

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

Trustees' Annual Report and Financial Statements

31 JULY 2022

Registered number: 10115084

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

ANNUAL REPORT - 31 JULY 2022

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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 September 2021)

Mrs J Shaw

Mr R Stanley (appointed 12 July 2022)

Pensioner Trustee

Mr D Lynock

Independent Trustee

Mrs J Devine

Clerk to the Trustees

Mrs C Johnson

Administration Office

Finance Department
University of Southampton
Highfield
Southampton, SO17 1BJ

Enquiries

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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

Investment Managers

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

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

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

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

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2022

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 2022.

The Scheme

The Scheme was established as a defined benefit scheme 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.

A triennial review was completed as at 31 July 2021 and the recovery plan has been based on the Scheme changes with an increase in contributions from the University from 1 January 2023.

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 2022 (continued)

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

Trustee	Number of Trustee meetings attended
Mr N Weaver – Chairperson	6/6
Ms A Sitton – University Trustee	5/6
Ms S Pook – University Trustee	6/6
Mr M Woodcock – Employer Trustee	4/6
Mr R Stanley – Member Trustee	2/2
Mrs J Shaw – Member Trustee	5/6
Mr D Lynock – Pensioner Trustee	4/6
Mrs J Devine – Independent Trustee	5/6

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 2022 (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 keeping records in respect of contributions received in respect of any active member of the Scheme and 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 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 increased to £37.7m compared with £8.3m for the prior year. This is predominantly as a result of deficit contributions of £30m and £250k from the University of Southampton and Southampton University Student's Union respectively. The net returns on investments comprised a decrease in market value of investments of £27.6m (2021: increase of £39.9m) and investment income of £0.7m (2021: £1.7m) offset by investment management expenses of £0.1m (2021: £0.7m). The net assets of the Scheme amounted to £284.5m at 31 July 2022 (2021: £283.1m).

Schedule of Contributions

The Schedule of Contributions was agreed and certified by the scheme actuary on 28 October 2022.

Contribution rates up to 31 December 2022 are as follows:

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

Contribution rates from 1 January 2023 to 31 March 2031 are as follows:

By members	7.2%
By employers – deficit	£625k per annum
By employers – normal	15.6%

During the year, the University of Southampton made a one off deficit contribution of £30m and the Southampton University Students Union made a one off deficit contribution of £250,000.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2022 (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 2022 the following increases were made to pensions payable and deferred provision based on CPI as at September 2021.

Pensions in course of payment for benefits accrued to end September 2010	3.1%
Pensions in course of payment for benefits accrued to after 1 October 2010	3.1%

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; and
- 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 2021 and finalised on 28 October 2022. This indicated that on the basis of existing contribution rates the Scheme will continue to be in deficit by £56.5m. The Trustees agreed to a long term recovery plan effective from 28 October 2022, whereby the funding shortfall was expected to be eliminated by 31 March 2031, by a £2m annual contribution to be paid towards the Scheme deficit up to 31 December 2022, reducing to an annual contribution of £625k to be paid towards the Scheme deficit from 1 January 2023 to 31 March 2031. The next full actuarial valuation will be effective from 31 July 2024.

During the year, the University of Southampton made a one-off additional contribution of £30m and the Southampton University Students Union made a one-off additional contribution of £250k.

Further detail on the actuarial status of the Scheme is detailed in the Report on Actuarial Liabilities (pages 49 to 50).

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2022 (continued)

Scheme membership

	2022	2021
	Number	Number
Active members		
Active members at the beginning of the year	1,250	1,511
Adjustment to previous year balance	4	-
Members retiring	(21)	(71)
Death in service	-	(2)
Members leaving prior to pensionable age	(116)	(180)
Members leaving with commutation	-	(4)
Transfers out	-	(4)
	1,117	1,250
Pensioners		
Pensioners at the beginning of the year	1,630	1,564
Adjustment to previous year balance	19	(3)
Active members retiring	21	66
Flexible to full retirement	-	-
Deferred pensioners retiring	22	41
Spouses and dependants	-	2
Pensioners who died during the year	(42)	(40)
	1,650	1,630
Deferred Pensioners		
Deferred pensioners at the beginning of the year	2,665	2,556
Adjustment to previous year balance	(145)	(1)
Deferred pensioners during the year	116	174
Deferred pensioners retiring	(22)	(49)
Deferred pensioners taking refunds/ transfers/trivial pensions	(7)	(14)
Deferred pensioners who died in the year	(3)	(1)
	2,604	2,665
Total membership as at 31 July	<u>5,371</u>	<u>5,545</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 2022 (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, Artemis Investment Management, Fidelity 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. The Trustees also implement the following restrictions on investments:

- investments in the Artemis Global Select Fund exclude companies who derive more than 10% of their revenue from tobacco;
- investments in the Newton Sustainable Real Return Fund excludes companies whose industry is classified as 'Tobacco' as well as other stocks which fail to meet their strict ESG criteria; and
- investments in the Northern Trust World Green Transition Index Fund 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 2022 (continued)

Investment managers (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. 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

0.50% p.a. on closing net asset value of investments held at the end of each quarter, which is invoiced quarterly.

Fidelity Investment Management

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

M&G Investments

0.50% p.a. 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% p.a. 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% p.a. 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 2022 (continued)

Investment managers (continued)

Schroder Investment Management

Investments held in the Securitised Credit Pooled Fund have a 0.35% p.a. 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% p.a. 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% p.a. fee, which is based on the value of the liabilities hedged rather than the value of invested assets.

Investments held in the Sustainable Real Return Fund have a 0.65% p.a. fee, which is deducted directly from the pooled fund and therefore incorporated into the unit price.

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 incorporated into the unit price, with the rebate paid via the additional purchase of units in the Fund.

Review of investment performance

Over the year to 30 June 2022, the Scheme carried out the following transactions:

- the Scheme switched all of its assets with Artemis from a segregated mandate to the pooled version of the Global Select Fund, which is managed to the same principles and processes as its segregated counterpart.
- the Scheme fully disinvested from Securitised Credit Fund in the second quarter of 2022.

In July 2022, funded by a one-off contribution from the University, the Scheme invested £30m into the Schroders portfolio in order to match a higher level of movements in interest rates and inflation than previously.

A summary of the Scheme's performance over the last five calendar years as well as the first six months of 2022 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 2022 (continued)

Fund		2022 (6 months)	2021	2020	2019	2018	2017
BlackRock (Property)	%	9.8	16.2	(0.8)	1.4	6.6	10.3
Artemis (Global Equities) ^[1]	%	(13.5)	18.7	17.7	26.8	(2.1)	1.7
Fidelity (Property) ^[2]	%	9.3	20.2	(1.0)	2.0	9.6	0.9
M&G (Property) ^[3]	%	4.3	12.5	1.5	1.0	-	-
Newton (Multi-Asset) ^[4]	%	(8.8)	7.6	9.8	11.6	(0.1)	2.5
Hermes (Credit) ^[5]	%	(12.6)	1.2	3.1	11.0	(3.2)	0.7
Northern Trust (Global Equities) ^[6]	%	(14.4)	20.3	-	-	-	-
Columbia Threadneedle (Multi-Asset) ^[7]	%	(7.6)	2.3	-	-	-	-
Schroders LDI Portfolio ^[8]	%	(87.6)	53.2	-	-	-	-
Schroders (Credit) ^[8]		(1.9)	0.5	-	-	-	-
Schroders (Cash) ^[8]		0.2	0.0	-	-	-	-
PASNAS Total	%	(17.5)	13.9	6.4	14.3	0.1	8.1
Benchmark	%	(12.3)	14.1	8.2	11.5	0.8	7.6

[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. This fund is now held by Schroders.

[5] Hermes' performance during 2017 is shown for the period invested since 26 June 2017. This fund is now held by Schroders.

[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.

Against the backdrop of war in Ukraine, high inflation and the resulting central bank action, the 12 months to 31 July 2022 saw negative returns across almost all asset classes.

The overall portfolio delivered returns of -10.5%, 1.3% p.a. and 3.8% p.a. over the 12 months, 3 year and 5 year periods to 30 June 2022 respectively. Performance was negative for all funds except the Scheme's three property funds over the 12 month period to 30 June 2022.

Over the 12 months period all the Scheme's growth funds except for the Northern Trust World Green Transition Index Fund underperformed their benchmarks. The growth portfolio underperformed the composite benchmark of 4.1% by 6.8% over this period.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2022 (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 in line with the SIP:

Mandate	Allocation	Managers
Global Equities	27.5%	Artemis Investment Management Northern Trust Corporation
Diversified Growth Funds	15%	Schroder Investment Management Columbia Threadneedle Investments
Multi-Asset Credit	15%	Schroder Investment Management
Property	15%	BlackRock Investment Management Fidelity International M&G Investments
Protection Assets (comprising Liability Driven Investment, securitised credit and liquidity plus funds)	27.5%	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

Custodians appointed for the Scheme's investments are as follows:

- BNP Paribas Jersey | BlackRock.
- Citibank N.A. | Columbia Threadneedle.
- J.P. Morgan Chase | Artemis, Fidelity and Schroders.
- Northern Trust (London) Company | Northern Trust.
- Northern Trust (Guernsey) Limited | M&G.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2022 (continued)

Analysis of investments

At 31 July 2022 the investment managers had invested the investment assets of the Scheme as follows:

	2022	2021
	£000	£000
Managed Funds UK – Index linked securities	60,254	77,651
Managed Funds - Property	44,697	38,838
Multi Asset Credit Fund	35,948	38,660
Absolute Return Fund	47,358	53,722
Global Select Fund	56,632	-
Liquidity fund	8,536	9,992
Equities – UK quoted	-	4,470
– Overseas quoted	-	54,631
Cash deposits	30,123	3,439
Other investments	269	269
	<u>283,817</u>	<u>281,672</u>

The investment assets held by each investment manager as at 31 July 2022:

	2022	2021
	£000	£000
Artemis	56,632	62,462
BlackRock Investment Management	13,338	11,547
Columbia Threadneedle	25,937	26,699
Fidelity	20,320	16,838
M&G Investments	11,039	10,747
Northern Trust	38,088	43,813
Schroders	88,071	109,566
	<u>253,425</u>	<u>281,672</u>

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2022 (continued)

Analysis of investments (continued)

Analysis of investments by investment manager as at 31 July 2022

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	2022 %	2021 %
Managed funds - property	99.8	99.8
Cash deposits	0.2	0.2
	<u>100.0</u>	<u>100.0</u>
Artemis	2022 %	2021 %
Equities	-	94.6
Cash deposits	-	5.4
Global Select Fund	100.0	-
	<u>100.0</u>	<u>100.0</u>
Schroders	2022 %	2021 %
Managed funds	18.8	30.9
Multi Asset Credit Funds	30.4	35.3
Absolute Return Funds	18.1	24.7
Liquidity funds	7.2	9.1
Cash deposits	25.5	-
	<u>100.0</u>	<u>100.0</u>

The Columbia Threadneedle investments were held 100% in Absolute Return Funds at 31 July 2021 and 31 July 2022.

The Fidelity and M&G investments were held 100% in Managed Fund, Property at 31 July 2021 and 31 July 2022.

The Northern Trust investments were held 100% in Managed Funds at 31 July 2021 and 31 July 2022.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2022 (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 2022, is as follows:

	2022	2021
	£000	£000
Capital Goods:		
Building, Electronics, Motors, Other Industrial Materials, IT	-	25,847
Consumer and Services group:		
Brewers, Leisure, Stores, Food, Media, Printing, Transport	-	18,948
Financial group:		
Banks, Insurance, Property	-	9,338
Other groups:		
Oil, Gas, Electricity, Chemical, Water and Telephones	-	4,969
	<u>-</u>	<u>59,102</u>

Tax status of the 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 2022 (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, 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 the 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 2022 (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.....

and signed on their behalf by

.....

Trustee

.....

Trustee

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT

Purpose of this statement

This implementation statement has been produced by the Trustees of the University of Southampton Pension and Assurance Scheme for Non-Academic Staff (“the Scheme”) to set out the following information over the year to 31 July 2022:

- How the Trustee’s policies on exercising rights (including voting rights) and engagement activities have been followed over the year; and
- The voting activity undertaken by the Scheme’s investment managers on behalf of the Trustees over the year, including information regarding the most significant votes.

How voting and engagement policies have been followed

Based on the information provided by the Scheme’s investment managers, the Trustee believes that its policies on voting and engagement 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”).
 - Fidelity Investment Management (“Fidelity”).
 - M&G Investments (“M&G”).
 - 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.
- The Scheme invests solely in pooled funds and, where applicable, delegates responsibility for carrying out voting and engagement activities to the Scheme’s fund managers.
- The Trustees regularly receives 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)

Stewardship policy

The Trustees' Statement of Investment Principles ("SIP") in force at 31 July 2022 describes the Trustees' stewardship policy on the exercise of rights (including voting rights) and engagement activities. It was last reviewed in December 2021 and has been made available online here:

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

Voting data

This section provides a summary of the voting activity undertaken by the investment managers within the Scheme's portfolio on behalf of the Trustees over the year to 30 June 2022:

Manager	Artemis	Northern Trust	Columbia Threadneedle	Schroders (Newton)
Asset Class	Global Equities	Global Equities	Diversified Growth	Diversified Growth
Structure	Pooled	Pooled	Pooled	Pooled
Ability to influence voting behaviour of manager	The pooled fund structure means that there is limited scope for the Trustees to influence the manager's voting behaviour.			
No. of eligible meetings	53	1,311	38	131
No. of eligible votes	729	18,197	550	1,881
% of resolutions voted	100%	98%	100.0%	99%
% of resolutions abstained ¹	1%	0%	3%	0%
% of resolutions voted with management ¹	91%	92%	85%	88%
% of resolutions voted against management ¹	8%	7%	12%	12%
Proxy voting advisor employed	International Shareholder Service ("ISS")	International Shareholder Service ("ISS")	Threadneedle have their own proxy voting policy and they use the proxy adviser International Shareholder Service ("ISS") to implement this policy	International Shareholder Service ("ISS")
% of resolutions voted against proxy voter recommendation	2%	0%	n/a	7%

¹ISS 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)

Voting data (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 and Newton all employ the use of Institutional Shareholder Services (“ISS”) as their proxy voting advisor to electronically vote all clients shares.

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 2022.

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 2022.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Voting data (continued)

Northern Trust | World Green Transition Fund

	Vote 1	Vote 2	Vote 3
Company name	JD Sports Fashion Plc	Ubisoft Entertainment SA	AVEVA Group Plc
Date of vote	01 July 2021	01 July 2021	07 July 2021
Approximate size of fund's holding as at the date of the vote (as % of portfolio)		Data Not Provided	
Summary of the resolution	Re-elect Andrew Leslie as Director	Re-elect Christian Guillemot as Director	Re-elect Olivier Blum as Director
How the manager voted	Against	Against	Against
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?		Data Not Provided	
Rationale for the voting decision	Given the continued level of dissent, along with ongoing concerns regarding the viability of the remuneration arrangements at the Company, the director's re-election could not be supported.	The number of outside mandates held by Christian Guillemot is in excess of recommended guidelines for executive.	Olivier Blum is a nominee of the controlling shareholder and thereby not considered to be independent. The composition of the Remuneration Committee does not comply with the recommendations of the UK Code as a result of this Director.
Outcome of the vote	Failed	Passed	Passed
Implications of the outcome		Data Not Provided	
Criteria on which the vote is considered "significant"		Vote against management	

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Voting data (continued)

Columbia Threadneedle | Dynamic Real Return Fund

	Vote 1	Vote 2	Vote 3
Company name	General Motors Company	Alphabet Inc.	Alphabet Inc.
Date of vote	13 June 2022	1 June 2022	1 June 2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.11%	0.75%	0.75%
Summary of the resolution	Report on the use of child labour in connection with electric vehicles	Commission third party assessment of Company's management of misinformation and disinformation across platforms	Report on climate lobbying
How the manager voted	For	For	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	Supporting better ESG risk management disclosures	Supporting better ESG risk management disclosures	Supporting better ESG risk management disclosures
Outcome of the vote	Failed	Failed	Failed
Implications of the outcome	Active stewardship (engagement and voting) continues to form an integral part of Columbia Threadneedle's research and investment process		
Criteria on which the vote is considered "significant"	Vote against management on certain environmental or social proposals and greater than 20% dissent		

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Voting data (continued)

Schroders (Newton) | BNY Mellon Sustainable Real Return Fund

	Vote 1	Vote 2	Vote 3
Company name	Alphabet Inc	Gresham House Energy Storage Fund Plc	Sanofi
Date of vote	1 June 2022	30 June 2022	3 May 2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	1.01%	0.88%	0.99%
Summary of the resolution	Report on climate change	Approve issuance of equity or equity-linked securities without pre-emptive rights	Elect Director, Advisory Vote to Ratify Named Executive Officers' Compensation, Approve Remuneration Policy
How the manager voted	Against management proposal, For shareholder proposal	Against	Against
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	The company has committed to run on carbon-free energy by 2030, and there are several trade organisations that the company is a member of which are obstructing the climate policy	The share issuance should be done by a book-build process rather than on a fixed price basis if pre-emptive rights are disappplied	The structure of the plan allows for vesting despite underperformance. It failed to provide a reasonable justification on the proposed increase base salary of the CEO as well as lack of sufficient information on the performance share plan.
Outcome of the vote	17.89% for shareholder climate change proposal	5.42% against approval	22.4% against elect director, 8.26% against compensation of CEO, 11% against compensation policy of CEO"
Implications of the outcome	Majority of the company's minority shareholders retain fundamental concerns	Most shareholders are not concerned with the potential valuation dilution as the discount to NAV may be driven by the positive outlook expected for the rest of the year	Shareholders are expecting that the board will seek to address their concern by either providing clear justification for the individual director's membership of the remuneration committee or for him to step off the committee.
Criteria on which the vote is considered "significant"	The company was subject to a high number of shareholder proposals surrounding both governance and social aspects	The proposal failed to include industry accepted best practice in terms of pricing of placed shares, which would prevent unwarranted value dilution for existing shareholders	This vote was considered significant given the unusual high level of shareholder dissent against election of a director.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Fund level engagement

The investment managers may engage with their investee companies on behalf of the Trustees. The tables below provide a summary of the engagement activities undertaken by each of the relevant managers during the year to 30 June 2022.

Manager	Artemis	Northern Trust	Schroders (Newton)	Columbia Threadneedle	Blackrock
Fund name	Global Select	World Green Transition	Sustainable Real Return	Dynamic Real Return	UK Property
Asset Class	Global Equity	Global 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	69	2,383	35	Data not provided	Data not provided
Number of entities engaged on behalf of the holdings in this fund in the year	25	754	26	Data not provided	Data not provided
Number of engagements undertaken at a firm level in the year	1,598	Data not provided	174	207	3,693

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Fund level engagement (continued)

Manager	Fidelity	M&G	Schroders (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	No	Yes	Yes
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	No	No	Yes	Yes
Number of engagements undertaken on behalf of the holdings in this fund in the year	Data not provided	Data not provided	344	Data not provided
Number of entities engaged on behalf of the holdings in this fund in the year	Data not provided	Data not provided	72	Data not provided
Number of engagements undertaken at a firm level in the year	1,292*	218	3,812	3,022**

*Data

only provided as at 31 March 2022

**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)

Fund level engagement (continued)

Manager and Asset Class Engagement themes and examples of engagements undertaken with holdings in the fund

Artemis
Global Equities

Social - In November 2021, the Global Select team met with Sony's European Head of Investor Relations to better address risks and opportunities associated with human capital management. During the meeting, Artemis discussed how Sony manages and measures employee wellbeing and cultural risk within Sony's game development division. Cultural risk in game development studios has been highlighted by recent events at a large US game development company. Artemis recommended that Sony should consider sharing game development employee survey data more publicly, as other video game developers have taken steps to do, in order to increase transparency and accountability around employee wellbeing. Artemis does note however, that Sony's game development division has a strong reputation for employee satisfaction as evidenced by third party sources. The engagement made the Head of Investor Relations aware of concerns regarding employee wellbeing.

Schroders (Newton)
Diversified Growth

Governance - Newton met with Informa PLC's chair of the remuneration committee to give feedback on its new remuneration policy in which it is proposing to move back to the traditional performance-based long-term incentive plan from restricted stock awards. While Newton appreciate the shift, the proposed policy raises several concerns such as an increase in overall quantum and target bonus opportunity, and inadequate disclosure on performance metrics. Newton conveyed their expectations that they would like to see better disclosure around compensation prior to the annual general meeting to be able to make an informed voting decision. Newton explained that while they do not expect the company to disclose the targets, ideally it should reveal the weights each metric will be assigned. The company should be clear as to that metrics are being incorporated and what peer group has been chosen and communicate these decisions to shareholders well within time to be able to garner support.

Fidelity
Property

Environmental - Following a conference that Fidelity attended, in which Airbus discussed their digital solution in palm oil supply chain monitoring, we engaged with the company to learn more and to discuss other ESG topics, such as their use of sustainable aviation fuel (SAF).

On the topic of palm oil, they learnt that Nestle has partnered with Airbus and the Forest Trust to monitor their palm oil supply chain. Airbus will use their Starling Earth observation platform to monitor the entirety of Nestle's global supply chains for palm oil, as part of their company commitment to reduce its global impact on deforestation. This is the first time these satellites have been used for palm oil, representing an innovative use of the technology that was previously used for assessing agriculture and plant risk, supporting government needs and the measurement of pollution from boats and factories.

Airbus highlighted that their target is to create a zero emissions aircraft by 2035 and that they expect to continue increasing their use of SAF to this date. The company highlighted the use of hydrogen as a significant challenge in increasing the use of SAF. The required hydrogen infrastructure is not yet sufficient for large scale adoption. One of the difficulties is that different engines are needed to use hydrogen. Despite the current complications, Airbus believes the best way to reduce future emissions is using hydrogen. With the CEO's support, the company has been deploying capital to enable this to happen.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Fund level engagement (continued)

Manager and Asset Class	Engagement themes and examples of engagements undertaken with holdings in the fund
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Schroders (Hermes) Multi-Asset Credit	<p>Environment & Governance - Hermes have identified two separate engagement objectives with ExxonMobil related to climate change and governance. On climate change, Hermes want the company to demonstrate how long-term strategy accounts for climate change, stress test against various demand assumptions and policy scenarios, and develop plans to manage the transition to a low-carbon economy. This objective is aligned with SDG 13 - climate action. On governance, Hermes want to see it appoint a non-US national director.</p> <p>In 2021, ExxonMobil faced a proxy contest in which an activist shareholder, Engine No. 1, proposed an alternative list of directors to those put forward by the company's board. Hermes met with Engine No. 1 to discuss its criticisms of the company, which included: long-term financial underperformance; overly aggressive capital expenditure; and lack of sufficient plans for the energy transition. Engine No. 1 reported that, "ExxonMobil has underperformed the S&P 500 and each of its proxy statement peers (BP, Chevron, Shell and Total) for the last three, five and ten year periods, before and after the pandemic". Hermes then met with ExxonMobil to discuss its response to the proxy contest. The company reported enhanced shareholder dialogue and changes in response to shareholder concerns, including greater capital expenditure discipline since 2017. The company described its climate change strategy around mitigating emissions in operations, providing products to help customers reduce their emissions, and developing and deploying scalable technology solutions. The company announced targets to reduce Scope 1 and 2 emissions intensity by 15-20% before 2025, for operated assets only.</p>
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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 2022 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 17.

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 (continued)

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 the Trustees' and pension scheme 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 and pension management 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
Statutory Auditor
Reading, United Kingdom
Date:

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

FUND ACCOUNT FOR THE YEAR ENDED 31 JULY 2022

	Notes	2022 £000	2021 £000
CONTRIBUTIONS AND BENEFITS			
Contributions receivable			
Employer		37,578	8,180
Employee		148	167
Total contributions	2	<u>37,726</u>	<u>8,347</u>
Transfers in from other Schemes	3	61	348
Other income	4	82	54
		<u>143</u>	<u>402</u>
Benefits paid or payable	5	(8,354)	(10,172)
Payments to and on account of leavers	6	(91)	(252)
Other payments	7	(88)	(129)
Administration expenses	8	(991)	(951)
		<u>(9,524)</u>	<u>(11,504)</u>
NET ADDITIONS/(WITHDRAWALS) FROM DEALINGS WITH MEMBERS		<u>28,345</u>	<u>(2,755)</u>
RETURNS ON INVESTMENTS			
Investment income	9	742	1,688
Change in market value of investments	10	(27,555)	39,937
Foreign exchange loss on cash balances		-	(236)
Investment management expenses		(150)	(652)
Custodian fees		(6)	(80)
		<u>(26,969)</u>	<u>40,657</u>
NET RETURNS ON INVESTMENTS		<u>(26,969)</u>	<u>40,657</u>
NET INCREASE IN THE FUND DURING THE YEAR		1,376	37,902
NET ASSETS AT 1 AUGUST		283,052	245,150
NET ASSETS AT 31 JULY		<u>284,428</u>	<u>283,052</u>

The notes on pages 34 to 45 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 2022

	Notes	2022 £000	2021 £000
INVESTMENT ASSETS	10		
Pooled Investment Vehicles		253,425	218,863
Equities		-	59,102
Cash deposits		30,123	3,438
Other investment balances		269	269
		<u>283,817</u>	<u>281,672</u>
CURRENT ASSETS	13	1,100	1,823
CURRENT LIABILITIES	14	(489)	(443)
NET ASSETS OF THE SCHEME		<u>284,428</u>	<u>283,052</u>

The notes on pages 34 to 45 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 49 to 50 and these financial statements should be read in conjunction with it.

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

Trustee

Trustee

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2022

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 2022 (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 2022 (continued)

2 CONTRIBUTIONS RECEIVABLE

	2022	2021
	£000	£000
Employer		
Normal contributions	3,633	4,213
Deficit contributions	32,248	1,998
Normal employer contributions arising from member salary sacrifice	<u>1,697</u>	<u>1,969</u>
	37,578	8,180
Employee		
Normal contributions	123	134
Additional voluntary contributions	25	33
	<u>148</u>	<u>167</u>
Total contributions	<u><u>37,726</u></u>	<u><u>8,347</u></u>

Contribution rates up to 31 December 2022 are as follows:

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

Contribution rates from 1 January 2023 to 31 March 2031 are as follows:

By members	7.2%
By employers – deficit	£625k per annum
By employers – normal	15.6%

Under the recovery plan dated 28 October 2021 the deficit contributions of £2m per annum are payable up to 31 December 2022 in monthly instalments. From 1 January 2023, the deficit contributions will reduce to £625k per annum, payable up to 31 March 2031.

During the year, the University of Southampton made a one-off additional contribution of £30m and the Southampton University Students Union made a one-off deficit contribution of £250k.

3 TRANSFERS IN

	2022	2021
	£000	£000
Individual transfers in from other schemes	<u>61</u>	<u>348</u>

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2022 (continued)

4 OTHER INCOME

	2022	2021
	£000	£000
Life assurance benefits	-	54
Tax reclaims	82	-
	<u>82</u>	<u>54</u>

5 BENEFITS PAID OR PAYABLE

	2022	2021
	£000	£000
Pension payments to retired members	7,163	7,055
Commutation of pensions	1,113	3,104
Death in service – benefits	56	13
Death in service – refunded contributions	22	-
	<u>8,354</u>	<u>10,172</u>

6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2022	2021
	£000	£000
Refunds to members leaving service	-	12
Individual transfers out to other schemes	91	240
	<u>91</u>	<u>252</u>

7 OTHER PAYMENTS

	2022	2021
	£000	£000
Group life assurance premiums	<u>88</u>	<u>129</u>

Related claims under these policies would be included within ‘Other Income’ where received. No claims were received in 2022 (2021: £Nil).

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2022 (continued)

8 ADMINISTRATION EXPENSES

Expenses borne by the Scheme comprise:	2022	2021
	£000	£000
Investment advisers fees (including actuarial fees)	287	303
Audit fees	23	12
Staff costs (recharged by the University)	135	109
Pension Protection Fund (PPF) Levy	429	475
Other Scheme expenses	117	52
	<u>991</u>	<u>951</u>

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

9 INVESTMENT INCOME

	2022	2021
	£000	£000
Dividends from equities	708	1,319
Income from managed funds	34	369
	<u>742</u>	<u>1,688</u>

10 INVESTMENT ASSETS

	Market value at 1 August 2021 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Market value at 31 July 2022 £000
Pooled investment vehicles:					
-Bonds	72,499	73,465	(57,930)	(29,921)	58,113
-Liquidity	9,992	67,998	(69,467)	13	8,536
-Property	38,838	708	-	5,151	44,697
-Equity	97,534	64,497	(14,119)	(5,833)	142,079
Total pooled investment vehicles	<u>218,863</u>	<u>206,668</u>	<u>(141,516)</u>	<u>(30,590)</u>	253,425
Equities	59,102	-	(62,137)	3,035	-
	<u>277,965</u>	<u>206,668</u>	<u>(203,653)</u>	<u>(27,555)</u>	253,425
Cash instruments	3,438				30,123
Other investment balances	269				269
	<u>281,672</u>				<u>283,817</u>

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

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2022 (continued)

10 INVESTMENT ASSETS (continued)

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

	2022	2022	2021	2021
	£000	% net assets	£000	% net assets
Artemis Global Select Fund	56,632	19.9%	-	-
Schroders (Hermes) Multi Strategy Credit Fund	35,948	12.6%	38,661	13.7%
Newton Real Return	21,421	7.5%	27,023	9.5%
Fidelity UK Real Estate Fund	20,320	7.1%	16,838	5.9%
Threadneedle Dynamic Real Return Fund	25,937	9.1%	26,699	9.4%
Northern Trust World Green Index Fund	38,088	13.4%	43,813	15.5%
Schroders LDI Mandate	22,164	7.8%	27,254	9.6%

Transaction Costs

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	Level 2	Level 3	Total
	£000	£000	£000	£000
At 31 July 2022				
- Bonds	-	58,113	-	58,113
- Liquidity Fund	-	8,536	-	8,536
- Property	-	11,039	33,658	44,697
- Equity	-	142,079	-	142,079
Pooled investment vehicles	-	219,767	33,658	253,425
Cash deposits	30,123	-	-	30,123
Other investment balances	269	-	-	269
	<u>30,392</u>	<u>219,767</u>	<u>33,658</u>	<u>283,817</u>

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2022 (continued)

11 FAIR VALUE DETERMINATION (continued)

	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>

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 2022 (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	2022 value £000	2021 value £000
Artemis Global Select Fund	1	3	1	3	56,632	59,102
Northern Trust World Green Transition Index Fund	1	3	1	3	38,088	43,813
Columbia Threadneedle DRRF	2	2	2	3	25,937	26,699
BlackRock UK Property Fund	2	1	2	3	13,338	11,252
Fidelity Property	2	1	2	3	20,320	16,838
M&G Secured Property Income Fund	2	1	2	3	11,039	10,747
Schroders (Newton) Sustainable Real Return Fund	2	2	2	3	21,421	27,023
Schroders (Hermes) Multi Strategy Credit Fund	3	2	2	1	35,948	38,661
Schroders Securitised Credit Fund	3	2	2	2	-	6,634
Schroders Sterling Liquidity Plus Fund	3	2	1	1	8,536	9,992
Schroders LDI	2	1	3	1	22,166	27,203
Cash Fund Deposits	3	2	1	1	30,123	3,434
Total					283,548	281,398

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 2022 (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 27.5% 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 is 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, 27.5% 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, Schroders (Newton) and Schroders (Federated Hermes). Schroders (Federated Hermes) employ currency hedging to hedge back returns to sterling. Columbia Threadneedle and Schroders (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 2022 (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.

The table below shows how the Scheme’s assets are split between each type of pooled investment vehicle.

Pooled investment vehicle by type of arrangement	31 July 2022 £ 000	31 July 2021 £ 000
Investment Company with Variable Capital (“ICVC”)	21,421	27,023
Open Ended Investment Company (“OEIC”)	25,937	26,699
Unclassified Property Unit Trust	13,338	11,252
Property Authorised Investment Fund (“PAIF”)	20,320	16,838
Guernsey Property Unit Trust	11,039	10,747
Undertakings in Collective Investment in Transferable Securities (“UCITS”)	130,669	82,473
Société d’Investissement à Capital Variable (“SICAV”)	30,701	43,831
Total	253,425	218,863

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 2022 (continued)

13 CURRENT ASSETS

	2022 £000	2021 £000
Amount owed by the University of Southampton	-	51
Other debtors	12	14
Cash Balances	<u>1,088</u>	<u>1,758</u>
	<u>1,100</u>	<u>1,823</u>

14 CURRENT LIABILITIES

	2022 £000	2021 £000
Amounts owed to the University of Southampton	27	-
Expense accruals	460	441
Social security	<u>2</u>	<u>2</u>
	<u>489</u>	<u>443</u>

Amounts owed to the University of Southampton represents employer contributions of £573,000 including salary sacrifice contributions of £133,000 (2021: £626,000, including salary sacrifice contributions of £151,000) and employee contributions of £10,000 (2021: £10,000), offset by a pensioner payroll recharge of £605,000 (2021: £585,000). 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. The amounts owed to the University of Southampton also includes £10,000 for rechargeable staff costs.

15 RELATED PARTIES

The Scheme is administered by the University of Southampton. Fees payable in respect of administration and processing of £135,000 (2021: £228,000) are included within administrative expenses. At the year end creditors include £10,000 (2021: £Nil) 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.

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2022 (continued)

16 GUARANTEED MINIMUM PENSION EQUALISATION

The last formal triennial actuarial valuation of the Scheme was performed as at 31 July 2021 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.

17 POST BALANCE SHEET EVENT

At the end of September 2022, the markets had an adverse reaction to the UK Government's announcement of the mini-budget. This caused very high volatility in both the UK currency and gilt markets with longer-dated UK Gilt yields rising significantly, resulting in the Bank of England stepping in to protect market integrity. While markets (in particular UK government bonds, which form part of the Scheme's LDI portfolio) have been in various degrees of turmoil, market movements have resulted in the Scheme's investment values falling to £214.3m as at 31 December 2022. The funding of the Scheme remained stable throughout with minimal impact to the Technical Provisions funding level.

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 2022 to which this statement is attached.

In our opinion contributions for the Scheme year ended 31 July 2022 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 2022 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
Statutory Auditor
Reading, United Kingdom
Date:

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	3,633
Employer deficit contributions	1,998
Employer normal contributions arising from member salary sacrifice	1,697
Employee normal contributions	<u>123</u>
Total contributions per the Schedule of Contributions as reported on by the Scheme auditor	7,451
The following contributions payable were not required under the Schedule of Contributions:	
Employer additional deficit contributions	30,250
Employee additional voluntary contributions	<u>25</u>
	30,275
Total contributions per Fund Account	<u>37,726</u>

Signed on behalf of the Trustees:

Date:

UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON ACADEMIC STAFF

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Name of Scheme The University of Southampton Pension and Assurance Scheme for Non Academic Staff

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of the contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective can be expected, on 28 October 2022, to be met by the end of the period specified in the Recovery Plan dated 28 October 2022.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 28 October 2022.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature:



Date:

28 October 2022

Name:

Paul Hamilton

Qualification:

Fellow of the Institute
and Faculty of Actuaries

Address:

St. James' House
St. James' Square
Cheltenham
GL50 3PR

**Name of
Employer:**

Barnett Waddingham LLP

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.

The most recent full actuarial valuation of the Scheme was carried out as at 31 July 2021. This showed that on that date:

The value of the Technical Provisions was: £337.6 million

The value of the assets at that date was: £283.1 million

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: 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 will also be taken into account.

An assumption for Consumer Prices Index (CPI) inflation will be derived by determining an appropriate gap between the Retail Prices Index (RPI) inflation and CPI.

Investment return: The investment return assumption used to determine the discount rate will take 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.

Salary increases: An assumption for future salary increases will be set with reference to the inflation assumptions, following consultation with the Principal Employer.

Pension increases: Assumptions for future pension increases which are linked to inflation will be set with reference to the relevant inflation assumption, adjusted to take account of any minimum and maximum increases that apply.

Retirement: All members may take the benefits accrued before 1 October 2010 unreduced at age 60. Assumptions regarding the age at which members retire will be set taking into account professional advice and the experience of the Scheme.

Cash commutation: An allowance may be made for members to exchange part of their pension for a lump sum at retirement. When calculating spouses' pensions for pensioner members, members are assumed to have taken 85% of the maximum tax free cash lump sum.

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)

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

Mortality: The rates of mortality assumed will reflect information published by Continuous Mortality Investigation Limited, a subsidiary of the Institute and Faculty of Actuaries, deemed most relevant to the membership of the Scheme, including an appropriate 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.

Dependent details: Assumptions regarding the proportion of members with a dependant at death, and the age difference between the member and the dependant, will be set taking into account professional advice and the experience of the Scheme.

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