The London Borough of Southwark Pension Fund

ANNUAL REPORT

2021-22

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INTRODUCTION

The London Borough of Southwark Pension Fund (the Fund) is one of the largest Local Government Pension Scheme (LGPS) funds in London in terms of membership and assets. The LGPS provides for the occupational pensions of employees, other than teachers, police officers and fire fighters, of local authorities. It is a contributory defined benefit (DB) scheme established by the Superannuation Act 1972. With 6.1 million members, over 18,000 employers and assets of £250 billion as at 31 March 2022, the LGPS is one of the largest DB schemes in the world, and one of the largest DB schemes in England and Wales.

Employer and employee contributions, together with investment returns generated from the Fund's investments make up the majority of income into the Fund. Contributions and other balances not immediately required to meet pension liabilities and other benefits are invested in a diverse range of investment assets.

The investment strategy for the Fund is determined by the Council, as the Administering Authority of the Fund, with advice from the Pensions Advisory Panel (PAP), but individual investment decisions are delegated to externally appointed investment managers.

The Fund's primary fiduciary duty is to ensure there are sufficient resources available to meet all pensions payments as they fall due. An actuarial valuation is conducted every three years to ensure there continues to be sufficient assets to cover pensions liabilities. The 2019 triennial actuarial valuation was signed off on 31 March 2020 with revised contributions coming into effect on 1 April 2020. The funding level of 103% continues to ensure stability of contributions going forward. The 2022 actuarial valuation is underway and will inform the contribution rates payable by scheme employers for the three years commencing 1 April 2023.

The objectives of the Fund are to:

- **Adequately fund benefits to secure the Fund's solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers; and**
- **Seek to maintain overall employer contribution rates as nearly constant as possible (and subject to the administering authority not taking undue risks) at reasonable cost to taxpayers, scheduled and admitted bodies; and**
- **Achieve net zero carbon emissions through the Fund's investments by 2030, whilst ensuring the first two objectives of the Fund are upheld.**

The Fund is a mix of final salary benefits for service before 1 April 2014 and a Career Average Revalued Earnings (CARE) scheme for all service after 1 April 2014.

Pensions payroll services were transferred to the Pensions Services team from May 2022, having been previously managed by the Council. This formed part of a strategic decision following the procurement of new pensions software from Civica UK Limited, an existing and trusted IT partner of Southwark Council.

Investment in new technology has meant a busy year for the pensions service function. The Data and Systems team managed the migration and implementation of upgraded Civica UPM administration and payroll software designed to future proof the pension fund's IT/software needs. It will provide enhanced 'self-service' functionality to help pension fund members make informed decisions and assist with retirement planning.

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The pension fund's training team have also been very busy, delivering training to all admitted bodies on Basic Pensions and Annual Benefit Statements, whilst continuing to deliver weekly training to pensions staff to enhance their skills and knowledge. The Communications team have also been proactively working on delivering an updated and fully in-house managed website to reflect changes in IT and an ever-evolving pensions landscape.

Finally, the First Contact Resource team has proven to be a vital contact point for all enquiries. Many initial enquiries can be dealt with quickly and efficiently, which in turn has freed up time for the Administration team to process more work or deal with more complex enquires from members and other stakeholders such as Human Resources.

In April 2021, the Fund changed investment advisors. Aon Investments Limited were appointed under the National LGPS Framework for Investment Consultancy Services under a six year contract.

The Fund is taking an active approach in reacting to the climate emergency, as announced by the London Borough of Southwark in 2019. Within the pensions finance function, there has been increased focus on the measurement of the carbon footprint of all investment holdings. This change comes alongside the launch of a new investment strategy in December 2021, central to which is the objective of achieving net zero carbon in the Fund's investments by 2030. During the financial year 2021-22, the Fund moved over £550 million into assets that have a lower carbon intensity than their legacy equivalents.

Governance of the Fund

With effect from 1 April 2015, all authorities that administer the LGPS are required to establish a Local Pensions Board (LPB), whose role is to assist in the governance of the Fund. In many ways the Board have the same fiduciary duties that would be associated with pension scheme trustees. In addition, there is a National Scheme Advisory Board and two cost control mechanisms which seek to monitor and contain the overall cost of the LGPS at a national level.

A significant risk in the previous year was the ongoing impact of the COVID-19 pandemic on the volatility of markets. As this began to subside towards the end of the period, war broke out in Ukraine. This is a significant area of risk for the Fund due to the resulting effects on an already increasing inflation rate and renewed volatility within the equity markets. The impact will continue to be monitored closely with action being taken to protect the Fund's assets where necessary.

2 REPORT FROM THE INDEPENDENT CHAIR OF THE LOCAL PENSION BOARD

Local Pension Boards were established under the 2013 Pensions Act. Each Administering Authority is required to establish a Board to assist with the effective and efficient governance and administration of the scheme. The Board is also tasked with ensuring compliance with the various legislative requirements and those of The Pensions Regulator, complementing the already well developed governance structure which underpins the pension scheme.

The independent Chair of the Local Pension Board attends the Pensions Advisory Panel (PAP). This provides a useful link between the advisory body and the Board. The link is further strengthened by the attendance at the Board of the Strategic Director of Finance and Governance on an ad hoc basis; attendance of other key officers and joint training sessions for the Board and PAP members. The chair is elected annually with the incumbent leaving the meeting to avoid any conflict of interest.

The Board has now been in place for seven years and has established itself as part of Southwark's governance structure in relation to the Fund. The Board's core functions are set out in the Terms of Reference.

The composition of the Local Pension Board is set out below:

Independent Chair
Mike Ellsmore

Scheme Member Representatives
Diana Lupulesc (employee representative)

Henry Mott (employee representative) from Apr 2021

Neil Tasker (employee representative) to Apr 2021

Tony O'Brien (retired employee representative)

Employer representatives
Dominic Cain (Vice Chair) (employer representative)

Allan Wells (employer representative)

Mike Antoniou (schools employer representative)

The Board meets quarterly and the current membership and attendance at meetings during 2021-22 is set out in the table below. The meeting papers can be accessed here.

✓ Attended   A Absent with apologies

Name	Title/Company	07-Apr-21	21-Jul-21	20-Oct-21	19-Jan-22
Mike Ellsmore	Independent Chair	✓	✓	✓	✓
Diana Lupulesc	Scheme Member Representative	✓	✓	✓	✓
Neil Tasker	Scheme Member Representative	A			
Henry Mott	Scheme Member Representative		A	✓	✓
Tony O'Brien	Retired Scheme Member Representative	✓	✓	✓	✓
Dominic Cain	Employer Representative	✓	✓	✓	✓
Allan Wells	Employer Representative	A	A	✓	A
Mike Antoniou	Schools Employer Representative	✓	✓	✓	✓

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Knowledge and understanding/training

As set out in the national guidance for Local Pension Boards, knowledge and understanding is a key part of being an effective Board member. Board members continuously engage in training programmes in order to develop and refresh their skills and knowledge and have access to The Pensions Regulator public service toolkit and the CIPFA guide for Local Pension Boards. In 2021-22 the Board has received training on the following items:

- Administering Authority And Employer Responsibilities
- Additional Voluntary Contributions
- Scheme Advisory Board Good Governance Project
- Complaints Management

Work during the year

The Board regularly receives reports on Pension Services performance and the Pensions Advisory Panel agendas. During the year, the Board has considered:

- LGPS good governance review commissioned by the Scheme Advisory Board and The Pension Regulator's engagement report on governance and administration risks.
- Monitoring improvements against the Pensions Regulator's Code of Practice 14 action plan to ensure full compliance.
- Updates and amendments to the Risk Register
- Pension Fund Accounts 2020-21
- Revised Investment Strategy Statement
- Section 13 GAD (Government Actuarial Department) report for the 2019 actuarial valuation
- CIPFA Code of Practice on Knowledge and Skills 2021

Future work

Looking ahead, the Board's work plan will be to continue to monitor the changes which the pension administration service is undergoing. As the composition of the Fund's investments continues to evolve, the Board will also continue to receive and scrutinise updates on the progress made towards the net zero carbon emissions target.

The Board will continue to monitor the impact of the Scheme Advisory Board's Good Governance Project and the Pension Regulators' (TPR) proposed modular code of practice for the Pension Fund will also be a priority.

The Board will also monitor the resources allocated and employed in the management of the Fund in the context of an increasingly complex investment and administrative landscape.

Expenses

The total expenses of £13,399 incurred by the Board for 2021-22 are set out below:

Expense	£
Allowance – Independent Chair	3,576
Annual Insurance Fees	6,083
Training	3,740
Total	**13,399**

Mike Ellsmore
Independent Chair

3 GOVERNANCE POLICY AND COMPLIANCE

The Fund's Governance Compliance Statement is included at Appendix 6 of this report.

The Pensions Advisory Panel (PAP) meets quarterly and membership for 2021-22 comprised:

Councillors: Rebecca Lury (Chair)
Eliza Mann
Jon Hartley

Officers: Duncan Whitfield (Strategic Director of Finance and Governance)
Officer with specialist knowledge of pensions finance and investments
Officer with specialist knowledge of pensions administration

Observers: Chris Cooper (Unison) – Retired employee representative (to March 2022)
Roger Stocker (Unison) – Retired employee representative (from March 2022)
Julie Timbrell (Unison) – employee representative
Derrick Bennett (GMB) – employee representative

Advisers: Colin Cartwright (Aon)
David Cullinan (Independent Adviser)

✓ Attended A Absent with apologies

PAP Meeting Attendance 2021-22						
Name	**Title/Company/Department**	**23-Jun-21**	**29-Sep-21**	**22-Dec-21**	**26-Jan-22**	**09-Mar-22**
Rebecca Lury (Chair)	Elected member	✓	✓	A	✓	✓
Eliza Mann	Elected member	A	✓	A	A	A
Jon Hartley	Elected member	A	A	A	A	✓
Duncan Whitfield	Strategic Director of Finance and Governance	✓	✓	A	✓	✓
Officer with specialist knowledge of pensions finance and investments	Finance and Governance	✓	✓	✓	✓	✓
Officer with specialist knowledge of pensions administration	Finance and Governance	✓	✓	✓	✓	✓
Chris Cooper	Unison	✓	✓	A	A	
Roger Stocker	Unison					✓
Julie Timbrell	Unison	✓	✓	A	A	✓
Derrick Bennett	GMB	✓	A	A	A	✓
David Cullinan	Independent Adviser	✓	✓	✓	✓	✓
Investment Advisors	Aon	✓	✓	✓	✓	✓
Mike Ellsmore	Chair of the Local Pension Board	A	✓	✓	✓	✓

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Knowledge and skills

As an Administering Authority of the LGPS, Southwark Council recognises the importance of ensuring that officers and elected members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and it will provide training for officers and members of the PAP to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. Ongoing informal training was provided in quarterly PAP meetings to ensure members have an appropriate understanding of the recommendations they make to the Strategic Director of Finance and Governance.

4 MANAGEMENT AND FINANCIAL PERFORMANCE

Scheme management and advisers

Investment Adviser	Aon David Cullinan (Independent Adviser)
Actuary	Aon
Performance monitoring	PIRC – Local Authority Performance Analytics
Asset Pool	London Collective Investment Vehicle (LCIV)
Investment managers	BlackRock Advisors (UK) Ltd Blackstone Brockton Capital LLP BTG Pactual Comgest Darwin Frogmore Real Estate Partners Glennmont Partners Invesco Real Estate Legal & General Investment Management M&G Real Estate Newton Investment Management Nuveen Real Estate Temporis Capital
Custodian	JP Morgan
Auditor	Grant Thornton
AVC providers	AEGON
Banker	NatWest
Communications adviser	Concert Consulting UK Limited

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Risk management

The Fund's risks are managed in accordance with the Council's risk management policy and strategy. In line with this strategy, the Fund maintains a risk register, which sets out the controls in place to manage the risks identified. The key risks facing the Fund are:

Risk Description	Risk Category	Risk controls (mitigation)
Poor investment performance of individual mandates could lead to a larger deficit and therefore a requirement for higher contributions.	Financial	Investments monitored regularly. Pensions Advisory Panel (PAP) reviews fund manager performance quarterly against benchmark. Reports received from investment advisers providing ratings of managers. Regular meetings with fund managers regarding performance. The Fund undertakes regular reviews of investment strategy to ensure that the investment asset and manager allocation is appropriate to meet the future pension obligations for the fund.
The Fund's asset allocation strategy is not sufficient to meet obligations and liabilities.	Financial	Reports on the funding level produced quarterly by Fund actuary and reviewed by PAP. Funding strategy statement reviewed every 3 years. Fund actuary takes liability profile into consideration when setting contribution rates at each triennial valuation. Investment strategy review conducted following each triennial actuarial valuation, to determine optimal asset allocation for the Fund. Actual asset allocation reported to PAP every quarter with variances of actual allocation to target discussed. The Fund holds investments in assets, the value of which is linked to inflation, a key driver of pension liabilities, such as index linked gilts.
COVID-19 pandemic impacts fund performance and income from investments, resulting in a reduction in fund value and impact on ability to pay pensions.	Financial	Ongoing monitoring of Fund performance and investment markets. Advice obtained from investment advisers on continuing suitability of asset allocation. Review of pre-pandemic decisions on investment strategy changes. Review of scheme employers' financial strength and likelihood of exit. The Fund holds investments in diversified assets, reducing volatility and ensuring long term stability. Cash flow monitored on a regular basis. Investment income reinvested and not required to pay pensions.

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Risk Description	Risk Category	Risk controls (mitigation)
Inaccuracy of financial information affects organisational decision making.	Reputational	Accounting data reconciled on timely basis. Fund manager valuations independently verified by Fund's custodian. Accounts prepared in accordance with relevant regulatory codes.
Failure of third party providers for investment management and custodial services, including LCIV, could have a serious financial impact on the Fund.	Financial	Contracts are monitored regularly. PAP provided with quarterly information for each manager. Where there are concerns additional monitoring is put in place to ensure financial risks are kept to an acceptable level. Third parties provide Fund with an annual SAS70 (or equivalent) report which provides assurance from their auditors that adequate controls are in place and are operating effectively. Assets to be transferred to the pool only upon satisfactory business case and due diligence.
Failure to comply with existing/new Scheme regulations – resulting in legal sanctions and detrimental effect on Council's reputation.	Legal & regulatory	Monitoring of compliance with regulations. Pension Services restructure now agreed and ongoing use of external advisers with specialist knowledge to advise on implementation of regulations. Fund breaches policy sets out clear guidance and mechanism for the reporting of breaches by those involved in management of the Fund and to the Pensions Regulator.
Admitted/Scheduled Bodies – failure of body/deficits on termination of contracts – could lead to an increase in the employers' and the council's contributions.	Financial	Admission agreements for transferee admission bodies place liability for pension deficits with Southwark Council limiting the Fund's counterparty exposure risk. Funding levels for employers are monitored at each valuation. Contributions and deficit recovery periods set at appropriate level to take into account strength of covenant. Regular monitoring of amounts due from admitted/scheduled bodies. Actions taken to recover late payments. Academy school pension liabilities are supported by a guarantee from the Department for Education.
Reliance on a smaller pool of specialist staff across LGPS impacts on ability to recruit and retain staff and increases the risk of a potential loss of knowledge and expertise.	Staffing & Culture	Use of external advisers with specialist knowledge. Develop and implement training programmes to help ensure staff are equipped with appropriate skills and knowledge and to show recognition of value placed on them. Pension Services new structure agreed which moves away from former flat structure with limited development opportunities. This will mitigate against risks around staff retention and succession planning. New specific role focuses on knowledge management, development and multi-skilling.
Employers fail to provide information that fund requires resulting in poor service, increased complaints and possible fines and penalties.	Reputational	Employer/HR function going through business transformation exercise, with emphasis on more robust processes and better understanding of fund requirements.

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Risk Description	Risk Category	Risk controls (mitigation)
Employer data is inaccurate or contributions are received late creating a financial or regulatory risk to the fund.	Financial	Administration Strategy sets out roles and responsibilities clearly and consequences of non-compliance. Communication Strategy to ensure employers reminded of information required. Regular monitoring of contributions from employers. Employers required to provide sufficient information for monthly returns to allow verification that the amounts due are correct. Fund can charge interest on the late payment of contributions. The rollout of the iConnect portal allows employers to efficiently upload information directly to the Fund with automatic data verification checks. New pensions services structure includes a specialist data management team.
Pension information to scheme members is inaccurate resulting in claims for compensation against the fund and the Pensions Ombudsman.	Financial	Robust procedures including appropriate internal checking processes. Specialist advice is obtained from external advisers where appropriate.
Fraud perpetrated against the fund either internally or externally resulting in a significant financial loss.	Financial	The internal controls for the Fund and Council as administering authority are reviewed by internal and external audit on a regular basis. Control arrangements are in place to ensure transactions require multiple layers of authorisation. Participation in NFI matching exercises.
Detrimental investment performance and reputational damage resulting from untimely or incorrect implementation of the Fund's commitment to divest from fossil fuel investment exposure over time.	Financial	The Fund has committed to divest from fossil fuel investment over time, in a structured and evidence based manner that complies with the fiduciary duties of the fund. The Fund maintains regular contact with like-minded LGPS Funds and other advisory bodies to keep abreast of all pertinent regulatory and investment developments. The Fund will monitor the impact of any changes in investment strategy.
Structural changes in Fund membership, leading to unforeseen cash flow implications and the forced sale of assets to meet pension benefits.	Financial	The Fund undertakes long term cash forecasting to identify trends in cash in/outflows which is built into a strategy to ensure suitable cash inflows to support pension benefit costs. The Fund currently generates surplus cash flows through investment income which could be directed to pay pension benefits if required.
Failure to comply with data protection legislation which results in reputational damage, scrutiny by the ICO and potential financial loss.	Legal & regulatory	Robust procedures are in place which are subject to audit review. Council's action plan for GDPR includes the pension fund and is on track. New training is available and all pensions staff will be required to complete this and refresher training on an annual basis.

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Risk Description	Risk Category	Risk controls (mitigation)
Major IT failure or data corruption/cyber-attacks results in administration function's inability to progress pension queries, and potential loss or permanent corruption of data files.	Reputational	Pension system (Altair) moving to a new hosted infrastructure later in 2019 as part of an ongoing investment in resilient and secure technology designed to tackle cyber security threat. New platform will have upgraded security, improved fault tolerance, next generation firewalls with enhanced threat/malicious content protection, encryption at rest as standard and improved monitoring, information and event management. In event of corruption of live database, test database contains 6 month old data available to use. Altair supplier tests back up arrangements annually. Maintain business continuity and disaster recovery plans.
Cessation post Brexit of reciprocal arrangements with EU in respect of state pension increases, leading to a requirement to pay additional increases to LGPS pensions.	Financial	Maintain awareness of any sector specific developments, guidance and advice etc.
Inability post Brexit to make electronic payments to pensioners with non UK bank accounts.	Operational	Move to cheque payments, with attendant risks. Consider changes to payment frequency.
The exact nature and extent of the restitutive measures as required by the outcome of the McCloud case into discrimination on the grounds of age result are not adequately estimated for within the actuarial valuation.	Financial	As part of the 2019 valuation, the Fund actuary has taken into account the estimated costs to the scheme of the additional liabilities. Risk management approach has been agreed with the Fund actuary to enable appropriate assumptions to be applied as part of triennial valuation. Approach will be documented in the updated funding strategy statement.
That required liquidity in investment assets is not available to allow the fund to meet pension fund obligations as they fall due.	Financial	Changes to investment strategy include consideration of split between liquid and illiquid investments. Ongoing monitoring of investments to ensure appropriate balance between liquid and illiquid investments ensuring the fund benefits from the potential for higher returns associated with illiquid investments, whilst still being able to meet obligations as they fall due. The investment strategy is split across a range of asset classes and means of implementation to allow for a variety of redemption options. Cash flow forecasting allows the Fund to predict likely cash flow requirements well in advance.

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Risk Description	Risk Category	Risk controls (mitigation)
Inaccurate or incomplete member data.	Financial/ Operational	Data team in place, reconciliation against other systems. Administration Strategy supports monitoring of employer compliance. Data matching exercises (National Fraud Initiative) help to identify discrepancies. Mortality Screening is being performed. Data Improvement Plan under review. New pension system being procured.
Inadequate controls to safeguard pension fund records.	Financial/ Operational	Cloud hosting and back up arrangements in place. Newly procured pension system will have greater audit functionality. Software regularly updated to meet LGPS requirements. Audit trails and reconciliations in place. GDPR in place. Pensions staff undertake data management training as required.
Failure to communicate with relevant stakeholders.	Financial/ Operational	New fund website with ongoing development. Member information guides under review. Training material being developed. Meetings held regularly with HR/employers. ABS sent annually to active and deferred members. Annual report, prepared in accordance with statutory guidelines published on the website. Newsletters are issued etc.
Impact of McCloud judgement.	Financial/ Operational	Scoping level of resources in line with SAB guidance and MCHLG consultation paper. It is expected this could take LGPS employers 18-24 months to complete.

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Risk Description	Risk Category	Risk controls (mitigation)
Delivery of new pensions administration and payroll software.	Financial/ Operational	Regular project meetings with Civica detailing work being undertaken and work to be completed. Software training and guidance material. In-depth scoping document capturing all work required. Detailed project plan and timeline to ensure project is on time and complete. Project team formed to undertake project work streams on Southwark's side. Detailed User Acceptance Testing (UAT) plans will be in place along with parallel testing of all payroll cycles prior to GO-LIVE. Pension Increase will be thoroughly tested as part of UAT but the 2021 exercise will be done using the Council's system SAP.
Overseas pensioner payments post Brexit.	Financial/ Operational	Investigating alternative methods to make overseas payments.
£95k Exit Cap initial legalisation introduced.	Financial/ Operational	SAB (Scheme Advisory Board) guidance being followed. Currently taking cautious approach with any member affected whilst conflicting legalisation is in place. Will provide, wherever possible guidance for Council HR and Schools HR.

The Fund's biggest overall risk (as identified above) is that its assets fall short of its liabilities resulting in there being insufficient funds to pay benefits to members as they fall due. The investment objectives have been set with the aim of maximising investment returns over the long term within specific risk tolerances.

The Strategic Director of Finance and Governance (SDFG) has overall responsibility for all aspects of the administration and investments of the Fund. The Pensions Advisory Panel (PAP) act in their role as advisers to the SDFG, taking into account the advice they receive from the Fund's external advisers. They make recommendations to the SDFG on matters relating to the management of the Fund. The management of risks is a key factor in all recommendations made by the Panel, thereby ensuring any risks to the Council arising from the Fund are kept to an acceptable level.

The investment adviser and performance measurement provider carry out the following evaluations which are reviewed by the PAP on a quarterly basis:

- Independent evaluation and analysis of Fund performance;
- Reviewing benchmarks and asset allocation; financial markets review; and
- Reviewing changes in the investment managers' business (through manager ratings).

Investments are monitored to ensure they are compliant with the LGPS regulations.

The Fund's assets are managed by external investment managers, who are required to provide an audited internal controls report annually to the Fund, which sets out how they ensure the Fund's assets are managed in accordance with their Investment Management Agreement. A range of investment managers have been appointed to diversify manager risk. The Fund's assets are held for safekeeping by the custodian (who also provides independent valuations of the Fund's investments).

The Funding Strategy Statement was reviewed in January 2020 and sets out the key risks (including demographic, regulatory and governance) to not achieving full funding in line with the strategy. The Actuary reports on these risks at each triennial actuarial valuation and more regularly if circumstances require. The last triennial actuarial valuation was completed as at 31 March 2019.

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Financial Performance

During 2021-22 the Fund increased in value by over £176 million (9%) to £2,125 million. A detailed analysis of the movement can be found in the Statement of Accounts for the Fund at Appendix 2 of this report, and is summarised below:

	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000
Opening net assets	**-1,494,992**	**-1,530,947**	**-1,641,986**	**-1,581,541**	**-1,948,624**
Contributions and joiners	-54,711	-58,891	-65,787	-69,712	-71,270
Benefits and leavers	59,400	64,076	71,384	67,580	72,050
Investment income less taxes	-14,470	-15,432	-15,287	-9,497	-5,367
Management expenses	6,422	7,508	8,881	7,699	8,973
Profit on sale and change in investment value	-32,596	-108,300	61,254	-363,153	-181,118
Increase in Fund value	**-35,956**	**-111,039**	**60,445**	**-367,083**	**-176,732**
Closing net assets	**-1,530,947**	**-1,641,986**	**-1,581,541**	**-1,948,624**	**-2,125,356**

During the year the net cash flow from membership (contributions and joiners, less benefits paid and leavers) was negative, a net decrease of £0.8m. Higher contributions have been offset by higher lump sum benefit payments.

Investment income is down by over £4m due to the write-off of historic debtor balances. Investment performance produced positive returns of £181m although this was down from £363m last year. The Investment Policy and Performance section provides more detailed analysis of investment performance over the year.

Costs per Member

Costs per member	2017-18 £	2018-19 £	2019-20 £	2020-21 £	2021-22 £
Administration	58.7	122.6	154.8	147.6	78.1
Oversight and Governance	13.7	4.1	3.3	19.5	22.7
Investment Management	197.2	69.0	63.7	140.8	269.6
Total Costs	**269.6**	**195.7**	**221.8**	**307.9**	**370.4**

The administration costs for 2021-22 have reduced considerably from previous years due to the completion of the new pension administration system and therefore development costs are no longer a significant item of expenditure. Investment management costs have increased due to the overall increase in assets under management and the implementation of new investment mandates which are expected to achieve high overall returns over the medium to long term.

Pension Overpayments

215 instances of overpayments to pensioners occurred during 2021-22.

£4,578 of overpaid pensions was 'written off' as the debt came to less than £100 or the pensions team were notified of the overpayment within a month of the death in accordance with the Southwark Pension Fund Overpayment Policy.

£72,338 is still currently in the process of being recovered (the majority on cases where solicitors are awaiting probate for the estate).

5 INVESTMENT POLICY AND PERFORMANCE

Investment policy

The Fund is managed with regard to a strategic asset allocation benchmark. This is reviewed every three years, following the Fund's triennial actuarial valuation. Given the increasing focus on management of carbon exposure within the investments, a new Investment Strategy Statement was published in December 2021, including an updated strategic asset allocation, shown on the following page.

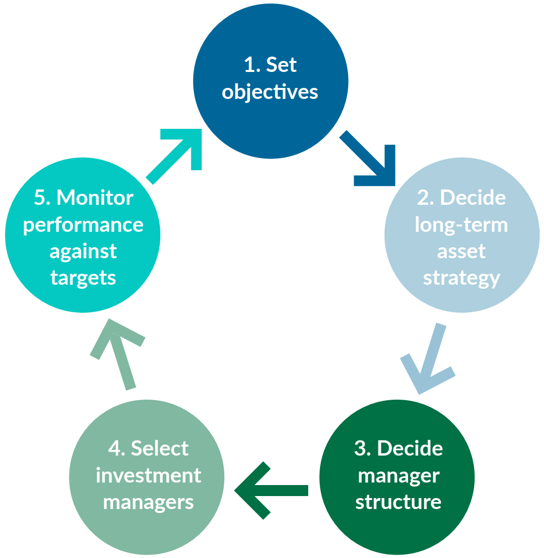
The strategic asset allocation is set to provide the required return, over the long-term, to maintain full funding within an acceptable level of risk. The actual asset allocation may differ from the strategic benchmark within tolerances that are agreed by the Pensions Advisory Panel (PAP) on the advice of the Fund's investment advisers. The distribution of investments is reported to PAP quarterly and monitored on an ongoing basis by the investments team.

The Fund's investment objective is to support an investment strategy and structure which incorporates an appropriate balance between risk and return considering the Fund's specific liabilities. In doing this, the investment strategy reviews both manager performance and long-term allocation between various asset classes as returns between these classes can vary significantly.

The Funding Strategy Statement (FSS) and the Investment Strategy Statement (ISS) set out the Fund's policies on funding and investments. The FSS is included as Appendix 3 of this report and the ISS as Appendix 4.

The ISS 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 (ESG) issues are taken into account and the approach with regard to pooling of investments.

The investment strategy cycle



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Strategic Asset Allocation

Asset Class	Target Allocation %	Investment Style %	Maximum Allocation %	Role(s) within strategy	Carbon Classification
Equity	45.0	Passive - 30.0	60.0	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 inflation protection.	Reduced carbon
		Pooled fund - 6.0			Reduced carbon
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
Bereavement Services	5.0	Limited Partnership - 5.0	10.0	ESG priority allocation. Focus on investments with strong ESG and, in particular, low carbon credentials	Low carbon
Timberland					Zero carbon
Private Equity					Reduced carbon

The financial assumptions specified in the FSS are consistent with those in the ISS. The FSS documents these specific processes and:

- establishes a clear and transparent fund-specific strategy;
- supports the requirement for maintaining as nearly constant primary employer contribution rates as possible;
- sets contributions as to ensure the solvency and long term cost efficiency of the Fund;
- ensures that regulatory requirements regarding the setting of contributions are met; and
- takes a prudent longer-term view of funding the Fund's liabilities.

The ISS and FSS are reviewed following the Fund's triennial valuation to ensure that investment objectives are aligned to the Fund's valuation. Updates are also undertaken on an ongoing basis to reflect any changes agreed by the Pensions Advisory Panel.

The actuarial valuation as at 31 March 2019 showed the Fund's assets covered 103% of liabilities compared with 88% at the previous valuation as at 31 March 2016. The discount rate for the three years commencing 1 April 2020 was set at 4.05% per year.

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Investment assets

Asset Class	Manager	31 March 2021 £m	31 March 2022 £m	% of Total Fund	Strategic Benchmark %	Difference %
Global Equity	BlackRock	448.2	382.3	18.5	15.0	3.5
	Legal & General	458.9	335.2	16.2	15.0	1.2
	Newton	233.5	256.9	12.4	10.0	2.4
	Comgest		97.9	4.7	5.0	-0.3
Total Global Equity		**1,140.6**	**1,072.3**	**51.8**	**45.0**	**6.8**
Diversified Growth	BlackRock	192.7	191.4	9.3	10.0	-0.7
Total Diversified Growth		**192.7**	**191.4**	**9.3**	**10.0**	**-0.7**
Absolute Return Bonds	BlackRock	135.7	132.3	6.4	5.0	1.4
Total Absolute Return Bonds		**135.7**	**132.3**	**6.4**	**5.0**	**1.4**
Direct Property	Nuveen	189.8	234.3	11.4	14.0	-2.6
Total Core Property		**189.8**	**234.3**	**11.4**	**14.0**	**-2.6**
Pooled Property	Invesco	30.3	31.4	1.5	1.5	0.0
	M&G	22.4	42.9	2.1	1.5	0.6
	Frogmore	7.4	8.0	0.4	1.5	-1.1
	Brockton	5.4	6.8	0.3	1.5	-1.2
Total Pooled Property		**65.5**	**89.1**	**4.3**	**6.0**	**- 1.7**
Sustainable Infrastructure	Glennmont	13.9	19.9	1.0	1.7	-0.7
	Temporis	3.5	50.1	2.4	2.3	0.1
	BlackRock	23.8	6.0	0.3	1.5	-1.2
Total Sustainable Infrastructure		**41.2**	**76.0**	**3.7**	**5.5**	**-1.8**
ESG Priority Allocation	Darwin		20.4	1.0	1.0	0.0
	Blackstone		28.1	1.4	2.2	-0.8
	BTG Pactual		30.4	1.5	1.3	0.2
Total ESG Priority Allocation			**78.9**	**3.8**	**4.5**	**-0.6**
Index Linked Gilts	BlackRock	72.2	88.2	4.3	5.0	-0.7
	Legal & General	87.6	91.9	4.5	5.0	-0.5
Total Index Linked Gilts		**159.8**	**180.1**	**8.8**	**10.0**	**-1.2**
Derivatives	Newton	0.2	9.4	0.5	0.0	0.5
Total Derivatives		**0.2**	**9.4**	**0.5**	**-**	**0.5**
Total		**1,925.5**	**2,063.8**	**100.0**	**100.0**	**-**

Excludes regulatory capital held within the London CIV (classed as an investment) and other minor investment balances. Including current assets and liabilities, the total value of the fund is £2,112.5 million.

continued...

As at 31 March 2022, the actual asset allocation for equities was 51.8%, overweight to benchmark by 6.8%, as were absolute returns bonds at 1.4%, and core and pooled property were underweight to their target allocations by 2.6% and 1.7%, respectively. All were well within the agreed tolerances and are closer to benchmark than for the previous financial year.

In late 2021, allocations were made to the new ESG Priority Allocation. Darwin Bereavement Services Fund and BTG Pactual Timberland Fund were immediately fully invested. The Fund is now invested in two Temporis funds with the first (Temporis Operational Renewable Energy Strategy) now fully invested, explaining the substantial increase in Temporis' sustainable infrastructure value during the year. A commitment was also made to the Blackstone Strategic Capital Holdings II Fund, which will be drawn down for investment over time.

Commitment to reducing fossil fuel exposure

In December 2016, the Fund's investment strategy explicitly committed to reduce over time its exposure to fossil fuels within its investments. Southwark was one of the first LGPS funds to make such a commitment and placed the Fund at the forefront of sustainable fossil fuel aware investment.

Since then, the Fund has made significant progress towards this long-term ambition, as set out below. In September 2017, the Fund agreed a long-term plan for the reduction of investment exposure to fossil fuels. This plan set out the goals and objectives for the Fund over the short, medium and long-term. This was refreshed in December 2021, with the following targets set in order to meet the revised target of achieving net zero carbon in the Fund's investments by 2030.

The Fund's implementation period for fossil fuel reduction 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: five-seven years (2027–2029); and
- The long-term: year eight (2030).

The plan is separated into four key areas of focus and consideration for the Fund:

- Investment Strategy and Actuarial Valuation;
- Fund Management and Implementation;
- Local Authority Collaboration and Pooling; and
- Engagement.

The Fund has made significant progress to date in implementing the strategy to achieve a reduction in fossil fuel investment. This includes the decision, as part of the investment strategy review following the 2016 triennial actuarial valuation, to introduce a new 5% target allocation to sustainable infrastructure.

The Fund's commitment to invest 5% of total assets in sustainable infrastructure will reduce its overall carbon footprint over time as capital calls are received from these investments. As at 31 March 2022, one fund was fully drawn down and two had drawn over 65% of their total commitment. The impact these funds have on the overall carbon footprint are yet to be included in the quarterly foot printing assessments. Although they are assumed to have an offsetting impact, officers are unable to calculate the extent of this with certainty at this time. In order to maintain prudence in measurement, these holdings are classed as zero carbon and negative offsets are not included.

In 2020-21, £90 million of equity holdings with Legal and General (LGIM) was sold with the proceeds being held to fund a new Environmental, Social and Governance (ESG) Priority Allocation, with a target of 5.0% of the total fund's value. This £90 million was the last of the non-low carbon equity holdings in the Fund. Any fund to be invested in through this new allocation was required to have measurable, positive ESG impact on both the Fund and wider society and, predominantly, these funds were required to be aligned with the pension fund's ultimate goal of reducing carbon exposure over time. Three funds were selected which met the Fund's strict criteria, with an additional fourth fund to be added to the pipeline under the sustainable infrastructure asset class allocation. The new funds are as follows, with their commitment values:

- Blackstone Strategic Capital Holdings Fund (USD $110million)
  - Invest in private equity including Health & Wellbeing, Financials, Green Technologies and Sustainability
- BTG Pactual Open Ended Core US Timberland Fund (USD $40million)
  - Management of timberland and forestry sites in the US
  - Darwin Bereavement Services Fund (£20million)
  - Greening bereavement services, including the introduction of electric crematoria
- Temporis Impact Fund V (£25million)
  - Investing in energy infrastructure and technology, predominantly (75%) within the UK

It is important that the Fund allows time for substantial changes to the investment portfolio to be monitored and assessed in terms of their impact upon return and volatility implications, risk profile as well as carbon footprint.

As part of this strategy, the Fund is fully committed to collaboration with other local authority partners and in 2015 invested in the London Collective Investment Vehicle (LCIV). The LCIV is a collaborative venture between local authorities to deliver benefits of investment scale and efficiency to the participating Funds. Southwark is committed to engaging with the LCIV to move it forward in relation to fossil fuel divestment. The Fund will continue to support the development of the LCIV as an investment vehicle and as at 31 March 2022, 43.5% of the assets of the Fund were under the oversight of the LCIV, a decrease from 55.4% as at 31 March 2021.

continued...

Carbon footprint measurement

A comprehensive carbon foot printing review of all assets in the Fund was undertaken as at 31 December 2019. The Fund has elected to measure fossil fuel exposure through carbon foot printing, which is the most commonly used metric for assessment. This metric seeks to assess the carbon footprint of an underlying investment, which can be attributable to the Fund's specific investments. For example, the greenhouse gas (GHG) emissions of a particular company can be apportioned to equity investors based upon their proportional equity share of that company.

This assessment is easier to perform for listed equities, due to the wide availability of company-specific data, but has been extended to analyse other assets classes within the portfolio. With the upcoming changes in reporting requirements, we expect this availability of data to improve in the coming years, particularly as more bodies are required to report under new Task Force on Climate-Related Disclosure (TCFD) reporting requirements. In order to carry out specialist portfolio assessment, the Fund initially engaged TruCost and subsequently Sustainalytics. Both companies have significant experience in climate change and investment portfolio data. The initial assessment was calculated as at 30 September 2017 and has been completed on a quarterly basis since September 2020. The 2017 assessment provided the Fund with a starting point for this journey, such that over the long-term the Fund can monitor the incremental progress made to reduce the overall portfolio exposure. The reduction in the carbon footprint was assessed as being 43.2% as at 31st March 2022.

The Fund will continue to develop and enhance the accuracy of this portfolio assessment over time. One of the primary issues the Fund faces in terms of measurement is the lack of standardised disclosure across bodies. As mentioned previously, the Fund's ability to assess carbon intensity across assets should improve with the upcoming improvements in TCFD reporting requirements. Where there will be legal requirements on what should be disclosed by companies, the Fund will have a better grasp on what its true carbon footprint is.

Although the Fund has shown great strides in reducing its carbon footprint, this work is ongoing. In the upcoming year 2022-23, the Fund intends to move resource from the current LGIM low carbon passive equity fund to another LGIM equity fund with stricter carbon screening protocol. This change is expected to take place by January 2023. Following the initial results of the 2022 actuarial valuation, an investment strategy review will be conducted. This is expected to include consideration of replacements for the strategic allocations to diversified growth and absolute return bonds, to optimise the overall risk and return profile of the Fund. Replacements for existing holdings must have a lower carbon exposure than the legacy holdings they are replacing, given the longer term investment risk of holding stranded assets as government policy changes in this area.

Whilst achieving net zero carbon is a key target for the LBS Fund, it must remain mindful that its primary fiduciary duty is to ensure there are adequate funds available to pay pensions obligations as they fall due. All actions to achieve this target will be made after taking proper investment advice, ensuring there is no detrimental effect or undue risk to the Fund.

Investment environment and performance

Markets began the new financial year on a very positive footing with risk assets delivering a fifth successive quarter of strong gains in the run up to June. The outlook for growth was very positive with growing evidence of vaccine efficacy, encouraging signs of global resilience to the pandemic and associated easing of restrictions. Equities and bonds both returned positively and capital gains from property returned. Against the positive backdrop were the first signs of rising inflation. Whether due to unprecedented levels of governments' fiscal stimuli, supply-side shortages or post-pandemic consumer spending inflation rose from around 0.5%p.a. to 2.5%p.a. in the UK over the June quarter.

Over the remainder of the calendar year, sentiment and the performance of global markets were very volatile. In terms of headwinds, rising inflation had become cemented as a real threat, new COVID variants were a constant threat and a potential debt crisis in China figured largely. Despite these many challenges, strong corporate earnings growth ensured equity markets stayed in positive territory.

Heading into the final quarter, markets were buoyant but nonetheless cautious. Inflation had risen uncomfortably; governments were looking increasingly hawkish and Russia's intentions towards Ukraine were a concern.

The latter crystallised in February as Russia invaded. Whilst barely registering in terms of global GDP, Russia and Ukraine produce a sizeable proportion of key commodities such as oil, gas and wheat. This caused increased further upward pressure on inflation and significant disruption in the supply chain.

Despite the volatility in evidence, over the year as a whole, equities - the largest proportion of LGPS assets - produced a return in low double-digits. Domestic shares outperformed due to the higher exposure to oil and gas and lower commitment to technology. Somewhat perversely, a weak pound benefited UK holders of international equities.

Governments' response to rising inflation is to increase interest rates and so bonds fell in value over the year. Unsurprisingly inflation linked issues outperformed nominal debt.

Property performed strongly over the period whilst the returns from alternative investments were varied – private equity and infrastructure faring best, absolute return and diversified growth relatively poorer.

The average LGPS fund returned just under 9% over the year.

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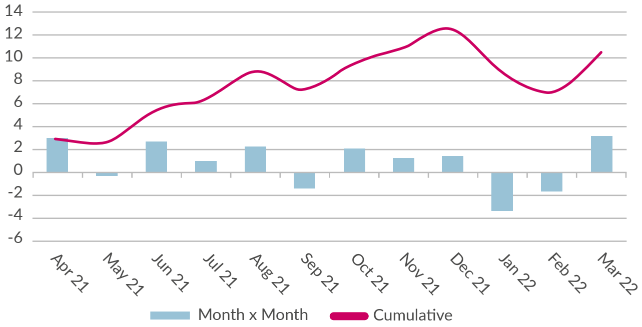
Southwark Fund Performance

The Fund performed very strongly over the course of the year returning 10.4%. The performance of the Fund's growth assets and in particular equities and property were of the greatest benefit. However, the path was not a smooth one as the chart below demonstrates:



As the calendar year closed and despite heightened market volatility, the Fund return topped out in excess of 12% but this was pared back sharply as headwinds gathered strength heading into 2022.

The Fund does not operate in a vacuum however and it sets itself a challenging benchmark against which to measure the performance of its assets and by implication, the performance of the members and officers managing the Fund on a day to day basis.

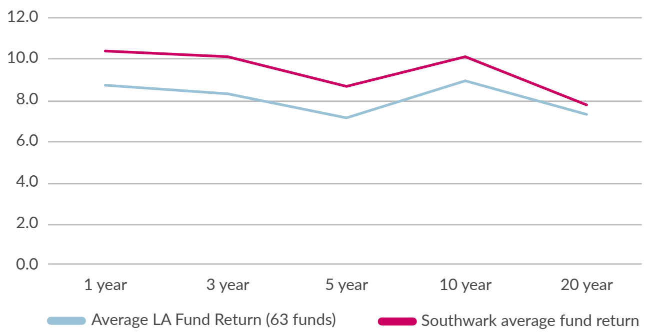
Over the latest year the Fund outperformed the benchmark by a very valuable 0.9% margin. The return achieved by the Fund's core property manager (Nuveen) relative to its own benchmark had the largest single positive impact over the year.

Asset class	LBSPF Return 2021-22 (Fund) %	Local authority one-year average return %	Over/(Under) performance %	LBSPF Ranking (percentile)
Total Fund	10.4	8.6	1.8	18
Equities	11	7.6	3.4	15
Property	19.3	17.9	1.4	47

Source: Local Authority Pension Performance Analytics (LAPPA) July 2022

LGPS funds averaged an 8.6% return over the 2021-22 financial year. Relative to other LGPS funds, the Southwark Fund performed above the one year local authority average by +1.8%, reflecting a stronger comparative performance than was seen in the previous year. This was driven by particularly strong returns in property asset classes, increasing from 3.8% return in 2020-21 to 19.3% in 2021-22. As a Fund, Southwark's ranking amongst the LGPS has improved greatly, from 51st percentile in 2020-21 to 18th in 2021-22. The Fund has consistently outperformed other local authority pension funds over a 20 year period, as shown below.

Pension Funds Rates of Return over 20 years



	1 year	3 years	5 years	10 years	20 years
Average LA Fund Return (63 funds)	8.6	8.3	7.1	8.9	7.3
Southwark average fund return	10.4	10.1	8.6	10.1	7.8

Source: Local Authority Pension Performance Analytics (LAPPA) July 2022

LGPS funds averaged an 8.6% return. The Southwark Fund has continued to outperform the local authority average overall, across one year and over the longer term. It continues to do so with broader margins than seen in 2020-21, with the exception of the average over 3 years.

Over the last ten and twenty years, the Fund has delivered very strong annualised returns of

10.1%p.a. and 7.8%p.a. respectively. Over both these periods however, returns have been behind benchmark with the underperformance largely attributable to a legacy of disappointing 'active' manager performance.

Importantly:

- Returns on the Fund's assets must outpace inflation (since pension payments increase in line with this, triple-lock depending)
- The Fund must endeavour to ensure that the value of its assets exceeds that of its liabilities (any surplus ensures scheme affordability)
- The Fund must seek to achieve a return on the assets that is sufficient, over the long-term, to meet the funding objectives set every three years by the actuary

continued...

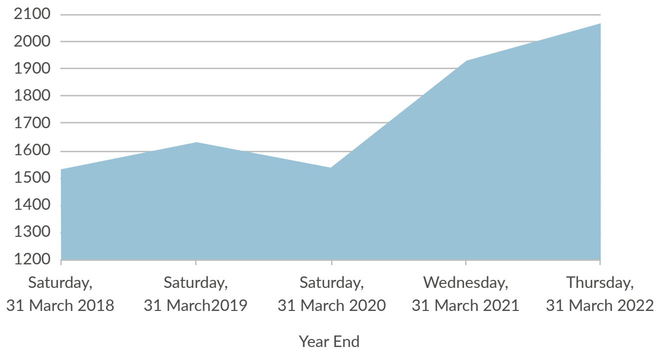
The Fund has succeeded in meeting, and exceeding, these three key measures. In the latest year, the Fund achieved a return in the top quartile (the best 25% of outcomes) and in all longer-term periods, returns in the top decile (the best 10% of outcomes), as shown below.

	Rank - Percentile				
Asset class	1 year	3 years	5 years	10 years	20 years
Total Fund	18	5	5	5	8
Equities	15	27	37	17	22
Property	47	18	1	6	8

Source: Local Authority Pension Performance Analytics (LAPPA) July 2022

The LAPPA LGPS Universe comprised of 63 funds at the end of March 2022. The LGPS Universe was valued at £250 billion.

Five Year Analysis of Fund Value



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Investment performance – fund manager performance by asset class

The benchmarks used to measure performance and the targets set are as follows:

Investment Manager	1 year portfolio return %	1 year actual benchmark return %	Relative difference %	Target return
Blackrock Balanced	12.12	8.58	3.54	Custom BlackRock Balanced Benchmark
Newton Equities	10.50	15.65	-5.15	FTSE All World Index +3%
Nuveen Real Estate	24.97	16.19	8.78	IPD ALL Properties + 1%
Legal and General	13.32	10.90	2.42	Legal and General FTSE Custom Blend
Blackrock Dynamic Diversified Growth Fund	-1.38	2.49	-3.86	3M SONIA
Brockton Capital	3.04	15.00	-11.96	Absolute Return 15% p.a.
Invesco Real Estate	3.84	8.00	-4.16	Absolute Return 8% p.a.
M&G Investments	1.86	8.00	-6.14	Absolute Return 8% p.a.
Frogmore	12.37	16.50	-4.13	Absolute Return 8% p.a.
Blackrock Absolute Return Bond Fund	-2.53	3.23	-5.76	3M SONIA
Temporis Operational Renewable Energy Strategy	3.20	10.00	-6.80	Absolute Return 10%
Glenmont Clean Energy Europe Fund III	16.16	10.00	6.16	Absolute Return 10%
Blackrock Global Renewable Power Fund	7.08	10.00	-2.92	Absolute Return 10%
Comgest Global Emerging Markets Plus	NA	NA	NA	MSCI Emerging Markets - Net Return
Blackrock ICS GBP Liquidity Fund	NA	NA	NA	SONIA OVERNIGHT
Blackstone Strategic Capital Holdings II	NA	NA	NA	Absolute Return 12%
BTG Pactual Open Ended Core US Timberland LP	NA	NA	NA	Absolute Return 6%
Darwin Bereavement Services Fund	NA	NA	NA	Absolute Return 6%
Temporis Impact Strategy V LP	NA	NA	NA	Absolute Return 10%

The past twelve months have produced strong overall absolute returns for the Fund for the second year in a row, adding over £138m to the value of the Fund's assets. However, it is always valuable to compare the holdings with each individual investment manager to their respective benchmarks, in order to better monitor their performance The table below sets out performance over one, three and five year periods to 31 March 2021.

continued...

Investment performance – fund manager performance

The benchmarks used to measure performance and the targets set are as follows:

Investment Manager		1 year %	3 years %	5 years %
Blackrock Balanced	Portfolio	12.12	12.46	9.65
	Benchmark	8.58	11.00	8.84
	Relative	3.54	1.46	0.82
Newton Equities	Portfolio	10.50	12.93	10.46
	Benchmark	15.65	16.72	13.71
	Relative	-5.15	-3.79	-3.25
Nuveen Real Estate	Portfolio	24.97	8.92	10.45
	Benchmark	16.19	6.79	8.02
	Relative	8.78	2.13	2.43
Legal and General	Portfolio	13.32	13.02	10.27
	Benchmark	10.90	11.40	9.05
	Relative	2.42	1.62	1.22
Blackrock Dynamic Diversified Growth Fund	Portfolio	-1.38	4.14	3.56
	Benchmark	2.49	3.14	3.51
	Relative	-3.86	1.00	0.05
Brockton Capital	Portfolio	3.04	6.49	8.34
	Benchmark	15.00	15.00	15.00
	Relative	-11.96	-8.51	-6.66
Invesco Real Estate	Portfolio	3.84	2.70	1.22
	Benchmark	8.00	8.00	8.00
	Relative	-4.16	-5.30	-6.78
M&G Investments	Portfolio	1.86	1.64	2.68
	Benchmark	8.00	8.00	8.00
	Relative	-6.14	-6.36	-5.32
Frogmore	Portfolio	12.37	3.21	0.01
	Benchmark	16.50	16.50	16.50
	Relative	-4.13	-13.29	-16.49
Blackrock Absolute Return Bond Fund	Portfolio	-2.53	1.98	NA
	Benchmark	3.23	4.05	NA
	Relative	-5.76	-2.08	NA

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Investment Manager		1 year %	3 years %	5 years %
Temporis Operational Renewable Energy Strategy	Portfolio	3.20	NA	NA
	Benchmark	10.00	NA	NA
	Relative	-6.80	NA	NA
Glenmont Clean Energy Europe Fund III	Portfolio	16.16	NA	NA
	Benchmark	10.00	NA	NA
	Relative	6.16	NA	NA
Blackrock Global Renewable Power Fund	Portfolio	7.08	NA	NA
	Benchmark	10.00	NA	NA
	Relative	-2.92	NA	NA
Comgest Global Emerging Markets Plus	Portfolio	NA	NA	NA
	Benchmark	NA	NA	NA
	Relative	NA	NA	NA
Blackrock ICS GBP Liquidity Fund	Portfolio	NA	NA	NA
	Benchmark	NA	NA	NA
	Relative	NA	NA	NA
Blackstone Strategic Capital Holdings II	Portfolio	NA	NA	NA
	Benchmark	NA	NA	NA
	Relative	NA	NA	NA
BTG Pactual Open Ended Core US Timberland LP	Portfolio	NA	NA	NA
	Benchmark	NA	NA	NA
	Relative	NA	NA	NA
Darwin Bereavement Services Fund	Portfolio	NA	NA	NA
	Benchmark	NA	NA	NA
	Relative	NA	NA	NA
Temporis Impact Strategy V LP	Portfolio	NA	NA	NA
	Benchmark	NA	NA	NA
	Relative	NA	NA	NA

Individual Investments compared to benchmarks

Nuveen Real Estate delivered the strongest return over one year at 24.97%, outperforming its benchmark by 8.78%. This is far removed from 2020-21, where property mandates performed poorly due to shortfalls in rental income on account of the ongoing COVID-19 pandemic. Within the context of the Fund's wider property mandate, this is a particularly strong performance, with each of the pooled property fund managers (Brockton, Invesco, M&G and Frogmore) achieving rates of return below their respective targets.

Given that allocations to a number of the ESG priority funds were made recently and are not yet fully drawn down, returns are difficult to assess and are not meaningful in the short term, with many still in the investment periods of their life cycles. Over time, their returns will be monitored in order to ensure they can contribute to both the investment return and carbon footprint reduction targets of the overall Fund.

The Fund's index tracking equities held with Blackrock and LGIM continue to show strong returns. However, the Newton mandate has had another period of poor performance, failing to meet its target during 2021-22. The Fund continues to work with Newton to monitor performance but it is important that the screens that have been put in place to exclude oil and gas and tobacco holdings are taken into consideration when reviewing short term performance. This is expected to have an impact on Newton's short term performance and is being monitored. However, the longer term risks of holding such assets which are likely to fall in value and become stranded in the long term must be balanced against short term performance, given the Fund is a long term investor.

In aggregate, the Fund's investments in sustainable infrastructure have performed just below target. On an individual basis, Glennmont showed a strong return, coming in at 6.16% above its benchmark. However, this is entirely offset by poor performance of Temporis' Operational Renewable Energy Strategy and Blackrock's Global Renewable Power III portfolios. Each of these investments are within the early stages of their life cycles and assessment of performance will be more meaningful in the medium to long term. All these investments sit under the 'zero carbon' category and play an important role in meeting the Fund's net zero target. In the coming years with the expected improvement in carbon impact measurement, the Fund hopes to be able to assess the offsetting impact of these investments on the overall carbon footprint of the fund.

6 SCHEME ADMINISTRATION 2021/22

Value for money statement
Despite any operational challenges presented by the pandemic, Southwark Pension Services has delivered a 'business as usual' service to employers and members of the Southwark Pension Fund (the Fund), by adopting new and innovative ways of working, including a low cost remote scan and post solution.

A new pension's administration (and payroll) system has been procured and went live in April 2022. Civica's integrated (UPM) solution will deliver a 40% cost reduction in the long term for hosting, support and maintenance, as well as much improved self-service functionality for members and employers of the Fund.

Our First Contact Resource Centre went live in September 2021, the first of its kind in London, and currently acts as the foundation for all member, employer and HR enquiries received to the Pensions section. The pensioner payroll successfully moved from the council's SAP payroll system to UPM in May 2022 with no loss of service.

Summary of activity

Data quality
The majority of Southwark employers (including the Council and schools) have now on-boarded for automated data movement using the UPM Employer Hub. This system enables employers to submit their monthly pension returns securely online, check their employee data and allows the Fund's Data Team a much higher level of scrutiny to quickly identify data gaps with schools and other employers. The Fund has its own Data Management Strategy designed to quickly identify data gaps and put in place data improvement plans to rectify.

Technology/security
The new pension fund website continues to be developed where we are looking to create a more engaged browser for members and a wider range of the online facilities to help members make informed decisions. It now contains a Twitter feed with up to the minute news on pension's matters and wider horizon pension news.

Pensions Digest will continue be added to the website which is an interactive newsletter designed especially for Southwark members.

Staffing/structure
We are in the process of hiring a permanent Pensions Admin Manager and Senior Pension Officer to complete the team – **https://southwarkpensions.co.uk/about-us/organisation-structure**

Member communication
The pension fund website **https://southwarkpensions.co.uk/** designed to help members navigate their work-life journey and understand key pension events whilst on that journey. The website works in harmony with the National LGPS website **https://www.lgpsmember.org/** and the main Southwark Council website where members can find basic information/guidance/updates.

2021/2022 Annual Benefit Statements for active members are delayed due to the major system change and additional data checking, but we are working hard to issue statements by the end of October 2022; deferred members' Annual benefit statements were issued on time during 2021/22.

A separate exercise carried out for Annual Allowance calculations. All affected members informed of any tax liability and offered the opportunity to discuss their situation with the pension's team.

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The Pensions Administration Strategy has been placed under review due to the major system transfer from Altair to Civica UPM. Consultation will be scheduled by the end of 2022.

The McCloud judgement
There has been a major step forward in the implementation of the "McCloud" age discrimination remedy with the Public Service Pensions and Judicial Offices Bill laid before Parliament on 19 July 2021. The Bill amends the Public Service Pensions Act and its equivalent in Northern Ireland, making provision to rectify unlawful discrimination in the way in which the LGPS reformed in 2014 and includes retrospective measures. As expected, it confirms the remedy period as covering membership from the date of reform 1 April 2014 to 31 March 2022 for eligible members.

The Bill enables LGPS Regulations to make provision for final salary benefits to be paid in respect of the remedy period (1 April 2014 to 31 March 2022), i.e. it is the enabling legislation, which will allow the LGPS Regulations to implement the McCloud remedy. Draft LGPS Regulations expected by the end of 2021.

No implementation date is specified for the LGPS, the recent written ministerial statement stated that the Government's intention is that regulations for the LGPS will come into force on 1st April 2023.

The Bill can be accessed by following this link **https://bills.parliament.uk/publications/42278/documents/567**

More information about this judgment and next steps will appear on the pension's website at **www.southwarkpensions.co.uk/news**

Key performance data

Performance indicators
Although the LGPS is a national scheme, it is administered in-house by Southwark Pension Services.

Southwark Council has a statutory responsibility to administer pension benefits payable from the Fund on behalf of participating employers and past/present members and their dependants.

Pension Services work to an agreed set of statutory targets and the table below sets out performance against those statutory targets for each of the key tasks during the period 1 April 2021 to 31 March 2022.

As a result of new IT, software and processes, Pension Services aims to benchmark service standards in line with guidance set out by CIPFA. Ongoing change and business transformation across Southwark Council has a direct impact on pension administration, and Pension Services is working alongside HR, employers and other stakeholders on developing new end-to-end processes to benefit members.

Process	Legal requirement (from notification)	No. of cases completed	Within target	% achieved in legal deadline
Notify retirement benefits	Within one month from date of retirement	403	395	98%
Provide retirement estimate/quote on request	Within two months of request (unless earlier request issued in last 12 months)	415	401	96%
New starter notification to member joining LGPS	Within two months of joining scheme, subject to notification received from employer	173	173	100%
Inform member who left scheme of leaver rights and options	Within two months of notification of leaving, from employer	306	296	90%
Obtain transfer details for transfer in, calculate and provide quote	Two months from date of request	300	276	89%
Provide transfer out (CETV) request	Three months from date of request	335	297	88%
Calculate and notify dependants about death benefits	As soon as is practicable, but within two months from date of death notification	301	295	98%

The source of key performance data included in this report comes from the pension system (Altair) then used by Southwark Council. New Civica UPM system used from May 2022.

continued...

Other information

Membership of the Fund
The Fund provides pensions for:

- Employees of Southwark Council;
- Employees of a number of admitted bodies, i.e. organisations that participate in the LGPS via an admission agreement. Examples of admitted bodies are not for profit organisations with a link to the council and contractors who have taken on the council's services and therefore staff have been transferred; and
- Employees of scheduled bodies, i.e. organisations that have the right to be a member of the LGPS under the regulations (e.g. schools/ academies).

Membership has decreased by approximately 1% over the last twelve months. The number of actives have remained fairly stable over the past 3 years with a gradual increase in pensioner numbers as the Fund matures.

Membership	2019-20	2020-21	2021-22
Active	6,888	7,029	6,700
Pensioner	7,887	8,003	8,236
Deferred	10,932	9,276	9,209
Totals	**25,707**	**24,308**	**24,145**

During 2021-22 there were 416 new pensioners as detailed below:

Early payment	194
Ill Health	15
Normal	173
Redundancy	34
Total	**416**

Employers in the Fund

The table below summarises the number of active employers in the Fund analysed by scheduled bodies and admitted bodies during the financial year.

There are no ceased admitted bodies with outstanding liabilities. The Fund has a pass through policy in place which provides that all ceasing admitted bodies' liabilities are subsumed into the Council's share of the Fund. As part of this policy, each admitted body is given a fixed employer contribution rate on commencement in the Fund. The purpose of this policy is to ensure that the full cost of pensions is reflected in contracts and uncertainties around pension costs do not influence the contract price quoted by providers.

	Active
Scheduled body*	32
Admitted body	18
Total	**50**

*includes Southwark Council

Participating employers

Appendix 1 lists the admitted and scheduled bodies participating in the Fund at 31 March 2022 and sets out the contributions paid by employees and employers during the year for each employer.

How the service is delivered

Key services provided
A New Member Self-Service portal is currently under maintenance to enable the new pension software be implemented. As developed, a portal will allow members to find out about their pension, check and update personal data held about them.

A newsletter for retired colleagues was sent out in April 2022, which updated members about pension increases and provided other relevant information; for example about planning ahead (system change), the State Pension, protecting personal data and keeping personal data up-to-date. It also made members aware of greater use of the electronic communications available in the future.

A number of information sessions (training via Learning Source) were provided to targeted groups of staff. Work continues to improve pension's information across Southwark Council making it easier for members, prospective members and employers to find relevant information. The content further reviewed and updated where appropriate or needed.

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Key information sources

Information type	Method of Communication	Frequency of Issue	Distribution	Stakeholder
LGPS Booklet	Electronic, paper based, intranet and website	At joining and on major LGPS changes	Emailed, posted to employees by employer, website	Active members
Retirement Presentations	Face-to-face, MS Teams	Regularly as requested	Advertised on intranet and invitations via HR team	Active members
Pension Roadshows and drop in sessions	Face-to-face, MS Teams	On request and on major LGPS changes	Advertised on intranet and website	Active members
Pension Fund Annual Report	Southwark Council website, pensions website	Annual	On request	All members
Annual Benefit Statements	Email to all active members, via post to deferred members	Annual	Employee email address for active members, home addresses for deferred	Active and Deferred members
Website information and links, including Member Self Service (MSS)	Electronic, via pensions website	Continuously available	Advertised on communication	All members
Newsletters	Email or by post, as 'appropriate'	Quarterly or Biannually	Electronic, via email or by post, as 'appropriate'	All members
Member and Employer query phone calls	By telephone	Continuously available via the First Contact Centre	Telephone	All members and employers
Pensions Savings Statements	Email or by post, as 'appropriate'	Annual	Electronic, via email or by post, as 'appropriate'	Active members
High earner and/or Lifetime Allowance letters	Email or by post, as 'appropriate'	Annual	Electronic, via email or by post, as 'appropriate'	Members who may be affected in the future
Pensions Increase Newsletter	Post	Annual	Post	Pensioners
Key Horizon Projects	Southwark Council website, pensions website	As required	On the Pensions website	Affected members
RSS feeds from pension fund website	Pension fund website	Daily / weekly	Online via website	All members, employers and stakeholders

Note: it will be provided as disclosed in the appendix once a new website/member site be active

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Internal Dispute Resolution Procedure (IDRP)

Occasionally, a disagreement over a decision Southwark Council made about a pension will be made. The IDRP gives members the right to apply to an adjudicator who will consider the case and decide if the original decision was correct or overturned.

IDRP has a two-stage process.

Under stage one, the adjudicator will consider all the points raised in determining a decision. A member will need to carefully consider why in their view the LGPS Regulations were not applied. If a member disagrees with the stage one-decision outcome, the matter can be appealed. A stage one decision and case will pass to a different adjudicator under stage two hearing, who will assess any old and a new information afresh and make a final decision on behalf of Southwark Administering Authority.

The Pensions Ombudsman (TPO)

TPO deals with complaints and disputes of maladministration. Anyone using TPO's 'Early Resolution Service' may not be required to have first used the LGPS' IDRP if the parties are happy with that.

TPO is impartial and looks at all the facts without taking sides. It has legal powers to make decisions that are final, and binding and enforceable in a Court of law. There is no charge for using TPO's service as it is funded by grant-in-aid, paid by the DWP.

TPO can be contacted on 0800 917 4487
Address: 10 South Colonnade, Canary Wharf, E14 4PU
Website: www.pensions-ombudsman.org.uk

Money Helper

MoneyHelper joins up money and pensions guidance to make it quicker and easier to find the right help.

MoneyHelper brings together the support and services of three government-backed financial guidance providers: the Money Advice Service the Pensions Advisory Service and Pension Wise.

Money Helper can be contacted at
https://www.moneyhelper.org.uk/en

Local Government Pension Scheme (LGPS) Regulations

All LGPS Regulations are held within Pension Services, 2nd Floor, 160 Tooley Street, London, SE1 2QH and are available for inspection upon request.

Further Information

Queries regarding benefits or cost of membership

lbspensions@southwark.gov.uk
Telephone: 0207 525 4924

Queries regarding Fund investments and accounts

Caroline Watson
Senior Finance Manager – Treasury and Pensions
Telephone: 020 7525 4379
Email: Caroline.Watson@southwark.gov.uk

Or you can write to us at:

London Borough of Southwark Pension Fund
Finance and Governance
Treasury and Pensions
Second Floor, Hub 1
PO BOX 64529,
London, SE1P 5LX

External sources of information

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
East Sussex
BN1 4DW

Telephone: 0345 600 5666
Website: www.thepensionsregulator.gov.uk

Website: www.gov.uk/contact-pension-service
To find out about State Pension eligibility, payments and complaints and to find your local pension centre.

Website: www.gov.uk/find-pension-contact-details
The Pensions Tracing Service can help ex-members of pension schemes who may have lost touch with previous employers, to trace their pension entitlements.

Telephone: 0800 731 0193

7 GLOSSARY

Absolute return fund
A fund that aims to deliver positive returns in all market conditions, with low volatility. This is achieved through the use of financial instruments such as derivatives to protect against downside risk and generate higher returns.

Actuary
An independent consultant who advises the Fund and reviews the financial position of the Fund every three years. The Actuary then produces a report, known as the actuarial valuation report, which compares the Fund's assets with its liabilities and prescribes the rates at which the employing bodies must contribute.

Added Years
Additional service that a member of the Fund can buy by paying extra contributions to the Fund providing that HMRC limits on pension and contributions are not exceeded.

Additional Voluntary Contributions (AVCs)
An option available to individual members to secure additional pension benefits by making regular payments to the Fund's AVC provider up to a maximum of 15% of total earnings.

Admitted body
An organisation whose staff can become members of the Fund by virtue of an admission made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

Asset allocation
The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the Fund's investment objectives. In the short term, the fund manager can aim to add value through tactical asset allocation decisions.

Asset class
A collective term for investments of a similar type. The main asset classes are equities (shares), bonds, cash and property.

Basis point
One hundredth of 1% (i.e. 0.01%).

Benchmark
A standard against which the performance of an investment can be compared. Asset allocation benchmarks vary from peer group to customized benchmarks tailored to a particular fund's requirements.

CARE scheme
Career Average Revalued Earnings - where pension is built up as a proportion of pensionable pay - 1/49th for each year in the LGPS 2014. Therefore, instead of calculating pension with reference to final salary on retirement, the LGPS 2014 uses the average of annual earnings over membership of the LGPS. Earlier years are revalued by inflation (CPI) to ensure that each year's salary is of equivalent real value.

Cash transfer values
The capital value of a benefit entitlement paid into or withdrawn from the Fund when an employee joins or leaves the scheme with a pension transfer.

Corporate bond
Corporate bonds are when an investor loans money to an entity for a defined period for either a fixed or a variable interest rate.

Custody
Administering of securities by a financial institution. The custodian bank keeps a record of a client's investments and may also collect income; process tax reclaims and provide other services, according to client instructions. The custodian physically holds the securities for safe-keeping

Deferred pension
The pension benefit payable from Normal Retirement Age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age.

Defined benefit scheme
A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

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Diversification
The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce risk.

Diversified growth funds
Investment products that utilise a variety of liquid assets, strategies and investment horizons in order to deliver real capital appreciation over the medium to long-term

Emerging markets
Stock markets in developing countries (as defined by the World Bank).

Environmental, Social & Governance
Environmental, social and governance (ESG) factors are non-traditional metrics that can affect an investment's performance.

Environmental factors are issues relating to the quality and functioning of the natural environment and natural systems, e.g. carbon emissions, environmental regulations, water stress and waste; Social issues relate to the rights, well-being and interests of people and communities, e.g. labour management, health and safety, and product safety; Governance issues relate to the management and oversight of companies and other investee entities, e.g. board, ownership and pay.

Equities
Ordinary shares in UK and Overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Final Pensionable Pay
Pensionable Pay earned in the last 12 months before retirement (or any one of the previous two years if annual earnings in either of these years are higher).

Final salary scheme
A pension scheme that provides a pension and a lump sum benefit calculated as a proportion of a member's pay in their last year of membership depending on the length of membership in the scheme.

Fixed interest
An income stream which remains constant during the life of the asset, such as income derived from bonds, annuities and preference shares.

Index
A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Index-linked gilts
Gilts where the principal is indexed to inflation on a daily basis in terms of the Consumer Price Index (CPI).

Mandate
The agreement between a client and investment manager laying down how the fund is to be managed. May include performance targets by reference to a benchmark.

Market value
The price at which an investment can be bought or sold at a given date.

Pensionable Pay
Basic pay excluding non-contractual overtime, bonus and shift payments.

Pooled funds
Pooled funds are funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Return
The value received (income plus capital) annually from an investment, usually expressed as a percentage.

Scheduled body
An organisation that has the right to become a member of the Local Government pension Scheme under the scheme regulations. Such an organisation does not need to be admitted as its right to membership is automatic.

Unconstrained equity investing
Mandates where the investment manager is expected to construct and manage their portfolio of stocks in a way that reflects their judgment, without being hindered by limits sets relative to a benchmark index. The manager may also be free to invest a high proportion in cash if they have a negative view on equity markets. Generally, there would be few investment restrictions, although a mandate would rarely be totally unconstrained.

Unlisted securities
Holdings in companies which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not frequently traded. Unlisted securities are usually less liquid than those traded in the main markets.

Valuation
A summary of an investment portfolio showing the holdings and their value as at a certain date.

APPENDIX 1: PENSION FUND CONTRIBUTIONS 2021-22

Employer	Employee Contributions £'000	Employer Contributions £'000	Total Contributions £'000
Administering authority			
London Borough of Southwark	13,421.93	42,793.43	56,215.36
Scheduled Bodies			
Ark All Saints Academy	79.24	170.20	249.44
Ark Globe Academy	80.88	344.51	425.39
Ark Walworth Academy	81.71	177.35	259.06
Bacons College	96.67	306.61	403.28
Charles Dickens School	39.35	106.56	145.91
Compass Free School	23.82	64.13	87.95
Dulwich Hamlet Junior School	29.62	200.10	229.72
GalleyWall Primary City of London Academy	23.50	60.11	83.61
Goose Green	32.85	88.15	121.00
Harris Academy at Peckham	53.89	144.35	198.24
Harris Academy Bermondsey	44.90	121.67	166.57
Harris Boys Academy	48.25	128.89	177.14
Harris Girls Academy	38.28	104.23	142.51
Harris Peckham Free School Peckham	18.58	58.58	77.16
Harris Primary Academy Peckham Park	16.92	86.13	103.05
Harris Primary East Dulwich	28.24	86.14	114.38
John Donne	45.88	131.11	176.99
John Keats	17.64	43.81	61.45
Judith Kerr Free School	20.85	63.42	84.27
Kingsdale Foundation School	37.30	112.02	149.32

continued...

Employer	Employee Contributions £'000	Employer Contributions £'000	Total Contributions £'000
Lyndhurst Primary Academy	22.48	59.25	81.73
Newlands Academy (AET)	25.75	76.96	102.71
Redriff Primary Academy	65.52	296.92	362.44
Southwark Diocesan Board of Education (SDBE)	21.28	48.74	70.02
Spa Education Trust (Spa Academy)	74.89	266.65	341.54
St. Paul's CE Primary	24.91	83.03	107.94
The Angel Oak Academy (Gloucester)	22.04	96.83	118.87
The Belham School (part of Dulwich Hamlet)	40.12	114.16	154.28
The Charter School Educational Trust (ED)	47.39	264.34	311.73
The Charter School Educational Trust 2	101.93	252.79	354.72
University Academy Engineering South Bank (UAESB)	59.92	133.56	193.48
Total Scheduled Bodies	**1,364.60**	**4,291.30**	**5,655.90**
Admitted Bodies			
AiP - Cherry Gardens	1.23	4.79	6.02
AiP - Ivydale School	1.75	7.60	9.35
Brandon Trust	11.84	30.78	42.62
Browning Tenant Management	5.34	13.82	19.16
Centre for Literacy (CLPE)	1.19	4.95	6.14
D Brice & Co Ltd	0.94	3.40	4.34
Energy Kidz	1.08	4.32	5.40
Leather Market	14.55	19.30	33.85
LunchTime Company(Lunchtime-Charles Dickens)	2.43	8.37	10.80
MITIE	1.74	7.40	9.14
PFI VEOLIA ES	108.32	343.27	451.59
Principles Catering LTD	0.68	2.30	2.98
South London Gallery - SLG	10.13	16.62	26.75
Southwark Law Centre	66.64	213.78	280.42

continued...

Employer	Employee Contributions £'000	Employer Contributions £'000	Total Contributions £'000
Sports and Leisure Management (SLM)	6.91	25.60	32.51
Topmark Sports & Coaching LTD	1.34	4.55	5.89
Tree Tops Clubs - Dog Kennel Hill	1.31	5.48	6.79
Tree Tops Clubs - Ivydale	3.55	11.41	14.96
Westgate Cleaning - Camelot	0.60	2.03	2.63
Westgate Cleaning - Goose Green	1.49	6.66	8.15
Total Admitted Bodies	**243.06**	**736.43**	**979.49**
Grand Total	**15,029.59**	**47,821.16**	**62,850.75**

APPENDIX 2: PENSION FUND STATEMENT OF ACCOUNTS 2021-22

Independent auditor's report to the members of Southwark Council on the consistency of the pension fund financial statements of the London Borough of Southwark Pension Fund included in the Pension Fund Annual Report (the Report).

PENSION FUND 2021-22

London Borough of Southwark Pension Fund Statement of Accounts

FUND ACCOUNT

Restated

	Note	2021-22		2020-21	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	6	(62,851)		(60,237)	
Transfers in from other pension funds	7	(8,419)		(9,475)	
Subtotal			**(71,270)**		**(69,712)**
Benefits	8	65,135		61,446	
Payments to and on account of leavers	9	6,915		6,134	
Subtotal			**72,050**		**67,580**
Net reduction/(addition) from dealing with members of the fund			**780**		**(2,132)**
Management expenses	10		8,973		7,699
Net additions including fund management expenses			**9,753**		**5,567**
Returns on investments					
Investment income	11	(7,425)		(10,036)	
Taxes on income	11	2,058		539	
Profit and losses on disposal of investments and					
changes in market value of investments	12a	(181,118)		(363,153)	
Net return on investments			**(186,485)**		**(372,650)**
Net (increase)/decrease in the net assets available for benefits during the year			**(176,732)**		**(367,083)**
Opening net assets of the scheme			(1,948,624)		(1,581,541)
Net assets of the scheme available to fund benefits as at 31 March			**(2,125,356)**		**(1,948,624)**

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NET ASSETS STATEMENT

	Note		31 March 2022 £000		Restated 31 March 2021 £000
Long Term Investments			150		150
Investment assets	12		2,102,141		1,930,820
Total Net Investments			**2,102,291**		**1,930,970**
Current assets	13		28,223		21,824
Current liabilities	13		(5,158)		(4,170)
Net assets of the scheme available to fund benefits as at 31 March			**2,125,356**		**1,948,624**

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The estimated actuarial present value of promised retirement benefits is disclosed at note 19.

continued...

NOTES TO THE PENSION FUND STATEMENTS

1. Introduction

The Pension Fund (the fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Southwark Council (the council).

The following description of the fund is a summary only. For more detail, reference should be made to the pension fund annual report and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the LGPS Regulations.

a) General

The scheme is governed by the Public Service Pension Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit scheme that provides pensions and other benefits for former employees of the council and other admitted organisations.

The overall investment strategy is the responsibility of the council as the administering authority of the fund. This responsibility is delegated to the Strategic Director of Finance and Governance, taking account of the advice of the pensions advisory panel. In line with the provisions of the Public Services Pensions Act 2013, the council has set up a local pension board to assist the council in its role as scheme manager of the Pension Fund. The board meets on a quarterly basis and has its own terms of reference. Board members are independent of the pensions advisory panel.

b) Membership

Membership of LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the fund include:

- Scheduled bodies, which are largely academies and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A list of participating organisations and their contributions for the financial year is included within the pension fund annual report. This is available from the council website.

	31 March 2022	31 March 2021
Number of contributors to the fund	6,995	7,126
Number of contributors and dependants receiving allowances	8,167	7,988
Number of contributors who have deferred their pensions	10,067	9,883
Total contributors	25,229	24,997

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2019. For the 2021-22 financial year primary employer contribution rates ranged from 7.3% to 18.4% of pensionable pay, plus additional deficit payments where appropriate.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014 the scheme became a career average scheme.

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	Service pre 1 April 2008	Service post 31 March 2008	From 1 April 2014
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is accrued at 1/49 of pensionable pay for the year
Lump sum	Automatic lump sum of 3 x pension. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax- free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	

In June 2020 the pension fund made a self-declaration to the Pensions Regulator with regard to the late processing of pension uplifts due to a payroll issue. The issue was resolved and all increases and arrears were paid in July 2021.

2. Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2021-22 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

3. Summary of significant accounting policies

Fund Account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. The employer payroll contribution percentage rates are set by the fund based on advice of the fund actuary. Employee rates are set in Regulations.

Deficit funding contributions as advised by the fund actuary are accounted for on an accruals basis.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations. Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset. Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits and or losses during the year.

d) Fund account – benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

continued...

e) Fund account – taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

All administrative expenses are accounted for on an accruals basis. All staff costs of pensions administration are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

All investment management expenses are accounted for on an accruals basis. Fees for the fund managers and custodian are agreed in the respective mandates governing their appointments and are based broadly on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Net Asset Statement

g) Financial assets

Investment assets are included in the net assets statement on a fair value or amortised cost basis as at the reporting date. Cash held by fund managers and the funds own cash are at amortised cost.

A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. Details of the basis of valuation and disclosure levels within the fair value hierarchy are provided at note 13. Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.

h) Freehold and leasehold property

Property assets have been included in the accounts at fair value as at 31 March each year. The valuation of direct property managed by Nuveen is carried out annually by an independent valuer.

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial liabilities

The fund recognises financial liabilities at fair value or amortised cost as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (note 19).

m) Additional voluntary contributions

The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVC assets are not included in the accounts but are disclosed as a note (note 6).

4. Critical judgements in applying accounting policies

In applying the accounting policies in note 3 the council has had to make critical judgements about complex transactions and those involving uncertainty about future events. There were no such critical judgements made during 2021-22.

continued...

5. Assumptions made about the future and other major sources of estimation uncertainty

The statements contain estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations, as indicated in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits	This applies to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The approximate impact of changing the key assumptions on the present value of retirement benefits are: • an 0.1% change in the discount rate would be +/- £51m • an 0.1% change in the rate at which salaries are projected to increase would be +/- £5m • an 0.1% change in the rate of pension increase would be +/- £47mw • a one year change in mortality assumptions would be +/- £94m
Freehold and leasehold property and pooled property	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible, management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation, estimated to be 3.6% would be an increase or decrease in the value of property of £12m, on a fair value of £323m.

continued...

6. Contributions receivable

Contributions represent the total amount receivable from employees and employers of the scheme.

	2021-22			2020-21		
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark council	(13,422)	(43,435)	(56,857)	(12,463)	(42,334)	(54,797)
Admitted bodies	(243)	(736)	(979)	(315)	(884)	(1,199)
Scheduled bodies	(1,365)	(3,650)	(5,015)	(1,229)	(3,012)	(4,241)
Total	**(15,030)**	**(47,821)**	**(62,851)**	**(14,007)**	**(46,230)**	**(60,237)**

Contributions receivable from employers are shown below:

	2021-22 £000	2020-21 £000
Normal	(33,732)	(36,416)
Early retirement strain	(3,422)	(2,221)
Deficit funding	(10,667)	(7,593)
Total contributions from employers	**(47,821)**	**(46,230)**
Contributions from employees	(15,030)	(14,007)
Total	**(62,851)**	**(60,237)**

During 2021-22 employees made additional voluntary contributions (AVCs) of £0.2m (£0.3m in 2020-21). The value of the AVCs at 31 March 2022 was £3.6m (£3.6m at 31 March 2021).

7. Transfers in from other pension funds

Transfers in from other pension funds were as follows:

	2021-22 £000	2020-21 £000
Individual transfers	(8,419)	(9,475)
Total	**(8,419)**	**(9,475)**

8. Benefits payable

The table below shows the types of benefit payable by category:

	2021-22 £000	2020-21 £000
Pensions	53,130	53,003
Commutation of pensions and lump sum retirement benefits	9,588	7,147
Lump sums - death benefits	2,417	1,296
Total	**65,135**	**61,446**

The table below shows the total benefits payable grouped by entities:

	2021-22 £000	2020-21 £000
Southwark council	61,941	58,722
Admitted bodies	2,316	2,106
Scheduled bodies	878	618
Total	**65,135**	**61,446**

9. Payments to and on account of leavers

	2021-22 £000	2020-21 £000
Refund of contributions	263	121
Individual transfers out to other schemes	6,652	6,013
Total	**6,915**	**6,134**

continued...

10. Management expenses

	2021-22 £000	Restated 2020-21 £000
Administrative costs	1,891	3,690
Investment and management expenses	6,531	3,522
Oversight and governance costs	551	487
Total	**8,973**	**7,699**

The 2021-22 fee for external audit services for the pension fund is £21K (£36K in 2020-21). Revised fees for both 2019-20 and 2020-21 are as agreed with the external auditor and the Public Sector Audit Appointments Ltd (PSAA).

The Pension Fund incurred expenses of £0.9m in relation to services provided by the council during 2021-22 (£0.9m during 2020-21).

The table below provides an analysis of investment and management expenses by asset class.

	2021-22			Restated 2020-21		
	Fees £000	Transaction cost £000	Total £000	Fees £000	Transaction costs £000	Total £000
Fixed Income	303	-	303	465	-	465
Equity	2,228	16	2,244	1,373	-	1,373
Private Equity	1,701	534	2,235	-	-	-
Property	1,114	-	1,114	1,199	214	1,413
Infrastructure	152	-	152	159	-	159
Other	125	258	383	-	-	-
Sub-Total	**5,623**	**808**	**6,431**	**3,196**	**214**	**3,410**
Custody costs			100			112
Total			**6,531**			**3,522**

Performance fees in 2021-22 were nil (nil in 2020-21).

11. Investment income

	2021-22 £000	Restated 2020-21 £000
Dividends from equities	(4,171)	(4,278)
Pooled funds	(849)	(523)
Pooled property funds	(650)	(538)
Net rent from properties	(6,072)	(4,675)
Interest on cash deposits	-	(22)
Debtor adjustments	4,317	-
Total before taxes	**(7,425)**	**(10,036)**
Taxes on income	2,058	539
Total after taxes	**(5,367)**	**(9,497)**

11a. Property income

	2021-22 £000	2020-21 £000
Rental Income	(7,950)	(7,814)
Direct operating expenses	1,878	3,139
Net rent from properties	**(6,072)**	**(4,675)**

continued...

12. Investment assets

	2021-22 £000	Restated 2020-21 £000
Long Term Investments		
Equities	150	150
Total	**150**	**150**
Investment Assets		
Equities	256,900	233,525
Pooled Funds		
Fixed Income	132,310	135,739
Equities	480,221	256,004
Diversified Growth	191,389	192,740
Property	92,879	67,784
Infrastructure	96,403	41,248
Private Equity	28,123	-
Other	73,407	-
Unitised Insurance Policy		
Fixed Income	180,108	159,852
Equities	335,240	651,065
Property	230,600	187,470
Other investment balances	4,561	5,393
Total Investment Assets	**2,102,141**	**1,930,820**
Net Investments	**2,102,291**	**1,930,970**

12a. Reconciliation of movements in investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year. The table below shows the movement in investment assets and the change in market value for the year:

	Opening balance £000	Purchases £000	Sales £000	Change in market value £000	31 March 2022 £000
Equities	233,525	144,070	(145,490)	24,795	256,900
Pooled funds	625,731	618,057	(286,529)	44,594	1,001,853
Pooled property funds	67,784	21,802	(857)	4,150	92,879
Unitised insurance policy	810,917	12,119	(381,343)	73,655	515,348
Property	187,470	9,226	-	33,904	230,600
	1,925,427	**805,274**	**(814,219)**	**181,098**	**2,097,580**
Other investment balances	5,393			20	4,561
Total	**1,930,820**			**181,118**	**2,102,141**

continued...

Restated

	Opening balance £000	Purchases £000	Sales £000	Change in market value £000	31 March 2022 £000
Bonds	6,177	8,731	(14,642)	(266)	-
Equity	165,920	54,707	(48,963)	61,861	233,525
Pooled funds	494,070	19,208	(5,828)	118,281	625,731
Pooled property funds	56,420	17,765	(5,403)	(998)	67,784
Unitised insurance policy	626,535	11,563	(15,902)	188,721	810,917
Property	189,550	2,012	(120)	(3,972)	187,470
Derivatives	222	1,051	(799)	(474)	-
	1,538,894	**115,037**	**(91,657)**	**363,153**	**1,925,427**
Other investment balances	2,524			-	5,393
Total	**1,541,418**			**363,153**	**1,930,820**

The Pension Fund does not hold derivatives as a main asset class, but they are used by Newton Investment Management, the council's active equity fund manager, to hedge the currency risk of holding global equities. The currency forward contracts are traded over the counter.

The valuation of direct property managed by Nuveen is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2022. All properties have been valued at market value.

The investment strategy statement can be accessed on the council's website.

12b. Investments analysed by fund manager

The market value of assets (excluding cash and other investment balances) managed by the investment managers at the balance sheet date 31 March 2022 is set out in the table below. The fund has no investment assets managed by the regional asset pool, the London Collective Investment Vehicle (LCIV).

Restated

	31 March 2022		31 March 2021	
	£000	%	£000	%
BlackRock	843,247	41%	852,375	44%
Legal and General Investment Managers	427,128	21%	546,514	27%
Newton Investment Management	256,898	13%	233,526	11%
Nuveen	234,299	11%	189,772	13%
Comgest	97,913	5%	-	0%
Temporis	50,054	2%	23,818	1%
M&G	42,927	2%	22,421	1%
Invesco	31,432	1%	30,271	1%
BTG Pactual	30,380	1%	-	0%
Blackstone	28,123	1%	-	0%
Darwin	**20,428**	**1%**	-	0%
Glennmont	**19,930**	**1%**	13,940	1%
Frogmore	**8,011**	**0%**	7,365	1%
Brockton Capital	**6,810**	**0%**	5,425	0%
Total	**2,097,580**	**100%**	**1,925,427**	**100%**

continued...

The following investments represent more than 5% of investment assets at 31 March 2022.

Name of investment	Fund manager	31 March 2022 £000	% of investment assets	31 March 2021 £000	% of investment assets
Low Carbon Target	BlackRock	382,308	18%	167,117	9%
Low Carbon Target	Legal and General	335,240	16%	365,710	19%
Diversified Growth Fund	BlackRock	191,389	9%	192,740	9%
Absolute Return Bond Fund	BlackRock	132,310	6%	135,739	7%
US Equity Fund	BlackRock	-	-	107,691	6%

12c. Property holdings

	31 March 2022 £000	31 March 2021 £000
Opening balance	**187,470**	**189,550**
Additions:		
Purchases	7,130	-
Subsequent expenditure	2,096	2,012
Disposals	-	(120)
Net increase in market value	33,904	(3,972)
Closing Balance	**230,600**	**187,470**

13. Current assets and liabilities

The current assets of the fund are analysed as follows:

	31 March 2022 £000	Restated 31 March 2021 £000
Contribution due from employers	3,642	5,789
Other current assets	300	280
Tax	26	-
Cash at managers	13,705	10,568
Cash and bank	10,550	5,187
Total	**28,223**	**21,824**

The current liabilities of the fund are analysed as follows:

	31 March 2022 £000	31 March 2021 £000
Benefits	(6)	-
Professional fees	(131)	(1,964)
Investment fees	(4,391)	(1,518)
Taxes	(558)	(687)
Other	(72)	(1)
Total	**(5,158)**	**(4,170)**

14. Related party transactions

The Pension Fund is required to disclose details of its financial relationship with related third parties. This has been defined as relationships that might materially prevent the fund from pursuing its separate interests or that might allow the fund to prevent another party from pursuing its interests independently, with material effect for the fund.

Through its administration of the fund, the fund has a related party interest with the council. The council charged the fund £0.9m in 21-22 (£0.9m in 2020-21). Management of the Pension Fund is the responsibility of the council's Strategic Director of Finance and Governance and a small proportion of the costs of this post were apportioned to the fund in 2021-22 and 2020-21.

No officers' remuneration is paid directly by the fund; costs are instead recovered as part of the costs disclosed in note 10.

The pension advisory panel (PAP) offers advice to the Strategic Director of Finance and Governance. Councillor members of the PAP make an annual declaration of their interests which is available on the council's website.

The council is also the single largest employer of members of the Pension Fund and contributed £43.4m to the fund in 2021-22 (£42.3m in 2020-21).

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15. Fair value hierarchy

The valuation of financial instruments has been classified into three levels in accordance with IFRS 13, according to the quality and reliability of information used to determine fair values.

Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – unit trusts	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required
Pooled Investments - property unit trusts and limited partnerships	Level 3	Valued at fair value as provided by the fund manager.	Purchase price at acquisition for newer or non-operational assets, estimated cash flows, government price support	Market prices and cash yields, government policies on energy subsidies, pace of shift to renewable and clean energy, discount rates
Unitised Insurance Policies	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required
Freehold, leasehold properties	Level 3	Valued at fair value at the year-end by independent valuers	Existing lease terms and rentals; Independent market research; Nature of tenancies; Covenant strength for existing tenants; Assumed vacancy levels; Estimated rental growth; Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

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The following table shows the fair value valuation hierarchy of fund assets and liabilities.

Value as at 31 March 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Equities	256,900	150	-	**257,050**
Pooled Funds				
Fixed Income	-	132,310	-	**132,310**
Equities	-	480,221	-	**480,221**
Diversified Growth	-	191,389	-	**191,389**
Property	-	-	92,879	**92,879**
Infrastructure	-	20,428	75,975	**96,403**
Private Equity	-	-	28,123	**28,123**
Other	-	43,027	30,380	**73,407**
Unitised Insurance Policy				
Fixed Income	-	180,108	-	**180,108**
Equities	-	335,240	-	**335,240**
Total Financial Assets	**256,900**	**1,382,873**	**227,357**	**1,867,130**
Non-financial assets at fair value through profit and loss				
Property	-	-	230,600	**230,600**
Grand Total	**256,900**	**1,382,873**	**457,957**	**2,097,730**

Value as at 31 March 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Equities	233,375	150	-	**233,525**
Pooled Funds				
Fixed Income	-	135,739	-	**135,739**
Equities	-	256,004	-	**256,004**
Diversified Growth	-	192,740	-	**192,740**
Property	-	-	67,784	**67,784**
Infrastructure	-	-	41,248	**41,248**
Unitised Insurance Policy				
Fixed Income	-	159,852	-	**159,852**
Equities	-	651,065	-	**651,065**
Total Financial Assets	**233,375**	**1,395,550**	**109,032**	**1,737,957**
Non-financial assets at fair value through profit and loss				
Property	-	-	187,470	**187,470**
Grand Total	**256,900**	**1,382,873**	**457,957**	**2,097,730**

The following table shows the reconciliation of fair value measurements within level 3.

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	31 March 2022 £000
Financial assets at fair value through profit and loss						
Pooled Funds						
Property	67,784	21,801	(857)	184	3,966	**92,878**
Infrastructure	41,248	42,360	(11,498)	225	3,641	**75,976**
Private Equity	-	29,078	(1,283)	(146)	474	**28,123**
Other	-	29,532	-	-	848	**30,380**
Non-financial assets at fair value through profit and loss						
Property	187,470	9,226	-	-	33,904	**230,600**
Total	**296,502**	**131,997**	**(13,638)**	**263**	**42,833**	**457,957**

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	31 March 2021 £000
Financial assets at fair value through profit and loss						
Pooled Funds						
Property	74,988	17,765	(5,403)	3,005	(4,003)	**86,352**
Infrastructure	31,803	10,549	(2,030)	(260)	1,186	**41,248**
Non-financial assets at fair value through profit and loss						
Property	189,550	2,012	(120)	93	(4,065)	**187,470**
Total	**296,341**	**30,326**	**(7,553)**	**2,838**	**(6,882)**	**315,070**

continued...

Sensitivity of assets valued at level 3

Having analysed historical data, information received from valuers and the valuation techniques of fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges:

Value as at 31 March 2022	Assessed valuation range	Valuation as at 31 March 2022 £000	Value on increase £000	Value on decrease £000
Pooled Funds				
Property	3.6%	92,878	96,222	89,534
Infrastructure	3.2%	75,976	78,407	73,545
Private Equity	3.2%	28,123	29,023	27,223
Other	3.2%	30,380	31,352	29,408
Property	3.6%	230,600	238,902	222,298
Total		**457,957**	**473,906**	**442,008**

16. Financial instruments

The following table shows the classification of the Pension Fund's financial instruments:

	31 March 2022 £000	Restated 31 March 2021 £000
Financial assets		
Fair value through profit and loss		
Equities	257,050	233,525
Pooled Investments	1,001,853	625,731
Pooled Property Investments	92,879	67,784
Unitised Insurance Policy	515,348	810,917
Amortised cost		
Cash	24,255	15,755
Other Investment Balances	4,561	5,393
Debtors	300	280
Total	**1,896,246**	**1,759,385**
Financial liabilities		
Amortised cost		
Creditors	(4,522)	(3,482)
Net Total	**1,891,724**	**1,755,903**

17. Contingent liabilities and contractual arrangements

Outstanding capital commitments (investments) at 31 March 2022 totalled £101.6m (31 March 2021: £65.6m).

These commitments relate to outstanding call payments due on property and infrastructure funds. The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of each original commitment.

18. Nature and extent of risks arising from financial instruments

Risk and risk management

The Pension Fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Strategic Director of Finance and Governance advised by the pensions advisory panel. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

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Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All security investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Potential price changes are determined based on historical data and volatility of asset class returns. For example, 'riskier' assets such as equities will display greater potential volatility than bonds. The following table demonstrates the change in the net assets available to pay benefits, if the market price had increased or decreased. In consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible:

2021-22 - asset type	31 March 2022 £000	Change %	Value on increase £000	Value on decrease £000
Fixed Income	312,418	5.4%	329,289	295,547
Equities	1,072,511	13.0%	1,211,937	933,085
Diversified Growth	191,389	6.3%	203,447	179,331
Property	92,879	3.6%	96,223	89,535
Infrastructure	96,403	3.2%	99,488	93,318
Private Equity	28,123	3.2%	29,023	27,223
Other	73,407	3.2%	75,756	71,058
Total	**1,867,130**		**2,045,162**	**1,689,098**

2020-21 - asset type	31 March 2021 £000	Change %	Value on increase £000	Value on decrease £000
Fixed Income	295,591	5.8%	312,735	278,447
Equities	1,140,744	13.2%	1,291,322	990,166
Diversified Growth	192,740	6.0%	204,304	181,176
Property	67,784	2.2%	69,275	66,293
Infrastructure	41,248	3.0%	42,485	40,011
Total	**1,738,107**		**1,920,123**	**1,556,091**

The potential changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the table above.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Fixed interest securities are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%:

Assets exposed to interest rate risks	Market value £000	Value on 1% rate increase £000	Value on 1% rate decrease £000
As at 31 March 2022	**312,418**	315,542	309,294
As at 31 March 2021	**295,591**	298,547	292,635

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Currency risk
Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. A strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

The fund's currency risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Overseas equities, fixed interest securities and futures, cash in foreign currencies and some elements of pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of assets exposed to currency risk had there been a 7.3% strengthening or weakening of the pound against foreign currencies.

Assets exposed to currency risk	Value £000	Change %	Value on foreign exchange rate increase £000	Value on foreign exchange rate decrease £000
As at 31 March 2022	638,721	7.3%	685,348	592,094
As at 31 March 2021	519,270	6.1%	550,945	487,595

Credit risk
This is the risk the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. For example a stock may lose value or a dividend due may not be paid. The fund's entire investment portfolio is therefore exposed to some form of credit risk. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund has set out a series of restrictions in each investment manager's agreement. These restrictions are intended to limit the risks from each individual investment and prevent unsuitable investment activity. The Fund also employs a global custodian to ensure that all transactions are settled in a timely manner.

Liquidity risk
This is the risk that the Pension Fund may not have the funds available to meet payments as they fall due. Historically the Fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However, in recent years this has reversed with benefits paid now surpassing contributions received. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the Fund going forward.

The Fund currently has two bank accounts. One is held by the global custodian and holds cash relating to investment activities, the other is the Pension Fund bank account, which holds the cash relating to member activities.

There is a strategy in place to forecast all income and expenditure for the Fund to ensure that sufficient funds will be made available to meet short-term commitments. In the event that there are insufficient available assets to meet liabilities when they fall due, the Fund would be able to redeem investment assets and recall cash resources from investment managers at short notice to meet this requirement.

19. Actuarial present value of promised retirement benefits

IAS 26 (retirement benefit plans) requires the 'actuarial present value of promised retirement benefits' to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2019.

	31 March 2019 £m	31 March 2016 £m
Fair value of net assets		1,642
Actuarial present value of promised retirement benefits	(2,192)	(1,671)
Surplus/(deficit) in the fund as measured for IAS 26	**(550)**	**(415)**

20. Funding arrangements

Statement of the Actuary for the year ended 31 March 2022

Introduction
The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £1,642.0m) covering 103% of the liabilities allowing, in the case of pre-1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay, and for other membership for future pension revaluation and increases.

continued...

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

   18.3% p.a. of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

   Plus

   an allowance of 1.5% p.a. of pensionable pay for McCloud and Cost Management – see paragraph 9 below,

   Less

   1.5% p.a. of pensionable pay to remove surplus, over a recovery period of 20 years from 1 April 2020 (which together with the allowance above for McCloud and Cost Management comprises the secondary rate).

3. In practice, each individual employer's or group of employers' position is assessed separately taking into account other factors (see note 4 below) and contributions are set out in Aon's report dated 30 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities such as those arising from early retirements and ill-health retirements will be made to the Fund by the employers.

   Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£m)
2020	21.8	0.03
2021	21.6	-
2022	21.1	-

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate and stepping of contribution changes and grouping of employer contributions as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances. This included an agreement that where employers are in surplus, this has only led to an adjustment in contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities (i.e. to the extent that the employer's funding level is greater than 110%).

5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	4.05% p.a.
Discount rate for periods after leaving service	4.05% p.a.
Rate of pay increases	3.60% p.a.
Rate of increase to pension accounts	2.10% p.a.
(in excess of Guaranteed Minimum Pension)	2.10% p.a.

   The assets were valued at market value.

   Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2 Heavy mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic HorizonsTM longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Core Projections Model (CMI2018), with a long-term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	20.7	23.5
Future pensioners aged 45 at the valuation date	22.5	25.4

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 30 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

continued...

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

   Increases to Guaranteed Minimum Pensions (GMPs):
   The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer-term solution to achieve equalisation for GMPs as required by the High Court Judgement in the Lloyds Bank case. The response set out its proposed longer-term solution, which is to extend the interim solution further to those reaching SPA after 1 April 2021.

   The results of the 2019 valuation do not allow for the impact of this proposed longer-term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

   Cost Management Process and McCloud judgement
   Initial results from the Scheme Advisory Board (SAB) 2016 cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS due to this judgement was issued in July 2020.

   On 13 May 2021 Government confirmed the key elements of the expected changes to the LGPS to implement the McCloud judgement in a Written Ministerial Statement, although final Regulations are not expected to be come into force until 2023. After incorporating the potential costs of the McCloud remedy, the 2016 SAB cost management process has concluded, with no benefit improvements or member contribution changes being recommended under that process. However some uncertainty remains as the inclusion of McCloud costs in the cost management process is the subject of a Judicial Review.

   The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 1.5% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the details of the LGPS changes arising from the McCloud judgement and (if applicable) arising from the 2016 cost management process have been finalised .

   Goodwin
   An Employment Tribunal ruling relating to the Teachers' Pension Scheme concluded that provisions for survivor's benefits of a female member in an opposite sex marriage are less favourable than for a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. The chief secretary to the Treasury announced in a written ministerial statement on 20 July 2020 that he believed that changes would be required to other public service pension schemes with similar arrangements, although these changes are yet to be reflected in LGPS regulations. We expect the average additional liability to be less than 0.1%, however the impact will vary by employer depending on their membership profile.

10. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

    This Statement must not be considered without reference to the formal actuarial valuation report which details the context and limits of the actuarial valuation.

    Aon does not accept any responsibility or liability to any party other than our client, the London Borough of Southwark, the Administering Authority of the Fund, in respect of this Statement.

11. The report on the actuarial valuation as at 31 March 2019 is available on request from the London Borough of Southwark, the Administering Authority of the Fund.

Aon Hewitt Limited
May 2022

21. Post balance sheet events

No such material events have occurred.

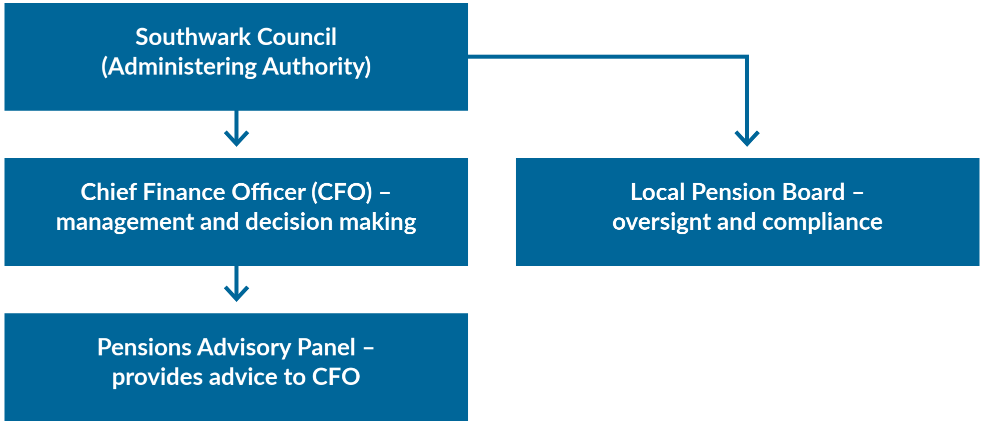
APPENDIX 3: LINK TO KEY FUND DOCUMENTS

The funding strategy statement, investment strategy statement and communications strategy for the Fund can be accessed via the following link:

https://southwarkpensions.co.uk/documents-library/policies

APPENDIX 4: GOVERNANCE COMPLIANCE STATEMENT

Background



Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires that an Administering Authority must prepare, maintain and publish a written statement setting out:

- Whether the Administering Authority delegates the function in relation to maintaining a pension fund to a committee, a sub-committee or an officer;
- The frequency of any committee or sub-committee meetings;
- The terms of reference, structure and operational procedures of the delegation; and
- Whether the committee or sub-committee includes representatives of employing authorities or members.

The London Borough of Southwark Pension Fund covers each of these in the following ways:

Arrangements for maintaining a pension fund committee

Since 2004 this function has been delegated to the Pensions Advisory Panel (PAP), whose primary objective is to assist the Strategic Director of Finance and Governance in the management of the pensions function within the Council.

Frequency of meetings

The PAP meets once every quarter. Additional meetings are held where issues requiring urgent attention arise.

Terms of reference, structure and operational procedures

The primary objective of the PAP is to provide advice to the Strategic Director of Finance and Governance in the management of the Fund. This will include the provision of advice on the following:

Investments

1. Establishing and reviewing the strategic investment objectives;
2. Reviewing the definition of the investment return target most likely to satisfy this investment objective;
3. Considering what constraints, if any, should apply to the invested assets and monitor compliance;
4. Establishing and reviewing the strategic asset allocation (benchmark) that is likely to meet the investment return target;
5. Considering and reviewing the appropriateness of the Fund structure i.e. the delegation of powers to managers, setting boundaries for the managers' discretion and considering which manager return targets are likely to achieve the investment return target;
6. Monitoring the performance of the investment managers at least once every three months, and from time to time consider the desirability of continuing or terminating the appointment of investment managers. In monitoring performance of investment managers, the PAP should consider:
   i. The investments made by the managers;
   ii. Their input to the process and the value of their advice;
   iii. Investment returns and risk against established targets;
   iv. Manager compliance with the Fund's requirements; and
   v. Discussion of results with managers.

continued...

7. Monitoring risks;

8. Developing a responsible investment strategy;

Funding

9. Carrying out duties set out in the Regulations, in relation to actuarial valuations of the Fund;

10. Ensuring employer contributions are set accordingly and other relevant regulations are adhered to;

11. Considering applications, from external bodies, for membership of the Council's pension scheme;

Governance

12. Monitoring of governance arrangements including regulatory compliance and implementation of audit recommendations;

13. Monitoring costs incurred in administering the Fund, including:

    i. Management and other direct costs; and

    ii. Transaction (dealing) costs.

Benefits administration

14. Considering policy matters in relation to the Fund and the Council's early retirement policy;

15. Monitoring early retirements; and

16. Considering the effectiveness of the administering authorities' management of pension administration.

    i. Three members (two members from the majority group and one member of the majority opposition) who have received the appropriate training; one of those members will chair the Panel (voting);

    ii. Three officers (the Chief Finance Officer (CFO) (non-voting), an officer with specialist knowledge on finance and investments (voting) and an officer with specialist knowledge of pension administration (voting);

    iii. Two independent advisers (non-voting); and

    iv. A representative appointed by the constituent trade unions representing beneficiaries (non-voting).

Constitution of the Pensions Advisory Panel (PAP)

The PAP will be constituted as follows:

- Decisions should aim to be reached by consensus. Where agreement cannot be reached, then a majority vote will apply. Voting rights are restricted to members and officers (excluding the CFO), with the Chair having the casting vote if required.
- Decisions of the Panel will be treated as advice to the CFO.
- To be quorate, at least three voting members of the Panel must be present, plus at least one independent adviser. At least one of the voting members must be an officer.

Local Pension Board

1. The Panel will work closely with the Local Pension Board (the Board) to ensure the Fund is administered efficiently and effectively and will share with the Board reports and documents to enable the Board to meet its remit; and

2. The Panel will consider any reports the Board may produce in the course of their duties and respond accordingly within a reasonable period of time.

Conflicts of interest

1. All members of the PAP must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Panel;

2. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Panel. It does not include a financial or other interest arising merely by virtue of that person being a member of the Fund; and

3. On appointment to the Panel and following any subsequent declaration of potential conflict by a Panel member, the Administering Authority shall ensure that any potential conflict is effectively managed in line with both the internal procedures of the Panel's conflicts policy and the requirements of the Code.

    i. Securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS and any statutory pension scheme that is connected with it;

    ii. Securing compliance with requirements imposed in relation to the LGPS and any connected scheme by The Pensions Regulator; and

    iii. Such other matters as the LGPS regulations may specify.

continued...

Representation from employing authorities or members

When deciding on the composition of the PAP, it was decided that as London Borough of Southwark represents the majority of the Fund membership, admitted bodies would not be included on the Panel. There are 20 admitted bodies in the Fund. Although they are not represented on the Panel, they are fully consulted on and kept informed of all decisions made by the Panel.

The Local Pension Board

The Public Service Pensions Act (2013) required all Administering Authorities to establish a Local Pension Board (the Board) by 1 April 2015.

The Board has the responsibility to assist the Administering Authority to ensure the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including:

The Administering Authority retains ultimate responsibility for the administration and governance of the Southwark Council LGPS. The role of the Board is to assist the Administering Authority to fulfil that responsibility.

The Board meets quarterly and the membership and work of the Board can be viewed on page 6 in the Annual Report of the Board.

The principles Principle	Fully compliant?	Note
Structure		
The management of the administration of benefits and strategic management of the Fund assets clearly rests with the main committee established by the appointed Council.	**Yes**	
The representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	**See note**	**1**
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**Not applicable**	
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**Not applicable**	
Representation		
That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include: • Employing authorities (including non-scheme employers, e.g., admitted bodies); • Scheme members (including deferred and pensioner scheme members); • Where appropriate, independent professional observers; and • Expert advisers (on an ad-hoc basis).	**See note**	**1**
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Yes**	
Selection and role of lay members		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**Yes**	

continued...

The principles Principle	Fully compliant?	Note
Training/facility time/expenses		
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.	**See note**	**2**
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.	**Yes**	
That the Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**Yes**	
Meetings (frequency/quorum)		
That an Administering Authority's main committee or committees meet at least quarterly.	**Yes**	
That an Administering Authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**Not applicable**	
That an Administering Authority that does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	**Not applicable**	
Scope		
That Administering Authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Yes**	
Publicity		
That Administering Authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Yes**	

Note 1
When deciding the composition of the Pensions Advisory Panel, it was decided that as the London Borough Southwark represents over 90% of the Fund membership, admitted bodies would not be included in the Panel. Although they are not represented on the Panel, they are fully consulted on and kept informed of all decisions made by the Panel.

Note 2
A policy on training exists. It is part of the terms of reference of the Panel that members will have had training and be trained on all matters requiring a decision prior to meetings where these issues are on the agenda. Annual training plans are being considered for the future.

APPENDIX 5: POST POOL REPORTING

Introduction

The Fund is a member of the London Collective Investment Vehicle (LCIV). It does not hold any assets within the LCIV pool directly, however the Fund has passive investments held with Legal & General Investment Management and BlackRock which are held in an oversight arrangement and recognised as pooled assets. The Fund is therefore able to benefit from pooled fee savings.

The table below sets out the assets held within the oversight arrangement and those held outside the pool.

	£000	
Pool Oversight		
Low Carbon Equities - Passive	717,548	
Over 5 Years Index Linked Gilts	180,108	
Total Assets Under Pool Oversight	**897,656**	**42.8%**
Non Asset-Pool Managed		
Equities (directly held)	256,900	
Fixed Income	132,310	
Equities	97,913	
Diversified Growth	191,389	
Property	92,879	
Infrastructure	96,403	
Private Equity	28,123	
Other	73,407	
Property (directly held)	230,600	
Total Assets Managed Outside Pool	**1,199,924**	**57.2%**
Total Investment Assets	**2,097,580**	

Pool set up and running costs

The following table sets out the cumulative set up and running costs to date incurred by the Fund in its membership of LCIV. The cost of purchasing shares in LCIV is included in the set up costs. This cost is treated as an investment in the Fund accounts. However for the purposes of determining the total pool set up costs incurred by the Fund, this has been included above. Development fund costs are invoiced annually and are not broken down into detailed cost categories. The Fund has achieved net savings of £2.5 million to date.

	2016-17 £	2017-18 £	2018-19 £	2019-20 £	2020-21 £	2021-22 £	Total £
Set up costs	175,000	25,000	25,000	65,000	85,000	85,000	460,000
Annual service charge	-	75,000	65,000	25,000	25,000	25,000	215,000
Total Costs	**175,000**	**100,000**	**90,000**	**90,000**	**110,000**	**110,000**	**675,000**
Fee savings	-535,126	-601,487	-384,777	-534,000	-578,000	-583,000	-3,216,390
Net savings realised	**-360,126**	**-501,487**	**-294,777**	**-444,000**	**-468,000**	**-473,000**	**-2,541,390**

continued...

Ongoing investment management costs

The following table sets out the investment management costs incurred during 2021-22. Direct costs are those payable to the investment managers and are based on assets under management. Indirect costs are fees payable to LCIV in relation to its oversight role with regard to the Fund's passive assets held by Legal & General Investment Management and BlackRock.

	Asset pool		Non-asset pool		Fund total
	Direct £	Indirect £	Direct £	Indirect £	£
Ad Valorem	134,879	159,629	5,328,122	-	5,622,630
% of investments held	0.015%	0.018%	0.444%	-	0.268%

LCIV – additional information

More information on the London CIV, including contact details, can be found at the London CIV website at **www.londonciv.org.uk**.