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PENSIONS SUB COMMITTEE

25 November 2014

SECOND DESPATCH

Please find enclosed the following items:

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ISLINGTON

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Report of: Corporate Director of Finance

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	25 November 2014	**B2**	

Delete as appropriate	~~Exempt~~	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 JULY to 30 SEPTEMBER 2014

1. Synopsis

1.1 This is a quarterly report to the Pensions Sub-Committee to allow the Council as administering authority for the Fund to review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.

2. Recommendations

2.1 To note the performance of the Fund from 1 July 2014 to 30 September 2014

2.2 To note the quarterly WM Company report on the overall performance updated market value and asset allocation of the fund as at 30 September 2014 at Annex A

2.3 To receive the presentation by Allenbridge EPIC Investment Advisers, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 2.

2.4 To consider the update from the London CIV working party and the projected budget ,Appendix D and agree to continue to support their work by committing a further £50, 000.00 to be paid in 2 lots of £25,000.

3. Fund Managers Performance for July to September 2014

3.1 The fund managers' latest quarter net performance figures compared to the benchmark is shown in the table below.

Fund Managers	Asset Allocation	Mandate	Latest Quarter Performance (July-September'14) Net of fees	12 Months to September'14 Performance Net of fees

			Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	32%	UK equities	-0.9%	-1.0%	6.7%	6.1%
AllianzGI (RCM)	9%	Global equities	1.9%	3.2%	9.8%	11.8%
Newton	13%	Global equities	3.6%	3.2%	10.3%	11.8%
Legal & General	7%	Global equities	1.3%	1.4%	4.9%	5.4%
Standard Life	20%	Corporate bonds	2.6%	2.9%	8.3%	7.6%
Aviva (1)	4%	UK property	2.0%	5.1% 4.7%	8.8%	7.9% 19.7%
Threadneedle Investments (TPEN)	6%	UK commercial property	4.5%	4.0%	18.7%	16.6%
Hearthstone	2%	UK residential property	3.2%	2.0%	9.3%	10.8

(1) 5.1% and 7.9% = original Gilts benchmark; 4.7% and 19.7% are the IPD All property index; for information

3.2 The WM Company quarterly report (enclosed as Annex A) gives a detailed analysis of our fund managers' latest quarter performance as well as the combined fund performance. The fund's September 2014 market value and asset allocation is also shown in this report. Members are asked to note this report.

3.3 The combined fund performance for the last quarter ending September 2014 is shown in the table below. The Fund's quarterly under performance of -0.5% was attributable to -0.3 % of stock selection and -0.1% of asset allocation.

Combined Fund Performance	Latest Quarter Performance **Net** of fees		12 Months to September 2014 Performance Net of fees	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
LB of Islington Fund	1.1%	1.7%	8.7%	9.2%

3.4 Copies of the latest quarter fund manager reports are available to members for information if required.

3.5

The WM local authority universe is group of pension funds of similar characteristics but different sizes and deemed as a peer group for comparison. The Islington combined fund performance over the 1, 3 and 5 years period to September 2014 compared to its customised benchmark and percentile ranking are shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance	8.7%	12.3%	9.3%
LBI customised benchmark	9.2%	12.1%	9.2%
Percentile ranking in the peer group	60	38	40

A summary page showing the fund's long term returns at asset class level with its rankings in the WM LA Universe peer group is attached as Appendix 1.

3.6 **AllianzGI (RCM)**

3.6.1 AllianzGI (formerly known as RCM) is the fund's global equity manager with a mandate to outperform the FTSE All World Index Benchmark by 3% per annum, gross of fees, measured over a 3-year rolling period from 8 June 2011.

3.6.2 In the September quarter the fund under performed net of fees by returning 1.9 % against a benchmark of 3.2%. Since inception in December 2008, portfolio has returned 12.7% against a benchmark of 14.4% net of fees with a relative underperformance of -1.3% per annum.
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3.6.3 Stock selection in consumer goods and industrials sectors were the main detractors on performance, while over weights positions in health care, and underweights in oil and gas was positive.

3.7 **Newton Investment Management**

3.7.1 Newton is the fund's other global equity manager with an inception date of 1 December 2008. The objective of the fund is to outperform the FTSE All World Index by 2.0% per annum over rolling 3 year periods, net of fees. The fund out-performed by returning 3.6% net of fees against a benchmark of 3.2% for the September quarter. Since inception the fund has delivered a relative underperformance of - 0.2%. per annum

3.7.2 The outperformance this quarter was mainly driven by stock selection information technology and consumer discretionary sectors. An underweight position in financial sectors was also positive.

3.8 **In House Tracker**

3.8.1 Since 1992, the UK equities portfolio of the fund has been managed in-house by officers in the Loans and Investment section by passive tracking of the FTSE 350 Index. The mandate was amended as part of the investment strategy review to now track the FTSE All Share Index within a +/- 0.5% range per annum effective from December 2008. The fund returned -0.9% against a benchmark of -1.0% for the September quarter.

3.8.2 Purchases of £13million were completed by the end of September to bring the tracking error to 0.22%. Number of stocks now held is 303 and there was a net withdrawal from private equity and property of £282,000.

3.9 **Standard Life**

3.9.1 Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 year rolling period. During the September quarter, the fund returned 2.6% against a benchmark of 2.9% and a 3 year relative return of 1.1% per annum.

3.9.2 The main driver behind the underperformance during the quarter was due to being short gilt duration and overweight exposure to high yield rated financials. Underweight exposure to Russia risk was positive.

3.9.3 The forward strategy after reducing high yield for gilts is, we now have the flexibility to exploit opportunities and add adequately priced risk.

3.10 **Aviva**

3.10.1 Aviva manages the fund's UK property portfolio. They were appointed in 2004 and the target of the mandate is to outperform their customised gilts benchmark by 1.5% (net of fees) over the long term. The portfolio is Long Lease to Value Property managed under the Lime Property Unit Trust Fund.

3.10.2 The fund for this quarter delivered a return of 2.0% against a gilt market of 5.1 %. The All Property IPD benchmark returned 4.7% for this quarter. Since inception the fund has delivered an absolute return of 6.4% net of fees.

3.10.3 Quarter three saw the sale completion of 2 assets with a transaction price of £85m. The fund has maintained an unexpired average lease term of 20.1 years and increased diversification. Lime is well positioned to deliver attractive returns over the medium term.

3.10.4 £75million new capital commitment was received during the quarter and the fund now holds 60 assets with 41 tenants and a 0% void.

3.11 **Threadneedle Property Pension Limited (TPEN)**

3.11.1 This is the fund's UK commercial pooled property portfolio that was fully funded on 14 July 2010 with an initial investment of £45 million. The net asset value at the end of September was £58.4million.

3.11.2 The agreed mandate guidelines are as listed below:

- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since I January 2014.
- Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods.
- Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term.
- Income yield on the portfolio at investment of c.8.5% p.a.
- Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.

3.11.3 The fund returned 4.5% against its benchmark of 4.0% for the September quarter and a rental income yield of 6.5%. The cash balance is now stands at 5.9% of the fund and the aim is to maintain within a range of 5-7% throughout 2014. There is a strong asset diversification at portfolio level with a total of 251 properties. As a result of new letting activity and fixed rental value increases the fund's property portfolio rent roll is set to increase by £5.65million by 30 September 2016.

3.12 **Passive Hedge**

3.12.1 The fund currently hedges 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is being run by BNY Mellon our custodian. At the end of the September quarter, the hedged overseas equities returned 1.3% compared to the unhedged combined return of 2.6%.

3.13 **Franklin Templeton**

3.13.1 This is the fund's global property manager appointed in 2010 with an initial investment commitment of £25million. The agreed mandate guidelines are listed below:

- Benchmark: Absolute return
- Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point.

- Bulk of capital expected to be invested between 2 – 4 years following fund close.
- Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.

3.13.2 There was no capital call to the end of September and so the total drawdown is $23.6million and return of funds of $6.4m. The projected net internal rate of return is 17.26%

3.13.3 Members agreed to invest $40million in Fund 2 and delegate to Director of Finance and Director of Legal to undertake due diligence and agree terms. We have negotiated a 0.10% basis point reduction in fees.
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3.14. **Legal and General**

3.14.1 This is the fund's passive overseas equity index manager. The fund inception date was 8 June 2011 with an initial investment of £67million funded from transfer of assets from AllianzGI (RCM). The funds are managed passively against regional indices to formulate a total FTSE All World Index series. The portfolio returned 1.3% net of fees against a benchmark of 1.4% for the quarter with a 12 months relative return -0.5%. The 3 year absolute return is 8.4% with a market value of £72.5.

3.15 **Hearthstone**

3.15.1 This is the fund's residential UK property manager. The fund inception date was 23 January 2013, with an initial investment of £20million funded by withdrawals from our equities portfolios**.** The agreed mandate guidelines are as follows:

- Target performance: UK HPI + 3.75% net income.
- Target modern housing with low maintenance characteristics, less than 10 years old.
- Assets subject to development risk less than 5% of portfolio.
- Regional allocation seeks to replicate distribution of UK housing stock based on data from Academics. Approximately 45% London and South East.
- 5-6 locations per region are targeted based on qualitative and quantitative assessments and data from Touchstone and Connells.
- Preference is for stock which can be let on Assured Shorthold Tenancies (ASTs) or to companies.
- Total returns expected to be between 6.75% and 8.75% p.a., with returns split equally between income and capital growth. Net yields after fund costs of 3.75% p.a.
- The fund benchmark is the LSL Academetrics House Price Index

3.15.2 For the September quarter the value of the fund investment was £22.053m and total funds under management are £29.9million. Performance net of fees was 3.2% compared to the benchmark of 2.0%., and 12 month relative return -1.4%. The income yield after cost was 4.5%. The portfolio had 125 properties, 70 were let on licence and leaseback agreement to house builders and 49 properties let on assured short term agreements. 8 properties have received notices to vacate in October and January. 6 properties are vacant, though 5 are reserved by tenants for October

3.16 **LGPS London Common Investment Vehicle Update**

Members agreed in 2013 to commit £25,000 to the set up cost of "exploring the proposal "and be a shareholder.This allowed membership on the board and the option to invest once it was up and running.

3.17 Now considerable work has been done over the summer including informal discussions with a number of organisations that may be able to partner with the company in a mixed economy of in-house and out-sourced functions and responsibilities. However, it is clear that the Technical sub group TSG does not have the necessary experience or knowledge to finalise this critical area of the project without calling on significant input from external advisors.

3.17.1 In order to take this forward a mini tender is being prepared to procure an advisor (consultant) with detailed knowledge of what the project is seeking to achieve combined with expert knowledge of the investment industry and this both new and complex type of investment vehicle. Overall the scope of this work will cover working with the TSG to design and build the operating model, procuring a third-party provider to deliver the outsourced functions, and taking us through the regulatory stages with the FCA including designing the various procedures and drafting the necessary manuals and so on.

3.17.2 The other large area of expenditure is the potential cost of Company officers and recruiting them. At present the exact date and whether these are part time or full time is to be determined by the Board of Directors in the near future but in order to get FCA approval for the ACS, we will need actual names on the doors rather than just an idea as to who we might like to do the job. The same applies to non Executive Directors.

3.17.3 A copy of the budget attached as Appendix D shows that with a fair wind they are close to achieving the setting up for the original “finger in the air” estimate of £1.5 million but the permanent staff set up costs and the additional consultancy work on the ACS structure has brought this over the £1.5 million

3.17.4 Turning to the benefits of the CIV, discussions have started with the fund managers, initial indications are an average reduction on fees of 20% which will be further worked on. In addition to the above the CIV will give through the ACS structure additional benefits arising from the ability to reclaim withholding tax from a number of foreign domains that are not available through other structures. For those with overseas equities this increased income will not be insignificant. In addition there will be saving on procurement, FX transactions etc. It is quite clear to me that, even in year 1, the savings will significantly outweigh the £75,000 cost for most if not all boroughs, and as we go forward in future years the ROI will continue to grow.

3.17.5 Members are asked to consider the progress made to date and the budget Appendix D and agree to commit the extra £50,000 being requested.

4. Implications

4.1 **Financial implications:**
The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.

Fund management and administration fees and related cost are charged to the pension fund.

4.2 **Legal Implications:**
As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.

4.3 **Equality Impact Assessment:**
The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising**.**

4.4 **Environmental Implications**
None applicable to this report.

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending September 2014 as part of the regular monitoring of fund performance and Consider the progress to date on the London CIV and agree to commit £50,000 towards the set up cost.

Background papers:
1. Quarterly management reports from the Fund Managers to the Pension Fund.
2. Quarterly performance monitoring statistics for the Pension Fund – WM Company

Final report clearance:

Signed by:

	Corporate Director for Finance	Date
Received by:		
	Head of Democratic Services	Date

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APPENDIX 1

Summary of Long Term Returns

LONDON BOROUGH OF ISLINGTON - TOTAL COMBINED | **Periods to end September 2014**
Benchmark - LOCAL AUTHORITY UNIVERSE | **Pound Sterling**

This page summarises the long term returns at asset class level
A ranking against the peer group is shown in brackets.

	2011	--------------- 2012 ------------ ---				--------------- 2013 ----------- ----				---------- 2014 ------ ----			1yr	3yrs	5yrs
Return %	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3		% pa	% pa
Total Equity	7.3	8.1	-3.1	5.2	2.4	10.9	-0.6	4.3	4.6	0.1	2.9	0.2	7.9	14.5	10.1
	(38)	(64)	(18)	(10)	(90)	(97)	(67)	(19)	(75)	(56)	(1)	(96)	(73)	(80)	(46)
Private Eq	-4.5	0.1	1.2	-1.1	-0.3	3.7	6.9	0.6	-1.6	2.6	0.6	1.2	2.8	3.1	8.6
UK Equities	8.8	6.2	-2.1	4.5	3.9	10.8	-1.7	5.5	5.5	-0.3	2.3	-0.9	6.6	14.6	10.5
	(24)	(58)	(14)	(77)	(44)	(39)	(75)	(74)	(56)	(28)	(26)	(34)	(31)	(50)	(47)
O/S EQ Hedge	7.9	12.3	-5.0	7.3	1.0	12.3	-0.4	3.5	4.6	0.1	4.0	1.3	10.3	16.8	9.9
O/S Equities	7.1	10.7	-3.4	5.1	1.9	13.8	-1.1	1.3	3.7	-0.2	3.0	2.6	9.4	15.2	9.3
	(22)	(20)	(12)	(16)	(93)	(53)	(73)	(63)	(70)	(82)	(18)	(41)	(64)	(50)	(63)
N. America	*11.4*	*11.4*	*-0.6*	*4.8*	*-2.3*	*19.2*	*2.8*	*1.0*	*8.6*	*0.8*	*2.3*	*5.1*	*17.7*	*22.5*	*15.1*
	(49)	*(16)*	*(16)*	*(14)*	*(96)*	*(15)*	*(37)*	*(16)*	*(12)*	*(85)*	*(58)*	*(71)*	*(62)*	*(16)*	*(17)*
Europe ex UK	*6.7*	*9.4*	*-3.0*	*7.6*	*5.4*	*14.2*	*1.5*	*4.1*	*5.9*	*0.8*	*1.7*	*-2.0*	*6.5*	*18.2*	*8.1*
	(6)	*(68)*	*(6)*	*(19)*	*(86)*	*(21)*	*(20)*	*(84)*	*(32)*	*(91)*	*(14)*	*(47)*	*(41)*	*(11)*	*(30)*
Japan	*-3.2*	*9.4*	*-3.2*	*-1.6*	*1.4*	*22.6*	*7.8*	*3.9*	*-4.0*	*-5.6*	*3.2*	*3.4*	*-3.3*	*10.8*	*5.4*
MGJE	*-3.6*	*8.0*	*-5.5*	*-3.5*	*5.0*	*19.5*	*4.4*	*0.3*	*0.0*	*-5.9*	*4.2*	*3.1*	*1.2*	*8.0*	
Pacific	*3.2*	*11.0*	*-5.5*	*6.1*	*3.7*	*8.7*	*-9.0*	*0.3*	*-4.8*	*-2.7*	*2.6*	*4.8*	*-0.4*	*5.6*	*5.4*
	(85)	*(26)*	*(75)*	*(80)*	*(80)*	*(81)*	*(48)*	*(68)*	*(92)*	*(90)*	*(45)*	*(11)*	*(93)*	*(95)*	*(87)*
Other Intl.	*4.8*	*10.8*	*-7.6*	*5.3*	*5.3*	*5.7*	*-8.9*	*-1.2*	*-1.8*	*-0.8*	*5.3*	*1.7*	*4.3*	*5.7*	*4.5*
	(50)	*(52)*	*(63)*	*(36)*	*(33)*	*(64)*	*(84)*	*(63)*	*(85)*	*(54)*	*(13)*	*(60)*	*(69)*	*(82)*	*(67)*
Bonds + IL	*2.8*	*3.4*	*2.1*	*6.2*	*2.7*	*1.8*	*-2.8*	*2.5*	*0.4*	*2.8*	*2.3*	*2.6*	*8.3*	*9.1*	*8.0*
	(89)	*(2)*	*(47)*	*(2)*	*(38)*	*(76)*	*(20)*	*(6)*	*(17)*	*(36)*	*(11)*	*(66)*	*(33)*	*(11)*	*(35)*
Total Bonds	2.8	3.4	2.1	6.2	2.7	1.8	-2.8	2.5	0.4	2.8	2.3	2.6	8.3	9.1	8.0
	(76)	(5)	(66)	(8)	(16)	(46)	(25)	(11)	(16)	(30)	(17)	(70)	(27)	(15)	(29)
UK Bonds	*2.8*	*3.4*	*2.1*	*6.2*	*2.7*	*1.8*	*-2.8*	*2.5*	*0.4*	*2.8*	*2.3*	*2.6*	*8.3*	*9.1*	*8.2*
	(82)	*(2)*	*(69)*	*(10)*	*(13)*	*(27)*	*(18)*	*(14)*	*(17)*	*(30)*	*(21)*	*(75)*	*(35)*	*(11)*	*(28)*
UK Corp Bond	*2.8*	*3.4*	*2.1*	*6.2*	*2.7*	*1.8*	*-2.8*	*2.5*	*0.4*	*2.8*	*2.3*	*2.6*	*8.3*	*9.1*	*8.3*
	(55)	*(21)*	*(52)*	*(32)*	*(25)*	*(38)*	*(18)*	*(37)*	*(18)*	*(38)*	*(46)*	*(79)*	*(30)*	*(29)*	*(33)*
Cash/ Alts	-0.0	-1.1	0.6	0.2	0.1	1.0	2.5	0.1	0.2	0.6	0.3	0.4	1.5	1.6	2.4
	(44)	(92)	(32)	(53)	(69)	(71)	(19)	(27)	(56)	(55)	(52)	(68)	(70)	(65)	(55)
Cash	*-0.0*	*-1.1*	*0.6*	*0.2*	*0.1*	*1.0*	*2.5*	*0.1*	*0.2*	*0.6*	*0.3*	*0.4*	*1.5*	*1.6*	*0.8*

	(51)	*(95)*	*(22)*	*(34)*	*(39)*	*(27)*	*(16)*	*(21)*	*(25)*	*(19)*	*(27)*	*(34)*	*(23)*	*(17)*	*(45)*
Curr Instr	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK Property	1.5	1.1	0.6	0.5	1.3	0.7	1.8	1.7	3.2	2.6	3.9	3.5	13.8	7.6	8.1
	(28)	(19)	(25)	(28)	(18)	(64)	(44)	(78)	(80)	(78)	(63)	(75)	(90)	(65)	(78)
Gbl Property	0.2	-7.0	6.5	-11.5	-0.8	5.2	5.3	-7.9	3.7	1.4	20.7	9.0	38.3	7.1	
FRANKLIN TEM	0.2	-4.7	3.8	-8.1	0.0 #										
FRANKLIN TEM	0.2	-7.4	6.9	-12.1	0.0 #										
FRANKLIN TEM					-0.8 #	5.2	5.3	-7.9	3.7	1.4	20.7	9.0	38.3		
Total Assets	5.5	6.1	-1.5	4.7	2.3	7.5	-0.7	3.4	3.5	0.9	2.9	1.1	8.7	12.3	9.3
	(57)	(22)	(30)	(4)	(72)	(89)	(43)	(14)	(57)	(55)	(4)	(88)	(60)	(38)	(40)

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AllenbridgeEpic
investment advisers

REPORT PREPARED FOR

London Borough of Islington Pension Fund

14th November 2014

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1. Fund Manager Overview

Table 1 provides an overview of the external managers, in accordance with the Committee's terms of reference for monitoring managers.

Table 1

Manager	Departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
AllianzGI (RCM)	Five joiners and four leavers during the quarter.	Quarterly return broadly behind the Index by -1.3%. Outperforming over three years by +1.3% p.a. but still behind the target of +3.0% p.a.	£287 billion as at 31st December 2013 (latest published data.)		
Newton	Richard Wilmot, manager of the £1bn UK Equity Fund for Newton, has left the firm. No joiners this the quarter.	Outperformed the Index by +0.4% in the quarter. Also outperforming over three years by +1.1% per annum, but trailing the target of +2% p.a. Outperformance is attributable to successful stock selection.	£50.9 billion as at 30th June 2014, September figures not yet available.		
Standard Life	30 joiners and 14 leavers during the quarter. Craig Williamson, a Partner in SL Capital has retired after 12 years with the firm.	Over three years the Fund has outperformed by +1.1% p.a. and is now ahead of the performance target of +0.8% p.a.	Underlying fund has fallen in value by £138.6m this quarter. In two years the fund has dropped by £1 billion. £195.1 billion assets under management as at 30th June 2014.	Holding 6.1% in high yield non-benchmark bonds.	

Manager	Departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Aviva	47 leavers and 63 joiners in Q3. 6 leavers and 8 joiners in real estate. Ian Womack, CEO of Real Estate, will be leaving the firm to pursue a new challenge.	Outperformed the benchmark by +2.3% p.a. over three years.	Fund was valued at £1.28 billion as at end Q3 2014.		
Thread-needle	Two new joiners and six leavers in Q3 2014. None of these was from the property team.	Outperformed the benchmark by +2.4% per annum over three years – ahead of their performance target.	£92.8 billion in assets worldwide as at 30th June 2014. Pooled fund has assets of £1.37 billion.		
Legal and General	Not reported.	Regional funds are all tracking the indices.	£465 billion of assets under management for over 3,000 clients worldwide as at end June 2013.		
Franklin Templeton	Not reported.	Another good quarter with a return of +9.0%. Beating the absolute return performance target of 10% p.a. by +25.7% over 12 months but trailing it by -2.6% over three years.			

Manager	Departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Hearth-stone	Mark Witherspoon, Commercial Development Director, and Michael Blake, Interim Head of Finance, left the firm. Prakash Shar has replaced Michael Blake.	Ahead of the benchmark during the quarter by +1.1%, and behind by -1.4% for the twelve months to September 2014.	Fund was valued at £30.0m at end Q3 2014. Islington's holding represents 74% of the Fund.		

Key to shading in Table 1:

Minor concern

Monitoring required

2. Individual Manager Reviews

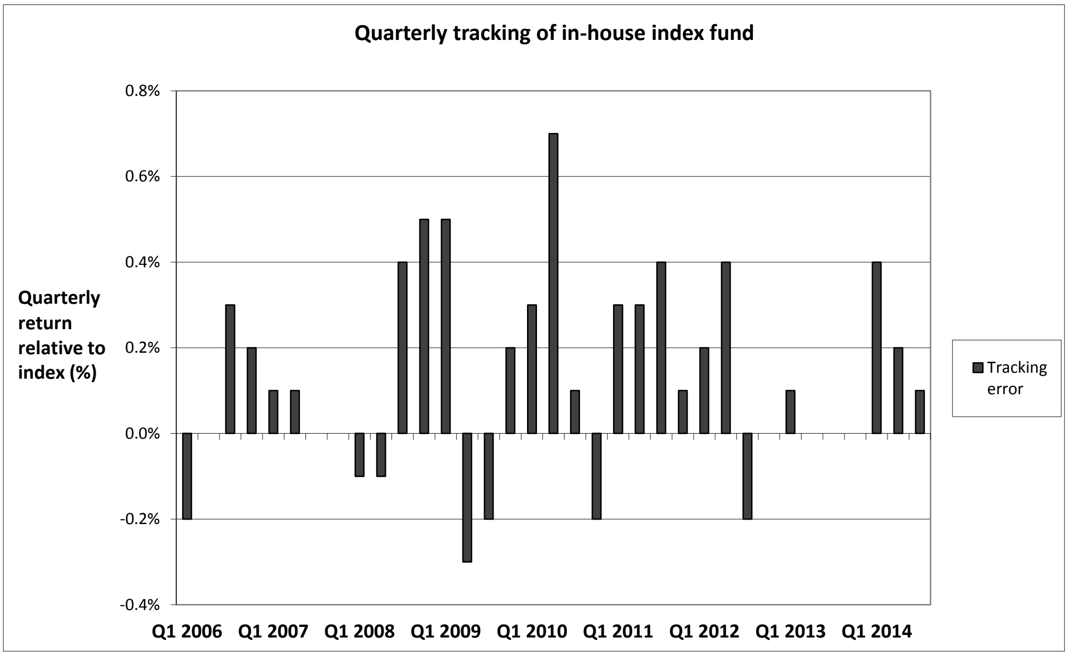
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

Headline comments: The portfolio continues to meet its objectives. The fund delivered a quarterly return slightly ahead of the index benchmark (-0.9% versus -1.0%). Over three years the fund has outperformed the index by +0.4% p.a.

Mandate summary: A UK equity index fund designed to match the total return on the UK FTSE All Share Index. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the index.

Performance attribution: Chart 1 shows the tracking error of the in-house index fund against the FTSE All Share Index since Q1 2006. **There are no performance issues.** Over three years, the small quarterly positive relative returns (shown in Chart 1) have accumulated, and as a result the portfolio has outperformed its benchmark by +0.4% per annum.

Chart 1



Source: AllenbridgeEpic based on WM figures

Portfolio risk: The tracking error on the portfolio as at end September was 0.21% per annum. In terms of sector bets, relative to the Index, the largest underweight sector position relative to the index was Financials (-0.8%). The fund was most overweight in Cyclical Services (+0.4%). This compares with sector bets of around 5-10% for the active managers.

Portfolio characteristics: The total number of holdings in the portfolio stood at 303 securities at the end of Q3 2014. There were £13 million of purchases across 150 securities, during the quarter, just after the Scottish Referendum, bringing the portfolio value to £322.2 million by the end of September.

2.2. AllianzGI (RCM) – Global Active Equities

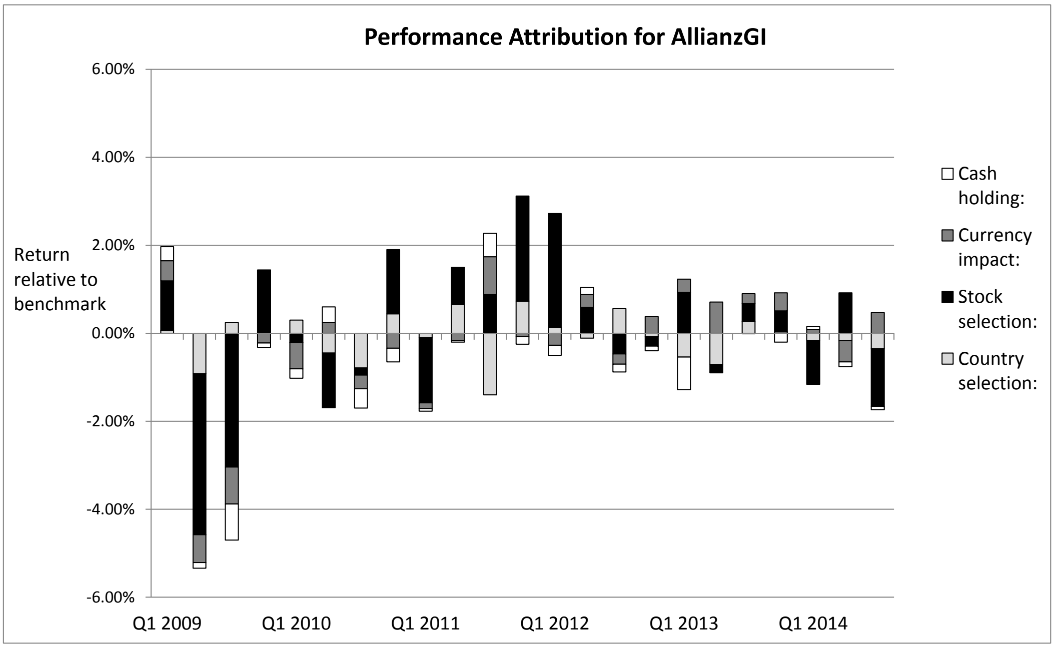
Headline comments: In terms of relative performance, the fund had a poor quarter, trailing the index by -1.3%. Over three years the fund is outperforming by +1.3% per annum, however, mainly due to successful stock selection.

Mandate summary: An active global equity portfolio. AllianzGI operates a bottom-up global stock selection approach. They employ a team of research analysts to identify undervalued stocks in each geographical region (Europe, US, Asia Pacific). A global portfolio team is responsible for constructing the final portfolio. The objective of the fund is to outperform the FTSE All World Index by 3.0% per annum over rolling 3 year periods gross of fees.

Performance attribution: Chart 2 shows a breakdown of AllianzGI's quarterly performance since Q1 2009 relative to the benchmark.

Over the past three years, AllianzGI is ahead of its benchmark by +1.3% per annum, although **they are still trailing their performance target of 3% per annum**. Stock selection has made the biggest positive contribution over the past three years (+1.7% per annum). This is shown in the black bars in Chart 2 for each quarter. Currency selection has also made a positive contribution over three years (+0.6% p.a.), but this has been offset by poor country bets (-0.1% p.a.) and by the cash holding (-0.5% p.a.)

Chart 2



Source: AllenbridgeEpic based on AllianzGI figures

Portfolio risk: In terms of sector bets, relative to the benchmark, the largest underweight sector position relative to the index is now Financials (-4.0%). The fund remains most overweight Industrials (+8.3%).

In terms of regional bets, the fund remains most overweight to Europe (+8.9% overweight). The largest underweight region is Emerging Markets (-5.3% underweight). The cash position stood at 3.6%.

Portfolio characteristics: The total number of holdings in the portfolio stood at 58 securities at the end of Q3 2014, within AllianzGI's normal range of 50-60 names. The beta on the portfolio was 0.99 at the end of September. This was a more defensive position than as at end June when the beta stood at 1.03.

Staff turnover: There were five joiners and four leavers during the quarter.

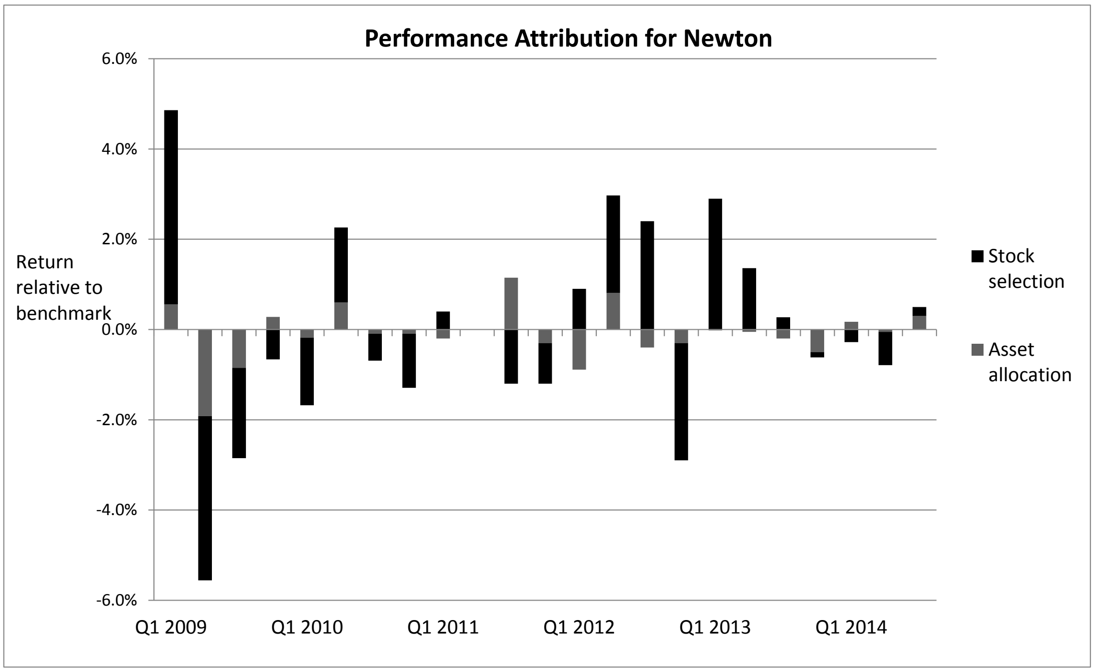
2.3. Newton – Global Active Equities

Headline comments: Newton were ahead by +0.4% during the quarter but the 12 month relative track record remains in negative territory at -1.3%. Over three years the picture looks better with outperformance of +1.1% per annum. This can be attributed to positive stock selection decisions (+1.8% p.a.) offset by negative asset allocation decisions (-0.5% p.a.). The fund's target performance is +2.0% per annum ahead of the benchmark.

Mandate summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that impact the economy and industry. Some are broad themes that apply over the longer term; others are cyclical. Stock selection is based on the industry analysts' thematic recommendations. The objective of the fund is to outperform the FTSE All World Index by 2.0% per annum over rolling 3 year periods, net of fees.

Performance attribution: Chart 3 shows the attribution of relative performance between stock selection and asset allocation.

Chart 3



Source: AllenbridgeEpic based on Newton's performance attribution figures

Over the three years to September 2014, Newton was ahead of the benchmark, with a return of +17.0% p.a. compared to the index return of +15.7% p.a., an outperformance of +1.1% p.a. Stock selection accounted for +1.8% outperformance whilst asset allocation was negative (-0.5%). Note that the performance target is +2% p.a. outperformance over three years. **The fund is trailing its performance objective.**

In terms of stock and sector selection, during the quarter the most successful sector bet was Consumer Services (+0.5% contribution to relative performance) where Newton held an overweight position. The least successful sector was again Healthcare (-0.4% relative performance). Over the past 12 months, the Healthcare sector has detracted -0.9% from relative performance.

Portfolio Risk: The largest overweight regional allocation was in European Equities (+7.7% overweight). This has been a long-standing position that has been in place since Q3 2011. Successful stock selection in this region added +0.5% to relative performance during the quarter. The most underweight allocation remained Other Equities (-6.0%).

In terms of sector bets, Newton allocated more to the Healthcare sector during the quarter, making this the most overweight sector by quarter end (+8.5%). Note that this sector bet has detracted from performance over the past twelve months. The most underweight sector remained in Financials (-10.4%).

The level of active risk in the portfolio (i.e. the relative risk of the active bets being taken by Newton, or the tracking error) has increased to 2.7% as at quarter end, having dropped below the normal range of 2% and 6% last quarter. The concern with Newton's active risk is that too low a level will limit the manager's ability to meet the performance objective of +2% per annum outperformance a year over a three year period. It is certainly the case that relative returns are exhibiting more of a benchmark-hugging profile in the past twelve months, as shown in Chart 3.

Portfolio characteristics: At the end of Q3 2014, the portfolio held 80 securities (also 80 as at the end of Q2 2013). This at the lower end of Newton's expected range of between 80 and 120 stocks. Turnover over the past 12 months was 31%, at the low end of Newton's normal expected range of turnover to 30%-70%.

Staff turnover: during the quarter Richard Wilmot left the firm. He was the manager of Newton's £1 billion UK Equity Fund. He had previously been the manager of the £1.9 billion Higher Income Fund, but was replaced by Chris Metcalfe in March of this year.

Organisation: as at end June 2014, assets under management stood at £50.9 billion.

2.4. Standard Life – Fixed Income

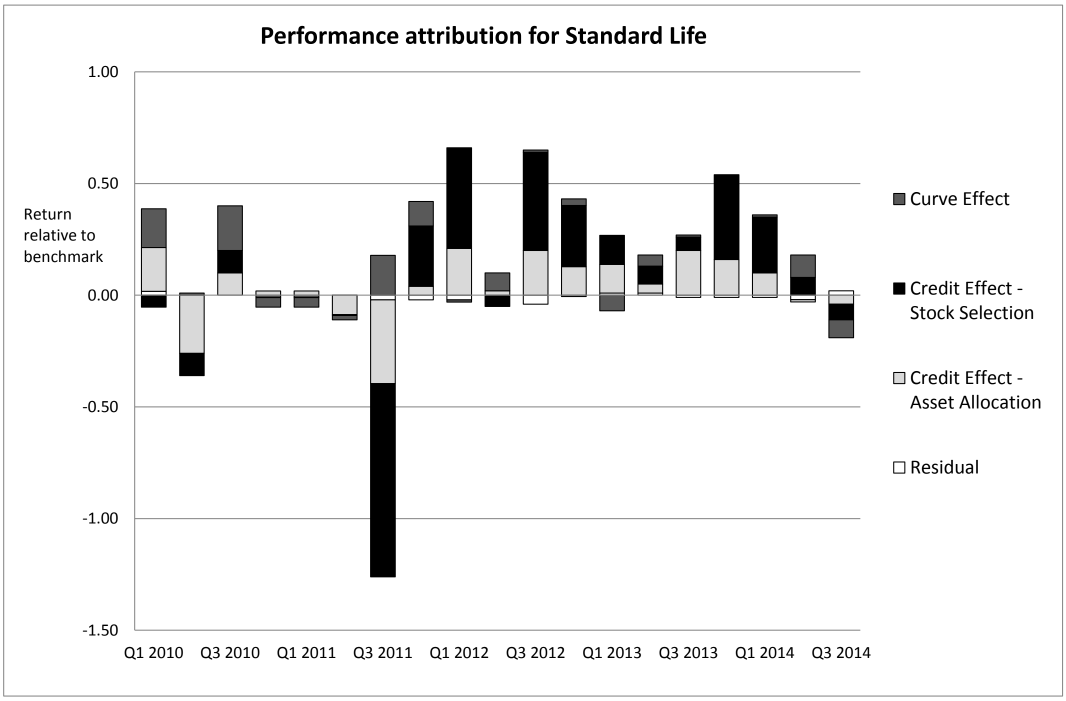
Headline comments: The portfolio was behind the benchmark during the quarter by -0.3%. Over three years, Standard Life's outperformance reached +1.1% per annum, so they are now ahead of their performance target of +0.8% per annum.

Mandate summary: An actively managed bond portfolio, invested in Standard Life's Corporate Bond Fund. The objective of the fund is to outperform the Merrill Lynch UK Non Gilt All Stocks Index by 0.8% per annum over rolling 3 year periods.

Performance attribution:

Chart 4 shows the performance attribution of the Corporate Bond Fund versus its benchmark. This is a pleasing profile for an active bond manager, with small but consistent levels of outperformance each quarter.

Chart 4



Source: AllenbridgeEpic based on Standard Life figures

Over three years, the portfolio has returned +9.1% p.a. compared to the benchmark return of +8.0% p.a., an outperformance of +1.1% p.a. Not only is this a very respectable absolute return, but the **fund is also meeting its performance objective of outperforming the benchmark by +0.8% per annum**.

The three year numbers have improved this quarter because the poor return in Q3 2011, when the portfolio underperformed its benchmark by -1.1%, has now dropped out of the three year figures.

Over the past three years, most of the outperformance has come from successful stock selection (+0.8%), with asset allocation contributing +0.4%.

Portfolio Risk: The largest holding in the portfolio at quarter end remains EIB 6% 2028 (2.0% of the portfolio). The largest overweight sector position remained Financials (+7.1%). The long-standing underweight position in sovereigns and sub-sovereigns remains (-15.9%). This position is at its highest level since inception.

The fund continues to hold 6.1% of the portfolio in non-investment grade bonds (these do not form part of the benchmark).

Portfolio characteristics: The value of Standard Life's total pooled fund at end September 2014 was £3,686.6 million, £138.6 million lower than at the end of Q2 2014. Over two years, the fund has fallen in value by £1,057.5 million. This reflects investors changing strategy and moving increasingly into absolute return bond strategies and/or multi asset credit. London Borough of Islington's holding of £204.9 million is now 5.6% of the total fund value. When Islington first invested, the percentage holding was 3.4%.

Staff turnover: There were 30 joiners during the quarter. These included Luke Powell, who has moved from Aviva to become a real estate specialist for Standard Life. There were 14 leavers during the quarter. This included Craig

Williamson, a Partner in the private equity arm, SL Capital. Craig has retired after 12 years with the firm. He was involved in the investment due diligence and selection of managers and co-investments. The SL Capital team is now 53 and there are 21 investment professionals.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: The Fund underperformed the gilt benchmark by -3.0% during the quarter and underperformed the IPD Property Index return by -2.5%, as the property market continued to rally (the index has risen nearly 20% in the past 12 months). Over three years the Fund is ahead of its benchmark by +2.3%.

Mandate summary: An actively managed UK pooled property portfolio, the Lime Fund invests in a range of property assets including healthcare, education, libraries, offices and retail. The objective of the fund is to outperform a UK gilt benchmark, constructed of an equally weighted combination of the FTSE 5-15 Years Gilt Index and the FTSE 15 Years+ Gilt Index, by +1.5% per annum, over three year rolling periods.

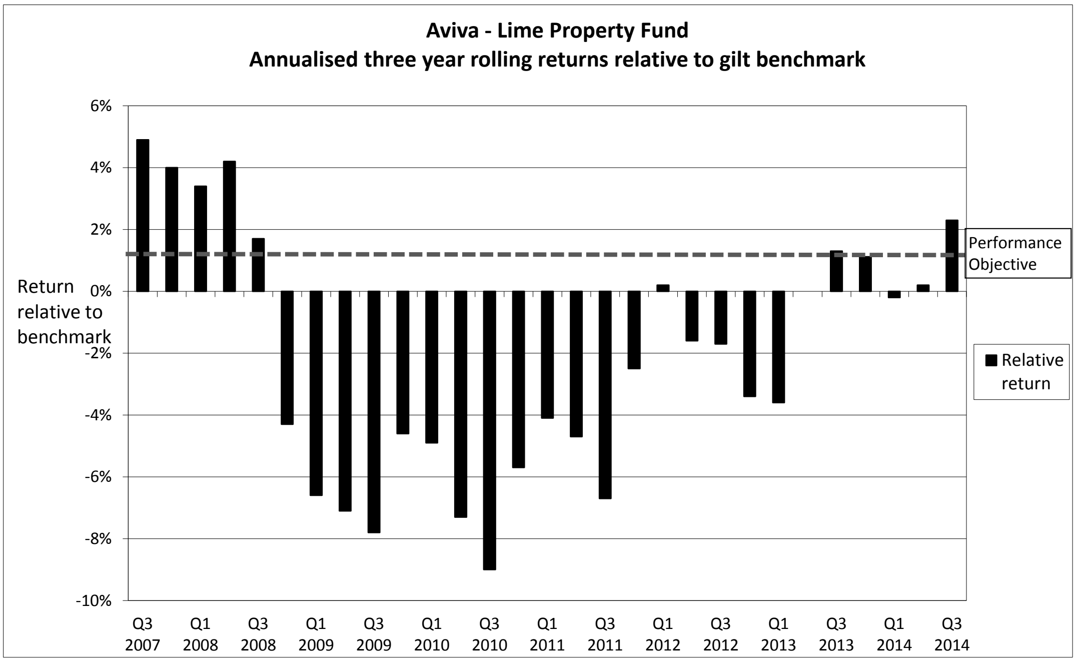
Performance attribution: The fund was behind the gilt benchmark this quarter by -3.0% although over the past twelve months it has outperformed by +0.8%. The portfolio trailed the IPD Index in Q3 2014 by -2.5% but in a strong property bull market this is to be expected with a low risk property portfolio such as the Lime Fund.

Over three years, the fund returned +7.1% p.a. compared to the gilt benchmark of +4.7% p.a., an outperformance of +2.3% per annum. The **portfolio is ahead of its performance objective of +1.5% per annum outperformance over three years**.

Of the +7.1% fund return over three years, 5.5% came from income, with the balance from capital gain. One of the key features of the Lime Fund is its positive exposure (currently over 80%) to fixed uplifts and RPI linked reviews.

Chart 5 shows the relative performance of the Fund compared to its gilt benchmark on a three year rolling basis.

Chart 5



Source: AllenbridgeEpic based on WM figures

Portfolio risk: The acquisition pipeline continued to grow during the quarter and the manager completed on two assets totalling £85 million. The average unexpired lease term is 20.5 years, with 10% of the portfolio's lease exposure in properties in over-35-year leases. 49% of the properties have public tenants with the largest sector exposure remaining supermarkets (22.6%). The cash allocation stood at 2.3% as at quarter end.

Portfolio characteristics: As at end June the Lime Fund was valued at £1.280 billion, an increase of £83.0 million from the previous quarter end. London Borough of Islington's holding represents 3.6% of the total Fund's value.

Staff turnover: this was a quarter of considerable staff turnover for Aviva. Across the whole firm, there were 47 leavers and 63 joiners. Of these there were six leavers and eight joiners within the real estate division. Four of the new joiners were infrastructure appointments. The Lime Fund team has not been impacted, however. At the end of the quarter, Aviva also announced that Ian Womack, CEO of the Global Real Estate division, would be leaving the firm to "pursue a new challenge". He had been at Aviva for 35 years. Ian will stay on at Aviva in order to appoint his successor which could be an internal or an external appointment. The executive team beneath Ian remains intact at this stage.

2.6. Threadneedle - Pooled Property Fund

Headline comments: The Fund's performance was +0.5% ahead of its benchmark (the IPD All Balanced – Weighted Average (PPFI) Index) during the quarter. Over three years, the Fund has outperformed its benchmark by +2.4% per annum. The Fund is ahead of its benchmark and beating the performance target of 1% p.a. above benchmark over three years.

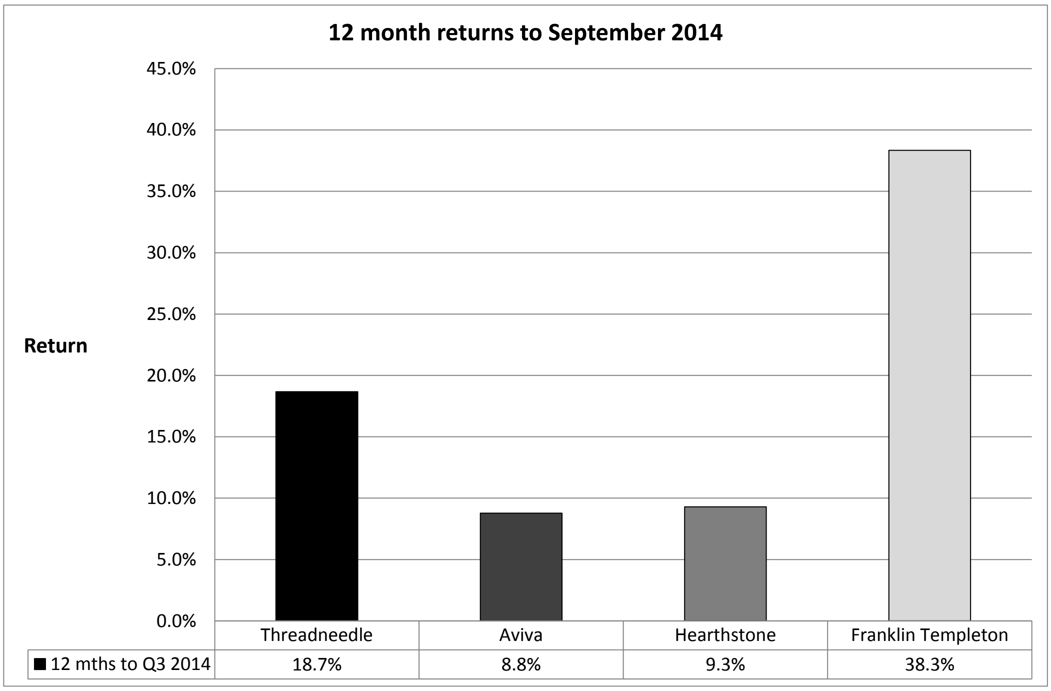
Mandate summary: An actively managed UK commercial property portfolio, the Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Its performance objective is to outperform the AREF/IPD

All Balanced – Weighted Average (PPFI) Index by at least 1% p.a., net of fees, on a rolling three year basis. The benchmark changed at the end of Q4 2013. Prior to this, the benchmark was the CAPS pooled property median fund.

Performance attribution: The fund's outperformed the benchmark during the quarter by +0.5%. In terms of the three year performance, **the Fund is ahead of its benchmark and beating the performance target of outperforming by +1% per annum.** The portfolio returned +8.5% p.a. over three years compared with the benchmark return of +6.0% p.a.

Threadneedle ranked second across London Borough of Islington's property managers over the past 12 months. This is shown in Chart 6 which compares the returns for the four property managers.

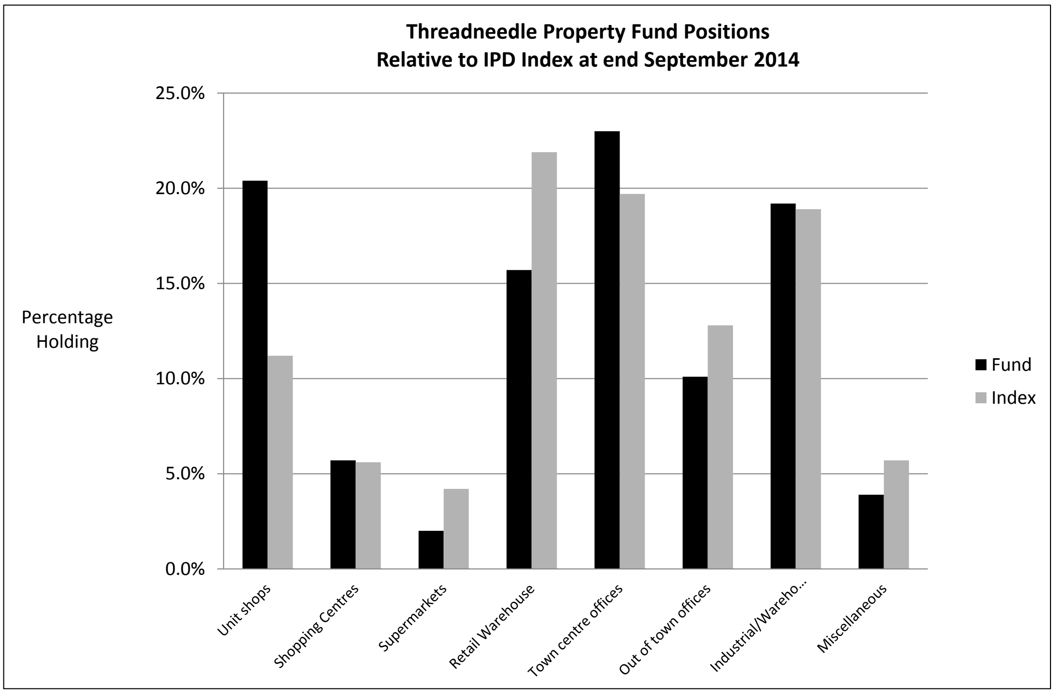
Chart 6



Source: AllenbridgeEpic based on WM data

Portfolio Risk: The fund did not make any new acquisitions in the third quarter of 2014. Chart 7 shows the current breakdown of the portfolio relative to its benchmark. However, across 48 rent reviews in the quarter, an additional £765,000 in rental uplift was a key success.

Chart 7



Source: AllenbridgeEpic based on Threadneedle data.

Portfolio characteristics: As at 30th September 2014, the Threadneedle Property Fund was valued at £1.37 billion, an increase of £65.2 million compared with June 2014. Over the past twelve months the fund has grown by £300 million. London Borough of Islington's investment represents 4.5%.

As at end September, the income yield on the fund stood at 6.5%, compared to 5.6% for the IPD Index. The fund had 251 properties and 1,083 tenancies. The top ten tenants form 22.4% of the total rent roll. The cash balance continues to be kept at a prudent level. As at end September it stood at 5.9%, well below the target maximum of 10%.

Staff turnover: there were six leavers and two joiners during Q3 2014, across the organisation. None of these was from the property division.

2.7. Legal and General Investment Management (LGIM) – Overseas Equity Index Funds

Headline comments: All the index funds were within the expected tracking range when compared with their respective benchmarks and there are no issues. The fundamental FTSE-RAFI Emerging Markets index fund underperformed its market capitalisation-weighted counterpart in Q3 2014 by -2.4%. For the 12 months to Q3 2014 the underperformance was -4.9%.

Mandate summary: Four regional overseas equity index funds, in Europe, Japan, Asia Pacific ex Japan, and emerging markets, designed to match the total return on the FTSE All World Regional Indices. One additional index fund is designed to match the total return on the FTSE-RAFI Emerging Markets Equity Index. The FTSE All World Indices are based on capitalisation weights whereas the FTSE-RAFI Index is based on fundamental factors.

Performance attribution: **The regional portfolios are all tracking their benchmarks**, as shown in Table 2.

Table 2

Q3 2014	Fund	Index	Tracking
Europe	-2.4%	-2.4%	0.0%
Japan	+3.1%	+3.1%	0.0%
Asia Pacific ex Japan	-0.6%	-0.7%	+0.1%
FTSE emerging markets	+3.1%	+3.1%	0.0%
RAFI emerging markets	+0.7%	+0.7%	0.0%

Source: LGIM

Portfolio Risk: The percentage allocation to each regional fund is based on pre-agreed band widths, which also take into account the global equity managers' allocations. The largest deviation from the benchmark allocation is North America which is 1.8% overweight.

2.8. Franklin Templeton – Global Property Fund

Headline comments: This is a long term investment and as such a longer term assessment of performance is recommended. The year to September 2014 was exceptionally good and the Fund return was +38.3% compared to its absolute return benchmark of 10% per annum. Over three years the performance numbers are improving and the fund has delivered a return of +7.1% per annum compared with the absolute return benchmark of 10% per annum.

Mandate summary: A global private real estate fund of funds investing in ten sub funds. The performance objective is an absolute return benchmark over the long term of 10% per annum.

Performance attribution: over the past twelve months, Franklin Templeton is the best performing fund across all four property managers, as shown in Chart 6. The fund is now entering its distribution phase and is performing well.

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +3.2% compared to the benchmark return of +2.0% for the quarter ending September 2014. Over 12 months the return was +9.3% compared to the benchmark return of +10.8%. Staff turnover remains on the high side for a small firm.

Mandate summary: The Fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return.

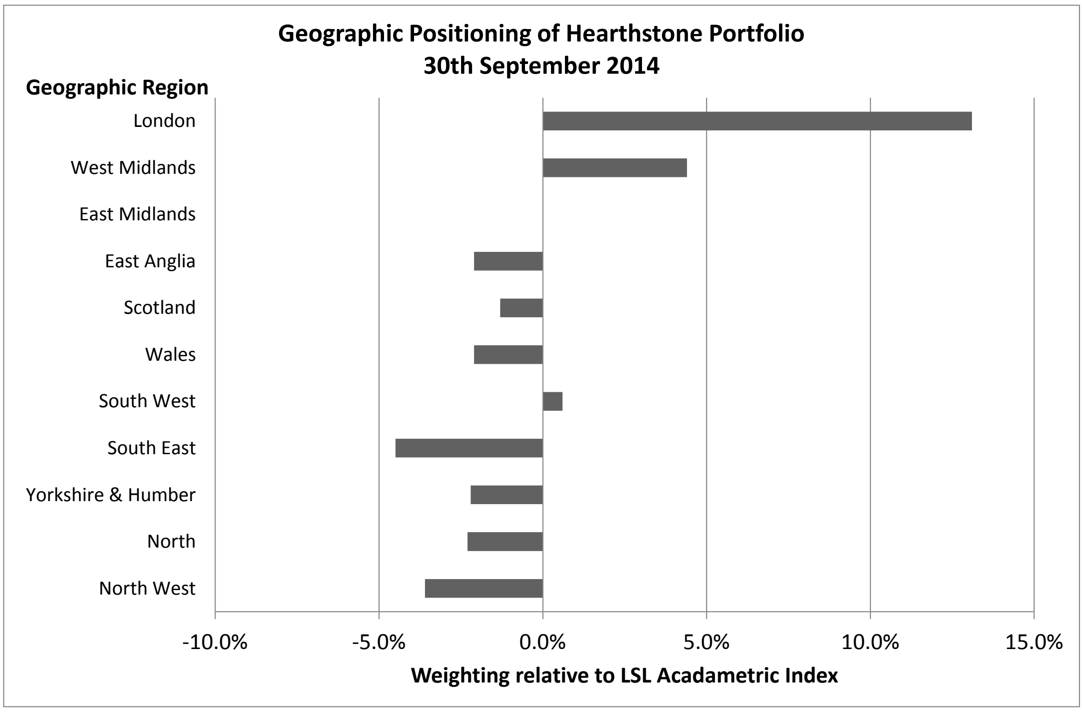
Performance attribution: The Fund returned +9.3% compared to the return on the index of 10.8% over the past 12 months. This places Hearthstone third out of four property managers in terms of returns over the past year (see Chart 6), slightly ahead of the Aviva Lime Fund. The yield on the portfolio was 5.4% at the end of September, after adjusting for voids.

Portfolio risk: The portfolio still holds a significant overweight position in London, relative to the benchmark. This is a consequence of an investment opportunity in Wembley. There were no acquisitions or disposals during Q3 2014, but the manager is looking to increase the underweight allocations in the South East, North West and the North. Hearthstone's normal strategy is to maintain broadly neutral regional bets in the portfolio.

As at end Q3 2014, the fund was valued at £30.0 million. London Borough of Islington remains the main investor, owning 71% of the total fund. Cash and liquid instruments in the portfolio stood at 10.7% at the end of Q3 2014, compared to a target level of 15%.

Portfolio characteristics: Chart 9 shows the regional bets in the portfolio. The biggest overweight region is London (+13.1%). The most underweight region relative to the index was the South East (-4.5%).

Chart 9



Source: AllenbridgeEpic based on Hearthstone figures

The Fund has a 21% allocation to detached houses, 52% allocated to flats, 22% in terraced accommodation and 5% in semi-detached.

Organisation and staff turnover: there were two leavers and two joiners during the quarter. Mark Witherspoon, Commercial Development Director, left although Hearthstone has indicated that he remains a non-Executive Director. The interim Head of Finance, Michael Blake, also left during the quarter and was replaced by Prakash Shar, also on an interim basis. The other joiner was Colleen Setchell, an Executive Assistant.

Karen Shackleton
Senior Adviser
AllenbridgeEpic Investment Advisers Limited
12th November 2014

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Costs through to launch

	£	£
Expenditure committed to date		
Deloitte - initial consultancy	-£150;000	
Eversheds	-£170,000	
Northern Trust	-£22,080	
Eversheds - procurement advice (inc. Counsel)	-£15,890	
Project Manager (to May 2015)	-£70,000	
Mercer	-£49,950	
Office equipment	-£911	
		-£478,831
Income to date		
Borough contributions	£750,000	
(30 boros x £25k)		£750,000
Balance		£271,169
Estimated expenditure to Mar 2015		
Tax Advice consultancy	-£144,000	
ACS set up costs (currently out to tender)	-£320,000	
Legal costs	-£160,000	
Transition consultant	-£20,000	
Recruitment and anticipated employment costs of CEO/ CIO / COO and non exec board members	-£190,000	
		-£834,000
Additional income from boroughs now	£750,000	
(30 boros x **£25k**)		£750,000
Balance		£187,169
Estimated expenditure Apr 2015 - launch		
tax advice through to launch	-£36,000	
ACS set up	-£80,000	
Legal costs	-£40,000	
Transition consultant	-£80,000	
anticipated employment costs of CEO/ CIO / COO and non exec board members to launch	-£165,000	
		-£401,000
Additional income from boroughs Apr 2016	£750,000	
(30 boros x **£25k**)		£750,000
Balance		£536,169
Total estimated expenditure to launch		-£1,713,831

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Finance and Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	25 November 2014	**B3**	n/a

Delete as appropriate	Non-exempt	

Appendix A is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

SUBJECT: - Investment Strategy Asset Allocation Update- Implementation

1. Synopsis

1.1 To consider a revised allocation of assets and an implementation timetable arising from the review of the Fund's investment strategy based on an implementation plan paper prepared by Mercer attached as Appendix A (private and confidential) .

2. Recommendation

2.1 To consider Mercer's proposals to the future investment strategy implementation and governance structure set out in Appendix A (private and confidential)

3. Background

3.1 Members agreed at the November 2013 meeting to maintain the current split of 75% in growth assets and 25% in defensive assets. A further paper in March 2014 provided information on alternative asset types, expected returns and associated risk and it was agreed to reduce the Fund's equity allocation by 10% to invest in a diversified growth fund and to consider further the restructuring of the current bond investments. A follow on paper on credit and liability hedging approaches was discussed at the July meeting.

3.2 Appendix A (private and confidential) is a briefing paper prepared by Mercer(our investment consultant) to:

- Provide an overview of the current investment strategy adopted by the Fund;
- Identify if, within this high level growth/defensive split a more efficient allocation and diversified portfolio could be targeted;
- Propose the Fund considers allocating part of its assets to new areas of investment, namely frontier emerging markets, infrastructure and social housing, coupled with the DGF allocation;
- Identify implementation considerations of the proposed investment strategy; and
- Identify the governance requirements of the proposed investment strategy

3.3 Members are asked to consider and discuss all these proposals and agree the implementation plan. A further progress report on implementation and transitions will be brought to the next Sub-Committee meeting in March 2015.

4. Implications

4.1 **Financial implications**
Fund management and administration fees are charged directly to the pension fund. The transfer of assets will generate some costs.

4.2 **Legal Implications**
None applicable to this report.

4.3 **Environmental Implications**
None applicable to this report.

4.4 **Equality Impact Assessment**
None applicable to this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked to consider all the proposals outlined in Appendix A (private and confidential) and agree the implementation and governance structure.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Finance and Resources Date

Received by:

Head of Democratic Services Date

Report Author: Joana Marfoh
Tel: (020) 7527 2382
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ISLINGTON

7 Newington Barrow Way
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Report of: **Corporate Director of Finance and Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions sub- committee	25 November 2014	**B4**	n/a

Delete as appropriate	~~Exempt~~	Non-exempt

SUBJECT: STATEMENT OF INVESTMENT PRINCIPLES (SIP) UPDATED

1. Synopsis

1.1 Regulation 12(2)(f) of the Management and Investment of Funds Regulations requires that the Statement of Investment Principles (SIP) must be a statement of the principles governing the authority's decisions about the investment of fund money, which covers the extent to which social, ethical or environmental (SEE) considerations are taken into account in the selection, retention and realisation of investments.
Our current SIP paragraphs, on social and ethical considerations have now been updated to reflect the above regulation after Counsel advice. The SIP should be reviewed annually if significant changes have occurred.

1.2 The SIP was previously revised at the 17 November 2011 pension sub–committee meeting and published on the council's website.

2. Recommendations

2.1 To consider the revised Statement of Investment Principles document attached as Appendix 1, incorporating amendments to the paragraphs on' Exercise Of Shareholder Rights (Including Voting Rights) and Social, Environmental or Ethical Considerations **.**

2.2 To note that, Leading Counsel's view is that the amended SIP represents a lawful approach, subject to practicalities.

2.3 To note that the final SIP will need to be revised to incorporate the revised asset allocation for the Fund which is the subject of a separate report to this meeting

2.4 To delegate to officers the final revision of the Statement of Investment Principles and its publication on the council's website.

3. Background

3.1 The Statement of Investment Principles sets out the policy of the Council towards investment and management of the Pension Fund assets, as required by regulation 12 (1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended. This

Statement must be reviewed regularly and updated within 6 months of any material changes being made to the strategic asset allocation. The revised SIP must be published by the administering authority

3.2 Regulation 12(3) of the LGPS (Management and Investment of Funds) Regulations 2009, as amended, also requires the Council to state within its Statement of Investment Principles the extent to which it complies with the guidance issued by the Secretary of State in December 2009 which requires administering authorities to state in their SIP the extent to which they comply with the six principles of investment practice as set out in the CIPFA) publication entitled Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles

3.3 The Council is the administering authority for the London Borough of Islington Pension Fund, within the Local Government Pension Scheme (LGPS). It is managed within the legal framework set down in the Local Government Pension Scheme Regulations 2007/8 as amended. The body responsible for decision making in relation to the Pension Fund is the Pensions Sub-Committee of the Audit Committee.

3.4 The SIP must cover policy on:

- Types of investment to be held
- Balance between different types of investment
- Risk including the ways in which risks are to be measured and managed;
- Expected return on Investments
- Realisation of Investments
- Extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments,
- Exercise of the rights (including voting rights) attaching to investments, if they have any such policy; and
- Stock lending

3.5 Nigel Giffin QC recently advised the LGPS Advisory Board that an administering authority for Local Government Pension Scheme Funds may choose to take into account e.g. the public health implications of tobacco investment, but only if the result of such a choice is the substitution of those investments with assets producing a similar return.

3.6 The existence of fiduciary duties does not make much difference to what the position would be if analysed simply in terms of the obligations imposed upon the administering authority as a matter of public law, i.e. obligations to exercise discretionary powers rationally, for a proper purpose and by reference only to legally relevant considerations.

3.7 This means that in managing an LGPS fund, the administering authority has both fiduciary duties and public law duties (which are in practice likely to come to much the same thing). The power/duty to invest fund monies is a power of investment. Therefore it must be exercised, when it comes to the discretion to choose one investment rather than another, for investment purposes, and not for some other purpose. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the fund (balancing risk and return in the normal way).

3.8 In June, advice was sought on the current wording of our SIP from Nigel Giffin QC, who advised the Council that, changes would need to be made to the SIP in order that social, environmental or ethical considerations can be taken into account (so long as that does not risk material financial detriment to the fund.)

3.9 Officers in consultation with the Chair and Vice Chair of the pensions sub-committee amended the relevant paragraphs on shareholder voting rights and social, environmental or ethical considerations and sought counsel advice in September. Counsel’s view is that, the amended SIP represents a lawful approach, subject to practicalities.

3.10 Members are therefore asked to consider the revised SIP, **Appendix 1,** incorporating the changes and note that the final SIP will need to be revised to incorporate the revised asset allocation for the Fund which is the subject of a separate report to this meeting and delegate authority to officers to publish the final version on the council's website.

4. Implications

4.1 **Financial implications:**
4.1.1 There are no financial implications arising from this report.

4.2 **Legal Implications:**

4.2.1 The legal requirements with regard to the publication, review and updating of the Statement of Investment Principles are set out in the report.

4.3 **Equality Impact Assessment:**
4.3.1 The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

4.3.2 An equalities impact assessment has not been conducted because this report is not considering any policy changes. All employers have been consulted on changes to assumptions and there are no equalities issues arising**.**

4.4 **Environmental Implications**

4.4.1 Environmental considerations can lawfully be taken into account in investment decisions.

5. Conclusion and reasons for recommendations

5.1 Members should consider the draft SIP incorporating amendments to the paragraphs on' Exercise Of Shareholder Rights (Including Voting Rights) and Social, Environmental or Ethical Considerations and delegate authority to officers to update and publish the final version.

Background papers:
Principles for Investment Decision making in the Local Government Pension Scheme in the United Kingdom; CIPFA Pensions Panel Issue No 5, April 2002
2011 Islington Councils Pension Fund SIP

Final report clearance:

Signed by: Corporate Director of Finance and Resources Date

Received by: Head of Democratic Services Date

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ISLINGTON

ISLINGTON COUNCIL PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES-DRAFTNOV 2014

LEGAL BACKGROUND

1 This Statement sets out the policy of the Council towards investment and management of the Pension Fund assets, as required by regulation 9A (1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended. This Statement will be updated regularly and when material changes are made to the strategic asset allocation.

2 Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009, as amended, requires the Council to publish a written Statement of Investment Principles governing its decisions about the investment of fund money. This will include the extent to which it complies with the six principles of investment practice (as revised by the Government in October 2008) in response to the recommendations of the Review of Institutional Investment in the UK undertaken by Paul Myners.

3 The Council is the administering authority for the London Borough of Islington Pension Fund, within the Local Government Pension Scheme (LGPS). It is managed within the framework set down in the Local Government Pension Scheme (Administration) Regulations 2008, as amended. The body responsible for decision making in relation to the Pension Fund is the Pensions Sub-Committee of the Corporate Services Committee.

Supplementary Information available in other Published Statements

4 Details of **governance policy** for the Fund are contained in a published statement. This covers, for example, policy on delegation within the Council's committee structure, frequency of meetings, terms of reference, and representation and voting rights of committee members. This statement is available on the Council's website at .http://www.islington.gov.uk/about/pension-scheme/Pages/policies.aspx

5 The Council must publish a statement of policy concerning **communications with members and employing authorities**. This covers, amongst other issues, the manner of publicising the Scheme to members, and employing authorities, and how the Scheme will be promoted to prospective members and their employing authorities. This statement is available on the Council's website at http://www.islington.gov.uk/about/pension-scheme/Pages/policies.aspx

6 Finally, the Council also publishes a **Funding Strategy Statement** (FSS). The FSS recognises that benefits payable under the pension scheme are guaranteed by statute and that thereby the pensions promise is secure. The FSS, however, addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure. The FSS establishes a clear strategy identifying how employers' pension liabilities are best met going forward, taking into account the regulatory requirement to maintain as nearly constant employer contribution rates as possible, whilst taking a prudent longer-term view of funding the liabilities.

THE SCHEME

Pension Fund Liabilities

7. The LGPS is a defined benefit scheme based on the average salary of scheme members from 1 April 2014. Pension benefits are defined in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2013 (as amended), and are linked to a formula involving years of service and pensionable pay (the formula being different for pensionable service accrued pre and post 1 April 2008). Scheme members building up their pension benefits are required to make contributions based on annual salary bands between 5.5% and 12.5% of pensionable pay. The rate paid depends on which pay band is applicable. Pension benefits are not linked to the investment performance of the Pension Fund.

8 The Council appoints an independent actuary who values the liabilities of the Fund and determines the level of employer contributions which must be made by the Council and other employers admitted to the Fund, to ensure that the investment assets of the Fund achieve 100% of the value placed on the liabilities. Where there is a shortfall in the value of the assets, the Council must comply with contribution rates determined by the actuary to recover full funding, and in setting these rates (expressed in a rates and adjustments certificate), section 36 of the The Local Government Pension Scheme) (Administration) Regulations 2008 (as amended states:

"(6) The actuary must have regard-

(a) to the existing and prospective liabilities of the fund arising from circumstances common to all those bodies, and

(b) to the desirability of maintaining as nearly constant a rate as possible.

(c) the current version of the administering authority's Funding Strategy Statement as mentioned in Regulation 35.. "

9 As referred to above, further detail on policy towards funding the liabilities is now contained in the Funding Strategy Statement dated 31st March 2013.

Investment Policy / Attitude to Risk

10 The Pensions Sub-Committee has adopted policies with the objective of achieving maximum growth of Pension Fund investments, to reduce the burden of employer contributions on the General Fund. This is, however, tempered by the objective of reducing extreme variations of employer contribution that could occur at any triennial revaluation of the Fund by the Fund actuary.

11 At the last triennial valuation as at 31st March 2013, the funding level or ratio of asset value to the discounted value of the liabilities was 70%.

12 The Council has agreed a strategy with the Fund actuary to return the funding level from the 31 March 2013 level of 70%, to 100% through making additional employer contributions over a period of 22 years from 31 March 2014. The balance between major asset classes in the strategic asset allocation, and particularly the weighting to equities, is expected to contribute significantly, over the longer term, to the achievement of this objective. Further detail may be found in the Funding Strategy Statement.

13 The risk profile adopted by the Pensions Sub-Committee has been established following detailed asset/liability studies of the Fund and this was most recently reviewed in 2013 These studies examined the balance of active contributing scheme members to pensioner members and deferred members (no longer employed by the Council but not yet drawing benefits), and related this "scheme maturity" to asset allocation strategies for Fund investment. The risk of significant variation in future employer contribution outcomes could then be modelled on a

variety of economic and market assumptions.

14 A strategy of limiting risk by matching to a degree the types of assets invested in, to the obligations or liabilities of the Fund has been adopted. The balance between investing for growth and investing in assets with the best fit or match to liabilities is a judgment requiring regular reappraisal.

15 Policy is determined in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended. As required by these Regulations the suitability of various types of investments has been considered, as also has the need to diversify investments to reduce the risk of being invested in too narrow a range of assets. In addition, this process has benefited from the provision of independent, professional investment advice.

16 The most significant asset allocation strategy decision for the Pension Fund has been to split assets as follows:

- 60% company shares or equities, (private and publicly quoted)
- 25% corporate bonds
- 15% property

The full asset allocation is set out in Appendix A, showing the various asset classes, the target for each asset class at the level of the total Fund, and the permitted ranges within which this may vary due to the relative movements in asset values over time.

17 Appendix B shows how this is reflected across individual portfolios, the current managers of those portfolios, and the benchmarks against which the individual manager's performance is measured. These portfolios have been established to ensure diversification, and take into account the suitability of the type of investment for the Fund, and are managed as follows:

18 **Equities**

- The Fund has made allocations to UK and overseas equities, both publicly and privately quoted, with the regional split broadly 50% UK and 50% overseas. The intention is for the allocation to UK equities to be reduced from 50% to 30% over time.

- The equity portfolio is split between a core index-tracking allocation and actively managed portfolios that target returns in excess of the relevant market index.

- **UK Equity Index Fund.** Aims to track the FTSE All Share Index which currently comprises c.98-99% of the total UK equity market capitalisation and is an aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices. This portfolio is passively managed to track the index within a variation of plus or minus 0.5% p.a.vgbff This portfolio is the only portfolio managed in-house. External managers manage the other specialist portfolios.

- **Overseas equities.** Legal and General Investment Management (LGIM) manage an index-tracking overseas equity portfolio with allocations to North America, Europe (ex UK), Japan, Asia-Pacific (ex Japan) and Emerging Markets. LGIM's mandate requires them to maintain the Fund's overall allocations to each region within specific tolerance bands around a central asset allocation. Performance will be assessed for each of the regional allocations against the relevant FTSE regional index as detailed in Appendix B.

- **Global equities.** Newton and RCM manage global equity portfolios benchmarked against the FTSE All World index. The managers' targets are to achieve at least 2.0% p.a. and 3.0% p.a. outperformance respectively over their benchmarks measured on rolling three year periods net of fees.

- **Global Private Equity investments.** An allocation of up to 10% of the Pension Fund may be invested in such arrangements. The benchmark is currently a composite derived from the FTSE US and FTSE Europe (including UK) indices. However, the weighting in the overall customised benchmark set for the whole fund is adjusted quarter by quarter to reflect the amounts actually invested in private equity. This reflects the long term nature of the investment process in this asset class. Assets notionally allocated to private equity but not yet invested will be held in the in-house UK Equity Index Fund.

19 **Bonds**

- Standard Life has been appointed to manage a corporate bond portfolio for the Fund. The benchmark for the bond portfolio is the Merrill Lynch Sterling Non Gilt All Stocks Index. The performance target is set at 0.8% p.a. outperformance of the benchmark, measured over rolling three year periods gross of fees.

- A pooled bond fund has been selected as the most appropriate investment vehicle for the Fund's investment in this asset class. Constraints apply to the types of bonds the assets can be invested in; however the Fund does not have control over these constraints.

20 **Property**

- A strategic allocation to property assets has been made of up to 15% of the total Fund value. This allocation is split between four mandates.

- 5% is invested in a defensive pooled property fund managed by Aviva Investors with a "high lease to value" approach. To reflect the low-risk characteristics of this fund, a tailored benchmark has been applied based on government bond indices. The benchmark is a composite of 50% FTSE Over 15 Year Gilts Index and 50% FTSE 5-15 Year Gilts Index.

- 6% is invested in a conventional (or "core") pooled property fund managed by Threadneedle which invests in UK offices, industrial and retail properties. The fund aims to outperform the CAPS UK Pooled Property benchmark by 1.0% (net of fees) over rolling three year periods.

- Up to 4% is committed to be invested in a closed ended Private Equity Real Estate fund of funds managed by Franklin Templeton and which will be invested in equity or debt-related real estate investments around the globe. The fund's investment objective is to achieve an internal rate of return of 15% over the term of the fund (net of all management fees and carried interest).

- Up to 2% is invested in residential housing in a pooled open ended Fund managed by Hearthstone. The fund aims to outperform the UK House Price Index+ 3.75% net income.

21 **Other Investments**

- The risk exposure from currency fluctuations associated with the overseas equity portfolios is managed through a passive hedging programme, targeted on the major currencies. The passive hedging is implemented by BNY Mellon at a level of 50% of the overseas developed market currency exposure arising from equity holdings outside the UK.

22 Managers are currently remunerated through fee scales based on percentage rates applied to the market value of funds under management. In most cases the rate reduces for funds under management above threshold values. Performance-related fee structures have been taken into account on retendering of fund manager contracts.

Exercise of Shareholder Rights (Including Voting Rights)

23. The Pensions Sub-Committee takes its responsibilities as a company shareholder seriously and

exercises its votes at company AGMs/EGMs wherever practically possible. The Sub-Committee uses the Corporate Governance Service provided by Pension Investments Research Consultants (PIRC), and casts votes at all UK, European and North American company AGMs in line with PIRC recommendations unless the Council decides otherwise
.

Social, Environmental or Ethical Considerations

24 The Pensions Sub-Committee, as the administering authority, is aware of its fiduciary responsibility to obtain the best possible financial return on investments over appropriate investment periods, within acceptable levels of risk and will apply this principle when making investment decisions on behalf of the Islington pension fund.

25 The Pensions Sub-Committee takes the view that well-managed companies that evaluate and assess their social and environmental impacts are likely to add shareholder value in the long term more successfully than companies that do not manage these impacts. In considering its choice of investments in segregated funds, priority will be given to achieving a wide variety of suitable investments that is best for the financial position of the Fund. It will encourage its Fund managers to work positively with companies to promote forward- looking social, environmental and ethical standards and integrate **Environmental, Social and Governance** (ESG) into their investment decisions.

26 The Fund will use its position as shareholder to actively engage with companies by appropriate means collectively or individually, to ensure best practice in the management of these impacts and in line with the Council's 'Fairer Islington' corporate approach, and in particular the key policy objectives of promoting fairness and sustainability.

27 The Pensions Sub-Committee has also decided to join with other local authorities to use its shareholder rights in a responsible manner to influence company behaviour, through membership of the Local Authority Pension Fund Forum (LAPFF), and supports the mission statement of the LAPFF:

28 "The LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations"

29 The Pension Sub-Committee is a member of the Institutional Investors Group on Climate Change (IIGCC). The IIGCC seeks to promote better understanding of the implications of climate change amongst its members and other institutional investors. It also aims to promote a lower carbon economy by encouraging the companies and markets in which IIGCC members invest to address their approach to climate change issues.

30. Islington Council as an investor has joined up with other investors to support the wage investors' coalition to lobby top companies relationships with their employees, suppliers and service providers to pay the living so as to meet their basic needs.

November 2014

Myners Investment Principles - Compliance Statement

In accordance with regulation 9A(3A) of the LGPS (Management and Investment of Funds) Regulations 1998, as amended the Council is required to state the extent to which the administering authority comply with the ten principles of investment practice set out in the document published in April 2002 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5)"; and give the reasons for not complying where they do not do so. This CIPFA publication is based on ten principles proposed by the Myners review of Institutional Investment in the United Kingdom, and adopted by the Government as a model for best practice in 2001.

The Myners Principles were reviewed by the NAPF during 2008 and a revised set of six principles were issued in October 2008. CIPFA expect to issue a new publication based on the revised six principles in the near future.

Principle 1 - Effective decision-making

- Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Comment

The Fund is generally compliant with the requirements of this Principle. The Pensions Sub-Committee requires new members serving on the Sub-Committee to source appropriate training within six months of joining the Sub-Committee. The three-day course run by the Local Government Pensions Committee of the Employers Organisation is recognised as particularly relevant training for new Members, but other routes and courses, and requisite experience are also recognised as appropriate. Where several new Members are appointed together, tailor-made training will be considered.

Principle 2 - Clear Objectives

- Trustees should set out an overall investment objective(s) for the Fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Comment

The Council seeks to undertake regular reviews of investment strategy, most recently in 2014, which take into account the scheme's liabilities, the strength of the employer covenant and the attitude to risk of both the trustees and the sponsor.

Principle 3 - Risk and Liabilities

- In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.
- These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Comment

In setting the investment strategy, the Trustees have considered the form and structure of liabilities, along with the strength of the sponsor covenant, risk of sponsor default and longevity risk, taking advice from independent professional advisors where appropriate.

Principle 4 - Performance Assessment

- Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.
- Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Comment

Overall Fund performance and detailed portfolio performance is measured quarterly, annually and over longer periods by external independent measurement specialists (WM Company). Performance is also monitored against the local authority peer group of pension funds, also based on WM Company data (for the local authority universe), although in line with the Myners Principles the peer group is no longer considered the benchmark for overall fund performance. The overall benchmark is specific and customised to the Fund's objectives based on the outcome of the successive asset/liability studies.

Performance of the Fund is also subject to annual review by external auditors (the District Audit service) and by internal audit through regular audits programmed into the Audit Plan.

Pension benefits administration performance is reported regularly to Pensions Sub-Committee.

Principle 5 - Responsible Ownership

- Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
- Trustees should report periodically to members on the discharge of such responsibilities.

Comment

The Fund uses the proxy voting service, PIRC, to vote for the shares held within FTSE All Share and FTSE World indices.

RCM, who manage a global equity mandate, use the proxy voting service Shareholder Services (ISS) to vote on all other shares held on behalf of the Fund.

Newton, who manage a global equity mandate, vote in all other indices at their discretion.

The Fund encourages each active investment manager to take account of social, environmental and ethical considerations insofar as the manager believes such considerations will benefit performance and/or reduce risk.

For those assets of the Scheme managed in pooled funds, the Trustees accept that the assets are subject to the investment manager's own policy on socially responsible investment. The Trustees are satisfied that this corresponds with its responsibilities to the beneficiaries.

The Fund's attitude to and policies regarding responsible ownership are set out within the body of the Fund's Statement of Investment Principles.

The Trustees issue member newsletters in which this discharge of responsibilities is noted.

Mercer has adopted the Institutional Shareholders' Committee Statement of Practice relating to investment consultants.

Principle 6 - Transparency and Reporting

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

Comment

The Council's SIP is currently published and available to scheme members on the Council website. Summaries of performance and monitoring of managers are reported in the Pension Fund Annual Report and distributed to employees each year with payslips. Further performance reporting is provided to contributors and pensioners at the AGM. The full Pension Fund Report and Accounts are published as part of the Council's overall Annual Report and Accounts and available to all members of the public.

Overall communication and publicity strategy for the Fund is set out in the Communications Policy Statement which is available on the Council's website. .http://www.islington.gov.uk/about/pension-scheme/Pages/policies.aspx

APPENDIX A

From November 2011

STRATEGIC ASSET ALLOCATION	**Target**	**i.e Permitted Range +/- %**
UK Equities	**25.0%**	**3.0%**
Overseas Equities (50% currency hedged)	**25.0%**	**3.0%**
Global Private Equity	**10.0%**	**2.0%**
Total Equity	**60.0%**	**6.0%**
Corporate Bonds	**25.0%**	**2.5%**
Property	**15.0%**	**2.0%**
Cash	**0.0%**	**0.0%**
Total bonds/property/cash	**40.0%**	**4.0%**
Total	**100.0%**	

NB i) Both the private equity and property allocations are target allocations and are expected to be reached once committed assets are called and invested by the relevant investment managers. In the interim, the assets will be held in the UK Equity Index Fund.

ii) Over time the listed equity allocation will be adjusted from 25% UK and 25% overseas to 15% UK and 35% overseas.

APPENDIX B

Portfolio	***Manager(s)***	***Sector/Market***	***Target Weight within portfolio at 11/2011***	***Permitted Range***	***Index***
UK Index Fund	In-house	UK Equity	100%		FTSE All Share
Overseas Equity	LGIM	Regional overseas equity *: i) North America ii) Europe (ex UK) iii) Japan iv) Asia Pacific (ex Japan) v) Emerging Markets	 40% 16% 7% 7% 30%	 +/- 4.0 +/- 1.5 +/- 1.0 +/- 1.0 +/- 3.0	 FTSE AW Developed North America FTSE AW Developed Europe (ex UK) FTSE AW Japan FTSE AW Developed Asia Pacific (ex Japan) FTSE AW All Emerging
Global Equity	i) RCM ii) Newton	Global Global	40% 60%	+/- 10.0 +/- 10.0	FTSE All World Index
Global Private Equity	i) Standard Life (private Equity) Ltd ii) Pantheon	Europe US	50% 50%	+/- 10.0 +/- 10.0	FTSE US FTSE Europe inc UK
Bond Portfolio	Standard Life	UK Non-Government	100%		Merrill Lynch Sterling Non Gilt All Stocks
Property Portfolio	i) Aviva Investors ii) Threadneedle iii) Franklin Templeton iv)Hearthstone	HLV Property (Lime Property Fund) Core UK Property Global real estate fund of funds UK residential property	33% 40% 27% 13%		Composite Gilt index: 50% FTSE Over 15 yr Gilts 50% FTSE 5-15 yr Gilts CAPS Pooled Property n/a LAL Academetrics UK HPI

* LGIM manage their own regional allocations so as to maintain the overall Fund allocation to be in line with the stated target weights. In order to do this they take into account the value of RCM and Newton's portfolios and the regional allocations of the FTSE All World index.

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Finance and Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	25 November 2014		n/a

Delete as appropriate		Non-exempt

SUBJECT: DCLG STATUTORY CONSULTATION ON SCHEME GOVERNANCE

1. Synopsis

1.1 This report considers the DCLG's further consultation paper on the new governance provisions, including cost control arrangements for the LGPS.

The main provisions include a requirement for the Secretary of State to establish a national scheme advisory board to advise him on the desirability of changes to the scheme. Provision is also made for administering authorities to establish local pension boards to assist them with the effective and efficient management and administration of the scheme. New cost control mechanisms are also to be introduced.

..

2. Recommendations

2.1 To note the requirement to set up a local pensions board by 1 April 2015 which includes at least two employee and two employer representatives.

2.2 To request the Audit Committee to establish a Local Pensions Board (including its terms of reference and membership) which will have responsibility for :

2.2.1 assisting the administering authority in securing compliance with the LGPS regulations and any requirements imposed by the Pensions Regulator and in ensuring effective and efficient governance and administration of the scheme;

2.2.2 risk management: and

2.2.3 scrutiny of decisions taken by the pensions sub-committee as a separate body from the pensions sub-committee with a separate chair by 1 April 2015.

2.3 To consult recognised Trade Unions, pensioner members and employers of the pensions scheme on the proposed local pensions board and invite them to nominate persons for appointment as board members.

2.4 To agree to that the Corporate Director of Finance and Resources in consultation with the Assistant Chief Executive, Governance and HR and the Chair should consider how best to implement the regulatory requirements, updating the Sub-Committee and the Audit Committee at their next meetings.

3. Background

3.1 The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013 (PSPA13). The Act included a requirement for DCLG as a responsible authority to make regulations establishing a national scheme advisory board and requiring each LGPS administering authority to establish a local pension board. A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

3.2 **The Draft Regulations (The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014) –**

A number of changes have been made to the draft regulations made since the previous set of proposals include the following:

3.2.1 **Local Pension Boards (LPB)**

- Establishment and procedures of the LPB to be determined locally rather than within the constraints of the Local Government Act 1972).
- A new provision to ensure LPBs are not unduly restricted in the way that they discharge their functions.
- Elected members are now permitted to become members of LPB, subject to a restriction that excludes those who are "…responsible for discharging of any function under….." the main Regulations (this exclusion also applies to officers)
- Removal of requirement for representative members (employer or member representatives) to form the majority of the LPB.

3.2.2 **Scheme Advisory Board.(SAB)**

- Extends responsibility of the SAB to include "connected schemes
- A new provision to ensure that the SAB activities are not unduly restricted in the way that they discharge their functions.
- All members of the SAB (at least 2 up to a maximum of 12) and the Chairman are to be appointed by the Secretary of State (having regard to the desirability of equal representation of persons representing the interests of scheme employers and members).
- The chairman may, with agreement of SAB, appoint a maximum of three non-voting advisory members to the SAB.

3.2.3 **Cost Management**

The proposal in this consultation is one element of the Government's reform agenda. The aim of the proposals is to develop a back stop protection to the taxpayer to ensure that some of the risks associated with pension provision are shared more fairly between employers and scheme members**.**

The draft regulations require the Secretary of State to appoint a scheme actuary (anticipated to be the Government actuary's department) to carry out actuarial valuations and apply two different mechanisms. The two mechanisms are:

i. Treasury employer cost cap process and internal cost management process.

ii. The regulations will set the employer's cost cap which is yet to be finalised. There is a detailed procedure for bringing the costs of the local government pension scheme back within the cap where those costs exceed or are less than the cap by more than a prescribed percentage (currently 2%).

4. Proposals

4.1 Members have agreed that the Corporate Director of Finance and Resources in consultation with the Assistant Chief Executive, Governance and HR look at the appropriate options for policies, setting up and resourcing of the local pension board for approval by the Council.

A draft terms of reference is being drawn up in light of these further changes and in consultation with the Chair these should formulate the basis to setting up a local pension board by I April 2015. A report will be made to the meeting of Audit Committee in March 2015.

4.2 The Local Pensions Board is required to have a minimum of two employer and two employee representatives. It is therefore proposed to ask recognised trade unions, scheme employers and pensioner members of the scheme to nominate representatives for appointment to the board. Regulations require the number of employee and employer members of the Board to be equal. If more than two employee representatives are nominated, a mechanism will be required for determining which nominees are appointed as Board members. In this event, it would make sense to appoint additional employee representatives as non-voting advisors, as is currently the case for the Pensions sub-committee.

4.3 The requirement for a separate Local Pensions Board is not absolute. The draft regulations permit the pensions sub-committee to carry out the Board's role, but the Board is supposed to scrutinise the actions of the sub-committee and specific approval from DCLG is required to allow this to happen.

4.4 Much of the business of the Board and of the sub-committee will be the same. For example, it would not make sense for the Board alone to consider risks. It is therefore proposed to set up a Board which is as well integrated with the sub-committee as possible, for example by the Board and the pensions sub committee meeting at the same time with the Board expressing their view on each report and the sub committee then taking account of those views before reaching its decision.

5. Implications

5.1 **Financial implications**
Any cost associated with the governance of the fund will be treated as administration cost and charged to the Fund.

5.2 **Legal Implications**
The draft Local Government Pension Scheme (Amendment) (Governance) Regulations 2014 provide for the establishment of a Scheme Advisory Board at national level and Local Pension Boards at local level.

The Local Pension Board must be established by the Council by no later than 1 April 2015. The regulations would permit a single dual function body to carry out the functions of both the Pension sub- committee to manage and administer the pension scheme and those of a local pension board subject to obtaining the Secretary of State's approval. . Alternatively the Local Pension Body may be established as a separate body by the administering authority.

5.3 **Environmental Implications**
None applicable to this report.

5.4 **Equality Impact Assessment**
None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

6. Conclusion and reasons for recommendation

6.1 To consider the statutory consultation on draft regulations on scheme governance and begin the process of formulation and implementation in order to meet the regulatory requirements.

Background papers:
DCLG consultation paper on draft regulations on scheme governance
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322356/consultation_letter_on_June_2014_governance_regulations_final_version-23_june_-with_ISBN.pdf

Mercer Newsalert 09.2014 bulletin

Final report clearance:

Signed by:

	Corporate Director of Finance	Date
Received by:		
	Head of Democratic Services	Date

Report Author: Joana Marfoh
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Department for Communities and Local Government

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014

Better Governance and Improved Accountability in the Local Government Pension Scheme

Consultation

October 2014
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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Fry Building
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October 2014

ISBN: 978-1-4098-4304-7

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014. 1. The intention of these draft regulations is to ensure that the Local Government Pension Scheme in England and Wales is managed well at both national and local levels. They also set out proposals for how the future costs of the scheme to employers and taxpayers will be controlled. Similar arrangements are being introduced for all major public service pension schemes. 2. A national scheme advisory board would advise the Department on changes to the scheme's regulations, for example to reflect changes in costs. In addition, each of the 89 administering authorities in England and Wales would establish a local pension board to assist them in managing the Scheme at a local level. 3. The Department would need to ensure that any increases or decreases in the cost of the scheme of two percentage points or more would be offset, for example, by varying the rate at which scheme members' benefits build up. This would protect employers and taxpayers against unexpected increases in pension costs. 4. In addition, the proposed national scheme advisory board would aim to ensure that the total pension contributions paid by employers and employees were within one percentage point of 19.5% of pensionable pay and that employee contributions were one third of the overall costs. The national board could make recommendations to the Department on changes to the scheme to achieve these targets. 5. A more detailed explanation of the arrangements described at paragraphs 3 and 4 above can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_130314.pdf
Scope of this consultation:	This consultation seeks responses from interested parties on a new Part 3 (Governance) of the Local Government Pension Scheme Regulations 2013 ("the Principal 2013 Regulations") which came into force on 1 April 2014. In addition to the proposed provisions on cost control, the draft regulations at **Annex A** also includes regulations on Scheme governance that were the subject of a consultation earlier in June at

	https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322356/consultation_letter_on_June_2014_governance_regulations_final_version-23_june_-with_ISBN.pdf . The closing date for comments on those draft regulations was 15 August, but this consultation now provides a second opportunity to comment on those provisions alongside what is now being proposed on cost control. However, it should be noted that in the light of discussions with the shadow scheme advisory board and comments from other scheme interested parties, the draft regulations relating to the local pension boards and the Scheme Advisory Board consulted on earlier have been revised. Comments are therefore invited on the complete set of draft regulations at **Annex A** The comments received in response to the June consultation will be taken into account with those received in response to this consultation.
Geographical scope:	England and Wales.
Impact Assessment:	These Regulations have no impact on business or the voluntary sector.

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted .
Body responsible for the consultation:	The Secretary of State for Communities and Local Government is responsible for policy and the consultation exercise.
Duration:	The consultation period will be 6 weeks ending on 21 November 2014. As timing allows, account will be taken of representations made after the close of the consultation.
Compliance with "Principles of Consultation":	This consultation complies with the "Principles of Consultation" . The consultation will be for 6 weeks. This reflects the extensive discussions already held with key interested parties on the development of policy in this area and the extent to which the regulations need to comply with Treasury directions and regulations that have already been subject to consultation.

Background

Getting to this stage:	The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Since 1996, the cost of the Local Government Pension Scheme to employers and taxpayers has increased from £1.3 billion to £5.9 billion in 2010/11. The proposals in this consultation on scheme governance and cost management are a key element of the Government's reform agenda and will ensure that those who pay the Scheme's costs are fully protected against the rising costs associated with improving longevity. Fairness to the taxpayer is at the heart of the agenda. The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013 ("the 2013 Act"). A key objective of the 2013 Act is to ensure a fair balance of risks between scheme members and the taxpayer. To achieve this, the Government has established an employer cost cap mechanism to provide backstop protection to the taxpayer and to ensure that the risks associated with pension provision are shared more fairly between employers and scheme members. Details of how the employer cost cap is to be calculated, maintained and the process to be followed when the employer cost cap is breached can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_130314.pdf In addition to making provision for the employer cost cap, the regulations also make provision for the agreement reached with the Government by the Local Government Association and local government trade unions to provide greater control over the contribution rates actually paid by employers and scheme members. Details of how this element of the proposed cost control arrangement is intended to work can be found at Chapter 5 of the above pdf document.

How to respond

1. You should respond to this consultation by **21 November 2014**.

2. You can respond by email to Robert.Ellis@communities.gsi.gov.uk.
When responding, please ensure you have the words "LGPS Governance Regulations 2014" in the email subject line.

Alternatively you can write to:

LGPS Governance Regulations 2014
Department for Communities and Local Government
Workforce Pay & Pensions
2nd Floor
South East Quarter
Fry Building
2 Marsham Street
LONDON SW1P 4DF

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at: https://www.gov.uk/government/organisations/department-for-communities-and-local-government

Confidentiality and data protection

5. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

6. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

7. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

8. Questions about any issues raised in the document can be sent to the address given at paragraph 2 above.

9. A copy of the principles on which this consultation is being conducted is at http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these principles? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator, Department for Communities and Local Government, Fry Building, 2 Marsham Street, London SW1P 4DF.

Contents

Chapter 1

Introduction

1.1 This document, in accordance with section 21 of the 2013 Act, commences a period of consultation on the new governance provisions, including cost control arrangements, for the Local Government Pension Scheme. Your comments are invited on the set of draft regulations at **Annex A.**

1.2 **The closing date for responses is 21 November 2014**.

Background and context

1.3 This consultation represents another step in the process of reform that began with the Government's commitment to review the efficiency, effectiveness and sustainability of public service pension schemes.

1.4 A key aim of the reform process is to ensure a fair balance of risks between scheme members and the taxpayer. To achieve this, section 12 of the 2013 Act requires schemes to set a rate, expressed as a percentage of pensionable earnings of members of the scheme, to be used for the purposes of measuring changes in the cost of the scheme.

1.5 The 2013 Act also provides for costs to be measured via regular actuarial valuations and for the establishment of an employer cost cap mechanism to ensure that these costs remain sustainable and fair to taxpayers. Treasury Directions and Regulations specify how valuations are to be carried out and how the employer cost cap mechanism is to operate. In the case of the Local Government Pension Scheme, the employer cost cap will be calculated by a Scheme actuary appointed by the Secretary of State under these regulations based on the 2013 model fund valuation and in accordance with Treasury Directions.

1.6 Copies of the relevant Treasury Directions, regulations and accompanying policy paper can be found at https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations-and-the-employer-cost-cap-mechanism.

1.7 In addition to the Treasury employer cost cap process, provision is also to be made for the internal cost management process agreed between Government, the Local Government Association and local government trade unions. Unlike the Treasury's employer cost cap process which will monitor changes in the value of benefits in the new Scheme over time, the aim of the internal process is to stabilise the actual contribution rates paid by employers and members in respect of the new Scheme within the overall target cost of 19.5% of pensionable paybill with the target yield from scheme members' contributions being one third of the overall cost.

1.8 A detailed explanation of how the internal element of the proposed cost control arrangement is intended to work and the role of the Local Government Pension Scheme Advisory Board in both processes can be found at Chapter 5 of the document at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_130314.pdf

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Consultation responses

1.9 The consultation period is 6 weeks.

1.10. To allow for the fullest response to proposed Scheme regulations, every attempt will be made to include any late submissions.

1.11. Your comments should therefore be sent by 21 November 2014 to Department for Communities and Local Government, Workforce Pay & Pensions, 2nd Floor, Fry Building, South East Quarter, 2 Marsham Street, London SW1P 4DF and marked "LGPS Governance Regulations 2014". Electronic responses can be sent to Robert.Ellis@communities.gsi.gov.uk.

Chapter 2

Proposals for consultation

2.1. The Regulations are being made under the powers conferred by the 2013 Act. Section 3(5) of the 2013 Act requires the consent of Treasury before the Regulations can be made.

Preliminary Provisions

2.2 **Regulation 1** covers the citation, commencement, interpretation and extent of the Regulations. The Regulations will apply to the Scheme in England and Wales and for the most part will come into operation on 1 April 2015.

2.3 **Regulations 2 to 8** amend the Principal 2013 Regulations.

2.4 **Regulation 8** inserts new regulations 105, 106,107, 108, 109, 110, 111, 112, 113, 114, 115 and 116 into the Principal 2013 Regulations. These provisions are described in detail immediately below, but in the case of regulations 105 to 113, only to the extent where they differ from the earlier consultation on Scheme governance.

Main Provisions

2.5 **New Regulation 106(6)** has been added to ensure that local pension boards are not unduly restricted in the way they choose to discharge their functions under the regulations.

2.6. To reflect concerns expressed by the Shadow Scheme Advisory Board and other scheme interested parties, **Regulation 107** has been amended to allow elected members to become members of a local pension board. However, **Regulation 107(3)** qualifies this provision by not allowing elected members or officers of an administering authority who are responsible for the discharge of any function under the Principal 2013 Regulations (apart from being a member of the Scheme Advisory Board or a local pension board) to become a member of that authority's local pension board.

2.7. **Regulation 110(3)** now extends the responsibility of the Scheme Advisory Board to include "connected schemes". Those elements of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations")that concern members who receive entitlement to benefits calculated in accordance with those regulations is regarded as such a connected scheme and this amendment will ensure that the Scheme Advisory Board is able to advise local pension boards on both the Principal 2013 Regulations and the Transitional Regulations

2.8. **New Regulation 110(5)** confers the same wider power described at paragraph 2.5 above on the Scheme Advisory Board.

2.9. In addition to being responsible for appointing the Chairman of the Scheme Advisory Board, **Regulation 111(1)** has now been amended to make the Secretary of State responsible for appointing members of the Board. Previously, members of the Board were to be appointed by the Chairman and approved by the Secretary of State.

2.10. **New Regulation 111(4)** allows the Chairman of the Scheme Advisory Board ,with the agreement of the Board, to appoint a maximum of three non-voting advisory members to sit on the Board. **Regulation 111(5)** confers a power for the terms and conditions of such advisory members to be determined.

2.11. **Regulation 111(6)** has been amended to the effect that the Chairman's decision to appoint non-Board members as members of any sub-committee is now subject to the agreement of the Board.

Scheme actuary (Regulation 114)

2.12 **New Regulation 114** confers power on the Secretary of State to appoint a Scheme actuary to carry out valuations of the Scheme in accordance with Treasury Directions. The Scheme actuary must, in the opinion of the Secretary of State, be appropriately qualified to carry out a valuation of the Scheme. **Regulation 114(4)** requires administering authorities to provide the Scheme actuary with any data that is reasonably required where this is in accordance with directions made by Treasury under section 11 of the 2013 Act.

2.13. Having considered the role of the scheme actuary under **Regulations 115** and **116** and, in particular, the need for data collection and analysis at national scheme level, the Department proposes to appoint the Government Actuary's Department as the Scheme actuary under Regulation **114.** Subject to the outcome of the consultation, the appointment would be confirmed in a letter from the Secretary of State to the Government Actuary's Department.

Employer cost cap (Regulation 115)

2.14 **New Regulation 115(1)** will set the Scheme's employer cost cap. At this stage, the employer cost cap has not been finalised but during the period of this consultation, a draft valuation report prepared by the Government Actuary's Department in accordance with the Treasury's Public Service Pensions (Valuations and Employer Cost cap) Direction 2014 will be issued to you for information. The draft report will include the proposed employer cost cap figure.

2.15. The number of assumptions underlying the calculation of the proposed employer cost cap are set out in the Treasury Direction and cannot be varied. But where appropriate, other scheme specific assumptions must be determined by the Secretary of State after consultation with such persons as he considers appropriate. In this case, consultation on the scheme specific assumptions with the shadow scheme advisory board is considered to be appropriate.

2.16. Subject to any comments on the proposed employer cost cap included in the draft valuation report and the views of the shadow board on the scheme specific assumptions, the final figure will be introduced into **Regulation 115(1)** when the regulations are made.

2.17.**Regulation 115(2)** provides that where the cost of the Scheme following a Scheme valuation under Treasury Directions exceeds the margins specified in Treasury regulations, the Secretary of State must follow the procedure set out in **Regulation 115(3)** for reaching agreement on the steps to be taken to bring costs back to the employer cost cap. At present, the margins specified in Treasury regulations are 2% either side of the Scheme's employer cost cap.

2.18.**Regulation 115(3)** sets out the procedure for reaching agreement under **Regulation 115(2).** This requires the Secretary of State to consult the Local Government Pension Scheme Advisory Board on proposals to bring the Scheme's costs back to the employer cost cap and for all members of the Board to reach an agreed position. The period of consultation is at the Secretary of State's discretion.

2.19**. Regulation 115(4)** provides that if the agreement required by **Regulation 115(3)** is not reached within 3 months of the end of the consultation period, the Secretary of State must take steps to achieve the target cost by adjusting the rate at which benefits accrue under Regulations 23(4) or (5) of the Principal 2013 Regulations.

Scheme advisory board – additional functions (Regulation 116)

2.20. **Regulation 116(1)** requires the Local Government Pension Scheme Advisory Board to obtain a Scheme cost assessment from the Scheme actuary. The assessment must include the overall cost of the Scheme and the proportions of that cost being met by Scheme employers and members as at the date of each actuarial valuation under Regulation 62(1)(a) of the Principal 2013 Regulations.

2.21 Except where either **Regulation 115(5) and (6)** applies, **Regulation 116(2)** enables the Local Government Pension Scheme Advisory Board following a Scheme cost assessment, to make recommendations to the Secretary of State to bring the overall cost of the Scheme back to the target overall cost.

2.22. **Regulation 116(3)** provides that where the Scheme cost assessment shows that the proportion of the overall cost of the Scheme is above or below the target proportion defined at **Regulation 116(7)**, the Local Government Pension Scheme Advisory Board may make recommendations to the Secretary of State to bring that proportion back to the target proportion.

2.23. Prior to any Scheme cost assessment, **Regulation 116(4)** requires the Local Government Pension Scheme Advisory Board to publish its policy on the recommendations it may make to the Secretary of State under **Regulation 116(2) and (3)**. It is envisaged that the policy statement could include a set of trigger points as well as the circumstances when recommendations must or may be made.

2.24. **Regulation 116(5)** switches off the internal Local Government Pension Scheme Advisory Board process during any period when the employer cost cap under **Regulation 115** has been breached. This reflects Government policy that the employer cost cap process will always take precedence over any internal cost management process. **(see Chapter 3 for connected policy question)**

2.25**. Regulation 116(6)** provides that the Local Government Pension Scheme Advisory Board must make recommendations to the Secretary of State where the overall cost of the Scheme exceeds the target overall cost by 2% or more.

2.26**. Regulation 116)7)** defines certain terms used in this regulation including :-

"the overall cost of the Scheme" the total cost as calculated by the Scheme actuary as part of a Scheme cost assessment based on assumptions and a methodology determined by the Local Government Pension Scheme Advisory Board.

"the target overall cost" set at 19.5% of the pensionable earnings of members of the Scheme, and

"the target proportion" set at Scheme employers meeting two thirds and members meeting one third of the overall cost of the Scheme.

2.27**. Regulation 116(8)** requires each administering authority to provide the Scheme actuary with any data required to carry out valuations and produce reports for the purposes of this Regulation in accordance with directions from the Local Government Pension Scheme Advisory Board.

2.28**. Regulation 116(9)** requires the Local Government Pension Scheme Advisory Board to publish a report, including the items listed at **Regulation 116(9)(a) to (d)**, within 23 months of obtaining a Scheme cost assessment unless the Board is prevented from making recommendations to the Secretary of State by the provisions in **Regulation 116(5).**

2.29. **Regulation 116(10)** requires a copy of the report published under **Regulation 116(9)** to be sent to the Secretary of State and Scheme actuary by the Local Government Pension Scheme Advisory Board.

2.30**. Regulation 116(11)** has been amended to extend the period required for the Secretary of State to publish his response to the report published by the Local Government Pension Scheme Advisory Board from 3 to 6 months of receiving the Scheme Advisory Board's report. We believe that this represents a more appropriate timescale.

Annex A

STATUTORY INSTRUMENTS

2014 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014

Made - - - -	*2014*
Laid before Parliament	*2014*
Coming into force - -	*2015*

These Regulations are made in exercise of the powers conferred by sections 1, 3, 5(7), 7(2), 12(6) and 12(7) of, and Schedule 3 to, the Public Service Pensions Act 2013([1]).

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, interpretation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014.

(2) In these Regulations "the Principal Regulations" means the Local Government Pension Scheme Regulations 2013([2]).

(3) These Regulations come in to force as follows—

(a) on 1st January 2015, this regulation and regulations 2, 7 and 8—

(i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

([1]) 2013 c. 25
([2]) S.I. 2013/2356.

(ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and

(iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 110 (scheme advisory board: membership) and 111 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and

(b) on 1st April 2015—

(i) this regulation and regulations 2, 7 and 8 so far as not already commenced, and

(ii) the remainder of these Regulations.

(4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations are amended in accordance with regulations 3 to 8.

3. Omit regulation 53(4) (scheme managers: establishment of pension board).

4. Omit regulation 63 (aggregate Scheme costs).

5. Omit regulation 65 (aggregate Scheme costs: revised certificates).

6. In regulation 66 (supply of copies of valuations, certificates etc) for "regulations 62 (actuarial valuations of pension funds), 64 (special circumstances where revised actuarial valuations and certificates must be obtained) or 65 (aggregate Scheme costs: revised certificates)" substitute "regulations 62 (actuarial valuation of pension funds) or 64 (special circumstances where revised actuarial valuations and certificates must be obtained)".

7. In Schedule 1 (interpretation)—

(a) after the entry for "local government service" insert—

""Local Government Pension Scheme Advisory Board" means a board established under regulation 110 (Scheme advisory board: establishment);

"local pension board" means a board established under regulation 106 (local pension boards: establishment);" and

(b) after the entry for "the Scheme" insert—

""Scheme actuary" means the actuary appointed under regulation 114 (Scheme actuary);".

8. After regulation 104([3]) insert—

"PART 3

Governance

Delegation

105.—(1) The Secretary of State may delegate any functions under these Regulations.

(2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

([3]) Regulation 104 was inserted by S.I. 2014/1146.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

(a) to secure compliance with—

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme, and

(iii) any requirements imposed by the Pensions Regulator in relation to the Scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses.

(6) A local pension board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

(7) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

(a) the membership of the local pension board;

(b) the manner in which members of the local pension board may be appointed and removed;

(c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives([4]) and for these purposes the administering authority must be satisfied that—

(a) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and

(b) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) No officer or elected member of an administering authority who is responsible for the discharge of any function under these regulations (apart from any function relating to local pension boards or the Local Government Pension Scheme Advisory Board) may be a member of a local pension board.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest([5]).

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

([4]) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.
([5]) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

Scheme advisory board: establishment

110.—(1) A scheme advisory board ("the Local Government Pension Scheme Advisory Board") is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and any connected scheme and their pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

(5) The Local Government Pension Scheme Advisory Board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board is to consist of a Chairman and at least 2, and no more than 12 members appointed by the Secretary of State.

(2) When deciding whether to make appointments under paragraph (1), the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

(4) The Chairman of the Local Government Pension Scheme Advisory Board may, with the agreement of the Board, appoint a maximum of 3 persons to be non-voting advisory members of the Board.

(5) An advisory member of the Local Government Pension Scheme Advisory Board is to hold and vacate that position in accordance with the terms of that member's appointment.

(6) The Chairman of the Local Government Pension Scheme Advisory Board may, with the agreement of the Board, appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(7) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

Scheme advisory board: conflict of interest

112.—(1) Before appointing any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest([6]).

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

(a) its annual budget approved by the Secretary of State; and

(b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.

Scheme actuary

114.—(1) The Secretary of State must appoint an actuary as Scheme actuary to carry out valuations of the Scheme in accordance with Treasury directions made under section 11 of the Public Service Pensions Act 2013([7]) ("the Treasury directions").

(2) The person appointed as Scheme actuary under paragraph (1) must, in the opinion of the Secretary of State, be appropriately qualified to carry out a valuation of the Scheme.

(3) The Secretary of State must secure that the Scheme actuary carries out actuarial valuations of the assets and liabilities of the Scheme on the dates specified in regulation 62(1)(a) (actuarial valuations of pension funds) and prepare valuation reports in accordance with the Treasury directions, within a time-frame which enables the requirements in those directions to be met.

(4) Administering authorities must provide the Scheme actuary with any data that the Scheme actuary reasonably requires, in accordance with the Treasury directions, in order to carry out a valuation and prepare a report on the valuation.

Employer cost cap

115.—(1) The employer cost cap for the Scheme is []% of pensionable earnings of members of the Scheme.

(2) Where the cost of the Scheme, calculated following a valuation in accordance with Treasury directions under section 11 of the Public Service Pensions Act 2013 is more than the margins specified in regulations made under section 12(5) of the Public Service Pensions Act 2013([8]) ("the Cost Cap

([6]) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".
([7]) 2013 c. 25.
([8]) 2013 c. 25; see regulation 3 of S.I. 2014/575.

Regulations”) above or below the employer cost cap, the Secretary of State must follow the procedure specified in paragraph (3) for reaching agreement with administering authorities, employers and members (or representatives of employers and members) as to the steps required to achieve the target cost specified in the Cost Cap Regulations.

(3) The procedure specified for the purposes of section 12(6)(a) of the Public Service Pensions Act 2013 is consultation for such period as the Secretary of State considers appropriate with the Local Government Pension Scheme Advisory Board with a view to reaching an agreement endorsed by all members of that Board.

(4) If, following such consultation, agreement is not reached within 3 months of the end of the consultation period, the Secretary of State must take steps to adjust the rate at which benefits accrue under regulation 23(4) or (5) (active member’s pension accounts) so that the target cost for the Scheme is achieved.

Scheme advisory board: additional functions

116.—(1) The Local Government Pension Scheme Advisory Board (“the Board”) must obtain a Scheme cost assessment from the Scheme actuary detailing the overall cost of the Scheme and the proportions of that cost being met by Scheme employers and members on the dates specified in regulation 62(1)(a) (actuarial valuations of pension funds).

(2) Subject to paragraphs (5) and (6), where the overall cost of the Scheme is above or below the target overall cost, the Board may make recommendations to the Secretary of State as to the steps to take to bring the overall cost of the Scheme back to the target overall cost.

(3) Where the proportion of the overall cost of the Scheme which is met by contributions by employers is above or below the target proportion, the Board may make recommendations to the Secretary of State as to the steps to take to bring the proportion of the overall cost of the Scheme which is met by contributions by employers and members back to the target proportion.

(4) The Board must, before obtaining a Scheme cost assessment under paragraph (1), prepare and publish a statement setting out its policy concerning recommendations to the Secretary of State about he steps to be taken to bring the overall cost of the Scheme back to the target overall cost and the proportions of that cost met by Scheme employers and members, back to the target proportion.

(5) The Board must not make recommendations under paragraph (2) if steps are required to be taken under regulation 115 (employer cost cap).

(6) Subject to paragraph (5) the Board must make recommendations under paragraph (2) if the overall cost of the Scheme is above or below the target overall cost by 2% or more of pensionable earnings of members.

(7) In this regulation—

“the overall cost of the Scheme” means the total cost as calculated by the Scheme actuary as part of a Scheme cost assessment making use of the data provided under regulation 114(4) (Scheme actuary) according to such methodology and assumptions as are determined by the Board;

“the target overall cost” is 19.5% of the pensionable earnings of members of the Scheme;

“the target proportion” means Scheme employers meeting two-thirds and members meeting one-third of the overall cost of the Scheme.

(8) Each administering authority must provide the Scheme actuary with any data that the Scheme actuary requires in order to carry out any valuations and produce reports in accordance with directions from the Board for the purposes of this regulation.

(9) Unless the Board is prevented by paragraph (5) from making recommendations under this regulation, it must, within 23 months of the date on which a Scheme cost assessment is obtained under paragraph (1), publish a report setting out—

(a) the overall cost of the Scheme;

(b) the proportions of the overall costs of the Scheme met by employers and members;

(c) the assumptions and methodology used by the Scheme actuary; and

(d) any recommendations made to the Secretary of State under this regulation.

(10) The Board must send a copy of a report published under paragraph (9) to the Secretary of State and the Scheme actuary.

(11) The Secretary of State must publish a response to a report received under paragraph (10) within six months of receipt of that report.

We consent to the making of these Regulations

Names
Date Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name
Parliamentary Under Secretary of State
Date Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 to 7 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pension board. Local pension boards must have equal representation of employer representatives and member representatives who must not be officers or councillors of the administering authority responsible for the discharge of local government pension functions.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

Regulation 114 requires the Secretary of State to appoint a Scheme actuary to carry out valuations of the Scheme.

Regulation 115 sets the employer cost cap and requires the Secretary of State to seek agreement from those affected as to the changes to the design of the Scheme necessary to bring costs back to that level if valuation reports indicate that costs have varied by more than a margin specified in regulations made by the Treasury. If agreement can not be reached the Secretary of State must make amendments to the Scheme to vary the rate of accrual of benefits to bring the costs of the Scheme back to the employer cost cap level.

Regulation 116 confers additional functions on the Local Government Pension Scheme Advisory Board to monitor the overall costs of the Scheme and the proportion of those costs met by employers and members respectively and to make recommendations to the Secretary of State for changes to the Scheme where overall costs or respective proportions met by employer or member contributions vary from the initial costs.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 1

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