



**Resources Department
Town Hall, Upper Street, London, N1 2UD**

AGENDA FOR THE PENSIONS BOARD

Members of the Pensions Board are summoned to attend a meeting which will be held via Zoom on **8 December 2020 at 6.00pm.**

Link to the meeting: <https://weareislington.zoom.us/j/97713206120>

Enquiries to : Mary Green
Telephone : (020) 7527 3005
E-mail : democracy@islington.gov.uk
Despatched : 30 November 2020

Membership

Employer representatives:

Maggie Elliott (Vice-Chair)
Councillor Paul Smith (Chair)
(vacancy)

Scheme member representatives:

Mike Calvert
Valerie Easmon-George(+ vacancy for substitute)
George Sharkey

Independent member

Alan Begg

Quorum is 3, including at least one employer representative and one member representative

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A. Formal matters

1. Apologies for absence
2. 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.

3. Minutes of the previous meeting 1 - 4

B. Non-exempt items

1. Pension administration performance 5 - 8
2. Draft Pension Fund Annual Report 2029-20 (to follow)
3. Investment Strategy Statement update (for information and consultation) 9 - 24

4. Forward Plan of business (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

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 ordinary meeting of the Pensions Board will be on 23 March 2021

The Annual General Meeting of the Pension Fund will take place on
10 December 2020, at 12.30pm

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London Borough of Islington

Pensions Board - 15 September 2020

Minutes of the meeting of the Pensions Board held virtually via Zoom on 15 September 2020 at 6.00 pm.

Present: Alan Begg, Maggie Elliott (Vice-Chair), George Sharkey and Councillor Paul Smith (Chair)

Observers: Councillors Paul Convery and Satnam Gill OBE

Also: Jonathan Perera, Michelle Doman and Tomi Nummela from Mercer Ltd

Councillor Paul Smith in the Chair

94 APOLOGIES FOR ABSENCE (Item A1)

Received from Valerie Easmon-George.

95 DECLARATION OF INTERESTS (Item A2)

None.

96 MINUTES OF THE PREVIOUS MEETING (Item A3)

RESOLVED:

That the minutes of the meeting held on 30 June 2020 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

97 PENSION ADMINISTRATION PERFORMANCE (Item B1)

The Deputy Pensions Manager introduced his report. Referring to paragraph 4 of the report of the Corporate Director of Resources on the "Impact of coronavirus on Pensions Administration", he stated that most communication with pensioners was made through the Royal Mail service, rather than electronically. Members of the Board suggested that pensioners and other users of the Service should be offered an option of either communication by post, or by email. The Director of Service Finance pointed out that, as the Pension Fund was a separate account and therefore not subject to a Council-wide reduction in salary budget, he would seek the agreement of the Finance Management Team to the recruitment of an additional Pensions Officer.

In response to a question about the availability of the Death Grant Form, the Deputy Pensions Manager stated that the Form was available on the Council's internal website. He undertook to include reference to its availability on the Annual Benefit Statement.

RESOLVED:

- (a) That the number of members auto-enrolled into the Local Government Pension Scheme from 1 May 2020 to 31 July 2020, as detailed in the report of the Corporate Director of Resources, be noted.
- (b) That the information in respect of the Internal Dispute Resolution Procedure, compliments and complaints, also detailed in the report, be noted.
- (c) That the new working arrangements for the Pensions Office and the impact that Coronavirus was having on services, as detailed in the report, be noted.
- (d) That the imminent introduction of a public-sector exit payment cap by the Government, detailed in Appendix 1 of the report, be noted.
- (e) That pensioners and other users of the Service be offered an option of communication either by post, or by email.
- (f) That a letter of representation be sent to MHCLG outlining the Board's concerns that even those on a modest salary will be affected by the introduction of the £95k exit payment cap.
- (g) That it be noted that the Deputy Pensions Manager would arrange for a £50 incentive to join the LGPS to be advertised this quarter.

98 LGPS MCCLOUD CONSULTATION - AMENDMENT TO STATUTORY UNDERPIN (Item B2)

The Head of the Pension Fund and Treasury Management introduced the report, noting the many different aspects of work that would need to be carried out to implement the changes and to administer the changes once they took effect. These proposals would be resource-heavy, involving the collation of data, some of which dated back to 2014.

RESOLVED:

That MHCLG be requested to consider a delay to the implementation of the proposals from April 2022, in view of the administrative impact on the current work of the Council, especially considering the impacts of Coronavirus.

99 FORWARD PLAN OF BUSINESS (Item B3)

The Head of the Pension Fund and Treasury Management drew members' attention to the fact that the Pension Fund AGM had been scheduled for 12 October 2020. Given the situation with regard to Coronavirus and social distancing requirements, it would no longer be possible to hold the meeting at the Assembly Hall and asked members to consider alternatives. She was not aware of any legal requirement to hold an AGM, rather it was good governance.

Following discussion, members agreed that, in order that the necessary arrangements could be made, the date of the AGM be postponed by up to four weeks and that a letter be sent to all pensioners and potential attendees to advise them that this year's AGM would be held remotely. Attendees to be offered a choice of joining the meeting online via a link, or by telephone. Attendees to be requested to submit questions in advance and, for those who could not attend the meeting, a written response would be provided.

RESOLVED:

- (a) That, in order that the necessary arrangements could be made, including the availability of the Annual Report, the Head of Pension Fund and Treasury Management be authorised to postpone the date of the AGM by up to four weeks and that a letter be sent to all pensioners and potential attendees to advise them that this year's AGM would be held remotely. Attendees to be offered a choice of joining the meeting online via a link, or by telephone. Attendees to be requested to submit questions in advance and, for those who could not attend the meeting, a written response to be provided.
- (b) That Appendix A attached to the report of the Corporate Director of Resources be noted.
- (c) That the contents of exempt Appendix B - Covid19 Fund checklist – be noted
- (d) That the Risk Register be reviewed by the Board every six months
- (e) That the revised Covid plan be submitted to the next meeting and then every six months, with the pre and post mitigation numbers.
- (f) That it be noted that a report on equity protection would be considered at a future date.
- (g) That it be noted that reports on (i) discretions and (ii) interim flexible contributions would be submitted to the next meeting.

100

FORWARD PLAN OF BUSINESS - EXEMPT APPENDICES (Item E1)

RESOLVED

That the contents of the exempt appendix be noted.

The meeting ended at 6.55 pm

CHAIR

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Report of: Corporate Director Resources

Meeting of	Date	Agenda Item	Ward(s)
Pension Board	8 December 2020		

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SUBJECT: PENSION ADMINISTRATION PERFORMANCE

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 2020 to 31st October 2020 and includes the number of LGPS members auto-enrolled into the scheme for this period.
- 1.2 The report also provides information regarding the Internal Dispute Resolution Procedure, compliments and complaints.

2. Recommendations

- 2.1 To note the number of members' auto-enrolled into the Local Government Pension Scheme during the relevant period.
- 2.2 To note the information in respect of the Internal Dispute Resolution Procedure, compliments and complaints.
- 2.3 To note the new working arrangements for the Pensions Office and the impact that the coronavirus is having on our services.
- 2.4 To note the initial impact of the public-sector exit payment cap by government on members.

3. Background – Statistics and key performance indicators

3.1 The membership profile at 1 August 2020 and 31 October 2020 is shown in the following table.

Category	Aug - 20	Oct - 20
Number of current active members	6,468	6,438
Number of preserved benefits	8,362	8,272
Number of Pensions in payment	5,968	6,013
Number of Spouses/dependants pensions in payment	987	995
Total	21,785	21,718

The number of preserved benefits have reduced by just over 1% following our data cleansing exercise which has led to the aggregation of member service into one record.

3.2. Key performance indicators from 1 August 2020 to 31 October 2020:

Process	Target days to complete	Volume	Target % Achievement	% Achieved within target days	Actual average days
Deaths	5	18	95%	97.00%	6.00
Retirement benefits	5	64	95%	95.00%	6.00
Pension estimates	10	60	95%	88.00%	11.00
Preserved benefit calculations	15	37	95%	80.00%	17.00
Transfer-in quotation	10	21	95%	90.00%	12.00
Transfer-in actual	10	22	95%	100.00%	9.00
Transfer out actual	12.5	14	95%	96.00%	14.00
Transfer out quotation	15	33	95%	100.00%	13.00
Legacy Cases - Valuation	=		=	=	=
All processes	=	422		84.00%	

3.3 There has been an increase of 1% in overall performance from the 83.00% achieved in the last quarter in completed processes within the target days. There has also been an increase of just over 5% of total cases processed over this quarter in comparison with the last quarter which is mainly attributable to work done on the production of the annual benefit statements.

3.4 Number of members auto-enrolled into the LGPS from August to October 2020:

Month	Starters No.	Opt Outs	Opt Outs %
August	44	5	11
September	45	7	16
October	93	6	6
Total	182	18	10

3.5 Since the September 2020 report to the board -5- communications have been received thanking Pension Administration staff for their service and -1- complaint in relation to the exit payment cap.

3.6 There are no Internal Disputes to report.

4. Impact of coronavirus on Pensions Administration

- 4.1 The Pensions Office receives a high volume of post and as a consequence pension staff have continued to access the Office to scan the post twice a week onto our database for processing. This is done on a rota basis and social distancing is practiced at all times.

5. Cap on Public Sector Exit Payments

- 5.1 The introduction of the 95K exit payment cap has led to a number of queries and concerns raised by our employees. The information we have been able to provide is limited because of the conflict between the LGPS and the exit cap regulations.

6. Implications

6.1 Financial Implications

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

6.2 Legal Implications

- 6.2.1 There are no specific legal implications in this report.

6.3 Resident impact assessment

- 6.3.1 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.

- 6.3.2 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.

6.4 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

7 Conclusion and reasons for recommendations

7.1 The report will be made to each meeting of the Pension Board and is provided in order to assess administration performance and dispute resolution.

Background papers:

None.

Final report clearance:

Signed by:

Corporate Director of Resources

Date

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pension Board/Pensions Sub-Committee	8 December 2020		n/a

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SUBJECT: INVESTMENT STRATEGY STATEMENT UPDATE

1. Synopsis

- 1.1 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from 1st November 2016 and required all funds to publish an Investment Strategy Statement (ISS) by 1 April 2017.
- 1.2 The ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. The ISS must also 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.
- 1.3 As part of the Actuarial valuation process the existing strategic asset allocation was reviewed. Members have since had the strategy COVID 19 stress-tested and agreed the new allocation at the September meeting. The draft ISS (attached as Appendix 1) is now being updated to reflect the new strategic asset allocation and agreed before it can be published.

2. Recommendations

- 2.1 To note the draft ISS document tracked (attached as Appendix 1)
- 2.2 To agree the changes and instruct officers to publish the new ISS.

3. Background

Introduction

- 3.1 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from 1st November 2016 and required all funds to publish an Investment Strategy Statement (ISS) by 1 April 2017.
- 3.2 The ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. The ISS must also 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.
- 3.3 As part of the 2019 actuarial valuation process the investment strategy was reviewed to ascertain the risk and return parameters that could deliver the long-term investment target return to maintain affordability and pay our pensioners. The existing strategic asset allocation was amended. Post March 2020, the Covid 19 pandemic had an adverse impact on economic outlook and as such, the asset allocation was stress tested to ensure it was still suitable. Members agreed the strategy in their last meeting in September and the ISS needs to be amended to reflect the changes.
- 3.4 The main changes are the addition of private debt and multi asset credit asset classes and the removal of diversified growth and corporate bonds in the table of "paragraph 3- *Investment strategy and the process for ensuring suitability of investments.*" Members are asked to agree the tracked changes to the ISS so it is up to date, and published.
- 3.5 In order to comply with the guidance administering authorities must take proper advice, however the source is not prescribed. The Fund will therefore take advice from its investment advisors and actuary as well as consult the Pension Board.

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

- 4.3 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from 1st November 2016 and requires all funds to publish an Investment Strategy Statement (ISS) by 1st April 2017. 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 ISS has been designed to be a living document and is an important governance tool for the Fund and must be consulted and receive advice on its preparation.

- 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>

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 agree the updates to the draft ISS (attached as Appendix 1) and instruct officers to publish the updated document.

Background papers:

None

Final report clearance:

Signed by: Corporate Director of Resources Date

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INVESTMENT STRATEGY STATEMENT

LONDON BOROUGH OF ISLINGTON PENSION FUND – December 2020

1. Introduction

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

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

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

Myners Principles

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

2. Investment Beliefs and Objectives

The Committee has adopted policies with the primary objective being to pay members benefits as they fall due and the secondary objective to achieve maximum growth of pension fund investments to reduce the burden of employer contributions. The target for real investment returns above CPI is set out in the Fund's Funding Strategy Statement.

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

- Funding, investment strategy and contribution rates are linked
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments
- Investing over the long term provides opportunities to improve returns.

- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task.
- Risk mitigation will be prioritised according to size of potential impact and risks will only be taken where they are expected to be rewarded.
- “Environmental, Social and Governance (ESG) issues can have a material impact on long-term risk and return outcomes and considering these issues is consistent with the fiduciary duty of the Committee. In particular, the Fund recognises that climate change poses a systemic risk with potential long-term investment risks and opportunities”.

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

As noted above, the Fund’s objective is to pay benefits as they fall due and this requires the build-up of sufficient reserves in advance. The Fund is currently assessed to have a deficit in terms of the reserves needed and so the asset strategy is focused on achieving returns in excess of CPI inflation, without taking undue risk.

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

Asset class	Allocation %	Allowable ranges %	Role (s) within the strategy
Equity (developed, emerging and frontier markets)	46.0	+/-6.0	-Long term growth in excess of inflation expected
Private Equity	4.0	+/-2.0	-Additional returns in excess of public equity
Multi Asset Credit	10.0		-Diversification across credit spectrum -higher risk adjusted returns -Liquid instruments
Property including Social Housing	25.0	+/-2.0	-Diversification -Generates investment income -Returns expected to be inflation-sensitive -Exposure to Illiquidity premium
Private Debt	5.0	+/- 2.5	-Access to credit risk premium. -Illiquidity premium
Infrastructure	10.0		-Diversification -Generates investment income -Returns expected to be inflation-sensitive -Exposure to Illiquidity premium

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

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

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

4. Risk measurement and management

The Committee assesses risks both qualitatively and quantitatively, with the starting point being the triennial strategy review. Risks are considered, understood and then prioritised accordingly – the Committee evaluates the Fund's risk attribution analysis as part of the investment strategy review following the actuarial valuation.

A- Investment Risks

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

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

Diversifying assets – The Fund has a significant amount of assets allocated to a range of non-equity, diversifying assets, with allocations to property, bonds, diversified growth and a plan to build allocations to real assets such as infrastructure and social housing. The risks that these investments bring at an individual level are not insignificant but the Committee believes that over the long term

these assets will provide returns that compensate for the risks being run. Additionally the level of diversification the assets provide helps to reduce the Fund's reliance on returns from equities. Illiquid assets such as property are also a valuable source of income.

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

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

B- Demographic Risks

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

C- Cashflow Management Risks

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

D- Governance Risks

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

Details of the Fund's governance structure can be found in the Governance Compliance Statement in the Annual Report found via <https://www.islington.gov.uk/about-the-council/apply-for-a-job/council-pension-scheme> useful documents. The Committee members receive training on

a regular basis as a group and attend individual training courses and seminars. Each member must attend the 3 Day Trustee Training organised by the Local Government Association.

E- ESG Risks

The Committee believes that ESG (including climate change) risks should be taken into account on an ongoing basis. ESG considerations are an integral part of the Fund's strategy and objective of being a long term investor. The Committee expects its investment managers to include information on how carbon risk is being managed within their respective portfolios as part of regular reporting for the Fund.

The Fund encourages its underlying investment managers to comply with the UK Stewardship Code and will monitor progress, as well as monitor the ESG ratings of its Fund managers by way of an annual report from its Investment Consultant on the ESG credentials of its investment managers.

The Fund has committed to reduce climate change risk by decarbonising the Fund's portfolio. The Committee expects to continuously review further opportunities, across all asset classes, to reduce the Fund's reliance on carbon sensitive assets by considering the potential financial impacts of both the transition to a low-carbon economy and the physical impacts of different climate outcomes.

The Fund will monitor 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 2°C to 4°C.

The Committee accepts that engagement is key in relation to strong corporate governance, which in turn will reduce ESG risks.

5. Approach to asset pooling

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

The Fund already invests assets with the London CIV (c. £322m as at 30 June 2018) and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

The Fund holds a proportion of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools

for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

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

The Fund will actively engage and seeks to work collaboratively with likeminded Funds, London CIV on climate change and ESG topics, including the provision of fund alternatives that will help London CIV members to decarbonise, reduce ESG risks and invest in sustainably themed opportunities in their investment portfolios.

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

The Committee has a fiduciary duty to invest Fund assets in members' best interests and so must ensure that assets are invested in an appropriate manner; as a result all material ESG considerations, including climate change, must be taken in light of expected risk and return implications.

The Fund seeks to fully incorporate ESG (including climate change) risks and opportunities into its investment strategy and investment implementation, with a view to further a reduce or remove exposures to carbon dioxide from fossil fuel energy sources and other greenhouse gases and reduce ESG risks of the portfolio in line with stated objectives. In particular the Fund will seek to allocate investment to sustainability-themed investments, as well as uphold high standards of ESG incorporation the Fund.

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

- a. Administering authorities are free to adopt a policy of responsible investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.
- b. Administering authorities are free to avoid certain kinds of investment, which they consider scheme members would regard as objectionable as long as they make equally financial advantageous and prudent investments elsewhere. They may also make "ethical" investments provided these are otherwise justifiable on investment grounds.
- c. Administering authorities are not entitled to subordinate the interests of members to ethical or social concerns. The financial performance of the Fund consistent with proper diversification and prudence is paramount.

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

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

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

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

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

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

1) Reducing future emissions by focussing on absolute potential emissions (tons of CO₂e), 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 footprinting exercise.

2) Reducing "exposure to carbon intensive companies" as measured by Weighted Average Carbon Intensity ¹, 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 footprinting exercise.

3) Will invest 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.

In order to monitor and guide decarbonisation and allocation to sustainability, the Fund will adopt TCFD supplemental guidance for asset owners where applicable.

The Fund will review targets annually. The Fund will form a view on decarbonisation of all assets classes beyond public equities by 2022 and will develop mechanisms to evaluate the progress.

7. Policy of the exercise of rights (including voting rights) attaching to investments and stewardship

Voting:

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

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the LAPFF as far as practically possible to do so and

¹ Weighted Average Carbon Intensity (tons CO₂e / \$M sales). Calculated based on Scope 1 and 2 emissions. Does not relate to the Fund's ownership share and hence serves as an indicator of potential climate-related risks. Importantly facilitates comparison with non-equity assets. FSB Taskforce for Climate-related Disclosures (TCFD) recommended metric for asset owners indicating portfolios exposure to carbon-intensive companies.

will hold managers to account where they have not voted in accordance with the LAPFF directions.

In addition, voting records are published in the year end annual reports and quarterly reports of voting actions are posted on the Fund's website <https://www.islington.gov.uk/about-the-council/apply-for-a-job/council-pension-scheme> useful documents. The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements.

Stewardship:

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

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

Advice Taken

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

APPENDIX A

Myners Investment Principles - Compliance Statement

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

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

Principle 1 - Effective decision-making

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

Comment

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

Principle 2 - Clear Objectives

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

Comment

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

Principle 3 - Risk and Liabilities

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

Comment

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

Principle 4 - Performance Assessment

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

Comment

Overall Fund performance and detailed portfolio performance is measured quarterly, annually and over longer periods by external independent measurement specialists BNY Mellon. Performance is also monitored against the local authority peer group of pension funds, also based on old State Street Company data but from 1 April 2016 run by PIRC (for the local authority universe), although in line with the Myners Principles the peer group is no longer considered the benchmark for overall fund performance. The overall benchmark is specific and customised to the Fund's objectives based on the outcome of the successive asset/liability studies.

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

Pension benefits administration performance is reported regularly to Pensions Board

Principle 5 - Responsible Ownership

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

Comment

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

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

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

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

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

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

Principle 6 - Transparency and Reporting

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

Comment

The Council's SIP (and its replacement the Investment Strategy Statement from 1 April 2017) is currently published and available to scheme members on the Council website. Summaries of performance and monitoring of managers are reported in the Pension Fund Annual Report and available to all pensioners and employees each year. Further performance reporting is provided to contributors and pensioners at the AGM. The full Pension Fund Report and Accounts are published as part of the Council's overall Annual Report and Accounts and available to all members of the public.