

**UNIVERSITY OF SOUTHAMPTON
PENSION AND ASSURANCE SCHEME
FOR NON ACADEMIC STAFF**

Trustees' Annual Report and Financial Statements

31 JULY 2021

Registered number: 10115084

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

ANNUAL REPORT - 31 JULY 2021

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UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

TRUSTEES AND INDEPENDENT ADVISERS

Chairman

Mr Nicholas Weaver

University Trustees

Ms S Pook

Ms A Sitton

Employer Trustee

Mr M Woodcock

Active Member Trustees

Mr A Dilworth (resigned 30 Sept 21)

Mrs J Shaw

Pensioner Trustee

Mr D Lynock (appointed 17 Aug 20)

Independent Trustee

Mrs J Devine (appointed 9 July 21)

Clerk to the Trustees

Mrs C Johnson

Administration Office

Finance Department
University of Southampton
Highfield
Southampton, SO17 1BJ

Enquiries

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University of Southampton
Highfield
Southampton, SO17 1BJ
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Actuary

Mr P Hamilton
Barnett Waddingham
St James's House, St James's Square
Cheltenham, GL50 3PR

Independent auditor

Deloitte LLP
Abbots House
Abbey Street
Reading, RG1 3BD

Bankers

Lloyds Bank Plc
City Office Branch
Bailey Drive, Gillingham Business Park
Gillingham
Kent, ME8 0LS

Solicitors

Squire, Patton Boggs (UK) LLP
Rutland House
148 Edmund Street
Birmingham, B3 2JR

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

TRUSTEES AND INDEPENDENT ADVISERS (continued)

Investment Advisor

Mr M Tickle
Barnett Waddingham
St James's House, St James's Square
Cheltenham, GL50 3PR

Northern Trust International Fund Administration
Services (Ireland) Limited
Georges Court
54-62 Townsend Street
Dublin 2
Ireland

Investment Managers

BlackRock Investment Management Limited
33 King William Street
London, EC4R 9AS

Columbia Threadneedle Investments
PO Box 10033
Chelmsford
Essex, CM99 2AL

Barings Asset Management Limited
155 Bishopsgate
London, EC2M 3XY

Schroder Investment Management Limited
1 London Wall Place
London, EX2Y 5AU

Hermes Investments Funds plc
Georges Court
54-62 Townsend Street
Dublin 2
Ireland

Custodian (Artemis)

BNY Mellon
One Canada Square
London, E14 5AL

Newton Investment Management Limited
BNY Mellon Centre
160 Queen Victoria Street
London, EC4V 4LA

Longview Partners (Guernsey) Limited
PO Box 559
Mill Court
St Peter Port
Guernsey, GY1 6JG

Artemis Investment Management LLP
Cassini House
57 St James' Street
London, SW1A 1LD

Fidelity UK Real Estate Fund
Oakhill House
130 Tonbridge Road
Hildenborough
Kent, TN11 9DZ

M&G Investments
Governors House
5 Laurence Pountney Hill
London, EC4R 0HH

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021

The Trustees are pleased to present their annual report on the University of Southampton Pension and Assurance Scheme for Non Academic Staff (“the Scheme”) for the year ended 31 July 2021.

The Scheme

The Scheme was established in August 1967, to provide retirement and death benefits for all eligible non-academic employees of the University of Southampton.

The Scheme is governed by a revised definitive Trust Deed dated 23 August 2012 incorporating the preservation requirements of The Social Security Act 1973, The Social Security Pension Act 1975, and all previous supplementary deeds.

The Scheme is closed to new members but remains open to future benefit accrual for current members. Under the AVC Added Years option, members were able to purchase additional years benefits, to be combined with benefits arising due to years’ service. The option for members to pay additional voluntary contributions to secure additional benefits is no longer available, but continues for existing members who opted for this. Members are able to fund their contributions by salary sacrifice.

Changes to the Scheme

The University of Southampton (the “University”), after thorough consideration of a number of options, closed the Pensions and Assurance Scheme for Non-Academic Staff to new members from 1 January 2019.

Eligible staff joining the University since this date have the opportunity to join a defined contribution scheme.

The 31 July 2018 triennial review has been completed and the recovery plan has been based on the Scheme changes and a proposed increase in contributions from both the University and members from 1 January 2020.

Management of the Scheme

The overall management of the Scheme is vested in the Trustees whose names appear on page 1 of this report. The Trustees are appointed and may be removed by the University in accordance with provisions of the Trust Deed. The removal of a Member-nominated Trustee requires the agreement of all the Trustees and must be recorded in a Deed of Removal. In accordance with the Occupational Pension Schemes (Member-nominated Trustees and Directors) Regulations 2006, members have the option to nominate and vote for member elected Trustees. The Scheme’s Trustee selection process provides for at least one third of the Trustees to be nominated by Scheme members. Member Trustees are elected triennially by a ballot of members and cease to be Trustees on the day prior to the third anniversary of their appointment, or by resignation prior to that date. The Scheme administration is performed by the Finance Department of the University.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Trustees are responsible for the administration and investment policy of the Scheme. There were four Trustee meetings during the year and attendance at the meetings was as follows:

| Trustee | Number of Trustee meetings attended |
|------------------------------------|--|
| Mr N Weaver – Chairperson | 4/4 |
| Ms A Sitton – Employer Trustee | 4/4 |
| Ms S Pook – University Trustee | 4/4 |
| Mr M Woodcock – University Trustee | 3/4 |
| Mr A Dilworth – Member Trustee | 3/4 |
| Mrs J Shaw – Member Trustee | 3/4 |
| Mr D Lynock – Pensioner Trustee | 4/4 |

In addition to the above there was one training meeting and one investment meeting.

Statement of Trustees' responsibilities

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustees. Pension scheme regulations require, and the Trustees are responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustees are also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Trustees' responsibilities in respect of contributions

The Trustees are responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustees are also responsible for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule of Contributions occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

The sponsoring employer

The University of Southampton
University Road
Highfield
Southampton SO17 1BJ

Financial development of the Scheme

The financial statements have been prepared and audited in compliance with regulations under Section 41(1) and (6) of the Pensions Act 1995. During the year contributions reduced to £8.4m compared with £9.0m for the prior year. The net returns on investments comprised an increase in market value of investments of £40.5m (2020: decrease of £0.9m) and investment income of £1.1m (2020: £2.0m) offset by investment management expenses of £0.3m (2020: £0.6m). The net assets of the Scheme amounted to £283.1m at 31 July 2021 (2020: £245.2m).

Schedule of Contributions

The Schedule of Contributions was agreed and certified by the scheme actuary on 31 October 2019. From 1 January 2020 to 31 March 2028 contributions are set at the following rates:

| | |
|---------------------------------|---------------|
| Member contributions | 7.20 % |
| Ordinary employer contributions | 13.85 % |
| Deficit contributions | £2m per annum |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Pensions payable

In accordance with the Scheme rules, pensions are increased annually in line with the Pensions Increase Act 1971. With effect from 1 April 2020 the following increases were made to pensions payable and deferred provision based on CPI as at September 2019.

| | |
|--|------|
| Pensions in course of payment for benefits accrued to end September 2010 | 1.7% |
| Pensions in course of payment for benefits accrued to after 1 October 2010 | 1.7% |

Pension increases are made at the discretion of the Trustees and University of Southampton where pensions commenced to be paid prior to 1 April 1987. No discretionary pension increases were made during the financial year.

Revaluation of deferred pensions only apply where a member left after 1 January 1986. In these cases, the following rules apply:

- For leavers between 1 January 1986 and 31 December 1990: Revaluation can be backdated to 1 January 1985,
- For leavers after 1 January 1991: Revaluation is calculated on all pensionable service.

Deferred pensions for members who left before 1 January 1986 are not subject to any revaluation.

Actuarial status of the Scheme

A full actuarial valuation was carried out by Barnett Waddingham LLP as at 31 July 2018 and finalised on 25 October 2019. This indicated that on the basis of existing contribution rates the Scheme will continue to be in deficit by £38.5m. The Trustees agreed to a long term recovery plan effective from 25 October 2019, whereby the funding shortfall was expected to be eliminated by 31 March 2028, by deficit recovery employer contributions of 5.1% of pensionable salaries payable until 31 December 2019, followed by a £2m annual contribution to be paid towards the Scheme from 1 January 2020 to 31 March 2028. The next full actuarial valuation will be effective from 31 July 2021 which is still ongoing.

Further detail on the actuarial status of the Scheme is detailed in the Report on Actuarial Liabilities (pages 46 to 47).

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Scheme membership

| | 2021 | 2020 |
|---|---------------------|---------------------|
| | Number | Number |
| Active members | | |
| Active members at the beginning of the year | 1,511 | 1,723 |
| Adjustment to previous year balance | - | (23) |
| Members retiring | (71) | (34) |
| Death in service | (2) | - |
| Members leaving prior to pensionable age | (180) | (153) |
| Members leaving with commutation | (4) | - |
| Transfers out | (4) | (2) |
| | 1,250 | 1,511 |
| Pensioners | | |
| Pensioners at the beginning of the year | 1,564 | 1,536 |
| Adjustment to previous year balance | (3) | 4 |
| Active members retiring | 66 | 34 |
| Flexible to full retirement | - | (5) |
| Deferred pensioners retiring | 41 | 44 |
| Spouses and dependants | 2 | 10 |
| Pensioners who died during the year | (40) | (59) |
| | 1,630 | 1,564 |
| Deferred Pensioners | | |
| Deferred pensioners at the beginning of the year | 2,556 | 2,510 |
| Adjustment to previous year balance | (1) | 7 |
| Deferred pensioners during the year | 174 | 153 |
| Deferred pensioners retiring | (49) | (44) |
| Deferred pensioners taking refunds/ transfers/trivial pensions | (14) | (68) |
| Deferred pensioners who died in the year | (1) | (2) |
| | 2,665 | 2,556 |
| Total membership as at 31 July | <u>5,545</u> | <u>5,631</u> |

The adjustments shown above are the result of retrospective updating of member records.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Investment performance and management

The Scheme investments are in accordance with the Occupational Pensions Scheme (Investment of Scheme's Resources) Regulations 1996. There were no employer-related investments held at any time during the year.

A Statement of Investment Principles (SIP) has been produced that meets the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and incorporates changes as required by The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019.

The SIP is available at <https://www.southampton.ac.uk/~assets/doc/finance/pasnas-statement-of-investment-principles.pdf>.

There are written agreements in place between the Trustees and each of the Scheme advisors listed on page 2 of this report and also with the Principal Employer. The investment managers appointed on behalf of the Trustees to manage funds under section 34(4) of the Pensions Act 1995 are appropriately authorised under the Financial Services Act 1986 to manage investments or are specifically exempted from the requirements of the Act. The investment managers appointed have the appropriate knowledge and experience necessary to manage the particular investments delegated to them.

Investment managers

The management of the investment assets of the Scheme has been delegated by the Trustees to BlackRock Investment Management, Newton Investment Management, Artemis Investment Management, Fidelity Investment Management, Federated Hermes Investment Management, M&G Investments, Columbia Threadneedle Investments, Northern Trust Common Contractual Fund and Schroder Investment Management.

The Trustees have given their investment managers discretion when evaluating environmental, social and governance ("ESG") issues and in exercising right and stewardship obligations attached to the Scheme's investments. In the case of the segregated portfolio held with Artemis, the Trustees have agreements in place for the explicit exclusion of investing in companies whose 'industry' is classified as 'Tobacco' within the MSCI Global Industry Classification Standard. The Scheme's investments in the Newton Sustainable Real Return Fund also exclude companies whose industry is classified as 'Tobacco' as well as other stocks which fail to meet their strict ESG criteria. Over the year, the Scheme invested in the Northern Trust World Green Transition Index Fund which aims to closely match the risk and return characteristics of the MSCI World Custom ESG Climate Series A Index. This index excludes companies not considered to meet its sustainability and ESG principles, including tobacco companies.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. Where relevant, equity managers who are regulated by appropriate UK (or other relevant) authorities are expected to report on their adherence to the UK Stewardship Code on an annual basis.

The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement produced alongside the Scheme's Annual Report and Accounts on page 18. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

The Investment Managers are remunerated on a fee basis, which is based on the value of the Scheme's assets managed by each manager as follows:

BlackRock Investment Management

Investments held by BlackRock in the Property Fund are charged a management fee of 1.0% p.a.

Artemis Investment Management

0.55% pa on closing net asset value of investments held at the end of each quarter, which is invoiced quarterly.

Fidelity Investment Management

0.75% pa on assets held in the UK Real Estate Fund, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

Newton Investment Management

0.65% pa on assets held in the Sustainable Real Return Fund, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

Federated Hermes Investment Management

The Scheme receives a 0.15% p.a. rebate on the standard 0.65% p.a. fee for the Multi Strategy Credit Fund. The standard fee is deducted directly from the pooled fund and therefore

M&G Investments

0.50% pa on assets held in the M&G Secured Property Income Fund, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

Columbia Threadneedle Investments

0.50% pa on assets held in the Columbia Threadneedle Dynamic Real Return Fund, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

Northern Trust Corporation

0.08% pa on assets held in the Northern Trust World Green Transition Index Fund, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Schroder Investment Management

Investments held in the Securitised Credit Pooled Fund have a 0.35% pa fee, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

Investments held in the Sterling Liquidity Plus Fund have a 0.10% pa fee, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

Investments held in the Liability Driven Investment ('LDI') portfolio have a 0.06% pa fee, which is based on the value of the liabilities hedged rather than the value of invested assets.

Review of investment performance

Over the year to 30 June 2021, the Scheme carried out the following transactions:

- The Scheme fully disinvested from its holdings with Longview and invested the full c.£40m into the Northern Trust World Green Transition Index Fund.
- The Scheme transferred c.£27m from the Barings Dynamic Asset Allocation Fund to the Columbia Threadneedle Dynamic Real Return Fund. This was after Barings announced the closure of their multi-asset business by the 30 June 2021. Therefore, the Scheme transferred the full holdings into a like-for-like replacement.
- The Scheme introduced a Liability Driven Investment ('LDI') portfolio with Schrodgers which aims to match movements in interest and inflation rates. This was funded by a full disinvestment of c.£36m from the BlackRock Index-Linked Gilts Fund. The mandate with Schrodgers consists of a variety of index-linked and nominal gilt funds alongside a Securitised Credit and Sterling Liquidity Plus Fund which act as sources of collateral in the event cash is called.

A summary of the Scheme's performance over the last five calendar years as well as the first six months of 2021 is given below (with asset classes shown in brackets). The table shows the returns achieved by each investment manager and the aggregate return of the Scheme. The aggregate return allows for all transfers that happened during each period. All performance returns are shown net of fees. Since 1 April 2003 the Scheme has been using a composite benchmark, tailored to its long term strategy.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

| Fund | | 2021 (6 months) | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|----------|-----------------|------------|-------------|------------|------------|-------------|
| BlackRock Property | % | 5.1 | -0.8 | 1.4 | 6.6 | 10.3 | 2.5 |
| Artemis (Global Equities) ^[1] | % | 7.8 | 17.7 | 26.8 | -2.1 | 1.7 | - |
| Fidelity (Property) ^[2] | % | 9.0 | -1.0 | 2.0 | 9.6 | 0.9 | - |
| M&G (Property) ^[3] | % | 5.7 | 1.5 | 1.0 | - | - | - |
| Newton (Multi-Asset) ^[4] | % | 3.4 | 9.8 | 11.6 | -0.1 | 2.5 | 4.0 |
| Hermes (Credit) ^[5] | % | 1.5 | 3.1 | 11.0 | -3.2 | 0.7 | - |
| Northern Trust (Global Equities) ^[6] | % | 8.2 | - | - | - | - | - |
| Columbia Threadneedle (Multi-Asset) ^[7] | % | 0.7 | - | - | - | - | - |
| Schroders LDI Portfolio ^[8] | % | 10.7 | - | - | - | - | - |
| Schroders (Credit) ^[8] | | 0.5 | - | - | - | - | - |
| Schroders (Cash) ^[8] | | 0.0 | - | - | - | - | - |
| PASNAS Total | % | 4.5 | 6.4 | 14.3 | 0.1 | 8.1 | 16.7 |
| Benchmark | % | 4.6 | 8.2 | 11.5 | 0.8 | 7.6 | 16.4 |

[1] Artemis' performance during 2017 shown is for the period invested since 11 October 2017.

[2] Fidelity's performance during 2017 is shown for the period invested since 15 December 2017

[3] M&G's performance during 2019 is shown for the period invested since 1 November 2019

[4] Newton's performance reflects the returns of the Real Return Fund until 4 December 2019, and the returns of the Sustainable Real Return Fund since 4 December 2019. Therefore the performance for 2019 is a combination of the two Funds.

[5] Hermes' performance during 2017 is shown for the period invested since 26 June 2017.

[6] Northern Trust's performance during 2021 is shown for the period invested since 15 March 2021.

[7] Columbia Threadneedle's performance during 2021 is shown for the period invested since 23 June 2021.

[8] Schroder's performance during 2021 is shown for the period invested since 28 April 2021.

The overall portfolio delivered a return of 12.9% over the 12 months to 30 June 2021, 7.7% per annum over the 3 years to 30 June 2021 and 8.3% per annum over the 5 years to 30 June 2021. Performance was positive for most investments over this period. The only exception was the BlackRock Index-Linked Gilts Fund which the Scheme disinvested from over the period.

Over the 12 months period all the Scheme's growth funds, with the exception of the Artemis Global Select Strategy, either outperformed or performed broadly in line with their benchmarks. The growth portfolio outperformed the composite benchmark of 9.8% by 3.1% over this period.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Investment strategy

The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due.

The Trustees set the investment strategy taking into account considerations such as the strength of the employer covenant, the long-term liabilities and the funding agreed with the Employer.

The current target strategy is as follows:

| Mandate | Allocation | Managers |
|---|-------------------|--|
| Global Equities | 35% | Artemis Investment Management Northern Trust Corporation |
| Diversified Growth Funds | 20% | Newton Investment Management Columbia Threadneedle Investments |
| Multi-Asset Credit | 15% | Federated Hermes Investment Management |
| Property | 15% | BlackRock Investment Management Fidelity International M&G Investments |
| Protection Assets (comprising Liability Driven Investment, securitised credit and liquidity plus funds) | 15% | Schroder Investment Management |

The Trustees feel that the strategy set out above meets the above objectives with a balance between assets with an expected return above that of government bonds and assets that are expected to reduce funding level volatility by moving in line with the change in liability value.

Contributions paid by the Employer, not required for Scheme cashflow purposes, are invested with the Scheme's investment managers so as to move the Scheme back towards the central asset allocation benchmark.

Custodial arrangements

The Trustees have appointed The Bank of New York Mellon as custodians of the investments held by Artemis. They are responsible for retaining all documentation in relation to assets held by the Scheme.

Custodians appointed by the Investment Managers are JP Morgan Chase & Co. (Fidelity), JP Morgan Luxembourg (Schroders), Northern Trust Fiduciary Services (Ireland) Limited (Federated Hermes, Northern Trust), Northern Trust (Guernsey) Limited (M&G), The Bank of New York Mellon (Newton), Citibank (Columbia Threadneedle) and BNP Paribas (BlackRock Property).

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Analysis of investments

At 31 July 2021 the investment managers had invested the investment assets of the Scheme as follows:

| | 2021 | 2020 |
|--|----------------|----------------|
| | £000 | £000 |
| Managed Funds UK – Index linked securities | 77,651 | 39,347 |
| Managed Funds - Property | 38,838 | 34,916 |
| Multi Asset Credit Fund | 38,660 | 35,642 |
| Absolute Return Funds | 53,722 | 47,601 |
| Liquidity fund | 9,992 | 4 |
| Equities – UK quoted | 4,470 | 5,404 |
| – Overseas quoted | 54,631 | 78,417 |
| Cash deposits | 3,439 | 3,077 |
| Other investments | 269 | 266 |
| | <u>281,672</u> | <u>244,674</u> |

The investment assets held by each investment manager as at 31 July 2021:

| | 2021 | 2020 |
|---------------------------------|----------------|----------------|
| | £000 | £000 |
| Artemis | 62,462 | 51,385 |
| Barings Asset Management | - | 23,193 |
| BlackRock Investment Management | 11,547 | 49,808 |
| Columbia Threadneedle | 26,699 | - |
| Fidelity | 16,838 | 14,840 |
| Longview | - | 35,564 |
| Hermes Investment Management | 38,661 | 35,642 |
| M&G Investments | 10,747 | 9,834 |
| Newton Investment Management | 27,023 | 24,408 |
| Northern Trust | 43,813 | - |
| Schroders | 43,882 | - |
| | <u>281,672</u> | <u>244,674</u> |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Analysis of investments by investment manager as at 31 July 2021

The % of each class of asset held by each investment manager is shown below. This is included to indicate the distribution of assets with each investment manager.

| | | |
|--|--------------|--------------|
| BlackRock | 2021 | 2020 |
| | % | % |
| Managed funds UK - index linked securities | - | 79.1 |
| Managed funds – property | 99.8 | 20.9 |
| Cash deposits | 0.2 | - |
| | 100.0 | 100.0 |
| | 2021 | 2020 |
| | % | % |
| Longview | | |
| Equities | - | 96.2 |
| Cash deposits | - | 3.8 |
| | - | 100.0 |
| | 2021 | 2020 |
| | % | % |
| Artemis | | |
| Equities | 94.6 | 96.8 |
| Cash deposits | 5.4 | 3.2 |
| | 100.0 | 100.0 |
| | 2021 | 2020 |
| | % | % |
| Schroders | | |
| Managed funds | 77.2 | - |
| Liquidity funds | 22.8 | - |
| | 100.0 | 100.0 |

The Barings and Newton investments were held 100% in Absolute Return Funds at 31 July 2020 and 31 July 2021. As at July 2021 the scheme no longer hold any investments with Barings whilst the scheme continues to hold investments with Newton.

Hermes investments were held 100% in Multi Asset Credit Funds at 31 July 2020 and 31 July 2021.

The Fidelity and M&G investments were held 100% in Managed Fund, Property at 31 July 2020 and 31 July 2021.

The Northern Trust and Columbia Threadneedle investments were held 100% in Managed Funds at 31 July 2021.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Analysis of equity investments by market sector (Artemis)

The analysis of worldwide quoted equity holdings by market sector, based on market values as at 31 July 2021, is as follows:

| | 2021 | 2020 |
|---|----------------------|---------------|
| | £000 | £000 |
| Capital Goods: | | |
| Building, Electronics, Motors, Other Industrial Materials, IT | 25,847 | 32,145 |
| Consumer and Services group: | | |
| Brewers, Leisure, Stores, Food, Media, Printing, Transport | 18,948 | 24,591 |
| Financial group: | | |
| Banks, Insurance, Property | 9,338 | 14,795 |
| Other groups: | | |
| Oil, Gas, Electricity, Chemical, Water and Telephones | <u>4,968</u> | <u>12,291</u> |
| | <u>59,101</u> | <u>83,822</u> |

Tax status of Scheme

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

Cash equivalents

Cash equivalents paid during the year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and do not include discretionary benefits.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

Members Information

Members can obtain information about their own pension benefits or further information about the Scheme from the Pensions Office.

Copies of the Scheme's documentation are available for reference in the Pensions Office, Finance Department, Professional Services (George Thomas) Building.

Finance Department
University of Southampton
Highfield
Southampton, SO17 1BJ

Registrar of Occupational and Personal Pension Schemes

The Registrar's main purpose is to provide a tracing service for members (and their dependants) of previous employers' schemes, who have lost touch with earlier employers and Trustees. To trace a benefit entitlement under a former employer's scheme, enquiries should be addressed to:

Pension Tracing Service
The Pension Service 9
Mailing Handling Site A
Wolverhampton
WV98 1LU
Tel: 0845 600 2537
Or visiting their website at www.gov.uk/find-pension-contact-details

The information provided includes details of the address at which the Trustees of a pension scheme may be contacted. This Scheme has been registered with the Registrar.

The Pensions Advisory Service (TPAS)

Any concern connected with the Scheme should be referred to the Clerk to the Trustees, who will try to resolve the problem as quickly as possible. Members and beneficiaries of occupational pension schemes who have problems concerning their scheme which are not satisfied by the information or explanation given by the administrators or the Trustees can consult with The Pensions Advisory Service (TPAS). A local TPAS adviser can usually be contacted through a Citizen's Advice Bureau. Alternatively TPAS can be contacted at:

11 Belgrave Road
London SW1V 1RB
Telephone: 0300 123 1047

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2021 (continued)

The Pension Protection Fund Ombudsman (PPF)

In cases where a complaint or dispute cannot be resolved, normally after the intervention of TPAS, an application can be made to the Pension Protection Fund Ombudsman for him to investigate and determine any complaint or dispute of fact or law involving occupational pension schemes. The address is:

10 South Colonnade
Canary Wharf
London E14 4PU
Telephone: 0800 917 4487

The Pensions Regulator (TPR)

The Pensions Regulator (TPR) has the power to intervene where Trustees of an occupational pension scheme, the employer or the professional advisers to the Trustees have failed in their duties. TPR may be contacted at the following address: -

Napier House
Trafalgar Place
Brighton
BN1 4DW

Approved by the Trustees on.....^{14-Feb-2022}

and signed on their behalf by

Nick Weaver
Nick Weaver (Feb 14, 2022 17:19 GMT)
.....

Trustee

Sarah Pook
Sarah Pook (Feb 14, 2022 19:56 GMT)
.....

Trustee

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT

How voting and engagement policies have been followed

The Trustees consider their voting and engagement policies have been met in the following ways:

- The Trustees regularly consider the performance of the funds held with each investment manager and any significant developments that arise. At the Scheme year-end, the Scheme's investment managers were as follows:
 - Artemis Investment Management ("Artemis").
 - BlackRock Investment Management ("BlackRock").
 - Columbia Threadneedle Investments ("Threadneedle").
 - Federated Hermes Investment Management ("Hermes").
 - Fidelity Investment Management ("Fidelity").
 - M&G Investments ("M&G").
 - Newton Investment Management ("Newton").
 - Northern Trust Corporation ("NT").
 - Schroder Investment Management ("Schroders").
- The Trustees receive regular information from the investment managers on how voting and engagement with investee companies has been undertaken on the Scheme's behalf.
- Over the Scheme year the Trustees undertook a number of strategic changes and reviewed the ESG, Stewardship and ethical considerations in relation to the newly appointed investment managers as part of the selection process. In particular, over the year the Trustees replaced Longview with NT. As part of this appointment they wished to ensure NT were able to continue to apply the Trustees' policy on Tobacco exclusion and ensured that Sustainability and other ESG factors were considered appropriately in the Fund.
- In the appointment of Threadneedle, replacing Barings, a manager held at the start of the year, the Trustees assessed the approach of Threadneedle to ESG and stewardship matters. The Trustees assessed Threadneedle as performing adequately on ESG, noted they had minimal exposure to tobacco holdings and represented a like for like but not worsening position in ESG in moving from Barings, the previous manager.
- The Scheme invests mainly in pooled funds and, where applicable, delegates responsibility for carrying out voting and engagement activities to the Scheme's fund managers. The Scheme's holdings with Artemis is through a segregated mandate and includes an exclusion on the investment in any company significantly involved in the tobacco industry.
- The Trustees regularly receive reports on ESG considerations, engagement, and voting from their investment managers, via their investment consultant, and review this to ensure alignment with their own policies.

The Trustees are comfortable the actions of the Scheme's investment managers are in alignment with the Scheme's ESG and Stewardship policies.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Voting Data

The voting data collated for the Scheme is given over the year to 30 June 2021.

| Manager | Artemis | Northern Trust | Columbia Threadneedle | Newton |
|---|--|--|---|--------------------|
| Asset Class | Global Equities | Global Equities | Diversified Growth | Diversified Growth |
| Structure | Segregated | Pooled | Pooled | Pooled |
| Ability to influence voting behaviour of manager | The segregated mandate allows the Trustees to engage with the manager and influence their voting behaviour | The pooled fund structure means that there is limited scope for the Trustees to influence the manager's voting behaviour | | |
| Number of company meetings the manager was eligible to vote at over the year | 65 | 1321 | 363 | 132 |
| Number of resolutions the manager was eligible to vote on over the year | 883 | 17,862 | 4,733 | 1,637 |
| Percentage of resolutions the manager voted on | 100.00% | 98.10% | 100.00% | 96.90% |
| Percentage of resolutions voted <i>with</i> management, as a percentage of the total number of resolutions voted on | 90.03% | 93.05% | 91.19% | 88.50% |
| Percentage of resolutions voted <i>against</i> management, as a percentage of the total number of resolutions voted on | 8.84% | 6.95% | 6.04% | 11.50% |
| Percentage of resolutions the manager abstained from | 1.13% | 0.21%* | 2.77% | 0.00% |
| Percentage of resolutions voted <i>contrary to the recommendation of the proxy advisor</i> | n/a – Artemis have their own proxy voting policy and they use a proxy adviser to implement this policy | 0.01% | n/a – Threadneedle have their own proxy voting policy and they use a proxy adviser to implement this policy | 8.10% |

* Institutional Shareholder Services (“ISS”) counts Abstain as a vote against management if the instruction is different from management recommendation.

There are no voting rights attached to the other assets held by the Scheme, which includes the LDI, liquidity, credit and property funds.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Proxy voting

A proxy advisor is a company that advises how owners of shares could vote on resolutions at shareholder meetings, and where applicable the proxy advisor can also vote on behalf of the owners of the shares.

Artemis, Northern Trust, Columbia Threadneedle and Newton all employ the use of ISS as their proxy voting advisor to electronically vote all clients shares.

Artemis and Columbia Threadneedle have stated that under their own voting policies, all voting decisions are made by them and they do not outsource any part of the strategic voting decisions. They employ the use of ISS to implement their voting policies and administer votes.

Significant votes

The Trustees have delegated the assessment of what constitutes a “significant vote” to the Scheme’s investment managers. The tables below provide a summary of any significant votes by each of the relevant managers during the year to 30 June 2021.

Artemis | Global Select Fund

Based on the fund managers’ assessment criteria for determining significant votes, there were none to report for the year ending 30 June 2021.

Northern Trust | World Green Transition Fund

No significant voting data provided.

Columbia Threadneedle | Dynamic Real Return Fund

| | Vote 1 | Vote 2 | Vote 3 |
|---|--|---|--|
| Company name | Starbucks Corporation | Royal Dutch Shell Plc | General Motors Company |
| Date of vote | 17 March 2021 | 9 June 2021 | 14 June 2021 |
| Approximate size of fund's holding as at the date of the vote (as % of portfolio) | 0.90% | 11.00% | 17.00% |
| Summary of the resolution | Advisory vote to ratify named executive officer’s compensation | Request Shell to set and publish targets for greenhouse gas emissions | Link executive pay to social criteria |
| How the manager voted | Against | Abstain | For |
| If the vote was against management, did the manager communicate their intent to the company ahead of the vote? | No | No | No |
| Rationale for the voting decision | Remuneration concerns | Not in the shareholders’ best interest | Supporting better ESG risk management disclosures |
| Outcome of the vote | Failed | Failed | Failed |
| Criteria on which the vote is considered “significant” | Vote against management and greater than 20% dissent | Vote against management on certain environmental or social proposals and greater than 20% dissent | Vote against management on certain environmental or social proposals |
| Implications of the outcome | Active stewardship (engagement and voting) continues to form an integral part of Columbia Threadneedle’s research and investment process | | |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Newton Investment Management | BNY Mellon Sustainable Real Return Fund

| | Vote 1 | Vote 2 | Vote 3 |
|---|---|---|--|
| Company name | The Star Entertainment Group Limited | Ping An Insurance (Group) Company of China Ltd. | Royal Dutch Shell Plc |
| Date of vote | 22 October 2020 | 25 March 2021 | 18 May 2021 |
| Approximate size of fund's holding as at the date of the vote (as % of portfolio) | 1.06% | 0.76% | 1.02% |
| Summary of the resolution | Advisory vote to ratify named Executive Officers' compensation and approve share plan grant | Approve issuance of equity or equity-linked securities without pre-emptive rights | Management climate-related proposal and shareholder climate-related proposal |
| How the manager voted | Against | Against | Against management proposal, For shareholder proposal |
| If the vote was against management, did the manager communicate their intent to the company ahead of the vote? | Yes | No | Yes |
| Rationale for the voting decision | Concerns with company awarding short-term incentives in a year significantly affected by COVID-19, employees had been furloughed and the business had delivered negative returns to shareholders. | Given the new shares would be issued without pre-emptive rights, existing shareholders would not be invited to participate in the capital raising, which could unnecessarily dilute their value and control | Lack of clarity in management proposal regarding the company's 2030 absolute emissions and how their scope 3 emissions profile will fit within the wider energy system's emissions |
| Outcome of the vote | 45% against remuneration report, 48.7% against CEO share award | 30% against approval | 11.3% against management climate-related proposal, 30.5% for shareholder Climate-related proposal |
| Implications of the outcome | Result implies the company's lack of appreciation for shareholders' concerns surrounding the misalignment between pay and performance | Company could jeopardise its attractiveness to minority shareholders should it cause dilution by way of issuing shares on a non-pre-emptive basis | Managers' concerns surrounding efficacy of the company's approach are shared by a sizable number of shareholders and the company needs to do more in this area |
| Criteria on which the vote is considered "significant" | Near majority vote against the pay related proposals | Majority of company's minority shareholders demonstrated their concern at the proposed share issuance | Increased stakeholder interest in the need for the company to demonstrate long-term viability in a low-carbon world |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Fund level engagement

| Manager | Artemis | Northern Trust | Newton | Columbia Threadneedle | Blackrock |
|--|---------------|------------------------|-------------------------|-----------------------|-------------------|
| Fund name | Global Select | World Green Transition | Sustainable Real Return | Dynamic Real Return | UK Property |
| Asset Class | Global Equity | Equity | Diversified Growth | Diversified Growth | Property |
| Does the manager perform engagement on behalf of the holdings of the fund? | Yes | Yes | Yes | Yes | Yes |
| Has the manager engaged with companies to influence them in relation to ESG factors in the year? | Yes | Yes | Yes | Data not provided | Yes |
| Number of engagements undertaken on behalf of the holdings in this fund in the year | 229 | 971* | 57 | Data not provided | Data not provided |
| Number of engagements undertaken at a firm level in the year | 2,592 | Data not provided | 204 | 245 | 9,270 |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

| Manager | Fidelity | M&G | Hermes | Schroder |
|--|-------------------|-------------------------|----------------------------|--------------------------------|
| Fund name | UK Real Estate | Secured Property Income | Multi Strategy Credit Fund | Securitised Credit Pooled Fund |
| Asset Class | Property | Property | Multi-Asset Credit | Fixed Income |
| Does the manager perform engagement on behalf of the holdings of the fund? | No | Yes | Yes | Yes |
| Has the manager engaged with companies to influence them in relation to ESG factors in the year? | No | Data not provided | Yes | Yes |
| Number of engagements undertaken on behalf of the holdings in this fund in the year | Data not provided | Data not provided | 38* | Data not provided |
| Number of engagements undertaken at a firm level in the year | 1,896 | Data not provided | 1,288* | 1,451* |

*Number of entities engaged with as opposed to number of engagements

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

| Manager and Asset Class | Engagement themes and examples of engagements undertaken with holdings in the fund |
|--------------------------------------|---|
| Artemis Global Equities | <p>Climate change Engagement focused on a change of management and a new CEO, but also furthered discussions on ESG and where the entity could do more.</p> <p>Environmental Engagement with Scandlines Ferries, who use hybrid ferries and have done for sometime. Also engaged with a Dutch company where sustainability has been part of the national culture way before ESG became a focus for institutional investors.</p> <p>Social Artemis spent time with the Finance Director and Head of Sustainable Sourcing at an entity (a fashion and home retailer) to ask how, with such low-priced products, it can make decent margins without exploiting its suppliers.</p> |
| Newton Diversified Growth | <p>Newton formulate strategic engagement themes which they discuss with companies and review over a specified time period. These include climate change, gender diversity, healthy markets and fast fashion.</p> <p>Newton also have some companywide exclusions including companies that manufacture or provide the means to manufacture and distribute cluster munitions.</p> |
| BlackRock Property | <p>BlackRock formulate strategic engagement themes which they discuss with companies and review over a specified time period. These include tenant satisfaction, energy and resource efficiency, environmental improvement and occupier health and well-being.</p> |
| Fidelity Property | <p>Environmental Over the year, a Portfolio Manager and a Sustainable Investing Analyst from Fidelity engaged with Umicore on several sustainability topics including climate ambitions, raw materials traceability and supplier's management.</p> <p>Social Fidelity held a call with the CEO of AAK to better understand its sustainability practices, especially regarding palm oil sourcing.</p> |
| Hermes Multi-Asset Credit | <p>Hermes produce an Engagement Plan. The Plan summarises the long-term outcomes they seek to achieve on behalf of their clients. The Plan is based on clients' long-term objectives and they consult clients regularly and systematically to ensure they are covering the topics of most importance to them. The Plan for 2020-2022 is focused on the 12 major themes below.</p> <ol style="list-style-type: none"> 1. Climate change 2. Natural resource stewardship 3. Pollution waste and circular economy 4. Conduct culture & ethics 5. Human capital management 6. Human and labour rights 7. Risk management 8. Corporate reporting 9. Business purpose and strategy 10. Board effectiveness 11. Executive remuneration <p>Shareholder protection and rights</p> |

Summary

Having reviewed the information in this statement in accordance with their policies, the Trustees are comfortable that the actions of the asset managers are in alignment with the Scheme's stewardship policies. The Trustees are supportive of the key voting action taken by the applicable managers over the period to encourage positive ESG changes in the companies in which they hold shares.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

Independent Auditor's Report to the Trustees of the University of Southampton Pension and Assurance Scheme for Non Academic Staff

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of University of Southampton Pension and Assurance Scheme for Non Academic Staff (the 'scheme'):

- show a true and fair view of the financial transactions of the scheme during the year ended 31 July 2021 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

We have audited the financial statements which comprise:

- the fund account;
- the statement of net assets (available for benefits); and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

Independent Auditor's Report to the Trustees of the University of Southampton Pension and Assurance Scheme for Non Academic Staff

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustees with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Trustees are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Trustees

As explained more fully in the Trustees' responsibilities statement, the Trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the scheme or to cease operations, or have no realistic alternative but to do so.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

Independent Auditor's Report to the Trustees of the University of Southampton Pension and Assurance Scheme for Non Academic Staff (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the scheme's industry and its control environment, and reviewed the scheme's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the scheme operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the scheme's ability to operate or to avoid a material penalty. These included the Scheme's regulatory requirements.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

Independent Auditor's Report to the Trustees of the University of Southampton Pension and Assurance Scheme for Non Academic Staff (continued)

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of the Trustees concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of Trustees' meetings and reviewing correspondence with the Pensions Regulator.

Use of our report

This report is made solely to the scheme's Trustees, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the scheme's Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme's Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP

Deloitte LLP (Feb 21, 2022 09:21 GMT)

Deloitte LLP

Statutory Auditor
Reading, United Kingdom

Date: 21-Feb-2022

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

FUND ACCOUNT FOR THE YEAR ENDED 31 JULY 2021

| | Notes | 2021 | 2020 |
|---|-------|-----------------------|----------------|
| | | £000 | £000 |
| CONTRIBUTIONS AND BENEFITS | | | |
| Contributions receivable | | | |
| Employer | | 8,180 | 8,747 |
| Employee | | 167 | 245 |
| Total contributions | 2 | <u>8,347</u> | <u>8,992</u> |
| Transfers in from other Schemes | 3 | 348 | 178 |
| Other income | 4 | 54 | - |
| | | <u>402</u> | <u>178</u> |
| Benefits paid or payable | 5 | 10,172 | 8,569 |
| Payments to and on account of leavers | 6 | 252 | 116 |
| Other payments | 7 | 129 | 167 |
| Administration expenses | 8 | 951 | 753 |
| | | <u>11,504</u> | <u>9,605</u> |
| NET WITHDRAWALS FROM DEALINGS WITH MEMBERS | | <u>(2,755)</u> | <u>(435)</u> |
| RETURNS ON INVESTMENTS | | | |
| Investment income | 9 | 1,688 | 2,035 |
| Change in market value of investments | 10 | 39,937 | (850) |
| Foreign exchange loss on cash balances | | (236) | |
| Investment management expenses | | (652) | (594) |
| Custodian fees | | (80) | (67) |
| | | <u>40,657</u> | <u>524</u> |
| NET RETURNS ON INVESTMENTS | | <u>40,657</u> | <u>524</u> |
| NET INCREASE IN THE FUND DURING THE YEAR | | 37,902 | 89 |
| NET ASSETS AT 1 AUGUST | | 245,150 | 245,061 |
| NET ASSETS AT 31 JULY | | <u>283,052</u> | <u>245,150</u> |

The notes on pages 31 to 42 form part of these financial statements.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 JULY 2021

| | Notes | 2021 £000 | 2020 £000 |
|---------------------------------|-------|-----------------------|-----------------------|
| INVESTMENT ASSETS | 10 | | |
| Pooled Investment Vehicles | | 218,863 | 157,510 |
| Equities | | 59,102 | 83,821 |
| Cash deposits | | 3,438 | 3,077 |
| Other investment balances | | 269 | 266 |
| | | <u>281,672</u> | <u>244,674</u> |
| CURRENT ASSETS | 13 | 1,823 | 803 |
| CURRENT LIABILITIES | 14 | (443) | (327) |
| NET ASSETS OF THE SCHEME | | <u><u>283,052</u></u> | <u><u>245,150</u></u> |

The notes on pages 31 to 42 form part of these financial statements.

The financial statements summarise the transactions and net assets of the Scheme. Liabilities to pay pensions and other benefits which are expected to become payable after the end of the Scheme year are not dealt with in the financial statements. The actuarial position of the Scheme, which does take account of such liabilities, is dealt with in the Report on Actuarial Liabilities on pages 46 to 47 and these financial statements should be read in conjunction with it.

14-Feb-2022

The financial statements were approved by the Trustees on and signed on their behalf by:

Nick Weaver

Nick Weaver (Feb 14, 2022 17:19 GMT)

Trustee

Sarah Pook

Sarah Pook (Feb 14, 2022 19:56 GMT)

Trustee

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (“FRS 102”) and the guidance set out in the Statement of Recommended Practice ‘Financial Reports of Pension Schemes’ (Revised June 2018) (“the SORP”).

Identification of the financial statements

The Scheme is established as a trust under English Law. The address for enquiries to the Scheme is included on page 1.

Principal accounting policies

The financial statements have been prepared on the accruals basis. The principal accounting policies are set out below. Unless otherwise stated they have been applied consistently year on year.

Currency

The Scheme’s functional and presentational currency is pounds sterling (GBP). Assets and liabilities in foreign currencies are expressed in GBP at the rates of exchange ruling at the year end. Foreign currency transactions are translated into GBP at the spot exchange rate at the date of the transaction. Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year-end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction. Any surpluses or deficits arising from foreign currency movements are dealt with as part of realised and unrealised investment gains and losses.

Contributions

Normal and deficit contributions in respect of wages and salaries earned in the financial year are included on an accruals basis at rates agreed between the Trustees and the participating employers for the period and as recommended by the consultant actuary. Additional contributions from the participating employers and additional voluntary contributions are accounted for when receivable.

Additional voluntary contributions

Additional voluntary contributions from members represent contributions made to purchase added years benefits, under the provision of the principal Scheme, and are included in the fund account. Assets acquired with these contributions are included within investments in the statement of net assets.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021 (continued)

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Transfers to and from other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Scheme. All the values were based on methods and assumptions determined by the consultant actuary advising the Trustees.

Investment income

Income from investments is accounted for when receivable. Dividends and interest are grossed up for the amount of any taxation recoverable.

Benefits payable

Benefits payable represent all valid benefit claims in respect of the Scheme year and are accounted for when paid. Lump sum payments and transfers are accounted for when payable.

Investments

Investments are included in the Statement of Net Assets at their fair values at the year end. Quoted securities in active markets, including equities and bonds are usually valued at the current bid prices at the reporting date. Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value, determined in accordance with fair value principles, provided by the pooled investment manager. Change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Investment management expenses

The investment managers are remunerated on a formula based on the valuation of the fund each quarter and they are accounted for on an accrual basis. Specific details are disclosed within the Report of the Trustees.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021 (continued)

2 CONTRIBUTIONS RECEIVABLE

| | 2021 | 2020 |
|--|---------------------|--------------|
| | £000 | £000 |
| Employer | | |
| Normal contributions | 4,213 | 4,569 |
| Deficit contributions | 1,998 | 2,025 |
| Normal employer contributions arising from member salary sacrifice | <u>1,969</u> | <u>2,153</u> |
| | 8,180 | 8,747 |
| Employee | | |
| Normal contributions | 134 | 205 |
| Additional voluntary contributions | 33 | 40 |
| | <u>167</u> | <u>245</u> |
| Total contributions | <u>8,347</u> | <u>8,992</u> |

Contribution rates from 1 January 2020 to 31 March 2028 are as follows:

| | |
|------------------------|----------------------|
| By members | 7.2% |
| By employers – deficit | £2 million per annum |
| By employers – normal | 13.85% |

Under the recovery plan dated 25 October 2019 the deficit contributions of £2m per annum are payable up to 31 March 2028 in monthly instalments.

3 TRANSFERS IN

| | 2021 | 2020 |
|--|-------------------|------------|
| | £000 | £000 |
| Individual transfers in from other schemes | <u>348</u> | <u>178</u> |

4 OTHER INCOME

| | 2021 | 2020 |
|-------------------------|------------------|----------|
| | £000 | £000 |
| Life assurance benefits | <u>54</u> | <u>-</u> |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021 (continued)

5 BENEFITS PAID OR PAYABLE

| | 2021 | 2020 |
|---|----------------------|--------------|
| | £000 | £000 |
| Pension payments to retired members | 7,055 | 6,558 |
| Commutation of pensions | 3,104 | 1,864 |
| Death in service – benefits | 13 | 138 |
| Death in service – refunded contributions | - | 9 |
| | <u>10,172</u> | <u>8,569</u> |

6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 2021 | 2020 |
|---|-------------------|------------|
| | £000 | £000 |
| Refunds to members leaving service | 12 | 15 |
| Individual transfers out to other schemes | 240 | 101 |
| | <u>252</u> | <u>116</u> |

7 OTHER PAYMENTS

| | 2021 | 2020 |
|-------------------------------|-------------|------|
| | £000 | £000 |
| Group life assurance premiums | 129 | 167 |

Related claims under these policies would be included within ‘Other Income’ where received. No claims were received in 2021 (2020: £Nil).

8 ADMINISTRATION EXPENSES

| Expenses borne by the Scheme comprise: | 2021 | 2020 |
|---|-------------------|------------|
| | £000 | £000 |
| Investment advisers fees (including actuarial fees) | 303 | 215 |
| Audit fees | 12 | 10 |
| Staff costs (recharged by the University) | 109 | 114 |
| Pension Protection Fund (PPF) Levy | 475 | 387 |
| Other Scheme expenses | 52 | 27 |
| | <u>951</u> | <u>753</u> |

The University of Southampton provides day to day administration staff, the costs of which are recharged to the Scheme as noted above.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021 (continued)

9 INVESTMENT INCOME

| | 2021 | 2020 |
|---------------------------|---------------------|--------------|
| | £000 | £000 |
| Dividends from equities | 1,319 | 1,868 |
| Income from managed funds | 369 | 158 |
| Interest on cash deposits | - | 9 |
| | <u>1,688</u> | <u>2,035</u> |

10 INVESTMENT ASSETS

| | Market value at 1 August 2020 | Purchases at cost | Sales proceeds | Change in market value | Market value at 31 July 2021 |
|----------------------------------|--|------------------------------|---------------------------|---------------------------------------|---|
| | £000 | £000 | £000 | £000 | £000 |
| Pooled investment vehicles: | | | | | |
| -Bonds | 74,989 | 109,785 | (119,758) | 7,483 | 72,499 |
| -Liquidity | 4 | 23,454 | (13,469) | 3 | 9,992 |
| -Property | 34,916 | 723 | - | 3,199 | 38,838 |
| -Equity | 47,601 | 120,890 | (80,985) | 10,028 | 97,534 |
| Total pooled investment vehicles | 157,510 | 254,852 | (214,212) | 20,713 | 218,863 |
| Equities | 83,821 | 66,755 | (110,698) | 19,224 | 59,102 |
| | 241,331 | 321,607 | (324,910) | 39,937 | 277,965 |
| Cash instruments | 3,077 | | | | 3,438 |
| Other investment balances | 266 | | | | 269 |
| | <u>244,674</u> | | | | <u>281,672</u> |

“Other Investment Balances” includes withholding tax and income receivable in relation to Investment Assets.

Investments exceeding 5% of the net assets of the Scheme at the year end comprised:

| | 2021 | 2021 | 2020 | 2020 |
|---|-------------|---------------------|-------------|---------------------|
| | £000 | % net assets | £000 | % net assets |
| Hermes Multi Strategy Credit Fund | 38,661 | 13.7% | 35,642 | 14.6% |
| Blackrock Aquila UK Index Linked Securities | - | - | 39,347 | 16.1% |
| Newton Real Return | 27,023 | 9.6% | 24,408 | 10.0% |
| Baring Dynamic Asset Allocation Fund | - | - | 22,297 | 9.1% |
| Fidelity UK Real Estate Fund | 16,838 | 5.9% | 14,840 | 6.0% |
| Threadneedle Dynamic Real Return Fund | 26,699 | 9.4% | - | - |
| Northern Trust World Green Index Fund | 43,813 | 15.5% | - | - |
| Schroders LDI Mandate | 27,254 | 9.6% | - | - |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021 (continued)

10 INVESTMENT ASSETS (continued)

Transaction Costs

Transaction costs arising on equities are as follows:

| | Fees £000 | Commission £000 | Taxes £000 | Total £000 |
|-------------|----------------------|----------------------------|-----------------------|-----------------------|
| 2021 | <u>450</u> | <u>39</u> | <u>58</u> | <u>547</u> |
| 2020 | <u>313</u> | <u>37</u> | <u>54</u> | <u>404</u> |

Indirect transaction costs are incurred on the bid-offer spread on pooled investment vehicles. It is not possible for the Trustees to quantify indirect transaction costs.

11 FAIR VALUE DETERMINATION

Under FRS102 fair value hierarchy disclosure requirement for retirement benefit plans the fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset.

| | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|----------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| At 31 July 2021 | | | | |
| - Bonds | - | 72,499 | - | 72,499 |
| - Liquidity Fund | - | 9,992 | - | 9,992 |
| - Property | - | 10,747 | 28,091 | 38,838 |
| - Equity | - | 97,534 | - | 97,534 |
| Pooled investment vehicles | - | 190,772 | 28,091 | 218,863 |
| Equities | 59,102 | - | - | 59,102 |
| Cash deposits | 3,438 | - | - | 3,438 |
| Other investment balances | 269 | - | - | 269 |
| | <u>62,809</u> | <u>190,772</u> | <u>28,091</u> | <u>281,672</u> |

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021 (continued)

11 FAIR VALUE DETERMINATION (continued)

| | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|----------------------------|-----------------|-----------------|-----------------|----------------|
| At 31 July 2020 | | | | |
| - Bonds | - | 74,989 | - | 74,989 |
| - Liquidity Fund | - | 4 | - | 4 |
| - Property | - | - | 34,916 | 34,916 |
| - Equity | - | 47,601 | - | 47,601 |
| Pooled investment vehicles | - | 122,594 | 34,916 | 157,510 |
| Equities | 83,821 | - | - | 83,821 |
| Cash deposits | 3,077 | - | - | 3,077 |
| Other investment balances | 266 | - | - | 266 |
| | <u>87,164</u> | <u>122,594</u> | <u>34,916</u> | <u>244,674</u> |

12 FINANCIAL INSTRUMENT RISK DISCLOSURES

FRS102 requires the disclosure of information in relation to certain investment risks as follows:

Credit risk

One party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk

Comprises the following three types of risk:

1. Interest rate risk: The risk that the fair value or future cashflows of a financial asset will fluctuate because of changes in market interest rates
2. Currency risk: The risk that the fair value or future cashflows of a financial asset will fluctuate because of changes in foreign exchange rates
3. Other price risk: The risk that the fair value or future cashflows of a financial asset will fluctuate because of changes in market prices (other than those due to interest rates and currency).

The Trustees determine their investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy described on page 12 of the Trustees' Report. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolio.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021 (continued)

12 FINANCIAL INSTRUMENT RISK DISCLOSURES (continued)

Further information on the Trustees' approach to risk management, credit and market risk is set out below.

Investment risks

The following table summarises the extent to which the various classes of investments are affected by financial risks:

| Asset Type | Credit Risk | Market Currency Risk | Market interest rate risk | Market other price risk | 2021 value £000s | 2020 value £000s |
|--|-------------|----------------------|---------------------------|-------------------------|------------------|------------------|
| Artemis Global Select Strategy | 1 | 3 | 1 | 3 | 59,102 | 49,696 |
| Newton Sustainable Real Return Fund | 2 | 2 | 2 | 3 | 27,023 | 24,408 |
| Northern Trust World Green Transition Index Fund | 1 | 3 | 1 | 3 | 43,813 | - |
| Columbia Threadneedle DRRF | 2 | 2 | 2 | 3 | 26,699 | - |
| BlackRock UK Property Fund | 2 | 1 | 2 | 3 | 11,252 | 10,243 |
| Fidelity Property | 2 | 1 | 2 | 3 | 16,838 | 14,840 |
| M&G Secured Property Income Fund | 2 | 1 | 2 | 3 | 10,747 | 9,834 |
| Hermes Multi Strategy Credit Fund | 3 | 2 | 2 | 1 | 38,661 | 35,642 |
| Schroders Securitised Credit Fund | 3 | 2 | 2 | 2 | 6,634 | - |
| Schroders Sterling Liquidity Plus Fund | 3 | 2 | 1 | 1 | 9,992 | - |
| Schroders LDI | 2 | 1 | 3 | 1 | 27,203 | - |
| Cash Fund Deposits | 3 | 2 | 1 | 1 | 3,434 | 3,081 |

In the table above, a risk rating '1' is deemed none/hardly any risk, '2' is partial and '3' is significant

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021 (continued)

12 FINANCIAL INSTRUMENT RISK DISCLOSURES (continued)

Market risk: Interest rates

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds, leveraged gilts, asset-backed securities and cash. The Trustees have set a benchmark for the total investment in protection assets to be 15% of their total investment portfolio. The protection assets are made up of the liability driven investment, securitised credit and liquidity plus funds. Under this strategy the investments aim to match changes in the value of the Scheme's liabilities due to movements in interest and inflation rates and if interest rates fall, the value of the Scheme's protection assets will rise. The converse is true should interest rates rise.

Over the year, the Scheme held investments within the Federated Hermes Multi Strategy Credit Fund. This fund was exposed to interest rate risk through investments in various types of bonds, including high yield bonds. The interest rate risk is actively managed by the Fund's manager.

Market risk: Currency

The Scheme is exposed to currency risk because some of its investments are held in overseas markets. For example, 35% of the Scheme's portfolio is invested directly in overseas equities, which are subject to currency movements. There is also a degree of currency risk associated with investments in Columbia Threadneedle, Newton and Federated Hermes. Federated Hermes employ currency hedging to hedge back returns to sterling. Columbia Threadneedle and Newton can employ currency hedging where deemed appropriate.

Market risk: Other price

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, property, and diversified growth funds.

The Scheme manages this exposure by investing in a diverse portfolio of instruments across various markets. The investment managers are expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities. The asset allocation is detailed in the Statement of Asset Strategy and is monitored on a regular basis by the Trustees.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021 (continued)

12 FINANCIAL INSTRUMENT RISK DISCLOSURES (continued)

Credit risk

The Scheme is subject to credit risk because it invests in corporate bonds and high yield bonds through pooled funds, has cash balances and also holds units in pooled investment vehicles.

Cash is held within financial institutions which are at least investment grade rated.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and the ongoing due diligence of the pooled manager.

Indirect credit risk arises in relation to the underlying investments of pooled investment vehicles. This risk is taken in order to generate additional returns above that assumed on gilts, and is monitored by the investment managers.

| Pooled investment vehicle by type of arrangement | 31 July 2021 £ 000 | 31 July 2020 £ 000 |
|--|-------------------------------|-------------------------------|
| Investment Company with Variable Capital (“ICVC”) | 27,023 | 24,408 |
| Open Ended Investment Company (“OEIC”) | 26,699 | 23,193 |
| Unclassified Property Unit Trust | 11,252 | 10,243 |
| Property Authorised Investment Fund (“PAIF”) | 16,838 | 14,840 |
| Guernsey Property Unit Trust | 10,747 | 9,834 |
| Undertakings in Collective Investment in Transferable Securities (“UCITS”) | 82,473 | 35,642 |
| Unit-linked Insurance Contracts | - | 39,346 |
| Société d’Investissement à Capital Variable (“SICAV”) | 43,831 | - |
| Cash instruments | - | 4 |
| Total | 218,863 | 157,510 |

The Trustees monitor the performance of each of the Scheme’s investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021 (continued)

13 CURRENT ASSETS

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Amount owed by the University of Southampton | 51 | 202 |
| Other debtors | 14 | - |
| Cash Balances | <u>1,758</u> | <u>601</u> |
| | <u>1,823</u> | <u>803</u> |

Amounts owed by the University of Southampton represents employer contributions of £626,000 including salary sacrifice contributions of £151,000 (2020: £728,000, including salary sacrifice contributions of £180,000) and employee contributions of £10,000 (2020: £20,000), offset by a pensioner payroll recharge of £585,000 (2020: £546,000). The net difference was paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force and therefore do not constitute employer related investments.

14 CURRENT LIABILITIES

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Amounts owed to the University of Southampton | - | 10 |
| Expense accruals | 441 | 317 |
| Social security | <u>2</u> | <u>-</u> |
| | <u>443</u> | <u>327</u> |

15 CONTINGENT LIABILITIES

Following the European Court of Justice's decision that part-time staff must be allowed to join an occupational pension scheme and the subsequent English case of Preston v Wolverhampton Healthcare NHS Trust, the Trustees have undertaken work to contact all part-time staff, past and present, and inform them of their rights. Whilst the majority of identified claims were resolved over a number of years up to 2007 the Trustees are aware of two outstanding claims that may be made.

There could be further claims lodged in the future by current members that may need to be settled. The Trustees are unable to quantify the number that may be involved or the relevant costs of potential claims.

On 6 May 2020 the Nuffield Theatre went into administration giving rise to a potential section 75 liability with an estimated value of £400,000. Since then, on 6 May 2021, the Nuffield Theatre went into voluntary liquidation with the appointment of a voluntary liquidator. The trustees are continuing to take legal advice with regards to apportionment of the liability.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2021 (continued)

16 RELATED PARTIES

The Scheme is administered by the University of Southampton. Fees payable in respect of administration and processing of £228,000 (2020: £192,000) are included within administrative expenses. At the year end creditors include £Nil (2020: £10,000) in respect of administration expenses payable to the University of Southampton.

Contributions received in respect of Trustees who are members of the Scheme have been made in accordance with the Trust Deed and Rules. There are two active member Trustees and one pensioner Trustee.

17 GUARANTEED MINIMUM PENSION EQUALISATION

The last formal triennial actuarial valuation of the scheme was performed as at 31 July 2018 and included an estimate for Guaranteed Minimum Pension (GMP) Equalisation and for the McCloud judgement.

The McCloud judgement relates to the transitional protection offered to some members of public sector final salary schemes when the schemes were reformed. The transitional protection allowed those members who were within 10 years of normal pension age to remain in their final salary scheme instead of being moved to the new career average arrangement with its higher pension age. As some members would be better off in the new scheme rather than the old the McCloud judgement requires that there is no reduction in benefits accrued or are receiving if already retired. The initial judgement did not address transfers out which were subject to a second judgement announced in November 2020. Defined benefit schemes must revisit individual transfer payments made since 17 May 1990 to check if any additional value is due as a result of GMP equalisation. As the Scheme has experienced historical transfers out, adjustments will be required. Based on a high level assessment of the likely additional liabilities in respect of GMP equalisation for past transfer values, the Trustees do not expect these to be material to the financial statements and consequently no provision has been made in these financial statements.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

Independent auditor's statement about contributions to the Trustees of University of Southampton Pension and Assurance Scheme for Non Academic Staff

We have examined the summary of contributions to the University of Southampton Pension and Assurance Scheme for Non-Academic Staff (the "Scheme") for the Scheme year ended 31 July 2021 to which this statement is attached.

In our opinion contributions for the Scheme year ended 31 July 2021 as reported in the summary of contributions and payable under the Schedules of contributions have been paid in all material respects for the period from 1 August 2010 to 31 July 2021 at least in accordance with the Schedule of Contributions certified by the actuary on 3 October 2019.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of Trustees and auditor

As explained more fully in the Trustees' responsibilities statement, the Scheme's Trustees are responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

Use of our report

This statement is made solely to the Trustees, as a body, in accordance with Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustees as a body for our work, for this statement, or for the opinion we have formed.

Deloitte LLP
Deloitte LLP (Feb 21, 2022 09:21 GMT)

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
Date: 21-Feb-2022

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

Summary of Contributions

During the year, the contributions paid to the Scheme under the Schedule of Contributions were as follows:

| | £000 |
|--|----------------------------|
| Employer normal contributions | 4,213 |
| Employer deficit contributions | 1,998 |
| Employer normal contributions arising from member salary sacrifice | 1,969 |
| Employee normal contributions | <u>134</u> |
| Total contributions per the Schedule of Contributions as reported on by the Scheme auditor | 8,314 |
| Employee additional voluntary contributions | 33 |
| Total contributions per Fund Account | <u><u>8,347</u></u> |

Signed on behalf of the Trustees: Nick Weaver
Nick Weaver (Feb 14, 2022 17:19 GMT)

Date: 14-Feb-2022

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT ON ACTUARIAL LIABILITIES (forming part of the Trustees' report)

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

An actuarial valuation of the scheme as at 31 July 2021 is currently ongoing and so no results are available. The most recent full actuarial valuation of the Scheme was carried out as at 31 July 2018. This showed that on that date:

The value of the Technical Provisions was: £263.3million

The value of the assets at that date was: £224.8million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Inflation and pension increases: The starting point is the yield curve of implied inflation statistics published by the Bank of England. This gives an indication of the level of price inflation expected by the market at the valuation date. The Government's long term target for inflation is also taken into account. An assumption for Consumer Prices Index (CPI) inflation is derived by determining an appropriate gap between the Retail Prices Index (RPI) and CPI. The assumed rates of pension increases are set taking into account the inflation assumption and any limits on the rate of increase.

Investment return: The investment return assumption used to determine the discount rate takes into account market indicators of the returns available at the date of the valuation and the long-term strategic allocation of assets agreed by the Trustees after taking professional advice. The Trustees have adopted a single assumption for investment returns before and after retirement which is based on the outperformance of the assets above Government bonds. The allowance for outperformance is determined by the Trustees based on information provided by their professional advisers.

Salary increases: Salaries will normally be assumed to increase by more than the inflation assumption. This assumption may be adjusted following discussion with the Principal Employer as to likely future salary increases.

Mortality: The rates of mortality assumed reflect information published by the Continuous Mortality Investigation most relevant to the membership of the Scheme, with allowance for expected future improvements in longevity. This assumption may be adjusted on the advice of the Scheme Actuary or in the light of evidence relating to the actual mortality experience of the Scheme, the industry in which the members work or the distribution of pension payment amounts or other characteristics of the Scheme membership.

Leaving service: No allowance is made for active members to leave service before their retirement date.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT ON ACTUARIAL LIABILITIES (forming part of the Trustees' report) (continued)

Significant actuarial assumptions (continued)

Retirement: All members may take the benefits accrued before 1 October 2010 unreduced at age 60. An allowance has been made for 60% of active and deferred members to retire at age 60 with no reduction to their benefits and 40% to retire at age 65.

Cash commutation: No allowance is made for members to exchange part of their pension for a lump sum at retirement.

Age difference of spouse: Males are assumed to be three years older than females.

Percentage married at retirement or earlier death: 90% of members are assumed to be married at retirement or earlier death.