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ISLINGTON

Resources Department
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 1, Islington Town Hall, Upper Street, N1 2UD, on **3 December 2019 at 7.30 pm.**

Enquiries to	:	Mary Green
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Despatched	:	25 November 2019

Membership 2019/20	Substitute Members
Councillor Paul Convery (Chair)	Councillor Dave Poyser
Councillor Andy Hull (Vice-Chair)	Councillor Mouna Hamitouche MBE
Councillor Sue Lukes	Councillor Roulin Khondoker
Councillor Michael O'Sullivan	

Quorum is 2 members of the Sub-Committee

A. Formal Matters

1. Apologies for absence

2. Declaration of substitutes

3. Declaration of interests

If you have a Disclosable Pecuniary Interest* in an item of business:

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

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

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

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

This applies to **all** members present at the meeting.

4. Minutes of the previous meeting 1 - 4

B. Non-exempt items

1.	Pension Fund performance from 1 July to 30 September 2019	5 - 38
2.	Presentation from Legal and General - monitoring current position of equity protection strategy	-
3.	Equity protection strategy - review	39 - 42
4.	Decarbonisation Policy monitoring - climate scenario analysis	43 - 48
5.	Setting objectives for providers of investment consultancy services	49 - 54
6.	2019 Actuarial valuation - Draft Funding Strategy Statement for consultation (for information)	55 - 60
7.	London CIV update	61 - 66
8.	Pension Fund Forward Plan 2019/20	67 - 70
9.	Pension administration performance - amendment to regulations (N.B. - This report is also to be considered by the Pensions Board. Assuming the proposals in the report are agreed, the Pensions Sub-Committee is to be asked to approve the necessary changes to the regulations)	71 - 76
10.	Investment Strategy update- Hearthstone (to follow)	

C. Urgent non-exempt items

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

D. Exclusion of press and public

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

E. Confidential/exempt items

1.	London CIV update - exempt appendices	77 - 82

2.	Decarbonisation Policy monitoring - climate scenario analysis - exempt appendix	83 - 108
3.	Equity protection strategy - review - exempt appendix	109 - 138

F. Urgent exempt items

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

The next meeting of the Pensions Sub Committee is scheduled for 24 March 2020

London Borough of Islington

Pensions Sub Committee - 10 September 2019

Non-confidential minutes of the meeting of the Pensions Sub Committee held at Islington Town Hall, Upper Street, N1 2UD, on 10 September 2019 at 7.30 pm.

Present:	**Councillors:**	Paul Convery (Chair), Andy Hull (Vice-Chair) and Michael O'Sullivan
Also Present:		Alan Begg (Independent member, Pensions Board), Valerie Easmon-George (Pensions Board)

Councillor Paul Convery in the Chair

82 **APOLOGIES FOR ABSENCE (Item A1)**
Received from Councillor Sue Lukes.

83 **DECLARATION OF SUBSTITUTES (Item A2)**
None.

84 **DECLARATION OF INTERESTS (Item A3)**
None.

85 **MINUTES OF THE PREVIOUS MEETING (Item A4)**

RESOLVED:
That, subject to an amendment to minute 73, by the deletion of resolution (d), the minutes of the meeting held on 17 June 2019 be confirmed as an accurate record of the proceedings and the Chair be authorised to sign them.

86 **PENSION FUND PERFORMANCE (Item B1)**
The Head of Pension Fund and Treasury Management amended her report on submission by the deletion of the prefix "ex" from the left hand column of the table in paragraph 3.3.

RESOLVED:
(a) That the performance of the Fund from 1 April to 30 June 2019, as set out in the BNY Mellon interactive performance report, and detailed in the report of the Interim Corporate Director of Resources, be noted.
(b) That the report of MJ Hudson Allenbridge Advisers on fund managers' quarterly performance, detailed in Appendix 1 to the report and their presentation, be noted.
(c) That the "LGPS Current Issues" for August 2019, set out in Appendix 2 to the report, be noted.
(d) That officers report to the next meeting with proposals for the Hearthstone Fund

87 **PRESENTATION FROM QUINBROOK INFRASTRUCTURE LOW CARBON (Item B2)**

N.B - The content of the presentation was confidential and therefore only non-confidential aspects are recorded below.

Representatives from Quinbrook Infrastructure Partners gave a presentation on the Quinbrook Low Carbon Power Fund financial model and underlying assumptions.

The Fund targeted investments in renewable energy generation, energy storage and gas peaking. The Fund was projected to be fully committed in 2020. As at September 2019, the Fund had circa 600mw of operational onshore wind, 26mw operational solar and 51mw gas peaking. First cash distribution was anticipated in 2020. Investments were across five platforms in the US, Australia and the UK only.

RESOLVED:
That the presentation be noted.

88 **MULTI-ASSET CREDIT AND PRIVATE DEBT BRIEFING - TRAINING PRESENTATION BY MERCER - PLEASE SEE AGENDA ITEM E3 AVAILABLE TO MEMBERS OF THE SUB-COMMITTEE ONLY. (Item B3)**

N.B - The content of the presentation was confidential and therefore only non-confidential aspects are recorded below.

The Sub-Committee received a presentation from Mercer on possible portfolios to support the Fund's funding and investment objectives, including asset classes for Multi-Asset Credit and Private Debt.

89 **LISTED EQUITY PORTFOLIO - UPDATE ON TRANSITION OF ASSETS FROM LCIV ALLIANZ TO LCIV RBC SUSTAINABLE FUND (Item B4)**

RESOLVED:
(a) That the transition process of the units owned from LCIV Allianz to LCIV RBC and the progress on the issue of withholding tax accrued to the Islington Fund, as detailed in the report of the Interim Corporate Director of Resources, be noted.
(b) That the withholding tax accrued final position and estimated receipt period, also as detailed in the report, be noted.
(c) That the Interim Corporate Director of Resources, in consultation with the Director of Law and Governance, be authorised to negotiate and agree with the LCIV fair recourse in dealing with the withholding tax accrued.

90 ACTUARIAL VALUATION TIMELINE 2019 (Item B5)

RESOLVED:
That the Actuarial review timetable of the events and processes before 31 March 2020, detailed in paragraph 3.1.2 of the report of the Interim Corporate Director of Resources, be noted.

91 ANNUAL REVIEW AND PROGRESS ON THE 2017-2021 PENSION BUSINESS PLAN (Item B6)

Members considered that more engagement with companies was needed. To this end, officers were asked to liaise with ShareAction to find out about opportunities for engagement by councillors.

RESOLVED:
That the business plan objectives for the next four years, detailed in paragraph 3.4 of the report of the Interim Corporate Director of Resources, be approved.

92 THE PENSION REGULATOR'S DRAFT GUIDES TO TRUSTEES ON SETTING OBJECTIVES FOR PROVIDERS OF INVESTMENT CONSULTANCY (Item B7)

Members suggested that it would be helpful to have a clear picture on key matters for them to consider when setting objectives for their various advisers. They also thought it would be useful to hear from the Sub-Committee's current advisers.

RESOLVED:
(a) That, in order to define the objectives members wish to set for investment consultants, consideration of this item be deferred to the next meeting.
(b) That the Sub-Committee's current advisers be invited to submit their observations to the Sub-Committee.

93 LONDON CIV UPDATE (Item B8)

Members of the Sub-Committee suggested that there should be more discussion with LCIV on this matter and asked officers to discuss with the LCIV the views of the Sub-Committee that the LGPS should not be part of the remuneration package to higher salary earners.

RESOLVED:
(a) That the letter from the LCIV on the remuneration policy review, attached as exempt appendix E2, be noted.
(b) That the progress and news to August 2019 in the news briefing "Collective Voice", also attached as exempt appendix E2, be noted.

94 FORWARD PLAN 2019/21 (Item B9)

RESOLVED:
That the Appendix to the report of the Interim Corporate Director of Resources, detailing agenda items and training topics for forthcoming meetings, be approved.

95 **LISTED EQUITY PORTFOLIO - UPDATE ON TRANSITION OF ASSETS FROM LCIV ALLIANZ TO LCIV RBC SUSTAINABLE FUND - EXEMPT APPENDIX (Item E1)**

RESOLVED:
That the contents of the exempt appendix be noted.

96 **THE LONDON CIV UPDATE - EXEMPT APPENDIX (Item E2)**

RESOLVED:
That the contents of the exempt appendix be noted.

97 **MULTI-ASSET CREDIT AND PRIVATE DEBT BRIEFING - TRAINING PRESENTATION BY MERCER - EXEMPT APPENDIX (Item E3)**

RESOLVED:
That the contents of the exempt appendix be noted.

The meeting ended at 9.05 pm

CHAIR

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7
7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	3rd December 2019		

Delete as appropriate	~~Exempt~~	Non-exempt

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Subject: PENSION FUND PERFORMANCE 1 JULY TO 30 SEPTEMBER 2019

1.	**Synopsis**
1.1	This is a quarterly report to the Pensions Sub-Committee to allow the Council as administering authority for the Fund to review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.
2.	**Recommendations**
2.1	To note the performance of the Fund from 1 July to 30 September 2019 as per BNY Mellon interactive performance report
2.2	To receive the presentation by MJ Hudsons Allenbridge, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.
3.	**Fund Managers Performance for 1 July to September 2019**
3.1	The fund managers' latest quarter net performance figures compared to the benchmark and Mercer ESG ratings is shown in the table below. Mercer's ESG ratings provide an assessment of the integration of ESG issues into the investment process and provides an overall rating – ESG 1 is the highest possible rating and ESG 4 is the

	lowest possible rating. As such, Mercer has provided the latest ESG ratings for the Fund's 9 strategies across equities, fixed income, DGFs, property and private equity.

Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (July-Sept'19) Gross of fees		12 Months to Sept' 2019-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Bench Mark
LBI-In House	12%	UK equities	N	1.7%	1.27%	3.77%	2.68%
London CIV Allianz	8.8%	Global equities	2	-0.9%	3.96%	5.48%	8.4%
LCIV -Newton	16.7%	Global equities	2	3.4%	3.4%	8.05%	7.8%
Legal & General	12.2%	Global equities	1	3.0%	3.0%	8.4%	8.2%
Standard Life	11.6%	Corporate bonds	2	3.7%	3.6%	10.2%	10.1%
Aviva (1)	8.4%	UK property	3	1.4%	7.2% 0.64%	6.1%	16.4% 2.8%
Columbia Threadneedle Investments (TPEN)	6.2%	UK commercial property	2	0.35%	0.59	3.2%	3.4%
Hearthstone	2%	UK residential property	4	0.48%	0.64%	1.89%	2.8%
Schroders	8.1%	Diversified Growth Fund	4	1.36%	1.7%	2.4%	7.4%
BMO Investments-LGM	5.4%	Emerging/ Frontier equities	2	-1.59%	-0.96%	5.8%	4.09%

7.2% & 16.4% = original Gilts benchmark; 0.64% and 2.8% are the IPD All property index; for information

3.2	BNY Mellon our new performance monitoring service provider now provides our quarterly interactive performance report. Performance attributions can be generated via their portal if required.
3.3	The combined fund performance and benchmark for the last quarter ending September 2019 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to September 2019 Performance Gross of fees	
Combined Fund Performance hedge	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	1.91	2.95	6.5	7.56

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

3.5 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years' period to June 2019 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	6.5%	7.51%	8.01%
Customised benchmark	7.56%	7.13%	7.80%

3.6 **AllianzGI (RCM)**

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

3.6.2 On 2 December, the portfolio was transferred to the London CIV platform to Allianz sub fund as agreed by Members at the November 2015 meeting. The new benchmark is to outperform the MSCI World Index. The outperformance target is MSCI World +2% per annum over 2 years' net of fees. Following Members agreement at the last committee meeting in June, the transition of assets to LCIV RBC Sustainability Fund was completed on 5th August

3.6.3 Due the transition in mid quarter, performance figures for the quarter are not available. Since inception January 2009 the original inception date to July, relative under performance is -0.14% per annum and absolute performance of 12.67%. The value at the end of July £129m

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. There have been amendments to the mandate the latest being a transfer to the London CIV platform.

3.7.2 The inception date for the LCIV NW Global Equity Fund was 22 May 2017. The new benchmark is the MSCI All Country World Index Total return. The outperformance target is MSCI All Country Index +1.5% per annum net of fees over rolling three- year periods.

3.7.3 The fund returned 3.3% net of fees against a benchmark of 3.3% for the September quarter. Since inception the fund has delivered an absolute return of 12.4% but relative under performance of -0.18% gross of fees per annum

3.7.4	The flat performance this quarter was driven mainly by overweight sector positions in consumer staples and underweight to materials.
3.8 3.8.1 3.8.2	**In House Tracker** 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. After a review of the fund's equities, carbon footprint Members agreed to track the FTSE UK All Share Carbon Optimised Index and this became effective in September 2017. The fund returned 1.72% against FTSE All Share Index benchmark of 1.27% for the September quarter and a relative over performance of 0.30% since inception in 1992. The portfolio is now mirroring the low carbon index.
3.9 3.9.1 3.9.2 3.9.3	**Standard Life** Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the September quarter, the fund returned 3.7% against a benchmark of 3.7 % and an absolute return of 7.07% per annum since inception. The drivers behind the out performance in this quarter being underweight supranational issuers and overweight in subordinated bank debt. Stock selection made a small positive contribution. The agreed infrastructure mandates are being funded from this portfolio and to date 5% has been drawn down.
3.10 3.10.1 3.10.2 3.10.3 3.10.4	**Aviva** 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. The fund for this quarter delivered a return of 1.4% against a gilt benchmark of 7.18%. The All Property IPD benchmark returned 0.6% for this quarter. Since inception, the fund has delivered an absolute return of 6.8% net of fees. This September quarter the fund's unexpired average lease term is now 19.6years. The Fund holds 87 assets with 52 tenants. One acquisition of a £150m of an aparthotel and let to a Local authority was completed during the quarter. The fund has £37m of uncommitted investible capital.

3.11 3.11.1 3.11.2	**Columbia Threadneedle Property Pension Limited (TPEN)** 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 September was £89million. The agreed mandate guidelines are as listed below: • Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since I April 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 3.11.4	The fund returned a relative under performance of 0.3% against its benchmark 0.4% for the September quarter and a 1.04% relative return since inception. The cash balance now stands at 8% compared to 7.6% last quarter. During the quarter, there were 3 disposals. There is a strong asset diversification at portfolio level with a total of 275 properties. The medium to long term prospects of commercial property post referendum are likely to be a catalyst for moderate capital value declines but the fund is cushioned by its high relative income return and maximum diversification at both portfolio and client level.
3.12 3.12.1	**Passive Hedge** The fund currently targets to hedge 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is run by BNY Mellon our custodian. At the end of the September quarter, the hedged overseas equities were valued at £6.8m. The strategy is under review by officers and options will be reported to members at a future meeting.
3.13 3.13.1	**Franklin Templeton** This is the fund's global property manager appointed in 2010 with an initial investment commitment of £25million. Members agreed in September 2014 to re-commit another $40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. The agreed mandate guidelines are listed below: • Benchmark: Absolute return • Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point. • Bulk of capital expected to be invested between 2 – 4 years following fund close.

	• Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.
3.13.2	Fund I is now fully committed and drawn down, though $7.1m can be recalled in the future as per business plans. The final portfolio is comprised of nine funds and five co-investments. The funds is well diversified as shown in table below:

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

The total distribution received to the end of the September quarter is $58.4m.

3.13.3	Fund II is fully invested and the completed portfolio of 10 holdings consist of a diverse mix of property sectors including office, retail and industrial uses and the invested geographic exposure is 6% Asia, US 26% and 68% Europe. The Admission period to accept new commitments from investors has been extended with our consent through to June 2017. The total capital call to the quarter end was $35.7m and a distribution of $9.4m. There was no calls or distributions during the quarter
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 were managed passively against regional indices to formulate a total FTSE All World Index series. Member agreed restructuring in 2016, that is now complete and the funding of BMO (our emerging market manager and restructuring of the fund to the MSCI World Low Carbon was completed on 3rd July 2017.
3.14.2	The components of the new mandate as at the end of June inception was £138m benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets. For the September quarter, the fund totalled £178m with a performance of 3.0%.
3.15	**Hearthstone**
3.15.1	This is the fund's residential UK property manager. The fund inception date was 23 April 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.

3.15.2	• 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 For the September quarter the value of the fund investment was £28.8m and total funds under management is £60.5m. Performance net of fees was 0.48% compared to the LSL benchmark of -0.12%. The portfolio has 197 properties 1 less than the June quarter. Average annual occupancy 95.4%. Officers continue to monitor the fund on a quarterly basis.

A 3.16
3.16.1
	Schroders-
	This is the Fund's diversified growth fund manager. The fund inception date was 1 July 2015, with an initial investment of £100million funded by withdrawals from our equities portfolios**.** The agreed mandate guidelines are as follows:
	• Target performance: UK RPI+ 5.0% p.a.,
	• Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).
	• Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.
	• The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.
	• **Permissible asset class ranges (%):**
	  • 25-75: Equity
	  • 0- 30: Absolute Return
	  • 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash
	  • 0-20: Commodities, Convertible Bonds
	  • 0- 10: Property, Infrastructure
	  • 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.

3.16.2 3.16.3	This is the 17th quarter since funding and the value of the portfolio is now £117.2m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The September quarter performance before fees was 1.36% against the benchmark of 1.7% (inflation+5%). The one -year performance is 2.4% against benchmark of 7.4% before fees. Positions in government bonds and currency strategies were the largest contributors to performance. Return seeking credit assets also delivered positive returns. Global equities added value, partly offsetting some regional equity losses**.**

3.17	**BMO Global Assets Mgt**
	This is the new emerging and frontier equity manager seeded in July 2017 with a total £74.4m withdrawn from LGIM. The mandate details as follows:
	  • A blended portfolio with 85% invested in emerging market and 15% in frontier markets
	  • Target performance MSCI Emerging Markets Index +3.0% (for the global emerging markets strategy)
	  • Expected target tracking error 4-8% p.a

	• The strategy is likely to have a persistent bias towards profitability, and invests in high quality companies that pay dividend
3.17.1 3.17.2	The September quarter saw a combined performance of -4.7% against a benchmark of -3.7% before fees. Security selection in India,China and Mexico added most value while positions in Malaysia, Indonesia and South Africa detracted from relative returns versus the index. On the frontier portfolio most of the negative performance was from 2 holdings in Argentina. The strategy remains to continue to research new companies that we suspect might be worthy of your hard earned capital and continue to have a close communication with our existing investments to push them to higher business and governance standards which we believe will ultimately enhance your long term return. There was an announcement that the Key man risk as per our portfolio review is changing roles from 1 January 2020. In light of this officers and our advisors will arrange a meeting to review the new personnel responsibilities and seek assurances the investment strategy and process will remain the same. Feedback will be shared at the March meeting.
3.18	**Quinbrook Infrastructure** This one of the infrastructure managers appointed in November 2018. The total fund allocation infrastructure was 10% circa £130m. 40% of the allocation equivalent to $67m was allocated to low carbon strategy. Merits of Quinbrook include: • Low carbon strategy, in line with LB Islington's stated agenda • Very strong wider ESG credentials • 100% drawn in 12-18 months • Minimal blind pool risk • Estimated returns 7%cash yield and 5% capital growth **Risks:** Key Man risk Drawdown to September 2019 is $48m **Pantheon Access-** is the other infrastructure manager also appointed in November 2018. Total allocation was $100m and merits of allocation included: • 25% invested with drawdown on day 1 • Expect fully drawn within 2-3 years • Good vintage diversification between secondary's and co-investments • Exposure to 150 investments • Estimated return 5% cash yield and 6% capital growth **Risks:** No primary fund exposure. Drawdown to September 2019 is $25m
4.	**Implications**
4.1	**Financial implications:** The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.

	Fund management and administration fees and related cost are charged to the pension fund.
4.2	**Legal Implications:** As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.
4.3	**Resident Impact Assessment:** The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding". 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 and contribution to achieving a net zero carbon Islington by 2030:** Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of t fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonborougho ngtonpensionfundinvestmentstrategystatement.pdf

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending September 2019 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers.

Background papers:

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

Final report clearance:

Signed by:

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

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London Borough of Islington

Report to 30th September 2019

MJ Hudson Allenbridge

NOVEMBER 2019

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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 MANAGE-MENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
London CIV – Allianz (global equity alpha)	Mark Thompson, who was recently appointed Chief Investment Officer, has left the London CIV after only a few weeks, for personal reasons.		LCIV terminated the fund in Q3 2019.		This mandate was switched to the LCIV Sustainable Equity Fund managed by RBC.
London CIV – Newton (active global equities)	Iain Stewart (who was the founder and originally the lead manager for the fund) will be retiring at the end of December 2019. Raj Shant, one of the deputy portfolio managers, left in Q2.	Underperformed the benchmark by -0.02%% in the quarter. Over three years the fund is behind the benchmark return by -1.60% and failing to achieve the performance target of +1.5% p.a.	As at end September the sub- fund's value was £660.3 million. London Borough of Islington owns 36.3% of the sub-fund.		

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MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE-MENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
BMO/LGM (emerging and frontier equities)	Thomas Vester is moving from CIO and Portfolio Manager to a strategic advisory position within LGM. A portfolio manager is leaving in November 2019.	Underperformed the benchmark by -0.62% in the quarter to September 2019. The fund is ahead over one year by +1.72%.	Not reported.		
Standard Life (corporate bonds)	21 joiners, 24 leavers (including two from fixed income).	The fund was ahead of the benchmark by +0.09% in the quarter to September 2019. Over three years the fund is 0.33% p.a. ahead of the benchmark return net of fees, but behind the performance target of +0.8% ahead p.a.	Fund value rose to £2,449.3 million in Q3 2019, a rise of £19.6 million. London Borough of Islington's holding stood at 6.8% of the fund's value.		
Aviva (UK property)	7 new joiners and 11 leavers across the firm. On the Lime Fund team there were no changes.	Underperformed the gilt benchmark by -5.78% for the quarter to September 2019 but outperformed by +1.84% p.a. over three years, net of fees.	Fund was valued at £2.60 billion as at end Q3 2019. London Borough of Islington owns 4.7% of the fund.		

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE-MENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
Columbia Threadneedle (UK property)	Three joiners and six leavers in Q3 2019, but no changes to the team managing the Islington portfolio.	Underperformed the benchmark return by -0.09% in Q3 2019. However, marginally outperformed the benchmark by +0.08% p.a. over three years, below the target of 1% p.a. outperformance.	Pooled fund has assets of £2.04 billion. London Borough of Islington owns 4.38% of the fund.		
Legal and General (passive equities)	Within the corporate governance team, there were two new joiners in Q3, an ESG product specialist and an ESG public policy analyst.	Funds are tracking as expected. The FTSE-RAFI Emerging Markets fund marginally underperformed its index, while MSCI World Low Carbon Target tracked its index exactly.	Assets under management of £1.1 trillion at end June 2019. Net flows of +£60.3 billion in first six months of 2019.		
Franklin Templeton (global property)	There were two joiners and no leavers during Q3 2019. One new analyst in New York and an internal move by David Mack to join the London investment team.	Portfolio return over three years was +21.92% p.a., well ahead of the target of 10% p.a.	$692.6 billion of assets under management as at end September 2019.		

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MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE-MENT	CHANGE IN STRATEGY/ RISK	MANAGER SPECIFIC CONCERNS
Hearthstone (UK residential property)	In September Stuart Springham joined as an Investment Manager. No leavers in Q3.	Underperformed the IPD UK All Property Index by -0.09% in Q3. Trailing the IPD benchmark over three years by -3.95% p.a. to end September 2019.	Fund was valued at £60.5m at end Q3 2019. London Borough of Islington owns 47.7% of the fund.		Due diligence has now been completed by James Walton of MJ Hudson Allenbridge – see separate report
Schroders (multi-asset diversified growth)	During Q3, no changes to investment team.	Fund returned +1.36% during the quarter and +4.49% p.a. over 3 years, -3.70% behind the target return.	Total AUM stood at £398.8 billion as at end September 2019.	The volatility of the fund is at the low end of expectations at present. At end September it was 43% of equity market volatility compared with an expected maximum of 66%.	
Quinbrook (renewable energy infrastructure)	None reported	Over Q3 2019 the fund returned +5.15%, above the benchmark return of +2.87% although performance should be assessed over a longer time period for this fund			

Source: MJ Hudson Allenbridge

Minor Concern

Major Concern

Individual Manager Reviews

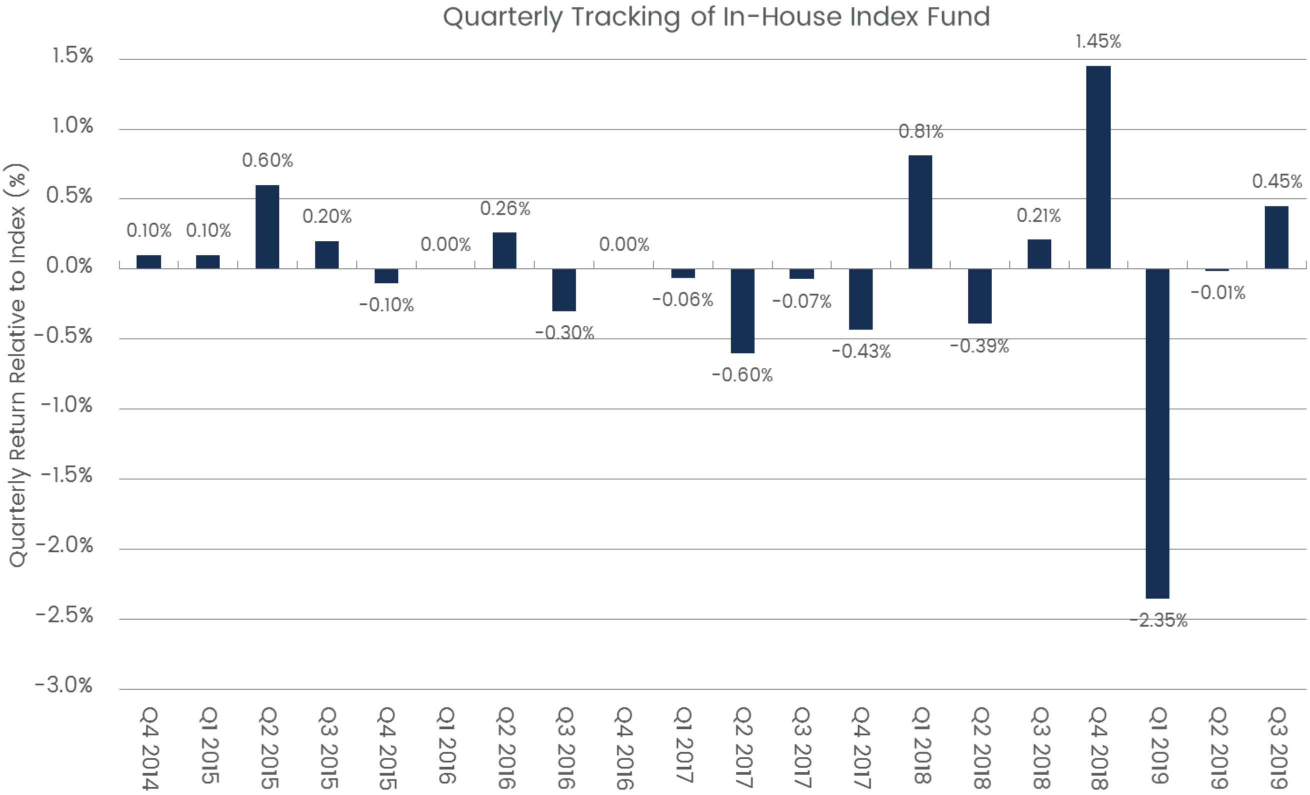
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q3 2019 the fund returned +1.72%, this was slightly above the FTSE All-Share index return of +1.27%. Also, over three years the fund has returned +6.99% p.a., overperforming against the FTSE All-Share Index by +0.22%.

Mandate Summary: A UK equity index fund designed to match the total return on the UK FTSE All-Share Index. In Q3 2017, the fund switched to tracking the FTSE UK Low Carbon Optimisation Index. This Index aims to deliver returns close to the FTSE All-Share Index, over time. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the low carbon index.

Performance Attribution: Chart 1 shows the quarterly tracking error of the in-house index fund against the FTSE All-Share Index over the last five years. There are no performance issues although the new mandate is resulting in wider deviations quarter-on-quarter since the transition to the low carbon fund. Over three years, the portfolio overperformed its three-year benchmark by +0.22% p.a.

CHART 1:



Source: MJH Allenbridge; BNY Mellon

Portfolio risk: As at quarter end, the portfolio had a tracking error of 0.45% against the FTSE UK Low Carbon Optimisation Index.

London CIV – Allianz – Global Equity Alpha Fund

This fund was closed in Q3 by LCIV after London Borough of Islington switched their investment into the LCIV Sustainable Equity Fund.

London CIV – Newton – Global Active Equities

Headline Comments: The London CIV – Newton sub-fund marginally underperformed its benchmark during Q3 2019 by -0.02%. Over three years the portfolio continues to underperform the performance target of benchmark +1.5% p.a. and remains well below the performance that could be achieved with a passive mandate.

Mandate Summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that they believe will 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 since 22nd May

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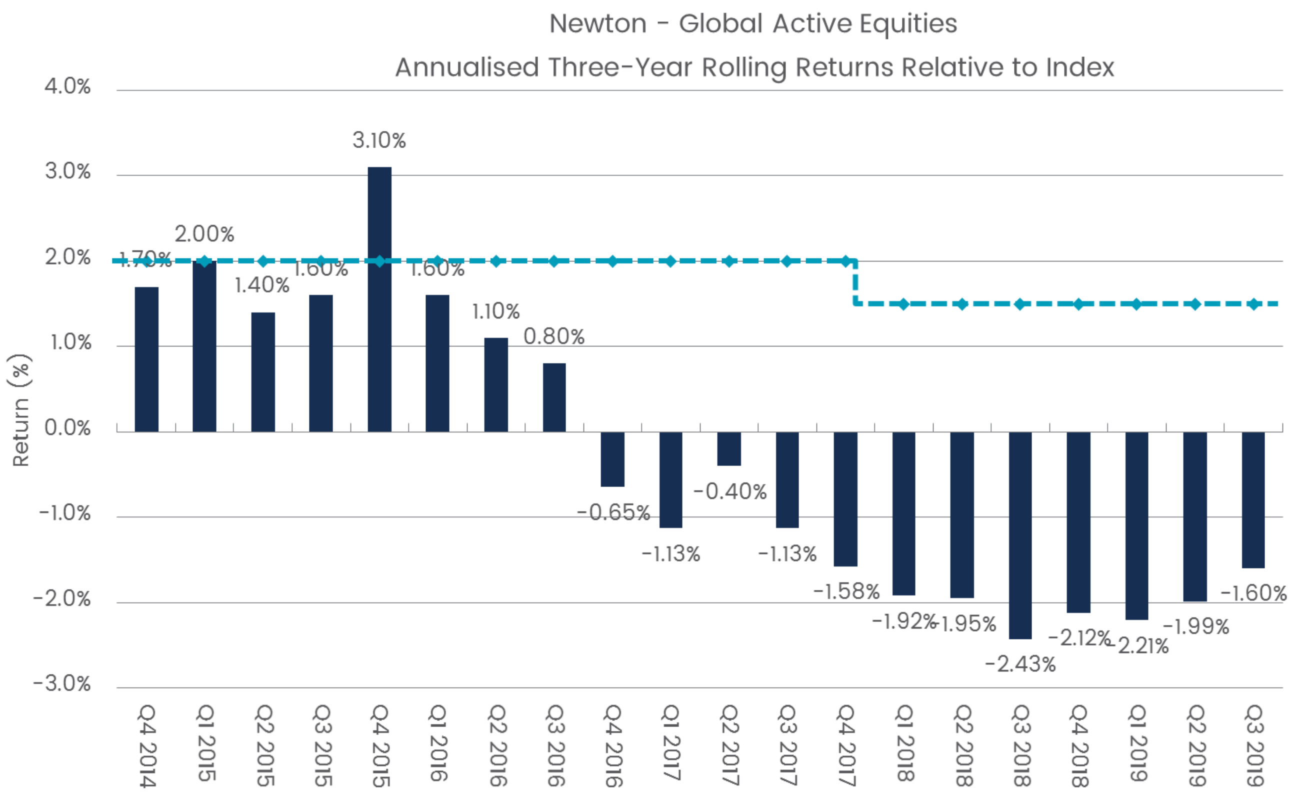
2017 is to outperform the FTSE All-World Index by +1.5% p.a. over rolling three-year periods, net of fees.

Performance Attribution: Chart 3 shows the three-year rolling returns of the portfolio relative to the benchmark (the navy bars) and compares this with the performance target, shown by the blue dotted line.

CHART 3:



Source: MJH Allenbridge; BNY Mellon

For the three-year period to the end of Q3 2019, the fund has trailed the benchmark by -1.60% p.a. This means it is trailing the performance objective by -3.10% (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

London CIV attributed the performance in the quarter to September 2019 to the central bank rate cuts causing modest returns in the equity markets. An overweight position in consumer staples, and an underweight position in materials both improved returns. However, equity allocations in Europe pulled down performance.

Positive contributions to the total return came from holdings such as Alphabet A (+0.60%) and Apple (+0.39%). Meanwhile, SAP SE was the biggest detractor (-0.30%) from the fund's quarterly return of +3.36% followed by AIA Group (-0.29%).

The continued underperformance of this manager over a three-year period remains a concern, and this should be taken into account as part of the strategic asset review currently being undertaken by Mercer.

Portfolio Risk: the active risk on the portfolio stood at 3.27% as at quarter end, marginally lower than as at end June when it stood at 3.34%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.90, an increase on the previous quarter when it stood at 0.88 (if the market increases by +10% the portfolio can be expected to rise +9.0%).

At the end of Q3 2019, the London CIV sub-fund's assets under management were £660m, compared with £639m last quarter. London Borough of Islington now owns 36.3% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 56 as at quarter-end (down from 58 last quarter). The fund added one position, Brenntag Ag, and completed sales of three positions, Suncor Energy, Western Union Co, and Ecolab.

Staff Turnover: Newton announced in Q2 that Iain Stewart will be retiring at the end of December 2019. Iain was the founder of the strategy and was lead manager for some time. His retirement had, however, been planned for and his roles and responsibilities have gradually been handed onto other colleagues over recent years. Raj Shant, a deputy portfolio manager, left in Q2. He was more involved in Newton's sustainable funds, though was still active in the core global equity strategy. They announced that Andrew Parry will join the company as Head of Sustainable Investments. He was previously the Head of Sustainable Investment at Hermes.

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of -1.59% in Q3 2019, compared with the benchmark return of -0.96%, an underperformance of -0.62%. The emerging market component of this portfolio returned -4.51% (source: BMO) compared with the index return of -4.25%. The frontier markets portfolio was even further behind its index return of -0.71%, delivering a negative return of -6.03% (source: BMO). Over one year, the total fund is ahead of the benchmark return by 1.72%.

Mandate Summary: the manager invests in a selection of emerging market and frontier market equities, with a quality and value, absolute return approach. The aim is to outperform a combined benchmark of 85% MSCI Emerging Markets Index and 15% MSCI Frontier Markets Index by at least 3% p.a. over a three-to-five-year cycle.

Performance Attribution: during the quarter, the largest positive contributors to performance for the emerging markets portfolio came from Colgate-Palmolive India Ltd (+0.7%), HDFC Bank Ltd Common Stock Inr1.0 (+0.6%) and Anta Sports Products Ltd (+0.5%). Companies which detracted most from performance included British American Tobacco (-1.0%), Mr Price Group Ltd (-0.8%) and Tingyi Cayman Isln (-0.7%).

In the frontier market portfolio, positive contributors included Pricesmat Inc (+0.9%) and Eastern Tobacco (+0.8%) and Coca-cola Icecek AS (+0.4%). Companies which detracted from performance included BBVA Banco Frances SA ADR (-2.0%), Alicorp SAA(-0.9%) and Delta Corp Ltd (-0.8%).

It is worth noting that, over one year, the frontier market portfolio return was -16.71% versus the benchmark return of 3.21%. This is of some concern, however, BMO LGM have commented that part of this was "due to the large amount of outflows the frontier markets asset class has seen in the past number of months" and they note that "A good portion of the portfolio's negative performance was concentrated in our positions in Argentina." The level of underperformance is something to monitor closely over coming months.

Portfolio Risk: Within the emerging markets portfolio, 17.6% was allocated to developed or frontier markets, and cash was at 4.5% as at quarter-end. Turnover for the previous 12 months was 17.4%. The largest overweight country allocation in the emerging markets portfolio remained India (+9.0% overweight). The most underweight country allocation remained South Korea (-12.2%) where the fund has no allocation.

Within the frontier markets portfolio, it is worth noting that 70.5% of the portfolio was invested in countries that are not in the benchmark index, including Egypt, Pakistan, Costa Rica and Peru. This explains the high tracking error of returns versus the benchmark (7.4% as at end September). The most overweight country allocation remained Egypt (+13.7%) and the most underweight was Vietnam (-17.5%).

Portfolio Characteristics: The frontier markets portfolio held 41 stocks as at end September compared with the benchmark which had 96. The emerging markets portfolio held 39 stocks as at end September compared with the benchmark which had 1,202.

Organisation: During Q3 LGM announced that Thomas Vester will move from his Chief Investment Officer and Portfolio Manager roles to a strategic advisory position. He will remain on the LGM board. Damian Bird, one of the co-portfolio managers on the emerging markets fund, is leaving LGM from 26 November 2019.

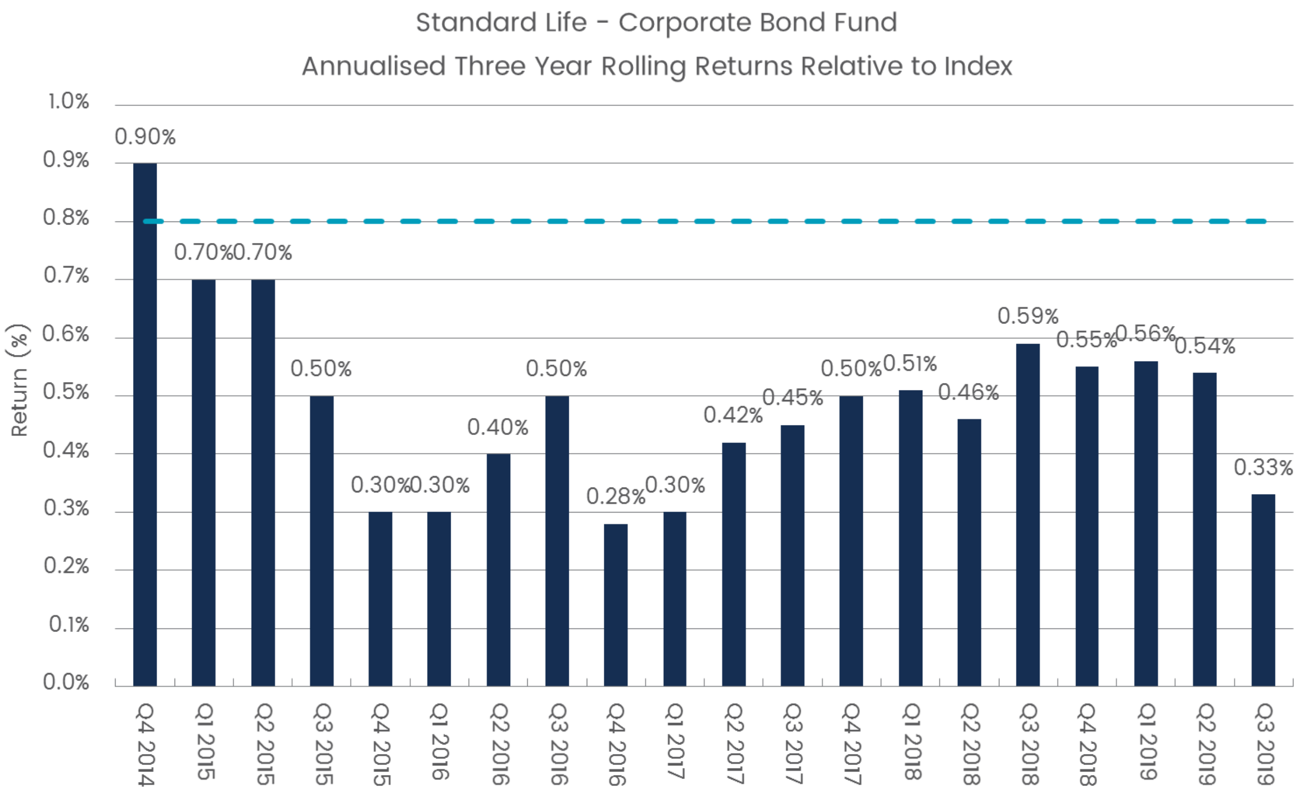
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was marginally ahead of the benchmark return during the quarter by +0.09%. Over three years, the fund was ahead of the benchmark return (by +0.33%) but behind the performance target of benchmark +0.8% p.a.

Mandate Summary: The objective of the fund is to outperform the iBoxx Sterling Non-Gilt Index (a UK investment grade bond index) by +0.8% p.a. over rolling three-year periods.

Performance Attribution: Chart 4 shows the rolling three-year performance of the Corporate Bond Fund compared to the Index, over the past five years. This shows the fund is ahead of the benchmark over three years but trailing the performance objective (shown by the dotted line in Chart 4).

CHART 4:



Source: MJH Allenbridge; BNY Mellon

Over three years, the portfolio has returned +3.50% p.a. net of fees, compared to the benchmark return of +3.17% p.a. Over the past three years, stock selection has added +0.47% value, followed by asset allocation (+0.12%) and curve plays (+0.05%).

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK (Govt of) 4.25% 2055 at 1.9% of the portfolio. The largest overweight sector position remained Financials (+6.4%) and the largest underweight position remained sovereigns and sub-sovereigns (-13.6%). Contribution from the curve effect was negative this quarter.

The fund holds 2.1% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end September 2019 stood at £2,449.3m, £19.6m higher than at the end of June 2019. London Borough of Islington's holding of £167.4m stood at 6.8% of the total fund value (compared to 6.6% last quarter).

Staff Turnover: there were 21 joiners, but 24 people left the firm during the quarter. Of the 24 leavers, two were from the fixed income team, (a manager of commercial real estate lending in London, and an investment manager in Sydney) but there were no changes to the team managing the London Borough of Islington portfolio.

Aviva Investors – Property – Lime Property Fund

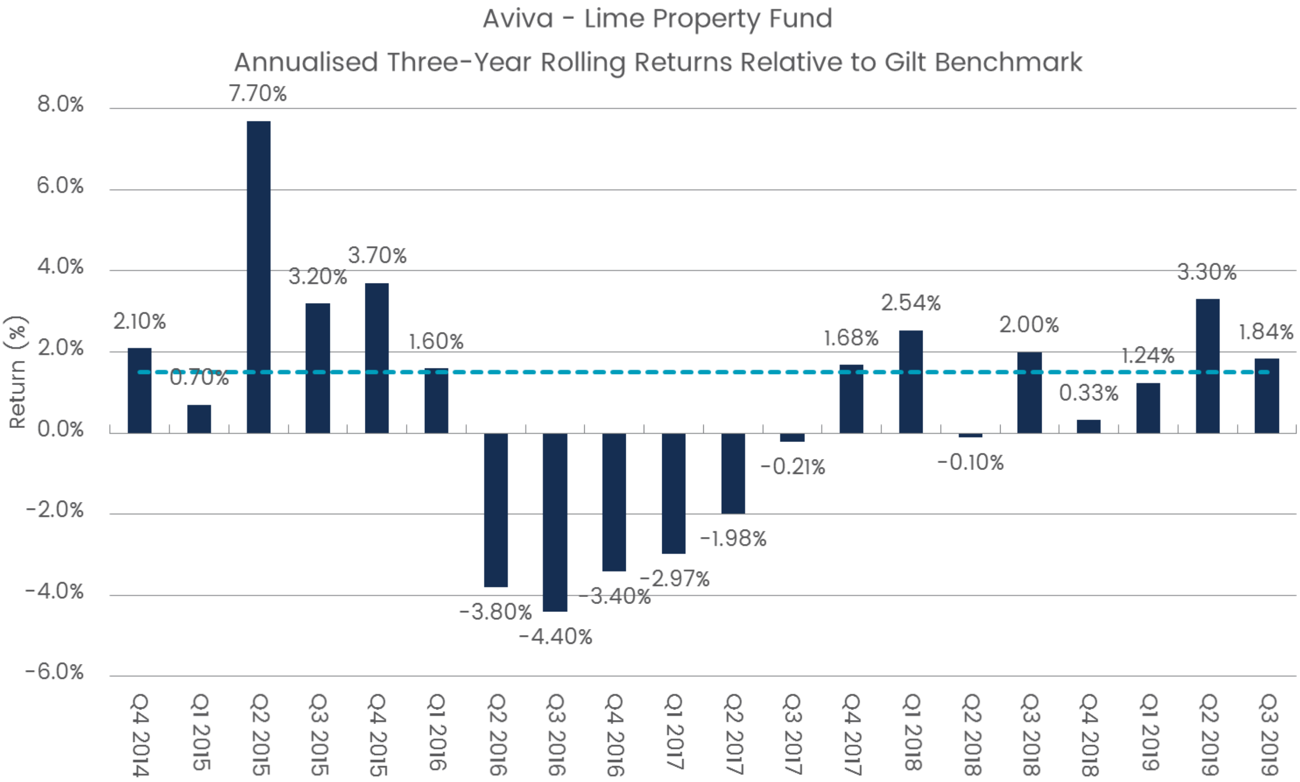
Headline Comments: The Lime Fund delivered another quarter of steady returns though far behind the gilt benchmark return since that market performed strongly in Q3. Over three years, the fund is ahead of the benchmark return.

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% p.a., over three-year rolling periods.

Performance Attribution: The fund's Q3 2019 return was attributed by Aviva to 0.91% capital return and 0.49% income return.

Over three years, the fund has returned +5.71% p.a. ahead of the gilt benchmark of +3.87% p.a., by +1.84% p.a., ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 5 overleaf.

CHART 5:



Source: MJH Allenbridge; BNY Mellon

Over three years, 57% of the return came from income and 43% from capital gain.

Portfolio Risk: This quarter the fund added a new investment by acquiring a new 189 bed aparthotel in Central London. The investment provides 50-year RPI linked cashflow as well as being part of the fund's commitment to sustainability, with the fund aiming for the building to be granted a BREEAM 'excellent' rating.

The fund has £37 million of uncommitted investible capital, and a £200 million pipeline of investments.

The average unexpired lease term was 19.6 years as at end September 2019. 14.3% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 26.8%, and the number of assets in the portfolio grew to 87. The weighted average unsecured credit rating of the Lime Fund remained A-.

Portfolio Characteristics: As at end September 2019, the Lime Fund was valued at £2.60bn, an increase of £280m from the previous quarter end. London Borough of Islington's investment represents 4.7% of the total fund. The fund had 72.8% allocated to inflation-linked rental uplifts as at end September 2019.

Staff Turnover/Organisation: Overall there were 11 leavers and 7 joiners across the whole Real Assets franchise. Regarding the Lime Fund in particular, there were no changes to the team. There were no changes at the senior management level.

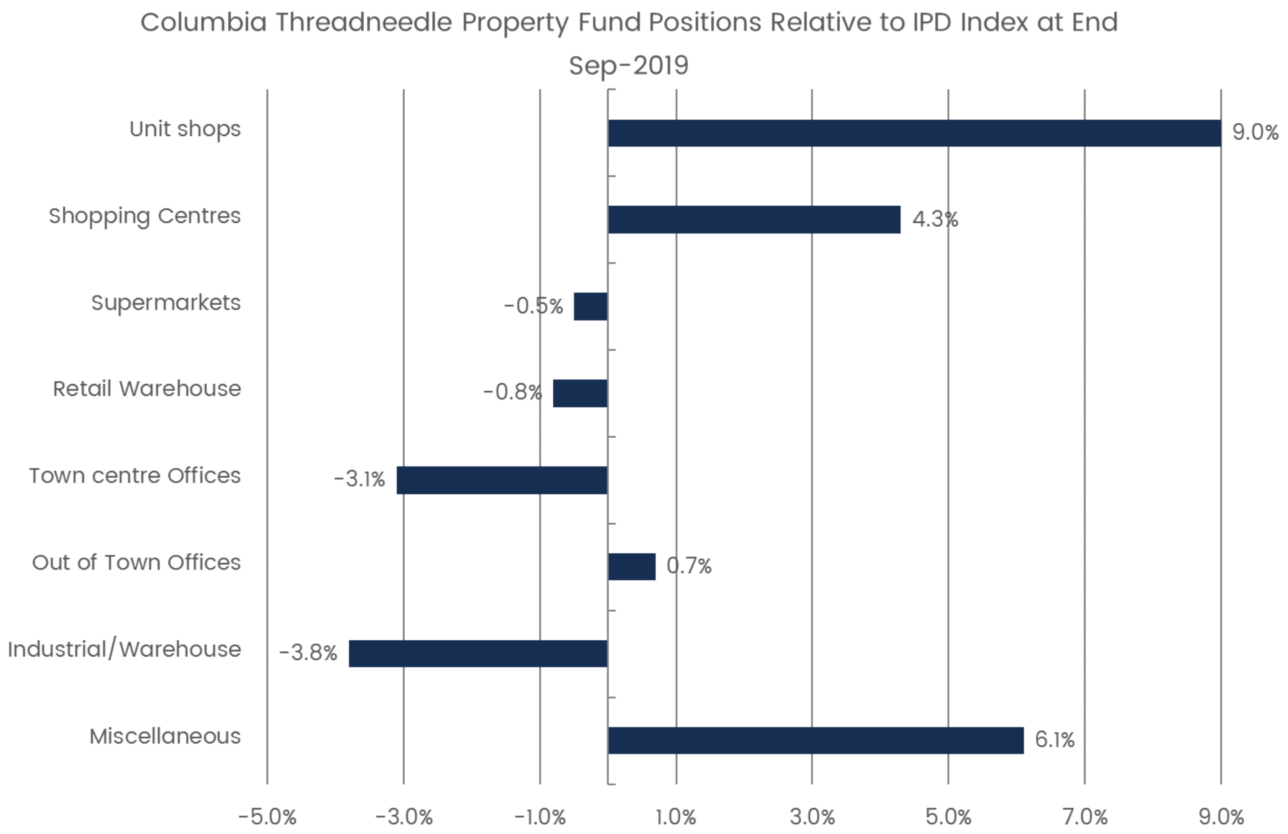
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund was behind the benchmark return in Q3 2019. Over three years, the fund has outperformed the benchmark, however it has done so by just 0.08% and as such is behind the performance target of +1.0% p.a. above benchmark.

Mandate Summary: An actively managed UK commercial property portfolio, the Columbia Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Its performance objective is to outperform the AREF/IPD All Balanced – Weighted Average (PPFI) Index by at least 1.0% p.a., net of fees, on a rolling three-year basis.

Portfolio Risk: Chart 6 shows the relative positioning of the fund compared with the benchmark.

CHART 6:



Source: MJH Allenbridge; Columbia Threadneedle

The overweight allocation to unit shops is skewed because IPD (against which the portfolio is measured) classifies two of the largest properties in Columbia Threadneedle’s portfolio as retail. These are the Heals building and the South Molton Street property. In fact, based on square footage, these assets are significantly more office than retail.

During the quarter, the fund continued to reduce its exposure to the High Street retail sector by selling two of its retail assets for £275,000 and £1,350,000, both of which were above the valuations given during an independent valuation. As well as this, during Q3, the fund completed the letting of an office in Wimbledon, securing a 10-year lease on a manufacturing/distribution facility in Scarborough, a re-gearing of two leases on an office in Tunbridge Wells, and also increasing the rental on several lettings in an office in Basingstoke.

The fund's void rate has fallen from 7.9% as at end June to 7.7% at end September, versus the benchmark's 7.6%. This has been monitored because a higher-than-benchmark void rate could pull the performance down on a relative basis. The cash balance at end September was 8.0%.

Performance Attribution: The portfolio underperformed the benchmark by -0.09% in Q3 2019, delivering a return of +0.31%.

Over three years, the fund is slightly ahead of its benchmark by +0.08% p.a., with a return of +6.78% p.a., however this means the fund is underperforming the target of +1.0% p.a. above the benchmark.

Portfolio Characteristics: As at end September 2019, the fund was valued at £2.04bn, an increase of £10m compared with June 2019. London Borough of Islington's investment represented 4.38% of the fund.

Staff Turnover: There were three joiners and six leavers across the firm in Q3 2019. No one directly involved with the London Borough of Islington portfolio was among these.

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

Headline Comments: The two passive index funds were within the expected tracking range when compared with their respective benchmarks. FTSE-RAFI Emerging Markets index fund marginally underperformed its benchmark, whilst MSCI World Low Carbon Target index fund matched the performance of its benchmark.

Mandate Summary: Following a change in mandate in June 2017, the London Borough of Islington now invests in two of LGIM's index funds: one is designed to match the total return on the FTSE-RAFI Emerging Markets Equity Index; the second is designed to match the total return on the MSCI World Low Carbon Target Index. The MSCI World Low Carbon Target is based on capitalisation weights but tilting away from companies with a high carbon footprint. The FTSE-RAFI Index is based on fundamental factors.

Performance Attribution: The two index funds both tracked their benchmarks as expected, as shown in Table 2.

TABLE 2:

	Q3 2019 FUND	Q3 2019 INDEX	TRACKING
FTSE-RAFI Emerging Markets	-2.20%	-2.19%	-0.01%
MSCI World Low Carbon Target	+4.28%	+4.28%	0.00%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 81.25% to the MSCI World Low Carbon Target index fund, and 18.75% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: In Q3, the LGIM corporate governance team had two joiners (an ESG Product Specialist, and an ESG Public Policy Analyst). We were not made aware of any further staff changes.

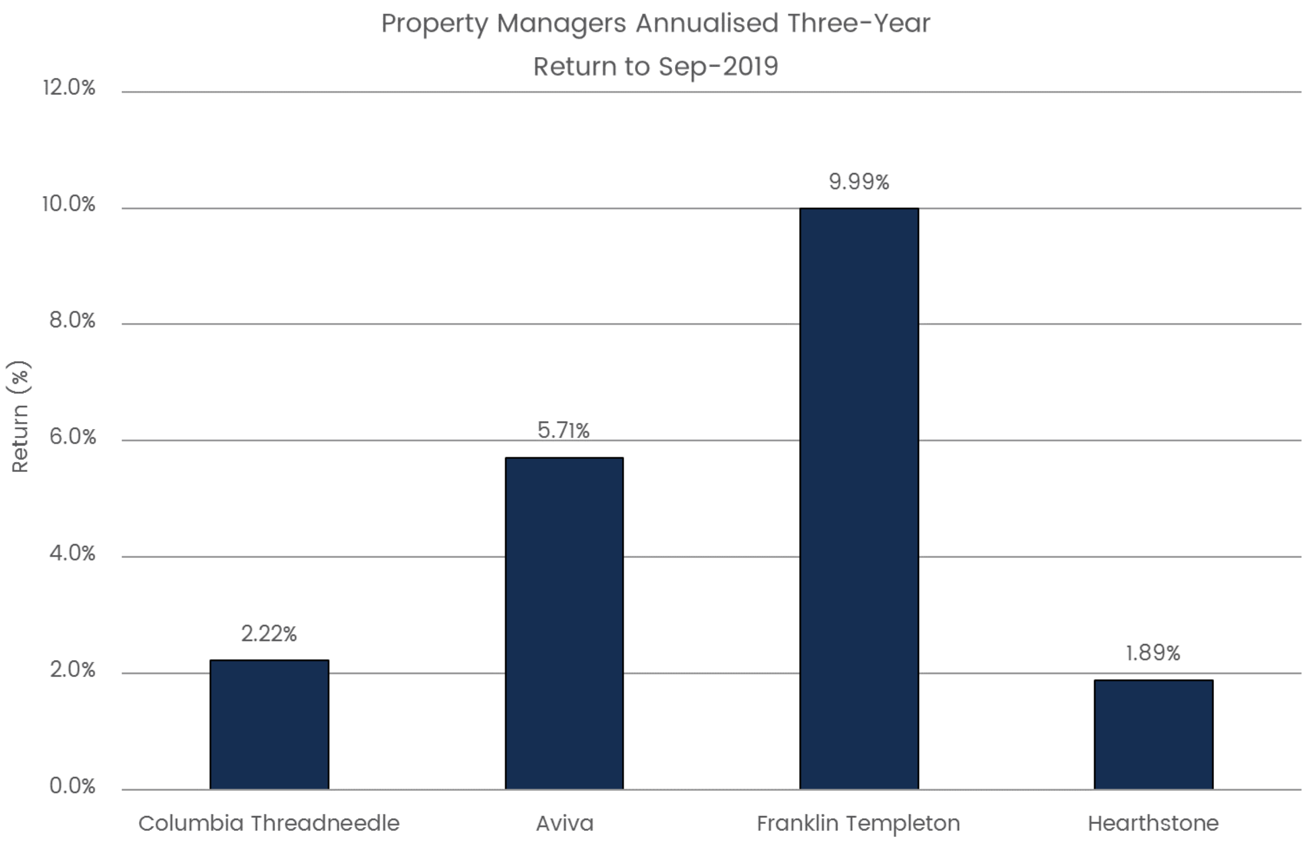
Franklin Templeton – Global Property Fund

Headline Comments: This is a long-term investment and as such a longer-term assessment of performance is recommended. There are two funds in which London Borough of Islington invests. The portfolio in aggregate outperformed the absolute return benchmark of 10% p.a. over three years.

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

Performance Attribution: Over the three years to September 2019, Franklin Templeton continues to be the best performing fund across all four property managers. Chart 7 compares their annualised three-year performance, net of fees.

CHART 7:



Source: MJH Allenbridge; Columbia Threadneedle

Portfolio Risk: Fund I is currently in its distribution phase. Distribution activity has been strong, and the fund has paid across 149.8% of the initial commitment. Leverage stood at 37% as at end Q3 2019.

The largest remaining allocation in Fund I is to Spain (36% of funds invested), followed by the US (28%) and Japan (16%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Three of the underlying funds are performing well ahead of expectations, five are above expectations, four are on target and two are below expectations (Sveafastigheter III and Lotus Co-Investment, the latter now having been fully liquidated).

Fund II is now fully invested and is beginning to make distributions. As at end September 2019, 42.2% of committed capital had been distributed. Leverage stood at 53%.

The largest allocation in Fund II is to Italy (51% of funds invested), followed by the US (26%) and Spain (15%).

Three of the underlying funds are performing well ahead of expectations, one is above expectations, and six are on target.

Staff Turnover/Organisation: During Q3, there were two joiners and no leavers. Colin Giannini joined Franklin Real Asset Advisors' New York Office as an analyst, and David Mack moved internally to join the London investment team to support European investments.

Franklin Templeton have told us that there are four planned leavers in the period after the end of Q3. They are closing their Singapore investment office which will lead to the departures of Woon Pin Chong (Managing Director), Wenning Jung (Senior Vice President), and Karen Gu (Associate). In addition, Julie Donegan (Senior Vice President) is leaving.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending September 2019 and over three years, as it has done for the past three quarters.

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. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

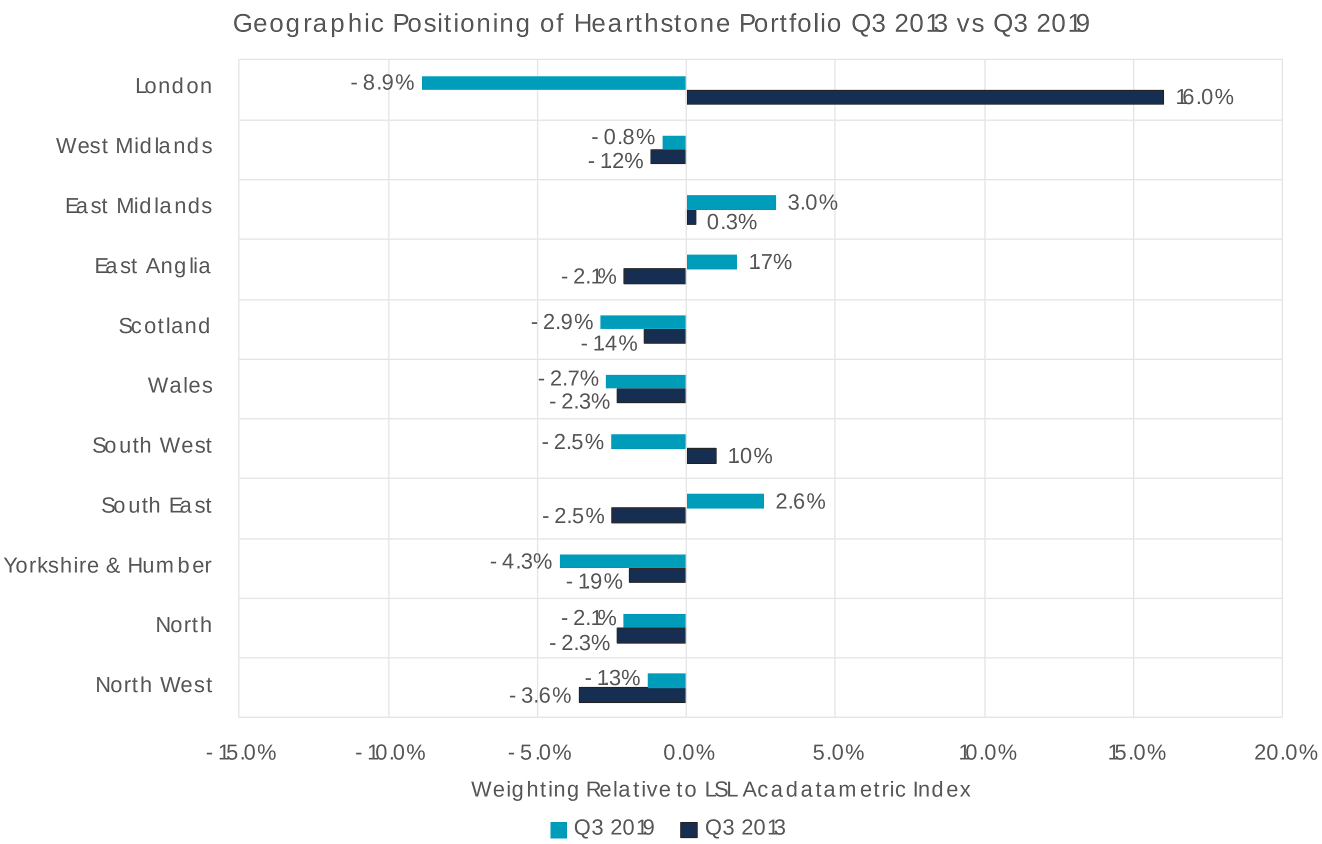
Performance Attribution: The fund underperformed the IPD index over the three years to September 2019 by -3.95% p.a., returning +3.71% p.a. versus the index return of +7.66% p.a. The gross yield on the portfolio as at September 2019 was 4.84%. Adjusting for voids, however, the yield on the portfolio falls to 4.70%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 18.23%.

James Walton, Senior Adviser and property specialist, of MJ Hudson Allenbridge, has undertaken detailed due diligence on the manager, including an assessment of exit options, and a separate report is included in the papers.

Chart 8 compares the regional bets in the portfolio in Q3 2019 (turquoise bars) with the regional bets at the start of the mandate, in Q3 2013 (navy bars).

CHART 8:



Source: MJH Allenbridge; Hearthstone

Portfolio Characteristics: By value, the fund has a 11% allocation to detached houses, 44% allocated to flats, 24% in terraced accommodation and 21% in semi-detached.

As at end September there were 197 properties in the portfolio and the fund stood at £60.5m. London Borough of Islington's investment represents 47.7% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: In September, Stuart Springham joined as an Investment Manager. He is role will include daily liquidity management, working on property acquisitions and disposals, as well as oversight of the property manager (Touchstone). No leavers were reported for Q3.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a positive return in Q3 2019, however it was behind its benchmark. Over three years, the fund is behind the target return of RPI plus 5% p.a.

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

Performance Attribution: The DGF delivered a return of +1.36% in Q3 2019. This is -0.34% below the RPI plus 5% p.a. target return of +1.70% for Q3. Over three years, the DGF delivered a return of +4.49% p.a. compared with the target return of +8.18% p.a., behind the target by –3.70% p.a. This underperformance remains a concern, particularly as the underperformance over three years has only slightly improved since Q2 2018, when it was at -3.81%.

In Q3 2019, equity positions detracted -0.1%, alternatives added +0.2%, credit and government debt added +0.8%, and cash and currency added +0.6% (figures are gross of fees).

The return on global equities was +9.1% p.a. for the three years to September 2019 compared with the portfolio return of +4.49% (a 49% capture of the equity return, somewhat lower than expected). Over a full three-to-five-year market cycle the portfolio is expected to deliver equity-like returns.

Portfolio Risk: The portfolio is expected to exhibit two-thirds the volatility of equities over a full three to five-year market cycle. Over the past three years, the volatility of the fund was 4.6% compared to the three-year volatility of 10.6% in global equities (i.e. 43% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 34% in internally managed funds (up from last quarter's 29% allocation), 39% in internal bespoke solutions (up from 35% last quarter), 3% in externally managed funds (same as last quarter), and 20% in passive funds (down from 26% last quarter) with a residual balance in cash, as at end September 2019. In terms of asset class exposure, 38.3% was in equities, 26.3% was in alternatives and 30.1% in credit and government debt, with the balance in cash.

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

Organisation: During the quarter, there were no changes to the investment team. However, in September Johanna Kyrklund started the role of Group Chief Investment Officer, as well as her existing role of Global Head of Multi-Asset Investments.

Quinbrook – Low Carbon Power Fund

Headline Comments: An investment made by London Borough of Islington of $67 million made at the end of December 2018. Performance from June 30th to September 30th 2019 was positive at 5.15%, above the benchmark return of 2.87%.

Mandate Summary: The fund invests in renewable energy and low carbon assets across the UK, US and Australia as well as selected OECD countries. The fund is expected to make between 10 and 20 investments in its lifetime and targets a net return of 12% per annum. The fund held a final closing in February 2019 with approximately $730 million committed by 15 limited partners.

Portfolio Characteristics: As at Q3 2019, the fund had invested $381.0 million into 45 projects ranging from onshore wind farms, solar power plants, battery storage and natural gas peaking facilities (power plants that generally run only when there is a high demand for electricity, in order to balance the grid).

Karen Shackleton
Senior Adviser, MJ Hudson Allenbridge
14th November 2019

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ISLINGTON

Finance Department
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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	3 December 2019		n/a

Delete as appropriate	Exempt	~~Non-exempt~~

Appendix 1 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

SUBJECT- EQUITY PROTECTION STRATEGY- REVIEW

1. Synopsis

1.1 This report provides a recap of the Fund's objectives for implementing the equity protection strategy managed by Legal and General Investment Management ("LGIM") and more generally the strategic rationale for implementing such a strategy.

Mercer, our investment advisor, have prepared a paper (attached as Appendix 1 –exempt) that also provides an overview of how the equity protection strategy can evolve and a summary of the different equity option structures available.

2. Recommendations

2.1 To receive Mercer's presentation paper and consider the next steps below

i) The Committee will need to decide in principle whether to extend the strategy, potentially delegating to the Officers to set objectives and agree risk budgets.

ii) Given that the options (with the exception of Topix options) are due to expire in March 2020 i.e. prior to the next Pensions Sub-Committee meeting, a decision will have to be made between the 3 December 2019 meeting and the expiration date as to whether to extend the strategy or let the options expire.

iii) If the Committee wish to renew the strategy, the Officers and advisers would then construct a framework to allow this decision to be made in early 2020, covering the following elements:

a) Determine if market levels are suitable to re-set protection

b) Obtain detailed pricing information in liaison with LGIM

c) Determine if protection pricing is sufficiently favourable to proceed

d) Consider if early unwinding is viable, based on views from LGIM

3. Background

3.1 **March 2016 valuation**
The triennial valuation was completed in March 2017 with a calculated funding level of 78% and a deficit of £299m. A 22-year recovery plan was agreed with projected contributions over this period to achieve a 100% funding level.

3.2 Members agreed at the October 2017 special meeting to implement an equity protection strategy aiming to protect 50% of the portfolio (total equities exposure is 65%). They agreed the protection will initially be to 31 March 2020, the next actuarial valuation, and then reviewed.

3.3 The protection strategy was implemented on 2nd February and was based on an equity notional value of £734m (equity value at 31 December 2017 less premium of £25m). The premium was sourced from our LGIM MSCI Global Low Carbon Fund. The target maturity is March 2020 except for Japan that expires in June 2020. The actual premium for the structure was £24.7m. The weighted average upper and lower strike were 94.9% and 78.3% respectively.

3.4 Members have been receiving six monthly monitoring reports and LGIM will give a presentation on the agenda of the latest position. Members should note that as the strategy is for a fixed term any gains and losses would only be realised at the end of the contract unless it is called in prematurely at a cost.

3.5 Mercer will be presenting in more detail a recap of the strategy, and discussing with members on how the strategy has performed, their forward-looking view and the key questions for setting objectives. Some of the questions that need to considered as part of the review include:
i) What is the target period –to the next valuation, 12-18 months, or open-ended?
ii) Which markets are most attractive to protect based on pricing, and which markets are felt to be "cheap" or "expensive"?
iii) What proportion of the equities should be protected ; all, some (e.g. half), or none?
iv) What equity protection structure should be selected for the overlay?

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

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

4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

None applicable to this report. Environmental implications will be included in each report to the Pension sub-committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 **Resident Impact Assessment**

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

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4.4.1 An equalities impact assessment has not been conducted because this report is seeking. opinions on a policy document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked to receive a presentation from Mercer and consider the next steps.

Background papers:

None

Final report clearance:

Signed by:

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

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ISLINGTON

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

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	3 December 2019		n/a

Delete as appropriate	Exempt	Non-exempt

Appendix 1 is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information)

SUBJECT: DECARBONISATION POLICY MONITORING – CLIMATE SCENARIO ANALYSIS

1. Synopsis

1.1 This report discusses approaches to explore how the total investment portfolio, individual asset classes and industry sectors for global equities are impacted by three climate scenarios (global heating scenarios of 2ºC, 3ºC and 4ºC applied over different time horizons (10 years, 2050, 2100). A stress approach outlines potential climate-related price impacts

1.2 Mercer, our investment advisors have prepared a climate scenario analysis report and recommendations to consider attached as Appendix 1 – exempt

2. Recommendation

2.1 To receive and consider the climate scenario analysis of the Fund attached as Appendix 1

2.2 To note the climate –related investment impact

2.3 To continue the monitoring our decarbonisation policy.

3. Background

3.1 The Committee believes that Environmental, Social and Governance ("ESG") risks should be taken into account on an ongoing basis and are an integral part of the Fund's strategy and objective of being a long-term investor.

3.2 **Action to date**
Members agreed at November 2016 pension sub- committee meeting that the carbon footprint level of equities in the In-House UK Passive Fund be reduced with immediate effect, with 50% of assets allocated to Legal and General Investment Management's MSCI World Low Carbon Target Index Fund and the remaining 50% of assets managed in house to track the FTSE UK Low Carbon Optimised index and that officers investigate how a low carbon approach could be realised for the rest of the Fund, which does not comprise equities.

3.3 Officers implemented the low carbon indices for passive global and UK by May 2017, covering 25% of the whole fund. The existing active global equities managed by Newton and Allianz on the LCIV platform had a low carbon footprint and did not require amendments

3.4 Mercer has completed analysis to identify ways in which the Fund can reduce ESG risk and has conducted a review of ESG ratings for the Fund's underlying investment managers. Mercer's ESG ratings provide an assessment of the integration of ESG issues into the investment process and provides an overall rating – ESG 1 is the highest possible rating and ESG 4 is the lowest possible rating. As such, Mercer has provided the ESG ratings the Fund's 9 strategies across equities, fixed income, DGFs, property and private equity.

3.5 Members agreed a decarbonisation policy as part of its Investment strategy statement and sets targets to achieve further decarbonisation across its entire investment assets. The policy defines their beliefs and take account of sustainable opportunities, and agree a monitoring regime and progress measurement.

3.6 The agreed targets are as follows

3.6.1 **The Fund seeks to achieve the following targets by May 2022 through**:

1) Reducing future emissions by focussing on absolute potential emissions (tons of CO_2e), a reserves based measure that focusses on emissions that could be generated if the proven and probable fossil fuel reserves owned by the companies in the portfolio were burned, in the public equity allocation by more than three quarters compared to the exposure at June 2016, the date of the Fund's latest carbon foot-printing exercise.

2) Reducing "exposure to carbon intensive companies" as measured by Weighted Average Carbon Intensity, an indicator of current climate-related risks facilitating comparison across asset classes and across industry sectors in the public equity allocation by more than half compared to the exposure at June 2016, the date of the Fund's latest carbon foot printing exercise.

3) Investing at least 15% per cent of the Fund in sustainability-themed investment - for example in climate change mitigation, low carbon technology, social housing, sustainable infrastructure, energy efficiency and other opportunities.

3.6.2 **Measures agreed to monitor and guide decarbonisation and allocation to sustainability include:**

1) The Fund adopting TCFD supplemental guidance for asset owners where applicable.

2) The Fund reviewing targets annually.

3.) The Fund forming a view on decarbonisation of all asset classes beyond public equities by 2022 and will develop mechanisms to evaluate the progress.

4) The Fund monitoring ESG (including climate change) risks annually and set targets to mitigate these risks. Monitoring will include annual analysis of the carbon footprint of the Fund's portfolio, as well as conducting a periodic scenario analysis based on multiple climate change scenarios ranging from 2ºC to 4ºC.

3.6.3 The report prepared by Mercer, is part of the Fund's agreed monitoring plan on decarbonisation to conduct scenario analysis based on multiple climate change scenarios ranging from 2ºC to 4ºC. Members are asked to receive the presentation and note the recommendations.

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

The LGPS (Management and Investment of Funds) Regulation 2016, Regulation7 (1) requires an administering authority to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State. The ISS must include:
The authority's policy on how social environmental or corporate governance considerations are taken into account in the selection, non- selection, retention and realisation of investments

The Sub-Committee holds a key fiduciary responsibility to manage the Fund's investments in the best interests of the beneficiary members and the council taxpayers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decisions or strategies developed, such as a carbon strategy, must not negatively influence this primary responsibility.

The precise choice of investments can be influenced by ethical and environmental, social and governance (ESG) considerations, so long as that does not risk material financial detriment to the fund. Whilst deliberating on such issues, Queen's Counsel (Nigel Giffin) advice, commissioned by the LGPS Scheme Advisory Board and published in 2014, states that the administering authority may not prefer its own specific interests to those of other scheme employers, and should not seek to impose its particular views where those views would not be widely shared by scheme employers and members (nor may other scheme employers impose their views upon the administering authority).

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of t fund in green opportunities. The link to the full document is

https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonborougho
ngtonpensionfundinvestmentstrategystatement.pdf

4.4 **Resident Impact Assessment**

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

4.4.1 An equalities impact assessment has not been conducted because this report is seeking opinions on an existing policy document and therefore no specific equality implications arising from this report.

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5. Conclusion and reasons for recommendation

5.1 Members are asked to consider the Mercer analysis report and recommendations.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	3rd December 2019		n/a

Delete as appropriate		Non-exempt

SUBJECT: SETTING OBJECTIVES FOR PROVIDERS OF INVESTMENT CONSULTANCY SERVICES

1. Synopsis

1.1 This is an update report to discuss and set strategic objectives for our Investment Consultancy providers to comply with the 'Order' following the investment consultancy and fiduciary management market investigation order 2019 to the extent applicable any superseding legislation.

2. Recommendation

2.1 To note that the legal requirement for trustees of occupational pensions (including LGPS) to set strategic objectives for investment consultancy providers, comes into effect from 10 December 2019

2.2 To discuss and agree the draft objectives to monitor the performance of our investment consultancy provider as set out in Appendix 1

2.3 To agree to review these objectives at least annually and or where there is a change in the fund's requirements.

3. Background

3.1 The Pensions Regulator (TPR) is the UK regulator of occupational pension schemes. They are a non-departmental public body established under the Pensions Act 2004. Their sponsoring body is the Department for Work and Pensions (DWP) and Parliament sets the legislative and regulatory framework within which they work.

3.1.1 Following an investigation into the investment consultancy and fiduciary management market, the Competition and Markets Authority (CMA) has introduced new duties for trustees and managers of occupational pension schemes, which will take effect from 10 December 2019.

3.1.2 It appears that the only Remedy applicable to the LGPS is the requirement for Administering Authorities to set strategic objectives for their IC provider. Whilst we await the MHCLG guidance and legislation, the TPR 's consultation on guidance contained roles of an investment consultant and a case study of a pension fund setting objectives and agreeing a performance monitoring scorecard. The link to the full consultation is https://www.thepensionsregulator.gov.uk/en/document-library/consultations/draft-guidance-consultation-in-response-to-cma-recommendation

3.1.3 At the last meeting in September 2019, members considered the TPR's case study as an example to help them begin to think of the advice, activities, special projects, relationship and communications with their investment consultants and how they would measure performance. They agreed to have an update report in December 2019 to agree objectives they would set to monitor their investment consultancy providers .

3.2 Members are asked to consider the draft objectives attached as Appendix 1 and agree how and what they value and will measure to be compliant with the pension order by the CMA by 10 December 2019.

3.2.1 Members are also asked to agree to review the objectives at least annually and or where there is a change in the Funds requirements.

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**

4.2.1 On 10th June 2019, the Competition and Market's Authority (CMA) made the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 placing new obligations on service providers and pension scheme trustees with regard to Fiduciary Management (FM) and Investment Consultancy (IC) Services. The Order implements the CMA's recommended remedy 1 (tendering for FM services) in Part 3 and remedy 7 (Setting objectives for IC) in Part 7Parts 3 and 7 come into force on 10 December 2019.

4.2.2 IC Services are defined as s the provision of advice
4.2.2.1on investments that may be made or retained;
4.2.2.2in relation to the preparation or revision of the statement of investment principles;
4.2.2.3 on strategic asset allocation; and

4.2.2.4 on manager selection.
However , IC Services do not extend to the high-level commentary provided by the scheme actuary in or in respect of triennial valuation reports and with regard to the link between the investment approach and the pension scheme's funding objectives.

4.2.3 Under Part 7, the council may not enter into a contract with an investment consultancy provider for the provision of IC Services or continue to receive such services from an existing provider unless it has set Strategic Objectives for the provider. Strategic Objectives are objectives for the provider's advice by reference to the four areas in paragraph 4.2.2 above in accordance with the council's pension investment strategy.

4.3

Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonborough ngtonpensionfundinvestmentstrategystatement.pdf

4.4 **Resident Impact Assessment:**

The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding".

4.4.1 An equalities impact assessment has not been conducted because this report is seeking. opinions on a government policy document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked to consider and agree the draft objectives attached as Appendix 1,and review them annually and or where their requirements change.

Background papers:

None

Final report clearance:

Signed by:

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

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Appendix 1

Islington Council's Draft Objectives for Investment Consultancy(IC) Service Providers

Islington Pension Fund- Requirement	**IC Provider Objective**
<u>Overall objective</u> • to pay members benefits as they fall due • to achieve maximum growth of pension fund investments to reduce burden of employer contributions over the long term • to ensure the Fund considers environmental, social and governance factors including climate change and stewardship risk as part of its fiduciary duty	Give considerations to overall objective and provide the below: • To guide the Fund to determine appropriate investment objectives, level of risk and a diversified investment strategy • To advise on new investment opportunities and emerging risk • Propose amendments to investment strategy where appropriate • To help develop policies and advise on social , environmental and governance factors as part of long term investment risk and opportunities
To select investment managers and where aligned with the objectives of pooling and associated guidance from LCIV	To make recommendations on the appointment and retention of appropriate investment managers, aligned to deliver the Fund 's objectives and investment strategy over the long term when requested
To ensure cost efficient implementation of the Fund's investment strategy	To assist with achieving timely and cost effective implementation of the funds decisions when requested
To ensure the Fund's approach reflects relevant regulatory and legislative requirements and good governance framework	• To provide advice on any matters of which the Fund is required by law or good practice to comply with on investments • To develop knowledge and understanding of investment matters

Islington Pension Fund- Requirement	**IC Provider Objective**
To have a collaborative relationship with IC providers	• To provide clear understanding of Fund objectives • To provide strong positive working relationship with adequate resource • To provide support at competitive terms of cost

ISLINGTON

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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pension Board/Pensions Sub-Committee	3 December 2019		n/a

Delete as appropriate	~~Exempt~~	Non-exempt

SUBJECT: 2019 ACTUARIAL VALUATION – DRAFT FUNDING STRATEGY STATEMENT

1. Synopsis

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

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

1.2 This report informs the pension board and pensions sub-committee of the main issues that employers admitted into the Fund are to be consulted on, in the draft FSS, as part of the 2019 actuarial review.

2. Recommendations

2.1 To review and note a summary of the main updates in the draft FSS , that employers are going to be consulted on between December and January 2020.

2.2 Agree that officers with the Fund Actuary update the FSS for consultation with Employers admitted into the Islington Fund .

3. Background

Introduction

3.1 The 2019 actuarial valuation is now underway and as part of the process preparatory work is being undertaken to determine the funding position and investment strategy review that can support sustainable contributions from employers.

3.1.1 The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.

The FSS must also be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement.

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3.1.2 The draft FSS is being prepared and, the main updates since the last valuation include the following:

a) An update for the latest Regulations i.e. to reflect the introduction of Exit Credits that were introduced in 2018.

b) Review of the discount rate - Expected return analysis has been performed to inform the decision on the appropriate discount rate for the 2019 valuation. The discount rate is expressed as the "real" expected asset return above CPI. Following a period of strong investment returns, the outlook is now for lower returns in the future. Therefore, following discussions between the Actuary, Officers and Members, it will be proposed to reduce the expected level of real return above CPI for past service from CPI +2.2% p.a. at the 2016 valuation (CPI+2.3% for the Council) to CPI+1.8% p.a., to maintain an appropriate level of prudence in the discount rate. It will also be proposed to reduce the discount rate for future service from CPI +2.75% p.a. at the 2016 valuation to CPI+2.25% p.a.

c) It is also proposed to make an allowance for additional real returns of up to 0.2% p.a. to be earned during the Council's recovery period. A similar approach was adopted at the 2016 valuation, reflecting the long-term covenant of the Council and is based upon potential investment strategy changes that will support the additional return assumption without a corresponding increase in risk. This to ensure the Council's budgetary requirements are met based on the outcomes of the valuation calculations discussed with the Actuary, Officers and Members.

d) Updates to the life expectancy assumptions following analysis performed on the Fund's membership. The analysis indicates that whilst life expectancy is still increasing, the rate of increase experienced in short-term since the 2016 valuation was less than was built into the assumptions. This has been incorporated into the assumptions for the 2019 valuation along with an adjustment to the longer-term projection to reflect current views.

e) Alongside the long term salary increase assumption of CPI+1.5% p.a., it is proposed to allow for expected short term pay restraint of 2% p.a.(covering both headline increases and incremental drift) up to 31 March 2023 although employers will be able to opt for the long-term assumption only should they wish.

f) There is a proposed reduction in the average deficit recovery period of 3 years, which is generally equivalent to maintaining the same end date as the 2016 deficit recovery plan. This would apply to employers, subject to covenant and affordability considerations, and has been incorporated into the assumptions.

g) Updates to the Fund policies included within it (e.g. admission and termination) to allow for the potential Regulation and guidance changes. Whilst these are still at the consultation stage, it is important that they are built into the FSS as they may be implemented before the valuation report is signed off. The key changes which have been incorporated are as follows:

   i) **The Cost Management Process** - The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions. The outcomes of the cost management process were expected to be implemented from 1 April 2019. However, this has now been put on hold due to the McCloud case discussed below and if, as expected, it is not implemented the wording in the draft FSS will fall away

   ii) **McCloud judgment** - These are age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other public sector schemes). It is not known how these cases will affect the LGPS or the cost management process at this time and is almost certainly not going to be known by the time the valuation is signed off. The potential impact of McCloud/the cost management process will need to be quantified as reasonably as possible based on the information available. This is in line with the guidance from the Scheme Advisory Board. The potential impact of the McCloud judgment on contribution outcomes will be communicated to employers as part of the consultation on the FSS to ensure that they are aware of the budget risk and are able to make provisions accordingly.

   iii) **4 yearly valuation cycle and interim valuations/employer contribution reviews** – MHCLG have proposed to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one with effect from 2024. It is proposed to phase this in by requiring a valuation in 2022, 2024 and 4 years thereafter. It is also proposed to introduce a power for LGPS funds to undertake interim valuations (in full or in part) and allow LGPS administering authorities to amend an employer's contribution rate in between valuations. The situations when this would be applied will therefore be incorporated into the FSS.

   iv) **Deferred employers** - the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant.

v) Deemed employers - This is an alternative route to the admitted body route for achieving pension protection. It relates to employers which have employees working for a third party but fall under the deemed employer for the purposes of the Regulations. An update to Fund policies will therefore be required.

Further updates on the progress of these Regulatory issues will be provided to the Board and Committee in due course.

3.1.3 Members are asked to note the updates and agree that officers with the Fund Actuary update the FSS for consultation with Employers admitted into the Islington Fund. The results of the consultation will be reported to Members at the March meeting so that an informed decision can be made to approve the final version of FSS for publication by end of March.

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

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

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

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 Resident Impact Assessment

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

4.4.1 An equalities impact assessment has not been conducted because this report is an update on existing exercise and the consultation of employers will mitigate any inequality issues.

5. Conclusion and reasons for recommendation

5.1 Members asked to review and note the updates to prepare the draft FSS for employers' consultation.

Background papers:
None

Final report clearance:

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

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ISLINGTON

Finance Department
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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	3rd December 2019		

Delete as appropriate	Exempt	Non-exempt

Appendix 1and 2 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

SUBJECT: The London CIV Update

1. Synopsis

1.1 This is a report informing the committee of the progress made at the London CIV in launching funds, running of portfolios and reviewing governance and investment structure, over the period September to November

2. Recommendations

2.1 To note the progress and activities in the news briefing Collective Voice-October attached as Appendix 1 (private and confidential)

2.2 To note and consider the letter from CEO LCIV on the update after remuneration policy review attached as Appendix 2(private and confidentional)

3. Background

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

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

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

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

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

3.5 **Update to October**

3.5.1 **Fund launch timeline**
The LCIV Infrastructure Fund and LCIV Global Equity Core is now open for subscriptions. This means their next steps involve moving forward with the LCIV Inflation Plus Fund. The new emerging market manager J.P. Morgan has transitioned across to the platform.

3.5.2 **London CIV Remuneration Policy Review for Information**
Members were updated in September about proposals and a questionnaire that all boroughs were asked to complete by 16th September. The Remuneration Policy review recognises the challenges of recruiting and retaining specialist staff and also shareholder concerns about

the liabilities represented by the pension scheme which were raised several times in the process of seeking signature of the pension guarantee agreements.

3.5.2.1

To complete the outstanding formal processes of setting up the LGPS scheme that begun in 2015 all boroughs are required to sign the existing guarantee agreement so that the Admission Agreement can be signed off. This must be done before the scheme can be closed to new entrants.

3.5.2.2 The CEO has now written to all boroughs updating on the London CIV board's decisions to close the scheme to all new entrants once the guarantee and recharge documents are signed off by all 32 boroughs, as well as assurances to limit liabilities to boroughs. Members are asked to consider the new update(attached as Exempt Appendix 2)

3.5.3 The LCIV now publish a monthly news bulletin called the Collective Voice- a copy is attached for information as Appendix 1(private and confidential). Highlights include;the new fund launch, breadth of information on the recent happenings at LCIV.

3.5.6 **Responsible investment**

London CIV has commissioned former CEO of the LGPS pool company Brunel Pension Partnership Ltd, to conduct an ESG Stock Take of London CIV and shareholder funds. The initial piece of work will culminate in recommendations to the London CIV Board in November and on to the Shareholders Committee in December / January of how London CIV can move forward with incorporating the Responsible Investment and Environmental, Social and Governance requirements of the 31 London borough funds and the City of London fund into its products and service offerings.

3.5.6.1 A half day workshop for pension officers to sound out their views took place on 13th November and a survey of current ESG policies was sent round for completion and that has been done.

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

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

The transfer of our Allianz managed equities to the CIV in December 2015 was achieved at a transfer cost of £7,241.

All sub-funds investors pay a management fee of .050% of AUM to the London CIV in addition to managers' fees.

In April 2017 a service charge of 50k (+VAT) development funding was invoiced and a balance of £25k will be raised in December once the Joint Committee has reviewed the in-year budget.

Members agreed to the 0.005% of AUM option for charging fees on the LGIM passive funds that are held outside of the CIV and agreed that (depending on the outcome of discussions) the same will be applied to BlackRock passive funds.

The Newton transition cost the council £32k.

In a April 2018 annual service charge of £25k (+VAT) and £65k (split £43.3k and £21.6k) development fund was invoiced to all members.
In April 2019 annual service charge of£ 25k(+VAT) and£ 65k(split £43.3k and £21.6k) was invoiced

4. Implications

4.1 Financial implications:

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

4.2 Legal Implications:

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

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

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

4.3.1 None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonborougho ngtonpensionfundinvestmentstrategystatement.pdf

4.4 Resident Impact Assessment:

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

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

5. Conclusion and reasons for recommendations

5.1 The Council is a shareholder of the London CIV and has agreed in principle to pool assets when it is in line with its Fund strategy and will be beneficial to fund members and council tax payers. This is a report to allow Members to review progress at the London CIV and note the progress to date and consider the LCIV CEO latest letter on remuneration(attached as Exempt-Appendix 2

Background papers:
Final report clearance:

Signed by:

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

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ISLINGTON

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	3rd December 2019		n/a

Delete as appropriate		Non-exempt

SUBJECT: PENSIONS SUB-COMMITTEE 2019/20– FORWARD PLAN

1. Synopsis

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

2. Recommendation

2.1 To consider and note Appendix A attached.

3. Background

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

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

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

None applicable to this report

4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**
None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 **Resident Impact Assessment**
None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding
An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

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 Resources	Date
Received by:		
	Head of Democratic Services	Date

Report Author: Joana Marfoh
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APPENDIX A

Pensions Sub-Committee Forward Plan for December 2019 to June 2020

Date of meeting	Reports
	Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update • CIV update report
3 December 2019	Hearthstone Review -Update Investment Strategy Whole fund climate change scenario analysis Equity protection monitoring presentation by LGIM Equity protection training and future options Draft objectives and performance monitoring of investment consultancy Draft FSS consultation for information
24 March 2020	Employer consultation results on draft FSS Actuarial valuation report Investment strategy update
15 June 2020	Final position report on equity protection

Past training for Members before committee meetings-

Date	**Training**
16 September 2014	Investment in Sub Saharan Africa - 6.20-.6.50pm Infrastructure - 6.55- 7.25pm
25 November 2014	Multi asset credit- 6.15-6.45pm Real estate including social housing- 6.50-7.20pm
Date	**Training**
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-	Social bonds- 4.45pm
21 September 2016	Actuarial review training

November 2018	Actuarial update

Proposed Training before committee meetings

June 2019-4pm	Actuarial review

ISLINGTON

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7 Newington Barrow Way
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Report of: Director of Corporate Resources

Meeting of	Date	Agenda Item	Ward(s)
Pension Board/Pension Sub-Committee	03 December 2019		

Delete as appropriate		Non-exempt

SUBJECT: PENSION ADMINISTRATION PERFORMANCE

N.B. – Assuming Pensions Board (3.12.19) approve the proposals in this report, the Pensions Sub-Committee is asked to consider and approve recommendation 2.6

1. Synopsis

1.1 This report provides the Board with information on the administration activities of the Pension Administration. The information is in respect of the period from 1 August 2019 to 31 October 2019 and includes the number of LGPS members auto-enrolled into the scheme for this period.

1.2 The report proposes an amendment to the implementation of regulation 40, 43 and 46 of the LGPS in relation to the discretions available under the LGPS. As the Pension Board do not have the power to amend the regulations, the Pension Sub-Committee will be recommended to make the necessary amendment.

1.3 The report provides information on the Pensions page of Islington Council's website and proposals for future inclusions.

1.4 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 deferment of the report detailing the numbers, department and salary profile of Islington employees who are not members of the LGPS until March 2020 Pension Board meeting.

2.3 To note the number of members auto-enrolled into the Local Government Pension Scheme during the relevant period.

2.4 To consider and agree the proposals for future inclusion of information available to staff on the Pensions page of Islington Council's website.

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

2.6 To recommend that Pension Sub-Committee agree an amendment to regulation 40, 43 and 46 of the LGPS, concerning employer discretions, as detailed in paragraph 4.1 of this report.

3. Background – Statistics and key performance indicators

3.1 The membership profile at 31 July 2019 and 31 October 2019 is shown in the following table.

Category	Jul - 19	Oct - 19
Number of current active members	6,356	6,508
Number of preserved benefits	8,089	8,034
Number of Pensions in payment	6,118	6,205
Number of Spouses/dependants pensions in payment	1,041	1,047
Total	21,604	21,794

3.2. Key performance indicators from 1 August 2019 to 31 October 2019:

Process	**Target days to complete**	**Volume**	**Target % Achieve-ment**	**% Achieved within target days**	**Actual average days**
Deaths	5	15	95%	93.75%	5.33
Retirement benefits	5	44	95%	86.29%	6.57
Pension estimates	10	80	95%	72.63%	13.70
Preserved benefit calculations	15	17	95%	70.59%	19.40
Transfer-in quotation	10	11	95%	100.00%	8.91
Transfer-in actual	10	11	95%	100.00%	9.80
Transfer out actual	12.5	15	95%	95.10%	13.05
Transfer out quotation	15	26	95%	100.00%	16.40
Legacy Cases - Valuation	-		-	-	-
All processes	-	219		82.10%	

3.3 The overall performance has slipped from the 85.33% achievement of processes completed within the target days as at the end of Jul 2019. This is because of an increase in the workload of the Pensions Office, staff vacancies not being filled and long- term sickness. After the actuarial valuation data was submitted, a review of the Pensions Administration function was undertaken to examine processes and quantify resourcing deficits. An additional resourcing of

£61,500 per annum was agreed with the Interim Director of Finance and Property as part of the pension management cost. The new structure is designed to deliver on key performance targets as well as giving adequate capacity for work to be carried out on a strategic level in order to be compliant with the Pensions Regulator codes of practice and instructions from the Pensions Board. The administration cost per member for last year was £78.26 and this new structure will add an extra £3 per member in a full year. Unfortunately, there is no London wide benchmarking data published now due to the variations on externalisation of service provision.

3.4 It has not been possible for our Payroll & Analytics teams to provide an accurate report on the exact numbers of part-time and full-time staff who are not enrolled in the LGPS, split by department and salary. The report received contained too many anomalies and inconsistencies. It is proposed to bring in a consultant to write a program to produce this report which will be available for the Pension Board meeting in March 2020.

3.5 Number of members auto-enrolled into the LGPS from August to October 2019:

Month	**Starters No.**	**Opt Outs**	**Opt Out %**
August	52	3	5.77
September	140	11	7.86
October	97	3	3.09
Total	289	17	5.88

3.6 It is proposed that the Pensions Page on Islington Council's website and intranet be updated. It is heavily text driven and needs to be more user friendly, with effective signposting, segmentation and optimising the use of white space and images. Pensions will be working with the Communication Team and plan on having an amending site in place by March 2020. Inclusion on the amended site will be forms which members frequently request (i.e. Nomination and Transfer Requests).

3.7 Since the September 2019 meeting of the board -3- communications have been received thanking Pension Administration staff for their service.

3.8 There has been one complaint during the period. A member who works for an Academy complained that she is only being offered a settlement agreement with the termination of her employment and not redundancy, which means that her pension benefits will be reduced. I have written to both parties explaining what benefits are payable under redundancy and any reductions to benefits taken early outside of redundancy. I have also made it clear that Islington Council's Pension's Office solely administers the LGPS on behalf of eligible members and does not get involved in any employer decisions by the Academy.

3.7 There are no Internal Disputes to report.

4 Employer Discretions

4.1 Regulations 40(2), 43(2) and 46(2) of the LGPS 2013 gives the Council absolute discretion in relation to the payment of the death grants to the executor of the estate of a deceased member. The current process by which this is exercised is that the Director of Finance and Property signs off any such payment. There have been situations in the recent past where the exercise of this function has been delayed because of the difficulty in obtaining the sign off due to the absence of the Director of Finance and Property. It is proposed that the Pension Board make a recommendation to the Pension Sub-Committee that the following key staff (each acting individually) have delegated authority to also provide the sign off function for these death grant payments, where the Director of Finance and Property is not available, to avoid any delay to bereaved families:

Chief Executive
Head of Treasury Management & Pension Fund
Chief Accountant
Director Service Finance

4. Implications

4.1 Financial Implications

4.1.1 The cost of administering the LGPS is chargeable to the Pension Fund.

4.2 Legal Implications

4.2.1 There are no specific legal implications in this report.

4.3 Resident impact assessment

4.3.1 The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

4.3.2 In respect of this report, a Resident 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 and contribution to achieving a net zero carbon Islington by 2030:

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

5 Conclusion and reasons for recommendations

5.1 The report will be made to each meeting of the Pension Board and is provided in order to assess administration performance, dispute resolution and agree to the proposed amendment to Employer discretion on regulation 40.

Background papers:

None

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Agenda Item E1

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