Fund. They provide details of their house view and on how they intend to vote. They ensure that this is consistent with the council's key themes and also with the LAPFF principles.
Fund managers' views are compared with the voting recommendations of LAPFF. Where the fund managers' house views are not consistent with those of LAPFF, the fund manager is instructed by the Fund to vote in line with the recommendations of the LAPFF.

Fund managers provide a quarterly report on corporate governance activity. This lists all votes which have been exercised and all engagement with companies which has taken place. It allows for checks to be carried out in order to ensure all the Fund's voting rights have been exercised in accordance with policy. Summary reports outlining voting and engagement activity are provided at quarterly Pensions Advisory Panel meetings.

Myners Principles

The Government introduced a code in October 2001 based on the results of HM Treasury's review of institutional investment in the UK, carried out by Paul Myners. This code set out ten principles that were intended to improve the investment management of pension funds. These were updated in October 2008 and previously LGPS administering authorities were required to prepare, publish and maintain statements of compliance against a set of six principles within the Statement of Investment Principles. Although not specifically required by the Regulations the Fund sees the Myners Principles as a relevant governance tool and will continue to report on compliance.

The Fund is fully compliant with the six principles and Appendix C sets out the compliance statement.

Advice Taken

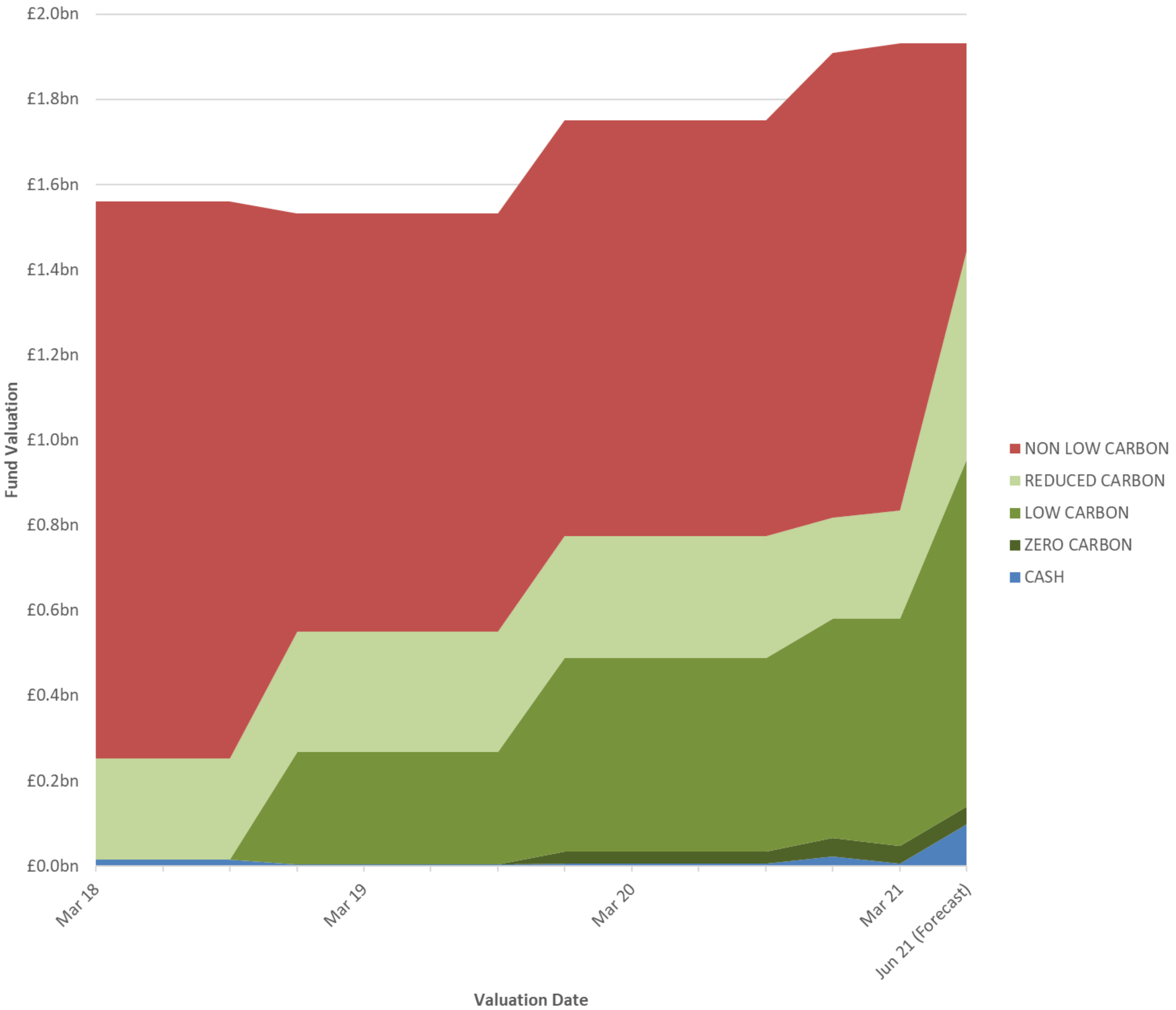
In creating this statement, the Fund has taken advice from its investment consultant, independent adviser and has sought the views of the Local Pension Board. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, advice has been taken from its investment consultant and scheme actuary Aon.

Appendix A – Current investment managers and mandates.

Manager	Mandate	Benchmark	Benchmark Weight (%)	Outperformance target (% p.a.)	Carbon Classification
BlackRock	Low carbon passive Global Equities	MSCI World Low Carbon Target Reduced Fossil Fuel Select Net Index	15.0	-	Low Carbon
BlackRock	Index Linked Gilts	FTSE UK Gilts Index-Linked over 5 Years Index	5.0	-	Non low carbon
BlackRock	Dynamic Diversified Fund	LIBOR	10.0	+3.0% net of fees	Non low carbon
BlackRock	Absolute Return Bonds	LIBOR	5.0	+4.0% net of fees	Non low carbon
Legal & General	Low carbon passive Global Equities	MSCI World Low Carbon Target	20.0	-	Low carbon
Legal & General	Index Linked Gilts	FTSE Index-Linked Over 5 Years	5.0	-	Non low carbon
Newton	Global Equity	FTSE All World	10.0	+3.0% net of fees	Reduced carbon
Nuveen	Core Property	7.0% p.a. absolute return	14.0		Reduced carbon
Frogmore	Opportunistic Property	16.5% p.a. absolute return	1.5	-	Reduced carbon
Brockton	Opportunistic Property	15.0% p.a. absolute return	1.5	-	Reduced carbon
Invesco	PRS Property	8.5% p.a. absolute	1.5	-	Reduced

		return			carbon
M&G	PRS Property	8.0% p.a. absolute return	1.5	-	Reduced carbon
Comgest	Active Emerging Market Equities	MSCI Emerging Markets – Net Return	5.0	-	Low Carbon
Glennmont	Sustainable Infrastructure	10% p.a. absolute return	2.0	-	Zero carbon
Temporis	Sustainable Infrastructure	10% p.a. absolute return	1.5	-	Zero carbon
BlackRock	Sustainable Infrastructure	10% p.a. absolute return	1.5	-	Zero carbon

Appendix B – Carbon Profile Allocation over Time



Appendix C

Myners Principles – Assessment of Compliance

1. Effective Decision-Making

Principle

Administering authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Pensions Advisory Panel is supported by suitably qualified officers and external advisors. All members of the Panel are offered training on appropriate topics.

2. Clear Objectives

Principle

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administering authority and scheme employers and these should be clearly communicated to advisors and investment managers.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Fund's objectives are set out in the Investment Strategy Statement and the Funding Strategy Statement. The objective, benchmark and risk parameters are clearly stated in the Investment Management Agreements with each investment manager.

- Covenants of all scheme employers are reviewed on an ongoing basis.

3. Risk and Liabilities

Principle

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The asset allocation strategy is reviewed every three years. Aon is commissioned to carry out an asset liability study which models the risk/reward characteristics of different investment strategies.

- The study follows the triennial actuarial valuation and the form and structure of liabilities are fully taken into account.

4. Performance Assessment

Principle

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Pensions Advisory Panel monitors the performance of the investment managers and the suitability of the investment strategy on a regular basis.

- Performance measurement is provided by JP Morgan and Aon.

- Assessment of the effectiveness of the administering authority is reflected through the effectiveness of the decision making in the investment returns achieved. Further, with the establishment of the Local Pensions Board, scrutiny of the Pensions Advisory Panel is now being undertaken.

- A procurement exercise was carried out in 2020-21 which resulted in the appointment of Aon as the fund’s investment advisors. They were appointed through the National

LGPS Frameworks and as such are subject to ongoing review at the framework level. Feedback is provided to the framework on an annual basis.

5. Responsible Ownership

Principle

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

- Include a statement of their policy on responsible ownership in the statement of investment principles.

- Report periodically to scheme members on the discharge of such responsibilities.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Fund has adopted the investment managers' policies on activism and each has adopted the Institutional Shareholders' Committee Statement of Principles. All investment managers adopt a policy of engagement with companies.

- The Fund's policy on responsible ownership is set out in its Investment Strategy Statement.

- Investment managers report on the exercise of voting rights and this is monitored by officers and the Pensions Advisory Panel to ensure consistency with the Fund's policy.

- The pension fund is a member of the LAPFF, the UK's leading collaborative shareholder engagement group.

- Responsible ownership is periodically reported to the Pensions Advisory Panel and states how active fund managers are discharging these responsibilities.

- A section on responsible ownership is included in the Pension Fund Annual Report and a member survey has been completed. These ensure that members are both provided with the relevant information and are able to input their views into the responsible ownership process going forward.

6. Transparency and Reporting

Principle

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

- Provide regular communication to scheme members in the form they consider most appropriate.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- Documents relating to the Pension Fund are published on the pension fund website.

- The annual report sets out the arrangements during the year for the management of investment, governance and risks and other relevant information.

- Members can also request information directly from the council.

- The Pension Advisory Panel meeting papers are published on the council's website.

Investment Strategy Statement: Appendix D

Southwark Pension Fund Investment Strategy to Achieve Net Zero Carbon Exposure by 2030: A Draft Approach

Introduction

The London Borough of Southwark Pension Fund is an open, defined-benefit pension fund as part of the national Local Government Pension Scheme. The nature of the Fund and scheme design means that payment of pensions will extend over the very long term.

In setting the investment strategy the Fund seeks to balance twin objectives: first, to achieve sufficient long-term returns for the Fund to be affordable and second, to keep the employer contribution rate as stable as possible.

In this respect, the Fund seeks to operate a long term, sustainable strategy; one which does not rely upon the pursuit of short term returns but utilises a well structured asset and fund manager investment allocation to target long term socially responsible, sustainable investment performance. The Fund avoids unnecessary complexity within its investment structure, appointing best in class managers within an asset class to achieve the strategic asset allocation. Having stronger relationships with a smaller number of managers provides significant flexibility and adaptability if required.

To achieve the twin objectives, the Fund needs to invest in a diverse range of assets, which provide higher returns relative to the growth of pension liabilities whilst taking account of the volatility inherent in investment markets.

As a long term investor, with significant investment assets and pension liabilities the Fund must be comprehensive in the consideration and mitigation of risks that the portfolio faces. The Fund will base assessments of risk on future pension liabilities and contributions, will consider financial and non-financial risks, diversify investment assets in an appropriate manner, but also recognise the limits of that diversification.

A developing risk to the Fund is from investment exposure to fossil fuels. Extraction and combustion of fossil fuels generate significant carbon dioxide (CO_2) output. There is a growing scientific consensus[1] that continued CO_2 production will have a detrimental impact upon the earth's climate.

The Fund, through its diversified portfolio of investments, is exposed to assets where a portion of the market value is derived from current or future extraction and production of fossil fuels. Global and local regulatory restrictions on fossil fuel extraction and usage, in addition to changing consumer trends, may degrade the viability of fossil fuel extraction and usage. The value of investments in companies that derive much of their revenue or value from these resources would be at risk.

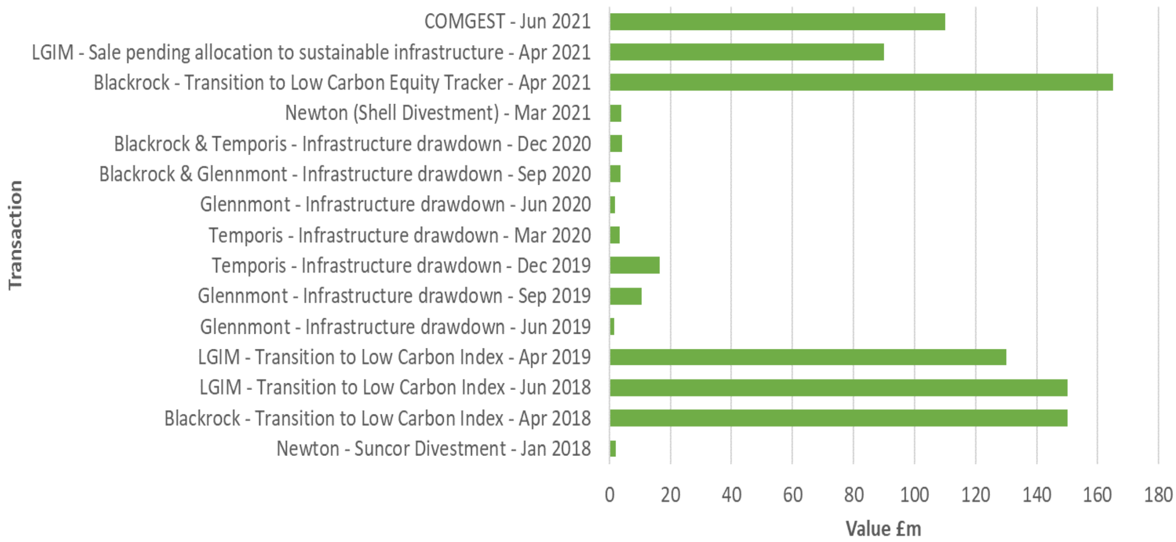
On 13 December 2016, after due consideration of the long term risk to the Fund; the Fund announced that investments in fossil fuel companies would be cut over the long term. This commitment was incorporated into the Investment Strategy Statement for the Fund published in March 2017 and updated in December 2021. Southwark is one of the first LGPS Funds to make such a commitment and places the Fund at the forefront of sustainable fossil fuel aware investment.

(Link to updated ISS to be inserted when published)

The Fund recognises the growing financial risks associated with investment in traditional energy sources and is fully committed to transferring any current investments in these traditional energy sources in a way that is both structured and affordable and also meets the Fund's fiduciary duties.

[1] IPCC report, 'code red' for human driven global heating, warns UN chief / / UN News

The previous investment strategy committed to a reduction in exposure to fossil fuel generated significant CO_2 output. It was adopted in 2017 and has acted to counteract the risk to the Fund of investment exposure to fossil fuels, in line with other Fund responsibilities. In the period between 2017 and the adoption of the new strategy, the Fund's carbon exposure has reduced by 43%. When the previous strategy was agreed we set out a short, medium and long term plan. Over the last four years significant progress has been made in transitioning investments exposed to fossil fuels to products with lower carbon exposure, as set out in the chart below:



Equities

The Fund's holdings in passive developed market equities have been transitioned to passive low carbon equity funds. Emerging market passive equities have been switched to a new emerging market active equity strategic asset allocation. Investment has been made in the Comgest Emerging Markets Plus Fund, which demonstrates strong ESG credentials whilst maintaining performance targets. The Fund's active equities portfolio has divested from fossil fuel investments and a restriction has been placed on the portfolio preventing further investments in these companies or their industry peers.

The above changes have resulted in the Fund's 50% strategic allocation to equities now being entirely in low carbon holdings, whilst maintaining exposure to this asset class in a manner that continues to achieve the required level of risk and return.

New ESG Priority Allocation

A strategic allocation of 5% to alternative investments has been agreed. This allocation will have both low carbon and strong ESG credentials. (*Details of investments made within this allocation to be added here once ratified at September 2021 pensions advisory panel meeting)*.

New Allocation to Sustainable Infrastructure

Following the agreement to allocate 5% of the Fund to this asset class, commitments have been made to investments in three funds which specifically include investments in solar and wind power technologies identified by the fund managers.

During this time it has been possible to test performance against our commitment through the use of carbon foot printing. We have developed our approach and made ongoing improvements. Further work is required as the market develops and there are improvements in the availability and accuracy of the measurement of carbon intensity data.

The Fund has increased in value from £1.5bn in September 2017 to over £1.9bn in March 2021. Performance has remained strong in the short to medium term with returns at March 2021 as follows: 1 year 24.4%, 3 years 9.6%, and 5 years 10.4%. The one year return out-performed the average local authority return of 22.8% and the Fund has achieved top quartile performance in the longer term when compared to other local authorities.

These strong performance results give confidence in moving forward with a more definite plan to take the Fund to 2030. The Fund has reduced its carbon footprint by over 43% during this time whilst maintaining investment performance. Looking forward there remains a conviction that strong investment performance can be delivered alongside reducing carbon exposure, and it is appropriate to move to the next stage of making further progress towards a net zero carbon commitment by 2030.

This document outlines how the Fund will approach this divestment, how the risks and other considerations associated with such a commitment will be managed and how the divestment will be incorporated into the asset allocation strategy for the Fund.

Transition to Net Zero Carbon Principles:

The overall approach of the Fund to incorporating wider environmental, social and governance issues (ESG) is set out in more detail within the Investment Strategy Statement.

This applies throughout the investment process from the initial investment to ongoing engagement and responsible stewardship of Fund assets.

This document will specifically address the Fund's principles for the transition to net zero carbon: The four key principles for the document for divestment are set out below:

- Climate related risks and opportunities will be incorporated into the overall asset allocation strategy
- The commitment to reduction in fossil fuel investment is more than a long term risk mitigation strategy.
- Divestment is not risk free.
- Engagement and local authority partnerships - LCIV

Principle 1: Incorporation into asset allocation strategy

The primary purpose of the Fund is to meet the pension benefits for the members of the Fund. Every three years the Fund undergoes an actuarial valuation, which estimates the value of pensions due to be paid to members. The result of which allows the Fund to review the asset and investment strategy in order to establish the most appropriate mix of assets to best achieve the required level of net of fees investment return on an appropriate risk adjusted basis, whilst ensuring diversity of assets, sufficient liquidity and appropriate governance of the investments.

The Fund will seek to fully integrate fossil fuel risk and opportunities into the investment strategy review process, from overarching asset allocation to individual investment choices. All investments will be considered through the lens of fossil fuel risk, but that any investment cannot be separated from the overall investment objectives for the Fund and must be subject to a full business case in consideration of the overall portfolio as well as fees and transition costs.

Principle 2: More than a long-term risk mitigation strategy

The Fund has a fiduciary duty to all the employers within the Fund and for the scheme members, and as such must manage the investment assets effectively with an investment time horizon in line with the liabilities for the Fund and have due regard to the investment risk inherent within the portfolio.

The Fund recognises the risk that fossil fuel investment places upon the Fund for future investment and as such, this document largely involves the desire to mitigate risk.

However, purely focussing upon those investments that are negatively exposed to the decline in profitability and viability of fossil fuel extraction and usage excludes a key consideration for the Fund; identifying those investments that are positioned to gain from such a transition.

The Fund therefore will proactively seek to identify suitable investments that fit within the overall asset allocation strategy and will be the beneficiaries from a low carbon regulatory and investment environment. The Fund will target both a downside risk mitigation strategy and a desire to invest in positive 'green' focussed assets.

Principle 3: Divestment is not risk free – Potential for negative implications

It is imperative that, as set out in Principle 2, the Fund must seek to incorporate fossil fuel considerations into the overarching investment strategy rather than seeking to separately implement fossil fuel risk mitigation approaches.

The Fund has long held a large portion of equity investments as passive (investments that are held in the same proportion as that of the market as a whole) with a current target allocation of 35%. This approach acknowledges the challenges and typically higher costs involved in seeking to predict future investment winners and losers. The inclusion of a fossil fuel risk mitigation strategy within this leads to a risk that in the short term the Fund may be negatively exposed to overall market returns if fossil fuel based investments outperform the wider market. Global usage of fossil fuels is still predicted to comprise a significant portion of global energy usage in years to come and as such the Fund must be cognisant of the potential investment returns forgone should fossil fuel usage decline at a rate slower than the market has priced in.

There are likely to be additional management expenses within equity investment mandates that have some element of fossil fuel exclusion. As such the Fund must be confident that the additional risk from holding a portion of the Fund that is exposed to fossil fuels must be considered to be greater than the additional burden of higher management fees and any associated costs of transitioning assets from one mandate to another. It is therefore important for the Fund to collaborate with other local authority partners to work to reduce the costs for such reduced fossil fuel investments. The Fund works with its advisers and asset managers to ensure that there is no expected financial detriment associated with asset allocation shifts made to low carbon alternatives.

The measurement and assessment of which investments are most exposed to fossil fuels is not straightforward. Some companies may hold fossil fuel reserves or operations which are more damaging to the environment as a result of greater CO_2 output but that might be paradoxically less exposed to changing regulatory environment due to lower extraction costs. Companies not directly involved in the production or extraction of fossil fuel may derive significant portions of their revenue from fossil fuel companies. The Fund must ensure that any assessment of exposure to fossil fuels risk is sophisticated, and that investments are not distorted by inaccurate data.

Principle 4: Engagement and Local Authority Partnerships - LCIV

There is growing appreciation of the growing risks and opportunities that Pension Funds face from the transition away from traditional fossil fuel usage, including among Local Government Pension Funds. It is important that the Fund works with other Local Authority partners to share knowledge and best practice as well as utilising collective assets to push for the most effective and efficient implementation of reduced fossil fuel strategies.

The Fund will work with local authority partners as well as the LCIV, the pooled investment vehicle of which the Fund is a shareholder and active supporter, in the application of this commitment. The Fund will also seek to be an active voice in the investment community for the advancement of investment outside of fossil fuels.

Timeline:

The Fund's implementation period to achieve net zero carbon is split into three main time horizons, encompassing short medium and long-term objectives.

- The short term: one-four years (2022-2026)
- The medium term: four-six years (2026-2028)
- The long term: six-eight (2028-2030)

Given the difficulty in predicting the global investment and technological environment in addition to Fund specific liability and investment requirements, longer term periods will likely be subject to significant variability and uncertainty.

Short Term – From 2022 to 2026

Triennial Actuarial Valuation and Investment Strategy Review

- The Fund will publish the results of the 2022 actuarial valuation in March 2023, the results of which will be the foundation for the subsequent investment strategy review. The asset allocation review aims to ensure that the current investment allocation is appropriate to meet the required investment return to fund future pensions within a suitable risk profile. Where investment underperformance is identified or risk profile changes, either across an asset class or manager specific, any subsequent reallocation will be considered with regard to overall fossil fuel exposure.

Local Authority Collaboration and Pooling

- It is important that the Fund works together with other likeminded local authority partners, in order to develop suitable fossil fuel reduction opportunities. Collaboration will also seek to mitigate some of the fee and transition cost implications of changing investment allocation.
- The Fund will engage with the LCIV through representation by officers and members on key LCIV governance panels to push for the availability of reduced fossil fuel investment mandates within the LCIV.

Fund Managers

- Re-allocation of investments from opportunistic property as these funds reach the end of their life cycles.
- Initial review of property holdings, with any necessary action being taken in the medium term.
- Low carbon passive equity investments will be moved to zero carbon alternatives, subject to the availability of products. The transition of these assets will take place in a phased manner with a proportion being transferred in the short term and the remainder in the medium term once performance of these new investments has been reviewed.
- Initial review of the active equity mandate to ensure it achieves zero carbon over the long term.
- Seek alternatives to replace the holdings in the defensive allocation which currently includes index linked gilts and absolute return bonds. Replacements will be required to either be low or zero carbon, whilst providing an equivalent level of risk and serving the same purpose within the asset allocation. It is recognised that if suitable products are not available in the short term, further review of this allocation may be required in the medium to long term.
- Initial review of the Fund's diversified growth holding in terms of its continuing suitability within the strategic asset allocation, whilst also identifying suitable low or zero carbon replacements.

- The Fund will use this period to identify developments in low and zero carbon equity investments being brought to the market and the opportunities they present to the Fund in its journey to achieving net zero carbon.

General

- The Fund will continue to develop and improve its approach to the measurement of its carbon footprint to ensure it is kept current and accurate. This will be a key metric in monitoring progress towards becoming net zero carbon. We will work with fund managers and data providers to establish actual data which will replace proxies. All new investment products that the Fund invests in will be required to provide the Fund with regular data on their carbon intensity.
- The Fund will lobby the fund management industry for the introduction of new products that meet our objectives.
- The Fund will continue to support the work of the Local Authority Pension Fund Forum (LAPFF) as representing 90 local authority pension funds in their engagement with companies to promote best practice climate aware business activities
- Any changes to investment allocations will need to be communicated with key advisers, such as the Fund actuary, as well as the Fund's external auditors.
- The Fund will engage with the investment advisers who support the Fund in monitoring and engaging with buy-rated investment strategies held outside of the LCIV.

Medium Term – From 2026 to 2028

Triennial Actuarial Valuation and Investment Strategy Review

- The medium term will incorporate the results of the 2025 triennial valuation and will constitute key points for major review of assets and investments to ensure that these are best placed to meet the payment of benefits to members of the scheme. Fossil fuel risks and opportunities will be incorporated in the consideration for any amendments to the asset allocation strategy.
- The carbon footprint will be re-calculated quarterly and incorporated into the overall portfolio risk assessment.

Local Authority Collaboration and Pooling

- The Fund is committed to working with the LCIV and will seek to comply with the government requirements for pooled investments. The Fund will continue to seek to exert influence over the strategic direction of the available investments within the LCIV, alongside other local authority partners, to ensure that these are appropriate for the sustainable strategy that the Fund wishes to implement. The opportunity for reduced fossil fuel or sustainable investment in multi asset mandates will likely develop as part of continued engagement between the Fund and other likeminded members of the LCIV.

Fund Managers

- Continued engagement with fund managers to ensure that fossil fuel risks and opportunities are consistently and appropriately taken into consideration throughout the decision making process.
- Review of private residential holdings within the Fund in terms of their continuing suitability within the investment strategy and their contribution to the Fund's zero carbon targets.
- Balance of low carbon equities will be moved to zero carbon equivalents. This will be subject to satisfactory performance of assets transferred in the short term and the availability of suitable investment products in this asset class.
- Review of direct property investments to seek zero carbon options. This will be subject to availability of zero carbon investments in the commercial property sector and also the satisfactory performance of markets to avoid crystallisation of losses, thereby protecting the value of the Fund.
- Further review of the defensive allocation, identifying developments in the market which will facilitate the transition of the absolute return bonds and index linked gilts to alternative zero carbon investments, whilst maintaining the overall role and purpose of this allocation to the risk and return profile of the Fund.
- Formal review of the performance of the sustainable infrastructure investments and maintenance of the pipeline of commitments to maintain the strategic allocation to this asset class.

- Review low carbon emerging market equity holding, in terms of its performance as well as its contribution to the Fund's carbon footprint. Review of market to identify opportunities for investment in zero carbon alternatives.

General

- The Fund will continue a policy of engaging with companies through membership of the LAPFF and the LCIV to encourage companies to adopt the highest of standards with regard to fossil fuels and energy efficiency.
- The measurement of the Fund's carbon footprint will include advanced metrics which will measure progress towards the Fund's net zero carbon targets. The use of scenario analysis will facilitate the Fund to understand where it could be by 2030 based on its current investment strategy, planned changes, and alternative investment strategies and asset allocations. This will enable action to be taken in the medium to long term, to identify holdings which cannot continue to be held in the asset allocation, ensuring that the 2030 target is achieved. An assessment of the Fund's alignment with the Paris Agreement will be conducted providing temperature scores of the portfolio. This will also provide useful information for decision making.
- The Fund will continue to lobby the fund management industry to encourage the development of new zero carbon investment products.

Long Term: 2028 to 2030

Triennial Actuarial Valuation and Investment Strategy Review

- The long term will incorporate the results of the 2028 triennial valuation. The Fund will continue to assess the overall investment strategy as required to meet the pension benefits for members based upon the calculations within the triennial actuarial valuation. As and when asset and manager allocations require amending, the risk of fossil fuel exposure will be incorporated into any due diligence regarding risk and reward decision making.

Local Authority Collaboration and Pooling

- In the long term, the Fund may be required to invest the majority of its assets through the LCIV, depending on government requirements for pooling of assets. The availability of suitable opportunities within the LCIV will be key for the continued reduction in fossil fuel investments as well as positioning the Fund to benefit from clean technology and low carbon industries. This will allow the Fund to invest across a variety of disparate asset classes without compromising the ambition to be a long-term sustainable investor.

Fund Managers

- All investments in the Fund will be reviewed to identify any remaining allocations which are not at least low carbon, with the majority now being zero or negative carbon. Investments which do not meet this criterion will be transitioned to suitable alternative products. As with the short and medium term, this will be subject to the ongoing availability of investment products that meet the Fund's risk and return requirements.
- The activity required at this stage will depend on progress made in earlier years towards ensuring the majority of the Fund's investments are, as a minimum, low carbon.

General

- The Fund will have fully incorporated fossil fuel risk, through regular and sophisticated monitoring and portfolio analysis into the investment decision making process. Carbon reduction targets as part of the overall portfolio will play a key role in achieving the net zero carbon target by 2030.

Item No 10	Date: 20 October 2021	Meeting Name: Local Pension Board
Report title:		Section 13 Government Actuary Department Report
From:		Senior Finance Manager - Treasury and Pensions

Recommendations

It is recommended that the Local Pension Board:

- Note the attached report and appendix which set out the Government Actuary Department's report on the 2019 triennial actuarial valuation.

Background

1. Section 13 of the Public Service Pension Schemes Act 2013 requires a "suitably qualified person" appointed by the Secretary of State to carry out a review of the triennial actuarial valuations of funded public service pension schemes. This requires the Government Actuary to report on whether a scheme has achieved the following four aims:

    - Whether the fund's valuation is in accordance with the scheme regulations.
    - Whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS.
    - Whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund.
    - Whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost efficiency of the scheme, so far as relating to the pension fund.

2. GAD has carried out its initial review and has provided a two-page summary for the Southwark Pension Fund (Appendix 1). The initial

findings on the individual funds have resulted in some warning flags across a few LGPS funds. However, Southwark is not one of those funds.

Southwark Pension Fund: GAD position

3. The Pension Fund received green flags across the spectrum on the GAD's various different financial tests. This reflects the Fund is in a relatively strong position.

4. The funding level of the Pension Fund, as per the triennial valuation, has increased from 88% as at 31 March 2016 to 103% as at 31 March 2019. The main driver for this improvement was significant investment returns above what was assumed in the 2016 valuation. The best estimate funding level for the Fund based on the GAD assessment is 111.8%, which puts the Fund in a surplus position.

5. The Pension Fund is ranked 22 of 87 LGPS funds for required investment return to achieve full funding in 20 years' time on the standardised market consistent basis, with a 2.8% return required. Additionally, the Fund is ranked 28 for required investment return rates, compared with the Fund's expected best estimate future returns assuming current asset mix maintained.

APPENDICES

Name	Title
Appendix 1	GAD Initial Summary – Southwark 2019

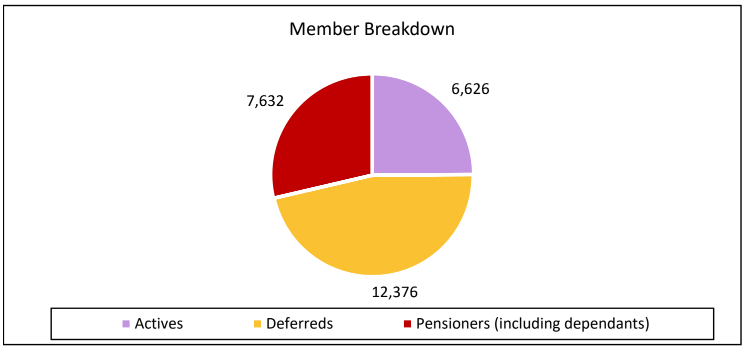
AUDIT TRAIL

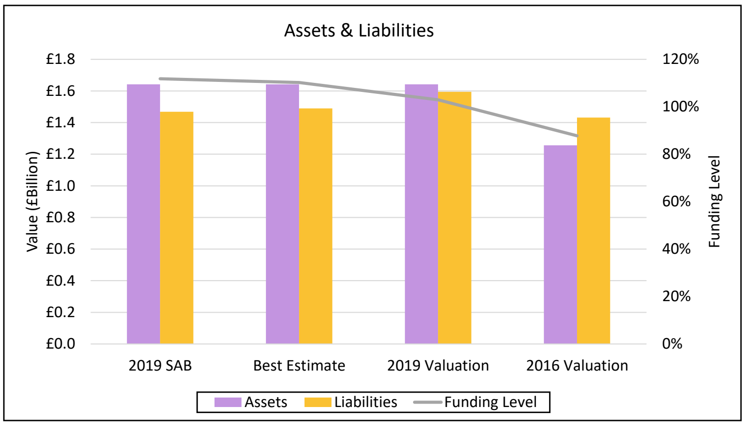
Lead Officer	Duncan Whitfield	
Report Author	Caroline Watson	
Version	Final version	
Dated	14 October 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

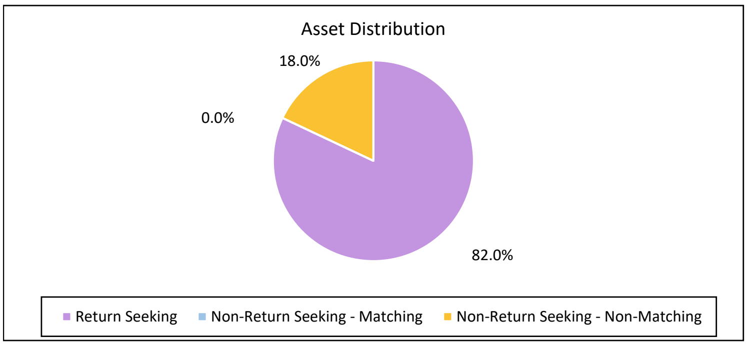
Government Actuary's Department

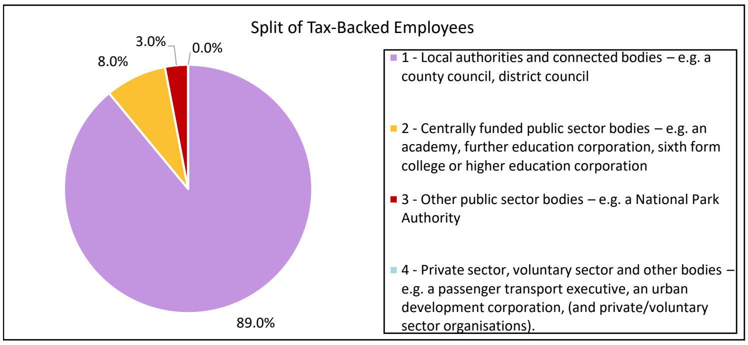
This document is intended only for discussions between GAD, the relevant Local Authority and their actuary

London Borough of Southwark Pension Fund

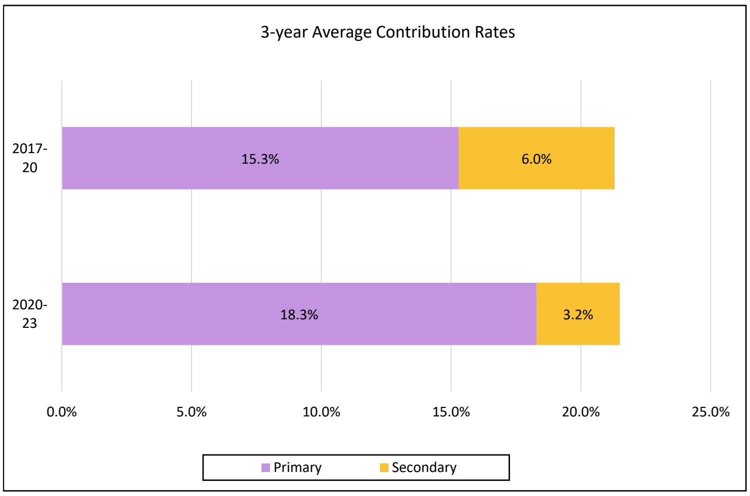


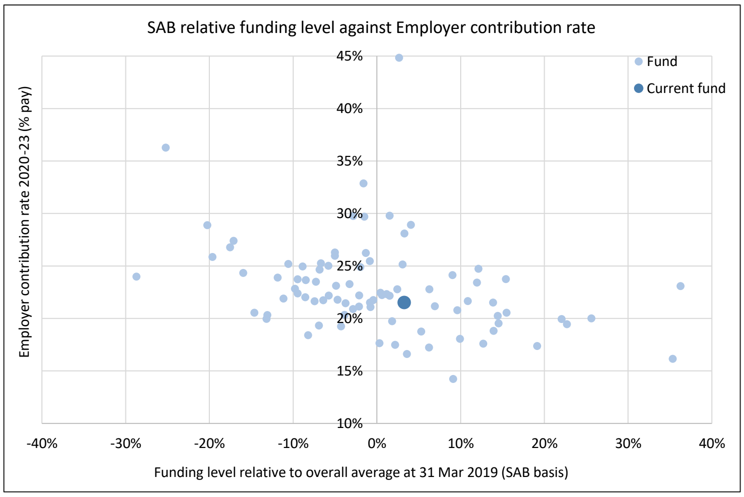






Local Authority	Core Spending (£m)	Core Spending (%)
Total	**£365.8**	**100.0%**
Southwark	£281.9	77.1%
Southwark GLA	£83.8	22.9%





At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes the standards we apply.

London Borough of Southwark Pension Fund

Solvency Breakdown

Asset Shock

Assets are divided into the following classes:
Return seeking - Equity, Property, Infrastructure debt & other return seeking assets
Non-return seeking - All other assets
Return seeking assets are stressed by reducing them by 15%
New deficit allocated to tax−raising authorities
= (Pre−stress asset value − Post−stress asset value) × % Tax backed employees
This deficit is then spread over 20 years of annual payments, and compared to the fund's core spending

	£m
Pre-stress asset value	£1,642.0
Return seeking assets	£1,346.8
Non-return seeking assets	£295.2
Post-stress asset value	£1,440.0
Return seeking	£1,144.8
Non-return seeking	£295.2
Percentage of tax-backed employees (Group 1 + Group 3)	92.0%
New deficit allocated to tax raising authorities	£185.9
Annual deficit payment (spread over 20 years)	£10.0
Total core spending (pensionable payroll used where core spending unavailable)	£365.8
Deficit percentage of core spending	2.7%
Deficit percentage of core spending (allowing for post-asset shock surplus)	2.7%

Liability Shock

Non-matched liabilities are stressed by increasing them by 10%
New deficit allocated to tax−raising authorities
= (Post−stress liability value − Pre−stress liability value) × % Tax backed employees
Deficit is spread over 20 years and compared to the fund's core spending

	£m
Liability value pre-stress (GAD's best estimate calculation)	£1,489.9
Liability value post-stress	£1,638.9
New deficit allocated to tax raising authorities	£137.1
Annual deficit Payment (spread over 20 years)	£7.4
Deficit percentage of core spending	2.0%
Deficit percentage of core spending (allowing for post-liability shock surplus)	Surplus

Employer Default Shock

Determine funding level on GAD's best estimate basis
If the fund is in deficit, non-tax backed deficits are allocated to tax-backed
The non-tax backed deficit is spread over 20 years and compared to the fund's core spending

	£m
Deficit on best estimate basis	£0.0
Proportion of deficit allocated to non-tax raising authorities	£0.0
Annual deficit payment (spread over 20 years)	£0.0
Deficit percentage of core spending	Surplus
Fund Open/Closed	Open
SAB Funding Level	111.8%
Percentage of Non-Statutory Employees (Group 3 + Group 4)	3.0%

Long Term Cost Efficiency

Deficit Recovery Period

Implied deficit recovery period calculated on a standardised market consistent basis

Recovery period (years)		Surplus
Ranking of fund (out of 87 funds)	N/A	

Required Return

Required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis

Required return under best estimate basis	2.8%
Ranking of fund (out of 87 funds)	22

Repayment Shortfall

Difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised market consistent basis

Annual deficit recovery payment as % of implied 31 March 2019 payroll	0.0%
Actual contribution rate paid less SCR on best estimate basis	5.8%
Difference	5.8%

Return Scope

Required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

Expected return	4.3%
Required return	2.8%
Difference	1.5%
Ranking of fund (out of 87 funds)	28

Deficit Recovery Plan

Consideration of how the deficit recovery plan has changed compared to 2016 valuation

Valuation	*2016*	*2019*
Deficit Recovery End Point	2034	Surplus
2017-20 Average Contribution Rate		21.3%
2020-23 Average Contribution Rate		21.5%
Increase in contributions		
Difference in Average Contribution Rate between 2017-20 and 2020-23		0.2%
Increase in deficit recovery end point (years)	Surplus	

Minor inconsistencies in totals may occur due to rounding.

Item No. 11	Classification: Open	Date: 20 October 2021	Meeting Name: Local Pension Board
Report title:		CIPFA Code of Practice on Knowledge and Skills 2021	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

The LPB is asked to:

- Note the update in this report on the recently published CIPFA documents, (as Appendix 1 and 2) setting out the recommended approach by LGPS administering authorities to knowledge and skills.

Background

1. CIPFA has recently published an updated Code of Practice on LGPS Knowledge and Skills, accompanied by an updated LGPS Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers.

2. The 2021 framework reflects the latest developments in the area of knowledge and skills for the LGPS.

3. A separate framework remains in place for Local Pension Board members (Local Pension Boards: A Technical Knowledge and Skills Framework (CIPFA, 2015).

Code of Practice on LGPS Knowledge and Skills

4. The Code sets out in detail the approach to be taken regarding knowledge and skills in the LGPS. Its principles include the need to have in place comprehensive objectives, policies and practices, and reporting arrangements to acquire and maintain LGPS knowledge and skills for those responsible for management and decision-making.

5. It is applicable to all individuals responsible for the management of the LGPS or who have a decision-making or scrutiny role. This includes:

   - Senior officers of the administering authority
   - Pensions committee (or equivalent) members
   - Independent advisers
   - Pension board members, including independent chairs.

Policy Development

6. Following the recommendations of the good governance review, it is expected that MHCLG will introduce statutory governance guidance for LGPS administering authorities with clearer expectations for those with a role in the LGPS.

7. The latest version of the Code reflects the increased need for knowledge and skills from all parties involved in the management of the LGPS.

8. In addition, CIPFA has updated the supporting framework to assist administering authorities in applying the new Code.

APPENDICES

Name	Title
Appendix 1	Code of Practice on LGPS Knowledge and Skills – 2021 Edition
Appendix 2	Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	Caroline Watson	
Version	Final version	
Dated	14 October 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

CIPFA

Code of practice on

LGPS knowledge and skills

2021 edition

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The **Chartered Institute of Public Finance and Accountancy** (CIPFA) is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, major accountancy firms and other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA leads the way in public finance by standing up for sound public financial management and good governance.

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Foreword

In recent years, the Local Government Pension Scheme (LGPS) has faced unprecedented changes and challenges, and these are likely to continue into the future. At such times of change, it is vitally important that there is sound governance, management of and transparency over pension funds and pension benefits on behalf of employers and scheme members.

The updates to this CIPFA Knowledge and Skills Code of Practice and the separate Framework seek to reflect changes to the operation of the LGPS at both national and local levels. They include the impact of the England and Wales LGPS Scheme Advisory Board's Good Governance Review, recent regulatory changes and other requirements of the MHCLG, the establishment of pension boards and asset pools, and the changing responsibilities and skills required by decision makers, managers and advisors.

In line with all CIPFA codes of practice, the contents of this Code, which are complemented by the separate Framework, establish the minimum standards required by all CIPFA professional members and, as such, all are expected to comply with this Code's requirements. This Code of Practice is also designed to support the wider LGPS community (such as advisors and any other persons not explicitly covered by the Code who apply LGPS regulations and associated guidance).

It is the intention of CIPFA and the CIPFA Pensions Panel to keep the Knowledge and Skills Framework and the Code of Practice updated on a rolling basis in order to reflect the frequency of any future changes and recognised good practice.

Can I take this opportunity of thanking my fellow panel members and colleagues from Aon for their contributions to the updates.

Pete Moore BA, FCPFA

Chair of the CIPFA Pensions Panel

May 2021

Note: it is expected that this guidance will need updating following the issue of any statutory guidance by MHCLG to assist in the delivery of the outcomes from the England and Wales Scheme Advisory Board's Good Governance Review relating to the expectations for knowledge and skills, particularly for members of pension committees. However, it is expected that may be later than when this revised version is first published by CIPFA. Therefore, we would expect that it might require a minor update when the statutory guidance is issued to align with MHCLG's requirements for England and Wales.

Acknowledgements

The CIPFA Pensions Panel has developed this Code of Practice, working with Mary Lambe, Karen McWilliam and other colleagues at Aon and supported by Richard Lloyd-Bithell (CIPFA Lead Pensions Advisor).

The current members of the panel are:

Pete Moore (Chair)	Independent
Robert Branagh (Vice Chair)	London Pension Fund Authority representative
Jeff Dong	Welsh Treasurers representative
Rachel Brothwood	West Midlands Pension Fund representative
Teresa Clay	Ministry of Housing, Communities and Local Government (MHCLG)
Jenny Poole	Society of District Council Treasurers representative
Jeff Houston	Scheme Advisory Board
Paul Mayers	National Audit Office
Richard McIndoe	Scottish administering authorities representative
John Cornett	Audit Scotland
David Murphy	Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC)
Ian Williams	Society of London Treasurers (SLT) representative
John Wright	Association of Consulting Actuaries (ACA) representative
Mark Wynn	Society of County Treasurers (SCT) representative
John Jones	Local pension board (LPB) representative
Fiona Miller	Asset pool representative
Richard Lloyd-Bithell	CIPFA Senior Technical Manager
Mark McLean	CIPFA Senior Policy Advisor

CIPFA is grateful to all those who participated in the development of this Code of Practice during the consultation process.

Contents

Purpose

All LGPS administering authorities[1] charged with the management and administration of LGPS funds will be aware of the complexity of pension schemes. Management of the LGPS demands appropriate resourcing and skills, including a knowledge of:

- pensions legislation and guidance
- pensions governance
- funding strategy and actuarial methods
- pensions administration and communication
- pensions financial strategy, management, accounting, reporting and auditing standards
- investment strategy, asset allocation, pooling, performance and risk management
- financial markets and products
- pension services procurement, contract management and relationship management.

Every LGPS administering authority should secure adequate resources and appropriate training, having assessed the professional competence of both those involved in pension scheme management and those with a policy, management and/or oversight role.

CIPFA has produced and updated this Code of Practice to put these requirements into a formal structure focused on those responsible for the management of the LGPS (administering authorities), as well as chief finance officers (CFOs) of local authority employers participating in the LGPS. Although the focus of this Code and the associated Framework may be on the LGPS, other public sector organisations that are responsible for managing or administering public sector pension arrangements may wish to adopt the principles within it to assist in ensuring they have the appropriate knowledge and skills relating to their schemes.

SCOPE

In the case of the LGPS, the decision-making and governance structures vary according to organisational structure and local preference. This Code of Practice is applicable to all individuals responsible for the management of the LGPS or who have a decision-making, scrutiny or oversight role. This includes (where relevant to the governance structures employed in the management of the LGPS):

- senior officers of the administering authority, including but not limited to the senior LGPS officer and CFO
- pension committee (or equivalent) members, including:
  - administering authority elected members
  - other local authority elected members
  - other employer representatives
  - scheme member representatives

1. LGPS rules and terminology for LGPS administering authorities in Scotland and Northern Ireland may differ. Where this is the case, the Code attempts to draw the difference to the reader’s attention.

- independent advisors
- pension board[2] members, including independent chairs[3]
- any other individuals involved in management or a decision-making, scrutiny or oversight role relating to the LGPS.

The following are also expected to adhere to the principles of this Code in relation to the areas where they have responsibilities in relation to the LGPS. This includes identifying the areas they require knowledge and skills in and ensuring that they acquire and maintain them in those identified areas:

- administering authority internal auditors and audit committee members
- CFOs of non-administering authority local authorities (given their financial operational role within their organisation requires they ensure proper administration of their authorities' financial affairs,[4] this extends to payment of employer contributions to their LGPS fund).

Those responsible for the management and delivery of knowledge and skills for LGPS administering authorities are encouraged to make training opportunities available to administering authority internal auditors, audit committee members and CFOs of non-administering authority local authorities. However, it is acknowledged that in practice, responsibility lies with the organisation (eg the audit firm or non-administering authority's local authority).

2. In Northern Ireland, the management committee has been designated as the pension board for the scheme in accordance with the LGPS (Governance) (Amendment) Regulations (Northern Ireland) 2015.

3. Independent chairs are not relevant in the LGPS in Scotland in accordance with the LGPS (Governance) Regulations (Scotland) 2015.

4. Section 151 of the Local Government Act 1972 and Section 95 of the Local Government (Scotland) Act 1973. The equivalent in Northern Ireland is in Section 54 of the Local Government Act (Northern Ireland) 1972, which requires local authorities to make safe and efficient arrangements for the receipt of money paid to them and the issue of money payable by them, and for those arrangements to be carried out under the supervision of the CFO.

Background

In recent years, CIPFA has launched a number of knowledge and skills frameworks:

- *Pensions Finance Knowledge and Skills Framework: Technical Guidance for Pensions Practitioners in the Public Sector*, published in 2010[5] (updated in 2021 – see below)
- *Pensions Finance Knowledge and Skills Framwork: Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector*, published in 2010[6] (updated in 2021 – see below)
- *Local Pension Boards: A Technical Knowledge and Skills Framework*, published in 2015 (separate guidance that remains in force).

These frameworks were launched as good practice guidance and were intended to have persuasive rather than mandatory force. We hoped that administering authorities would voluntarily adopt the guidance as a useful tool in identifying the knowledge and skill levels and development needs of practitioners and members of their decision-making bodies.

We recommended that, as demonstration of good practice, users of the frameworks make a voluntary disclosure in their pension scheme annual reports that covers:

- how the frameworks have been applied
- what assessment of training needs has been undertaken
- what training has been delivered against the identified training needs.

The Code of Practice was introduced in October 2011 for application in full for the financial years beginning on or after 1 April 2012. At that time, CIPFA committed to keeping the Code under review. The Code was updated in 2013 to reflect changes to the LGPS landscape since 2011, in particular the Public Service Pensions Act 2013 and the continuing financial challenges faced by administering authorities.

2021 UPDATES

The case for a Code of Practice that embeds the requirements for the adequacy, acquisition, retention and maintenance of appropriate knowledge and skills has never been stronger. This is evidenced by the expected introduction of statutory guidance by the MHCLG for LGPS administering authorities in England and Wales (following the Good Governance Review), with clearer expectations for those with a role in the LGPS, including CFOs and pension committees.[7] This latest version of the Code, which supersedes previous versions, reflects the increasing need for knowledge and skills from all parties involved in the management of the LGPS, including as a result of recent legislative changes such as MiFID II.[8]

5. Amended by Appendix B of the CIPFA guidance *Investment Pooling Governance Principles for LGPS Administering Authorities*.
6. Amended by Appendix A of the CIPFA guidance *Investment Pooling Governance Principles for LGPS Administering Authorities*.
7. Recommendations from the Good Governance Review, which is ongoing at the time of writing – see **LGPS England and Wales Scheme Advisory Board**.
8. Markets in Financial Instruments Directive.

In addition, CIPFA has updated the supporting frameworks and guidance to assist administering authorities in applying this Code. These are:

- *Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers*, published in 2021[9]
- *The Role of the CFO in the LGPS*[10] (see section relating to CFO knowledge and skills requirements).

9. **Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers** (CIPFA, 2021).
10. *The Role of the CFO in the LGPS* (2014) is due to be updated in 2021.

Status

In line with all CIPFA codes of practice, the contents of this Code establish the standards required by all CIPFA professional members, and as such, all are expected to comply with its requirements. In turn, CIPFA would expect this to mean that these standards need to be met by most, if not all, LGPS administering authorities. However, where an administering authority does not include CIPFA professional members, adoption of this Code and the associated Framework would assist in ensuring the authority adheres to legislation, legal opinion and guidance relating to the knowledge and skills of those managing LGPS funds.

The key areas of relevant legislation and guidance[11] include the following, which are further explained in the associated Framework:[12]

- MiFID II – LGPS administering authorities must request to be treated as professional clients, which is carried out by evidencing to managers and advisors that they meet both qualitative and quantitative requirements. The qualitative requirements focus on a collective assessment of the expertise, experience and knowledge of the LGPS administering authority in relation to its investment decisions.
- Pensions Act 2004 – Section 248A of the Pensions Act 2004 sets out the knowledge and skills requirements in relation to all members of the local pension board.
- MHCLG statutory governance guidance – each administering authority in England and Wales is required to publish a statement stating how they are complying with the guidance, which includes various elements relating to knowledge and skills. This guidance is expected to be updated with clearer requirements for those with a role in the LGPS.
- Fiduciary and public law duties – in particular, those responsible for the management of the LGPS should be mindful of the following conclusion by Nigel Giffin QC on fiduciary duty:[13] "In managing an LGPS fund, the administering authority has both fiduciary duties and public law duties (which are in practice likely to come to much the same thing)." The more recent judgment in the Supreme Court in April 2020[14] also commented on the fiduciary duty owed by investment decision makers in the LGPS and further interpretation is anticipated.
- Pensions are not a local authority executive function.[15] While not explicitly referring to knowledge and skills, it is important to understand this, and therefore matters cannot be delegated to an administering authority's cabinet or executive.
- England and Wales Scheme Advisory Board (SAB) MiFID II opting up process/guidance – information on the LGPS England and Wales SAB website[16] about the opting up to professional status is available for administering authorities.

11. The list is not exhaustive and can be expected to develop and change going forward in line with regulatory and guidance changes.
12. **Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers** (CIPFA, 2021).
13. **Advice on Fiduciary Duty in the LGPS – Opinion of Nigel Giffin QC** (LGPS Advisory Board – England and Wales, 2014).
14. Case of R (Palestine Solidarity Campaign Ltd and another) v Secretary of State for Housing, Communities and Local Government [2020] UKSC 16.
15. This means that the executive (usually cabinet or the elected mayor) cannot make decisions in relation to LGPS matters – for example, how to exercise discretions under the regulations.
16. **Opting up process** (LGPS Advisory Board, 2018).

- The Pensions Regulator code of practice[17] – there are a number of key requirements relating to the management and operations of public service pensions schemes, which are outlined in TPR's code of practice, many of which relate to pension board requirements as set out in legislation.

This Code of Practice represents a key element in complying with these requirements and is intended to complement the requirements for knowledge and skills in decision makers.

This Code of Practice has been developed to work in conjunction with other CIPFA codes and statements, including the following, which include guidance on training and development to assist in meeting the requirements of this Code:

- *Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers*[18]
- *Local Pension Boards: CIPFA Technical Knowledge and Skills Framework*[19]
- *The Role of the CFO in the LGPS.*[20]

Other CIPFA codes and statements with further references to knowledge and skills include:

- *The Role of the Chief Financial Officer in Local Authorities*[21]
- *Delivering Good Governance in Local Government: Framework*[22]
- *Effective Decision Making (Myners)*[23]
- *Investment Pooling Governance Principles for LGPS Administering Authorities*[24]
- *Preparing the Annual Report.*[25]

It is important to highlight the two key CIPFA statements on the role of the CFO. These statements set out several overriding principles that are relevant to this Code of Practice and are directed at CFOs. They are that the CFO must:[26]

- lead the promotion and delivery by the whole organisation of good financial management, so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively
- lead and direct a finance function that is resourced to be fit for purpose (principles 3 and 4 of *The Role of the Chief Financial Officer in Public Service Organisations*):
  - support and advise democratically elected representatives
  - support and advise officers in their operational roles
  - maintain strong financial management, underpinned by effective financial controls.

Where this Code of Practice sets out particular requirements for CFOs, these should be seen in the context of the above principles.

17. **Code of practice** (The Pensions Regulator, 2015). Consultation on a new, single modular code is expected in 2021.
18. **Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers** (CIPFA, 2021).
19. **Local Pension Boards: A Technical Knowledge and Skills Framework** (CIPFA, 2015).
20. **The Role of the CFO in the LGPS** (CIPFA, 2014).
21. **The Role of the Chief Financial Officer in Local Authorities** (CIPFA, 2015).
22. **Delivering Good Governance in Local Government: Framework** (CIPFA, 2016).
23. **Principles for Investment Decision Making and Disclosure in the LGPS** (CIPFA, 2012).
24. **Investment Pooling Governance Principles for LGPS Administering Authorities** (CIPFA, 2016).
25. **Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds** (CIPFA, 2019).
26. Extracted from *The Role of the Chief Financial Officer in Local Authorities* (CIPFA, 2015).

Support for the Code of Practice

In preparing this Code of Practice, CIPFA regards it as essential that there is broad-based support for its recommendations.

Consequently, the Institute has consulted widely with organisations with regulatory, professional and practitioner level responsibilities in the sphere of public sector pensions financial management.

The following organisations have fully endorsed the Code of Practice:

- the Society of County Treasurers
- the Society of Municipal Treasurers
- the Society of District Council Treasurers
- the Society of Welsh Treasurers
- the Local Government Association Local Government Pensions Committee

The CIPFA Pensions Panel is also grateful to the Ministry of Housing, Communities and Local Government and the LGPS Scheme Advisory Board in England and Wales for their support with this Code of Practice.

It is hoped that all LGPS administering authorities will adopt this Code as part of their LGPS knowledge and skills policy (or equivalent) as appropriate to their circumstances. It is expected this will be the case for all administering authorities where key LGPS officers are CIPFA professional members.

CIPFA recognises that some administering authorities, due to exceptional circumstances, may not find the proposed form of wording in the "statements to be adopted" to be precisely suitable for their circumstances. In such cases, administering authorities may, where justified, make alterations to the recommended wording without adversely affecting their stated adoption of the statement, provided that when taken as a whole, any such changes do not materially deviate from the key aims and principles of this Code of Practice.

Nothing in this Code of Practice overrides, or should be taken as overriding, any statutory provision or requirement, nor does the Code make intra vires anything that is otherwise ultra vires.

Key principles

This Code of Practice is underpinned by five key principles:

1. Administering authorities responsible for the administration of the LGPS recognise that effective management, decision making, governance and other aspects of the delivery of the LGPS can only be achieved where those involved have the requisite knowledge and skills to discharge the duties and responsibilities allocated to them.
2. Administering authorities have the necessary resources in place to ensure all staff, members or other persons responsible for the management, decision making, governance and other aspects of the delivery of the LGPS acquire and retain the necessary LGPS knowledge and skills.
3. Administering authorities have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements to effectively acquire and retain LGPS knowledge and skills for those responsible for the management, delivery, governance and decision making of the LGPS.
4. The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as those set down in the CIPFA *LGPS Knowledge and Skills Framework*, while also having regard for overriding legal requirements, The Pensions Regulator and other government guidance.
5. The administering authority has designated a named individual to be responsible for ensuring that policies are implemented.

CIPFA acknowledges that no two administering authorities in the LGPS environment are likely to interpret these principles in precisely the same way. Therefore, in framing the principles, CIPFA does not seek to be prescriptive about how they might be implemented in practice.

Statements to be adopted

CIPFA recommends that all administering authorities responsible for the management of LGPS funds adopt, as part of their LGPS knowledge and skills policy (or equivalent), the following statements:

1. This LGPS administering authority adopts the key principles of the *Code of Practice on LGPS Knowledge and Skills*.
2. This LGPS administering authority recognises that effective management, governance, decision making[27] and other aspects of the delivery of the LGPS can only be achieved where those involved have the requisite knowledge and skills to discharge the duties and responsibilities allocated to them.
3. This administering authority has in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of LGPS knowledge and skills for those responsible for the management, delivery, governance and decision making of the LGPS.
4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as those set down in the CIPFA LGPS *Knowledge and Skills Framework*.
5. This administering authority will ensure that it has adequate resources in place to ensure all staff, members or other persons responsible for the management, decision making, governance and other aspects of the delivery of the LGPS acquire and retain the necessary LGPS knowledge and skills.
6. This administering authority will report annually on how its knowledge and skills policy has been put into practice throughout the financial year in the fund's annual report.
7. This administering authority has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the appropriate officer,[28] who will act in accordance with the administering authority's knowledge and skills policy statement, and, where they are a CIPFA member, with CIPFA Standards of Professional Practice (where relevant).

27. In this context, decision makers are those with delegated responsibilities serving on the administering authority's governing bodies (pensions committees, investment committees, etc), as well as any senior officers with delegated responsibilities.

28. The officer in question should be the senior officer responsible for the management of the pension scheme. In the case of the LGPS, this would usually be delegated to the head of pensions (or equivalent) or chief finance officer. In England and Wales, this role is expected to become the LGPS senior officer.

Application guidance

This Code of Practice is intended to be used in conjunction with:

- *Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers*[29]
- *Local Pension Boards: A Technical Knowledge and Skills Framework*[30]
- *The Role of the CFO in the LGPS,*[31] including principles 4 and 5 relating to CFO knowledge and skills requirements.

These frameworks attempt to determine what constitutes the right skill set for those in the administering authority responsible for pension scheme management, governance and decision making.

The frameworks are intended to have two primary uses:

- as a tool for administering authorities to acquire and retain LGPS knowledge and skills, ensuring the right skill mix to meet their pension scheme management, governance and decision-making needs
- as an assessment tool for individuals to measure their progress and plan their development.

The frameworks provide the minimum set of standards that LGPS administering authorities are expected to achieve. It is recognised that not all administering authorities will possess the full range of detailed technical skills and knowledge outlined in the frameworks in-house. Those administering authorities will need to identify appropriate routes to access the full range of detailed technical skills and knowledge, which, for example, could be through an appointed advisor or advisors, or a shared service arrangement with another authority (with appropriate delegation and oversight). Administering authorities should suitably apply the frameworks to meet their own requirements.

In applying the frameworks, there is a range of training courses and materials available to practitioners, such as committee, board and officer training events by the Local Government Association's LGPS fundamentals courses and the CIPFA Pensions Network, as well as a range of other training events.

29. **Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers** (CIPFA, 2021).
30. **Local Pension Boards: A Technical Knowledge and Skills Framework** (CIPFA, 2015).
31. **The Role of the CFO in the LGPS** (CIPFA, 2014). This is due to be updated in 2021.

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06/2021

Knowledge and skills framework for

LGPS committee members and LGPS officers

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Knowledge and skills framework for

LGPS committee members and LGPS officers

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Foreword

In recent years, the Local Government Pension Scheme (LGPS) has faced unprecedented changes and challenges, and these are likely to continue into the future. At such times of change, it is vitally important that there is sound governance and management of and transparency over pension funds and pension benefits on behalf of employers and scheme members.

The updates to the CIPFA Knowledge and Skills Framework and the separate Code of Practice seek to reflect changes to the operation of the LGPS at both national and local levels. They include the impact of the England and Wales LGPS Scheme Advisory Board's Good Governance Review, recent regulatory changes and other requirements of the MHCLG, the establishment of pension boards and asset pools, and the changing responsibilities and skills required by decision makers, managers and advisors.

In line with all CIPFA codes of practice, the contents of this Code, which are complemented by this Framework, establish the minimum standards required by all CIPFA professional members and, as such, all are expected to comply with this Code's requirements. This Code of Practice is also designed to support the wider LGPS community (such as advisors and any other persons not explicitly covered by this Code who apply LGPS regulations and associated guidance).

It is the intention of CIPFA and the CIPFA Pensions Panel to keep the Knowledge and Skills Framework and the Code of Practice updated on a rolling basis in order to reflect the frequency of any future changes and recognised good practice.

Can I take this opportunity of thanking my fellow panel members and colleagues from Aon for their contributions to the updates.

Pete Moore BA, FCPFA

Chair of the CIPFA Pensions Panel

May 2021

Note: it is expected that this guidance will need updating following the issue of any statutory guidance by MHCLG to assist in the delivery of the outcomes from the England and Wales Scheme Advisory Board's Good Governance Review relating to the expectations for knowledge and skills, particularly for members of pension committees. However, it is expected that may be later than when this revised version is first published by CIPFA. Therefore, we would expect that it might require a minor update when the statutory guidance is issued to align with MHCLG's requirements for England and Wales.

Acknowledgements

This guidance has been reviewed and updated by the CIPFA Pensions Panel, working with Mary Lambe, Karen McWilliam and other colleagues at Aon and supported by Richard Lloyd-Bithell (CIPFA Lead Pensions Advisor).

Current Pensions Panel members are:

Pete Moore (Chair)	Independent
Robert Branagh (Vice Chair)	London Pension Fund Authority representative
Jeff Dong	Welsh Treasurers representative
Rachel Brothwood	West Midlands Pension Fund
Teresa Clay	Ministry of Housing, Communities and Local Government (MHCLG)
Jenny Poole	Society of District Council Treasurers
Jeff Houston	Scheme Advisory Board
Paul Mayers	National Audit Office
Richard McIndoe	Scottish administering authorities representative
John Cornett	Audit Scotland
David Murphy	Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC)
Ian Williams	Society of London Treasurers (SLT) representative
John Wright	Association of Consulting Actuaries (ACA) representative
Mark Wynn	Society of County Treasurers (SCT) representative
John Jones	Local pension board (LPB) representative
Fiona Miller	Asset pool representative
Richard Lloyd-Bithell	CIPFA Senior Technical Manager
Mark McLean	CIPFA Senior Policy Advisor

CIPFA is grateful to all those who participated in the development of this Framework during the consultation process.

Contents

Introduction

This publication consolidates and updates (and supersedes) two existing publications:

- *Pensions Finance Knowledge and Skills Framework: Technical Guidance for Pensions Practitioners in the Public Sector*, published in 2010
- *Pensions Finance Knowledge and Skills Framework: Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector*, also published in 2010.[1]

It reflects the latest developments in the area of knowledge and skills for the LGPS at the time of publication (2021). A separate framework remains in place for local pension board members.[2]

The document is intended to promote good governance in the LGPS in the key area of knowledge and skills. It is designed to be used by LGPS officers and the scheme's decision-making bodies (such as LGPS pension committees) as a framework in the assessment of knowledge and skills, the delivery and recording of training, and ultimately the development of knowledge and understanding of all those with a responsibility to manage and administer their LGPS fund.

The Framework should be read in conjunction with CIPFA's *Code of Practice*[3] *on LGPS Knowledge and Skills* (latest version updated and published in 2021). The Code of Practice seeks to embed the requirements for identifying the adequacy of, acquiring and maintaining of appropriate knowledge and skills.

BACKGROUND

Governance can be defined as a combination of the process of decision making, the means by which strategies and policies are decided, how those are implemented and delivered, and continuously monitoring the outcomes, including understanding the inherent risks. It requires involving the right people at the right time based on relevant and up-to-date information. In recent times, the standards of governance in all sectors of the economy have risen and have also been subject to scrutiny because of some high-profile failures. These failures demonstrate the potential impact of inadequate governance on organisations' economic and reputational standing and on the environment in which they operate. Each failure leads to actions intended to increase the effectiveness of governance further.

CIPFA has been very active over a long period in seeking to strengthen governance in the management of the LGPS and continues to review its advice and guidance. Good governance is vital and requires a transparent framework within which public sector bodies, such as LGPS administering authorities, can achieve and demonstrate good performance, sound management, the effective stewardship of public funds and, as a consequence, delivery against the expectations placed upon them.

The LGPS:

- at 31 March 2020 in England and Wales had assets of over £272bn, 18,595 employers and 6.1 million members[4]

1. In addition, there is a further publication entitled *Local Pension Boards: A Technical Knowledge and Skills Framework* (published in 2015), which remains in operation.
2. **Local Pension Boards: A Technical Knowledge and Skills Framework** (CIPFA, 2015).
3. **Code of Practice on LGPS Knowledge and Skills** (CIPFA, 2021).
4. **Local government pension scheme funds for England and Wales: 2019/20** (HM Government, 2020).

- at 31 March 2019 in Scotland had assets of over £48bn and 577,645 members,[5] and
- at 31 March 2020 in Northern Ireland had assets of over £7.8bn, 139,048 members and 171 employers.[6]

This emphasis on the decision makers and decision-making structures that surround the LGPS is critical to sound stewardship, management and good financial performance.

5. **Annual report 2018/19** (Scottish Local Government Pension Scheme Advisory Board, 2019).
6. **Annual report 2019/20** (NILGOSC, 2020).

Purpose, scope and status of this guidance

In 2021, CIPFA published an updated *Code of Practice on LGPS Knowledge and Skills*. This Code sets out in detail the purpose, scope, key principles, statements to be adopted and guidance application in relation to knowledge and skills in the LGPS. Its principles include the need to have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements to effectively acquire and retain LGPS knowledge and skills for those in the administering authority responsible for management and decision making.

The arrangements set out in this publication establish a knowledge and skills framework for members of committees and senior officers. Administering authorities adopting this Framework (suitably adapted to their own circumstances) will be able to demonstrate that they are complying with the spirit of CIPFA's Code of Practice, as well as the other legal and best practice requirements as highlighted later in this section. This Framework is intended to help LGPS pension committee members and senior officers to deliver, assess and record effective training and development activities to further support and enhance knowledge and skills. The ultimate aim is better governance.

This Framework should be read in conjunction with the Code of Practice, which sets out in detail the purpose, scope, key principles, statements to be adopted and guidance application.

This Framework is focused on committee members and senior officers to ensure that the appropriate skills and knowledge are in place for those charged with the management and governance of the fund. This Framework does not consider the requirements in relation to other officers of the fund. However, it is expected that each administering authority should also ensure that knowledge and skills requirements, and individual training and development plans, are in place for all members of staff within each fund's pension team.

POLICY AND LEGISLATIVE BACKGROUND

The need for a high level of knowledge and skills for those involved in the management of the LGPS is underpinned by various items of legislation, legal opinion and guidance. Some of this is explained further below.

Legislation and legal opinion

- **Fiduciary and public law duties**[7] – there is a range of legal opinions and cases that are relevant to the management of the LGPS, many of which are referenced on the **LGPS England and Wales Scheme Advisory Board website**. In particular, those responsible for the management of the LGPS should be mindful of the following conclusion by Nigel Giffin QC on fiduciary duty:[8]

  In managing an LGPS fund, the administering authority has both fiduciary duties and public law duties (which are in practice likely to come to much the same thing).

7. Ongoing activity in the area of defining fiduciary duty in the LGPS may mean this information requires updating in due course.
8. **Advice on Fiduciary Duty in the LGPS – Opinion of Nigel Giffin QC** (LGPS Advisory Board – England and Wales, 2014).

This conclusion is clarified in the body of the opinion in paragraph 6 as follows:

In my view, the administering authority does owe fiduciary duties, both to the scheme employers and to the scheme members.

Although not explicitly referring to knowledge and skills, this is a critical point of understanding for the management of LGPS funds. The more recent judgment in the Supreme Court in April 2020[9] also commented on the fiduciary duty owed by investment decision makers in the LGPS, and further interpretation is anticipated.

- **Pensions are not a local authority executive function**[10] – while not explicitly referring to knowledge and skills, it is important to understand that pensions are not a local authority executive function[11] and therefore matters cannot be delegated to an administering authority's cabinet or executive. Accordingly, functions should be otherwise delegated to a committee, sub-committee or officer.[12] In the case of LGPS matters, this tends to involve delegation of responsibilities to a pension committee, with day-to-day responsibilities usually being delegated to a senior officer (sometimes the LGPS senior officer, which is expected to be defined in statutory guidance in England and Wales and could be the chief finance officer (CFO)).

Explicit legislative requirements

- **MiFID II (Markets in Financial Instruments Directive)** – there are two key elements of legislation that direct the need to have appropriate knowledge and skills when managing LGPS funds. The first is MiFID II. Under this directive (introduced in January 2018), local and public authorities are classified as retail investors, which severely limits both the financial instruments and providers available to authorities for pension purposes. Authorities can consider electing for (and maintaining) a return to professional status in order to ensure they can access the full range of vehicles and managers to meet the needs of their investment strategy. To do so, LGPS administering authorities must request to be treated as professional clients, which is carried out by evidencing to managers and advisors that they meet both qualitative and quantitative requirements. The qualitative requirements focus on a collective[13] assessment of the expertise, experience and knowledge of the LGPS administering authority in relation to its investment decisions.

  LGPS administering authorities who are elected professional clients under this process are responsible for keeping their managers and advisors informed of any change that could affect their current categorisation. The firm must the take 'appropriate action', which could include recategorising the client as retail. It is therefore critically important that the knowledge and skills of all pension committee members and officers are regularly reviewed and maintained. Changes to personnel (for example, following local authority elections where there is a significant change in elected members on a pension committee, or the appointment of a new CFO) will require a change to the opt up information conveyed to managers and advisors. Failure to implement timely and thorough training could jeopardise the professional status of an LGPS administering authority, which could have serious consequences on being able to deliver a fund's investment strategy.

9. Case of R (Palestine Solidarity Campaign Ltd and another) v Secretary of State for Housing, Communities and Local Government [2020] UKSC 16. See **case details**.
10. This means that the executive (usually cabinet or the elected mayor) cannot make decisions in relation to LGPS matters – for example, how to exercise discretions under the regulations.
11. Schedule 1 of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 and the Local Authorities (Executive Arrangements) (Functions and Responsibilities) (Wales) Regulations 2007.
12. Section 101 of the Local Government Act 1972.
13. The 'collective' for this purpose includes committee members, officers, advisors and/or consultants.

The criteria for the opt up process to professional status includes the following, highlighting how this Framework (and the accompanying Code of Practice) is key in meeting these requirements:

3. *Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.*[14]

- **Pensions Act 2004** – the second area of legislation that is explicit in relation to knowledge and skills is Section 248A of the Pensions Act 2004, which requires all members of the local pension board to be conversant with:

  – the rules of the scheme, and

  – any document recording policy about the administration of the scheme that is for the time being adopted in relation to the scheme.

  The individual must have knowledge and understanding of the law relating to pensions to the degree that is appropriate for the purposes of enabling the individual to exercise properly the functions of a member of the local pension board. Although this guidance does not directly relate to local pension boards, those involved with the management of the LGPS should be mindful of this requirement and should refer to the separate CIPFA framework for local pension boards.[15] In addition, any updated statutory guidance in England and Wales (which is due to address the recommendations in the Good Governance Review) is likely to introduce clearer requirements for those with a role in the LGPS.

OTHER RELEVANT GUIDANCE

- **Ministry of Housing, Communities and Local Government (MHCLG) Governance Compliance Statements** – Statutory Guidance (November 2008)[16]

  MHCLG issued this statutory guidance relating to governance matters when they were the Department for Communities and Local Government (DCLG). All LGPS administering authorities are required to publish a statement outlining how they are complying with the guidance (and the extent to which they do not comply and the reasons for not complying). The guidance refers to the acceptance by government of the Myners principle[17] of "effective decision making", which requires decisions to be made only by persons or organisations with the skills, information and resources necessary to make them effectively, and for LGPS pension committee members to have sufficient expertise to evaluate critically any advice they take. The guidance also states it is important that administering authorities report the extent to which training facilities are extended to lay members sitting on pension committees.

  The statutory guidance requires all administering authorities to state how they comply with the following three principles:

  a) *That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.*

14. **Opting up process** (LGPS Advisory Board, 2018).
15. **Local Pension Boards: A Technical Knowledge and Skills Framework** (CIPFA, 2015).
16. **Governance Compliance Statements – Statutory Guidance** (MHCLG, 2008).
17. Since 2002, all LGPS funds have been required to report upon their application of and compliance with the Myners principles. Originally ten best practice statements relating to pension fund investment and decision making launched by HM Treasury in 2001, there are now six principles for pension fund investment, scheme governance, disclosure and consultation. These principles were adopted by the DCLG (now MHCLG) in 2009 and replace the ten Myners principles published in 2001.

b) *That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.*

c) *That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.*

It's expected that this statutory guidance will be updated with clearer requirements (following the recommendations of the Good Governance Review) on the knowledge and skills requirements for those with a role in the LGPS.

- **Scottish Public Pensions Agency (SPPA)** – Statutory Guidance (April 2011)[18]

  SPPA issued this statutory guidance to set out the requirements for all Scottish LGPS administering authorities to publish a statement on how they are complying with the guidance (and the extent to which they do not comply and the reasons for not complying). The guidance includes the following principles:

  j) *That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.*

  k) *That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.*

  l) *That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.*

- **CIPFA guidance** – there is a range of CIPFA guidance that refers explicitly or implicitly to knowledge and skills, including:

  – *Local Pension Boards: A Technical Knowledge and Skills Framework*[19] – CIPFA has developed this framework to cover the training and development of pension board members. The objective is to improve knowledge and skills in all the relevant areas of activity on a pension board and assist board members in achieving the degree of knowledge appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board.

  – *The Role of the Chief Financial Officer in Local Authorities*[20] – the CFO occupies a critical position in any organisation, holding the financial reins of the business and ensuring that resources are used wisely to secure positive results. This CIPFA publication is intended to support individual finance professionals. It outlines the core responsibilities of the CFO, as well as the personal skills and professional standards that are crucial to success in the role.

  – *The Role of the CFO in the LGPS*[21] – this supplement to the above guidance aims to place that advice in the context of the financial administration of the LGPS and should be used in conjunction with the statement on the role of the CFO in local government.

  – *Delivering Good Governance in Local Government: Framework*[22] – the Framework is intended to assist administering authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, there is sound and inclusive decision making and there is clear accountability for the use of those resources in order

18. **Statutory Guidance** (SPPA, 2011).
19. **Local Pension Boards: A Technical Knowledge and Skills Framework** (CIPFA, 2015).
20. **The Role of the Chief Financial Officer in Local Authorities** (CIPFA, 2015).
21. **The Role of the CFO in the LGPS** (CIPFA, 2014).
22. **Delivering Good Governance in Local Government: Framework** (CIPFA, 2016).

to achieve desired outcomes for service users and communities. The Framework includes the principle:

Developing the entity's capacity, including the capability of its leadership and the individuals within it.

This refers to:

ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis.

- *Effective Decision Making* (Myners)[23] – LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles were adopted by the DCLG (now MHCLG) in 2009 and replace the ten Myners principles published in 2001. This guidance stresses, among other things, the importance of the training and development of members of pension committees in local government. It advises that, wherever possible, appointments to the committee should include considerations of relevant skills, experience and continuity. However, the guidance also stresses the importance of the organised and continued development of committee members through regular training, development plans and skills and knowledge assessments.
- *Investment Pooling Governance Principles for LGPS Administering Authorities* – this CIPFA guidance is designed to highlight the risks, opportunities and best practice over the establishment, transition into and long-term operation of the investment pools. It sets out that pension committees should expect additional training to enable decisions relating to investment pooling.[24]
- *Preparing the Annual Report*[25] (reporting of how knowledge and skills requirements are applied) – this guidance is designed to assist officers in meeting the requirements of the current regulatory framework. Although regulation 57 of the LGPS Regulations 2013 and regulation 55 of the Scottish Regulations prescribe what must be included in the pension fund annual report, pension funds are free to include other information as they see fit. CIPFA guidance highlights a number of areas they consider should be included in the annual report, given it is a key component of communication between pension funds and their stakeholders. In Northern Ireland, the Department of Finance provides guidance on financial statements.

  For example, administering authorities may wish to include a statement of compliance with the CIPFA *Code of Practice on LGPS Knowledge and Skills* and evidence to demonstrate compliance with the Code, such as a report on officer and committee member training undertaken during the year (if not reported elsewhere) and skills and knowledge reviews undertaken.

- **England and Wales Scheme Advisory Board**
  - **MiFID II opting up process/guidance**[26] about the opting up to professional status is available for administering authorities. It advises that administering authorities should consider electing for (and maintaining) a return to professional status in order to ensure

23. **Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom** (CIPFA, 2012)
24. **Investment Pooling Governance Principles for LGPS Administering Authorities** (CIPFA, 2016). Revised pooling guidance is expected from MHCLG in 2021.
25. **Preparing the Annual Report** (CIPFA, 2019).
26. **Opting up process** (LGPS Advisory Board, 2018).

they can access the full range of vehicles and managers to meet the needs of their investment strategy. A key part of this process is evidencing the expertise, experience and knowledge of those involved in investment-related decisions.

- **Responsible investment draft guidance**[27] was issued for consultation in 2020, and further developments in this area are expected in 2021, given the forthcoming requirements of the Task Force on Climate-related Financial Disclosures (TCFD).

- **The Pensions Regulator (TPR) code of practice**[28] – there are a number of key requirements relating to the management and operations of public service pension schemes that are outlined in TPR's code of practice, which are in addition to the LGPS regulations, CIPFA and SAB guidance. Many of the elements in the code relate to legislative requirements, mainly under the Public Service Pensions Act 2013 or the Pensions Act 2004. This includes requirements relating to the knowledge and understanding of pension board members. As a matter of best practice, it is expected that all administering authorities will carry out a regular review of their approach against the legal requirements and TPR code of practice with a view to ensuring that these are being adhered to.

KEY ROLES IN THE LGPS

The ultimate responsibility for management, investment and administration of an LGPS fund is the administering authority.[29] Each administering authority is required to determine its own governance arrangements, and the delegation of those responsibilities will be included in the authority's constitution (or equivalent). In addition, each administering authority must set those arrangements out in its governance compliance statement.[30] This statement should set out if the administering authority delegates its functions, or part of its function, to a committee or sub-committee or an officer of the authority.

The following section sets out the main roles that exist within delegated structures for LGPS administering authorities, as well as providing an overview of expectations around knowledge and skills in relation to those roles.

Clearly, the type and level of knowledge and skills will differ between the various persons involved in the management of an LGPS fund. The CIPFA Code of Practice includes the following principle:

Administering authorities responsible for the administration of the LGPS recognise that effective management, decision making, governance and other aspects of the delivery of the LGPS can only be achieved where those involved have the requisite knowledge and skills to discharge the duties and responsibilities allocated to them.

Accordingly, regardless of the range of responsibilities, those exercising a delegated responsibility on behalf of the administering authority and to whom this framework applies must be conversant with:

- the rules of the LGPS, and

- any document recording policy about the funding, investment, administration, communications or governance which is for the time being adopted in relation to the scheme.

27. **Responsible Investment Guidance** (LGPS Advisory Board, 2020).

28. Consultation on a new TPR single modular code is expected in 2021.

29. In England and Wales, a body listed in Part 1 of Schedule 3 of the LGPS Regulations 2013, which maintains a fund within the LGPS. In Scotland, a body listed in Schedule 3 of the LGPS (Scotland) Regulations 2018. The NILGOSC is a non-departmental public body sponsored by the Department for Communities in NI.

30. In England and Wales, as required by regulation 55 of the LGPS Regulations 2013. In Scotland, as required by regulation 53 of the LGPS (Scotland) Regulations 2018.

Such persons must have knowledge and understanding of:

- the law relating to pensions, and
- such other matters as may be prescribed in legislation and guidance.

The degree of knowledge and understanding required is that which is appropriate for the purposes of enabling the individual to properly exercise their delegated responsibility on behalf of the administering authority.

The following sections consider in more detail how this applies to specific responsibilities. Annex A provides suggested competencies in relation to each of these responsibilities.

PENSION COMMITTEE MEMBERS

Please note that all references to pension committees include any LGPS sub-committees or other committees or panels that have LGPS responsibilities delegated to them.

The majority of administering authorities delegate most LGPS responsibilities to a pension committee. The membership of committees typically includes some or all of the following:

- administering authority elected members
- other local authority elected members
- other employer representatives
- scheme member representatives (who in some circumstances may be from the trade unions).

A pension committee must:

- be able to demonstrate that it has the skills, knowledge and experience appropriate for governing its fund
- have a balance of knowledge and skills across the membership of the committee
- be able to apply that knowledge and skills in governing the fund.

All members of a pension committee are expected to have appropriate knowledge and skills relating to their LGPS duties. However, it is considered appropriate to consider the knowledge and skills of a committee as a collective, ie ensuring that the collective degree of knowledge and understanding is appropriate for the purposes of enabling the committee as a whole to properly exercise their delegated responsibility on behalf of the administering authority. Accordingly, although desirable, it is not necessary for every member of the committee to be able to demonstrate individually that they meet all the expected knowledge and skills competencies.

Other local authority elected members, other employer representatives and scheme member representatives on the pension committee may be voting, and some may be non-voting members. Irrespective of the position on voting, this guidance should apply equally to all committee members. Administering authorities should also consider the risk of having substitute members who may not have the same level of knowledge, skills and access to training as the main committee members. It is encouraged that substitute members should ideally have sufficient knowledge and skills to fulfil the role effectively and be provided with access to training as required.

Administering authorities must be able to demonstrate and explain that the combined knowledge and understanding of the pension committee (or sub-committee), together with the advice available to the committee, enable them to properly exercise their delegated functions.

The administering authority must maintain an effective plan for the ongoing maintenance and development of the committee's knowledge. They must also be able to demonstrate how competency will be maintained, including how they will identify and address skills gaps and seek to increase knowledge.

Given the high bar expected of LGPS committee members in relation to their knowledge and skills, it is important that they understand what is expected of them. This includes:

- committing to undertake the role for a term of office
- having the capacity to attend meetings
- attending and participating constructively in meetings
- undertaking training and development appropriate to their role
- approaching matters with an open and independent mind, avoiding any pre-determination or bias
- having the confidence to challenge, influence and engage
- operating within the terms of reference of the committee and the administering authority's code of conduct.

CHIEF FINANCE OFFICER – SECTION 151 OFFICERS[31]

Chief finance officers (CFOs) are subject to professional standards,[32] and regardless of whether a CFO of an administering authority has direct, delegated responsibilities relating to the LGPS or not, all have a statutory responsibility in relation to the proper administration of financial affairs relating the LGPS fund. This is because one common factor running throughout these arrangements is that an LGPS administering authority is a local authority body.[33] No matter how the pensions operations of the administering authority are delivered, they are, for the purposes of the responsibilities of the CFO of that authority, indivisible from other financial operations. This in turn means that the CFO of that local authority body is responsible for ensuring the proper financial administration of the LGPS fund, in addition to that of the local authority. Moreover, in some cases, the CFO may also have specific delegated functions within the administering authority's constitution relating to the management of the fund.

As a CFO has, as a minimum, statutory Section 151 responsibilities under the Local Government Act 1972 in respect of an administering authority, they must keep their knowledge of the LGPS up to date, and this should be evidenced through regular, continued professional development.

The CFOs of non-administering authority local authorities also have a responsibility to ensure they have the requisite knowledge and skills, given the financial operational role within the organisation requires they ensure proper administration of their authority's financial affairs.[34] This extends to payment of employer contributions to their fund.

31. Section 151 of the Local Government Act 1972. This also relates to Section 95 of the Local Government (Scotland) Act 1973 and in Northern Ireland Section 54 of the Local Government Act (Northern Ireland) 1972.

32. Section 113 of the Local Government Finance Act 1988 requires the responsible officer under Section 151 of the 1972 Act to be a member of a specified accountancy body. In the case of CIPFA members, these professional standards are set down in CIPFA's Statement of Professional Practice, with which all CIPFA members are required to comply. For members of other accountancy bodies, this represents best practice within the public sector. All professional accountants should also have regard to their own body's code of ethics, as well as that produced by the International Ethics Standards Board for Accountants (IESBA) on behalf of the International Federation of Accountants (IFAC).

33. The two exceptions to this are NILGOSC and the Environment Agency, both of which are non-departmental public bodies set up respectively under the auspices of the Department of the Environment (Northern Ireland) and Defra.

34. Section 151 of the Local Government Act 1972 and Section 95 of the Local Government (Scotland) Act 1973. The equivalent in Northern Ireland is in Section 54 of the Local Government Act (Northern Ireland) 1972, which requires local authorities to make safe and efficient arrangements for the receipt of money paid to them and the issue of money payable by them, and for those arrangements to be carried out under the supervision of the CFO.

Administering authorities must be able to demonstrate and explain that the knowledge and understanding of the CFO enables them to properly exercise their delegated functions.

Further information in relation to the knowledge and skills expectations of CFOs in the LGPS can be found in CIPFA's *Role of the CFO in the LGPS*.[35]

LGPS SENIOR OFFICER INCLUDING HEAD OF PENSIONS AND OTHER SENIOR MANAGERS

Each administering authority will have its own unique staffing structure, but this will include a senior manager or managers (which could include the CFO) having overall responsibility for the day-to-day management of the fund (as a minimum). Therefore, each administering authority needs to ensure those members of staff have appropriate knowledge and skills. CIPFA's Code of Practice applies to "all individuals responsible for the management of the LGPS or who have a decision-making, scrutiny or oversight role." Each administering authority should ensure it determines which officers fall within that definition and therefore to whom this Framework applies. In this guidance, we also use the term 'LGPS senior officer' to align with the updated statutory governance guidance expected from MHCLG for England and Wales.

As with the other roles, the degree of knowledge and understanding required is that which is appropriate for the purposes of enabling the individual to properly exercise their delegated responsibility on behalf of the administering authority. The level of risk involved in the day-to-day operations of an LGPS fund cannot be underestimated, and it will therefore fall on these senior officers to ensure that robust controls are in place. In addition, they will be the key officers providing advice and guidance to the committee or other decision makers in relation to the LGPS fund. Accordingly, it is critical that the administering authority ensures senior officers have and retain an exceptional level of knowledge commensurate with the responsibilities they are undertaking.

35. **The Role of the CFO in the LGPS** (CIPFA, 2014).

Key areas of knowledge

The LGPS is a complex and multi-faceted scheme where the knowledge and skills required will extend across several disciplines, from accountancy, administration and audit into areas of investment and actuarial finance, as well as knowledge of the legislative and governance environment. In total, for the purposes of this Framework, CIPFA has identified eight core technical areas where appropriate knowledge and skills should be achieved and maintained. They are:

- pensions legislation and guidance
- pensions governance
- funding strategy and actuarial methods
- pensions administration and communications
- pensions financial strategy, management, accounting, reporting and audit standards
- investment strategy, asset allocation, pooling, performance and risk management
- financial markets and products
- pension services procurement, contract management and relationship management.

The knowledge matrices for pension committee members (set out in Annex A, Part 1) and for senior officers (set out in Annex A, Part 2) are based on the core areas of knowledge listed above. They set out a list of competencies in each of the areas. Administering authorities adopting this Framework, including the knowledge matrix in the Annex suitably applied to their own circumstances if they consider it appropriate, will be able to demonstrate that they are complying with the requirements of CIPFA's Code and the other legal and best practice requirements as set out previously in this Framework.

Overall, pension committee members need to have a less detailed knowledge of the specifics. Committee members should take a holistic view – one that is strategic and concentrates on the principles involved, and on performance and communication in line with their roles and responsibilities set out in their terms of reference. Committee members should also be assisted, where necessary, to have the confidence to make knowledgeable challenges to the information and advice given to them.

The eight core areas are explained in more detail in the following paragraphs.

PENSIONS LEGISLATION AND GUIDANCE

The pensions landscape is characterised by a complex legislative framework. In addition to the LGPS legislative requirements, there are industry-wide statutes that apply in whole or in part to the LGPS, including the way in which schemes interact with state pensions, the tax system and The Pensions Regulator, etc. There are also requirements in place from both statutory and best practice guidance impacting on the LGPS.

A knowledge of this framework of legislation and guidance, and the way in which it affects the management and operational aspects of the LGPS, provides the context within which LGPS pension committee members and senior officers must operate to ensure they can undertake their statutory, professional and other obligations.

PENSIONS GOVERNANCE

Governance in the LGPS has evolved significantly in recent years. Developments include oversight from The Pensions Regulator, the introduction of local pension boards and nationally the Scheme Advisory Board – the introduction of LGPS investment pools that have fundamentally changed the governance framework. In addition, increasing complexity in the administration and benefit structure, alongside financial challenges faced by administering authorities and scheme employers plus increased reporting in the area of oversight of investment,[36] puts an even greater emphasis on ensuring good governance across all LGPS funds.

Understanding the requirements of the current and evolving governance framework is of central importance for decision makers in the LGPS. Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as MiFID II, the UK Stewardship Code and the Myners principles), within the LGPS (such as the requirements of the governance compliance statement) and within administering authorities (for example, the CIPFA/ Solace **Delivering Good Governance in Local Government: Framework**).

Knowledge in this area should include an understanding of risk management, ensuring it is an integral part of governance. This includes knowledge of best practice risk management and how that supports a structured and focused approach to managing risks.

FUNDING STRATEGY AND ACTUARIAL METHODS

The scheme actuary holds a key position in the financial management of a pension scheme. To be successful, those with delegated responsibility will need to be able to do more than simply ensure that the relationship with the actuary is properly managed. They will need to understand the work of the actuary and the way in which actuarial information impacts both the finances of the scheme and the scheme employers. This extends to employers joining and exiting the fund, developments relating to employer covenant and increasing employer funding flexibilities.

This knowledge should also ensure it outlines the links to national requirements set out in Section 13 of the Public Service Pensions Act 2013 and related Government Actuary's Department (GAD) activity,[37] as well as a wider awareness of different actuarial methods and funding risk.

PENSIONS ADMINISTRATION AND COMMUNICATIONS

Administering scheme benefits, contributions and other transactions is highly complex and is governed by extensive scheme regulations, as well as industry-wide requirements on disclosure, record keeping, data maintenance, dispute resolution, etc. The fund's administration strategy and communications policy are also key in how these responsibilities are delivered and the role of employers in doing so. Data quality underpins the delivery of the administration function and is a key aspect of the successful delivery of the service to scheme members.

Understanding these requirements is key for those with management, decision-making and oversight responsibilities in the LGPS. This is to ensure decisions made are in compliance with the various regulations, standards and codes in place for the area of administration and communications.[38]

36. Including the Cost Transparency Initiative (CTI) and TCFD requirements that are anticipated.
37. Section 13 of the Public Service Pensions Act 2013 requires GAD to report on the valuations of each of the funds in the scheme to ensure the aims of compliance, consistency, solvency and long-term cost efficiency are being achieved.
38. The Pension Schemes Act 2021 will bring into force new requirements on LGPS funds regarding pension dashboards for scheme members.

PENSIONS FINANCIAL STRATEGY, MANAGEMENT, ACCOUNTING, REPORTING AND AUDIT STANDARDS

Those with delegated responsibility in the LGPS must ensure they have the knowledge and skills to ensure a robust financial strategy for the fund in the short, medium and long term, thus enabling the fund to meet its strategic objectives. There should be a robust annual budgeting process to ensure that the fund has sufficient resources to deliver its objectives, while ensuring value for money for its stakeholders and wider taxpayers.

The way in which the LGPS is accounted for, both as a scheme and by the sponsoring employer(s), plays a significant part in the *Knowledge and Skills Framework*. The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently, this demands an understanding of the regime in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.

In addition, both internal and external auditors play a significant role in assuring that the administering authority complies with statutory requirements. Understanding the scope of their role, and the roles played by providers of third-party assurance on outsourced services, is key for decision makers in the LGPS.

INVESTMENT STRATEGY, ASSET ALLOCATION, POOLING, PERFORMANCE AND RISK MANAGEMENT

In the LGPS, where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role for those with delegated responsibilities in the fund.

Investment strategy and asset allocation decision makers must have an in-depth knowledge in relation to investment pooling arrangements, including the transitioning of assets to the pool. In addition, an understanding of investment risk and emerging risk (such as the risks posed by climate change) is required.

Pension committee members and senior officers will also be aware of the requirement to apply the same rigour to an assessment of their own performance and the performance of those who work on their behalf. Frameworks and targets must be devised and set and performance monitored against them and reported to stakeholders.

FINANCIAL MARKETS AND PRODUCTS

For pension committee members and senior officers, an understanding of financial markets and products is fundamental, particularly in relation to setting the fund's investment strategy. The depth of knowledge will depend, to some degree, upon the particular approach to investment management undertaken by the fund. However, as a minimum, a general understanding of the workings of financial markets and of the investment vehicles available to the fund, including how these are established and utilised in the case of the investment pools and the nature of the associated risks, is required.

The pension committee will need to relate the longer-term liabilities of the fund to the strategy for the investment of its assets and generation of cash flows. Investor engagement will be a key consideration in terms of getting value from the fund's investments and in applying responsible investment and other good governance principles. An understanding of risk is also fundamental.

PENSION SERVICES PROCUREMENT, CONTRACT MANAGEMENT AND RELATIONSHIP MANAGEMENT

Such are the scale, diversity and technical requirements of pensions operations, outsourcing is commonplace. Whether it is the use of actuaries, benefits consultants, governance advisors, the asset pool and other fund managers, pensioner payroll providers or third-party administrators, the skills and knowledge required to procure and manage outsourced services are central to the management of the LGPS. An understanding of procurement requirements, including the availability of LGPS-specific frameworks, will be key in considering how service providers are appointed and reviewed.

The administering authorities that have established their own management companies to operate investment pooling arrangements are also shareholders in such an arrangement. Decision makers in those administering authorities should have an understanding of additional requirements in these circumstances.

WIDER SKILLS AND BEHAVIOURS REQUIRED FOR DECISION MAKERS IN THE LGPS

There will be other technical (non-pensions related) and non-technical skills required in order to be competent in the role of a decision maker on a committee. These include but are not limited to:

- using informed judgement and common sense in decision making
- seeking clarification as required
- absorbing, analysing and processing large volumes of information
- participating in discussions and being willing to question negotiation skills, diplomacy and political sensitivity
- critiquing advice received.

The non-technical skills implied here are considered to be outside the scope of this Framework but should be considered when determining the ability of committee members and senior officers to effectively discharge their duties.

Delivery, monitoring, reporting and compliance

POLICY DEVELOPMENT

The CIPFA Code[39] expects that all administering authorities are required to have a formal and comprehensive training policy for the effective acquisition and retention of knowledge and skills for those responsible for management, delivery, governance and decision making in the LGPS. In addition, future changes to MHCLG statutory governance guidance in England and Wales are expected to include a requirement to have a policy setting out the authority's approach to the delivery, assessment and recording of training.

Administering authorities should include the following within the knowledge and skills or training policy:

- the aims and objectives of the policy
- relevant legislation and guidance that the policy requirements must adhere to (eg MiFID II, CIPFA Code and Framework, MHCLG statutory guidance/Scottish Ministers (SPPA) guidance, TPR code)
- to whom the policy should apply
- the relevant competencies that those persons will be expected to have (which can be those set out by CIPFA in Annex A or administering authority specific)
- how training will be delivered, including induction training
- how knowledge and skills will be monitored, including how gaps in knowledge will be determined
- what reporting against the policy requirements will be carried out and when.

The policy should also include the following statements as required in CIPFA's Code of Practice, outlining the authority's commitment to this area:

1. This LGPS administering authority adopts the key principles of the Code of Practice on LGPS knowledge and skills.
2. This LGPS administering authority recognises that effective management, governance, decision making and other aspects of the delivery of the LGPS can only be achieved where those involved have the requisite knowledge and skills to discharge the duties and responsibilities allocated to them.
3. This administering authority has in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements to effectively acquire and retain LGPS knowledge and skills for those responsible for the management, delivery, governance and decision making of the LGPS.

39. **Code of Practice on LGPS Knowledge and Skills** (CIPFA, 2021).

4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA LGPS *Knowledge and Skills Framework.*

5. This administering authority will ensure that it has adequate resources in place to ensure all staff, members or other persons responsible for the management, decision making, governance and other aspects of the delivery of the LGPS acquire and retain the necessary knowledge and skills.

6. This administering authority will report annually on how their knowledge and skills policy has been put into practice throughout the financial year in the fund's annual report.

7. This administering authority has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the appropriate officer, who will act in accordance with the administering authority's knowledge and skills policy statement, and, where they are a CIPFA member, with CIPFA Standards of Professional Practice (where relevant).

That policy should be published and publicly available to all stakeholders – for example, via the fund's website. The knowledge and skills policy should apply to all members of the pension committee, any sub-committees and the local pension board.[40] It should also apply to senior officers of the fund. Advisors would also be expected to meet the objectives of the fund's policy.[41]

TRAINING DELIVERY AND SUPPORT

The way in which training can be delivered will vary, and administering authorities should ensure that appropriate methods are made available with regard to those who are in receipt of the training. Training may be provided in-house or externally. These may include:

- in-house training days
- external training events
- training as part of committee meetings or immediately before or after such meetings
- reading material/documentation/information
- seminars and conferences offered by industry-wide bodies, including by pools
- online training including webinars, which can be developed internally or by industry-wide bodies
- telephone conference briefings
- qualifications, particularly those relevant to senior officers.

In addition, senior officers and advisors should provide support on an ongoing basis to pension committee and sub-committee members to share previous material or answer queries. It is expected that all committee members will have access to all fund documentation and policies.

Training plans should include the competencies highlighted in Annex A (or alternative competencies that may be adopted by an administering authority), as well as special topics – for example:

- a focus on decisions to be made in the forward plan of committee business
- those relating to areas of change or special interest.

On joining a pension committee, sub-committee or becoming a senior officer on a fund, the administering authority must provide induction training. This should be done in a timely manner.

40. Some LGPS administering authorities may have separate policies relating to pension board members.

41. Investment advisors are now covered by the Competition and Markets Authority (CMA) requirement that LGPS administering authorities should set objectives for their investment consultants.

In addition, they must be immediately provided with documentation[42] that would provide a basic understanding of the fund. In line with guidance from The Pensions Regulator, administering authorities should ensure that newly appointed members of committees attain the required level of knowledge within six months of being appointed.

MONITORING AND ONGOING REVIEW OF KNOWLEDGE AND SKILLS

Ensuring objectives relating to knowledge and skills are being met is important, and administering authorities should be assessing whether members and senior officers have the required knowledge and skills required to undertake their role. As a minimum, administering authorities should carry out the following to monitor and review knowledge and skills:

- record attendance at training and ensure action is taken where poor attendance is identified
- prepare tailored training plans for committee members and officers
- require members and officers to undertake self-assessment against the required competencies (as set out in this Framework or alternative competencies that may be adopted by an administering authority)
- communicate regularly with members and officers, encouraging them to highlight training needs on an ongoing basis.

A record of training attended should be kept up to date and made available to stakeholders in the fund's annual report and accounts each year. Members are responsible for ensuring their training record is up to date and accurate.

REPORTING AND COMPLIANCE

Each administering authority's policy should outline how they report on meeting the objectives within their policy. This should include how they are complying with CIPFA's Code, this Framework (or an equivalent administering authority-specific framework) and MHCLG or SPPA statutory governance requirements.

As a minimum, information should be provided:

- in the fund's annual report – as a minimum, meeting the requirements of CIPFA's *Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds*[43]
- to the pension committee – regular updates on what training has been undertaken, attendance levels and what is planned for the committee, board members and senior officers
- to the local pension board – regular updates on what training has been undertaken, attendance and what is planned for the board, committee members and senior officers.

The Code of Practice requires that each administering authority designates a named individual to be responsible for ensuring that their policy is implemented. That individual should ensure that they are regularly monitoring compliance with their policy, as well as ensuring it adheres to overriding requirements (eg MiFID II, CIPFA's Code, this Framework, MHCLG/SPPA statutory governance requirements, TPR code). That individual should also take appropriate action where members or senior officers are not adhering to the requirements of the policy – for example, not participating in training or completing a self-assessment of training needs.

42. For committee members, this documentation could include a guide for members, the actuarial valuation, the annual report and accounts, and all strategies and policies prepared and published by the fund.

43. **Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds** (CIPFA, 2019).

Further reading and sources of guidance

MHCLG

Local Government Pension Scheme Governance Compliance Statements Statutory Guidance (November 2008). An update to this guidance is expected in 2021.

SPPA

LGPS Governance Guidance (April 2011)

CIPFA

Code of Practice on LGPS Knowledge and Skills (2021)

Knowledge and Skills Framework for LGPS Committee Members and LGPS Senior Officers (2021)

Local Pension Boards: A Technical Knowledge and Skills Framework (2015)

The Role of the Chief Financial Officer in the Local Government Pension Scheme (2014)[44]

Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds (2019)

The Guide for Local Pension Boards (2018)

Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom (2012)

Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme (2016)

Managing Risk in the Local Government Pension Scheme (2018)

Investment Pooling Governance Principles for LGPS Administering Authorities (2016)

Investment Pooling Governance Principles for LGPS Administering Authorities: Practical Guide and Next Steps (2017)

Administration in the LGPS: A Guide for Pensions Authorities (2019)

Delivering Good Governance in Local Government Pension Funds: A Guide to the Application of the CIPFA/Solace Code of Corporate Governance in Local Authorities to their Management of LGPS Funds (2009)

CIPFA Pensions Panel: Freedom of Information Act – Dealing with Requests for Information Relating to Local Authority Pension Funds (2006).

44. This is due to be updated in 2021.

SCHEME ADVISORY BOARD

Scheme Advisory Board MiFID II opting up process (2018)

Local Government Pension Scheme (LGPS) Guidance on the Creation and Operation of Local Pension Boards in England and Wales (2015)

Good Governance Phase I report (2018)

Good Governance Phase II report (2018)

Good Governance Phase III report (2021)

THE PENSIONS REGULATOR

Code of Practice No. 14: Governance and Administration of Public Service Pension Schemes (2015)

Compliance and Enforcement Policy for Public Service Pension Schemes (2015)

The Pensions Regulator also publishes **a range of other helpful materials**.

OTHER TRAINING AND SUPPORT

There is a range of training courses and materials available to practitioners such as committee, board and officer training events, including the Local Government Association's LGPS fundamentals courses and the CIPFA Pensions Network, as well as a range of other training events. The Pensions Regulator also has an online **'public service toolkit'** available.

ANNEX A

Knowledge and skills framework

This annex provides a sample framework of competencies required for committee members and senior officers. A separate framework is in place for pension board members.[45] As mentioned previously, the degree of knowledge and understanding required is that which is appropriate for the purposes of enabling the individual to exercise properly their delegated responsibility on behalf of the administering authority. It is up to each authority to consider what the appropriate competencies are for their fund and the level of knowledge required for each individual. The levels of knowledge in this section have been split into the following categories (in ascending order of the level of knowledge required):

For committee members:

- an awareness, ie recognition that the subject matter exists
- a general understanding, ie understanding the basics in relation to the subject matter
- a strong understanding, ie a good level of knowledge in relation to the subject matter (but not necessary at a detailed level).

For senior officers/managers:

- a strong understanding, ie a good level of knowledge in relation to the subject matter (but not necessary at a detailed level)
- a detailed level of knowledge in relation to the subject matter
- an expert level of knowledge in relation to the subject matter.

45. **Local Pension Boards: A Technical Knowledge and Skills Framework** (CIPFA, 2015).

PART 1 – PENSION COMMITTEE MEMBERS' FRAMEWORK

Pensions legislations and guidance	**General pensions framework** A general understanding of the pensions legislative framework in the UK. A general understanding of other legislation that is relevant in managing an LGPS fund, eg freedom of information, General Data Protection Regulation (GDPR) and local authority legislation. **Scheme-specific legislation** A general understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration, funding, governance, communications and investment, including: • a general understanding of the LGPS Regulations 2013 • a general understanding of the LGPS (Management and Investment of Funds) Regulations 2016. An awareness of LGPS discretions and how the formulation of the discretionary policies impacts on the fund, employers and scheme members. A regularly updated awareness of the latest changes to the scheme rules and current proposals or potential changes to the scheme. **Guidance** A general understanding of the requirements of statutory guidance from the responsible authority – MHCLG (England and Wales), SPPA (Scotland) or the Department for Communities (Northern Ireland). A general understanding of the requirements of The Pensions Regulator code of practice. An awareness of the requirements of guidance from the Scheme Advisory Board. An awareness of the requirements of guidance from GAD. An awareness of other guidance relevant to the LGPS, such as from CIPFA.
Pensions governance	An awareness of the LGPS regulations' main features, including any material developments and requirements relating to pension scheme governance. An awareness of statutory and other guidance in relation to pension scheme governance, including MHCLG statutory governance guidance, The Pensions Regulator code of practice, CIPFA/Solace, Scheme Advisory Board guidance and the Myners principles. **Pension regulators, Scheme Advisory Board and other bodies** A general understanding of how the roles and powers of MHCLG, TPR, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme. A general understanding of the role of the Scheme Advisory Board and how it interacts with other bodies. **General constitutional framework** A general understanding of the role of the administering authority in relation to the LGPS. A general understanding of the role of pension committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers. An awareness of the role and statutory responsibilities of the CFO and monitoring officer. **Fund-specific governance** A strong understanding of the roles, terms of reference and delegated responsibilities of the pension committee (including any sub-committees), the pension board and any other delegated responsibilities to senior officers. A general understanding of how the asset pool was established, including the responsibilities of the joint governance committee (or equivalent). A general understanding of the stakeholders of the fund and the nature of their interests. A general understanding of who the key officers responsible for the management of the fund are, how the pension team is structured and how services are delivered.

	A general understanding of the fund's strategies, policies and other key documents. A general understanding of best practice risk management, including how that supports a structured and focused approach to managing risks. This should include how risk is monitored and managed and the fund's current key risks. A general understanding of how conflicts of interest are identified and managed. A strong understanding of how breaches in law are recorded and managed and, if necessary, reported to TPR, including each individual's personal responsibility in relation to breaches. A general understanding of the fund's knowledge and skills policy and associated training requirements. An awareness of the fund's process for dealing with complaints, including its internal dispute resolution procedure. A general understanding of how the effectiveness of the fund's governance is reviewed. **Service delivery** A general understanding of the required budget and resources needed to manage and administer the fund. A general understanding of the annual business planning cycle and budget setting. A general understanding of the fund's key performance indicators and other performance measures. A general understanding of the fund's business continuity policy and cyber security policy across all areas of fund activity, including administration.
Funding strategy and actuarial methods	An awareness of the LGPS regulations' main features, including any key developments and requirements relating to funding strategy and the setting of employer contributions, including associated guidance. A general understanding of the role of the fund actuary. A general understanding of the funding strategy statement (including employer funding flexibilities) and the expected delivery of the funding objectives. A general understanding of the key risks to the fund relating to the funding strategy. **Valuations** A general understanding of the valuation process, including developing the funding strategy in conjunction with the fund actuary and inter-valuation monitoring. An awareness of the costs to the employer, including employer contributions and early retirement strain costs. An awareness of the different types of employers that participate in the fund A general understanding of the importance of employer covenant, the relative strengths of the covenant across the fund's employers and how this impacts the funding strategy adopted. A general understanding of any legislative and/or benefit uncertainty and the impact of this on the funding strategy. A general understanding of the scheme valuation and other work carried out by GAD and the impact this has on the valuation process (ie, the cost management process/ Section 13 report). **New employer and exits** A general understanding of the implications of including new employers in the fund and of the exit of existing employers. A general understanding of the relevant considerations in relation to the different types of new employer, eg outsourcings, academies (if appropriate), alternative delivery models, and also the considerations in relation to bulk transfers.

Pensions administration and communications	An awareness of the LGPS regulations' main features and requirements relating to: • administration and communications strategies • entitlement to and calculation of pension benefits • transfers in and out of the scheme • employee contributions • the delivery of administration and communications (including associated guidance). A general understanding of the fund's pensions administration strategy, including how it is delivered (including, where applicable, the use of third-party suppliers and systems), performance measures and assurance processes. A general understanding of the fund's communications policy, including how it is delivered (including, where applicable, the use of third-party suppliers and systems), performance measures and assurance processes. A general understanding of best practice in pensions administration, eg performance and cost measures. A general understanding of the fund's processes and procedures relating to: • member data maintenance and record keeping, including data improvement plans and relationships with employers for data transmission • contributions collection. An awareness of how the fund interacts with the taxation system in relation to benefits administration, including the annual and lifetime allowances. A general understanding of additional voluntary contribution (AVC) arrangements, including: • the AVC arrangements that exist • the choice of investments to be offered to members • the provider's investment and fund performance, • the payment of contributions to the provider • the benefits that can be received by scheme members • how and when the AVC arrangements, including the investment choices, are reviewed.
Pensions financial strategy, management, accounting, report and audit standards	A general understanding of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the fund's accounts and annual report. A general understanding of the various elements of income into and expenditure of the fund, including the operational budget. A general understanding of the cash flows of the fund and how risks are managed to ensure appropriate cash is available to pay benefits and other outgoings. A general understanding of the role of both internal and external audit in the governance and assurance process.
Investment strategy, asset allocation, pooling, performance and risk management	An awareness of the LGPS regulations' main features and requirements relating to investment strategy, asset allocation, the pooling of investments and responsible investments, including associated guidance. **Investment strategy** A general understanding of the key risks that the fund is exposed to and how a fund's investment strategy should be considered in conjunction with these risks. A general understanding of the risk and return characteristics of the main asset classes (equities, bonds, property) and the need to balance risk versus reward when determining the investment strategy. A general understanding of the role of these asset classes in long-term pension fund investing. A general understanding of the fund's cash flow requirements and how these impact on the types of investments considered.

Investment pool (England and Wales)

A general understanding of the structure, operation and purpose of the investment pooling arrangements, including the structure of the relationship with the other participants in the pool.

An awareness of the regulations, best practice and guidance relating to investment pooling and the delivery of the investment objectives of the administering authority/ pension committee by their chosen investment pool.

An awareness of the boundaries of investment activities (eg strategy requiring advice from a suitably qualified person, in-house investment transactions) and which investment activities require FCA authorisation.

A general understanding of the interaction between the administering authority, the pension committee, the investment pool operator, investment pool oversight committee and other parties relating to the investment pooling arrangement – in particular, reporting requirements, influence and accountability.

A general understanding of the fund's investment strategy statement and the investment pool's interpretation and expected delivery of those investment objectives, including any objectives relating to environmental, social and governance factors.

Total fund

A general understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.

Performance of the committee

An awareness of the Myners principles and the need to set targets for the committee and to report against them.

An awareness of the range of support services provided to the committee, who supplies them and the nature of the performance monitoring regime.

Performance of the investment pool (England and Wales)

An awareness of the investment regulations and the requirements for monitoring investments.

A general understanding of the requirements of the investment pool in relation to the administering authority and pension committee investment strategy and how to effectively monitor the implementation of the investment strategy within the pool.

Responsible investment

An awareness of the latest developments and requirements in the area of responsible investment.

An awareness of the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI) and whether the fund is a signatory of these.

A general understanding of the fund's approach to responsible investment, including how views on environmental, social and governance issues are incorporated into the fund's investment strategy.

Risk management

A general understanding about how to manage and reduce risk and lessen the impact of risk on assets when it arises, including climate risk.

Financial markets and products	**Financial markets** A general understanding of the primary importance of the investment strategy decision. A general understanding of the workings of the financial markets, the investment vehicles available to the pension fund and the nature of the associated risks. An awareness of the restrictions placed by legislation on the investment activities of LGPS funds. **MiFID II** A general understanding of MiFID II requirements relating to the knowledge of decision makers. **Investment pool (England and Wales)** A general understanding of the investment pool operator's approach to pooling and delivering access to the different asset classes and/or investment funds. A general understanding of which assets and investments may sit outside of the investment pool and why their nature and characteristics permit this. An awareness of how the fund interacts with the taxation system in the UK and overseas in relation to investments.
Pension services procurement, contract management and relationship management	**Understanding public procurement** An awareness of the main public procurement requirements of UK and EU legislation and the use of national frameworks within the context of the LGPS. **Fund suppliers** Awareness of the key decision makers in relation to the fund's procurements. A general understanding of the fund's suppliers and providers and their roles in the management of the fund. An awareness of how the fund's suppliers are monitored, including: • the Myners principles • the need for strategic objectives for investment consultants. **Supplier risk management** A general understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting external suppliers and providers. A general understanding of how the pension fund monitors and manages the performance of their external suppliers and providers, including business continuity and cyber risk. **Investment pool (England and Wales)** An awareness of the nature of the relationship with the investment pool parties and a general understanding of: • the extent of influence over the investment pool operator and oversight committee • the terms for terminating a pooling agreement • guidance on the requirement to pool investments.

PART 2 – SENIOR OFFICERS/MANAGERS' FRAMEWORK (INCLUDING LGPS SENIOR OFFICER)

Note the levels of knowledge expected that are included within this part are focused on the minimum expectations relating to all senior officers or managers within a fund, including the LGPS senior officer. However, collectively, there should be expert knowledge demonstrated in all areas. For example:

- The LGPS senior officer[46] should have expert knowledge in governance matters.
- The head of investments should have expert knowledge in investment areas.
- The head of administration should have expert knowledge in administration areas.
- There should be a senior officer or manager with expert knowledge in all other areas, including funding and communications.

Pensions legislation and guidance	**General pensions framework** A strong understanding of the pensions legislative framework in the UK, particularly: • Pensions Act 1995 • Pensions Act 2004 • Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 • Public Service Pensions Schemes Act 2013. A strong understanding of other legislation that is relevant in managing an LGPS fund, eg freedom of information, GDPR and local authority legislation. **Scheme-specific legislation** A detailed knowledge of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration, funding, governance, communications and investment, including: **England and Wales** • Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 • Local Government Pension Scheme (Administration) Regulations 2008 • Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 • Local Government Pension Scheme Regulations 2013 • Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. **Scotland** • Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 • Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 • Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 • Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 • Local Government Pension Scheme (Scotland) Regulations 2018.

46. The term 'LGPS senior officer' is expected to be defined in statutory guidance in England and Wales. It could be the chief finance officer (CFO). Its use here defines the senior officer responsible for the management and administration of the fund.

	Northern Ireland • Local Government Pension Scheme Regulations (Northern Ireland) 2014 • Local Government Pension Scheme (Amendment and Transitional Provisions) Regulations (Northern Ireland) 2014 • Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 • Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000. A detailed knowledge of LGPS discretions and how the formulation of the discretionary policies impacts on the fund, employers and scheme members. A detailed knowledge of the latest changes to the scheme rules and current proposals or potential changes to the scheme. A strong understanding of how the scheme interfaces with other private and state pension provision. **Guidance** A detailed knowledge of the requirements of statutory guidance from the responsible authority – MHCLG (England and Wales), SPPA (Scotland) or the Department for Communities (Northern Ireland). A detailed knowledge of the requirements of The Pensions Regulator code of practice. A detailed knowledge of the requirements of guidance from the Scheme Advisory Board. A strong understanding of the requirements of guidance from GAD. A strong understanding of other guidance relevant to the LGPS, such as from CIPFA. **Tax legislation** A strong understanding of pension scheme tax legislation and the UK pension scheme reporting framework, in particular: • Finance Act 2004 • related statutory instruments.
Pensions governance	A detailed knowledge of the LGPS regulations' main features, including any material developments and requirements relating to the pension scheme governance. A strong understanding of statutory and other guidance relating to pension scheme governance, including MHCLG/SPPA/Department for Communities statutory governance guidance, The Pensions Regulator code of practice, CIPFA/Solace, Scheme Advisory Board guidance and the Myners principles. **Pension regulators, Scheme Advisory Board and other bodies** A detailed knowledge of how the roles and powers of MHCLG/SPPA/Department for Communities, The Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme. A detailed knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies.

General constitutional framework

A detailed knowledge of the role of pension committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.

A detailed knowledge of the role and statutory responsibilities of the CFO and monitoring officer.

Fund-specific governance

An expert knowledge of the roles, terms of reference and delegated responsibilities of the pension committee (including any sub-committees), the pension board and any other delegated responsibilities to senior officers.

A detailed knowledge of how the asset pool was established, including the responsibilities of the joint governance committee (or equivalent).

A detailed knowledge of the stakeholders of the fund and the nature of their interests.

An expert knowledge of the role of key officers responsible for the management of the fund, how the pension team is structured and how services are delivered.

A detailed knowledge of the fund's strategies, policies and other key documents.

An expert knowledge of best practice risk management, including how that supports a structured and focused approach to managing risk. This should include how risk is monitored and managed and the fund's current key risks.

An expert knowledge of how conflicts of interest are identified and managed.

An expert knowledge of how breaches in law are recorded and managed and, if necessary, reported to The Pensions Regulator, including each individual's personal responsibility in relation to breaches.

An expert awareness of the fund's knowledge and skills policy and associated training requirements.

A detailed knowledge of the fund's process for dealing with complaints, including its internal dispute resolution procedure.

A detailed knowledge of how the effectiveness of the fund's governance is reviewed.

Service delivery

An expert knowledge of the required budget and resources needed to manage and administer the fund.

An expert knowledge of the annual business planning cycle and budget setting.

An expert knowledge of the fund's key performance indicators and other performance measures.

An expert knowledge of the fund's business continuity policy and cyber security policy across all areas of fund activity, including administration.

Funding strategy and actuarial methods	A detailed knowledge of the LGPS regulations' main features, including any key developments and requirements relating to funding strategy and the setting of employer contributions, including associated guidance. A detailed knowledge of the role of the fund actuary. A detailed knowledge of the funding strategy statement (including employer funding flexibilities) and the expected delivery of the funding objectives. A detailed knowledge of the key risks to the fund relating to the funding strategy. **Valuations** A detailed knowledge of the valuation process, including: • the actual valuation processes • agreeing the financial and demographic assumptions • the development and publication of the funding strategy statement • signing off the rates and adjustment certificate • inter-valuation monitoring. A detailed knowledge of the costs to the employer, including employer contributions and early retirement strain costs. A strong understanding of the importance of employer covenant, the relative strengths of the covenant across the fund's employers, and how this impacts the funding strategy adopted. A strong understanding of any legislative and/or benefit uncertainty and the impact of this on the funding strategy. A strong understanding of the scheme valuation and other work carried out by GAD and the impact this has on the valuation process (ie the cost management process/Section 13 report). **New employer and exits** A strong understanding of the implications of including new employers into the fund and of the exit of existing employers. A general understanding of the relevant considerations in relation to the different types of new employer, eg outsourcings, academies (if appropriate), alternative delivery models, and also the considerations in relation to bulk transfers. A strong understanding of the requirements of HM Treasury's 'fair deal' guidance and related guidance concerning outsourcing and bulk transfers. **Other issues** A strong understanding of other pension arrangements, particularly with regard to staff transfers. A strong understanding of the corporate and workforce ethos when working closely with HR colleagues to determine discretionary policies.
Pensions administration and communications	A detailed knowledge of the LGPS regulations' main features and requirements relating to: • administration and communications strategies • entitlement to and calculation of pension benefits • transfers in and out of the scheme • employee contributions • the delivery of administration and communications (including associated guidance). A detailed knowledge of the fund's pensions administration strategy, including how it is delivered (including, where applicable, the use of third-party suppliers and systems), performance measures and assurance processes.

	A detailed knowledge of the fund's communications policy, including how it is delivered (including, where applicable, the use of third-party suppliers and systems), performance measures and assurance processes. A strong understanding of best practice in pensions administration, eg performance and cost measures. A detailed knowledge of the fund's processes and procedures relating to: • member data maintenance and record keeping, including data improvement plans and relationships with employers for data transmission • contributions collection. A strong understanding of how discretionary powers operate. A strong understanding of how the fund interacts with the taxation system in relation to benefits administration, including the annual and lifetime allowances. A detailed knowledge of AVC arrangements, including: • the AVC arrangements that exist • the choice of investments to be offered to members • the provider's investment and fund performance • the payment contributions to the provider • the benefits that can be received by scheme members • how and when the AVC arrangements, including the investment choices, are reviewed.
Pensions financial strategy, management, accounting, report and auditing standards	A detailed understanding of the Accounts and Audit Regulations and legislative requirements relating to role of the committee and individual members in considering and signing off the fund's accounts and annual report. A detailed knowledge of relevant pensions accounting standards as they apply to the scheme and to the employer: • Pensions SORP • FRS 102 (IAS 19) • iFReM. A detailed understanding of the approach to pensions external audit as set down in APB Practice Note 15. A detailed understanding of the various elements of income into and expenditure of the fund, including the operational budget. A detailed understanding of the cash flows of the fund and how risks are managed to ensure appropriate cash is available to pay benefits and other outgoings. A detailed understanding of the role of internal and external audit in the governance and assurance process. A strong understanding of and compliance with the CIPFA *Statement of Expertise* as it applies to: • leadership and strategic management • governance, ethics and values • financial and performance reporting • audit and accountability • strategic and operational financial management • partnerships and stakeholder relations • change, risk and project management.

Investment strategy, asset allocation, pooling, performance and risk management	A detailed knowledge of the LGPS regulations' main features and requirements relating to investment strategy, asset allocation, the pooling of investments and responsible investments, including associated guidance. **Investment strategy** A detailed knowledge of the key risks that the fund is exposed to and how a fund's investment strategy should be considered in conjunction with these risks. A detailed knowledge of the risk and return characteristics of the main asset classes (equities, bonds, property) and the need to balance risk versus reward when determining the investment strategy. A detailed knowledge of the role of these asset classes in long-term pension fund investing. A detailed knowledge of the fund's cash flow requirements and how these impact on the types on investments considered. **Investment management** A strong understanding of prevailing market conditions within UK and overseas equity markets and UK bond and property markets. A strong understanding of the principles of portfolio construction within both bond and equity mandates. A strong understanding of portfolio risk monitoring techniques. A strong understanding of trading systems and practices within bond and equity markets. A strong understanding of the importance of setting appropriate benchmark indices. **Investment pool (England and Wales)** A detailed knowledge of the structure, operation and purpose of the investment pooling arrangements, including the structure of the relationship with the other participants in the pool. A detailed knowledge of the regulations, best practice and guidance related to investment pooling and the delivery of the investment objectives of the administering authority/pension committee by their chosen investment pool. A detailed knowledge of the boundaries of investment activities (eg strategy requiring advice from a suitably qualified person, in-house investment transactions), and which investment activities require FCA authorisation. A detailed knowledge of the interaction between the administering authority, the pension committee, the investment pool operator, investment pool oversight committee and other parties relating to the investment pooling arrangements – in particular, reporting requirements, influence and accountability. A detailed knowledge of the fund's investment strategy statement and the investment pool's interpretation and expected delivery of those investment objectives, including any objectives in relation to environmental, social and governance factors. **Total fund** A strong understanding of the importance of monitoring asset returns relative to the liabilities and a strong understanding of ways of assessing long-term risks. A strong understanding of the merits of manager diversification. **Performance of the committee** A strong understanding of the Myners principles and the need to set targets for the committee and to report against them. A detailed knowledge of the range of support services provided to the committee, who supplies them, and the nature of the performance monitoring regime.

	Performance of the investment pool (England and Wales) A detailed knowledge of the investment regulations and the requirements for monitoring investments. A detailed knowledge of the requirements of the investment pool in relation to the administering authority and pension committee investment strategy and how to effectively monitor the implementation of the investment strategy within the pool. A detailed knowledge of the non-financial risks within the operation and relationship with the investment pool (operator, oversight committee and other parties) and how these can be mitigated or best managed. **Responsible investment** A detailed knowledge of the latest developments and requirements in the area of responsible investment. A strong understanding of the UK Stewardship Code and the UNPRI and whether the fund is a signatory of these. A detailed knowledge of the fund's approach to responsible investment, including how views on environmental, social and governance issues are incorporated into the fund's investment strategy. **Risk management** A strong understanding about how to manage and reduce risk and lessen the impact of risk when it arises, including climate risk.
Financial markets and products	**Financial markets** A detailed knowledge of the primary importance of the investment strategy decision. A strong understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks. A strong understanding of the restrictions placed by legislation on the investment activities of LGPS funds. **MiFID II** A strong understanding of MiFID II requirements relating to the knowledge of decision makers. **Investment strategy** A strong understanding of long-term risk and return parameters of equity, bond and property markets and issues arising from short-term volatility. A strong understanding of the effects on overall risk and return of combining these asset classes in the pension fund strategy. A strong understanding of the relationship between the investment and funding strategies and the liabilities of the fund. A strong understanding of 'alternative' asset classes available for pension fund investment (private equity, infrastructure, absolute return mandates, etc), including the practicalities of investing, prospective risks and returns and correlation with other asset classes. A strong understanding of the costs and benefits of active and passive currency hedging strategies, including implementation issues.

	Investment manager structures A strong understanding of the relative attractions of active and passive management across different asset classes. A strong understanding of the role of active manager risk within the investment arrangements. A strong understanding of the concepts of 'risk budgeting', sources of return (alpha and beta) and improving the 'efficiency' of the arrangements. A strong understanding of the practical implications of pooled and segregated mandates in terms of setting investment guidelines, effecting transactions and client reporting. A strong understanding of the implications of combining managers with different investment styles. **Other issues** A strong understanding of the responsibilities of the custodian and procedures for reconciling information with investment providers. A strong understanding of the costs and benefits of stock lending and commission recapture programmes. **Investment pool (England and Wales)** A detailed knowledge of the investment pool operator's approach to pooling and delivering access to the different asset classes and/or investment funds. A strong understanding of which assets and investments may sit outside of the investment pool and their nature and characteristics. A strong understanding of how the fund interacts with the taxation system in the UK and overseas in relation to investments.
Pension services procurement, contract management and relationship management	**Understanding public procurement** A detailed knowledge of the background to current public procurement policy and procedures, the values and scope of public procurement and the roles of key decision makers and organisations. A detailed knowledge of the main public procurement requirements of UK and EU legislation and the use of national frameworks within the context of the LGPS. **Fund suppliers** An expert knowledge of the key decision makers in relation to the fund's procurements A detailed knowledge of the nature and scope of risks for the fund and of the importance of considering risk factors when selecting third parties. A detailed knowledge of how the fund monitors and manages the performance of its outsourced providers. A detailed knowledge of how the fund's suppliers are monitored, including: • the Myners principles • the need for strategic objectives for investment consultants. **Investment pool (England and Wales)** A detailed knowledge of the nature of the relationship with the investment pool parties and a detailed understanding of: • the extent of influence over the investment pool operator and oversight committee • the terms for terminating a pooling agreement • guidance on the requirement to pool investments.

ANNEX B

Role profile for chair of an LGPS pension committee

The role of the chair of the pension committee (or equivalent) requires post holders who have a wide experience of chairing meetings effectively, are good communicators and have at least some knowledge of pensions, financial or HR matters (through council, personal and/or career experience).

The above Knowledge Framework is developed further for the chair (and, by implication, the vice chair) in the following paragraphs by introducing key skills elements unique to the chair. This includes an expectation that the chair should individually have the appropriate level of knowledge in relation to all the competencies in Annex A, but noting that in some cases it will be necessary for a higher level of knowledge to be attained in some areas. The administering authority should ensure the chair is provided with the appropriate training to meet these requirements, preferably within six months of appointment.

PURPOSE OF ROLE

The purpose of the role is to ensure the pension committee properly carries out the delegated responsibilities of the administering authority with regard to legal requirements, the fund's aims, strategies and policies, and the administering authority's fiduciary and public law duties.

PRINCIPAL RESPONSIBILITIES

1. Chair the pension committee, ensuring that it carries out all responsibilities delegated to it by the administering authority as shown below:

   [Each administering authority to insert its own pension committee delegated responsibilities, which could include:

   - a principal aim to carry out the functions of [the council] as the scheme manager and administering authority for [the fund] in accordance with LGPS legislation
   - [the fund] being managed and payment of pensions made in accordance with LGPS regulations, HMRC requirements for UK-registered pension schemes and all other relevant statutory provisions
   - operating with regard to, and in the spirit of, all relevant statutory and non-statutory best practice guidance
   - ensuring robust risk management arrangements
   - approving [the fund's] aims and objectives, strategies, statutory compliance statements and non-statutory best practice guidance to manage [the fund] across governance, funding strategy, investment strategy, administration strategy, communications strategy and discretions and to monitor these policies/strategies

- appropriate delegations relating to LGPS pooling (in England and Wales)
- approving [the fund's] annual report and financial statements
- selecting, appointing, dismissing and monitoring the fund's advisors
- agreeing and monitoring business plans
- decisions relating to employers joining and leaving [the fund]
- terms and payment of bulk transfers into and out of [the fund]
- agreeing the knowledge and skills policy for [the fund], identifying training requirements, developing training plans and monitoring compliance of that policy
- agreeing consultation responses on matters that impact on [the fund's] stakeholders.]

2. Ensure that all decisions taken by the pension committee are made with due regard to the advice of the senior officers with pension fund responsibilities (eg the LGPS senior officer, head of pensions, chief finance officer) and the appointed fund advisors.
3. Uphold and promote the purpose of the committee and ensure that its terms of reference are followed in relation to all meetings.
4. Work with the LGPS senior officer and other senior fund officers as relevant to plan an effective work programme for the committee.
5. Assist the designated officer responsible for the fund's knowledge and skills or training policy and conflicts of interest policy in ensuring all committee members adhere to those policies.
6. Report to the administering authority and other employers as stakeholders, using practical and appropriate means of communication, to give assurances about the fund's governance, day-to-day operations, performance, risk management and internal control mechanisms.
7. Liaise with the LGPS senior officer and other senior fund officers as relevant and the fund's advisors in relation to the ongoing management of the fund, and to receive briefings in order to understand the context and implications of forthcoming issues.
8. Liaise with the chair of the local pension board and attend pension board meetings when requested, or where permitted.
9. Represent the administering authority as required at other committees and events, not limited to any asset pooling joint governance committee.

EXPECTED SKILLS AND CHARACTERISTICS REQUIRED FOR ROLE OF CHAIR

Requirement	Essential	Desirable
1. Educational	A strong understanding of pensions, financial or HR matters (through council, personal and/or career experience). Commitment to individually achieving the required level of knowledge in relation to the CIPFA Framework competencies (or alternatively requirements as set out by the administering authority).	Demonstrable evidence of knowledge kept up to date. Knowledge of pension funds and schemes.
2. Work experience	Political awareness in numerous political environments. Chairing high-level partnership meetings and achieving effective outcomes. Has operated for ten years at a senior level. Experience of risk and performance frameworks.	Previously chaired a pension committee or similar.
3. Abilities, intelligence and special aptitudes	Chairing skills. Influencing and consensus building. Listening skills. Able to assimilate complex information. Communication and engagement skills.	Mathematical/statistical literacy. Knowledge of public sector and local government finance.
4. Adjustment and social skills	Able to establish and maintain good working relationships with councillors, officers and advisors. Able to direct discussions in politically sensitive environments. Able to command respect and demonstrate strong leadership. Assertive in pursuing the correct course of action. Able to work effectively with colleagues who may have different levels of experience and understanding.	Diplomacy and tact.
5. Motivation	Enthusiastic, not easily deterred and able to convey enthusiasm to others. Committed to the aims and objectives of the fund.	
6. Equal opportunities	Understanding of and commitment to promoting equality of opportunity with an understanding of the pension context.	

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06/2021

Item No. 13	Classification: Open	Date: 20 October 2021	Meeting Name: Local Pension Board
Report title:		Pensions Advisory Panel Meeting Papers – 29 September 2021	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

The LPB is asked to:

- Note the key items covered at the 29 September 2021 Pensions Advisory Panel meeting.

Summary

1. **Asset Allocation – Agenda Item 7**

   - The Fund value increased by £89m during the quarter to June 2021.
   - The remaining passive developed market equities (£165m) held with BlackRock were transitioned to the BlackRock Low Carbon Equity Fund.
   - The remaining passive developed market equities (£98m) held with Legal and General Investment Management were sold to fund sustainable infrastructure and new ESG Priority Allocation commitments.

2. **Carbon Footprint Update – Agenda Item 8**

   - Reduction in the Fund's carbon footprint between September 2017 and June 2021 was 43.8%.

3. **Investment Strategy Statement (ISS) and Updated Investment Strategy – Agenda Item 9**

   - ISS covered elsewhere in this agenda.
   - The draft updated investment strategy sets out how the Fund will make progress towards achieving a net zero carbon target by 2030.

4. **Environmental, Social and Governance (ESG) Priority Allocation – Agenda Item 10**

- Following manager selection meetings held in the summer for the new 5% ESG priority allocation, it was recommended that the Fund makes commitments to each of the following investments:

  - Blackstone Capital Holdings GP Stakes Fund II
  - BTG Pactual Open Ended Core US Timberland Fund
  - Darwin Bereavement Services Fund

- The Temporis Impact Fund was also identified as an investment opportunity to continue the pipeline in the 5% allocation to the sustainable infrastructure portion of the Fund's agreed strategic asset allocation.

5. Performance Updates – Agenda Item 11

- Fund return quarter to June 2021: 5.5% (benchmark 5.1%)
- Fund return year to June 2021: 10.0% (benchmark 9.7%)
- Newton continues to achieve strong absolute performance, but lags behind their stretch target.
- Funding level increased by 3% over the quarter from 111% to 114% due to a greater than expected return on assets.

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	Caroline Watson	
Version	Final version	
Dated	14 October 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

Pensions Advisory Panel

Wednesday 29 September 2021
3.00 pm
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Membership

Councillor Rebecca Lury (Chair)
Councillor Jon Hartley
Councillor Eliza Mann

Staff Representatives
Chris Cooper
Julie Timbrell
Derrick Bennett

Officers
Duncan Whitfield
Caroline Watson
Barry Berkengoff

Advisors
David Cullinan
Colin Cartwright

INFORMATION FOR MEMBERS

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

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Members of the committee are summoned to attend this meeting
Eleanor Kelly
Chief Executive
Date: 29 September 2021

Pensions Advisory Panel

Wednesday 29 September 2021
3.00 pm
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Order of Business

Date: 29 September 2021

Item 5

Pensions Advisory Panel

MINUTES of the OPEN section of the Pensions Advisory Panel held on Wednesday 23 June 2021 at 3.00 pm at Online/Virtual

PRESENT: Councillor Rebecca Lury (Chair)
Duncan Whitfield
Caroline Watson
Chris Cooper
Julie Timbrell
Colin Cartwright
Jonathan Taylor
David Cullinan
James Gilliland
Jack Emery
Andrew Weir

1. APOLOGIES

Apologies were received from Councillor Eliza Mann (due to technical issues), Derrick Bennett, Mike Ellsmore and Barry Berkengoff.

2. CONFIRMATION OF VOTING MEMBERS

Councillor Rebecca Lury, Caroline Watson and James Gilliland were confirmed as voting members at the beginning of the meeting.

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

There were none.

4. DISCLOSURE OF INTERESTS AND DISPENSATIONS

There were none.

5. MINUTES

RESOLVED:

That the minutes of the meeting held on 3 March 2021 be agreed as a correct record.

6. INTRODUCTIONS

Everyone present introduced themselves.

7. ASSET ALLOCATION

Caroline Watson, Senior Finance Manager, presented the report on the asset allocation of the Fund.

It was noted that £160 million had been transferred to the BlackRock Low Carbon Equity Fund in April and that the remaining passive developed market equities currently invested with Legal and General would be sold with the proceeds being transferred to the BlackRock Liquidity Fund, to be held until required to fund drawdowns for investment commitments.

It was also noted that the Fund had increased in value by £30 million since the previous quarter.

RESOLVED:

That the Fund’s asset allocation at 31 March 2021 be noted.

8. CARBON FOOTPRINT UPDATE

Caroline Watson presented the report on the carbon footprint update.

It was noted that the Fund’s carbon exposure had been reduced by 34% since September 2017. It was also noted that Newton had now fully divested fossil fuels from its mandate.

There was a discussion regarding the increase in the proportion of the value of the Fund invested in emerging market equities over the quarter. It was noted that this was as a result of market movements and that this allocation would shortly be moved to a low carbon active fund, thereby reducing its carbon intensity going forward.

It was noted that the fund would see fluctuations like this until 2030 and that the Fund should not set hard targets as many global factors were out of the Fund's control.

RESOLVED:

That the Fund's updated carbon footprint as at 31 March 2021 be noted.

9. QUARTERLY INVESTMENT UPDATE

David Cullinan updated the panel. He advised that the Fund had performed well in the March quarter. It was noted that the Fund was in the top quartile of local authority pension funds.

Colin Cartwright and Jonathan Taylor from Aon addressed the panel. They provided an overview of the range of products that the Fund was invested in and how they rated these.

Caroline Watson advised that Aon were appointed as the investment advisors to the fund from 1 April 2021.

It was noted that Newton were behind on their target but that the target was an ambitious target.

RESOLVED:

That the quarterly investment updates be noted.

10. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PRIORITY ALLOCATION

Colin Cartwright from Aon presented the report. He advised that Aon had researched some funds that were familiar to both Aon and Southwark officers.

There was a discussion regarding the suggestions in the report. It was noted that the Fund was targeting being carbon neutral by 2030 and that the asset allocation may require to go through multiple iterations in order to achieve this.

There was a discussion regarding the Fund's objectives in relation to social and governance issues when it comes to making investments. It was noted that the Fund had to be careful about excluding a wide range of investments as this would increase the overall risk.

It was noted that officers and Aon would hold a meeting with selected fund managers on 28 July 2021.

RESOLVED:

That the report on Environment, Social and Governance (ESG) Priority Allocation be noted.

11. PENSIONS SERVICES UPDATE

The Pensions Manager was not present and the panel noted the report.

RESOLVED:

That the update on the pensions administration function be noted.

12. LOCAL PENSION BOARD UPDATE

Duncan Whitfield, the Strategic Director of Finance and Governance advised that the local pension board were currently looking at a process in relation to declarations of interest. In addition, this would also be looked into, in relation to the pensions advisory panel.

There were no questions.

RESOLVED:

That the update from the local pension board (LPB) meeting of 7 April 2021 be noted.

13. QUARTERLY ACTUARIAL FUNDING UPDATE

Caroline Watson presented the report on the update.

It was noted that the funding level at 31 March 2021 was 111%.

RESOLVED:

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

14. ANY OTHER OPEN BUSINESS

It was noted that the next meeting would take place on 29 September 2021.

The meeting ended at 4.08pm.

CHAIR:

DATED:

Item No. 7	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report title:		Asset Allocation June 2021	
From:		Divisional Accountant, Treasury and Pensions	

Recommendations

The PAP is asked to:

- Note the Fund’s asset allocation at 30 June 2021

Asset Class	Manager	Start of Quarter	End of Quarter	Start of Quarter	End of Quarter	Strategic Benchmark	Difference
		£000	£000	%	%	%	%
Global Equity	BlackRock	448,194	465,222	23.1	22.9	20	2.9
	Legal & General	458,876	393,781	23.6	19.4	20	(0.6)
	Newton	239,918	255,209	12.4	12.6	10	2.6
Total Global Equity		**1,146,988**	**1,114,212**	**59**	**54.8**	**50**	**4.8**
Diversified Growth	BlackRock	192,740	197,122	9.9	14.1	10	4.1
Total Diversified Growth		**192,740**	**197,122**	**9.9**	**14.1**	**10**	**4.1**
Absolute Return Bonds	BlackRock	135,739	135,308	7	6.7	5	1.7
Total Absolute Return Bonds		**135,739**	**135,308**	**7**	**6.7**	**5**	**1.7**
Property	Nuveen	194,899	202,844	10	10.0	15	(5.0)
	M&G	22,421	22,511	1.6	1.1	1.5	(0.4)
	Invesco	30,271	30,289	1.2	1.5	1.5	0.0
	Frogmore	7,365	7,352	0.4	0.4	1	(0.6)
	Brockton	5,425	5,591	0.3	0.3	1	(0.7)
Total Property		**260,381**	**268,587**	**13.4**	**13.2**	**20**	**(6.8)**
Sustainable Infrastructure	Glennmont	13,959	14,787	0.7	0.7	2	(1.3)
	BlackRock	3,486	3,004	0.2	0.1	1.5	(1.4)
	Temporis	23,818	23,979	1.2	1.2	1.5	(0.3)
Total Sustainable Infrastructure		**41,263**	**41,769**	**2.1**	**2.1**	**5**	**(2.9)**
Index Linked Gilts	BlackRock	72,214	87,588	3.7	4.3	5	(0.7)

Asset Class	Manager	Start of Quarter	End of Quarter	Start of Quarter	End of Quarter	Strategic Benchmark	Difference
		£000	£000	%	%	%	%
	Legal & General	87,638	91,280	4.5	4.5	5	(0.5)
Total Index Linked Gilts		**159,852**	**178,868**	**8.2**	**8.8**	**10**	**(1.2)**
Cash & Cash Equivalents	Nuveen	5,516	6,014	0.3	0.3	0	0.3
	Blackrock	0	90,000	0	4.4	0	4.4
Total Cash & Cash Equivalents		**5,516**	**96,014**	**0.3**	**5**	**0**	**4.7**
Total		**1,942,479**	**2,031,881**	**100**	**100**	**100**	

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	James Gilliland	
Version	Final	
Dated	22 September 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		22 September 2021

Item No. 8	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint – 30 June 2021	
From:		CIPFA Trainee, Treasury & Pensions	

Recommendations

The PAP is asked to:

- Note the Fund’s updated carbon footprint as at 30 June 2021.

Since December 2018 the Fund has engaged Sustainalytics to assist with assessments of the CO_2 equivalent exposure of its equity holdings. The table below sets out the weighted carbon intensity by asset class since September 2017.

Asset Class	Fund Managers	Current Target Asset Allocation	Weighted Carbon Intensity (tCO_2e/$m revenue)											
			September 2017	December 2017	March 2018	June 2018	September 2018	December 2018	December 2019	June 2020	September 2020	December 2020	March 2021	June 2021
Equity – Developed & Low Carbon	Blackrock, LGIM	35.0%	98.7	98.7	81.2	63.9	63.9	49.6	62.9	50.8	55.1	44.1	47.2	25.5
Equity – Global	Newton	10.0%	10.6	10.6	10.4	10.4	10.4	4.7	3.7	3.7	7.0	7.0	4.4	4.6
Equity – Emerging Markets	Blackrock	5.0%	18.1	18.1	18.1	18.1	18.1	16.0	14.7	13.9	14.1	15.0	19.1	18.3
Diversified Growth	Blackrock	10.0%	26.7	22.4	17.6	20.0	10.1	15.0	15.1	20.9	15.9	16.0	15.6	14.2
Absolute Return Fixed Income	Blackrock	5.0%	22.4	16.9	14.3	13.4	15.9	11.5	8.3	15.6	7.1	8.7	10.0	9.8
Property	Invesco, M&G, TH, Brockton, Frogmore	20.0%	23.2	23.2	23.1	22.8	22.8	21.5	21.5	21.5	21.5	21.5	21.5	21.5
Sustainable Infrastructure	Glenmont, Temporis, BlackRock	5.0%												
Il Gilts	LGIM, Blackrock	10.0%	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	26.0
Total		**100.0%**	**213.7**	**204.0**	**178.7**	**162.5**	**155.2**	**132.3**	**140.2**	**140.4**	**134.6**	**126.3**	**131.7**	**120.0**
Change Equity %				**0.0%**	**-13.9%**	**-27.5%**	**-27.5%**	**-44.8%**	**-36.2%**	**-46.4%**	**-40.2%**	**-48.2%**	**-44.5%**	**-62.0%**
Change Diversified Growth %				**-16.0%**	**-34.0%**	**-25.0%**	**-62.1%**	**-43.7%**	**-43.4%**	**-21.4%**	**-40.5%**	**-39.8%**	**-41.5%**	**-46.9%**
Change Absolute Return Fixed Income %				**-24.3%**	**-36.3%**	**-40.2%**	**-28.7%**	**-48.8%**	**-62.8%**	**-30.0%**	**-68.4%**	**-61.2%**	**-55.4%**	**-56.1%**
Change Property %				**0.0%**	**-0.2%**	**-1.7%**	**-1.7%**	**-7.1%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**
Total Change in Footprint %				**-4.5%**	**-16.3%**	**-23.9%**	**-27.4%**	**-38.1%**	**-34.4%**	**-34.3%**	**-37.0%**	**-40.9%**	**-38.3%**	**-43.8%**

Change of Approach

1. Measuring index linked gilts is not currently possible as it involves trying to measure the footprint of the UK government. In order to be prudent, a proxy value has been generated based upon the asset class with the highest carbon footprint. In order to offer consistency in reporting, index-linked gilts are now included in all month's calculations, where previously they were only included from December 2019. Additionally, for the most recent quarter, the assessment of the proxy figure has been changed to reflect our latest assumptions. We will continue to work to improve the carbon footprint measurement over time and the continuing suitability of the index linked gilts holdings will be reviewed before March 2022 as part of the investment strategy review.

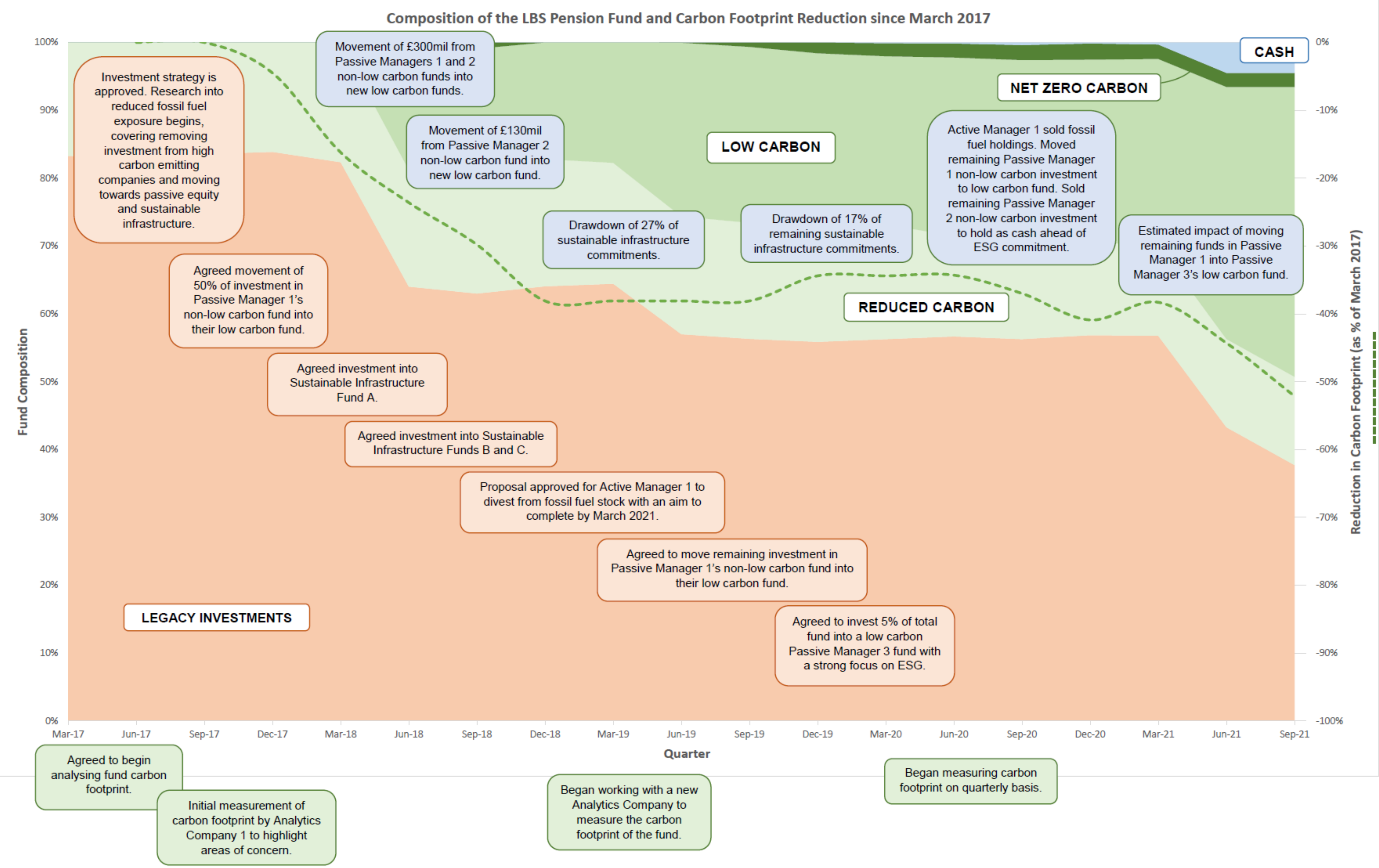
Results

2. The results for June 2021 show that the Fund has reduced its weighted carbon exposure by 44% since September 2017. This is predominantly driven by the movement of the holdings in passive developed market equities to low carbon funds.

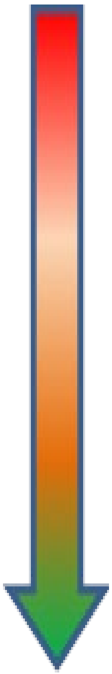
3. The unweighted exposure for each investment is set out below ranked in order of carbon footprint, from lowest to highest exposure.

		Jun-21
Asset Class	Fund Manager	Unweighted Carbon Intensity (tCO2e/$M revenue)
Equity – Active	Newton	37.4
Equity – Developed Low Carbon	Blackrock, LGIM	88.5
Diversified Growth	Blackrock	145.0
Il Gilts	LGIM, Blackrock	145.0
Absolute Return Fixed Income	Blackrock	146.4
Property	Invesco, M&G, TH, Brockton, Frogmore	215.4
Equity - Emerging Markets	Blackrock	330.1

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



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



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.

AUDIT TRAIL

<table>
<tr><td>Lead Officer</td><td colspan="2">Duncan Whitfield</td></tr>
<tr><td>Report Author</td><td colspan="2">Jack Emery</td></tr>
<tr><td>Version</td><td colspan="2">Final</td></tr>
<tr><td>Dated</td><td colspan="2">22 September 2021</td></tr>
<tr><td>Key Decision?</td><td colspan="2">N/A</td></tr>
<tr><td colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</td></tr>
<tr><td>Officer Title</td><td>Comments Sought</td><td>Comments Included</td></tr>
<tr><td>Director of Law and Governance</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Strategic Director of
Finance and Governance</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Cabinet Member</td><td>N/A</td><td>N/A</td></tr>
<tr><td colspan="2">Date final report sent to Constitutional Team</td><td>24 September 2021</td></tr>
</table>

Item No. 9	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report title:		Draft Updated Investment Strategy	
From:		Senior Finance Manager, Treasury & Pensions	

RECOMMENDATIONS

1. The PAP is asked to:

   a. Consider the updated Investment Strategy Statement and make recommendations as appropriate.
   b. Consider the draft updated investment strategy and make recommendations as appropriate.

Background

2. In accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, an Administering Authority must prepare and maintain a written Investment Strategy Statement ("ISS") of the principles governing its decisions on the investment of the Fund. The ISS must be in accordance with guidance issued by MHCLG.

3. The Fund's existing ISS was published in April 2017 and there is a requirement to review the policy from time to time and at least every three years.

4. The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments that the Fund will invest in particular investments or classes of investment.

5. As part of the 2017 Investment Strategy Statement, and following the council's commitment to reduce fossil fuel exposure in the pension fund's investments over time, an investment strategy setting out how this would be achieved was agreed.

Revised Investment Strategy

6. The previous strategy has acted to counteract the risk to the Fund of exposure to fossil fuels. When this strategy was agreed, we set out a short, medium and long term plan.

7. During this time significant progress has been made, whilst maintaining investment performance. This strong performance, along with the Fund's conviction that strong investment performance can be delivered alongside reducing carbon exposure, has demonstrated that it is now appropriate to move

to the next stage of revising the strategy to make further progress towards a net zero carbon commitment by 2030.

Next Steps

8. PAP members are asked to provide feedback and proposed amendments on the updated Investment Strategy Statement and Investment Strategy.

9. The final version of both documents will be agreed at the next PAP meeting in December 2021, when the new Investment Strategy will be launched.

APPENDICES

Appendix	Title
1	Investment Strategy Statement

AUDIT TRAIL

Lead Officer	Duncan Whitfield		
Report Author	Caroline Watson		
Version	Final		
Dated	22 September 2021		
Key Decision?	N/A		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Director of Law and Democracy		N/A	N/A
Strategic Director of Finance and Governance		N/A	N/A
Cabinet Member		N/A	N/A
Date final report sent to Constitutional Team			22 September 2021

Investment Strategy Statement

London Borough of Southwark Pension Fund

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 requires administering authorities to formulate and to publish a statement of their investment strategy (ISS), in accordance with guidance issued from time to time by the Secretary of State.

This ISS has been designed to be a living document and is an important governance tool for the London Borough of Southwark Pension Fund (the Fund). This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, outlines the Fund's approach to managing risk, how environmental, social and governance issues are taken into account and the approach with regard to pooling of investments. This document replaces the Fund's Statement of Investment Principles.

This statement will be reviewed by the Pensions Advisory Panel annually, or more frequently should any significant change occur, with any resulting recommendations made to the Strategic Director of Finance and Governance.

Southwark Council is the administering authority for the Southwark Local Government Pension Fund and bears ultimate responsibility for the funding of member pensions. The management and strategic direction of the Fund, whilst separate from the council, will always take into consideration the council's long term objectives.

In this regard the Fund's investment principles are aligned with the council's fairer future principles as defined in the Council Plan, in particular, the fairer future value of "spending money as if it were from our own pocket" and the "fit for the future" principles to ensure financial sustainability.

https://moderngov.southwark.gov.uk/documents/s90466/Appendix%201%20Council%20Plan%202018-2022%20refresh%20updated.pdf

The pension fund has its own climate strategy and goals which go over and above those of the borough, ensuring it is as a minimum in line with the Council's commitment to make the borough carbon neutral by 2030. This is also ahead of the UK government's commitment to achieve net zero by 2050.

The Fund is fully committed to collaboration with other local authority partners and in 2015 invested in the London Collective Investment Vehicle (CIV). The London CIV is a collaborative venture between local authorities to deliver benefits of investment scale and efficiency to the participating Funds. The Fund will continue to support the development of the London CIV as an investment vehicle.

2. Investment objectives and principles

The Fund is an open, defined-benefit pension fund as part of the national Local Government Pension Scheme. The Scheme rules are determined at national level and cover many elements of the Fund, such as employee benefits and employee contributions. The nature of the Fund and scheme design means that payment of pensions will extend over the very long term.

In setting the investment strategy the Fund seeks to balance twin objectives: first, to achieve sufficient long-term returns for the Fund to be affordable and second, to keep the employers' contribution rate as stable as possible.

The Fund will seek to operate a long term, sustainable strategy; one which does not rely upon the pursuit of short term returns or adherence to asset management trends, but utilises a well structured asset and fund manager investment allocation to target long term socially responsible investment performance. The Fund's uncomplicated investment structure provides significant flexibility and adaptability if required.

To achieve the twin objectives, the Fund needs to invest in a diverse range of assets which provide higher returns relative to the growth of pension liabilities whilst taking account of the volatility inherent in investment markets. The principles set out below provide high level guidance on how the Fund seeks to meet these objectives and manage the associated risks.

Governance

- The Fund seeks at all times to adopt best practice governance standards within a structured framework, compliant with regulatory requirements and with expert independent advice taken throughout the decision making process.
- The Fund will operate with transparency and be accountable for decision making to stakeholders and scrutiny bodies.
- The Fund will ensure that officers and members of the Pensions Advisory Panel and Local Pension Board have the necessary skills, expertise and resources to ensure effective and evidence based decision making regarding the Fund's investment strategy.

Investment structure and risk management

- The Fund is a long term investor and as such the Fund invests in a wide range of investment assets, which may be volatile (such as equity) or illiquid (such as property), but that over the long term can generate a sufficient return to at least meet the Fund's pension obligations.
- The Fund operates an evidence and research based approach to investment; continually utilising research and guidance from investment professionals and peers, and seeking continual development in the understanding of investment.

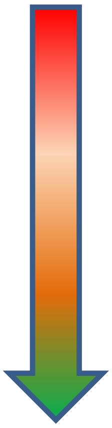
- The Fund recognises the importance of having the right asset allocation, but also the value of developing the most appropriate structure and appointing suitable investment managers. The Fund will take account of market movements, cycles and the economic background in decision making, but will avoid making decisions on a purely short term basis.
- The Fund will be comprehensive in the consideration of risks; the Fund will base assessments of risk on future pension liabilities and contributions, will consider financial and non-financial risks, diversify investment assets in an appropriate manner, but also recognise the limits of that diversification. As a long term investor the Fund understands that investment success depends significantly on the sustainable growth of the economy.
- The Fund will seek the most efficient and cost-effective solutions to achieving the Fund's objectives. This may involve active management and other services where additional costs are justified. Fees will always be considered in the context of overall performance and it is recognised that higher performance may be associated with higher fees.
- The Fund is a shareholder in the London CIV, with the Fund making regular contributions to the London CIV to assist in the development and expansion of the collaborative venture. Any future investments within the London CIV will be dependent upon the satisfactory completion of detailed due diligence and review to the same high standard that would be undertaken outside the investment pool.

Responsible investment and stewardship

- The Fund is a responsible investor; holding the belief that integrating responsible investment factors such as ESG in the investment process will protect, if not generate better returns over the long term.
- The Fund seeks to integrate responsible investment factors into the investment process across all asset classes.
- The Fund is prepared to be innovative in its investment strategy in order to cultivate positive social impact, within a framework of prudence and fiduciary duty.
- The Fund will proactively exercise responsible stewardship of assets held and act as a responsible voice in the broader investment community through platforms such as the Local Authority Pension Fund Forum.
- The Fund will collaborate with others whenever possible to share ideas and best practice, and to improve effectiveness and to reduce costs.
- The Fund considers the impacts and opportunities provided by climate change on both a Fund and wider social level, and so holds a commitment to meeting net zero carbon emissions from pension fund investment by 2030 with no direct investment in companies exposed to fossil fuels.

Categorisation of Investments

There is currently no standardised way of measuring the relative performance of different funds' carbon profiles; however, Southwark continues to work on its carbon footprint and investment classifications (see key below) to illustrate the progress being made.



NON LOW CARBON 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.

The Fund will at all times monitor investments that are specifically reduced, low and zero carbon to ensure the Fund progresses towards the stated objectives of this strategy.

Within the context of achieving sustainable long-term returns, the Fund will always seek, as part of any reallocation of assets, to achieve a lower carbon footprint following the reallocation. Every new investment made will endeavour to be lower carbon than the one it is replacing.

The chart in Appendix B shows how the investment strategy has been implemented to date, with progressively greater proportions of the overall Fund invested in "greener" funds.

3. Investment strategy and the process for ensuring suitability of investments

The Fund's asset strategy, along with an overview of the role each asset plays is set out in the table below:

Asset class	Target Allocation %	Investment Style %	Maximum Allocation %	Role (s) within the strategy	Carbon Classification
Equity	50.0	Passive 35.0	65.0	Expected long term growth in capital and income in excess of inflation over the long term.	Low Carbon
		Active - Direct 10.0			Reduced Carbon
		Active – Indirect 5.0			Low Carbon
Diversified Growth	10.0	Active 10.0	20.0	Primarily for diversification from equities. Equity like returns over time with a lower level of risk.	Non low carbon
Absolute Return Fixed Income	5.0	Active 5.0	10.0	Diversified approach to fixed income investing which is not solely dependent on the direction of interest rates.	Non low carbon
Index Linked Gilts	10.0	Passive 10.0	40.0	Low risk (relative to the liabilities) asset that provides inflation linked income and protection from falling interest rates.	Non low carbon
Property	20.0	Direct 14.0	30.0	Provides diversification from equities and fixed income. Generates investment income and provides some	Reduced Carbon
		Pooled Fund 6.0			Reduced Carbon

				inflation protection.	
Sustainable Infrastructure	5.0	Limited Partnership 5.0	10.0	Asset class provides additional diversification from traditional asset classes. Generates sustainable, reliable income with significant linkage to inflation. Provides risk mitigation from declining fossil fuel usage.	Zero carbon

The above table sets out the Fund's asset allocation strategy with a target allocation to each asset class. If the actual asset allocation as at a reporting quarter end moves outside a target range for a particular asset class, (plus or minus 5% of total investment assets) the Strategic Director of Finance and Governance will review the portfolio(s) and prevailing market conditions to determine if a corrective rebalancing action is required. A breach of the target range will not automatically trigger a portfolio rebalance.

Under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Fund is required to set maximum investment limits pertaining to different asset classes so that actual allocation to those asset classes will not breach this maximum limit. The limits as applied to the Fund are set out in the above table.

Appendix A shows the Fund's current investment manager appointments and mandates.

The Fund's asset allocation is reviewed on an ongoing basis and undergoes a triennial strategy review as part of the actuarial valuation process. The triennial review, which reflects updated actuarial and capital market assumptions, looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund is able to meet its future benefit obligations as they fall due.
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and associated surplus/deficit.
- An analysis of the order of magnitude of the various risks facing the Fund, so that the Fund can focus upon the most significant risks.

- The desire for diversification across asset class, region, sector, and type of security.

4. Risk measurement and management

The risks inherent within the Fund are assessed both qualitatively and quantitatively as part of regular investment strategy reviews by the Strategic Director of Finance and Governance and the Pensions Advisory Panel. The Fund uses specialist external investment advisers under contract, to support these reviews and on an ongoing basis. The Fund highly values the use of specialist support in the management of performance and risk.

The table below, based on the 31 March 2019 Actuarial Valuation results and estimates, shows how a range of events could impact on the Fund:

Event	Event movement	Impact on the Fund
Fall in equity markets	25% fall in equities	£223m
Rise in inflation	1% increase in inflation	£314m
Fall in interest rates	1% fall in interest rates	£314m
Underperformance by the active managers	3% collective underperformance	£31m

The Fund's overall investment strategy is designed to mitigate much of the underlying risk through the holding of a variety of different, diverse asset classes (e.g. long term directly held property investments).

Equity risk

The largest asset risk to the Fund is in relation to its equity holdings. Should equity markets deteriorate significantly this will have a large negative impact on the Fund's assets. The Fund invests in equities in order to provide the necessary long term expected returns to help ensure that the Fund remains affordable. The Fund believes that the extra returns that are expected to be generated by equities compensate for the level of risk equities bring to the Fund. However, the Fund is aware of the need for diversification in growth assets, and the Fund's strategy reflects this via allocations to absolute return investment mandates (with an asymmetric profile) and property (with a lower correlation to equity).

Inflation

CPI inflation will increase the value of pension benefits accrued by active and deferred members of the Fund as well as increasing the value of pensions in payment. The Fund has an allocation to index linked gilts for explicit inflation protection and other investment assets, such as property and equities, in the expectation that these will achieve returns in excess of inflation over time.

Active manager risk

Active investment managers are appointed to manage a portion of the Fund's assets. This brings with it the risk of underperformance relative to the market but also brings the chance of additional returns and diversification. The additional risk is small relative to other risks. Extensive due diligence is undertaken before managers are selected and investment managers are also monitored regularly by Fund officers, the Pensions Advisory Panel, and by the Fund's investment advisors.

Liquidity risk

The Fund recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon and the potential for an illiquidity premium in investment returns, the degree of liquidity risk within the portfolio is considered as acceptable. The Fund has a large allocation to property and is building and exposure to sustainable infrastructure, but the majority of the Fund's assets are realisable at short notice.

The table below sets out a summarised cash flow position of the Fund over the last five financial years.

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Contributions and Transfers In	55,789	54,711	58,891	65,787	69,712
Benefits and Transfers Out	(60,269)	(63,406)	(71,384)	(71,384)	(67,580)

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Investment Income	14,324	15,432	15,287)	15,287	12,636
Net Position	**9,844**	**10,054**	**10,917**	**9,690**	**14,768**

The Fund is currently cash flow positive; in that the sum of contributions received and investment income is greater than the benefits paid out to pensioners. During 2020-21 the Fund received £14.8m more in contributions and investment income than was paid out in benefits. As such the Fund is not currently exposed to unplanned and inefficient divestment of assets.

Exchange rate risk

This risk arises from investing in unhedged overseas (non GBP denominated) assets, with all pension benefits due to be paid in sterling. As a long term investor the Fund takes the view that currency volatility can be tolerated. Sterling has for many years been a depreciating currency and the Fund has benefitted significantly in return terms from not hedging this risk. The Fund's portfolio is well diversified across asset classes, geography and investment managers.

Demographic risks

The Fund is subject to a range of demographic risks, but with particular importance to the investment strategy is the possibility of a maturing Fund membership profile. This would involve a change in the ratio between active members contributing into the Fund and pensioner members drawing pension benefits from the Fund. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments is greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

Environmental, social and corporate governance policy

The Fund is a long term investor that aims to deliver a truly sustainable pension fund; ensuring that it is affordable, delivers financially to meet the objectives of the Fund employers, and is invested responsibly.

The fiduciary duty of the Fund is to act in the best long term interests of Fund members. To do so properly requires the Fund to recognise that environmental, social and governance issues can impact on the Fund's financial performance and that they should be taken into account in funding and investment strategies, and throughout the funding and investment decision making process.

The Fund will seek to incorporate ESG considerations at all stages in the investment process; from the overall asset allocation, to individual investment selections, and continued engagement and responsible stewardship of Fund assets.

The responsible investment objectives of the Fund are promoted through membership of the Local Authority Pension Fund Forum (LAPFF). As a LAPFF member the Fund allies itself with 89 other shareholders with combined assets of over £300 billion to influence key areas of responsible investment interest.

Fund engagement is crucial in relation to improving standards of corporate governance, which over the long term is expected to enhance investment returns. Details of the Fund's approach are set out in section 6 as well as the approach for the implementation of moving towards a zero carbon commitment as Appendix D.

The Fund's key responsible investment principles are set out below:

- Apply long term thinking to deliver long term sustainable returns.
- Seek sustainable returns from well governed and sustainable assets.
- Apply a robust approach to effective stewardship.
- Engagement through voting, meetings, and the LAPFF is a valuable tool to influence organisations in areas of responsible investment interest.
- Ensure that responsible investment is a core competency and skill to support decision making.
- Seek to innovate, demonstrate and promote responsible investment leadership and ESG best practice.
- Apply evidence based decision making in the implementation of responsible investment.
- Achieve improvements in ESG through effective partnerships with the London CIV and LAPFF.
- Share ideas and best practice to achieve wider and more valuable responsible investment outcomes.
- Be transparent and accountable in all Fund activities.
- Consider the costs of responsible investment decisions alongside fiduciary responsibilities.
- To continue with a structured, measured process of reducing with an aim of eliminating investments in fossil fuels.

Environmental, social and governance risks

The Fund may consider investments that have an explicit focus on delivering wider social and environmental impacts provided there is no risk of significant financial detriment to the Fund.

The Fund recognises the growing financial risks associated with investment in traditional energy sources and is fully committed to the achievement of carbon neutrality. The Fund commits to transferring any current investments in these traditional energy sources in a way that is both structured and affordable and also meets the Fund's fiduciary duties.

The Fund is committed to a process to achieve a neutral carbon footprint by 2030. This will be accomplished through a phased divestment and transfer of assets into reduced, low and zero carbon products.

Appendix D outlines the approach by which the Fund will achieve this objective, how the risks and other considerations associated with such a commitment will be managed and how the divestment will be incorporated into the asset allocation strategy for the Fund.

5. Approach to asset pooling

The Fund is a shareholder of the London Collective Investment Vehicle (CIV). The London CIV was created in 2015 and continues to progress the opening of a range of sub-funds for potential investment. As part of any future changes to investment strategy, the Fund will look first to the availability of appropriate investment products within the London CIV.

The transition of any assets into the pool will follow the normal due diligence process with consideration of: transition costs, fit with overall strategy, fees (direct and indirect), reporting arrangements, ESG requirements and, most importantly, expectations for future performance.

The Fund currently pays a contribution to London CIV for passive investments. This amounts to approximately £50,000 per annum. This fee arose from collective fee arrangements with the CIV, although these are not assets under management of the London CIV (value as at 30 June 2021 £1.07 billion, approximately 55% of the Fund).

The Fund has a target allocation of 20% of the assets to illiquid property and the cost of exiting these strategies early in favour of a CIV alternative would have a significant negative financial impact on the Fund.

6. Policy of the exercise of rights (including voting rights) attaching to investments

The Fund follows the principles of the UK Stewardship Code and exercises the voting rights attached to its investments wherever it is possible and cost effective to do so.

The aim is to promote and support good corporate governance principles and best practice. Voting rights should be exercised in accordance with the best financial interests of both the beneficiaries and contributors to the Fund. Environmental, social and ethical considerations may be taken into account when exercising votes where this acts in these parties' best interests.

Fund managers have been instructed to vote in accordance with their house policies and practices, whilst also taking into account the Combined Code on Corporate Governance. Where practical, managers should vote in line with the council's priority themes.

Fund managers report in advance of all voting rights they intend to exercise on behalf of the Fund. They provide details of their house view and on how they intend to vote. They ensure that this is consistent with the council's key themes and also with the LAPFF principles.
Fund managers' views are compared with the voting recommendations of LAPFF. Where the fund managers' house views are not consistent with those of LAPFF, the fund manager is instructed by the Fund to vote in line with the recommendations of the LAPFF.

Fund managers provide a quarterly report on corporate governance activity. This lists all votes which have been exercised and all engagement with companies which has taken place. It allows for checks to be carried out in order to ensure all the Fund's voting rights have been exercised in accordance with policy. Summary reports outlining voting and engagement activity are provided at quarterly Pensions Advisory Panel meetings.

Myners Principles

The Government introduced a code in October 2001 based on the results of HM Treasury's review of institutional investment in the UK, carried out by Paul Myners. This code set out ten principles that were intended to improve the investment management of pension funds. These were updated in October 2008 and previously LGPS administering authorities were required to prepare, publish and maintain statements of compliance against a set of six principles within the Statement of Investment Principles. Although not specifically required by the Regulations the Fund sees the Myners Principles as a relevant governance tool and will continue to report on compliance.

The Fund is fully compliant with the six principles and Appendix C sets out the compliance statement.

Advice Taken

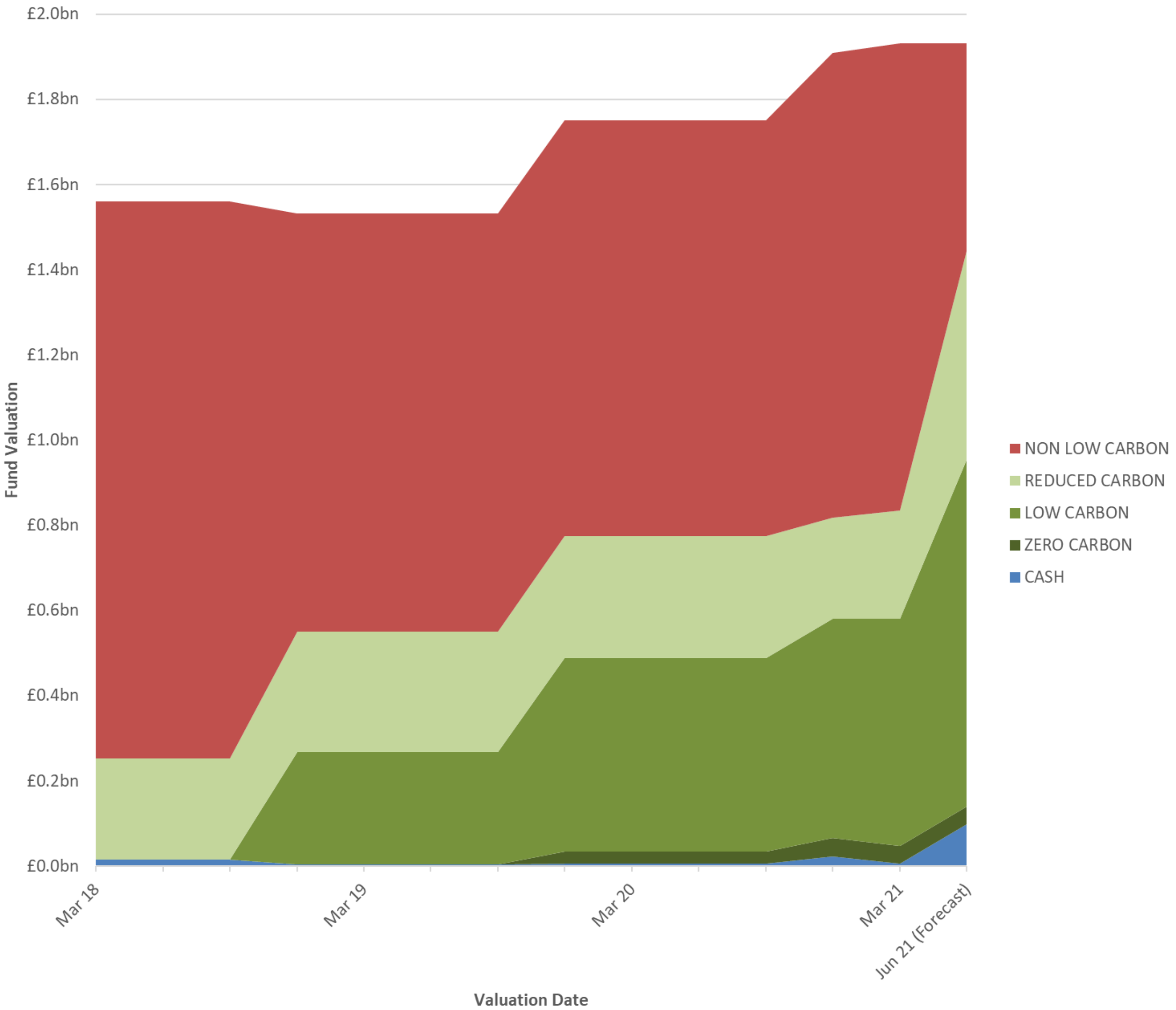
In creating this statement, the Fund has taken advice from its investment consultant, independent adviser and has sought the views of the Local Pension Board. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, advice has been taken from its investment consultant and scheme actuary Aon.

Appendix A – Current investment managers and mandates.

Manager	Mandate	Benchmark	Benchmark Weight (%)	Outperformance target (% p.a.)	Carbon Classification
BlackRock	Low carbon passive Global Equities	MSCI World Low Carbon Target Reduced Fossil Fuel Select Net Index	15.0	-	Low Carbon
BlackRock	Index Linked Gilts	FTSE UK Gilts Index-Linked over 5 Years Index	5.0	-	Non low carbon
BlackRock	Dynamic Diversified Fund	LIBOR	10.0	+3.0% net of fees	Non low carbon
BlackRock	Absolute Return Bonds	LIBOR	5.0	+4.0% net of fees	Non low carbon
Legal & General	Low carbon passive Global Equities	MSCI World Low Carbon Target	20.0	-	Low carbon
Legal & General	Index Linked Gilts	FTSE Index-Linked Over 5 Years	5.0	-	Non low carbon
Newton	Global Equity	FTSE All World	10.0	+3.0% net of fees	Reduced carbon
Nuveen	Core Property	7.0% p.a. absolute return	14.0		Reduced carbon
Frogmore	Opportunistic Property	16.5% p.a. absolute return	1.5	-	Reduced carbon
Brockton	Opportunistic Property	15.0% p.a. absolute return	1.5	-	Reduced carbon
Invesco	PRS Property	8.5% p.a. absolute	1.5	-	Reduced

		return			carbon
M&G	PRS Property	8.0% p.a. absolute return	1.5	-	Reduced carbon
Comgest	Active Emerging Market Equities	MSCI Emerging Markets – Net Return	5.0	-	Low Carbon
Glennmont	Sustainable Infrastructure	10% p.a. absolute return	2.0	-	Zero carbon
Temporis	Sustainable Infrastructure	10% p.a. absolute return	1.5	-	Zero carbon
BlackRock	Sustainable Infrastructure	10% p.a. absolute return	1.5	-	Zero carbon

Appendix B – Carbon Profile Allocation over Time



Appendix C

Myners Principles – Assessment of Compliance

1. Effective Decision-Making

Principle

Administering authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Pensions Advisory Panel is supported by suitably qualified officers and external advisors. All members of the Panel are offered training on appropriate topics.

2. Clear Objectives

Principle

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administering authority and scheme employers and these should be clearly communicated to advisors and investment managers.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Fund's objectives are set out in the Investment Strategy Statement and the Funding Strategy Statement. The objective, benchmark and risk parameters are clearly stated in the Investment Management Agreements with each investment manager.

- Covenants of all scheme employers are reviewed on an ongoing basis.

3. Risk and Liabilities

Principle

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The asset allocation strategy is reviewed every three years. Aon is commissioned to carry out an asset liability study which models the risk/reward characteristics of different investment strategies.

- The study follows the triennial actuarial valuation and the form and structure of liabilities are fully taken into account.

4. Performance Assessment

Principle

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Pensions Advisory Panel monitors the performance of the investment managers and the suitability of the investment strategy on a regular basis.

- Performance measurement is provided by JP Morgan and Aon.

- Assessment of the effectiveness of the administering authority is reflected through the effectiveness of the decision making in the investment returns achieved. Further, with the establishment of the Local Pensions Board, scrutiny of the Pensions Advisory Panel is now being undertaken.

- A procurement exercise was carried out in 2020-21 which resulted in the appointment of Aon as the fund’s investment advisors. They were appointed through the National

LGPS Frameworks and as such are subject to ongoing review at the framework level. Feedback is provided to the framework on an annual basis.

5. Responsible Ownership

Principle

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

- Include a statement of their policy on responsible ownership in the statement of investment principles.

- Report periodically to scheme members on the discharge of such responsibilities.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Fund has adopted the investment managers' policies on activism and each has adopted the Institutional Shareholders' Committee Statement of Principles. All investment managers adopt a policy of engagement with companies.

- The Fund's policy on responsible ownership is set out in its Investment Strategy Statement.

- Investment managers report on the exercise of voting rights and this is monitored by officers and the Pensions Advisory Panel to ensure consistency with the Fund's policy.

- The pension fund is a member of the LAPFF, the UK's leading collaborative shareholder engagement group.

- Responsible ownership is periodically reported to the Pensions Advisory Panel and states how active fund managers are discharging these responsibilities.

- A section on responsible ownership is included in the Pension Fund Annual Report and a member survey has been completed. These ensure that members are both provided with the relevant information and are able to input their views into the responsible ownership process going forward.

6. Transparency and Reporting

Principle

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

- Provide regular communication to scheme members in the form they consider most appropriate.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- Documents relating to the Pension Fund are published on the pension fund website.

- The annual report sets out the arrangements during the year for the management of investment, governance and risks and other relevant information.

- Members can also request information directly from the council.

- The Pension Advisory Panel meeting papers are published on the council's website.

Investment Strategy Statement: Appendix D

Southwark Pension Fund Investment Strategy to Achieve Net Zero Carbon Exposure by 2030: A Draft Approach

Introduction

The London Borough of Southwark Pension Fund is an open, defined-benefit pension fund as part of the national Local Government Pension Scheme. The nature of the Fund and scheme design means that payment of pensions will extend over the very long term.

In setting the investment strategy the Fund seeks to balance twin objectives: first, to achieve sufficient long-term returns for the Fund to be affordable and second, to keep the employer contribution rate as stable as possible.

In this respect, the Fund seeks to operate a long term, sustainable strategy; one which does not rely upon the pursuit of short term returns but utilises a well structured asset and fund manager investment allocation to target long term socially responsible, sustainable investment performance. The Fund avoids unnecessary complexity within its investment structure, appointing best in class managers within an asset class to achieve the strategic asset allocation. Having stronger relationships with a smaller number of managers provides significant flexibility and adaptability if required.

To achieve the twin objectives, the Fund needs to invest in a diverse range of assets, which provide higher returns relative to the growth of pension liabilities whilst taking account of the volatility inherent in investment markets.

As a long term investor, with significant investment assets and pension liabilities the Fund must be comprehensive in the consideration and mitigation of risks that the portfolio faces. The Fund will base assessments of risk on future pension liabilities and contributions, will consider financial and non-financial risks, diversify investment assets in an appropriate manner, but also recognise the limits of that diversification.

A developing risk to the Fund is from investment exposure to fossil fuels. Extraction and combustion of fossil fuels generate significant carbon dioxide (CO_2) output. There is a growing scientific consensus[1] that continued CO_2 production will have a detrimental impact upon the earth's climate.

The Fund, through its diversified portfolio of investments, is exposed to assets where a portion of the market value is derived from current or future extraction and production of fossil fuels. Global and local regulatory restrictions on fossil fuel extraction and usage, in addition to changing consumer trends, may degrade the viability of fossil fuel extraction and usage. The value of investments in companies that derive much of their revenue or value from these resources would be at risk.

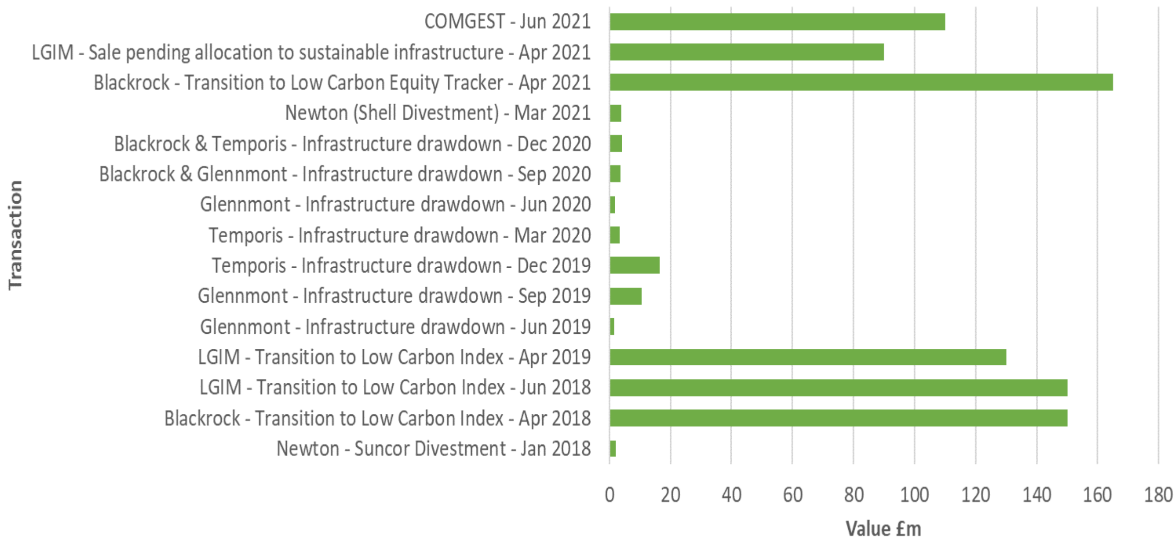
On 13 December 2016, after due consideration of the long term risk to the Fund; the Fund announced that investments in fossil fuel companies would be cut over the long term. This commitment was incorporated into the Investment Strategy Statement for the Fund published in March 2017 and updated in December 2021. Southwark is one of the first LGPS Funds to make such a commitment and places the Fund at the forefront of sustainable fossil fuel aware investment.

(Link to updated ISS to be inserted when published)

The Fund recognises the growing financial risks associated with investment in traditional energy sources and is fully committed to transferring any current investments in these traditional energy sources in a way that is both structured and affordable and also meets the Fund's fiduciary duties.

[1] IPCC report, 'code red' for human driven global heating, warns UN chief / / UN News

The previous investment strategy committed to a reduction in exposure to fossil fuel generated significant CO_2 output. It was adopted in 2017 and has acted to counteract the risk to the Fund of investment exposure to fossil fuels, in line with other Fund responsibilities. In the period between 2017 and the adoption of the new strategy, the Fund's carbon exposure has reduced by 43%. When the previous strategy was agreed we set out a short, medium and long term plan. Over the last four years significant progress has been made in transitioning investments exposed to fossil fuels to products with lower carbon exposure, as set out in the chart below:



Equities

The Fund's holdings in passive developed market equities have been transitioned to passive low carbon equity funds. Emerging market passive equities have been switched to a new emerging market active equity strategic asset allocation. Investment has been made in the Comgest Emerging Markets Plus Fund, which demonstrates strong ESG credentials whilst maintaining performance targets. The Fund's active equities portfolio has divested from fossil fuel investments and a restriction has been placed on the portfolio preventing further investments in these companies or their industry peers.

The above changes have resulted in the Fund's 50% strategic allocation to equities now being entirely in low carbon holdings, whilst maintaining exposure to this asset class in a manner that continues to achieve the required level of risk and return.

New ESG Priority Allocation

A strategic allocation of 5% to alternative investments has been agreed. This allocation will have both low carbon and strong ESG credentials. (*Details of investments made within this allocation to be added here once ratified at September 2021 pensions advisory panel meeting)*.

New Allocation to Sustainable Infrastructure

Following the agreement to allocate 5% of the Fund to this asset class, commitments have been made to investments in three funds which specifically include investments in solar and wind power technologies identified by the fund managers.

During this time it has been possible to test performance against our commitment through the use of carbon foot printing. We have developed our approach and made ongoing improvements. Further work is required as the market develops and there are improvements in the availability and accuracy of the measurement of carbon intensity data.

The Fund has increased in value from £1.5bn in September 2017 to over £1.9bn in March 2021. Performance has remained strong in the short to medium term with returns at March 2021 as follows: 1 year 24.4%, 3 years 9.6%, and 5 years 10.4%. The one year return out-performed the average local authority return of 22.8% and the Fund has achieved top quartile performance in the longer term when compared to other local authorities.

These strong performance results give confidence in moving forward with a more definite plan to take the Fund to 2030. The Fund has reduced its carbon footprint by over 43% during this time whilst maintaining investment performance. Looking forward there remains a conviction that strong investment performance can be delivered alongside reducing carbon exposure, and it is appropriate to move to the next stage of making further progress towards a net zero carbon commitment by 2030.

This document outlines how the Fund will approach this divestment, how the risks and other considerations associated with such a commitment will be managed and how the divestment will be incorporated into the asset allocation strategy for the Fund.

Transition to Net Zero Carbon Principles:

The overall approach of the Fund to incorporating wider environmental, social and governance issues (ESG) is set out in more detail within the Investment Strategy Statement.

This applies throughout the investment process from the initial investment to ongoing engagement and responsible stewardship of Fund assets.

This document will specifically address the Fund's principles for the transition to net zero carbon: The four key principles for the document for divestment are set out below:

- Climate related risks and opportunities will be incorporated into the overall asset allocation strategy
- The commitment to reduction in fossil fuel investment is more than a long term risk mitigation strategy.
- Divestment is not risk free.
- Engagement and local authority partnerships - LCIV

Principle 1: Incorporation into asset allocation strategy

The primary purpose of the Fund is to meet the pension benefits for the members of the Fund. Every three years the Fund undergoes an actuarial valuation, which estimates the value of pensions due to be paid to members. The result of which allows the Fund to review the asset and investment strategy in order to establish the most appropriate mix of assets to best achieve the required level of net of fees investment return on an appropriate risk adjusted basis, whilst ensuring diversity of assets, sufficient liquidity and appropriate governance of the investments.

The Fund will seek to fully integrate fossil fuel risk and opportunities into the investment strategy review process, from overarching asset allocation to individual investment choices. All investments will be considered through the lens of fossil fuel risk, but that any investment cannot be separated from the overall investment objectives for the Fund and must be subject to a full business case in consideration of the overall portfolio as well as fees and transition costs.

Principle 2: More than a long-term risk mitigation strategy

The Fund has a fiduciary duty to all the employers within the Fund and for the scheme members, and as such must manage the investment assets effectively with an investment time horizon in line with the liabilities for the Fund and have due regard to the investment risk inherent within the portfolio.

The Fund recognises the risk that fossil fuel investment places upon the Fund for future investment and as such, this document largely involves the desire to mitigate risk.

However, purely focussing upon those investments that are negatively exposed to the decline in profitability and viability of fossil fuel extraction and usage excludes a key consideration for the Fund; identifying those investments that are positioned to gain from such a transition.

The Fund therefore will proactively seek to identify suitable investments that fit within the overall asset allocation strategy and will be the beneficiaries from a low carbon regulatory and investment environment. The Fund will target both a downside risk mitigation strategy and a desire to invest in positive 'green' focussed assets.

Principle 3: Divestment is not risk free – Potential for negative implications

It is imperative that, as set out in Principle 2, the Fund must seek to incorporate fossil fuel considerations into the overarching investment strategy rather than seeking to separately implement fossil fuel risk mitigation approaches.

The Fund has long held a large portion of equity investments as passive (investments that are held in the same proportion as that of the market as a whole) with a current target allocation of 35%. This approach acknowledges the challenges and typically higher costs involved in seeking to predict future investment winners and losers. The inclusion of a fossil fuel risk mitigation strategy within this leads to a risk that in the short term the Fund may be negatively exposed to overall market returns if fossil fuel based investments outperform the wider market. Global usage of fossil fuels is still predicted to comprise a significant portion of global energy usage in years to come and as such the Fund must be cognisant of the potential investment returns forgone should fossil fuel usage decline at a rate slower than the market has priced in.

There are likely to be additional management expenses within equity investment mandates that have some element of fossil fuel exclusion. As such the Fund must be confident that the additional risk from holding a portion of the Fund that is exposed to fossil fuels must be considered to be greater than the additional burden of higher management fees and any associated costs of transitioning assets from one mandate to another. It is therefore important for the Fund to collaborate with other local authority partners to work to reduce the costs for such reduced fossil fuel investments. The Fund works with its advisers and asset managers to ensure that there is no expected financial detriment associated with asset allocation shifts made to low carbon alternatives.

The measurement and assessment of which investments are most exposed to fossil fuels is not straightforward. Some companies may hold fossil fuel reserves or operations which are more damaging to the environment as a result of greater CO_2 output but that might be paradoxically less exposed to changing regulatory environment due to lower extraction costs. Companies not directly involved in the production or extraction of fossil fuel may derive significant portions of their revenue from fossil fuel companies. The Fund must ensure that any assessment of exposure to fossil fuels risk is sophisticated, and that investments are not distorted by inaccurate data.

Principle 4: Engagement and Local Authority Partnerships - LCIV

There is growing appreciation of the growing risks and opportunities that Pension Funds face from the transition away from traditional fossil fuel usage, including among Local Government Pension Funds. It is important that the Fund works with other Local Authority partners to share knowledge and best practice as well as utilising collective assets to push for the most effective and efficient implementation of reduced fossil fuel strategies.

The Fund will work with local authority partners as well as the LCIV, the pooled investment vehicle of which the Fund is a shareholder and active supporter, in the application of this commitment. The Fund will also seek to be an active voice in the investment community for the advancement of investment outside of fossil fuels.

Timeline:

The Fund's implementation period to achieve net zero carbon is split into three main time horizons, encompassing short medium and long-term objectives.

- The short term: one-four years (2022-2026)
- The medium term: four-six years (2026-2028)
- The long term: six-eight (2028-2030)

Given the difficulty in predicting the global investment and technological environment in addition to Fund specific liability and investment requirements, longer term periods will likely be subject to significant variability and uncertainty.

Short Term – From 2022 to 2026

Triennial Actuarial Valuation and Investment Strategy Review

- The Fund will publish the results of the 2022 actuarial valuation in March 2023, the results of which will be the foundation for the subsequent investment strategy review. The asset allocation review aims to ensure that the current investment allocation is appropriate to meet the required investment return to fund future pensions within a suitable risk profile. Where investment underperformance is identified or risk profile changes, either across an asset class or manager specific, any subsequent reallocation will be considered with regard to overall fossil fuel exposure.

Local Authority Collaboration and Pooling

- It is important that the Fund works together with other likeminded local authority partners, in order to develop suitable fossil fuel reduction opportunities. Collaboration will also seek to mitigate some of the fee and transition cost implications of changing investment allocation.
- The Fund will engage with the LCIV through representation by officers and members on key LCIV governance panels to push for the availability of reduced fossil fuel investment mandates within the LCIV.

Fund Managers

- Re-allocation of investments from opportunistic property as these funds reach the end of their life cycles.
- Initial review of property holdings, with any necessary action being taken in the medium term.
- Low carbon passive equity investments will be moved to zero carbon alternatives, subject to the availability of products. The transition of these assets will take place in a phased manner with a proportion being transferred in the short term and the remainder in the medium term once performance of these new investments has been reviewed.
- Initial review of the active equity mandate to ensure it achieves zero carbon over the long term.
- Seek alternatives to replace the holdings in the defensive allocation which currently includes index linked gilts and absolute return bonds. Replacements will be required to either be low or zero carbon, whilst providing an equivalent level of risk and serving the same purpose within the asset allocation. It is recognised that if suitable products are not available in the short term, further review of this allocation may be required in the medium to long term.
- Initial review of the Fund's diversified growth holding in terms of its continuing suitability within the strategic asset allocation, whilst also identifying suitable low or zero carbon replacements.

- The Fund will use this period to identify developments in low and zero carbon equity investments being brought to the market and the opportunities they present to the Fund in its journey to achieving net zero carbon.

General

- The Fund will continue to develop and improve its approach to the measurement of its carbon footprint to ensure it is kept current and accurate. This will be a key metric in monitoring progress towards becoming net zero carbon. We will work with fund managers and data providers to establish actual data which will replace proxies. All new investment products that the Fund invests in will be required to provide the Fund with regular data on their carbon intensity.
- The Fund will lobby the fund management industry for the introduction of new products that meet our objectives.
- The Fund will continue to support the work of the Local Authority Pension Fund Forum (LAPFF) as representing 90 local authority pension funds in their engagement with companies to promote best practice climate aware business activities
- Any changes to investment allocations will need to be communicated with key advisers, such as the Fund actuary, as well as the Fund's external auditors.
- The Fund will engage with the investment advisers who support the Fund in monitoring and engaging with buy-rated investment strategies held outside of the LCIV.

<u>Medium Term – From 2026 to 2028</u>

Triennial Actuarial Valuation and Investment Strategy Review

- The medium term will incorporate the results of the 2025 triennial valuation and will constitute key points for major review of assets and investments to ensure that these are best placed to meet the payment of benefits to members of the scheme. Fossil fuel risks and opportunities will be incorporated in the consideration for any amendments to the asset allocation strategy.
- The carbon footprint will be re-calculated quarterly and incorporated into the overall portfolio risk assessment.

Local Authority Collaboration and Pooling

- The Fund is committed to working with the LCIV and will seek to comply with the government requirements for pooled investments. The Fund will continue to seek to exert influence over the strategic direction of the available investments within the LCIV, alongside other local authority partners, to ensure that these are appropriate for the sustainable strategy that the Fund wishes to implement. The opportunity for reduced fossil fuel or sustainable investment in multi asset mandates will likely develop as part of continued engagement between the Fund and other likeminded members of the LCIV.

Fund Managers

- Continued engagement with fund managers to ensure that fossil fuel risks and opportunities are consistently and appropriately taken into consideration throughout the decision making process.
- Review of private residential holdings within the Fund in terms of their continuing suitability within the investment strategy and their contribution to the Fund's zero carbon targets.
- Balance of low carbon equities will be moved to zero carbon equivalents. This will be subject to satisfactory performance of assets transferred in the short term and the availability of suitable investment products in this asset class.
- Review of direct property investments to seek zero carbon options. This will be subject to availability of zero carbon investments in the commercial property sector and also the satisfactory performance of markets to avoid crystallisation of losses, thereby protecting the value of the Fund.
- Further review of the defensive allocation, identifying developments in the market which will facilitate the transition of the absolute return bonds and index linked gilts to alternative zero carbon investments, whilst maintaining the overall role and purpose of this allocation to the risk and return profile of the Fund.
- Formal review of the performance of the sustainable infrastructure investments and maintenance of the pipeline of commitments to maintain the strategic allocation to this asset class.

- Review low carbon emerging market equity holding, in terms of its performance as well as its contribution to the Fund's carbon footprint. Review of market to identify opportunities for investment in zero carbon alternatives.

General

- The Fund will continue a policy of engaging with companies through membership of the LAPFF and the LCIV to encourage companies to adopt the highest of standards with regard to fossil fuels and energy efficiency.
- The measurement of the Fund's carbon footprint will include advanced metrics which will measure progress towards the Fund's net zero carbon targets. The use of scenario analysis will facilitate the Fund to understand where it could be by 2030 based on its current investment strategy, planned changes, and alternative investment strategies and asset allocations. This will enable action to be taken in the medium to long term, to identify holdings which cannot continue to be held in the asset allocation, ensuring that the 2030 target is achieved. An assessment of the Fund's alignment with the Paris Agreement will be conducted providing temperature scores of the portfolio. This will also provide useful information for decision making.
- The Fund will continue to lobby the fund management industry to encourage the development of new zero carbon investment products.

<u>Long Term: 2028 to 2030</u>

Triennial Actuarial Valuation and Investment Strategy Review

- The long term will incorporate the results of the 2028 triennial valuation. The Fund will continue to assess the overall investment strategy as required to meet the pension benefits for members based upon the calculations within the triennial actuarial valuation. As and when asset and manager allocations require amending, the risk of fossil fuel exposure will be incorporated into any due diligence regarding risk and reward decision making.

Local Authority Collaboration and Pooling

- In the long term, the Fund may be required to invest the majority of its assets through the LCIV, depending on government requirements for pooling of assets. The availability of suitable opportunities within the LCIV will be key for the continued reduction in fossil fuel investments as well as positioning the Fund to benefit from clean technology and low carbon industries. This will allow the Fund to invest across a variety of disparate asset classes without compromising the ambition to be a long-term sustainable investor.

Fund Managers

- All investments in the Fund will be reviewed to identify any remaining allocations which are not at least low carbon, with the majority now being zero or negative carbon. Investments which do not meet this criterion will be transitioned to suitable alternative products. As with the short and medium term, this will be subject to the ongoing availability of investment products that meet the Fund's risk and return requirements.
- The activity required at this stage will depend on progress made in earlier years towards ensuring the majority of the Fund's investments are, as a minimum, low carbon.

General

- The Fund will have fully incorporated fossil fuel risk, through regular and sophisticated monitoring and portfolio analysis into the investment decision making process. Carbon reduction targets as part of the overall portfolio will play a key role in achieving the net zero carbon target by 2030.

LONDON BOROUGH OF SOUTHWARK - Quarterly Report June 2021

Market Background

Risk assets drove markets over the quarter delivering a fifth successive quarter of strong gains. Growing evidence of vaccine efficacy and accompanying global resilience to the pandemic bolstered growth forecasts.

Equity and bond markets both rose, the latter a little surprisingly so given the spectre of higher inflation.

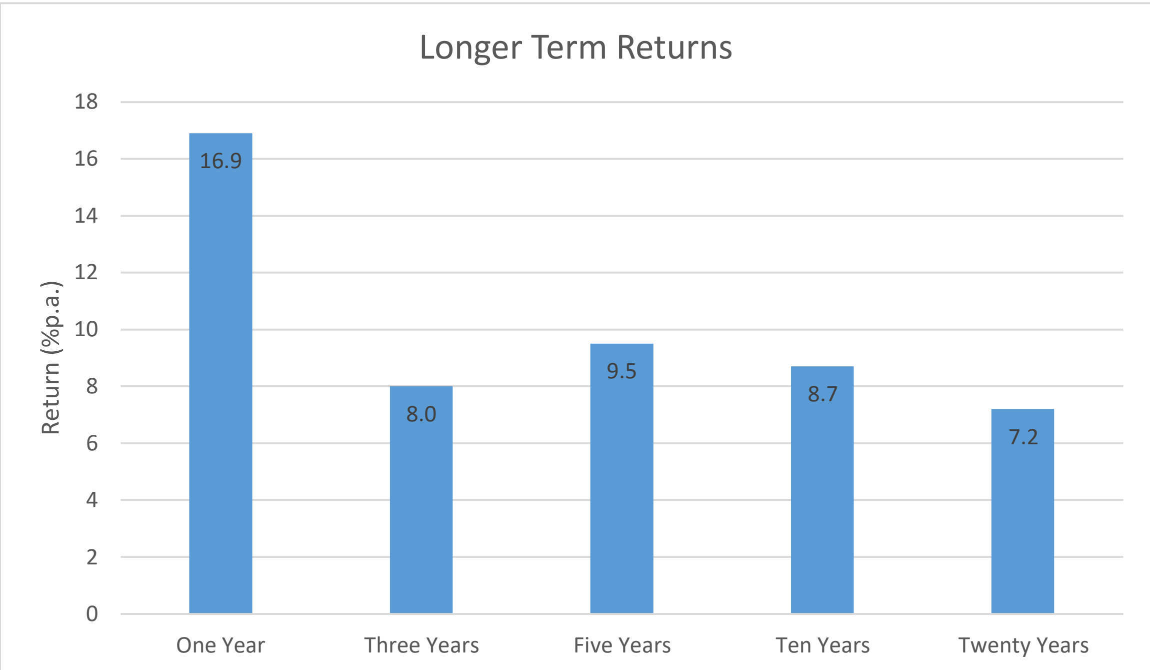
Regional equity market performance was generally positive with the exception of Japan, where an increased number of Covid cases and a lower vaccination rate resulted in fresh restrictions.

Sectoral variations were more dominant over the quarter. Cyclical sectors, such as financials, industrials and materials, which had performed well since the start of the vaccine roll-out, underperformed. Portfolios with a value slant are likely therefore to have lagged those with a growth focus.

The outlook for the property sector has improved markedly. Capital growth has returned although sectoral differences remain pronounced (industrial performing well whilst retail and office properties continue to languish).

LGPS Funds
The average LGPS funds is expected to have returned a very healthy 5% over the quarter.

Longer Term
The one-year number remains strongly positive at 17%, driven by buoyant equity returns.
The three-year number is back to 8% p.a., well ahead of most funds' expectations. Over the medium term, the returns remain strong with the ten-year result now nudging 9% p.a. and the twenty-year return +7% p.a.



Total Fund

The Fund returned 5.5% over the quarter, almost half a percent ahead of the benchmark.

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

			Returns			Contributions		
Manager	Brief	Start Value (£m)	Fund	Benchmark	Relative	Fund	Benchmark	Relative
BLK	Equity/ILG	520,715	7.0	6.4	0.5	1.9	1.7	0.1
LGIM	Equity/ILG	546,736	6.9	6.5	0.4	1.9	1.8	0.1
BLK	Diversified Growth	192,740	2.4	0.8	1.6	0.2	0.1	0.2
BLK	Absolute Return Bond	135,739	-0.3	1.0	-1.3	-	0.1	-0.1
Newton	Equity	239,918	6.3	7.9	-1.5	0.8	1.0	-0.2
Brockton	Property	5,425	3.1	3.6	-0.5	-	-	-
Nuveen	Property (Core)	200,415	5.1	4.2	0.8	0.5	0.4	0.1
Invesco	Property	30,271	0.1	1.9	-1.8	-	-	-
M&G	Property	22,421	0.4	1.9	-1.5	-	-	-
Frogmore	Property	7,365	-2.0	3.9	-5.7	-	-	-
Glenmont	Infrastructure	13,959	6.4	2.4	3.9	-	-	-
Temporis	Infrastructure	23,818	0.7	2.4	-1.7	-	-	-
BLK	Infrastructure	3,486	0.3	2.4	-2.0	-	-	-
Cash	Cash	18	0.0			-	-	-
Total		**1,943,025**	**5.5**	**5.1**	**0.4**	**5.5**	**5.1**	**0.4**

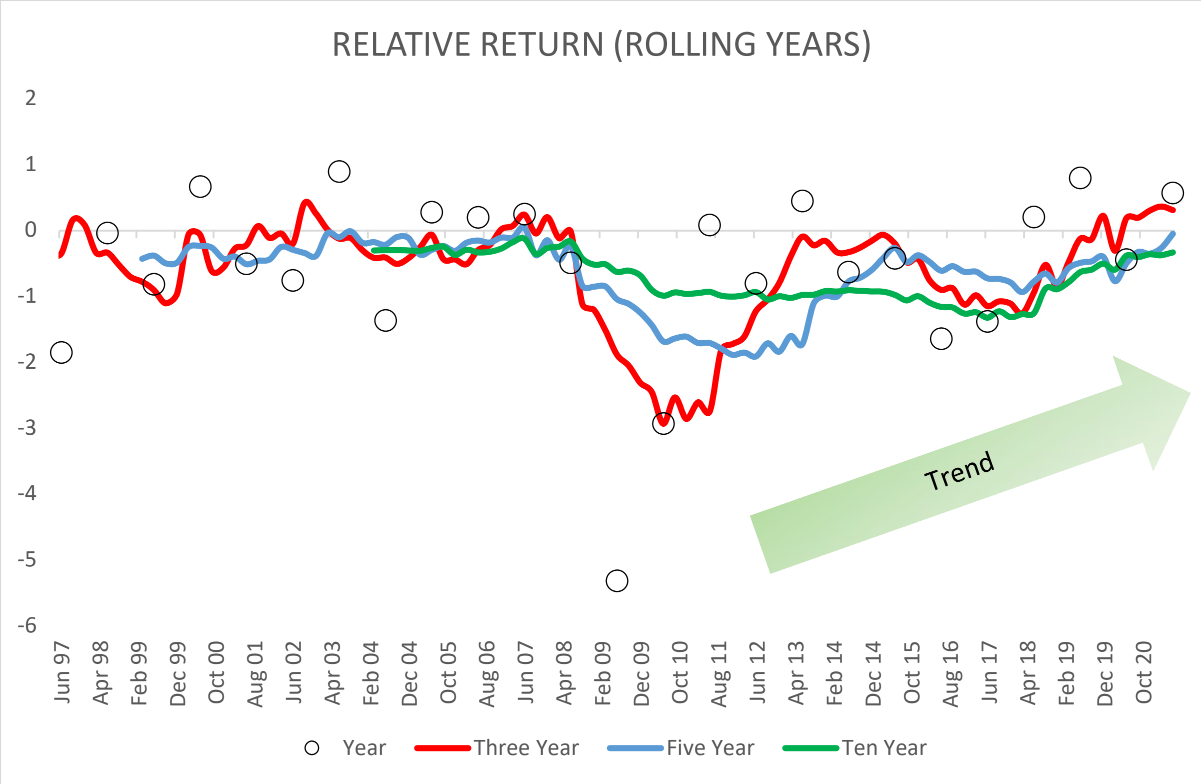
The third column from the right shows how much the managers have contributed to the overall return of 5.5%. Both passive balanced portfolios contributed almost 2% each whilst none of the managers registered a meaningful negative contribution. The column on the right-hand side shows how much the managers have contributed to the excess return of 0.4%. The DDG portfolio added 0.2% whilst Newton reduced the excess by 0.2%.

The one-year return for the Fund was an extremely healthy 16.4% almost 0.7% above benchmark.

Medium-term, the Fund has returned between 10%p.a. and 10.4%p.a. over the three and five-year periods. The shorter period return was ahead of benchmark, the longer period almost exactly in line.

Over the last ten-years, the Fund has delivered a very valuable 9.9%%p.a. return but still 0.3%p.a. off the target.

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



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

- Individual annual returns (the black discs) have more often than not been below the horizon i.e., behind benchmark. Of the 15 years, nine have been below but most significantly in 2009 and 2010 where the Fund suffered from poor asset manager performance.
- What is clear is that the returns are on an improving trend e.g., three of the last five years are above benchmark and the rolling 'trails' are trending in the right direction
- Importantly, annual return volatility has become more contained

Newton – Active Global Equity

Newton underperformed the world index by around 1% over the quarter. Stock selection within the financials and consumer discretionary sectors was crucial.

Relative to the stretched (index plus target aspiration) benchmark, the portfolio lagged by 1.7%.

The portfolio's annual return was strongly positive but significantly behind the benchmark index (moreso the target) for a fifth quarter – fund 21.7%, benchmark (inc. stretch) 28.2%.

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

I'll provide a deeper dive for my next quarterly report.

BlackRock - Active

It will come as little surprise again that the two active positions performed quite differently over the quarter.

Performance in the ARBF portfolio was negative against a backdrop of positive returns generally from traditional bonds. The portfolio's short duration positioning detracted as yields rose in this space.

The return from the DG portfolio was positive driven primarily from developed equities.

Since their inception, returns from both strategies have been low digit single figures. In combination, the result has been generally ahead of the 3-4% absolute return sought.

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

The chart below illustrates the impact over the full year to June. The actual Fund outcome is the green plot, the notional outcome (excl. ARB/DG) is the red plot.

This albeit short-term picture has remained 'normal' in a return sense as growth assets have re-exerted dominance. What we see here is that the addition of these assets has dampened volatility, as expected, but has had a more pronounced detrimental effect on returns. This is the trade-off!

Nuveen Real Estate – Core Property

The portfolio performance was positive over the quarter, returning 3.9% (Nuveen numbers). Capital appreciation and income both added value. The return of positive valuation growth is very encouraging, with the portfolio's industrial assets performing well and by a greater margin than the falls in its retail and office holdings.

The portfolio's direct investments performed better than the indirect holdings, of which there is now only one, the Retail Warehouse Fund. This has suffered considerable capital decline over the last 12 months, however, the positive return for the latest quarter is a sign that the retail warehouse sector is now recovering.

Near-term returns are disappointing for the asset class generally, but medium and longer-term numbers stack up very well. The current seven-year number of 5.6%p.a. is behind the 7%p.a. target set by the Panel.

The manager summarises the outlook well -

"*Despite an expectation that 'value loss' from 2020 will be recovered; exceeding the Fund's performance objective looks challenging in the near term, yet we maintain our conviction that the Fund strategy, portfolio composition and risk profile has been built for the long term and over this time horizon we expect the performance objective to be achieved. The 1-year total return of 6.9% is a good indication of this, with further positive returns forecast as asset management incentives across the portfolio are completed*."

Other Real Estate

Reported returns were typically behind benchmark over the quarter and the full year. Quarterly reporting helps little in understanding investments in this sector.

Southwark's Property Allocation

The core and added value/opportunistic assets continue to perform quite differently.

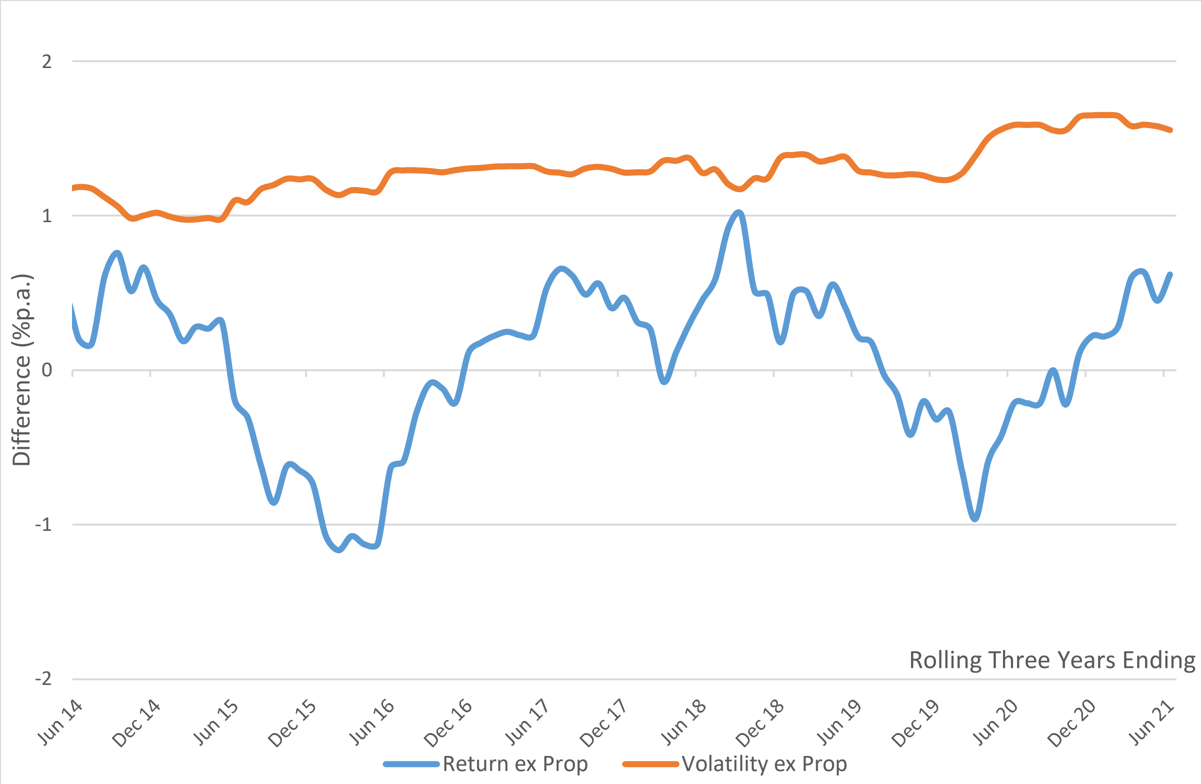
As mentioned previously, the added value/opportunistic portfolios are still early stage so a measure of underperformance against their relatively challenging benchmarks and volatility thereof should not cause undue concern.

The core allocation is just shy of 80%, so this will realistically dictate how the Fund's real estate assets perform.

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

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

In the latest three-year period, without property the overall return would have been higher (around 0.6%p.a.) but volatility significantly higher (by around 1.6%p.a.). This continues to be a very acceptable trade-off.



Passive Portfolios

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

Summary

- Another positive quarter for the Fund despite the gyrations over the period!
- Funds have performed extremely well in general and ours is no different
- Despite recent market turbulence, assets have grown more than actuarial assumptions and so funding levels will have improved
- The moving parts that underly the Fund's performance have generally moved in the right direction.
- Newton continues to generate positive returns but lags the target aspiration. I'll do some more work on this for my next report.
- Returns from the newer infrastructure and smaller property portfolios appear behind target but we should remind ourselves that these are longer-term investments. Short-term performance measures are often spurious

Quarterly Investment Dashboard Q2 2021

London Borough of Southwark Pension Fund

Prepared for: The Pensions Advisory Panel
Prepared by: Aon
Date: 29 September 2021

At a glance…

Assets

£2031.9m

Assets increased by £89.4m over the quarter.

Funding

114%

Funding increased by 3% over the quarter.

Surplus

£255m

Surplus increased by £68m over the quarter.

Manager ratings

9 Buy rated
5 Not rated
1 Qualified
0 Not recommended

Performance (short term)

+5.5%

Fund outperformed benchmark returning 5.5% vs 5.1% over the quarter.

Performance (longer term)

+10%

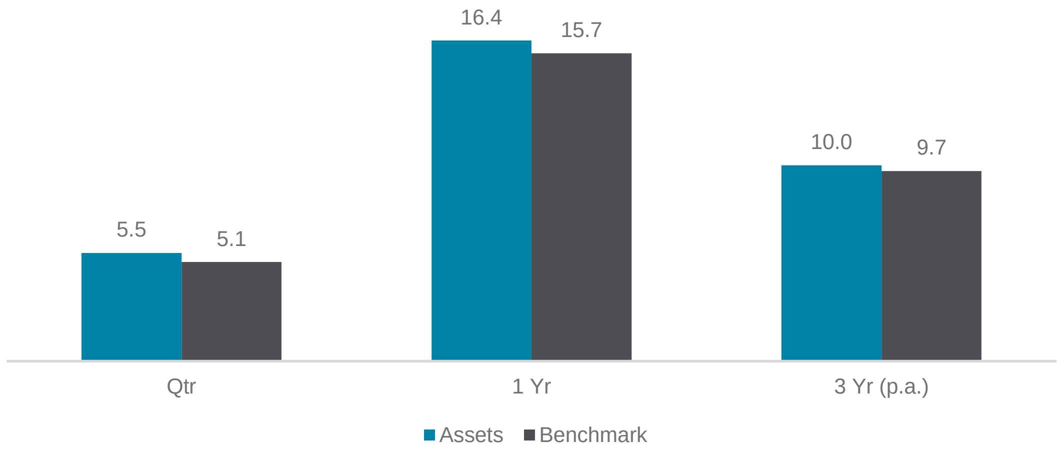
Over 3 years the Fund has outperformed benchmark returning 10% vs 9.7%.

Comments

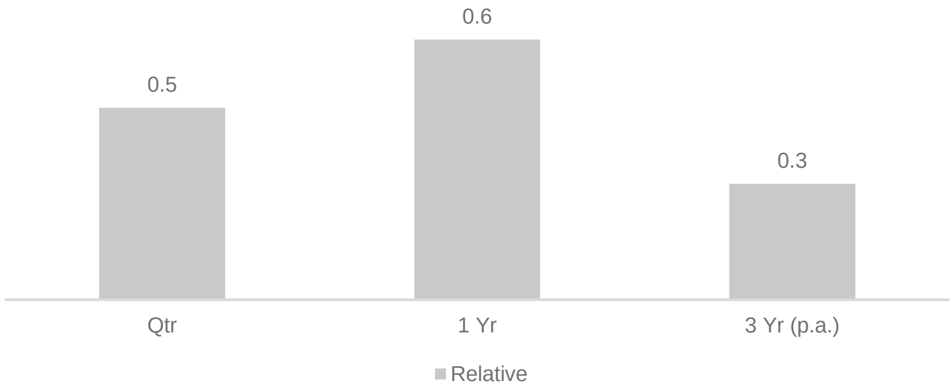
- The Fund's total assets increased by £89.4m over the quarter, from £1942.5m to £2031.9m.
- The Fund performance over the quarter was +5.5%, this was 0.4% higher than the benchmark return. The Fund also outperformed the benchmark over the 1 and 3 year periods, generating 16.4% and 10% p.a. respectively.
- The Fund’s funding level increased by 3% over the quarter from 111% to 114% due to greater than expected return on assets in Q2.
- LGIM have recently been upgraded to Advanced ESG Rating for their equity index funds.
- There have been other developments in relation to M&G Residential Property, Temporis Operational Renewable Energy Strategy, Glenmont Clean Energy Fund III. More information can be found within the full quarterly report.

Scheme performance – Snapshot

Scheme performance & benchmark



Relative performance



Quarterly (relative)

+0.4%

The Fund returned 5.5% vs 5.1% over the quarter

3 year (relative)

+0.3%

The scheme returned 10% vs 9.71% over the period

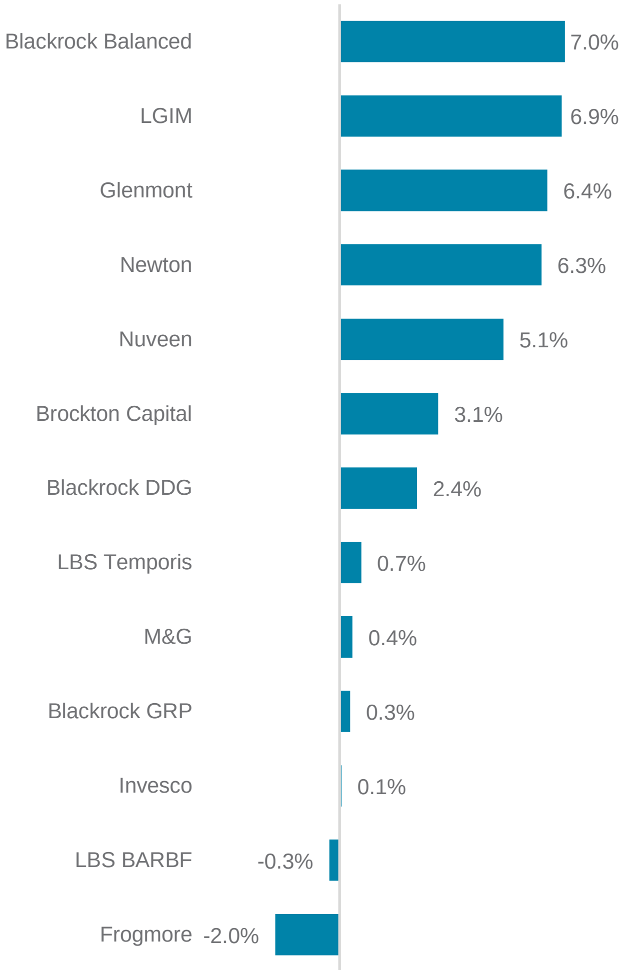
Comments

Over the quarter, the Fund outperformed the benchmark.
Notable positive contributors were Brockton Capital III Fund , BlackRock Diversified Growth Fund and Nuveen Real Estate Fund.

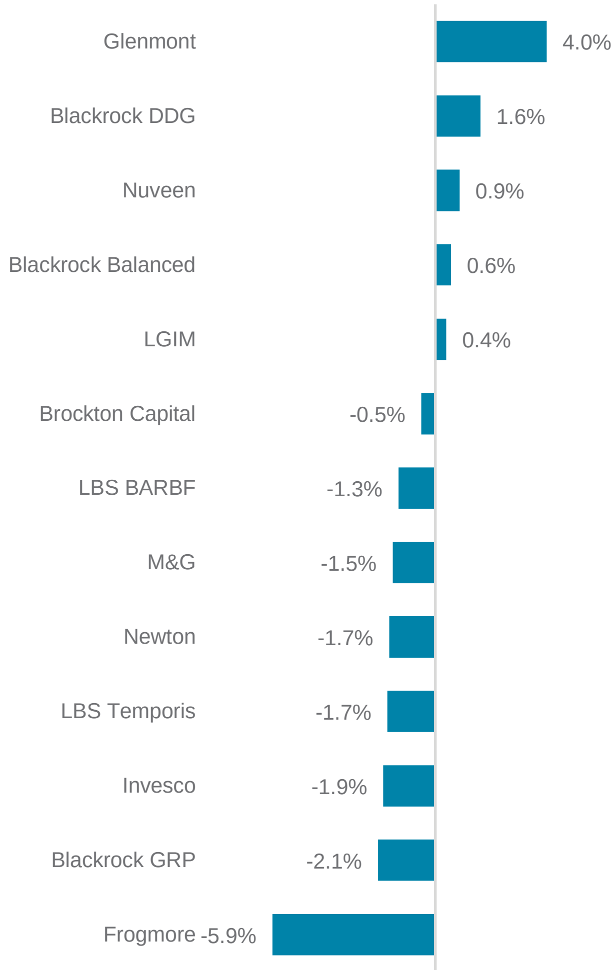
Source: J.P.Morgan and fund managers as required. Totals may not sum due to rounding

Manager performance – Quarter Snapshot

Absolute performance



Relative performance



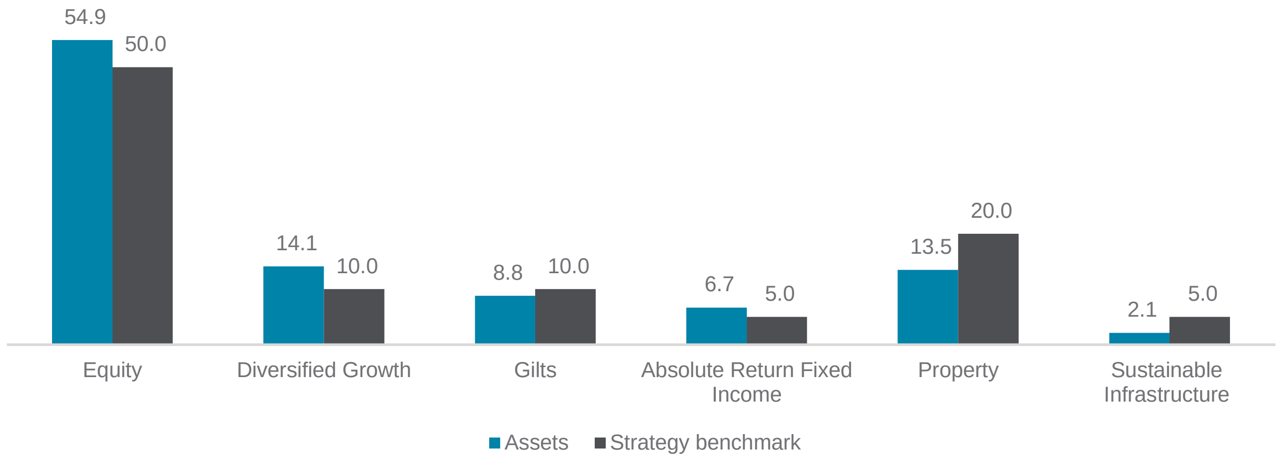
Rating summary

Manager Ratings	# of Funds
Buy	9
In review	0
Qualified	1
Sell	0
Not rated	5
Not recommended	0

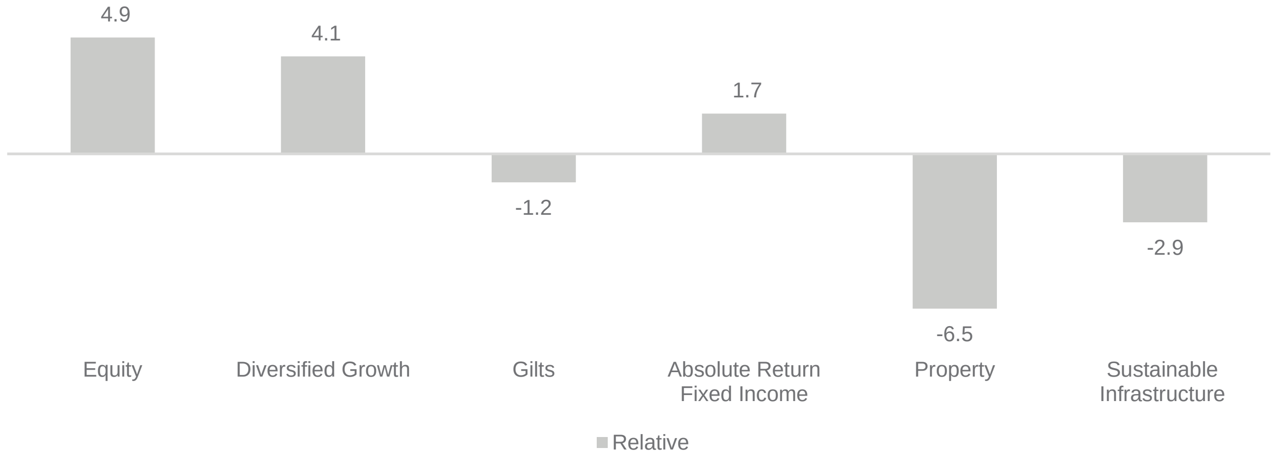
Fees shown are net. Source: J.P.Morgan and fund managers as required.

Strategic allocation – Snapshot

Strategic allocation & benchmark (%)



Relative allocation



Assets

£2031.9m

Assets increased by £89.4m over the quarter.

Comments

- Equity, absolute return fixed income and diversified growth are overweight relative to strategic target for the asset class, while sustainable infrastructure and property are underweight target exposure.
- However, all asset classes are well within the maximum strategic allocation limit.
- Following quarter end, assets were transitioned from the BlackRock Emerging market index funds to the Comgest Growth Emerging Markets Plus

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

Explanation of Ratings – Overall ratings

Overall ratings

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

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

Overall Rating	What does this mean?
Buy	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products
Buy (Closed)	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors
Qualified	A number of criteria have been met and we consider the investment manager to be qualified to manage client assets
Not Recommended	A quantitative assessment of this strategy indicates it does not meet our desired criteria for investment. This strategy is not recommended.
Sell	We recommend termination of client investments in this product
In Review	The rating is under review as we evaluate factors that may cause us to change the current rating

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Item No. 12.	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report Title		Actuarial Funding Update – June 2021	
From		Senior Finance Manager, Treasury and Pensions	

Recommendation

1. The pensions advisory panel is asked to note the updated funding position at 30 June 2021 (as set out in the closed Appendix 1).

Background

2. The last triennial actuarial valuation of the Fund took place as at 31 March 2019. The valuation determined the Fund was 103% funded and had a surplus of £47million.

3. The actuaries provide quarterly funding updates which are projected from the results of the 2019 valuation. The purpose of the funding updates is to give a broad picture of the direction of funding changes since the actuarial valuation.

Funding Position

4. The funding level at 30 June 2021 was 114% (111% at 31 March 2021). The surplus has increased by £68m in the quarter to June 2021. This improvement is due to a greater than expected return on the assets.

APPENDICES

Name	Title
Appendix 1 (Closed agenda)	London Borough of Southwark Pension Fund – Funding Update as at 30 June 2021

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Caroline Watson, Senior Finance Manager, Treasury and Pensions	
Version	Final	
Dated	22 September 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		22 September 2021

Item No. 13.	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report Title		Local Pension Board Update	
From		Chair of the Local Pension Board	

RECOMMENDATION

1. The Pensions Advisory Panel is asked to note he update from the Local Pension Board (LPB) meeting of 21 July 2021.

KEY AREAS OF DISCUSSION

2. A training session on the Scheme Advisory Board Good Governance Project was provided by Aon.

3. The main business included an update on pensions administration; an update on the implementation of the pensions regulator's code of practice 14 (COP14) improvement plan; a briefing on the pensions regulator's new single code of practice and a review of the pensions advisory panel (PAP) meeting papers.

Pensions administration

4. This covered an update on the work with the first contact resource centre, including progress on recruitment; procurement and implementation of new pensions administration software; work on communications; and the expanded training and development material.

Pensions Regulator code of practice 14

5. An update was provided on the progress to date in implementing the COP14 action plan. A draft conflicts of interest policy for the LPB was tabled. It was noted that it may need to be amended in future to cover the whole pension fund.

6. The chair recommended that the pensions advisory panel commence preparing a fund-specific conflicts of interest policy as recommended in the good governance project.

Pensions Regulator new single code of practice

7. Members were briefed on the plans to consolidate ten existing codes of practice into one single code. It was recognised that the impact for Southwark will need to be assessed and may require amendments to the existing COP14 action plan.

Training plan

8. The Chartered Institute of Public finance and Accountancy (CIPFA) has recently published the Code of Practice on Knowledge and Skills 2021. It was noted that consideration of the new framework will be given to identify necessary changes to the current LPB training plan.

AUDIT TRAIL

<table>
<tr><th>Lead Officer</th><td colspan="3">Duncan Whitfield, Strategic Director of Finance and Governance</td></tr>
<tr><th>Report Author</th><td colspan="3">Mike Ellsmore, Chair of the Local Pension Board</td></tr>
<tr><th>Version</th><td colspan="3">Final</td></tr>
<tr><th>Dated</th><td colspan="3">22 September 2021</td></tr>
<tr><th>Key Decision?</th><td colspan="3">N/A</td></tr>
<tr><th colspan="4">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</th></tr>
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<tr><th colspan="2">Cabinet Member</th><td>N/A</td><td>N/A</td></tr>
<tr><th colspan="3">Date final report sent to Constitutional Team</th><td>22 September 2021</td></tr>
</table>

Item No. 14.	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report Title		Pension Services - Administration Function Update	
From		Pensions Manager, Finance and Governance	

Recommendation

1. The pensions advisory panel (PAP) is asked to note this update on the pensions administration function.

Introduction

2. The Panel received an update in June 2021 which set out information about staff changes, IT/systems, communications and complaint management.

3. This update brings the Panel up-to-date on the current position.

Covid-19 implications

4. Due to current lockdown levels, all staff are being asked to work remotely wherever possible, although this is starting to be relaxed across the council.

Contact Centre

5. First Contact Officer interviews have now taken place resulting in two appointments being made.

~~6.~~ The First Contact Resource Team went live on 22 September 2021 and deal with all member and employer enquiries.

IT/systems

7. 8*8 phone system and Civica’s Contact Manager software is planned for managing all calls and incoming enquiries into the First Contact Resource Team. Whilst this is not an integrated telephony/CRM system, it will allow Pension Services to accurately monitor all incoming enquiry work and produce accurate Management Information.

8. Civica have delivered the first UPM test environment with member data from Altair. The Data Systems Team have begun testing and will work with Civica to resolve any data issues.

9. Documents/imaging - existing Word documents and imaged documents from the Heywoods (Altair) system will be migrated to the Civica (UPM) system via a VPN.

10. SAP payroll migration - a further data cut will be performed shortly with the new UPM database being populated with core pensioner data from the former admin system (Altair). Our new Pensions Payroll Manager (Iain Hunter) started in August 2021 and will play an active role in the transition of SAP payroll to UPM.

11. SAP General Ledger requirements have now been specified by F&G and will be delivered either in interface or report format following each payrun.

Recruitment/staffing

12. The recruitment for key roles is now complete.

13. The final roles to be filled are at assistant level, and in this respect we are introducing a two-year apprenticeship programme to home grow new talent, with access to professional study and recognised qualifications through the Pensions Management Institute https://www.pensions-pmi.org.uk/

Progress to September 2021

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

Communication and initiatives

15. Pensions awareness - a fortnightly email campaign to begin in October 2021.

16. UPM/pensioner payroll communication planning has started for members and employers.

17. The Annual Benefit Statement (ABS) exercise was completed in August 2021 with 13,200 statements being issued on time to active and deferred members.

18. Annual Allowance tax checks underway for 2020/21 - any affected members will be contacted in early October 2021.

19. Communication review underway for all pensions admin letters/statements as part of the move to new UPM software.

20. Website initiatives underway to improve member engagement and interest.

21. Training continues to be delivered to members and employers.

22. Autumn 2021 newsletter in the process of being finalised and will be issued in both paper and digital formats.

Complaint management

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

- General Complaint – the member was due a pension contribution refund and had been advised that claim forms had been sent in the post. When the claim forms did not arrive the member queried it but there was no record of forms being sent. Forms were resent and the matter is now resolved.

- General Complaint – the member contacted pensions to enquire about their retirement date. Initial call went through contact centre but member received no response and made a complaint. The matter now resolved.

- General Complaint – the member was due a pension contribution refund and had returned their claim forms and was advised payment would be made shortly. After a week the member contacted the pensions team complaining that no payment had been made. In this case the vendor creation process had been delayed. Payment has now been made and the matter is now resolved.

- General Complaint – the member had been sent trivial commutation options and had returned claim forms but received no payment. The case was investigated and no forms could be seen as being returned to Aon (who managed the initial exercise). Communication is ongoing with member to resolve matters.

- General Complaint – the member had made contact with pensions team to update personal details we held. No response was received by member and details had not been updated. The matter is now resolved.

- General Complaint – contacted by Co-Op Legal in relation to the balance of pension due to the estate of a deceased member. Vendor creation process had delayed payment. The balance has now been paid and the case is closed.

- General Complaint – the member was on hold on the telephone for 40 minutes with the contact centre whilst trying to make contact with pension services. The member was uncomfortable in using email instead. The matter is now resolved.

Performance monitoring

24. Attached as Appendix 1 is data collected between 1 June and 31 August 2021. As explained in previous updates, the information focuses on statutory requirements.

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

Conclusions

26. Implementation of the new structure is almost complete.

27. Retention of appropriate staff with necessary skills is critical to the achievement of future plans.

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

29. Performance monitoring remains an important part of the pensions administration function. The procurement of new Civica software will allow pension services to develop workflow and task management, where more detailed Management Information can be extracted around performance. However, PAP is also asked to consider that processing speed is not the only indicator of success, and that attention to detail and the customer journey must also be considered.

APPENDICES

Name	Title
Appendix 1	London Borough of Southwark Pension Fund Performance metrics as at 31 August 2021

AUDIT TRAIL

<table>
<tr><th>Lead Officer</th><td colspan="3">Duncan Whitfield, Strategic Director of Finance and Governance</td></tr>
<tr><th>Report Author</th><td colspan="3">Barry Berkengoff, Pensions Manager</td></tr>
<tr><th>Version</th><td colspan="3">Final</td></tr>
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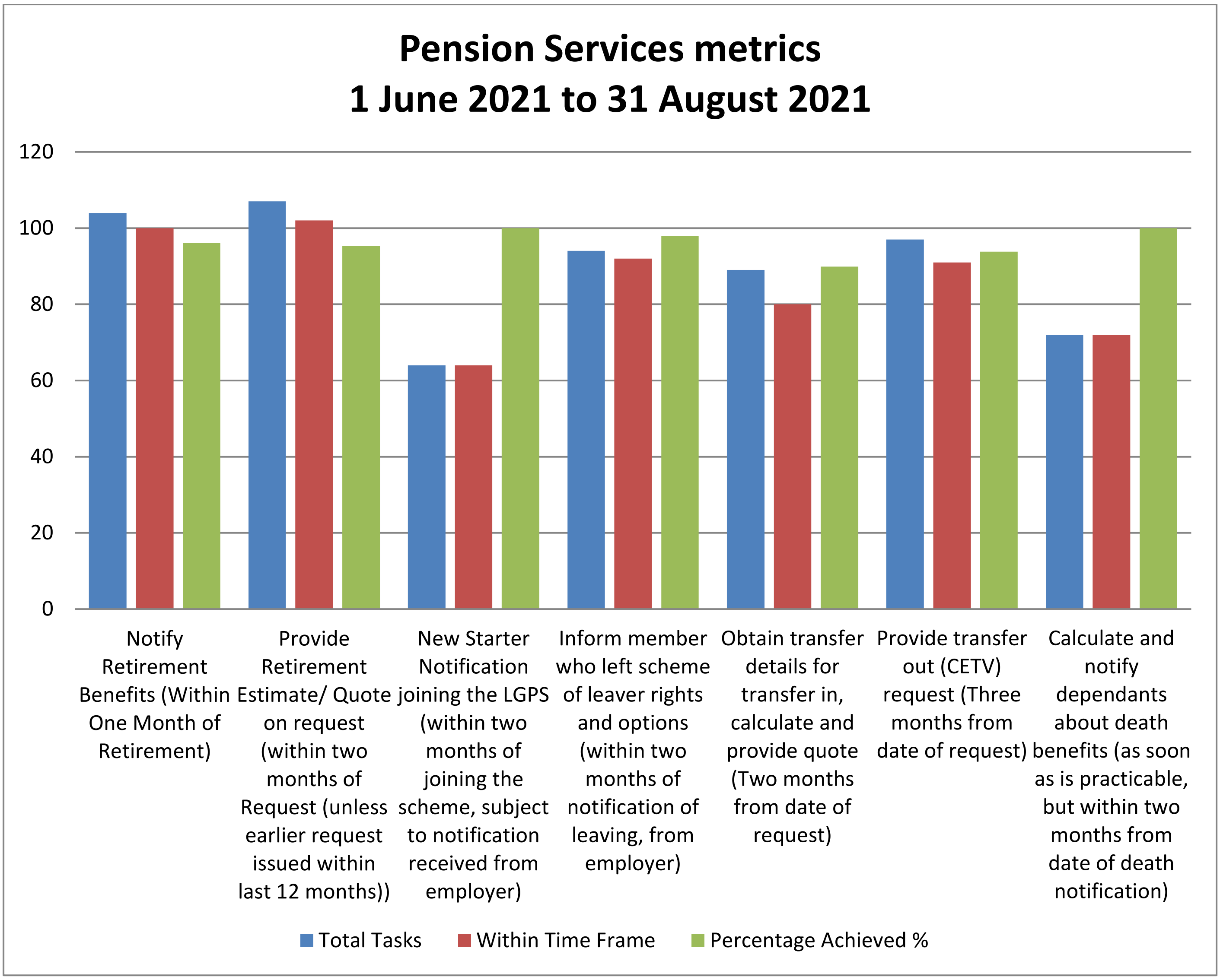

	Total Tasks	Within Time Frame	Achieved %
Notify Retirement Benefits (Within One Month of Retirement)	104	100	96
Provide Retirement Estimate/ Quote on request	107	102	95
New Starter Notification joining the LGPS	64	64	100
Inform member who left scheme of leaver rights and options	94	92	98
Obtain transfer details for transfer in, calculate and provide quote	89	80	90
Provide transfer out (CETV) request (Three months from date of request)	97	91	94
Calculate and notify dependants about death benefits	72	72	100

MUNICIPAL YEAR 2021/22

COMMITTEE: Pensions Advisory Panel

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

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		External	
Officers		Mike Ellsmore	By email
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Timothy Jones	By email		
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Derrick Bennett	By email		
Advisors			
David Cullinan	By email		
Colin Cartwright	By email		
Last updated – June 2021			

Open Agenda

Pensions Advisory Panel

Wednesday 29 September 2021
3.00 pm
Meeting Room 225 - 160 Tooley Street, London SE1 2QH

Supplemental Agenda No.1

List of Contents

Contact

Andrew Weir by email: andrew.weir@southwark.gov.uk
Webpage: www.soutwhark.gov.uk

Date: 28 September 2021

Agenda Item 10

Item No. 10.	Classification: Open	Date: 29 September 2021	Meeting Name: Pensions Advisory Panel
Report title:		Environmental, Social and Governance (ESG) Priority Allocation	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

1. The pensions advisory panel is asked to:

    a) Note that at the manager assessment sessions held on 28 July and 22 September 2021, Blackstone Capital Holdings GP Stakes Fund II; BTG Pactual Open Ended Core US Timberland Fund; and Darwin Bereavement Services Fund were considered the most suitable investment opportunities for the new ESG Priority Allocation.

    b) Note that the Temporis Impact Fund was also identified as an investment opportunity to continue the pipeline in the 5% allocation to the sustainable infrastructure portion of the Fund's agreed strategic asset allocation.

    c) Recommend that the Fund makes commitments within the ranges set out below to each of the above investments, subject to legal due diligence:

        i. Blackstone Capital Holdings GP Stakes Fund II (£50-£60m)
        ii. BTG Pactual Open Ended Core US Timberland Fund (£25-30m)
        iii. Darwin Bereavement Services Fund (£20m)
        iv. Temporis Impact Fund (£20-40m)

Background

2. As part of the 2020 investment strategy review, the PAP agreed to a strategic asset allocation of 15% of the Fund to a new ESG Priority Allocation. The allocation includes the following:

    - 5% sustainable infrastructure (Temporis, BlackRock and Glennmont)
    - 5% non-core property (Brockton, Frogmore, M&G and Invesco)
    - 5% to be allocated to investments with strong environmental, social and governance (ESG) credentials, which also support the commitment to reduce the Fund's exposure to fossil fuels.

3. A range of available illiquid investment funds were considered for the ESG priority allocation. It is recognised that investment opportunities in this area vary in strategy, fund structure and the degree of ESG integration and impact.

Assessment

4. Attendees at the assessments were:

    - PAP Voting Members – Cllr Rebecca Lury, Cllr Eliza Mann, Caroline Watson, Barry Berkengoff
    - Officers - Duncan Whitfield, Tim Jones
    - Investment Advisors – Colin Cartwright, Jonathan Taylor, David Cullinan.

5. Investment managers were asked to present information to the assessment panel covering the investment strategy objectives, prospective investment assets, team capacity for delivery, risks, fees, as well as how the investment would meet the Fund's stated commitment to achieve net zero carbon by 2030.

6. Following all the fund presentations the panel considered the relative strengths and weaknesses within each fund on a standalone basis, in regard to diversification from existing Fund assets and the extent to which the investment strategy aligned with the Fund's investment objectives.

Commitments

7. The allocations to each of the funds are subject to the passing of investment and legal reviews of the terms and conditions. Sizing will be adjusted depending on the overall pension fund value as at the time of investment as well as upon further analysis on the scale of drawdown of commitments and cash flow returned.

8. The investment in Temporis is within the context of continuing the pipeline in the 5% allocation to the sustainable infrastructure portion of the Fund's strategic asset allocation. The actual capital drawn down for investment to date represents 2.1% out of the target 5% exposure. Such an allocation to Temporis may eventually lead to a temporarily higher than target exposure, but should on average bring the Fund closer to the target exposure in sustainable infrastructure.

Recommended Selection

9. It was agreed that the Blackstone Capital Holdings GP Stakes Fund II; BTG Pactual Open Ended Core US Timberland Fund; Darwin Bereavement Services Fund; and the Temporis Impact Fund offered the most attractive investment opportunities for the Fund. A summary of each fund is included as Appendix A and the manager presentations provided to the selection panel are included as Appendix B.

10. PAP is asked to recommend commitments to each fund within the ranges set out in paragraph 1, point c of this report.

APPENDICES

Appendix	Title
Appendix A (closed agenda)	Summary of recommended investments
Appendix B (closed agenda)	Manager presentations

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Caroline Watson, Senior Finance Manager, Treasury and Pensions	
Version	Final	
Dated	28 September 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		28 September 2021

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MUNICIPAL YEAR 2021/22

COMMITTEE: Pensions Advisory Panel

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

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Last updated – June 2021

Item No 14	Date: 20 October 2021	Meeting Name: Local Pension Board
Report title:		Option to Re-appoint Local Pension Board Chair
From:		Senior Finance Manager - Treasury and Pensions

Recommendations

It is recommended that the Local Pension Board:

- Vote on the decision to retain the role of the Local Pension Board Chair and the reappointment of the current Chair for a further year.

Background

1. At the 07 October 2020 meeting of the Local Pension Board it was agreed that the independent chair would be reappointed until the end of October 2021.

2. Local Pension Board members are asked to consider whether the role of the independent chair should be retained and whether the current incumbent is performing to an expected standard and therefore should be re-appointed for a further year.

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	Caroline Watson	
Version	Final version	
Dated	14 October 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A