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ISLINGTON

Resources Directorate
Town Hall, Upper Street, London, N1 2UD

AGENDA FOR THE PENSIONS SUB COMMITTEE

Members of the Pensions Sub Committee are summoned to a meeting which will be held in Committee room 4 , Town Hall, Upper Street, London N1 2UD on **13 March 2017 at 7.30 pm.**

Stephen Gerrard
Director – Law and Governance

Enquiries to	:	Mary Green
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Despatched	:	2 March 2017

Membership 2016/17	Substitute Members
Councillor Richard Greening (Chair)	
Councillor Andy Hull (Vice-Chair)	Councillor Satnam Gill OBE
Councillor Michael O'Sullivan	Councillor Mouna Hamitouche MB
Councillor Paul Smith	Councillor Angela Picknell

Quorum is 2 members of the Sub-Committee

A. Formal Matters

1. Apologies for absence

2. Declaration of substitutes

3. Declaration of interests

If you have a Disclosable Pecuniary Interest* in an item of business:
- if it is not yet on the council's register, you must declare both the existence and details of it at the start of the meeting or when it becomes apparent;
- you may choose to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.

In both the above cases, you must leave the room without participating in discussion of the item.

If you have a personal interest in an item of business and you intend to speak or vote on the item you must declare both the existence and details of it at the start of the meeting or when it becomes apparent but you may participate in the discussion and vote on the item.

*(a) Employment, etc - Any employment, office, trade, profession or vocation carried on for profit or gain.
(b) Sponsorship - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.
(c) Contracts - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.
(d) Land - Any beneficial interest in land which is within the council's area.
(e) Licences- Any licence to occupy land in the council's area for a month or longer.
(f) Corporate tenancies - Any tenancy between the council and a body in which you or your partner have a beneficial interest.
(g) Securities - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

This applies to all members present at the meeting.

4. Minutes of the previous meeting — 1 - 4

B. Non-exempt items

1. Pension Fund performance — 5 - 40

a. Presentation from AllenbridgeEPIC Investment Advisers on quarterly performance

2. London CIV update — 41 - 46

3.	Carbon footprint reduction implementation update	47 - 56
4.	Funding Strategy Statement and consultation results	57 - 96
5.	Forward Plan	97 - 100

C. Urgent non-exempt items

Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

D. Exclusion of press and public

To consider whether, in view of the nature of the remaining items on the agenda, any of them are likely to involve the disclosure of exempt or confidential information within the terms of Schedule 12A of the Local Government Act 1972 and, if so, whether to exclude the press and public during discussion thereof.

E. Confidential/exempt items

1.	The London CIV update - exempt appendix	101 - 106

F. Urgent exempt items

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

The next meeting of the Pensions Sub Committee is scheduled for 12 June 2017

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London Borough of Islington

Pensions Sub Committee - 15 November 2016

Non-confidential minutes of the meeting of the Pensions Sub Committee held at Town Hall, Upper Street, London N1 2UD on 15 November 2016 at 7.30 pm.

Present: **Councillors:** Richard Greening (Chair), Andy Hull (Vice-Chair) Michael O'Sullivan and Satnam Gill

Also Present:

Karen Shackleton, Allenbridge Investment Advisers

Vaughan West (observer, Chair of Pensions Board)

Nick Sykes, Nikeeta Kumar, Jonathan Perera and Ian Kirk – Mercer Limited

Councillor Richard Greening in the Chair

54 APOLOGIES FOR ABSENCE (Item A1)

Received from David Bennett, Maggie Elliott, Thelma Harvey and Marion Oliver, observers from Pensions Board.

Apologies for lateness received from Councillor Andy Hull.

55 DECLARATION OF SUBSTITUTES (Item A2)

Councillor Satnam Gill substituted for Councillor Paul Smith.

56 DECLARATION OF INTERESTS (Item A3)

None.

57 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:

That the minutes of the meeting held on 21 September 2016 be confirmed as a correct record and the Chair be authorised to sign them.

58 PENSION FUND PERFORMANCE - JULY TO SEPTEMBER 2016 (Item B1)

RESOLVED:

(a) That the performance of the Fund from 1 July to 30 September 2016, as per the BNY Mellon interactive performance report, detailed in the report of the Corporate Director of Finance and Resources, be noted.

(b) That the report by Allenbridge Investment Advisers on fund managers' quarterly performance, detailed in Appendix 2 to the report and their presentation, be noted.

(c) That the explanatory memorandum to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, detailed at Appendix 1 of the report and effective from 1 November 2016, be noted.

60 LONDON CIV UPDATE (Item B2)

RESOLVED:
That the progress made at the London CIV in launching funds and running portfolios from September to October 2016, detailed in the report of the Corporate Director of Finance and Resources, be noted.

Karen Shackleton left the room during consideration of the following item.

61 PENSIONS SUB-COMMITTEE FORWARD PLAN 2016/17 (Item B3)

RESOLVED:
(a) That, subject to the addition of a training session before the Pensions Board and Sub-Committee on 13 March 2017 on "Actuarial review", the contents of Appendix A, detailing proposed agenda items for future meetings and attached to the report of the Corporate Director of Finance and Resources, be noted:
(b) That it be noted that the Corporate Director of Finance and Resources had approved the renewal of the independent investment advice, provided by Allenbridge, for 18 months, up to 30 September 2017.

62 UPDATE - LOWER CARBON FOOTPRINT IMPLEMENTATION OPTIONS (Item B4)

Nick Sykes, Mercer, gave a presentation on their review of the Sub-Committee's decision to reduce the carbon footprint of the Fund's equity assets, via a low carbon passive equity allocation.

RESOLVED:
(a) That the confidential presentation prepared by Mercer Limited, attached as Appendix 1 to the report of the Corporate Director of Finance and Resources, be noted.
(b) That the carbon footprint level of equities in the In-House UK Passive Fund be reduced with immediate effect, with 50% of assets allocated to Legal and General Investment Management's MSCI World Low Carbon Target Index Fund and the remaining 50% of assets managed in house to track the FTSE UK Low Carbon Optimised index.
(c) That officers investigate how a low carbon approach could be realised for the rest of the Fund, which does not comprise equities.

63 UPDATE ON ACTUARIAL REVIEW FUNDING STRATEGY STATEMENT - PRESENTATION (Item B5)

Ian Kirk, the Fund Actuary, gave a presentation on the Funding Strategy Statement (FSS) for the Fund, covering the key governing documents, purpose and regulatory requirements of the FSS and the areas of focus for 2016.

A low return future environment was anticipated for the LGPS and other funds. Taking this into account, with overall performance, an assumption of an increase in future employers'

costs, from 12% to 14% (approximately £3m), was being proposed. The past service cost would fall to net off some of this increase.

However, members of the Sub-Committee considered that this was a very pessimistic assumption and had expected to consider an increase in employers' costs of between 5% and 11%.

RESOLVED:
That officers produce information on equities over the long term for the Pension Fund as a whole, to be considered at an additional meeting of the Sub-Committee in January 2017, together with information on the membership profile and an analysis of the assumptions made by the Actuary with regard to future employers' costs.

EXCLUSION OF PRESS AND PUBLIC (Item)

RESOLVED:
That the press and public be excluded during consideration of the following items as the presence of members of the public and press would result in the disclosure of exempt information within the terms of Schedule 12A of the Local Government Act 1972, for the reasons indicated:

Agenda Item	Title	Reason for Exemption
E1	Lower carbon footprint – report from Mercer Investments - exempt Appendix	Category 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).

64 EXEMPT APPENDIX FROM MERCER- LOWER CARBON FOOTPRINT IMPLEMENTATION OPTIONS (Item B6)

RESOLVED:
That the contents of the confidential appendix, produced by Mercer Limited, on issues related to the implementation of a low carbon footprint for the Fund, be noted.

The meeting ended at 9.30 pm

CHAIR

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Agenda Item B1

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director Resources

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

Delete as appropriate	~~Exempt~~	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 OCTOBERTO 30 DECEMBER 2016

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 October to 30 December 2016 as per BNY Mellon interactive performance report

2.2 To receive the presentation by Allenbridge EPIC Investment Advisers, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.

2.3 To note the key person change at Hearthstone, our residential property manager and consider a next step

2.4 To note the recent Mercer Bulletin LGPS Current Issues February 2017

3. Fund Managers Performance for October to December 2016

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 (Oct-Dec) Gross of fees		12 Months to December 2016 Performance Gross of fees	
			Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	24%	UK equities	3.87%	3.89%	16.7%	16.8%
London CIV Allianz	8%	Global equities	2.1%	7.2%	22.4%	28.8%
Newton	15%	Global equities	2.0%	6.7%	20.9%	29.5%
Legal & General	7%	Global equities	5.0%	2.6%	42%	36.7%
Standard Life	20%	Corporate bonds	-2.8%	-2.7%	11.5%	10.6%
Aviva (1)	5%	UK property	2.1%	-4.5% 2.6%	5.8%	13.1% 3.3%
Columbia Threadneedle Investments (TPEN)	6%	UK commercial property	-3.97%	0.0%	-3.5%	0.5%
Hearthstone	2%	UK residential property	1.9%	2.6%	3.1%	3.3%
Schroders	9	Diversified Growth Fund	2.5%	2.0%	6.9%	7.5%

(-4.5% and 13.1% = original Gilts benchmark; 2.6% and 3.3% are the IPD All property index; for information

3.2 BNY Mellon our new performance monitoring service provider now provides our quarterly interactive performance report. Performance attributions will be generated via their portal once officers receive the training.

3.3 The combined fund performance and benchmark without the hedge for the last quarter ending December 2016 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to Dec' 2016 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
LB of Islington Fund-ex hedge	1.1%	1.9%	14.5%	15.9%

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

3.5 The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years period to December 2016 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	12.9%	7.8%	9.9%

3.6 **AllianzGI (RCM)**

3.6.1 AllianzGI (formerly known as RCM) is the fund's global equity manager and was originally appointed in December 2008. There has been amendments to the mandate, the last being a transfer to the CIV platform.

3.6.2 On 2 December, the portfolio was transferred to the London CIV platform to Allianz sub fund as agreed by Members at the November 2015 meeting. The new benchmark is to outperform the MSCI World Index. The outperformance target is MSCI World +2% per annum over 2 years net of fees.

3.6.3 This quarter the fund returned 2.1% against a benchmark of 7.1%. Since inception with the London CIV in December 2015, there is a relative under performance of -5.1%. The main drivers were both stock selection and sector weight positions in especially Financials. Stock selection was also a detractor in Information Technology, Industrials sectors. This quarter the portfolio underperformance reflected the style backdrop to value stocks.

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.

3.7.2 The fund underperformed by returning 2.1% gross of fees against a benchmark of 6.7% for the December quarter. Since inception the fund has delivered an absolute return of 14.3% but relative under performance of -0.2% gross of fees per annum

3.7.3 The under performance this quarter was driven mainly by stock selection in consumer services and goods as well as health care. Underweight positions to financials and oil and gas also exacerbated the underperformance.

3.7.4 The option to transfer this manager to the CIV platform is discussed in another report on the agenda.

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 3.9% against a benchmark of 3.9% for the December quarter and a relative over performance of 0.64% over the three year period.

3.8.2 The fund currently holds 312 stocks and the main activities were corporate actions, receipts of distributions and payments to our private equity funds over the period.

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 December quarter, the fund returned -2.3% against a benchmark of -2.7% and a 3

year relative return of 0.0% per annum net of fees.

3.9.2 The main driver behind the over performance in this negative quarter was the widening of credit spreads on gilt yields during the quarter and the strong performance of financial bonds..

3.9.3 The forward strategy in the post Brexit era of political and macro uncertainty, is to take advantage of further opportunities to reduce risk.

3.10 **Aviva**

3.10.1 Aviva manages the fund's UK High Lease to Value 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 High Lease to Value Property managed under the Lime Property Unit Trust Fund.

3.10.2 The fund for this quarter delivered a return of 2.3 % against a gilt benchmark of -4.5%. The All Property IPD benchmark returned 2.6% for this quarter. Since inception the fund has delivered an absolute return of 6.69% net of fees.

3.10.3 This December quarter the fund purchased a Premier Inn Hotel in West Smithfield. The fund's unexpired average lease term is now 19.4years. Lime is well positioned to deliver attractive returns over the medium term.

3.10.4 The fund also has £420m of investor commitments (£66m newly signed subscriptions in the December quarter.)

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

3.11.1 This is the fund's UK commercial pooled property portfolio that was fully funded on 14 October 2010 with an initial investment of £45 million. The net asset value at the end of December was £71.2million.

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 2.8% against its benchmark of 2.3% for the December quarter. The cash balance now stands at 8.9% and with post Brexit uncertainties, will continue to adopt a conservative cash management strategy for the rest of the year. During the quarter there were 5 acquisitions totalling £34m and 3 disposals of £4.2m. There is a strong asset diversification at portfolio level with a total of 260 properties.

3.11.4 The medium to long term prospects of commercial property post referendum are likely to be a catalyst for moderate capital value declines but the fund is cushioned by its high relative income return of 6.3% versus the 5.2% benchmark and maximum diversification at both portfolio and client level.

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 December quarter, the hedged overseas equities was valued at £5.4m

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. Members agreed in September 2014 to re-commit another $40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. 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 Fund I is now fully committed and drawn down, though $7.6m can be recalled in the future as per business plans. The final portfolio is comprised of nine funds and five co-investments. The funds is well diversified as shown in table below:

Commitments	Region	% of Total Fund
5	Americas	36
4	Europe	26
5	Asia	38

During the quarter there was a net distribution of $6.34m to bring the total distribution received to $40.175m

3.13.3 Fund II has made 4 investments to date in Europe, USA and Asia, in the retail and office sector and the projected geographic exposure is 42% Asia, US 26% and 32% Europe. The Admission period to accept new commitments from investors has been extended with our consent through to March 2017. The total capital call to the quarter end was $10.8

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 5.0% gross of fees for the quarter. The 3 year absolute return is 9.5%. The market value is now £90m.

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 December quarter the value of the fund investment was £25.8m and total funds under management is £51.4million. Performance net of fees was 1.9% compared to the LSL benchmark. The income yield after cost was 3.19%. The portfolio has 187 properties, 10 are let on licence and leaseback agreement to house builders and 166 properties let on assured short term agreements.

3.15.3 There are 11 vacant properties, 7 of which are being marketed for sale and 4 being marketed for rental.

3.15.4 **Key man changes**

Officers with the Chair met with the management team of Hearthstone in January 2017 for a review and update and it was announced that the Chief executive, Christopher Down resigned in late November 2016 but remains a shareholder. The focus of the business going forward to grow assets under management is going to be retail market.

3.15.5 On our appointment of Hearthstone in April 2013, one of the trigger points for a review was the key man Christopher Down leaving. Members are therefore notified of this key change and asked to consider reviewing the portfolio and its future. Our advisors have all met with the management team and will discuss with Members a next step.

3.16 **Schroders-**

3.16.1 This is the Fund's diversified growth fund manager. The fund inception date was 1 July 2015, with an initial investment of £100million funded by withdrawals from our equities portfolios. The agreed mandate guidelines are as follows:

- Target performance: UK RPI+ 5.0% p.a.,
- Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).
- Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.
- The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.
- **Permissible asset class ranges (%):**
  - 25-75: Equity
  - 0- 30: Absolute Return
  - 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash
  - 0-20: Commodities, Convertible Bonds
  - 0- 10: Property, Infrastructure
  - 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.

3.16.2 This is the sixth quarter since funding and the value of the portfolio is now £104m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The December quarter performance before fees was 2.5% against the benchmark of 2.0% (inflation+5%). The one year performance is 7.1% against benchmark of 7.1% before fees.

3.16.3 Global value equities and regional allocations North America and Japan made strong contributions to returns. The decision to sell out of government bonds in the summer continued to pay off as rise in yields gathered pace.

3.17.3 The Chair, Officers and Karen met with Schroders in December for a review and update meeting.

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 **Resident Impact Assessment:**
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".

A resident 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 December 2016 as part of the regular monitoring of fund performance and note the latest Mercer LGPS bulletin, Appendix 2. Members are also asked to note the key man change at Hearthstone and consider a next step.

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

Final report clearance:

Signed by:

Corporate Director Resources Date

Received by:

Head of Democratic Services Date

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Allenbridge

REPORT PREPARED FOR

London Borough of Islington Pension Fund

February 2017

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AllenbridgeEpic Investment Advisers Limited is a subsidiary of Allenbridge Investment Solutions LLP.

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	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
London CIV - Allianz	Monitored by London CIV – no changes reported.	A disappointing quarter to end the year, with the sub fund underperforming the Index by -5.1%. Underperforming by -1.4% p.a. over 3 years to end December 2016 and behind the target of +2.0% p.a.	London CIV sub fund had £625 million of assets under management as at end December, an increase of £11 million since end September 2016.	New performance target is 2% per annum outperformance over 3 years (was 3% prior to transferring onto CIV).	
Newton	Hanneke Smits has taken up the CEO role after being approved by the FCA. Susan Noble has been appointed Chair of the Board.	Underperformed the Index by -4.65% in the quarter. Now trailing the benchmark over three years by -0.65% per annum. Trailing the performance target of 2% p.a. outperformance.	£53.2 billion as at 31st December 2016, down £1.4 billion on the previous quarter.		Sub-fund likely to be available on the London CIV from May.
Standard Life	10 joiners (3 in fixed income), and 9 leavers (none from fixed income) during the quarter.	Over three years the Fund is +0.3% p.a. ahead of the benchmark return of 7.8% p.a. but behind the performance target of +0.8% p.a.	Underlying fund value rose by £27.9 million in Q4 2016. Islington's holding is 5.8% of the Fund's value.		

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Aviva	There were three real estate leavers in Q4, and 11 joiners, including Kris McPhail, the new Assistant Fund Manager for the Lime Property Fund.	Underperformed the gilt benchmark by -3.4% p.a. over three years.	Fund was valued at £1.83 billion as at end Q4 2016. London Borough of Islington owns 3.2% of the Fund.		
Columbia Thread-needle	Michelle Scrimgeour appointed as Chief Executive of Europe, Middle East and Africa. There were three leavers and one joiner, but none from property.	Outperformed the benchmark by +0.5% per annum over three years (source Columbia Threadneedle). Behind the performance target of 1% p.a. outperformance.	Pooled fund has assets of £1.70 billion.		
Legal and General	Not reported.	Funds are all tracking as expected.	Assets under management of £853 billion at end June 2016.		

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Franklin Templeton	One new member of the real estate team in New York.	Portfolio return over three years was +31.2% p.a., well ahead of the target of 10% p.a.			
Hearth-stone	Chris Downing, Chief Executive, resigned in Q4. David Gibbins, fund manager, retiring at end of February.	Outperformed the benchmark by +2.8% p.a. over three years to end December 2016.	Fund was valued at £51.4 m at end Q4 2016.		Departure of CEO and retirement of fund manager are key man triggers.
Schroders	68 joiners and 61 leavers for the UK business but no changes to the DGF team.	Fund returned +2.5% during the quarter and +7.0% over 12 months, -0.6% behind the target return.	Total AUM of £375.0 billion as at 30th September 2016.		

Key to shading in Table 1:

Minor concern

Monitoring required

2. Individual Manager Reviews

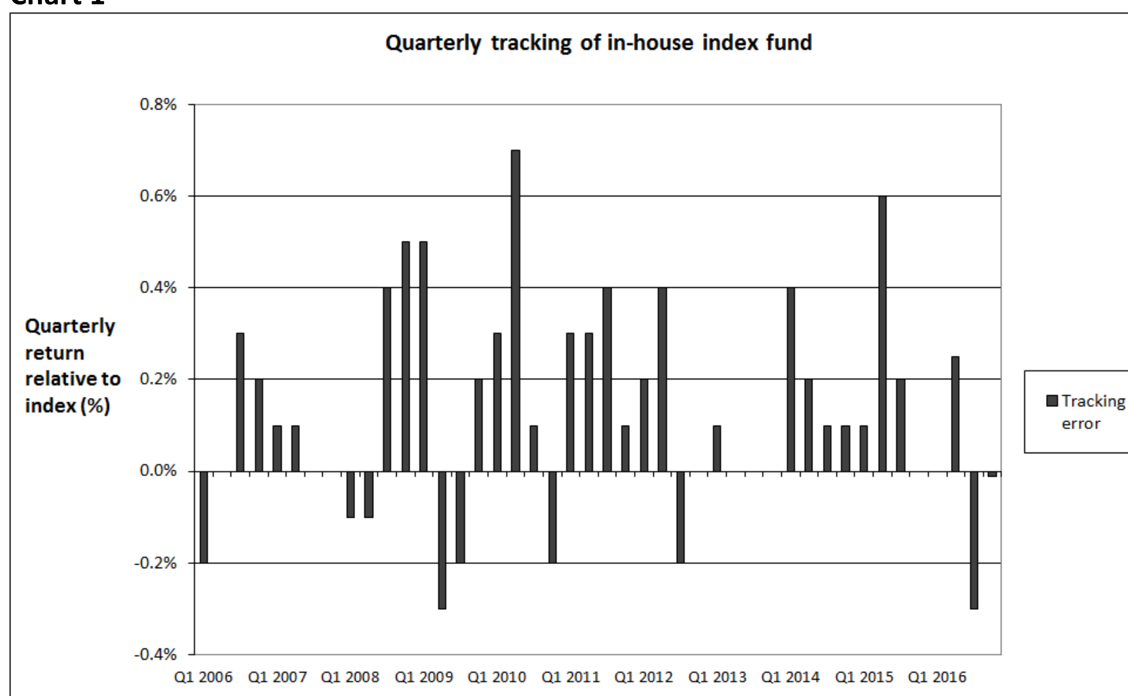
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

Headline comments: The portfolio continues to meet its objectives. The fund delivered a quarterly return of +3.9%, which was in line with the index benchmark return of +3.9%. Over three years the fund has outperformed the index by +0.64% p.a. and delivered a return of +6.7% per annum.

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 thus the portfolio has outperformed its three-year benchmark by +0.64% per annum.

Chart 1



Source: Allenbridge based on BNY Mellon performance calculations

Portfolio risk: The tracking error on the portfolio at the end of September was 0.38% per annum. This is slightly higher than has been experienced historically, but the manager was accumulating higher-than-normal cash balances to cover losses on the currency hedging strategy, which had occurred following sterling's depreciation. In terms of sector bets, relative to the Index, the largest underweight sector position relative to the index was Investment Trusts (-1.25%). The fund was most overweight in Industrials (+0.8%). 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 307 securities at the end of Q3 2016.

2.2. London CIV – Global Equity Alpha Fund – Allianz

Headline comments: The London CIV – Allianz sub fund had a disappointing quarter, after a strong Q3. The fund delivered a return of +2.1% against the benchmark return of +7.2% in Q4 2016. Over three years the fund is trailing the benchmark by -1.4% per annum and is behind the performance target of 2% per annum.

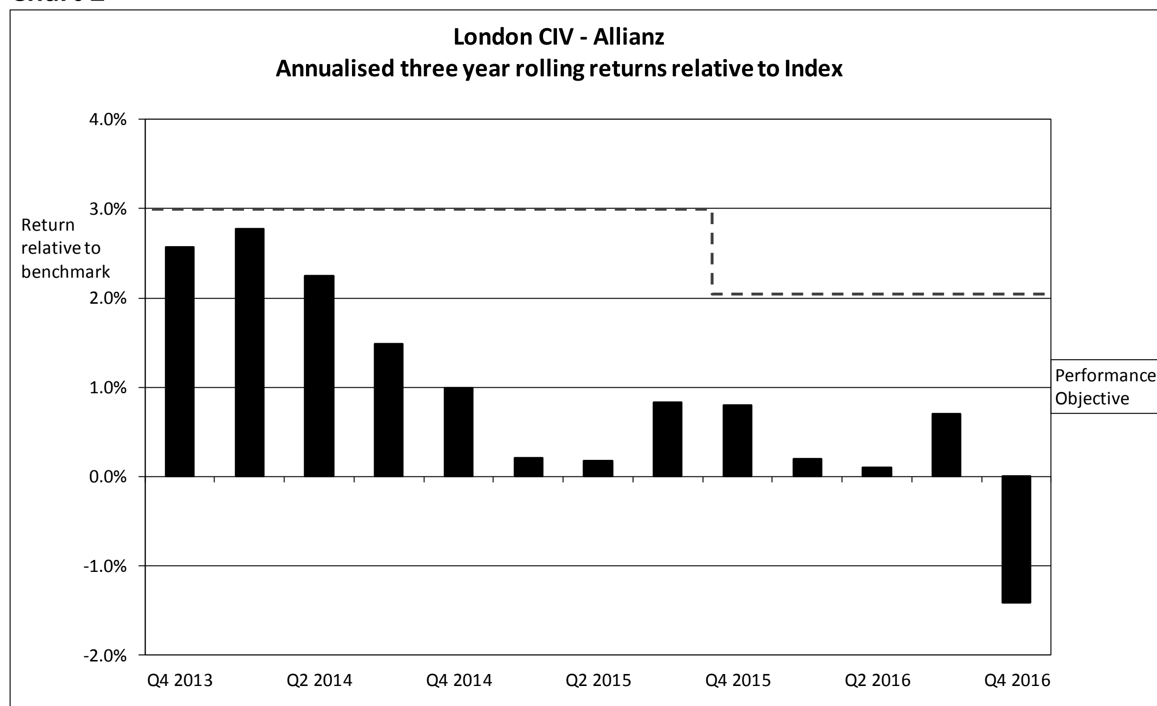
Mandate summary: An active global equity portfolio, with a bottom-up global stock selection approach. A team of research analysts identifies undervalued stocks in each

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 MSCI World Index by 2.0% per annum over rolling 3 year periods net of fees.

Performance attribution: For the three years to December 2016, the AllianzGI portfolio is behind its benchmark by -1.4% per annum, so is **trailing the performance target of 2% per annum**, shown by the dotted line in Chart 2. Note that the dotted line drops in Q4 2015 when the mandate transferred to the London CIV sub fund, which has a lower performance objective than when Allianz ran a bespoke mandate for London Borough of Islington.

The portfolio's underperformance in Q4 was attributed by the London CIV to the market's rotation out of growth stocks into value and cyclical stocks. In particular, the allocation to the financial sector detracted -1.9%. The sub fund's allocation to the industrial sector also detracted -1.1% although this was mostly attributed to some specific stock selection issues. It is worth noting that **the London CIV has expressed some concern about the manager's ability to add value in the current market environment** and is maintaining a watching brief on this sub-fund.

Chart 2



Source: Allenbridge based on BNY Mellon performance data

Portfolio Risk: The largest overweight regional allocation was in European Equities (+7.6% overweight). The most underweight allocation was Japan Equities (-4.4% underweight). In terms of sector bets, the most overweight allocation was in Information Technology (+12.5% overweight). This is the largest overweight sector position that the manager has taken since the inception of the mandate in 2009. Energy was the most underweight sector (-5.0%).

Portfolio Characteristics: as at end Q4 2016, the portfolio held 50 stocks, up from 49 as at end Q3 2016. The portfolio has a beta of 1.00 so is neutral relative to the market.

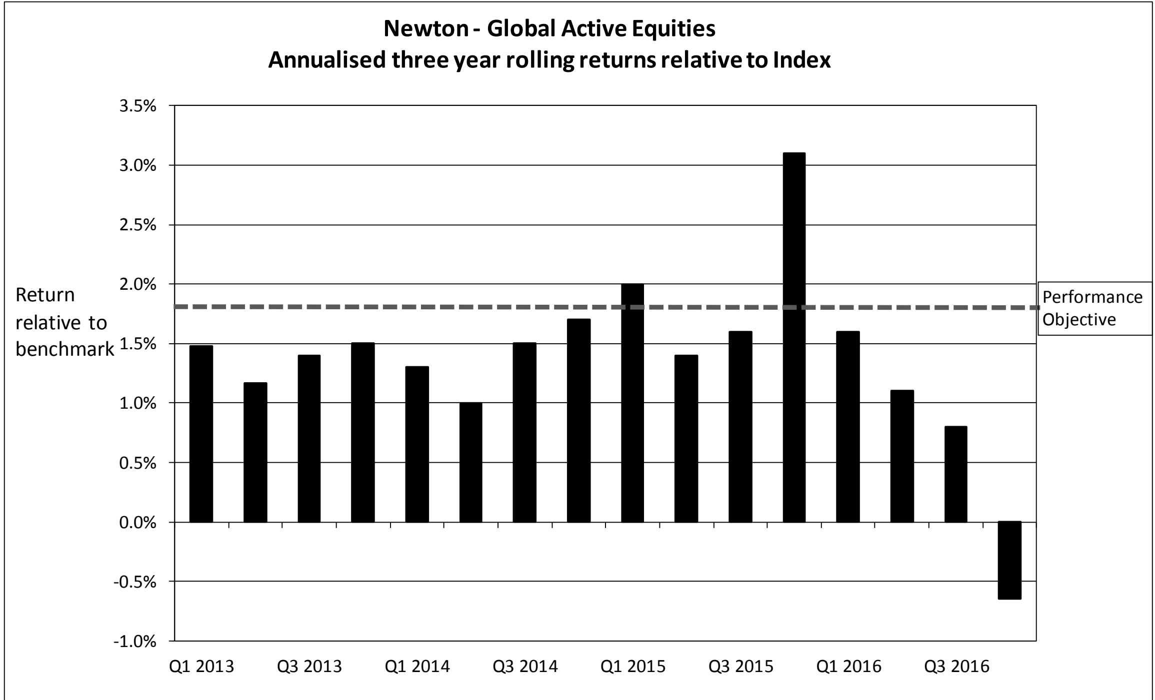
2.3. Newton – Global Active Equities

Headline comments: Newton were behind their benchmark by -4.65% during Q4 2016 bringing the one-year underperformance to -8.7%. Over three years the portfolio has underperformed by -0.65% per annum, behind the target of +2% p.a. This underperformance can be attributed mostly to poor stock selection (-0.4%).

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 three year rolling returns of the portfolio relative to the Index (the black bars) and compares this with the performance target, shown by the dotted line.

Chart 3



Source: Allenbridge based on BNY Mellon performance numbers

For the three-year period to the end of Q4 2016, the fund (shown by the right hand black bar) has, for the first time since 2012, trailed the benchmark by -0.65% per annum. This also means it is trailing the performance objective (the performance objective is shown by the dotted line).

Over the three years to December 2016, Newton's absolute return, however, remained relatively strong at +13.8% p.a. compared to the index return of +14.5% p.a. The underperformance over three years was mostly attributed by Newton to poor stock selection which detracted -0.4% p.a.

Since the inception of Newton's portfolio in November 2008, the fund is now marginally trailing its benchmark by -0.2% per annum, before taking fees into account. Newton's

'since inception' return is +14.3% per annum, compared to the benchmark return at 14.5% per annum *(source: Newton, gross of fees performance)*.

Newton attributed the poor relative performance to the market rotation into cyclicals stocks, which began in the summer and gathered pace in Q4. This rotation was boosted by optimism over Trump's success which was felt to signal greater investment, economic progress, rising inflation and the normalisation of US interest rates. The best performing
sectors in Q4 were Financials and Energy. Newton was underweight Financials by 11.6%, and underweight Energy by 5.1%. The underweight allocation to Financials detracted -0.8% to the relative return in Q4 and in oil and gas stocks the allocation detracted -0.3%.

The two poorest performing sectors in absolute terms, in Q4, were Consumer Staples and Healthcare. Newton have been overweight Healthcare as a sector since the inception of the mandate, and they have held an overweight allocation to Consumer Goods since the end of 2009, in line with their thematic views. The Healthcare allocation detracted -0.3% and Consumer Goods -0.1% in Q4, with poor stock selection in these two sectors detracting a further -1.0%.

Portfolio Risk: The largest overweight regional allocation was in UK Equities (+4.6% overweight). The most underweight allocation was Other Equities (-5.9%). The cash holding had fallen somewhat from nearly 5% as at end Q3 to 4.0% at end Q4, but the balance remains high.

In terms of sector bets, Newton remained most overweight in Consumer Services (+9.9% relative to benchmark.) The most underweight sector remained in Financials (-11.6%). This underweight position has been in place since Q2 2009.

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) stood at 3.35%, as at end December 2016. This is within Newton's normal range of 2% and 6%.

Portfolio characteristics: At the end of Q4 2016, the portfolio held 61 securities (62 as at the end of Q3 2016). Turnover over the past 12 months was 32%, at the low end of Newton's normal expected range of turnover to 30%-70%.

Staff turnover: Hanneke Smits took up her position as Chief Executive of Newton in November, after receiving formal approval and authorisation from the FCA. Susan Noble was appointed Chair of the Board of Directors from the 1st of January 2017, after Helena Morrissey - the previous Chief Executive and then Chairman - resigned from this role. Susan was previously a nonexecutive director at Newton.

(Helena Morrissey is joining Legal and General Investment Management (LGIM) to help build LGIM's direct relationships with savers.)

2.4. Standard Life – Fixed Income

Headline comments: The portfolio was slightly behind the benchmark during the quarter but delivered a negative absolute return of -2.85%. Over three years, Standard

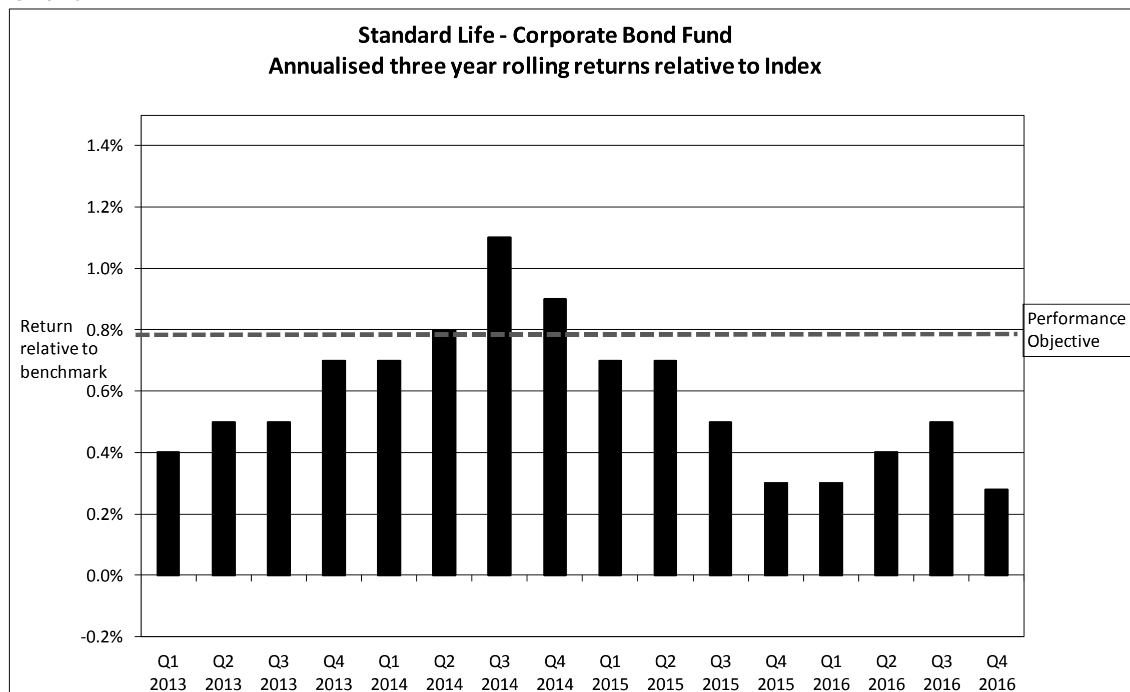
Life's return was +0.3% p.a. ahead of the benchmark return of +7.8% p.a., but behind the performance target of +0.8% per annum.

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 three-year performance of the Corporate Bond Fund compared to the Index, over the past three years. This shows the fund falling back slightly in Q4 relative to the performance objective (shown by the dotted line in Chart 4).

Chart 4



Source: Allenbridge based on BNY Mellon performance data

Over three years, the portfolio has returned +8.1% p.a. compared to the benchmark return of +7.8% p.a. Over the past three years, stock selection has added value, followed by asset allocation. This has been offset by a negative contribution to performance from curve plays.

Portfolio Risk: The largest holding in the portfolio at quarter end was UK Government 4.5% 2034 (1.3% of the portfolio). The largest overweight sector position remained Financials (+7.4%) and the largest underweight position remained sovereigns and sub-sovereigns (-15.2%).

The fund holds 4.5% of the portfolio in non-investment grade bonds.

Portfolio characteristics: The value of Standard Life's total pooled fund at end December 2016 was £4,101.9 million, £27.9 million higher than at the end of Q3 2016. London Borough of Islington's holding of £239.4 million is 5.8% of the total fund value.

Staff turnover: there were 10 joiners and 9 leavers during the quarter. The new joiners included three new members of staff in fixed income. Pete Skolnik joined as a bond

trade, Roubesh Adaya joined as an Investment Specialist in fixed income, and Vicki Cockbain joined as a credit Investment Director. Of the nine leavers, none was from the fixed income team.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: Gilts delivered negative returns in Q4 of -4.5%, compared with the Lime Fund which continued to deliver consistent performance of +2.1%, well ahead of the gilt benchmark this quarter. Over three years, the Fund returned +7.2% p.a. and underperformed the gilt benchmark by -3.4% p.a., an improvement on the three-year relative return last quarter, which stood at -4.4%.

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's Q4 return of +2.1% was attributed by Aviva to 1.2% from income, with the balance from capital gains.

Over three years, the fund has returned +7.2% p.a. compared to the gilt benchmark of +10.6% p.a., an underperformance of -3.4% per annum. The **portfolio is trailing its performance objective of +1.5% per annum outperformance over three years**. However, the property fund itself continues to deliver a steady three-year absolute return of around 7-8% and compares well against other Funds in the IPD universe of property funds, on a risk-adjusted return basis. The Lime Fund has also been awarded the 2016 Professional Pension award for Long Income Manager of the year.

Of the +7.2% p.a. fund return over three years, 4.9% p.a. came from income, with the balance from capital gain.

Aviva have indicated that their own originated deals are now forming the bulk of new transactions within the Lime Fund. The market has become very competitive and overvalued so the fund manager is increasingly relying on their own originated deals instead.

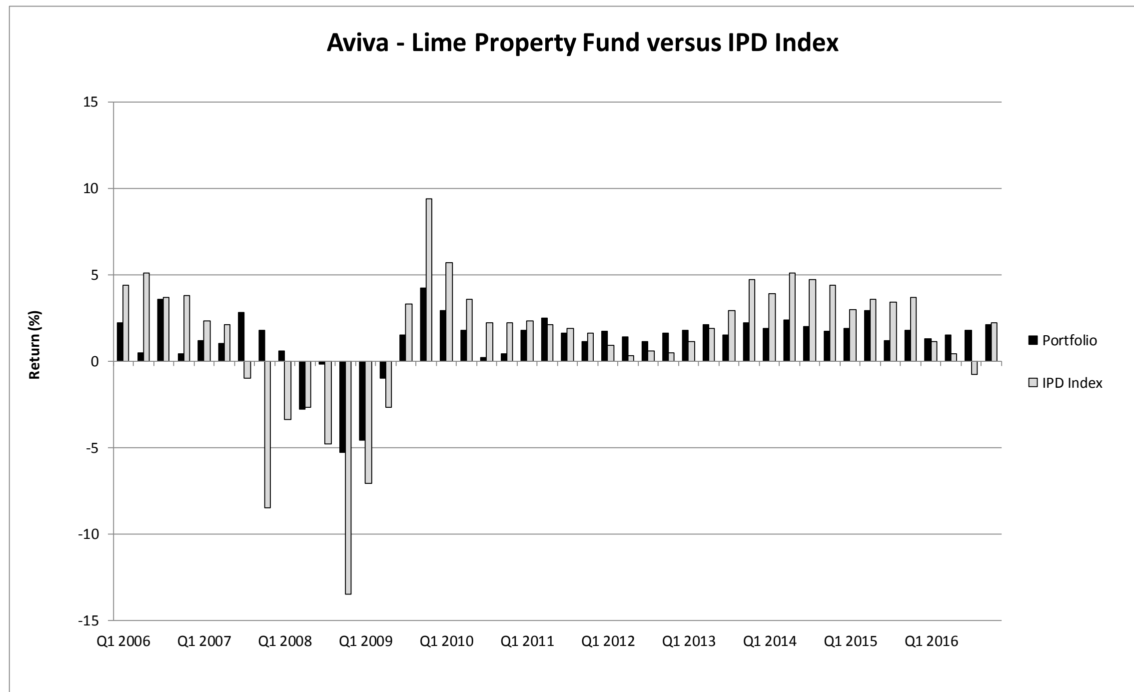
Portfolio risk: There was one purchase in Q4 which completed. This was a site in West Smithfield, London, which is planned for development to become a Premier Inn Hotel. The property has a 25 year least term and inflation linked rental uplifts, making it an ideal candidate for inclusion in the Lime portfolio.

The average unexpired lease term was 19.4 years. 8.3% of the portfolio's lease exposure in properties is in 30-35 year leases. The largest sector exposure remains offices at 29.9%, and the number of assets in the portfolio stood at 71 as at quarter end.

The fund continues to see a flow of new capital joining the investment queue for the Fund. Some of these new investors are switching into Lime from bond allocations, others are moving out of other commercial property investments as a deleveraging switch. This deleveraging opportunity is shown clearly in Chart 5 which shows the absolute performance of the Fund each quarter compared to the IPD Index. The chart

shows the return stream of the portfolio (in black) following a more muted profile (in both up and down markets) than the IPD Index as a whole.

Chart 5



Source: Allenbridge based on WM and BNY Mellon performance data

Portfolio characteristics: As at end December 2016 the Lime Fund was valued at £1.832 billion, an increase of £89.5 million from the previous quarter end. London Borough of Islington's investment represents 3.2% of the total fund.

The Fund has 68% allocated to inflation-linked rental uplifts.

Staff turnover/organisation: There were three leavers from the real estate team and 11 joiners during Q4. The joiners included Kris McPhail who joined in December as an Assistant Fund Manager for the Lime Property Fund. Kris was previously a senior originator on M&G's Secure Property Income Fund.

2.6. Columbia Threadneedle - Pooled Property Fund

Headline comments: The Fund delivered a return of +2.8% in Q4 2016 (source: Columbia Threadneedle), ahead of the benchmark by +0.5%. Over three years, the Fund has outperformed the benchmark by +0.5% per annum, but is behind the performance target of 1% p.a. above benchmark.

Mandate summary: An actively managed UK commercial property portfolio, the Columbia 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.

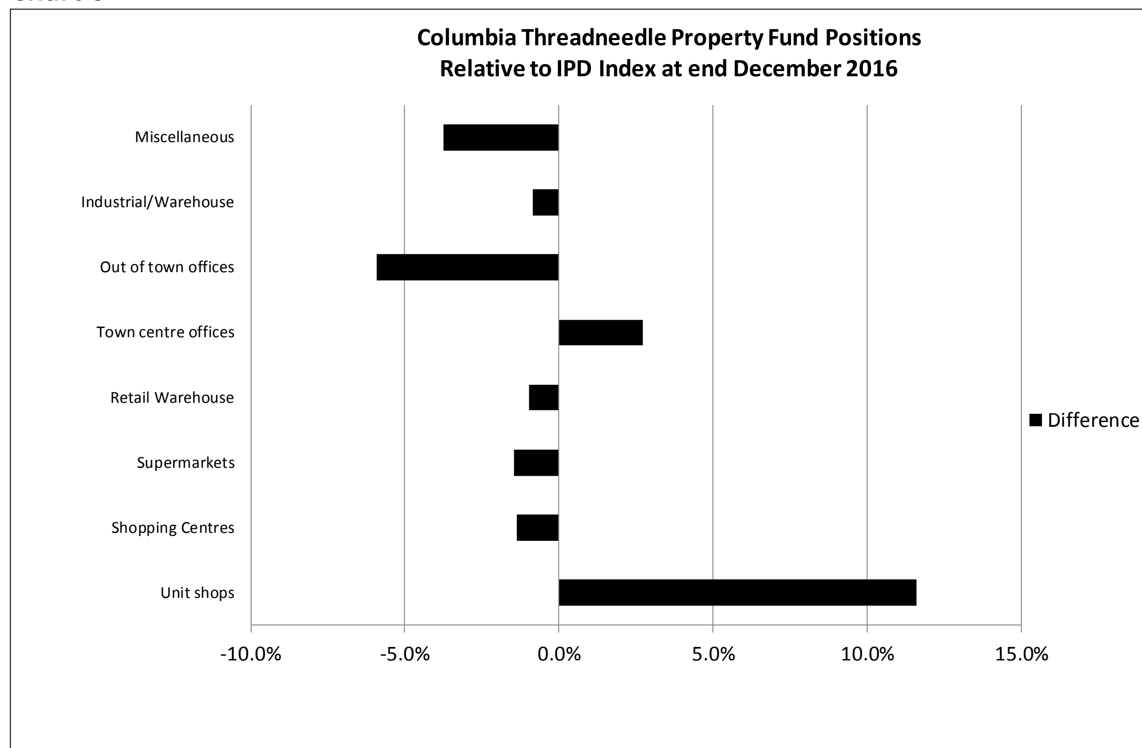
Performance attribution: The portfolio was ahead of the benchmark in Q4 2016, by +0.5%, delivering a return of +2.8%. In terms of the three-year performance, the Fund is ahead of its benchmark by +0.5% per annum but is trailing the performance target of +1% per annum. The absolute return over three years is beginning to decline. At the end

of Q3, the three year return was +12.3% per annum. At the end of Q4, this had dropped to +11.2% per annum.

Portfolio Risk: The Fund made five purchases and three disposals during the quarter. The average income yield on the purchases was 6.5%.

Chart 6 shows the relative positioning of the Fund compared with the benchmark. The Fund has a significant overweight allocation to unit shops.

Chart 6



Source: Allenbridge based on Columbia Threadneedle data.

Portfolio characteristics: As at 31st December 2016, the Threadneedle Property Fund was valued at £1.698 billion, an increase of £22.7 million compared with September 2016. London Borough of Islington's investment represented 4.1% of the Fund as at end December 2016.

Staff turnover: in December, Columbia Threadneedle announced the appointment of Michelle Scrimgeour as Chief Executive Officer (CEO), Europe, Middle East & Africa and CEO of Threadneedle Asset Management Limited. She joined from M&G Investments, where she was Chief Risk Officer of M&G Group Limited.

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 outperformed its market capitalisation-weighted counterpart in Q4 by +6.3%. For the 12 months to Q4 2016 the outperformance was +23.2%.

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

Q4 2016	Fund	Index	Tracking
Europe	4.8%	4.8%	0.0%
Asia Pacific ex Japan	1.6%	1.5%	0.0%
FTSE emerging markets	2.1%	2.2%	0.0%
RAFI emerging markets	8.4%	8.6%	-0.2%

Source: LGIM

The RAFI emerging markets index fund outperformed the market capitalisation index by 6.3% in Q4. For the 12-month period, this took the relative outperformance to +23.2%. The RAFI index fund returned a staggering +58.4% in sterling terms, for the 12 months to end December 2016.

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 4.4% overweight.

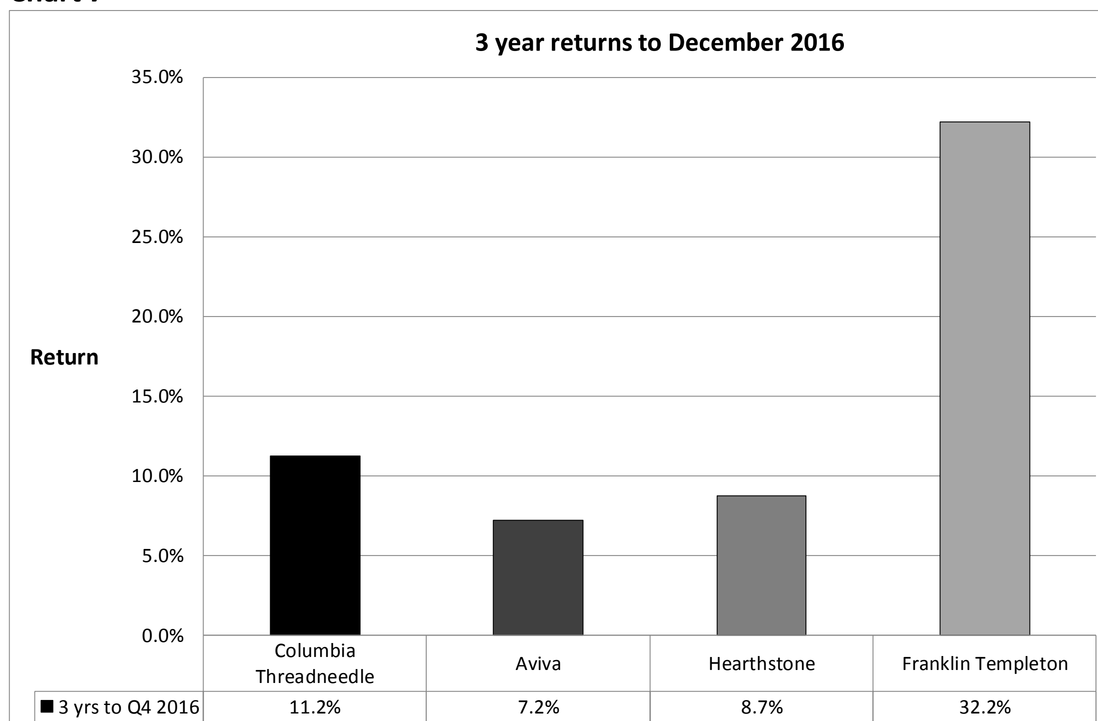
2.8. Franklin Templeton – Global Property Fund

Headline comments: This is a long term investment and as such a longer term assessment of performance is recommended. There are two funds in which London Borough of Islington invests. Both funds are on track. The portfolio in aggregate delivered a return of +32.2% per annum over the three years to end December 2016, outperforming the absolute return benchmark by +21.2% per annum.

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

Performance attribution: Over the three years to December 2016, Franklin Templeton was the best performing fund across all four property managers. Chart 7 compares the three-year performance of the other three property managers.

Chart 7



Source: BNY Mellon, Columbia Threadneedle

Portfolio risk: Leverage on Fund 1 was 52% as at end December (down from 55% since end September), with all funds showing leverage below 70%. Leverage on Fund 2 was 45% as at end December 2016, little change on the previous quarter.

Of the 14 investments in Fund 1, three are substantially above target, five are above target, four are on target and two are below target. The funds that are below target are Sveafastigheter AB and Lotus Co-investment.

Of the four investments in Fund 2, one is above target, two are on target and one is too early to assess. Fund 2 is targeting investment in the three regions (US/Europe/Asia) equally distributed. There is a cap of 20% to Emerging Markets.

Staff turnover/organisation: during the quarter, Michael Davis joined the New York private real estate team as an Investment Manager. His role will be to support the Asia and U.S. investment teams in the sourcing, underwriting and monitoring of private real estate investments.

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +1.9% compared to the benchmark return of +2.6% for the quarter ending December 2016. Over three years, the Fund delivered a return of +8.7% p.a. compared to the benchmark return of +5.9% p.a., an outperformance of +2.8% p.a.

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 +8.7% p.a. compared to the return on the index of +5.9% p.a. over the three years to December 2016, an outperformance of

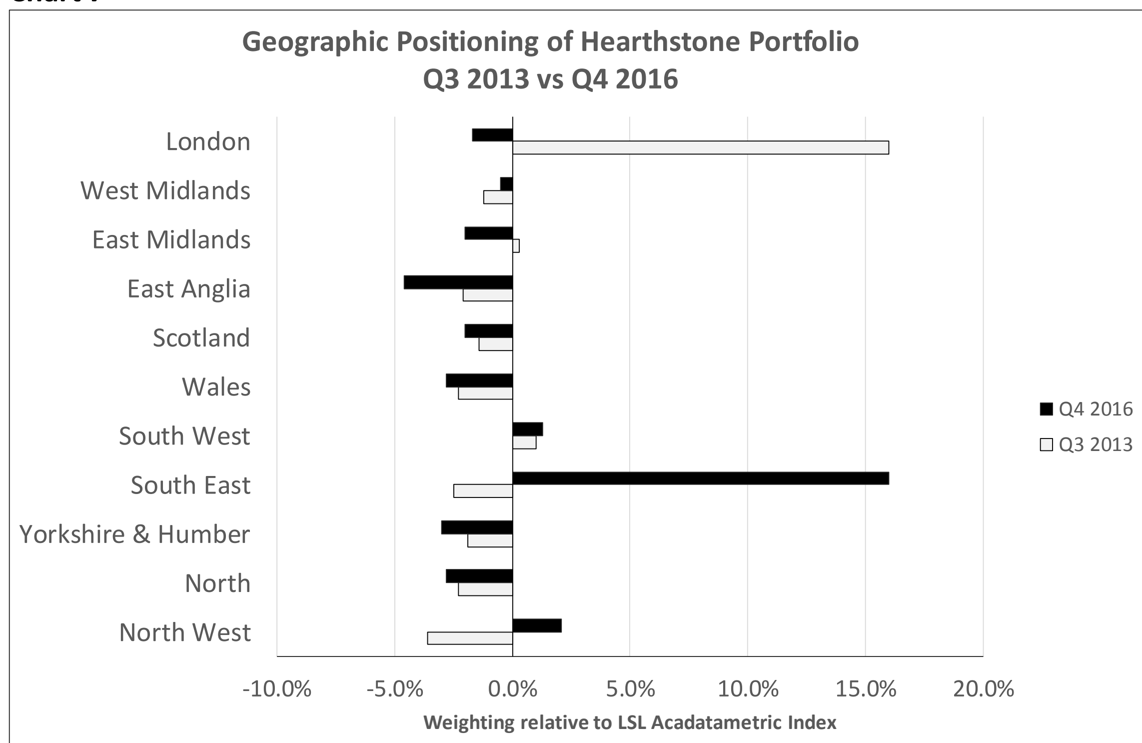
+2.8% p.a. The gross yield on the portfolio as at 31st December 2016 was 5.2%. Adjusting for voids, however, the gross yield on the portfolio falls to 4.8%. This compares with an average gross yield across England and Wales, reported by Your Move, of 4.7%.

One of issues facing the fund at the beginning of 2016 was that only 68.5% of the fund was invested in property, with the balance being held in cash. This has now been addressed through a sequence of acquisitions. The fund has, over the course of the past twelve months, gone from 122 to 187 properties in the portfolio, with acquisitions in Colchester, Manchester, Bristol and Haywards Heath.

Portfolio risk: the regional allocation, shown in Chart 7 relative to the benchmark Index, continues to have a heavy overweighting to the South East. Hearthstone have made efforts to bring the regional allocation back to neutral (relative to the benchmark) but had found that the availability of opportunities last year was mainly in the South East and South West. Because their scale is still relatively small, it has limited them in what they could find, that would be suitable for the portfolio. It remains their intention, however, to run the portfolio on a region-neutral basis, however.

Chart 7 compares the regional bets in the portfolio in Q4 2016 with the regional bets at the start of the mandate, in Q3 2013. The overweight allocation to the South East is shown by the large black bar.

Chart 7



Source: Hearthstone

The overweight allocation in London in Q3 had been focussed on Wembley (shown by the top light grey bar in Chart 7) and as such brought high concentration risk into the portfolio. The overweight allocation to the South East, however, is more diversified, being in various locations such as Horsham and Eastbourne.

Portfolio characteristics: The Fund has an 14% allocation to detached houses, 51% allocated to flats, 29% in terraced accommodation and 6% in semi-detached. The

allocation to flats remains a significant overweight position relative to the Index (51% for the Fund compared to 17% for the Index). This is offset by an underweight position in semi-detached houses (6% for the Fund compared to 24% for the Index).

As at end December 2016, the Fund stood at £51.4 million. London Borough of Islington's investment now represents 51% of the Fund. This compares with 72% at the start of this mandate in 2013.

Organisation and staff turnover: During the quarter, the Chief Executive, Christopher Down, resigned from Hearthstone. This followed dissatisfaction from the corporate shareholders with the rate of growth of the residential property fund in which London Borough of Islington invests. Peter Beaumont has taken up the post of Managing Director since October 2016 and will continue to run Hearthstone until they can seek a replacement Chief Executive. Peter Beaumont is on a three-day-a-week secondment from the family office for whom he works.

Alan Collett, the Chairman, is also in the office three days a week. He is preparing the strategy, writing up a business plan and will begin to implement that. He will also take over the fund management of the residential property fund when David Gibbins, the current portfolio manager, retires at the end of February. Alan Collett will be supported by Marie Cooper (Asset Manager) and Paul Thorsen (Investment Manager).

With both the Chief Executive and Investment Manager leaving the firm**, this represents a key man trigger** and as such a review of this mandate is now recommended. With that in mind, it may be helpful to consider the strategy and vision being proposed by the new Chairman.

Proposed strategy

The proposed business strategy now focuses entirely on the retail market as the manager's principal opportunity. There are two parts to the strategy. The first is to expand the business to business (B2B) sales team significantly. The second is direct business to consumer (B2C) sales. The markets which particularly interest them are the Lifetime ISA and Junior ISA. These investors are saving directly or indirectly for house purchases. Hearthstone is hoping that a residential property ISA will attract "hundreds of thousands".

The manager is also planning a change in the share class from accumulation to income units, pending FCA approval. All five existing share classes will change to income units, once this is approved, with an option to reinvest.

Hearthstone are planning a "significant re-launch", probably in September. By this time, they should have one or two additional people in the sales team. They anticipate that this will have a significant impact on subscription levels towards the end of the year.

The Chair has indicated that they have, at this stage, not considered institutional sales and this is a consideration for the London Borough of Islington. However, the manager has pointed out that the investment objective will not change, and that performance is likely to improve because they can bring the regional allocation back into line with the benchmark as the fund grows.

Options for withdrawing assets/terminating the mandate

Should the committee decide to withdraw assets, or terminate the mandate, there are two options. The first option would be to give a full quarter's notice to the manager to redeem on the next deal day (deal days are once a quarter). For a large amount, the manager would switch the pricing of units to bid so that they did not disadvantage other investors, so this could result in significant transition costs.

The second option would be to wait until Hearthstone's new sales effort begins to pay off. In the first full year after launch, Hearthstone are expecting £50-100 million of subscriptions, and after that £250 million a year. If Islington wanted to reduce or terminate their mandate, it should be possible to exchange units with new investors. This would significantly reduce the transition cost.

2.10. Schroder – Diversified Growth Fund (DGF)

Headline comments: The Diversified Growth Fund delivered a return of +2.5% in Q3 2016. This compared with the RPI plus 5% p.a. target return of +2.0% for Q4. Over one year, the Fund's return was +7.0%, compared to the target return of +7.5%, so it is trailing the target over one year by -0.5%.

Mandate summary: The Fund invests in a broad mix of growth assets and uses dynamic asset allocation over the full market cycle, with underlying investments in active, passive and external investment, as appropriate. Schroders aim to outperform RPI plus 5% per annum over a full market cycle, with two-thirds the volatility of equities.

Performance attribution: In Q4 2016, Schroders' exposure to global equities again made the largest contribution to the portfolio return (+1.3%). This was followed by North American equities (+1.0% contribution). Negative contributions came from commodities (-0.3%), emerging market equities (-0.1%) and absolute return strategies (-0.1%).

Over 12 months, the largest contributor was again global equities (+2.7%) followed by high yield debt (+1.2%), North American equities (+1.0%) and currency and cash (+1.0%). The negative detractors were Japanese equities (-1.3%) and Europe ex UK equities (-0.6%).

The return on global equities was +13.4% for the 12-month period, compared with +7.1% for the Fund. Over a full 3-5 year market cycle the portfolio is expected to deliver equity-like returns.

Portfolio risk: The portfolio is expected to exhibit two-thirds the volatility of equities over a full 3-5 year market cycle. Over the past 12 months, the volatility of the Fund was 5.8% compared to a 12-month volatility of 14.9% in equities (i.e. less than 40% of the volatility of the Index).

Portfolio characteristics: The Fund had 15% in internally managed funds, 39% in internal bespoke solutions (down from 46% last quarter), 12% in externally managed funds, 25% in passive funds and 8% in cash, as at end December 2016. In terms of asset class exposure, 44.9% was in equities, 30.5% was in alternatives and 16.2% in credit and government debt, with the balance in cash.

Alternative assets include absolute return funds, infrastructure, property, insurance-linked securities, private equity and commodities.

Organisation: during the quarter, there were no changes to the team responsible for the Diversified Growth Fund. For the wider UK business, in Q4 there were 68 joiners and 61 leavers.

Karen Shackleton
Senior Adviser, Allenbridge
20th February 2016

FEBRUARY, 2017

LGPS CURRENT ISSUES

NEWS IN BRIEF

BREXIT UPDATE

At the end of last year, the UK Government challenged the High Court's ruling that Parliament must be allowed to vote before the Government can give formal notice of the UK's decision to withdraw from the European Union (that is, to trigger Article 50). On 24 January the Supreme Court published its judgment that an Act of Parliament will indeed be required. Further, the Supreme Court held that the Scottish Parliament and the Wales and Northern Ireland Assemblies do not have a veto on the UK's decision to withdraw from the EU.

The briefly worded European Union (Notification of Withdrawal) Bill has now been published, and at the time of writing will be given priority over other business by Parliament.

Rather than blocking the triggering of Article 50, it is likely that "remainers" will seek concessions from the Government on the terms of the UK's withdrawal. The Prime Minister, Theresa May, made a key speech on 17 January about her plans for a "hard" Brexit, and has since announced that the Government will set out its plans formally in a white paper.

The plans include:

- Taking the UK out of Europe's single market. The intention is that the UK pursues the greatest possible access to the single market, on a fully reciprocal basis, through a comprehensive free trade agreement.

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- Taking control of who enters the UK from Europe. The intention to reach an early deal to guarantee the rights of EU nationals living in the UK, and UK nationals living in the EU.

- The UK taking back control of making its own laws. The Government will adopt EU law in the Great Repeal Bill, and Parliament will then decide what laws it wants to change. In addition, the Prime Minister does not intend the UK to be bound by decisions of the Court of Justice of the EU after Brexit.

- A phased transitional deal for Brexit. This will vary in length for different aspects of Brexit.

Although the Government has set out what it is seeking from Brexit, it will not be certain until a deal is concluded on what can be negotiated with the EU. In the meantime, markets will continue to react to developments around Brexit and perhaps more widely to the changes in the political and fiscal outlook globally and in particular the changes in the US.

ONS INFLATION ANNOUNCEMENT AND SEPTEMBER 2016 CPI

On 10 November, it was announced that the Office for National Statistics (ONS) will make CPIH – a variant of the standard Consumer Price Index (CPI) – its preferred measure of consumer price inflation from March 2017. For September 2016, the rate of CPIH was 1.2%.

The announcement has led to speculation that CPIH will be used by the Government for the uprating of social security benefits and indexation of pensions. There is, however, no indication at the moment that the Government plans to use CPIH as its measure for uprating public service pensions.

In recent years the Government has based both pension increases and revaluation of pension accounts to be applied in April, on the Consumer Prices Index (CPI) rate of inflation for September of the previous year. On 18 October 2016, the Office for National Statistics (ONS) announced that the Consumer Prices Index (CPI) rate of inflation for September 2016 was 1.0%. We await confirmation, although it is our expectation that this rate will be applied for the LGPS.

INDEXATION AND EQUALISATION OF GMPs

On 28 November 2016, the Government issued a consultation about equalisation and indexation of Guaranteed Minimum Pensions (GMPs) for public service scheme members who reach State Pension Age (SPA) after 5 December 2018.

The consultation aims to address two issues simultaneously, namely:

1. The equalisation of male and female GMPs accrued after 17 May 1990

2. Historic commitments by previous Governments that all public sector workers will receive full indexation on their pensions (including GMPs).

Under the proposals, the burden of providing indexation on GMPs will now fall on the public service schemes themselves and all the associated employers in those schemes, whether public sector or not. This is because these increases will no longer be provided through the Additional State Pension (ASP) following recent changes to state pension provision.

The proposals are either administratively complex and costly, or increases the cost of the LGPS, or possibly both. Currently there appears to be no expectation that extra funding might be available to LGPS to cover the cost. As part of the consultation the

Government have asked for alternative proposals. We are currently finalising our response to the consultation and intend to put forward our suggested alternative to Treasury. The consultation closes on 20 February 2017.

END OF CONTRACTING-OUT

HMRC have confirmed that they will automatically close all open periods of contracted out employment held on their records (i.e. for active members) in December 2016. HMRC will then be contacting pension schemes with their data (active members only) between January 2017 and March 2017 to allow schemes to reconcile their active member records. HMRC countdown bulletin 21 provides information on how to obtain "closure scan" data for your active members. Funds are reminded to complete and return a closure scan request form as soon as possible. We would urge Administering Authorities who have not yet looked at reconciling their GMP data to send any queries in relation to deferred and pensioner members to HMRC as soon as possible. Speak to your usual Mercer consultant if you would like any assistance with this.

AGE DISCRIMINATION CHALLENGE TO JUDICIAL PENSION SCHEME SUCCEEDS

An Employment Tribunal has held that transitional pension protections that favoured older judges are discriminatory. When the public service pension arrangements for the judiciary were reformed by the Government, older judges were permitted to remain in the old scheme, while younger judges were required to leave it for a scheme with much less favourable benefits, either immediately or at the end of their protection period.

This decision could open the way to further challenges, indeed we are aware that a similar case has been brought by the Fire Brigades Union in respect of changes made to the Firefighters' Pension Scheme.

Although Employment Tribunal decisions are not binding on other tribunals or the courts, the ruling could have implications for the other public service pension schemes, where some similar reforms were made and protections for older members were included. For the LGPS a Statutory Underpin was introduced, but only applied to those within 10 years of retirement in 2012. The Government may appeal the decision and so we await developments.

THE PENSIONS REGULATOR (TPR)

Following a recent survey that the Regulator undertook with regards to record keeping standards in occupational pension schemes, it found that little improvement had been made on standards recently. Improving record keeping standards will be a continued focus for the Regulator over the next year. It has published a short guide to assist managers of pension schemes in meeting their duties.

The Regulator has also published a self-assessment tool for those involved in running public service pension schemes to assess how they are getting on with both meeting their legal requirements and complying with the guidance set out in the Regulator's code of practice number 14.

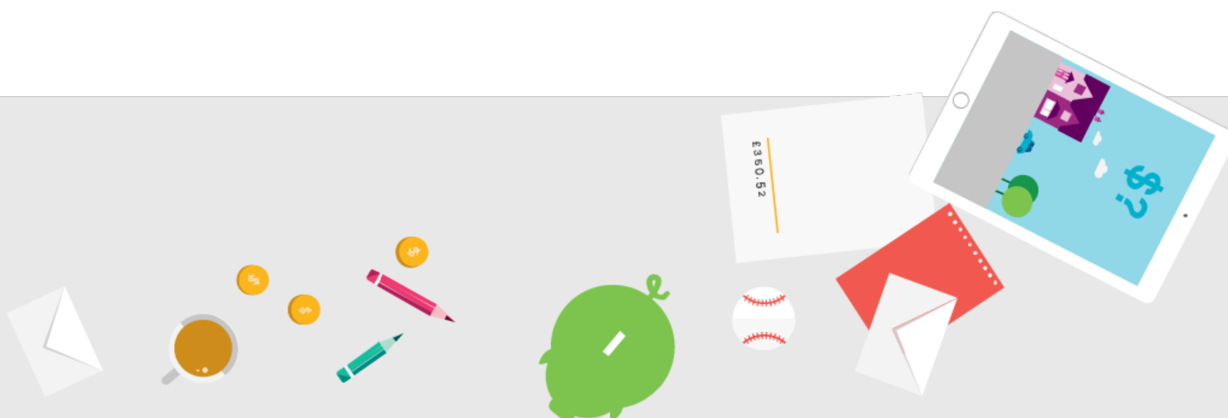
Building upon the survey TPR carried out last year on the governance and administration of public service pension schemes, it started work on its 2016 survey during November. More focus will be given to record-keeping, internal controls and communications as part of this survey.

ALTERNATIVE DELIVERY MODELS

In October 2016, CIPFA published "a practical guide to alternative delivery models". This publication is designed to be a resource for people working in or with alternative delivery vehicles and for those who may be considering or are participating in setting one up. It will be useful for managers and officers involved in commissioning services or looking at new service delivery models. It can be read as a whole or dipped into for information on specific areas. Mercer can provide additional training to employers and managers to assist understanding in this area. If this is something you or your employers are considering, we would recommend involving your Mercer consultant at the earliest possible opportunity.

OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATIONS

- On 23 September 2016 the LGPS (Management and Investment of Funds) Regulations 2016 were laid before parliament effective from 1 November 2016. The regulations facilitate the pooling of investment funds and introduce:
  - A requirement to publish an investment strategy no later than 1 April 2017 in accordance with guidance issued by the Secretary of State.
  - A power for the Secretary of State to intervene where an authority fails to comply with its statutory obligations as regards its pension fund or were it fails to act in accordance with guidance.
- **MiFID II** - the EU Markets in Financial Instruments Directive (MiFID) introduced in 2007 is now being revised with the aim of improving the functioning of financial markets in light of the financial crisis and to strengthen investor protection. The changes are due to take effect on 3 January 2018 and the new provisions will be known as MiFID II. In the UK, the FCA is responsible for implementing the changes. They have been consulting on this, and one aspect included the impact on local authorities (and LGPS Funds). A critical area in this regard is the categorisation of investors (i.e. whether they are eligible counterparties, professional clients or retail clients) based on certain criteria. Under the new proposals, Local Authorities will be classified as retail clients, which could ultimately limit the range of investments available as well as the access to professional investment advice. Local Authorities will, however, be able to “opt-up” should they meet a series of qualitative and quantitative tests. At the current time there is some concern that Local Authorities would not necessarily be able to satisfy the opt-up criteria which would have potentially severe consequences. Interested parties are working with the FCA on this to ensure the process is clear and sensible to avoid any unintended consequences. Separately it is expected that the new investment “pools” will automatically qualify as “professional clients”. Funds should seek further input from their advisors on the implications of this and we will update on progress in due course.



- **Education Sector –** Following the conclusion of the Government consultation undertaken earlier this year to introduce insolvency provisions for further education and sixth form colleges in England, the Government will now take forward their plans via primary legislation. Also in the education sector, on 27 October 2016 the Government reported that it had dropped its bill to require all schools in England to convert to academy status by 2022. This will still be encouraged by the Government but it will now be on a voluntary basis and as such no new primary legislation will be needed.

- **New Fair Deal –** following the consultation carried out last year, further details and clarifications needed have been identified. We believe that a further consultation may be needed on an updated set of provisions to apply the principles of New Fair Deal to the LGPS.

- **Freedom and Choice for AVCs –** similar to the above, further work has been identified and so our understanding is that a further consultation is likely. Separately a working party has been established to consider the practicalities in potentially implementing changes to the LGPS money purchase AVCs, with regards to making UFPLS payments.

- **Exit payments –** In September, the government responded to the further consultation on exit payments confirming that it intends to proceed with plans for further reform. The response confirms that the government expects departments to produce packages consistent with the framework set out and consult on these where appropriate with the aim of having completed negotiations and made the necessary amendments to exit arrangements within nine months of the publication of the government response (i.e. by 26 June 2017). A working group of the LGPS advisory board is considering whether it wishes to make a recommendation to DCLG on the reforms it wishes to see made.

  There is still no hard deadline for the implementation of the public sector exit payment cap or recovery regulations, as the secondary legislation is still being finalised. It is our understanding that further consultant will be undertaken before it formally comes into effect.

- **Plans for Single Financial Guidance Body –** Free and impartial financial guidance to individuals is currently provided by three public services: The Money Advice Service, The Pensions Advisory Service and Pension Wise. However, the Government is consulting on plans to change this model with the creation of a single financial guidance body (SFGB).

  The Government is of the view that there are gaps, as well as duplication, in the guidance currently available, and that a SFGB would be better suited to respond to the different financial needs of consumers.

  The Government is seeking feedback as to whether the proposed model would allow consumers to access the guidance they need to make effective financial decisions. The consultation closes on 13 February 2017 and it is anticipated that the SFGB will be launched no earlier than autumn 2018.

- **State Pension Age –** An independent report on the review of State Pension Age is expected early in 2017, and the Government must publish the outcome of the review by 7 May.

- **The General Data Protection Regulation** is expected to come into effect from 25 May 2018. Administering authorities should consider, in partnership with legal advisors what action may need to be taken during 2017 to ensure compliance.

OTHER THINGS IN THE PIPELINE...

- **ACADEMIES REVIEW** – PWC have been appointed to carry out a full review of the possible options and implications for Academies and Funds within the LGPS framework. Nothing has been ruled in, or out at present and we await their report with interest (currently expected in March). We have provided our direct input into the process on behalf of our clients.
- **COST MANAGEMENT 2016** – The GAD have been provided with the required data from the LGPS Funds and we await their findings in anticipation of potential action with effect from 1 April 2019. Funds should be mindful that current expectations are that the costs of the scheme will have increased (not least due to lack of 50:50 take-up), although we await more information – initial results are expected in May/June.
- **COST MANAGEMENT TRANSACTIONAL DATA** – The data request has been finalised, but we have yet to see any evidence that production of the transactional data in the required format is achievable for Funds. We will keep our clients updated as and when further details emerge.
- **DEFICIT WORKING GROUP** – This has been reconstituted and we attended a meeting on 8 November 2016 to consider a work plan for the coming months. Deficit management will be considered for three distinct groups; tax payer backed employers, academies and private sector employers with no central or local authority guarantee. Further separate pieces of work are underway and we will keep our clients updated on developments.
- **TRANSFER CLUB MEMORANDUM UPDATE** – A new transfer club memorandum is due to be released to coincide with the release of the revised Club Transfer Factors, proposed to be effective from 1 March 2017. We will keep Administering Authorities updated as more details emerge.

TAXATION ROUND UP

- The Finance Act 2016 received Royal Assent on 15 September. The key pension aspects of the Act for the LGPS were the reduction in the lifetime allowance to £1 million (effective from 6 April 2016), the introduction of new individual and fixed protections to enable members to protect a higher allowance in certain circumstances and the higher limits for trivial lump sums.

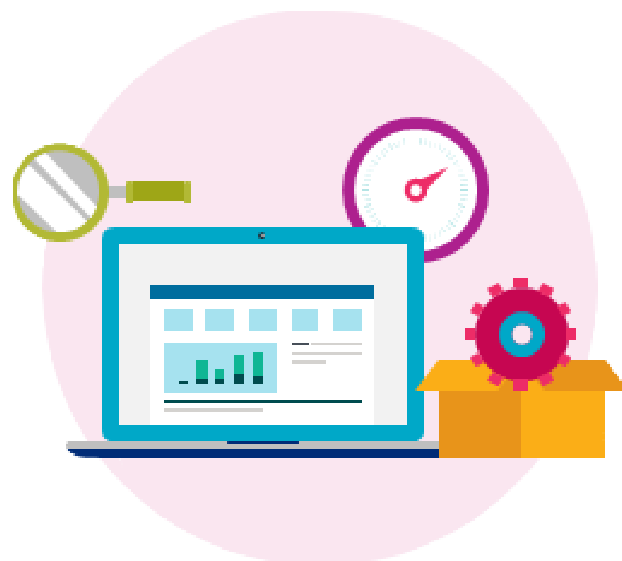
- Automatic Enrolment – previous powers for employers to exclude an individual from the automatic enrolment requirements where they held an active lifetime allowance protection have not currently been extended to include the new fixed protection 2016 or individual protection 2016. Until an amendment is made to the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010, an employer must automatically enrol (or re-enrol) an eligible jobholder into the LGPS even where that individual holds fixed protection 2016 or individual protection 2016. It will be up to the individual to make sure they opt-out of automatic enrolment (or re-enrolment) to maintain their tax protection if required. An individual who holds individual protection 2016 will not lose their tax protection if they make further pension savings but any pension savings in excess of their protected lifetime allowance will be subject to a lifetime allowance charge.

- Scheme Pays – Following the introduction of the Tapered Annual Allowance with effect from April 2016. Some affected members may not have the right to the "mandatory" scheme pays requirements and it is up to individual pension schemes to agree whether to allow "voluntary" scheme pays for those members. The LGA are currently seeking urgent legal advice on whether administering authorities have the power to agree to voluntary scheme pays without an amendment to the Regulations and will issue further comment in due course.

- Termination payments with effect from April 2018, which are over £30,000, will be subject to employer NICs as well as income tax. The first £30,000 of a termination payment will remain exempt from both.

- The income tax personal allowance threshold will rise to £11,500 for the 2017/18 tax year and the higher rate threshold will rise to £45,000. The Government intends to increase these further over the next few years, up to £12,500 and £50,000 respectively.

- Scottish taxpayers - If your scheme has any pensioner members resident in Scotland, you will need to ensure that your pensioner payroll is set up to handle the new higher-rate tax threshold (£43,430) that will apply for Scottish taxpayers from April 2017.



DATES TO REMEMBER

DATE	ISSUE	SUMMARY
31 March 2017	Actuarial valuation	Deadline for Funding Strategy Statements to be formally updated in order for Actuarial Valuation to be signed off by the Fund Actuary.
31 March 2017	Actuarial valuation	Deadline for the 2016 England and Wales actuarial valuation exercises to have been formally signed off by the Fund Actuary. Effective date of the Scottish LGPS actuarial valuations.
April 2017	Pensions Advice Allowance	The Government plans to introduce an allowance from this month for members to use against the cost of regulated financial advice. Subject to consultation.
April 2017	Lifetime ISA	The new Lifetime Individual Savings Account will be launched this month.
1 April 2017	Investments	Deadline for the new Investment Strategy Statement (ISS) to be published by the LGPS Funds.
6 April 2017	Scottish Income tax	The Scottish Parliament is proposing to vary the higher rate threshold for Scottish taxpayers from this date.
7 May 2017	State Pension Age	Deadline for publication of the first report on the independent review of the State Pension age.

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ISLINGTON

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

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

Delete as appropriate	~~Exempt~~	Non-exempt

Appendix 1 attached 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: The London CIV Update

1. Synopsis

1.1 This is a report informing the Sub-Committee of the progress made at the London CIV in launching funds and running of portfolios over the period Novemberr 2016 to February2017

2. Recommendations

2.1 To note the progress made to February 2017

2.2 To note the additional charges due from the London CIV for 2017/18

2.3 To consider the saving schedule attached as Appendix1 (private and confidential)

2.4 To agree to transfer our Newton global equity assets to the London CIV platform in the 2 quarter of the year

3. Background

3.1 **Setting up of the London CIV Fund**
Islington is one of 33 London local authorities who have become active participants in the CIV programme. The CIV has been constructed as a FCA regulated UK Authorised Contractual Scheme (ACS). The ACS is composed of two parts: the Operator and the Fund.

3.2 A limited liability company (London LGPS CIV Ltd) has been established, with each participating borough holding a nominal £1 share. The company is based in London Councils' building in Southwark Street. A branding exercise has taken place and the decision was taken to brand the company as 'London CIV.' The London CIV received its ACS authorisation in November 2015.

3.3 **Launching of the CIV**

It was noted that a pragmatic starting point was to analyse which Investment Managers (IM) boroughs were currently invested through, to look for commonality (i.e. more than one borough invested with the same IM in a largely similar mandate), and to discuss with boroughs and IMs which of these 'common' mandates would be most appropriate to transition to the ACS fund for launch. Each mandate would become a separate, ring-fenced, sub-fund within the overall ACS fund. Boroughs would be able to move from one sub-fund to another relatively easily, but ring-fencing would prevent cross contamination between sub-funds.

3.3.1 Further discussions have been held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers have now been identified as offering potential opportunities for the launch of the CIV. These managers would provide the CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds will consist of 6 'passive' equity sub-funds covering £4.2bn of assets, 2 Active Global Equity mandates covering £1.6bn and 1 Diversified Growth (or multi-asset) Fund covering just over £300m. Those boroughs that do not have an exact match across for launch are able to invest in these sub-funds from the outset at the reduced AMC rate that the CIV has negotiated with managers.

3.4 The Phase 1 launch was with Allianz our global equity manager and Ealing and Wandsworth are the 2 other boroughs who hold a similar mandate. The benefits of transfer include a reduction in basic fees and possible tax benefits because of the vehicle used. Members agreed to transfer our Allianz portfolio in Phase 1 launch that went ahead on 2 December.

3.5 **Progress to October 2016**

The London CIV has also had further success with developing the Fund, opening the LCIV PY Global Total Return Fund investing into the Pyford Global Total Return sub-fund on 17 June and the LCIV RF Absolute Return Fund investing into the Ruffer Absolute Return sub-fund on 21 June. These two funds bring theirr assets under management up to around £2.4 billion, with 14 boroughs invested across the five sub-funds and some £1.6 million of fund manager fee savings being delivered a year. They working towards opening the three sub-funds previously trailed with Newton and Majedie acting as sub-managers in the autumn and hope to get the Longview sub-managed fund opened towards the end of this year or early in 2017.

3.5.1 Legal and General pooled passive funds

The CIV negotiated a reduction of fees for the passive equities held by London Bouroghs of around £7.5bn, but this structure sits outside the CIV platform. Participating Funds have agreed to move their portfolios into the On Fund Costs(OFC) fund. These new funds have costs such as custody , license fee, valuations automatically taken from the fund whilst the previous structure included these cost in the invoiced fee. The projected savings for this external pooling for Islington is projected at around 100k per year effective from 1 July 2016. This does not affect the decision to appoint an active emerging market manager

.

3.5.2 The Investment Advisory Committee was renewed in July 2016and now comprises of 9 London Treasurers and 15 Pension Managers

Working groups have been established to cover:

i. Global Equities – This group has met to consider the current procurement exercise and has had significant input into the development of the tender documentation.
ii. Fixed Income and Cashflow – This group met to provide input into the development of the fixed income work that the CIV will be undertaking over the coming months.

iii. Responsible Investing and ESG – The group met to consider a wide range of topics including, the CIV's approach to voting, the Stewardship Code and appetite for sustainable equity funds as part of the broader global equities procurement.

iv. Infrastructure – Whilst recognising that this was a key area in the government pooling submission, work in other areas has taken precedence and this group is yet to formally meet

v. Housing – As with the infrastructure group, other priorities for the CIV have taken precedence although it is hoped that this group will meet shortly to start work in this key project area.

3.6. Update to February 2017

3.6.1 In December the Chair and CEO of LCIV, accompanied by leading Members from the London Councils Pensions CIV Sectoral Joint Committee, and a representative Treasurer met with the Minister for Local Government (Marcus Jones MP) to discuss progress and plans for LGPS pooling across London. He was supportive of what has been achieved and the general direction of travel, but pressed for faster transition of assets

3.6.2 The CIV held its first Fixed Income seminar on the 19th January where a number of fund managers presented on a wide range of fixed income and cashflow related topics. Feedback from attendees (both London Funds and consultants) was positive. In addition the CIV conducted a survey of London Funds to assess fixed income and cashflow requirements and this will be fed into the work being undertaken by the CIV and the Fixed Income sub-group as they look to develop investment opportunities in this area for Funds .

3.6.3 There was a Joint Commitees and Leaders meeting in February 2017, and items discussed included proposed MTFS Budget 2017/18 to 2022 and Governance.

Headlines from the budget included:

• Open more sub-funds through 2017/18 with the aim of having at least £6.3 billion of AUM by the end of the year, and plans to continue opening funds with a target of at least £14.1 billion AUM by the end of the MTFS period;

• Increasing headcount from the current base of 11 to 25 over the period;

• Introducing a £75,000 development funding charge for 2017/18, which will reduce in future years as AUM grows and more income is generated from fees linked to sub-funds. This charge will allow LCIV to continue to develop without being completely reliant on AUM in the short term;

• Develop systems and processes to better support engagement with and reporting to the LLAs.

Governance Review

In broad terms the aim of such a review will be to ensure that the overall governance structure is fit for purpose, and structured to ensure the right levels of control, decision making, and oversight. A report of the review is expected in the summer of 2017.

3.6.4 Membesr are asked to consider and agree to pay the following charges as agreed at the Joint Committee:

. In April the London CIV will raise the invoice for the £25k (+ VAT) service charge and 50k (+VAT) development funding charge the balance of £25k will be raised in December once the Joint Committee has reviewed the in-year budget at that stage and decided on the final amount.

- Members agreed to the 0.5bps of AUM option for charging fees on the LGIM passive funds that are held outside of the CIV and agreed that (depending on the outcome of discussions) the same will be applied to BlackRock passive funds. The detailed mechanicsis being worked so that everything will in place from 1 April. In March next year notice of what the charge will be (subject to final figures from March) will be given so that an April invoice can be raised.

3.7 **CIV Financial Implications- Implementation and running cost**

A total of 75,000 was contributed by, each London Borough, including Islington, towards the setting up and receiving FCA authorisation to operate between 2013 to 2015. All participating boroughs also agreed to pay £150,000 to the London CIV to subscribe for 150,000 non-voting redeemable shares of £1 each as the capital of the Company . After the legal formation of the London CIV in October 2015 , there is an agreed annual £25,000 running cost invoice for each financial year .. The transfer of our Allianz managed equities to the CIV in December 2015 was achieved at a transfer cost of £7,241.

3.8 **Transfer of current global equity manager Newton to the London CIV platform**

Newton is the fund's other global equity manager with an inception date of 1 December 2008. The London CIV is proposing to transfer Newton's global equity assets to their platform if all three boroughs currently investing are in agreement. A comparison of current and the new proposed fees and estimated savings are listed on Appendix 1 (private and confidential.)

3.8.1 Members are asked to consider the proposals and agree if acceptable to transfer assets to the London CIV platform.

3.8.2 The Corporate Director Resources, together with Legal, will consider and agree the terms and conditions to the transfer**.**

4. Implications

4.1 **Financial implications:**

4.1.1 Fund management and administration fees are charged directly to the pension fund.

4.2 **Legal Implications:**

4.2.1 The Council, as the administering authority for the pension fund may appoint investment managers to manage and invest an equity portfolio on its behalf (Regulation 8(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

4.2.2 The Council is able to invest fund money in a London CIV fund asset without undertaking a competitive procurement exercise because of the exemption for public contracts between entities in the public sector (regulation 12 of the Public Contracts Regulations 2015). The conditions for the application of this exemption are satisfied as the London authorities exercise control over the CIV similar to that exercised over their own departments and CIV carries out the essential part of its activities (over 80%) with the controlling London boroughs.

4.3 **Environmental Implications:**

4.3.1 None specific to this report

4.4 **Resident Impact Assessment:**

4.4.1 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."

A resident impact assessment has not been conducted because this report is updating members on the implementation of a fund structure by external managers. There are therefore no specific equality

implications arising from this report.

5. Conclusion and reasons for recommendations

5.1 The Council is a shareholder of the London CIV and has agreed in principle to pool assets when it is in line with its Fund strategy and will be beneficial to fund members and council tax payers. This is a report to allow Members to review progress at the London CIV. Members are asked to agree to the new funding request from the London CIV and consider the saving schedule proposed and if in agreement agree to transfer our assets with Newton to the CIV platform

Background papers:

Final report clearance:

Signed by:

Corporate Director Resources Date

Received by:

Head of Democratic Services Date

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Agenda Item B3

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director Resources**

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

Delete as appropriate		Non-exempt

SUBJECT: CARBON FOOTPRINT REDUCTION IMPLEMENTATION UPDATE

1. Synopsis

1.1 This report and appendices provides information and an update for Members on the implementation of lower carbon footprint on our passive equity portfolio.

2. Recommendation

2.1 To note the implementation timeline and proposed process

2.2 To note Appendix 1(attached) that summarises and maps out the targeted carbon footprint level after implementation of the new benchmarks.

3. Background

3.1 Update on implementation of lower carbon footprint of the fund
Members agreed at the last November pension sub- committee meeting that the carbon footprint level of equities in the In-House UK Passive Fund be reduced with immediate effect, with 50% of assets allocated to Legal and General Investment Management's MSCI World Low Carbon Target Index Fund and the remaining 50% of assets managed in house to track the FTSE UK Low Carbon Optimised index and that officers investigate how a low carbon approach could be realised for the rest of the Fund, which does not comprise equities.

3.2 Officers have had discussions with Legal and General and the In House Manager to combine all transactions including the transfer of assets to our impending emerging market manager to minimize transition cost. The agreed way forward with a timeline to complete most of the transition by 31 March is as follows:

- The In House manager will move 50% of his stocks to the new FTSE UK Low Carbon

Index and transfer any residual stocks to L&G

- L&G will cross and sell stocks received to make available the cash for the emerging market manager
- L&G will transition stocks to the MSCI World Low Carbon Target Index
- Any residual non liquid stocks will be transitioned over a longer period to ensure cost is minimised.

3.3 Appendix 1 attached, shows the targeted fund's reduced carbon footprint level once the implementation of both low carbon benchmarks is complete.

3.4 Officers will also continue to liaise with its property and bond managers on how best to achieve a lower carbon footprint on those asset allocations.

3.5 Members are asked to note the implementation process and timeline para3.2 and note the targeted carbon footprint level after implementation of the new benchmarks as shown in Appendix 1.

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**

None applicable to this report

4.3 **Environmental Implications**

None applicable to this report. Environmental implications will be included in each report to the Pensions Sub-Committee as necessary.

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 To note the timeline and process to implement the decision agreed in November and note the level of carbon footprint once the implementation is completed.

Background papers:
None

Final report clearance:

Signed by:

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

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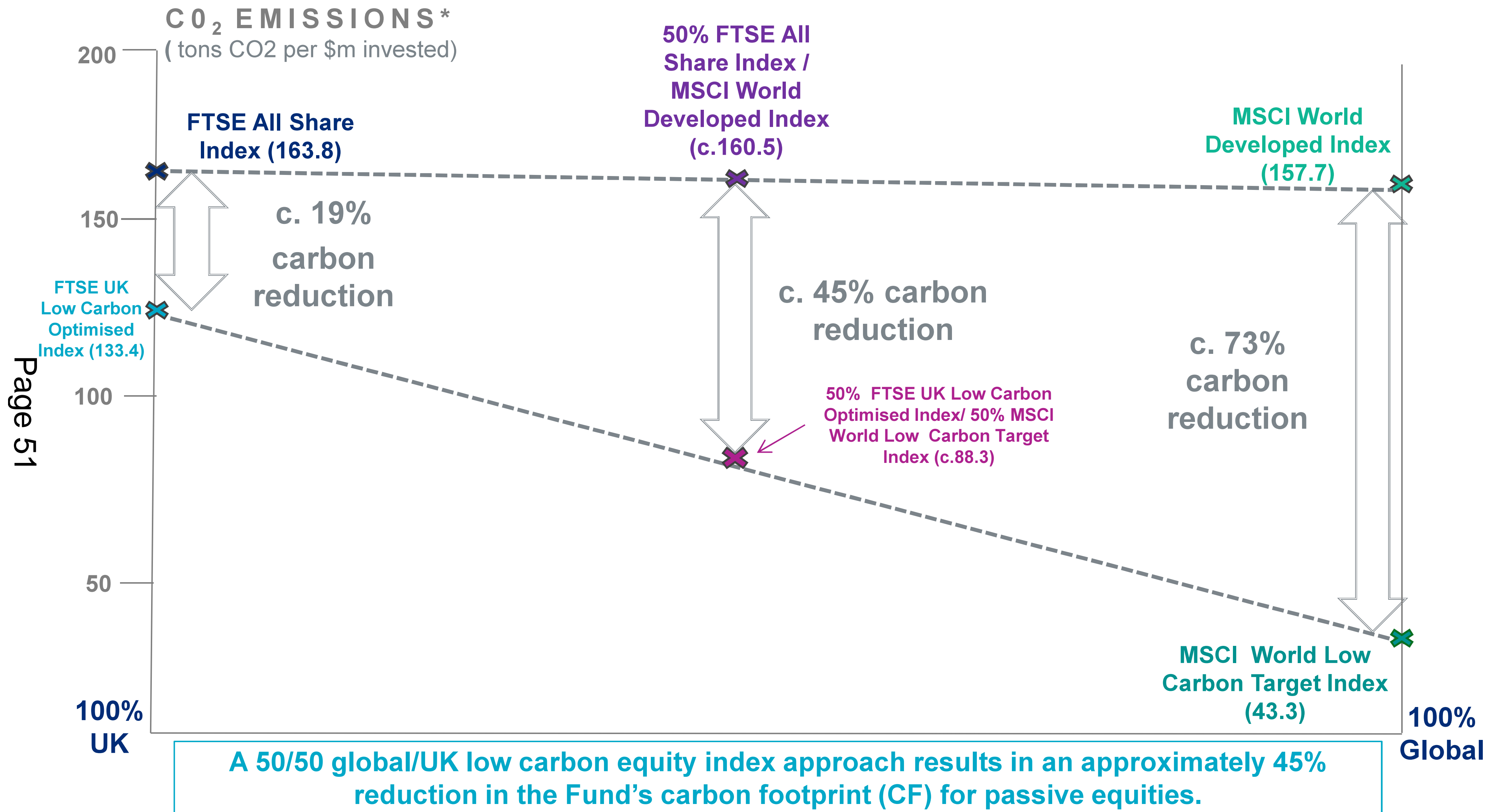
PASSIVE LOW CARBON EQUITIES
UK VS. GLOBAL CARBON FOOTPRINT COMPARISON



*Analysis based on information as at 30 November 2015.

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ISLINGTON

7 Newington Barrow Way
London, N7 7EP

Report of: **Corporate Director Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pension Board Pensions sub- committee	13 March 2017		

Delete as appropriate	~~Exempt~~	Non-exempt

SUBJECT: FUNDING STRATEGY STATEMENT (FSS)

1. Synopsis

1.1 The Council must produce a Funding Strategy Statement (FSS) a requirement by The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). Under the Regulations the administering authority must prepare, maintain and publish a written statement setting out their funding strategy. In doing so the administering authority must consult with such persons as they feel appropriate. The Fund's actuary must have regard to the FSS in carrying out the formal actuarial valuation of the Fund.

This Funding Strategy Statement has been prepared by London Borough of Islington (the Administering Authority) to set out the funding strategy for the Islington Council Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.2 This report informs the pension board and sub-committee of the consultation with employers admitted to the fund on the draft FSS, as part of the 2016 actuarial review.

2. Recommendations

2.1 That the Pension Board consider the draft FSS attached as Appendix 2
2.2 That the sub committee consider the draft FSS attached as Appendix 2 and note employer comments received from the consultation exercise attached as Appendix 1

2.3 To agree the draft Funding Strategy Statement attached as Appendix 2

2.4 To agree to delegate authority to the Corporate Director of Finance and Resources to finalise any agreed amendments and publish it on the council's website.

3. Background

3.1 As a requirement of section 77 of the Local Government Pension Scheme Regulations 1997 (as amended), the pension fund has to undertake a triennial actuarial valuation every three year. The latest as at 31st March 2016 will calculate employer contributions rates for 2017/18 onwards subject to review on 31st March 2019

3.2 The FSS sets out the basis on which the 2016 actuarial valuation will be prepared. It is a statutory document which has to be consulted upon with interested parties and approved by the Pension sub committee before the actuarial valuation can be completed.

Given the difficult financial environment all employing bodies currently face, the Funding Strategy Statement (FSS) sets out how the issue of affordability is to be addressed in the valuation. In particular the Fund has taken steps to ensure that as far as possible any increases in contributions are manageable from a budgetary perspective.

3.3 In December and early January, all employers admitted into the Islington council pension fund were consulted to give their views on the 2016 actuarial valuation. They were asked to consider the draft funding strategy statement, in particular the following points:

- aspects relating to the actuarial assumptions adopted (including the short-term pay restraint assumption of 1% p.a. for 4 years)
- the proposed approach in relation to periods over which deficit is recovered and any surplus is spread;
- potential contribution phasing plans to the new requirements over 3 years, where applicable;
- whether there are any post valuation date events applicable to their organisation that the actuary should be aware of when setting the final contribution rates ;

3.4 Finally employers were asked to confirm their employer contribution level effective from 1 April 2017 and offered the option of phasing increases in rates in contribution over a maximum period of 3 years. The absence of any decision meant the default position of phasing will be certified by the actuary on 31 March 2017.

3.5 The results of the consultation are attached as (Appendix 1) and Members are asked to note the results.

3.6 The Funding Strategy Statement attached as Appendix 2 with an executive summary, did not receive any proposed amendments in the consultation. The main changes to the previous version were the deficit recovery period approach and the changes in assumption; and pay growth adjustment. Members are asked to consider the draft FSS and agree to delegate to the Corporate Director Resources to finalise any agreed amendments and publish it on the council's website.

4. Implications

4.1 **Financial implications:**

4.1.1 Costs of preparation of the FSS are administrative costs that are chargeable to the pension fund. The wider financial implications of the strategy itself is taken into account in preparing the 2016 valuation report and have been incorporated into the Council's Medium Term Financial Strategy

and budget planning processes.

4.2 **Legal Implications:**

4.2.1 The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

4.2.2 Prior to agreeing the statement, the Council must have proper regard to any comments received from the consultees.

4.3 **Resident Impact Assessment:**

4.3.1 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".

4.3.2 A resident 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 should take account of consultation results, consider and agree the draft Funding Strategy Statement and authorise the Director of Finance and Resources to publish the final statement by April 2017

Appendices-

Appendix 1- Employer consultation results

Appendix 2 - Draft FSS

Background papers: None

Final report clearance:

Signed by:

Corporate Director Resources Date

Received by:

Head of Democratic Services Date

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Appendix 1

Employer Consultation Results

The Islington fund as at 31 March 2016 had 25 admitted employers with active employees,

All employers were asked comment on the approach taken and to confirm their implied rate and past service deficit contribution where applicable. In the absence of any comment to the contrary the implied contribution rate will be certified.

The table below list the active employers written to and their response.

	2016/17		**2017/18**		
Employer	**Future service rate (%)**	**Deficit recovery contribution £'s**	**Future service rate%**	**Deficit recovery contribution £'s**	**Response**
Volunteering Matters(CSV)	17.8	665,000	8.9	318,300	Continuing discussions on proposal to reduce lump sum annual contribution and a longer recovery period of instead of 9yr .
London Borough of Islington	12.5	10,123500	14.6	9,300,000	A special meeting was convened in January to discuss the council's affordability position. In line with the FSS parameters and to reflect covenant status, the discount rate was increased to provide a slight decrease in lump sum amount
Elliot Foundation	8.6	-	10.9	500	Acknowledged and asked to defer increase to commence in September in line with their academic year
Tech City(Stem)	5.8	-	12.0	200	No response after reminder
WJ Catering	23.8		26..7		No response after reminder
Isledon Arts	15.0	0	18.8	100	Acknowledged and has agreed to pay off full deficit by 31/3/17
Camden & Islington NHS Foundation	19.3	47,700	25.7	40,,600	No response after reminder

	2016/17		2017/18		
Employer	**Future service rate (%)**	**Deficit recovery contribution £'s**	**Future service rate%**	**Deficit recovery contribution £'s**	**Response**
NCP Services	15.0	-	17.8	-	Contract is due for renegotiation from August 2017. Currently in surplus
SEC-(Islington lighting)	23.1	3,500	24.3	0	Confirmed to pay new contributions
Mears Group	19.8	-	23.2	-	Acknowledged
Southern Housing	26.0	-	28.8	-	Acknowledged
Breyer Group	15.0	-	17.0	-	No response after reminder
New North Academy	11.4	22,100	14.4	20,100	No response after reminder
William Tyndale	14.3	27,900	15..6	26,700	Acknowledged and agreed new rates
St Mary Magdalene Academy	12.1	-	13.9	-	Confirmed to pay new contributions
The Courtyard Free School	11.2	-	9.0	-	Acknowledged and agreed new rates
The Family School	9.8	-	9.9	-	No response after reminder
The Bridge Free School	10.6	-	10.3	-	No response after reminder
Caterlink	16.8	-	19.6	-	Acknowledged and agreed new rates
City of London Academy	13.1	-	15.1	-	No response after reminder
Engie Ltd (Cofely WorKplace	17.6	-	20.1	-	Acknowledged but no comments
Greenwich Leisure Ltd	21.5	-	16.4		Acknowledged and responded
RM Education	12.6	100	15.4		Confirmed to pay new contributions
TMO:				1200	
Pleydell	17.5	-	19.8	-	No response
Braithwaite	17.5	-	19.8	-	Confirmed to pay to new rate
Brunswick	-	-	19.8		New employees from 1 April 2017

APPENDIX 2

DRAFT

FUNDING STRATEGY STATEMENT

ISLINGTON COUNCIL PENSION FUND

MARCH 2017

London Borough of Islington

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This Funding Strategy Statement has been prepared by London Borough of Islington (the Administering Authority) to set out the funding strategy for the Islington Council Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

EXECUTIVE SUMMARY

Ensuring that the Islington Council Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (London Borough of Islington). The Funding Strategy adopted by the Islington Council Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Islington Council Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Islington Council Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND'S OBJECTIVE

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members' accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected.

SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Local Government Pension Scheme (the "LGPS") so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 77% at the valuation date (i.e. the assets of the Fund are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations (and any change emerging to the Primary Rate) a key principle will be to maintain the deficit contributions at least at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period). Full details are set out in this FSS.

The maximum recovery period for the Fund as a whole is 22 years which is the same period as that adopted at the previous valuation. However, subject to affordability and other considerations, individual employer recovery periods would be expected to reflect a continuation of the period set at the previous valuation.

Where there is an increase in contributions required at this valuation, at the sole discretion of the Administering Authority, the employer will be able to step-up their contributions over a period of up to 3 years.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in Appendix B to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.20% per annum and for determining the future service ("Primary") contribution rates is 2.75% per annum.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a different discount rate. Such cases will be determined by the Section 151 Officer and reported to the Committee.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This

means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund may continue to monitor employer's covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Fund Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's

liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

1 INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Islington Council Pension Fund (the "Fund"), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS 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 Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full Fund benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The “Secondary rate” is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

2

PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3
AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4

RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee, the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5
SOLVENCY FUNDING TARGET

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- Where deficits remain, the Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable on deficit contributions) unless there is a specific reason to do so.

- Subject to consideration of affordability, as a general rule the deficit recovery period will be a continuation of the recovery period adopted at the preceding valuation. This is to target full solvency over a similar time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). These principles have resulted in a target recovery period of 19 years being adopted for most Fund employers.

- Individual employer contributions will be expressed and certified as two separate elements:
    - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
    - the **Secondary rate**: a schedule of lump sum monetary amounts over 2017/20 in respect of an employer's surplus or deficit

  For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.
- Where increases (or decreases) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, at the sole discretion of the Administering Authority the increase (or decrease) from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years.

- For those employers assessed to be in surplus at the valuation date and who are expected to exit the Fund in the period to 31 March 2020, the Secondary rate payments will be based on the expected length of participation in the Fund. For all other employers assessed to be in surplus at the valuation date, the Secondary rate will be zero, unless otherwise agreed by the Administering Authority.

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. The termination policy is set out in Appendix C.

- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

FUNDING FOR EARLY RETIREMENT COSTS

With regard to costs for ill-health or voluntary early retirement, for certain employers in the Fund, allowance will be included within the certified future service contribution rate. Additionally, any 'strain' costs generated on redundancy, efficiently, or flexible retirements will be recovered by additional capital payments to the Fund. These will be paid in full at the point of retirement.
For those employers for whom the certified future service contribution rate excludes an allowance for ill-health or voluntary early retirement costs, the administering authority will require the costs of all early retirements to be paid in full by the employer by additional capital payments at the point of retirement.

6

LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 77% covered by the current assets, with the funding deficit of 23% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of [TBC]%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is:

	Benchmark %
UK Equities	20
Global Equities (Developed Market)	20
Global Equities (Emerging Market)	6
Total Equities	46
Corporate Bonds	10
Total Bonds	10
Property	15
Private Equity	4
Infrastructure	15
Diversified Growth Fund	10
Total Alternatives	44
Cash	0
Total	100%

The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 3.5% per annum in excess of CPI inflation as at 31 March 2016. For the purposes of setting a funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations (see further comment in Appendix A).

During the recovery period, an overall investment return assumption of up to 3% per annum in excess of CPI will be allowed for in the calculation of the required deficit recovery contributions for certain employers. The Administering Authority believes that this is a reasonable “best estimate” allowance for investment returns during the recovery period based on the investment strategy as set out above and following analysis undertaken by the Actuary and the Fund’s investment advisors.

7

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Whilst regulatory procedures are in place to ensure that ill-health retirements are properly controlled, employing bodies also need to recognise that unforeseen costs for them will arise in the event that the number of ill-health retirements were to exceed the assumptions made. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the Fund's cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

8
MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

APPENDIX A –
ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make

advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.2% per annum above CPI inflation, i.e. a total discount rate of 4.4% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. For example for public sector employers this results in a total salary increase of 1.0% per annum to 2019/20 in line with Government policy.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables used are set out below, with a loading reflecting LGPS experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the proportions married/civil partnership, rates of ill-health retirement and withdrawal from active service assumptions have been modified from the last valuation. No allowance will continue to be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.7% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has been assumed. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

METHOD AND ASSUMPTIONS USED IN CALCULATING RECOVERY PLAN CONTRIBUTIONS (OR SECONDARY RATE)

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target with the exception that, under specific circumstances, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant, an allowance may be made within the recovery plan for investment performance at a higher level than that assumed for assessing the funding target. This means that the required contributions may be adjusted to allow for the following variation in assumptions during the period of the recovery plan:

Investment return on existing assets and future contributions

A maximum overall return effective as at the valuation date of 3% p.a. above CPI reflecting the underlying investment strategy of the scheme and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities.

The investment return assumed under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the recovery plan.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the additional return over and above that built into the funding target assumptions will be limited so that the total employer contributions emerging from the valuation will be no less that the current level of contributions payable by the employer or the Future Service Contribution Rate, whichever is higher.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share. In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.2% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.4% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases*	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

*alongside an allowance for short term pay restraint of 1% p.a. for 4 years where applicable

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

Current Status	Retirement Type	2016 study
Annuitant	Normal Health	96% S2PMA_CMI_2015[1.5%] / 84% S2PFA_CMI_2015[1.5%]
	Dependant	107% S2PMA_CMI_2015[1.5%] / 97% S2DFA_CMI_2015[1.5%]
	Ill Health	96% S2PMA_CMI_2015[1.5%] + 3 yrs / 84% S2PFA_CMI_2015[1.5%] + 3 yrs
Active	Normal Health	96% S2PMA_CMI_2015[1.5%] / 84% S2PFA_CMI_2015[1.5%]
	Ill Health	96% S2PMA_CMI_2015[1.5%] + 4 yrs / 84% S2PFA_CMI_2015[1.5%] + 4 yrs
Deferred	All	96% S2PMA_CMI_2015[1.5%] / 84% S2PFA_CMI_2015[1.5%]

-Life expectancies at age 65

	Male Life Expectancy at 65	Female Life Expectancy at 65
Membership Category	**Proposed Assumption**	**Proposed Assumption**
Pensioners	22.8	26.0
Actives aged 45 now	25.0	28.3
Deferreds aged 45 now	25.0	28.3

Other demographic assumptions are set out in the Actuary's formal report.

APPENDIX B –
EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts increasing at 3.7% per annum (in line with long-term pay growth assumption) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Default Deficit Recovery Period	Derivation
Scheme Employers	19 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan. For certain employers, subject to the agreement of the administering authority, depending on affordability and other considerations, a maximum recovery period of up 22 years may be applied.
Open Admitted Bodies	19 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan.
Closed Employers	Lower of 19 years and the future working lifetime of the membership	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain broadly the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period), taking into account any changes in the future service contribution requirements.

For those employers assessed to be in surplus at the valuation date and who are expected to exit the Fund in the period to 31 March 2020, the Secondary rate payments will be based on the expected length of participation in the Fund. For all other employers assessed to be in surplus at the valuation date, the Secondary rate will be zero, unless otherwise agreed by the Administering Authority.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C –

ADMISSION AND TERMINATION POLICY

This document details the Islington Council Pension Fund's (ICPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers ICPF's policy on admissions into the Fund and sets out the considerations for current and former *admission bodies*. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the ICPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the ICPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

ENTRY TO THE FUND

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;

- If the admitted body has an expected limited lifespan of participation in the Fund;

- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the actuary to the ICPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the ICPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund's general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the ICPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the ICPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the employing body's notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

EXITING THE FUND

TERMINATION OF AN EMPLOYER'S PARTICIPATION

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

The ICPF's policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the ICPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the ICPF otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the employing body within the

Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases no termination assessment is required as there will no longer be any orphan liabilities in the ICPF. Therefore, a separate assessment of the assets to be transferred will be required.

FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2016) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Least risk assumptions	**31 March 2016**
Discount Rate	2.2% p.a.
CPI price inflation	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

All demographic assumptions will be the same as those adopted for the 2016 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 1.75% p.a. from 1.5% used in the 2016 valuation for ongoing funding and contribution purposes.

APPENDIX D –
GLOSSARY

[TO BE EXPANDED AND UPDATED AS PART OF CONSULTATION]

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deficit: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities: shares in a company which are bought and sold on a stock exchange.

Fund / Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Scheduled bodies: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution

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ISLINGTON

Finance Department
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London N7 7EP

Report of: **Corporate Director Resources**

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

Delete as appropriate		Non-exempt

SUBJECT: PENSIONS SUB-COMMITTEE 2017/18– FORWARD PLAN

1. Synopsis

1.1 The Appendix to this report provides information for Members of the Sub-Committee on agenda items for forthcoming meetings and training topics.

2. Recommendation

2.1 To consider and note Appendix A attached.

3. Background

3.1 The Forward Plan will be updated as necessary at each meeting, to reflect any changes in investment policy, new regulation and pension fund priorities after discussions with Members.

3.2 Details of agenda items for forthcoming meetings will be reported to each meeting of the Sub-Committee for members' consideration in the form of a Forward Plan. There will be a standing item to each meeting on performance

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**

None applicable to this report

4.3 **Environmental Implications**
None applicable to this report. Environmental implications will be included in each report to the Pensions Sub-Committee as necessary.

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 To advise Members of forthcoming items of business to the Sub-Committee and training topics

Background papers:
None

Final report clearance:

Signed by:

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

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APPENDIX A

Pensions Sub-Committee Forward Plan for June 2017 March 2018

Date of meeting	Reports
	Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update • CIV update report
12 June	Investment strategy update Business plan update Independent investment advisor appointment
5 September	
16 October	AGM
21 November	
5 March	

Past training for Members before committee meetings-

Date	**Training**
16 September 2014	Investment in Sub Saharan Africa - 6.20-.6.50pm Infrastructure - 6.55- 7.25pm
25 November 2014	Multi asset credit- 6.15-6.45pm Real estate including social housing- 6.50-7.20pm
9 March 2015	Frontier Market public equity- 6.15 -6.45pm Emerging market debt- 6.50- 7.20 pm
11 June 2015	Impact investing
14 September 2015- 4.45pm pm	Social bonds
13 June 2016	
21 September 2016	Actuarial review training

Proposed Training before committee meetings

12 June	

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

Agenda Item E1

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