

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

Trustees' Annual Report and Financial Statements

31 JULY 2023

Registered number: 10115084

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

ANNUAL REPORT - 31 JULY 2023

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TRUSTEES AND INDEPENDENT ADVISERS

Chairman

Mr N Weaver (resigned 9 June 2023)
Mr A Gordon (appointed 9 June 2023)

University Trustees

Ms A Sitton
Ms J Fielder (appointed 4 January 2023)

Employer Trustee

Ms S Pook (changed from a University Trustee to
Employer Trustee 3 January 2023 – resigned 17
November 2023)
Mr M Woodcock (resigned 26 March 2023)
Ms L Colquhoun (appointed 27 April 2023)

Active Member Trustees

Mrs J Shaw (resigned 13 October 2023)
Mr R Stanley (resigned 5 January 2023)
Mr A Dolby (appointed 5 January 2023)
Mrs N Gravett (appointed 13 October 2023)

Pensioner Trustee

Mr D Lynock (resigned 26 March 2023)

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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University of Southampton
Highfield
Southampton, SO17 1BJ
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Actuary

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

Independent auditor

Cooper Parry Group Limited (appointed 31 May
2023)
Sky View
Argosy Road
East Midlands Airport
Castle Donington
Derby
DE74 2SA

Deloitte LLP (resigned 17 April 2023)
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

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NON-ACADEMIC STAFF**

TRUSTEES AND INDEPENDENT ADVISERS (continued)

Investment Advisor

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

Investment Managers

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

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

Columbia Threadneedle Investments (transferred to Schroders Investment Management
Limited on 20 July 2023)
PO Box 10033
Chelmsford
Essex, CM99 2AL

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

M&G Investment Management Limited
10 Fenchurch Avenue
London
EC3M 5AG

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

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

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023

The Trustees are pleased to present their annual report and audited financial statements of The University of Southampton Pension and Assurance Scheme for Non-Academic Staff (“the Scheme”) for the year ended 31 July 2023.

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.

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.

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.

Changes to the Scheme

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

During the year, the Scheme increased its normal retirement age to 66 in respect of pensionable service completed on and after 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.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

Management of the Scheme (continued)

Trustees are responsible for the administration and investment policy of the Scheme. There were seven 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
Mr A Gordon - Chairperson	1/1
Ms A Sitton – University Trustee	7/7
Ms J Fielder - University Trustee	3/3
Ms S Pook – Employer Trustee	7/7
Mr M Woodcock – Employer Trustee	3/5
Ms L Colquhoun - Employer Trustee	1/2
Mr R Stanley – Member Trustee	3/4
Mrs J Shaw – Member Trustee	4/7
Mr A Dolby - Member Trustee	2/3
Mrs N Gravett – Member Trustee	0/0
Mr D Lynock – Pensioner Trustee	0/5
Mrs J Devine – Independent Trustee	5/7

Statement of Trustees' responsibilities

The financial statements, which are prepared in accordance with UK 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 the Scheme 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 UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

Statement of Trustees' responsibilities (continued)

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 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 of the Scheme for the year ended 31 July 2023 are set out on pages 34 to 47; the Trustees' Summary of Contributions and the Auditor's statement about contributions are set out on pages 48 to 50. The financial statements have been prepared and audited in accordance with the regulations made under section 41(1) and (6) of the Pensions Act 1995. They show that the value of the fund decreased from £284.4m at 31 July 2022 to £208.9m at 31 July 2023.

Schedules of Contributions

The Schedules of Contributions were agreed and certified by the Scheme Actuary on 3 October 2019 and 28 October 2022.

Under both Schedules of Contributions, 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%

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REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

Schedule of Contributions (continued)

Under the Schedule of Contributions certified by the Scheme Actuary on 28 October 2022, 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 – insurance and administration expenses	£400k per annum
By employers – normal	15.6%

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

The last full actuarial valuation was carried out by Barnett Waddingham LLP as at 31 July 2021 and finalised on 28 October 2022.

The actuarial valuation of the Scheme as at 31 July 2021 revealed a funding shortfall of £56.5m. To eliminate this funding shortfall, the Trustees and University of Southampton (the Employer) have agreed that additional contributions will be paid to the Scheme by the Employer as follows:

- From 1 November 2022 to 31 December 2022: £2,000,000 per annum to be paid towards the Scheme in equal monthly instalments on or before the nineteenth day of the calendar month following that to which the payment relates.

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REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

Actuarial status of the Scheme (continued)

- From 1 January 2023: £625,000 per annum, to be paid in monthly instalments towards the Scheme on or before the nineteenth day of the calendar month following that to which the payment relates.

The funding shortfall is expected to be eliminated in 9 years and 8 months, which is by 31 March 2031.

The next full actuarial valuation will be due as at 31 July 2024.

Further detail on the actuarial status of the Scheme is detailed in the Report on Actuarial Liabilities (pages 52 to 53).

Scheme membership

	2023	2022	
Active members			
Active members at the beginning of the year	1,117	1,250	
Adjustment to previous year balance	(38)	4	
Members retiring	(22)	(21)	
Death in service	(4)	-	
Members leaving prior to pensionable age	(88)	(116)	
	965		1,117
Pensioners			
Pensioners at the beginning of the year	1,650	1,630	
Adjustment to previous year balance	-	19	
Active members retiring	22	21	
Deferred pensioners retiring	39	22	
Spouses and dependants	21	-	
Pensioners who died during the year	(44)	(42)	
	1,688		1,650
Deferred Pensioners			
Deferred pensioners at the beginning of the year	2,604	2,665	
Adjustment to previous year balance	40	(145)	
Deferred pensioners during the year	88	116	
Deferred pensioners retiring	(39)	(22)	
Deferred pensioners taking refunds/ transfers/trivial pensions	(7)	(7)	
Deferred pensioners who died in the year	(1)	(3)	
	2,685		2,604
Total membership as at 31 July	<u>5,338</u>		<u>5,371</u>

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

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (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; and
- 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 pages 1 and 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 Limited ("BlackRock"), Newton Investment Management Limited ("Newton"), Artemis Investment Management LLP ("Artemis"), Fidelity UK Real Estate Fund ("Fidelity"), Federated Hermes Limited ("Hermes"), M&G Investment Management Limited ("M&G"), Columbia Threadneedle Investments Limited ("Columbia Threadneedle"), Northern Trust International Fund Administration Services (Ireland) Limited ("Northern Trust") and Schroder Investment Management Limited ("Schroder").

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

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REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

Investment managers (continued)

- 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.

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 Financial Statements. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

The Trustees have also set three stewardship priorities against which the investment managers voting and engagement activities will be monitored. These priorities are:

- Environment & Climate
- Diversity & Inclusion
- Strong Governance & Business Ethics

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

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

Artemis

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

Fidelity

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

Newton

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

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

Investment managers (continued)

Hermes

0.80% pa on assets held in the Multi Strategy Credit Fund which is deducted directly from the pooled fund and therefore incorporated into the unit price. Additionally, a reinvestment rebate agreement is in place of 0.15%.

M&G

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

Columbia Threadneedle

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

Northern Trust

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

Schroder

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

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

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

Review of investment performance

Over the year to 30 June 2023, the Scheme carried out the following transactions:

- A number of collateral calls were made by the LDI portfolio in September and October 2022 following significant rises in government bond yields. This resulted in large disinvestments from the Hermes Multi-Strategy Credit Fund (£21.1m) and Newton Sustainable Real Return Fund (£20.7m), with the latter being completely depleted.
- In September 2022, disinvestments were also made from the Northern Trust Green Transition Fund (£6.2m) and Artemis Global Select Fund (£10.0m) in order to top up the LDI collateral portfolio to protect against future capital calls.
- In October 2022, the scheme disinvested a further £6.7m from Artemis, £5.3m from Northern Trust and £6m from Threadneedle, investing £18m in The Schroders SSSF Sterling Liquidity Plus Fund.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

Review of investment performance (continued)

- Later in October 2022, a further £8.1m was disinvested from Artemis, £4.0m from Northern Trust and £10.0m from Threadneedle, with the proceeds being invested into Newton (£8.6m) and Hermes (£12.3m) to top the collateral pool up further. The remaining £1.25m of the proceeds were disinvested to the Scheme's bank account to meet cashflow requirements.
- £8m was disinvested from the Schroders LDI portfolio in March 2023, with the proceeds equally distributed between the Hermes and Newton funds.

A summary of the Scheme's performance over the last five calendar years as well as the first six months of 2023 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.

Fund		2023 (6 months)	2022	2021	2020	2019	2018
BlackRock (Property)	%	-0.3	-10.0	16.2	-0.8	1.4	6.6
Artemis (Global Equities)	%	1.4	-10.5	18.7	17.7	26.8	-2.1
Fidelity (Property)	%	-0.6	-10.0	20.2	-1.0	2.0	9.6
M&G (Property) ^[1]	%	-0.7	-14.6	12.5	1.5	1.0	-
Newton (Multi-Asset) ^[2]	%	-3.6	-10.9	7.6	9.8	11.6	-0.1
Hermes (Credit)	%	1.2	-10.7	1.2	3.1	11.0	-3.2
Northern Trust (Global Equities) ^[3]	%	12.4	-13.0	20.3	-	-	-
Columbia Threadneedle (Multi-Asset) ^[4]	%	2.3	-7.5	2.3	-	-	-
Schroders LDI Portfolio ^[5]	%	-9.8	-84.3	53.2	-	-	-
Schroders (Credit) ^[5]	%	4.5	-1.2	0.5	-	-	-
Schroders (Cash) ^[5]	%	2.1	0.8	0.0	-	-	-
PASNAS Total	%	-2.1	-35.4	13.9	6.4	14.3	0.1
Benchmark	%	1.4	3.3	14.1	8.2	11.5	0.8

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

[2] 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.

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

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

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

The overall portfolio delivered returns of -23.0%, -8.0% p.a. and -2.8% p.a. over the 12 months, 3 year and 5 year periods to 30 June 2023 respectively. Performance was negative for the three property funds, the two Multi-Asset funds (Newton and Columbia Threadneedle) and the LDI portfolio over the 12 month period to June 2023, and positive for all other funds.

Over the 12 month period, all the Scheme's growth funds except for the Northern Trust World Green Transition Index Fund underperformed their benchmarks. The growth portfolio returned -1.5% over this period, underperforming the composite benchmark return of 4.3%.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (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 Trustees agreed to update the strategic asset allocations at the meeting on 21 July 2023, with the new target allocations formally put in place after the end of the accounting period. The table below shows the target asset allocations that were in place during the accounting period, alongside the newly agreed target.

Mandate	Previous target allocation	New target allocation	Managers
Global Equities	27.5%	25.0%	Artemis Northern Trust
Diversified Growth Funds	15.0%	15.0%	Newton Columbia Threadneedle
Multi-Asset Credit	15.0%	10.0%	Hermes
Property	15.0%	15.0%	BlackRock Fidelity M&G
Protection Assets (comprising Liability Driven Investment, securitised credit and liquidity plus funds)	27.5%	35.0%	Schroder

The Trustees feel that the strategy set out above meets the objectives with an appropriate level of diversification, expected return and use of assets that are expected to reduce funding level volatility by moving in line with the change in estimated 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.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

Custodial arrangements

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

- BNY Mellon | BlackRock.
- J.P. Morgan Chase | Columbia Threadneedle, Federated Hermes, Fidelity, Newton and Schroders.
- Northern Trust (London) Company | Northern Trust.
- Northern Trust Global Service | Artemis
- Northern Trust (Guernsey) Limited | M&G.

Analysis of investments

At 31 July 2023 the investment managers had invested the investment assets of the Scheme as follows:

	2023	2022
	£000	£000
Managed Funds UK – Index linked securities	79,081	60,254
Managed Funds - Property	35,378	44,697
Multi Asset Credit Fund	22,667	35,948
Securitised Credit Fund	13,977	-
Absolute Return Fund	21,601	47,358
Global Select Fund	31,932	56,632
Liquidity fund	2,992	8,536
Cash deposits	89	30,123
Other investments	196	269
	<u>207,913</u>	<u>283,817</u>

The investment assets held by each investment manager as at 31 July 2023:

	2023	2022
	£000	£000
Artemis	31,932	56,632
BlackRock	10,739	13,338
Columbia Threadneedle	-	25,937
Fidelity	15,893	20,320
M&G	8,746	11,039
Northern Trust	24,128	38,088
Schroder	116,189	88,071
	<u>207,627</u>	<u>253,425</u>

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

Analysis of investments (continued)

Analysis of investments by investment manager as at 31 July 2023

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.

	2023	2022
	%	%
BlackRock		
Managed funds - property	99.6	99.8
Cash deposits	0.4	0.2
	<u>100.0</u>	<u>100.0</u>
	2023	2020
	%	%
Artemis		
Global Select Fund	100.0	100.0
	<u>100.0</u>	<u>100.0</u>
	2023	2022
	%	%
Schroder		
Managed funds	47.2	18.8
Multi Asset Credit Funds	19.5	30.4
Securitised Credit Funds	12.0	-
Absolute Return Funds	18.6	18.1
Liquidity funds	2.6	7.2
Cash deposits	0.1	25.5
	<u>100.0</u>	<u>100.0</u>

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

The Fidelity and M&G investments were held 100% in Managed Fund, Property at 31 July 2022 and 31 July 2023.

The Northern Trust investments were held 100% in Managed Funds at 31 July 2022 and 31 July 2023.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

Guaranteed Minimum Pensions

The High Court, in judgments involving Lloyds Bank defined benefits pension schemes, has held that trustees of such schemes, with Guaranteed Minimum Pensions (GMPs) accrued between 1990 and 1997, must address inequalities arising from GMPs in the benefits payable to their members. Inequalities can arise because GMPs must be calculated and paid in accordance with legislation, which has different terms for men and women. The judgments, which mean that some members will be due an uplift to their benefits, apply to members with benefits still secured or payable under affected schemes and to members who have previously transferred-out of these schemes.

The Trustees are aware that the issue will affect the Scheme and have agreed to the project to equalise the Scheme's GMPs to determine backdated benefit adjustments and provide interest on the backdated amounts. The Trustees have been unable to obtain a reliable estimate at the date of signing the financial statements and any adjustments necessary will be recognised in future financial statements, however the last actuarial valuation report by the Scheme Actuary at 31 July 2021 included an allowance of 0.5% in respect of GMP equalisation.

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.

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.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

The Pension Scheme Registry

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

Post Handling Site A

Wolverhampton

WV98 1AF

Tel: 0800 731 0193

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 Money and Pension Service (MAPS)

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 Money and Pension Service (MAPS). A local MAPS adviser can usually be contacted through a Citizen's Advice Bureau. Alternatively MAPS can be contacted at:

Holborn Centre

120 Holborn

London, EC1N 2TD

Telephone: 0115 965 9570

Email: contact@maps.org.uk

Website: www.maps.org.uk

The Pension Ombudsman (TPO)

In cases where a complaint or dispute cannot be resolved, normally after the intervention of MAPS, an application can be made to The Pension Ombudsman (TPO) for him to investigate and determine any complaint or dispute of fact or law involving occupational pension schemes. TPO can be contacted at:

10 South Colonnade

Canary Wharf

London, E14 4PU

Telephone: 0800 917 4487

Email: enquiries@pensions-ombudsman.org.uk

Website: www.pensions-ombudsman.org.uk

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

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 JULY 2023 (continued)

The Pensions Regulator


The Pensions Regulator 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. The Pension Regulator can be contacted at:

Telecom House
125 – 135 Preston Road
Brighton, BN1 6AF
Telephone: 0345 600 0707
Email: customersupport@tpr.gov.uk
Website : www.thepensionsregulator.gov.uk

Approved by the Trustees on 16 February 2024 and signed on their behalf by:

DocuSigned by:

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Adrian Gordon - Trustee

DocuSigned by:

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Julie Fielder - Trustee

THE 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 2023:

- How the Trustees’ 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.

The voting behaviour is not given over the Scheme year end to 31 July 2023 because investment managers only report on this data quarterly, we have therefore given the information over the year to 30 June 2023.

Stewardship policy

The Trustees’ Statement of Investment Principles (“SIP”) in force at 31 July 2023 describes the Trustees’ stewardship policy on the exercise of rights (including voting rights) and engagement activities.

The Scheme’s stewardship policy was updated over the year in order to incorporate three stewardship priorities that were agreed by the Trustees in July 2023. This has been reflected in the latest version of the SIP, which was updated post accounting year-end in October 2023. The latest version has been made available online here: <https://www.southampton.ac.uk/~assets/doc/finance/pasnas-statement-of-investment-principles.pdf>

The Trustees have established three stewardship priorities in order to implement their stewardship policy. These priorities have been chosen to reflect the best long-term interests of Scheme members. The Trustees have also confirmed that these priorities align closely with the University’s own values. These three stewardship priorities are:

- Environment and Climate;
- Diversity and Inclusion; and
- Strong Governance and Business Ethics

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

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
 - BlackRock
 - Columbia Threadneedle
 - Hermes
 - Fidelity
 - M&G
 - Newton
 - Northern Trust
 - Schroder
- 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 receive reports on ESG considerations, engagement, and voting from their investment managers, via their investment consultant, and review this to ensure alignment with their own policies.
- The Trustees are satisfied that the Scheme's stewardship priorities are addressed by the investment managers' voting behaviours. However, it is noted that Newton failed to provide an example of a significant vote on the topic of Environment & Climate, while Blackrock, Fidelity and Schroders did not provide engagement examples for the specific funds held by the Scheme.
- The Trustees are comfortable that the actions of the Scheme's investment managers are in alignment with the Scheme's ESG and Stewardship policies.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

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 2023:

Manager	Artemis	Northern Trust	Schroders (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	51	922	312	106
No. of eligible votes	845	13,881	4,532	1,507
% of resolutions voted	100.0%	98.0%	99.6%	98.9%
% of resolutions abstained ¹	0.0%	0.0%	1.5%	0.1%
% of resolutions voted with management ¹	92.0%	93.0%	88.8%	93.0%
% of resolutions voted against management ^{1*}	7.0%	6.0%	9.6%	7.0%
Proxy voting advisor employed	Artemis have their own voting policy and use the proxy adviser International Shareholder Service ("ISS") to implement this policy.	ISS	Threadneedle have their own proxy voting policy and they use the proxy adviser ISS to implement this policy.	Artemis have their own voting policy and use the proxy adviser International Shareholder Service ("ISS") to implement this policy.
% of resolutions voted against proxy voter recommendation	N/A	0%	N/A	3.2%

1As a percentage of the total number of resolutions voted on.

**ISS counts Abstain as a vote against management if the instruction is different from management recommendation.*

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

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Voting data (continued)

Significant votes

For the year under review, the Trustees have delegated the assessment of what constitutes a “significant vote” to the Scheme’s investment managers. The Trustees have since informed the investment managers of their stewardship priorities by email, which reflect the votes which the Trustees consider to be the most significant.

The investment managers have provided a selection of votes which they consider to be significant. The Trustees have selected a significant vote for each fund relating to each of the Scheme’s stewardship priorities, where provided. None of the significant vote examples provided by Newton addressed the issue of Environment and Climate, therefore, only two significant votes have been displayed for this fund. A summary of the significant votes provided is set out below.

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 2023.

THE 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	Westpac Banking Corp.	NVIDIA Corporation	Microsoft Corporation
Date of vote	14 December 2022	22 June 2023	13 December 2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)		Data not provided	
Summary of the resolution	Approve Climate Risk Safeguarding	Elect Director Stephen C. Neal	Report on Development of Products for Military
Stewardship Priority	Environment & Climate	Diversity & Inclusion	Strong Governance & Business Ethics
How the manager voted		For	
Rationale for the voting decision	Northern Trust generally votes for proposals that request a report or assessment of the impact of climate change on a company's operations and and/or initiatives to curtail the risks, unless sufficient information has been disclosed to shareholders.	As per Northern Trust policy, US listed companies must have at least 25% female representation on the board. In reviewing the NVIDIA board profile, it looked like female representation was below the 25% threshold at 23%. Therefore, Northern Trust targeted Stephen Neal, who sits as the Chair of the Nominating Committee, with the following custom rationale: "Northern Trust may vote against the Chair of the Nominating Committee where we have concerns relating to the composition and gender diversity of the board."	Northern Trust generally votes for proposals that request a report or assessment of the safety of a company's operations and a company's products and services and efforts to promote their safe use.
Outcome of the vote	Withdrawn	Pass	Fail
Implications of the outcome	Data not provided	Data not provided	Data not provided
Criteria on which the vote is considered "significant"	Vote against management	Data not provided	Vote against management

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Voting data (continued)

Schroders (Threadneedle) | Dynamic Real Return Fund

	Vote 1	Vote 2	Vote 3
Company name	Shell PLC	United Parcel Services, Inc.	Alphabet Inc.
Date of vote	23 May 2023	4 May 2023	2 June 2023
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.7%	0.1%	0.5%
Summary of the resolution	Approve the Shell Energy Transition Progress	Report on Effectiveness of Diversity, Equity and Inclusion Efforts	Publish Independent Human Rights Impact Assessment of Targeted Advertising Technology
Stewardship Priority	Environment & Climate	Diversity & Inclusion	Strong Governance & Business Ethics
How the manager voted	Abstain	For	For
Rationale for the voting decision	Whilst Threadneedle appreciate the progress made by Shell PLC, they felt abstaining was the best option to recognise this progress whilst retaining their position that they would prefer to see greater movements towards full Paris alignment in coming years.	The company should disclose its demographic workforce data as per the EEO-1 requirement. This will help to increase transparency and aid shareholders in assessing the effectiveness of the company's stated efforts to address related human capital material risks and opportunities.	The company faces risks related to human rights in its global operations. Good practice includes developing a clear human rights policy or code of practice, along with a narrative on how impacts are monitored and effectively mitigated.
Outcome of the vote	Pass	Fail	Fail
Implications of the outcome	Active stewardship (engagement and voting) continues to form an integral part of Threadneedle's research and investment process.		
Criteria on which the vote is considered "significant"	Vote against management	Data not provided	Data not provided

THE 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
Company name	NextEra Energy, Inc.	CME Group Inc.
Date of vote	4 May 2023	4 May 2023
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.5%	0.7%
Summary of the resolution	Disclose Board Skills and Diversity Matrix	Elect Director Timothy S. Bitsberger
Stewardship Priority	Diversity & Inclusion	Strong Governance & Business Ethics
How the manager voted	For	Against
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	n/a	No
Rationale for the voting decision	Newton supported this shareholder proposal requesting the disclosure of a board skills and diversity matrix as they believed it would help shareholders to assess how the company is managing related risks.	Newton voted against the re-election of the members of the compensation committee in line with their voting recommendation on executive remuneration arrangements. Further, in their opinion, the company did not exhibit adequate responsiveness to last year's significant shareholder dissent on executive pay.
Outcome of the vote	48.9% For	30.3% Against
Implications of the outcome	The high level of support shows that the issue is significant to shareholders, and it is expected that the company considers that a significant shareholder base would want to see the implementation of a board skill and diversity matrix.	This is the second consecutive year when the underlying say-on-pay proposal has not been approved by shareholders, which is a clear indication of consistent shareholder dissatisfaction with the pay practices at the company. Newton expect the company to reach out to shareholders to seek input for improvements.
Criteria on which the vote is considered "significant"	The vote is considered significant due to the materiality of the issue at hand and the level of support for the proposal.	The level of shareholder dissent against the compensation committee director but also the underlying say-on-pay proposal merits this vote as significant.

THE 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 2023.

Engagement activities are limited for the Scheme's LDI and cash funds due to the nature of the underlying holdings, so engagement information for these assets has not been shown. Schroders did not provide any engagement information for the Securitised Credit Pooled Fund.

Manager	Artemis	Northern Trust	Schroders (Newton)	Schroders (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	Yes	Yes
Number of engagements undertaken on behalf of the holdings in this fund in the year	148*	2,575	38	Data not provided	Data not provided
Number of entities engaged on behalf of the holdings in this fund in the year	132*	742	26	Data not provided	Data not provided
Number of engagements undertaken at a firm level in the year	1,515*	Data not provided	187	992	4,000

*The figures provided by Artemis reflect the total number of meetings with companies. Artemis do not currently break down specific engagement statistics, however work on this is in progress.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Fund level engagement (continued)

Manager	Fidelity	M&G	Schroders (Hermes)
Fund name	UK Real Estate	Secured Property Income Fund	Multi Strategy Credit Fund
Asset Class	Property	Property	Multi-Asset Credit
Does the manager perform engagement on behalf of the holdings of the fund?	No	No	Yes
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	No	No	Yes
Number of engagements undertaken on behalf of the holdings in this fund in the year	Data not provided	Data not provided	582
Number of entities engaged on behalf of the holdings in this fund in the year	Data not provided	Data not provided	102
Number of engagements undertaken at a firm level in the year	2,118**	218	4,304

**Fidelity only provide their engagement data over the year to 31 December 2022.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Examples of engagement activity over the year to 30 June 2023

Manager and Asset Class	Stewardship Priority	Engagement themes and examples of engagements undertaken with holdings in the fund
Artemis Global Equities	Strong Governance & Business Ethics	<p>Proctor & Gamble</p> <p>P&G is a multinational consumer goods company. Artemis contacted the Investor Relations team to get an update on the reported human rights issues regarding its palm oil supplier, FGV.</p> <p>Artemis were informed that they were no longer accepting any product from this supplier until they were certified that their palm oil was responsibly sourced. They are working with them to improve their processes and gain certification.</p> <p>P&G are also working with their other suppliers to improve processes and reported that all their other suppliers are RSPO certified. Artemis felt that this was a satisfactory response and continued to hold shares.</p>
Schroders (Newton) Diversified Growth	Environment & Climate	<p>Barclays</p> <p>Barclays has considerable exposure to the fossil fuel industry. Therefore, monitoring and encouraging the bank to strengthen its climate transition plan is important to ensure that the bank remains on track to achieve its emission reduction targets. Newton had a follow-up call to discuss the bank's updated climate transition plan disclosures made in its 2022 annual report.</p> <p>This engagement was part of an ongoing engagement Newton have had with Barclays over the past couple of years. On the bank's client transition framework of 150 clients, 80% have implemented climate targets. Barclays is due to disclose its client transition framework this year and Newton are pleased to see movement on this as they have been asking the bank to provide this for some time.</p> <p>Newton are continuing to monitor the bank's reporting on its client transition framework and will assess the progress vs. current sectoral targets disclosed by the bank.</p>
Schroders (Hermes) Multi-Asset Credit	Diversity & Inclusion	<p>ING Groep</p> <p>In the first part of a broad engagement, Hermes discussed market conditions, human capital management and gender diversity.</p> <p>The bank tends to 'score well' on culture, work-life balance and career opportunities, and believes it has retention strengths in the competitive environment. Hermes asked about its targets for gender diversity management, learning that it has now set a 30% goal for women in the top 350 managers by 2025, which it sees as a 'guidepost' rather than an 'end goal'.</p> <p>The bank is now conducting gender pay gap analysis for all markets which will inform its actions for closing the gap and building a strategy which ensures this shrinks or does not recur over time. Hermes provided feedback that a peer's €100m commitment to close this gap between women and men in management was a great start, but that it must now structurally evolve human capital management practices to remove bias and divergence that typically occurs after maternity breaks for women. Hermes will revisit this and ask for more detail on its diversity approach beyond gender in a future engagement.</p>

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Examples of engagement activity over the year to 30 June 2023 (continued)

Manager and Asset Class	Stewardship Priority	Engagement themes and examples of engagements undertaken with holdings in the fund
Northern Trust Global Equities	Environment & Climate	<p>Reliance Industries Oil and gas production and refining is a carbon intensive business. Integrated oil and gas companies are among the major emitters of Green House Gases (GHGs) throughout the value chain of oil and gas including production and refining, as well as use of final products. Sectors with high levels of emissions, such as integrated oil and gas, are under pressure to adopt net zero carbon commitments. The company has announced its net zero targets but only for direct operations and it doesn't include indirect (Scope 3) emissions which would contribute a substantial portion of overall emissions.</p> <p>NT engaged with the company to discuss the decarbonization strategy. NT recommended the company be more transparent about the roadmap to achieve its reported targets and report on short-term and medium-term carbon reduction targets. NT highlighted that the company lacks transparency on Scope 3 emissions reporting especially category 11 (use of sold products). To achieve the net zero targets, the company needs to include its indirect emissions as well.</p> <p>The company accepted the feedback and agreed to measure and report on Scope 3 emissions in future. Further, the company responded to NT that it would be more transparent about its carbon reduction targets including the operations which are under its influence. The company will also evaluate and report on the role of offsets to achieve its decarbonization related targets.</p>
M&G Property	Environment & Climate	<p>Atlas Hotels M&G engaged with their tenants, Atlas Hotels, with whom they share mutual ESG aspirations. M&G's engagement has focused on energy usage reduction and waste reduction, along with establishing the possibility of implementing portfolio-wide electric vehicle (EV) charging. M&G have also worked with Atlas Hotel's ESG team and general managers to consider Community Funding opportunities. However, the hotel has a nationwide approach to community engagement.</p>
Fidelity Property <i>Fidelity provided engagement examples at a firm level.</i>	Strong Governance & Business Ethics	<p>Tokyo Stock Exchange Fidelity undertook two engagements with the Tokyo Stock Exchange (TSE) in 2022 to push for rule-based changes for listed companies such that they act better in the interests of shareholders.</p> <p>Fidelity highlighted the consistently high proportion of TOPIC companies trading below price-to-book-value (P/B) ratios of 1x over the last decade. Fidelity attributed this to the lack of revision to the constituents, thereby stifling corporate value creation, as evidenced by older companies tending to perform worse; likely due to complacency.</p> <p>Fidelity's suggestions for improvement included requiring companies that continuously trade below P/B ratios of 1x to disclose improvement plans and where there was no material progress, they should be considered for removal from the Prime section.</p> <p>In January 2023, the TSE announced their "Future Actions in Response" to the main issues identified by the Follow-Up Council. This included mandating companies trading below P/B ratios of 1x to disclose an analysis of the current situation and an improvement plan with subsequent follow-ups.</p> <p>Fidelity believe that this engagement serves to promote the role of constructive dialogue between management and investors to increase long-term corporate value.</p>

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

IMPLEMENTATION STATEMENT (continued)

Examples of engagement activity over the year to 30 June 2023 (continued)

Manager and Asset Class	Stewardship Priority	Engagement themes and examples of engagements undertaken with holdings in the fund
Schroders (Threadneedle) Diversified Growth	Environment & Climate	<p>The Home Depot</p> <p>Columbia Threadneedle wanted to better understand Home Depot's sourcing commitments and encourage their further development. A video call was made with the Vice President of Sustainability and several portfolio managers to better understand the company's disclosures. Management heard Columbia Threadneedle's views on the need for continuous improvement in policies and disclosure on wood sourcing. The company does have granular information on the origin and certification of its wood products, which it will disclose. The company has also committed to respond to the CDP Forest's questionnaire. Additionally, Home Depot's wood sourcing policy will be expanded to a wider range of at-risk forest regions, including those where it does not source-to avoid ambiguity. Columbia Threadneedle will review Home Depot's progress and updated disclosures next year.</p>

THE 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

Opinion

We have audited the financial statements of The University of Southampton Pension and Assurance Scheme for Non-Academic Staff for the year ended 31 July 2023 which comprise the fund account, the statement of net assets and notes to the financial statements, including significant accounting policies. 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).

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 July 2023, and of the amount and disposition at that date of its assets and liabilities, other than 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; 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.

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 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.

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.

THE 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)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon and our auditor's statement about contributions. 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 Statement of Trustees' Responsibilities set out on pages 4 & 5, the Scheme's 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.

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.

THE 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 (continued)

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 specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

Our assessment focussed on key laws and regulations the Scheme has to comply with and areas of the financial statements we assessed as being more susceptible to misstatement. These key laws and regulations included but were not limited to compliance with the Pensions Act 1995 and United Kingdom Generally Accepted Accounting Practice.

We are not responsible for preventing irregularities. Our approach to detecting irregularities included, but was not limited to, the following:

- obtaining an understanding of the legal and regulatory framework applicable to the Scheme and how the Scheme is complying with that framework, including agreement of financial statement disclosures to underlying documentation and other evidence;
- obtaining an understanding of the Scheme's control environment and how the Scheme has applied relevant control procedures, through discussions and sample testing of controls;
- obtaining an understanding of the Scheme's risk assessment process, including the risk of fraud;
- reviewing Trustees' meeting minutes throughout the year; and
- performing audit testing to address the risk of management override of controls, including testing the appropriateness of journal entries and other adjustments made.

Whilst considering how our audit work addressed the detection of irregularities, we also considered the likelihood of detection based on our approach. Irregularities arising from fraud are inherently more difficult to detect than those arising from error.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**THE 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)**

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 and the Scheme's Trustees, as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink that reads "Cooper Parry Group Limited". The signature is written in a cursive style and is underlined with a single horizontal line.

Cooper Parry Group Limited
Statutory Auditor
Sky View
Argosy Road
East Midlands Airport
Castle Donington
Derby
DE74 2SA
Date: 16 February 2024

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

FUND ACCOUNT FOR THE YEAR ENDED 31 JULY 2023

	Notes	2023	2022
		£000	£000
CONTRIBUTIONS AND BENEFITS			
Contributions receivable			
Employer		6,794	37,578
Employee		151	148
Total contributions	2	<u>6,945</u>	<u>37,726</u>
Transfers in from other Schemes	3	1	61
Other income	4	248	82
		<u>249</u>	<u>143</u>
Benefits paid or payable	5	(9,283)	(8,354)
Payments to and on account of leavers	6	(63)	(91)
Other payments	7	(87)	(88)
Administration expenses	8	(856)	(991)
		<u>(10,289)</u>	<u>(9,524)</u>
NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS		<u>(3,095)</u>	<u>28,345</u>
RETURNS ON INVESTMENTS			
Investment income	9	1,593	742
Change in market value of investments	10	(73,766)	(27,555)
Investment management expenses		(175)	(150)
Custodian fees		(81)	(6)
		<u>(72,429)</u>	<u>(26,969)</u>
NET RETURNS ON INVESTMENTS		<u>(72,429)</u>	<u>(26,969)</u>
NET (DECREASE)/INCREASE IN THE FUND DURING THE YEAR		(75,524)	1,376
NET ASSETS AT 1 AUGUST		284,428	283,052
NET ASSETS AT 31 JULY		<u>208,904</u>	<u>284,428</u>

The notes on pages 36 to 47 form part of these financial statements.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 JULY 2023

	Notes	2023 £000	2022 £000
INVESTMENT ASSETS	10		
Pooled Investment Vehicles		207,628	253,425
Cash deposits		89	30,123
Other investment balances		196	269
		207,913	283,817
CURRENT ASSETS	13	1,357	1,100
CURRENT LIABILITIES	14	(366)	(489)
NET ASSETS OF THE SCHEME		208,904	284,428

The notes on pages 36 to 47 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 52 to 53 and these financial statements should be read in conjunction with this report.

The financial statements were approved by the Trustees on 16 February 2024 and signed on their behalf by:

DocuSigned by:

Adrian Gordon

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Adrian Gordon - Trustee

DocuSigned by:

Julie Fielder

E62E4CC77938471...

Julie Fielder - Trustee

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023

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).

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 in accordance with the schedule of contributions in force during the year. Additional contributions from the participating employers and additional voluntary contributions are accounted for when receivable.

Salary sacrifice

Employee’s contributions made under a salary sacrifice arrangement are accounted for on an accruals basis and are categorised as Employers’ contributions.

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.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023 (continued)

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Transfers to and from other Schemes

Individual transfers to and from the Scheme during the year are included in the financial statements on the basis of when the member liability is accepted or discharged which is normally when the transfer amount is paid or received. All the values were based on methods and assumptions determined by the consultant actuary advising the Trustees.

Investment income

Interest on bank deposits is accounted for as it accrues.

Income arising from the underlying investments of the pooled investment vehicles that is reinvested within the pooled investment vehicles is reflected in the unit price. Such income is reported within the change in market value, otherwise it is accounted for when declared by the fund manager.

Benefits payable

Benefits payable are included in the financial statements on an accruals basis when the member notifies the Trustees as to the type or amount of benefit to be taken, or where there is no choice, on the date of retirement or leaving. Pensions in payment are accounted for in the period to which they relate.

Death receipts

Claims received in respect of death benefit represent all valid claims in respect of the Scheme year.

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. 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.

Administrative expenses

Administrative expenses and insurance premiums are accounted for on an accruals basis.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023 (continued)

2 CONTRIBUTIONS RECEIVABLE

	2023	2022
	£000	£000
Employer		
Normal contributions	3,749	3,633
Deficit contributions	1,197	32,248
Insurance premiums and expenses contributions	233	-
Normal contributions arising from member salary sacrifice	1,615	1,697
	<u>6,794</u>	<u>37,578</u>
Employee		
Normal contributions	133	123
Additional voluntary contributions	18	25
	<u>151</u>	<u>148</u>
Total contributions	<u><u>6,945</u></u>	<u><u>37,726</u></u>

The Schedules of Contributions were agreed and certified by the Scheme Actuary on 3 October 2019 and 28 October 2022.

Under both Schedules of Contributions, 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%

Under the Schedule of Contributions certified by the Scheme Actuary on 28 October 2022, 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 – insurance and administration expenses	£400k per annum
By employers – normal	15.6%

3 TRANSFERS IN

	2023	2022
	£000	£000
Individual transfers in from other schemes	<u>1</u>	<u>61</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023 (continued)

4 OTHER INCOME

	2023	2022
	£000	£000
Life assurance benefits	248	-
Tax reclaims	-	82
	<u>248</u>	<u>82</u>

5 BENEFITS PAID OR PAYABLE

	2023	2022
	£000	£000
Pension payments to retired members	7,661	7,163
Commutation of pensions	1,421	1,113
Death in service – benefits	144	56
Death in service – refunded contributions	57	22
	<u>9,283</u>	<u>8,354</u>

6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2023	2022
	£000	£000
Refunds to members leaving service	8	-
Individual transfers out to other schemes	55	91
	<u>63</u>	<u>91</u>

7 OTHER PAYMENTS

	2023	2022
	£000	£000
Group life assurance premiums	<u>87</u>	<u>88</u>

Related claims under these policies are included within "Other Income" where received. Four claims were received in 2023 (2022 - No claims).

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023 (continued)

8 ADMINISTRATION EXPENSES

Expenses borne by the Scheme comprise:	2023	2022
	£000	£000
Investment advisers fees (including actuarial fees)	296	287
Audit fees	27	23
Staff costs (recharged by the University)	153	135
Pension Protection Fund (PPF) Levy	335	429
Other Scheme expenses	45	117
	<u>856</u>	<u>991</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

	2023	2022
	£000	£000
Dividends from equities	-	708
Income from managed funds	1,586	34
Interest on cash deposits	7	-
	<u>1,593</u>	<u>742</u>

10 INVESTMENT ASSETS

	Market value at 1 August 2022 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Market value at 31 July 2023 £000
Pooled investment vehicles:					
-Bonds	58,113	227,211	(129,050)	(64,677)	91,597
-Liquidity	8,536	124,670	(130,485)	271	2,992
-Property	44,697	19,549	(19,525)	(9,344)	35,377
-Equity	142,079	21,426	(85,827)	(16)	77,662
Total pooled investment vehicles	<u>253,425</u>	392,856	(364,887)	(73,766)	<u>207,628</u>
Cash instruments	30,123				89
Other investment balances	269				196
	<u>283,817</u>				<u>207,913</u>

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

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023 (continued)

10 INVESTMENT ASSETS (continued)

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

	2023	2023	2022	2022
	£000	% net assets	£000	% net assets
Artemis Global Select Fund	31,932	15.3%	56,632	19.9%
Hermes Multi Strategy Credit Fund	22,667	10.9%	35,948	12.6%
Newton Real Return	12,624	6.0%	21,421	7.5%
Blackrock UK PROP FD DIST UTS	10,739	5.1%	-	-
Fidelity UK Real Estate fund	15,893	7.6%	20,320	7.1%
Threadneedle Dynamic Real Return Fund	-	-	25,937	9.1%
Northern Trust World Green Index Fund	24,128	11.5%	38,088	13.4%
Schroders LDI Mandate	54,952	26.3%	22,164	7.8%
Schroders Securitised Credit Fund	13,977	6.7%	-	-

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 2023				
- Bonds	-	91,597	-	91,597
- Liquidity Fund	-	2,992	-	2,992
- Property	-	8,746	26,631	35,377
- Equity	-	77,662	-	77,662
Pooled investment vehicles	-	180,997	26,631	207,628
Cash deposits	89	-	-	89
Other investment balances	196	-	-	196
	<u>285</u>	<u>180,997</u>	<u>26,631</u>	<u>207,913</u>

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023 (continued)

11 FAIR VALUE DETERMINATION (continued)

	Level 1 £000	Level 2 £000	Level 3 £000	Total £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>

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.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023 (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	2023 value £000	2022 value £000
Artemis Global Select Fund	1	3	1	3	31,932	56,632
Northern Trust World Green Transition Index Fund	1	3	1	3	24,128	38,088
BlackRock UK Property Fund	2	1	2	3	10,740	13,338
Fidelity Property	2	1	2	3	15,893	20,320
M&G Secured Property Income Fund	2	1	2	3	8,746	11,039
Schroders (Newton) Sustainable Real Return Fund	2	2	2	3	12,624	21,421
Schroders (Hermes) Multi Strategy Credit Fund	3	2	2	2	22,667	35,948
Schroders (Columbia Threadneedle) Dynamic Real Return Fund	2	2	2	3	8,978	25,937
Schroders Securitised Credit Fund	3	2	2	2	13,977	-
Schroders Sterling Liquidity Plus Fund	3	2	1	1	2,992	8,536
Schroders LDI	2	1	3	1	54,951	22,166
Cash Fund Deposits	3	2	1	1	89	30,123

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

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023 (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 35.0% 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, the Scheme has a strategic asset allocation of 25% in global equities, which are subject to currency movements. There is also a degree of currency risk associated with investments in Columbia Threadneedle, Newton and Federated Hermes. Federated Hermes employ currency hedging to hedge back returns to sterling. Columbia Threadneedle and Newton can employ currency hedging where deemed appropriate.

Market risk: Other price

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

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023 (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 2023 £ 000	31 July 2022 £ 000
Investment Company with Variable Capital ("ICVC")	12,624	21,421
Open Ended Investment Company ("OEIC")	8,978	25,937
Unclassified Property Unit Trust	10,740	13,338
Property Authorised Investment Fund ("PAIF")	15,893	20,320
Guernsey Property Unit Trust	8,746	11,039
Undertakings in Collective Investment in Transferable Securities ("UCITS")	78,727	130,669
Société d'Investissement à Capital Variable ("SICAV")	71,920	30,701
Total	207,628	253,425

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.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023 (continued)

13 CURRENT ASSETS

	2023 £000	2022 £000
Other debtors	255	12
Cash Balances	<u>1,102</u>	<u>1,088</u>
	<u><u>1,357</u></u>	<u><u>1,100</u></u>

14 CURRENT LIABILITIES

	2023 £000	2022 £000
Amounts owed to the University of Southampton	149	27
Expense accruals	215	460
Social security	<u>2</u>	<u>2</u>
	<u><u>366</u></u>	<u><u>489</u></u>

Amounts owed to the University of Southampton represents employer contributions of £523,000 including salary sacrifice contributions of £132,000 (2022: £573,000 including salary sacrifice contributions of £133,000) and employee contributions of £13,000 (2022: £10,000), offset by a pensioner payroll recharge of £672,000 (2022: £605,000). 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 £13,000 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 £153,000 (2022: £135,000) are included within administrative expenses. At the year end creditors include £13,000 (2022: £10,000) in respect of administration expenses and £136,000 (2022: £17,000) in respect of pensioner payroll recharges 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.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2023 (continued)

16 GUARANTEED MINIMUM PENSION EQUALISATION

The High Court, in judgments involving Lloyds Bank defined benefits pension schemes, has held that trustees of such schemes, with Guaranteed Minimum Pensions (GMPs) accrued between 1990 and 1997, must address inequalities arising from GMPs in the benefits payable to their members. Inequalities can arise because GMPs must be calculated and paid in accordance with legislation, which has different terms for men and women. The judgments, which mean that some members will be due an uplift to their benefits, apply to members with benefits still secured or payable under affected schemes and to members who have previously transferred-out of these schemes.

The Trustees are aware that the issue will affect the Scheme and have agreed to the project to equalise the Scheme's GMPs to determine backdated benefit adjustments and provide interest on the backdated amounts. The Trustees have been unable to obtain a reliable estimate at the date of signing the financial statements and any adjustments necessary will be recognised in future financial statements, however the last actuarial valuation report by the Scheme Actuary at 31 July 2021 included an allowance of 0.5% in respect of GMP equalisation.

THE 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 for the Scheme year ended 31 July 2023 which is set out on page 50.

In our opinion contributions for the Scheme year ended 31 July 2023 as reported in the Summary of Contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Scheme Actuary on 3 October 2019 and 28 October 2022.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the Summary of Contributions have in all material respects been paid at least in accordance with the Schedules 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 Schedules of Contributions.

Respective responsibilities of Trustees and the Auditor

As explained more fully in the Statement of Trustees' Responsibilities, 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 Schedules of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedules of Contributions and to report our opinion to you.

**THE 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 (continued)**

Use of our report

This statement is made solely to the Scheme's 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 on contributions has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in such 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 Scheme and the Scheme's Trustees, as a body, for our work on contributions, for this statement, or for the opinions we have formed.

A handwritten signature in black ink that reads "Cooper Parry Group Limited". The signature is written in a cursive style and is underlined with a single horizontal line.

Cooper Parry Group Limited
Statutory Auditor
Sky View
Argosy Road
East Midlands Airport
Castle Donington
Derby
DE74 2SA
Date: 16 February 2024

THE 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 Schedules of Contributions were as follows:

	£000
Employer normal contributions	3,749
Employer deficit contributions	1,197
Employer insurance premiums and expenses contributions	233
Employer normal contributions arising from member salary sacrifice	1,615
Employee normal contributions	<u>133</u>
Total contributions per the Schedules of Contributions as reported on by the Scheme auditor	6,927
The following contributions payable were not required under the Schedules of Contributions:	
Employee additional voluntary contributions	<u>18</u>
	18
Total contributions per Fund Account	<u><u>6,945</u></u>

Approved by the Trustees on 16 February 2024 and signed on their behalf by:

DocuSigned by:

Adrian Gordon

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Adrian Gordon - Trustee

DocuSigned by:

Julie Fielder

E62E4CC77938471...

Julie Fielder - Trustee

**THE 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

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT ON ACTUARIAL LIABILITIES (forming part of the Report of the Trustees)

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: £339.5 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.

THE UNIVERSITY OF SOUTHAMPTON PENSION AND ASSURANCE SCHEME FOR NON-ACADEMIC STAFF

REPORT ON ACTUARIAL LIABILITIES (forming part of the Report of the Trustees) (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.

The next full actuarial valuation is due as at 31 July 2024.