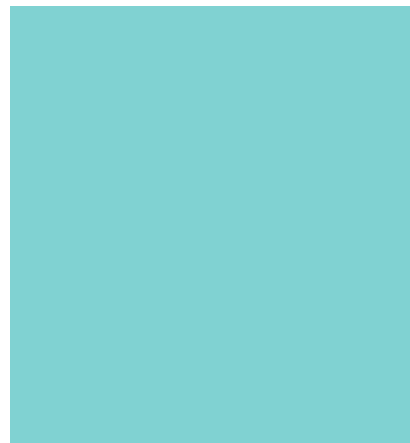
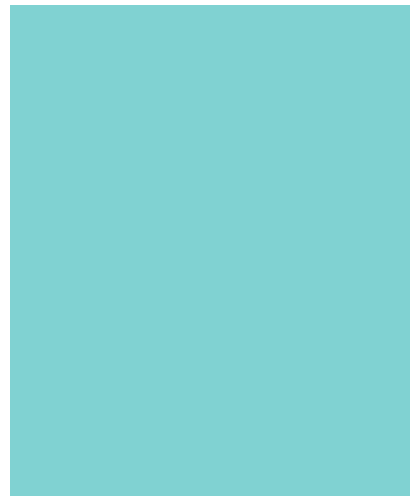


London Borough of Southwark Pension Fund Annual Report 2012/13

Finance & Corporate Services

www.southwark.gov.uk



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OVERVIEW

The London Borough of Southwark Pension Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is a statutory funded scheme, governed by the Local Government Pension Scheme Regulations 2007 and subsequent amendments and regulations. This means its benefits are set out and guaranteed in law.

The Council is the administering authority. The Strategic Director of Finance & Corporate Services is responsible for fund investment and administration and for the preparation of the fund's Statement of Accounts in accordance with the CIPFA Code of Practice. The costs of administration and of paying pensions and benefits are charged to the pension fund.

The Southwark Fund administered by London Borough of Southwark covers the pension entitlements of all eligible employees. A number of other bodies are also members and they include admitted and scheduled bodies.

Employees can choose to join, remain within the scheme or make their own personal pension arrangements.

The scheme has to be fully funded or have a plan to become so. It is financed by contributions from employers and employees and by earnings from investments. Funds not immediately required to meet pensions and other benefits are invested in a selection of equities, bonds and property. The pension 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, Aon Hewitt.

Contributions & Benefits

Legislation requires regular three yearly actuarial valuations of local authority pension funds to determine the annual contributions to be made by the employing bodies. The valuation on which the employers' contributions for 2012/13 were based was carried out as at 31 March 2010 and applies for the three years starting from 1 April 2011.

From 1 April 2008 the rules of the new LGPS Scheme have applied. Previously employees generally contributed to the scheme at a rate of 6% of pensionable pay. Under the new scheme tiered contribution rates apply based on pensionable pay.

The administering authority is also required to enable employees to make additional voluntary contributions (AVCs) to obtain enhanced pension benefits. The AVC provider for the Southwark Pension Fund is AEGON Scottish Equitable.

The LGPS is a defined benefit "final salary" scheme. The annual pension and the retirement lump sum are based on length of service and usually the final twelve months of pay.

MANAGEMENT & FINANCIAL PERFORMANCE REPORT

Scheme Management and Advisers

Administering Authority	London Borough of Southwark
Pensions Advisory Panel Membership 2012/13	Councillors: Richard Livingstone (Chair) Toby Eckersley Tim McNally Officers: Duncan Whitfield (Strategic Director of Finance & Corporate Services) Dave Howes (Asst. Finance Director) Bernard Nawrat (Head of HR) Observers: Roy Fielding (GMB) Chris Cooper (Unison) Advisers: Emily McGuire (Aon Hewitt) David Cullinan (WM Company)
Actuaries	Aon Hewitt Associates
Property Solicitors	Dibb Lupton Alsopp Todds Murray
AVC Providers	AEGON
Auditors	Grant Thornton
Performance Monitoring	WM Company
Custodians	JP Morgan BNP Paribas Securities Ltd
Investment Managers	BlackRock Advisors (UK) Ltd Newton Investment Management Henderson Global Investors Legal & General Investment Management

Management

The Strategic Director of Finance & Corporate Services 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 Strategic Director of Finance & Corporate Services, taking into account the advice they receive from the Fund's external advisers. They make recommendations to the Strategic Director of Finance & Corporate Services 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 Pension Fund's risk register can be found at Appendix 2 of this report. 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.
- Admitted/Scheduled Bodies: Failure of body/deficits on termination of contracts - could lead to an increase in the Council's contribution level to cover shortfall.
- 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 risk register sets out the controls in place to manage the above risks.

Financial Performance

Actual/Forecast Cash Flows

	Budget (2011/12 Actual)	2012/13 Actual	Variance
	£000	£000	£000
Expenditure			
Benefits	50,214	45,586	(4,628)
Payments to and on account of leavers	6,174	4,371	(1,803)
Administrative expenses	949	864	(85)
Other payments	143	135	(8)
Total Expenditure	57,480	50,956	(6,524)
Income			
Contributions from employers (normal)	(20,548)	(20,006)	(542)
Contributions from employers (deficit funding)	(10,258)	(11,534)	1,276
Early retirement costs	(6,822)	(1,474)	(5,348)
Contributions from employees	(10,301)	(9,857)	(444)
Transfers in from other pension funds	(7,720)	(5,489)	(2,231)
Other income	(1)	(1)	0
Total Income	(55,650)	(48,361)	(7,289)
Net addition from dealing with members of the fund	1,830	2,595	(765)

Notes

EXPENDITURE

The actual expenditure for the year is £50.96m, an under spend of £6.52m. The main reason for this is the reduction in benefits paid to members. This is due mainly to a significant reduction in lump sum retirement payments which have tailed off (this is evident from a compensating reduction in income). The lump sum payments are volatile and can vary significantly. The other significant variance relates to payments on account of leavers, which is £1.80m less than 2011/12.

INCOME

The actual income for the year is £48.36m (£7.29m less than 2011/12). The main reason for this is a reduction in contributions towards early retirement costs (£5.35m) and a reduction in transfers in from other pension funds (£2.23m). Both of these are volatile and unpredictable.

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.

Management Performance

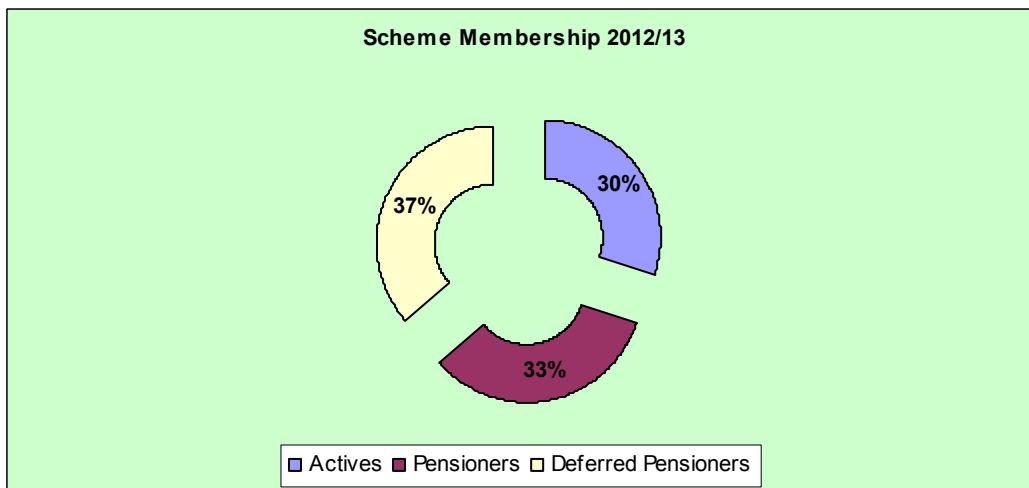
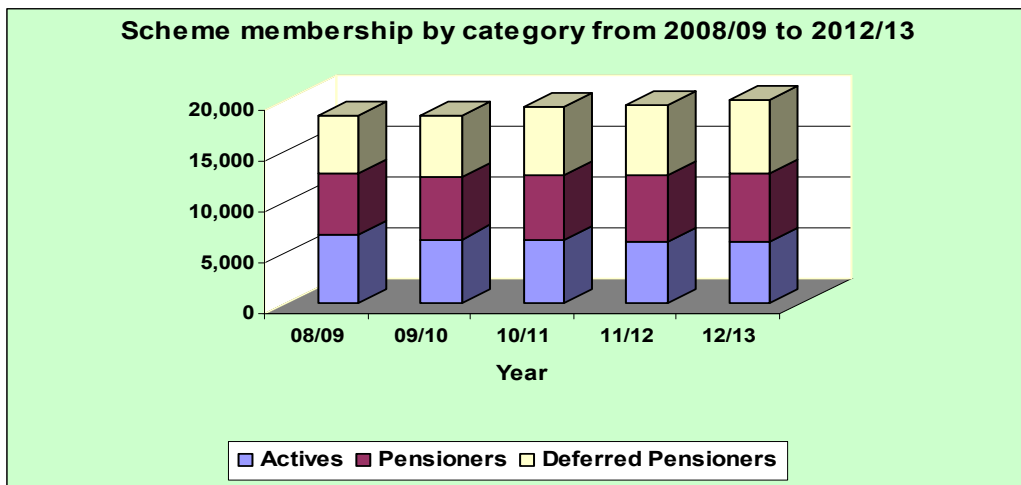
Key Administration Performance Indicators

Pensions Services works to an agreed (by peer London Boroughs) 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:

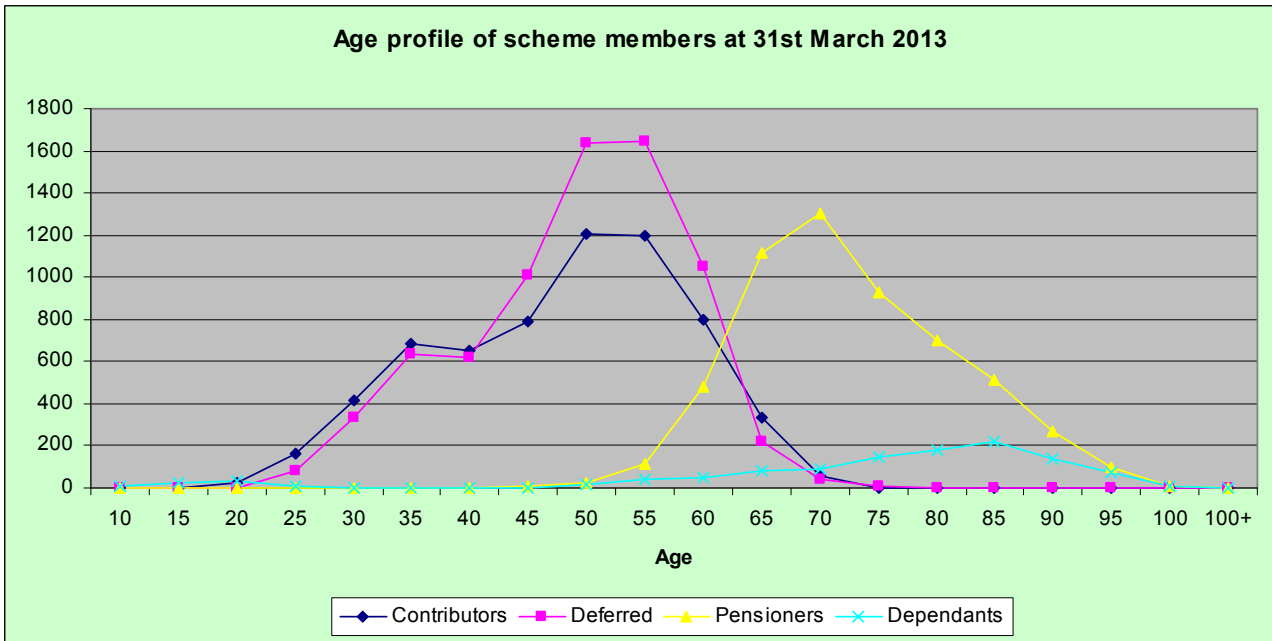
	Target Days	Total	Within Target	% Within Target	Average Days
Starters	10	838	663	79.12%	36.68
Transfers In (Actual)	10	159	23	14.47%	102.42
Transfers Out (Actual)	10	88	65	73.86%	41.35
Refund	10	26	14	53.85%	29.38
Preserved Benefit	15	714	667	93.42%	15.86
Estimate Benefit	10	293	258	88.05%	11.52
Retirement	5	277	247	89.17%	3.22
Death in Service	5	10	10	100.00%	0
Death on Pension	5	179	141	78.77%	11.12

Scheme Membership

During 2012/13 the number of pensioners increased from 6,518 at 31 March 2012 to 6,645 at 31 March 2013. At the same time, the number of contributors within the Fund increased from 6,046 to 6,061. The membership levels for the last 5 years and the membership split at 31 March 2013 are shown in the charts below:



Source: statement of accounts



Source: Pension Admin

Of the pensioners, 9 received enhanced benefits because of ill-health during 2012/13.

Participating Employers

Appendix 1 lists the admitted and scheduled bodies participating in the Fund at 31 March 2013. Contributions paid by employers and employees are shown and employee contributions are split by contribution bands.

INVESTMENT REVIEW TO 31 MARCH 2013

LATEST YEAR

The last twelve months saw equity markets recover strongly, many reaching all-time highs, as risk assets returned to favour.

In the UK, the FTSE All-Share index returned 17% for the year, with only Oil & Gas and Basic Materials failing to generate positive double-digit performance. Active managers enjoyed a successful year in this area, with the average fund outperforming the index for the third consecutive year.

Overseas markets also performed strongly – the FTSE World index (ex UK) returned 17% in aggregate. Regionally, North America, Europe and the lesser Pacific markets provided the best returns at just under 20%. Japan delivered 14%, with emerging markets lagging at 7%. Sterling fell against both the US Dollar and the Euro meaning that currency hedging had a detrimental impact on returns for the minority of funds hedging away currency risk.

Bond performance was more muted but, with investors favouring risk assets, corporate bonds with a return of 13% outperformed government issues (the broad gilt index returned 5%). Index Linked performed well over the year with a return of 10%.

Returns from property remained subdued at 3%. At a level below the income generated, this suggests a continued downward pressure on valuations. Alternative assets delivered almost 10% over the year, the highest return since fiscal year 2006 – hedge funds returned 7% for the year and private equity 12%.

At total assets level, buoyed by robust equity performance, the return for the average fund fell just short of 14%.

The Southwark fund enjoyed a strongly positive year, returning 13.9%. This was well ahead of the scheme specific benchmark and marginally ahead of the local authority average.

MEDIUM TERM PERFORMANCE

The average fund returned 8%p.a. over the last three years, 4%p.a. ahead of inflation and an important outcome in this valuation year. This said however, while the asset side of the balance sheet has performed well, falling bond yields over the period will have had a seriously negative impact on the liability side.

The fund has failed to match its benchmark over the period but has outperformed the average local authority. The fund had not exceeded its benchmark since 2006, and outperformance in the latest year is a sign that performance is on an improving trajectory.

LONGER TERM PERFORMANCE

Longer term returns have continued to improve for the sector as a whole which has enjoyed returns in the region of 8 – 9%p.a. over the last 10 and 20 years, well in excess of both price and wage inflation.

The fund has delivered returns very much in line with the average.

Report prepared by David Cullinan, The WM Company.

Information on the average Local Authority comes from the WM survey of local authority pension funds.

Asset Allocation Strategy

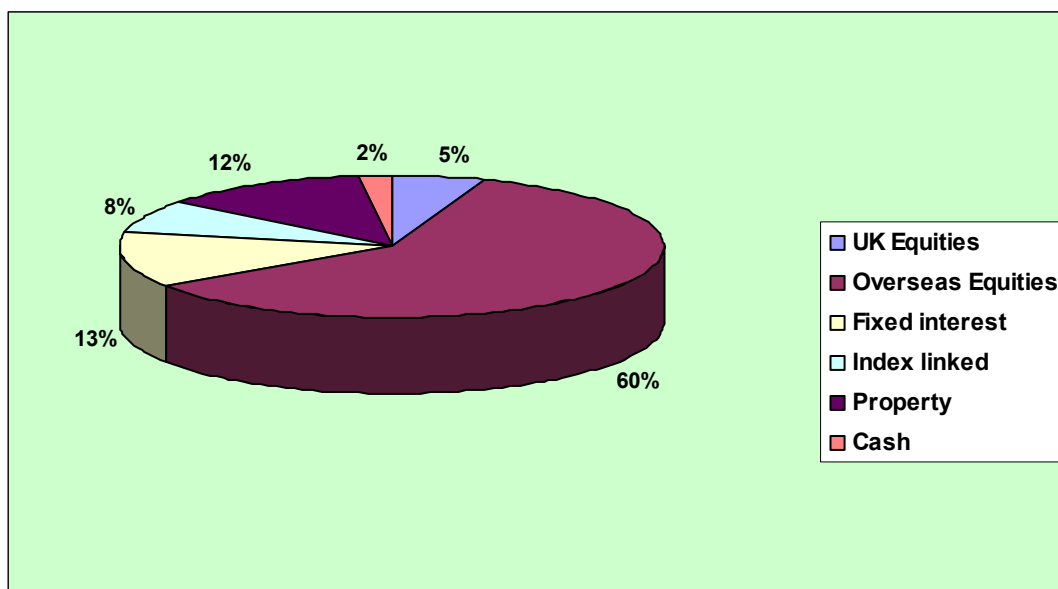
The Fund's assets are invested in various different investment products with the objective to generate returns to increase its funding level. Responsibility for investment is given to specialist fund managers who invest the funds in equities, bonds, property and other asset classes according to the investment mandate they are given.

During the year the passive investments procurement was completed and Legal and General Investment Management and BlackRock Inc were appointed to manage passive mandates for the fund.

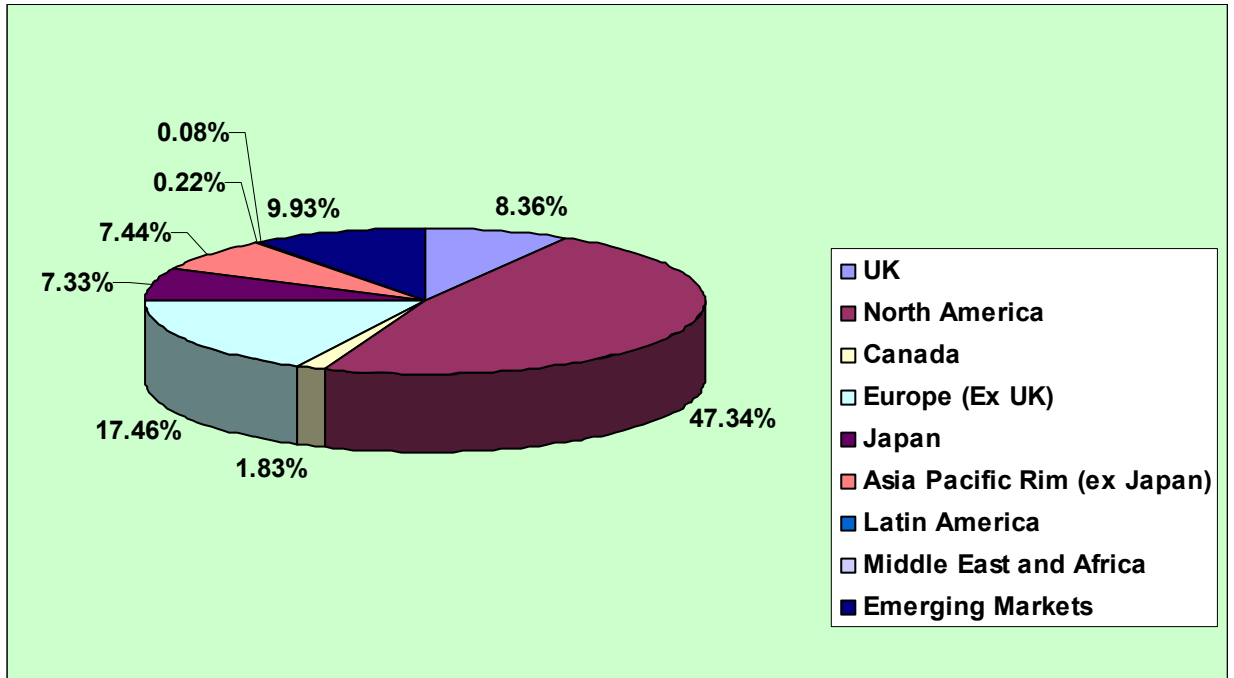
The following table lists the fund managers, the types of mandates they manage and the value of their holdings at 31 March 2013 in value and percentage terms:

Fund Manager	Mandate	Value at 31 March 2013 (£m)	% of Fund
Blackrock	Balanced ex Property	365	37%
Blackrock	Equities - Global	97	10%
Legal & General	Equities - Global	301	30%
Newton Investment Management	Equities - Global	92	9%
Henderson Global Investors	Property UK	136	14%
Total		991	100%

Asset Allocation by Major Asset Class

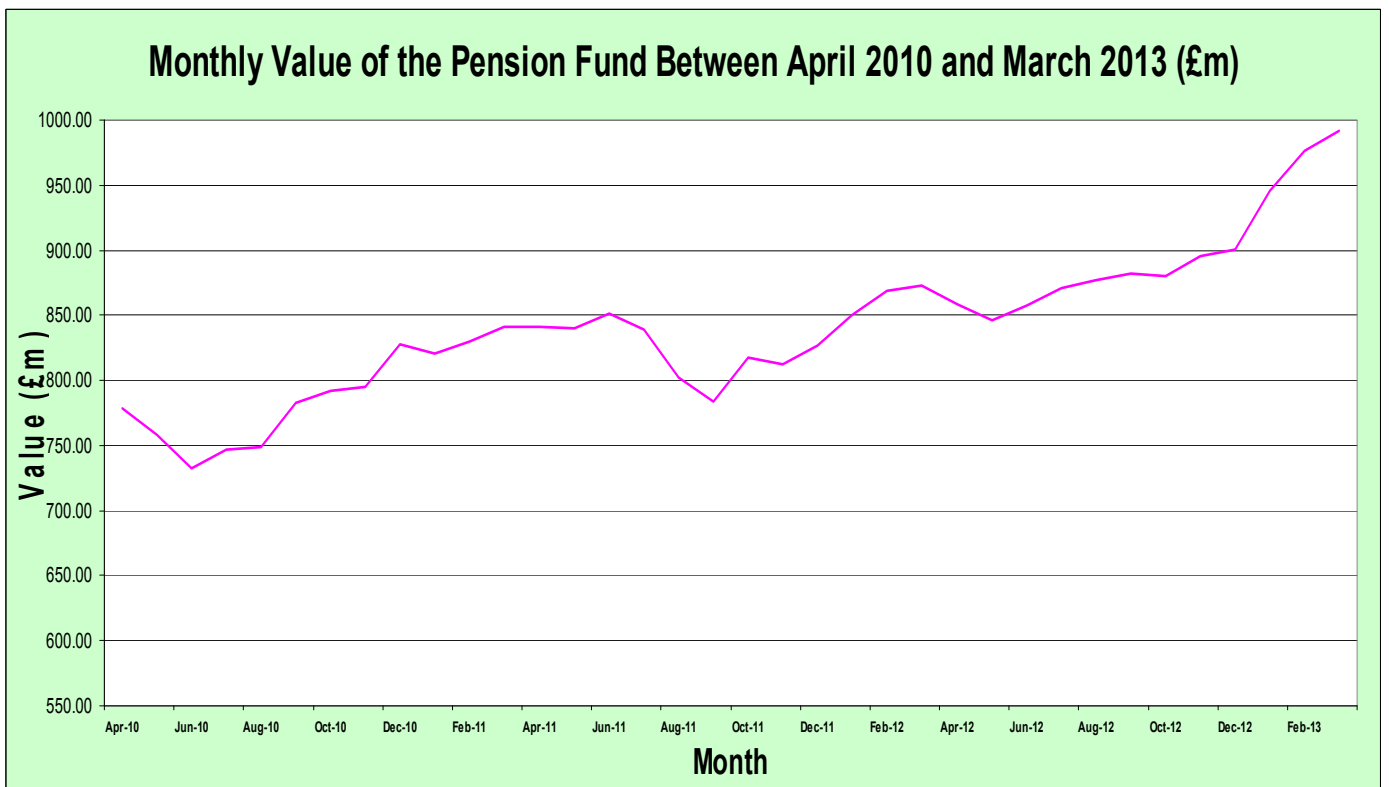


Equities – Geographical Split



Investment Performance

The following chart shows the total fund value over the last 3 years:



Performance Against Benchmark

Each manager has been given a performance benchmark, the constituents of which are detailed below:

Manager	Benchmark Indices	Required target against Benchmark measured over 3 Year Periods % per Annum
Blackrock	FTSE All World Index FTSE UK Gilts > 15 yrs Iboxx £ Non Gilts Index FTSE UK Index-Linked > 5 years	Match Index
Newton	FTSE All World Index	3% net of fees over rolling 3 years
Legal & General	FTSE All World Index FTSE UK Gilts > 15 yrs Iboxx £ Non Gilts Index FTSE UK Index-Linked > 5 years	Match Index
Henderson	IPD All Properties	1%
Total Fund		1%

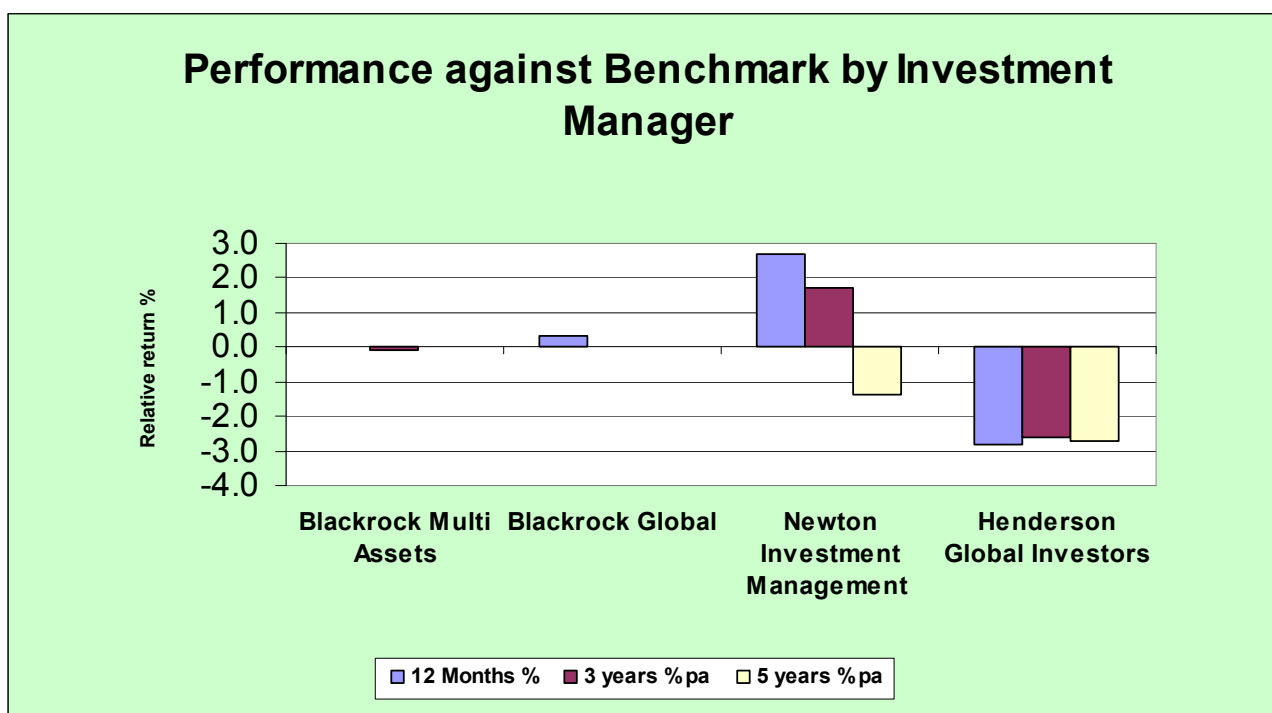
Source: WM Company

Performance Against Benchmark By Investment Manager

		12 Months	3 years % pa	5 years % pa
Blackrock Multi Assets	Portfolio	16.2	9.9	9.1
	Benchmark	16.3	10	9.1
	Relative Return	0.0	-0.1	0.0
Blackrock Global	Portfolio	17.8	-	-
	Benchmark	17.4	-	-
	Relative Return	0.3	-	-
Newton Investment Management	Portfolio	20.2	10	6.9
	Benchmark	17.1	8.2	8.4
	Relative Return	2.7	1.7	-1.4
Henderson Global Investors	Portfolio	-0.4	3.9	-1.8
	Benchmark	2.5	6.6	1
	Relative Return	-2.8	-2.6	-2.7

*Blackrock global started trading in December 2010 following the transfer of assets from Alliance Bernstein; hence the investment manager performance was not measured for 3 full years.

**See below for explanation on calculation of Relative Return

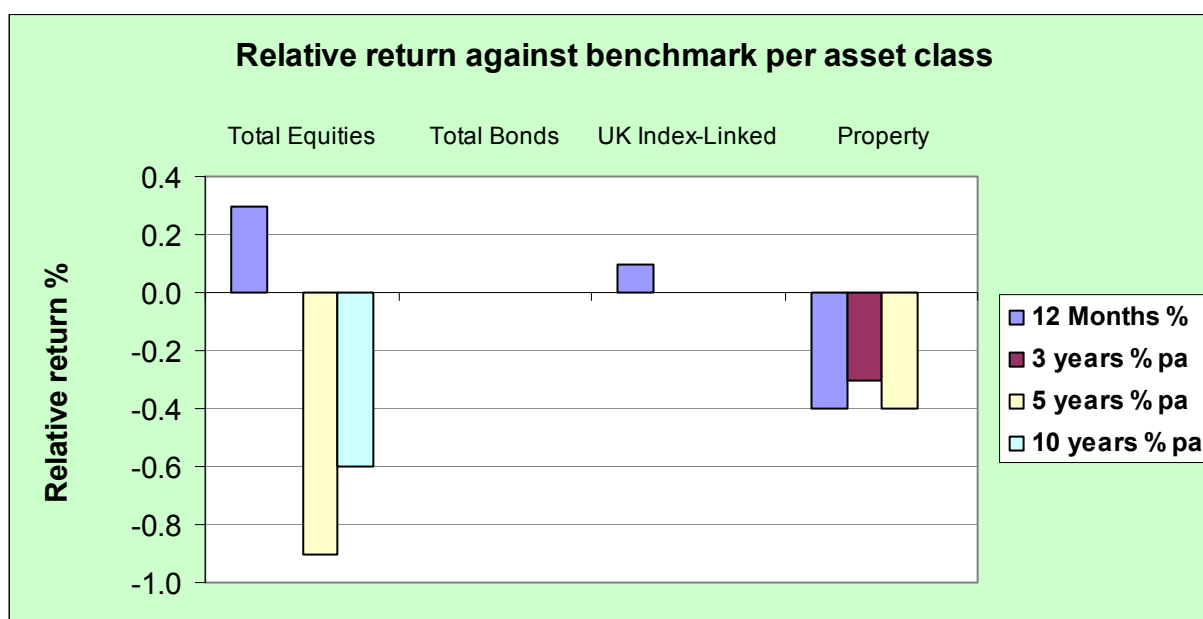


Source: WM Company

Performance Against Benchmark By Asset Class

The following table shows the performance against benchmark for each of the major asset classes and the chart shows the impact of that performance on the total fund performance.

		12 Months %	3 years % pa	5 years % pa	10 years % pa
Total Equities	Fund	17.7	8.3	6.7	10.7
	Benchmark	17.1	8.2	8.4	11.9
	**Relative Return	0.3	0.0	-0.9	-0.6
Total Bonds	Fund	11.2	9.4	9.3	7.1
	Benchmark	11.2	9.5	9	6.6
	**Relative Return	0.0	0.0	0.0	0.0
UK Index-Linked	Fund	12.6	13.4	9.5	8.5
	Benchmark	11.7	13.0	9.6	8.4
	**Relative Return	0.1	0.0	0.0	0.0
Property	Fund	-0.4	4.2	-1.8	5.6
	Benchmark	2.5	6.6	0.9	5.7
	**Relative Return	-0.4	-0.3	-0.4	0.0



Source: WM Company

****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.

TOP 20 EQUITY HOLDINGS

Stock	Market value at 31 March 2013 (£)
NOVARTIS AG CHF0.50(REGD)	2,590,259.28
BAYER AG NPV	2,540,141.00
MICROSOFT CORP COM STK USD0.00000625	2,527,411.67
ROCHE HLDG AG GENUSSSCHEINE NPV	2,526,928.56
HEINZ(H.J.)CO COM STK USD0.25	2,523,829.66
ANHEUSER-BUSCH INBEV SA NPV	2,458,882.80
NESTLE SA CHF0.10	2,427,845.47
GLAXOSMITHKLINE ORD GBP0.25	2,347,643.31
UNITED TECHNOLOGIES CORP COM STK USD1	2,337,514.92
CENTRICA PLC ORD GBP0.0617284	2,234,979.88
SYNGENTA AG CHF0.10	2,232,962.28
ACCENTURE PLC CLS'A'USD0.0000225	2,186,679.55
BRITISH AMERICAN TOBACCO ORD GBP0.25	2,136,550.79
LABORATORY CORP OF AMERICA HOLDINGS COM STK USD0.1	2,105,354.00
EMC CORP USD0.01	2,072,493.72
ALTRIA GROUP INC COM STK USD0.333	2,053,747.99
ROYAL DUTCH SHELL 'A'ORD EUR0.07	2,044,614.98
NEWCREST MINING NPV	2,007,275.59
PRINCIPAL FINANCIAL GROUP COM STK USD0.01	1,817,091.98
XYLEM INC USD0.01	1,807,022.71

Source: JPM Views reporting

Membership of External Bodies

National Association of Pension Funds (NAPF)

The NAPF is a leading voice of workplace pensions in the UK. They represent 1,300 pension schemes with some 16 million members and assets of around £900 billion. NAPF members also include over 400 businesses providing essential services to the pensions sector. The main objective of NAPF is to influence the direction of retirement provision in the UK so as to achieve a viable and sustainable workplace pensions' sector.

In addition to policy work, NAPF provides conferences, seminars, training, publications, education and information on pensions and retirement issues.

Contact Details

NAPF Ltd
Cheapside House
138 Cheapside
London EC2V 6AE

Telephone: 020 7601 1700

Website: <http://www.napf.co.uk>

Local Authority Pension Fund Forum (LAPFF)

LAPFF 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.

Formed in 1990 with just seven members, the LAPFF Forum represents 54 local authority pension funds holding more than £115 billion in collective assets under management.

LAPFF has a rich and fascinating history. From filing the first ever resolution by a consortium of UK pension funds at British Gas in 1995 and the first social issue shareholder proposal in the UK at Royal Dutch Shell in 1997, to leading high profile investor advocacy campaigns at Mark's & Spencer and News Corporation in 2010 and 2012.

Contact Details

Keith Bray
Forum Officer
Local Authority Pension Fund Forum
Email: info@lapfforum.org
Telephone: +44(0) 1633 255 685

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

SCHEME ADMINISTRATION REPORT

STRATEGIC DIRECTOR OF FINANCE & CORPORATE SERVICES REPORT



Following the economic downturn in 2008/09, the Fund has seen further recovery in investment returns in 2012/13, achieving a return of 13.9% (outperforming the average local authority fund by 0.1%).

In another busy year for the Pensions Advisory Panel, the passive investments procurement was completed, with the incumbent manager BlackRock being appointed along with new manager, Legal and General Investment Management. The Pensions Advisory Panel continued to closely monitor investment performance and the administration of the Fund in conjunction with the fund's investment advisers, Aon Hewitt and WM Company.

Further challenges included auto enrolment with work being carried out in preparation for the staging date of May 2013. Initial work also commenced on the 2013 triennial actuarial valuation along with continued work on scheme reform in preparation for the 2014 scheme changes.

We are confident that we are well positioned to meet the increasing challenges facing the Fund in both the short and long term and will need to ensure that we have the proper resources in place to meet these challenges.

Duncan Whitfield
2013

CHAIR OF PENSIONS ADVISORY PANEL REPORT



Like other local authority pension funds, the Southwark scheme is feeling the pressures of the continuing economic contraction, loss of members through redundancy and greater life expectancy. Nevertheless, this last year has seen a welcome improvement in the health of the fund and outperforming the scheme benchmark.

On the Pensions Advisory Panel, it has been an eventful year. We have appointed new fund managers - Blackrock and Legal & General Investment Fund - to take over the part of the fund previously managed by Alliance Bernstein. We have prepared for auto-enrolment, which then commenced in May 2013, and we have laid the groundwork for the 2013 triennial actuarial evaluation. We have also continued our work with Henderson Global Investors to improve returns from our property portfolio.

I would like to thank our fund managers, and particularly our investment advisors from Aon Hewitt and WM Company. In particular, I would like to thank Graham Wood from WM Company who retired this year. His thorough analysis and slightly sardonic advice was always welcome at our meetings.

I would also like to thank the council's dedicated staff who has worked with the panel over the past year for their continuing commitment.

Councillor Richard Livingstone

Chair of the Panel

Cabinet member for Finance, Resources and Community Safety

Labour councillor for Livesey Ward

Review of Administration

Arrangements for Scheme Member & Pensioner Administration

Pension benefit administration is carried out by Pensions Services which is an internal business unit within Southwark's HR service. Administration is run differently in London than in the rest of the country as each London Borough is both the administering authority and the employing authority. As such, Pensions Services acts in both these roles at the same time. There are a number of Scheme employers within the Southwark fund consisting of admission agreements and scheduled bodies, for members in these arrangements it is their employer that is responsible for employer decisions, etc.

There is another group of members who work in Southwark's schools who are employed and administered by Southwark but are not paid through Southwark's payroll system. This means that Pensions Services do not have direct access to contractual information that has relevance to pension membership. Pensions Services have to rely on the schools, admitted bodies and scheduled bodies to provide information on starters, leavers and amendments. Approximately one in five scheme members work in this group. Experience has shown that these bodies do not, generally, provide adequate or timely data so the confidence in the quality of data for those staff is not high. As a result, proportionately high levels of Pensions Services' resources are taken by this group of staff as they are more onerous to administer than staff on Southwark's payroll system.

The administration of the pension payments is also undertaken by Pensions Services and the payroll is run on the Council's SAP system. The service provides for twelve monthly payments each year with a payslip posted to home addresses.

Internal Dispute Resolution Procedure (IDRP)

IDRP is a two stage system with Stage 1 being considered by the Pensions Manager or an independent peer if the Pensions Manager has been responsible for the decision being appealed about. A notification of the right to access IDRP is included with any notification of decisions made by Pensions Services such as benefit notices. Experience shows that members are not inclined to accept the decision of the first stage and are generally referred to Stage 2. This stage is heard by either the Head of Human Resources or the Assistant Finance Director. In 2012/13 eight cases have been managed with the original decision being upheld on all occasions at stage 1. Four members have gone to the second stage with the original decision being upheld on two occasions.

Key Uses of Technology

Pensions Services have direct access to the payroll records of the majority of scheme's active members through the Payroll/HR module of the Council's main information system SAP. This allows for a monthly interface from SAP to the Council's Pensions Administration system *altair*, which is a recent upgrade to the previous AXISE system. The interface makes a comparison of information on the two systems so that validation checks can be made to keep information up to date. Examples of such information are totalling pension contributions and picking up contractual changes such as changes in hours or grade. For members that are not paid through SAP, such as staff working in schools or for external bodies that have an admission agreement with the Council, Pensions Services have to rely on outside bodies to provide the data.

Pensions Services have the document imaging module of the *altair* system meaning that documents received are imaged and linked to the individual's *altair* record so that 'paperwork' is instantly available to caseworkers with no need to retain and find paper files when needed which also fits in well with the Council's 'paper-lite' policies. This imaging system went live within Pensions Services in 2003.

Members of the scheme can access a version of their own *altair* records over the internet which enables them to maintain an active link to their membership of the scheme. This access allows

members that request a PIN number access code to check and, in some cases, amend details on the record and they may contact Pensions Services if they have any queries on the data held.

Scheme Administration Costs

	2012/13
	£
Total Administration Cost	864,093
Cost per scheme member	43.33

Statement of the Actuary for the year ended 31 March 2013

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 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 2010 showed that the funding ratio of the Fund had decreased from 82% at the previous valuation with the market value of the Fund's assets (of £789.3M) covering 78% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2011 was as set out below:
 - 13.6% of pensionable pay p.a. 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 23 years from 1 April 2011, amounting to £8.5M in 2011/12, £10.6M in 2012/13, £12.8M in 2013/14, and increasing by 5.3% p.a. thereafter.

This would imply an average employer contribution rate of about 20.5% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.

3. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.
4. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011 which is appended to our report of the same date on the actuarial valuation.
5. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.
6. The main actuarial assumptions were as follows:

Discount rate for periods in service: Scheduled Bodies Admission Bodies	7.0% p.a. 6.25% p.a.
Discount rate for periods after leaving service: Scheduled Bodies Admission Bodies	7.0% p.a. 4.75% p.a.
Rate of pay increases:	5.3% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.3% 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.

7. Annual reviews to monitor the level of ill-health retirements may be carried out in respect of participating Employers and, where appropriate, Employer contribution rates could be increased. No such reviews have been completed since the 2010 valuation of the Fund.
8. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013, preparation for which is already underway. The formal actuarial valuation report and the Rates and Adjustment Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 are required by the Regulations to be signed off by 31 March 2014.
9. 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 2010. 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.

10. The report on the actuarial valuation as at 31 March 2010 is available on the Council's website via the following link:
http://www.southwark.gov.uk/downloads/download/2736/southwark_valuation_report_2010

Aon Hewitt Limited

July 2013

GOVERNANCE COMPLIANCE STATEMENT

Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 require administering authorities to prepare and maintain a separate written statement on governance policy on pension fund matters. The Department for Communities and Local Government (DCLG) has published draft regulations requiring pension funds to report on their governance arrangements against a set of best practice principles. Where a pension fund's compliance does not meet the required standards there is a requirement to explain, within the governance compliance statement, the reasons for not complying.

The Governance Compliance Statement sets out the following:

- Arrangements for delegation of decisions regarding the administration of the Pension Fund
- Terms, structure and procedures for the delegation
- Frequency of meetings
- Representatives on such a committee
- Extent of compliance with the guidance given in the above regulations

The compliance principles are not mandatory but are considered best practice.

The London Borough of Southwark Pension Fund's Governance Compliance Statement is attached at Appendix 4 of this report.

Governance Structure

The London Borough of Southwark, in its role as administering authority, has executive responsibility for the Fund. The Pensions Advisory Panel consider all matters relating to the management and administration of the Fund and make recommendations to the Strategic Director of Finance & Corporate Services on actions to be taken.

PENSIONS ADVISORY PANEL

Terms of Reference

The primary objective of the Pensions Advisory Panel 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 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 is 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 (1 from each party group) who have received the appropriate training – one of those members will chair the panel;
- 3 officers (the Strategic Director of Finance & Corporate Services, an officer with specialist knowledge of the pensions scheme and the Head of Human Resources);
- 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.

Pensions Advisory Panel – 2012/13

The following table lists the membership of the Pensions Advisory Panel during the year, the voting rights of each member and their attendance at Panel meetings:

Name	Title/Company	Voting Rights	Meeting Attendance 2012/13			
			7-Aug-12	18-Sep-12	11-Nov-12	12-Feb-13
Toby Eckersley	Elected Member	Yes	✓	✓	✓	✓
Tim McNally	Elected Member	Yes	x	x	x	x
Richard Livingstone	Elected Member	Yes	✓	✓	✓	✓
Duncan Whitfield	Strategic. Dir. of Fin & Corp Services		✓	✓	✓	✓
Dave Howes	Assistant Finance Director	Yes	✓	✓	✓	✓
Bernard Nawrat	Human Resources Director	Yes	x	x	x	x
Chris Cooper	Unison	No	✓	x	✓	x
Roy Fielding	GMB	No	x	x	x	✓
David Cullinan	WM Company	No	x	✓	✓	✓
AON Hewitt Advisors	AON Hewitt	No	✓	✓	✓	✓

Source: Minutes from PAP meetings

STATEMENT OF COMPLIANCE WITH CIPFA KNOWLEDGE AND SKILLS FRAMEWORK

As an administering authority of the Local Government Pension Scheme, Southwark Council recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the pension scheme 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.

Over the Course of 2012/13 members of the Pensions Advisory Panel have had training delivered by the external fund advisors at the normal panel meeting. Training covered topics such as:

- passive management vs. active management and medium term asset allocation
- Socially responsible investment

In order to comply with the CIPFA Knowledge and Skills Frameworks (CIPFA KSF), Southwark Council has subscribed to a pensions training system which has been developed in conjunction with CIPFA. The system includes two versions, taking into account the difference in roles and knowledge requirements between panel members and officers.

PENSION FUND ACCOUNTS

FUND ACCOUNT

		2012/13		2011/12	
	<i>Not e</i>	£000	£000	£000	£000
Contributions	9	(42,871)		(47,930)	
Transfers in from other pension funds	10	(6,492)		(7,719)	
		(1)		(1)	
Other income					
			(49,364)		(55,650)
Total income					
Benefits	11	45,586		50,214	
Payments to and on account of leavers	12	4,371		6,174	
Other Payments		135		144	
Administrative expenses	13	864		949	
Total expenditure			50,956		57,481
Net addition from dealing with members of the fund			1,592		1,831
Investment income	14	(14,104)		(17,249)	
Profit and losses on disposal of investments and changes in market value of investments	16.2	(108,990)		(17,366)	
Taxes on income	3.3	338		91	
	15	2,615		4,425	
Investment management expenses					
			(120,141)		(30,099)
Net returns on investments					
Net (increase)/decrease in the net assets available for benefits during the year			(118,549)		(28,268)
			(876,147)		(847,879)
Opening net assets of the scheme					
Net assets of the scheme available to fund benefits at 31 March			(994,696)		(876,147)

NET ASSETS STATEMENT

		2012/13	2011/12
	<i>Note</i>	£000	£000
Investment assets	16.1	974,745	863,013
Investment liabilities	16.1	-	-
Current assets	17	22,213	16,446
Current liabilities	17	(2,262)	(3,312)
		<hr/>	<hr/>
Net assets of the scheme available to fund benefits at 31 March		<u>994,696</u>	<u>876,147</u>

NOTES TO THE PENSION FUND STATEMENTS

1. INTRODUCTION

- 1.1. The Pension Fund is a defined benefit scheme that provides benefits for former employees of the Council and other admitted organisations. The benefits provided include retirement pensions and widows' pensions, death grants and lump sum payments depending on the circumstances.
- 1.2. The day to day operations of the fund are financed mainly by contributions from employees and employers but the fund is also supported by a portfolio of investment assets for the longer term.
- 1.3. The Pension Fund Accounts provides information about the performance and position of the fund. It also summarises the transactions of the scheme and the net assets at the disposal of the Strategic Director of Finance and Corporate Services on the recommendation of the Pensions Advisory Panel.
- 1.4. The Pension Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future (beyond 31 March 2013). Information regarding future liabilities can be found in the Actuary's statement in Note 5.

2. BASIS OF PREPARATION

- 2.1. The Statement of Accounts summarises the fund's transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13*, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.
- 2.2. 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. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 47 of the main accounts, on page 74.

3. OPERATION AND MEMBERSHIP OF THE FUND

- 3.1. The Council contributed 21% of pensionable pay in 2012/13 (21% in 2011/12). A one off payment of £2.29 million was made as a special contribution for early and ill health retirements (£6.69 million in 2011/12). In addition, external bodies admitted to the Southwark Fund contributed a total of £2.70 million (£2.75 million in 2011/12).
- 3.2. The Council is required to ensure that any surplus on the Pension Fund is invested. To ensure that the investment of the Fund is carried out to the best possible advantage, investment managers deal with the day to day investment of the Fund. Investments are managed by the following companies: BlackRock and Legal and General Investment Management who manage an "indexed" portfolio of global equities and fixed and index-linked gilts; Newton Investment Management who manage an unconstrained global equities portfolio; and Henderson Global Investors, who manage a property portfolio.
- 3.3. Irrecoverable tax on dividends for 2012/13 was £338,200 (£91,470 in 2011/12).
- 3.4. The overall investment strategy is the responsibility of the Council. This responsibility is delegated to the Strategic Director of Finance and Corporate Services, taking account of the advice of the Pensions Advisory Panel.
- 3.5. At 31 March 2013 the membership of the Fund was as follows:

	2012/13	2011/12
Number of contributors to the Fund	6,061	6,046
Number of contributors and dependants receiving allowances	6,645	6,518
Number of contributors who have deferred their pensions	7,236	6,971

- 3.6. Other organisations participating in the Pension Fund comprise:

- The following admitted bodies:
 - Southwark Law Centre
 - Fusion

- Odyssey (ceased 1 November 2012)
 - Centre for Literacy in Primary Education
 - South London Gallery
 - APCOA
 - Charter Security (ceased 1 February 2013)
 - Chequers (ceased 26 April 2011)
 - Together (formerly Castle Day Centre, ceased paying contributions 1 June 2012)
 - HATS (formerly Olympic South)
 - Morrison (ceased paying contributions 3 October 2012)
 - Veolia
 - Camden Society
 - Leather Market
 - RSM Tenon (ceased 1 May 2012)
 - Balfour Beatty
 - Browning Tenant Management Organisation (from 1 April 2012)
 - Chequers 2 (from 1 June 2012)
 - Mears (from 3 October 2012)
 - Brandon Trust (from 1 November 2012)
 - Capita (from 1 February 2013)
 - Interserve (from 1 February 2013)
 - Sherman & Waterman (from 1 March 2013)
- The following scheduled bodies:
 - Academy at Peckham
 - Bacons College
 - Dulwich Hamlet Junior School Academy
 - Globe Academy
 - Goose Green (from 1 October 2012)
 - Harris Academy Bermondsey
 - Harris Girls Academy
 - Harris Boys Academy
 - Harris Primary Academy, Peckham Park
 - Harris Free School
 - Kingsdale Foundation School
 - Redriff Primary Academy
 - St Michael's & All Angels CE Academy
 - The Charter School Educational Trust
 - Walworth Academy

4. MANAGEMENT AND INVESTMENT OF FUNDS REGULATIONS

- 4.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 deal with the choice of investment managers, terms of their appointment, review of their performance, and the use and investment of pension fund money together with restrictions on such investments. In managing the Fund the investment manager must take into account:
- That Fund money must be invested in a wide variety of investments
 - The suitability of those types of investment for the Fund
 - The suitability of any particular investment of that type.
- 4.2. The Council has to keep the investment managers' performance under review and at least once every three months review the investments made, and periodically consider whether or not to retain the manager.
- 4.3. In addition the Council is under a duty to invest any Fund money not needed immediately to make payments, with power to vary those investments and a duty to formulate an investment policy with a view to:
- the advisability of investing Fund money in a wide variety of investments
 - the suitability of particular investments and types of investments.
- 4.4. In carrying out all the above functions, the Council must obtain proper advice, at reasonable intervals, which is defined as the advice of a person who is reasonably believed by them to be qualified by his/her ability in, and practical experience of, financial matters (including any suitable officer of theirs).

5. ACTUARIAL POSITION OF THE FUND

Introduction

- 5.1. The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.
- 5.2. The following section on the Actuarial Position of the fund, paragraphs 4.3 – 4.13, has been prepared by the actuary for the sole use of Southwark Council, and should not be relied on 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

- 5.3. Rates of contributions paid by the participating employers during 2010/11 were based on the previous actuarial valuation which was carried out as at 31 March 2007.
- 5.4. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had decreased from 82% at the previous valuation with the market value of the Fund's assets (of £789.3 million) covering 78% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
- 5.5. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2011 is:
- 13.6% of pensionable pay p.a. 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 23 years from 1 April 2011, amounting to £8.5 million in 2011/12, £10.6 million in 2012/13, £12.8 million in 2013/14, and increasing by 5.3% p.a. thereafter.
- 5.6. This would imply an average employer contribution rate of about 20.5% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.
- 5.7. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.
- 5.8. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011 which is appended to the actuary's report of the same date on the actuarial valuation.
- 5.9. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.
- 5.10. The main actuarial assumptions were as follows:

Discount rate for periods in service	
Scheduled Bodies	7.0% p.a.
Admitted Bodies	6.25% p.a.
Discount rate for periods after leaving service	
Scheduled Bodies	7.0% p.a.
Admitted Bodies	4.75% p.a.
Rate of pay increases:	5.3% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.3% p.a.

- 5.11. The assets were valued at market value. Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.
- 5.12. Annual reviews to monitor the level of ill-health retirements are carried out in respect of participating Employers and, where appropriate, Employer contribution rates may be increased. No such reviews have been completed since the 2010 valuation of the Fund.
- 5.13. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

Actuarial Present Value of Promised Retirement Benefits

- 5.14. 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 2010.

	Value as at 31 March 2010 £m	Value as at 31 March 2007 £m
Fair value of net assets	786.8	754.4
Actuarial present value of promised retirement benefits	(1,399.0)	(1,084.5)
Surplus/(deficit) in the fund as measured for IAS26	(612.2)	(330.1)

- 5.15. The actuarial advisor has estimated the IAS26 liability for the Southwark Fund at 31 March 2013 would be of the order of £1,640 million on market conditions at 31 March 2013 (£1,500 million at March 2012) compared to the £1,399 million calculated as at 31 March 2010.

6. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

- 6.1. 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 5. This estimate is subject to significant variances based on changes to underlying assumptions.

7. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

- 7.1. 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 5 and the critical judgements applied are explained in Note 6.

8. EVENTS AFTER THE BALANCE SHEET DATE

- 8.1. Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified: those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Adjusting event

- 8.2. In June 2013, the Pension Fund received £1.003 million from the London Pension Fund Authority in respect of the bulk transfer of staff formerly employed by WS Atkins. As the bulk transfer occurred before 31 March 2013, the accounts have been adjusted to reflect the transaction as at 31 March 2013

Non adjusting event

- 8.3. Henderson Global Investors, the property managers for the fund commenced the purchase of an additional investment property at the end of March 2013 and the sale was completed on April 10, 2013. The property was acquired for £5.750 million, this effectively reduced the cash and deposits held by Henderson at year end from £13.390 million to £7.640 million in April 2013 (please see note 16.8). As the acquisition occurred after 31 March 2013, the accounts have not been adjusted.

9. CONTRIBUTIONS

- 9.1. Contributions represent the total amount receivable from employees and employers of the scheme. Contributions to the fund are analysed as follows:

	2012/13			2011/12		
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark Council	(8,878)	(30,318)	(39,196)	(9,340)	(34,880)	(44,220)
Admitted bodies	(396)	(1,354)	(1,750)	(430)	(1,445)	(1,875)
Scheduled bodies	(583)	(1,342)	(1,925)	(531)	(1,304)	(1,835)
Total Contributions	(9,857)	(33,014)	(42,871)	(10,301)	(37,629)	(47,930)

- 9.2. Contributions receivable from employers are shown below:

	2012/13	2011/12
	£000	£000
Normal	(20,006)	(20,603)
Early retirement strain	(2,287)	(6,822)
Deficit funding	(10,721)	(10,386)
Augmentations	-	182
Total contributions from employers	(33,014)	(37,629)
Contributions from employees	(9,857)	(10,301)
Total Contributions	(42,871)	(47,930)

- 9.3. During 2012/13 employees made Additional Voluntary Contributions (AVCs) of £336,007 (£123,742 in 2011/12). AVCs are managed by external providers who invest them separately from the rest of the Pension Fund. The main AVC provider is Scottish Equitable, with Prudential being the provider for those employees who are members of the London Pension Fund Authority. AVCs are not included in the Pension Fund Accounts in accordance with the Pension Scheme (Management and Investment of Funds) Regulations 2009, section 4(2)(b). The value of the AVCs at 31 March 2013 was £1.697 million (£1.281 million at 31 March 2012).

10. TRANSFERS IN FROM OTHER PENSION FUNDS

- 10.1. Transfers in from other pension funds were as follows:

	2012/13 £000	2011/12 £000
Group transfers	(2,198)	-
Individual transfers	(4,294)	(7,719)
Total transfers in from other pension funds	(6,492)	(7,719)

10.2. Group transfers relate to staff transferred in from the following employer bodies; Prospects (£0.873 million), Balfour Beatty (£0.322 million) and WS Atkins (£1.003 million). The transfer from WS Atkins is an adjusting post balance sheet event reported in note 8.2.

11. BENEFITS PAYABLE

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

	2012/13			2011/12		
	Pensions	Lump sums	Total	Pensions	Lump sums	Total
	£000	£000	£000	£000	£000	£000
Southwark Council	37,126	6,846	43,972	34,950	13,640	48,590
Admitted bodies	965	317	1,282	827	610	1,437
Scheduled bodies	104	228	332	80	107	187
Total Contributions	38,195	7,391	45,586	35,857	14,357	50,214

11.2. The table below shows the types of benefit payable.

	2012/13 £000	2011/12 £000
Pensions	38,195	35,857
Commutation of pensions and lump sum retirement benefits	6,270	13,004
Lump sums – death benefits	1,121	1,353
Total benefits payable	45,586	50,214

12. LEAVERS

12.1. Payments to and on account of leavers are classified as follows:

	2012/13 £000	2011/12 £000
Refund of contributions	11	8
State Scheme Premiums	1	-
Individual transfers out to other schemes	4,359	6,166
Total payments	4,371	6,174

13. ADMINISTRATIVE EXPENSES

13.1. Administrative expenses to the fund are analysed as follows:

	2012/13 £000	2011/12 £000
Southwark Council recharges	845	917
Audit fees	19	32
Total administrative expenses	864	949

14. INVESTMENT INCOME

14.1. A break-down of the investment income shown in the accounts is as follows

	2012/13 £000	2011/12 £000
Dividends from equities	(4,934)	(8,369)
Income from pooled investment vehicles	(2,582)	(2,626)
Net rent from properties	(6,460)	(6,117)
Interest on cash deposits	(72)	(64)
Other income	(56)	(73)
	(14,104)	(17,249)
Total investment income		

14.2. Other income includes £39,365 of income received from stock lending (£57,712 in 2011/12).

15. INVESTMENT EXPENSES

15.1. A break-down of the investment expenses shown in the accounts is as follows

	2012/13 £000	2011/12 £000
Management fees	2,362	4,159
Custody fees	45	43
Performance monitoring service	30	31
Actuarial fees	154	192
Other	24	-
	2,615	4,425
Total investment expenses		

16. INVESTMENT ASSETS

16.1. Investment assets shown in the net asset statement are analysed below:

2012/13	Total 31/3/13 £000	Quoted (UK) £000	Analysed by		Unquoted (Overseas) £000
			Quoted (Overseas) £000	Unquoted (UK) £000	
Fixed Interest Securities – Public Sector	27,547	23,991	3,556	-	-
Fixed Interest Securities – Other Equities	-	-	-	-	-
Index linked securities	82,989	11,915	71,074	-	-
Managed Funds – Property (Freehold)	75,193	75,193	-	-	-
Managed Funds – Property (Leasehold)	72,230	-	-	72,230	-
Unit Trusts – Property	8,650	-	-	8,650	-
Unitised insurance policies	40,954	40,954	-	-	-
	662,306	140,608	521,698	-	-
Derivatives Forward Currency	80	-	-	-	80
Cash Deposits	4,796	-	-	4,796	-
Total investment assets	974,745	292,661	596,328	85,676	80

Investment Liabilities:

Derivatives Forward Currency	-	-	-	-	-
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Net Investment Assets	974,745	292,661	596,328	85,676	80
2011/12	Total		Analysed by		
	31/3/12	Quoted (UK)	Quoted	Unquoted	Unquoted
	£000	£000	(Overseas)	(UK)	(Overseas)
			£000	£000	£000
Fixed Interest Securities – Public Sector	26,794	23,602	3,192	-	-
Fixed Interest Securities – Other	101,010	101,010	-	-	-
Equities	341,632	21,342	320,290	-	-
Index linked securities	73,541	73,541	-	-	-
Managed Funds – Property (Freehold)	74,480	-	-	74,480	-
Managed Funds – Property (Leasehold)	9,670	-	-	9,670	-
Unit Trusts – Property	46,224	46,224	-	-	-
Unitised insurance policies	184,694	24,010	160,684	-	-
Derivatives Forward Currency	88	-	-	-	88
Cash Deposits	4,880	-	-	4,880	-
Total investment assets	863,013	289,729	484,166	89,030	88
Investment Liabilities:					
	-	-	-	-	-
Derivatives Forward Currency					
	863,013	289,729	484,166	89,030	88
Net Investment Assets					

Reconciliation of movements in investments

16.2. 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 31/3/12 £000	Purchases £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/3/13 £000
Fixed Interest:						
UK public sector	23,602	7,894	(12,566)	5,061	-	23,991
UK quoted	101,010	-	(108,071)	7,061	-	-
UK Equities	21,342	1,116	(14,415)	3,872	-	11,915
Overseas public sector	3,192	20,701	(20,594)	257	-	3,556
Overseas Equities	320,290	37,207	(296,475)	10,052	-	71,074
Index linked Securities	73,541	1,642	(7,880)	7,890	-	75,193
Managed Funds:						
Property (freehold)	74,480	-	-	(2,250)	-	72,230
Property (leasehold)	9,670	-	-	(1,020)	-	8,650
Unit Trusts - Property	46,224	7,196	(7,191)	(5,275)	-	40,954
Unitised insurance policies	184,694	429,805	(34,974)	82,781	-	662,306
Derivatives:						
Forward currency	88	608	(1,192)	576	-	80
Cash Deposits	4,880	197	(266)	(15)	-	4,796
Total Net Investment Assets	863,013	506,366	(503,624)	108,990	-	974,745
Cash held at managers	7,229				6,852	14,081
Investment Debtors	1,464				1,146	2,610
Total Net Investments	871,706	506,366	(503,624)	108,990	7,998	991,436

	Value at 31/3/11 £000	Purchases £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/3/12 £000
Fixed Interest:						
UK public sector	23,453	7,899	(12,165)	4,415	-	23,602
UK quoted	92,924	-	(150)	8,236	-	101,010
UK Equities	21,928	4,244	(4,350)	(480)	-	21,342
Overseas public sector	-	12,863	(9,596)	(75)	-	3,192
Overseas Equities	306,220	49,690	(40,989)	5,369	-	320,290
Index linked Securities	70,368	7,130	(16,900)	12,943	-	73,541
Managed Funds:						
Property (freehold)	57,665	16,600	-	215	-	74,480
Property (leasehold)	6,500	3,520	-	(350)	-	9,670
Unit Trusts - Property	56,234	20	(9,845)	(185)	-	46,224
Unitised insurance policies	188,892	12,615	(3,650)	(13,163)	-	184,694
Derivatives:						
Forward currency	(81)	585	(827)	411	-	88
Cash Deposits	4,151	1,828	(1,788)	30	659	4,880
Total Net Investment Assets	828,254	116,994	(100,260)	17,366	659	863,013
Cash held at managers	10,705	-	-	-	(3,476)	7,229
Investment Debtors	1,431	-	-	-	33	1,464
Total Net Investments	840,390	116,994	(100,260)	17,366	(2,784)	871,706

- 16.3. In May 2012, the Pension Fund appointed Legal and General Investment Management and BlackRock to manage its passive equities and bonds portfolios, with funds transitioned in July 2012. The transition resulted in significant movement of funds between some asset classes, notably overseas equities, fixed interest securities and unitised insurance policies, the net effect of which are disclosed within purchases (£388.7 million) and sales (£391.9 million).
- 16.4. 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.
- 16.5. Cash held by Henderson on deposit and current accounts was £4.796 million and £2.595 million respectively (£4.810 million and £2.542 million at 31 March 2012). A further £6.000 million was being held in an escrow account in anticipation of completion of the purchase of an investment property in early April. Hence the total cash held at year end was £13.390 million (£7.352 million at 31 March 2012). Henderson's strategy is to continue to look for the right opportunity to invest within the property market thereby reducing cash holdings in the long term (see note 8.3).
- 16.6. The total amount of direct transaction costs on all investment types was £3.006 million (£2.924 million in 2011/12), made up of equities £0.166 million (£0.083 million in 2011/12) and property £2.840 million (£2.841 million in 2011/12).
- 16.7. The valuation of direct property managed by Henderson Global Investors is carried out by Knight Frank LLP, the valuer is RICS qualified and the valuation took place on 31 March 2013. All properties have been valued at market value.
- 16.8. 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. http://www.southwark.gov.uk/downloads/download/2717/pension_fund_annual_report. Alternatively an electronic copy can be obtained by email from Dave.Howes@southwark.gov.uk or on request from the Strategic Director of Finance and Corporate Services, Southwark Council, Finance and Corporate Services, PO Box 64529, London SE1P 5LX.
- 16.9. Investments exceeding 5% within each class of security are as follows:

Asset Class	Fund Manager	Value at 31/3/2013 £000	% within asset class
Fixed interest securities			
United States Government Gilts	BlackRock	3,192	12%
Aquila Life Over 15 Year UK Gilt Index Series 1	BlackRock	23,991	88%
		27,183	100%
Index linked securities			
BlackRock PML Aquila Life Over 5 Years IL Index Fund Series 1	BlackRock	75,193	100%
Managed funds (property)			
11/77 Castle Street + 10/18 Castle Meadow, Norwich	Henderson	5,700	7%
190-208 Ingram Street, Glasgow	Henderson	9,650	12%
9 - 11 High Street, Winchester	Henderson	6,000	7%
Cathedral Park, Belmont Industrial Estate, Durham	Henderson	4,600	6%
Units 1, 2, 4 and 7 Edinburgh Interchange, Newbridge	Henderson	5,100	6%
Hope House, 45 Great Peter Street, London	Henderson	9,450	12%
Quay Point, Cosham	Henderson	3,850	5%
Bennet Court, Reading	Henderson	3,780	5%
		48,130	60%
Unit Trusts Property			
Aberdeen Eurozone Fund of Funds	Henderson	3,965	10%
Blackrock UK Property Fund	Henderson	5,540	14%
Henderson Central London Office Fund	Henderson	9,936	24%
Henderson UK Retail Fund	Henderson	6,474	16%
Henderson UK Shopping Centre Fund	Henderson	12,932	32%
Hercules Unit Trust	Henderson	2,107	5%
		40,954	100%

Unitised Insurance Policies			
Aquila Life All Stocks Corporate Bond Index Fund		45,973	7%
Aquila Life Emerging Market Fund		35,340	5%
Aquila Life European Equity Index Fund		55,668	8%
Aquila Life Japanese Equity Index Fund		45,026	7%
Aquila Life UK Equity Index Fund Series 1		44,440	7%
Aquila Life US Equity Index Fund series 1		155,322	23%
Europe (ex UK) Equity Index Fund		33,721	5%
Investment Grade Corporate bonds All Stocks Index		50,194	8%
North America Equity Index		112,335	17%
		578,019	87%

Cash deposits			
Liquidity fund cash deposit	Henderson	4,795	100%

Asset Class	Fund Manager	Value at 31/3/2012	% within asset class
Security Description	Account Name		
Fixed interest			
Aquila Life corporate bond index all stock series 1	BlackRock	101,009	79%
Aquila Life over 15 year UK gilt index series 1	BlackRock	23,602	18%
		124,611	95%
Index Linked Securities Total			
BlackRock PML Aquila Life over 5 years IL index fund series 1	BlackRock	73,541	100%
Managed Funds			
190-208 Ingram Street, Glasgow	Henderson	9,650	11%
Hope House, 45 Great Peter Street, London	Henderson	8,650	10%
11/77 Castle St and 10/18 Castle Meadow, Norwich	Henderson	5,975	7%
9/11 High Street, Winchester	Henderson	5,950	7%
Cathedral Park, Belmont industrial estate, Durham	Henderson	5,000	6%
Units 1, 2, 4 & 7 Edinburgh Interchange, Newbridge	Henderson	4,675	6%
Bennet Court, Reading	Henderson	4,600	5%
Unit 2, Rhosili Road, Northampton	Henderson	4,400	5%
Quay Point, Cosham, Southampton	Henderson	4,250	5%
		53,150	63%
Unit Trusts Property			
Henderson UK retail warehouse fund	Henderson	13,322	29%
Henderson central London office fund	Henderson	9,922	21%
RREEF UK industrial property fund	Henderson	6,581	14%
Henderson UK shopping centre fund	Henderson	5,169	11%
Henderson indirect property fund (Europe)	Henderson	4,659	10%
Aberdeen eurozone fund of funds	Henderson	4,254	9%
Hercules unit trust	Henderson	2,316	5%
		46,224	100%
Unitised Insurance policies			
Aquila Life European equity index series 1	BlackRock	44,652	24%
Aquila Life emerging markets fund inc	BlackRock	33,542	18%
Aquila Life UK equity index fund series 1	BlackRock	23,067	12%
BlackRock emerging markets index fund	BlackRock (warehouse)	22,616	12%
Aquila Life Japanese equity index fund series 1	BlackRock	21,166	11%
Aquila Life pacific rim equity index series 1	BlackRock	20,249	11%
		165,291	89%
Cash deposits			
Liquidity fund cash deposit	Henderson	4,810	99%

16.10. Investments representing more than 5% of the net assets available to pay benefits are as follows:

Name of Investment	Fund Manager	Value at 31/3/13 £000	% of net assets
BlackRock PML Aquila Life Over 5 Years IL Index Fund Series 1	BlackRock	75,193	7%
Aquila Life european Equity Index Fund	Blackrock and Legal & General	55,668	6%
Aquila Life US Equity Index Fund series 1	Blackrock and Legal & General	155,322	16%
Investment Grade Corporate bonds All Stocks Index North America Equity Index	Legal & General	50,194	5%
	Legal & General	112,335	11%
Total		448,712	45%

16.11. 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 31/3/13 £000	% market value held at 31/3/13 %	Market value of fund at 31/3/12 £000	% market value held at 31/3/12 %
BlackRock	364,640	36.81	495,216	56.81
BlackRock (warehouse)	96,798	9.77	162,957	18.70
Alliance Bernstein (Growth)	27	-	11	-
Alliance Bernstein (Value)	148	0.01	32	-
Legal & General Investment Managers	300,640	30.35	-	-
Newton Investment Management	92,021	9.29	75,763	8.69
Henderson Global Investors	137,162	13.77	137,727	15.80
Total	991,436	100.00	871,706	100.00

17. CURRENT ASSETS AND LIABILITIES

17.1. The current assets of the fund are analysed as follows:

	2012/13 £000	2011/12 £000
Contribution due from employers	977	2,196
Other current assets	4,163	1,500
Cash at managers	14,518	7,229
Cash and bank	2,555	5,521
Total	22,213	16,446

17.2. The amount of current liabilities at 31 March 2013 was £2.261 million (£3.312 million at 31 March 2012). There were no unpaid benefits at the end of the period and the current liabilities comprise mainly amounts owed to LB Southwark for support services (£0.135 million Note 9), professional fees (£0.559 million) and taxes (£0.537 million).

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

18.1. Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. They are carried in the net assets statement at fair value and are analysed as follows:

	2012/13 £000	2011/12 £000
Financial assets		
Loans and receivables	22,213	16,446
Financial assets at fair value through profit or loss	974,745	863,013
Financial liabilities		
Financial liabilities at amortised cost	(2,262)	(3,312)
Financial liabilities at fair value through profit or loss	-	-
Total	994,696	876,147

18.2. The Pension Fund's activities in relation to financial instruments expose it to a variety of financial risks. These risks and how they are managed are set out in Notes below.

Credit Risk

18.3. 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 out. 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.

18.4. 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

18.5. 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.

18.6. 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.

18.7. 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.

Market Risk

18.8. 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

18.9. 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.

18.10. 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 – Sensitivity Analysis

- 18.11. 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.
- 18.12. 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.
- 18.13. 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.

Price Risk – Sensitivity Analysis

- 18.14. Following analysis of historical data and expected investment return movement during the financial year, 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 2012/13 reporting period:

2012/13 Asset Type	Value £000	% Change	Value on Increase £000	Value on Decrease £000
Total Equity	649,127	12.35%	729,294	568,960
UK Govt Bonds	23,991	10.16%	26,428	21,554
UK Corp Bonds	45,973	4.61%	48,093	43,854
Overseas Corporate Bonds	50,194	7.40%	53,909	46,480
UK Index Linked	75,193	8.33%	81,456	68,929
Property	121,834	2.45%	124,819	118,849
Cash	22,429	0.02%	22,434	22,425
Forward Currency	80	0.00%	80	80
Investment Debtors	2,615	0.00%	2,615	2,615
Total Assets	991,436		1,089,128	893,746

2011/12 Asset Type	Value £000	% Change	Value on Increase £000	Value on Decrease £000
Total Equity	529,518	14.90%	608,416	450,620
UK Govt Bonds	23,602	10.60%	26,104	21,100
UK Corp Bonds	101,010	5.10%	106,162	95,858
UK Index Linked	73,541	7.60%	79,130	67,952
Property	130,374	7.00%	139,500	121,248
Cash	12,109	0.00%	12,109	12,109
Forward Currency	88	0.00%	88	88
Investment Debtors	1,464	0.00%	1,464	1,464
Total Assets	871,706		972,973	770,439

- 18.15. 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 out. 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.
- 18.16. 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.

18.17. 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.

18.18. 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

18.19. The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

18.20. 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.

Interest Rate Sensitivity Analysis

18.21. The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

18.22. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:

Asset type	Carrying amount as at 31 March 2013 £000	Change in year in the net assets available to pay benefits	
		+100bps £000	-100bps £000
Cash and Cash Equivalents	4,796	48	(48)
Cash Balances	14,081	141	(141)
Fixed Interest Securities	99,184	992	(992)
Total change in net assets available	118,061	1,181	(1,181)

Asset type	Carrying amount as at 31 March 2012 £000	Change in year in the net assets available to pay benefits	
		+100bps £000	-100bps £000
Cash and Cash Equivalents	4,880	49	(49)
Cash Balances	7,229	72	(72)
Fixed Interest Securities	127,804	1,278	(1,278)
Total change in net assets available	139,913	1,399	(1,399)

Currency Risk

18.23. 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 the functional currency of the fund (£ Sterling). The fund holds both monetary and non-monetary assets denominated in currencies other than £ Sterling.

18.24. 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.

Currency Risk – Sensitivity Analysis

18.25. Following analysis of historical data in consultation with the fund investment advisers, the council considers the likely volatility associated with foreign exchange rate movements to be 5.3% (9.9% for 2011/12).

18.26. A 5.3% fluctuation in the currency is considered reasonable based on the fund adviser's analysis of long term historical movements in the month-end exchange rates over a rolling 36-month period.

18.27. This analysis assumes that all other variables, in particular interest rates, remain constant.

18.28. A 5.3% 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 as follows:

Currency Exposure - Asset Type	Asset Value as at	Change to Net Assets Available	
	31 March 2013	to Pay benefits	
	£000	+5.3%	-5.3%
		£000	£000
Overseas Equities	592,772	624,189	561,355
Overseas Public Sector	3,556	3,745	3,368
Global Bonds	50,194	52,855	47,534
Total Change in Assets Available	646,522	680,789	612,257

Currency Exposure - Asset Type	Asset Value as at	Change to Net Assets Available	
	31 March 2012	to Pay benefits	
	£000	+9.9%	-9.9%
		£000	£000
Overseas Equities	319,735	351,389	288,082
Overseas Public Sector	3,192	3,508	2,876
Total Change in Assets Available	322,927	354,897	290,958

19. RELATED PARTY TRANSACTIONS

- 19.1. 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.
- 19.2. 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 36.
- 19.3. Management of the Pension Fund is the responsibility of the Council's Strategic Director of Finance and Corporate Services. No officers' remuneration is paid directly by the Fund; costs are instead recovered as part of the costs disclosed in Note 13. The Strategic Director of Finance and Corporate Services' remuneration is disclosed in Note 36 of the Council's Statement of Accounts.
- 19.4. The council is also the single largest employer of members of the pension fund and contributed £30.3 million to the fund in 2012/13 (£34.9 million in 2011/12).
- 19.5. There were no related party transactions other than those disclosed elsewhere in the accounts.

20. CONTINGENT ASSETS AND LIABILITIES

- 20.1. There are no contingent asset or liabilities.

PENSION FUND ACCOUNTING POLICIES

1. Summary of significant accounting policies

Fund account – contributions income

- 1.1. 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.
- 1.2. 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. Amounts not due until future years are classed as long-term financial assets.

Fund account – transfers to and from other schemes

- 1.3. 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.
- 1.4. 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.

Fund account – investment income

- 1.5. 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.
- 1.6. 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.
- 1.7. 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.
- 1.8. 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.
- 1.9. 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.

Fund account – benefits payable

- 1.10. 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

Fund account – taxation

- 1.11. 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.

Fund account – administrative expenses

- 1.12. 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.

Fund account – investment management expenses

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

Net assets statement – financial assets

- 1.14. 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 Henderson Global Investors 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 on the basis of unrealised gains and losses.
- Property unit trusts have been included at net asset price.

- 1.15. 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.

- 1.16. 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.

- 1.17. The cost of acquisitions of investment assets including property is treated as revenue expenditure.

- 1.18. There are no restrictions affecting the ability of the scheme to realise its assets at the values quoted.

Net assets statement – financial liabilities

- 1.19. 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.

Actuarial Present Value of Promised Retirement Benefits

- 1.20. 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.

Additional voluntary contributions

- 1.21. 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. The fund has appointed Scottish Equitable as its AVC provider. In accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093), AVCs are not included in the accounts but are disclosed as a note only.

STATEMENT OF RESPONSIBILITIES

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the statement of accounts.

The Strategic Director of Finance & Corporate Services' Responsibilities

The Strategic Director of Finance & Corporate Services is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Strategic Director of Finance & Corporate Services has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Duncan Whitfield

July 2013

AUDITOR'S REPORT

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Southwark for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of London Borough of Southwark in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Strategic Director of Finance and Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Susan M Exton
Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

30 September 2013

IMPLEMENTATION OF FUNDING STRATEGY STATEMENT

Introduction

All LGPS funds are required to prepare and maintain a Funding Strategy Statement (FSS) in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008.

The Funding Strategy Statement of the London Borough of Southwark Pension Fund is attached as Appendix 5 of this report.

Implementation and Review

The FSS is reviewed formally at least every 3 years following each triennial actuarial valuation of the Fund. The valuation exercise will establish contributions for all employers contributing to the Fund for the following 3 years within the framework provided by the strategy.

The Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Fund membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employers to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Fund.

The authority carries out detailed monitoring of investment performance on a quarterly basis via its Pensions Advisory Panel. This includes monitoring of investment performance relative to the growth in the liabilities by means of quarterly funding updates provided by the actuaries.

Discussions take place at regular intervals with the Actuary as to whether any significant changes have arisen which require immediate action.

The Funding Strategy Statement was formally reviewed following the completion of the 2010 triennial actuarial valuation. The Administering Authority will formally review this Statement as part of the next actuarial valuation as at 31 March 2013 unless circumstances arise which require earlier action.

IMPLEMENTATION OF STATEMENT OF INVESTMENT PRINCIPLES

Statement of Investment Principles – 2012/13

A Statement of Investment Principles details the policy which controls how a pension fund invests. Local Government Pension Schemes have been required by law to keep an up-to-date Statement of Investment Principles since 1999.

The Statement of Investment Principles must cover our policy on matters such as:

- The types of investments held
- The balance between different types of investments
- The expected return on investments
- The extent to which social, ethical or environmental considerations affect investments

The Statement of Investment Principles for the London Borough of Southwark Pension Fund is attached at Appendix 6 of this report.

Implementation of Statement of Investment Principles – 2012/13

- Procurement completed and 2 passive investment managers were awarded contracts to replace previous active unconstrained equity mandates.
- Full review of property investments held (in line with monitoring requirements of rolling Investment Management Agreement).
- Engagement and Voting Policies:
 - Monitoring of fund managers' quarterly reports to ensure that engagement with companies the Fund invests in is consistent with the Fund's policy.
 - Monitoring the voting activity of the fund managers' to ensure consistency with the recommendations made by the Local Authority Pension Fund Forum
- Review of compliance with Myners Principles

APPLICATION OF COMMUNICATIONS POLICY STATEMENT

The Annual Benefit Statements for 2011/12 went out in October 2012 and included a newsletter about what was known, at the time, about what was likely to be in the proposals for a new LGPS following on from the review of all public sector schemes. Main proposals have turned out to be a Career Average Scheme from 01/04/2014.

Members of the Pensions Team visited a number of schools to explain the detail in the Annual Benefit Statements to staff. Staff in schools have some of the most complicated service histories as they often work part-time and may also work term time only.

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 7.

FURTHER INFORMATION

Queries regarding the Fund's Investments & Accounts

Dave Howes
Assistant Finance Director
Telephone: 020 7525 4314
E-mail: dave.howes@southwark.gov.uk

Queries on Benefits or Costs 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 & Corporate Services
Pensions Investments
PO BOX 64529
London SE1P 5LX

External Sources of Information

The Pensions Regulator

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

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

Pension Tracing Service

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 OF PENSION TERMS

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 yardstick against which the investment policy of performance of a fund manager can be compared. Asset allocation benchmarks vary from peer group (e.g. the average fund as measured by one of the performance surveys) to customized benchmarks tailored to a particular fund's requirements.

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

Strictly speaking, corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments in their own currencies. Therefore the 'credit' sector, as it is often known, includes issues by companies, supranational organisations and government agencies.

Custody

Administering of securities by a financial institution. The custodian 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.

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.

Fixed Interest Securities

Investments, mainly in government stocks, which guarantee a fixed rate of interest. Investments in government stocks represent 'loans' to Government which are repayable on a stated future date.

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.

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: Participating Employers – Contributions by Band 2012/13

Name	Total Employee Contributions (£)	Total Employer Contributions (£)	Total Contributions (£)	Employee contributions by band									
				5.50%	5.80%	5.90%	6.00%	6.50%	6.80%	7.20%	7.50%		
ADMITTED BODIES													
APCOA	593.00	2,028.34	2,621.34	593.00									
Balfour Beatty	15,753.97	48,202.90	63,956.87	1,580.36		3,972.37		7,331.08	2,870.16				
Brandon Trust	9,529.28	14,494.07				271.05		1,996.35	7,261.88				
Browning	6,637.68	17,402.88						1,870.08	4,767.60				
Camden Society	59,901.32	151,297.50	211,198.82					48,519.64	11,381.68				
Capita	2,107.94	6,091.60						353.26	1,754.68				
Charter Security	2,582.20	16,262.49	18,844.69					2,582.20					
Chequers	1,096.40	3,344.40	4,440.80			1,096.40							
CLPE	14,723.85	36,202.68	50,926.53					4,882.58	2,376.12	7,465.15			
Fusion	39,866.63	262,666.61	302,533.24	1,164.52	2,906.95	3,370.61		13,609.99	7,976.04			10,838.52	
Interserve	236.22	1,003.02						236.22					
HATS	5,765.01	21,109.16	26,874.17					5,765.01					
Leather Market	13,100.16	32,058.72	45,158.88						5,017.68	8,082.48			
Mears	6,391.94	17,010.84				1,401.40		2,767.59		2,222.95			
Morrisons 1	7,122.47	18,587.83	25,710.30					4,835.61		2,286.86			
Morrisons 2	519.18	1,757.22	2,276.40			519.18							
Odyssey	14,955.94	22,096.65	37,052.59			381.01		3,385.08	11,189.85				
RSM Tenon	242.04	-	242.04								242.04		
Sherman & Waterman	-	-	-										
South London Gallery	5,598.00	13,373.04	18,971.04								5,598.00		
Southwark Law Centre	14,463.07	47,441.92	61,904.99					4,343.46	10,119.61				
Together	330.88	1,084.26	1,415.14					330.88					
Veolia	168,465.60	535,963.92	704,429.52			1,867.59		144,837.36	18,235.40	3,525.25			
ADMITTED BODIES TOTAL	389,982.78	1,269,480.05	1,578,557.36	3,337.88	2,906.95	12,879.61	-	247,646.39	82,950.70	29,422.73	10,838.52		
SCHEDULED BODIES													
Bacon's College	89,035.44	213,291.65	302,327.09	1,269.84	1,183.77	17,986.42		39,727.05	19,627.19	9,241.17			
Charter Academy	67,378.19	138,643.59	206,021.78	940.64	350.61	19,817.91		25,070.87	21,198.16				
Dulwich Hamlet	19,002.31	43,104.38	62,106.69	617.43	499.21	3,548.75		14,336.92					
Globe Academy	59,869.54	127,076.63	186,946.17		7,202.31			45,054.26	2,538.47	5,074.50			
Goose Green	14,067.23	40,845.45		91.44	2,437.92	8,428.17		2,022.08	1,087.62				
Harris Academy Peckham	65,141.04	120,620.62	185,761.66	1,542.57	4,756.55	13,471.69		24,813.29	10,013.55	10,543.39			
Harris Academy Bermondsey	44,419.07	91,396.19	135,815.26		1,516.92	3,225.78		28,528.99	7,517.27	3,630.11			
Harris Boys Academy	31,156.29	57,917.76	89,074.05	134.28	949.80	10,880.67		8,398.49	7,455.83	3,337.22			
Harris Girls Academy	30,688.83	72,021.12	102,709.95		1,501.79	7,636.15		13,961.46	7,589.43				
Harris Peckham Free School	2517.07	6437.14		75.65	594.30	952.59		894.53					
Harris Peckham Park	30,196.29	80,802.98	110,999.27	1,393.56	6,647.13	14,461.76		5,268.81	2,425.03				
Kingsdale Academy	18,964.90	70,025.80	88,990.70	398.08	3,274.19	3,715.45		6,115.25	5,461.93				
Redriff	28,333.04	80,012.15	108,345.19	413.01	1,908.54	9,989.90		12,797.23	3,224.36				
St Michaels & All Angels CE Academ	13,716.90	31,004.78	44,721.68		537.29	1,149.75		12,029.86					
Walworth Academy	61,194.85	150,156.07	211,350.92		2,199.11	21,053.86		21,972.34	10,145.61	5,823.93			
SCHEDULED BODIES TOTAL	575,680.99	1,323,356.31	1,835,170.41	6,876.50	35,559.44	136,318.85	-	260,991.43	98,284.45	37,650.32	-		

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 Risk Register

Risk Ref:	Risk Description	Risk Category	Risk Owner	Impact – 1 to 10 (10 highest)	Likelihood – 1 to 10 (10 highest)	RISK SCORE	Risk Comments (Mitigation)
Pension 1	The value of the pension fund is significantly impaired as a result of a market downturn/asset-liability mismatch and requires an injection of funding in the next triennial review or earlier.	Financial	Assistant Finance Director	7	3	43	1. Investments monitored daily. 2. Pensions Advisory Panel (PAP) reviews fund manager performance quarterly against benchmark. Reports received from investment advisers providing ratings of managers. 3. Regular meetings with fund managers re performance. 1. Reports on the funding level produced by actuaries quarterly and reviewed by PAP. 2. Asset Liability Model produced following each triennial actuarial valuation. Determines optimal asset allocation for the Fund.
Pension 2	Inaccuracy of financial information – leading to qualification of accounts	Reputational	Assistant Finance Director	4	2	14	1. Accounting data reconciled on timely basis. 2. Fund manager valuations independently verified by Fund's custodian. 3. Accounts prepared in accordance with relevant regulatory codes.
Pension 3	Reliance on third party providers for investment management and custodial services – failure could have a serious financial impact on the Fund	Financial	Assistant Finance Director	7	1	28	1. Contracts regularly monitored. 2. PAP provided with quarterly ratings on each manager. Where there are concerns additional monitoring is put in place to ensure financial risks are kept to an acceptable level. 3. Third parties provide Fund with an annual SAS70 report which provides assurance from their auditors that adequate financial controls are in place and are operating

							effectively.
Pension 4	Failure to comply with existing/new regulations – resulting in legal sanctions and detrimental effect on Council’s reputation.	Legal & Regulatory	Assistant Finance Director	4	2	14	1. Monitoring of compliance with regulations. 2. Use of external advisers with specialist knowledge to advise on implementation. 3. Future changes to regulations could be detrimental to the Fund in terms of cost and resources.
Pension 5	Admitted/Scheduled Bodies – failure of body/deficits on termination of contracts – could lead to an increase in the Council’s contributions	Financial	Assistant Finance Director	5	3	26	1. Funding levels monitored at each valuation. Contributions set at sufficient level to cover liabilities. 2. Financial risks monitored by contracting departments on a regular basis. 3. Monthly monitoring of contributions received. Actions taken to recover late payments. 4. Bonds in place and covenant checks commissioned where necessary. 5. Higher contribution rates set in years approaching end of contracts.
Pension 6	Pension Fund Cash Flow – insufficient funds in pension fund bank account requiring drawdown from fund managers – potential effects on growth of investment funds & ability to pay monthly pensions.	Financial	Assistant Finance Director	2	10	56	1. The pension bank account is monitored daily by the Pension Fund Accountant 2. Income received by the council and due to the pension fund is reconciled and transferred to the pension fund bank account at least twice a month 3. Where possible, income due from the council (e.g. pension contributions, deficit funding and early retirement costs) are transferred monthly when due. 4. Arrangements are in place to ensure income due from third parties, such as admitted and scheduled bodies and fund managers (e.g. VAT from

							<p>Henderson) is collected by the council when due and transferred to the pension fund bank account as outlined in 1 above.</p> <p>5. When a drawdown from investments is necessary, it is done so in accordance with the drawdown policy, which aims to minimise the impact on investment growth.</p>
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APPENDIX 3: Governance Policy 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:

- (1) Whether the administering authority delegates the function in relation to maintaining a pension fund to a committee, a sub-committee or an officer;
- (2) The frequency of any committee or sub-committee meetings;
- (3) The terms of reference, structure and operational procedures of the delegation;
- (4) 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:

(1) Arrangements for Maintaining a Pensions Fund Committee

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.

(2) Frequency of Meetings

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

(3) 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 (1 from each party group) who have received the appropriate training – one of those members will chair the panel;
- 3 officers (the Strategic Director of Finance & Corporate Services, an officer with specialist knowledge of the pensions scheme and the Head of Human Resources);
- 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.

(4) 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.

APPENDIX 4: Governance Compliance Statement

Introduction

On 30 June 2007 the LGPS regulations 1997 (as amended) requires LGPS administering authorities to measure their governance arrangements against the standards set out in this statutory guidance. Where compliance does not meet the published standard, there is a requirement under regulation 31(3) (c) to give, in their governance compliance statement, the reason for not complying.

The Principles

A - Structure

- a. 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.
- b. 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.
- c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- d. 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 Compliant*	Fully Compliant
a)		√
b)	√	
c)		N/A
d)		N/A

- Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

When deciding on 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.

No secondary committee or panel exists.

B – Representation

- a. That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include:-
 - i) employing authorities (including non-scheme employers, e.g., admitted bodies);
 - ii) scheme members (including deferred and pensioner scheme members),

- iii) where appropriate, independent professional observers, and
- iv) expert advisors (on an ad-hoc basis).

- b. That where lay members sit on a main or secondary committee, they are Treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	Not Compliant*	Fully Compliant
a)	√	
b)		√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

When deciding on 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.

C – Selection and role of lay members

- a. 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.
- b. 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.

	Not Compliant*	Fully Compliant
a)		√
b)		√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

D – Voting

- a. 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.

	Not Compliant*	Fully Compliant
a)		√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

E – Training/Facility time/Expenses

- a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.
- b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.
- c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

	Not Compliant*	Fully Compliant
a)	√	
b)		√
c)		√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

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.

F - Meetings (frequency/quorum)

- a. That an administering authority's main committee or committees meet at least quarterly.
- b. 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.
- c. 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 Compliant*	Fully Compliant
a)		√
b)		N/A
c)		N/A

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

No secondary committee or panel.

H – Scope

- a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

	Not Compliant*	Fully Compliant
a)		√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

I – Publicity

- a. 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.

	Not Compliant*	Fully Compliant
a)		√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

APPENDIX 5: 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 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (the LGPS Regulations). The Statement describes 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 Administration Regulation 35(3)(a), the Statement has been prepared having regard to guidance published by CIPFA in March 2004.

Consultation

In accordance with Administration Regulation 35(3)(b), all employers participating within the London Borough of Southwark Pension Fund have been consulted 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 three main purposes of this Funding Strategy Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To take 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 ongoing basis will be set after making some allowance for this higher expected 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 average return, 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, the use of 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 2011.

The Administering Authority will formally review this Statement as part of the triennial valuation as at 31 March 2013 unless circumstances arise which require earlier action.

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

SECTION 2 AIMS AND PURPOSE OF THE FUND

Purpose of the Fund

The purpose of the Fund is to invest monies in respect of contributions, transfer values and investment income 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 36 of the Local Government Pension Scheme (Administration) Regulations 2008 and specifically to adequately fund benefits to secure the Fund's solvency while taking account of the desirability of maintaining as nearly constant employer contribution rates as possible.

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,
- the requirement that the costs should be reasonable, and
- maximising income from investments within reasonable cost 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 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.

This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive 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 smoothness 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 and Panel members are properly informed, and through regular monitoring of the funding position.

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 risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Managers.

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:

- Collect employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.
- Invest surplus monies in accordance with the 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 interested parties.
- Monitor all aspects of the Fund's performance and funding.

Individual Employers

Individual Employers will:

- Deduct contributions from employees' pay.
- Pay all contributions, including their employer contribution as determined by the actuary, promptly by the due date.
- Exercise discretions within the regulatory framework.
- Pay for added years in accordance with agreed arrangements.
- Notify the administering authority promptly of all changes to membership, or other changes with affect future funding.

Fund Actuary

The Fund Actuary will:

- Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement.
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

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

SECTION 4

FUNDING TARGET, SOLVENCY AND NOTIONAL SUB FUNDS

Funding principle

The Fund is financed on the principle that it seeks to provide funds sufficient to enable payment of 100% of the benefits promised.

Funding Targets and assumptions regarding future investment strategy

The Funding Target is the amount of assets which the Fund needs to hold at any point in time such that the funds held, plus future anticipated investment returns on those funds, and taking into account the anticipated future experience of the membership and contributions due from the membership, meet the funding principle.

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

Scheduled Bodies and certain other bodies open to new entrants

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 bodies closed to new entrants

For Admission Bodies 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 cessation, and any likely change in notional or actual investment strategy as regards the assets held in respect of the Admission Body's liabilities at the date of cessation (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

Orphan liabilities

These are liabilities with no access to funding from any employer in the Fund. To minimise the risk to other employers in the Fund the assets notionally related to these liabilities will be assumed to be invested in low risk investments. This is described in more detail later in this document.

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

Solvency and 'funding success'

The Fund'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 Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Funding Target.

A further Aspirational Funding Target is set by reference to a similar level of prudence as used for the actuarial valuation of the Fund carried out as at 31 March 2007.

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Recovery Period, is fully funded on the basis of the Aspirational Funding Target.

Other Aspects of Funding Strategy

Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer 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 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 periods and has agreed with the Fund Actuary a limit of 30 years. 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.

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. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. 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.

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.

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 equal annual steps will be permitted. Further steps may be permitted in extreme cases, 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.
- 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.

SECTION 5

SPECIAL CIRCUMSTANCES RELATED TO ADMISSION BODIES

Interim reviews for Admission Bodies

Regulation 38(4) of the Administration Regulations provides the Administering Authority with a power to carry out valuations in respect of Admission Bodies, and for the Actuary to certify revised contribution rates, between triennial valuation dates.

The Administering Authority's overriding objective at all times in relation to Admission Bodies is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any date of cessation 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 cessation is known, and is more than 3 years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.
- For Transferee Admission Bodies 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 cessation 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 admissions due to cease within the next 3 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 Admission Body at any time in accordance with Regulation 38(4).

Guarantors

Some Admission Bodies 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 Admission Body 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 Admission Body a Guarantor can at any time agree to the future subsumption of any residual liabilities of an Admission Body. The effect of that action would be to reduce the Funding Target for the Admission Body, which would probably lead to reduced contribution requirements.

Bonds and other securitization

Regulation 6 of the Administration Regulations creates a requirement for provision of risk reviews and bonds in certain circumstances. The Administering Authority's approach in this area is as follows:

- In the case of Transferee Admission Bodies admitted under Regulation 6(2)(a) of the Administration Regulations, and so long as the Administering Authority judges the relevant Scheme Employer to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and recommends that relevant Scheme Employers review the required cover regularly, at least once a year.
- In the case of Transferee Admission Bodies admitted under Regulation 6(2)(a) of the Administration Regulations, where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority notes that levels of required bond cover can fluctuate and will require the relevant Scheme Employer to jointly review the required cover with it regularly, at least once a year.
- In the case of Transferee Admission Bodies admitted under Regulation 6(2)(b) of the Administration Regulations, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority notes that levels of required bond cover can fluctuate and will review the required cover regularly, 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 cessation valuation, carried out in accordance with Administration Regulation 38, 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 employer's notional assets.

Cessation of participation

Where an Admission Body ceases participation, a cessation valuation will be carried out in accordance with Administration Regulation 38. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the cessation valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the cessation valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the cessation 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 cessation valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of a cessation payment being required.

SECTION 6

IDENTIFICATION OF RISKS AND COUNTER MEASURES

Approach

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

Choice of Funding Target

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 Funding Target, 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 Funding Target 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

Demographic Risk

The main risks include changing retirement patterns and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation 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 demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admission Bodies.

Regulatory Risk

The risks relate to changes to regulations, National pension requirements or HM Revenue and Customs' rules. The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the

Administering Authority will notify employers of the possible impact and the timing of any change.

Governance Risk

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

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

Particular examples are set out below:

- Early retirement strain payments - No allowance is made 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.
- Employers with small and declining number of contributing members - A recent legal judgement indicates that under the current Administration Regulations employers with no contributing members cannot be charged contributions under Regulation 36. This ruling, however, does not affect the ability to collect contributions following a cessation valuation for Admission Bodies under Regulation 38. The Regulations may alter in the future but in the meantime there is a risk of a non Admission Body ceasing to pay contributions with a deficit in the Fund.

The Administering Authority will monitor employers with 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.

- 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 Transferee Admission Bodies, 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.

Statistical/Financial Risk

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

Smoothing Risk

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

Recovery period Risk

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

Stepping Risk

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

APPENDIX 6: Statement of Investment Principles

Introduction

The Local Government Pension Scheme

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.

London Borough of Southwark Pension Fund

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.

Purpose of Statement

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 Aon Hewitt Ltd, the Fund's actuaries and investment consultants.

Consultation

The Authority consulted investment advisors, 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. They were last revised in November 2012.

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 (WM) 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 31st 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 Aon Hewitt Limited, 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 on 6 January 2010 and is set out in the table below:

Asset Class	Weighting %
Global Equities (a mixture of active and passive)	60
Passive Fixed Interest Gilts	2.5
Passive Index-Linked Gilts	7.5
Passive Corporate Bonds	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

Certain alternative investments, such as Diversified Growth Funds, have characteristics that could not be modelled, at the time of the review. Therefore decisions about their inclusion or exclusion were made using qualitative judgement.

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 Advisors

Aon Hewitt 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 provided in Appendix 1.

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.

All 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. The PAP receives reports from an external provider setting out all the costs of the investment of the Fund. They use these reports to ensure that the costs incurred are commensurate with the goods and services received.

Fund managers are monitored on a monthly 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 four 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 recommendations and advice provided by the Pensions Investment Research Consultants (PIRC) research service. Where the fund managers' house views are not consistent with those of PIRC, 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

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 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 schemes liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administering authority and scheme employers and these should be clearly communicated to advisors and investment managers.

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

- The Fund's objectives are set out in the 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 ongoing basis.

3. Risk and Liabilities

Principle

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

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

- The asset allocation strategy is reviewed every 3 years. Aon Hewitt 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.
- A risk management database is used to manage and review the risks associated with all scheme employers.

4. Performance Assessment

Principle

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

State of Compliance The Fund is currently **partially 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 WM Company.

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 **partially 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.

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 **partially 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.

APPENDIX

The investment objectives for each fund manager are as follows:

Newton Investment Management

To out-perform the FTSE All World Index by 3% pa over rolling 3 year periods.

BlackRock, Inc

To perform in line with a fixed benchmark of Global equities and bonds over rolling three year periods.

Henderson Global Investors

To out-perform the IPD Pension Fund portfolios less than £250m index by 1% per annum over rolling three year periods.

Legal & General Investment Management

To perform in line with a fixed benchmark of Global equities and bonds over rolling three year periods.

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 Aon Hewitt Limited, 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 on 6 January 2010 and is set out in the table below:

Asset Class	Weighting %
Global Equities (a mixture of active and passive)	60
Passive Fixed Interest Gilts	2.5
Passive Index-Linked Gilts	7.5
Passive Corporate Bonds	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

Certain alternative investments, such as Diversified Growth Funds, have characteristics that cannot be modelled. Therefore decisions about their inclusion or exclusion were made using qualitative judgement.

APPENDIX 7: Pensions Services Communications Strategy

Background

Recent changes to the Local Government Pension Scheme Regulations 1997 (Regulation 106B) mean that

"An administering authority must prepare, maintain and publish a written statement setting out their policy concerning communications with-

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) employing authorities.

(2) In particular, the statement must set out their policy on-

- (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 employing authorities.

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

The overarching approach of the strategy to maintain a very high profile, almost to saturation point, so that the Pensions Service message is being constantly reinforced. This will be achieved through:

- **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.

APPENDIX 8: IMA LEVEL II Disclosure Tables

The IMA Pension Fund Disclosure Code was drawn up by the Investment Management Association (IMA) and the National Association of Pension Funds (NAPF) and published in May 2002. Its aim is to assist the pension fund trustees' understanding of the charges and costs incurred in the management of their assets.

The Level II Disclosure tables for the fund for the last 3 years are published on the Southwark Council website and can be obtained from the link below (please note that data is not provided for 3 managers for the full period, as their mandates were terminated/awarded during this time)

http://www.southwark.gov.uk/info/200175/pensions/1503/pension_fund