# Pensions Advisory Panel

Thursday 5 March 2026
1:30pm
Room 225, 160 Tooley Street

**Membership**

Councillor Stephanie Cryan (Chair)
Councillor Emily Hickson
Councillor Rachel Bentley

**Staff Representatives**
Roger Stocker
Julie Timbrell
Derrick Bennett

**Officers**
Clive Palfreyman
Caroline Watson
Barry Berkengoff

**Advisors**
David Cullinan
Colin Cartwright

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**INFORMATION FOR MEMBERS**

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**Contact**
Caroline Watson on 020 7525 4379 or email: caroline.watson@southwark.gov.uk

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Members of the committee are summoned to attend this meeting
**Althea Loderick**
Chief Executive
Date: 26 February 2026

PRINTED ON RECYCLED PAPER

# Pensions Advisory Panel

Thursday 5 March 2026
1:30pm
Room 225, 160 Tooley Street

# Order of Business

| Item No. | Title | Page No. |
| --- | --- | --- |

6. **MATTERS ARISING**

7. **ASSET ALLOCATION UPDATE (5 MINUTES)**

8. **QUARTERLY INVESTMENT UPDATE (5 MINUTES)**

    - **DAVID CULLINAN**
    - **AON**

9. **INVESTMENT STRATEGY REVIEW (15 MINUTES)**

10. **ACTUARIAL VALUATION 2025 – FUNDING STRATEGY STATEMENT (10 MINUTES)**

11. **RESPONSIBLE INVESTMENT POLICY AND UPDATE (10 MINUTES)**

12. **LGPS POOLING – VERBAL UPDATE (10 MINUTES)**

13. **LOCAL PENSION BOARD UPDATE (5 MINUTES)**

14. **PENSIONS SERVICES UPDATE (5 MINUTES)**

**ANY OTHER OPEN BUSINESS AS NOTIFIED AT THE START OF THE MEETING AND ACCEPTED BY THE CHAIR AS URGENT**

**PART B – CLOSED**

15. **CLOSED MINUTES 9 DECEMBER 2025 (5 MINUTES)**

16. **QUARTERLY INVESTMENT UPDATE – AON CLOSED REPORT**

17. **INVESTMENT STRATEGY REVIEW**

Date: 26 February 2026

Southwark Council

# Pensions Advisory Panel

MINUTES of the OPEN section of the Pensions Advisory Panel held on Tuesday 9 December 2025 at 12.15 pm at Meeting Room 225 - 160 Tooley Street, London SE1 2QH

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**PRESENT:** Councillor Emily Hickson (in the chair)
Councillor Rachel Bentley (remotely)
Clive Palfreyman
Caroline Watson
Tracey Milner
Spandan Shah
Agne Svencionyte
Louise Charman
Julie Timbrell (remotely)
Roger Stocker
David Cullinan (remotely)
Colin Cartwright
Laura Caudwell
Youyang Zhao
Andrew Weir

## 1. APOLOGIES

Apologies were received from Councillor Stephanie Cryan, Mike Ellsmore and Barry Berkengoff.

It was noted that Councillor Rachel Bentley, David Cullinan and Julie Timbrell would be joining the meeting remotely.

It was noted, that in the absence of the chair, Councillor Emily Hickson would chair the meeting.

## 2. CONFIRMATION OF VOTING MEMBERS

Councillor Emily Hickson, Councillor Rachel Bentley and Caroline Watson were confirmed as voting members.

## 3. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT

There were none.

## 4. DISCLOSURE OF INTERESTS AND DISPENSATIONS

There were none.

## 5. MINUTES

**RESOLVED:**

That the open minutes of the meeting held on 23 September 2025 be agreed as a correct record and signed by the Chair.

## 6. MATTERS ARISIING

It was agreed that a tour of the buildings in the borough that the pension fund is invested in would be arranged in spring.

## 7. ACTUARIAL VALUATION 2025 - PRELIMINARY RESULTS

Laura Caudwell from Aon presented the report.

It was noted that there was a 110% surplus buffer, despite increased caution in assumptions. This would facilitate the employer rate to be reduced from 20.5% to 17.3%.

There were questions and a discussion on the report.

**RESOLVED**

That the Pensions Advisory Panel (PAP) noted the following:

a. Noted the initial valuation results presentation attached as Appendix 1.

b. Noted that the amended funding strategy statement will be tabled at the March 2026 PAP meeting.

c. Noted that scheme employers will have the opportunity to feedback on the amended funding strategy statement, via a consultation which will commence shortly.

## 8. INVESTMENT STRATEGY REVIEW

Colin Cartwright from Aon presented the report.

He advised that the current strategy is aligned with the actuarial valuation outcome.

However, going forward some small tweaks to the Strategic Asset Allocation would be required to generate cashflow. He also advised that there are operational changes that could be made (for example, switching to income share-classes) that would provide cashflow.

There were questions and some discussions.

**RESOLVED:**

That the Pensions Advisory Panel noted that a full report on the Fund's revised Strategic Asset Allocation will be tabled at the 4 March 2026 PAP meeting.

## 9. CONFLICT ZONES UPDATE

Clive Palfreyman, Strategic Director of Resources, presented the report.

Clive presented the Exclusions Framework developed by the Fund following the commitments made by the Leader of the council. The Fund will consider the exclusions framework as part of its revised Responsible Investment policy.

The consensus was that while there are multiple lists published by various organisations, a verifiable list published by a global organisation, such as the UN, should be the reference point for the Exclusions Framework. The Fund will continue to monitor the framework to ensure it considers its approach to investments in conflict zones globally and not just a particular/isolated instance.

**RESOLVED:**

That the Pensions Advisory Panel noted the following:

i. Progress on each of the four commitments made in the Council Leader's statement released on 15 September 2025 in relation to the Fund's approach to investment in conflict zones.

i. The interconnected nature of the work on conflict zones with other ongoing workstreams, particularly with regard to LGPS pooling.

## 10. ADMINISTRATION STRATEGY

Clive Palfreyman, Strategic Director of Resources, introduced the report.

It was noted that the administration strategy had been discussed at the recent Pensions Board meeting and that the Pensions Board had discussed this matter at length.

Caroline Watson added that it will be compulsory to have an administration strategy under the new LGPS governance regulations and that the content of the updated strategy may need to be reviewed to be fully compliant with the new regulations.

There were no questions on the report.

**RESOLVED:**

> That the updated pension administration strategy of the Southwark Pension Fund be approved and agreed by the Pensions Advisory Panel.

## 11. LOCAL GOVERNMENT PENSION SCHEME POOLING - VERBAL UPDATE

Caroline Watson, Chief Investment Officer, provided a verbal update.

It was noted that there would have to be an independent governance review every three years. An independent advisor would also have to be appointed to the Pensions Advisory Panel (PAP) by October 2026.

**RESOLVED:**

> That the verbal update on local government pension scheme pooling be noted.

## 12. ASSET ALLOCATION UPDATE

Tracey Milner, Interim Pensions Investment Manager, presented the report.

She advised that it had been a good quarter, with the Fund market value increasing by c£100m, and that there were no other significant issues to report.

There were no questions on the report.

**RESOLVED:**

That the Fund's asset allocation at 30 September 2025, overall performance and other matters considered by the officers and advisers of the Fund during the quarter to the end of June and post quarter end, be noted.

## 13. QUARTERLY INVESTMENT UPDATE

David Cullinan presented his report and updated the Panel.

Colin Cartwright from AON presented his report and updated the Panel.

There were no questions on the reports.

**RESOLVED:**

That the quarterly investment updates be noted.

## 14. RESPONSIBLE INVESTMENT UPDATE

This item was not presented to the panel due to time constraints. It was accepted as read.

**RESOLVED:**

That the Pensions Advisory Panel noted the following aspects of the Fund's approach to responsible investment:

a. Carbon footprint as at 30 September 2025.
b. Engagement and voting activity during the quarter ended 30 September 2025.

## 15. PENSION FUND STATEMENT OF ACCOUNTS AND AUDIT FINDINGS REPORT

This item was not presented to the panel due to time constraints. It was accepted as read.

**RESOLVED:**

That the Pensions Advisory Panel noted:

- The update provided in the report regarding the audit of the pension fund statement of accounts.
- The ISA 260 report as issued by KPMG, set out as Appendix 1.

## 16. LOCAL PENSION BOARD UPDATE

This item was not presented to the panel due to time constraints. It was accepted as read.

**RESOLVED:**

That the update from the Local Pension Board (LPB or the Board) meeting of 8 October 2025 be noted.

## 17. PENSIONS SERVICES UPDATE

This item was not presented to the panel due to time constraints. It was accepted as read.

**RESOLVED:**

That the update on the pensions administration and operational function be noted.

## 18. CLOSED MINUTES

The voting members of the Panel considered the closed information relating to this item.

## 19. INVESTMENT STRATEGY REVIEW

The voting members of the Panel considered the closed information relating to this item.

## 20. QUARTERLY INVESTMENT UPDATE - AON CLOSED REPORT

The voting members of the Panel considered the closed information relating to this item.

The meeting ended at 1.34pm.

**CHAIR:**

**DATED:**

| | |
|---|---|
| **Meeting Name:** | Pensions Advisory Panel |
| **Date:** | 5 March 2026 |
| **Report title:** | Asset Allocation Update – 31 December 2025 |
| **Ward(s) or groups affected:** | Not applicable |
| **Classification:** | Open |
| **Reason for lateness (if applicable):** | Not applicable |
| **From:** | Chief Investment Officer |

## RECOMMENDATIONS

1. The Pensions Advisory Panel is asked to note the Fund's asset allocation as at 31 December 2025, overall performance and other matters considered by the officers and advisers of the Fund during the quarter to the end of December and post quarter end.

## Background

2. Decision making for the Southwark Pension Fund (SPF) is a bipartite mutual responsibility between the Strategic Director of Resources (S151 officer) and the Pensions Advisory Panel (PAP). London Borough of Southwark, as administering authority for the Southwark Pension Fund, has delegated responsibility for the management and decision making for the Fund to the S151 officer. All Fund investment decision making, ongoing investment monitoring and risk management by the S151 officer must be made with regard to advice received from PAP.

3. Additional oversight of the decision-making process is provided via the Local Pension Board.

## Pension Fund Investments – December Quarter 2025

### Position Statement as at 31 December 2025

4. The market value of the Fund increased during the quarter from £2,425.8m to £2,486.1m, an increase of £60.3m (+2.5%). In contrast, in the previous quarter the market value of the Fund increased by £96.2m.

5. The value of the major asset classes as at 31 December compared to 30 September is as follows:

| | 30 September £m | % | 31 December £m | % |
|---|---|---|---|---|
| Low carbon passive equities | 895.764 | 36.9 | 917.880 | 36.9 |
| Active Emerging Market equities | 105.767 | 4.4 | 113.035 | 4.6 |
| Active global equities | 282.821 | 11.7 | 291.387 | 11.7 |
| Total Global Equities | 1,284.353 | 53.0 | 1,322.302 | 53.2 |
| Total Multi-Asset Credit | 228.787 | 9.4 | 231.485 | 9.3 |
| Total Index Linked Gilts | 227.310 | 9.4 | 236.744 | 9.5 |
| Total Property | 385.983 | 15.9 | 381.219 | 15.4 |
| Total ESG Priority | 277.881 | 11.5 | 279.082 | 11.2 |
| Total Cash & Cash Equivalents | 20.436 | 0.8 | 35.330 | 1.4 |
| **Total Fund** | **2,424.750** | **100.0** | **2,486.162** | **100.0** |

6. The following table shows the breakdown of the market valuation as at 31 December 2025 by asset class/manager against target asset allocation:

| | Manager(s) | TOTAL FUND £m | Actual % | Target % | (Under) Overweight |
|---|---|---|---|---|---|
| Low carbon passive equity | Blackrock<br>LGIM | 482.445<br>435.435 | 19.4<br>17.5 | 17.5<br>17.5 | +1.9<br>0.0 |
| Active Emerging Market equity | Comgest | 113.035 | 4.6 | 5.0 | -0.4 |
| Active global equity | Newton | 291.387 | 11.7 | 10.0 | +1.7 |
| **Total Global Equity** | | **1,322.302** | **53.2** | **50.0** | **+3.2** |
| **Multi-Asset Credit** | Robeco<br>LCIV-CQS | 115.965<br>115.520 | 4.6<br>4.7 | 5.0<br>5.0 | -0.4<br>-0.3 |
| **Index Linked Gilts** | Blackrock<br>LGIM | 110.547<br>126.197 | 4.5<br>5.0 | 5.0<br>5.0 | -0.5<br>0.0 |
| **Total Property** | See table (Para 9) | **381.219** | **15.4** | **20.0** | **-4.6** |
| **Total ESG Priority** | See table (Para 13) | **279.082** | **11.2** | **10.0** | **+1.2** |
| **Cash & Cash Equivalents** | LGIM<br>Custody<br>Northern Trust<br>Blackrock<br>Newton<br>Nuveen | 1.014<br>6.614<br>0.161<br>11.875<br>8.237<br>7.429 | 0.0<br>0.3<br>0.0<br>0.5<br>0.3<br>0.3 | 0.0<br>0.0<br>0.0<br>0.0<br>0.0<br>0.0 | +0.2<br>0.0<br>0.0<br>+0.4<br>+0.1<br>+0.1 |
| **TOTAL Fund** | | **2,486.162** | **100.0** | **100.0** | **0.0** |
| 30 September 2025 | | 2,424.750 | | | |
| 30 June 2025 | | 2,328.573 | | | |
| 31 March 2025 | | 2,269.773 | | | |
| 31 December 2024 | | 2,329.132 | | | |

7. The Fund's Strategic Asset Allocation (SAA) has tolerance, within specific ranges, for deviation from the target allocation for each manager/asset class. All allocations are within the maximum permitted by the SAA.
8. Most of the changes in over and underweight positions are linked to market movements, with equities having another strong quarter.

**Fund Manager Activity**

**i) Listed assets**

9. During the quarter officers redeemed £8.8m of equities from the LGIM low carbon transition fund to support day to day liquidity.

**ii) Property**

10. The table below breaks down the property holdings showing the valuation of the direct and indirect fund holdings as at 31 December 2025.

| Manager | Description | Market Value £m | Actual % | Target % |
|---|---|---|---|---|
| Nuveen | Direct property | 267.550 | 10.8 | 14.0 |
| Invesco | UK Residential Fund | 44.496 | 1.8 | 1.5 |
| M&G | UK Residential Property Fund | 45.252 | 1.8 | 1.5 |
| Darwin | Leisure Development Fund | 14.784 | 0.6 | 1.5 |
| Frogmore | Frogmore Real Estate Fund III | 0.001 | 0.0 | 0.75 |
| Brockton | Brockton Capital Fund III | 9.136 | 0.4 | 0.75 |
| | | | | |
| **Total Property** | | **381.219** | **15.4** | **20.0** |
| **Last quarter** | | **385.983** | **15.9** | **20.0** |

11. The table shows that there is a significant underweight in the core property mandate run by Nuveen (-3.2%, excluding cash). However, it should be noted that Nuveen have permission to drawdown cash, which is held within SPF's cash balances, as and when appropriate investment opportunities arise.
12. Frogmore Real Estate Fund III is being wound down and has been placed under liquidation, with effect from 31 October 2025. It is expected that it will take up to a year to liquidate the Fund.
13. The Invesco UK Residential Fund has been placed under managed liquidation. We do not expect to have any write-down but there is likely to be a delay in receiving the eventual proceeds from liquidation.

**iii) ESG Priority Allocations (ex-property)**

14. The below table breaks down the ESG priority holdings (excluding property) showing the valuation of underlying funds as at 31 December 2025 against the original commitments:

| Manager | Fund | Commitment | Market Value £m | Last Quarter £m |
|---|---|---|---|---|
| Glennmont | Glennmont Clean Energy Fund III | €35m | 32.826 | 33.136 |
| Glennmont | Glennmont Clean Energy Fund IV | €50m | 17.669 | 17.877 |
| Temporis | Operational Renewable Energy (TORES)<br><br>Renewable Energy (TREF)<br><br>Impact Strategy (TIV) | £33.3m<br><br>£30.6m<br><br>£31.0m | 49.726<br><br>23.099<br><br>27.734 | 50.507<br><br>23.184<br><br>23.353 |
| Blackrock | Global Renewable Power Infrastructure | $40m | 17.528 | 17.012 |
| Darwin | Bereavement Services Fund | £20m | 18.726 | 18.868 |
| Blackstone | Strategic Capital Holdings II | $110m | 56.209 | 58.411 |
| BTG Pactual | Core US Timberland | $40m | 35.565 | 35.533 |
| **TOTAL** | | | **279.082** | **277.881** |

15. All manager commitments set out in the table above are within the agreed tolerances.

16. The following table shows the private market cash transactions (excluding property) for the December quarter:

| | Drawdowns | Distributions |
|---|---|---|
| Blackrock GRP III | -£0.3m | |
| Blackstone | -£3.5m | |
| Temporis Renewable Energy | | +£0.3m |
| Temporis Impact | -£4.6m | |
| **Total impact on LBSPF cash balances** | **-£8.4m** | **+£0.3m** |
| Last Quarter total | -£4.5m | +£4.3m |

17. The drawdowns and distributions are all in line with manager strategies communicated to the fund.

### UK Holdings

18. Current annual reporting guidelines require that LGPS funds declare what proportion of their total portfolio is allocated to UK assets and how much of this is pooled (with LCIV). This is in line with the government's aim to increase pension fund investment in the UK. The following table identifies the estimated

value of the Fund's UK based assets as at quarter end (31 December 2025), shown in the same format as for the annual report requirements.

| **UK asset values as at 31 December 2025** | **Pooled**<br><br>**£m** | **Under pool management**<br><br>**£m** | **Not pooled**<br><br>**£m** | **Total**<br><br>**£m** |
|---|---|---|---|---|
| UK listed equities | - | 31.2 | 44.0 | 75.2 |
| UK government bonds | - | 236.7 | - | 236.7 |
| UK credit | 18.5 | - | 11.5 | 30.0 |
| UK infrastructure | - | - | 120.3 | 120.3 |
| UK private equity | - | - | 2.8 | 2.8 |
| UK property | - | 45.3 | 336.0 | 381.3 |
| **TOTAL** | **18.5** | **313.2** | **514.6** | **846.3** |
| **% of LBS Fund** | | | | **34.0%** |
| Last Quarter | | | | 34.3% |

19. At £846m (34% of the Fund) the allocation to the UK increased in absolute terms during the quarter, although this represented a slightly lower percentage of the Fund than the previous quarter due to market movements.

**Investment Performance Results for the Period**

20. The following table shows the total fund returns for the quarter and for longer-term assessment periods:

| | Quarter to 31 December | Year to 31 December | 3 Years to 31 December p.a. | Inception to 31 December p.a. |
|---|---|---|---|---|
| Fund | 2.7 | 7.6 | 8.6 | 8.3 |
| Benchmark | 2.7 | 10.4 | 11.3 | n/a |
| Relative | - | -2.8 | -2.7 | n/a |

Source: Northern Trust (reflecting historic figures provided by JP Morgan prior to 1/4/2025)

21. The Fund made a return of 2.7% in the quarter, matching the benchmark return which was also 2.7%. The total fund return for the year to the end of December 2025 was 7.6% which was below the benchmark return of 10.4%. Over 3 years, the Fund returned 8.6% p.a. compared to a benchmark return of 11.3% p.a., a difference of -2.7% p.a.

22. Further information on the performance of underlying managers will be provided in the adviser update (Item 8).

**Operational issues**

23. To support day to day liquidity there were redemptions totalling £13m from the LGIM Sterling Liquidity Fund. Since the balance on the liquidity fund fell below the £5m target, as per the Fund's cash management policy, rebalancing out of the LGIM equity fund took place to top up the liquidity fund.

**Community, Equalities (including socio-economic) and Health Impacts**

**Community Impact Statement**

24. No immediate implications arising

**Equalities (including socio-economic) Impact Statement**

25. No immediate implications arising

**Health Impact Statement**

26. No immediate implications arising

**Climate Change Implications**

27. No immediate implications arising

**Resource Implications**

28. No immediate implications arising

**Legal Implications**

29. No immediate implications arising

**Financial Implications**

30. No immediate implications arising

**Consultation**

31. No immediate implications arising

## AUDIT TRAIL

| | | | |
|---|---|---|---|
| ***Lead Officer*** | Clive Palfreyman, Strategic Director of Resources | | |
| **Report Author** | Caroline Watson, Chief Investment Officer | | |
| **Version** | Final | | |
| *Dated* | 5 March 2026 | | |
| *Key Decision?* | N/A | | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | | |
| **Officer Title** | | **Comments Sought** | Comments Included |
| Director of Law and Democracy | | N/A | N/A |
| Strategic Director of Resources | | N/A | N/A |
| List other officers here | | | |
| *Cabinet Member* | | N/A | N/A |
| *Date final report sent to Constitutional Team* | | | |

| | |
|---|---|
| **Meeting Name:** | Pensions Advisory Panel |
| **Date:** | 5 March 2026 |
| **Report title:** | Advisers' Updates - Quarter to December 2025 |
| **Ward(s) or groups affected:** | Not applicable |
| **Classification:** | Open |
| **Reason for lateness (if applicable):** | Not applicable |
| **From:** | Chief Investment Officer |

## RECOMMENDATIONS

1. The pensions advisory panel is asked to:

   - Note David Cullinan's investment report attached as Appendix 1.
   - Note Aon's quarterly investment dashboard attached as Appendix 2.

## Community, Equalities (including socio-economic) and Health Impacts

### Community Impact Statement

2. No immediate implications arising

### Equalities (including socio-economic) Impact Statement

3. No immediate implications arising

### Health Impact Statement

4. No immediate implications arising

### Climate Change Implications

5. No immediate implications arising

### Resource Implications

6. No immediate implications arising

### Legal Implications

7. No immediate implications arising

**Financial Implications**

8. No immediate implications arising

**Consultation**

9. No immediate implications arising

## APPENDICES

| Name | Title |
|---|---|
| Appendix 1 | Independent adviser's report – quarter to December 2025 |
| Appendix 2 | Aon's quarterly investment dashboard – quarter to December 2025 |

## AUDIT TRAIL

| | | |
|---|---|---|
| **Lead Officer** | Clive Palfreyman, Strategic Director of Resources | |
| **Report Author** | Caroline Watson, Chief Investment Officer | |
| **Version** | Final | |
| **Dated** | 5 March 2026 | |
| **Key Decision?** | N/A | |
| **CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER** | | |
| **Officer Title** | **Comments Sought** | **Comments Included** |
| Assistant chief executive, governance and assurance | N/A | N/A |
| Strategic Director of Resources | N/A | N/A |
| **Cabinet Member** | N/A | N/A |
| **Date final report sent to Constitutional Team** | | |

# LONDON BOROUGH OF SOUTHWARK - Quarterly Report December 2025

**Executive Summary**

- Markets delivered robust quarterly gains, powered by cooling inflation and rising conviction that rate cuts are on the horizon. Equities and bonds both moved higher as sentiment and macro conditions improved

- The Fund returned a decent 2.7% over the period, almost exactly in line with the benchmark

- The Fund returned a very respectable 7.6% over the full year but remained some way behind the benchmark

- Medium-term returns picked up again while long-term returns for the Fund remained very solid, ahead of both still heightened inflation and actuarial assumption, but behind benchmark

- The near-term market outlook remains quite uncertain. Despite potential support from rate cuts, trade risks, tech-valuation concerns and geopolitical tensions point to continued market volatility

**Market Background**

Global investment markets delivered robust gains over the fourth quarter of 2025, with many major equity indices ending the calendar year near record or multi-year highs. The period was characterised by easing inflationary pressures, expectations of further monetary policy loosening in 2026 and a continued broadening of market leadership beyond the US.

Equity markets posted steady gains across all major regions. For the first time in several years, non-US equities significantly outperformed the US market over the full year, a trend that continued into the December quarter. Several factors contributed to this shift, including a weaker US dollar, relatively attractive valuations outside the US and a rotation by some investors away from US technology stocks.

Whilst all geographies delivered positive performance, Europe, the UK and emerging markets offered the best returns. While concerns around elevated valuations in technology companies and increased spending on Artificial Intelligence ("AI") infrastructure created some volatility in November and December, these pressures were offset by strong performance in the healthcare and financial sectors.

The benchmark MSCI ACWI Index rose 3.4% over the quarter.

In terms of bonds, markets were influenced by fiscal developments and shifting interest-rate expectations. In the UK, the Budget initially put upward pressure on gilt yields, but sentiment improved as investors reacted positively to lower-than-expected gilt issuance. The Bank of England cut interest rates by 0.25% during the quarter, bringing the base rate to 3.75% as inflation fell more sharply than anticipated. In the US, the Federal Reserve reduced interest rates by 0.5%, lowering the target range to 3.5–3.75%. These moves supported risk assets globally.

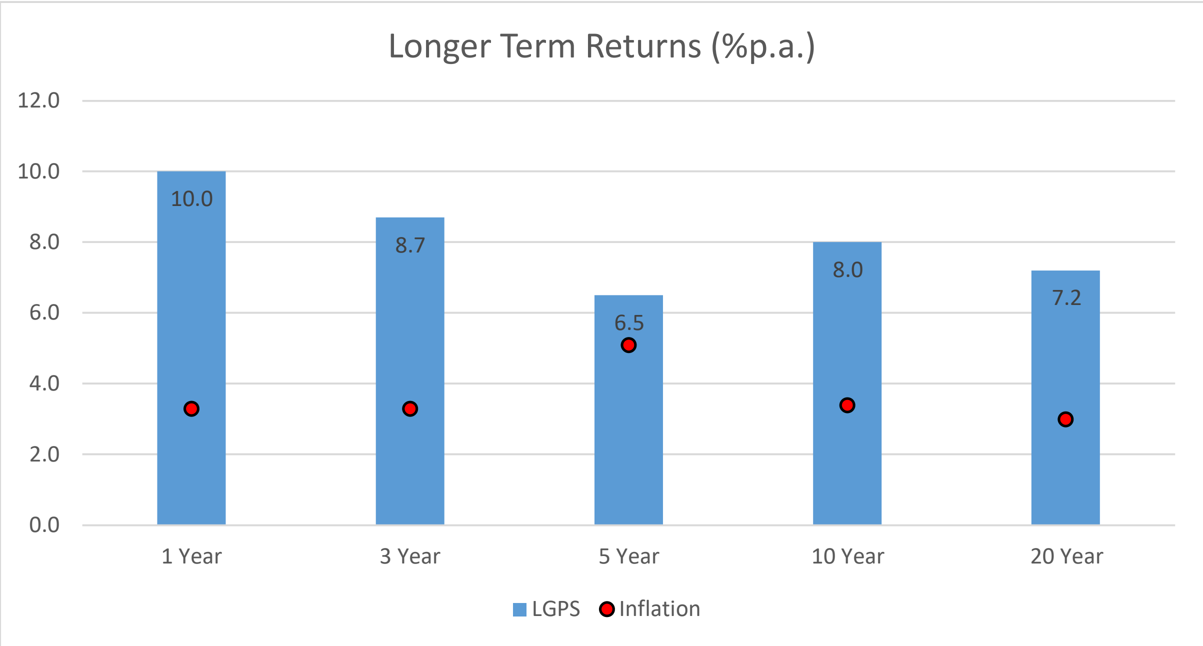
Gilts outperformed corporate and emerging market bonds over the quarter as yields fell, although they continued to lag over longer time periods.

Provisional property returns were expected to be in the 1-2% region over the quarter. Once again, capital gains were recorded in most sectors except offices.

**LGPS Funds**

The average LGPS fund was expected to have returned around 3% over the quarter.

After strong recent performance, the average pension fund delivered a provisional return in the region of 10% for the last twelve months. The three-year result rose to nearly 9% p.a. Solid equity performance continued to drive the strong returns. Over the last ten years the average fund delivered returns in the region of 8% p.a. Over the longer-term periods, funds with a higher equity component will have yielded stronger returns.



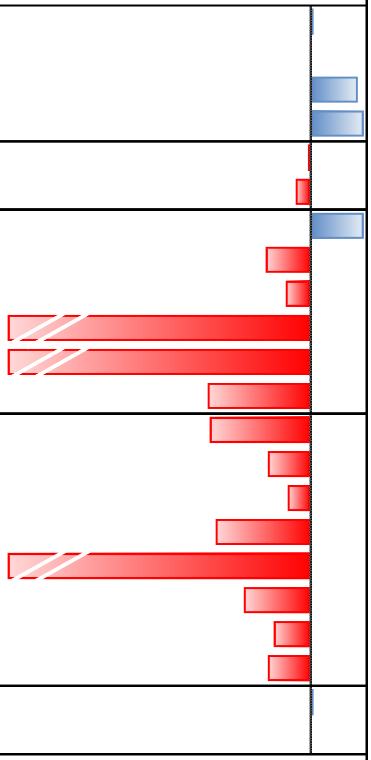

**Total Fund**

The Fund returned a solid 2.7% for the quarter performing in line with the benchmark.

Performance from the Fund's managers was mixed, as is normally the case, and the analysis below shows the make-up of the returns, both absolute and graphically in relative terms:

**LATEST QUARTER**

| | Manager | Returns | | |
|---|---|---|---|---|
| | | Fund | Benchmark | Relative |
| Global Equity | BLK | 3.7 | 3.6 | |
| | LGIM | 3.2 | 3.2 | |
| | Newton | 5.1 | 3.5 | |
| | Comgest | 6.7 | 4.8 | |
| MAC | Robeco | 0.9 | 1.0 | |
| | LCIV-CQS | 1.6 | 2.1 | |
| Property | Nuveen | 1.9 | 0.1 | |
| | Invesco | 0.5 | 1.9 | |
| | M&G | 1.1 | 1.9 | |
| | Darwin Leisure | -16.8 | 1.5 | |
| | Frogmore | -100.0 | 3.9 | |
| | Brockton | 0.1 | 3.5 | |
| ESG Priority | Glenmont | -1.0 | 2.4 | |
| | Temporis | 1.0 | 2.4 | |
| | Temporis (New) | 1.0 | 1.7 | |
| | Temporis (Impact) | -0.8 | 2.4 | |
| | BLK | -14.1 | 2.4 | |
| | Darwin Bereavement | -0.8 | 1.5 | |
| | Blackstone | 1.6 | 2.9 | |
| | BTG | 0.1 | 1.5 | |
| Index-Linked | BLK | 4.2 | 4.1 | |
| | LGIM | 4.1 | 4.1 | |
| Cash | LGIM/BLK/NT/Mgr Frictional | 0.2 | 1.0 | -0.8 |
| **Total Fund** | | **2.7** | **2.7** | **-0.0** |



The Fund matched the benchmark over the quarter, arresting the disappointing run which had stretched beyond two years. The above graphic shows a significant number of laggards over the period but outperformance from our active equity and core property managers provided an offset.

It is worth looking at this over the full year.

**YEAR**

| | | | | |
|---|---|---|---|---|
| Global Equity | BLK | 12.5 | 11.9 | |
| | LGIM | 13.5 | 13.3 | |
| | Newton | 15.8 | 15.4 | |
| | Comgest | 18.9 | 24.4 | |
| MAC | Robeco | 7.2 | 6.8 | |
| | LCIV-CQS | 7.6 | 8.8 | |
| Property | Nuveen | 6.3 | 4.8 | |
| | Invesco | -3.4 | 8.0 | |
| | M&G | 2.4 | 8.0 | |
| | Darwin Leisure | -21.2 | 6.0 | |
| | Frogmore | -99.9 | 16.5 | |
| | Brockton | -4.4 | 15.0 | |
| ESG Priority | Glenmont | 2.9 | 10.0 | |
| | Temporis Op' Renewable | -5.1 | 10.0 | |
| | Temporis Renewable | -4.6 | 7.0 | |
| | Temporis Impact | -2.5 | 10.0 | |
| | BLK | -36.1 | 10.0 | |
| | Darwin Bereavement | -16.1 | 6.0 | |
| | Blackstone | 0.5 | 12.0 | |
| | BTG | -3.2 | 6.0 | |
| Index-Linked | BLK | 0.9 | 0.8 | |
| | LGIM | 0.8 | 0.8 | |
| Cash | LGIM/BLK/NT/Mgr Frictional | 2.1 | 4.3 | -2.2 |
| **Total Fund** | | **7.6** | **10.4** | **-2.5** |

Over this longer period, the Fund returned a not insignificant 7.6% but underperformed the benchmark by a quite sizeable 2.5%. In terms of performance attribution, the pattern is very similar to that reported in recent quarters, namely decent equity and core property performance being more than offset by disappointing returns from non-core property and ESG priority portfolios. As I often remark, the targets (c10%p.a. on average) for the non-core property and ESG portfolios have probably been quite aggressive over this challenging period.

*These tables don't however consider the size and by implication, influence, of individual portfolios on the bottom line.*

The tables below, covering the latest quarter and full year, group the portfolios into our preferred asset classifications and this time, the size of the positions is accounted for:

**LATEST QUARTER**

| | Fund Weight | BM Weight | Fund Return | BM Return | Relative Return | Asset Allocation Policy | Investment Selection |
|---|---|---|---|---|---|---|---|
| Global Equity | 53.1 | 50.0 | 4.1 | 3.5 | 0.5 | | 0.3 |
| MAC | 9.4 | 10.0 | 1.2 | 1.5 | -0.3 | | |
| Property | 16.0 | 20.0 | -0.0 | 0.8 | -0.8 | 0.1 | -0.1 |
| ESG Priority | 11.4 | 10.0 | -0.5 | 2.2 | -2.7 | | -0.3 |
| Index-Linked | 9.4 | 10.0 | 4.1 | 4.1 | 0.0 | | |
| Cash | 0.6 | 0.0 | 0.2 | 1.0 | -0.8 | | |
| | **100.0** | **100.0** | **2.7** | **2.7** | **-0.0** | **0.1** | **-0.2** |

(For illustrative purposes, overweights are shaded blue as are manager outperformances).

Over the quarter, the Fund performed in line with the benchmark.

As a reminder, we don't take active allocation decisions routinely and so we expect investment selection to determine out or underperformance rather than asset allocation policy. In the latest quarter, our equities added 0.3% but this was counteracted by the 0.3 given up from the ESG priority portfolios.

**YEAR**

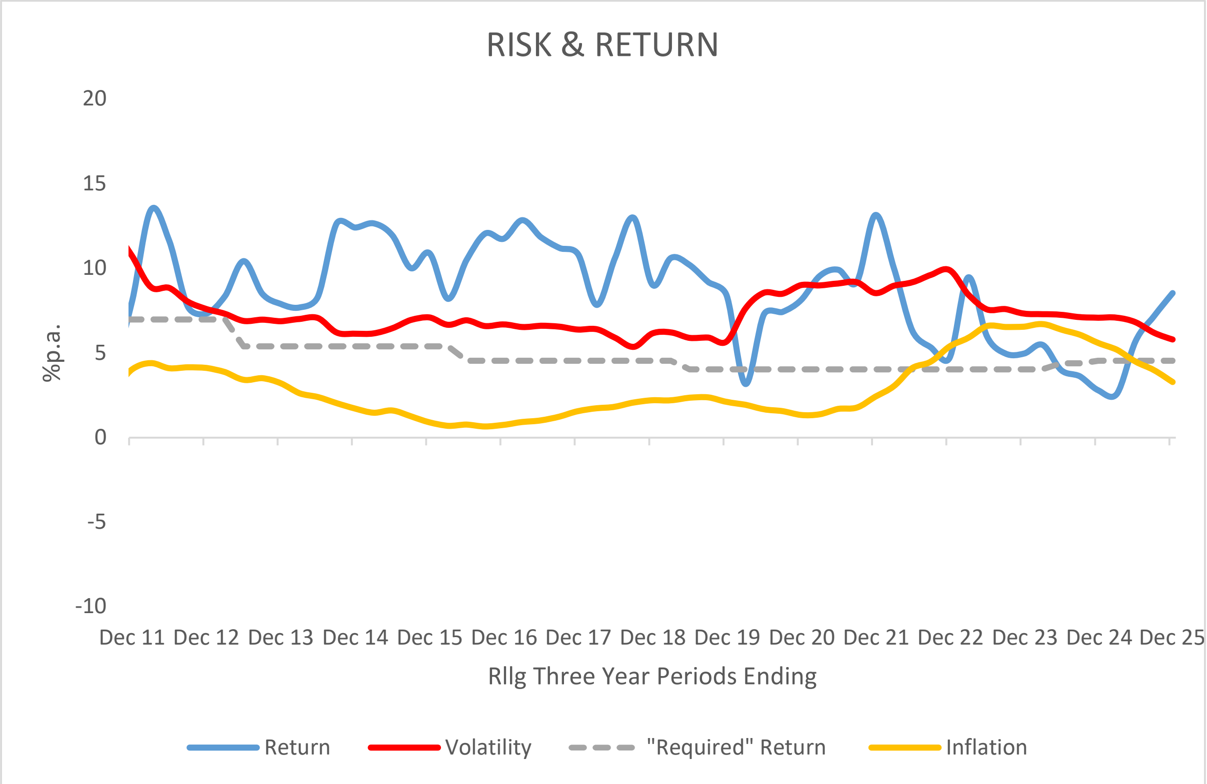
| | Fund Weight | BM Weight | Fund Return | BM Return | Relative Return | Asset Allocation Policy | Investment Selection |
|---|---|---|---|---|---|---|---|
| Global Equity | 52.2 | 50.0 | 14.0 | 14.1 | -0.2 | -0.1 | -0.1 |
| MAC | 9.5 | 10.0 | 7.4 | 7.9 | -0.4 | | |
| Property | 16.1 | 20.0 | 2.5 | 6.2 | -3.5 | 0.1 | -0.6 |
| ESG Priority | 12.4 | 10.0 | -6.5 | 9.2 | -14.3 | | -1.9 |
| Index-Linked | 9.1 | 10.0 | 0.8 | 0.8 | 0.5 | | |
| Cash | 0.7 | 0.0 | 2.1 | 4.2 | -2.1 | | |
| | **100.0** | **100.0** | **7.6** | **10.4** | **-2.5** | | **-2.6** |

Looking at the full calendar year, our equity allocation performed very strongly and roughly in line with benchmark, and it was the marked underperformance of the ESG and property allocations that led to the 2.6% shortfall.

**Medium-term**, the Fund has produced very robust returns of 7.6%p.a. and 6%p.a. over the three and five-year periods. Both periods' returns have been behind benchmark however, the latter by a smaller margin.

**Longer-term**, over the last ten-years, the Fund has delivered a very valuable 8.2%p.a. return just in excess of 1%p.a. off the target benchmark.

Repeating the analysis I've been showing for the last few quarters charting the progress of the Fund's return in the context of inflation and the return assumed by the actuary:




In summary,

- The blue line tracks the Fund's performance over rolling three-year periods. It shows a material uplift in the Fund's three year return which is now ahead of the return assumption used in the Actuary's modelling and inflation
- The red line shows the volatility of the returns being delivered (sometimes, and arguably unhelpfully, termed "risk"). This has begun to show signs of easing
- The chart also shows inflation trending downwards but remains above long-run norms

**Newton – Active Global Equity**

Newton returned a very respectable 5% return over the quarter and outperformed the benchmark by 1.5%, making up for the losses incurred last quarter. Outperformance came from positive stock selection in financials, technology, utilities and consumer discretionary sectors.

Despite lagging in two quarters, Newton bettered the index benchmark over the full calendar year recording an excellent 15.8%.

Longer-term numbers have been disappointing in benchmark relative terms, but the delivered returns have been extremely positive – c12%p.a. over the decade and c10%p.a. since inception.

Newton's outlook still talks of volatility in equity markets in the near-term particularly given the uncertainty over US trade policy.

**Comgest – Active Emerging Market Equity**

The manager outperformed in the quarter, returning 6.7% compared to the index which came in at 4.8%. The reasons for relative performance are always difficult to distil from the manager's report, but in the latest period, underweighting China and solid stock selection in South Africa, India and Brazil were positive contributors. The portfolio's off-benchmark holding in Argentina was the main detractor. From an industry perspective, Financials and IT contributed positively.

Over the full year, the portfolio has missed target by sizeable margins in two quarters and by in excess of 5% in total.

Since inception returns have been very disappointing indeed, with the portfolio outperforming the index in only five of the seventeen quarters measured. In return terms, the portfolio has achieved a return of 4.6%p.a. behind the index.

**Nuveen Real Estate – Core Property**

The portfolio return was 1.4% over the quarter (Nuveen figures). This represented a modest capital gain of 0.5% and income of 0.9%. The best performances came from two of the portfolio's recent purchases, Care UK and Maybrook Retail Park. Valuations increased in all but the office investments. The return was in-line with the benchmark.

The full year return reported by Nuveen was 6.3%, which was ahead of the 5.8% posted by the index benchmark.

The three-year return reported by Nuveen was a much improved 3.9%. This was around 0.7%p.a. ahead of the property based benchmark over the same period which returned 3.2%p.a.

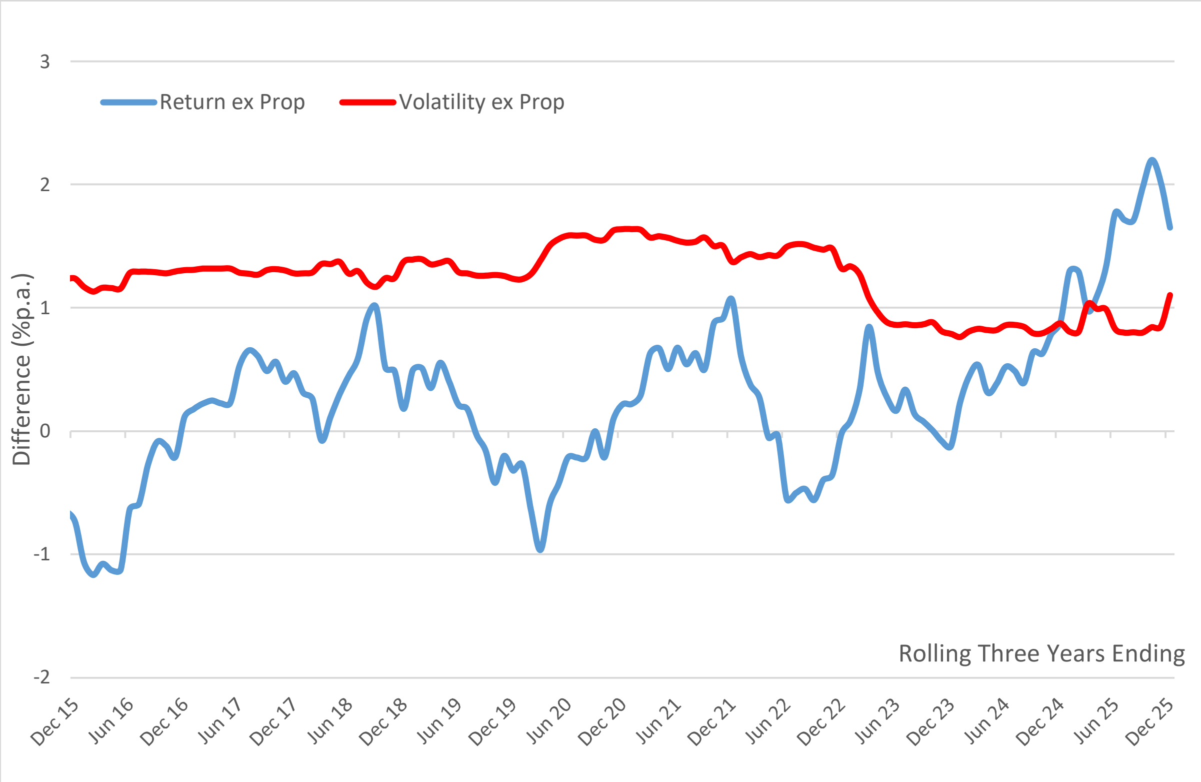
Nuveen suggest that the UK commercial property market is entering 2026 in a strong position, but rapid repricing and structural shifts have created pockets of disruption but also opportunities. As a result, choosing the right individual assets matters more than sector allocation.

**Residential/Opportunistic Real Estate**

As can be seen from the graphics on pages 3 and 4 above, the managers of the non-core property assets struggled over the latest quarter and over the calendar year, with all of the managers failing to hit their respective targets by varying margins. Over the quarter, in aggregate, the residential part of the portfolio underperformed by 1.2% and the opportunistic properties by a pronounced 28% as a result of the Frogmore write-down. I look at this again towards the end of my report.

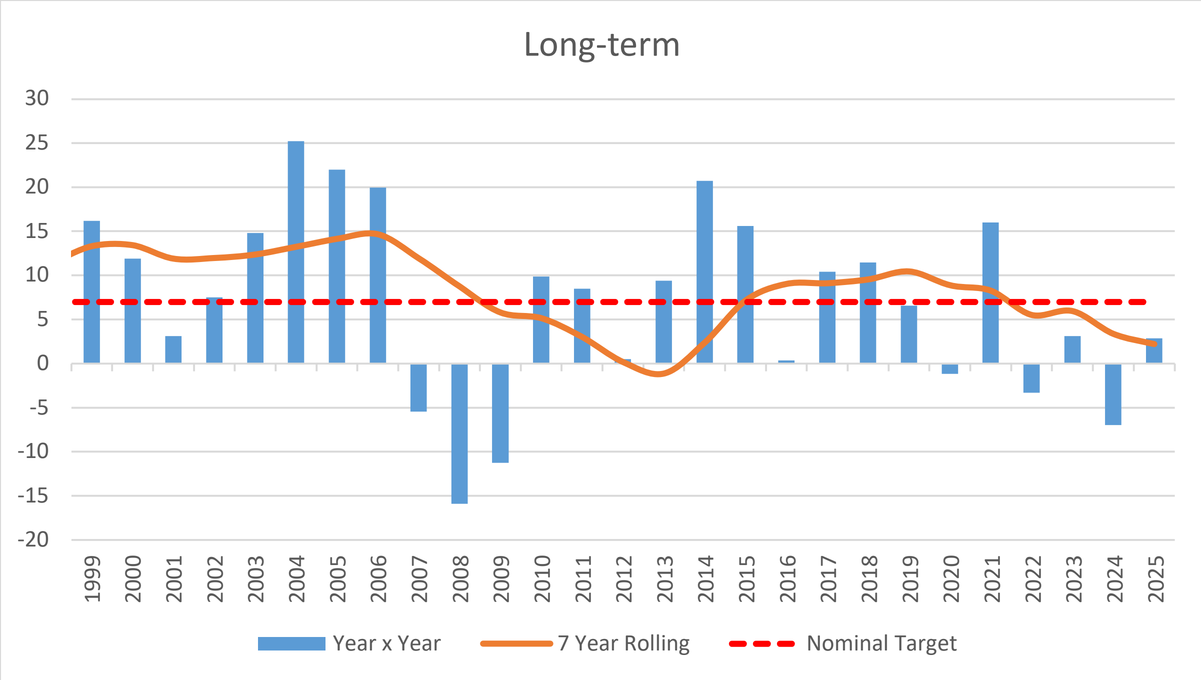
**Southwark's Property Allocation**

Targeted at 20%, the Fund has a significant allocation to real estate which has, and will have, a significant bearing on the performance (and volatility) of the Fund. The now familiar chart below shows the impact on risk and return over consecutive rolling three-year periods.




In the latest three-year period, the asset class has underperformed other investment types and so the Fund return was negatively impacted by our real estate holdings (the blue line above shows an impact close to 2%p.a.). Volatility has been reduced however but by half that amount, and so the risk/return trade-off has been poor.

I include again a chart showing the very long-term performance of our property investments. The benchmark for the core portfolio has changed over the course of the year, but a nominal 7%p.a. is a not  an unreasonable aspiration for the asset class.




What this shows is that property can be a consistent generator of positive return but also that performance is cyclical. Whilst the impact of the global financial crisis stands out in this chart, over the last few years, the sector has been hit by a perfect storm of higher interest rates, weak occupier demand and rising vacancies. Hybrid working post-pandemic has hurt offices, while retail has been squeezed. Our manager remains cautiously optimistic about the outlook for the sector.

**Robeco – Multi-Asset Credit**

The portfolio delivered a 0.9% return over the period, marginally behind the benchmark.

Over the full year, the portfolio returned 7.2%. This was around 0.4% ahead of the index.

Returns since inception remained ahead of the index benchmark by around 0.2%p.a.

**LCIV-CQS – Multi-Asset Credit**

The portfolio returned 1.6% over the quarter, trailing the benchmark by 0.5%.

Over the full year, the portfolio has returned a very respectable 7.6% but has failed to match the benchmark which returned 8.8%.

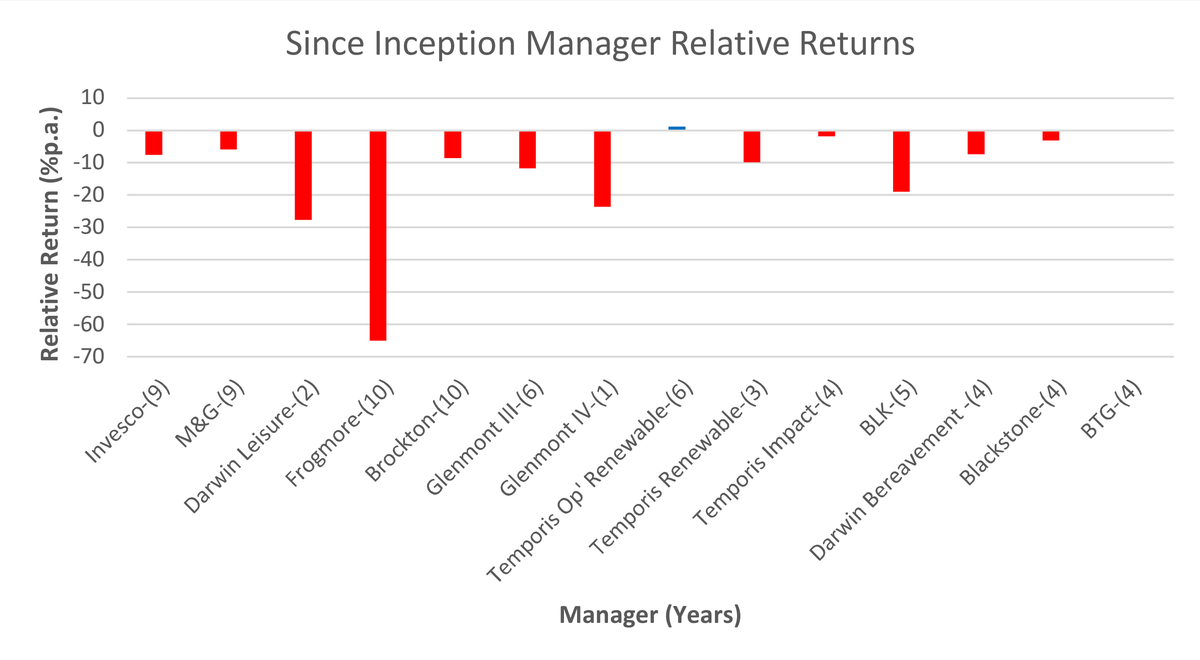
Since inception, the portfolio has underperformed by around 0.7%p.a.

**"ESG Priority" Allocation**

The performance of the Fund's infrastructure and other diversified alternative investments was typically negative (relative to benchmark) over the quarter and year as can be seen in the analyses above. I comment on these portfolios below.

**A focus on our Illiquid Investments**

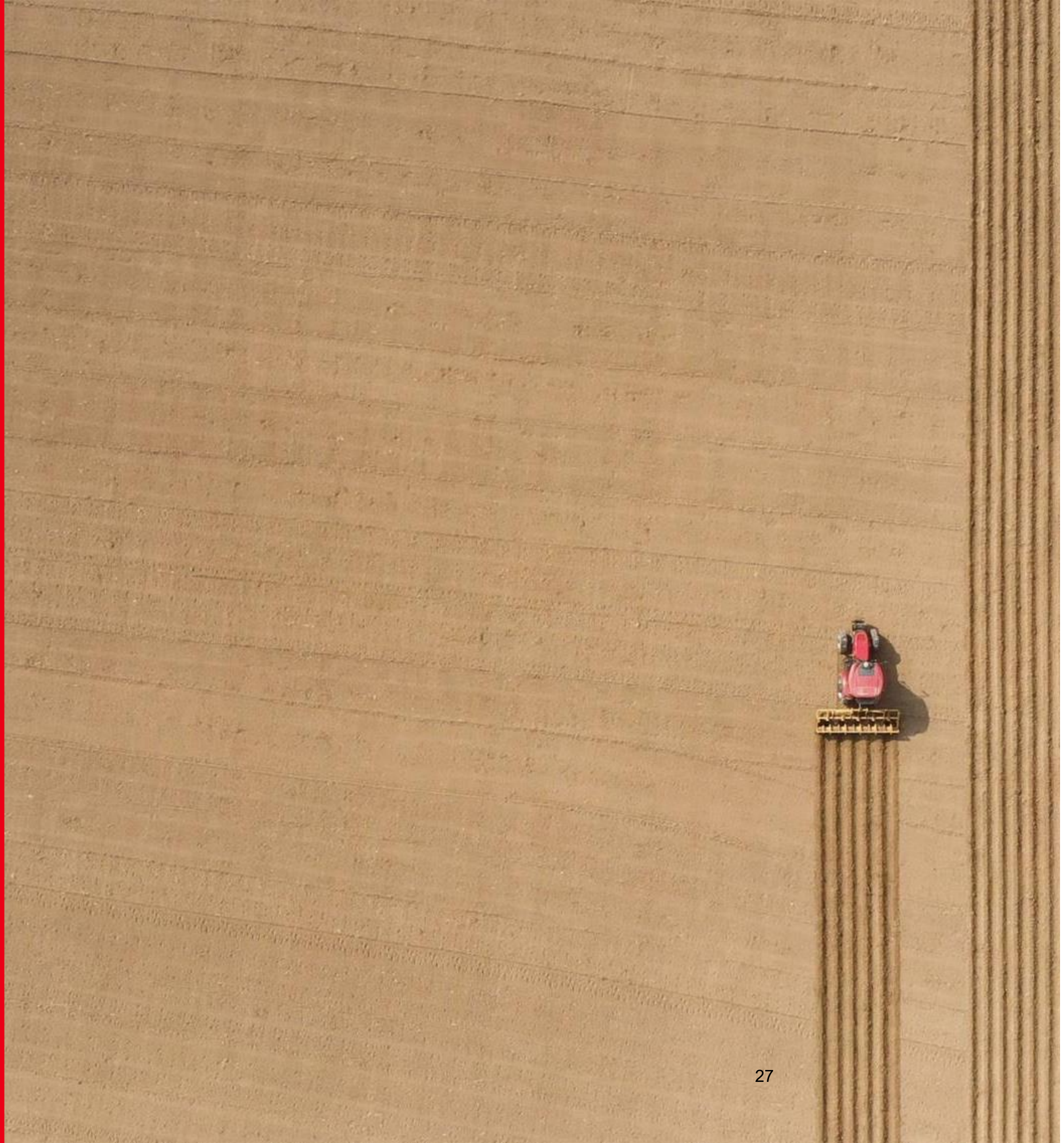
The chart below looks at our non-core real estate and ESG Priority portfolios in a little more detail. The chart shows the returns generated, since inception, relative to the portfolios' individual targets. For reference, the number in brackets indicates how many years the portfolio has been held within the Fund.




In short, performance from these investments has been disappointing and as reported above, has had a sizeable material impact of the performance of the overall Fund. In previous reports however, I've noted at some length that illiquid investments frequently deliver subdued performance in their early stages, reflecting the time needed for asset appreciation, operational enhancements, or the emergence of market demand. Notwithstanding the issues that have been reported with Darwin Leisure and Frogmore, the remaining assets, with an average tenure of around five years, could still be considered at the value creation stage of their lifecycles and so of no current concern.

**Passive Portfolios**

The portfolios tracked within tolerance over the quarter.



# Strategic Investment Dashboard Q4 2025

London Borough of Southwark Pension Fund

Prepared for: The Pension Advisory Panel

Prepared by: Aon

5 March 2026

For professional clients only. Private and Confidential

# 1

## Executive Summary

## Long-term strategy

### Funding level

| | |
|---|---|
| Funding Level | N/A |
| Surplus | N/A |

The 2025 Valuation has not been formally approved yet therefore we will not be providing any funding level updates (post 31 December 2024) until this has been signed off, as any funding update will be based on the 2022 liability information and could be inaccurate.

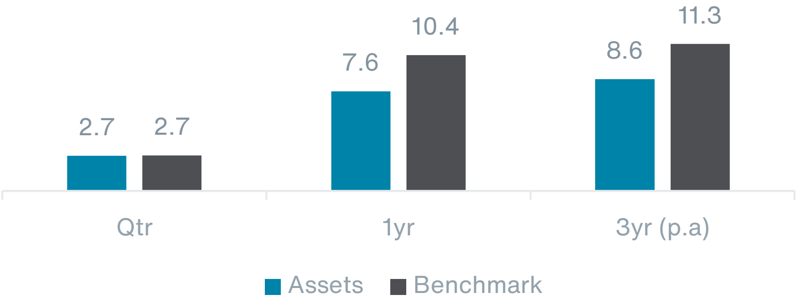
## Investment Performance

### Expected Return

**7.3%** ▼

The 31 December 2025 expected return has fallen by 0.1% over the quarter; however, this is still above the Strategic Asset Allocation expected return of 7.0%.

### Performance

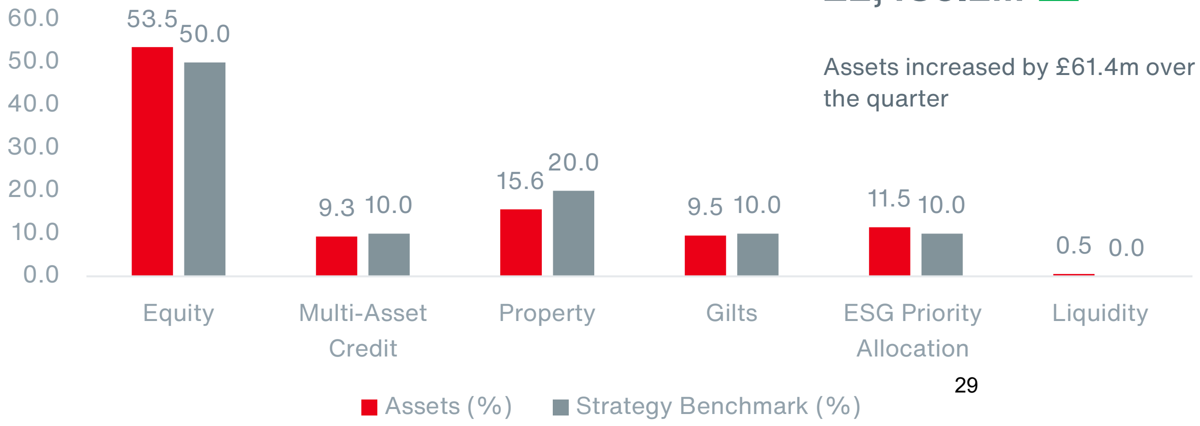



Over the quarter, the Fund's absolute performance was positive (+2.7%), resulting in a c.£61m gain, primarily driven by the continued rise in global equity markets.

The Fund's overall performance was broadly in line with its benchmark. Positive contributions from equities were partially offset by weaker returns from Property and the ESG Priority allocation.

## Strategic Positioning

### Asset Allocation




**£2,486.2m** ▲

Assets increased by £61.4m over the quarter

As at quarter end, the Fund continued to be overweight to Equity and ESG Priority Allocation relative to the current target allocations, whilst being underweight to MAC, Property and gilts.

To note as part of the strategy review, portfolio assets have been mapped to the nine prescribed asset classes in the Fit for Future consultation in which the Fund can invest ahead of the pooling deadline of 31 March 2026.

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# 2

## Asset Allocation

# Asset Allocation – Asset Class

| | 30 September 2025 | | 31 December 2025 | | | |
|---|---|---|---|---|---|---|
| | Valuation (£m) | Weight (%) | Valuation (£m) | Weight (%) | Strategic | Relative |
| **Growth** | **£2,182.7** | **90.0%** | **£2,236.4** | **90.0%** | **90.0%** | **0.0%** |
| Equity | £1,286.4 | 53.1% | £1,330.5 | 53.5% | 50.0% | 3.5% |
| Multi-Asset Credit | £228.8 | 9.4% | £231.5 | 9.3% | 10.0% | -0.7% |
| Property | £388.6 | 16.0% | £388.6 | 15.6% | 20.0% | -4.4% |
| ESG Priority Allocation | £278.9 | 11.5% | £285.7 | 11.5% | 10.0% | 1.5% |
| **Matching** | **£242.0** | **10.0%** | **£249.8** | **10.0%** | **10.0%** | **0.0%** |
| Index-Linked Gilts | £227.3 | 9.4% | £236.7 | 9.5% | 10.0% | -0.5% |
| Liquidity Fund | £14.7 | 0.6% | £13.1 | 0.5% | 0.0% | 0.5% |
| **Total** | **£2,424.7** | **100.0%** | **£2,486.2** | **100.0%** | **100.0%** | **-** |

*Source: Northern Trust. Totals may not sum due to rounding.*

.

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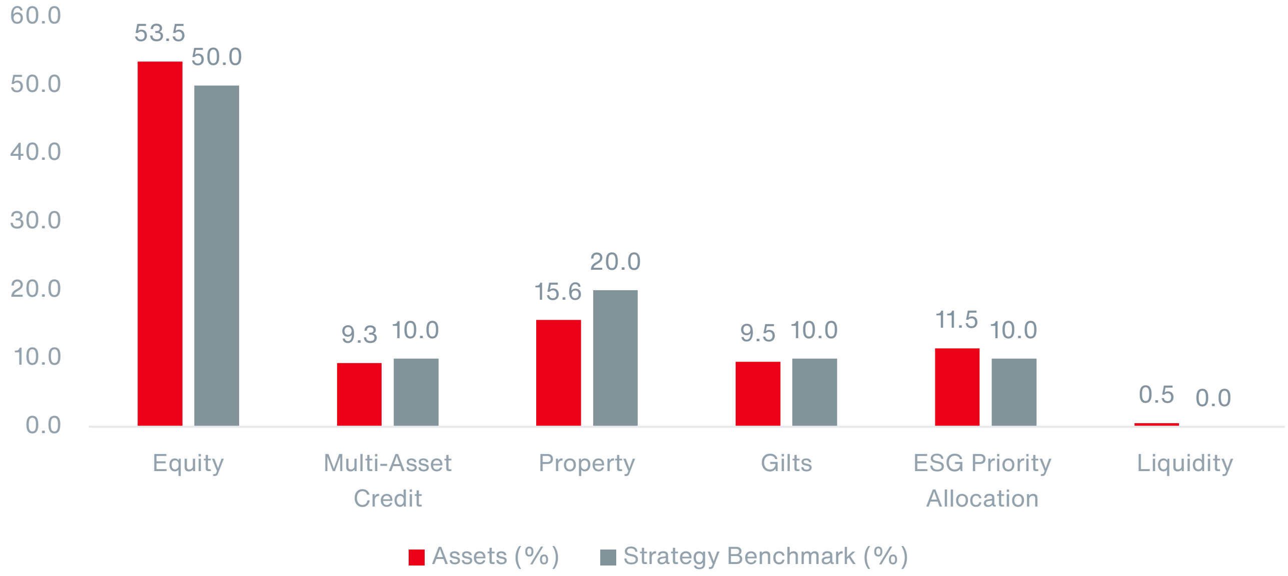
# Asset Allocation – Current vs Strategic

## Strategic allocation & Benchmark




**£2,486.2m**

Assets increased by £61.4m over the quarter

**Comments**

- The Fund's overweight position to Equity slightly increased over the quarter. As at quarter end, the Fund was underweight to MAC, Property and gilts and maintained an overweight position to the ESG Priority Allocation relative to the target allocations.
- The Fund is undergoing a strategy review and the PAP will need to define the Fund's strategic allocation ahead of the 31 March 2026 pooling deadline.

**31 December 2025**

7.3%

Expected Absolute Return

**31 December 2025**

4.0%

Standard Deviation*

*This is a measure of portfolio volatility versus the mean return

**Strategic Allocation**

7.0%

Expected Absolute Return

**Strategic Allocation**

3.4%

Standard Deviation*

*This is a measure of portfolio volatility versus the mean return

# 3

## Manager Performance

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# Manager focus – returns relative to benchmark (%)

| | 3 month (%) | | 1 year (%) | | 3 year (%) | |
|---|---|---|---|---|---|---|
| | Return | Relative | Return | Relative | Return | Relative |
| L&G Low Carbon Transition Developed Markets Index Fund | 3.2 | 0.0 | 13.5 | 0.2 | - | - |
| Newton Active Global Equity | 5.0 | 1.6 | 15.7 | 0.4 | 15.1 | -3.8 |
| Comgest Growth Emerging Markets Plus | 6.7 | 1.9 | 18.9 | -5.5 | 6.1 | -6.0 |
| BlackRock World Low Carbon Equities Fund | 3.7 | 0.1 | 12.5 | 0.5 | - | - |
| Robeco Multi-Asset Credit | 0.9 | -0.1 | 7.2 | 0.4 | - | - |
| LCIV Alternative Credit CQS | 1.6 | -0.5 | 7.6 | -1.3 | - | - |
| Nuveen Real Estate | 1.9 | 1.8 | 6.3 | 1.4 | 1.5 | -4.7 |
| Invesco Real Estate UK Residential Fund | 0.5 | -1.5 | -3.4 | -11.4 | -4.2 | -12.2 |
| M&G UK Residential Property Fund | 1.1 | -0.8 | 2.4 | -5.6 | 1.0 | -7.0 |
| Brockton Capital Fund III | 0.1 | -3.5 | -4.3 | -19.4 | -6.3 | -21.4 |
| Darwin Leisure Development Fund | -16.8 | -18.3 | -21.2 | -27.2 | - | - |
| Darwin Bereavement Services Fund | -0.8 | -2.2 | -16.1 | -22.1 | -4.4 | -10.4 |
| Glenmont Clean Energy Fund III | -0.9 | -3.3 | 6.6 | -3.4 | 4.0 | -6.0 |
| Glenmont Clean Energy Fund IV | -1.2 | -3.6 | -4.0 | -14.0 | - | - |
| BlackRock Global Renewable Power | 1.2 | -1.2 | -36.1 | -46.1 | -12.7 | -22.7 |
| BTG Pactual OEF Fund | 0.1 | -1.4 | -3.2 | -9.2 | 1.4 | -4.6 |
| Temporis Operational Renewable Energy Strategy | 1.0 | -1.4 | -5.1 | -15.1 | 11.2 | 1.2 |
| Temporis Impact Strategy V | -0.8 | -3.2 | -2.5 | -12.5 | 10.3 | 0.3 |
| Temporis Renewable Energy Fund | 1.0 | -0.7 | -4.6 | -11.6 | -3.6 | -10.6 |
| Blackstone Strategic Capital Holdings GP Stakes Fund II | 1.6 | -1.3 | 0.5 | -11.5 | 3.6 | -8.4 |

Source: Northern Trust and fund managers as required. Totals may not sum due to rounding. The total 1-year and 3-year performance includes prior period performance of the Fund’s legacy holdings.

Frogmore Real Estate Partners III Fund was terminated on the 31 October 2025, so the performance figures reported by Northern Trust have not been included here

# Manager focus – returns relative to benchmark (%) (cont.)

| ` | 3 month (%) | | 1 year (%) | | 3 year (%) | |
|---|---|---|---|---|---|---|
| | Return | Relative | Return | Relative | Return | Relative |
| L&G Over 5y Index Linked Gilts | 4.1 | -0.0 | 0.8 | 0.0 | - | - |
| BlackRock Aquila Over 5y Index Linked Gilts | 4.2 | 0.0 | 0.9 | 0.1 | -2.4 | 0.0 |
| BlackRock Sterling Liquidity Fund | 0.0 | -1.0 | 1.1 | -3.3 | - | - |
| L&G Sterling Liquidity Fund | 0.8 | -0.1 | 4.0 | -0.1 | - | - |
| Northern Trust Money Market Fund | 0.0 | -1.0 | 1.4 | -2.9 | - | - |
| **Total performance** | **2.7** | **-0.0** | **7.6** | **-2.8** | **8.6** | **-2.7** |

Source: Northern Trust and fund managers as required. Totals may not sum due to rounding. The total 1-year and 3-year performance includes prior period performance of the Fund’s legacy holdings.

# Equity Mandate

### Market Commentary & Outlook

In Q4, US equities delivered positive returns in both local currency and sterling terms (MSCI US +2.4% and 2.5% respectively), although they were the weakest-performing major equity market. Sector performance was led by Healthcare, which returned 11.1%, followed by Communication Services at 6.8%. In contrast, the Information Technology sector, which represents 34.3% of the MSCI US Index, returned just 1.1%, as concerns over elevated valuations weighed on the sector towards the end of the year. Valuation dispersion within the US market remained pronounced: the current price-to-earnings ratio of the so-called "Magnificent 7" cohort is close to 40x, compared with 27.5x for the S&P 500 Index, underscoring a substantial premium for mega-cap growth stocks. Style performance favoured value over the period, with the Russell 2500 Value Index returning 3.1% in Q4 2025, compared with 0.3% for the Russell 2500 Growth Index.

UK equities also posted positive returns over the quarter (MSCI UK +7.1% for Q4), with nearly all major sectors contributing. The Healthcare sector was a notable outperformer, delivering a strong 19.2% return, supported by robust gains in AstraZeneca, the largest UK-listed company by market value, whose share price rose 23.3% over the period. Valuations in the UK remain appealing relative to global markets. European equities recorded positive returns during the quarter, with Financials (9.7%) and Healthcare (8.9%) among the strongest-performing sectors. At the country level, Spanish equities led the region with a gain of 13.3%, followed by Switzerland with a return of 9.4%. Spain's improving fiscal backdrop has been a supportive factor, with the budget deficit projected at 2.5% of GDP in 2025 and 2.3% in 2026, set to come in below Germany's for the first time in nearly two decades.

Emerging market equities also advanced, returning 5.7% in local currency terms and 4.9% in US dollar terms over the quarter. Among the major emerging economies, all countries apart from China generated positive returns. South Korea and Taiwan were particular standouts, posting gains of 30.8% and 13.9% respectively, as both markets benefited from strong, AI-driven demand for semiconductors and related technologies.

### Fund Manager News

**Newton – Performance Commentary:** Global equities rose over the final quarter, supported by renewed enthusiasm for AI-related companies, interest rate cuts from major central banks (including the Fed and the Bank of England), and improved confidence following the end of the US government shutdown. Against this backdrop, the portfolio generated a positive return and outperformed its benchmark. Within the benchmark, Healthcare was the strongest-performing sector, while consumer stocks lagged. The portfolio's relative performance was driven mainly by strong stock selection in financials, technology, utilities and consumer discretionary, partly offset by weaker selection in industrials. Key contributors included Micron Technology, Barclays and SSE, while Alibaba, Eaton, Wolters Kluwer, ServiceNow and Meta were the largest detractors.

**Comgest – Performance Commentary:** The Fund delivered strong absolute returns but underperformed its reference index. Relative underperformance reflected the unusually polarised market environment, where a small group of AI beneficiaries drove a large share of index gains and more diversified portfolios lagged. Key positive contributors included Delta Electronics, TSMC and SK Hynix, all leveraged to rising AI and data-centre investment, and Tencent, which benefited from broad-based growth across gaming, cloud, advertising and fintech. Detractors such as Globant, WEG and MakeMyTrip were mainly affected by cyclical or event-driven headwinds (slower discretionary IT spend, trade uncertainty, and temporary aviation disruptions in India) rather than any deterioration in fundamentals, and conviction in these names remains high.

# Multi-Asset Credit Mandate

### Market Commentary & Outlook

UK investment grade credit spreads narrowed by 1bp to 80bps over the quarter, based on the iBoxx Sterling Non-Gilts index. Generally, both higher-quality and lower-quality bond credit spreads narrowed, with AAA-rated non-gilt spreads falling by 4bps to 15bps, AA-rated non-gilt spreads fell by 3bps to 46bps, and BBB-rated non-gilt spreads fell by 3bps to 112bps. The iBoxx Sterling Non-Gilts Index posted a return of 2.6%.

Global investment grade credit spreads rose by 2bps to 79bps over the quarter. US high yield saw its credit spreads rise marginally by 1bp, ending the quarter at 281bps (based on the ICE BofA Global Corporate index and US High Yield index, respectively). Hard currency emerging debt credit spreads fell by 31bps to 253bps (based on the JP Morgan EMBI Global Diversified index).

### Fund Manager News

**Robeco** - The Fund delivered stronger returns than its respective benchmark over Q4. Overall risk positioning (beta) was broadly neutral, so there was little impact from the general move in credit spreads. Outperformance mainly came from being overweight euro-denominated credit (where spreads tightened slightly) and underweight US dollar credit (where spreads widened). Stock (issuer) selection was mixed and did not materially drive relative performance.

**LCIV Alternative Credit Fund** – The Fund returned 1.6% over the fourth quarter, finishing behind its absolute return target of SONIA (30-day compounded) + 4.5%. For 2025, the Fund has gained 7.6%, 1.4% below target. Over three years, however, performance remains strong at +10.2% per annum, 0.8% ahead of target. The quarter began against a challenging backdrop, with credit spreads widening on the back of geopolitical tensions and central bank policy uncertainty. European markets were particularly pressured by French political instability, a sovereign downgrade and idiosyncratic credit events, while US markets reacted to questions around Federal Reserve policy and leadership. Within this environment, high yield was the largest contributor to performance, driven mainly by income from US corporates and European financials, with limited capital gains as spreads moved largely sideways. Senior secured loans and structured credit were the next biggest contributors, again reflecting higher coupons, although some of this income was offset by mark-to-market capital losses. Convertibles also contributed positively, albeit to a lesser extent than in the prior quarter. Importantly, there were no defaults in the portfolio during the period, underlining the underlying resilience of the Fund’s holdings despite a more volatile credit market..

# Property Mandate

**Market Commentary & Outlook**

UK property capital values rose over the fourth quarter leading to a total return of 1.4%.

Capital values remained unchanged, and the income return was 1.4%. Vacancy rates fell from 11.7% to 11.6%.

The Office sector was the worst performer, returning 0.1%, while the Retail sector was the best performer, returning 2.1%. The Industrial sector rose 1.7%.

**Fund Manager News**

**Darwin Leisure Development Fund - Recent NAV Decline and Portfolio Activity:**

The Darwin Leisure Development Fund expects its NAV to increase once its investment in DLPF is revalued using an updated method (discounted cash flow), instead of the lower break-up value, following recent changes

Operationally, all eight resorts in the DLDF portfolio are now managed centrally under the new Verde Resorts brand. This strategic rebranding aims to unite the properties under a premium, environmentally-conscious identity while each resort maintains its individual character. The Verde Resorts website launched in December, with IT systems transition completed early in the year. The portfolio now operates independently from DLPF and Darwin Escapes, with brand changes at physical locations to be rolled out gradually and cost-efficiently.

**Darwin Leisure Development Fund - Appointment of New Managing Director**

James Melville-Jackson has been named Managing Director of Verde Resorts, bringing over 25 years of senior experience in finance and operations across leisure, hospitality, retail, and other sectors. He successfully led the transition of the portfolio away from Darwin Escapes and has a strong track record in improving operations, driving growth, and managing change.

James's background in private equity, multi-site leadership, and commercial strategy gives the manager confidence that he is well suited to advance Verde Resorts' goals of efficiency and long-term value. Since joining, he has identified ways to reduce costs, such as in cleaning, and sees opportunities to attract more international guests by working closely with tour operators.

**M&G UK Residential Property Fund (Q3 Performance commentary)-** Performance was supported by rental growth and stable yields. Against a backdrop of rebased pricing and improving market conditions, the Fund's high-quality, stabilised portfolio was well positioned to deliver improved performance through the second half of 2025. Persistent structural undersupply, particularly in London, continues to underpin long-term rental growth and creates favourable conditions for the Fund to capture opportunities across the UK Living sector. Transactional progress remained strong in Q3 2025, with further sales of seed units achieved at a meaningful premium to investment value, taking cumulative disposals close to full completion and supporting capital discipline. The seed asset sales programme is now largely de-risked, with the remaining units under offer or being marketed and full completion targeted for early 2026, positioning the Fund with a more focused and optimised residential portfolio

# ESG Priority Allocation Mandate

## Market Commentary & Outlook

Within illiquid alternatives, several areas stand out for medium-term opportunity. In private infrastructure, Stable contracted or regulated revenues often with escalators and strong hard asset base continue to support valuations and performance, and should be robust to slower economic growth.

For private equity, ongoing investor portfolio repositioning means discounts persist in the secondaries market, presenting attractive entry points. Overall, these asset classes are supported by favourable market dynamics and may offer especially attractive opportunities in current and upcoming vintages.

## Fund Manager News

**BTG Pactual –** the Fund delivered resilient performance over the quarter against a mixed macro backdrop for forestry assets. Global economic conditions in Q4 2025 were characterised by moderating inflation, subdued housing markets and soft manufacturing demand, all of which weighed on solid wood markets, particularly in the US and Europe. At the same time, global pulp markets improved as prices and producer inventories moved higher, providing a more supportive environment for fibre-oriented timber assets. TIG's "view from the ground" highlights continued softness in US South timber markets due to muted homebuilding activity, while China and the Eurozone also saw weaker construction-related demand, reinforcing the benefits of maintaining diversified regional exposure.

Within this environment, the BTG Pactual timberland portfolio has remained focused on disciplined, long-term asset management, balancing near-term market headwinds in solid wood with more constructive trends in pulp and bioeconomy-linked demand. The team continues to emphasise geographically diversified exposure across the US, Latin America, Europe and Oceania, which helps mitigate region-specific risks such as China's slowing real-estate sector or Europe's muted construction cycle.

A further priority is positioning the portfolio for emerging opportunities in natural climate solutions and the broader bioeconomy. While nature-based carbon credit prices softened in Q4 2025 and Article 6 negotiations point to a slower timetable for new methodologies, TIG continues to see long-term structural support for sustainably managed forests as providers of low-carbon materials and potential carbon value

**Darwin Bereavement Services Fund** - The Fund demonstrated resilience in FY2025, achieving earnings growth of nearly £1m across the group despite industry headwinds and reduced capacity at Memoria due to asset disposals. While Q4 was softer, mainly due to lower attended cremation volumes, overall annual performance remained solid, with particularly strong results from GreenAcres and CDS. Recent operational improvements are now contributing to better underlying performance.

The Fund's NAV declined by approximately 0.7% this quarter, primarily due to lower short-term revenue forecasts for Memoria. The manager remains focused on completing the turnaround at Memoria Funerals before considering a resumption of dividend payments, with the aim to ensure a sustained recovery and consistently strong trading performance. Additionally, the Fund is in the process of refinancing its debt facilities, with completion expected in May. Decisions regarding dividend distributions will be made once both the operational turnaround and refinancing are complete.

# Matching Portfolio

## Market Commentary & Outlook

The UK nominal gilt yield curve shifted upwards across the maturities. The 10-year nominal bond yield rose by 26bps to 4.88%, whereas the 30-year nominal bond yield rose by 25bps to 5.82%.

The index-linked gilt yield curve also shifted upwards over the quarter as yields rose across all maturities. Breakeven inflation rose across all maturities, except for the one- and two-year maturities. The 10-year breakeven inflation rate rose by 3bps to 3.15%.

## Performance Summary

**BlackRock Sterling Liquidity Fund -** The Fund underperformed its benchmark (SONIA) over the fourth quarter of 2025.

**L&G Sterling Liquidity Fund** – The Fund slightly underperformed its reference index (SONIA) in Q4 2025.

**Northern Trust MMF –** The Fund underperformed its benchmark (SONIA) over the fourth quarter of 2025.

# 4

## Appendix

# Key assumptions of the model (1)

- The purpose of the model is to consider and monitor the return and risk characteristics of the long-term investment strategy of the Fund.
  - The analysis considers the expected return of the Fund's investment strategy, and the standard deviation (measure of portfolio volatility versus the mean return) implied by the strategy.
  - Return statistics are shown relative to the expected return of the Fund's liabilities.
  - There is only one outcome for inflation, benefit cashflows and contributions.
  - Unless otherwise stated, the parameters of the model (e.g. member movements, historic funding performance and contributions assumed) are unaltered from previous iterations of this quarterly report.
- In the calculation of risk and return, the Fund's liabilities are represented by a proxy of purely fixed and purely real investment instruments ("the liability proxy").
- Investment risk is included in the model outputs but this is not the only risk that the Fund faces; other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.

# Key assumptions of the model (2)

- The calculation of portfolio risk is approximate;
  - The calculation considers (5000 stochastic) simulations of returns over a single year of the Fund's investment strategy relative to simulations of the liability proxy.
  - The simulations are constructed using Aon Investment's Asset Model – the details and assumptions of which are outlined in this appendix.
  - The calculation does not take into account any cashflows payable over the year; if cashflows are expected to be material the result is likely to be different.
  - The calculation may not perfectly capture inflation risk in the liabilities; actual liability returns are likely to differ to the liability proxy due to any limited inflation linkage in benefits (e.g. benefits linked to the increase in RPI with a 5% cap).
  - The calculation does not take into account longevity risk (i.e. liability values increasing due to members living longer than assumed).
  - Owing to these approximations, a more detailed ALM study is likely to result in a different result to the VaR calculation.
  - Other portfolios with different risk and return characteristics may be available to the Fund.

# TAS compliance

This document has been prepared in accordance with the framework below.

This document, and the work relating to it, complies with ‘Technical Actuarial Standard 100: General Actuarial Standards’ (‘TAS 100’).

The compliance is on the basis that the Pension Advisory Panel of the London Borough of Southwark Pension Fund are the addressees and the only users. If you intend to make any other decisions after reviewing this document, please let me know and I will consider what further information I need to provide to help you make those decisions.

The document has been prepared under the terms of the Agreement covering Scheme Actuarial services between the PAP and Aon Solutions UK Limited on the understanding that it is solely for the benefit of the addressees.

If you require further copies of this document, please let me know.

AON



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| | |
|---|---|
| **Meeting Name:** | Pensions Advisory Panel |
| **Date:** | 5 March 2026 |
| **Report title:** | Investment Strategy Review |
| **Ward(s) or groups affected:** | Not applicable |
| **Classification:** | OPEN |
| **Reason for lateness (if applicable):** | Not applicable |
| **From:** | Chief Investment Officer |

## RECOMMENDATIONS

1. The Pensions Advisory Panel (PAP) is asked to:

   - Recommend that the revised investment strategy, as set out in this report, is adopted by the Fund.

### Background

2. The investment strategy of the Southwark Fund is developed as part of a three-year cycle, involving the triennial actuarial valuation and a formal review of investment strategy as influenced by the results of the valuation.
3. The triennial valuation provides the Fund with the most accurate indication of pension liabilities, the expected rate of investment return required to meet future pension benefits and the potential impact on the Fund's cash flow from forecast changes in membership.
4. The objective of a subsequent review is to ensure that the asset class allocations will best capture investment opportunities with an optimal level of risk exposure to meet future pension payments over the long term.
5. Fund officers, in conjunction with Aon, have conducted a review of the investment strategy. The review assessed the current investment portfolio in the context of the overall investment return requirements as set out in the Fund's actuarial valuation and regarding overall as well as specific risk exposures for the Fund.
6. The investment strategy review also incorporates the findings of the Fit for the Future reforms to the management of the Local Government Pension Scheme and the requirement that, from 1 April 2026, the Pension Fund's strategic asset allocation will be implemented and managed by the London Collective Investment Vehicle (LCIV).
7. As part of the review, Aon used a range of scenarios to stress the Fund's liquidity, cashflow progression and approximate funding level. The modelling

informed the recommended investment strategy, reliance on equity risk, cashflow sensitivity and robustness to economic shocks.

8. Key outcomes of the analysis and Aon's recommendations are outlined below:

    a. A key contributor to risk within the portfolio is the equity allocation. Aon recommends reducing the overall allocation to equity by 5% (from 50% to 45%) in favour of credit assets. This change is expected to result in a small reduction in overall expected return but would significantly reduce overall volatility.

    b. In the short term, the Fund is expected to be cashflow negative. If income is distributed from liquid assets and open-ended illiquid assets over the medium to long term, the Fund would be cashflow positive.

    c. Over the short and medium term, the Fund is not expected to be a forced seller of liquid assets.

    d. There is currently uncertainty regarding the government's definition of local investment. Fund officers are exploring this in conjunction with Aon and LCIV.

9. The table below sets out the revised allocation to various asset classes proposed as part of the updated investment strategy:

| Asset class | Actual Asset allocation (30/09/25) | Current Strategic asset allocation | Proposed changes | Revised Strategic Asset allocation |
|---|---|---|---|---|
| *Listed equity* | 53.1% | 50% | -5% | 45% |
| *Private equity* | 2.4% | 2.5% | - | 2.5% |
| *Private credit* | 0% | 0% | - | 0% |
| *Property/Real estate* | 16% | 20% | -4% | 16% |
| *Infrastructure* | 9.1% | 7.5% | - | 7.5% |
| *Other alternatives* | 0% | 0% | - | 0% |
| *Credit* | 9.4% | 10% | +9% | 19% |
| *UK Government Bonds* | 9.4% | 10% | - | 10% |
| *Cash* | 0.6% | 0% | - | 0% |
| *Total* | 100% | 100% | | 100% |
| | | | | |
| *Expected return* | 7.5% | 7.5% | - | 7.4% |

## Community, Equalities (including socio-economic) and Health Impacts

### Community Impact Statement

10. No immediate implications arising

### Equalities (including socio-economic) Impact Statement

11. No immediate implications arising

**Health Impact Statement**

12. No immediate implications arising

**Climate Change Implications**

13. No immediate implications arising

**Resource Implications**

14. No immediate implications arising

**Legal Implications**

15. No immediate implications arising

**Financial Implications**

16. No immediate implications arising

**Consultation**

17. No immediate implications arising

**AUDIT TRAIL**

| | | |
|---|---|---|
| **Lead Officer** | Clive Palfreyman, Strategic Director of Resources | |
| **Report Author** | Caroline Watson, Chief Investment Officer | |
| **Version** | Final | |
| **Dated** | 5 March 2026 | |
| **Key Decision?** | N/A | |
| **CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER** | | |
| **Officer Title** | **Comments Sought** | **Comments Included** |
| Assistant chief executive, governance and assurance | N/A | N/A |
| Strategic Director of Resources | N/A | N/A |
| **Cabinet Member** | N/A | N/A |
| **Date final report sent to Constitutional Team** | | |

| | |
|---|---|
| **Meeting Name:** | Pensions Advisory Panel |
| **Date:** | 5 March 2026 |
| **Report title:** | Actuarial Valuation 2025 – Funding Strategy Statement |
| **Ward(s) or groups affected:** | Not applicable |
| **Classification:** | Open |
| **Reason for lateness (if applicable):** | Not applicable |
| **From:** | Chief Investment Officer |

## RECOMMENDATIONS

1. The Pensions Advisory Panel is asked to note:
    - The revised funding strategy statement (FSS) included as an appendix to this report.

## BACKGROUND

2. The preliminary results of the 2025 triennial actuarial valuation were tabled at the 9 December PAP meeting. The funding level for the whole Fund is 110% (110% 2022 valuation). The employer contribution rate payable by Southwark council (largest employer in the Fund) from 1 April 2026 to 31 March 2029 is 17.3% (currently 20.5%). The results are not expected to change between the preliminary results and final version of the report which must be signed off by 31 March 2026.

3. The results for the other scheme employers are currently being finalised by the actuaries. With the exception of one employer, all have benefitted from a decrease in their contribution rate. Funding levels have also improved, primarily driven by updated financial assumptions.

### Funding Strategy Statement

4. The FSS has been updated as part of the valuation process to reflect changes in the funding strategy and is included as an appendix to this report. It has been shared with scheme employers for consultation, and no responses have been received. The FSS will now be adopted by the Fund and published on the pension fund website.

**Community, Equalities (including socio-economic) and Health Impacts**

**Community Impact Statement**

5. No immediate implications arising

**Equalities (including socio-economic) Impact Statement**

6. No immediate implications arising

**Health Impact Statement**

7. No immediate implications arising

**Climate Change Implications**

8. No immediate implications arising

**Resource Implications**

9. No immediate implications arising

**Legal Implications**

10. No immediate implications arising

**Financial Implications**

11. No immediate implications arising

**Consultation**

12. No consultation is needed.

**APPENDICES**

| No. | Title |
|---|---|
| Appendix 1 | Funding Strategy Statement |

**AUDIT TRAIL**

| | |
|---|---|
| **Lead Officer** | Clive Palfreyman, Strategic Director of Resources |
| **Report Author** | Caroline Watson, Chief Investment Officer |
| **Version** | Final |

| | | | |
|---|---|---|---|
| **Dated** | 05 March 2026 | | |
| **Key Decision?** | N/A | | |
| **CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER** | | | |
| **Officer Title** | | **Comments Sought** | **Comments Included** |
| Assistant chief executive, governance and assurance | | N/A | N/A |
| Strategic Director of Resources | | N/A | N/A |
| **Cabinet Member** | | N/A | N/A |
| **Date final report sent to Constitutional Team** | | | |

# Funding Strategy Statement

London Borough of Southwark Pension Fund

DATE

# Contents

# Purpose of the Fund and the FSS

## Introduction

This is the Funding Strategy Statement (FSS) of the London Borough of Southwark Pension Fund (the Fund).

It has been prepared by London Borough of Southwark (the Administering Authority) in collaboration with the Fund Actuary, Aon Solutions UK Limited, and after consultation with officers, the Pensions Advisory Panel and the Fund's employers and is effective from the date of issue of this statement.

The FSS has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and the guidance jointly produced by the Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accountancy (CIPFA) and Ministry of Housing, Communities and Local Government (MHCLG). In addition, the Administering Authority has had regard to the Investment Strategy Statement, the supplementary statutory guidance issued by MHCLG: “Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements”, and has also considered the Scheme Advisory Board's “Guide to Employer Flexibilities”.

A summary of the roles and responsibilities of the key parties is included as Appendix 5 to this document.

A glossary of terms is included as Appendix 6 to this document.

If you have any queries on the contents of this FSS or require a paper copy of the document, please contact:

Caroline Watson, Chief Investment Officer

London Borough of Southwark Resources Department, Pensions & Treasury Investments

Phone: 0207 525 4379

Email: caroline.watson@southwark.gov.uk

## Aims and objectives of the FSS

The purpose of the Fund is to collect and invest monies in respect of contributions, transfer values and investment income, and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

The Administering Authority has a fiduciary duty to act in the best interests of the pension fund members and the participating employers. This means the Administering Authority will act in line with relevant legal requirements and make delegated decisions rationally and reasonably taking into account all affected parties.

The main purpose of the FSS is to document the processes by which the Administering Authority:

- Establishes a clear and transparent funding strategy, specific to the Fund, to meet employer’s pension liabilities going forward.
- Aims to meet the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate as possible.

- Ensures the regulatory requirement to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met.
- Takes a prudent longer-term view of funding the Fund's liabilities.

noting that whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the FSS its focus should at all times be on those actions which are in the best long-term interests of the Fund.

Benefits payable under the Fund are set out in the Regulations. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The aims of the Fund in relation to the funding strategy include:

**Solvency and long-term cost efficiency**

Securing solvency and long-term cost efficiency is a regulatory requirement.

The Fund's solvency should be assessed in light of the risk profile of the Fund and the risk appetite of the Administering Authority and employers.

We set out detail of how the Fund meets these requirements in the section "Key Funding Principles".

The Fund's compliance with these requirements is assessed and reported following each Actuarial Valuation through the Government Actuary's Department independent review of the Actuarial Valuation outcomes and approach under Section 13 of the Public Service Pensions Act.

**Management of liabilities and payment of benefits**

The Administering Authority recognises the need to ensure that sufficient funds are available to meet all benefits (including pensions, transfer values, costs, charges and other expenses) as they fall due for payment. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

**Management of employer liabilities and stability of employer contributions**

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
- regular monitoring of the funding position and the outlook for employers' contributions
- appropriate segregation of employers for funding purposes

The Administering Authority aims to manage employers' liabilities effectively through regular review of contributions at triennial Actuarial Valuations and additional contributions for early retirement. At such reviews, regard will be had to the desirability of maintaining stability of employer contributions, subject to the Administering Authority not taking undue risks, and at reasonable cost to the taxpayers and employers.

**Link to investment strategy**

The Fund seeks to maximise the returns from investments within reasonable risk parameters.

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice and is set out in the Investment Strategy Statement.

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

- Complying with any restrictions set out in the Investment Regulations.
- Restricting investment to asset classes generally recognised as appropriate for UK pension funds.
- Analysing the potential volatility and absolute return risks, and funding risk represented by those asset classes in collaboration with Investment Advisors and Fund Managers, the Fund Actuary and the London Collective Investment Vehicle (CIV) 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.

**Risk profile of the Fund**

The Administering Authority takes a risk-based approach to valuing the liabilities, which considers the liability and asset risk when setting the funding assumptions and employer contribution rates.

The Administering Authority considers employer risk by monitoring employer covenant and allowing for different types of employers when setting funding targets.

This is explained in more detail in the Key Funding Principles section of this FSS.

**Integrated funding framework**

The FSS together with the Fund’s investment strategy and approach to employer covenant monitoring ensure an integrated approach to funding strategy and risk management supporting the Fund in meeting the Regulatory funding requirements.

The Fund’s governance framework and decision-making processes is set out in the Governance Compliance Statement, which is found as an appendix of the Fund’s Annual Report (https://www.southwarkpensions.co.uk/finance-and-investment/finance-investment-documents/ ) With the assistance of the Pensions Advisory Panel, the Strategic Director of Resources (the Chief Finance Officer or CFO) is responsible for setting the funding strategy as set out in the FSS. Other responsibilities relating to the implementation of the strategy, including ensuring the Actuarial Valuation is completed within the required timescales and in line with the Regulations, are delegated to the Fund officers.

# Monitoring and review of the FSS

The Administering Authority undertook its latest substantive review of this FSS in February 2026.

The Administering Authority plans to formally review this FSS as part of each triennial Actuarial Valuation of the Fund unless circumstances arise which require earlier action.

The Administering Authority will also consider a review of the FSS if it determines that circumstances have changed such that this is appropriate, taking into account the implications for the funding strategy and for meeting the liabilities of employers. Circumstances which might lead to such a review include:

- material changes to the scheme benefit structure or regulations
- on the advice of the Fund Actuary
- significant changes to investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond the expectations outlined in the existing FSS

- significant changes to the Fund membership and/or Fund maturity profile
- significant or notable changes to the number, type, or individual circumstances of any employers to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure which could materially impact cashflow and/or maturity profile and/or covenant)
- material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS
- recommendations from MHCLG/Government Actuary's Department

If such a review of the FSS were to take place, the Administering Authority will consider:

- the implications for the funding strategy for meeting liabilities of individual employers, and
- any amendments required to the ISS or other Fund documents as a result.

**Employer engagement**

The Administering Authority will consult with employers when proposing to update the FSS. Employers will be given at least 14 days to respond to the consultation.

When the FSS is updated, the Administering Authority will also communicate with any individual (or groups of) employers specifically impacted by any changes and in particular will reference any impact on employers on entry or exit from the Fund or in response to change in risk.

The Administering Authority will respond to any employers who provide feedback or comments on FSS consultations, including informing them how/whether their comments have been incorporated into the revised FSS.

# Key Funding Principles

## Funding target

In order to satisfy the regulatory requirement to secure the solvency and long-term cost efficiency of the Fund, employer contributions are set so as to make provision for the cost of benefit accrual, with an appropriate adjustment for any surplus or deficit. The regulations require that an Actuarial Valuation exercise is carried out every 3 years, in order to set employer contributions.

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 and the valuation data. The Fund is deemed to be fully funded when the assets held are equal to 100% of the funding target / liabilities. 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 deficit. The funding level is the assets divided by the funding target / liabilities.

The Fund needs to balance investment returns achieved on the Fund's assets and setting Employer contributions at an appropriate level. Employers' contributions will be set to ensure that 100% of the funding target / liabilities can be met over the long-term using appropriate actuarial assumptions. When setting the assumptions consideration will be given to the returns on the Fund's assets, and the characteristics and circumstances of the employers, including the maturity and potential period to exit if applicable. In setting contributions, the Administering Authority will also have regard to the desirability of maintaining as nearly constant a primary rate as possible.

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% (where the assets are equal to the funding target / liabilities).

### Risk based funding target

The Fund uses a risk-based funding strategy to calculate the funding target / liabilities for the majority of employers, where the Actuarial Valuation is carried out on the basis of the assessed likelihood of meeting the funding objectives. 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 achieve the Solvency Target by the end of the Trajectory Period).

These three decisions, supported by risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness of the funding strategy.

Information about the assumptions used in the calculation of the funding target / liabilities are set out in the section "Main actuarial assumptions".

#### Solvency target

The Fund is deemed to be solvent when the assets held are equal to or greater than the value of the Fund's liabilities assessed using appropriate actuarial methods and assumptions.

#### Trajectory period

The Trajectory Period in relation to an employer is the period between the Actuarial Valuation date and the date on which solvency is targeted to be achieved. The Fund adopts a trajectory period of 25 years as a suitable long-term period.

**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 asset-liability modelling carried out by the Fund Actuary.

The Administering Authority will not permit contributions to be set following an Actuarial Valuation that have an unacceptably low chance of achieving the solvency target at the end of the relevant trajectory period.

### Other funding targets

Details of how funding targets for other employers are derived is set out below in the "Main actuarial assumptions" section.

### Subsumed liabilities

If another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficit in respect of the liabilities of an employer exiting the fund, the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer).

Subsumed liabilities will be assessed using actuarial assumptions used for the funding target of the accepting employer.

### Orphan liabilities

Liabilities of former employers in the fund who did not have a subsumption commitment from another employer in the fund are known as orphan liabilities. Details of how orphan liabilities are funded is set out below in the "Main actuarial assumptions" section. There were no orphan liabilities in the Fund at the 2025 valuation.

## Managing risk

The Administering Authority has an active risk management programme in place. The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework. The measures that the Administering Authority has in place to control key risks are summarised in Appendix 1 under the following headings:

- economic
- investment
- demographic
- climate risk
- liquidity/maturity
- regulatory/compliance
- employer data quality
- governance
- orphan liabilities
- employer covenant

## Main actuarial assumptions

### Financial assumptions

The key financial assumptions are the discount rate and the pension increase/revaluation assumption.

**Pension and pay increase assumption**

The Scheme provides increases in line with increases in the Consumer Prices Index on the majority of pensions paid. The pension increase assumption is generally set by reference to the Fund Actuary's best estimate of Consumer Prices Index inflation over the long term. The pay increase assumption can then be derived from the CPI assumption, with the pay increase assumption being set as CPI plus 1.5% at the 2025 Actuarial Valuation.

**Discount rate**

The discount rate, or future investment return assumption, depends on the Funding Target used. The Funding Target used is determined by the type of employer in the Fund, the way any exit valuations will be carried out, and the employer risk/covenant. This is achieved by using different principles to derive the Solvency and Funding Targets for different employers in the Fund, as set out below.

- **Scheduled Bodies and certain other employers of sound covenant**, and those employers with a subsumption guarantee from such an employer: The assumption is based on indefinite investment in a broad range of assets, with reference to the Fund's strategic asset allocation as set out in the ISS. The assumption recognises the need for prudence and is set such that there is an 86% Probability of Funding Success. The Funding Target for such employers is called the Scheduled and Subsumption Body Funding Target. All employers were subject to this funding target in the 2025 valuation.

- **Admission Bodies**, and certain other employers whose participation is limited: For Admission Bodies and other employers 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 discount rate would be set as for secure scheduled bodies for the period before contributing members are assumed to leave service. For the period after leaving service (or the period contributing members are assumed to have left service), investment in a portfolio of UK Government bonds will normally be assumed and the investment return assumption will be based on the expected yields on those bonds. The Funding Target for such employers is called the (Ongoing) Orphan Funding Target. There were no employers subject to this funding target in the 2025 valuation.

- **Already orphaned liabilities**: For liabilities in respect of former employers in the Fund, for which no individual employer is responsible for funding, the discount rate/investment return assumption will be based on the expected yields on UK Government bonds. The Funding Target for such liabilities is called the Low-Risk Funding Target. There were no former employers' liabilities which are "orphan" and therefore subject to this funding target in the 2025 valuation.

## Demographic assumptions

Demographic assumptions relate to membership movements or decisions leading to benefit payments or ending of benefit payments, for example rates of mortality, ill health, turnover of staff, marital statistics and promotional increases in pay. How long members and their dependants are assumed to live after retirement (post-retirement mortality) is the key demographic assumption.

The demographic assumptions are reviewed by the Fund Actuary and updated once every three years in agreement with the Administering Authority. The demographic assumptions are intended to be best estimate and are designed to be applicable to the long-term future and should, therefore, not be too influenced by recent events. In addition, it is usually not practical, desirable or cost effective to set demographic assumptions at an employer specific level.

The post-retirement mortality assumption is set with reference to the Fund's own data on deaths, national mortality statistics, and the experience of other pension funds, including using members' postcodes to allocate them to different socioeconomic groups.

Where practical, the other demographic assumptions are also informed by the actual experience of the Fund's membership. Where this is not practical, other demographic assumptions are set by reference to national statistics and/or a larger sample of pension schemes with similar socio-economic profiles as LGPS members.

Further information is set out in the Actuarial Valuation report: https://www.southwarkpensions.co.uk/media/o43hrk0o/actuarial-valuation-report.pdf.

## Asset shares notionally allocated to employers

In order to establish contribution rates for individual employers or groups of employers the Fund Actuary notionally subdivides the Fund assets between the employers/groups, as if each employer/group had its own notional asset share 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.

The notional asset share allocated to each employer will be rolled forward allowing for all cashflows 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 cashflows for each year are assumed to be made halfway through the year with investment returns assumed to be uniformly earned over that year. However, where significant one-off employer contributions have been paid, allowance is made for the timing of such contributions.

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 Actuarial Valuation.
- Allowance for any known material internal transfers in the Fund, as cashflows will not exist for these transfers. The Fund Actuary will assume an estimated cashflow equal to the value of the cash equivalent transfer value based on appropriate factors set by the Government Actuary's Department, unless some other approach has been agreed.
- Allowance for lump sum death in service and other benefits shared across all employers in the Fund.
- 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 exceptional circumstances, information available will not allow for such cashflow calculations. In such circumstances another method will be agreed to calculate the notional asset share.

## Attribution of investment income

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

For already orphaned liabilities, to the extent that the Administering Authority decides not to match these liabilities with asset holdings of UK 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.

## Grouping or pooling and risk sharing arrangements

Historically, 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 all the employers in the Fund. With effect from the 31 March 2025, the Administering Authority agreed to extend this risk sharing arrangement to include the pension benefits payable in ill health and dependants' pension benefits on death in service for all employers in the Fund. Such 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.

In some circumstances it may be desirable to group or pool a number of similar employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include:

- reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund, or
- small outsourcings where the outsourcing employer wishes the service provider / contractor to be given either the same contribution rate as the outsourcing body or the fixed contribution rate agreed contractually, or
- employers have been grouped for practical or commercial reasons.

The Administering Authority recognises that grouping/pooling of employers can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each Actuarial Valuation and to notify each employer that is grouped that this is the case, and that grouping/pooling of employers will only occur with the consent of the employers involved. 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.

As at the date of writing this Statement, there are a number of employers grouped with the London Borough of Southwark for funding purposes, and each Multi-Academy Trust is treated as a group in relation to the individual academies within the Trust.

## Pass-through and Risk sharing

The pensions risk of a number of admission bodies is underwritten by London Borough of Southwark, and in return the employer's contribution is fixed at the rate set at the employer's initial entry to the Fund.  This fixed rate may be subject to certain provisos in the Admission Agreement.

Such employers will be required to sign an agreement with Southwark Council which will set out the contributions to be paid. Where an employer has this "pass-through" arrangement in place with the London Borough of Southwark, no exit credit or payment will be made, and all assets and liabilities will be subsumed by the London Borough of Southwark upon exit.

## Guarantors

**Guarantees from employers participating in the Fund**

Some employers 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 exits the Fund 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.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may subsume 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.

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 may be to change the funding target for the employer, which could lead to reduced contribution requirements.

**Guarantees from relevant public bodies and others**

Some employers in the Fund have guarantees from external public bodies.

In particular, academies and colleges have a guarantee from the Department for Education. This guarantee means that the Fund treats these employers for funding purposes in a similar way to the secure (tax raising) scheduled bodies.

Other guarantees from external bodies will be assessed individually by the Administering Authority, with advice from the Fund Actuary and having received specialist covenant advice if appropriate, to determine the impact on the funding approach for the relevant employers.

## Link to Investment Strategy Statement

Funding and investment strategy are closely linked. Investment strategy is set by the Administering Authority after taking investment advice.

The Administering Authority has produced this FSS having taken an overall view of the level of risk inherent in the investment policy set out in the Investment Strategy Statement (ISS) published under Regulation 7 of the Investment Regulations and the funding policy set out in this FSS.

Funding is defined as the making of advance provision to meet the cost of accruing benefit promises. Members' contributions are set by the Regulations at a rate which covers only part of the cost of accruing benefits. Investment income meets a further part of the cost. Employers pay the balance of the cost of delivering the benefits to the members. Decisions regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made, and if investment returns or income are lower than expected, then higher employer contributions may be needed.

The investment strategy should therefore take account of the liability profile and funding position. The discount rate is calculated based on the strategic asset allocation, and so it is important to consider the consequent changes in funding position and solvency objective when setting investment strategy.

Equally, the funding strategy allows for the investment strategy when setting the discount rate (which is based on expected investment returns on the Fund's long-term investment strategy).

The Investment Strategy Statement currently states:

*"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 2025 Actuarial Valuation was based on the following high-level strategic asset allocation:

| Main asset classes | Strategic allocation (used for 2025 valuation) |
|---|---|
| Global Equities | 32.5% |
| Emerging Market Equities | 5.0% |
| Private Equity | 2.5% |
| UK Index Linked Gilts | 22.5% |
| Property | 20.5% |
| Multi Asset Credit | 10.0% |
| Infrastructure | 7.0% |

The Administering Authority will continue to monitor the suitability of the investment policy in light of the Fund's developing liabilities and finances. The Administering Authority will continue to review the FSS and the ISS to ensure that the overall risk profile remains appropriate. Such reviews may use asset liability modelling or other analysis techniques.

See the Investment Strategy Statement (https://www.southwarkpensions.co.uk/media/hj3fvluu/investment-strategy-statement-1.pdf ) for more information

Should an employer request it, the Administering Authority may examine ways of providing individual employers, at their own risk and cost, with an investment strategy that may be more tailored to their individual liabilities. The implementation of a bespoke investment policy for an individual employer, or group of employers, will be at the Administering Authority's discretion.

# Setting employer contributions

As part of each Actuarial Valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between Actuarial Valuations as permitted by Regulations 64(4) and 64A. Further details of the Administering Authority's policy in relation to reviewing contributions are set out in Appendix 3.

Employer contribution rates are set using the same Funding Target assumptions as for the liabilities.

Employer contributions are made up of primary and secondary contributions, which together make up the total contributions for each employer. The employer contributions are specified in the rates and adjustments certificate included with each Actuarial Valuation, and/or in any updates to the certificate between Actuarial Valuations.

The Actuarial Valuation report also shows a weighted average contribution rate based on the whole Fund payroll, both the average percentage rates payable and a total amount in respect of cash adjustments. The purpose of this is to show a single rate of contributions expected to be received by the Fund over each of the three years that can be readily compared with other funds and reconciled with actual receipts.

## Primary contributions

For open employers (i.e. those who still admit new members) 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 primary 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, over and above members' own contributions.

For employers who no longer admit new members (closed employers), the Attained Age valuation method is normally used. This means that the primary contribution rate is derived as the average cost of benefits accruing to members (over and above their own contributions) over the period until they die, leave the Fund or retire.

## Secondary contributions

Where an employer has a surplus or a deficit, a positive or negative adjustment to the primary contribution rate is needed to arrive at the total contributions each employer is required to pay (this requirement is modified where a "surplus buffer", as described in the section on Removal of surplus, is in operation). This adjustment is called the secondary contribution. The secondary rate may be expressed as a lump sum payment or as a percentage of payroll.

### Recovery Periods

The recovery period is the time period over which the secondary contribution is payable.

The recovery period applicable for each employer is set by the Fund Actuary in consultation with the Administering Authority, and having regard to representations from the employer where appropriate, taking into consideration the following:

- The aim to keep employer contribution rates stable
- The need to maintain solvency, which is consistent with a desire to set deficit recovery periods as short as possible
- The covenant of the employer, and any guarantee or subsumption agreement from another employer in the Fund
- The expected period of participation in the Fund of the employer
- Representations received from the employer and any Scheme Employer or guarantor
- The risk associated with adopting a recovery period for recovery of deficit (rather than requiring immediate payment), which increases as longer deficit recovery periods are chosen. The risk is that, by adopting this approach, relatively little action is taken to restore full funding between Actuarial Valuations.

In particular:

- The Administering Authority has agreed with the Fund Actuary a maximum deficit recovery period of 30 years for employers which are assessed by the Administering Authority as being a long-term secure employer. At the 2022 Actuarial Valuation, the default deficit recovery period was 20 years.
- Where there is a deficit for employers over successive valuations, the aim will be to set the recovery period in successive valuations so that the existing deficit continues to target the same date of recovery, whilst new emerging deficits are recovered as set out in this section, and balancing this with the desire for stability in employer contribution.

- The default surplus spreading period is 20 years, unless the employer has a fixed term of participation in the Fund in which case the remaining period of participation will be used.
- The Administering Authority and Fund Actuary would be unlikely to agree to a Recovery Period longer than the remaining term of participation.
- For employers that are closed to new entrants and do not have a fixed term of participation, the recovery period will generally be set to be the future working lifetime of the remaining active members.
- For any employers that have entered into a deferred debt agreement, the recovery period will generally be set equal to the remaining period of the deferred debt agreement.
- When considering recovery periods for employers, the Administering Authority may apply an underpin to ensure that the overall contribution does not reduce from the previous Actuarial Valuation whilst that employer continues to be in deficit.

**Removal of surplus**

Consistent with a desire to keep employer contribution rates as stable as possible, and the requirement to maintain solvency for the Fund, the surplus allowed for in the calculation of the secondary contribution shall generally only apply to surplus in respect of an employer funding level above a certain threshold or “surplus buffer”, which was 110% at the 2025 valuation. The Administering Authority will review this threshold level every three years in conjunction with the actuarial valuation and may amend the threshold or disapply this element of the strategy if it considers it appropriate to do so, having regard to the overall desirability of stability of contributions, and balancing fairness to participating employers and funding risks.

The period over which any surplus is removed will generally be set in line with the Recovery Periods section above.

**Phasing in of contribution rates**

Consistent with a desire to keep employer contribution rates as stable as possible, the Administering Authority will consider, at each Actuarial Valuation, whether new contribution rates should be payable immediately, or reached by a series of steps over future years (this could be an increase or decrease in employer contribution rates).

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 for employers increasing their contributions, generally no more than three equal annual steps (i.e. the valuation period) will be permitted. Further steps or unequal steps may be permitted at the Administering Authority's discretion, but the total number of steps is unlikely to exceed six steps. Where contributions are being stepped down, no limit will be set to phasing in contribution rates.

## Grouped/Pooled employers

The assets and liabilities for employers will allow for any assets and liabilities the employer has agreed to subsume relating to employers who have exited or have been taken over / merged as a result of reorganisation. This will include employers who have exited and had a subsumption guarantee from another employer, and academies and schools who join a MAT.

Where employers are grouped or pooled for funding purposes, employer contributions will be set allowing for the grouping/pooling.

As at the date of writing this Statement, there are a number of employers grouped with the London Borough of Southwark for funding purposes, and each Multi-Academy Trust is treated as a group in relation to the individual academies within the Trust.

## Pass-through/risk shared employers

Where a pass-through or other risk sharing arrangement is in place, employers should refer to the wording of their specific arrangement.

### Advance payment of contributions

The Administering Authority may, after considering the advice of the Fund Actuary, permit particular employers to pay contributions early as a lump sum that would otherwise be payable over the following year (or a longer period not exceeding three years). Pre-payments can be made annually or triennially in advance and will attract a discount on employer contributions as agreed with the Administering Authority on the advice of the Fund Actuary. Any employer wishing to enter into a pre-payment arrangement must engage with the Administering Authority prior to the triennial Actuarial Valuation report and rates and adjustments certificate being finalised.

### Additional contributions

Employers will have to pay additional contributions to the Fund when granting additional member benefits:

- Awards of additional pension
- Retirement before normal retirement age on unreduced benefits (e.g. on redundancy), commonly called “strain costs”

### Conflicts of interest

In relation to funding, the following measures are in place:

- Maintenance of a log of interests and declarations of Pensions Advisory Panel members in key meetings
- The Pensions Advisory Panel assisting the Strategic Director of Resources (the Chief Finance Officer or CFO) in agreeing high-level principles of funding strategy, and actuarial assumptions which apply to all employers, rather than making recommendations to the Strategic Director of Resources on individual employer rates. The Fund Actuary will calculate resulting employer rates based on those high-level decisions around risk appetite and objectives
- The actuarial team advising the Fund does not provide actuarial advice to participating employers, with agreed conflict of interest protocols
- The Fund Actuary is subject to professional standards which requires them to only certify contribution rates which are sufficiently prudent and in line with the Regulatory requirements
- There is central oversight of the valuation process and whether it meets the requirements of solvency and long-term cost efficiency from the Government Actuary’s Department review under Section 13 of the Public Service Pensions Act.

## Monitoring employer covenant

The Administering Authority monitors employer risk/covenant.

- For tax raising bodies, covenant is taken to be high
- For employers with a guarantee or subsumption commitment from another employer in the Fund, the covenant of the guarantor is considered.
- For other employers, a risk assessment would be carried out as set out below. At time of writing, there are no such employers in the Fund who require this level of assessment.

**Employer risk assessment**

The Administering Authority assesses employer risk on an ongoing basis. This consists of looking at various metrics such as the type of employer, funding sources, any guarantees, and the expected length of participation.

For some employers, a more detailed risk or covenant assessment may be considered appropriate. In such cases, the Administering Authority will request advice from a covenant specialist.

## Link to Administration Strategy

Employers must comply with the Fund's administration strategy (https://www.southwarkpensions.co.uk/media/xgoh2vzl/southwark-administration-strategy-2021.pdf ), and have regard to other relevant policies published on the Fund's website.

In particular, employers should note that it is important to provide accurate and timely data to the Administering Authority, so that the funding strategy can be implemented correctly.

The Administering Authority expects all employers in the Fund to take into consideration the effect of their behaviours on the Fund, for example when considering:

- Discretions policies
- Outsourcing decisions
- Salary increases

All employers need to inform the Fund of any changes to the organisation that will impact on their participation in the Fund. This includes change of name or constitution, mergers with other organisations, or other decisions which will or may materially affect the employer's Fund membership.

Employers considering outsourcing any services should have regard to and adhere to the requirements of the Best Value Authorities Staff Transfer (Pensions) Direction 2007. They should also advise the Administering Authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed.

# Employer events

## Joining the Fund

Some employers are entitled to join the Fund under Schedule 2 of the LGPS 2013 Regulations. Other employers may apply to the Administering Authority for admission, and if admitted they will become an Admission Body in the Fund.

### Initial notional asset transfer

When a new employer starts in the Fund, and members transfer from another employer in the Fund, a notional transfer of assets is needed from the original employer to the new employer. Information on how this is calculated is set out in Appendix 2.

### Employer contributions

**Initial contribution rate**

When a new employer joins the Fund, the Fund Actuary determines the initial employer contribution rate payable from the new employer's commencement date. Information on how this is calculated is set out in Appendix 2.

**Review of contributions**

The Regulations require a triennial Actuarial Valuation of the Fund. As part of each Actuarial Valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers and may be increased or reduced.

The Administering Authority also monitors the position and may amend contributions between triennial Actuarial Valuations as permitted by Regulations 64(4) and 64A. The Fund's policy on contribution reviews is set out in Appendix 3.

### Bonds and other securitisation

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

The Administering Authority's policy on managing risks associated with new Admissions, including requirements for bonds and other securitisation, is included in Appendix 2.

## Exit of an employer from the Fund

Where an employer exits the Fund, an exit valuation will be carried out by the Fund Actuary in accordance with Regulation 64.

The Funding Target used for the exit valuation will depend on the circumstances on exit and/or the type of employer exiting the Fund.

The exit valuation may reveal either a surplus or a deficit, and how these are dealt with is set out in Appendix 4.

### Deferred Employers

In certain circumstances it may be agreed to enter into a deferred debt agreement rather than require an immediate exit payment. In that case, the employer would remain a participating body as a deferred employer.

Further details of the Administering Authority's policy for deferred debt agreements are set out in Appendix 4.

## Suspension notices

Regulation 64(2A) permits the suspension of the requirement to carry out an exit valuation for a period of up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice.

Further details of the Administering Authority's policy for suspension notices are set out in Appendix 4.

## Partial terminations

A partial termination occurs where an employer exits the Fund in respect of non-active members only.

Further details of the Administering Authority's policy for partial terminations are set out in Appendix 4.

# Bulk transfers

A bulk transfer occurs when more than 2 or more members transfer to another registered pension scheme under Regulation 98, or where 10 or more members transfer to or from another LGPS fund under Regulation 103(3).

The steps that are normally involved in a bulk transfer are as follows:

- The actuaries of the two funds/schemes agree the membership and data of the members transferring.
- The actuary of the original fund/scheme proposes a basis for a transfer payment, usually set out in an "actuary's letter". Where this is under Regulation 98, this will also cover the service credits to be granted.
- The actuaries of the two funds/schemes, together with the funds and the relevant employers, negotiate and agree the final basis for the transfer payment, and a final actuary's letter is produced and signed.
- Example calculations are carried out and agreed between the actuaries.
- A payment date is agreed, and final payment is made.

In general, where a bulk transfer out of the Fund is occurring:

- Where all membership of an employer is transferring, the proposal for the asset transfer will be the total asset share of the employer.
- Where all of the active members of an employer are transferring, but non-actives are remaining in the Fund, the proposal for the asset transfer will be the total asset share of the employer less the value of the liabilities in respect of the non-active membership valued using the funding target for orphan liabilities.
- Where part of the active membership of an employer is transferring, but the employer will remain a participating employer in the Fund, the proposal for the asset transfer will be determined by applying the funding level of the employer to the transferring liabilities, where the liabilities are calculated on the ongoing basis appropriate to that employer at the transfer date.

# Appendix 1: Key Risks

The Administering Authority has an active risk management programme in place. 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 risks most likely to impact on the funding strategy and measures that the Administering Authority has in place to control those risks are summarised below.

## Economic risk

Economic risks can affect both assets and liabilities.

The main risks affecting the liabilities include interest rates and price inflation. The Administering Authority will ensure that the Fund Actuary investigates these matters at each Actuarial Valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions used to calculate the liabilities to allow for observed or anticipated changes.

Interest rates, inflation, and wider macro-economic risks can also affect the assets held. In addition, the assets may not be affected in the same way as the liabilities. Investment risk is covered in more detail below.

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

## 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)
- systemic 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 risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority invests a substantial proportion of the Fund in assets which are expected to offer higher long-term rates of return on average but can be more volatile. This short-term volatility in returns can result in volatility in funding positions and employer contributions.

The Fund mitigates these risks through diversification, investing in a wide variety of markets and assets, as set out in the ISS.

Producing low volatility in employer contributions would require material investment in "matching" assets for the liabilities, i.e. investing in very secure assets that behave in a similar way to the liabilities as economic conditions alter (e.g. long-dated index-linked gilt investments). However, a matched strategy could increase employer contributions from their current levels.

The Fund Actuary sets the discount rate by taking into account expected returns and volatility of each asset class in the long-term investment strategy. This can help mitigate the risk in that movements in asset values typically impact expected returns on those asset classes, and liabilities should move in a similar way to the assets, helping to manage the impact on the funding position.

The Administering Authority or the Asset Pool reviews each investment manager's performance regularly. The Administering Authority also regularly considers the asset allocation of the Fund by carrying out an annual asset allocation review. The Administering Authority also regularly reviews the effect of market movements on the Fund's overall funding position.

## Demographic risk

The main demographic risks that may affect the liabilities include life expectancy, changing retirement patterns and other demographic risks. The Administering Authority will ensure that the Fund Actuary investigates these matters at each Actuarial Valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions used to calculate the liabilities to allow for observed or anticipated changes.

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

Where it appears likely to the Administering Authority that for an employer the amount of the liabilities arising or likely to arise has changed significantly since the last Actuarial Valuation, the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A in line with the Administering Authority's policy.

## Climate risk

The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The Administering Authority keeps the effect of climate change on future investment returns under review and will commission advice from the Fund Actuary on the potential effect on funding as required.

The impact on financial markets and life expectancy / morbidity will also impact the value placed on the liabilities, which can also significantly change the funding level and any surplus or deficit, and the resulting employer contributions. At the 2022 Actuarial Valuation the Fund Actuary carried out scenario analysis to assess the resilience of the funding strategy to climate change risk over an agreed period. This demonstrated potential funding level outcomes under different scenarios based largely on the speed of government transition to environmental policies and regulation to manage global warming, and the resulting impact on carbon prices, global temperature increases and financial markets. This analysis has helped support funding strategy and risk management considerations for the 2025 valuation and investment strategy.

At the 2025 Actuarial Valuation and subsequent Investment Strategy review, Aon's Fund Actuary and Investment Consultants used Aon's Capital Market Assumptions to formulate their actuarial and investment advice to the Fund. The Capital Market Assumptions incorporate client related factors into financial market assumptions and are used to try to ensure the financial health of the Fund in a number of different economic and climate scenarios.

In addition, the Fund has made a number of investments in assets which have a primary objective to provide a financial return, but which are also designed to have a positive impact on climate and the energy transition. The Fund regularly reports its carbon emissions and engages with its investment managers to lower these in line with the Paris Agreement.

## Liquidity and maturity risk

Changes to the LGPS may impact upon the maturity profile of the Fund and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:

- active members leaving the Fund
- transfer of responsibility between different public sector bodies
- scheme changes which might lead to increased opt-outs
- spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken into account in previous forecasts.

The Fund recognises that permitting the Solvency Target to be achieved over a period (the recovery period) rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements.

The Administering Authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

The Fund's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 30 years.

For closed employers, the Recovery Period will only be permitted to exceed the future working lifetime of the active members as calculated by the Fund Actuary in exceptional circumstances. This limits the exposure of the Fund to potential adverse consequences which can arise due to increasing volatility of contribution requirements for the closed employer as membership declines.

## Regulatory/compliance risk

The risks relate to changes to 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.

There are a number of uncertainties associated with the benefit structure at the time this FSS was last updated, in particular:

- The outcome of the cost management process as at 31 March 2024.
- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. At the time of writing this statement, draft Regulations (The Local Government Pension Scheme (Miscellaneous Amendments) Regulations 2025) are under consultation and include changes to reflect the ruling.

- The impact of the McCloud underpin to 2014-2022 pensions for those who joined the LGPS before 1 April 2012, particularly where full data is not yet available.
- The court judgement in Virgin Media v NTL Pensions Trustees may have some implications for the LGPS.

In determining how these uncertainties should be allowed for in employer contributions the Administering Authority will have regard to guidance issued by the SAB, taking account of the Fund Actuary's advice.

For the purposes of the 2025 Actuarial Valuation, an approximate employer specific allowance will be made in respect of the McCloud remedy based upon a high-level analysis of the employer’s fund membership.

An approximate allowance will also be made for the purposes of the 2025 Actuarial Valuation to allow for the potential additional liabilities arising from the Goodwin case.

## Employer data quality risk

Actuarial calculations such as triennial Actuarial Valuations, employer contribution rates, and exit valuations, rely on accurate data being supplied.

Where data quality is low, there is a risk that these calculations are not as accurate, which could lead to employer contributions and/or exit payments being set too high or too low.

The Fund Actuary carries out data validation to assess the quality of the data in advance of each triennial Actuarial Valuation. Where required, the Fund Actuary and the Administering Authority will agree an approach for data that is not of the highest quality. For example, this may take the form of estimating missing data items from other available items of data.

## Governance risk

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

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

## Orphan liability risk

This risk arises from the risk of employers leaving the Fund and leaving orphaned liabilities. In addition, there is also a risk that deficits might arise in respect of already orphaned liabilities.

In the cases of such employers who will ultimately exit and leave orphan liabilities, funding targets will be set to target the assumed exit position, to reduce the risk of deficits arising on exit.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficit arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficit. 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 UK Government fixed interest and index linked bonds.

## Employer covenant risk

These 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 where employers are unable to meet their obligations to the Fund.

The Fund has a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer and other pension fund stakeholders.

The Administering Authority monitors employer payments and expects employers to engage with the Fund where their circumstances have changed, noting that contributions can be reviewed between triennial Actuarial Valuations if the conditions in Regulations 64A and the terms of the Administering Authority's policy as set out in Appendix 2 are met.

The Administering Authority will maintain a knowledge base on employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and will use this information to inform the FSS.

The Administering Authority monitors employer covenant as set out earlier in the FSS.

# Appendix 2: Employer Funding Policy

This Policy explains the policies and procedures of the Fund in the treatment of employers including on commencement or admission and participation of employers in the Fund.

It should be noted that this statement is not exhaustive and circumstances specific to individual employers may be taken into consideration where appropriate.

Where the information relates to a particular type of employer, this will be explained. If no type of employer is indicated the information relates to all employers in the Fund.

The Administering Authority's aim is to minimise risk to the Fund by ensuring that the employers participating in the Fund are managed in a way that ensures they are able to adequately fund the liabilities attributable to them and, in particular, to pay any deficit due when exiting the Fund.

The Administering Authority has an obligation to pursue all liabilities owed so that any shortfall from an individual employer does not fall back on other employers.

## Commencement process for Admission Bodies

An employer who wishes to join the fund may apply to the Administering Authority for admission. If admitted, that employer becomes an Admission Body and specified categories of its employees can participate as members of the Fund.

The Administering Authority is responsible for deciding whether an application from an employer to become an Admission Body within the Fund should be declined or accepted.

### Bond, Indemnity or Guarantee

It is important to minimise the risk that a new Admission Body might create for the Fund and the other employers in the Fund. This risk will be taken into account by the Administering Authority in considering the application for admission, who may put in place conditions on any approval of admission to the Fund to minimise this risk, such as a satisfactory guarantee, indemnity or bond and a satisfactory risk assessment.

An indemnity / bond is a way of insuring against the potential cost of the Admission Body failing by reason of insolvency, winding up or liquidation and hence being unable to meet its obligations to the Fund.

In order to reduce the risk of the liabilities not being funded at the point of exit, the Regulations require that a risk assessment be carried out, taking account of actuarial advice, on the level of risk arising on premature termination on insolvency, winding up or liquidation. This assessment is carried out by the Admission Body to the satisfaction of the Administering Authority. In an outsourcing situation, the risk assessment must also be to the satisfaction of the Scheme Employer (i.e. the employer that the outsourcing is coming from). Usually, the actuarial advice is provided to the Administering Authority by the Fund Actuary and the cost for this is recharged to the Admission Body or, where appropriate, to the scheme employer.

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 it is not desirable for an Admission Body to enter into an indemnity or bond, the 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 the Admission Body.

The Administering Authority's approach to indemnities and bonds is as follows:

- In the case of Admission Bodies admitted under paragraph 1(d) of Part 3 of Schedule 2 of the LGPS 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 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 required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.

- In the case of Admission Bodies admitted under paragraph 1(e) of Part 3 of Schedule 2 of the LGPS Regulations, or under paragraph 1(d) where the Administering Authority does not judge the Relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.
- Given the existing funding guarantee from the Department of Education, the Administering Authority may decide that a bond is not required for Academy outsourcing admission bodies under a pass-through arrangement (for more information on Academy outsourcings please see below).
- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends the Scheme Employer reviews, the required cover regularly, ideally annually.

Where the liabilities on exit from the fund cannot be fully met by a guarantor or insurer, the Regulations provide that:

- the Scheme Employer will be liable in an outsourcing situation; and
- in all other cases the liabilities will fall on all the other employing authorities within the Fund.

## Pass-through and risk sharing

**London Borough of Southwark group**

The pensions risk of a number of admission bodies is underwritten by London Borough of Southwark, and in return the employer's contribution is fixed at the rate set at the employer's initial entry to the Fund.  This fixed rate may be subject to certain provisos in the Admission Agreement or separate risk sharing agreement.

Such employers will be required to sign an agreement with London Borough of Southwark which will set out the contributions to be paid. Where an employer has this "pass-through" arrangement in place with the London Borough of Southwark, no exit credit or payment will be made, and all assets and liabilities will be subsumed by the London Borough of Southwark upon exit.

The full list of active employers that, at the time of writing, have a risk sharing (or "pass-through") arrangement with the London Borough of Southwark is below:

- AiP - Ivydale School
- Aspens Services LTD - St Joseph's RC
- Aspens Services LTD - Newlands Academy
- Brandon Trust
- Browning Tenant Management
- Energy Kidz
- KGB Cleaning (Southwest) - Bacons College
- Lunchtime Company (Lunchtime-Charles Dickens)

- Nourish Contract Catering (New)
- PFI VEOLIA ES
- South London Gallery - SLG
- Southwark Law Centre
- Westgate Cleaning – Bird in Bush

**Academy outsourcings**

The Department for Education (DfE) published its policy on providing a guarantee in academy outsourcing arrangements on 17 May 2023. This extended the existing DfE funding guarantee for academies' pension fund liabilities to also automatically cover academy outsourcings, i.e. where an academy enters into a contract with a third-party provider to provide services such as catering or cleaning, where the academy remains responsible for the funding of the pensions liabilities and assets in respect of the outsourcing. This covers:

- Academy Trust LGPS eligible staff who are transferred to a contractor on outsourcing, including when those staff are transferred in subsequent generation outsourcings
- Local authority school LGPS eligible staff who transferred to a contractor before academy conversion, and then the contract passed to the academy on conversion
- Local authority LGPS eligible staff who provide services to the academy under a contract, and the staff are transferred to a third-party provider under a new contract.

Given this policy and Guarantee, employers admitted to the Fund as a result of academy outsourcings will be pooled under a "pass-through" arrangement with the scheme employer (i.e. the outsourcing academy/Multi Academy Trust) for the purposes of funding and setting employer contribution rates.

There will be no notional allocation of assets from the scheme employer to the admission body on commencement of the contract.

On admission the contractor will pay the primary contribution rate payable by the scheme employer i.e. Academy/MAT.

Academy outsourcings will have contributions recalculated at each triennial valuation (and any other time as appropriate) based on the combined funding position and/or primary contribution rate for the scheme employer (i.e. the Academy or Multi Academy Trust). There will be no separate calculation of funding position or employer contributions for these admission bodies.

On exit of the employer, assets and liabilities of the admission body will be subsumed by the Academy/Multi Academy Trust. As a result, no exit deficit or credit would be due, and no exit valuation would be needed (although the Fund Actuary will provide a formal confirmation of the position to satisfy the regulatory requirements). At the time of writing, there are no employers who fall into this category.

# Actuarial calculations

## Funding Target

The Funding Target relates to what is expected to happen to the liabilities in respect of the employees of the employer on exit of that employer. See the "Key Funding" section of this document for more information on Funding Targets.

The Funding Target used for any particular employer will determine the level of assets transferred to the employer in respect of transferring members, and the level of contributions required to be paid by the employer.

## Initial notional asset transfer

When a new employer starts in the Fund, and/or when members transfer from another employer in the Fund, a notional transfer of assets is needed from the original employer to the new employer.

When a new Admission Body starts in the Fund, they will usually start as fully funded. This means that any past service surplus or deficit for the members who are transferring to the new employer remains with the original employer and does not transfer to the new employer.

Another option for the initial notional asset transfer is to allow for the funding level of the original employer, and therefore to transfer any past service surplus or deficit in respect of the transferring membership to the new employer. This approach would normally apply to new Scheduled Bodies.

Where a school is converting to an academy and an asset transfer is required from the London Borough of Southwark as the Local Authority, the following standard approach is taken:

- Liabilities will be allocated to the academy/MAT in relation to its current employees only, with the London Borough of Southwark retaining liability for former employees.
- A share of fund approach is adopted by the Fund Actuary in notionally re-allocating assets from the London Borough of Southwark to the academy / MAT subject to ensuring the liabilities for the former employees are fully funded, and subject to a maximum transfer of assets equal to the transferring liabilities.

Where an employer has a “pass-through” arrangement with the London Borough of Southwark (or an academy/ Multi Academy Trust), no initial asset transfer occurs as the London Borough of Southwark (or the academy/ Multi Academy Trust) retains responsibility for funding the past service pension liabilities in respect of the transferring members.

## Initial employer contribution rate

When a new employer joins the Fund, the Fund Actuary determines the initial employer contribution rate payable from commencement.

When setting the employer contribution rate the following elements will be taken into consideration:

- Any past service or inherited liabilities.
- Whether the new employer is open or closed to new entrants.
- For Admission Bodies, whether the admission agreement is fixed term or not, and the period of any fixed term contract period.
- Other relevant circumstances.

**London Borough of Southwark pass-through employers**

Admitted Bodies subject to the pass-through arrangement with London Borough of Southwark will be set a fixed contribution rate, equal to the primary rate advised by the Fund Actuary based on the market conditions and membership on commencement.

This rate will be fixed for the contract duration and will not vary at subsequent triennial valuations, in order to provide certainty on pensions costs to contractors bidding for outsourcing contracts (i.e. to avoid pensions risk being built into the contract price).

**Academy outsourcing pass-through employers**

On admission the contractor will pay the primary contribution rate payable by the Scheme employer i.e. Academy/MAT. This is consistent with the pass-through arrangement i.e. the contractor does not take on any responsibility for historic Scheme Employer deficit/surpluses or future deficit/surplus arising.

## Varying the employer contribution rate

The Regulations require a triennial Actuarial Valuation of the fund. As part of each Actuarial Valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers and may be increased or reduced.

The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A. The Administering Authority will consider reviewing employer contributions between formal valuations in certain circumstances. The policy on contribution rate reviews is set out in Appendix 3.

# Employer exit from the Fund

An employer can cease participation in the following circumstances:

- An employer ceases to be a Scheme employer (including ceasing to be an Admission Body participating in the Fund) or has no active members contributing to the Fund and does not enter into a Deferred Debt Agreement.
- A Deferred Debt Agreement ends (where an employer has agreed to enter a Deferred Debt Agreement).

The Administering Authority's policy on exit valuations, exit payments and exit credits, and the policy on Deferred Debt Agreements is found in Appendix 4.

Regulation 64(2A) permits the suspension of an employer's liability to make an exit payment for up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice.

A partial termination occurs where an employer exits the Fund in respect of non-active members only.

The Administering Authority's policy on suspension notices and partial terminations is found in Appendix 4.

# Appendix 3: Employer contribution reviews

## When will contributions be reviewed?

The Regulations require a triennial Actuarial Valuation of the fund. As part of each Actuarial Valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers and may be increased or reduced.

The Administering Authority will consider reviewing employer contributions between triennial Actuarial Valuations, as permitted by Regulations 64(4) and 64A, in the following circumstances:

- it appears to the administering authority that it is likely that the Scheme employer will become an exiting employer.
- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise has changed significantly since the last Actuarial Valuation.
- it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme.
- a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

For the avoidance of doubt, the Administering Authority will not consider a review of contributions under Regulation 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

In determining whether or not a review should take place under Regulation 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as the restructuring of a Multi-Academy Trust, a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract.
- the materiality of any change in the employer's membership or liabilities, taking account of the Fund Actuary's view of how this might affect its funding position, primary or secondary contribution rate.
- whether, having taken advice from the Fund Actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, risk-sharing arrangement, or other form of indemnity in relation to the employer's liabilities in the Fund
- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund.
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pension Administration Strategy, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms.
- whether the employer was both in surplus at the previous valuation date and paying contributions in excess of the primary rate certified in the resulting Rates and Adjustments Certificate. If this is the case the administering authority would then also take into account

the Fund Actuary's view on whether the employer is still in a surplus position at the date of the review.

- Whether the employer has requested a review in the previous 12 months. The Administering Authority is unlikely to agree to more than one review per year.

In determining whether or not a review for an admission body should take place under Regulation 64(4), the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- A material change in circumstances, such as the exit date 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 3 years, the Administering Authority will monitor developments and may see fit to request an interim valuation at any time.
- 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.

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) or 64A applies. In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned, its financial position and current contribution levels. The Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next Actuarial Valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Fund employers.

Where contributions are being reviewed for an employer with links to another Fund employer, particularly where this is a formal organisational or contractual link, e.g. there is a tripartite admission agreement, an ownership relationship or a formal guarantee, subsumption commitment or risk sharing arrangement is in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the Fund Actuary as required.

## Employer engagement

The Administering Authority will involve the employer in the process in the following ways:

- In most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities. In other cases, information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed.
- the Administering Authority will advise the employer that a review is being carried out and share the outcome of the review and any risk or covenant assessment as appropriate.
- the Administering Authority will inform the employer of the indicative timetable for completion of the review. In general, the results of the review will be available no more than 3 months after all data and information has been received by the Administering Authority,

and the employer will be informed where there are circumstances that means this timescale will vary.

- The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases.

### Requesting a review

Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities.

The employer should contact the Administering Authority and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost.

All employers are expected to engage with the Administering Authority and adhere to the notifiable events framework as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the employer's circumstances and any change in covenant. Notifiable events are set out in the Pensions Administration Strategy.

## Determining the contribution rate

When determining whether employer contributions should be adjusted as the result of the review, the Administering Authority will consider: the materiality of the changes, representations from the employer, the proximity to the next triennial Actuarial Valuation, the outcome of any discussions with the employer and any related/linked employer in the Fund and any other factors.

- Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related/linked employers seeking their view on such an approach
- Contribution reviews under Regulation 64A are unlikely to be carried out during the 12 month period from the Actuarial Valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the Actuarial Valuation.
- Employers should be aware that all costs incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

## Appeals

Any appeal against the Administering Authority's decision regarding employer contribution reviews must be made in writing to the Administering Authority within 6 months of being notified of the decision. An appeal will require the employer to evidence one of the following:

- deviation from the published policy or process by the Administering Authority, or

- any further information (or interpretation of information provided) which could influence the outcome, noting new evidence will be considered at the discretion of the Administering Authority.

# Appendix 4: Employer exits

## Exit of an employer

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

Where an employer has a risk sharing (i.e. pass-through) arrangement in place with the London Borough of Southwark (or an academy/multi academy trust), generally no exit payment will be required, or exit credit paid. The Fund Actuary will provide the Administering Authority with an exit valuation confirming that no exit deficit or surplus is due to be paid at the exit date and a revised rates and adjustments certificate showing the nil exit payment due from the exiting employer, as required under Regulation 64(2) of the LGPS Regulations.

The assumptions adopted to value the departing employer's liabilities for the exit valuation (including on termination of any Deferred Debt Agreement) will depend upon the circumstances. In particular, the exit valuation will distinguish between residual liabilities which will become:

- 'orphan' liabilities, i.e. no other individual employer in the Fund will have future responsibility for funding the residual liabilities; and
- liabilities which will be 'subsumed' by other employers, i.e. another employer takes on responsibility for funding the residual liabilities of the former employer after exit.

For those liabilities that will become orphan liabilities the exit valuation will be carried out on the Low-Risk Funding Target.

For subsumed liabilities the exit valuation will be carried out on the ongoing Funding Target appropriate to the subsuming employer, updated for financial conditions at the exit date.

The exit valuation will assess the assets held as at the exit date in the Fund in respect of the exiting employer, as compared to the liabilities of the Fund in respect of benefits attributable to the exiting employer's current and former employees. The exit valuation will normally conclude that there is either:

- a deficit, in that the liabilities have a higher value than the assets; or
- a surplus, in that the assets have a higher value than the liabilities.

When calculating the liabilities in the Fund in respect of the exiting employer, an increase will be applied to these liabilities to allow for the potential increase in benefits due to the McCloud judgement and any other benefit uncertainties, as advised by the Fund Actuary.

## Exit payments

Where the exit valuation shows a deficit, an exit payment will usually be required from the exiting employer.

The Administering Authority may, with the consent of the scheme employer in question, allow another employer in the Fund to subsume the assets and liabilities of the exiting employer. This may include the Administering Authority agreeing to the other scheme employer accepting ongoing liability for any deficit in substitution of the requirement for an exit payment from the exiting employer.

The Administering Authority's policy is that generally any deficit that exists at exit of an employer will be payable immediately as a single payment. In certain cases, the Administering Authority may be prepared to agree phased payment over a period of time as permitted under Regulation

64B, at the request of an employer. The Administering Authority will consult with the employer to consider its request and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- The ability of the employer to make a single capital payment. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread
- Whether any security is in place, including a charge over assets, bond, guarantee or other indemnity.
- Whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.
- Any actuarial, covenant or legal advice the Administering Authority deems necessary.
- The views of any guarantor, and whether the guarantee will continue in force during the spreading period.
- The written representations of the employer in relation to any factors which, in their view, would influence such a decision.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be three years, but longer periods (up to ten years) will be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the default position would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. At its sole discretion the Administering Authority may therefore consider a request for spreading debt on or after the date of exit.

Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

Employers will be asked to pay actuarial; legal and covenant advice costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).

The Administering Authority will generally review spreading agreements as part of its preparation for each triennial Actuarial Valuation and will take actuarial, covenant, legal and other advice as considered necessary.

Employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework. Notifiable events are set out in the Pensions Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer, and a revised payment schedule may be implemented.

Any review will not consider changes to the original exit amount nor interest rate applicable.

An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether there should be a discount for early payment given interest will have been added over the expected spreading period. The cost of any such advice will be recharged to the employer.

## Deferred debt arrangements

In certain circumstances it may be agreed to enter into a deferred debt agreement rather than require an immediate exit payment.

Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate (a 'Deferred Debt Agreement' or DDA). In that case, the employer would remain a participating body as a deferred employer.

DDAs will generally only be entered into at the request of an employer. The Administering Authority will then consult with the employer to consider the request and determine whether or not a DDA is appropriate and the terms which should apply (including the precise details of the DDA). As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant.

Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. Employers should be aware that all costs incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

### Factors for consideration in whether to enter into a DDA

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- The materiality of the employer and any exit deficit in terms of the Fund as a whole.
- The risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and generally supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser.
- The rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit.
- Whether an up-front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.
- The written representations of the employer in relation to any factors which, in their view, would influence such a decision.

Where the employer's covenant is expected to materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA. The Administering Authority is unlikely to enter into a DDA unless it is clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

### Matters to be reflected in the agreement

The matters which the Administering Authority will reflect in the DDA, include:

- An undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions.
- A provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer.
- A provision that the DDA will terminate on the first date on which one of the following events occurs:

  - the deferred employer enrols new active members.

  - the period specified, or as varied, elapses.

  - the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer.

  - the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or

  - the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.
- The responsibilities of the deferred employer.
- Conditions triggering the implementation of a recovery plan, i.e. when the secondary contributions payable and/or the period of the DDA may be varied.
- The circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64(7E) and above.
- Any other matter the Administering Authority considers relevant.

## Management and monitoring the DDA

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The Administering Authority has a template agreement for DDAs, which it will require employers (and any guarantors) to sign up to. It is expected that the consultation process with the employer will include discussions on the precise details of the DDA, although the purpose of developing a template agreement is to make the process easier, quicker and cheaper and therefore it is not envisaged that there will be material changes to the Administering Authority's template.

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- Where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund.
- Where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that the deferred employer’s ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months.

- Where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate.

Advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on request.

Employers are expected to make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the date the employer would have otherwise exited the Fund under Regulation 64(1).

### Funding target used in DDA

For deferred employers where a deferred debt agreement is in place the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the deferred debt agreement is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:

- the agreed period of the deferred debt agreement.
- the type/group of the employer.
- the business plans of the employer.
- an assessment of the 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.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pensions Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

## Exit credits

Where the exit valuation discloses a surplus in the Fund in respect of the exiting employer, an exit credit may be due to the employer.

As soon as is practicable after the production of the applicable exit valuation, the Administering Authority will notify the exiting employer and, where the exiting employer has been admitted to the Fund as an admission body, any guarantor, Scheme Employer or subsuming employer where applicable, of:

- The fact that the exit valuation shows a surplus.
- That the Administering Authority intends to make a determination of whether this surplus should be passed in whole or in part to the exiting employer
- To request that each party, within 4 weeks, provides their written representations to the Administering Authority in relation to any factors which, in their view, would influence such a

decision and make the payment of a surplus to the exiting employer more or less appropriate.

The representations of the parties mentioned above may (but need not) detail any risk sharing arrangement agreed between the parties as regards the participation of the exiting employer in the Fund.

The Administering Authority will make a determination of the amount of the exit credit (if any) payable to the exiting employer.

In reaching this decision the Administering Authority will have regard to the following factors:

- the extent to which there is a surplus.
- the proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions.
- the representations received from the parties under paragraph 8.
- where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value increase.
- (where the Administering Authority is aware of the same) whether or not the exiting employer has been exposed to the full financial risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third parties.
- whether the Administering Authority, with the consent of the scheme employer in question, has allowed another employer in the Fund to subsume the assets and liabilities of the exiting employer. This may include the surplus shown on exit.
- the date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual arrangements; and
- any other relevant factors.

No single factor will be conclusive, and the Administering Authority will consider all the circumstances in the round in coming to its decision on the correct level of an exit payment. In order to help the parties in formulating their representations, the Administering Authority sets out below the factors it may consider, and some guidance as to the usual implication of those factors:

| Factor | The Administering Authority's view on how this may influence the determination |
|---|---|
| The extent to which there is a surplus | Will not of itself influence the determination in favour or against the exit credit, but the Administering Authority may decide to truncate the determination process where the surplus is so small as to make the full process administratively disproportionate. |
| The proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions | In general, the Administering Authority considers that where the surplus exceeds the total employer contributions received over the course of the admission, this would weigh against the payment of the full surplus as an exit credit. |
| The representations received from the parties | Dependent on their content. |
| Where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-expected investment growth or returns, the extent to which | In general, the Administering Authority considers that where the exit took place at a time when the value of assets held by the Fund were unexpectedly high, and subsequently declined, or appear to the Administering Authority reasonably likely to decline in |

| Factor | The Administering Authority's view on how this may influence the determination |
|---|---|
| that increase in asset value can be regarded as a stable and long-term value increase; | the short or medium term, then this will weigh against the payment an exit credit (either in full or in part dependent on the circumstances). Where the Authority relies on this factor in making a determination, it will provide the parties with details of why it considers that is the case. |
| Whether or not the exiting employer has been exposed to the full financial risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third parties | In general, the Administering Authority considers that where the exiting employer has not been exposed to the usual financial risks associated with admission by reason of its commercial arrangements with third parties (for example the scheme employer), this would weigh against the payment of an exit credit (either in full or in part dependent on the circumstances of the arrangement in question) |
| Whether the Administering Authority, with the consent of the scheme employer in question, has allowed another employer in the Fund to subsume the assets and liabilities of the exiting employer. This may include the surplus shown on exit. | Where there is an arrangement with another scheme employer to subsume all assets, liabilities, and any surplus or deficit on exit, then this would weigh against the payment of an exit credit. |
| The date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual arrangements | In general, the Administering Authority considers that where the arrangements pre-date the introduction into the Regulations of the concept of exit credits, this will weigh against the payment of an exit credit (either in full or in part dependent on the circumstances), and where the arrangements post-date the concept of exit credits, this will weigh in favour of the payment of an exit credit (either in full or in part dependent on the circumstances) |
| Any other relevant factors. | Dependent on the factor in question |

In making a determination, the Administering Authority will take such legal and actuarial advice as it considers appropriate.

The Administering Authority will notify the exiting employer, and any guarantor or Scheme Employer if applicable, of the amount of any surplus which it has determined should be returned to the exiting employer, if any (the "exit credit").

The Administering Authority will, unless otherwise agreed with the exiting employer, pay any exit credit to the exiting employer within 6 months of the later of the exit date and the date when the employer has provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final assets and liabilities on exit.

## Suspension notices

Regulation 64(2A) permits the suspension of the requirement to carry out an exit valuation for a period of up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice.

The Administering Authority considers that it is appropriate to exercise that discretion in relation to any employer where there is a reasonable expectation that a member will join in the near future (e.g., before the next triennial Actuarial Valuation). In that case, the Fund will advise the employer of the exit amount calculated by the Actuary and serve a written suspension notice on the employer.

Whilst under a suspension notice, the employer must continue to pay any certified secondary contributions as if it were an ongoing employer. The Fund Actuary will recalculate contributions due at the next Actuarial Valuation. If there are no new members by the time the suspension notice expires the employer will be treated as an exiting employer as at the date the suspension notice expires.

## Partial terminations

A partial termination occurs where an employer exits the Fund in respect of non-active members only.

In general, the Administering Authority does not permit partial terminations.

Any requests from employers will be considered on a case-by-case basis.

## Appeals

Any appeal against the Administering Authority's decision regarding exit credits must be made in writing to the Administering Authority within 6 months of being notified of the decision. An appeal will require the employer to evidence one of the following:

- deviation from the published policy or process by the Administering Authority, or
- any further information (or interpretation of information provided) which could influence the outcome, noting new evidence will be considered at the discretion of the Administering Authority.

# Appendix 5: Roles and responsibilities

The efficient and effective management of the Fund can only be achieved if all parties are aware of and exercise their statutory duties and responsibilities conscientiously and diligently.

The primary parties to the FSS are the Administering Authority, the Fund Actuary and the Employers.

The **Administering Authority (the Fund)** is required to:

- operate a pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations
- have an escalation policy in situations where employers fail to meet their obligations
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the relevant regulations
- ensure that cash is available to meet liabilities as and when they fall due
- ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments
- take measures as set out in the regulations to safeguard the Fund against the consequences of employer default
- manage the Actuarial Valuation process in consultation with the Fund's Actuary
- prepare and maintain an FSS and ISS, after proper consultation with interested parties
- monitor all aspects of the Fund's performance and funding, and amend the FSS/ISS accordingly
- establish a policy around exit payments and payment of exit credits/debits in relation to employer exits, and around revising employer contributions between Actuarial Valuations
- effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and scheme employer
- enable the Local Pension Board to review the Actuarial Valuation and FSS review process as set out in their terms of reference
- support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice
- exercise discretions within the regulatory framework, taking into account the cost of decisions.
- ensure consistent use of policies relating to revising employer contributions between formal valuations, entering into deferred debt agreements and spreading exit payments, and ensure the process of applying those policies is clear and transparent to all fund employers

The individual **employer** is required to:

- ensure staff who are eligible are contractually enrolled and deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations),
- provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality,

- pay all ongoing contributions, including employer contributions determined by the Fund Actuary and set out in the Rates and Adjustments Certificate, promptly by the due date,
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework,
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain,
- notify the Administering Authority promptly of all changes to active membership that affect future funding,
- notify the Administering Authority promptly of possible or intended changes that could affect the basis of participation in the Fund which affect future funding,
- note and if desired respond to any consultation regarding the Funding Strategy Statement, the Investment Strategy Statement or other policies,
- pay any exit payments on ceasing participation in the Fund in a timely manner,
- be aware that responsibility for compensatory added years, which the Administering Authority pays on behalf of the employer as a paying agent, lies with the employer which awards and is recharged for the cost of compensatory added years,
- when considering outsourcing any services have regard to and adhere to the requirements of the Best Value Authorities Staff Transfer (Pensions) Direction 2007. Employers should also advise the Administering Authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed.

The **Fund Actuary** should:

- prepare Actuarial Valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency based on the assumptions agreed with the Administering Authority and having regard to the FSS and the LGPS Regulations
- provide advice so the Fund can agree the necessary assumptions for the Actuarial Valuation
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc
- provide advice and exit valuations to the fund so that it can make decisions on the exit of employers from the fund, and assist the Administering Authority in relation to any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B
- provide advice to the Fund on bonds or other forms of security against the financial effect on the Fund of employer default
- assist the fund in assessing whether employer contributions need to be revised between Actuarial Valuations as permitted or required by the LGPS Regulations
- ensure that the fund is aware of any professional guidance or other professional requirements that may be relevant in the role of advising the Fund
- identify to the Fund and manage any potential conflicts of interest that may arise in the delivery the contractual arrangements to the Fund and other clients.

# Appendix 6: Glossary

**Actuarial Valuation**

An assessment by the Fund Actuary of the Funding Level of the Fund and recommended employer contributions. The assessment of the Funding Level is based on calculating the Past Service Liabilities and comparing this to the value of the assets held in the Fund. Actuarial Valuations take place every three years (triennial).

**Administering Authority**

London Borough of Southwark is the Administering Authority to the Fund.

**Admission Agreement / Admission Body**

A written agreement which provides for a body to participate in the Fund as a scheme employer. An admission body is an employer admitted to the Fund under an admission agreement.

**Assumptions**

Assumptions about the future need to be made by the Fund Actuary in order to calculate how much money the Fund needs at the Valuation Date to pay for the benefits that have been earned up to the Valuation Date. These assumptions are estimates of future experience for example, pay growth, longevity of pensioners, inflation, and investment returns.

**Code of Practice**

The Pensions Regulator's General Code of Practice.

**Deficit**

If the assets are lower than the liabilities, then a deficit exists. The deficit is the difference between the Past Service Liabilities and the assets.

**Employer Covenant**

The extent of the employer's legal obligation and financial ability to support its liabilities in the Fund now and in the future.

**Fund**

The London Borough of Southwark Pension Fund.

**Fund Actuary**

An actuary appointed by the Administering Authority to provide advice to the Fund, including carrying out Actuarial Valuations.

**Funding Level**

The funding level is the value of assets divided by the value of the liabilities.

**Fund Valuation Date**

The effective date of the triennial fund Actuarial Valuation.

**Guarantee / guarantor**

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor may mean that the fund can consider the employer's covenant to be as strong as its guarantor's.

**LGPS Regulations**

The statutory regulations setting out the contributions payable to, and the benefits payable from, the Local Government Pension Scheme and how the Funds are to be administered. These include the Local Government Pension Scheme Regulations 2013 and various transitional regulations.

**Local Pension Board**

The board established to assist the administering authority as the Scheme Manager for each fund.

**Long-term cost efficiency**

The notes to the Public Service Pensions Act 2013 state that long-term cost efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time.

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, GAD may have regard to the following considerations:

- the implied average deficit recovery period
- the investment return required to achieve full funding over different periods, e.g. the recovery period
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future
- the extent to which the required investment return above is less than the administering authority's view of the expected future return being targeted by a fund's investment strategy, taking into account changes in maturity/strategy as appropriate.

**Non-statutory guidance**

Guidance which although it confers no statutory obligation on the parties named, they should nevertheless have regard to its contents.

**Notifiable events**

Events which the employer should make the administering authority aware of.

**Past service liabilities**

This is the cost or present value of the benefits to which members are entitled based on benefits built up to/in payment at the date of calculation, assessed using the agreed assumptions. It generally allows for projected future increases to pay or pension as appropriate through to retirement or date of leaving service.

**Pension Advisory Panel**

An administering authority may delegate its pension management function to a committee, sub-committee or an officer. The London Borough of Southwark has delegated this function to the Strategic Director of Resources (the Chief Finance Officer or CFO). The Pensions Advisory Panel (PAP) has a primary objective to assist the Strategic Director of Resources in the management of the pensions function.

**Pensions Administration Strategy**

A statement of the duties and responsibilities of scheme employers and administering authorities to ensure the effective management of the scheme.

**Primary rate of the employers' contribution**

The primary rate for each employer is that employer's future service contribution rate, which is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as the membership profile of that employer, the funding strategy adopted for that employer (including any risk-sharing arrangements operated by the administering authority), the actuarial method chosen and/or the employer's covenant.

The primary rate for the whole Fund is the weighted average (by payroll) of the individual employers' primary rates.

**Rates and adjustments certificate**

A certificate required at each actuarial valuation by the Regulations, setting out the primary and secondary contributions payable by employers for the 3 years from the 1 April that falls in the calendar year following the Fund Valuation Date.

**Secondary rate of the employers' contribution**

The secondary rate is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed as a percentage adjustment to the primary rate, and/or a cash adjustment in each of the three years beginning with 1 April in the year following that in which the Fund Valuation Date falls. The secondary rate is specified in the Rates and Adjustments Certificate. For any employer, the rate they are required to pay is the sum of the primary and secondary rates.

The actuary should also disclose the secondary rates for the whole scheme in each of the three years beginning with 1 April in the year following that in which the Actuarial Valuation date falls. These should be calculated as a weighted average based on the whole scheme payroll in respect of percentage rates and as a total amount in respect of cash adjustments. The purpose of this is to show a single rate of contributions expected to be received by the Fund over each of the three years that can be readily compared with other funds and reconciled with actual receipts.

**Solvency**

The notes to the Public Service Pensions Act 2013 state that solvency means that the rate of employer contributions should be set at "such level as to ensure that the scheme's liabilities can be met as they arise". It is not regarded that this means that the pension fund should be 100% funded at all times. Rather, and for the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- the rate of employer contributions is set to target a Funding Level for the Fund of 100% over an appropriate time period and using appropriate actuarial assumptions; and either
- employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of Fund employers, or a material reduction in the capacity of Fund employers to increase contributions as might be needed.

If the conditions above are met, then it is expected that the Fund will be able to pay scheme benefits as they fall due.

**Surplus**

If the assets are higher than the Past Service Liabilities, then a surplus exists. The surplus is the difference between the assets and the Past Service Liabilities.

| | |
|---|---|
| **Meeting Name:** | Pensions Advisory Panel |
| **Date:** | 5 March 2026 |
| **Report title:** | Responsible Investment update – 31 December 2025 |
| **Ward(s) or groups affected:** | Not applicable |
| **Classification:** | Open |
| **Reason for lateness (if applicable):** | Not applicable |
| **From:** | Chief Investment Officer |

## RECOMMENDATIONS

1. The Pensions Advisory Panel is asked to:

    a. Review and agree the revised standalone Responsible Investment Policy for the Fund, included at Appendix 1 of this report
    b. Note the Fund's carbon footprint as at 31 December 2025
    c. Note the engagement and voting activity undertaken during the quarter ended 31 December 2025.

## BACKGROUND

### Responsible Investment Policy

2. The Fund has had a standalone Responsible Investment Policy (RI Policy) since September 2023 outlining its approach to understand and manage ESG issues for the benefit of Fund members and other stakeholders.

3. At the December 2025 PAP meeting, officers presented the Exclusions Framework developed to outline the Fund's approach to investments in areas of conflict zones. The Exclusions Framework incorporates the principles of the United Nations (UN) Genocide Convention and provides for excluding companies in the lists published by the UN Office of High Commissioner for Human Rights in relation to human rights violations globally.

4. At the December 2025 PAP meeting, it was agreed to embed the Exclusions Framework into the Fund's RI Policy to ensure that the Fund's approach to human-rights-aligned investment is consistently applied across all asset classes.

5. Officers have now undertaken a review of the RI Policy to incorporate the newly developed Exclusions Framework. The updated RI policy also continues to capture the Fund's key focus areas - including carbon reduction, progress towards net-zero ambitions, and other material ESG themes.

6. This refreshed policy replaces the existing policy in place since September 2023 and helps strengthen the coherence and transparency of the Fund’s approach by ensuring that the RI Policy remains comprehensive, forward-looking, and fully aligned with the Fund’s strategic objectives and ESG priorities.

7. The revised RI policy is included as Appendix 1 to this report.

**Application of LCIV’s RI matrix**

8. The Fund will retain ownership of its RI Policy, while London CIV (LCIV) will implement the Fund’s RI priorities alongside the implementation of its investment strategy.

9. LCIV has developed an RI Matrix which establishes the governance framework through which RI priorities will be operationalised across all investment activities. The Fund must select the most appropriate stream within LCIV’s RI Matrix to ensure alignment between its policy priorities and available LCIV products.

10. The Fund’s ability to implement all RI focus areas may be limited where LCIV does not yet offer suitable solutions, and officers are in ongoing discussions to address this.

11. The Fund also expects LCIV to provide clear and regular reporting to demonstrate how our RI priorities and commitments are being applied in practice.

**Carbon footprint update**

12. The results for 31 December 2025 shows an increase in Weighted Carbon Intensity (‘WCI’) (Scope 1 and Scope 2) of the Fund by 1% compared to the previous quarter (30 September 2025). On an aggregate basis, since September 2017 baseline, the Fund has reduced its WCI by ~81%.

13. For the calculations, we rely primarily on the Weighted Average Carbon Intensity (WACI) provided by our fund managers. In our calculations, we currently consider Scope 1 and Scope 2 carbon emissions only.

14. The table on the next page sets out the weighted carbon intensity (with USD $ million revenue as a base) by asset class against our benchmark period of September 2017.

| Weighted Carbon Intensity over time | | Weighted Carbon Intensity (Scope 1 & Scope 2) tCO2e/$m revenue | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Asset Class** | **Fund Managers** | **Sept 2017 (baseline)** | **Mar 2021** | **Mar 2022** | **Mar 2023** | **Mar 2024** | **Mar 2025** | **Jun 2025** | **Sept 2025** | **Dec 2025** |
| Equity - Developed Market Low Carbon | Blackrock, LGIM | | 24.2 | 51.0 | 17.5 | 13.7 | 10.4 | 10.9 | 11.3* | 11.3 |
| Equity - Emerging Markets | Comgest | | | 0.2 | 0.4 | 2.2 | 1.6 | 1.6 | 1.9 | 2.1 |
| Equity - Global | Newton | 10.6 | 4.4 | 5.8 | 6.9 | 4.5 | 2.9 | 3.4 | 3.7 | 3.9 |
| Multi-Asset Credit | Robeco, LCIV | | | | | 5.1 | 5.1 | 4.8 | 4.6 | 5.4 |
| Core Property | Nuveen | 14.3 | 10.6 | 12.0 | 1.8 | 1.7 | 2.8 | 2.9 | 2.5 | 2.4 |
| ESG Priority Allocation - Property | Invesco, M&G, Brockton, Frogmore | 8.8 | 10.9 | 4.6 | 4.8 | 0.8 | 1.1 | 1.1 | 0.9 | 0.9 |
| ESG Priority Allocation - Alternatives | BTG Pactual, Blackstone, Darwin | | | 0.1 | 0.5 | 1.1 | 1.0 | 0.5 | 0.4 | 0.4 |
| Sustainable Infrastructure | Blackrock, Glennmont, Temporis | 0.0 | 0.0 | 0.0 | 0.0 | 1.8 | 1.8 | 4.2 | 4.1 | 4.0 |
| IL Gilts | Blackrock, LGIM | 14.0 | 14.0 | 24.2 | 21.4 | 8.8 | 11.1 | 10.9 | 10.3 | 10.5 |
| Cash And Equivalents | Blackrock, Nuveen, Newton | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Restated based on revised data provided by BlackRock* | | | | | | | | | | |
| **Total Weighted Carbon Intensity** | | 213.7 | 131.7 | 121.4 | 85.5 | 39.7 | 37.8 | 40.4 | 39.8* | 40.9 |
| | | | | | | | | | | |
| **Total Change in Footprint** | | | **-38.3%** | **-43.2%** | **-60.0%** | **-81.4%** | **-82.3%** | **-81.1%** | **-81.4%*** | **-80.9%** |

15. The changes in the standalone investments across the asset classes in the portfolio are discussed below:

    a. Developed market equities (neutral): Aggregate WCI for the BlackRock and LGIM developed market low-carbon equities has remained constant compared to earlier quarter (11.3 vs 11.3). There was an error in data provided by BlackRock for the quarter ended 30 September 2025. This has been rectified and all relevant numbers have been restated during this quarter. Overall impact of this is higher reporting of carbon data by c. 2% during quarter ended 30 September 2025 (in relative terms).

    b. Comgest (negative impact): The WCI of the Comgest investment has increased (1.2 vs 1.9), driven by an increase in the portfolio weightage of one company by almost 100%. Stock level emissions (in absolute terms) of the particular company has remained broadly constant across both quarters.

    c. Newton Global Equity (negative impact): The overall WCI of the Newton portfolio has increased compared to the previous quarter (3.9 vs 3.7). This is primarily driven by an increase in stock level emissions intensity of certain companies in the portfolio.

    d. Multi-asset credit funds with LCIV and Robeco (negative impact): Overall WCI for both the multi-asset credits funds is positive (5.4 vs 4.6), driven primarily by a c. 90% increase in WCI of the Robeco fund due to the addition of a few utility sector companies in the portfolio and a c. 6% increase in WCI of the LCVI-CQS fund. Both managers remain confident of the decarbonisation plans of all underlying companies in the portfolio.

    e. Nuveen (positive impact): There is a decrease in the WCI for the quarter (2.4 vs 2.5). This is driven by a marginal decrease in weightage of core property overall in the portfolio.

    f. ESG Priority Allocation (neutral): Aggregate WCI for all investments in the ESG Priority Allocation category including both property assets (Invesco, M&G, Brockton, etc) and wider infrastructure assets (BTG Pactual, Darwin) has remained stable compared to the previous quarter. We use Nuveen WACI as a proxy for these investments.

    g. Sustainable Infrastructure (neutral): Aggregate WCI for all investments in the category has remained broadly stable during the quarter (4.0 vs 4.1). As these assets become fully operational and revenue increases gradually, we expect to see an improvement in WACI over time. We continue to use historical data shared by investment managers for these assets.

    h. Index-linked Gilts (negative impact): WCI for the index-linked gilts over the quarter has decreased (10.5 v 10.3). This is primarily due to market movements.

16. The unweighted exposure for each investment is set out below:

| **Unweighted Carbon Intensity** | | **Unweighted Carbon Intensity tCO2e/$m revenue** |
|---|---|---|
| **Asset Class** | **Fund Manager(s)** | **Dec 2025** |
| Cash And Equivalents | BlackRock, LGIM, Nuveen, Newton | 0.00 |
| Core Property | Nuveen | 22.70 |
| Global Equities | Newton | 32.90 |
| Low Carbon Equity | BlackRock | 31.00 |
| Low Carbon Equity | LGIM | 29.90 |
| Emerging Markets Equity | Comgest | 47.00 |
| ESG Priority Allocation - Alternatives | BTG Pactual, Blackstone, Darwin Bereavement & Leisure Dev | 50.40 |
| ESG Priority Allocation - Property | Brockton, Frogmore, Invesco, M&G | 90.80 |
| Multi-asset Credit Funds | Robeco, LCIV | 116.90 |
| Sustainable Infrastructure | BlackRock, Glenmont, Temporis | 257.80 |
| Index Linked Gilts | Blackrock, LGIM | 220.00 |
| **Total** | | **899.40** |

17. We will continue to engage with fund managers on an ongoing basis to advance decarbonisation of the underlying assets across the Fund portfolio.

**Voting & Engagement update**

18. The key ESG-focused engagement and voting themes, for the quarter to 31 December 2025, for the Fund's listed assets are outlined below:

   a. Environment-focused themes:
      i. Climate risk & mitigation
      ii. Deforestation

   b. Social themes:
      i. Human Rights

   c. Governance-related themes:
      i. Board effectiveness
      ii. Corporate Strategy
      iii. Compensation & Remuneration

19. This report also includes a selection of voting & engagement focused case studies that better highlight the tangible outcomes and effectiveness of the Fund's stewardship activities.

20. These examples provide a clearer narrative of how engagement and voting decisions have contributed to positive change within investee companies and supported the Fund's broader responsible investment objectives.

21. This approach aims to give the PAP a more accessible and outcome-focused understanding of stewardship progress and impact.

22. Appendix 2 to the report includes selected case studies from engagement and voting activity undertaken by investment managers with various companies in their respective portfolios during the quarter ended 31 December 2025.

## Community, Equalities (including socio-economic) and Health Impacts

### Community Impact Statement

23. No immediate implications arising

### Equalities (including socio-economic) Impact Statement

24. No immediate implications arising

### Health Impact Statement

25. No immediate implications arising

### Climate Change Implications

26. No immediate implications arising

### Resource Implications

27. No immediate implications arising

### Legal Implications

28. No immediate implications arising

### Financial Implications

29. No immediate implications arising

### Consultation

30. No consultation is needed.

## APPENDICES

| No. | Title |
|---|---|
| Appendix 1 | Responsible Investment Policy – March 2026 Refresh |
| Appendix 2 | Case studies - Engagement and Voting |

## AUDIT TRAIL

| | | |
|---|---|---|
| **Lead Officer** | Clive Palfreyman, Strategic Director of Resources | |
| **Report Author** | Caroline Watson, Chief Investment Officer | |
| **Version** | Final | |
| **Dated** | 05 March 2026 | |
| **Key Decision?** | N/A | |
| **CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER** | | |
| **Officer Title** | **Comments Sought** | **Comments Included** |
| Assistant chief executive, governance and assurance | N/A | N/A |
| Strategic Director of Resources | N/A | N/A |
| **Cabinet Member** | N/A | N/A |
| **Date final report sent to Constitutional Team** | | |

## London Borough of Southwark Pension Fund – Responsible Investment Policy

### 1. Policy Introduction

As a responsible investor, London Borough of Southwark Pension Fund ('the Fund' or 'us' or 'we') recognises that Environmental, Social and Governance ('ESG') factors are an important part of the investment decision making process. We strongly believe that climate change and other ESG parameters, e.g. human rights, are material financial risks and integrating these factors into the investment philosophy and decision-making process will protect and improve the risk profile of the Fund's investments over the long term.

Through its investments, the Fund is looking to generate positive social and environmental impact within a framework of prudence and fiduciary duty. Ultimately, the Fund exists to pay the pensions of its members. However, managing ESG risks is an important contributor to the long-term financial health of the Fund.

In line with the above investment belief, this Responsible Investment Policy ('RI Policy' or 'the Policy') outlines the actions we are taking to understand and manage ESG issues for the benefit of Fund members and other stakeholders. The aim is to protect the value of the Fund's investments from ESG-related risks and capitalise on the investment opportunities that ESG issues, such as climate change, may provide.

The Policy also covers operational aspects such as stewardship and ongoing monitoring of ESG issues and its reporting.

An earlier version of the Policy was implemented by the Fund in September 2023. The Policy was revised and subsequently reviewed and approved by the Fund's Pensions Advisory Panel (PAP) in March 2026.

### 2. Policy Scope

The Fund invests globally through a range of asset classes to invest in multiple business sectors directly and indirectly. This means the Fund's investments are exposed to many different parts of the global economy.

The Fund intends to apply this Policy to investment activities across all geographic locations and all asset classes including direct investments and pooled funds; and all styles including active and passive investments, liquid and illiquid. However, our ability to act and influence may vary by investment type.

The Local Government Pension Scheme (Amendment) Regulations 2026 come into effect on 1 April 2026. Going forward, responsibility for the implementation of the Fund's investment strategy will sit with the London Collective Investment Vehicle (LCIV). This Policy will also form the basis of our engagement with LCIV and investment managers (through LCIV) and outlines our ESG-related expectations, stewardship priorities, and escalation approach to any future ESG related challenges and concerns. For the purposes of pooling, where relevant, any reference to investment manager in this RI Policy also includes LCIV.

### 3. Responsible Investment beliefs

The Fund believes that investing in well-governed companies that manage ESG risks and opportunities - such as climate change, human rights, diversity and inclusion and strong governance - in their operations and supply chains, will enhance value for its stakeholders over the long term.

The Fund considers that responsible investment practices are entirely consistent with its twin objectives: first, to achieve sufficient long-term risk-adjusted returns for the Fund to be affordable and second, to keep the employers' contribution rate as stable as possible.

The Fund recognises responsible investment as taking account of various ESG risks and opportunities at all stages in the investment decision making process from defining the Fund's Strategic Asset Allocation (SAA) through implementation via manager/investment selection and continued engagement and stewardship of Fund assets. Where possible, it is important that appointed managers incorporate climate change and wider ESG considerations into their decision making on asset selection and divestment.

The Fund will proactively exercise responsible stewardship of assets held in the portfolio and act as a responsible voice in the broader investment community through organisations like LCIV and forums such as the Local Authority Pension Fund Forum (LAPFF).

Alongside the primary focus on its fiduciary duty, the Fund will continue to prioritise climate change and other ESG parameters to advance positive social and environmental impact from its assets, including the transition towards a net-zero carbon economy.

### 3.1 Responsible Investment priorities

Outlined below are the key Responsible Investment (RI) areas that are relevant to the Fund's investments and which the Fund believes to be important to its members and beneficiaries. These priority areas will inform our Responsible Investment thinking and will be revisited every three years (or earlier as relevant).

#### 3.1.1 Climate Change

The Fund believes that climate change creates both investment risks and opportunities for the Fund's investments and there is a need to advocate for an orderly transition to a climate resilient economy. The Fund is committed to achieving net-zero status across its investment portfolio by 2030. As part of this, the Fund has committed to having no direct investments in companies engaged in conventional or non-conventional fossil fuels related activities.

To continue to advance its net-zero targets in relation to climate change, the Fund will:

- understand and monitor the emissions profile of all assets on a regular basis
- expect ongoing LCIV and investment manager engagement with the highest-emitting companies in the portfolio to advance decarbonisation across their operations
- encourage allocation to climate-solution strategies where they meet risk/return objectives
- consider TCFD-aligned reporting on an annual basis.

#### 3.1.2 Conflict Zones

Considering various recent geopolitical events globally, as part of our 2026 review of the Policy, we have also identified the need to articulate the Fund's approach to investments in conflict zones. We know that this area is particularly important to our scheme members, and local community. The position outlined below will help us to determine appropriate action where there are concerns about human rights in conflict zones.

A conflict zone is any area experiencing significant and ongoing violence, armed conflict, civil unrest, or severe political instability[1].

A company's presence/operations in conflict zones does not in itself indicate wrongdoing. The focus of the Fund is on credible and proven instances of human rights violations linked to conflicts. The Fund will not apply blanket geographic boycotts but will rely on authoritative international bodies, including the United Nations and the UK Government, to identify conflict-affected areas and associated human-rights risks and/or any violations.

In relation to conflict zones, the Fund will not consider lists published by any advocacy or activist groups as there is a risk of them being politically biased and not having an objective basis.

In relation to investments in conflict zones, the Fund will consider:

- Sanctions/restrictions imposed by the UK Government
- Sanctions/restrictions imposed by the United Nations Security Council
- Relevant lists/guidance published by global bodies including the UN Office of the High Commissioner for Human Rights
- Ongoing cases (direct involvement) and successful convictions under the UN Genocide Convention
- Any other qualitative criteria applied by LCIV and the investment managers, e.g. ongoing violation of UN Global Compact.

The Fund is committed to ensuring a strong focus on human rights in instances of conflicts. For identified investments, the Fund will consider enhanced engagement and escalation through LCIV (and relevant investment managers) to enforce adherence to international humanitarian law and human rights.

The Fund will consider divestment/exclusions of:

- companies which are on the UN Office of the High Commissioner for Human Rights List (UN OHCHR List) in relation to human rights violations in any global conflicts
- companies incorporated in jurisdictions that have been subject to:
    - successful genocide convictions in the past or
    - subject to ongoing cases at the International Court of Justice (ICJ)/ International Criminal Court (ICC) as jurisdictions 'directly' involved in possible genocide.

The Fund believes that historic genocide findings alone don't justify indefinite exclusion if the state has undergone profound political transition and there is no elevated atrocity risk.

The Fund will review in-scope jurisdictions under the UN Genocide criteria every five years (or earlier if required) and consider any 're-inclusion' after a formal reassessment confirms that the new political environment aligns with the reinstatement conditions and broader responsible investment parameters.

The Fund will review in-scope companies in the UN OHCHR List on an annual basis.

[1] https://www.international.gc.ca/world-monde/stories-histoires/2024/2024-11-13-conflict-zone-conflit.aspx?lang=eng

### 3.1.3 Human Rights and Human Capital

The Fund is committed to respecting human rights in line with international standards, including those set by the United Nations and OECD Guidelines. The Fund recognises its responsibility to influence positive real-world outcomes through investment decisions and to prevent or mitigate adverse impacts on people. As part of the focus on human rights, where material in the context of its portfolio, the Fund will consider various people-related themes and engage in effective risk management through its investment managers and LCIV while meeting the expectations of beneficiaries, partner funds, and regulators.

Alongside human rights, the Fund considers human capital an important component of long-term value creation. The Fund will encourage its investment managers, including LCIV, to promote diversity and inclusion across the assets in the portfolio. The Fund will encourage transparency in diversity reporting, inclusive hiring practices, and workplace cultures that empower all employees.

### 3.1.4 Strong Governance

The Fund views robust governance as a cornerstone of responsible investment and long-term value creation. Effective governance ensures accountability, transparency, and ethical decision-making across investee companies and investment managers. We expect companies to maintain clear governance structures, independent and diverse boards, and rigorous oversight of risk management, including environmental and social risks. Strong governance practices reduce operational and reputational risks, safeguard shareholder rights, and support sustainable financial performance.

Through our investment managers and LCIV, we will aim to engage with companies and managers to promote best practices in governance, including board diversity, executive accountability, and transparent reporting. Where governance standards fall short, we will escalate concerns (via investment managers and LCIV) through dialogue, collaborative engagement, and voting strategies. Our commitment to governance aligns with our fiduciary duty to protect and enhance long-term returns for beneficiaries.

## 3.2 Other ESG considerations

In addition to the above, the Fund will consider various other material ESG factors across all assets in the portfolio.

*Environmental* – in addition to climate change and the Fund’s focus on reducing the carbon footprint of its portfolio, the Fund will consider other environmental aspects including, but not limited to, resource scarcity, waste and water management practices, and biodiversity and natural capital. These wider environmental parameters also need to be managed whilst taking advantage of new opportunities as the world transitions to a low carbon economy.

*Social* – the way in which companies and enterprises manage their operations with respect to employee diversity, labour market practices, health and safety, product liability and supply chain management including modern slavery and wider human rights, can be an investment risk.

## 4. Our Approach to Responsible Investment

We take the following steps to ensure the investment strategy is aligned with our RI beliefs and priorities.

### 4.1 Integrating RI priorities into the investment decision-making process

The Fund embeds Responsible Investment (RI) priorities across all stages of its investment process to ensure alignment with our long-term objectives and fiduciary duties. This integration begins at the strategic level, influencing asset allocation decisions and investment objectives, and extends through the selection, appointment, and ongoing monitoring of investment managers.

We also maintain continuous oversight of managers' RI performance through regular reporting, engagement, and dialogue. Where gaps are identified, we will escalate concerns via LCIV and seek improvements through stewardship activities and governance forums.

To ensure RI priorities remain embedded in decision-making, the Fund undertakes structured and ongoing training for PAP and Local Pension Board (LPB) members and officers. This includes sessions on ESG issues, climate risk, regulatory developments, and emerging best practices, enabling informed decisions and effective oversight. Training is reviewed annually to address knowledge gaps and incorporate evolving market standards.

### 4.2 Monitoring and Assessment of RI priorities

The Fund considers monitoring and assessment of the RI priorities and wider ESG parameters as an integral part of our investment oversight process.

Our approach includes:

- **Ongoing Monitoring:** We require investment managers to identify, assess, and report on ESG risks within their portfolios, including climate-related, social, and governance factors on a regular basis.
- **Regular Reviews:** Alongside financial performance, we also consider ESG risk assessments as part of regular meetings with all investment managers and LCIV.
- **Scenario Analysis and Stress Testing:** Where appropriate we will consider climate risk scenarios to understand potential impacts on the Fund's assets and liabilities.
- **Escalation and Engagement:** If material ESG risks are identified, we expect managers (including LCIV) to seek mitigation strategies and, where necessary, escalate concerns through stewardship activities or governance forums.

This process ensures that ESG risks are systematically evaluated and managed in line with our fiduciary duty and commitment to responsible investment.

The Fund provides updates on monitoring and assessment of RI priorities to the Pensions Advisory Panel on a quarterly basis.

### 4.3 Divestment

Where serious financial or ethical concerns arise and engagement or escalation has not been effective, the Fund will engage with investment managers, including LCIV to explore divestment.

While engaging with investment managers and LCIV, we will consider:

- Financial materiality of the issue
- The company's ability and willingness to address concerns
- Positive contributions or essential services provided
- Practicality and financial impact of divestment
- Availability of suitable alternatives

Divestment is viewed as a last resort, not a primary objective. We prioritise engagement to drive positive change, as divestment often has limited real-world impact.

Investments will be monitored on an ongoing basis, and concerns will be raised with LCIV in cases where we believe divestment is an appropriate action for a particular investment. However, engagement, escalation and divestment will be undertaken by LCIV and its stewardship service provider. The Fund will not engage directly with any underlying companies and will also not make divestment decisions independently.

### 4.4 Exclusions

Where appropriate, the Fund excludes companies, sectors or asset types which are not in line with the RI priorities on climate change, conflict zones or the wider ESG parameters. Since 2016, the Fund has committed to having no direct investments in companies with exposure to fossil fuels, steps have been taken to adapt or replace mandates to enable the achievement of that goal.

Any proposed exclusions assessed in the best financial interests of stakeholders require approval by PAP. These circumstances include:

- If an investment is inappropriate to the extent that it may have a negative impact on the Fund's long-term investment return objective.
- If an investment is inappropriate to the extent that it may have a material negative impact on the Fund's reputation.
- If the investment would lead to contravention of international treaties or conventions.
- In cases where it is deemed not possible to influence a company through engagement or proxy voting.

The Fund will exclude assets in sectors like oil & gas, mining or tobacco and other sectors as determined from time-to-time depending on evolving RI priorities.

For the purposes of exclusions, currently the Fund considers only direct operations of companies. Extended value chain/suppliers are not considered at this stage.

The Fund will continue to monitor the exclusions criteria on an ongoing basis to consider global RI-focused issues that might have an impact on the portfolio and performance.

Any exclusions set by the Fund will be implemented by LCIV, where they are covered in pillar three of LCIV's RI matrix (as set out later in this policy).

### 4.5 Private Markets and Sovereign Investments

Private market investments, such as private equity, can be less liquid and offer limited transparency compared to public markets. To manage these risks, we expect our investment managers, including LCIV, to ensure that underlying managers integrate ESG considerations into their strategy and underwriting processes, and to agree clear guidelines or parameters. The Fund will monitor adherence to these commitments and expects RI-related commentary within regular reporting, including from LCIV.

For sovereign investments, including government bonds, ESG risks may arise from issues such as climate change, nature loss, human rights, or conflict. We expect investment managers/LCIV to assess these risks and, where possible, engage through recognised sovereign engagement frameworks, e.g. Principles for Responsible Investment Sovereign Engagement Guidance.

## 5. Stewardship and Governance

The Fund is committed to upholding high standards of governance and promoting corporate responsibility within the companies we invest in. Effective stewardship protects the long-term financial interests of the Fund and its beneficiaries.

### 5.1 Voting

The Fund exercises ownership rights to promote long-term value creation and responsible corporate behaviour. Voting rights are delegated to investment managers, who are expected to act in the best interests of the Fund and its beneficiaries. We expect managers to provide regular updates on their voting activity and priorities.

For pooled funds, where direct voting is not possible, we expect investment managers/LCIV to implement pass-through voting solutions where available, enabling the Fund's voting preferences to be reflected. We will monitor developments in this area and engage with LCIV and managers to encourage adoption of such mechanisms as they become feasible.

In addition, the Fund will regularly assess managers' approach to voting and engagement to ensure alignment with our evolving RI priorities.

### 5.2 Engagement and Oversight

Stewardship activities are reviewed periodically. The Fund engages with investment managers where necessary and encourages them to provide context for voting and engagement decisions, including rationale, relevance to the Fund, and outcomes achieved.

### 5.3 Commitment to Best Practice

The Fund is committed to maintaining the highest standards of stewardship and governance. In 2025, the Fund was accepted as a signatory to the UK Stewardship Code, which demonstrates our commitment to transparency, accountability, and recognised best practice. We will aim to continue to remain a signatory to the UK Stewardship Code and uphold its principles as part of our responsible investment approach.

When relevant, the Fund will provide updates on such initiatives to the PAP as part of its robust governance.

### 5.4 Collaborative Engagement

The Fund will continue to collaborate with a wide range of stakeholders and market participants and participate in various industry initiatives, networks and forums to improve management of systemic ESG risks and to advance its RI priorities. The Fund is also fully committed to collaborating with other local authority partners including the LCIV, LAPFF, and any other private or government body to advance impact in line with its responsible investment principles.

## 6. Governance of this Policy

The Policy will be reviewed:

- Annually for any significant changes in portfolio or market circumstances or national government guidance
- Every three years for a full review and consideration of priority themes and beliefs

Overall responsibility for the operation of this Policy sits with the Strategic Director of Resources.

The implementation of this Policy will be undertaken by LCIV with regular monitoring by the Fund.

## 7. Application of LCIV's RI Matrix

From April 2026, investment selection and implementation will be undertaken by LCIV. The Fund will retain ownership of its RI Policy and will work with LCIV to ensure its principles are appropriately reflected.

The Fund will need to implement its responsible investment priorities through LCIV leveraging LCIV's stewardship activities, engagement programmes, and product offerings to advance our commitments on climate change, conflict zones, human rights, diversity, and other ESG themes.

LCIV's Responsible Investment (RI) Matrix establishes the governance framework through which RI priorities are operationalised across all investment activities. Stream three of the RI matrix includes restrictions/exclusions in respect of various RI priorities we have outlined in this Policy.

By opting into stream three, the Fund confirms its alignment with LCIV's priorities on climate action, net-zero transition, and wider sustainability themes, including the protection and promotion of human rights.

The Fund expects LCIV to implement its RI priorities through suitable products and strategies developed in alignment with the RI Matrix.

However, the Fund's ability to fully implement these focus areas may be constrained if LCIV does not offer appropriate products or solutions. In such cases, the Fund will:

1. Engage with LCIV to advocate for the development of products and strategies that reflect our responsible investment priorities.
2. Escalate through formal channels, including raising the issue at LCIV governance forums.
3. Collaborate with other LGPS funds to strengthen the case for product development and influence LCIV's roadmap.

The Fund expects LCIV to provide regular and transparent reporting that covers both financial performance and RI matters, ensuring sufficient visibility over how its assets are being managed and how RI commitments are being implemented in practice.

## 8. Monitoring & Disclosure

Since 2017, the Fund has been proactively disclosing the carbon footprint of its investments.

The Fund will continue to take a leadership role on transparency and disclosure and will report its responsible investment activities, progress and outcomes to all stakeholders through the Fund's website and/or relevant reports prepared as part of the governance and oversight undertaken by the PAP and LPB.

**Appendix 2 – case studies: stewardship activity during the quarter from 1 October 2025 to 31 December 2025**

**Fund manager: Comgest**

*Case Study 1 – Engagement with Midea Group (China) on Climate Change*

- Midea was identified as a priority engagement due to the high share of its greenhouse gas emissions linked to the use of sold products. In December 2025, Comgest contacted Midea in writing to engage on its climate strategy, building on the company's ESG Report and CDP Climate disclosures.
- The engagement focused on downstream Scope 3 emissions, which account for the vast majority of Midea's reported emissions, particularly those associated with residential air conditioning. Comgest sought further information on the company's efforts to improve product energy efficiency, increase the use of low global warming potential refrigerants, and encourage customer uptake of its most energy efficient products.
- Comgest also requested clarification on Midea's Scope 3 targets and recent emissions trends, noting a significant increase in reported downstream emissions between 2023 and 2024, as well as the status of Science Based Targets initiative validation for its HVAC subsidiary.
- While Midea has yet to respond to the engagement request, Comgest continue to consider the management of use phase emissions and the credibility of Scope 3 targets as key areas for further engagement opportunities.

*Case Study 2 – Engagement with Aspeed Technology (Taiwan) on product safety*

- Comgest analysts joined a group meeting with Aspeed's Head of Investor Relations.
- Through transparent discussion, Comgest reviewed the company's customer relationship and partner collaboration.
- While Aspeed faces constraint of securing partner capacity; nevertheless, the company's full cost pass-through ability is evidence of pricing transparency and disciplined management rather than opportunistic behaviour.
- Aspeed's ability to supply China, subject to US sanctions and export-control restrictions on designated entities, reflects strict compliance with global trade rules.
- Overall, it was a positive meeting and Aspeed showed positive progress in line with Comgest's expectations.

**Fund manager: BlackRock**

*Case Study 1 – Engagement with Thermo Fisher Scientific Inc. (Thermo Fisher Scientific) on incentives aligned with financial value creation*

- Thermo Fisher Scientific is a U.S.-listed company that provides analytical instruments, scientific equipment, diagnostics consumables, software and services to customers in the life sciences and industrials sectors.
- At the company's May 2025 annual general meeting (AGM), to convey concerns about the company's approach to executive compensation, BlackRock Investment

Stewardship (BIS) did not support the management-proposed “Say-on-Pay" proposal, which received 35.6% support from shareholders. BIS additionally voted against the election of the Chair of the Compensation Committee for these concerns. BIS team had engaged with representatives from Thermo Fisher Scientific prior to the May 2025 AGM.

- BIS next engaged with the company following the May 2025 AGM in August 2025 and, at the company’s request, in October 2025. The engagements included members of Thermo Fisher Scientific’s board and executive leadership team. During the October engagement, BIS sought to gain a better understanding of the company’s approach to executive remuneration. The company shared its overall compensation philosophy and outlined potential changes the compensation committee is considering to the CEO’s compensation, aimed at reinforcing retention and driving financial performance. During the engagement, the company also discussed certain performance-based stock options granted to certain senior company executives, following the impact of sector externalities on the company’s share price in 2024, as well as a separate performance-based restricted stock unit (RSU) award granted to the company’s CEO in May 2025.

*Case Study 2 – Engagement with Dollarama Inc. (Dollarama) on climate-related risks and opportunities*

- Dollarama is a large Canadian value retailer.
- In October 2025, BIS engaged with representatives from Dollarama to discuss several business-relevant matters, including how the company is managing and disclosing the material climate-related risks and opportunities it is facing. Specifically, Dollarama provided BIS with details on how sustainability-related initiatives are overseen by the company’s board of directors, and how such initiatives have been expanded recently, including engaging its business partners on sustainability, sourcing energy from renewable energy facilities, and focusing on upgrading its emissions disclosure in the future. The company also recently integrated certain sustainability-related metrics in its executive compensation plans for the first time in 2025.
- BIS will continue the discussions with Dollarama and provide further updates as the engagement progresses.

**Fund manager: Robeco**

*Case Study 1 – Engagement with pharmaceutical ‘Company X’ on various Sustainable Development Goals*

- Robeco’s pre-engagement analysis highlighted transparency gaps compared to peers, particularly around how innovation targets are set and evaluated. Company X confirmed that senior executives draft their own business development and innovation goals, which are consolidated and approved by the CEO, but could not confirm any independent review mechanism, such as a medical or scientific committee, to ensure rigor. This raises concerns about discretion and oversight in setting performance metrics tied to long-term value drivers.
- Robeco emphasised the need for clearer disclosures on target-setting processes in future governance reporting. Additionally, Robeco discussed recent shareholder

proposals on lobbying and patent strategies, encouraging Company X to improve public disclosures addressing societal pressures around pharmaceutical access.

- While the company acknowledged feedback on its patient affordability report and expressed interest in sector efforts to standardise human rights approaches, its response remains limited. Overall, the engagement reinforced concerns over transparency and accountability in innovation performance measurement, with only mild responsiveness to social impact issues. Progress on engagement objectives remains flat. Robeco plan to continue the engagement and monitor progress in line with its internal policies.

*Case Study 2 – Engagement with mining 'Company Y' on the theme of Transition Minerals*

- Company Y has set high level commitments on climate, biodiversity, and responsible sourcing -including net zero targets and alignment with OECD and UNGP expectations - but still lacks clear, time bound actions across its transition minerals value chain.
- While the company has made regulatory and operational progress through Battery Passport participation and digital traceability systems aligned with the EU Battery Regulation, supplier level visibility and measurable traceability targets remain limited.
- Company Y continues to face material ESG risks tied to upstream mineral sourcing in high-risk regions, with gaps in due diligence governance and oversight underscoring the need for more structured, target driven action.
- As part of the ongoing engagement, Robeco have requested a follow up call in Q1 2026 to discuss the company's commitments, governance, and operational targets, with engagement objectives remaining unchanged for now.

**Fund manager: Newton**

*Case Study 1 – Engagement with Utility & Electrical Solutions manufacturer on various ESG themes*

- The company operates in the electrical components and equipment sector, where environmental, social and governance (ESG) factors are increasingly material to long-term resilience and investor confidence.
- Newton's three areas of focus as part of the engagement include:
    - Climate transition risk and net zero strategy: Decarbonisation and resource efficiency affect operating costs, capital expenditure needs, and regulatory risk. Performance against 2030 targets signals execution quality as the company integrates acquisitions and scales operations.
    - Board and leadership quality: Board composition and skills underpin oversight of capital allocation, mergers and acquisitions, and transition strategy. Expertise in utilities, industrials, and emerging technologies (AI, cyber) is vital as the company's markets evolve.
    - Human capital: A 10,000-strong hourly workforce underpins manufacturing reliability and safety. High turnover poses earnings and

operational risks, making site-level accountability and workforce engagement critical.

- The engagement confirmed positive progress and governance alignment towards all three objectives:
    - Climate transition: The company targets 30% reduction in emissions and hazardous waste, 25% less water use by 2030. Facing new challenges as easy wins are exhausted and acquisitions grow. Investing capex in sustainability projects. Preparing for Scope 3 disclosure.
    - Board and leadership: Five new directors in six years, including senior utility execs. Board refresh emphasises broad leadership. Ongoing education on AI, cyber, and transition risks. Acknowledged need for clearer AI governance.
    - Human capital: Annual turnover of hourly workforce down to ~25–26%. Improvements from better pay, flexible time-off, and safety culture. 90%+ employee survey participation; all sites have action plans. Site scorecards track key metrics. Supervisory development prioritised.

| | |
|---|---|
| **Meeting Name:** | Pensions Advisory Panel |
| **Date:** | 5 March 2026 |
| **Report title:** | Update on the Local Pension Board |
| **Ward(s) or groups affected:** | Not applicable |
| **Classification:** | Open |
| **Reason for lateness (if applicable):** | Not applicable |
| **From:** | Chair of the Local Pension Board |

**RECOMMENDATION**

1. The Pensions Advisory Panel (PAP) is asked to note:

    a. The update from the Local Pension Board (LPB or the Board) meeting of 4 February 2026.

**KEY AREAS OF DISCUSSION**

**Training session – Good Governance Project - Draft Regulations**

2. The training session was conducted jointly by the Chair of the LPB, Chief Investment Officer and Head of Pensions Operations.

3. The training session covered various aspects of the Good Governance project under the upcoming Fit for Future regulations. Key areas of discussions covered:

    a. background and context for ongoing focus on governance and the importance of scrutiny function undertaken by the Local Pension Board.

    b. various upcoming governance-focused mandates/requirements (appointment of Senior LGPS officer, appointment of an Independent Advisor, pooling and investment governance, etc.).

    c. overview of Pensions Dashboard and work involved going forward on Data management and Engagement policy.

4. There were additional discussions and subsequent questions on the above areas. Officers provided initial responses to the questions. Officers also clarified that these are evolving areas and final guidance on all these areas is yet to be published so there are areas where uncertainties remain and further clarifications are still required. Officers will update the Board as further government guidance is published.

**Action Tracker**

5. The Head of Pensions Operations presented the Action Tracker. An update was provided regarding progress made on each item in the tracker.

6. The Board's focus was on the Fund's Administration Strategy, which is now out for member consultation. Any feedback/comments received from the consultation and a final version of the Administration Strategy will be shared with the Board prior to publication.

**Annual Benefit Statement – 2025 Debrief**

7. The Head of Pensions Operations presented the report.

8. An update was provided on the status of issuance of Annual Benefit Statement (ABS) for 2024-25 and plans that are in place in relation to issuance of ABS for 25/26Action Tracker.

9. There were detailed discussions and subsequent questions on processes in place to address such lapses going forward.

10. Board stressed the importance of appropriate communication to members in case of any delays and aim for 100% ABS issuance rate going forward.

11. Board agreed to receive additional data on lapses in issuance of ABS for 24/25.

**Pension Services**

12. The Head of Pensions Operations presented the report.

13. An update was provided on recruitment within the service, IT and systems, national pension dashboard programme (NPD) and additional focus areas in relation to various communication-related initiatives.

14. Pensions Operations team have been requested to share template/example of member communications planned for 25/26 with the Board.

**Risk Register**

15. The Chief Investment Officer presented the report.

16. An update was provided on changes made to various risks, both in terms of risk identification and mitigation and quantification of risks.

**Breaches Log**

17. The Chief Investment Officer and Head of Pensions Operations jointly presented the report.

18. There were subsequent discussions on the ongoing issue of auto-enrolment. However, this is primarily an issue to be addressed by the HR/legal teams in the wider council and is outside the control of the pension fund.

19. The Board was also reassured of the new system being put in place by council teams to ensure lapses in auto-enrolment do not arise going forward.

**Pension Fund – Statement of Account and Audit Findings Report**

20. The Chief Investment Officer presented the report.

21. An update was provided on the audit of the pension fund statement of accounts. KPMG have issued an unqualified opinion. There was also a discussion on progress made against key recommendations from KPMG to management in relation to the accounts.

22. There was a subsequent discussion on one key finding in relation to property valuations.

**Forward Plan – 2026-27**

23. The report was presented by the Chief Investment Officer.

24. Proposed agenda items for 2026-27 were presented to the Board.

**Training Plan – 2026-27**

25. The report was presented by the Chief Investment Officer.

26. Proposed training plan for 2026-27 was presented to the Board. There was a discussion on the need to maintain accurate logs in relation to training provided to LPB members. There is an ongoing discussion with Hymans Robertson for subscribing to their training module from April 2026.

**The General Code – Action Plan**

27. The report was presented by the Chief Investment Officer.

28. The Board noted the report. The Board will continue to monitor next steps planned by officers following completion of all pending tasks in the Action Plan.

**Update on Current LGPS issues**

29. An update was provided on current LGPS issues specifically covering SAB responses to various consultations released by the government in relation to planned changes in the LGPS ecosystem.

**Any other business**

30. The Chief Investment Officer flagged to the Board that officers will contact LPB members in March 2026 for completion of declaration of interests forms to avoid any last-minute delays and for a smoother year-end completion.

## COMMUNITY, EQUALITIES (including socio-economic) AND HEALTH IMPACTS

31. **Community Impact Statement**

    No immediate implications arising

32. **Equalities (including socio-economic) Impact Statement**

    No immediate implications arising

33. **Health Impact Statement**

    No immediate implications arising

34. **Climate Change Implications**

    No immediate implications arising

35. **Resource Implications**

    No immediate implications arising

36. **Legal Implications**

    No immediate implications arising

37. **Financial Implications**

    No immediate implications arising

38. **Consultation**

    No immediate implications arising

## AUDIT TRAIL

| | | | |
|---|---|---|---|
| **Lead Officer** | Clive Palfreyman, Strategic Director of Resources | | |
| **Report Author** | Mike Ellsmore, Chair of Local Pension Board | | |
| **Version** | Final | | |
| *Dated* | 05 March 2026 | | |
| *Key Decision?* | N/A | | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | | |
| **Officer Title** | | **Comments Sought** | Comments Included |
| Director of Law and Democracy | | N/A | N/A |
| Strategic Director of Resources | | N/A | N/A |
| List other officers here | | | |
| Cabinet Member | | N/A | N/A |
| Date final report sent to Constitutional Team | | | |

| | |
|---|---|
| **Meeting Name:** | Pensions Advisory Panel |
| **Date:** | 5 March 2026 |
| **Report title:** | Pension Services – Admin/Ops update |
| **Ward(s) or groups affected:** | Not applicable |
| **Classification:** | Open |
| **Reason for lateness (if applicable):** | Not applicable |
| **From:** | Head of Pensions Operations |

**Recommendation**

1. The Pensions Advisory Panel (the **Panel**) is asked to note this update on the pensions administration and operational function.

**Background Information**

2. The Panel last received an update in December 2025 setting out specific information on recruitment, IT/systems, National Dashboard Programme, communication initiatives, and complaint management.

**Recruitment**

3. A number of admin vacancies currently exist across Pension Services. We will update the Panel on recruitment progress at the next meeting.

4. Interviews took place in early November 2025 for a new Data Officer. I am pleased to say an offer has now been accepted by an internal candidate.

**IT/Systems**

5. In line with future aspirations to facilitate more digital communication and online administration services, a Member Self-Service blueprint has been agreed in principle with the Strategic Director of Resources.

6. This is at the IT feasibility stage and details will be shared with the Panel in due course, setting out plans for more digital and online [1]services.

**National Dashboard Programme**

7. Southwark's IT connectivity has now been signed off following successful testing where live data extracts have been produced and validated.

[1] the pension fund will continue to offer a non-digital service to those members with either IT restrictions or other accessibility needs

8. The software provider can now proceed with the final connection and registration steps.

9. The actual “go-live” service date is expected to be later in 2026 for all Local Government employers.

**Progress to March 2026**

10. Since the last Panel update, further progress has been made in the following areas.

**Communication Initiatives**

11. Initial planning has taken place to discuss the 2026 Annual Benefit Statement exercise. The pension fund is considering an alternative communication approach and the use of standardised LGPS annual pension statement output which is available from the admin system. This would help with the reduction of third-party consultancy and printer costs.

12. An Engagement Strategy is currently in development; partly to assist in improving Employer Compliance (in line with the new Administration Strategy), but also to consider all existing training and development material on My-Learning-Source and how it can be utilised more effectively at member, employer and prospective member level. This is likely to include annual mandatory employer training particularly around member data and contribution collection, IDRP, and discretion policies.

13. The Head of Pensions Operations and Chief Investment Officer will be meeting to discuss phase 2 of the refreshed pension fund website. This is likely to include further online member guidance (to help reduce admin contact), pathway to retirement planners, and further KPI reporting on the Finance/Investment dashboard along with links to LGPS Fit for the Future.

14. As indicated earlier (in para 12), a new Administration Strategy is now live following the consultation period coming to an end on 5th February 2026.

**Access and Fairness Consultation**

15. The Government’s response to the consultation has been delayed but there are, we understand, plans to phase in proposed changes to ease administration burden.

16. Phase one changes are being introduced from April 2026 and will include equalising survivors benefits, removing the age 75 limit for death grant eligibility, changes to gender pensions gap benefits such as making authorised absences of less than 15 days automatically pensionable, the introduction of mandatory gender pensions gap reporting, and correcting the Regulations so McCloud remedy is backdated from 1 October 2023 to ensure underpin calculations are clear on areas such as pension debits, transfers from other public pension schemes and interest compensation.

17. Phase two changes are expected later in 2026. The Panel will be kept updated on all Access and Fairness implementation related work, much of which is dependent on HR, Employers and their Payroll providers.

**Complaint Management**

**Against Employer:**

- Pensions Ombudsman single complaint - ill-health tiering award appeal against a former school employer. All ill-health tiering awards are recommended by Occupational Health following a medical assessment, but the employer makes the final decision.

  **Case OPEN – with Ombudsman pending allocation and decision.**

- Pensions Ombudsman single complaint - protracted complaint from a former member of Council staff about a legal Settlement Agreement.

  **Case OPEN – the Council received Pension Ombudsman's Final Determination on 25 March 2025 which upheld the complaint in part, but only for an element of non-financial injustice[2]. The Council accepted the Final Determination whereas the complainant did not and has decided to appeal the Ombudsman's decision in Court, on a point of law. Further updates to follow in due course.**

**Against Administering Authority (i.e. Pension Fund):**

- Pensions Ombudsman single complaint - pensions liberation claim that the Pension Fund undertook no receiving scheme due diligence in 2016.

  **Case OPEN – the Pension Fund denies all allegations. Complainant has taken an identical matter to the Crown Court, meaning the Pensions Ombudsman may discontinue its own investigation.**

- Internal Dispute Resolution Procedure single complaint - whilst a Cash Equivalent Transfer Value (CETV) was requested and produced within the statutory deadline, final payment was declined by the Pension Fund.

**Case OPEN – Adjudicator upheld complaint in part (communication leading to confusion) but could not agree in transferring funds to the receiving arrangement because member was within 12 months of Normal Pension Age by the time IFA advice had been sought.**

**The matter is now with the Head of Pensions Operation to consider the complaint under IDRP stage 2.**

[2] non-financial injustice is awarded when there has been proven maladministration and covers distress, inconvenience, or 'time and trouble' suffered by a complainant. Whereas financial injustice is where maladministration is proven and there has been an "actual" financial loss as a result of the injustice.

**Admin Performance Monitoring**

Performance remains strong with transactions exceeding 92%+ in performance standards. Obtaining transfer in details from former employers and providing transfer quotes show a slight increase in performance compared to last quarter.

We have seen an increase in redundancy estimates and capital cost requests due to a number of ongoing business restructures across the organisation. We expect this trend to continue for some time.

Other key performance metrics remain stable, with no areas giving any operational concern during the period December 2025 to February 2026.

Performance remains consistently high for new joiners and death benefit processing (given the importance and sensitive nature of such events).

Metrics for the period ending February 2026 are detailed in Appendix 1.

**Future work planning**

18. Pension Services have signed up to a wider Resources Directorate Business Plan for 2025/26. This includes IT-related objectives such as improved Member Self-Service functionality and any staff survey follow-up actions.

**Conclusions**

19. Recruitment and retention of key staff with the necessary skills is critical to the achievement of all future plans, as is succession planning.

**KEY ISSUES FOR CONSIDERATION**

**Policy framework implications**

20. There are no immediate implications arising from this report.

**Community, equalities (including socio-economic) and health impacts**
**Community impact statement**

21. There are no immediate implications arising from this report.

**Equalities (including socio-economic) impact statement**

22. There are no immediate implications arising from this report.

**Health impact statement**

23. There are no immediate implications arising from this report.

**Climate change implications**

24. There are no immediate implications arising from this report.

**Resource implications**

25. There are no immediate implications arising from this report.

**Legal implications**

26. There are no immediate implications arising from this report.

**Financial implications**

27. There are no immediate implications arising from this report.

**Consultation**

28. There are no immediate implications arising from this report.

**APPENDICES**

| No. | Title |
|---|---|
| Appendix 1 | Admin/Ops Performance Metrics over December 2025, January & February 2026 |

**AUDIT TRAIL**

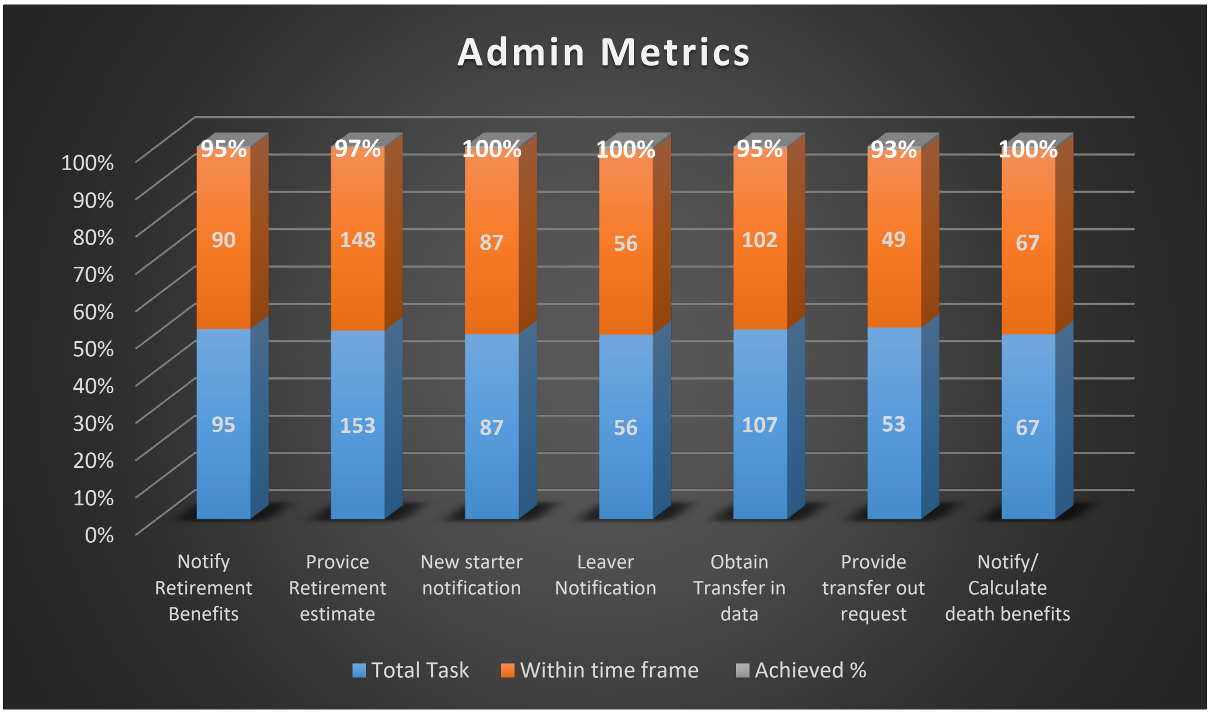
| | | |
|---|---|---|
| **Lead Officer** | Clive Palfreyman, Strategic Director, Resources | |
| **Report Author** | Barry Berkengoff, Head of Pensions Operations, Resources. | |
| **Version** | Final | |
| **Dated** | 05 March 2026 | |
| **Key Decision?** | No | |
| **CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER** | | |
| **Officer Title** | **Comments Sought** | **Comments Included** |
| Assistant Chief Executive, Governance and Assurance | No | N/a |
| Strategic Director, Resources | Yes | N/a |
| **Cabinet Member** | No | N/a |
| **Date final report sent to Constitutional Team** | | |

# APPENDIX 1

# Admin Metrics

December 2025, January/February 2026

| | Total Tasks | Within Time frame | Achieved | |
|---|---|---|---|---|
| **Notify Retirement Benefits**<br>(Within one month of retirement) | 95 | 90 | 95% | ↓ |
| **Provide Retirement Estimate/ Quote on request**<br>(Within 10 working days of request) | 153 | 148 | 97% | → |
| **New Starter Notification joining the LGPS**<br>(Within 10 working days of receipt of clean employer data) | 87 | 87 | 100% | → |
| **Inform member who left scheme of leaver rights and options**<br>(Within 20 working days of receipt of clean data) | 56 | 56 | 100% | → |
| **Obtain transfer details for transfer in, calculate and provide quote**<br>(Within 10 working days of receipt of information) | 107 | 102 | 95% | ↑ |
| **Provide transfer out (CETV) request**<br>(Three months from date of request) | 53 | 49 | 92% | → |
| **Calculate and notify dependants about death benefits**<br>(Within 5 working days of receipt of all relevant information) | 67 | 67 | 100% | → |


Admin Metrics
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
95%
97%
100%
100%
95%
93%
100%
90
148
87
56
102
49
67
95
153
87
56
107
53
67
Notify Retirement Benefits
Provice Retirement estimate
New starter notification
Leaver Notification
Obtain Transfer in data
Provide transfer out request
Notify/ Calculate death benefits
Total Task
Within time frame
Achieved %