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Governance and Human Resources
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, N1 2UD on **11 June 2015 at 7.30 pm.**

John Lynch
Head of Democratic Services

Enquiries to	:	Mary Green
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Despatched	:	2 June 2015

Membership 2015/16	Substitute Members
4 Councillors	

NB - Membership of the Pensions Sub-Committee will be appointed at the Audit Committee on 4 June 2015.

Quorum is 2 members of the Sub-Committee

A.	**Formal Matters**		**Pages (approximate times)**
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 (19:35)
B.	**Non-exempt items**		
1.	Pensions administration performance from 1 February to 31 May 2015		5 - 8 (19:40)
2.	Pension Fund performance from 1 January to 31 March 2015		9 - 48 (19:50)
a.	(a) Quarterly WM Company performance report		-

b.	(b) Presentation from AllenbridgeEPIC Investment Advisers on quarterly performance	
3.	Presentation from State Street - WM annual performance of Fund	- (20:10)
4.	Presentation from Legal and General – passive global equities	- (20:30)
5.	Presentation from Actuary - funding update	- (20:50)
6.	Pension Sub-Committee - Forward Plan 2015/16	49 - 52 (21:10)

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

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 will be on 14 September 2015

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London Borough of Islington

Pensions Sub Committee - 9 March 2015

Non-confidential minutes of the meeting of the Pensions Sub Committee held at the Town Hall on 9 March 2015 at 7.30 pm.

Present: **Councillors:** Richard Greening (Chair), Andy Hull, Jean-Roger Kaseki and Michael O'Sullivan

Also Present:

Brian Booker, retired pensioners' representative

Karen Shackleton, AllenbridgeEPIC Investment Advisers

Nick Sykes and Catherine Bermingham, Mercer Investment Consulting

Vaughan West, GMB

Councillor Richard Greening in the Chair

42 **APOLOGIES FOR ABSENCE (Item 1)**

None.

43 **DECLARATION OF SUBSTITUTES (Item 2)**

None.

44 **DECLARATION OF INTERESTS (Item 3)**

None.

45 **MINUTES OF THE MEETING HELD ON 25 NOVEMBER 2014 (Item 4)**

RESOLVED:

That the minutes of the meeting held on 25 November 2014 be confirmed as a correct record and the Chair be authorised to sign them.

46 **PENSIONS ADMINISTRATION PERFORMANCE FROM 1 NOVEMBER TO 31 JANUARY 2015 (Item B1)**

The Pensions Manager reported that a process was in progress to appoint a new retired members' representative and that two nominations had been received to date.

RESOLVED:

(a) That the performance against key performance indicators for the period from 1 November 2014 to 31 January 2015, including statistics regarding the internal dispute resolution procedure, complaints and compliments, as detailed in the report of the Corporate Director of Finance and Resources, be noted.

(b) That the information regarding the action being taken to appoint a new representative for retired members, detailed in paragraph 3.7 of the report, be noted.

(c) That the Pensions Manager ensure appropriate transition for the new retired members' representative(s), including training.

47 PENSION FUND PERFORMANCE FROM OCTOBER TO DECEMBER 2014 (Item B2)

Councillor Greening reported that he had encouraged members of the CIV Working Party to consider investments in housing and infrastructure more generally.

In the light of the further cost and benefits analysis information supplied at Appendix 4 to the report, Members confirmed that they were now satisfied to continue to support the work of the Pensions CIV.

RESOLVED:

(a) That the performance of the Fund from 1 October to 30 December 2014, detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That the quarterly WM Company report on the overall performance, updated market value and asset allocation of the Fund, as at 30 December 2014, detailed in Appendix 1 to the report, be noted.
(c) That the report by AllenbridgeEPIC Investment Advisers on fund managers' quarterly performance, detailed in Appendix 2 to the report and their presentation, be noted.
(d) Having considered the presentation from representatives of Standard Life (minute 48 below), that no changes be made to the current bond mandate at the present time and that officers report back to the Sub-Committee only if interest rate rises looked a substantial risk in the future.
(e) That the confidential briefing note from Mercer (Appendix 3 to the report), detailing the Fund's exposure to Tesco's High Lease to Value property investment through the Aviva Lime Property Fund, be noted.
(f) That the confidential update from the CIV working party on a cost and benefits analysis of the scheme (Appendix 4 to the report) be noted and officers be authorised to commit set up funds (75k in total) as necessary.

48 PRESENTATION FROM STANDARD LIFE - CORPORATE BONDS AND BEYOND (Item B4)

Frances Smyth and Daniel McKernan, from Standard Life Investments, gave a presentation to the Sub-Committee on a proposed opportunity to maintain credit allocation as a combination of SLI sterling credit fund (existing holding) and Total Return Credit fund.

Following questions of the representatives from Standard Life and deliberation, Members agreed that it was not desirable to make changes to the bond mandate at the current time to mitigate the risk of future interest rate rises.

49 INVESTMENT STRATEGY ASSET ALLOCATION IMPLEMENTATION - INFRASTRUCTURE BRIEFING (Item B5)

Catherine Bermingham and Nick Sykes from Mercer gave a presentation on infrastructure and its role in portfolios.

Following questions and deliberation, Members decided that they would like to consider debt, core and core plus infrastructure investments, with strong inbuilt inflation protection

RESOLVED:

(a) That the confidential briefing note from Mercer on "Infrastructure" be noted.
(b) That the Head of the Pension Fund and Treasury Management report back to the Sub-Committee on the funds available and an implementation plan based on debt, core and core plus infrastructure investments.

50 **ESTABLISHING AN ISLINGTON PENSION BOARD - PROGRESS (Item B6)**

RESOLVED:
(a) That the progress made since the last Sub-Committee towards the establishment of an Islington Pension Board, detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That the Corporate Director of Finance and Resources, in consultation with the Assistant Chief Executive – Governance and Human Resources and the Chair, continue to consider how best to implement the regulatory requirements, updating the Sub-Committee and the Audit Committee at their next meetings.
(c) That the first meeting of the Board be arranged for 11 June 2015.

51 **FUNDING STRATEGY STATEMENT UPDATE TO REFLECT THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013 (Item B7)**

RESOLVED:
(a) That the tracked changes to the Council's funding Strategy Statement 2015, approved in March 2014 and attached as Appendix A to the report of the Corporate Director of Finance and Resources, be approved.
(b) That the Corporate Director of Finance and Resources publish the agreed Funding Strategy Statement on the Council's website before 1 April 2015.

52 **PENSION FUND FORWARD PLAN 2015 (Item B8)**

RESOLVED:
(a) That the following amendments be made to the Forward Plan of business for meetings of the Sub-Committee for 2015/16, detailed in Appendix A to the report of the Corporate Director of Finance and Resources:

11 June 2015 - Delete "In house Fund presentation"

Proposed training session on 11 June 2015:
Delete "Infrastructure" and bring forward "Impact investing and social bonds" from 14 September 2015 to 11 June 2015

11 June or 14 September 2015:
Add "Engagement"

(b) That on the two occasions during the year when the Pensions Board meet, the training sessions be arranged for mid-afternoon on the same day as the Sub-Committee/Board meetings.

53 **LONDON COMMON INVESTMENT VEHICLE - UPDATE (Item E1)**
Noted.

54 **STRATEGY REVIEW IMPLEMENTATION - INFRASRUCTURE BRIEFING FROM MERCER (Item E2)**

Noted.

The meeting ended at 9.25 pm

CHAIR

ISLINGTON

Municipal Offices
7 Newington Barrow Way
London, N7 7EP

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

Meeting of	**Date**	**Agenda Item**	**Ward(s)**
Pensions Sub Committee	11 June 2015		

Delete as appropriate		Non-exempt

SUBJECT: PENSION ADMINISTRATION PERFORMANCE

1. Synopsis

1.1 This report provides Members with information on the administration activities of the Pension administration section of the Finance Department. The information is in respect of the period from 1 February 2015 to 31 May 2015.

1.2 The report also provides information regarding the Internal Dispute Resolution Procedure, compliments and complaints.

2. Recommendations

2.1 To note the performance against key performance indicators for the relevant period.

2.2 To note the information in respect of the Internal Dispute Resolution Procedure, compliments and complaints.

2.2 To note the information regarding the new Representatives for the retired members.

3. Background – Statistics and key performance indicators

3.1 The membership profile at 31 January 2015 and 31 May 2015 is shown in the following table.

Category	Jan - 15	May - 15
Number of current active members	6,048	5,870
Number of preserved benefits	6,529	6,536
Number of Pensions in payment	5,141	5,196
Number of Spouses/dependants pensions in payment	935	938
Total	18,653	18,540

3.2. Key performance indicators from 1 February 2015 to 31 May 2015:

Process	**Target days to complete**	**Volume**	**Target % Achieve-ment**	% **Achieved within target days**	**Actual average days**
Deaths	5	35	95%	91.43%	4.29
Retirement benefits	5	76	95%	86.84%	3.57
Pension estimates	10	145	95%	86.90%	6.32
Preserved benefit calculations	15	32	95%	84.38%	9.50
Transfer-in quotation	10	4	95%	75.00%	6.99
Transfer-in actual	10	13	95%	76.92%	6.31
Transfer out actual	12.5	9	95%	77.78%	4.89
Transfer out quotation	15	9	95%	77.78%	11.11
All processes	-	586	-	90.96%	-

3.3 The overall performance is marginally up on the 90.61% for the previous period to 31 January 2015. The only significant variation was in respect of pension estimates where performance reduced from 93.75% to 86.90% this period. However the number of estimates dealt with this period was 145 compared with 67 during the previous period.

3.4 During the 2 year period to 31 May 2015, 94 communications have been received thanking Pension Administration staff for the service, including 16 since the previous meeting of the Sub Committee.

3.5. No complaints have been received since the previous meeting of the Sub-Committee.

3.6 There have been no new Internal Dispute Resolution Procedure (IDRP) cases.

3.7.1 Thelma Harvey and Marion Oliver have agreed to take on the role of Retired Members' Representative on a joint basis. Thelma was a Senior Physiotherapist with the Council, whilst Marion was a Training & Development Officer.

3.7.2 As Thelma and Marion were the only volunteers a ballot for the new Retired Members' Representative did not prove necessary. Brian Booker has been providing some guidance to Thelma and Marion over the last couple of years. The new representatives will also share their role attending the local pension board.

4. Implications

4.1 Financial Implications

4.1.1 The cost of administering the Local Government Pension Scheme is chargeable to the Pension Fund.

4.2 Legal Implications

4.2.1 There are no specific legal implications in this report.

4.3 Equalities 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 In respect of this report, an Equality Impact Assessment is not being made because the contents of the report relate to processes that are strictly in accordance with the statutory Local Government Pension Scheme Regulations. The LGPS Regulations are made under the Superannuation Act 1972, and the Council has a statutory duty to comply with the LGPS Regulations.

4.4 Environmental Implications

4.4.1 The environmental impacts have been considered and it was identified that the proposals in this report would have no adverse impacts

5 Conclusion and reasons for recommendations

5.1 The report is made to each meeting of the Committee and is provided in order to assess administration performance.

Background papers:

Final Report Clearance

Signed by	.... Corporate Director of Finance and Resources	.... Date
Received by	.... Head of Democratic Services	.... Date

Report author : Steve Rogers
Tel : 2028
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Agenda Item B2

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Finance and Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	11 June 2015	**October**	

Delete as appropriate	~~Exempt~~	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 JANUARY to 31 MARCH 2015

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 January 2015 to 31 March 2015

2.2 To note the quarterly WM Company report on the overall performance updated market value and asset allocation of the fund as at 31 March 2015 at Appendix 1

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

2.4 To receive a presentation by Legal and General, our passive equities portfolio manager to discuss current performance and their future outlook.

2.5 To receive a presentation from State Street, on WM Annual Fund Performance

2.6 To note for information the Mercer bulletin- "May 2015 LGPS Current Issues" attached as Appendix 3.

2.7 To note for information Appendix 4 – Financial Conduct Authority (FCA) fine of BNY Mellon, our custodian.

3. Fund Managers Performance for January to March 2015

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 (January-March'15 Net of fees		12 Months to Mar'15 Performance Net of fees	
			Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	32%	UK equities	4.8%	4.7%	7.0%	6.6%
AllianzGI (RCM)	9%	Global equities	7.5%	7.7%	19.1%	19.2%
Newton	14%	Global equities	8.7%	7.7%	20.4%	19.2%
Legal & General	7%	Global equities	6.6%	6.6%	11.6%	11.9%
Standard Life	21%	Corporate bonds	3.4%	3.3%	13.0%	13.2%
Aviva (1)	4%	UK property	1.9%	2.9% 3.0%	8.3%	18.9% 18.3%
Columbia Threadneedle Investments (TPEN)	6%	UK commercial property	2.6%	2.8%	18.1%	16.6%
Hearthstone	2%	UK residential property	2.8%	0.8%	10.0%	6.0%

(1) 2.9% and 18.9% = original Gilts benchmark; 3.0% and 18.3% are the IPD All property index; for information

3.2 The WM Company quarterly report (enclosed as Annex A) gives a detailed analysis of our fund managers' latest quarter performance as well as the combined fund performance. The fund's March 2015 market value and asset allocation is also shown in this report. Members are asked to note this report.

3.3 The combined fund performance for the last quarter ending March 2015 is shown in the table below. The Fund's quarterly under performance of -0.1% was attributable to -0.2 % of stock selection and 0.1% of asset allocation.

Combined Fund Performance	Latest Quarter Performance **Net** of fees		12 Months to March 2015 Performance Net of fees	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
LB of Islington Fund	4.6%	4.7%	11.4%	12.5%

WM will be in attendance to present more details on the annual performance of the whole fund.

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

3.5 The WM local authority universe is group of pension funds of similar characteristics but different sizes and deemed as a peer group for comparison. The Islington combined fund performance over the 1, 3 and 5 years period to March 2015 compared to its customised benchmark and percentile ranking are shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance	11.4%	10.7%	8.5%
LBI customised benchmark	12.5%	10.7%	8.8%
Percentile ranking in the peer group	78	57	61

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

3.6 **AllianzGI (RCM)**

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

3.6.2 In the March quarter, the fund underperformed net of fees by returning 7.5% against a benchmark of 7.7%. Since inception in December 2008, portfolio has returned a relative under performance of -0.95%.
.

3.6.3 Stock selection in basic materials and financials and over weights positions in health care was positive while stock selection and underweight positions in consumer goods sectors were the main detractors on performance.

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 outperformed by returning 8.8% net of fees against a benchmark of 7.7% for the March quarter. Since inception the fund has delivered a relative out performance of + 0.1% per annum.

3.7.3 The outperformance this quarter was driven mainly by stock selection and asset allocation within consumer goods, basic materials and financials sector. Information technology stock selection was the main detractor.

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 4.8% against a benchmark of 4.7% for the March quarter.

3.8.2 There were no purchases or sales during the quarter. Number of stocks now held is 298.

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 March quarter, the fund returned 3.4% against a benchmark of 3.3% and a 3 year relative return of 0.7% per annum.

3.9.2 The main driver behind the outperformance during the quarter was due to sterling credit generating excess credit over gilts, as well as selective overweight holdings in subordinated bank risk and underweight to Supranationals. Long dated credit risk and overweight holdings in Tesco bonds was positive.

3.9.3 The forward strategy is to continue with an overweight exposure to banks, although exposure to highly subordinated bank debt has been reduced. Stock selection will remain important to avoid market penalisation of companies who underperform expectations.

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 1.9% against a gilt market of 2.9%. The All Property IPD benchmark returned 3.0% for this quarter. Since inception the fund has delivered an absolute return of 6.51% net of fees.

3.10.3 This March Quarter saw the sale completion of five hotels for around £50m, and let for 21.5 years and benefits from five-yearly CPI rent reviews The Fund has maintained an unexpired average lease term of 20.1 years and increased diversification with 66 assets and 41 tenants. Lime is well positioned to deliver attractive returns over the medium term.

3.10.4 Lime approached the Council in April to participate in additional capital drawdowns to fund a portfolio of new assets totalling £270m. The tenant exposure was aligned with Lime's strategy of gaining income and capital stability through targeting public sector tenants. All the properties benefit from 25 year leases and RPI linked rent reviews and located in Greater London.

3.10.5 In consultation with the Chair and Mercer our advisers, we have committed £5m to be funded from the In House Index Fund. This is in line with the Fund's investment strategy agreed in November 2014, to increase asset allocation in the Lime Fund from 4 to 5%. The money is scheduled to be transferred by 10 June.

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 March was £62.8million.

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 2.6% against its benchmark of 2.8% for the March quarter and a rental income yield of 6.2%. The cash balance now stands at 7.7% of the fund and the aim is to maintain it within a range of 5 to 10% throughout 2015.

3.11.3 During the quarter 3 properties were acquired for £34.2m and a strategic sale of 3 existing assets were completed for £17.4m.There is a strong asset diversification at portfolio level with a total of 253 properties. The medium to long term prospects of commercial property will be dominated by rental income supported by modest capital value growth and the Fund is well positioned to benefit from this.

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 March quarter, the hedged overseas equities returned 7.0% compared to the unhedged combined return of 8.2%.

Finanacial Conduct Authority FCA fine of BNY Mellon-15 April

3.12.2 The Financial Conduct Authority (FCA) fined The Bank of New York Mellon London Branch (BNYMLB) and The Bank of New York Mellon International Limited (BNYMIL) (together 'the Firms') £126 million for failing to comply with the FCA Client Assets Sourcebook (Custody Rules, or CASS), which applies to safe custody assets and to client money.

Members should note for information that our Custodian BNY Mellon received a fine from FCA in April. The press releases from FCA and BNY Mellon are attached for information as Appendix 4

3.12.3 Following this incident officers sought assurances from BNY Mellon and their responses are **below:**

1) **Can you please confirm that our assets were safe**

   Yes. BNY Mellon is very mindful of the importance of safeguarding client assets and that has always been our primary focus.

   We regret in this case that we did not meet our standards or those of the FCA.

   The FCA's Final Notice relates to historic events from late 2007 to August 2013. As soon as we became aware of the issue we launched a broad internal review of our compliance with CASS rules, with the assistance of an independent, third-party accounting firm and external legal advisers.

   A primary finding related to the records that we maintain at a legal entity level for the two entities named in the Final Notice, which we have now corrected.

   Records of client assets kept at a Group level have not been called into question.

   At all times we knew what our clients' entitlements were (i.e., who owned what), where client assets were, and at all times we knew they were safe.

2) **We have heard verbally about the comingling of assets but need more information about how this happened, the implications and if it could re-occur**.

   In reference to the comingling finding, in April 2014, as part of our ongoing review into CASS compliance, we discovered isolated instances in which firm assets were misdirected into three client omnibus accounts, representing a tiny fraction of the assets held in these accounts (0.059% of the total value of assets held in the three client omnibus accounts).
   It is a matter of regret that a small number of firm accounts were misdirected to client omnibus accounts. On identification these assets were immediately segregated.
   Importantly, no client assets were ever held in firm accounts. The FCA makes clear that

clients suffered no losses as a result. BNY Mellon implemented procedures to avoid any repetition which has been validated by an independent third party.

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 initial closing for Fund II was held on12 March. 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 has now been fully committed. The remaining capital commitments $15m will be drawn down 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

Distributions received to date total $16m.

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 6.6% net of fees against a benchmark of 6.6% for the quarter with a 12 months relative return -0.3%. The 3 year absolute return is 5.0% with a market value of £76m.

The Manager will be discussing the fund activities and their outlook of the market in a presentation to Members as another agenda item.

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 March quarter the value of the fund investment was £22.9m and total funds under management are £31million. Performance net of fees was 2.8% compared to the benchmark of 0.8%., and 12 month relative return 3.8%. The income yield after cost was 4.3%. The portfolio had 125 properties, 58 were let on licence and leaseback agreement to house builders and 60 properties let on assured short term agreements. 7 properties were vacant at the end of March, 4 of which have received applications. Notices have been received on 6 properties to end of April and May 2015. One has been reserved from May and the rest are being actively marketed.

3.16 **LGPS London Common Investment Vehicle Update**

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

3.16.1 In March 2015, Members considered an update on progress made and a detailed cost and benefit analyses produced by CIV working party and agreed to contribute the additional £50,000 requested to paid in two tranches

3.16.2 The Council has now paid the £25,000 as invoiced. The CIV is progressing with the creation of governance structures and the recruitment of key executive and non-executive directors and staff and FCA registration for the CIV itself and the joint funds to be created. It is expected that the new company and fund will be up and running by the end of 2015.

4. Implications

4.1 **Financial implications:**

The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.

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

4.2 **Legal Implications:**

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

4.3 **Equality Impact Assessment:**

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

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

4.4 **Environmental Implications**

None applicable to this report.

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending March2014 as part of the regular monitoring of fund performance. Mercer's update briefing on LGPS current issues and BNY Mellon 's FCA fine details are attached for information.

Background papers:

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

Final report clearance:

Signed by:

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

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APPENDIX 1

Summary of Long Term Returns

LONDON BOROUGH OF ISLINGTON - TOTAL COMBINED — **Periods to end March 2015**

Benchmark - LOCAL AUTHORITY UNIVERSE — **Pound Sterling**

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

	---------- 2012 ------- ---			--------------- 2013 ----------- ----				--------------- 2014 ------------ ---				2015			
Return %	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	1yr	3yrs % pa	5yrs % pa
Total Equity	-3.1	5.2	2.4	10.9	-0.6	4.3	4.6	0.1	2.9	0.2	1.7	5.4	10.4	11.5	9.0
	(18)	(10)	(90)	(97)	(67)	(19)	(75)	(56)	(1)	(95)	(85)	(100)	(97)	(89)	(77)
Private Eq	1.2	-1.1	-0.3	3.7	6.9	0.6	-1.6	2.6	0.6	1.2	0.9	-0.8	1.9	4.7	6.6
UK Equities	-2.1	4.5	3.9	10.8	-1.7	5.5	5.5	-0.3	2.3	-0.9	0.8	4.8	7.1	11.2	9.0
	(14)	(77)	(44)	(39)	(75)	(74)	(56)	(28)	(26)	(37)	(53)	(37)	(33)	(50)	(50)
O/S EQ Hedge	-5.0	7.3	1.0	12.3	-0.4	3.5	4.6	0.1	4.0	1.3	2.9	7.0	15.9	13.1	9.5
O/S Equities	-3.4	5.1	1.9	13.8	-1.1	1.3	3.7	-0.2	3.0	2.6	3.9	8.2	18.8	13.2	9.1
	(12)	(16)	(93)	(53)	(73)	(63)	(70)	(82)	(18)	(48)	(46)	(73)	(48)	(65)	(70)
N. America	*-0.6*	*4.8*	*-2.3*	*19.2*	*2.8*	*1.0*	*8.6*	*0.8*	*2.3*	*5.1*	*8.9*	*7.1*	*25.4*	*20.0*	*15.0*
	(16)	*(14)*	*(96)*	*(15)*	*(37)*	*(16)*	*(12)*	*(85)*	*(58)*	*(76)*	*(18)*	*(48)*	*(46)*	*(22)*	*(16)*
Europe ex UK	*-3.0*	*7.6*	*5.4*	*14.2*	*1.5*	*4.1*	*5.9*	*0.8*	*1.7*	*-2.0*	*0.9*	*10.1*	*10.8*	*16.3*	*9.0*
	(6)	*(19)*	*(86)*	*(21)*	*(20)*	*(84)*	*(32)*	*(91)*	*(14)*	*(42)*	*(34)*	*(76)*	*(27)*	*(25)*	*(34)*
Japan	*-3.2*	*-1.6*	*1.4*	*22.6*	*7.8*	*3.9*	*-4.0*	*-5.6*	*3.2*	*3.4*	*0.8*	*15.5*	*24.2*	*14.3*	*6.4*
MGJE	*-5.5*	*-3.5*	*5.0*	*19.5*	*4.4*	*0.3*	*0.0*	*-5.9*	*4.2*	*3.1*	*1.6*	*16.4*	*26.9*	*12.7*	
Pacific	*-5.5*	*6.1*	*3.7*	*8.7*	*-9.0*	*0.3*	*-4.8*	*-2.7*	*2.6*	*4.8*	*2.4*	*12.3*	*23.8*	*5.7*	*5.6*
	(75)	*(80)*	*(80)*	*(81)*	*(48)*	*(68)*	*(92)*	*(90)*	*(45)*	*(9)*	*(51)*	*(20)*	*(20)*	*(92)*	*(80)*
Other Intl.	*-7.6*	*5.3*	*5.3*	*5.7*	*-8.9*	*-1.2*	*-1.8*	*-0.8*	*5.3*	*1.7*	*-1.3*	*5.8*	*11.8*	*2.0*	*2.2*
	(63)	*(36)*	*(33)*	*(64)*	*(84)*	*(63)*	*(85)*	*(54)*	*(13)*	*(61)*	*(81)*	*(73)*	*(65)*	*(85)*	*(77)*
Bonds + IL	*2.1*	*6.2*	*2.7*	*1.8*	*-2.8*	*2.5*	*0.4*	*2.8*	*2.3*	*2.6*	*4.2*	*3.4*	*13.0*	*9.6*	*8.6*
	(47)	*(2)*	*(38)*	*(76)*	*(20)*	*(6)*	*(17)*	*(36)*	*(11)*	*(68)*	*(59)*	*(21)*	*(50)*	*(10)*	*(33)*
Total Bonds	2.1	6.2	2.7	1.8	-2.8	2.5	0.4	2.8	2.3	2.6	4.2	3.4	13.0	9.6	8.6
	(66)	(8)	(16)	(46)	(25)	(11)	(16)	(30)	(17)	(66)	(60)	(33)	(62)	(15)	(32)
UK Bonds	*2.1*	*6.2*	*2.7*	*1.8*	*-2.8*	*2.5*	*0.4*	*2.8*	*2.3*	*2.6*	*4.2*	*3.4*	*13.0*	*9.6*	*8.6*
	(69)	*(10)*	*(13)*	*(27)*	*(18)*	*(14)*	*(17)*	*(30)*	*(21)*	*(72)*	*(69)*	*(30)*	*(68)*	*(21)*	*(48)*
UK Corp Bond	*2.1*	*6.2*	*2.7*	*1.8*	*-2.8*	*2.5*	*0.4*	*2.8*	*2.3*	*2.6*	*4.2*	*3.4*	*13.0*	*9.6*	*8.6*
	(52)	*(32)*	*(25)*	*(38)*	*(18)*	*(37)*	*(18)*	*(38)*	*(46)*	*(78)*	*(68)*	*(36)*	*(65)*	*(30)*	*(47)*
Cash/ Alts	0.6	0.2	0.1	1.0	2.5	0.1	0.2	0.6	0.3	0.4	0.2	0.1	1.0	2.1	-0.7
	(32)	(53)	(69)	(71)	(19)	(27)	(56)	(55)	(52)	(69)	(71)	(66)	(70)	(54)	(96)

Cash	*0.6*	*0.2*	*0.1*	*1.0*	*2.5*	*0.1*	*0.2*	*0.6*	*0.3*	*0.4*	*0.2*	*0.1*	*1.0*	*2.1*	*1.2*
	(22)	*(34)*	*(39)*	*(27)*	*(16)*	*(21)*	*(25)*	*(19)*	*(27)*	*(35)*	*(41)*	*(53)*	*(45)*	*(14)*	*(25)*
Curr Instr	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	364.4	n/a	n/a	n/a	n/a
	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(17)	n/a	n/a	n/a	n/a
UK Property	0.6	0.5	1.3	0.7	1.8	1.7	3.2	2.6	3.9	3.5	3.1	2.5	13.5	8.6	7.8
	(25)	(28)	(18)	(64)	(44)	(78)	(80)	(78)	(63)	(76)	(87)	(85)	(88)	(66)	(63)
Gbl Property	6.5	-11.5	-0.8	5.2	5.3	-7.9	3.7	1.4	20.7	9.0	6.8	9.4	53.7	15.4	
FRANKLIN TEM	3.8	-8.1	0.0 #												
FRANKLIN TEM	6.9	-12.1	0.0 #												
FRANKLIN TEM			-0.8 #	5.2	5.3	-7.9	3.7	1.4	20.7	9.0	6.8	9.4	53.7		
Total Assets	-1.5	4.7	2.3	7.5	-0.7	3.4	3.5	0.9	2.9	1.1	2.4	4.6	11.4	10.7	8.5
	(30)	(4)	(72)	(89)	(43)	(14)	(57)	(55)	(4)	(90)	(79)	(90)	(78)	(57)	(61)

not invested in this area for the entire period

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AllenbridgeEpic
investment advisers

REPORT PREPARED FOR

London Borough of Islington Pension Fund

27th May 2015

Karen Shackleton
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

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1. Fund Manager Overview

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

Table 1

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
AllianzGI (RCM)	Seven joiners and two leavers during the quarter.	Underperformed the Index by -0.1% for the quarter but outperformed by +0.2% p.a. over three years. Behind the target of +3.0% p.a. over three years.	£320 billion AUM as at 31st December 2014.		
Newton	4 joiners and no leavers this quarter.	Outperformed the Index by +1.0% in the quarter. Also outperforming over three years by +2.0% per annum, and now meeting the out-performance target of +2% p.a. for the first time.	£50.7 billion as at 31st December 2014.		
Standard Life	45 joiners (of whom eight were in fixed income) and 3 leavers during the quarter.	Over three years the Fund has outperformed by +0.7% p.a., slightly behind the performance target of +0.8% p.a.	Underlying fund rose in value by £49m this quarter. London Borough of Islington's holding represents 5.8%.	Holding 6.6% in high yield non-benchmark bonds.	

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Aviva	Ed Casal replacing Ian Womack as CEO of global real estate.	Outperformed the gilt benchmark by 0.3% p.a. over three years but trailing the performance target.	Fund was valued at £1.4 billion as at end Q1 2015.		
Columbia Thread-needle	Five leavers and three joiners in Q1 2015. Of these, Tim James was an asset manager in the property team. He will be replaced in Q2 by Simon Davies.	Outperformed the benchmark by +1.8% per annum over three years – ahead of their performance target.	Combined assets of new firm £341 billion as at 31st March 2015. Pooled fund has assets of £1.49 billion of which Islington holds 4.8%.		Rebranding completed in Q1, firm now known as Columbia Threadneedle Investments. Team has moved into new offices in Cannon Place.
Legal and General	Not reported.	Regional funds are all tracking the indices.	£499 billion of assets under management as at end December 2014.		
Franklin Templeton	No changes in the private real estate team during the quarter.	Another strong quarter with a return of +9.4%. Beating the performance target of 10% p.a. by +39.8% over 12 months and by +5.0% over three years.	£3.2 billion of real assets under management at end March 2015, of which £2.0 billion is in private equity real estate.		

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Hearth-stone	Simon Knight, Managing Director, has left the firm. Colleen Setchell has joined as an Executive Assistant.	Ahead of the benchmark during the quarter by +2.0%, and ahead by +3.8% for the twelve months to March 2015.	Fund was valued at £31.1 m at end Q1 2015. Islington's holding represents 74% of the Fund.		

Key to shading in Table 1:

Minor concern

Monitoring required

2. Individual Manager Reviews

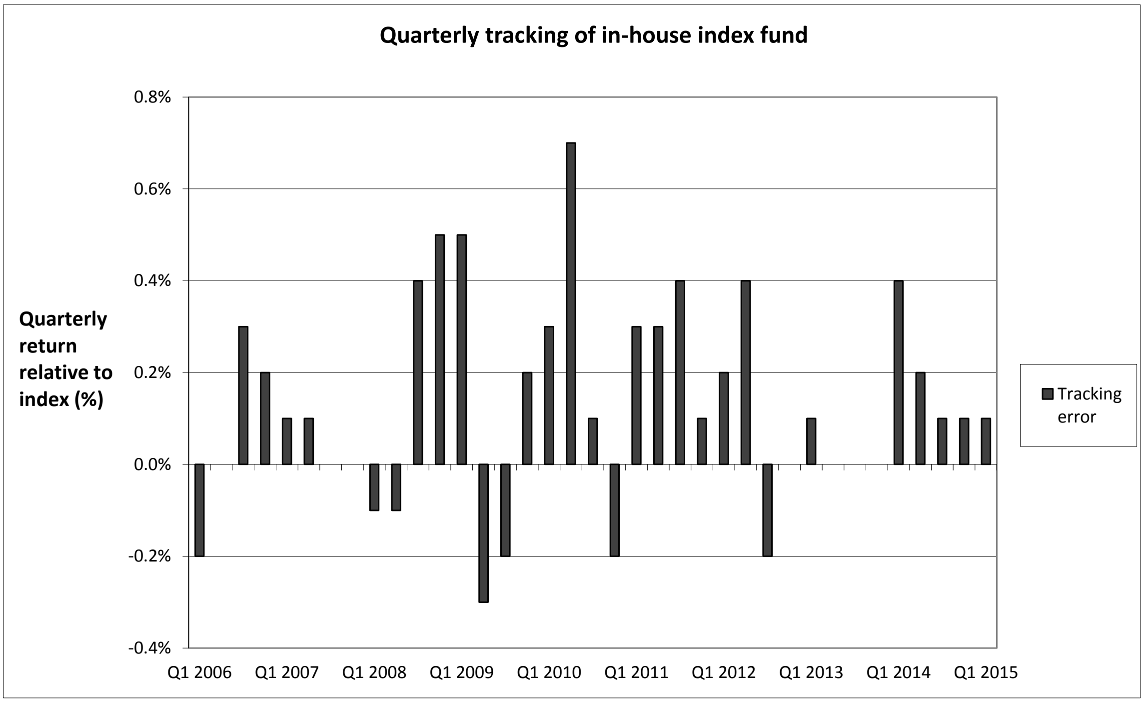
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

Headline comments: The portfolio continues to meet its objectives. The fund delivered a quarterly return slightly ahead of the index benchmark (+4.8% versus +4.7%). Over three years the fund has outperformed the index by +0.4% p.a. and delivered a return of +11.1% 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 as a result the portfolio has outperformed its three-year benchmark by +0.4% per annum.

Chart 1



Source: AllenbridgeEpic based on WM figures

Portfolio risk: The tracking error on the portfolio at the end of March was 0.27% per annum. In terms of sector bets, relative to the Index, the largest underweight sector position relative to the index was Financials (-0.9%). The fund was most overweight in Non-Cyclical Consumer Goods (+0.5%). 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 298 securities at the end of Q1 2015. There were no purchases or sales during the quarter.

2.2. AllianzGI (RCM) – Global Active Equities

Headline comments: In terms of relative performance, the fund was slightly behind the benchmark return of 7.7% for Q1 2015. Over three years the fund is just ahead of the benchmark by 0.2% per annum: however, this is behind the target of 3% per annum.

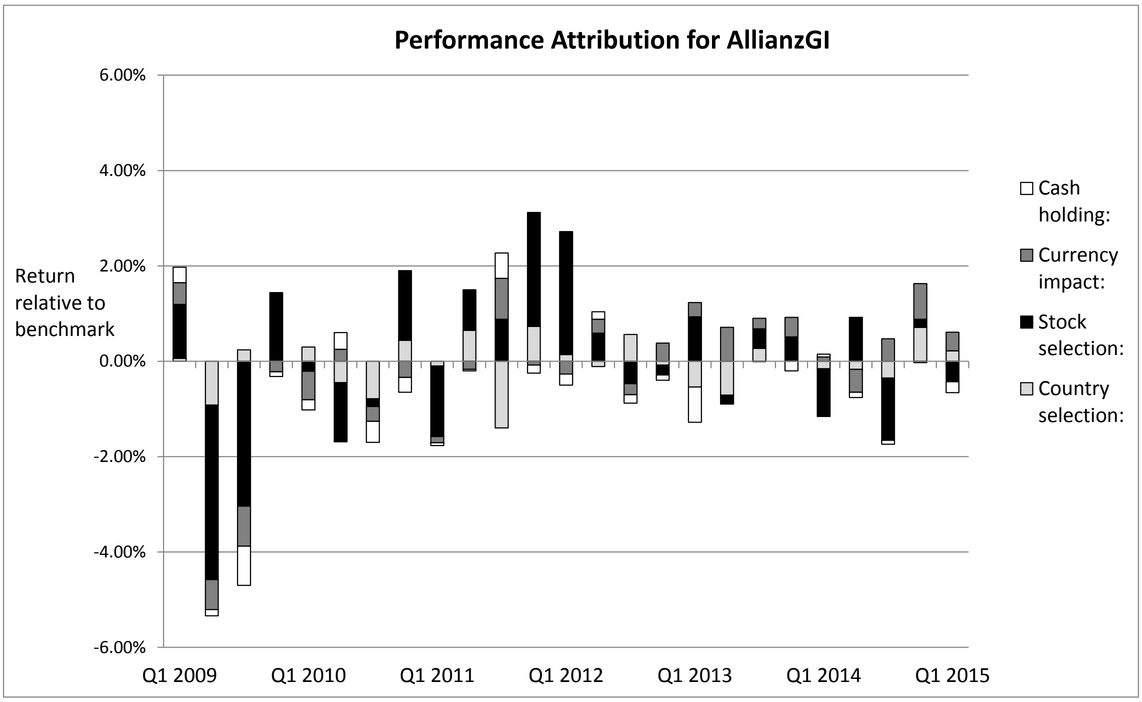
Mandate summary: An active global equity portfolio. AllianzGI operates a bottom-up global stock selection approach. They employ a team of research analysts to identify undervalued stocks in each geographical region (Europe, US, Asia Pacific). A global portfolio team is responsible for constructing the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

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

Over the past three years, AllianzGI is just ahead of its benchmark by +0.2% per annum, although **they are still trailing their performance target of 3% per annum**. Stock selection slightly detracted from performance over the past three years (-0.04% per annum). This is shown in the black bars in Chart 2 for each quarter. Currency selection made a positive contribution over three years (+1.1% p.a.), country selection detracted (-0.1% p.a.) and the cash holding also detracted (-0.5% p.a.)

The concern is that stock selection (which is what London Borough of Islington is paying for) is having a neutral effect whereas currency (which is mainly an incidental bet arising from country selection) is the only positive contributor over the past three years.

Chart 2



Source: AllenbridgeEpic based on AllianzGI figures

Note that the portfolio managed by AllianzGI, since its inception in November 2008, is **trailing the value of a passive global equity portfolio**. The return on AllianzGI's portfolio, since inception, is +14.4% per annum compared to a passive Index return of +15.3% per annum.

Portfolio risk: In terms of sector bets, relative to the benchmark, the largest underweight sector position relative to the index was Basic Materials (-4.0%). The fund remains most overweight Industrials (+10.1%). **Note that this is the largest overweight position held by the manager since inception.**

In terms of regional bets, the fund remains most overweight to Europe (+11.1% overweight). The largest underweight regions were UK and Japan (both -3.8% underweight). The cash position stood at 4.1% as at end March 2015, slightly higher than seen at recent quarter end periods.

Portfolio characteristics: The total number of holdings in the portfolio stood at 57 securities at the end of Q1 2015, within AllianzGI's normal range of 50-60 names. The beta on the portfolio was 1.01 at the end of March.

Staff turnover: There were seven joiners and two leavers during the quarter. The team managing London Borough of Islington's portfolio remains unchanged, however.

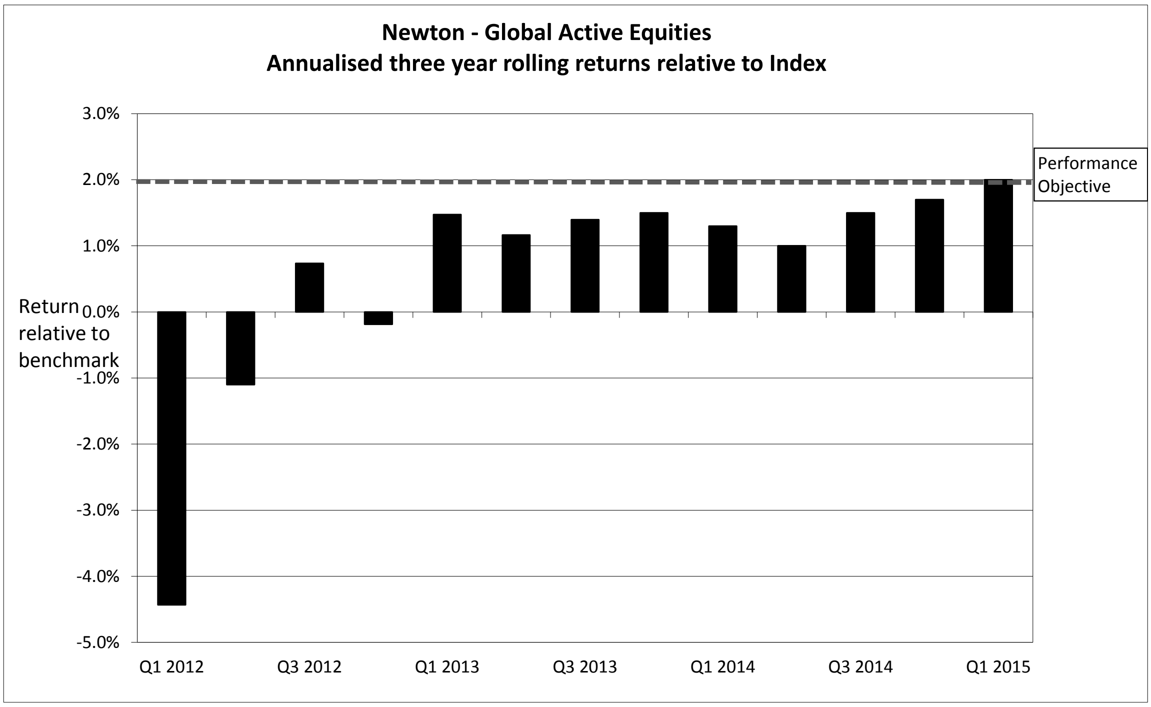
2.3. Newton – Global Active Equities

Headline comments: Newton were ahead by +1.0% during Q1 2015. Over three years the portfolio has outperformed by +2.0% per annum, in line with the target of 2% p.a. This is the first time Newton have met their performance objective since they were appointed. The outperformance can be attributed to positive stock selection decisions (+2.0% p.a.) as well as slightly positive asset allocation decisions.

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: AllenbridgeEpic based on data from Newton and WM

Chart 3 shows the noticeable improvement in the three year rolling returns, and encouragingly, **the portfolio is now achieving its performance target for the first time since inception** (shown by the right hand black bar in Chart 3).

Over the three years to March 2015, Newton's return was +16.5% p.a. compared to the index return of +14.2% p.a., an outperformance of +2.0% p.a. Stock selection accounted for +2.0% outperformance and asset allocation was also slightly ahead.

Since the inception of Newton's portfolio in November 2008, the pension fund is now marginally better off than it would have been with a passive mandate. Newton's 'since inception' return is +14.8% per annum, compared with the benchmark return at 14.7% per annum *(source: Newton)*.

During the quarter the most successful sector was Financials (+0.65% contribution to relative performance) where Newton held some strongly performing holdings including AIA Group in Asia and DNB Bank in Norway. The least successful sector was Technology (-0.2% from relative performance).

Portfolio Risk: The largest overweight regional allocation was in European Equities (+5.2% overweight). This has been a long-standing position that has been in place since Q3 2011. Successful asset allocation in this region (+0.2%) was offset by poor stock selection (-0.4%), however. The most underweight allocation remained Other Equities (-5.8%).

In terms of sector bets, Newton remained overweight in Consumer Services. This position (+10.7% relative to benchmark) represents the largest sector overweight position in the portfolio since inception. The most underweight sector remained in Financials (-8.8%).

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) fell slightly from 2.7%, at the end of December, to 2.6% at the end of March. This is within the normal range of 2% and 6%.

Portfolio characteristics: At the end of Q1 2015, the portfolio held 73 securities (76 as at the end of Q4 2014). Turnover over the past 12 months was 27%, at the low end of Newton's normal expected range of turnover to 30%-70%.

Staff turnover: during the quarter four people joined and no-one left the firm. The team managing London Borough of Islington's portfolio remains unchanged

Organisation: as at end December 2014, assets under management stood at £50.7 billion.

2.4. Standard Life – Fixed Income

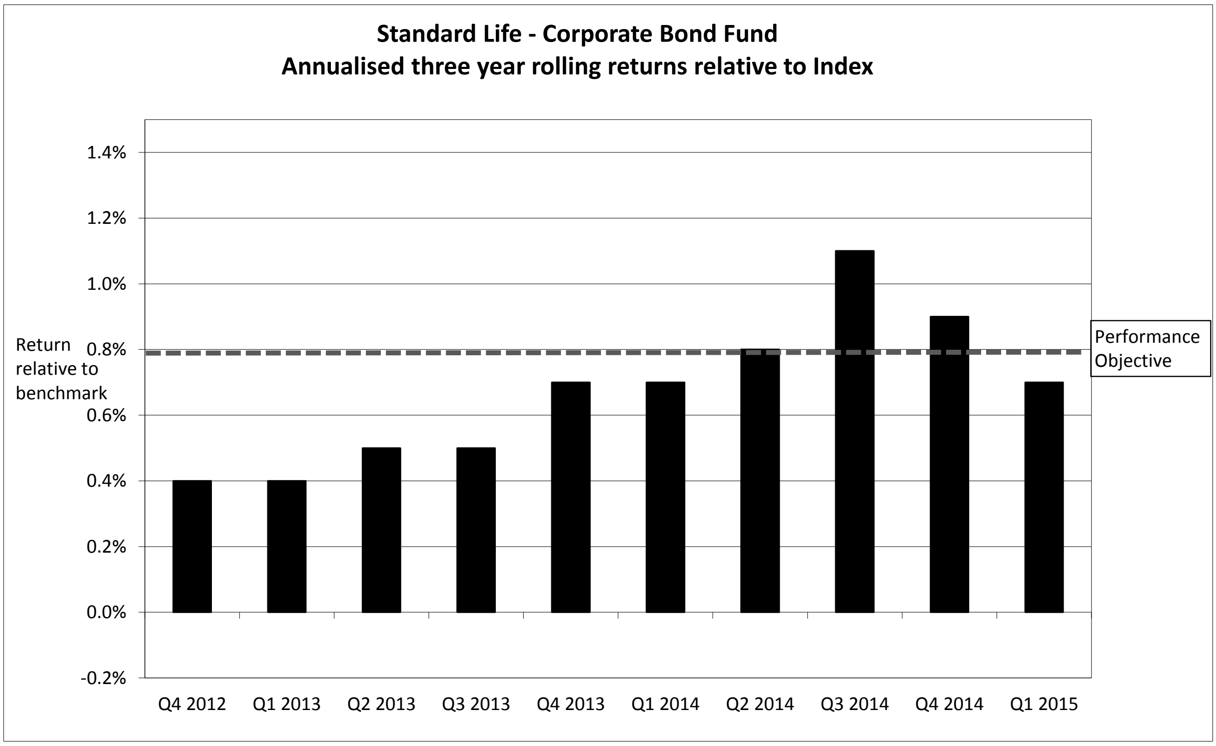
Headline comments: The portfolio was slightly behind the benchmark during the quarter with a return of 3.4% versus 3.3% for the Index. Over three years, Standard Life's outperformance was +0.7% per annum. This is just trailing their performance target of +0.8% per annum.

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

Performance attribution:

Chart 4 shows the performance the Corporate Bond Fund versus its benchmark and performance target.

Chart 4



Source: AllenbridgeEpic based on Standard Life figures

Over three years, the portfolio has returned +9.6% p.a. compared to the benchmark return of +8.8% p.a., an outperformance of +0.7% p.a. The fund is **slightly behind its performance objective of outperforming the benchmark by +0.8% per annum**.

Over the past three years, most of the outperformance has come from successful stock selection (+0.6%), with asset allocation contributing +0.3%.

Portfolio Risk: The largest holding in the portfolio at quarter end was EIB 5.625% 2032 (1.5% of the portfolio). The largest overweight sector position remained Financials (+6.2%). The long-standing underweight position in sovereigns and sub-sovereigns remains (-17.5%); this is now the biggest bet in the portfolio since its inception in Q4 2009.

The fund continues to hold 6.6% of the portfolio in non-investment grade bonds (these do not form part of the benchmark).

Portfolio characteristics: The value of Standard Life's total pooled fund at end March 2015 was £3,837.2 million, £48.8 million higher than at the end of Q4 2014. London Borough of Islington's holding of £221.1 million is 5.8% of the total fund value, a percentage that has been steadily growing over time. When Islington first invested, the percentage holding was 3.4%.

Staff turnover: There were 45 joiners during the quarter, including eight fixed income specialists. There were three leavers, none of whom were from the fixed income division.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: The Fund underperformed the gilt benchmark by 0.9% during the quarter. Over three years, the Fund is ahead of its benchmark by +0.3% per annum but is trailing the performance target of +1.5% per annum outperformance.

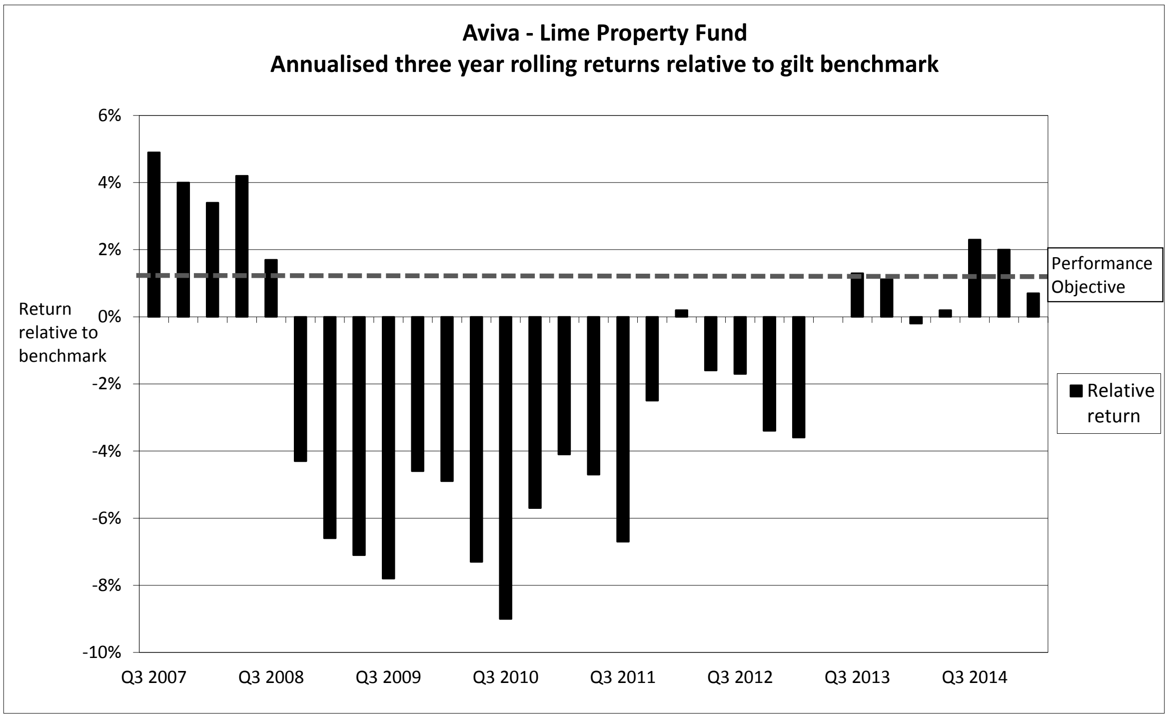
Mandate summary: An actively managed UK pooled property portfolio, the Lime Fund invests in a range of property assets including healthcare, education, libraries, offices and retail. The objective of the fund is to outperform a UK gilt benchmark, constructed of an equally weighted combination of the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

Performance attribution: The fund was behind the gilt benchmark this quarter by -0.9%. The portfolio also trailed the IPD Index in Q1 2015 by -1.0% but in a rising property market this is to be expected with a low risk property portfolio such as the Lime Fund.

Over three years, the performance is more favourable, with the fund returning +7.4% p.a. compared to the gilt benchmark of +7.0% p.a., an outperformance of +0.3% per annum. However, the **portfolio is trailing its performance objective of +1.5% per annum outperformance over three years**. Of the +7.4% fund return over three years, 5.4% came from income, with the balance from capital gain.

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

Chart 5



Source: AllenbridgeEpic based on WM figures

Portfolio risk: The purchase of a portfolio of hotels was completed in Q1, totalling £36 million. Three assets were also under offer (value £270 million). The new holdings continue to ensure that the Fund benefits from RPI-linked rent reviews. The average unexpired lease term is now 20.1 years, with 5.4% of the portfolio's lease exposure in properties in over-35-year leases. The largest sector exposure remains supermarkets at 20.9%. The cash allocation stood at 2.4% as at quarter end.

Portfolio characteristics: As at end March 2015 the Lime Fund was valued at £1.402 billion, an increase of £99.0 million from the previous quarter end. London Borough of Islington's holding represents 3.4% of the total Fund's value.

Staff turnover: Ed Casal has been appointed as Chief Executive of Aviva Global Real Estate. He replaces Ian Womack who retired recently and is an internal appointment. Philip Nell, one of the real estate managers, has also recently resigned from Aviva to join Hermes.

Euan Munro, the CEO of Aviva Investors, has now been with the firm for 18 months. He was recently quoted saying "I would expect to be in a fundamentally different place in three years, in terms of contribution and relevance to the asset management community." Changes at the firm should be monitored in light of this comment, although no doubt the CEO intends these to be changes for the better.

2.6. Columbia Threadneedle - Pooled Property Fund

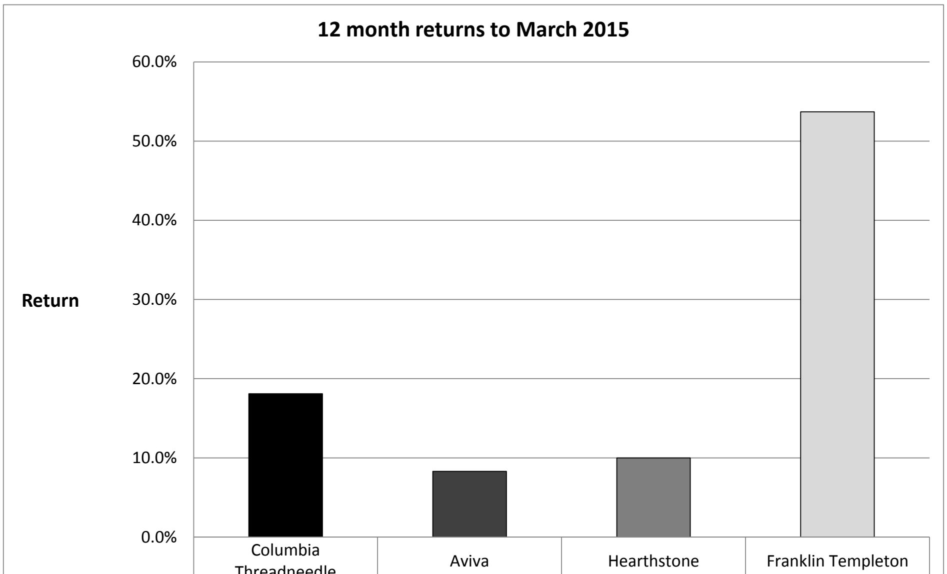
Headline comments: The Fund's performance was slightly behind its benchmark in Q1 2015. However, over three years, the Fund has outperformed by +1.8% per annum. The Fund is ahead of its benchmark and beating the performance target of 1% p.a. above benchmark over three years.

Mandate summary: An actively managed UK commercial property portfolio, the 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. The benchmark changed at the end of Q4 2013. Prior to this, the benchmark was the CAPS pooled property median fund.

Performance attribution: The portfolio was slightly behind the benchmark in Q1 2015, trailing the Index by 0.2%. In terms of the three year performance, **the Fund is ahead of its benchmark by +1.8% per annum and beating the performance target of +1% per annum.** The portfolio returned +10.2% p.a. over three years compared with the benchmark return of +8.2% p.a.

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

Chart 6

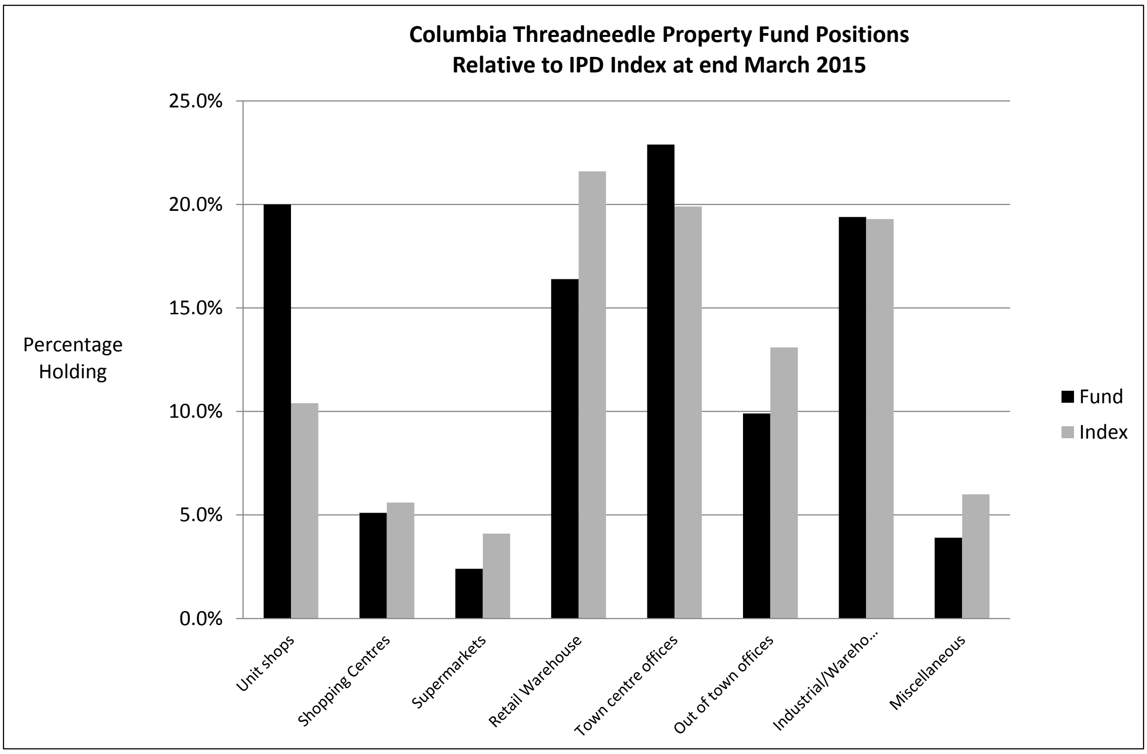


	Columbia Threadneedle	Aviva	Hearthstone	Franklin Templeton
12 mths to Q1 2015	18.1%	8.3%	10.0%	53.7%

Source: AllenbridgeEpic based on WM data

Portfolio Risk: The fund made three opportunistic purchases during the quarter, totalling £34.2 million, and strategically sold three properties totalling £17.4 million. Chart 7 shows the current breakdown of the portfolio relative to its benchmark.

Chart 7



Source: AllenbridgeEpic based on Columbia Threadneedle data.

Portfolio characteristics: As at 31st March 2015, the Threadneedle Property Fund was valued at £1.49 billion, an increase of £40.0 million compared with December 2014. London Borough of Islington's holding represents 4.4% of the Fund.

Staff turnover: there were five leavers and three joiners in Q1 2015. Of these, Tim James was an asset manager in the property team. He will be replaced in Q2 by Simon Davies.

Organisation: following an announcement about the rebranding of its business, Threadneedle became Columbia Threadneedle in Q1 2015. This brings together two affiliated firms both owned by Ameriprise Financial. Together, Columbia and Threadneedle now have £341 billion of assets under management. The UK team has also moved into new offices at Cannon Place.

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 has continued to underperform its market capitalisation-weighted counterpart, and was 2.6% behind in Q1 2015. For the 12 months to Q1 2015 the underperformance was -8.5%.

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

Q1 2015	Fund	Index	Tracking
Europe	10.9%	10.9%	0.0%
Japan	16.4%	16.4%	0.0%
Asia Pacific ex Japan	8.6%	8.6%	0.0%
FTSE emerging markets	7.0%	7.0%	0.0%
RAFI emerging markets	4.4%	4.5%	-0.1%

Source: LGIM

Portfolio Risk: The percentage allocation to each regional fund is based on pre-agreed band widths, which also take into account the global equity managers' allocations. The largest deviation from the benchmark allocation is North America which is 3.0% overweight.

2.8. Franklin Templeton – Global Property Fund

Headline comments: This is a long term investment and as such a longer term assessment of performance is recommended. The year to March 2015 saw continued strength and the Fund's 12 month return was a commendable +53.7% compared to its absolute return benchmark of 10% per annum. This has impacted the three year numbers and the fund is now comfortably beating its benchmark with a return of +15.4% per annum compared with the absolute return benchmark of 10% per annum.

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

Performance attribution: over the past twelve months, **Franklin Templeton is the best performing fund across all four property managers**, by some way, as shown in Chart 6. The fund is now entering its distribution phase and distributed an equivalent 11% of equity commitments in Q1 2015. Very strong 12 month returns have fed through to the three year numbers and the Fund is now comfortably ahead of its target absolute return of 10% per annum, with the three years to March 2015 delivering a return of 15.4% per annum.

Portfolio risk: leverage in the fund stood at 56% as at end March 2015. The most highly levered fund was GreenOak Japan at 74%.

Of the 12 underlying funds in which Franklin Templeton invests, three are on target (10%-15% projected net internal rate of return (IRR)), four are above target (15-25% projected net IRR) and three are substantially above target (more than 25% projected net IRR). Two funds are too early to assess at this stage. The three funds which are substantially above target are: GreenOak Japan, Secured Capital Japan V, and Project Redfish (a Toyko fund managed by Green Oak). Japan is in an early stage of recovery, according to the manager.

Staff turnover: there were no joiners to or leavers from Franklin Real Asset Advisers during Q1 2015.

Organisation: Franklin Templeton Real Asset Advisers managed a total of £3.2 billion in assets as at end March 2015. Of this, £1.2 billion was in publicly traded assets, and £2.0 billion was in private equity real estate (in which London Borough of Islington's investments sit).

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +2.8% compared to the benchmark return of +0.8% for the quarter ending March 2015. Over 12 months the return was +10.0% compared to the benchmark return of +6.0%. This improvement in returns places the fund slightly ahead of benchmark since inception.

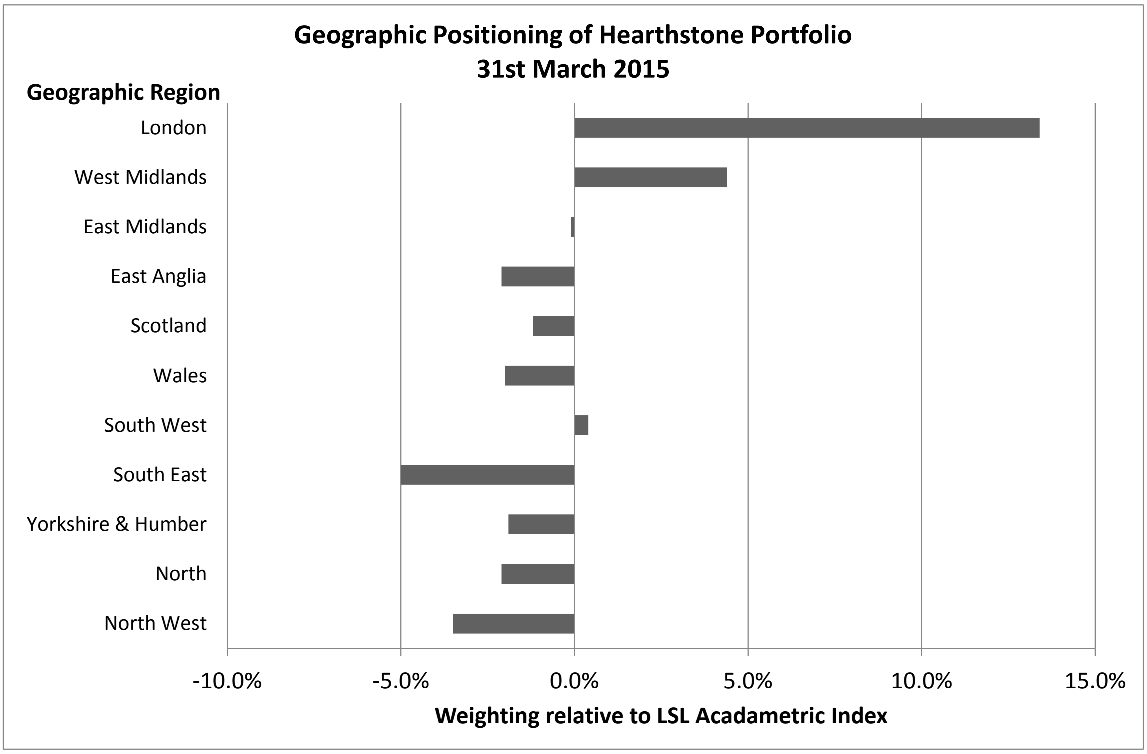
Mandate summary: The Fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return.

Performance attribution: The Fund returned +10.0% compared to the return on the index of +6.0% over the past 12 months. This places Hearthstone third out of four property managers in terms of returns over the past year (see Chart 6), slightly ahead of the Aviva Lime Fund. The yield on the portfolio was 5.1% at the end of March, after adjusting for voids.

Portfolio risk: The portfolio continues to hold a significant overweight position in London, relative to the benchmark. This is a result of the Wembley investment opportunity in which the fund invests. Hearthstone's long term strategy is to maintain broadly neutral regional bets in the portfolio. However, their ability to achieve this is currently being constrained by the manager's ability to attract more investment into the Fund. That having been said, London remains a strong performer in terms of growth.

Portfolio characteristics: Chart 8 shows the regional bets in the portfolio. The biggest overweight region is London (+13.4%). The most underweight region relative to the index was the South East (-5.0%). There was no portfolio activity in Q1 2015.

Chart 8



Source: AllenbridgeEpic based on Hearthstone figures

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

Organisation and staff turnover: Simon Knight, the Managing Director, left the firm at the end of January 2015. He has been offered a role of Chief Executive, elsewhere. Colleen Setchell has joined as an Executive Assistant. The firm now has a staff of eight.

Karen Shackleton
Senior Adviser
AllenbridgeEpic Investment Advisers Limited
27th May 2015

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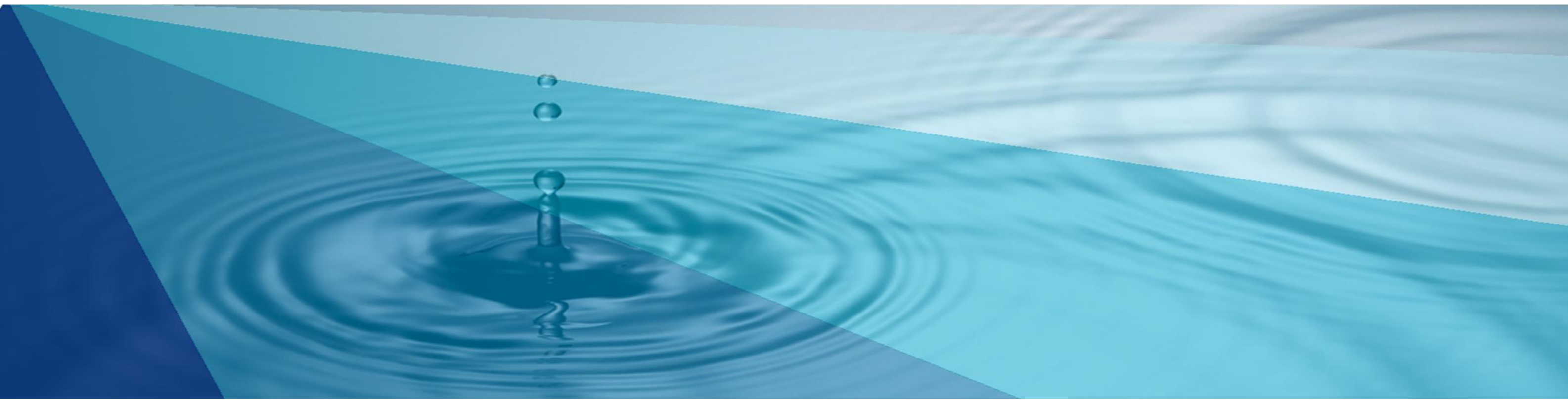

LGPS: CURRENT ISSUES

IN THIS ISSUE

MAY 2015
A BRIEF UPDATE

2015 GENERAL ELECTION

The small majority for the Conservative Party was a major surprise. Whilst clarity on how the new Government will influence the pensions landscape generally and for the LGPS may not be known for some time, we provide a summary of the party's pension/retirement policy manifesto pledges.

- Maintain the triple lock – i.e. the State Pension will increase by the higher of earnings, inflation or 2.5% p.a.
- Bring in the Single Tier pension – replacing the means-tested Pension Credit
- Reduce tax relief on pension contributions for people earning more than £150,000 p.a.
- Allow pensioners to access their savings so that they can make their own decisions about their money
- Maintain all the current pensioner benefits, including Winter Fuel Payments, free bus passes, free prescriptions and TV licences.

Given the likely influence of the Scottish National Party in Parliament, we also include their manifesto pledges:

- Continue the triple lock guarantee
- Support the Single Tier pension

- Review pension tax relief available to wealthiest
- Review planned increase in State Pension Age
- Support auto enrolment and proposals to give pensioners more flexibility, subject to adequate levels of support and advice
- Identify and target unfair, hidden pension charges
- Retain free bus pass, winter fuel allowance and TV licence.

2015 BUDGET - LIFETIME ALLOWANCE, ANNUITY "CASH INS"

On 18 March, the Chancellor delivered his final Budget before the general election. This Budget saw yet another cut in the standard lifetime allowance (LTA) from £1.25m to £1m effective from April 2016 but no change is proposed to the annual allowance.

This is likely to capture a number of additional long serving and/or highly paid individuals at retirement so communication of the change will be important to allow adequate planning. However, we would still expect the overall numbers affected to be small. We wait to see if there will be a further raft of transitional protections for members who have already built up benefits close to or above the new £1m level.

In addition, Mr Osborne announced a policy to permit pensioners who currently hold annuities to sell the future income from those annuities, although HMT accepts that a market for these may not actually emerge.

The 55% tax charge on cashing-in these annuities will be abolished from April 2016: individuals will be taxed at their marginal rate.

There is currently no detail about how the secondary market will operate and HM Treasury has issued a "call for evidence" consultation on creating such a market. The Chancellor has committed to the consultation to ensure that pensioners seeking to "cash-in" their annuity will be given appropriate guidance and advice.

2014 BUDGET AND NEW PENSION FLEXIBILITY

The mists are starting to clear in relation to the swathes of pension reforms announced by George Osborne during his 2014 Budget statement and how these will impact on the costs of running a Defined Benefit pension scheme such as the LGPS.

There is no doubt that some of the reforms will enable LGPS Funds to possibly manage their running costs – such as the increase to Trivial and Small Sums commutation limits which have massively increased the potential for funds to reduce the costs associated with small pensions.

Having performed analyses on a number of LGPS Funds, in some cases potentially in excess of 30% of existing pensioner and dependant members could qualify for a trivial lump sum in lieu of their pension. This is significant for a Fund if take-up was high as it could lead to material running cost savings and reductions in liability and risk. However, any such exercise would need to be carefully managed and communicated taking into account the various requirements and guidance around bulk liability management exercises. This is because they are now subject to the Code of Good Practice from the Incentive Exercise Monitoring Board although this will be reviewed further later this year. However, other areas of the reforms such as accessing flexibilities via DC vehicles will no doubt increase the burden and responsibility of Funds and may potentially lead to an increasing administrative cost.

TPR CONSULTATION: COMPLIANCE AND ENFORCEMENT POLICY FOR PUBLIC SECTOR SCHEMES

TPR has consulted on its proposed approach to compliance and enforcement in relation to public service pension schemes. In broad terms TPR set out how it would identify and assess risk in those schemes and how this will form the basis for its operational activity. TPR also covered its approach to monitoring the schemes through reactive and proactive sources and how a scheme may be investigated by a case team, including the enforcement and other enablement and educative interventions available.

A notable aspect is that the LGPS will now be required to complete a new statutory Scheme Return that will assist TPR in its role. We have responded to this consultation and whilst we are generally supportive, we did make the point that TPR should have regard to the information that is already gathered across the LGPS when finalising its requirements.

TPR CONSULTATION UPDATE: MEMBER GUIDANCE FOR DB TO DC TRANSFERS

TPR has published guidance on “DB to DC transfers and conversions” following the consultation it carried out earlier in the year and also its response to the consultation. There are no major changes in its stance but it has taken the opportunity to clarify ambiguities in the draft guidance and align itself with the final regulations that were published after the consultation began.

The guidance follows on from Government concerns that:

a) members transferring from DB schemes might not fully understand the risks of doing so; and
b) a large increase in older members transferring out of DB schemes could destabilise employer backed DB schemes, or expose the tax payer to additional costs.

The first concern was partly addressed by the requirement (with exceptions), included in the Pension Schemes Act 2015, that members will have to receive (and pay for) ‘appropriate independent advice’ from a regulated financial adviser before taking a transfer value of their ‘safeguarded benefits’ to a ‘flexible benefits’ arrangement (broadly meaning DB to DC), or before changing any subsisting rights to safeguarded benefits into flexible benefits (‘conversion’). Final regulations confirmed that advice will not be required where the initial cash equivalent (i.e. the unreduced transfer value) of the member’s entire safeguarded benefits in the scheme is £30,000 or less. Within a month of receiving a request for a transfer value (or receiving a request for information about transfer values, or how to apply for a transfer value) the Fund must let members know that, for a transfer value to be paid to an arrangement providing flexible benefits, the Fund will need to check that, if the initial cash equivalent value of their safeguarded benefits is more than £30,000, the member has received regulated financial advice. The information should include written confirmation from their adviser that he or she is:

- authorised to provide the advice;
- that the relevant advice has been given (i.e. that the advice is specific to the type of transaction proposed);
- the name of the member and the scheme;
- and the adviser’s firm’s FCA reference number.

The second concern is addressed by the new guidance from the Regulator, which reminds trustees and scheme managers of their statutory powers and the Regulator’s previous guidance on transfers and integrated risk management. In particular that in some situations reducing transfer values may be appropriate.

For funded public service pension schemes, reductions to transfer values must be applied in accordance with the Funded Public Service Pension Schemes (Reduction of Cash Equivalents) Regulations 2015.

TPR’s CODE OF PRACTICE & TOOLKIT

TPR’s final Code of Practice for the governance and administration of public service pension schemes is now live and in-force, after coming into effect on 1 April 2015. The code provides scheme managers and pension board members with a summary of their key governance and administration duties, standards of conduct and practice we expect in relation to those duties, and practical guidance on how they can comply.

In addition to the Code, TPR has created a dedicated Public service schemes section of their website

www.thepensionsregulator.gov.uk/public-service-schemes.aspx with various resources available. This includes a Public Service e-learning Toolkit that can be used to learn about managing public service pension schemes and to increase knowledge and understanding of the key areas of governance and administration that need to be focussed on. We recommend that all individuals involved with the management of the LGPS should complete this learning toolkit.

TRANSFER CLUB UPDATE

Cabinet Office have issued an updated Public Sector Transfer Club Memorandum effective from 1 April 2015. Club transfers seem set to become substantially more complicated than in the past, and the following issues are worthy of particular note:

- Schedule 7 of the Public Service Pensions Act 2013 includes a provision that members may maintain their final salary link on moving between public service pension schemes if the break in service is less than 5 years.

- The Memorandum clarifies that the mechanism for the member to take advantage of this is by taking a Club transfer between the two schemes.

- The Memorandum changes the current single tier arrangement into a two tier "Outer Club" and "Inner Club" arrangement. The Outer Club is essentially a continuation of the existing provisions for transfers of final salary benefits, whereas the Inner Club deals with transfers of career average benefits. It seems to be envisaged that the Inner Club arrangements will apply only to the main public service schemes, although there does not seem to be an outright ban on other schemes becoming part of the Inner Club if they wished.

- For transfers of career average benefits between Club Schemes, the receiving scheme will be required to apply the paying schemes method of in-service revaluation for as long as the member remains active in the receiving scheme.

- Alongside the Memorandum, a separate note has been produced about how the member's benefits should be valued for annual allowance purposes in the year of transfer. In principle, any increase in the value of a member's benefits due to a pay rise on transfer should now count towards a member's annual allowance, and the note sets out how the calculation should be done. In practice, we expect that for the time being this will need a separate manual calculation.

It is worth noting that the Shadow Board has asked the previous Chief Secretary to the Treasury whether the LGPS might be permitted to withdraw from the Club. This was largely on cost grounds, against the background of the effect of the Club on the Government's cost cap provisions, although the argument for withdrawing might be strengthened by some of the above points. For the time being, the Chief Secretary did not wish to allow the LGPS to withdraw from the Club, although he did not rule it out at some point in the future.

GOVERNANCE UPDATE

The final Governance Regulations were laid before Parliament in January and Scheme Managers should now be well underway in getting their Local Pension Boards operational. The implementation stage is, in our opinion, a very important one, as its ultimate success will be driven by those who sit on the Board. Knowledge gaps and training plans will need to be put in place as soon as practicable. Funds should also be reviewing their Governance Compliance Statements in light of the establishment of the LPB to ensure they remain appropriate in light of the changes.

Last month, the Shadow Scheme Advisory Board hosted an event at Local Government House where it gave an update on its work thus far (eg deficit and cost management, communications, scheme reporting, governance including separation etc).

The statutory Board will be established in earnest and it is clear from that event that it is hoped much of the work embarked upon will continue. The new Conservative Government will inevitably shape the future direction of the LGPS.

PENSION FUND POLICY REVIEW

The Regulations include a number of complex provisions where the Fund needs to develop clear policies on their application e.g. recovery of termination debt from outgoing employers. In order to assist with the future management of the Fund, we recommend that all Funds add the task of reviewing and updating all policies (or developing them where absent) to their business plans on an annual basis.

DATA QUALITY & STATE SCHEME CHANGES

As mentioned previously, data quality has long been a focus of TPR and the Code of Practice for public service pensions lead us to conclude that this will apply equally to the LGPS going forward. To re-emphasise, it is now appropriate to develop the requirements for improving data quality as part of the Pensions Administration Strategy. A further critical aspect of this includes the efficiency of employer-fund payroll channels of communication in the context of auto/contractual-enrolment.

All Schemes should now be registering with HMRC's reconciliation service to assist with the reconciliation of scheme GMP membership records in advance of the State Scheme changes and cessation of contracting-out in April 2016. This is a significant exercise for Funds and the level of resource needed to reconcile these records should not be underestimated.

Furthermore the loss of NI rebates to employers will result in a budgetary burden of 2-3% of pay per annum in some cases which is significant given the ongoing strain in finances. All employers who participate in the LGPS should be made aware of this for budgeting purposes. Employees in the LGPS will see an increase in their NI contributions which will erode their take home pay levels. In addition individuals will also see a change in their State Pension entitlements where their State Pension Age falls on or after 6 April 2016. Careful communication of these issues is important and we would be happy to assist Funds and employers as part of the planning for next year's round of LGPS actuarial valuations.

Software providers are assisting in the "data mining" aspects of the reconciliation but resolution of queries often needs to be done on a case by case basis which is very time intensive.

At Mercer we have a dedicated team dealing with this for the schemes we administer and would be happy to assist in-house administration teams with this if required.

DEFICIT MANAGEMENT & KEY PERFORMANCE INDICATORS

As reported in previous *Current Issues*, the Shadow Board's Deficit Management working group commissioned a project to consider best practice on how LGPS deficits can be managed including consideration of how information should be provided on a consistent basis for benchmarking purposes across Funds. All actuarial firms advising LGPS have input into the process and whilst some reservations have been raised the high level objectives are sensible in terms of providing further transparency. On 29 January the Board issued its workplan for 2015 building on some of the initial themes and this was covered at the event held in April.

The key outputs from the exercise are expected to be a development of:

- a consistent set of parameters to measure funding positions
- certain risk metrics around deficit funding plans, investment risk and governance risk
- guidance on managing employer risk and enhancing security

- guidance on setting contribution plans (potentially including minimum employer contribution rates).

Ultimately there could be some level of interventions on Funds perceived as “high risk” in terms of good financial management and governance. This makes the development of sensible metrics crucial to the operation of the LGPS. The Shadow Board has already done significant work on this.

In light of this, the Shadow Board has sought a number of LGPS funds to voluntarily self-assess against a suite of 18 LGPS pension fund key performance indicators (KPIs). We have assisted some of the selected funds in responding to this pilot exercise, and we are awaiting further details of how the new statutory Board will take this forward.

Whilst we welcome some of the developments in this area, some of the areas are already well developed in terms of policies and approaches for LGPS Funds. Care needs to be taken that all aspects of good risk management are reasonably recognised and the outcomes are not simply focussed on just the measurement of deficits/league tables.

It is important that Administering Authorities focus on the management of risk by developing a robust long-term plan with clear objectives to manage risk and reduce deficits in a sensible way and not focus simply on league tables.

As the pension fund contributions become a bigger proportion of decreasing Local Authority budgets, alignment of investment and funding strategies becomes even more crucial. Having the Governance “plumbing” in place to manage risk dynamically and efficiently at a whole Fund and/or employer level, when a favourable market position allows it, needs to become a major priority for Funds in the run up to the next valuation. There are a number of ways of approaching this with the best approach being very dependent on the individual Fund in question. We will continue to develop these ideas and solutions (such as our online funding monitoring and asset tracking tool *FSM^pro^*) and discuss them with our clients.

COST MANAGEMENT

The regulations covering the Government's Cost Management approach have now been enacted. These develop a backstop protection to the taxpayer to ensure that some of the risks associated with pension provision are shared more fairly between employers and scheme members with a view to assisting with the sustainability of the scheme and fairness to taxpayers. The two widely reported cost management mechanisms that have been designed are:

1. Treasury employer cost cap process – monitors the value of benefits in the new Scheme over time, based on “model fund” data and Treasury Directions. The Regulations confirm the cost control provisions showing the employer cost notional “cap” set at 14.6% of pay under the HMT process.

2. Internal cost management process – sets an overall future service target cost of 19.5% of pay, with scheme members meeting a third of this cost (so initially the employer element is 13% of pay and the employee element is 6.5% of pay. These can change however due to the 2/3rd and 1/3rd split).

If the HMT and Scheme Advisory Board processes both require corrective action, then the wording of the Regulations appears to require that the Treasury process is the one which will apply. There is no facility for the Treasury process to be “turned off” in such circumstances, however in our view it would be preferable for the Scheme Advisory Board process to apply instead.

AVC ARRANGEMENTS

The Regulator has made clear that it expects private sector occupational pension schemes to have the same governance and oversight for their

AVC arrangements as it expects for defined contribution arrangements (and as set out in its Code of Practice 13 "Governance and administration of occupational defined contribution trust-based schemes").

Whilst not an explicit requirement as yet, it is likely that the Regulator is going to expect public sector schemes to adopt the same standards for associated AVC arrangements.

Additionally, in its Code of Practice for the governance and administration of public service pension schemes the Regulator does make clear that "Where DC or DC AVC options are offered, pension board members should also be familiar with the requirements for the payment of member contributions to the providers, the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements."

The Regulator set out in its Guidance supporting the DC Code a series of quality features it believes a DC scheme should exhibit and suggests an assessment against these features is used to identify any areas where action is needed to bring an arrangement up to the preferred level. Public sector AVC arrangements, such as those in place under the LGPS, should also therefore consider assessing their AVC arrangements against these – indeed, this is our recommended approach at this time. Your usual Mercer consultant can help you with implementing an assessment and identifying any actions needed as a result.

Of course part of the assessment relates to ensuring 'value for money' and suitability for all scheme members and so it is important that as a minimum Funds continue to assess the fund range, security and performance of their AVC arrangements on a regular basis.

COUNCILLORS' PENSIONS

As reported in previous issues, we have seen a number of Councils considering alternative benefit provision for their Councillors in lieu of LGPS membership given their exclusion last year.

Whether this changes under the next Government remains to be seen, although we expect this to be unlikely unless a Labour-led government. Nevertheless, in the lead up to the election, we are aware of a number of Local Authorities considering DC alternatives for their elected members.

We have experience of setting up sector-wide pension schemes and are looking at ways that the DC market can facilitate cost effective pension benefit provision for Councillors. If this is an area your authority is interested in exploring, once the election outcome is known, please do contact your usual Mercer consultant.

SINGLE FRAUD INVESTIGATION SERVICE BULK TRANSFERS

The bulk transfer of SFIS staff has been progressing and is now at the data collection stage. This is going to involve the transfer of a few hundred staff across England & Wales to the PCSPS, but it is only going to be a handful of people per employer/fund. There have been some discussions between GAD and the actuarial firms about agreeing a common transfer approach.

The GAD have responded to the actuarial firms' proposal and have suggested that a "Share of Fund" approach be used, rather than an adjusted CETV as previously proposed to them, but GAD have some further work to do on the proposal, and will respond via the ACA Local Authority sub-Committee. Once we have a clear direction we will be in touch to confirm next steps.

NEW FAIR DEAL WORKING GROUP

DCLG have formed a working group, made up of the LGA, Trade Unions and practitioners, to consider how the principles of new Fair Deal might apply for the LGPS – in the spirit as it applies to the other public sector schemes.

Until this has been formalised, broad comparability options remain a possibility but it should be borne in mind for current negotiations that this could be removed at short notice. For some Funds we are seeing an increase in these as LAs transition from providers to commissioners of services. Funds may wish to consider holding training sessions for commercial contract managers at the LAs, in order to ensure the outsourcing processes run smoothly.

SOFTWARE/SYSTEMS UPDATE

We are working with the other actuarial firms (including the GAD) and Heywood, via the CLASS group, to update and develop standard valuation extracts and reporting templates. When available, these will increase efficiency in accessing data for performing actuarial calculations and "model fund" extracts.

Consideration is also being given to valuation extracts for non-Heywood clients. With regard to Early Retirement Strain Costs the other actuarial firms have now agreed with us to maintain the current methodology but to ensure the facility to adopt Fund specific factors is made available. We understand that a bulletin has been issued by Heywood in this context, but if you do have any questions or issues, please do contact your usual Mercer consultant.

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BNY MELLON ENTERS INTO SETTLEMENT AGREEMENT WITH THE U.K. FINANCIAL CONDUCT AUTHORITY

LONDON, April 15, 2015 – BNY Mellon (NYSE: BK) today issued the following statement regarding the findings of a U.K. Financial Conduct Authority (“FCA”) investigation into compliance with relevant FCA Principles and U.K. Client Asset Sourcebook (“CASS”) rules during the period from November 2007 to August 2013:

“BNY Mellon has worked cooperatively with the FCA to address issues related to our CASS compliance. As part of its resolution with the FCA, BNY Mellon has agreed to pay a penalty of £126 million, including a discount which the FCA applied in recognition of the Company’s cooperative efforts to resolve the matter at an early stage. This amount is fully covered by pre-existing legal reserves. Importantly, BNY Mellon remained financially robust throughout the relevant period and, as indicated by the FCA in its Final Notice, no clients suffered any loss as a result of the issues identified.

“Consistent with our commitment to being a strong and trusted partner to our clients, BNY Mellon launched a broad internal review with the assistance of an independent, third-party accounting firm and external legal advisers immediately upon learning of these issues. As a result, we have engaged in a remediation process and have taken clear steps to put in place a framework of new and improved policies and operational procedures as well as enhance our specialist resources across many functions to reinforce our compliance with CASS rules.

“BNY Mellon is very mindful of the importance of safeguarding client assets and has been trusted by its clients to do so for 230 years. This trust could not have been earned without robust regulatory compliance in all of our operating jurisdictions, and we regret in this case that we did not meet our standards or those of the FCA. As always, regulatory compliance remains a key area of focus as we maintain our track record of safety and soundness as a financial institution.”

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FCA fines The Bank of New York Mellon London branch and The Bank of New York Mellon International Limited £126 million for failure to comply with the Custody Rules

The Financial Conduct Authority (FCA) has today fined The Bank of New York Mellon London Branch (BNYMLB) and The Bank of New York Mellon International Limited (BNYMIL) (together 'the Firms') £126 million for failing to comply with the FCA Client Assets Sourcebook (Custody Rules, or CASS), which applies to safe custody assets and to client money. The Custody Rules are there to protect safe custody assets if a firm becomes insolvent and to ensure those assets can be returned to clients as quickly and easily as possible. Each regulated firm is required to ensure they have adequate systems, controls and records to facilitate this.

Georgina Philippou, acting director of enforcement and market oversight at the FCA said:

"Our Custody Rules are in place to ensure that clients are protected in the event of insolvency. The Firms' failure to comply with our rules including their failure to adequately record, reconcile and protect safe custody assets was particularly serious given the systemically important nature of the Firms and the fact that safeguarding assets is core to their business. Had the Firms become insolvent, the total value of safe custody assets at risk would have been significant. This is compounded by the fact that the breaches took place at a time when there was considerable stress in the market.

"The size of the fine today reflects the value of safe custody assets held by the Firms as well as the seriousness of the failings and the fact that these failings were not identified by the Firms' own compliance monitoring. Other firms with responsibility for client assets should take this as a further warning that there is no excuse for failing to safeguard client assets and to ensure their own processes comply with our rules.

"Client assets protection continues to be a priority for the FCA and firms who hold client assets should review their processes in line with these findings to ensure full compliance with the Custody Rules."

The Bank of New York Mellon Group (the BNY Mellon Group), of which the Firms are a part, is the world's largest global custody bank by safe custody assets. BNYMLB and BNYMIL are the third and eighth largest custody banks in the UK respectively and provide custody services jointly to 6,089 UK-based clients. During the period of their breaches, the safe custody asset balances held by BNYMLB and BNYMIL peaked at approximately £1.3 trillion and £236 billion respectively. As a result of this, the Firms are systemically important to the UK market.

The Custody Rules require firms to keep entity-specific records and accounts. Entity-specific records and accounts are important in the event of an insolvency as they will be used by an Insolvency Practitioner to identify those clients whose assets are safeguarded and are due to be returned. Instead, the Firms used global platforms to manage clients' safe custody assets, which did not record with which BNY Mellon Group entity clients had contracted. This failing meant that the Firms were unable to meet their other obligations under the Custody Rules, such as the requirements to:

- conduct entity-specific external reconciliations;
- maintain an adequate CASS resolution pack (from 1 October 2012 when the requirement to do so came into force); and
- submit accurate Client Money and Asset Returns (CMAR) (from October 2011 when the requirement to do so came into force).

The FCA also found a number of other failings by the Firms including:

- failing to take the necessary steps to prevent the commingling of safe custody assets with firm assets from 13 proprietary accounts;
- on occasion using safe custody assets held in omnibus accounts to settle other clients' transactions without the express prior consent of all clients whose assets were held in those accounts; and
- failing to implement CASS-specific governance arrangements that were sufficient given the nature of the Firms' business and their failure to identify and remedy the failings identified.

These failings reflected a failure by the Firms to consider properly the interests of their clients. The Firms' failings occurred between 1 November 2007 and 12 August 2013. The FCA's specialist client assets supervisors identified most of the failings as part of their regular review of such firms. The Firms agreed to settle at an early stage of the FCA's investigation and therefore qualified for a 30% (stage 1) discount. Were it not for this discount, the financial penalty would have been £180 million.

Notes to editors

1. The final notice for **The Bank of New York Mellon London Branch / The Bank of New York Mellon (International) Ltd**.
2. Following the insolvency of Lehman Brothers in 2008, the FCA's predecessor, the Financial Services Authority (FSA), wrote to compliance officers in March 2009 and chief executives in January 2010 highlighting concerns about the management of client assets. Chief executives were asked to confirm that their firms fully complied with the Rules.
3. The FSA established a specialist Client Asset Unit in 2010. The Unit carries out specialist and intensive supervision of client assets, with the aim of ensuring that firms have robust systems in place to ensure the swift return of client assets in the event of firm insolvency.
4. The FCA continues to focus on the protection of client assets and, following consultation in 2013, published substantial amendments to the Custody Rules in June 2014. The changes aim to improve firms' systems and controls around segregation, record keeping and reconciliations and set out how investment firms must address client assets risks within their business.
5. The FCA has an overarching strategic objective of ensuring the relevant markets function well. To support this it has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers.
6. Find out **more information about the FCA**.

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

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

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	11 June 2015		n/a

Delete as appropriate		Non-exempt

SUBJECT: PENSIONS SUB-COMMITTEE 2015/16– 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 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.

3.2 The Forward Plan will be updated as necessary at each meeting, to accord with Members' wishes.

4. Implications

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

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

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

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

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APPENDIX A

Pensions Sub-Committee Forward Plan for June 2015– April 2016

Date of meeting	Reports
	Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update(include CIV update) • Administration report- quarterly KPI
14 September 2015	Strategy implementation update 5 year Business plan update Engagement
19 October 2015	AGM
16 November 2015	Hearthstone presentation Emerging market/Frontier procurement update
11 April 2016	Property Managers presentation Actuarial valuation timetable

Proposed 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- 3.30pm	Social bonds

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