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PENSIONS SUB COMMITTEE

13 March 2017

SECOND DESPATCH

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ISLINGTON

Finance Department
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London N7 7EP

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

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	13 March 2017		n/a

Delete as appropriate		Non-exempt

SUBJECT: INVESTMENT STRATEGY STATEMENT AND STRATEGY REVIEW FRAMEWORK

1. Synopsis

1.1 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from1November 2106 and requires all funds to publish an Investment Strategy Statement (ISS) by 1April 2017.

The ISS has been designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. This document replaces the Fund's Statement of Investment Principles(attached as Appendix 2 for reference)

1.2 At the 2016 Actuarial Valuation review the Fund agreed and moved to a CPI plus discount rate for valuing pension liabilities and as such a review of the fund investment strategy is to be undertaken to reflect this new objective. The last strategy review was completed in 2014.

2. Recommendation

2.1 To consider and approve the draft ISS attached as Appendix 1

2.2 To consider and agree the following details of the ISS document
(i) investment beliefs and objectives
(ii) risk attribution analysis following the strategy review
(iii) approach to asset pooling
(iv) social environmental and corporate governance policy

2.3 To agree to review becoming signatories to the UK Stewardship Code as outlined in para 3.3

2.4 To agree to delegate the final approval of the ISS to the Corporate Director of Finance and Resources in consultation with the Chair and Pension Board for publication on 1April.

2.5 To note the ISS is a living document that will be revised as changes occur.

2.6 To consider the Mercer presentation on the framework of the investment strategy and agree next steps.

3. Background

3.1 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from1November 2106 and requires all Funds to publish an Investment Strategy Statement (ISS) by 1April 2017.

3.1.1 The ISS has been designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. This document replaces the Fund's Statement of Investment Principles.

3.1.2 In order to comply with the guidance administering authorities must take proper advice, however the source is not prescribed. The Fund will therefore take advice from its investment advisors and actuary as well as consult the Pension Board.

3.1.3 <u>The Regulations- Investment Strategy Statement</u>
Regulation7(1) requires an administering authority to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State. The ISS must include:

- A requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority approach to risk , including the ways in which risks are measured and managed;
- The authority's approach to pooling investments, including investments, including the use of collective investments vehicles and shared services;
- The authority's policy on how social environmental or corporate governance considerations are taken into account in the selection, non- selection, retention and realisation of investments and ;
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

3.2 In accordance with the guidance, officers and Mercer, our investments advisors have prepared a draft ISS attached as Appendix 1. The draft is closely based on the information in the SIP (attached as Appendix 2) however members are asked to consider the following details

(i) investment beliefs and objectives
(ii) risk attribution analysis following the strategy review
(iii) approach to asset pooling
(iv) social environmental and corporate governance policy

3.3 Financial Reporting Council UK Stewardship Code

The guidance states that administering Authorities should become signatories to the Financial Reporting Council UK Stewardship Code and state how they implement the seven principles and apply the guidance of the Code on a comply or explain basis.

The principles states that institutional investors should:

- publicly disclose their policy on how they will discharge their stewardship responsibilities
- have a robust policy on managing conflicts of interest in relation to stewardship which could be publicly disclosed
- monitor their investee companies
- establish clear guidelines on when and how they will escalate their stewardship activities
- be willing to act collectively with other investors where appropriate
- have a clear policy on voting and disclosure of voting activities
- report periodically on their stewardship and voting activities

3.3.1 The Fund is not currently a signatory to the Code but the expectation within the guidance is that all LGPS Funds will become signatories to the UK Stewardship Code as asset owners. Members are asked to consider the principles and review steps needed to be taken to become signatories.

3.4 Investment Strategy Review

Following the 2016 actuarial review and agreement by Members to now move to a CPI plus discount rate for valuing pension liabilities, it was agreed to review the current strategy to evaluate risk and assets to ascertain that they can meet our new objective. Members completed the last investment review in 2014. Mercer, our investment advisors, will be making a presentation to consider the framework and next steps

4. Implications

4.1 Financial implications

4.1.1 The cost of providing independent investment advice is part of fund management and administration fees charged to the pension fund.

4.2 Legal Implications

The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from1November 2106 and requires all funds to publish an Investment Strategy Statement (ISS) by 1April 2017.

The ISS has been designed to be a living document and is an important governance tool for the Fund.

4.3 Environmental Implications

Environmental considerations can lawfully be taken into account in investment decisions

4.4 Resident 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

.

5. Conclusion and reasons for recommendation

5.1 Members are asked to consider and agree the draft ISS attached as Appendix1 and delegate the final approval of the ISS to the Corporate Director of Finance and Resources in consultation with the Chair and Pension Board for publication on 1 April.

5.2 Members asked to consider the Mercer presentation on the Fund's investment strategy review framework and agree next steps.

Background papers:
SIP November 2014

Final report clearance:

Signed by:

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

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INVESTMENT STRATEGY STATEMENT [DRAFT]

LONDON BOROUGH OF ISLINGTON PENSION FUND – MARCH 2017

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This investment strategy statement (ISS) has been designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. This document replaces the Fund's Statement of Investment Principles.

This statement will be reviewed by the Pensions Sub-Committee ('the Committee') at least triennially or more frequently should any significant change occur.

Myners Principles

Although not specifically referenced in the Regulations, the Pensions Sub-Committee feels that assessment of compliance with the Myners Principles is a valuable governance tool. A copy of the Fund's Myners Compliance Statement can be found in the Annual Report and Accounts and is attached as Appendix A

2. Investment Beliefs and Objectives

The Fund has the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments
- Investing over the long term provides opportunities to improve returns
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.

- Managing risk is a multi-dimensional and complex task.
- Risk mitigation will be prioritised according to size of potential impact and risks will only be taken where they are expected to be rewarded
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term
- Value for money from investments is important, not just absolute costs.

2. Investment strategy and the process for ensuring suitability of investments.

As noted above, the Fund's objective is to pay benefits as they fall due and this requires the build-up of sufficient reserves in advance. The Fund is currently assessed to have a deficit in terms of the reserves needed and so the asset strategy is focused on achieving returns in excess of CPI inflation, without taking undue risk. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The asset strategy, along with an overview of the role each asset plays in achieving the Fund's objectives is set out in the table below:

Asset class	Allocation %	Allowable ranges %	Role (s) within the strategy
Equity	46.0	+/-6.0	Long term growth in excess of inflation expected
Private Equity	4.0	+/-2.0	Additional returns in excess of public equity
Diversified Growth Funds	10.0		Diversification. Some inflation protection; Source of income
Property	15.0	+/-2.0	Diversification. Generates investment income; Returns expected to be inflation-sensitive Exposure to Illiquidity premium
Corporate Bonds	10.0	+/-2.5	Diversified source of return from a range of sources. Not specifically income generating
Diversifying 'real' assets e.g. Infrastructure Social Housing	15.0		Diversification. Generates investment income; Returns expected to be inflation-sensitive Exposure to Illiquidity premium

The Pensions Sub-Committee is responsible for the Fund's asset allocation which is determined via a triennial strategy review as part of the valuation process, but is kept under constant review; noting that strategic changes are an evolutionary process.

The triennial review looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit
- An analysis of the order of magnitude of the various risks facing the is established in order that a priority order for mitigation can be determined
- The desire for diversification across asset class, region, sector, and type of security.

3. Risk measurement and management

The Committee assesses risks both qualitatively and quantitatively, with the starting point being the triennial strategy review. Risks are considered, understood and then prioritised accordingly.

[Risk Attribution Analysis (to be added in following strategy review) to show size / impact of main investment risks]

[Impact of falls in equity markets, rises in inflation, falls in interest rates and investment manager underperformance on the funding level (to be added in following strategy review).]

A Investment Risks

Equities – The largest risk that the Fund is running is in relation to its equity holdings. Should equity market conditions deteriorate significantly this will have a negative impact on the funding level. The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensates the level of risk equities bring to the Fund, but does believe in diversification, and looks to mitigate equity risk by investing significantly in other diversifying assets.

Inflation –The Fund's liabilities are impacted by inflation both explicitly and implicitly and the required return on assets is expressed in terms of inflation plus a premium. The Fund will seek to invest in a range of assets that provide returns in excess of inflation and in some cases provide an inflation-linked income, subject to a tolerable level of volatility.

Diversifying assets – The Fund has a significant amount of assets allocated to a range of non-equity, diversifying assets, with allocations to property, bonds, diversified growth and a plan to build allocations to real assets such as infrastructure and social housing. The risks that these investments bring at an individual level are not insignificant but the Committee believes that over the long term these assets will provide returns that compensate for the risks being run. Additionally the level of diversification the assets provide helps to reduce the Fund's reliance on returns from equities. Illiquid assets such as property are also a valuable source of income.

Active Manager Risk – Investment Managers are appointed to manage the Fund's investments on its behalf, a number of which are active managers. Active manager risk is small relative to other risks; the Fund still addresses this risk. Extensive due diligence is undertaken before managers are selected, with a number of different managers employed to prevent manager concentration risk The investment managers are also monitored regularly by the Committee and by the Fund's Advisors.

The Fund's portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes, the Fund by investing in a range of different investments can reduce the overall level of risk run to a degree.

B Demographic Risks

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over time as the pensioner liability increases. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

C Cashflow Management Risks

The Fund is cash flow positive. However, this position will be reviewed regularly and is a factor that is incorporated into the Fund's investment strategy reviews with the long-term aim that a portfolio of income generating assets is built up over time.

D Governance Risks

The Committee believes that there is a benefit to the Fund to be gained from good governance in the form of either or both of an increased return and/or decreased risk. Poor governance can lead to opportunities and risks to be missed, and have a detrimental effect on the funding level and deficit.

Details of the Fund's governance structure can be found in the Governance Compliance Statement in the Annual Report found via https://www.islington.gov.uk/about-the-council/apply-for-a-job/council-pension-scheme useful documents. The Pensions Sub-Committee members receive training on a regular basis as a group and attend individual training courses and seminars. Each member must attend the 3 Day Trustee Training organised by the Local Government Association.

E ESG Risks

The Committee believes that ESG risks should be taken into account on an ongoing basis and are an integral part of the Fund's strategy and objective of being a long term investor.

The Committee accepts that engagement is key in relation to strong corporate governance, which in turn will enhance returns. Details of the Fund's policies can be found later in this statement.

The Fund has made a commitment to reduce its exposure to carbon intensive companies and assets. After careful consideration, the Committee decided to change both the UK equity index benchmark for the Fund's internally managed passive equities and the global equity index benchmark for externally-managed passive assets, to low carbon variants of the standard index. As a result of these changes, the Fund will have a very much lower carbon footprint than a 'normal' equity portfolio, and therefore a low carbon footprint at the Total Fund level. The Pensions Sub-Committee expects to continue to review further opportunities, particularly in other asset classes, to reduce the Fund's carbon footprint further.

4. Approach to asset pooling

The Fund has formally joined the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

The Fund has already transitioned liquid assets into the London CIV with a value of £92m and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund in advance of April 2018.

The Fund holds £90m of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

A proportion (currently 20%) of the Fund is held in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision not to reinvest.

5. Social, environmental and corporate governance policy and policy of the exercise of rights (including voting rights) attaching to investments

With regard to socially responsible investment the Committee is mindful of the following legal principles, which are based on recent decisions in the courts and which apply to all pension schemes:

a. Administering authorities are free to adopt a policy of socially responsible investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

b. Administering authorities are free to avoid certain kinds of investment, which they consider scheme members would regard as objectionable as long as they make equally financial advantageous and prudent investments elsewhere. They may also make "ethical" investments provided these are otherwise justifiable on investment grounds.

c. Administering authorities are not entitled to subordinate the interests of members to ethical or social concerns. The financial performance of the Fund consistent with proper diversification and prudence is paramount.

The London Borough of Islington Pension Fund wishes to promote a policy of dialogue on socially responsible investment issues, through the Fund Managers, with company management. In the first instance the Committee would like environmental issues, human rights and employment standards to be raised with company management. Environmental issues could include issues such as conserving energy, promoting alternative energy sources, recycling, avoiding pollution and using environmentally friendly and sustainable resources. Human rights could involve child labour issues in foreign subsidiaries of UK companies or operations in countries with oppressive regimes. Employment standards could relate to equal opportunities, health and safety, trade union recognition and employee participation.

The Fund invests via pooled funds and is therefore prepared to subscribe to the policies of the individual fund managers. When monitoring investment managers, the Pensions Sub- Committee considers whether managers' actions and engagement activities have been appropriate and in keeping with London Borough of Islington Pension Fund policy.

It is proposed to monitor action by fund managers on a quarterly basis and further develop this policy on an annual basis on the basis of experience.

The Fund has joined the Local Authority Pension Fund Forum to promote best practice on corporate governance and SRI issues amongst the companies in which it invests, through cooperative action with other local authority funds. The Forum exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst companies in which they invest.

With more than half of all local authority funds as members, the Forum can negotiate with companies with a single authoritative voice, impossible for smaller funds acting alone. The Forum is developing policy and carrying out research and engagement with companies on many issues, including environmental issues such as the climate change impact of the transport sector, and the impact of oil extraction from tar sands. Other initiatives include
engagement with fund managers to try to improve transparency of proxy voting policies by the managers, and on corporate governance issues.

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.

There are no proposals to invest any part of the Fund exclusively in Socially Responsible Investments at the current time. Nor is it proposed that positive or negative screening should be adopted by the Fund on socially responsible issues.

As noted earlier, the Fund has made a commitment to reduce its exposure to carbon intensive companies and assets.

6. Policy of the exercise of rights (including voting rights) attaching to investments

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.

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

In addition, quarterly reports of voting actions are posted on the Fund's website https://www.islington.gov.uk/about-the-council/apply-for-a-job/council-pension-scheme useful documents. The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code Or The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements.

Advice Taken

In creating this statement, the Pensions Sub-Committee has taken advice from its Investment Consultant and independent Investment Advisor. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Fund has taken advice from its Investment Consultant, Mercer, and the Scheme Actuary, also Mercer. In providing investment advice, Mercer is regulated by the Financial Conduct Authority.

APPENDIX A
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 Local Government Association 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 took 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 BNY Mellon. Performance is also monitored against the local authority peer group of pension funds, also based on old State Street Company data but from 1April 2016 run by PIRC (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 and by internal audit through regular audits programmed into the Audit Plan.

Pension benefits administration performance is reported regularly to Pensions Board

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 Investment Strategy Statement Trustees should report periodically to members on the discharge of such responsibilities.

Comment

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.

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 its Investment Strategy Statement.

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 (and its replacement the Investment Strategy Statement from 1 April 2017) 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 available to all pensioners and employees each year. 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.

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ISLINGTON

ISLINGTON COUNCIL PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES-

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 wage 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	40%	+/- 4.0	FTSE AW Developed North America
		ii) Europe (ex UK)	16%	+/- 1.5	FTSE AW Developed Europe (ex UK)
		iii) Japan	7%	+/- 1.0	FTSE AW Japan
		iv) Asia Pacific (ex Japan)	7%	+/- 1.0	FTSE AW Developed Asia Pacific (ex Japan)
		v) Emerging Markets	30%	+/- 3.0	FTSE AW All Emerging
Global Equity	i) RCM	Global	40%	+/- 10.0	FTSE All World Index
	ii) Newton	Global	60%	+/- 10.0	
Global Private Equity	i) Standard Life (private Equity) Ltd	Europe	50%	+/- 10.0	FTSE US
	ii) Pantheon	US	50%	+/- 10.0	FTSE Europe inc UK
Bond Portfolio	Standard Life	UK Non-Government	100%		Merrill Lynch Sterling Non Gilt All Stocks
Property Portfolio	i) Aviva Investors	HLV Property (Lime Property Fund)	33%		Composite Gilt index: 50% FTSE Over 15 yr Gilts 50% FTSE 5-15 yr Gilts
	ii) Threadneedle	Core UK Property	40%		CAPS Pooled Property
	iii) Franklin Templeton	Global real estate fund of funds	27%		n/a
	iv)Hearthstone	UK residential property	13%		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.