Pension Fund Annual Report 2015/16

Southwark Council

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Introduction

The London Borough of Southwark Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered by Southwark Council. The 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 scheme established by the Superannuation Act 1972. With 5.1 million members, the LGPS is one of the largest public sector pension schemes in the UK.

The Fund is financed by contributions from employees, the Council, admitted and scheduled bodies and returns from the Fund's investments. Funds not immediately required to meet pensions and other benefits are invested in a selection of equities, bonds and property. Investments are externally managed by investment managers appointed by the Council and overseen by the Pensions Advisory Panel.

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

- Local Government Pension Scheme Regulations 2013
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014

The Fund must be sufficient to meet the future pension entitlements of both past and present employees. This is achieved by adjusting the level of employers' contributions every three years following an actuarial review of the Fund by its actuary.

The aims of the Scheme are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, community and admitted bodies
- manage employers liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due
- maximise the returns from investments within reasonable risk parameters

On 1 April 2014 a new LGPS scheme was introduced. The LGPS up until March 2014 was a defined benefit "final salary" scheme, where the annual pension and the retirement lump sum were based on length of service and usually the final twelve months of pay. One of the key changes is that a scheme member's pension is no longer based on their final salary but on their salary throughout their career. This is known as a Career Average Revalued Earnings (CARE) scheme. All benefits built up before 1 April 2014 are protected and will be based on final year's pay. The revised benefits payable are set out in the LPGS regulations and the key points are as follows:

- a pension based on career average earnings (revalued in line with the Consumer Price Index)
- Flexibility for members to pay 50% contributions for 50% benefits
- Normal pension age to equal the individual member's State Pensions Age.
- Option to trade £1 of pensions for £12 tax-free lump sum at retirement
- Death in service lump sum of 3 times pensionable pay plus survivor benefits
- Early payment of pension in event of ill health

The on going agenda of LGPS reforms introduced significant changes to the governance of the Fund and of the LGPS generally and took effect from 1 April 2015. These include the establishment of a Local Pensions Board, whose role is to assist in the governance of the scheme. In addition, there is a National Scheme Advisory Board and 2 cost control mechanisms which seek to monitor and contain the overall cost of the LGPS at a national level.

It is a time of change across the wider landscape of pensions. The ability to access pension savings more flexibly was introduced in April 2015. This allowed members of pension schemes to access their savings earlier, including taking them as a cash lump sum. Further policy and technical changes are expected in the short and medium term that will impact on the Fund, including pooling of investment assets, changes to the taxation of pensions, early retirement terms and caps on public sector benefit payments.

Work has commenced on the 2016 triennial actuarial valuation of the Fund's projected liabilities, the results of which will determine employer contributions from April 2017 onwards. Due to the financial constraints faced by the public sector generally, the valuation process is expected to increase in challenge and complexity.

In December 2014 the Pensions Advisory Panel launched a survey of scheme members to obtain views on four key areas: the services received from the Pensions Services Team; governance arrangements; investment management and performance; and responsible investment. The survey is now closed and a concluding report is available on the Southwark website via the following link:

http://www.southwark.gov.uk/downloads/download/4583/pensions_survey

The Pensions Advisory Panel continue to work with the Local Authority Pension Fund Forum to promote corporate social responsibility and high standards of corporate governance among the companies in which the fund invests.

Report from the Chair of the Pensions Advisory Panel and the Strategic Director of Finance and Corporate Services

Report from the Chair of the Pensions Advisory Panel and the Strategic Director of Finance and Corporate Services

Over the last year we have continued to build on the continued success of our investment strategy. The Fund performed well during the year relative to other local authority funds, being placed in the top third of the league table for highest performance in all areas. This was recently recognised at the Local Authority Pension Fund (LAPF) Awards – Southwark Pension Fund being awarded "highly commended" in the small pension fund category. This performance has been achieved during a time of transition of some important investments within the fund, especially the on-going implementation of our asset allocation to property.

Over this year we have been increasingly conscious of the need for engagement with scheme members. Specific activities have included :

- Delivering a series of pension presentations open to all council staff covering fund performance, governance arrangements and member benefits. The events were very popular and well attended, The main area of audience interest was member benefits and this interest will be given special attention in future presentations..
- This interest lead to a further series of briefings for managers who need to be increasingly aware of the impacts in LGPS changes and implications for benefits. both of their staff and themselves.
- Conducting a Member survey covering: services received from the Pension Team; governance, investment management and performance and responsible investment. This was an unprecedented initiative and may be repeated in the future; results can be found at: http://www.southwark.gov.uk/downloads/download/4583/pensions_survey

During the year, work regarding the pooling of pension funds in line with government directives has been gathering momentum. Although no funds were transferred to the London Collective Investment Vehicle (CIV) during the year, relevant government consultations were completed in anticipation of future arrangements. The fund will transfer assets to the London Collective Investment Vehicle (CIV) over time, wherever due diligence can demonstrate a fiduciary case for doing so.

In the context of the pensions fund's fiduciary duties to maximise long term returns to meet the fund liabilities, stakeholder engagement and responsible investment has been a continuing area of attention for the Pensions Advisory Panel. The member survey specifically sought views on responsible investment. The Local Authority Pension Fund Forum (LAPFF) attended the Pensions Advisory Panel to explain the stakeholder engagement work undertaken; further the Fund has been proactive in voting in response to LAPFF and to other alerts as well as signing up for a number of investor initiatives.

This was the first year of the Local Pension Board (LPB), a new scrutiny board established under government direction. The Pensions Advisory Panel (PAP) has welcomed the additional scrutiny that the Board provides and the membership including an independent chair and employee representatives. The Board has been proactive in arranging joint training sessions for members of PAP and the LPB to build on areas of joint interest and is conducting an independent review of scheme governance to confirm that appropriate measures are in place..

As we look forward to 2016-17, the key work stream will be to reviewing the investment strategy which will feed into the Investment Strategy Statement required by further new LGPS regulations. This strategy will demand the closest attention when considering the impact of the triennial actuarial review, the increased focus on pooling requirements, managing financial risks such as uncertainty arising from the implications of Brexit and maintaining a focus on responsible investment for long term returns – all underpinned by the development of the London CIV,.

From an operational perspective, the team will be focussed on the implementation of a new Administration Strategy which will require the employers within the scheme to provide good quality data in a digital format. With accurate data the team can continue to supply better services to all members of the scheme and to improve the quality of interaction with the digital services offered.

Looking forward, we are confident that our governance, investment strategy and work plan for 2016-17 will ensure that Southwark Pension Fund is “fit for the future”.

Finally we would like to thank all those involved in the management of the Pension Fund this year.

Councillor Fiona Colley, Cabinet Member for Finance, Modernisation and Performance
Duncan Whitfield, Strategic Director of Finance and Corporate

Report from the Independent Chair of the Local Pension Board

Local Pension Boards were established under the 2013 Pensions Act. Each pension 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.

Southwark established its Board on the 25 February 2015, and appointed an Independent Chair. The Chair is also invited to attend the Pensions Advisory Panel. This provides as 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 Pension Advisory Panel members.

Terms of Reference, Conflicts of Interest, Membership and Attendance

A copy of the Local Pension Board's Terms of Reference can be found at:
http://www.southwark.gov.uk/downloads/download/4386/local_pension_board_lpb_-_meetings/ . As recorded in the minutes, there were no conflicts of interests arising during 2015/16.

The composition of the Local Pension Board is listed below:

1 Independent chair
2 Scheme Member Representatives
2 Employer representatives

The scheme member and employer representatives also have substitutes. The Local Pension Board meets quarterly and the current membership and attendance at meetings are set out in the table below.

Meeting Attendance 2015/16					
Name	**Title/Company**	**24 Jul 2015**	**05 Oct 2015**	**26 Jan 2016**	**19 Apr 2016**
Mike Ellsmore	Independent Chair	✔	✔	✔	✔
Sue Plain	Scheme Member Representative	✔	✔	✔	✔
Bill White	Scheme Member Representative	✖	✔	✔	✖
Jo Anson	Employer Representative	✔	✔	✔	✖
Norman Coombe	Employer Representative	✔	✔	✔	✔
Colleen Reid	Substitute Scheme Member representative	✔	✔	✔	✔
Neil Tasker	Substitute Scheme Member Representative	✔	✔	✔	✔
Mike Pinder	Substitute Employer representative	✖	✖	✔	✔
Dominic Cain	Substitute Employer representative (1)	✔	✖	n/a	n/a
Matthew Hunt	Substitute Employer representative (2)	n/a	n/a	✔	✔

Knowledge and Understanding/Training

As set out in the national guidance for Boards, knowledge and understanding is a key part of being an effective Board member. Since the Board's inception, training has been undertaken in the following areas:

- Induction programme for LPB members (June 2015)
- Introduction to the CIV – joint training session with PAP (September 2015)
- Asset Classes (October 2015)
- LGPS Benefits Training (Jan 2016)
- Diversified Growth funds and absolute bonds delivered by Black Rock (April 2016)
- Actuarial Review – joint training session with PAP (June 2016)
- Pensions Regulator Public Service Toolkit – self learning modules undertaken by Board Members

Work during the year

The first year has seen the Board developing its role. It actively reviewed its terms of reference and made a number of changes. Whilst the role has developed into something akin to a scrutiny function, the Board continues to provide assistance and challenge to the administering authority in effectively managing and operating the scheme.

In accordance with this scrutiny role, the Local Pension Board commissioned an independent review of the Council's pension governance arrangements, the outcome of this review will be reported in the autumn 2016.

The Board receives all Pension Advisory Panel agendas and reports and focusses on particular areas of interest. During the year, the Board has considered:

- Annual Pension Audit Report and Findings
- Key performance indicators for administration functions
- Strategic asset allocation
- Consultation on investment reform [pooling]

Future work

Looking forward, 2016/17 will be year of great significance for the LGPS. The government has invited detailed submissions from schemes on how they will achieve combining their assets into a small number of pools with a value of in the region of £25bn. Whilst schemes will retain the all important asset allocation decisions, the pooled funds will have a significant influence on the selection of managers. The Board will monitor Southwark's progress and the development of governance structures relating to the pooled funds.

Next year will also see the results of the triennial valuation. This determines the contribution rate that employers participating in the scheme will pay for the next three years.

The LGPS is becoming increasingly complex and the proposed changes will add to that complexity. The Board, in developing its role, will seek to assist and constructively challenge the administering authority to continue to deliver effective management of the scheme.

Further, the outcome of the independent review of the current governance arrangements will be presented during 2016/17 which will form a key consideration.

Augmenting the knowledge and skills of Board members will continue to be an on going focus.

Expenses

The total expenses incurred by the board for 2015/16 was £5,740 analysed as set out below;

Fees – Independent Chair	£2,500
Training	£3,210
Other expenses	£ 30
Total	**£5,740**

Local Pension Board Papers

The Local Pension Board agenda and minutes can be accessed from the following link:

http://www.southwark.gov.uk/downloads/download/4386/local_pension_board_lpb_-_meetings

Mike Ellsmore

Independent Chair, Southwark Local Pensions Board

Governance policy and compliance

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

The Pensions Advisory Panel meets quarterly and membership for 2015/16 comprised:

Councillors: Fiona Colley *(Chair)*
Eliza Mann
Paul Fleming

Officers: Duncan Whitfield *(Strategic Director of Finance & Governance)*
Fay Hammond *(Departmental Finance Manager)*
Malcolm Laird *(SAP Payroll & Pensions Manager)*

Observers: Roy Fielding *(GMB)*
Chris Cooper *(Unison)*

Advisers: Jo Holden *(Mercer)*
David Cullinan *(State Street)*

The table below shows attendance at meetings held during the year.

Meeting Attendance 2015/16					
Name	**Title/Company**	**2 June 2015**	**22 Sept 2015**	**1 Dec 2015**	**8 March 2016**
Fiona Colley	Elected Member	✔	✔	✔	✔
Paul Fleming	Elected Member	✖	✖	✖	✖
Eliza Mann	Elected Member	✔	✔	✔	✔
Jon Hartley	Elected Member [1]	N/A	N/A	N/A	✔
Duncan Whitfield	Strategic Director of Finance & Governance	✔	✔	✔	✔
Fay Hammond	Departmental Finance Manager	✔	✔	✔	✔
Malcolm Laird	SAP Payroll & Pensions Manager	✔	✖	✔	✖
Chris Cooper	Unison	✔	✔	✔	✔
Roy Fielding	GMB	✖	✔	✖	✖
David Cullinan	State Street	✔	✔	✔	✔
Jo Holden	Mercer	✔	✔	✔	✔

[1] *Substitute for Cllr Paul Fleming March 2016 meeting*

Knowledge and skills

As an administering authority of the Local Government Pension Scheme, Southwark Council recognises the importance of ensuring that all staff and elected members charged with the financial management and decision making with regard to the pension 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 staff and members of the Pensions Advisory Panel to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

During 2015/16 members of the Pensions Advisory Panel (PAP) received training specific to the work areas being considered.

An increasing area of consideration for PAP has been that of environmental, social and governance matters and how these relate and impact on the Fund's investments. In June 2016 PAP received a presentation on the role of the Local Authority Pension Fund Forum (LAPFF) and what they do on the Fund's behalf as members. This covered areas such as corporate governance and corporate social responsibility; areas of concern for responsible owners; approaches to activism; and LAPFF engagement results.

As the set up of the London Collective Investment Vehicle (CIV) continued to progress, PAP members were provided with a training session in September 2015. This provided members with an understanding of the CIV to support future decision making and assessment of its merits for investment by the Fund. Areas covered included an update on the progress of implementation; cost saving and other benefits; and achievements to date.

Training on the 2016 Triennial Actuarial Valuation has been arranged for the June 2016 PAP meeting.

Management & financial performance

Scheme Management and Advisers

Advisers	- Joanne Holden (Mercer) - David Cullinan (State Street)
Actuary	- Aon Hewitt
Performance Monitoring	- State Street
Investment Managers	- BlackRock Advisors (UK) Ltd - Newton Investment Management Limited - TH Real Estate - Legal & General Investment Management Limited - Brockton Capital LLP - Frogmore Real Estate Partners Investment Managers Limited - M&G Investments - Invesco Real Estate
Custodians	- JP Morgan - BNP Paribas Securities Ltd
Property Solicitors	- Dibb Lupton Alsopp - Todds Murray
Auditor	- Grant Thornton
AVC Providers	- AEGON

Risk Management

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

- poor investment performance could lead to a larger deficit and therefore a requirement for higher employer contributions
- asset/liability mismatch - assets could fail to rise at the same rate as liabilities resulting in a higher deficit
- inaccuracy of financial information - leading to qualification of accounts
- reliance on third party providers for investment management and custodial services - failure of these parties could have a serious financial impact on the Fund
- failure to comply with existing/new regulations - resulting in legal sanctions and detrimental effect on Council's reputation.
- failure to control and monitor costs resulting in higher running costs for the Fund
- pension fund cash flow – insufficient funds in pension fund bank account requiring drawdown of cash from external fund managers.

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. This aims to optimise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled.

The Strategic Director of Finance & 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 Pensions Advisory Panel 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, which specify certain limitations on investments including a limit of 10% of the total value of the Fund in any single holding, or deposits with a single bank or institution, or investments in unlisted securities and no more than 35% of a portfolio can be invested in the same collective investment scheme.

All the Fund's assets are managed by external investment managers. They 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 sets out the key risks (including demographic, regulatory, 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.

Financial Performance

During 2015/16 the Fund increased in value by £8.65 million (0.78%) to £1.26 billion. A detailed analysis of the movement can be found in the fund account and net assets statement shown at Appendix 2 of this report, and is summarised below.

	£000	**£000**
Opening net assets of the fund		(1,247,731)
Add income from dealing with members of the fund	(61,181)	
Less expenditure from dealing with members of the fund	61,755	
Net reduction from dealing with members of the fund		574
Net Returns on investments		(9,225)
Closing net assets of the fund		**(1,256,382)**

During the year, contributions from employers and employees rose by approximately 5.3%. An increase in deficit funding of £137,000 to £14.2 million also helped to boost employer contributions. Benefits paid increased by 16.4%.

Pension Fund cash flows were largely positive during the year. Any shortfall in the cash position is met by transfers from fund managers and the Pension Fund has in place a "draw down" policy to oversee this.

Receipt of Contributions

All contributions due from admitted and scheduled bodies have been received within the statutory deadlines during the year. The requirement has not arisen to levy interest on overdue contributions.

Investment Policy and Performance

Investment Policy

The Fund is managed with regard to a strategic asset allocation benchmark. This is reviewed every 3 years, following the Fund's triennial actuarial valuation. The strategic asset allocation is set to provide the required return, over the long-term, to ensure that all pension payments can be met. 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 monthly by the investments team.

Investment Strategy Review

Following the results of the 2013 triennial actuarial valuation, an investment strategy review was carried out. The review concluded that the Fund's strategic benchmark will not require to be changed and that it remains consistent with the investment return assumption of 5.4% required by the 2013 triennial valuation. The decision was made to change the structure of the Fund as follows:

Asset Class	Existing Strategic Asset Allocation %	New Strategic Asset Allocation £	Change +/- %
Global Equities (active & passive)	60.0	50.0	-10.0
Diversified Growth	0.0	10.0	10.0
Absolute Return Bonds	0.0	10.0	10.0
Corporate Bonds	10.0	0.0	-10.0
Passive Index-Linked Gilts	7.5	10.0	2.5
Fixed Interest Gilts	2.5	0.0	-2.5
Active Property	20.0	20.0	0.0
Total	**100.0**	**100.0**	**0.0**

The changes set out in the above table were all achieved by movements between and within existing portfolios. The new strategic asset allocation was fully implemented by July 2015.

Changes to Property Investments

As part of the investment strategy review, the property holdings were re-balanced back to the strategic allocation of 20%. The actual allocation had been around 15% for some time, given the relative strength of equity markets compared to property.

Four new property managers were appointed in June 2015. These are being funded from BlackRock passive global equities. Details of each mandate and amounts committed are set out in the table below:

Investment Manager	Fund	Investment Description	Total Commitment £m	Commitment Completed	Drawdowns to 31/03/16 £m	Return of Capital to 31/03/16 £m	Undrawn Commitment at 31/3/16 £m
M&G Investments	M&G UK Residential Property Fund	Private Residential Sector	20	30/06/2015	0.00	0	20
Invesco	Invesco UK Residential Fund	Private Residential Sector	15	17/12/2015	0	0	15
Frogmore Real Estate Partners	Frogmore Real Estate Partners III LP	Opportunistic Property	15	15/07/2015	4.10	0	10.90
Brockton Capital	Brockton Capital Fund III LP	Opportunistic Property	15	15/07/2015	6.4	1.9	10.5

Asset Allocation and Holdings by Asset Class

The actual asset allocation compared to the strategic asset allocation at 31 March 2016 is set out below. The table indicates that the Fund was underweight in its property allocation (-3.2%) and overweight in its equities allocation (+3.6%), and broadly in line with the strategic allocation for all other asset classes.

Asset Class	Asset Value £m	Actual %	Strategic %	Relative %
Equities	672	53.6	50.0	3.6
Index Linked Gilts	120	9.6	10.0	-0.4
Absolute Return Bonds	118	9.4	10.0	-0.6
Diversified Growth	118	9.4	10.0	-0.6
Property	211	16.8	20.0	-3.2
Cash (& Other Bonds)	15	1.2	0.0	1.2
Total	**1,254**	**100.0**	**100.0**	**0.0**

The following 2 tables categorise asset classes as per the requirements of the LGPS Scheme Annual Report and therefore are not consistent with the asset class analysis used elsewhere in this report.

Geographical Analysis of Fund Holdings

Asset Class	UK £m	Non-UK £m	Total £m
Equities	55	617	672
Bonds	237	0	237
Property (Direct Holdings)	167	0	167
Alternatives	127	35	162
Cash & Cash Equivalents	9	6	15
Other	0	0	0
Total	**595**	**658**	**1,253**

Investment Income Accrued

Asset Class	UK £000s	Non-UK £000s	Total £000s
Equities	580	2,781	3,361
Bonds	58	0	58
Property (direct holdings)	8,207	0	8,207
Alternatives (indirect property)	1,054	0	1,054
Cash & Cash Equivalents	17	0	17
Other	20	0	20
Total	**9,936**	**2,781**	**12,717**

The holdings with individual fund managers at 31 March 2016 were as follows:

Manager	Mandate	Value at 31 March 2015 (£m)	% of Fund
BlackRock	Balanced	360	28.7%
BlackRock	Dynamic Diversified Growth & Absolute Return Bond Funds	236	18.8%
Legal & General	Passive Global Equities & Bonds	316	25.2%
Newton	UnconstrainedGlobal Equity	129	10.3%
TH Real Estate	Core Property	204	16.3%
Frogmore	Opportuistic Property	4	0.3%
Brockton	Opportuistic Property	5	0.4%
Invesco *	Private Residential Property	-	0.0%
M&G *	Private Residential Property	-	0.0%
Total		1,254	1

* Mandates not yet funded at 31 March 2016

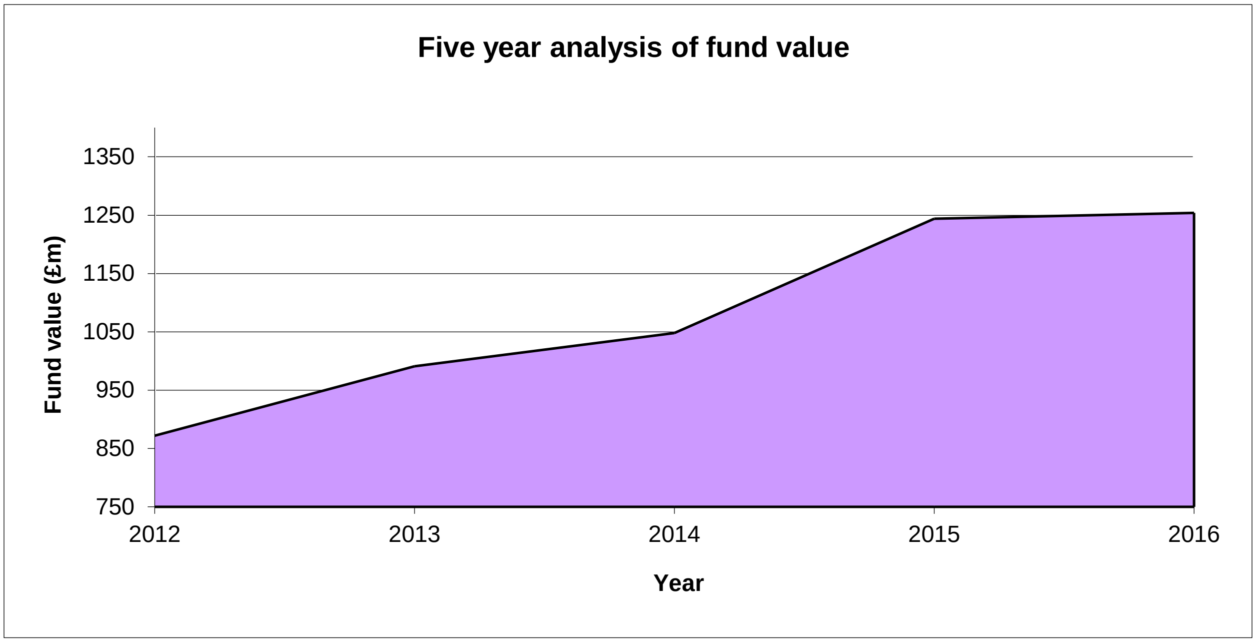
Investment Performance

Performance Highlights

Asset Class	Return (Fund) %	Local Authority Average Return (*) %	Over/(Under) Performance %	Ranking (percentile)
Fund Level	0.9	0.2	0.7	27th
UK Equities	-1.5	-3.8	2.3	10th
Overseas Equities	1.2	-1.3	2.5	20th
Index Linked Bonds	2.0	2.1	-0.1	32nd
Property	11.5	10.5	1.0	35th

* The Local Authority Average Return is calculated by WM Performance Services and is based on the investment performance of 84 local authority funds. The rankings above show how the fund performed in comparison to all other funds in the universe.

As set out in the above table, the Fund performed well during the year relative to other local authority funds placed in the top third of all Local Authorities performance in all areas. The movement in the Fund value over the last five years is shown in the chart below.



Performance against benchmark

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

Manager	Benchmark	Outperformance target (% pa)
BlackRock	In line with customised benchmarks using monthly mean weights	-
BlackRock	LIBOR	+3 net of fees
BlackRock	LIBOR	+4 net of fees
Legal & General	FTSE All World	-
Newton	FTSE All World	+3 net of fees
TH Real Estate	IPD All Property	+1 net of fees
Frogmore	16.5% pa absolute return	-
Brockton	15.0% pa absolute return	-
Invesco	8.5% pa absolute return	-
M&G	8.0% pa absolute return	-

The table below sets out the investment performance of the total Fund and individual managers against benchmark over 1, 3 and 5 year periods to 31st March 2016

Manager		12 months	3 years % pa	5 years % pa	New Investments - From Inception	Target Met?
	Portfolio	-1.5	6.0	8.0		
	Benchmark	-1.3	6.1	8.1		yes
BlackRock Balanced	**Relative Return**	**-0.2**	**-0.1**	**-0.1**		
	Portfolio	-	-	-	-1.6	
	Benchmark	-	-	-	2.9	-
BlackRock Self Directed	**Relative Return**	**-**	**-**	**-**	**-4.3**	
	Portfolio	0.3	7.9	-		
	Benchmark	0.4	8.0	-		yes
Legal & General	**Relative Return**	**-0.2**	**-0.1**	**-**		
	Portfolio	8.2	11.3	8.4		
	Benchmark	-0.5	8.1	7.2		no
Newton	**Relative Return**	**8.8**	**2.9**	**1.1**		
	Portfolio	11.0	14.1	9.3		
	Benchmark	11.7	14.6	10.5		no
TH Real Estate	**Relative Return**	**-0.6**	**-0.4**	**-1.1**		
	Portfolio	-	-	-	-21.6	
	Benchmark	-	-	-	10.1	-
Frogmore	**Relative Return**	**-**	**-**	**-**	**-28.8**	
	Portfolio	-	-	-	12.8	
	Benchmark	-	-	-	9.5	-
Brockton	Relative Return	-	-	-	3.0	
	Portfolio	-	-	-		
	Benchmark	-	-	-		-
Invesco *	**Relative Return**	**-**	**-**	**-**		
	Portfolio	-	-	-		
	Benchmark	-	-	-		-
M&G Investments *	Relative Return	-	-			
	Portfolio	0.9	8.2	8.4		
	Benchmark	2.3	9.0	9.0		
Total Fund	**Relative Return**	**-1.4**	**-0.8**	**-0.5**		

** mandates not yet funded as at 31 March 2016.*
Performance figures are shown where the manager has been invested for the relevant period.
Performance of investments commencing during 2015/16 are shown since inception.

**Relative Return methodology of calculation – For the calculation of Performance information a geometric linking (multiplying and dividing) as opposed to an arithmetic (subtraction and addition) approach is used. This ensures the accuracy of returns and also allows for the accurate compounding of returns over a time series.*

Investment Manager Performance – 2015/16

BlackRock Balanced & Legal & General Investment Management

Manager Objective

- Both managers are aiming to match the return of the given benchmark by investing in the same stocks in the same proportions as the chosen index. Therefore neither BlackRock nor Legal and General should out or under perform the benchmark by more than a small margin.

Performance

- Over 1, 3 and 5 years BlackRock has performed largely in line with the benchmark within the tolerance levels set out in their Investment Management Agreement.
- As the Fund has invested with Legal and General Investment Management for less than 5 years, only short term performance data is available. They have also performed broadly in line with benchmark within acceptable tolerances.

Outlook

- Uncertainty over the implications of Brexit is clouding the outlook for Sterling and UK companies, while on a global level GDP growth in 2016 is forecast to be about 0.3% lower than in 2015. This is likely to restrict corporate profits growth, but also maintain inflation and interest rates at subdued levels. Against this background, significant gains in equities may be hard to achieve in the coming year.

Newton Investment Management

Manager Objective

- Newton is an active unconstrained global equity manager and therefore invest based on their best ideas for highest return and do not have geographical or sector restrictions.
- Newton is aiming to outperform the FTSE All World Index by 3% net of fees over rolling 3 years.

Performance

- Newton's target was 3% over 3 years: however they narrowly missed this target, outperforming by 2.9% over 3 years.
- However the portfolio performed strongly over 1, 3 and 5 years, with an outperformance over 1 year of 8.2%.

Outlook

- The consequences of Brexit are likely to make an already challenging background even more difficult.
- Looking ahead, Newton's central view remains the same (to retain the focus on stable compounders) but is alert to the potential for the opportunity set to change significantly and quickly against an uncertain and volatile backdrop.

TH Real Estate

Manager Objective

- TH Real Estate is an active commercial property manager that invests in both direct properties and pooled funds.
- They are aiming to outperform the IPD Index of Pension Funds under £250 million by 1% on a 3 year annualised basis.

Performance

- TH Real Estate's target is 1% over 3 years: however they did not meet it, underperforming the index by 0.4%.
- However the portfolio performed strongly in absolute terms with returns of 11.0%, 14.1% and 9.3% over 1, 3 and 5 years.

Outlook

- The portfolio incurred transaction costs from the purchase of two further retail properties during the year, having an impact on performance overall. The benefits of these purchases are expected to be reflected in performance in the medium to long term.

- The strong one year absolute return reflects the positive impact of the restructure which took place in 2013, to reduce the proportion of holdings in pooled funds and increase exposure to direct properties.

- The five year negative relative performance of -1.1% is still suffering from the impact of the transactional costs of the final exit from the European holdings.

- With the repositioning undertaken in 2015 and early 2016, it is not expected that a significant number of transactions will be carried out in the coming year.

- The outlook for the portfolio remains strong. Growth will be much more determined by the strength of income return, rental growth and asset management.

Brockton

Manager Objective

- Brockton is an active commercial property manager and the pension fund is invested in the Brockton Capital Fund III LP which is an opportunistic property fund.
- Brockton's target is to achieve an absolute return of 15% pa over the 7 year life of the fund.

Performance

- Given that the commitment to Brockton and the initial drawdowns have occurred during 2015/16, it is too early to meaningfully measure performance.

Outlook

- The current phase of growth through the acquisition of assets will lead to the implementation of asset management initiatives across the portfolio as the primary means of increasing asset values.

Frogmore

Manager Objective

- Frogmore is an active commercial property manager and the pension fund is invested in the Frogmore Real Estate Partners III LP Fund which is an opportunistic property fund.
- Frogmore's target is to achieve an absolute return of 16.5% pa over the 8 year life of the fund.

Performance

- Given that the commitment to Frogmore and the initial drawdowns have occurred during 2015/16, it is too early to meaningfully measure performance.

Outlook

- The Fund is progressing in its acquisition off assets and initial progress is being made in asset management initiatives.

M&G Investments & Invesco Real Estate

- Commitments were made to Private Residential Sector Funds in 2015/16, but the mandates have not yet been funded.

Total Fund Performance Relative to Liabilities

The table below shows the total fund performance relative to its liabilities. The Fund outperformed against the liabilities over the three year period but underperformed over a three months and one year period by -4.2% and -1.0% respectively.

	3 months %	1 year %	3 years (% p.a.)
Total Fund	2.3	0.9	8.2
Liability Proxy (1)	6.5	1.9	5.6
Relative	**-4.2**	**-1.0**	**+2.6**

(1) the liability proxy is based on the broad change of movements of the FTSE Over 5 Year Index-Linked Gilts Index.

Environmental, Social and Governance Policy (ESG)

Details of the Fund's responsible investment policy and environmental, social and governance policies are set out in its Statement of Investment Principles (SIP) which is included in Appendix 4 of this report.

The Fund complies with the UK Stewardship Code through the outsourcing to its external investment managers the responsibility for governance, engagement and voting activity.

Local Authority Pension Fund Forum (LAPFF)

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders whilst promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

The LAPFF is the UK's leading collaborative shareholder engagement group, bringing together 70 local authority pension funds from across the country with combined assets of over £175 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss investment issues and shareholder engagement.

The LAPFF addresses the key areas of concern, set out below, for responsible owners which include environmental, social and governance (ESG) issues:
• Environmental issues (e.g. Greenhouse gas emission, mineral exploration, waste disposal)
• Supply chain labour standards – reputational risks
• Boardroom structures
• Directors' remuneration
• Appointment of and role of auditors
• Accounting Standards

http://www.lapfforum.org/

Activity during 2015/16

The Fund is responsive to voting alerts from the Local Authority Pension Fund Forum (LAPFF) and other sources such as Unison. For the Fund's passive holdings (with BlackRock and Legal and General Investment Managers) there is limited control to make direct voting instructions. However, for the active portfolio (Newton) there is the ability to instruct the votes.

For example, over the last year voting alerts were received for Sports Direct and Suncor. For Sports Direct, it was not possible to co-file a resolution with Unison as the fund had no direct holdings, however, the passive investment managers were asked to take account of the council's views to vote in accordance with the LAPFF position (abstain from the re-election of the Chairman). Further, in accordance with LAPFF voting alert, Newton voted for "climate change resilience resolution" for Suncor.

During 2015-16 Southwark Pension Fund, as well as many of our fund managers, signed up to a number of investor initiatives on climate change including:

- Paris Pledge
- Global Investor Statement.
- G20 Energy Efficiency Statement
- Aiming for A

Further the Chair of the Pensions Advisory Panel met with representatives from the Fossil Fuel campaign.

A sample of the views of the fund members regarding investment preferences was collected via the member survey. See link below for a copy of the results:
http://www.southwark.gov.uk/downloads/download/4583/pensions_survey

The council monitors the investments approach to responsible investments through reports received during the year. The responsible investment approach taken for each Investment Manager is set out below:

Investment Managers Approach to Responsible Investment

Legal & General (passive)

LGIM do not consider their index-tracking funds as passively managed. Instead, they use their scale and influence to bring about real, positive and focus on long term change across markets and across the globe. As set out in their annual corporate governance report, in 2015, the team won the "Best Investor Engagement Award". The ultimate goal of ESG is to ensure company management aligns their business objectives with the long-term interests of investors. In 2015, the corporate governance team, attended 545 meetings with 337 companies worldwide and voted "against" on at least one resolution at 18% of UK companies. Legal & General have a policy of taking a view for on all resolutions (i.e. they do not abstain).

The report below sets out the ESG activity during 2015: http://www.lgim.com/uk/en/capabilities/corporate-governance/

BlackRock (passive)

As set out on BlackRock's website, their aim is to protect and enhance the value of clients' assets through engagement with companies; encourage business and management practices that support sustainable financial performance over the long-term and provide specialist insight on environmental, social and governance (ESG) considerations to all investment strategies, whether indexed or actively managed. Over the last year they have engaged with about 1,500 companies a year on a range of ESG issues.

The attached link provides both their policies and engagement reports over the last year:
http://www.blackrock.com/corporate/en-cn/about-us/investment-stewardship/voting-guidelines-reports-position-papers

Newton (active)

Responsible investment is integral to Newton's investment process. Newton believes that responsibly managed companies are better placed to achieve sustainable competitive advantage and provide strong long term growth. Newton's voting policy is included in the document entitled "Responsible Investment Policies and Principles", which can be found at www.newton.co.uk/responsibleinvestment

Responsible investment activities at Newton include: exercising voting rights; engaging with investee companies; conducting ESG reviews of potential investments and influencing the debate on certain ESG matters. Examples of the Responsible Investment team's engagements including those with oil and gas companies such as BP and Shell, can be found here-
http://www.newton.co.uk/uk-institutional/thought-leadership/responsible-investment/

The Pensions Advisory Panel receives reports summarising Newton's activity on the Funds holdings on a regular basis.

Property Investments

Further, the council also holds property mandates with TH Real Estate (direct holding) and pooled holdings with Brockton, Frogmore, Invesco and M&G. Frogmore, Invesco and M&G have a responsible, sustainability investment development policy that addresses a wide range of environmental, social and governance issues. Brockton's policy is currently under development.

Investment Administration & Custody

Southwark Council is responsible for the day to day operations and management of the Fund, implementing the recommendations of PAP on the approval of the Strategic Director of Finance and Corporate Services. This includes the power to seek professional advice and devolve day to day handling of the Fund's investments to professional investment managers and advisers within the scope of the LGPS regulations. Southwark Council undertake the monitoring and accounting for the investments of and income due to the Fund.

The Fund has appointed JP Morgan as its global custodian for all segregated investments excluding property. The custodian is responsible for the safekeeping of the Fund's assets, the settlements of transactions, income collection and other administrative actions in relation to the assets. The custodian for the property investments is BNP Paribas and this contract is managed in a tripartite arrangement with TH Real Estate.

Membership of External Bodies

Pensions and Lifetime Savings Association (PLSA)

The Pensions and Lifetime Savings Association is the national association with a ninety-year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 supporting businesses, the PLSA is described as the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

PLSA purpose is to help everyone to achieve a better income in retirement, working to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

Contact Details

Pensions and Lifetime Savings Association
Cheapside House
138 Cheapside
London EC2V 6AE

Telephone: 020 7601 1700

Website: http://www.plsa.co.uk

Local Authority Pension Fund Forum (LAPFF)

Contact Details

Email: info@lapfforum.org

Website: http://www.lapfforum.org/

Scheme administration

Key Administration Performance Indicators

Although the LGPS is a national scheme, it is administered locally. Southwark Council has a statutory responsibility to administer the pensions benefits payable from the Fund on behalf of the participating employers and the past and present members and their dependents.

Pensions Services work to an agreed set of targets based on the number of working days between the date all of the information is available to Pensions Services and the date the case is authorised/finalised. The authorised/finalised date is when the benefits are set up for payment or information requested is sent out.

The following table sets out performance against benchmark for each of the key tasks:

Task	Target Days	Total	Within Target	% Within Target	Average Days
Starters	10	259	258	99.61	1.00
Transfers In (Actual)	10	25	25	100.0	2.00
Transfers Out (Actual)	10	18	16	88.89	12.5
Refund	10	201	152	75.62	4.48
Preserved Benefit	15	548	521	95.07	6.16
Estimate Benefit	10	310	308	99.35	2.36
Retirement	5	508	484	95.28	1.50
Death in Service	5	7	7	100.0	0.29
Death on Pension	5	214	193	90.19	2.95

Membership of the Fund

The Fund provides pensions for:

- employees of a number of admitted bodies. i.e. organisations that participate in the scheme 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.
- employees of scheduled bodies i.e. these are organisations which have the right to be a member of the LGPS under the regulations (e.g. academies).
- employees of Southwark Council.

As can be seen from the table below, the membership is increasing partly due to the introduction of auto enrolment. The Fund has matured over the last 5 years, with deferred and pensioner members increasing gradually.

Membership	2012	2013	2014	2015	2016
Actives	6,046	6,061	6,812	7,210	7,117
Pensioners	6,518	6,645	6,781	6,913	7,212
Deferred	6,971	7,236	7,569	7,705	7,858
Total	**19,535**	**19,942**	**21,162**	**21,828**	**22,187**

During 2015/16, eight individuals received enhanced benefits because of ill-health.

Cost of pension fund administration

The cost of administering the pension fund in 2015/16 was £0.88 million, representing £39.71 per scheme member. In terms of lowest unit costs, based on Local Government Pension Scheme 2013-14 (SF3) returns (most recent statistics available), Southwark ranks 6 out 12 compared to other inner London boroughs, and 17 out of 33 compared to all London boroughs.

Employers in Fund

The following table summarises the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active.

There are no ceased employers who have outstanding liabilities. The Fund has a policy in place which provides that all ceasing employers' liabilities are subsumed into the Council's share of the Fund. As part of this policy, each employer is given a fixed employer contribution rate on commencement in the Fund. Any variances in the rate over time are either treated as a saving or a cost to the contracting department. The purpose of this policy is to ensure that the full cost of pensions is reflected in contracts and that uncertainties around pension costs do not influence the contract price quoted by providers.

	Active	**Ceased**	**Total**
Scheduled Body	24	0	24
Admitted Body	20	0	20
Total	**44**	**0**	**44**

Participating Employers

Appendix 1 lists the admitted and scheduled bodies participating in the Fund at 31 March 2016 and sets out the contributions paid by employees and employers during the year.

Application of communications policy statement

The Annual Benefit Statements for 2014/15 was distributed in August 2015 and included information about the new CARE pension scheme.

A number of presentations were made throughout the year for a variety of Southwark employers that were well attended by members.

Pensions Services maintain a presence on Southwark's main website which provides a link for all members, not just actives, to their pension arrangements and it enables them to get a secure access to their personal details held on a copy of the main pension's administration system to view and in some cases change the information held about them.

The Pensions Services Communication Policy Statement is attached at Appendix 5.

Actuarial Position

London Borough of Southwark Pension Fund
Statement of the Actuary for the year ended 31 March 2016

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 latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £994.7M) covering 83% of the liabilities in respect of service prior to the valuation date allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 was:

   - 13.3% 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.

   Plus

   - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 20 years from 1 April 2014, amounting to £12.4M in 2014/15, and increasing by 3.9% p.a. thereafter.

3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements and ill-health retirements will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, is set out in the actuarial valuation report.

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

Discount rate	5.4% p.a.
Rate of pay increases (additional allowance made for promotional increases)	3.9% p.a.
Rate of increase to pension accounts	2.4% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.4% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme regulations 2013.

   The actuarial valuation of the Fund as at 31 March 2016 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions for the period from 1 April 2017 to 31 March 2020 to be signed off by 31 March 2017.

8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2013. 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 fully the context and limitations of the actuarial valuation.

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

9. The report on the actuarial valuation as at 31 March 2013 is available on request from London Borough of Southwark, the Administering Authority of the fund or via the following link: http://www.lgpsboard.org/images/Valuations2013/Southwark2013.pdf

Aon Hewitt Limited

1 July 2016

Independent auditor’s statement to the members of Southwark Council on the pension fund financial statements included in the pension fund annual report

To follow

Further information

Internal queries regarding Fund Investments & Accounts

Caroline Watson
Divisional Accountant – Treasury & Pensions
Telephone: 020 7525 4379
E-mail: caroline.watson@southwark.gov.uk

Internal queries regarding Benefits or Cost of Membership

Malcolm Laird
SAP Payroll and Pensions Manager
Telephone: 020 7525 4915
E-mail: malcolm.laird@southwark.gov.uk

Or you can write to us at:

London Borough of Southwark Pension Fund
Finance & Governance
Pensions Investments
PO BOX 64529
London SE1P 5LX

External Sources of Information

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

Telephone: 0845 600 0707
Website: www.thepensionsregulator.gov.uk

The Pensions Service
Tyneview Park
Whitley Road
Newcastle-Upon-Tyne
NE98 1BA
Telephone: 0845 600 2537

The Pensions Tracing Service can help ex-members of Pension Schemes, who may have lost touch with previous employers, to trace their pension entitlements.

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 Inland Revenue 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 Pension Fund's AVC provider up to a maximum of 15% of total earnings.

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.

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).

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.

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: Contributing Employers & Amounts Received 2015/16

Name	Total Employee Contributions (£)	Total Employer Contributions (£)	Total Contributions (£)
Admitted Bodies			
APCOA	521.52	1,792.37	2,313.89
Balfour Beatty	9,186.02	25,281.17	34,467.19
Brandon Trust	19,953.83	55,122.00	75,075.83
Browning (TMO)	7,349.28	19,282.11	26,631.39
Camden Society	12,621.87	37,100.11	49,721.98
Capita	9,951.06	28,624.60	38,575.66
Chequers	977.76	3,034.56	4,012.32
Civica	3,842.47	12,177.69	16,020.16
CLPE	6,163.07	23,309.06	29,472.13
D Brice & Co	1,617.28	5,768.66	7,385.94
Friedman	629.50	1,859.46	2,488.96
Fusion	46,232.38	126,320.20	172,552.58
Interserve	3,004.17	12,756.36	15,760.53
Leathermarket	14,985.89	21,636.51	36,622.40
Mears	9,172.48	24,624.61	33,797.09
Southwark Law Centre	24,720.75	79,418.41	104,139.16
HATS	2,952.72	10,811.58	13,764.30
Sherman & Waterman	233.28	877.68	1,110.96
South London Gallery	8,087.28	14,050.56	22,137.84
Veolia	184,142.31	555,914.39	740,056.70
Admitted Bodies Total	**366,344.92**	**1,059,762.09**	**1,426,107.01**
Scheduled Bodies			
Ark All Saints Academy	34,633.85	80,544.46	115,178.31
The Angel Oak Academy	30,637.26	101,517.12	132,154.38
Bacon's College	89,966.48	184,829.58	274,796.06
Belham Primary	3,919.32	11,287.33	15,206.65
The Charter School Educational Trust	84,619.37	133,026.19	217,645.56
Compass Free School	9,240.09	17,786.82	27,026.91
Dulwich Hamlet Junior Academy	27,300.91	70,916.34	98,217.25
Globe Academy	99,275.69	155,818.51	255,094.20
Harris Academy at Peckham	73,829.55	127,970.73	201,800.28
Goose Green	34,726.67	71,814.16	106,540.83
Harris Academy Bermondsey	42,108.56	79,420.45	121,529.01
Harris Boys Academy	42,843.23	55,656.69	98,499.92
Harris Peckham Free School	11,273.10	13,708.34	24,981.44
Harris Girls Academy	45,208.19	93,983.85	139,192.04
Harris Peckham Park	30,314.64	63,773.81	94,088.45
Harris Primary East Dulwich	4,318.27	7,357.17	11,675.44
John Donne	46,437.15	135,692.24	182,129.39
Judith Kerr Free School	7,805.54	27,553.69	35,359.23
Kingsdale Foundation School	31,739.57	78,660.12	110,399.69
Newlands Academy	22,557.26	59,719.90	82,277.16
Redriff Primary Academy	44,196.76	105,118.99	149,315.75
Southwark Free School	1,372.26	4,509.71	5,881.97
Walworth Academy	67,390.16	145,587.49	212,977.65

University Academy Engineering Southbank	5,877.01	19,254.03	25,131.04
Scheduled Bodies Total	**891,590.89**	**1,845,507.72**	**2,737,098.61**

Note

The totals in the above table vary slightly to the equivalent figures in the Statement of Accounts. This is due to timing differences between the SAP accounting system and the remittance information above.

Appendix 2: Pension Fund Accounts

PENSION FUND ACCOUNTS

FUND ACCOUNT

	Note	2015/16		2014/15	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	6	(55,479)		(52,677)	
Transfers in from other pension funds	7	(5,702)		(1,891)	
Sub total			**(61,181)**		**(54,569)**
Benefits	8	56,850		48,844	
Payments to and on account of leavers	9	4,905		2,908	
Sub total			**61,755**		**51,801**
Net reduction/(addition) from dealing with members of the fund			**574**		**(2,768)**
Management expenses	10		4,549		4,503
Returns on investments					
Investment income	11	(12,717)		(12,903)	
Taxes on income	11	155		105	
Profit and losses on disposal of investments and changes in market value of investments	12	(1,212)		(187,967)	
Net return on investments			(13,774)		(200,765)
Net (increase)/decrease in the net assets available for benefits during the year			**(8,651)**		**(199,030)**
Opening net assets of the scheme			(1,247,731)		(1,048,701)
Net assets of the scheme available to fund benefits at 31 March			**(1,256,382)**		**(1,247,731)**

NET ASSETS STATEMENT

	Note		2015/16 £000		2014/15 £000
Investment assets	12		1,245,439		1,239,275
Current assets	13		16,079		12,426
Current liabilities	13		(5,136)		(3,970)
Net assets of the scheme available to fund benefits at 31 March			**1,256,382**		**1,247,731**

NOTES TO THE PENSION FUND STATEMENTS

1. INTRODUCTION

The Pension 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, please refer to the Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the Local Government Pension Scheme (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 2009 (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. 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 Administering Authority in its role as scheme manager of the Pension Fund. The Board will meet regularly 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 organization. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A full list of scheduled and admitted bodies can be found within the Pension Fund Annual Report. This can be accessed on the council's website via the following link
https://www.southwark.gov.uk/downloads/download/2717/pension_fund_annual_report

	2015/16	**2014/15**
Number of contributors to the Fund	7,117	7,210
Number of contributors and dependants receiving allowances	7,212	6,913
Number of contributors who have deferred their pensions	7,858	7,705

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 2016. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2013. Currently, employer rates range from 7.2% to 27.6% 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, summarized in the following table:

	Service Pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x pension. In addition, 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.	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.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of $1/49^{th}$. Accrued pension is uprated annually in line with Consumer Prices Index.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16*, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3. SUMMARY OF SGNIFICANT 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 at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

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 financial 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 financial 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

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.

Administrative expenses

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

Oversight and Governance costs

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

Investment management expenses

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.

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. 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 assets are recognised by the fund. The values of investments as shown in the net assets statement have been determined as follows:

- Equity investments, unit trusts and unitised insurance policies at their market bid price on 31 March each year.
- Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.
- End of year balances on foreign currency transactions have been translated at the exchange rate on 31 March each year.
- Property assets have been included in the accounts at market value as at 31 March each year. The valuation of direct property managed by TH Real Estate is carried out each year by an independent valuer.
- Investment assets have been valued and included in the accounts at bid price, except for direct property (freehold and leasehold) which have been valued at market value and derivative contracts which are valued based on unrealised gains and losses.
- Property unit trusts have been included at net asset price.

h) 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.

i) 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.

j) Financial liabilities

The fund recognises financial liabilities at fair value 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.

k) 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 in the net assets statement.

l) 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. AVCs are not included in the accounts but are disclosed as a note (Note 6).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 17. This estimate is subject to significant variances based on changes to underlying assumptions.

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. This applies particularly 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 council's actuaries are engaged to provide the Fund with expert advice about the assumptions to be applied. The actuarial position is set out in Note 17.

6. CONTRIBUTIONS RECEIVABLE

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

	2015/16			2014/15		
	Employees	**Employers**	**Total**	**Employees**	**Employers**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Southwark Council	(11,295)	(39,881)	**(51,176)**	(11,061)	(37,540)	**(48,601)**
Admitted bodies	(346)	(1,145)	**(1,491)**	(365)	(1,161)	**(1,526)**
Scheduled bodies	(900)	(1,912)	**(2,812)**	(803)	(1,747)	**(2,550)**
Total Contributions	**(12,541)**	**(42,938)**	**(55,479)**	**(12,229)**	**(40,448)**	**(52,677)**

Contributions receivable from employers are shown below:

	2015/16	2014/15

	£000	£000
Normal	(23,919)	(23,444)
Early retirement strain	(4,795)	(2,916)
Deficit funding	(14,224)	(14,087)
Total contributions from employers	**(42,938)**	**(40,447)**
Contributions from employees	(12,541)	(12,229)
Total Contributions	**(55,479)**	**(52,676)**

During 2015/16 employees made Additional Voluntary Contributions (AVCs) of £468k (£466k in 2014/15). The value of the AVCs at 31 March 2016 was £2.744 m (£2.685 m at 31 March 2015).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2015/16 £000	2014/15 £000
Individual transfers	5,702	1,891
Total transfers in from other pension funds	**5,702**	**1,891**

8. BENEFITS PAYABLE

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

	2015/16 £000	2014/15 £000
Pensions	43,630	41,123
Commutation of pensions and lump sum retirement benefits	11,923	6,254
Lump sums – death benefits	1,297	1,467
Total benefits payable	**56,850**	**48,844**

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

	2015/16 £000	2014/15 £000
Southwark Council	54,929	47,287
Admitted bodies	1,582	1,259
Scheduled bodies	339	298
Total benefits payable	**56,850**	**48,844**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2015/16 £000	2014/15 £000
Refund of contributions	90	75
State Scheme Premiums	114	65
Individual transfers out to other schemes	4,701	2,768
Total payments	**4,905**	**2,908**

10. MANAGEMENT EXPENSES

	2015/16 £000	2014/15 £000
Administrative costs	881	842
Investment and management expenses	3,656	3,661
Oversight and governance costs	12	-
Total management expenses	**4,549**	**4,503**

There are no performance related fees.

11. INVESTMENT INCOME

	2015/16 £000	2014/15 £000
Dividends from equities	(2,601)	(2,200)
Income from pooled investment vehicles	(1,813)	(2,122)
Net rent from properties	(8,207)	(8,555)
Interest on cash deposits	(75)	(21)
Other income	(21)	(5)
Total investment income before taxes	**(12,717)**	**(12,903)**
Taxes on income	155	105
Total investment income after taxes	**(12,562)**	**(12,798)**

The pension fund invests in a number of pooled funds which do not break down the income and expenditure incurred. Instead these are adjusted through the units held and are therefore reflected in change in market value. Where detailed information is available this is reflected in the accounts.

12. INVESTMENT ASSETS

2015/16	**Total**	**Analysed by:**		
	31/03/2016	**Quoted UK**	**Quoted overseas**	**Unquoted**
	£000	**£000**	**£000**	**£000**
Fixed Interest Securities – Public Sector	5,793	-	5,793	-
Fixed Interest Securities – Other	117,561	117,561	-	-
Equities	235,158	12,651	222,507	-
Index linked securities	119,853	119,853	-	-
Managed Funds – Property (Freehold)	151,775	-	-	151,775
Managed Funds – Property (Leasehold)	15,225	-	-	15,225
Unit Trusts – Property	43,989	35,290	-	8,699
Unitised insurance policies	555,780	39,192	516,588	-
Derivatives Forward Currency	55	-	-	55
Cash Deposits	100	-	-	100
London Collective Investment Vehicle (CIV)	150	-	-	150
Total investment assets	**1,245,439**	**324,547**	**744,888**	**176,004**

2014/15	**Total**	**Analysed by:**		
	31/03/2015	**Quoted UK**	**Quoted overseas**	**Unquoted**
	£000	**£000**	**£000**	**£000**
Fixed Interest Securities – Public Sector	40,569	32,419	8,150	-
Fixed Interest Securities – Other	-	-	-	-
Equities	107,586	9,352	98,234	-
Index linked securities	94,741	94,741	-	-
Managed Funds – Property (Freehold)	125,180	-	-	125,180
Managed Funds – Property (Leasehold)	11,675	-	-	11,675
Unit Trusts – Property	37,262	37,262	-	-
Unitised insurance policies	817,835	174,287	643,548	-
Derivatives Forward Currency	-	-	-	-
Cash Deposits	4,428	-	-	4,428
Total investment assets	**1,239,276**	**348,061**	**749,932**	**141,283**

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:

	Value at 31/03/2015 £000	Purchase £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/03/2016 £000
Fixed Interest:						
UK public sector	32,419	-	(29,766)	(2,653)	-	-
UK quoted	-	118,100	-	(539)	-	117,561
Overseas public sector	8,150	22,335	(24,855)	163	-	5,793
UK Equities	9,352	6,758	(4,020)	561	-	12,651
Overseas Equities	98,234	168,807	(48,138)	3,604	-	222,507
Index linked Securities	94,740	27,744	(6,398)	3,767	-	119,853
Managed Funds:						
Property (freehold)	125,180	14,955	-	11,640	-	151,775
Property (leasehold)	11,675	9,019	(4,364)	(1,105)	-	15,225
Unit Trusts - Property	37,262	10,049	(2,938)	(384)	-	43,989
Unitised insurance policies	817,835	1,972	(249,970)	(14,057)	-	555,780
Forward currency	-	521	(681)	215	-	55
Cash instruments	4,428	-	-	-	(4,328)	100
London CIV	-	-	-	-	150	150
Total Net Investment Assets	**1,239,275**	**380,260**	**(371,130)**	**1,212**	**(4,178)**	**1,245,439**
Cash held at managers	4,362	-	-	-	3,848	8,210
Outstanding trades	314	-	-	-	162	476
Investment trade debtors	-	-	-	-	6	6
Total Net Investments	**1,243,951**	**380,260**	**(371,130)**	**1,212**	**(162)**	**1,254,131**

	Value at 31/03/2014 £000	Purchase £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/03/2015 £000
Fixed Interest:						
UK public sector	25,522	-	-	6,897	-	32,419
UK quoted	-	-	-	-	-	-
UK Equities	12,486	2,372	(4,478)	(1,028)	-	9,352
Overseas public sector	6,778	25,963	(25,459)	868	-	8,150
Overseas Equities	76,828	40,621	(38,048)	18,833	-	98,234
Index linked Securities	79,319	-	(1,400)	16,821	-	94,740
Managed Funds:						
Property (freehold)	95,500	13,968	(6,004)	21,716	-	125,180
Property (leasehold)	11,650	3,025	-	(3,000)	-	11,675
Unit Trusts - Property	36,183	-	(3,500)	4,579	-	37,262
Unitised insurance policies	693,007	23,586	(21,193)	122,435	-	817,835
Forward currency	(19)	312	(282)	(11)	-	-
Options	16	276	(149)	(143)	-	-
Cash Deposits	-	-	-	-	4,428	4,428
Total Net Investment Assets	**1,037,270**	**110,123**	**(100,513)**	**187,967**	**4,428**	**1,239,275**
Cash held at managers	10,186	-	-	-	(5,824)	4,362
Outstanding trades	(333)	-	-	-	647	314
Investment trade debtors	498	-	-	-	(498)	-
Total Net Investments	**1,047,621**	**110,123**	**(100,513)**	**187,967**	**(1,247)**	**1,243,951**

The Pension Fund does not hold derivatives as a main asset class, but they are used by Newton Investment Management, our 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 TH Real Estate is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2016. All properties have been valued at market value.

The Statement of Investment Principles can be found in appendix 6 of the pension fund annual report. This can be accessed on the council's website via the following link: https://www.southwark.gov.uk/downloads/download/2717/pension_fund_annual_report Alternatively a copy can be obtained on request from the Strategic Director of Finance and Governance, Southwark Council, Finance and Governance, PO Box 64529, London SE1P 5LX.

Investments exceeding 5% within each class of security are as follows:

Asset Class	Fund Manager	Value at 31/03/16 £000	% within asset class	Value at 31/03/15 £000	% within asset class
Fixed interest securities – UK Public Sector					
Over 15 Year Gilts Index	Legal & General	-	-	15,773	49%
Aquila Life Over 15 Years UK Gilt Index S1	BlackRock	-	-	16,646	51%
		-	-	32,419	100%
Fixed Interest securities - Overseas Public Sector					
United States Government Gilts	Newton	5,793	100%	-	-
Fixed Interest Securities – Corporate					
Absolute Return Bond	BlackRock	117,561	100%	-	-
Index linked Securities					
Over 5 Year Index Linked Gilts	Legal & General	63,053	53%	46,590	49%
Aquila Life Over 5 Years UK Gilt Index S1	BlackRock	56,800	47%	48,151	51%
		119,853	100%	94,741	100%
Equities					
BlackRock Institutional Jersey Dynamic	BlackRock	118,475	50%	-	-
Managed Funds (Property)					
The Bridge, Clerkenwell	TH Real Estate	16,850	11%	12,800	9%
Hope House,45 Great Peter Street, London	TH Real Estate	13,125	9%	13,100	10%
264-276 Walworth Road	TH Real Estate	13,050	9%	-	-
140-142 St John Street, London	TH Real Estate	10,300	7%	6,850	5%
190-208 Ingram Street, Glasgow	TH Real Estate	10,300	7%	10,050	7%
18-30 Clerkenwell Road, London	TH Real Estate	9,450	6%	8,400	6%
15-17 Northgate Street	TH Real Estate	8,000	5%	-	-
Rushy Platt Industrial Estate	TH Real Estate	7,650	5%	6,850	5%
		88,725	59%	58,050	42%
Unit Trusts - Property					
Henderson UK Shopping Centre Fund	TH Real Estate	13,814	31%	14,265	38%
Henderson Central London Office Fund	TH Real Estate	13,700	31%	12,597	34%
Henderson UK Retail Warehouse Fund	TH Real Estate	7,775	18%	7,590	20%
LBOS Brockton Capital	Brockton	5,148	12%	-	-
LBOS Frogmore	Frogmore	3,551	8%	-	-
BlackRock UK Property Fund	TH Real Estate	-	-	2,811	8%
		43,988	100%	37,263	100%
Unitised Insurance Policies					
Blackrock Asset	BlackRock	266,902	47%	-	-
North America Equity Index	Legal & General	152,946	28%	149,032	18%
BlackRock Emerging Markets GBP FLX AC	BlackRock	41,978	8%	45,407	6%
Europe (ex UK) Equity Index	Legal & General	41,755	7%	42,482	5%
Investment Grade Bonds (All Stocks)	Legal & General	-	-	63,126	8%
Aquila Life Corp BD Index All STX S1	BlackRock	-	-	59,203	7%
Aquila Life European EQ IDX FD S1	BlackRock	-	-	69,638	9%
Aquila Life US EQ Index Fund S1	BlackRock	-	-	184,674	23%
		503,581	90%	613,562	75%
Cash Deposits					
Deutsche Global Liquidity Fund	TH Real Estate	100	100%	4,428	100%

Investments representing more than 5% of the net assets of the scheme:

Name of Investment	Fund Manager	Value at 31/3/16	% of net assets	Value at 31/3/15	% of net assets
		£000		£000	
North America Equity Index	Legal & General	152,946	12%	149,032	12%
Blackrock Asset	BlackRock	115,968	10%	-	-
Absolute Return Bond	BlackRock	117,561	9%	-	-
BlackRock Institutional Jersey Dynamic	BlackRock	118,475	9%	-	-
Over 5 Year Index Linked Gilts	Legal & General	63,053	5%	-	-
Aquila Life US EQ Index Fund S1	BlackRock	-	-	184,674	15%
Aquila Life European EQ IDX FD S1	BlackRock	-	-	69,638	6%
Investment Grade Bonds (All Stocks)	Legal & General	-	-	63,126	5%
Aquila Life Corp BD Index All STX S1	BlackRock	-	-	59,203	5%
Total		**568,003**	**45%**	**525,673**	**42%**

The market value of assets (including cash and accruals) managed by the investment managers at the balance sheet date has been set out in the table below.

Fund Manager	Market value of fund at 31/3/16		Market value of fund at 31/3/15	
	£000	%	£000	%
BlackRock	359,782	29	442,278	36
Blackrock (self-directed)	236,036	19	-	-
BlackRock (warehouse)	21	-	125,541	10
Legal & General Investment Managers	315,953	25	377,204	30
TH Real Estate (formerly Henderson Global Investors)	204,027	16	179,950	14
Newton Investment Management	129,463	11	118,978	10
Brockton Capital LLP	5,148	-	-	-
LBOS Frogmore	3,551	-	-	-
London CIV	150	-	-	-
Total	**1,254,131**	**100**	**1,243,951**	**100**

13. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

	2015/16 £000	2014/15 £000
Contribution due from employers	3,124	1,960
Other current assets	2,917	3,392
Cash at managers	8,210	4,362
Cash and bank	1,828	2,712
Total	**16,079**	**12,426**

The current liabilities of the fund are analysed as follows:

	2015/16 £000	2014/15 £000
Support services	33	33
Benefits	323	264
Professional fees	473	547
Investment	1,915	1,534
Taxes	1,131	607
Other	1,261	985
Total	**5,136**	**3,970**

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 where the related party has, or is perceived to have, real influence over any transaction between the parties.

Through its administration of the Fund, the council has a related party interest with the Pension Fund, and the costs charged by the council are disclosed in Note 29.

Management of the Pension Fund is the responsibility of the council's strategic director of finance and governance. No officers' remuneration is paid directly by the Fund; costs are instead recovered as part of the costs disclosed in Note 10. The Strategic Director of Finance and Governance remuneration is disclosed in Note 25 of the council's Statement of Accounts. The Pension Advisory Panel (PAP) offers advice to the strategic director of finance and governance. Councillor members of the Panel 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 £39.9 m to the fund in 2015/16 (£37.7 m in 2014/15).

15. FINANCIAL INSTRUMENTS

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

	2015/16 £000	2014/15 £000
Financial assets		
Loans and receivables	16,079	12,426
Financial assets at fair value through profit or loss	1,069,590	1,102,420
Financial liabilities		
Financial liabilities at amortised cost	(5,136)	(3,970)
Financial liabilities at fair value through profit or loss	-	-
Total	**1,080,533**	**1,110,876**

The valuation of financial instruments has been classified into three levels, 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. They comprise property unit trusts.

- 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

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable:

2015/16	**Quoted market price**	**Using observable inputs**	**Total**
	Level 1	**Level 2**	
	£	**£**	**£**
Financial assets			
Loans and receivables	16,079	-	16,079
Financial assets at fair value through profit or loss	1,025,601	43,989	1,069,590
Financial liabilities			
Financial liabilities at amortised cost	(5,136)	-	(5,136)
Total	**1,036,544**	**43,989**	**1,080,533**

2014/15	**Quoted**	**Using**	**Total**

	market price	observable inputs	
	Level 1	**Level 2**	
	£	**£**	**£**
Financial assets			
Loans and receivables	12,426	-	12,426
Financial assets at fair value through profit or loss	1,065,158	37,262	1,102,420
Financial liabilities			
Financial liabilities at amortised cost	(3,970)	-	(3,970)
Total	**1,073,614**	**37,262**	**1,110,876**

16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Pension Fund's primary long-term risk is that the funds 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 funds risk management strategy rests with the pension fund committee. 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.

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 securities 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 line with markets. In consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

2015/16 - Asset Type	Value £000	Change %	Value on Increase £000	Value on Decrease £000

Total Equities	672,463	9.7	737,692	607,234
Total Bonds & Indexed linked	243,208	7.3	260,986	225,429
Multi-Asset	118,475	5.0	124,363	112,586
Property	210,989	3.7	218,796	203,183
Cash	8,514	0.0	8,516	8,512
Debtors	482	0.0	482	482
Total Assets	**1,254,131**		**1,350,835**	**1,157,426**

2014/15 - Asset Type	Value £000	Change %	Value on Increase £000	Value on Decrease £000
Total Equities	803,092	8.92%	874,728	731,456
Total Bonds & Indexed linked	249,488	8.7%	271,115	227,861
Multi-Asset	-	-	-	-
Property	174,117	4.53%	182,005	166,229
Cash	16,940	0.01%	16,942	16,938
Debtors	314	0.00%	314	314
Total Assets	**1,243,951**		**1,345,104**	**1,142,798**

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 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.

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, cash and cash equivalents 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	Value £000	Value on 1% rate increase £000	Value on 1% rate decrease £000
As at 31 March 2016	**133,757**	**135,095**	**132,419**
As at 31 March 2015	144,099	145,540	142,658

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 10 per cent strengthening or weakening of the pound against foreign currencies.

Assets exposed to currency risk	**Value £000**	**Value on 10% foreign exchange rate increase £000**	**Value on 10% foreign exchange rate decrease £000**
As at 31 March 2016	**740,403**	**814,443**	**666,363**
As at 31 March 2015	749,932	824,925	674,939

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 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 this trend has begun to change. 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 ensure that if the Fund found itself in a position where it did not have the funds available to meet its commitments, alternative moneys could be drawn down. Funds could be called back from investment managers within a short period of time. Periodic cash flow forecasts are prepared to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

17. ACTUARIAL POSITION OF THE FUND

The Scheme Regulations require that a full actuarial valuation be carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

The following section on the actuarial position of the fund has been prepared by the actuary for the sole use of the council, and should not be relied upon by any other party. The statements should not be considered without reference to the formal actuarial valuation report, which details fully the context and limitations of the actuarial valuation.

Actuarial Position

The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £994.7M) covering 83% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.

The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 is:

- 13.3% 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; *plus*

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 20 years from 1 April 2014, amounting to £12.4m in 2014/15, and increasing by 3.9% p.a. thereafter.

In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements and ill-health retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.

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

Rate of inflation – RPI	3.4%
Rate of inflation – CPI	2.4%
Rate of increase in salaries	3.9%
Rate of increase in pensions	2.4%
Rate for discounting scheme liabilities	4.3%

The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016.

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 2013.

	Value as at 31 March 2013 £m	**Value as at 31 March 2010 £m**
Fair value of net assets	995	787
Actuarial present value of promised retirement benefits	(1,451)	(1,399)
Surplus/(deficit) in the fund as measured for IAS26	**(456)**	**(612)**

18. POST BALANCE SHEET EVENTS

In June 2016 the United Kingdom voted to exit the European Union. The long-term economic effects of Brexit remain uncertain and the situation in the markets will evolve over time. At this stage it is not possible to reliably assess the impact on the value of the Funds assets and liabilities.

Appendix 3: Funding Strategy Statement

SECTION 1
INTRODUCTION

Overview

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

As required by Regulation 58, the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA in March 2004. The statement has also been reviewed having regard to updated guidance published by CIPFA on 3 October 2012.

Consultation

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

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations).

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

Policy Purpose

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

- establishes a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- supports the regulatory requirement in relation to the desirability of maintaining as nearly constant a common employer contribution rates as possible.
- takes a prudent longer-term view of funding the Fund's liabilities.

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

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

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

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

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

Review of this Statement

The Administering Authority undertook its latest substantive review of this Statement between January and March 2014. The Administering Authority will formally review this Statement as part of the triennial valuation as at 31 March 2016 unless circumstances arise which require earlier action.

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

During 2016/17, this Statement will be reviewed alongside the new local government pension scheme (management and investment of funds) regulations that place a requirement on pension funds to publish an Investment Strategy Statement.

SECTION 2

AIMS AND PURPOSE OF THE FUND

Purpose of the Fund
The purpose of the Fund is to invest monies in respect of contributions, transfer values and investment income to produce a Fund to pay Scheme benefits over the long term and in so doing to smooth out the contributions required from employers over the long term.

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

a) To comply with Regulation 62 of the Regulations and specifically to enable employer contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency. The Fund solvency should be assessed in light of the risk profile of the fund and the risk appetite of the Administering Authority and employers alike.

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

- the regulatory requirement to secure solvency, which should be assessed in light of the risk profile of the Fund and risk appetite of the Administering Authority and employers

- the requirement that the costs should be reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and
- maximising income from investments within reasonable risk parameters (see later)

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

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

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

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

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

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

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

c) To manage employers' liabilities effectively.

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

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

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

- Restricting investment to the levels permitted by the Investment Regulations.

- Restricting investment to asset classes generally recognised as appropriate for UK pension funds.
- Analysing the potential volatility and absolute return risks represented by those asset classes in collaboration with Investment Advisors and Fund Managers and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy.
- Limiting concentration of risk by developing a diversified investment strategy.
- Monitoring the mis-matching risk that the investments do not move in line with the Fund's liabilities.

SECTION 3
RESPONSIBILITIES OF THE KEY PARTIES

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

Their key responsibilities are as follows:

Administering Authority

The Administering Authority will:

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

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

    Ensure provision of data of suitable accuracy

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

    Ensure that participating employers receive appropriate communication throughout the process

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

- Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with persons the Administering Authority considers appropriate, and amend these two documents if required.
- Monitor all aspects of the Fund's performance and funding.
- Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and Scheme Employer.

Individual Employers

Individual Employers will:

- Deduct contributions from employees’ pay.
- Pay all contributions, including their employer's contribution as determined by the Fund Actuary, promptly by the due date.
- Develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework.
- Pay for additional membership or pension, augmentation, early release of benefits or other one off strain costs in accordance with agreed arrangements.
- Notify the Administering Authority promptly of all changes to membership, or other changes with affect future funding.
- Note and if desired respond to any consultation regarding the Funding Strategy Statement, the Statement of Investment Principles or other policies.

Fund Actuary

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

- Funding strategy and the preparation of the Funding Strategy Statement and will prepare actuarial valuations including the setting of employers’ contribution rates and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement.
- Bulk transfers and individual benefit-related matters.
- Valuations of exiting employers.
- Bonds and other forms of security for the Administering Authority against the financial effect on the Fund of Employers' default.

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

The Fund Actuary will assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as required by the Regulations.

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

SECTION 4

FUNDING TARGET, SOLVENCY AND NOTIONAL SUB FUNDS

Risk based approach

The Fund utilises a risk based approach to funding strategy.

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

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

These three choices, supported by risk modelling carried out by the Fund's Actuary, define the appropriate levels of contribution payable now and, by extension, the appropriate valuation approach to adopt now. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

Solvency Target and Funding Target

Solvency and 'funding success'

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate methods and assumptions.

For Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit, appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, and using assumptions such that, if the Fund's financial position continued to be assessed by use of such methods and assumptions, and contributions were paid in accordance with those methods and assumptions, there would be a chance of at least 80% that the Fund would continue to be 100% funded over a reasonable timeframe. The level of funding implied by this is the Solvency Target. For the purpose of this Statement, the required level of chance is defined as the Probability of Maintaining Solvency.

For Admission Bodies and other bodies whose liabilities are expected to be orphaned following exit, the required Probability of Maintaining Solvency will be set at a more prudent level dependent on circumstances. For most such bodies, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

Probability of Funding Success

The administering authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers.

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

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

Funding Target

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

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

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.
- For admission bodies the administering authority will take into account the potential for participation to cease, the potential timing of such exit, and any likely change in investment strategy regarding the assets held in respect of the admission body's liabilities at the date of exit.

Application to different types of body

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

Scheduled Bodies and certain other bodies of sound covenant

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature.

Admission Bodies and certain other bodies whose participation is limited

For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

Full Funding

The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency

Other Aspects of Funding Strategy

Recovery and Trajectory Periods

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

Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contribution rates will be adjusted to target restoration of fully funding the solvent position over a period of years (the Recovery Period). The Recovery Period to an employer or group of employers is therefore the period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable. As noted earlier, the valuation method, including the components of Funding Target, future service costs and adjustment for surplus or deficiency simply serves to set a level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period.

For simplicity the Trajectory Period for the largest employer (or employer group) in the Fund and the Recovery Period are both set to be the same

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

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

The Administering Authority's policy is to agree Recovery Periods with each employer which are as short as possible within this framework. For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation.
A period of around 20 years has been used for the London Borough of Southwark, which is the largest employer in the Fund. Trajectory and Recovery Periods for other employers or employer groups may be shorter and may not necessarily be the same as each other, in order to suitably balance risk to the fund and cost to the employer.

Grouping

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

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

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

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Stepping

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

Inter-valuation funding calculations

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

Notional Sub-Funds for individual employers

Notional sub-funds

In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers (or group of employers where grouping operates), as if each employer had its own notional sub-fund within the Fund.

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

Roll-forward of sub-funds

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

Further adjustments are made for:

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

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

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

Fund maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay, the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the Administering Authority will consider requiring defined streams of capital contributions rather than percentages of payroll.

Where defined capital streams are required, the Administering Authority will review at future valuations whether any new emerging deficiency will give rise to a new, separate, defined stream of contributions, or will be consolidated with any existing stream of contributions into one new defined stream of contributions.

SECTION 5

SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

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

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

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

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

- For an employer whose participation is due to cease within the next three years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

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

Guarantors

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

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

Bonds and other securitization

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

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

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

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

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

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

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

- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommend that the Scheme Employer reviews, the required cover at least once a year.

Subsumed liabilities

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

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

Orphan liabilities

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

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

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the other employers' notional assets.

Smoothing of contributions rates for Admission Bodies

The Administering Authority recognises that a balance needs to be struck as regards the financial demands made of Admission Bodies. On the one hand the Administering Authority requires all Admission Bodies to be fully self funding, such that other employers in the Fund are not subject to levels of expense as a consequence of the participation of those Admission Bodies. On the other hand, in extreme circumstances, requiring full funding may precipitate failure of the body in question, leading to significant costs for other participating employers.

In circumstances which the Administering Authority judges to be extreme, the Administering Authority will consider if the requirement that contribution rates target Full Funding can be temporarily relaxed.

Additionally, should an Admission Body cease participation in the Fund during the relaxation period, the Administering Authority may decide to be a source of future funding for any deficiency developing in the Fund in respect of residual liabilities of the admission body (this process is called 'Subsumption' for the purposes of this document).

Such action has three implications:

- During any period when the requirement for targeting Full Funding has been relaxed, contribution rates for admission bodies can if necessary be set at a lower than full funding would require.
- Should an employer exit the Fund during a period when contribution rates do not target Full Funding, the funding requirement in any exit valuation carried out under Regulation 64 will be reduced to the extent that contributions, on a cumulative basis, have fallen short of what continued targeting of Full Funding would require. Where the Admission Body has a deficiency, relative to the Full Funding requirement, and also a deficiency relative to this reduced exit valuation requirement, the Admission Body will only be required to make the position good up to the reduced exit valuation requirement. Any consequent shortfall in the Fund relative to the Full Funding requirement will fall as a liability to the London Borough of Southwark, to be met through adjustments to its contribution rate as part of future actuarial valuation exercises.
- Should an Admission Body leave the Fund during a period where a Guarantor has agreed to subsumption of residual liabilities, the exit funding requirement will be reduced to reflect the Fund's continuing access to funding, should a deficiency emerge in the future in respect of those liabilities.

At subsequent valuations the position will be reassessed with a view to returning Admission Bodies to paying contributions which target Full Funding.

Cessation of participation

Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of exit of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

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

SECTION 6
IDENTIFICATION OF RISKS AND COUNTER MEASURES

Approach

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

<u>Investment Risk</u>

The risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

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

The specific risks associated with assets and asset classes are:

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

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

Choice of Solvency and Funding Targets

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

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

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

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

Employer Risk

The risks arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a shortfall in payments and/or orphaned liabilities.

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

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

Liquidity and maturity risk

The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery, which result in active members leaving the LGPS; transfer of responsibility between different public sector bodies; scheme changes which might lead to increased opt-outs; the implications of spending cuts – all of these will result in workforce reductions that will reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken into accounting in previous forecasts.

There are also issues relating to the increasing maturity profile of individual employers, and the Administering Authority not being made aware of such changes in a timely manner.

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

Particular examples are set out below:

- Early retirement strain payments - No allowance is made in actuarial valuations of the Fund for the additional value of the benefits when a member is made redundant or leaves on the grounds of efficiency. To counter the potential 'strain' (or cost) emerging at the next valuation early retirement strain payments are required from the employer to the Fund to meet this additional cost over a period of no longer than 3 years.

- Bodies ceasing to exist with unpaid deficiency **-** Some employers can cease to exist and become insolvent leaving the employers in the Fund open to the risk of an unpaid deficit. For admission bodies admitted under paragraph 1(d) of Part 3, Schedule 2, any such deficit will be met by the relevant Scheme Employer and there is therefore little risk to other employers in the Fund (provided of course that the relevant Scheme Employer is itself regarded to be of good covenant).

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

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

<u>Liability Risk</u>

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

The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuations or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant liability changes become apparent between valuations, the Administering Authority will notify all employers of the anticipated impact on costs that will emerge at the next valuation and consider whether any bonds that are in place for Admission Bodies require review.

<u>Regulatory and Compliance Risk</u>

The risks relate to changes to both general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules. The LGPS is also going through major structural changes.

The Administering Authority will keep abreast of all proposed changes and prepare for LGPS 2014. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify employers of the possible impact and the timing of any change.

<u>Smoothing Risk</u>

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

Recovery Period Risk

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

Stepping Risk

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

Appendix 4: Statement of Investment Principles

Introduction

<u>The Local Government Pension Scheme</u>

The Local Government Pension Scheme exists to provide pensions and related benefits to its members. The Scheme is established by statute, and the classes of employee who are eligible to join the Scheme are listed in regulations. The benefits provided by the Scheme are defined in regulations, and are predominantly linked to members' pay and service at retirement or earlier exit from service.

<u>London Borough of Southwark Pension Fund</u>

The London Borough of Southwark Pension Fund is a scheme established in accordance with the regulations governing the Local Government Pension Scheme to provide pension and related benefits to employees of the London Borough of Southwark and any other eligible employees. The Fund is administered by the London Borough of Southwark.

<u>Purpose of Statement</u>

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement of the principles governing their decisions about investments. The statement must cover their policy on:

- the types of investments to be held
- the balance between different types of investments
- risk
- the expected return on investments
- the realisation of investments
- the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- the exercise of the rights (including voting rights), if any, attaching to investments
- the extent to which the authority complies with the ‘CIPFA Pensions Panel Principles for Investment Decision Making in the LGPS in the UK (Guidance note Issue No 5) and the reasons for any non-compliance.

This statement sets out the principles governing decisions about the investment of the assets of the London Borough of Southwark Pension Fund (the Fund).

This statement is issued by the Fund Administering Authority to comply with Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Frequency of Review

The Authority's policy is to review this statement annually or sooner if there is a change in the policy on any of the areas covered by the statement. The Authority will consult with such persons as they consider appropriate and take advice when revising the statement.

Advice

The Authority has obtained written advice on the content of this statement from its actuaries and investment advisers.

Consultation

The Authority consulted investment advisers, investment managers, custodians and the Council's Pensions Advisory Panel about the content of this statement.

Investment Powers

The investment powers of the Authority are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This statement is consistent with those powers. Neither the statement nor the Regulations restrict the Authority's investment powers by requiring the consent of a third party.

The management of the Fund's investments has been delegated to professional investment managers whose activities are constrained by detailed Investment Management Agreements. These agreements include controls on stock lending, use of derivatives and underwriting.

Approval

The principles outlined in this document were approved by the Authority on 6th July 2000 and revised annually thereafter.

Governance

Decision making structure

The Authority is responsible for the investment of the Fund's assets. It takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Authority has taken into account whether it has the appropriate training and expert advice in order to take an informed decision. The Authority has established the following decision making structure:

Authority

- set structures and processes for carrying out their role
- select and monitor planned asset allocation strategy

- appoint Pensions Advisory Panel
- consider recommendations from the PAP
- putting in place a Statement of Investment Principles
- monitoring compliance with the Statement and reviewing its contents
- appointing Investment Managers, a global custodian, the actuary and the investment adviser

The Pensions Advisory Panel advises the Council on the above.

Pensions Advisory Panel (PAP)

The primary objective of the PAP is to assist the Strategic Director of Finance & Corporate Services in the management of the pensions function within the Council. This will include the provision of advice on the following:

- establishing and reviewing the strategic investment objectives
- reviewing the definition of the investment return target most likely to satisfy these investment objectives
- determining what constraints, if any, should be applied to the invested assets and monitoring compliance
- establishing and reviewing the strategic asset allocation that is likely to meet the investment return target
- considering and reviewing the appropriateness of the fund structure including the delegation of powers to managers, setting boundaries within which managers can exercise discretion and considering what manager return targets are likely to achieve the investment return target.
- considering the results of the actuarial valuations and agreeing contribution levels
- reviewing and advising on the results of asset-liability studies
- monitoring the performance of the investment managers at least quarterly and considering the desirability of continuing or terminating their appointment from time to time.

Investment Adviser

- advising the Pensions Advisory Panel on investment strategy
- advising the Pensions Advisory Panel on this statement
- advising on benchmarking issues
- advising on and evaluating the investment manager and custodial tenders

- monitoring the performance of the investment managers
- attendance at all Pensions Advisory Panel meetings
- ad-hoc investment issues that the Council does not have the knowledge or resources to resolve

Investment Managers

- operate within the terms of this statement and their written contracts
- select individual investments with regard to their suitability and diversification
- provide the accounting data covering details of all investment transactions over the quarter
- provide investment details in a timely manner to the Fund's benchmarking company (State Street) for performance measurement purposes

Global Custodian

- global custody services are carried out by JP Morgan with the exception of property which is covered under a separate agreement with BNP Paribas
- this arrangement provides a separation of duties between the investment and the safekeeping of the assets
- the custodian is responsible for the safe custody of all securities, settlement of all investment transactions, collection of income, cash management, tax reclaims, corporate action administration, foreign exchange services, derivatives clearing and reporting on all movements within the Pension Fund.

Auditor

- the Fund is audited annually by Grant Thornton. The financial year end is 31^{st} March.

Funding and Investment Policy

Regulations and the Link to Investment Strategy

Regulation 77 of the Local Government Pension Scheme Regulations 1997 requires the Actuary to set employer contribution rates to the Fund to secure its solvency having regard to the existing and prospective liabilities of the Fund and the desirability to maintain as constant a contribution rate as possible.

The value of the Fund at each successive valuation date is a major factor in determining the level of contribution rate, and the Authority's investment strategy for the Fund is therefore key to that process. This is intended to ensure that all statutory payments made from the Fund are at minimal cost to local taxpayers by investing to maximise investment returns over the long term within specified risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income combined).

The Authority’s policy is to:

- appoint expert fund managers with clear performance benchmarks and to place accountability for performance against the benchmark on the fund managers. Performance is reviewed quarterly by the PAP upon receipt of reports from WM, an independent performance measurement service.
- review investment strategy annually, with a major review taking place following the triennial actuarial valuation.

Investment Strategy and Expected Returns

Having considered advice from its investment advisers, the Authority believes that the investment strategy for the Fund, in conjunction with the certified levels of future contributions to the Fund, is consistent with the requirements of the Regulations. The financial position of the Fund will be considered each year and, if it changes significantly, the suitability of the investment strategy will be reviewed.

The current **asset allocation strategy** was set in December 2014 and is set out in the table below:

Asset Class	**Weighting %**
Global Equities (a mixture of active and passive)	50
Diversified Growth	10
Absolute Return Bonds	10
Passive Index-Linked Gilts	10
Active Property	20

This strategy was set following an asset-liability study and advice from the Authority's actuary and investment advisers. In carrying out the asset-liability study, the Authority's investment advisers modelled the Fund's assets and liabilities for a range of alternative asset allocation strategies. In choosing the Fund's planned asset allocation strategy it is the Authority's policy to consider:

- a full range of asset classes
- the risks and rewards of a range of alternative asset allocation strategies
- the suitability of each asset class
- the need for appropriate diversification

Process for Choosing Investments

The Authority relies on professional fund managers for the day to day management of the majority of the Fund's assets. However, the Authority retains direct control over some investments. In particular, it makes the decisions about the investment vehicles used by members for additional voluntary contributions (AVCs).

Additional Voluntary Contributions

For members' Additional Voluntary Contributions (AVC), the Authority chooses suitable investment vehicles taking into account past performance, charging structure, flexibility and the quality of administration. The Authority's current preferred AVC provider is AEGON. Some AVC investments are held by Equitable Life.

Investments Directly Controlled By the Authority

The Authority's policy is to review the investments over which it retains direct control and to obtain written advice about them annually. When deciding whether or not to make any new investments the Authority will obtain written advice.

The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement. The adviser will have the knowledge and experience required under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Implementation

Investment Advisers

Mercer Ltd has been selected as investment adviser to the Authority and PAP. They operate under an agreement to provide a service designed to ensure that the PAP and the Authority are fully briefed both to take the decisions they take themselves and to monitor those they delegate.

Fund Managers

Each fund manager has been given investment objectives which are measured by comparing their performance over a given period against a benchmark. Details of each manager's investment objectives are as follows:

Manager	Mandate	Benchmark
BlackRock	Balanced	In line with customised benchmarks
BlackRock	Dynamic Diversified Growth Fund	LIBOR + 3% net of fees
BlackRock	Absolute Return Bonds	LIBOR + 4% net of fees
Legal & General Investment Mgt	Passive Global Equities & Bonds	FTSE All World
Newton Investment Mgt	Global Equity	FTSE All World + 3% net of fees
TH Real Estate	Core Property	IPD All Property + 1% net of fees
Frogmore	Opportunistic Property	16.5%pa absolute return
Brockton	Opportunistic Property	15.0% pa absolute return
M&G Investments	PRS Property	8.5% pa absolute return
Invesco	PRS Property	8.0% pa absolute return

The fund managers are responsible for the allocation of assets between types of investment and for the selection of individual stocks within each type of investment. The fund managers are regulated by the Financial Conduct Authority (FCA). The Authority has a signed agreement with each fund manager.

Within the categories of investment permitted by the Regulations, the fund managers can purchase any new investments as long as they do not breach the provisions of their investment management agreements. The fund managers will bring to the Authority's attention any new category of investment which in their judgement has become suitable for the Fund before investing in that category.

The Authority expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

The fund managers are remunerated on a percentage of fund basis. This structure has been chosen to align the fund managers' interests with those of the Fund.
In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets. .

Fund managers are monitored on an on going basis and performance is monitored on a quarterly basis.

Balance between types of Investment and Risk

The following measures have been implemented to reduce the risks associated with making investments:

Number of Managers
The assets are divided between eight fund managers to reduce the risks associated with one fund manager having responsibility for all of the Fund's assets. In addition,

this division enables the Authority to control the overall level of risk resulting from the differing styles and approaches of each manager.

Risk versus the Liabilities
The majority of the Fund's liabilities are linked to inflation and salary growth. The policy is therefore to invest the majority of the assets in investments which are expected to exceed price inflation and general salary growth over long periods.

Range of Assets
The benchmark contains a wide range of assets suitable for a pension scheme. The managers have discretion to move away from the benchmark position within specified tolerance levels to outperform the return on the benchmark. The PAP reviews the distribution of assets quarterly.

Manager Restrictions
The Authority's agreement on the way the portfolio is managed with each fund manager contains a series of restrictions which may be amended from time to time. The purpose of the restrictions is to limit the risks from each individual investment and prevent unsuitable investment activity. Each fund manager will comply with these restrictions

Manager Controls
Powers of investment delegated to the fund managers must be exercised with a view to giving effect to the principles contained in this statement so far as is reasonably practicable. The manager will also ensure that suitable internal operating procedures are in place to control individuals making investments for the Fund. Compliance with this statement will be continually monitored by the authority.

Realisation of Investments

The fund managers will bring to the Authority's attention any category of investment held by the Fund which in their judgement has become unsuitable for the Fund. The fund manager is not expected to bring to the Authority's attention individual investments realised on purely investment grounds.

Social, Environmental and Ethical Considerations

Policy on Engagement
The Council is committed to the development of a positive, practical, sustainable policy on Socially Responsible Investment (SRI). As for all fund investments, this is subject to being in the best interests of the beneficiaries and contributors. In respect of shareholder value social, environmental and ethical considerations are among the factors managers are requested to take into account when selecting investments.

A schedule is maintained of all companies in which the fund managers are investing. This schedule is updated each quarter and any companies where corporate governance concerns have been expressed will be identified.

Managers provide quarterly reports detailing the implementation of the Fund’s Statement of Investment Principles (SIP). The reports outline all engagement with companies during the previous quarter and would enable an assessment to be made of their success in achieving fund policy. Fund managers will be kept informed of the Council's key themes at all times and will be expected to specifically engage with companies where Local Authority Pension Fund Forum (LAPFF) has identified corporate governance concerns.

The Council believes that proactive engagement with the companies in which the Fund invests is the most effective means of achieving the above objectives.

While preferring an active engagement strategy, the Council reserves the right to actively screen any companies. It also reserves the right within its active managers' Investment Management Agreements (IMA) to reject investments in companies which the Pensions Advisory Panel (PAP) believes are working against the Council's key themes, in agreement with the Strategic Director of Finance & Corporate Services, having regards to the best interests of the beneficiaries and contributors.

Corporate Governance

The Fund exercises the voting rights attached to its investments wherever it is possible and cost effective to do so. The aim is to promote and support good corporate governance principles and best practice. Voting rights should be exercised in accordance with the best financial interests of both the beneficiaries and contributors to the Fund. Social, environmental and ethical considerations may be taken into account when exercising votes where this acts in these parties' best interests.

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

Fund managers report in advance of all voting rights they intend to exercise on behalf of the Fund. They provide details of their house view and on how they intend to vote. They ensure that this is consistent with the Council's key themes and also with the LAPFF principles.

Fund managers' views are compared with the voting recommendations of LAPFF. Where the fund managers' house views are not consistent with those of LAPFF, this is reported to the fund managers and they are instructed to vote accordingly on behalf of the Fund.

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

Compliance

<u>Frequency of Review</u>

The Authority's policy is to review this statement annually or sooner if there is a change in the policy on any of the areas covered by the statement. The Authority will consult with such persons as they consider appropriate and take written advice when revising the statement.

Investment Decision Making Principles

General

The Authority's policy is to adopt the six principles of investment practice set out in the document published in 2009 by the Chartered Institute of Public Finance and Accountancy called "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles." The Authority is working towards full compliance, where appropriate, and the current position, along with each principle, is set out in the following assessment of compliance:

Myners Principles - Assessment of Compliance

1. Effective Decision-Making

Principle Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

State of Compliance The Fund is currently **fully compliant** with this principle:

- the Pensions Advisory Panel is supported by suitably qualified officers and external advisers. All members of the PAP are offered training on appropriate topics at each PAP meeting.

2. Clear Objectives

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

State of Compliance The Fund is currently **fully compliant** with this principle:

- the Fund's objectives are set out in the Statement of Investment Principles. The objective, benchmark and risk parameters are clearly stated in the Investment Management Agreements with each investment manager.
- covenants of all scheme employers are reviewed on an on going basis.

3. Risk and Liabilities

Principle

- in setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
- these include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

State of Compliance The Fund is currently **fully compliant** with this principle:

- the asset allocation strategy is reviewed every 3 years. Mercer Ltd is commissioned to carry out an asset liability study which models the risk/reward characteristics of different investment strategies.
- the study follows the triennial actuarial valuation and the form and structure of liabilities are fully taken into account.

4. Performance Assessment

Principle

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers
- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

State of Compliance The Fund is currently **fully compliant** with this principle:

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

- Performance measurement is provided by State Street.

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

- A procurement exercise was carried out in 2014 which resulted in the appointment of Mercer Ltd as the fund's investment advisers. They were appointed through the National LGPS Frameworks and as such are subject to ongoing review at the framework level. Feedback is provided to the framework on an annual basis.

5. Responsible Ownership

Principle Administering authorities should:

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

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

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

State of Compliance The Fund is currently **fully compliant** with this principle:

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

- the Fund's policy on responsible ownership is set out in its Statement of Investment Principles.

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

- The pension fund is a member of the Local Authority Pension Fund Forum (LAPFF), the UK's leading collaborative shareholder engagement group.

- Responsible ownership is periodically reported to PAP and states how active fund managers are discharging these responsibilities.

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

6. Transparency & Reporting

Principle Administering authorities should:

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

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

State of Compliance The Fund is currently **fully compliant** with this principle:

- documents relating to the Pension Fund are published on the Council's website.

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

- members can also request information directly from the Council.

- the Pension Advisory Panel minutes are published on the council's website.

Appendix 5: Communications strategy

Statements of policy concerning communications with members and employing authorities:

1) This regulation applies to the written statement prepared and published by an administering authority under regulation 106B of the 1997 Regulations.
2) The authority
   a) must keep the statement under review,
   b) make such revisions as are appropriate following a material change in its policy on any of the matters mentioned in paragraph (3); and
   c) if revisions are made, publish the statement as revised.
3) The matters are
   a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
   b) the format, frequency and method of distributing such information or publicity; and
   c) the promotion of the Scheme to prospective members and their employers.

One of the cornerstones of the Pensions Section work is communicating with its membership. Their frontline role is mainly informational, but they also can be involved in resolving disputes regarding the Regulations and providing guidance to elected councillors about the way the scheme is being administered.

Pensions Services has always communicated well with its customers (both internal and external) and this statement will merely formalise already effective procedures.

Objectives of the communications strategy:

1) To ensure that the current working populous of the council have access to good information about their pension scheme, are provided with a benefit statement showing the current value of their pension benefits every year and are kept up to date with any changes or improvements to the scheme.
2) To ensure that pensioner members of the scheme have access to good information about their pensions scheme and are provided with the required information for Her Majesty's Revenue and Customs (HMRC) on an annual basis
3) To ensure that deferred members of the scheme have access to good information about their pension scheme and are provided with a benefit statement every year setting out the current value of their pension benefits
4) To ensure that the various scheme employers (schools admitted bodies etc) have access to good information about the pension scheme, are kept informed of any changes to the scheme and have access to any literature they may require, to provide a service to their staff.

Proposed communications methods:

The strategy is designed to take key messages out to the widest range of audiences to locations and through channels that are familiar and have maximum impact – such as the internet, the source, written correspondence posters and leaflets

This will ensure that the presence and general awareness of Pensions Services achieves the required outcomes of an increase in awareness about pensions issues. Using a menu of options means the final plan can be tailored according to budget and resource constraints.

Communications Tools

Communication channels used include:

- **Website -** General information about the pension scheme is available on the website together with options (using Axis Online) for active, deferred and pensioner members to view specific information about their pension, change of addresses etc and (in some cases) carry out projected benefit estimations.

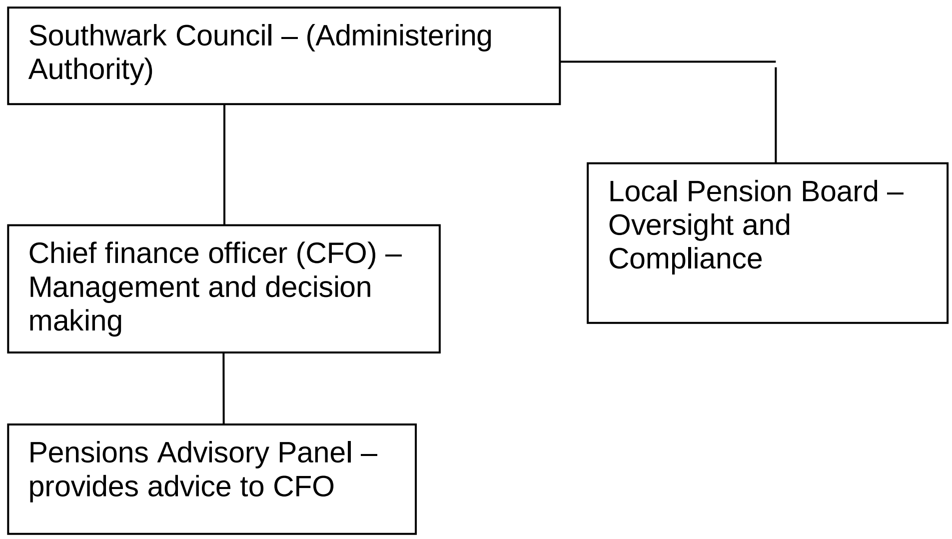
- **Written Communication** - Every active and deferred pensioner member receives a benefit statement (annually), included with this statement will be any pertinent information about their pension benefits and scheme changes, plus it will invite them to look at the website to stay current. The statement sets out the value of their pension benefits as a reflection of the lifetime allowance (as specified by HMRC).

- **Survey -** Surveys will be carried out when required, which will be used to test active, deferred and pensioner members satisfaction with the way information is cascaded to them from pensions services. There will also be cross-pollination of ideas with all members being given the opportunity to have an input into the way pension services communicates with them.

- **Briefing Sessions** – these will be utilised as and when to communicate important information to members.

Appendix 6: Governance Compliance Statement

Background



Amendments to the Local Government Pension Scheme Regulations 1997 require 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;
- 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:

<u>Arrangements for Maintaining a Pensions Fund Committee</u>
Since 2004 this function has been delegated to the Pensions Advisory Panel, whose primary objective is to assist the Strategic Director of Finance & Corporate Services in the management of the Pensions function within the Council.

<u>Frequency of Meetings</u>
The Pensions Advisory Panel 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 Pensions Advisory Panel is to provide advice to the Strategic Director of Finance & Corporate Services in the management of the Pension Fund. This will include the provision of advice on the following:

- establishing and reviewing the strategic investment objectives;
- reviewing the definition of the investment return target most likely to satisfy these investment objectives;
- determining what constraints, if any, should be applied to the invested assets and monitoring compliance;
- establishing and reviewing the strategic asset allocation that is likely to meet the investment return target;
- considering and reviewing the appropriateness of the fund structure, including the delegation of powers to managers, setting boundaries within which managers can exercise discretion and considering what manager return targets are likely to achieve the investment return target;
- considering the results of the actuarial valuations and agreeing contribution levels;
- reviewing and advising on the results of asset/liability studies;
- monitoring the performance of the investment managers at least once every three months and considering the desirability of continuing or terminating their appointment from time to time. In monitoring the performance of investment managers the panel should consider:
    - investments made by managers
    - their input to the process and the value of their advice
    - investment returns and risks compared to established targets
    - manager compliance with the fund's requirements
    - discussion of results with managers
- considering policy matters relating to the pension scheme and the Council's early retirement policy
- considering applications, from outside bodies, for membership of the council's pension scheme
- monitoring of early retirements
- monitoring the costs incurred in administering the pension scheme, including:
    - management and other direct costs
    - transaction (dealing) costs

- reviewing and revising the Statement of Investment Principles and the Funding Strategy Statement;
- ensuring that the way the Fund is administered takes into account any changes to the Statement of Investment Principles or the Funding Strategy Statement;
- agreeing on the supply of information to and from the participating employers;
- complying with data protection regulations relating to the Fund;
- ensuring the custodian arrangements for the Fund are satisfactory;
- agreeing the arrangements for the appointment of Fund advisors i.e. accountant, actuary, lawyer and banker.

Membership and Voting Rights of the Panel

The membership of the panel will consist of:

- 3 members (2 from the majority party group and 1 from the main opposition party group) who have received the appropriate training – one of those members will chair the panel;
- 3 officers (the Strategic Director of Finance & Governance, an officer with specialist knowledge of the pensions scheme and the Pensions Services Manager);
- 2 independent advisors (non-voting); and
- a representative appointed by the relevant trade unions representing beneficiaries (non-voting).

Decision Making Protocol

- the panel should aim to reach consensus in decision-making. Where agreement cannot be reached a majority vote will apply. Voting rights are restricted to Members and officers, with the Chair having the casting vote if required;
- decisions of the Panel will be treated as advice to the Strategic Director of Finance & Corporate Services;
- for decisions to be valid at least three voting members of the Panel must be present plus at least one independent advisor. At least one of the voting members must be an officer;
- panel members will receive training and guidance on all matters requiring a decision prior to meetings where these issues are on the agenda;
- the Strategic Director of Finance & Corporate Services will submit a report to the Panel on all matters where he has been unable or unwilling to implement the decisions of the Panel.

Representation from Employing Authorities or Members
When deciding on the composition of the Pensions Advisory Panel, 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 19 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 by 1 April 2015.

The Local Pension 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:

(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

(iii) such other matters as the LGPS regulations may specify.

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 Local Pension Board meets quarterly and the membership and work of the board can be viewed on page 5 in the annual report of the Local Pension 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 advisors (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	**Yes**	

Principle	Fully Compliant?	Note
opportunity to contribute to the decision making process, with or without voting rights.		
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**	
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**Yes**	
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees	**Yes**	
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	**Yes**	

Principle	Fully Compliant?	Note
arrangements.		
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.