

Pension Fund Annual Report 2016/17



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Introduction

The London Borough of Southwark Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered by Southwark Council. The LGPS provides for the occupational pensions of employees, other than teachers, police officers and fire fighters of local authorities. It is a contributory defined benefit scheme established by the Superannuation Act 1972. With 5.1 million members, the LGPS is one of the largest public sector pension schemes in the UK.

The Fund is funded by employee and employer contributions and the investment returns generated from the Fund's investments. Contributions and other balances not immediately required to meet pensions and other benefits are invested in a diverse range of investment assets.

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

The objective of the Fund is to have sufficient resources available to meet all future pension entitlements of past and present employees. To ensure that sufficient resources are available the Fund reviews the required contribution rates for all employers every three years following an actuarial valuation of the Fund.

The aims of the Fund are to:

- adequately fund benefits to secure the Fund's solvency and long term cost efficiency, which should be assessed in light of the risk profile of the Fund and Employers
- seek to maintain as nearly constant overall employer contribution rates as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

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 LGPS regulations and the key points are as follows:

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

The management of the Fund

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

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

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

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

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

The Pensions Advisory Panel continues 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 Governance

2016-17 has been a busy year for the Fund. There have been a number of local and national initiatives and scheme requirements during the year, all within a backdrop of economic volatility and funding pressures. Despite the challenges that the Fund has faced during the year, we are very pleased to report that the Fund has continued its historically strong investment and operational performance during 2016-17.

The Fund's investment performance for the year was 19.8%, with longer term returns of 13.0% per annum over the previous three years and 11.6% per annum over the previous five. This impressive and consistent investment performance is a validation of the Fund's investment strategy and philosophy. Our investment return puts the Fund in the top quartile of local authority pension funds over a three and five year period.

This investment performance has been an important factor in the positive results for our latest actuarial valuation, as at the 31 March 2016. Local government pension funds are required to value their liabilities every three years. Our actuary, AON Hewitt, values the Fund's total liability from all pension benefits due to every member of our Fund. This can be assessed against the market value of our investment assets to provide the Fund's funding level.

Over the last three triennial valuations the funding level has improved from 78% in 2010 to 88% in 2016, and is estimated to have increased dramatically to 98% by March 2017.

	31 March 2010	31 March 2013	31 March 2016	31 March 2017 (est)
Assets	789m	995m	1,256m	1,495m
Liabilities	-1,011m	-1,220m	-1,432m	-1,527m
Deficit	-222m	-225m	-176m	-32m
Funding Level	78%	82%	88%	98%

The triennial actuarial valuation is used to set contribution rates for all participating employers within the Fund, such as academy and local authority administered schools, other admitted bodies and Southwark Council itself. The remarkable investment performance over this period has allowed the Fund to limit any increases in pension contributions, which has been of benefit to council and school budgets in such a difficult funding environment.

A number of other local authorities have seen increases in their pension contributions. The fact that Southwark has been able to keep the overall level of pension contributions stable for the next three years is something we are very proud of; especially as our actuary has increased the level of prudence within their calculations. We would very much like to thank AON Hewitt for all their hard work and cooperation throughout this valuation process.

The full report for the 2016 valuation is available at the Southwark website on the following link.
<http://www.southwark.gov.uk/council-and-democracy/pensions/pension-fund>

Another key development for the Fund over the last year was the publication of our new investment strategy statement, which sets out our investment objectives and principles, consideration and management of investment risks and our approach to incorporating environmental social and governance issues within our investment strategy, shown as appendix 4.

Within this statement is a confirmation of the new approach that the Fund will take with regard to future fossil fuel investment. In light of the growing evidence of financial risks inherent within fossil fuel investment, arising from their impact upon the global environment, we have committed to a process of reducing our investment in fossil fuels over time.

The transition away from fossil fuel investments will be realised through a structured and evidenced based strategy that also meets the overarching asset allocation of the Fund and complies with the Fund's fiduciary duties. We are proud to be at the forefront of this important change in investment philosophy and will seek to encourage other local authority pension funds to adopt such an approach. In order to demonstrate how the Fund will implement this commitment we will be publishing a long term fossil fuel reduction strategy later in the year.

Collaboration between local authority pension funds has been a key feature of the previous year. The London Collective Investment Vehicle (CIV), of which Southwark is a founding partner, is a collaborative venture between 33 local authorities in London. The CIV will seek to deliver benefits of economies of scale in investment. We are fully supportive of the potential benefits that the CIV can offer and committed to the continued success of the CIV as an investment vehicle. Furthermore we welcome the initiation of a review of the CIV's governance arrangements, which we hope will clarify and formalise the relationship between the CIV and the partner pension funds.

Whilst our Fund does not as yet have any assets within the CIV platform we have, along with many other London boroughs, been able to secure fee discounts from a number of our investment managers who have reacted positively to the government's pooling initiative.

The Local Pension Board, established since April 2015, has developed into an important part of our overall governance arrangements. A report of the activities of the Local Pension Board for 2016-17 is shown on page 6

As we look forward to 2017-18, one important area of focus for the Fund will be the review of our investment strategy. Along with our investment advisors, we will seek to ensure that the asset and investment allocation remains best placed to secure sufficient investment returns meet future pension promise to our members, whilst ensuring effective management of risks. This review will also investigate the available opportunities for the Fund for reducing fossil fuel investments and the potential for investing in clean energy and green infrastructure.

Local government pension scheme administration is becoming ever more complex and so we would like to thank the employers within the Fund that provide us with accurate information in a timely fashion, which allows our administration team to provide the high quality and accurate reporting of pension information to our members.

Finally we would like to take this opportunity to thank all those involved with the management of the pension fund, officers, Pensions Advisory Panel and Local Board Members as well as our fund managers and contractors. This has been a successful year for the Fund and we very much hope that this will continue for the next year and beyond.

Councillor Fiona Colley

Cabinet Member for Finance, Modernisation and Performance, Chair of the Pensions Advisory Panel

Duncan Whitfield

Strategic Director of Finance and Governance

Report from the Independent Chair of the Local Pension Board

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

Southwark established its Board on the 25 February 2015, and appointed an Independent Chair. The Chair is also invited to attend the Pensions Advisory Panel. This provides a useful link between the advisory body and the Board. The link is further strengthened by the attendance at the Board of the Strategic Director of Finance and Governance on an ad hoc basis; attendance of other key officers and joint training sessions for the Board and Pension Advisory Panel members.

Terms of Reference, Conflicts of Interest, Membership and Attendance

A copy of the Local Pension Board's Terms of Reference can be found at:

http://www.southwark.gov.uk/downloads/download/4386/local_pension_board_lpb_-_meetings/ . As recorded in the minutes, there were no conflicts of interests arising during 2016/17.

The composition of the Local Pension Board is listed below:

- 1 Independent chair
- 2 Scheme Member Representatives
- 2 Employer representatives

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

Name	Title/Company	19 April 2016	20 July 2016	10 Oct 2016	24 Jan 2017
Mike Ellsmore	Independent Chair	✓	✓	✓	✓
Sue Plain	Scheme Member Representative	✓	✓	✓	✓
Bill White	Scheme Member Representative	x	x	x	x
Norman Coombe	Employer Representative	✓	✓	✓	✓
Jo Anson	Employer Representative	x	x	✓	n/a
Dominic Cain	Employer Representative	n/a	n/a	n/a	✓
Mike Pinder	Substitute Employer representative (1)	✓	✓	✓	✓
Matthew Hunt	Substitute Employer representative (2)	✓	✓	x	x
Neil Tasker	Substitute Employee representative (3)	✓	✓	✓	✓
Colleen Reid	Substitute Employee representative	✓	✓	x	n/a

Knowledge and Understanding/Training

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

- Diversified Growth Funds (April 2016)
- Actuarial Valuations (June 2016)
- Pensions Benefits (Jan 2017)
- Pensions Regulator Public Service Toolkit – self learning modules undertaken by Board Members

Work during the year

This report covers the second year of the Board's operation. The Board has begun to establish itself as part of Southwark's governance structure in relation to the Pension Fund. Board members take their responsibilities seriously and readily engage in the training programme in order to develop their skills and knowledge.

The Board's core function is to provide an oversight of the governance and administration of the Fund. A key task in fulfilling the Board's core function was to commission a governance review which after a selection process was undertaken by Aon Hewitt. The outcome of the review was reported to the Board and then to the PAP. An Action Plan was agreed and this is subject to regular monitoring by the Board.

The Board also received all Pension Advisory Panel agendas, and continues to focus on particular areas of interest. During the year, the Board has considered:

- progress on the London CIV
- an action plan on data cleansing
- indemnity insurance for LPB members.
- the terms of reference
- the annual appointment of the Board's Chair
- review of key performance indicators on pensions administration

In addition representations were made to the PAP on:

- potential conflicts of interest on local property investment
- the Investment Strategy Statement: in particular the values statement and that the LPB continue to hold the view that the pension fund and political administration should be separate.

Future Work

Looking ahead, 2017/18 will see further transfers of assets to the 8 pools which are in the process of being established across England and Wales. The Board will continue to monitor this initiative. There is also a growing interest in the cost transparency of asset managers' fees and the Board will be interested in how this develops and will follow closely the work of CIPFA and the Scheme Advisory Board.

The issue of data quality is coming to the fore nationally. The large increase in the number of employers in the Fund has placed pressure on administrators as the quality of members' data submitted by smaller employers is often not as good as it should be. This is an area where the Pensions Regulator will show an increasing interest and is fundamental to providing accurate pensions to the Fund's members. The Board will give a high priority to this issue.

Expenses

The total expenses incurred by the board for 2016/17 was £20,231 analysed as set out below;

Fees – Independent Chair	£2,500
Training & Other Misc.	£481
LPB Governance Review	£17,250
Total	£20,231

Local Pension Board Papers

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

[http://www.southwark.gov.uk/downloads/download/4386/local_pension_board_lpb - meetings](http://www.southwark.gov.uk/downloads/download/4386/local_pension_board_lpb_-_meetings)

Mike Ellsmore

Independent Chair, Southwark Local Pensions Board



Governance policy and compliance

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

The Pensions Advisory Panel meets quarterly and membership for 2016/17 comprised:

- Councillors: Fiona Colley (*Chair*)
Eliza Mann
Jon Hartley
- Officers: Duncan Whitfield (*Strategic Director of Finance & Governance*)
Fay Hammond (*Departmental Finance Manager*)
Malcolm Laird (*SAP Payroll & Pensions Manager-to Dec16*)
Jo Anson (*Head of Finance & Information Governance-from Jan17*)
- Observers: Chris Cooper (*Unison*)
- Advisers: Jo Holden (*Mercer*)
David Cullinan (*Independent Advisor from Mar17*)

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

Meeting Attendance 2016/17					
Name	Title/Company	7 June 2016	6 Sept 2016	6 Dec 2016	17 Mar 2017
Fiona Colley	Elected Member	✓	✓	✓	✓
Eliza Mann	Elected Member	✓	✓	✓	x
Jon Hartley	Elected Member	✓	✓	✓	x
Duncan Whitfield	Strategic Director of Finance & Governance	✓	✓	✓	✓
Fay Hammond	Departmental Finance Manager	✓	✓	✓	✓
Malcolm Laird	SAP Payroll & Pensions Manager	✓	x	✓	
Jo Anson	Head of Financial and Information Governance				✓
Chris Cooper	Unison	✓	✓	✓	✓
David Cullinan	Independent Advisor				✓
Jo Holden	Mercer	✓	✓	✓	✓

Knowledge and skills

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

During 2016/17 members of the Pensions Advisory Panel (PAP) received training specific to the work areas being considered.

An increasing area of consideration for PAP has been that of environmental, social and governance matters and how these relate and impact on the Fund's investments. In June 2016 PAP received a presentation on the

role of the Local Authority Pension Fund Forum (LAPFF) and what they do on the Fund's behalf as members. This covered areas such as corporate governance and corporate social responsibility; areas of concern for responsible owners; approaches to activism; and LAPFF engagement results.

Throughout the year PAP have discussed and received training on issues related to the forthcoming investment strategy review, to begin following the culmination of the actuarial review. Portfolio risk was a key area of discussion which included a training session in December on currency risk, following the EU referendum.

Information and guidance on the implications of and methodology for the 2016 actuarial valuation have been prominent throughout PAP agenda meetings.

Management & financial performance

Scheme Management and Advisers

Advisers	<ul style="list-style-type: none">- Joanne Holden (Mercer)- David Cullinan (Independent Advisor)
Actuary	<ul style="list-style-type: none">- Aon Hewitt
Performance Monitoring	<ul style="list-style-type: none">- PIRC Performance Analytics
Investment Managers	<ul style="list-style-type: none">- BlackRock Advisors (UK) Ltd- Newton Investment Management Limited- TH Real Estate- Legal & General Investment Management Limited- Brockton Capital LLP- Frogmore Real Estate Partners Investment Managers Limited- M&G Investments- Invesco Real Estate
Custodians	<ul style="list-style-type: none">- JP Morgan- BNP Paribas Securities Ltd
Property Solicitors	<ul style="list-style-type: none">- Dibb Lupton Alsopp- Todds Murray
Auditor	<ul style="list-style-type: none">- Grant Thornton
AVC Providers	<ul style="list-style-type: none">- AEGON

Risk Management

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

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

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

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

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

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

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

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 2016/17 the Fund increased in value by £239 million (19%) to £1,495 million. A detailed analysis of the movement can be found in the statement of accounts for the Fund at Appendix 2 of this report, and is summarised below.

	£000
Net Assets 31 March 2016	(1,256,382)
Contributions and Joiners	(55,789)
Benefits and Leavers	60,269
Investment Income Less Taxes	(14,149)
Management Expenses	5,096
Profit on Sale and Change in Investment Value	(234,037)
Increase in Fund Value	(238,610)
Net Assets 31 March 2017	(1,494,992)

During the year the net cash flow for membership; contributions and joiners, less benefits paid and leavers, was negative, a net reduction of £4,480k. The active membership of the Fund has decreased from last year bringing an associated decline in contributions.

The significant change in the value of the Fund from last year was due to the large movements in investment values. Buoyant equity markets and the reduction in the value of sterling led to the very positive investment return for the Fund.

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.

Asset Allocation and Holdings by Asset Class

The actual asset allocation compared to the strategic asset allocation at 31 March 2017 is set out below. The table indicates that the Fund was underweight in its property allocation (-3.9%) and overweight in its equities allocation (+6.4%), and broadly in line with the strategic allocation for all other asset classes.

Asset Class	Asset Value £m	Actual %	Strategic %	Relative %
Equities	839	56.4	50.0	6.4
Index Linked Gilts	144	9.7	10.0	-0.3
Absolute Return Bonds	121	8.13	10.0	-1.9
Diversified Growth	122	8.20	10.0	-1.8
Property	240	16.13	20.0	-3.9
Cash and Other	22	1.48	0.0	1.5
Total Investment Assets	1,488	100.00	100.0	0.0

The holdings with individual fund managers at 31 March 2017 were as follows:

Investment Manager	Value at 31 March 17 £000s	% of Fund
BlackRock	670,335	45
Legal & General	413,588	28
TH Real Estate	200,608	13
Newton	153,966	10
M&G	20,006	1
Invesco	14,897	1
Brockton	7,934	1
Frogmore	4,913	0
London CIV	150	0
Total	1,486,397	

Investment Performance

Performance Highlights

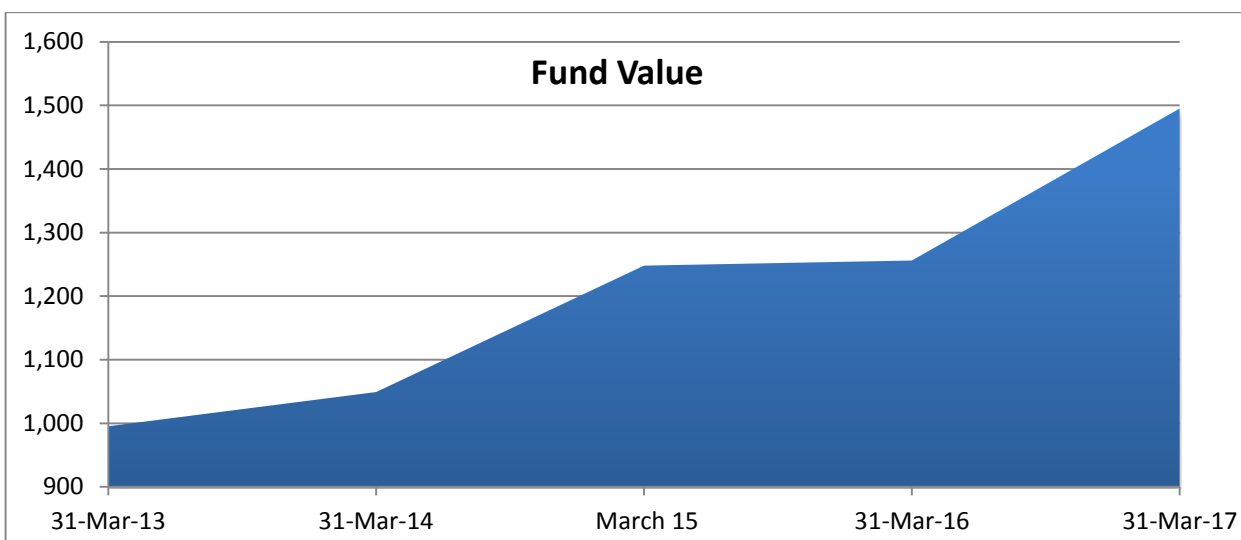
Asset Class	Return 2016-17 (Fund) %	Local Authority Average Return (*) %	Over/(Under) Performance %	Ranking (percentile)
Total Fund	19.8	21.4	-1.6	65
Equities	29.6	28.9	0.7	29
Alternatives	2.9	16.0	-13.1	93
Property	2.9	6.2	-3.3	79

	Rank - Percentile				
Asset Class	1 year	3 years	5 years	10 years	20 years
Total Fund	65	9	19	43	24
Equities	29	10	23	26	52
Alternatives	93	-	-	-	-
Property	79	9	31	32	9

Source: Local Authority Pension Performance Analytics

As set out in the above tables, the Fund has performed well over the medium term to long term, in the top half of Funds from 3- 20 years. Relative performance over the previous 3 and five years was strong.

Performance for the Fund during the previous financial year was less impressive than the longer-term record, with returns in the bottom half of local authorities for this year. The Fund is a long term investor seeking sustainable returns and short term market movements are less important than consistent strong above average returns.



Performance against benchmark

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

Manager	Benchmark	Benchmark Weight (%)	Outperformance target (% pa)
BlackRock	In line with customised benchmarks using monthly mean weights	25.0	-
BlackRock (Diversified Growth Fund)	LIBOR	10.0	+3 net of fees
BlackRock (Absolute Return Bond Fund)	LIBOR	10.0	+4 net of fees
Legal & General	FTSE All World	25.0	-
Newton	FTSE All World	10.0	+3 net of fees
TH Real Estate	IPD All Property	14.0	+1 net of fees
Frogmore	16.5% pa absolute return	1.5	-
Brockton	15.0% pa absolute return	1.5	-
Invesco	8.5% pa absolute return	1.5	-
M&G	8.0% pa absolute return	1.5	-

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 2017

Manager		12 months	3 years % pa	5 years % pa	Target Met?
BlackRock Balanced	Portfolio	31.5	15.1	12.7	yes
	Benchmark	31.0	15.1	12.7	
	Relative Return	0.5	0.0	0.0	
BlackRock Active	Portfolio	2.9	-	-	
	Benchmark	3.9	-	-	
	Relative Return	-0.9	-	-	
Legal & General	Portfolio	30.8	15.9	-	yes
	Benchmark	30.3	15.9	-	
	Relative Return	0.5	0.0	-	
Newton	Portfolio	21.5	16.5	15.0	no
	Benchmark	36.6	17.4	15.1	
	Relative Return	-15.1	-1.0	-0.1	
TH Real Estate	Portfolio	2.8	11.4	8.9	no
	Benchmark	4.9	11.5	10.1	
	Relative Return	-2.1	-0.1	-1.3	
Frogmore	Portfolio	11.9			
	Benchmark	16.5			
	Relative Return	-4.6	-	-	
Brockton	Portfolio	19.4	-	-	
	Benchmark	15.0	-	-	
	Relative Return	4.4	-	-	
Invesco	Portfolio	-	-	-	-
	Benchmark	-	-	-	
	Relative Return	-	-	-	
M&G Investments	Portfolio	-	-	-	-
	Benchmark	-	-	-	
	Relative Return	-	-	-	
Total Fund	Portfolio	19.8	13.0	11.6	
	Benchmark	21.7	13.8	12.2	
	Relative Return	-1.9	-0.8	-0.5	

Performance figures are shown where the manager has been invested for the relevant period.

Investment Manager Performance – 2016/17

The Fund recorded a 19.8% return over the year to March 2017 which was short of the benchmark return of 21.7%. Asset growth has been very positive for the Fund, helping to improve the funding ratio significantly.

Over the year, global equity markets rose by a third. In bond markets, higher inflation expectations and a rise in US interest rates had been largely priced in and rose modestly. Property markets continued in a modestly positive direction.

BlackRock Balanced & Legal & General Investment Management

Manager Objective

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

Performance

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

Outlook

- The year to 31 March 2017 was eventful and culminated in the triggering of Article 50. The UK market was largely unperturbed by “Brexit” fears. Added to this was a generally positive outlook for growth and a supportive weakness in the Pound.
- Globally equity markets rose, led by emerging markets and Continental Europe, the latter partly buoyed nearer the end of the year, by the result of the Dutch general election.

BlackRock Active

Performance

- Over 1 year, the Diversified Growth and Absolute Return Bond funds in aggregate have marginally underperformed their benchmark.

Outlook

- Both funds benchmark themselves against cash, which falls short of the Fund’s target growth of 4.55% pa. Consideration is therefore being given as to whether these funds are appropriate to invest in going forward. Over the full year absolute returns were 3.9% for the DGF fund and 3% for the ARB fund.

Newton Investment Management

Manager Objective

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

Performance

- Newton has under performed their performance target over 1, 3 and 5 years.
- However, the portfolio performed strongly in absolute terms; returning 21.5%, 16.5% and 15% over 1,3 and 5 years respectively.

Outlook

- The consequences of Brexit are likely to make an already challenging background even more difficult.
- Part of the underperformance has been led by the portfolio being positioned defensively when the market has been rising strongly.

TH Real Estate

Manager Objective

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

Performance

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

Outlook

- UK commercial property values, at risk from potential fall-out from the UK's exit from the European Union have remained resilient, but remain exposed to a possible market adjustment if negotiations on the terms of the exit stall. High quality assets should be cushioned from market corrections and should be placed to deliver good ongoing income streams.

Brockton

Manager Objective

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

Performance

- Absolute performance as reported and implied by the value of assets versus those drawn down is negative. This is due to the manager being in the process of buying and refurbishing properties. Performance numbers during this time are of limited use.

Outlook

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

Frogmore

Manager Objective

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

Performance

- As per Brockton above, it is too early to draw conclusions from the performance numbers at this time.

Outlook

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

M&G Investments & Invesco Real Estate

- Commitments were fully drawn down on both funds during the year to 31 March 2017. As with Frogmore and Brockton, it is too early to draw conclusions from performance figures.

Total Fund Performance Relative to Liabilities

The table below shows the total fund performance relative to its liabilities.

Performance	3 months %	1 year %	3 years (% p.a.)
Total Fund	4.3	19.8	13.0
Liability Proxy*	2.0	22.0	14.6
Relative	2.3	-2.2	-1.6
Liability Target - Aon Hewitt	1.1	4.6	0.6
Relative	3.2	15.2	12.4

* Index-linked gilts

The Fund outperformed index-linked bonds over three months by 2.3%, and underperformed over one year and three years by 2.2% and 1.6% respectively.

The target liability return shown is the 4.55% pa required as per the actuarial valuation on 31 March 2016. As shown in the above table, over the last three years the Fund has produced a return above that required in the actuarial valuation, outperforming by 8.4% pa.

Membership of External Bodies

Pensions and Lifetime Savings Association (PLSA)

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

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

Contact Details

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

Telephone: 020 7601 1700

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

Local Authority Pension Fund Forum (LAPFF)

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

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

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

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

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 dependants.

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	205	205	100.0	1.00
Transfers In (Actual)	10	43	41	95.35	1.81
Transfers Out (Actual)	10	45	38	84.44	18.48
Refund	10	186	128	68.82	7.66
Preserved Benefit	15	206	199	96.60	2.80
Estimate Benefit	10	383	377	98.43	1.71
Retirement	5	456	404	88.60	4.34
Death in Service	5	5	5	100.0	1.00
Death on Pension	5	126	105	88.33	5.03

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 five years, with deferred and pensioner members increasing gradually.

Membership	2013	2014	2015	2016	2017
Actives	6,061	6,812	7,210	7,117	6,914
Pensioners	6,645	6,781	6,913	7,212	7,483
Deferred	7,236	7,569	7,705	7,858	7,895
Total	19,942	21,162	21,828	22,187	22,292

During 2016-17, eleven individuals received enhanced benefits because of ill-health.

Cost of pension fund administration

The cost of administering the pension fund in 2016-17 was £1.58 million, representing £70.83 per scheme member.

Employers in Fund

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

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 admitted 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 those uncertainties around pension costs do not influence the contract price quoted by providers.

	Active
Scheduled Body	23
Admitted Body	19
Total	42

Participating Employers

Appendix 1 lists the admitted and scheduled bodies participating in the Fund at 31 March 2017 and sets out the contributions paid by employees and employers during the year for each employer.

Application of communications policy statement

The Annual Benefit Statements for 2015-16 were distributed in August 2016.

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

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

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

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

Opinion

The pension fund financial statements of Southwark Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Southwark Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Pension fund annual report - Pension fund financial statements

The pension fund annual report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 report 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 audit work, for this report, or for the opinions we have formed.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 22 September 2017.

Director of Finance and Governance responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the pension fund annual report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Elizabeth Jackson

Elizabeth Jackson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
30 Finsbury Square
London
EC2P 2YU
28 September 2017

Further information

Internal queries regarding Fund Investments & Accounts

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

Internal queries regarding Benefits or Cost of Membership

Jo Anson
Head of Finance & Information Governance
Telephone: 020 7525 4308
E-mail: jo.anson@southwark.gov.uk

Or you can write to us at:

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

External Sources of Information

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

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

The Pensions Service
Tyneview Park
Whitley Road
Newcastle-Upon-Tyne
NE98 1BA
Telephone: 191 218 7777

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

Glossary

Absolute Return Fund

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

Actuary

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

Added Years

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

Additional Voluntary Contributions (AVCs)

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

Asset Allocation

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

Asset Class

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

Basis Point

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

Benchmark

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

CARE Scheme

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

Cash Transfer Values

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

Corporate Bond

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

Custody

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

Deferred Pension

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

Defined Benefit Scheme

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

Diversification

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

Diversified Growth Funds

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

Emerging Markets

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

Equities

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

Final Pensionable Pay

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

Final Salary Scheme

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

Fixed Interest

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

Index

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

Index Linked Gilts

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

Mandate

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

Market Value

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

Pensionable Pay

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

Pooled Funds

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

Return

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

Unconstrained Equity Investing

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

Unlisted Securities

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

Valuation

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

Appendix 1: Contributing Employers & Amounts Received 2016/17

Name	Total Employee Contributions (£000)	Total Employer Contributions (£000)	Total Contributions (£000)
Scheduled Bodies			
Ark All Saints Academy	46.0	107.4	153.4
Ark Globe Academy	96.7	152.8	249.5
Ark Walworth Academy	69.3	145.6	214.9
Bacons College	86.7	179.2	265.9
Compass Free School	14.2	28.0	42.2
Dulwich Hamlet	31.6	79.1	110.7
The Belham School	8.0	23.0	31.0
Goose Green	34.9	70.8	105.7
Harris Academy Berm	40.5	73.3	113.8
Harris Academy at Peckham	64.5	110.4	174.9
Harris Peckham Free School	15.6	19.1	34.7
Harris Primary Academy Peckham Park	23.5	59.1	82.6
Harris Boys Academy	36.7	48.7	85.4
Harris Girls Academy	48.5	98.9	147.4
Harris Primary East Dulwich	7.0	12.1	19.1
John Donne	41.5	128.4	169.9
Judith Kerr Free School	9.9	34.0	43.9
Kingsdale Foundation School	37.8	103.0	140.8
Newlands Academy	18.6	62.6	81.2
Redriff Primary Academy	49.5	117.3	166.8
Southwark Free School	1.5	4.5	6.0
The Angel Oak Academy	28.9	99.1	128.0
The Charter School Educational Trust	84.0	132.3	216.3
University Academy Engineering South Bank (UAESB)	10.0	32.6	42.6
Scheduled Bodies Total	905.4	1,921.3	2,826.7

Name	Total Employee Contributions (£000)	Total Employer Contributions (£000)	Total Contributions (£000)
Admitted Bodies			
APCOA	0.5	1.7	2.2
Cofely	2.0	6.1	8.1
Brandon Trust	16.8	46.3	63.1
Browning (TMO)	6.8	17.9	24.7
Camden Society	8.5	25.1	33.6
Capita	6.2	17.7	23.9
Chequers	0.9	3.0	3.9
Civica	5.7	18.2	23.9
CLPE	4.9	18.5	23.4
D Brice & Co	0.7	2.6	3.3
Fusion	11.0	29.6	40.6
Interserve	3.2	11.9	15.1
Leathermarket	20.3	22.8	43.1
Mears	5.3	14.3	19.6
Southwark Law Centre	25.8	82.0	107.8
Sports & Leisure Management	12.6	43.9	56.5
HATS	1.5	5.5	7.0
Sherman & Waterman	0.2	0.9	1.1
South London Gallery	8.3	14.5	22.8
Veolia	156.6	490.9	647.5
Admitted Bodies Total	297.8	873.4	1,171.2

Appendix 2: Pension Fund Accounts

LONDON BOROUGH OF SOUTHWARK PENSION FUND STATEMENT OF ACCOUNTS

FUND ACCOUNT

	Note	2016-17		2015-16	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	6	(52,212)		(55,479)	
Transfers in from other pension funds	7	(3,577)		(5,702)	
Sub total			(55,789)		(61,181)
Benefits	8	57,367		56,850	
Payments to and on account of leavers	9	2,902		4,905	
Sub total			60,269		61,755
Net reduction/(addition) from dealing with members of the fund			4,480		574
Management expenses	10		5,096		4,549
Returns on investments					
Investment income	11	(14,324)		(12,717)	
Taxes on income	11	175		155	
Profit and losses on disposal of investments and changes in market value of investments	12	(234,037)		(1,212)	
Net return on investments			(248,186)		(13,774)
Net (increase)/decrease in the net assets available for benefits during the year			(238,610)		(8,651)
Opening net assets of the scheme			(1,256,382)		(1,247,731)
Net assets of the scheme available to fund benefits at 31 March			(1,494,992)		(1,256,382)

NET ASSETS STATEMENT

	Note		31/03/2017 £000	31/03/2016* £000
Investment assets	12		1,487,842	1,246,582
Current assets	13		13,612	14,936
Current liabilities	13		(6,462)	(5,136)
Net assets of the scheme available to fund benefits at 31 March			1,494,992	1,256,382

*The fund's accounting policies for accrued dividend entitlements have been reviewed for the 2016-17 statement of accounts and have resulted in a change of classification from treatment as a current asset to an investment asset. To reflect this change the 2015-16 net asset statement has been restated. The value of accrued dividend entitlements as at the 31 March 2016 is £1,143k.

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

NOTES TO THE PENSION FUND STATEMENTS

1. INTRODUCTION

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

The following description of the fund is a summary only. For more detail, reference should be made to the Pension Fund Annual Report 2016-17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the LGPS Regulations.

a) General

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

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

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

The overall investment strategy is the responsibility of the council. This responsibility is delegated to the strategic director of finance and governance, taking account of the advice of the Pensions Advisory Panel. In line with the provisions of the Public Services Pensions Act 2013, the council has set up a Local Pension Board to assist the council in its role as scheme manager of the Pension Fund. The Board meets on a quarterly basis and has its own terms of reference. Board members are independent of the Pensions Advisory Panel.

b) Membership

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

Organisations participating in the Fund include:

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

A list of participating organisations and their contributions for the financial year 2016-17 is included within the Pension Fund Annual Report 2016-17. This is available from the council website on the following link.
https://www2.southwark.gov.uk/downloads/download/2717/pension_fund_annual_report

	31/03/2017	31/03/2016
Number of contributors to the Fund	6,914	7,117
Number of contributors and dependants receiving allowances	7,483	7,212
Number of contributors who have deferred their pensions	7,895	7,858

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2016. Currently, employer rates range from 10.7% to 17.8% of pensionable pay, plus additional deficit payments where appropriate.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarized in the following table:

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

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

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2016-17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016-17*, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

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

b) Transfers to and from other schemes

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

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

c) Investment income

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

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

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset. Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

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

d) *Fund account – benefits payable*

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

e) *Fund account – taxation*

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

f) *Management Expenses*

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

Administrative expenses

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

Oversight and Governance costs

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

Investment management expenses

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

Net Asset Statement

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the fund. The values of investments as shown in the net assets statement have been determined as follows:

- Equity investments, unit trusts and unitised insurance policies at their market bid price on 31 March each year.
- Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.
- End of year balances on foreign currency transactions have been translated at the exchange rate on 31 March each year.
- Investment assets have been valued and included in the accounts at bid price except for derivative contracts which are valued on the basis of unrealised gains and losses.
- Property unit trusts have been included at net asset price.

h) Freehold and leasehold property

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

i) Derivatives

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

j) Cash and cash equivalents

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

k) Financial liabilities

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

l) Actuarial Present Value of Promised Retirement Benefits

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

m) Additional voluntary contributions

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

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund Liability

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

Property Unit Trust Valuation

Fund investment assets in property funds were reclassified as level 3 from level 2 within the fair valuation hierarchy. This change was the result of additional information becoming available as to the nature of the funds and following consideration of recently published guidance on the classification of investment assets. The funds are valued infrequently on a monthly basis based upon an assessment of the net asset value. Furthermore the funds have, differing but significant, impediments to the redemption of assets, including significant time period delays to redemption, redemption only at manager discretion or only in certain circumstances. Key sensitivities and judgements therefore are present in the potential market movements between valuation and redemption dates.

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits (Note 19)	This applies to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The council's actuaries are engaged to provide the Fund with expert advice about the assumptions to be applied.	A 1.0% change in the discount rate is estimated to change the present value of pension liability by £215m
Freehold and leasehold property, pooled property funds (Note 12)	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property of £10m, on a fair value of £240m.

6. CONTRIBUTIONS RECEIVABLE

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

	2016-17			2015-16		
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark Council	(10,906)	(37,315)	(48,221)	(11,295)	(39,881)	(51,176)
Admitted bodies	(298)	(873)	(1,171)	(346)	(1,145)	(1,491)
Scheduled bodies	(905)	(1,915)	(2,820)	(900)	(1,912)	(2,812)
Total Contributions	(12,109)	(40,103)	(52,212)	(12,541)	(42,938)	(55,479)

Contributions receivable from employers are shown below:

	2016-17 £000	2015-16 £000
Normal	(23,075)	(23,919)
Early retirement strain	(3,840)	(4,795)
Deficit funding	(13,188)	(14,224)
Total contributions from employers	(40,103)	(42,938)
Contributions from employees	(12,109)	(12,541)
Total Contributions	(52,212)	(55,479)

During 2016-17 employees made Additional Voluntary Contributions (AVCs) of £179k (£468k in 2015-16). The value of the AVCs at 31 March 2017 was £2.6 million (£2.7 million at 31 March 2016).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2016-17 £000	2015-16 £000
Individual transfers	(3,577)	(5,702)
Total transfers in from other pension funds	(3,577)	(5,702)

8. BENEFITS PAYABLE

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

	2016-17 £000	2015-16 £000
Pensions	44,118	43,630
Commutation of pensions and lump sum retirement benefits	11,960	11,923
Lump sums – death benefits	1,289	1,297
Total benefits payable	57,367	56,850

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

	2016-17 £000	2015-16 £000
Southwark Council	55,182	54,929
Admitted bodies	1,431	1,582
Scheduled bodies	754	339
Total benefits payable	57,367	56,850

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2016-17 £000	2015-16 £000
Refund of contributions	94	90
State Scheme Premiums	40	114
Individual transfers out to other schemes	2,768	4,701
Total payments	2,902	4,905

10. MANAGEMENT EXPENSES

	2016-17 £000	2015-16* £000
Administrative costs	1,579	1,430
Investment and management expenses	3,103	2,742
Oversight and governance costs	414	377
Total management expenses	5,096	4,549

**Restated to account for recent changes to the Code of Practice regarding the classification of management expenses.*

During 2016-17, the fee for external audit services for the pension fund was £21k (£21k in 2015-16)

The table below shows the total investment and management expenses

	2016-17 £000	2015-16 £000
Management Fees	2,342	2,308
Performance Fees	-	-
Property Management Expenses	694	355
Custody Fees	67	79
Total Investment expenses	3,103	2,742

The pension fund incurred expenses of £1.0m in relation to services provided by the council during 2016-17 (£0.8m during 2015-16).

11. INVESTMENT INCOME

	2016-17 £000	2015-16 £000
Dividends from equities	(3,404)	(2,601)
Income from pooled investment vehicles	(2,034)	(1,813)
Net rent from properties	(8,819)	(8,207)
Interest on cash deposits	(10)	(75)
Other income	(57)	(21)
Total investment income before taxes	(14,324)	(12,717)
Taxes on income	175	155
Total investment income after taxes	(14,149)	(12,562)

12. INVESTMENT ASSETS

	31/03/2017 £000	31/03/2016 £000
Bonds		
Quoted Overseas	11,702	5,793
Equity		
Quoted UK	11,353	12,651
Quoted Overseas	130,931	104,033
Pooled Funds		
Fixed Income Overseas	121,111	117,561
Index Linked Gilts	144,332	119,853
Multi Asset	122,264	118,474
Unitised Insurance Policy	696,217	555,780
Property		
Direct Property	160,200	167,000
Property Unit Trust	80,057	43,989
Derivatives		
Forward currency contracts	(19)	55
Cash Deposits	8,100	100
London Collective Investment Vehicle (CIV)	150	150
Other Investment Balances	1,445	1,143
Investment Assets	1,487,842	1,246,582

Note 12 is restated from 2015-16 to account for the change in accounting policy for accrued dividend entitlement to be reclassified as other investment balances as part of investment assets, rather than a current asset. The value of accrued dividend entitlements as at the 31 March 2016 is £1,143k.

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 31/03/2016 £000	Purchase £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/03/2017 £000
Bonds	5,793	40,221	(35,633)	1,321	-	11,702
Equity	116,684	48,550	(47,183)	24,233	-	142,284
Pooled Funds	355,888	76,074	(116,961)	72,705	-	387,706
Unitised Insurance Policy	555,780	288,120	(287,123)	139,440	-	696,217
Property	210,989	40,123	(6,913)	(3,942)	-	240,257
Derivatives	55	1,535	(1,889)	280	-	(19)
Cash Deposits	100	-	-	-	8,000	8,100
London Collective Investment Vehicle (CIV)	150	-	-	-	-	150
Other Investment balances	1,143	-	-	-	302	1,445
Investment Assets	1,246,582	494,623	(495,702)	234,037	8,302	1,487,842

	Value at 31/03/2015 £000	Purchase £000	Sales £000	Change in market value £000	Cash movement £000	Value at 31/03/2016 £000
Bonds	8,150	22,335	(24,855)	163	-	5,793
Equity	107,586	53,546	(52,158)	7,710	-	116,684
Pooled Funds	127,159	267,863	(36,164)	(2,970)	-	355,888
Unitised Insurance Policy	817,835	1,972	(249,970)	(14,057)	-	555,780
Property	174,117	34,023	(7,302)	10,151	-	210,989
Derivatives	0	521	(681)	215	-	55
Cash Deposits	4,428	-	-	-	(4,328)	100
London Collective Investment Vehicle (CIV)	0	-	-	-	150	150
Other Investment balances	314	-	-	-	829	1,143
Investment Assets	1,239,589	380,260	(371,130)	1,212	(3,349)	1,246,582

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

The valuation of direct property managed by TH Real Estate is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2017. All properties have been valued at market value.

The Investment Strategy Statement can be accessed on the council's website via the following link http://www.2.southwark.gov.uk/downloads/download/4759/southwark_pension_fund_administration_strategy Alternatively a copy can be obtained on request from the Strategic Director of Finance and Governance, Southwark Council, Finance and Governance, PO Box 64529, London SE1P 5LX.

The following investments represent more than 5% of investment assets.

Name of Investment	Fund Manager	31/03/2017	% of investment assets	31/03/2016	% of investment assets
		£000	%	£000	
North America Equity	Legal & General	206,559	14%	152,946	12%
US Equity Fund	Blackrock	134,526	9%	115,968	9%
Diversified Growth Fund	Blackrock	122,264	8%	118,475	10%
Absolute Return Bond Fund	Blackrock	121,111	8%	117,561	9%
+5 Year Index Linked Gilt Fund	Legal & General	77,043	5%	63,053	5%

The market value of assets (excluding cash and accruals) managed by the investment managers at the balance sheet date 31 March 2017 has been set out in the table below.

Investment Manager	31/03/2017		31/03/2016	
	£000	%	£000	%
BlackRock	670,335	45%	595,839	48%
Legal & General Investment Managers	413,588	28%	315,953	25%
TH Real Estate (formerly Henderson Global Investors)	200,608	13%	204,027	16%
Newton Investment Management	153,966	10%	129,463	11%
M&G Real Estate	20,006	1%	-	-
Invesco Real Estate	14,897	1%	-	-
Brockton Capital LLP	7,934	-	5,148	-
Frogmore Real Estate Partners	4,913	-	3,551	-
London CIV	150	-	150	-
Total	1,486,397		1,254,131	

13. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

	2016-17	2015-16*
	£000	£000
Contribution due from employers	3,578	3,124
Other current assets	3,467	1,774
Cash at managers	5,835	8,210
Cash and bank	732	1,828
Total	13,612	14,936

Restated to account for the change in accounting policy for accrued dividend entitlement to be reclassified as an investment asset, rather than other current assets. The value of accrued dividend entitlements as at the 31 March 2016 is £1,143k.

The current liabilities of the fund are analysed as follows:

	2016-17 £000	2015-16 £000
Support services	(1,759)	(33)
Benefits	(111)	(323)
Professional fees	(563)	(473)
Investment	(2,131)	(1,915)
Taxes	(1,361)	(1,131)
Other	(537)	(1,261)
Total	(6,462)	(5,136)

14. RELATED PARTY TRANSACTIONS

The Pension Fund is required to disclose details of its financial relationship with related third parties. This has been defined as where the related party has, or is perceived to have, real influence over any transaction between the parties.

Through its administration of the Fund, the council has a related party interest with the Pension Fund, and the costs charged by the council are disclosed in Note 28.

Management of the Pension Fund is the responsibility of the council's strategic director of finance and governance. No officers' remuneration is paid directly by the Fund; costs are instead recovered as part of the costs disclosed in Note 10. The strategic director of finance and governance remuneration is disclosed in Note 25 of the council's Statement of Accounts.

The Pension Advisory Panel (PAP) offers advice to the strategic director of finance and governance. Councillor members of the Panel make an annual declaration of their interests which is available on the council's website.

The council is also the single largest employer of members of the pension fund and contributed £37.3 million to the fund in 2016-17 (£39.9 million in 2015-16).

15. FAIR VALUE HIERARCHY

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

- Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.
- Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. They comprise property unit trusts.
- Level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments – overseas unit trusts and some property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Freehold, leasehold properties	Level 3	Valued at fair value at the year-end by independent valuers	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

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

Value as at 31 March 2017	Quoted market price	Using observable inputs	• With significant un-observable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	1,002,635	243,524	80,057	1,326,216
Non-financial assets at fair value through profit and loss	-	-	160,200	160,200
Financial liabilities at fair value through profit and loss	(19)	-	-	(19)
Total	1,002,616	243,524	240,257	1,486,397

Value as at 31 March 2016	Quoted market price	Using observable inputs	• With significant un- observable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial assets at fair value through profit and loss	1,025,601	43,989		1,069,590
Non-financial assets at fair value through profit and loss	-	-	167,000	167,000
Financial liabilities at fair value through profit and loss	-	-	-	-
Total	1,025,601	43,989		1,236,590

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

	Value at 31/03/2016 £000	Transfers in/ (out) of level 3	Purchase £000	Sales £000	Realised gain/(loss)	Unrealised gain/(loss)	Value at 31/03/2017 £000
Property	167,000	43,989	40,123	(6,913)	(519)	(3,423)	240,257
Total	167,000	43,989	40,123	(6,913)	(519)	(3,423)	240,257

Transfers into level 3 comprise property unit trusts that were classified as level 2 for 2015-16. The explanation for this transfer is set out as part of Note 4.

The sensitivity analysis for the valuation of property investments, classified as level 3, is included within Note 18.

16. FINANCIAL INSTRUMENTS

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

	2016-17 £000	2015-16* £000
Financial assets		
Loans and receivables	23,157	16,079
Financial assets at fair value through profit and loss	1,318,117	1,069,590
Financial liabilities		
Financial liabilities at amortised cost	(6,462)	(5,136)
Financial liabilities at fair value through profit and loss	(19)	-
Total	1,334,793	1,080,533

17. CONTINGENT LIABILITIES AND CONTRACTUAL ARRANGEMENTS

Outstanding capital commitments (investments) at 31 March 2017 totalled £19.2m (31 March 2016: £55.6m)

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

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

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

Responsibility for the funds risk management strategy rests with the strategic director for finance and governance advised by the pensions advisory panel. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market Risk

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

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

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

Price Risk

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

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Potential price changes are determined based on historical data and volatility of asset class returns. For example, 'riskier' assets such as equities will display greater potential volatility than bonds. The following table demonstrates the change in the net assets available to pay benefits, if the market price had increased or decreased in line. 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 2016-17 reporting period:

2016-17 - Asset Type	31/03/2017 £000	Change %	Value on Increase £000	Value on Decrease £000
Total Equities	838,500	9.7	919,835	757,166
Total Bonds & Indexed linked	277,145	8.8	301,542	252,748
Multi-Asset	122,264	5.1	128,499	116,028
Property	240,257	4.1	250,108	230,407
Cash Deposits	8,100	0.0	8,101	8,099
Other Assets	1,576	0.0	1,576	1,576
Investment Assets	1,487,842		1,608,517	1,364,279

2015-16 - Asset Type	31/03/2016 £000	Change %	Value on Increase £000	Value on Decrease £000
Total Equities	672,462	9.7	737,692	607,234
Total Bonds & Indexed linked	243,208	7.3	260,962	225,454
Multi-Asset	118,475	5.0	124,399	112,551
Property	210,989	3.7	218,796	203,183
Cash Deposits	100	0.0	100	100
Other Assets	1,348	0.0	1,348	1,348
Total Assets	1,246,582		1,343,297	1,149,870

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

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

Interest Rate Risk

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

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

Assets exposed to interest rate risks	Market value £000	Value on 1% rate increase £000	Value on 1% rate decrease £000
As at 31 March 2017	146,725	148,192	145,257
As at 31 March 2016	133,757	135,095	132,419

Currency Risk

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

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

Overseas equities, fixed interest securities and futures, cash in foreign currencies and some elements of pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of assets exposed to currency risk had there been a 10 per cent strengthening or weakening of the pound against foreign currencies.

Assets exposed to currency risk	Value £000	Change %	Value on foreign exchange rate increase £000	Value on foreign exchange rate decrease £000
As at 31 March 2017	912,889	11.2	1,015,176	810,601
As at 31 March 2016	740,403	10.0	814,443	666,363

Credit Risk

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

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

Liquidity Risk

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

The Fund currently has two bank accounts. One is held by the Global Custodian and holds cash relating to investment activities, the other is the Pension Fund Bank Account which holds the cash relating to member activities.

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

19. ACTUARIAL POSITION OF THE FUND

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 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

The valuation as at 31 March 2016 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 £1,256.4M) covering 88% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:

- 15.3% 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 (the primary rate). **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 18 years from 1 April 2017 (the secondary rate), equivalent to 5.6% of pensionable pay (or £10.7M in 2017/18, and increasing by 3.5% p.a. thereafter).

In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 30 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements and ill-health retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer was agreed with the administering authority reflecting the employers' circumstances.

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	4.55% p.a.
Rate of pay increases (additional allowance made for promotional increases)	3.50% p.a.
Rate of increase to pension accounts	2.00% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.00% p.a.

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) Core Projections Model released with Working Paper 91 with Core assumptions, with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.4	26.1
Future pensioners aged 45 at the valuation date	24.0	27.8

The assets were valued at market value.

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

The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 30 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

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 2016. 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.

The report on the actuarial valuation as at 31 March 2016 is available on request from London Borough of Southwark, the Administering Authority of the Fund.

Aon Hewitt Limited
May 2017

Actuarial Present Value of Promised Retirement Benefits

IAS 26 (retirement benefit plans) requires the 'actuarial present value of promised retirement benefits' to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2016.

	31 March 2016 £m	31 March 2013 £m
Fair value of net assets	1,256	995
Actuarial present value of promised retirement benefits	(1,671)	(1,451)
Surplus/(deficit) in the fund as measured for IAS26	(413)	(456)

20. POST BALANCE SHEET EVENTS

No such material events have occurred.

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 in September 2016.

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 Investment Strategy Statement published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (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 fund-specific strategy that will identify how employer's pension liabilities are best met going forward.
- supports the requirement for maintaining as nearly constant primary employer contribution rates as possible.
- sets contributions as to ensure the solvency and long term cost efficiency of the Fund.
- ensures that regulatory requirements regarding the setting of contributions are met.
- takes a prudent longer-term view of funding the Fund's liabilities.

Links to investment policy set out in the Investment Strategy Statement

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 Investment Strategy Statement 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 Investment Strategy Statement invests a significant proportion of the Fund in assets such as equities which are expected but not guaranteed to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher 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 financial assumptions used by the Fund are consistent with the expected return on investments based upon the asset allocation as set out in the Investment Strategy Statement, with measures available to smooth out the impact of investment market 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 December 2016 and February 2017.

The Administering Authority will formally review this Statement as part of the triennial valuation as at 31 March 2019 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 circumstances 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 in order to:

- produce a Fund to pay Scheme benefits , transfer values, costs, charges and expenses as defined in the LGPS Regulations and as required in the Investment Regulations over the long term and in so doing;

Aims of the Fund

The main aims of the Fund are:

a) To comply with Regulation 62 of the Regulations and specifically to:

- adequately fund benefits to secure the Fund's solvency and long term cost efficiency, which should be assessed in light of the risk profile of the Fund and Employers
- while taking account of the desirability of maintaining as nearly constant primary employer contribution rates as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- enable overall employer contributions to be kept as constant as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

The Administering Authority recognises that the requirement to keep employer total contribution levels 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 the return from investments within reasonable risk parameters (see later)

Achieving 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 UK Government Bond investments.

Other classes of assets, such as stocks and property on average offer higher long term rates of return 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.

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 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 regular 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 return from investments within reasonable risk parameters.

The Administering Authority recognises the desirability of maximising investment return 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:

- 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 an Investment Strategy Statement and a Funding Strategy Statement after due consultation with persons the Administering Authority considers appropriate.
- 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.
- Enable the Local Pension Board to review aspects of the valuation process.

Individual Employers

Individual Employers will:

- Deduct contributions from employees' pay.
- Pay all ongoing contributions, including their employer's contribution as determined by the Fund Actuary as set out in the rates and adjustment certificate or initial assessment upon joining the Fund, 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 which may affect future funding.
- Pay any exit payments as required in the event of their ceasing participation in the Fund

Fund Actuary

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

- Funding strategy and the preparation of the Funding Strategy Statement
- Actuarial valuations including the setting of employers' contribution rates and issuing of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and the LGPS Regulations.
- Bulk transfers and individual benefit-related matters such as pension strain costs, compensatory added years costs, etc.
- 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 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 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, using appropriate actuarial assumptions. 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.

The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

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 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, and asset-liability modelling carried out by the Fund Actuary.

Consistent with the aim of enabling employers' contribution levels 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).

The discount rate, and hence the overall required level of employer contributions, has been set at the valuation at 31 March 2016 such that the Fund Actuary estimates there is just over a 70% chance that the Fund would reach or exceed its Solvency Target after 25 years.

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

- Primary 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 whose participation in the Fund is considered by the Administering Authority to be indefinite and certain other bodies which are long term in nature i.e. Admission Bodies with a subsumption commitment from such Scheduled Bodies.

For other Scheduled Bodies the Administering Authority may without limitation, take into account the following factors when setting the funding target for such bodies:

- the type/group of the employer;
- the business plans of the employer;
- an assessment of the strength of financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

Admission Bodies falling under London Borough of Southwark policy

The London Borough of Southwark, as administering authority, introduced an admissions policy following the actuarial valuation at 31 March 2010 whereby the pensions risk of new admission bodies is underwritten by London Borough of Southwark, and in return the employer's contribution is fixed at the rate at initial entry to the Fund (potentially subject to certain provisos). The Administering Authority has agreed that these contribution rates can be reflected in the actuarial valuation and set out in the Rates and Adjustment Certificate. This policy affects the following employers at the time of writing this Statement:

Balfour Beatty
Browning HMO
Brandon Trust
Camelot
Capita
Civica
Chequers (2nd Admission)
Charter Facilities Management (Interserve)
D Brice & Co
Mears
Pabulum
Sherman and Waterman Associates

London Borough of Southwark also extended this approach to admission bodies that existed at the valuation at 31 March 2013 and in general fixed the contribution rate at that currently being paid. This affects the following employers at the time of writing this Statement.

APCOA
Camden Day Centre
CLPE
Leathermarket
Olympic South (HATS)
PFI Veolia
South London Gallery
Southwark Law Centre
Together

Admission Bodies and certain other bodies whose participation is limited and not subject to a guarantee

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).

At the 2016 valuation no employers fell into this category.

Full Funding

The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers / groups of employers. 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.

The Trajectory Period and the Recovery Period do not necessarily equal the same period. Maintaining a stable Trajectory Period avoids undue volatility when setting long term assumptions for the Fund, where the Administering Authority would in ideal circumstances look to reduce the Recovery Period over time in order to achieve full funding. A period of 25 years was used at the valuation at 31 March 2016.

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 levels as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery Periods and has agreed with the Fund Actuary a limit of 30 years 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 18 years has been used for the London Borough of Southwark, at the valuation at 31 March 2016 which is the largest employer in the Fund. 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 requirements). 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 desirability of keeping primary (and overall) employer contribution levels 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.

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 requirements 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 remain at an assumed level. If payroll drops below this level 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.

Long-term cost efficiency

In order to ensure that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the Fund, the Administering Authority has assessed the actual contributions payable by considering:

- The implied average deficit recovery period, allowing for the stepping of employer contribution changes;
- The investment return required to achieve full funding over the recovery period; and
- How the investment return compares to the Administering Authority's view of the expected future return being targeted by the Fund's investment strategy

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.

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 and will take account of any contractual guarantees where possible and notified to the Administering Authority. For example London Borough of Southwark's admission policy generally includes a guarantee that it will take on all the assets and liabilities with no exit payment falling on the exiting employer.

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 unless a contractual agreement sets out that another employer will take responsibility for all the assets and liabilities relating to the exiting employer. In other words, the fact that liabilities may become subsumed liabilities does not necessarily remove the possibility of an exit payment being required.

Academies

Academies are scheduled bodies and, as such, have an automatic right to join the LGPS. Guidance has been issued by the Secretaries of State for Education and Communities and Local Government but in practice differing approaches are being taken when setting the funding strategy for academies.

In future for a new academy conversion the Administering Authority's standard approach will be to:

- Allocate liabilities to the academy in relation to its current employees only, with the London Borough of Southwark sub-fund retaining liability for former employees;
- Allocate a share of assets from the London Borough of Southwark's sub-fund to the new academy's sub-fund on an appropriate and fair basis.

The Administering Authority will review the above approach if the London Borough of Southwark's sub-fund is found to be in surplus at a subsequent valuation.

For academies which have already converted and whose sub-fund at a subsequent valuation is in deficit, the contribution levels for the academy will normally be set using a Recovery Period of 7 years.

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:

Investment Risk

This covers items such as the performance of financial markets and the Fund's Investment managers, asset reallocation in volatile markets, leading to 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 regularly reviews the asset allocation of the Fund with assistance from 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.

The Fund Actuary will also provide quarterly funding updates to assist the Administering Authority in its monitoring of the financial liability risks.

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

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: Investment Strategy Statement

1. Introduction

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

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

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

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

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

<http://modern.gov.southwark.gov.uk/documents/s65076/Appendix%201%20Council%20Plan%20Refresh.pdf>

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

2. Investment objectives and principles

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

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

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

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

Governance

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

Investment structure and risk management

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

professionals and peers, and seeking continual development in the understanding of investment.

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

Responsible investment and stewardship

- The Fund is a responsible investor; holding the belief that well governed companies that manage their business in a responsible and sustainable manner will generate better returns over the long term.
- The Fund is prepared to be innovative and demonstrate thought leadership in investment, within a framework of prudence and fiduciary duty.
- The Fund will actively exercise responsible stewardship of the assets held and act as a responsible voice in the broader investment community.
- The Fund will collaborate with others whenever possible to share ideas and best practice, and to improve effectiveness and to reduce costs.

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

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

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

The above table sets out the Fund's asset allocation strategy with a target allocation to each asset class. If the actual asset allocation as at a reporting quarter end moves outside a target range for a particular asset class, (plus or minus 5% of total investment assets) the Strategic Director of Finance and Governance will review the portfolio and prevailing market conditions to

determine if a corrective rebalancing action is required. A breach of the target range will not necessitate a portfolio rebalance.

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

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

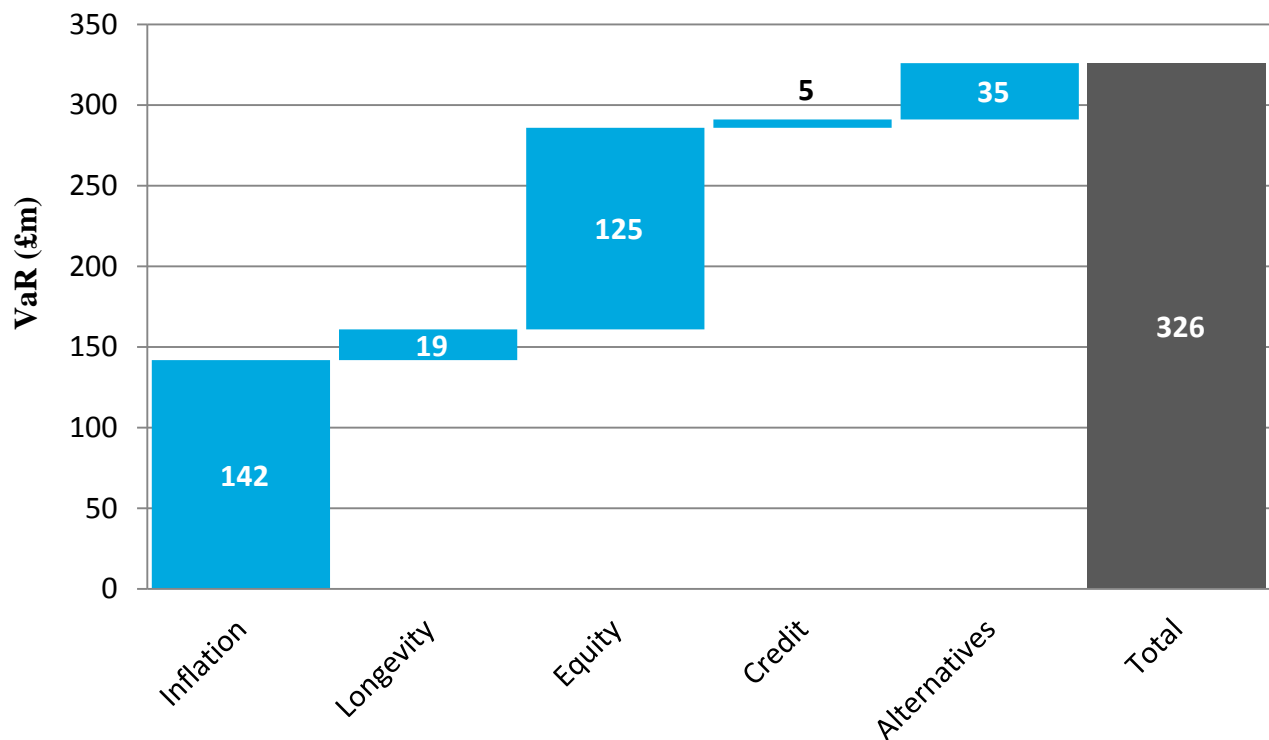
The Fund's asset allocation is reviewed on an ongoing basis and undergoes a triennial strategy review as part of the actuarial valuation process. The triennial review looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund is able to meet its future benefit obligations as they fall due.
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit.
- An analysis of the order of magnitude of the various risks facing the Fund, so that the Fund can focus upon the most significant risks.
- The desire for diversification across asset class, region, sector, and type of security.

4. Risk measurement and management

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

The Fund currently uses risk attribution analysis to determine the order of magnitude of the main investment risks the Fund is facing. The chart below shows the VaR (Value at Risk, essentially the estimated losses that would occur in a 1-in-20 event) facing the Fund, split into major risk categories.



As an additional illustration of risk, the table below, based on the 31 March 2016 Actuarial Valuation results and estimates, shows how a range of events could impact on the Fund:

Event	Event movement	Impact on the Fund
Fall in equity markets	25% fall in equities	£175m
Rise in inflation	1% increase in inflation	£286m
Fall in interest rates	1% fall in interest rates	£286m
Underperformance by the active managers	3% collective underperformance	£20m

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

Equity risk

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

Inflation

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

Active manager risk

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

Liquidity risk

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

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

	2011-12	2012-13	2013-14	2014-15	2015-16
	£000	£000	£000	£000	£000
Contributions	55,650	49,364	51,288	54,569	61,181
Benefits	-57,481	-50,956	-51,949	-51,801	-61,755
Investment Income	17,249	14,104	12,345	12,903	12,717
Net Position	15,418	12,512	11,684	15,671	12,143

The Fund is currently cash flow positive; in that the sum of contributions received and investment income is greater than the benefits paid out to pensioners. During 2015-16 the Fund received £12.1m more in contributions and investment income than was paid out in benefits. As such the Fund is not currently exposed to unplanned and inefficient divestment of assets.

Exchange rate risk

This risk arises from investing in unhedged overseas (non GBP denominated) assets, with all pension benefits due to be paid in sterling. As a long term investor the Fund takes the view that currency volatility can be tolerated. The Fund's portfolio is well diversified across asset classes, geography and investment managers.

Demographic risks

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

Environmental, social and governance risks

The Fund believes that environmental, social and governance (ESG) factors should be taken into account on an ongoing basis and are an integral part of the Fund's objective to be a long term sustainable investor.

The Fund has committed to a long term process of cutting fossil fuel investments. More information on this policy is set out in section 6.

Fund engagement is crucial in relation to improving standards of corporate governance, which over the long term is expected to enhance investment returns. Details of the Fund's approach are set out in sections 6 and 7.

5. Approach to asset pooling

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

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

The Fund currently benefits from lower fees for passive investments arising from collective fee arrangements with the CIV, although these are not assets under management of the London CIV (value as at 31 December 2016 £808m, approximately 57% of the Fund).

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

6. Environmental, social and corporate governance policy

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

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

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

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

The Fund will continue to explore new opportunities in sustainable energy and infrastructure. Where possible, these opportunities should be pursued through

arrangements entered into with the London CIV, although it is recognised at this time that there is no such plan for these facilities to be accessible through this route.

The responsible investment objectives of the Fund are promoted through membership of the Local Authority Pension Fund Forum (LAPFF). As a LAPFF member the Fund allies itself with 71 other shareholders with combined assets of over £175 billion to influence key areas of responsible investment interest.

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

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

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

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

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

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

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

Fund managers' views are compared with the voting recommendations of LAPFF. Where the fund managers' house views are not consistent with those of LAPFF, the fund manager is instructed by the Fund to vote in line with the recommendations of the LAPFF.

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

Myners Principles

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

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

Advice Taken

In creating this statement, the Fund has taken advice from its investment consultant. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, advice has been taken from its investment consultant, Mercer, and the scheme actuary, Aon Hewitt.

Appendix A – Current investment managers and mandates.

Manager	Mandate	Benchmark	Benchmark Weight (%)	Outperformance target (% p.a.)
BlackRock	Balanced	In line with customised benchmarks using monthly mean fund weights	25.0	-
BlackRock	Dynamic Diversified Fund	LIBOR	10.0	+3.0% net of fees
BlackRock	Absolute Return Bonds	LIBOR	10.0	+4.0% net of fees
L&G	Passive Global Equities and Bonds	FTSE All World	25.0	-
Newton	Global Equity	FTSE All World	10.0	+3.0% net of fees
TH Real Estate	Core Property	7.0% p.a. absolute return	14.0	
Frogmore	Opportunistic Property	16.5% p.a. absolute return	1.5	-
Brockton	Opportunistic Property	15.0% p.a. absolute return	1.5	-
Invesco	PRS Property	8.5% p.a. absolute return	1.5	-
M&G	PRS Property	8.0% p.a. absolute return	1.5	-

Appendix B

Myners Principles – Assessment of Compliance

1. Effective Decision-Making

Principle

Administering authorities should ensure that:

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

State of Compliance

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

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

2. Clear Objectives

Principle

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

State of Compliance

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

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

3. Risk and Liabilities

Principle

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

State of Compliance

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

- The asset allocation strategy is reviewed every 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 advisors.
- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.

State of Compliance

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

- The Pensions Advisory Panel monitors the performance of the investment managers and the suitability of the investment strategy on a regular basis.
- Performance measurement is provided by JP Morgan and Mercer Ltd.
- Assessment of the effectiveness of the administering authority is reflected through the effectiveness of the decision making in the investment returns achieved. Further, with the establishment of the Local Pensions Board, scrutiny of the Pensions Advisory Panel is now being undertaken.

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

5. Responsible Ownership

Principle

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

State of Compliance

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

- The Fund has adopted the investment managers' policies on activism and each has adopted the Institutional Shareholders' Committee Statement of Principles. All investment managers adopt a policy of engagement with companies.
- The Fund's policy on responsible ownership is set out in its Investment Strategy Statement.
- Investment managers report on the exercise of voting rights and this is monitored by officers and the Pensions Advisory Panel to ensure consistency with the Fund's policy.
- The pension fund is a member of the LAPFF, the UK's leading collaborative shareholder engagement group.
- Responsible ownership is periodically reported to the Pensions Advisory Panel and states how active fund managers are discharging these responsibilities.
- A section on responsible ownership is included in the Pension Fund Annual Report and a member survey has been completed. These ensure

that members are both provided with the relevant information and are able to input their views into the responsible ownership process going forward.

6. Transparency and Reporting

Principle

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Provide regular communication to scheme members in the form they consider most appropriate.

State of Compliance

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

- Documents relating to the Pension Fund are published on the council's website.
- The annual report sets out the arrangements during the year for the management of investment, governance and risks and other relevant information.
- Members can also request information directly from the council.
- The Pension Advisory Panel minutes are published on the council's website.

Appendix 5: Communications strategy

Statements of policy concerning communications with members and employing authorities:

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

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

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

Objectives of the communications strategy:

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

Proposed communications methods:

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

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

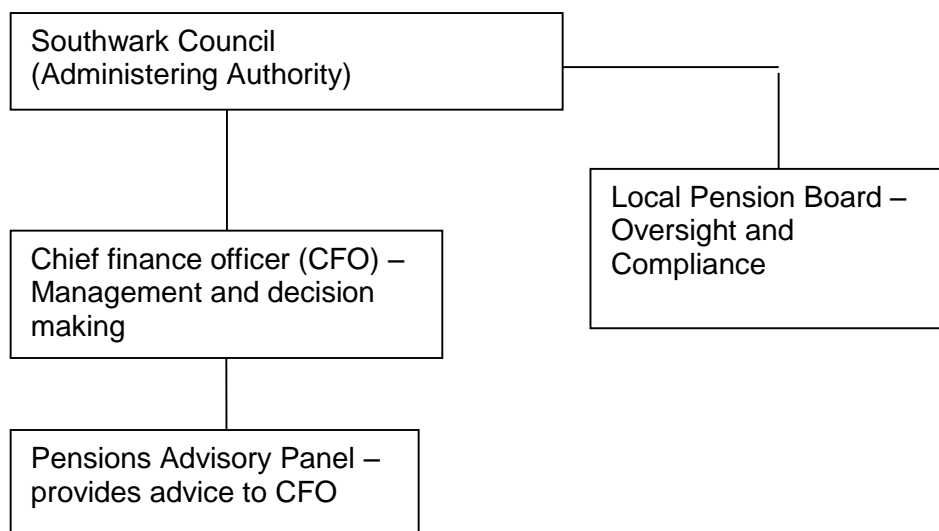
Communications Tools

Communication channels used include:

- **Website** - General information about the pension scheme is available on the website together with options (using Axis Online) for active, deferred and pensioner members to view specific information about their pension, change of addresses etc and (in some cases) carry out projected benefit estimations.
- **Written Communication** - Every active and deferred pensioner member receives a benefit statement (annually), included with this statement will be any pertinent information about their pension benefits and scheme changes, plus it will invite them to look at the website to stay current. The statement sets out the value of their pension benefits as a reflection of the lifetime allowance (as specified by HMRC).
- **Survey** - Surveys will be carried out when required, which will be used to test active, deferred and pensioner members satisfaction with the way information is cascaded to them from pensions services. There will also be cross-pollination of ideas with all members being given the opportunity to have an input into the way pension services communicates with them.
- **Briefing Sessions** – these will be utilised as and when to communicate important information to members.

Appendix 6: Governance Compliance Statement

Background



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

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

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

Arrangements for Maintaining a Pensions Fund Committee

Since 2004 this function has been delegated to the Pensions Advisory Panel, whose primary objective is to assist the Strategic Director of Finance & Corporate Services in the management of the Pensions function within the Council.

Frequency of Meetings

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

Terms of Reference, Structure and Operational Procedures

The primary objective of the Pensions Advisory Panel is to provide advice to the Strategic Director of Finance & Corporate Services in the management of the Pension Fund. This will include the provision of advice on the following:

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

Membership and Voting Rights of the Panel

The membership of the panel will consist of:

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

Decision Making Protocol

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

Representation from Employing Authorities or Members

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

The Local Pension Board

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

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

- (i) securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS and any statutory pension scheme that is connected with it

(ii) securing compliance with requirements imposed in relation to the LGPS and any connected scheme by the Pensions Regulator

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

The administering authority retains ultimate responsibility for the administration and governance of the Southwark Council LGPS. The role of the board is to assist the administering authority to fulfil that responsibility.

The Local Pension Board meets quarterly and the membership and work of the board can be viewed on page 6 in the annual report of the Local Pension Board.

The Principles

Principle	Fully Compliant?	Note
Structure		
The management of the administration of benefits and strategic management of the fund assets clearly rests with the main committee established by the appointed council.	Yes	
The representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	See note	1
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not applicable	
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not applicable	
Representation		
That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include:- <ul style="list-style-type: none"> • employing authorities (including non-scheme employers, e.g., admitted bodies); • scheme members (including deferred and pensioner scheme members), • where appropriate, independent professional observers, and • expert advisors (on an ad-hoc basis). 	See note	1
That where lay members sit on a main or secondary	Yes	

Principle	Fully Compliant?	Note
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.		
Selection and role of lay members		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees	Yes	
Training/Facility time/Expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	See note	2
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	
Meetings (frequency/quorum)		
That an administering authority's main committee or committees meet at least quarterly.	Yes	
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable	
That an administering authority that does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	
Scope		

Principle	Fully Compliant?	Note
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	

Note 1

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

Note 2

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

Appendix 7: Scheme Advisory Board Statistics

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

Geographical Analysis of Fund Holdings

Asset Class	UK £m	Non-UK £m	Total £m
Equities	59	780	839
Bonds	265	12	277
Property	240	0	240
Alternatives	0	122	122
Cash & Cash Equivalents	8	0	8
Other	2	0	2
Total	574	914	1488

Investment Income Earned

Asset Class	UK £000s	Non-UK £000s	Total £000s
Equities	1,450	2,821	4,271
Property	8,819	0	8,819
Alternatives	1,167	0	1,167
Cash & Cash Equivalents	10	0	10
Other	57	0	57
Total	11,503	2,821	14,324