Pension Fund Annual Report 2014/15

Council

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Introduction

The London Borough of Southwark Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered by Southwark Council. The LGPS provides for the occupational pensions of employees, other than teachers, police officers and fire fighters of local authorities. It is a contributory defined benefit scheme established by the Superannuation Act 1972. With 4.6 million members, the LGPS is one of the largest public sector pension schemes in the UK.

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

All pension contributions and benefits are paid in accordance with the Local Government Pension Scheme (Benefits, Membership & Contributions) Regulations 2007. The Fund's investments are managed in accordance with the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009.

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

The aims of the Scheme are to:

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

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

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

Since the 2014 scheme changes, the Government has released the 2014 Budget which introduced "Pensions Freedom and Choice" as a mechanism for members to access their benefits in alternative ways. From April 2015, individuals from the age of 55 with defined contribution pensions will be able to access their entire pensions flexibly if they wish. Those saving in defined benefit schemes will be able to transfer to defined contribution schemes and then access the new flexibilities. At the time of writing, there has been a low level of interest from fund members.

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

The next triennial actuarial valuation of the Fund's projected liabilities, which will determine employer contributions from April 2017 onwards, is due to be reported in 2016/17. Due to the financial constraints faced by the public sector generally, the valuation process is expected to increase in challenge and complexity.

In December 2014 the Pensions Advisory Panel launched a survey of scheme members to obtain views on four key areas: the services received from the Pensions Services Team; governance arrangements; investment management and performance; and responsible investment.

The survey will be open until November 2015 and results are taken periodically for consideration by the Pensions Advisory Panel. If you are a member of the Pension Fund, we would like to offer you the opportunity to tell us your views via the following link:

http://www.surveygizmo.com/s3/1905158/Pension-Fund-Survey

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

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

We are pleased to report that strong investment returns during the year resulted in an increase in Fund value of £199m (18.9%). The Southwark Fund ranked 3rd out of 84 local authority funds in the WM Local Authority Universe. The Fund's absolute return of 18.9% is on target to meet the investment return assumption of 5.4% set at the 2013 valuation. The Pensions Advisory Panel has monitored the Fund closely and challenged the advisers and fund managers to ensure the returns are being optimised.

Work on the investment strategy review concluded during the year. Results indicated that the current strategy is robust and only minor adjustments within existing mandates will be required. In order to rebalance back to the strategic allocation to property, additional property fund managers were appointed early in 2015/16.

Further changes in the scheme were implemented in April 2014 with the introduction of the new Local Government Pension Scheme. The scheme changed from final salary to career average with the long term aim of ensuring the LGPS is affordable and sustainable. These changes were successfully implemented with scheme members being briefed during the year.

Work has completed on the implementation of a Local Pensions Board which was put in place for 1 April 2015. This includes an independent chair together with employee and employer representation. We are also pleased that we have initiated a scheme member survey seeking views on administration, governance and investments and would encourage all members to participate.

The on going public sector pensions reform may present challenges in the future and it is not clear how the fund and its investments may have to adapt following the outcomes of on going consultations and changes to regulations. We are confident that we are well placed to meet these challenges as they arise.

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

Governance policy and compliance

Background

Administration of the Pension Fund is delegated to the strategic director of finance and corporate services, who takes into account the advice of the pensions advisory panel (PAP) when performing the following functions:

- establishing and reviewing the strategic investments objectives.
- reviewing the definition of the investment return target most likely to satisfy this investment objective.
- considering what constraints, if any, should apply to the invested assets and monitor compliance.
- establishing and reviewing the strategic asset allocation (benchmark) that is likely to meet the investment return target.
- considering and reviewing the appropriateness of the Fund structure i.e. the delegation of powers to managers, setting boundaries for the manager’s discretion and considering which manager return targets are likely to achieve the investment return target.
- monitoring the performance of the investment managers at least once every three months, and from time to time consider the desirability of continuing or terminating the appointment of investment managers
- considering policy matters in relation to the pension scheme and the council’s early retirement policy.
- considering applications, from other bodies, for membership of the council’s pension scheme.
- monitoring early retirements.
- monitoring costs incurred in administering the pension scheme.

The Pensions Advisory Panel meets quarterly and membership for 2014/15 comprised:

Councillors: Fiona Colley *(Chair from Sep 2014)*
Richard Livingstone *(to May 2014)*
Toby Eckersley *(to May 2014)*
Eliza Mann
Jon Hartley *(from Sep 2014)*

Officers: Duncan Whitfield *(Strategic Director of Finance & Corporate Services)*
Carl Rushbridge (*Departmental Finance Manager – to September 14)*
Fay Hammond *(Departmental Finance Manager – from October 14)*
Bernard Nawrat *(Human Resources Director)*

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

Advisers: Emily McGuire *(Aon Hewitt)*
Jo Holden *(Mercer)*
David Cullinan *(WM Company)*

The changes in Councillor membership above followed the local elections which took place in May 2014.

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

		Meeting Attendance 2014/15			
Name	**Title/Company**	**10-Apr-2014**	**25-Sep-2014**	**5-Dec-2014**	**21 April 2015 (3)**
Eliza Mann	Elected Member	✓	✓	✓	✓
Fiona Colley	Elected Member (1)	n/a	✓	✓	✓
Jon Hartley	Elected Member (1)	n/a	✓	✓	✓
Toby Eckersley	Elected Member (2)	✓	n/a	n/a	n/a
Richard Livingstone	Elected Member (2)	✓	n/a	n/a	n/a
Duncan Whitfield	Strategic Director of Finance & Corporate Services	✓	✓	✓	✓
Carl Rushbridge/ Fay Hammond	Departmental Finance Manager	✓	✓	✓	✓
Malcolm Laird	SAP Payroll & Pensions Manager	✓	×	✓	×
Chris Cooper	Unison	✓	✓	✓	✓
Roy Fielding	GMB	×	×	×	✓
David Cullinan	WM Company	×	✓	✓	✓
Jo Holden (4)	Mercer	n/a	n/a	✓	✓
Emily McGuire (4)	AON Hewitt	✓	✓	✓	n/a

(1) *PAP member from September 2014*
(2) *no longer a PAP member from May 2014*
(3) *March 2015 meeting rearranged to April 2015*
(4) Mercer replaced Aon Hewitt as the fund's investment advisers from 1 January 2015

Knowledge and skills

As an administering authority of the Local Government Pension Scheme, Southwark Council recognises the importance of ensuring that all staff and elected members charged with the financial management and decision making with regard to the pension fund are fully equipped with the knowledge and skills to discharge duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and it will provide training for staff and members of the Pensions Advisory Panel to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Members of the Pensions Advisory Panel (PAP) received extensive training on all aspects of the CIPFA Knowledge and Skills Framework in 2013/14. Following on from this, training in 2014/15 was more specific to the areas being considered by the Pensions Advisory Panel during the year.

One of the main areas for consideration by PAP during the year was the investment strategy review. Early in the year, the Fund's investment advisers presented the results of the review to PAP and as part of this, training within PAP meetings was provided on aspects such as the fit between cash flows and the on going maturity of the Fund with the risk and return profiles of the different portfolio options put forward. This enabled members to understand the implications of the different options put forward.

At the December 2014 PAP meeting, members were provided with training on diversified growth funds and absolute return bond funds. The training was delivered by BlackRock, one of the Fund's investment managers. Aon Hewitt had recommended that the Fund invests in these two asset classes and this training gave PAP members the knowledge to make an informed judgement on whether they are appropriate investments for the Fund.

A training schedule was also introduced during the year and members were offered appropriate training through seminars, conferences and workshops and a record of the training is shared at PAP meetings.

Following a change in part membership of PAP there is planned training for the new members and also the new Local Pension Board members in the near future.

Governance Compliance Statement

The Local Government Pension Scheme (Administration) Regulations 2008 Regulation 31 requires all administering authorities to produce a Governance Compliance Statement, outlining the governance structure for the Fund. In addition, the administering authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The statement is provided at Appendix 6.

Management & financial performance

Scheme Management and Advisers

Advisers	- Emily McGuire (Aon Hewitt to Dec 2014) - Joanne Holden (Mercer from Jan 2015) - David Cullinan (WM Company)
Actuary	- Aon Hewitt
Performance Monitoring	- WM Company
Investment Managers	- BlackRock Advisors (UK) Ltd - Newton Investment Management Limited - TIAA Henderson Real Estate - Legal & General Investment Management Limited
Custodians	- JP Morgan - BNP Paribas Securities Ltd
Property Solicitors	- Dibb Lupton Alsopp - Todds Murray
Auditor	- Grant Thornton
AVC Providers	- AEGON

The procurement for investment advisers concluded during the year with the decision being made to appoint Mercer with effect from 1 January 2015.

Risk Management

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

- poor investment performance could lead to a larger deficit and therefore a requirement for higher employer contributions
- asset/liability mismatch - assets could fail to rise at the same rate as liabilities resulting in a higher deficit.
- inaccuracy of financial information - leading to qualification of accounts
- reliance on third party providers for investment management and custodial services - failure of these parties could have a serious financial impact on the Fund

- failure to comply with existing/new regulations - resulting in legal sanctions and detrimental effect on Council's reputation.
- 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 Fund's biggest overall risk (as identified above) is that its assets fall short of its liabilities resulting in there being insufficient assets to pay benefits to members as they fall due. The investment objectives have been set with the aim of maximising investment returns over the long term within specific risk tolerances. This aims to optimise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled.

The Strategic Director of Finance & Corporate Services (SDFCS) 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 SDFCS, taking into account the advice they receive from the Fund's external advisers. They make recommendations to the SDFCS on matters relating to the management of the Fund. The management of risks is a key factor in all recommendations made by the Panel, thereby ensuring any risks to the Council arising from the Fund are kept to an acceptable level.

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

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

Investments are monitored to ensure they are compliant with the LGPS regulations, which specify certain limitations on investments including a limit of 10% of the total value of the Fund in any single holding, or deposits with a single bank or institution, or investments in unlisted securities and no more than 35% of a portfolio can be invested in the same collective investment scheme.

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

The Funding Strategy Statement sets out the key risks (including demographic, regulatory, governance) to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial actuarial valuation and more regularly if circumstances require.

Financial Performance

During 2014/15 the Fund increased in value by £199.03 million (19%) to £1.25 billion. A detailed analysis of the movement can be found in the fund account and net assets statement shown at Appendix 2 of this report, and is summarised below.

	£000	£000
Opening net assets of the fund		(1,048,701)
Add income from dealing with members of the fund	(54,569)	
Less expenditure from dealing with members of the fund	52,643	
Net addition from dealing with members of the fund		(1,926)
Net Returns on investments		(197,104)
Closing net assets of the fund		**(1,247,731)**

During the year, contributions from employers and employees rose by approximately 9%. An increase in deficit funding of £786,000 to £14.1 million also helped to boost employer contributions. Benefits paid increased by 3%.

Pension Fund cash flows were largely positive during the year. Any shortfall in the cash position is met by transfers from fund managers and the Pension Fund has in place a "draw down" policy to oversee this. No draw downs were required from fund managers during 2014/15.

Receipt of Contributions

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

Investment Policy and Performance

Investment Policy

The Fund is managed with regard to a strategic asset allocation benchmark. This is reviewed every 3 years, following the Fund's triennial actuarial valuation. The strategic asset allocation is set to provide the required return, over the long-term, to ensure that all pension payments can be met. The actual asset allocation may differ from the strategic benchmark within tolerances that are agreed by the Pensions Advisory Panel (PAP) on the advice of the Fund's investment advisers. The distribution of investments is reported to PAP quarterly and monitored monthly by the investments team.

Investment Strategy Review

Following the completion of the 2013 valuation, the Fund's investment advisers commenced an investment strategy review. Initial results were received in early 2014 and recommended that the Fund's strategic benchmark will not require to be changed and that it remains consistent with the investment return assumption of 5.4% required by the 2013 triennial valuation.

During 2014/15 the full results of the investment strategy review were considered by PAP and the decision was made to change the structure of the Fund as follows:

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

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

Further, as part of the investment strategy review, the plan is to re-balance the property holdings back to the strategic allocation of 20%. The actual allocation had been around 15% for some time, given the relative strength of equity markets compared to property. Approximately £65 million will be taken from BlackRock passive equities to fund this with an expected completion during autumn 2015.

Asset Allocation and Holdings by Fund Manager

The actual asset allocation compared to the strategic asset allocation at 31 March 2015 is set out below. The table indicates that the Fund was underweight in its property allocation (-6.0%) and overweight in its equities allocation (+4.6%), and broadly in line with the strategic allocation for all other asset classes.

Asset Class	Asset Value (£m)	Actual (%)	Strategic (%)	Relative
Corporate Bonds	122	9.8%	10.0%	-0.2%
Fixed Interest Gilts	32	2.6%	2.5%	0.1%
Index Linked Gilts	95	7.6%	7.5%	0.1%
Equities	803	64.6%	60.0%	4.6%
Property	174	14.0%	20.0%	-6.0%
Cash (& Other Bonds)	17	1.4%	0.0%	1.4%
Total	**1,243**	**100.0%**	**100.0%**	**0.0%**

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

Geographical Analysis of Fund Holdings

	UK £m	Non-UK £m	Total £m
Equities	124	742	866
Bonds	187	0	187
Property (direct holdings)	137	0	137
Alternatives (indirect property)	37	0	37
Cash & Cash Equivalents	9	8	17
Other	0	0	0
Total	**494**	**750**	**1,244**

Investment Income Accrued

	UK £000s	**Non-UK £000s**	**Total £000s**
Equities	530	2,371	2,900
Bonds	0	0	0
Property (direct holdings)	8,555	0	8,555
Alternatives (indirect property)	1,317	0	1,317
Cash & Cash Equivalents	21	0	21
Other	5	0	5
Total	**10,427**	**2,371**	**12,798**

The holdings with individual fund managers at 31 March 2015 were as follows:

Fund Manager	Mandate	Value at 31 March 2015 (£m)	% of Fund
Blackrock	Balanced ex Property	442	35.53%
Blackrock	Equities - Global	126	10.13%
Legal & General	Equities - Global	377	30.31%
Newton Investment Management	Equities - Global	119	9.57%
TIAA Henderson Real Estate	Property UK	180	14.47%
Total		**1,244**	**100.00%**

Investment Performance

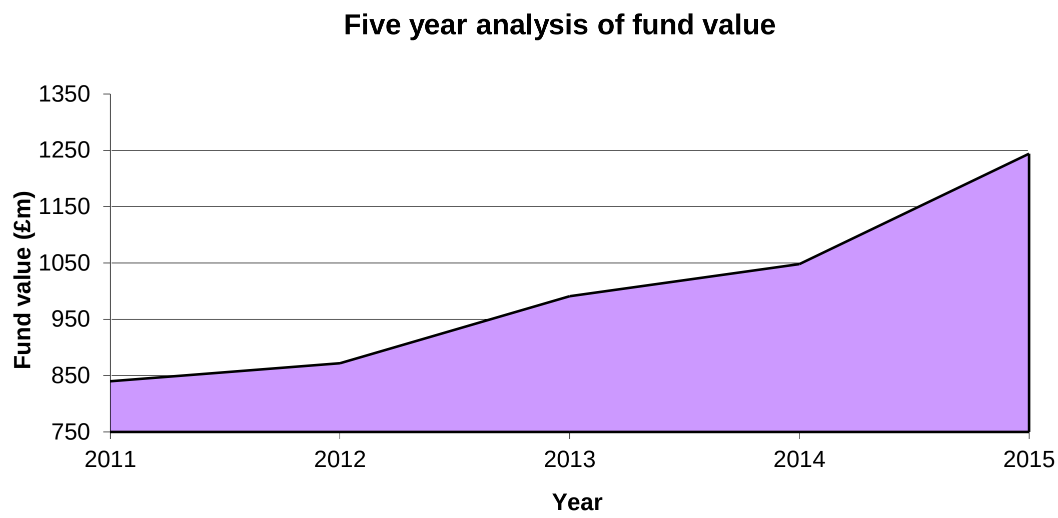
Performance Highlights

Asset Class	Return (Fund) %	Local Authority Average Return (*) %	Over/(Under) Performance %	Ranking (percentile)
Fund Level	18.9	13.2	5.7	3rd
Equities	19.0	13.7	5.3	8th
Bonds & Index-Linked Gilts	17.7	13.0	4.7	18th
Property	22.8	15.8	7.0	2nd

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

As set out in the above table, the Fund performed strongly during the year relative to other local authority funds and, in absolute terms, the fund return of 18.9% matched the benchmark return.

The fund return was 13.5% above the investment return assumption of 5.4% set at the 2013 actuarial valuation so the Fund remains on track to meet that target in the long term. The movement in the Fund value over the last five years is shown in the chart below.



Performance against benchmark

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

Manager	Benchmark Indices	Required target against Benchmark
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	Outperform index by 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	Outperform index by 1% gross of fees over rolling 3 years

The table below sets out the investment performance of the total Fund and individual managers against benchmark over 1, 3 and 5 year periods to 31st March 2015

		12 Months	3 years % pa	5 years % pa	Target Met?
Blackrock Multi Assets	Portfolio	17.7	12.1	9.9	
	Benchmark	17.9	12.1	10.0	
	Relative Return	**-0.2**	**0.0**	**-0.1**	**yes**
Blackrock Global	Portfolio	18.8	15.1	-	
	Benchmark	19.4	15.1	-	
	Relative Return	**-0.5**	**0.0**	-	yes
Newton Investment Management	Portfolio	20.2	15.3	11.1	
	Benchmark	19.2	14.2	10.0	
	Relative Return	**0.8**	**1.0**	**1.0**	**no**
TIAA Henderson Real Estate	Portfolio	21.2	10.2	8.5	
	Benchmark	18.3	11.4	10.3	
	Relative Return	**2.5**	**-1.0**	**-1.6**	**no**
L & G	Portfolio	18.8	-	-	
	Benchmark	19.0	-	-	
	Relative Return	**-0.2**	**-**	**-**	**yes**
Total Fund	Portfolio	18.9	12.7	9.8	
	Benchmark	13.2	11.0	8.7	
	Relative Return	**5.1**	**1.5**	**1.0**	

 # not invested with this manager for the entire period. Legal & General commenced in 2012 and there was a restructure of the BlackRock mandate in 2012.

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

Investment Manager Performance - 2014/15

<u>BlackRock & Legal & General Investment Management</u>

Manager Objective

- Both managers are aiming to match the return of the given benchmark by investing in the same stocks in the same proportions as the chosen index. Therefore neither BlackRock nor Legal and General should not out or under perform the benchmark by more than a small margin.

Performance

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

Outlook

- Given the expectation that global equity and corporate bond returns will not continue at current levels, as part of the investment strategy review, the passive global equity holdings will be reduced and the fund will invest in a Diversified Growth Fund with BlackRock. The total investment in corporate bonds will be transferred to the BlackRock Absolute Return Bond Fund. These changes will add diversification and reduce overall investment risk.

- The investment strategy review also recommended disinvesting in fixed interest gilts held with BlackRock and Legal and General Investment Management and instead invest in index linked gilts which will provide protection against movements in the fund’s liabilities.

<u>Newton Investment Management</u>

Manager Objective

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

Performance

- Newton's target was 3% over 3 years: however they did not meet it only outperforming by 1%.
- However the portfolio performed strongly over 1, 3 and 5 years.

Outlook

- If markets weaken over the next year, it is expected that both Newton's stock selection and cash exposure will add significant value. Cash levels remained elevated during 2014/15 and this was a detraction from performance. Newton continues to struggle to find compelling new ideas to add to the portfolio and expects that cash will be deployed at a future date at more attractive equity prices.

<u>TIAA Henderson Real Estate</u>

Manager Objective

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

Performance

- TIAA Henderson's target was 1% over 3 years: however they did not meet it, underperforming the index by 1%
- However the portfolio performed strongly over 1, 3 and 5 years.

Outlook

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

- The three year negative relative performance of -1.0% is still suffering from the impact of the transactional costs of the final exit from the European holdings and the acquisition of direct properties during the transitional period.

- The outlook for the portfolio remains strong. TIAA Henderson Real Estate has a number of asset management initiatives reaching their conclusion in 2015. Recent leasing activity has been strong with large lettings being made on key properties. This will have a positive effect on total rental income going forward and will lead to a significant increase in value of those assets affected.

- TIAA Henderson Real Estate do not expect wider market returns in 2015 to be as strong as 2014, but consensus forecasts suggest returns in excess of 10% will be achieved in 2015.

Total Fund Performance Relative to Liabilities

The table below shows the total fund performance relative to its liabilities. Over both 3 months and 3 years, it is estimated that relative to the liabilities, the Fund achieved a positive return. Over 1 year a negative return was achieved relative to the liabilities:

	3 months %	1 year %	3 years (% p.a.)
Total Fund	6.3	18.9	12.7
Liability Proxy (1)	3.3	21.1	8.9
Relative	**+3.0**	**-2.2**	**+3.8**

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

Environmental, Social and Governance Policy

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

The Fund complies with the UK Stewardship Code through the outsourcing to its external investment managers the responsibility for governance, engagement and voting activity. Actions taken by the Fund to demonstrate compliance with the Myners Principles are set out in the SIP.

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

The LAPFF is the UK's leading collaborative shareholder engagement group. Formed in 1990, LAPFF brings together 64 local authority pension funds from across the country with combined assets of over £160 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss investment issues and shareholder engagement.

The Fund's membership of LAPFF has enabled it to further develop its approach to shareholder engagement and responsible investment, thereby fulfilling its responsibilities under the Stewardship code. By collaborating with other funds, the Southwark fund has more influence over directors of companies in terms of their policies. This collective influence has resulted in improvements in the companies in which we invest reflecting in investment returns.

The LAPFF addresses the key areas of concern, set out below, for responsible owners which include environmental, social and governance (ESG) issues:

- Environmental issues (eg Greenhouse gas emission, mineral exploration, waste disposal)
- Supply chain labour standards – reputational risks
- Boardroom structures
- Directors' remuneration
- Appointment of and role of auditors
- Accounting Standards

LAPFF issues voting alerts on shareholder resolutions at upcoming company AGMs. Through their research and engagement they are able to recommend support of resolutions which reflect the engagement work which has taken place and encourage improvements through recommendations to vote against resolutions which are assessed as having key areas of concern for responsible investment. Examples of LAPFF engagement successes include ensuring separation of Chairman and Chief Executive roles of Marks & Spencers; seeking resolution for an independent chair for News Corporation; voting for "strategic resilience to 2035 and beyond" focussing on carbon management, strategy and disclosure in Shell and BP. The fund monitors these voting alerts and where the council actively holds these stocks the relevant investment manager would be instructed on the Funds voting preferences.

Newton, the fund's active global equity manager, conduct extensive engagement with companies and in particular in recent years there has been a large amount of engagement and subsequent voting around boardroom structures with a focus on director independence. This is consistent with the work being carried out by LAPFF.

Investment Managers Approach to Responsible Investment

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

<u>Henderson (TH Real Estate)</u>

TH Real Estate continues to implement its Responsible Property Management programme across the portfolio. This includes active monitoring of the portfolio's landlord-controlled energy and water consumption, and waste production. Via the programme, TH Real Estate also monitors and encourages relevant environmental and social initiatives that support tenant retention; cost reductions; current and future regulatory compliance; and place making. TH Real Estate report quarterly on the environmental performance of the directly owned properties.

<u>Legal & General</u>

LGIM do not consider their index-tracking funds as passively managed. Instead, they use their scale and influence to bring about real, positive and long term change across markets and across the globe. Focus is on both long term company engagement and on improving overall market standards. During 2014, focus of engagement was on climate change, board diversity, cyber security, mergers and acquisitions, auditor rotation, board effectiveness reviews and food waste.

<u>BlackRock</u>

Where clients invest across an index and are unable to sell underperforming companies, BlackRock engage and vote to address ESG and financial concerns. They view the proxy voting process as an engagement mechanism. BlackRock on average across all markets votes against management's recommendations 9% of the time. They view voting against management as a sign of failed engagement.

Newton

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

Responsible investment activities at Newton include: exercising voting rights; engaging with investee companies; conducting ESG reviews of potential investments and influencing the debate on certain ESG matters.

Investment Administration & Custody

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

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

Membership of External Bodies

National Association of Pension Funds (NAPF)
NAPF is the independent voice of workplace pensions in the UK. They represent over 1,300 pension schemes that provide pensions for over 17 million people and have more than £900 billion of assets. They also have 400 members from businesses supporting the pensions sector.

The main objective of NAPF is to use their unrivalled expertise and influence to secure a better future for pensions, so that millions of people can look forward to a fair and decent retirement. 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)

Contact Details

Email: info@lapfforum.org

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

Scheme administration

Key Administration Performance Indicators

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

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

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

Task	Target Days	Total	Within Target	% Within Target	Average Days
Starters	10	681	679	99.71	0.15
Transfers In (Actual)	10	46	45	97.83	0.09
Transfers Out (Actual)	10	61	44	72.13	2.56
Refund	10	107	82	76.64	0.33
Preserved Benefit	15	427	424	99.30	0.02
Estimate Benefit	10	351	347	98.86	0.11
Retirement	5	371	328	88.41	0.48
Death in Service	5	4	2	50.00	3.88
Death on Pension	5	105	88	83.81	1.66

Membership of the Fund

The Fund provides pensions for:

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

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

	2011	2012	2013	2014	2015
Actives	6,272	6,046	6,061	6,812	7,210
Pensioners	6,310	6,518	6,645	6,781	6,913
Deferred	6,697	6,971	7,236	7,569	7,705
Total	**19,279**	**19,535**	**19,942**	**21,162**	**21,828**

During 2014/15, twelve individuals received enhanced benefits because of ill-health.

Cost of pension fund administration

The cost of administering the pension fund in 2014/15 was £0.842 million, representing £38.57 per scheme member. In terms of lowest unit costs, based on Local Government Pension Scheme 2013-14 (SF3) returns (most recent statistics available), Southwark ranks 6 out 12 compared to other inner London boroughs, and 17 out of 33 compared to all London boroughs.

Employers in Fund

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

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

	Active	Ceased	Total
Scheduled Body	23	0	23
Admitted Body	19	0	19
Total	**42**	**0**	**42**

Participating Employers

Appendix 1 lists the admitted and scheduled bodies participating in the Fund at 31 March 2015 and sets out the contributions paid by employees and employers during the year.

Application of communications policy statement

The Annual Benefit Statements for 2014/15 went out in October 2015 and included information about the new CARE pension scheme.

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

Pensions Services maintain a presence on Southwark's main website which provides a link for all members, not just actives, to their pension arrangements and it enables them to get a secure access to their personal details held on a copy of the main pension's administration system to view and in some cases change the information held about them. A vibrant and exciting poster campaign was staged in September 2015 to bring MSS to the attention of more of our membership.

Pensions Finance, Pensions Admin and the actuaries have worked together to build an admin strategy. Once the strategy has been rolled out it will lead to the creation of a new school liaison officer post who will be responsible for rolling out better information to schools.

There will also be an employer meeting once a year which employers will be able to attend to find out about any changes to the pension scheme.

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

Actuarial Position

Statement of the Actuary for the year ended 31 March 2015

Introduction

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

Actuarial Position

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

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

- 13.3% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.

Plus

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

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

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

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

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

The assets were valued at market value.

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

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

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

8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

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

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

9. The report on the actuarial valuation as at 31 March 2013 is available on request from London Borough of Southwark, the Administering Authority of the fund.

Aon Hewitt Limited

15 May 2015

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

We have examined the pension fund financial statements of Southwark Council for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the fund account, the net assets statement and the related notes.

This statement is made solely to the members of Southwark Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the members of the authority those matters we are required to state to them in an auditor's statement and for no other purpose. 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 work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of the Strategic Director of Finance and Corporate Service's Responsibilities, set out on page 14 of the audited pension fund financial statements, the Statement of the Strategic Director of Finance and Corporate Service is responsible for the preparation of the Statement of Accounts of Southwark Council, which include the pension fund financial statements, in accordance with applicable law, proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the Statement of Accounts of Southwark Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of Governance policy and compliance, Management and financial performance, Investment policy and performance, Scheme administration, and Actuarial position.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual Statement of Accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of Southwark Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We have not considered the effects of any events between the date we signed our report on the annual Statement of Accounts of Southwark Council on 25 September 2015 and the date of this statement.

Grant Thornton UK LLP
Chartered Accountants
London Euston

26 September 2015

Further information

Internal queries regarding Fund Investments & Accounts

Chris O'Brien
Senior Accountant
Telephone: 020 7525 7468
E-mail: chris.o'brien@southwark.gov.uk

Internal queries regarding Benefits or Cost of Membership

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

Or you can write to us at:

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

External Sources of Information

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

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

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

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

Glossary

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

Fixed Interest Securities (Gilts)
Investments, mainly in government, 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.

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

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

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

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

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

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

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

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

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

Appendix 1: Contributing Employers & Amounts Received 2014/15

Name	Total Employee Contributions (£)	Total Employer Contributions (£)	Total Contributions (£)
ADMITTED BODIES			
APCOA	522	1,792	2,314
Balfour Beatty	9,186	25,281	34,467
Brandon Trust	19,954	55,122	75,076
Browning	7,349	19,282	26,631
Camden Society	12,622	37,100	49,722
Capita	9,951	28,625	38,576
Chequers	978	3,035	4,012
CLPE	6,163	23,309	29,472
D Brice & Co	1,617	5,769	7,386
Freidman	630	1,859	2,489
Fusion	46,763	128,392	175,155
Interserve	3,004	12,756	15,761
HATS	2,953	10,812	13,764
Law Centre	24,721	79,418	104,139
Leather Market	14,986	21,637	36,622
Mears	9,172	24,625	33,797
Sherman & Waterman	233	878	1,111
South London Gallery	8,087	14,051	22,138
Veolia	184,142	555,914	740,057
ADMITTED BODIES TOTAL	**363,033**	**1,049,657**	**1,412,690**
SCHEDULED BODIES			
All Saints	25,521	59,166	84,688
Angel Oak	4,537	14,563	19,100
Bacon's College	101,288	212,214	313,502
Charter Academy	81,377	126,867	208,244
Compass	6,205	11,094	17,299
Dulwich Hamlet	23,741	61,002	84,743
Globe Academy	83,946	129,683	213,629
Goose Green	29,052	70,450	99,502
Harris Academy Peckham	81,561	139,910	221,470
Harris Academy Bermondsey	40,018	79,486	119,504
Harris Boys Academy	36,635	47,714	84,349
Harris Girls Academy	40,630	83,645	124,275
Harris Peckham Free School	6,246	8,042	14,287
Harris Peckham Park	27,256	57,717	84,973
Harris Primary East Dulwich	1,658	2,890	4,549
John Donne	44,544	132,651	177,196
Judith Kerr	6,585	22,344	28,929
Kingsdale Academy	27,949	68,276	96,225
Newlands	21,727	55,692	77,419
Redriff	35,927	84,245	120,172
SWK Free School	198	648	846
Walworth Academy	69,564	148,727	218,291
UAESB	1,880	6,010	7,890
SCHEDULED BODIES TOTAL	**798,046**	**1,623,036**	**2,421,082**

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

Appendix 2: Pension Fund Accounts

FUND ACCOUNT

	Note		2014/15		2013/14
		£000	£000	£000	£000
Contributions	8	(52,677)		(48,166)	
Transfers in from other pension funds	9	(1,891)		(3,121)	
Other income		(1)		(1)	
Total income		**(54,569)**		**(51,288)**	
Benefits	10	48,844		47,282	
Payments to and on account of leavers	11	2,908		3,710	
Other payments		49		58	
Administrative expenses	12	842		899	
Total expenditure		**52,643**		**51,949**	
Net addition from dealing with members of the fund			**(1,926)**		**661**
Investment income	13	(12,903)		(12,345)	
Profit and losses on disposal of investments and changes in market value of investments	15.2	(187,967)		(46,355)	
Taxes on income	13	105		52	
Investment management expenses	14	3,661		3,982	
Net returns on investments			**(197,104)**		**(54,666)**
Net (increase)/decrease in the net assets available for benefits during the year			**(199,030)**		**(54,005)**
Opening net assets of the scheme			(1,048,701)		(994,696)
Net assets of the scheme available to fund benefits at 31 March			**(1,247,731)**		**(1,048,701)**

NET ASSETS STATEMENT

	Note	2014/15	2013/14
		£000	£000
Investment assets	15.1	1,239,275	1,037,289
Investment liabilities	15.1	-	(19)
Current assets	16.1	12,426	17,564
Current liabilities	16.2	(3,970)	(6,133)
Net assets of the scheme available to fund benefits at 31 March		**1,247,731**	**1,048,701**

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

1.1. The Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Southwark Council (the council). The scheme is governed by the Public Services Pensions Act 2013, and administered in accordance with The Local Government Pension Scheme Regulations 2013 (as amended), The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

1.2. It is a contributory 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.

1.3. Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2015. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2013. Currently, employer rates range from 7.2% to 27.6% of pensionable pay, plus additional deficit payments where appropriate.

1.4. 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. Arrangements are expected to change with the upcoming LGPS Scheme Governance Regulations, which will require the setting up of both Local and National Pension Boards from 1 April 2015. The Pensions Regulator will also have an increased role in monitoring the operation of LGPS bodies.

2. BASIS OF PREPARATION

2.1. The Statement of Accounts summarises the fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15*, 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 40 of the main accounts.

3. MEMBERSHIP OF THE FUND

3.1. Membership of the fund is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme. At 31 March 2015 the membership of the Fund was as follows:

	2014/15	2013/14
Number of contributors to the Fund	7,210	6,812
Number of contributors and dependants receiving allowances	6,913	6,781
Number of contributors who have deferred their pensions	7,705	7,569

3.2. Other organisations participating in the Pension Fund comprise:

- The following admitted bodies:
  - Southwark Law Centre
  - Fusion
  - Centre for Literacy in Primary Education
  - South London Gallery
  - APCOA
  - HATS (formerly Olympic South)

- Veolia
- Camden Society
- Leather Market
- Balfour Beatty (Cofely)
- Browning (TMO)
- Chequers (2)
- Mears
- Brandon Trust
- Capita
- Interserve
- Sherman & Waterman
- D. Brice & Co Ltd
- Friedman (1 February 2014 until 31 August 2014)

- The following scheduled bodies:
  - Academy at Peckham
  - Ark All Saints Academy
  - Bacons College
  - Compass Free School
  - Dulwich Hamlet Junior School Academy
  - Globe Academy
  - Goose Green Academy
  - Harris Academy Bermondsey
  - Harris Girls Academy
  - Harris Boys Academy
  - Harris Primary Academy, Peckham Park
  - Harris Free School , Peckham
  - John Donne Academy
  - Judith Kerr Free School
  - Kingsdale Foundation School
  - Newlands Academy
  - Redriff Primary Academy
  - The Charter School Educational Trust
  - Walworth Academy
  - University Academy Engineering South Bank (from 1 September 2014)
  - Harris East Dulwich (from1 September 2014)
  - The Angel Oak Academy (from 1 February 2015)
  - Southwark Free School (from 1 February 2015)

4. ACTUARIAL POSITION OF THE FUND

Introduction

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

4.2. The following section on the actuarial position of the fund, paragraphs 4.3 - 4.10, has been prepared by the actuary for the sole use of the council, and should not be relied upon by any other party. The statements should not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Actuarial Position

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

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

- 13.3% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.

  plus

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

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

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

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

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

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

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

Actuarial Present Value of Promised Retirement Benefits

4.10. IAS 26 (retirement benefit plans) requires the 'actuarial present value of promised retirement benefits' to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2013.

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

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

5.1. 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 4. This estimate is subject to significant variances based on changes to underlying assumptions.

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

6.1. 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 4 and the critical judgements applied are explained in Note 5.

7. EVENTS AFTER THE BALANCE SHEET DATE

7.1. There are no significant post balance sheet events to be disclosed at the time of preparing these statements.

8. CONTRIBUTIONS

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

	Employees £000	Employers £000	2014/15 **Total £000**	Employees £000	Employers £000	2013/14 **Total £000**
Southwark Council	(11,061)	(37,540)	**(48,601)**	(9,850)	(34,370)	**(44,220)**
Admitted bodies	(365)	(1,161)	**(1,526)**	(366)	(1,299)	**(1,665)**
Scheduled bodies	(803)	(1,747)	**(2,550)**	(651)	(1,630)	**(2,281)**
Total Contributions	**(12,229)**	**(40,448)**	**(52,677)**	**(10,867)**	**(37,299)**	**(48,166)**

8.2. Contributions receivable from employers are shown below:

	2014/15 £000	2013/14 £000
Normal	(23,445)	(22,006)
Early retirement strain	(2,916)	(1,992)
Deficit funding	(14,087)	(13,301)
Total contributions from employers	(40,448)	(37,299)
Contributions from employees	(12,229)	(10,867)
Total Contributions	**(52,677)**	**(48,166)**

8.3. During 2014/15 employees made Additional Voluntary Contributions (AVCs) of £465,639 (£458,254 in 2013/14). 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 2015 was £2.685 million (£2.158 million at 31 March 2014).

9. TRANSFERS IN FROM OTHER PENSION FUNDS

9.1. Transfers in from other pension funds were as follows:

	2014/15 £000	2013/14 £000
Individual transfers	(1,891)	(3,121)
Total transfers in from other pension funds	**(1,891)**	**(3,121)**

10. BENEFITS PAYABLE

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

	Pensions £000	Lump sums £000	2014/15 **Total** **£000**	Pensions £000	Lump sums £000	2013/14 **Total** **£000**
Southwark Council	39,845	7,442	**47,287**	38,617	6,686	**45,303**
Admitted bodies	1,099	160	**1,259**	1,134	604	**1,738**
Scheduled bodies	179	119	**298**	155	86	**241**
Total benefits payable	**41,123**	**7,721**	**48,844**	**39,906**	**7,376**	**47,282**

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

	2014/15 £000	2013/14 £000
Pensions	41,123	39,906
Commutation of pensions and lump sum retirement benefits	6,254	6,058
Lump sums – death benefits	1,467	1,318
Total benefits payable	**48,844**	**47,282**

11. LEAVERS

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

	2014/15 £000	2013/14 £000
Refund of contributions	75	11
State Scheme Premiums	65	-
Individual transfers out to other schemes	2,768	3,699
Total payments	**2,908**	**3,710**

12. ADMINISTRATIVE EXPENSES

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

	2014/15 £000	2013/14 £000
Southwark Council recharges	819	881
External audit fees	23	18
Total administrative expenses	**842**	**899**

13. INVESTMENT INCOME

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

	2014/15 £000	2013/14 £000
Dividends from equities	(2,200)	(2,115)
Income from pooled investment vehicles	(2,122)	(2,631)
Net rent from properties	(8,555)	(7,089)
Interest on cash deposits	(21)	-
Other income	(5)	(510)
Total investment income before taxes	**(12,903)**	**(12,345)**
Taxes on income	105	52
Total investment income after taxes	**(12,798)**	**(12,293)**

13.2. Other income includes £57,318 income received from stock lending (£7,779 in 2013/14).

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

14. INVESTMENT MANAGEMENT EXPENSES

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

	2014/15 £000	2013/14 £000
Management fees	3,353	3,695
Custody fees	94	20
Performance monitoring service	31	40
Actuarial fees	183	202
Other	-	25
Total investment expenses	**3,661**	**3,982**

15. INVESTMENT ASSETS

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

2014/15	Total		Analysed by	
	31/03/15	Quoted (UK)	Quoted (Overseas)	Unquoted (UK)
	£000	£000	£000	£000
Fixed Interest Securities – Public Sector	40,569	32,419	8,150	-
Equities	107,586	9,352	98,234	-
Index linked securities	94,740	94,740	-	-
Managed Funds – Property (Freehold)	125,180	-	-	125,180
Managed Funds – Property (Leasehold)	11,675	-	-	11,675
Unit Trusts – Property	37,262	37,262	-	-
Unitised insurance policies	817,835	174,287	643,548	-
Cash Deposits	4,428	-	-	4,428
Total investment assets	**1,239,275**	**348,060**	**749,932**	**141,283**

2013/14	Total		Analysed by	
	31/03/14	Quoted (UK)	Quoted (Overseas)	Unquoted (UK)
	£000	£000	£000	£000
Fixed Interest Securities – Public Sector	32,300	25,522	6,778	-
Equities	89,314	12,486	76,828	-
Index linked securities	79,319	79,319	-	-
Managed Funds – Property (Freehold)	95,500	-	-	95,500
Managed Funds – Property (Leasehold)	11,650	-	-	11,650
Unit Trusts – Property	36,183	36,183	-	-
Unitised insurance policies	693,007	152,175	540,832	-
Options	16	-	-	16
Total investment assets	**1,037,289**	**305,685**	**624,438**	**107,166**
Investment Liabilities:				
Derivatives forward currency contracts	(19)	-	-	(19)
Net Investment Assets	**1,037,270**	**305,685**	**624,438**	**107,147**

Reconciliation of movements in investments

15.2. 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 31/03/14 £000	Purchases £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/03/15 £000
Fixed Interest:						
UK public sector	25,522	-	-	6,897	-	32,419
UK Equities	12,486	2,372	(4,478)	(1,028)	-	9,352
Overseas public sector	6,778	25,963	(25,459)	868	-	8,150
Overseas Equities	76,828	40,621	(38,048)	18,833	-	98,234
Index linked Securities	79,319	-	(1,400)	16,821	-	94,740
Managed Funds:						
Property (freehold)	95,500	13,968	(6,004)	21,716	-	125,180
Property (leasehold)	11,650	3,025	-	(3,000)	-	11,675
Unit Trusts – Property	36,183	-	(3,500)	4,579	-	37,262
Unitised insurance policies	693,007	23,586	(21,193)	122,435	-	817,835
Derivatives:						
Forward currency contracts	(19)	312	(282)	(11)	-	-
Options	16	276	(149)	(143)	-	-
Cash deposits	-	-	-	-	4,428	4,428
Total Net Investment Assets	**1,037,270**	**110,123**	**(100,513)**	**187,967**	**4,428**	**1,239,275**
Cash held at managers	10,186	-	-	-	(5,824)	4,362
Outstanding trades	(333)	-	-	-	647	314
Investment trade debtors	498	-	-	-	(498)	-
Total Net Investments	**1,047,621**	**110,123**	**(100,513)**	**187,967**	**(1,247)**	**1,243,951**

	Value at 31/03/13 £000 Restated	Purchases £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/03/14 £000
Fixed Interest:						
UK public sector	23,991	2,180	-	(649)	-	25,522
UK quoted	-	-	-	-	-	-
UK Equities	11,915	5,367	(3,276)	(1,520)	-	12,486
Overseas public sector	3,556	28,159	(24,356)	(581)	-	6,778
Overseas Equities	71,074	40,076	(41,035)	6,713	-	76,828
Index linked Securities	75,193	7,181	-	(3,055)	-	79,319
Managed Funds:						
Property (freehold)	72,230	17,818	-	5,452	-	95,500
Property (leasehold)	8,650	2,792	-	208	-	11,650
Unit Trusts – Property	40,954	-	(6,114)	1,343	-	36,183
Unitised insurance policies	662,306	16,091	(24,261)	38,871	-	693,007
Derivatives:						
Forward currency contracts	80	596	(582)	(113)	-	(19)
Options	-	321	(47)	(258)	-	16
Cash deposits	4,796	-	-	(56)	(4,740)	-
Total Net Investment Assets	**974,745**	**120,581**	**(99,671)**	**46,355**	**(4,740)**	**1,037,270**
Cash held at managers	14,081	-	-	-	(3,895)	10,186
Outstanding trades	-	-	-	-	(333)	(333)
Investment trade debtors	2,610	-	-	-	(2,112)	498
Total Net Investments	**991,436**	**120,581**	**(99,671)**	**46,355**	**(11,080)**	**1,047,621**

15.3. 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.

15.4. TH Real Estate held cash deposits of £4.428 million at 31 March 2015. There were no cash deposits at 31 March 2014 as it was used to fund the purchase of four direct properties.

15.5. The valuation of direct property managed by TH Real Estate is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2015. All properties have been valued at market value.

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

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

Asset Class	Fund Manager	Value at 31/03/15 £000	% within asset class
Fixed interest securities			
Over 15 Year Gilts Index	Legal & General	15,773	49%
Aquila Life Over 15 Years UK Gilt Index S1	BlackRock	16,646	51%
		32,419	100%
Overseas Public Sector			
United States Government Gilts	Newton	8,150	100%
Index linked Securities			
Over 5 Year Index Linked Gilts	Legal & General	46,590	49%
Aquila Life Over 5 Years UK Gilt Index S1	BlackRock	48,150	51%
		94,740	100%
Managed Funds (Property)			
140-142 St John Street, London	TH Real Estate	6,850	5%
18-30 Clerkenwell Road, London	TH Real Estate	8,400	6%
190-208 Ingram Street, Glasgow	TH Real Estate	10,050	7%
Hope House,45 Great Peter Street, London	TH Real Estate	13,100	10%
Rushy Platt Industrial Estate	TH Real Estate	6,850	5%
The Bridge, Clerkenwell	TH Real Estate	12,800	9%
		58,050	42%
Unit Trusts - Property			
Henderson Central London Office Fund	TH Real Estate	12,597	34%
Henderson UK Retail Wharehouse Fund	TH Real Estate	7,590	20%
Henderson UK Shopping Centre Fund	TH Real Estate	14,265	38%
BlackRock UK Property Fund	TH Real Estate	2,811	8%
		37,263	100%
Unitised Insurance Policies			
Investment Grade Bonds (All Stocks)	Legal & General	63,126	8%
Europe (ex UK) Equity Index	Legal & General	42,482	5%
North America Equity Index	Legal & General	149,032	18%
BlackRock Emerging Markets GBP FLX ACC	BlackRock	45,407	6%
Aquila Life Corp BD Index All STX S1	BlackRock	59,203	7%
Aquila Life European EQ IDX FD S1	BlackRock	69,638	9%
Aquila Life US EQ Index Fund S1	BlackRock	184,674	23%
		613,562	76%
Cash Deposits			
Deutsche Global Liquidity Fund	TH Real Estate	4,428	100%

Asset Class	Fund Manager	Value at 31/03/14 £000	% within asset class
Fixed interest securities			
United States Government Gilts	BlackRock	6,778	21%
Aquila Life Over 15 Year UK Gilt Index Series 1	BlackRock	25,522	79%
		32,300	100%
Index linked securities			
Aquila Life Over 5 Years IL Index Fund Series 1	BlackRock	79,316	100%
Managed funds (property)			
11/77 Castle Street + 10/18 Castle Meadow, Norwich	TH Real Estate	6,000	6%
190-208 Ingram Street, Glasgow	TH Real Estate	10,450	10%
9 - 11 High Street, Winchester	TH Real Estate	5,850	5%
Cathedral Park, Belmont Industrial Estate, Durham	TH Real Estate	5,600	5%
Units 1, 2, 4 and 7 Edinburgh Interchange, Newbridge	TH Real Estate	5,875	5%
Hope House, 45 Great Peter Street, London	TH Real Estate	10,250	10%
140 - 142 St John Street, London	TH Real Estate	5,500	5%
Unit 2 Rhosili road	TH Real Estate	4,850	5%
Rushy Platt Industrial Estate	TH Real Estate	6,250	6%
		60,625	57%
Unit Trusts Property			
Blackrock UK Property Fund	TH Real Estate	6,886	19%
Henderson Central London Office Fund	TH Real Estate	10,125	28%
Henderson UK Retail Fund	TH Real Estate	5,902	16%
Henderson UK Shopping Centre Fund	TH Real Estate	13,270	37%
		36,183	100%
Unitised Insurance Policies			
Aquila Life All Stocks Corporate Bond Index Fund		52,360	8%
Aquila Life Emerging Market Fund		32,290	5%
Aquila Life European Equity Index Fund		31,226	5%
Aquila life Japanese Equity Index Fund		42,774	6%
Aquila Life UK Equity Index Fund Series 1		48,882	7%
Aquila Life US Equity Index Fund series 1		160,304	23%
Europe (ex UK) Equity Index Fund		98,298	14%
Pacific Rim Equity index		42,281	6%
Investment Grade Corporate bonds All Stocks Index		50,933	7%
North America Equity Index		120,777	17%
		680,125	98%

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

Name of Investment	Fund Manager	Value at 31/3/15 £000	% of net assets
Investment Grade Bonds (All Stocks)	Legal & General	63,126	5%
North America Equity Index	Legal & General	149,032	12%
Aquila Life Corp BD Index All STX S1	BlackRock	59,203	5%
Aquila Life European EQ IDX FD S1	BlackRock	69,638	6%
Aquila Life US EQ Index Fund S1	BlackRock	184,674	15%
Total		**525,673**	**43%**

Name of Investment	Fund Manager	Value at 31/3/14 £000	% of net assets
Aquila Life Over 5 Years IL Index Fund Series 1	BlackRock	79,319	8%
Aquila Life European Equity Index Fund	Blackrock and Legal & General	98,298	9%
Aquila Life US Equity Index Fund series 1	Blackrock and Legal & General	281,081	27%
Total		**458,698**	**44%**

15.9. The market value of assets 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 31/03/15	% market value held at 31/03/15	Market value of fund at 31/03/14	% market value held at 31/03/14
	£000	%	£000	%
BlackRock	442,278	36	375,412	36
BlackRock (warehouse)	125,541	10	105,604	10
Alliance Bernstein (Growth)	-	-	27	-
Alliance Bernstein (Value)	-	-	123	0
Legal & General Investment Managers	377,204	30	317,064	30
Newton Investment Management	118,978	10	98,325	9
TH Real Estate	179,950	14	151,066	14
Total	**1,243,951**	**100**	**1,047,621**	**100**

16. CURRENT ASSETS AND LIABILITIES

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

	2014/15 £000	2013/14 £000
Contribution due from employers	1,960	1,363
Other current assets	3,392	4,470
Cash at managers	4,362	10,186
Cash and bank	2,712	1,545
Total	**12,426**	**17,564**

16.2. The current liabilities of the fund are analysed as follows:

	2014/15 £000	2013/14 £000
Support services	33	131
Benefits	264	34
Professional fees	547	555
Investment fees	1,534	3,861
Taxes	607	625
Other	985	927
Total	**3,970**	**6,133**

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

17.1. 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:

	2014/15 £000	2013/14 £000
Financial assets		
Financial assets at fair value through profit or loss	1,102,420	930,139
Financial liabilities		
Financial liabilities at fair value through profit or loss	-	(19)
Total	**1,102,420**	**930,120**

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

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

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

2014/15	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	Total £000
Financial assets			
Financial assets at fair value through profit or loss	1,065,158	37,262	1,102,420
Total	**1,065,158**	**37,262**	**1,102,420**

2013/14	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	Total £000
Financial assets			
Financial assets at fair value through profit or loss	893,956	36,183	930,139
Financial liabilities			
Financial liabilities at fair value through profit or loss	(19)		(19)
Total	**893,937**	**36,183**	**930,120**

17.3. 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

17.4. 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.

17.5. 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

17.6. 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.

17.7. 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.

17.8. 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 monies 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

17.9. 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

17.10. 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.

17.11. 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

17.12. 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.

17.13. 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.

17.14. 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

17.15. 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 2014/15 reporting period:

2014/15 Asset Type	Value £000	% Change %	Value on Increase £000	Value on Decrease £000
Total Equities	803,092	8.92%	874,728	731,456
UK Govt Bonds	-	11.24%	-	-
UK Corporate Bonds	59,203	5.74%	62,601	55,805
UK Index-Linked	190,285	9.58%	208,514	172,056
Overseas Bonds	-	7.62%	-	-
Property	174,117	4.53%	182,005	166,229
Cash	16,940	0.01%	16,942	16,938
Debtors	314	0.00%	314	314

Total Assets	**1,243,951**		**1,345,104**	**1,142,798**

2013/14 Asset Type	Value £000	% Change	Value on Increase £000	Value on Decrease £000
Total Equity	679,029	12.35%	762,889	595,169
UK Govt Bonds	25,522	10.16%	28,115	22,929
UK Corp Bonds	103,292	4.61%	108,054	98,530
UK Index Linked	79,319	8.33%	85,926	72,712
Property	143,333	2.45%	146,845	139,821
Cash	16,964	0.02%	16,967	16,961
Forward Currency	(19)	0.00%	(19)	(19)
Options	16	0.00%	16	16
Investment Creditors	(1,969)	0.00%	(1,969)	(1,969)
Investment Debtors	2,134	0.00%	2,134	2,134
Total Assets	**1,047,621**		**1,148,958**	**946,284**

17.16. 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.

17.17. 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

17.18. 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.

17.19. 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

17.20. 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.

17.21. 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 2015	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000	£000	£000
Cash Balances	16,940	169	(169)
Fixed Interest Securities	127,159	1,272	(1,272)
Total change in net assets available	**144,099**	**1,441**	**(1,441)**

Asset type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000	£000	£000
Cash Balances	10,186	102	(102)
Fixed Interest Securities	104,841	1,048	(1,048)
Total change in net assets available	**115,027**	**1,150**	**(1,150)**

Currency Risk

17.22. 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.

17.23. 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

17.24. The following table demonstrates the change in value of assets exposed to currency risk had there been a 10 per cent strengthening or weakening of the pound against foreign currencies. This analysis assumes that all other variables, in particular interest rates, remain constant.

		Change in year in the net assets available to pay benefits	
Assets exposed to currency risk	Value	10%	-10%
	£000	£000	£000
As at 31 March 2015	749,932	824,925	674,939
As at 31 March 2014	675,370	742,907	607,833

18. RELATED PARTY TRANSACTIONS

18.1. 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.

18.2. 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 34.

18.3. 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 12.

18.4. Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)–(4) of The Accounts and Audit (England) Regulations 2011 and Regulation 7A of The Accounts and Audit (Wales) Regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. The Strategic Director of Finance and Corporate Services' remuneration is disclosed in Note 30 of the council's Statement of Accounts.

18.5. The council is also the single largest employer of members of the pension fund and contributed £37.5 million to the fund in 2014/15 (£34.4 million in 2013/14).

18.6. There were no related party transactions other than those disclosed elsewhere in the accounts.

19. CONTINGENT ASSETS AND LIABILITIES

19.1. There are no contingent assets or liabilities.

PENSION FUND ACCOUNTING POLICIES

20. Summary of significant accounting policies

Fund account – contributions income

20.1. 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.

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

Fund account – transfers to and from other schemes

20.3. 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.

20.4. 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

20.5. 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.

20.6. 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.

20.7. 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.

20.8. 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.

20.9. 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

20.10. 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

20.11. 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

20.12. 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

20.13. 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

20.14. 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 TH Real Estate is carried out each year by an independent valuer.
- Investment assets have been valued and included in the accounts at bid price, except for direct property (freehold and leasehold) which have been valued at market value and derivative contracts which are valued on the basis of unrealised gains and losses.
- Property unit trusts have been included at net asset price.

20.15. 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.

20.16. 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.

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

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

Net assets statement – financial liabilities

20.19. 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

20.20. 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

20.21. 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.

Appendix 3: Funding Strategy Statement

SECTION 1
INTRODUCTION

Overview

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

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

Consultation

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

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

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

Policy Purpose

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

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

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

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

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

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

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

Review of this Statement

The Administering Authority undertook its latest substantive review of this Statement between January and March 2014.

The Administering Authority will formally review this Statement as part of the triennial valuation as at 31 March 2016 unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that 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 62 of the Regulations and specifically to enable employer contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency. The Fund solvency should be assessed in light of the risk profile of the fund and the risk appetite of the Administering Authority and employers alike.

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

- the regulatory requirement to secure solvency, which should be assessed in light of the risk profile of the Fund and risk appetite of the Administering Authority and employers
- the requirement that the costs should be reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and
- maximising income from investments within reasonable risk parameters (see later)

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

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

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

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

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

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

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

c) To manage employers' liabilities effectively.

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

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

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

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

SECTION 3
RESPONSIBILITIES OF THE KEY PARTIES

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

Their key responsibilities are as follows:

Administering Authority

The Administering Authority will:

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

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

  Ensure provision of data of suitable accuracy

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

  Ensure that participating employers receive appropriate communication throughout the process

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

Individual Employers

Individual Employers will:

- Deduct contributions from employees' pay.
- Pay all contributions, including their employer's contribution as determined by the Fund Actuary, promptly by the due date.
- Develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework.
- Pay for additional membership or pension, augmentation, early release of benefits or other one off strain costs in accordance with agreed arrangements.

- Notify the Administering Authority promptly of all changes to membership, or other changes with affect future funding.
- Note and if desired respond to any consultation regarding the Funding Strategy Statement, the Statement of Investment Principles or other policies.

Fund Actuary

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

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

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

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

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

SECTION 4

FUNDING TARGET, SOLVENCY AND NOTIONAL SUB FUNDS

Risk based approach

The Fund utilises a risk based approach to funding strategy.

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

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

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

These three terms are considered in more detail below.

Solvency Target and Funding Target

Solvency and 'funding success'

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

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

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

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

Probability of Funding Success

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

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

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

Funding Target

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

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

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

Application to different types of body

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

Scheduled Bodies and certain other bodies of sound covenant

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

Admission Bodies and certain other bodies whose participation is limited

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

Full Funding

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

Other Aspects of Funding Strategy

Recovery and Trajectory Periods

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

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

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

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

The Administering Authority recognises that a large proportion of the Fund’s liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the

Administering Authority also recognises the risk in relying on long Recovery and Trajectory Periods and has agreed with the Fund Actuary a limit of 30 years for both, for employers which are assessed by the Administering Authority as being a long term secure employer.

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

Grouping

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

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

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

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

Stepping

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

Inter-valuation funding calculations

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

Notional Sub-Funds for individual employers

Notional sub-funds

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

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

Roll-forward of sub-funds

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

Further adjustments are made for:

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

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

- Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is of low materiality, estimated cash flows will be used

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

Fund maturity

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

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

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

SECTION 5

SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

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

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

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

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

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

Guarantors

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

- If an employer ceases and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In

other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

- During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Targets for the employer, which would probably lead to reduced contribution requirements.

Bonds and other securitization

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

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

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

- In the case of Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer or Guarantor on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of bond required from the Admission Body, if any. In this case, the Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer or Guarantor, but this should not be construed as advice to the relevant Scheme Employer or Guarantor on this matter. Once the Scheme Employer or Guarantor confirms their agreement to the level of bond cover proposed, the Administering Authority will be happy to provide a separate document to the Admission Body setting out the level of cover which the Administering Authority and Scheme Employer/ Guarantor consider suitable, but this should not be constructed as advice relevant to the Admission Body on this matter.
- In the case of:
    - Admission bodies admitted under paragraph 1(e) of Part 3, Schedule 2
    - Admission bodies admitted under paragraph 1(d) of Part 3, Schedule 2 where the Administering Authority does not judge the Scheme Employer to be of sufficiently strong covenant
    - Other Admission bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant;

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

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

Subsumed liabilities

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

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

Orphan liabilities

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

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

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

Smoothing of contributions rates for Admission Bodies

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

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

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

Such action has three implications:

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

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

Cessation of participation

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

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

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

SECTION 6
IDENTIFICATION OF RISKS AND COUNTER MEASURES

Approach

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

<u>Investment Risk</u>

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

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

The specific risks associated with assets and asset classes are:

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

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

Choice of Solvency and Funding Targets

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

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

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

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

Employer Risk

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

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

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

Liquidity and maturity risk

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

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

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

Particular examples are set out below:

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

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

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

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

Liability Risk

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

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

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

Regulatory and Compliance Risk

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

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

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 4: Statement of Investment Principles

Introduction

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

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

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

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

<u>Purpose of Statement</u>

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

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

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

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

Frequency of Review

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

Advice

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

Consultation

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

Investment Powers

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

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

Approval

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

Governance

Decision making structure

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

Authority

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

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

The Pensions Advisory Panel advises the Council on the above.

Pensions Advisory Panel (PAP)

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

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

Investment Adviser

- advising the Pensions Advisory Panel on investment strategy
- advising the Pensions Advisory Panel on this statement
- advising on benchmarking issues
- advising on and evaluating the investment manager and custodial tenders
- monitoring the performance of the investment managers
- attendance at all Pensions Advisory Panel meetings
- ad-hoc investment issues that the Council does not have the knowledge or resources to resolve

Investment Managers

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

Global Custodian

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

Auditor

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

Funding and Investment Policy

Regulations and the Link to Investment Strategy

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

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

The Authority’s policy is to:

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

Investment Strategy and Expected Returns

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

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

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

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

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

Process for Choosing Investments

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

Additional Voluntary Contributions

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

Investments Directly Controlled By the Authority

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

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

Implementation

Investment Advisers

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

Fund Managers

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

Newton Investment Management

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

BlackRock

Global equities: To perform in line with a fixed benchmark of global equities.

Diversified growth: To generate a return of cash (3 month LIBOR) + 3% per annum net of fees.

Absolute return bonds: Aims to achieve a positive absolute return and as such has no fixed benchmark.

Passive bonds: To perform in line with a fixed benchmark.

TIAA Henderson Real Estate

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.

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

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

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

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

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

Balance between types of Investment and Risk

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

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

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

Compliance

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

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

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

- covenants of all scheme employers are reviewed on an on going basis.

3. Risk and Liabilities

Principle

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

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

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

- the asset allocation strategy is reviewed every 3 years. Mercer Ltd is commissioned to carry out an asset liability study which models the risk/reward characteristics of different investment strategies.

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

4. Performance Assessment

Principle

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

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

State of Compliance The Fund is currently **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 State Street.

- Key performance indicators for the investment advisers (Mercers) appointed January 2015 are under development; once these are in place the Fund will be considered fully compliant.

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 **fullycompliant** 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.

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

6. Transparency & Reporting

Principle Administering authorities should:

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

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

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

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

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

- members can also request information directly from the Council.

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

Appendix 5: Communications strategy

Statements of policy concerning communications with members and employing authorities:

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

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

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

Objectives of the communications strategy:

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

Proposed communications methods:

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

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

Communications Tools

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 6: Governance Compliance Statement

Background

Amendments to the Local Government Pension Scheme Regulations 1997 require that an administering authority must prepare, maintain and publish a written statement setting out:

- Whether the administering authority delegates the function in relation to maintaining a pension fund to a committee , a sub-committee or an officer;

- The frequency of any committee or sub-committee meetings;

- The terms of reference, structure and operational procedures of the delegation;

- Whether the committee or sub-committee includes representatives of employing authorities or members.

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

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

<u>Frequency of Meetings</u>
The Pensions Advisory Panel meets once every quarter. Additional meetings are held where issues requiring urgent attention arise.

<u>Terms of Reference, Structure and Operational Procedures</u>
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.

<u>Membership and Voting Rights of the Panel</u>

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.

Representation from Employing Authorities or Members
When deciding on the composition of the Pensions Advisory Panel, it was decided that as London Borough of Southwark represents the majority of the Fund membership, admitted bodies would not be included on the Panel. There are 19 admitted bodies in the Fund. Although they are not represented on the Panel, they are fully consulted on and kept informed of all decisions made by the Panel.

The Principles

Principle	**Fully Compliant?**	**Note**
Structure		
The management of the administration of benefits and strategic management of the fund assets clearly rests with the main committee established by the appointed council.	**Yes**	
The representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	**No**	**1**
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**Not applicable**	
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**Not applicable**	

Principle	Fully Compliant?	Note
Representation That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include:- • employing authorities (including non-scheme employers, e.g., admitted bodies); • scheme members (including deferred and pensioner scheme members), • where appropriate, independent professional observers, and • expert advisors (on an ad-hoc basis).	**No**	**1**
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Yes**	
Selection and role of lay members That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**Yes**	
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**Yes**	
Voting The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees	**Yes**	
Training/Facility time/Expenses That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	**No**	**2**
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Yes**	
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**Yes**	

Principle	Fully Compliant?	Note
Meetings (frequency/quorum)		
That an administering authority's main committee or committees meet at least quarterly.	**Yes**	
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**Not applicable**	
That an administering authority that does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	**Not applicable**	
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Yes**	
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Yes**	

Note 1

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

Note 2

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