Public Document Pack

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 5, Town Hall, Upper Street, N1 2UD, on **14 September 2021 at 7.00 pm.**

Enquiries to	:	Mary Green
Tel	:	(0207 527 3005
E-mail	:	democracy@islington.gov.uk
Despatched	:	3 September 2021

Membership	Substitute Members
Councillor Paul Convery (Chair)	Councillor Jenny Kay
Councillor Satnam Gill OBE (Vice-Chair)	
Councillor MIck Gilgunn	
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 - April to June 2021 5 - 70

2. Draft Funding Strategy Statement Consultation with Employers 71 - 138

C. Urgent non-exempt items

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

D. Exclusion of press and public

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

E. Confidential/exempt items

F. Urgent exempt items

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

The next meeting of the Pensions Sub-Committee is scheduled for 23 November 2021

This page is intentionally left blank

London Borough of Islington

Pensions Sub-Committee - 21 June 2021

Non-confidential minutes of the meeting of the Pensions Sub-Committee held in the Council Chamber, Town Hall, Upper Street, N1 2UD on 21 June 2021 at 7.00 pm.

Present: **Councillors:** Paul Convery (Chair), Satnam Gill (Vice-Chair) and Mick O'Sullivan

Alan Begg, Mike Calvert, Councillor Dave Poyser and George Sharkey (Pensions Board)
(Pensions Board)
Alex Goddard and Tomi Nummela - Mercer
Karen Shackleton – MJHudson Allenbridge

Councillor Paul Convery in the Chair

183 APOLOGIES FOR ABSENCE (Item A1)
None.

184 DECLARATION OF SUBSTITUTES (Item A2)
None.

185 DECLARATION OF INTERESTS (Item A3)
Councillor Convery declared an interest in items on the agenda as a member of the Scheme.

186 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:
That the minutes of the meeting held on 23 March 2021 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them

187 MEMBERSHIP, TERMS OF REFERENCE AND DATES OF MEETINGS OF THE PENSIONS BOARD AND PENSIONS SUB-COMMITTEE IN 2021/22 (Item A5)

RESOLVED:
(a) That the membership of the Pensions Sub-Committee, appointed by the Audit Committee on 25 May 2021, its terms of reference and dates of meetings for the municipal year 2021/22, as set out at Appendix A to the report of the Corporate Director of Resources, be noted.
(b) That the membership of the Pensions Board, appointed by the Audit Committee on 25 May 2021, its terms of reference and dates of meetings for the municipal year 2021/22, as set out at Appendix A to the report, be noted.

188 **PENSION FUND PERFORMANCE - JANUARY TO MARCH 2021 (Item B1)**

During discussion of managers' performance, members noted the difference in returns in technical stocks held by Newton. Karen Shackleton undertook to request further information for these differences from the London CIV, since they were responsible for monitoring Newton's performance. In response to a member's question as to whether Islington's Fund was performing better than, or on a par with, other local authority pension funds, it was reported that last year's performance figures needed to be treated with caution and that they past three years' figures were the best indicator. Equities had performed well in the last year for all Funds. Islington's performance was better than some other Funds, due to its equity protection contract.

RESOLVED:

(a) That the performance of the Fund from 1 January to 31 March 2021, as per the BNY Mellon interactive performance report and detailed in the report of the Corporate Director of Resources, be noted.

(b) That the presentation by MJ Hudsons Allenbridge, on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.

(c) That the May 2021 "LGPS Current Issues", attached as Appendix B to the report, be noted.

189 **PENSION FUND FORWARD PLAN OF BUSINESS (Item B2)**

RESOLVED:

That the appendix to the report of the Corporate Director of Resources, detailing agenda items for forthcoming meetings, be approved.

190 **LONDON CIV UPDATE (Item B3)**

RESOLVED:

That the progress and activities presented at the May business update session of the London CIV (exempt Appendix 1) and news briefing Collective Voice-April, attached as exempt Appendix 1A to the report of the Corporate Director of Resources, be noted.

191 **PRIVATE DEBT PROCUREMENT OPTIONS (Item B4)**

RESOLVED:

(a) That the due diligence summary report of Key terms and performance comparison, attached as exempt Appendix 1 to the report of the Corporate Director of Resources, be noted.

(b) That the consolidated summary opinions report, attached as Exempt Appendix 2 to the report, be noted.

(c) That the recommendation in exempt appendix 2 that the preferred two managers (one European and one US private debt manager) that best delivered value for money, met the fund's mandate specification and would deliver returns to keep contributions sustainable, be approved.

(d) That 50% of the fund's total allocation of 10% be allocated in this first tranche of appointments to give diversification.
(e) That the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, be authorised to negotiate and agree terms and conditions of the fund management agreement(s) with the recommended and agreed manager(s).

192 **DECARBONISATION AND NET ZERO CARBON TRANSITION UPDATE (Item B5)**

Having sought confirmation from a representative of Mercer, the Committee agreed that their discussions of the information in the exempt appendices would be held in public session of this meeting, though there would be no discussion of the information in the exempt information relating to technical issues.

RESOLVED:
(a) That the exempt appendices to the report of the Corporate Director of Resources and the presentation provided by Mercer, be noted.
(b) That it be noted that the fund carbon foot printing results as at 31 March 2021 showed the baseline of emissions for the listed portfolio (listed equity and corporate credit) was 66,096 tCO_2e and the listed equity portfolio had decarbonised by 32.8% (absolute emission) between 2016 and 2021.
(c) That the next post 2022 decarbonisation targets for the fund in both short and medium term; 2025-26, 2030 and net zero carbon by 2050 be approved as follows:

- Long term target of 2050 net zero goal
- Short and medium term target:
  Reduction needed for 2022-26 period, c15% from the 2021 baseline
  Reduction needed for 2022-30 period, c 26% from the 2021 baseline
  Extend the target to cover all listed assets (debt and equity)
- Islington "green assets" allocation – increase the allocation to 20% to allow 4 years to align with the new target (-> 2026)

(d) That a further report be submitted to the Sub-Committee in September 2021 to consider an action plan and fund changes required to achieve the agreed future targets.

The meeting ended at 8.15 pm

CHAIR

This page is intentionally left blank

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	14th September 2021		

Delete as appropriate	~~Exempt~~	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 APRIL TO JUNE 2021

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 April to 30 June 2021 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.
2.3	To note August 2021 LGPS Current Issues attached as Appendix B
2.3	To note the fund's Annual performance report to March'21 compared to the LA Universe attached as Appendix 2
3.	**Fund Managers Performance for 1 April to 30 June 2021**

3.1	The fund managers' latest quarter net performance figures compared to the benchmark and Mercer ESG ratings is shown in the table below. *NB: 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.*

3.1 Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (Apr-Jun'21) Gross of fees		12 Months to June 2021-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	10.0%	UK equities	N	5.6%	5.6%	20.5%	21.4%
LCIV Sustainable EQ- RBC	10.3%	Global equities	1	8.9%	7.6%	29.6%	24.4%
LCIV -Newton	17.7%	Global equities	2	6.1%	7.4%	23.0%	25.1%
Legal & General	12.8%	Global equities	1	7.4%	7.4%	25.1%	25.2%
Standard Life	9.7%	Corporate bonds	2	1.8%	1.7%	1.8%	1.7%
Aviva (1)	7.8%	UK property	3	3.2%	2.2% 2.2%	8.6%	-7.3% 9.1%
ColumbiaThreadneedle Investments (TPEN)	5.0%	UK commercial property	2	4.3%	3.8%	8.3%	8.5%
Hearthstone	1.6%	UK residential property	N	1.1%	3.9%	2.7%	9.1%
Schroders	8.0%	Diversified Growth Fund	2	4.9%	3.6%	18.3%	8.9%
M&G Alpha Opportunities	4.3%	Multi Asset Credit	N	0.9	0.8	n/a	n/a
BMO Investments-LGM	4.4%	Emerging equities	2	3.8%	4.9%	21.5%	26.4%

2.2% & -7.3 = original Gilts benchmark; 2.2% and 9.1% 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 June 2021 is shown in the table below.
3.4	Copies of the latest quarter fund manager's reports are available to members for information if required.

	Latest Quarter Performance **Gross** of fees		12 Months to June'2021 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	4.9	4.4	17.1	13.7

3.5 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years' period to June 2021 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	17.1	8.9%	9.4%
Customised benchmark	13.7%	7.7%	8.3%

3.6 **LCIV RBC Sustainability Fund**

3.6.1 RBC is the fund's global sustainable equity manager on the LCIV platform and was originally appointed in November 2018 to replace our Allianz mandate also on the LCIV platform.

3.6.2 LCIV RBC Sustainability was fully funded on 5 August 2019. Mandate guidelines include the following;

- The sub fund manager will invest only where they find all four forces of competitive dynamics (business model, market share opportunity, end market growth & management and ESG
- Target performance is MSCI World Index +2% p.a. net of fees over a three-year period.
- Target tracking error range over three years 2% p.a – 8.0%.
- Number of stocks 30 to 70
- Active share is 85% to 95%

3.6.3 The fund outperformed its quarterly benchmark to June by 1.3% but had a twelve-month out performance of 5.3%. From a sector perspective, positive portfolio performance was mainly driven by stock selection within Financials, Communication

	Services and Health Care, while stock selection within Consumer Discretionary and Utilities detracted over the quarter. The market was driven by cyclical sentiment for growth that helped to provide a balance contribution to the portfolio.
3.7 3.7.1 3.7.2 3.7.3	**LCIV Newton Investment Management** Newton is the Fund's other global equity manager with an inception date of 1 March 2008. There have been amendments to the mandate the latest being a transfer to the London CIV platform. 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. The fund returned 6.1% against a benchmark of 7.4% for the June quarter. Since inception, the fund has delivered an absolute return of 12.8% and relative underperformance of 0.1% net of fees per annum. The performance this quarter was attributed to stock selection in financials.
3.8 3.8.1 3.8.2	**LBI- In House** 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 March 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 5.6% against FTSE All Share Index benchmark of 5.6% for the June quarter and an absolute performance of 8.3% since inception in 1992. The In-House fund will be part of the indices review of Paris Aligned new generation indices.
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 June quarter, the fund returned 1.8% against a benchmark of 1.7% and an absolute return of 6.5% per annum since inception. The Fund benefited from overweight positioning in subordinated financials and corporate hybrids, as well as an overweight to the real estate sector, which was a clear laggard last year on the impact of Covid19. An underweight to higher quality supranationals was also beneficial The agreed infrastructure mandates are being funded from this portfolio and to date 5% has been drawn down.
3.10	**Aviva**

3.10.1	Aviva manages the fund's UK High Lease to Value property portfolio. They were appointed in 2004 and the target of the mandate is to outperform their customised gilts benchmark by 1.5% (net of fees) over the long term. The portfolio is High Lease to Value Property managed under the Lime Property Unit Trust Fund.
3.10.2	The fund for this quarter delivered a return of 3.2% against a gilt benchmark of 2.2%. The All Property IPD benchmark returned 3.9% for this quarter. Since inception, the fund has delivered an absolute return of 6.0%
3.10.3	This June quarter the fund's unexpired average lease term is 20.6years. The Fund holds 89 assets with 53 tenants. During the quarter, there was one sale of a Royal Mail sorting office in Manchester.
3.10.4	One of Aviva's objectives in its transition strategy to net zero by 2040 is to reduce real estate carbon intensity by 30% and energy intensity by 10%. The Fund's diverse portfolio of high-quality properties let to secure tenants on long-term leases with 95% subject to inflation or fixed uplifts is well placed to weather the current uncertainties.
3.11	**Columbia Threadneedle Property Pension Limited (TPEN)**
3.11.1	This is the fund's UK commercial pooled property portfolio that was fully funded on 14 January 2010 with an initial investment of £45 million. The net asset value at the end of December was £87.8million.
3.11.2	The agreed mandate guidelines are as listed below: • Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 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	The fund returned a performance of 4.3% against its benchmark 3.8% for the June quarter mainly due to higher income return, overweight positions to industrials and underweight exposure to retail warehousing and in-town retail.
3.11.4	The cash balance now stands at 7.8% compared to 8.3% last quarter. During the quarter, there were two strategic acquisitions and two disposals. There is a strong asset diversification at portfolio level with a total of 268 properties and 1292 tenancies. Rent collection is improving and tenants are being dealt with on a case by case to enable their viability on the short to medium term.
3.11.5	The UK commercial real estate market is forecast to experience significant turbulence until the economy returns to some form of normality following the debilitating effects of

	a prolonged lockdown' period. In times of such material uncertainty, defensively positioned Property Funds with high relative income yields and significant levels of portfolio diversification are considered to be best positioned to deliver relative out-performance. Here are some of TPEN features that cushions its prospects: • Maximum diversification at both portfolio (268 properties, 1,306 tenancies) and • at client levels (65 Pension Fund clients) • Highly liquid average lot size of c.£6.9million • Strategic portfolio positioning, with a focus on the strongest underlying subsectors (c.49%* of direct property exposure to the buoyant industrial market, with a 'last mile' focus) • Significant unrealised potential to add value through pro-active asset management across the portfolio • Defensive Fund positioning with ZERO property-level debt, no exposure to property company shares and no speculative property development • Proven track record of delivering relative out-performance in periods of significant macroeconomic volatility.
3.12 3.12.1 3.12.2	**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 June quarter, the hedged overseas equities had a cash value of £7.4m. The hedge has now been in place since 25 November 2020 for quarterly hedge rolls.
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 drawndown. $3.5m remains undrawn. 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 June quarter is \$60.1m. The NAV is \$0.9m
3.13.3	The Fund is in the harvesting phase of its life cycle and continues to benefit from the realization of investments. The COVID-19 pandemic has interrupted progress on real estate business plans across the globe. Our expectation is that the primary effect upon the Fund will be a delay in execution of asset sales.
3.13.4	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 was extended with our consent through to June 2017 when it finally closed. The total capital call is \$40m and total distribution of \$33.8m. The NAV is \$19m.
3.13.5	Members agreed to commit \$50m to Fund III at the December meeting and the documentation was finalised in December to meet the final close date. \$7.8m drawdowns has made to the end of the quarter.
3.13.6	Fund III made its final close on 30th December with total equity commitment of \$218m. Current portfolio consist of 5 holdings over a geographic exposure of 77% in Europe and 23% in USA with a 95% vintage in 2019 and 5% in 2021.
3.14. 3.14.1	**Legal and General** 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, 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 and benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets. For the quarter, the fund totalled £222.6m with a performance of 7.4%.
3.15 3.15.1	**Hearthstone** 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. • Preference is for stock, which can be let on Assured Shorthold Tenancies (ASTs) or to companies. • Total returns expected to be between 6.75% and 8.75% p.a., with returns split equally between income and capital growth. Net yields after fund costs of 3.75% p.a. • The fund benchmark is the LSL Academetrics House Price Index
3.15.2	For the June, quarter the value of the fund investment was £28.6million and total funds under management is £61.7m. Performance net of fees was 1.14% compared to the IPD UK All Property benchmark of 3.9%. Officers continue to monitor the fund on a quarterly basis with discussions with management. On 1 July as agreed, we switched from our current accumulation share class to an income share class that will enable annual cash dividend distribution. A total of £1million has been drawn down over the last financial year.
3.15.3	As with most property funds, Covid-19 uncertainty led to the suspension of the fund far part of year in 2020. Income from residential rents has been more sustainable than many other sources of income, and rent collection is comparably high up to 99% at the end of June. They are working closely with their tenants to help them through this period. Six properties were vacant at the end of the period.

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	The value of the portfolio is now £138.7m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The June quarter performance

	before fees was 4.8% against the benchmark of 3.5% (inflation+5%). The one -year performance is 18.3% against benchmark of 8.9% before fees.
3.16.3	Contributions to return over the quarter were achieved across return-seeking assets, driven by global and US equities.
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 dividends. The mandate was amended in March when the frontier element was liquidated and $11.3m has been returned.
3.17.1	The June quarter saw a performance of 3.7% against a benchmark of 4.9% before fees. The month of June was volatile for performance and whilst positions in South Korea and India were contributors , underexposure in Brazil and Taiwan were detractors.
3.17.2	The strategy remains to continue to research new companies that appear worthy of capital and continue to have a close communication with our existing investments to push them to higher business and governance standards which are believed to ultimately enhance long term return.
3.17.3	It was announced that BMO Financial Group has reached an agreement to sell its EMEA asset management business to Ameriprise Financial, Inc., subject to regulatory approval and customary closing conditions. On closing, the BMO asset management business in EMEA will become part of Columbia Threadneedle Investments, the global asset management business of Ameriprise.
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 June 2021 is $65.2m **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 June 2021 is $49.5 and distribution of $5.05m
3.19	**M&G Alpha Opportunities** This is the multi asset credit manager appointed and funded on 1st March 2021**.** The total allocation is approximately 5% funded mostly from profit made from equity protection in March 2020. The mandate guidelines of M&G include • Fund can invest across the full spectrum of developed market corporate credit (IG, HY, Loans) as well as securitised credit (ABS, MBS), some illiquid opportunities and defensive holdings (e.g. cash). • Investment process is predominantly bottom up, with a defensive value style that seeks to buy cheap mispriced securities. • Targets a return of 1 month LIBOR +3% - 5% (gross of fees) over an investment cycle (3-5 years) • No local currency EM debt is permitted • Low level of interest rate duration • Maximum exposure to sub-investment grade credit of 50% of assets, • Focus is primarily on Europe, although there is some exposure to the US (c. 15%). Risk and triggers for review: • Key man - risk • Issues at the firm level • Change in investment process/ structure or risk/return profile of the mandate. • Failure to deliver target return over 3 Year period of Cash +3% - 5% (gross of fees), unless there is a compelling market-based reason for underperformance • Downgrade of Mercer rating lower than B+ • Downgrade of Mercer ESG rating lower than ESG3. • Long term trend of staff turnover and changes within the investment team.
3.19.1	The first quarter performance was 0.9% against a benchmark of 0.8% and since inception an outperformance of 0.06%. The primary driver of the positive performance was the exposure to industrial corporate bonds, with financial bonds also performing strongly. The fund's cash position was a marginal detractor to the overall return.
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 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	Members are asked to note the performance of the fund for the quarter ending June 2021 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers. To note August 2021 LGPS Current Issues attached as Appendix B and Fund Annual Performance- Appendix2, for information.

Background papers:

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

Final report clearance:

Signed by:

Corporate Director of Resources		Date 07 September 2021

Received by:

	Head of Democratic Services	Date

Report Author: Joana Marfoh
Tel: 0207-527-2382
Fax: 0207-527 -2056
Email: joana.marfoh@islington.gov.uk

London Borough of Islington

Report to 30th June 2021

MJ Hudson

AUGUST 2021

Table of Contents

Contacts

Karen Shackleton
Senior Adviser
+44 20 7079 1000
karen.shackleton@mjhudson.com

Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
M&G Alpha Opportunities Fund	Not reported by the manager.	The Fund returned +0.99% over Q2 2021, above the benchmark return by +0.12%.	M&G's assets under management and administration were £370bn as at June 2021.
LCIV Global Equity Fund (Newton) (active global equities)	Jeff Munroe (Lead PM) will leave the fund at the end of 2021. Paul Markham (Co-lead for the strategy) will be replacing Jeff Munroe. Curt Custard, CIO, is also changing roles and Newton are recruiting for a replacement.	The LCIV Global Equity Fund underperformed its benchmark during Q2 2021 by -1.27%. Over three years the portfolio outperformed the benchmark by +0.86% but is under the performance target of benchmark +1.5% p.a.	At the end of Q2 2021, the London CIV sub-fund's assets under management were £769.4m. London Borough of Islington owns 40.17% of the sub-fund.

LCIV Sustainable Equity Fund (RBC) (active global equities)	None reported by the London CIV.	Over Q2 2021 the fund delivered a return of +8.93%, this outperformed the benchmark return of +7.61%. The one-year return was +29.66%, strong in absolute terms and well ahead of the benchmark by +5.30%.	As at end June the sub-fund's value was £970.9 million. London Borough of Islington owns 18.55% of the sub-fund.
BMO/LGM (active emerging equities)	In Q2 2021, there was one new joiner, and no leavers in the BMO LGM team. June Lui has been added as a co-portfolio manager to the fund in which London Borough of Islington invests.	Underperformed the benchmark by -1.26% in the quarter to June 2021. The fund is behind over three years by 6.32%.	Not reported.

MJ HUDSON

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Standard Life (corporate bonds)	There were 15 joiners, but 32 people left the firm during the quarter. Three joiners and eight leavers were in the Fixed Income Group.	The portfolio was marginally ahead of the benchmark return during the quarter by +0.10%, delivering an absolute return of +1.81%. Over three years, the fund was ahead of the benchmark return (by +0.52%) but behind the performance target of benchmark +0.80% p.a.	As at end June the fund's value was £2,903 million. London Borough of Islington's holding of £169.47m stood at 5.8% of the total fund value.
Aviva (UK property)	Not reported at the time of writing.	Outperformed against the gilt benchmark by +0.98% for the quarter to June 2021 and outperformed the benchmark over three years by +2.53%, delivering a return of +6.16% p.a., net of fees.	Fund was valued at £3.23 billion as at end Q2 2021. London Borough of Islington owns 4.2% of the fund.
Columbia Threadneedle (UK property)	During Q2 2021 there were two leavers, none from the property team. There were also four joiners, two to the property team, a Fund manager, and an Investment Manager, although neither will be involved in the fund in which London Borough of Islington invests.	The fund outperformed the benchmark in Q2 2021, with a quarterly return of 4.3% compared to 3.8%. It underperformed the benchmark by -0.2% p.a. over three years, below the target of 1% p.a. outperformance (source Columbia Threadneedle).	Pooled fund has assets of £2.04 billion. London Borough of Islington owns 4.31% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	Assets under management of £1.3 trillion at end June 2021.
Franklin Templeton (global property)	Two leavers during Q2, Jennifer McCabe, transaction manager, and Collin Giannini, research analyst.	The portfolio return over three years was +9.28% p.a., slightly behind the target of 10% p.a. although over 5 years the fund is still +2.4% p.a. ahead of the target return.	£1,120.6 billion of assets under management as at end June 2021.
Hearthstone (UK residential property)	No leavers or joiners in Q2.	The fund underperformed the IPD UK All Property Index by -2.74% in Q2. Additionally, it is trailing the IPD benchmark over three years by -0.84% p.a. to end June 2021.	Fund was valued at £61.7m at end Q2 2021. London Borough of Islington owns 46.4% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Schroders (multi-asset diversified growth)	During Q2 there were no changes to investment team.	Fund returned +4.86% during the quarter and +6.87% p.a. over 3 years, -0.73% p.a. behind the target return.	Total AUM stood at £602.4 billion as at end June 2021, up from £574.4 billion as at end December 2020.
Quinbrook (renewable energy infrastructure)	One new joiner, Brian Chase, as Head of Capital Formation & Investor Engagement.	For the year to Q2 2021 the fund returned +19.58%, ahead of the annual target return of +12.00%, although performance should be assessed over a longer time period for this fund.	
Pantheon (Private Equity and Infrastructure Funds)		The combined funds returned a disappointing +0.43% p.a. over three years.	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

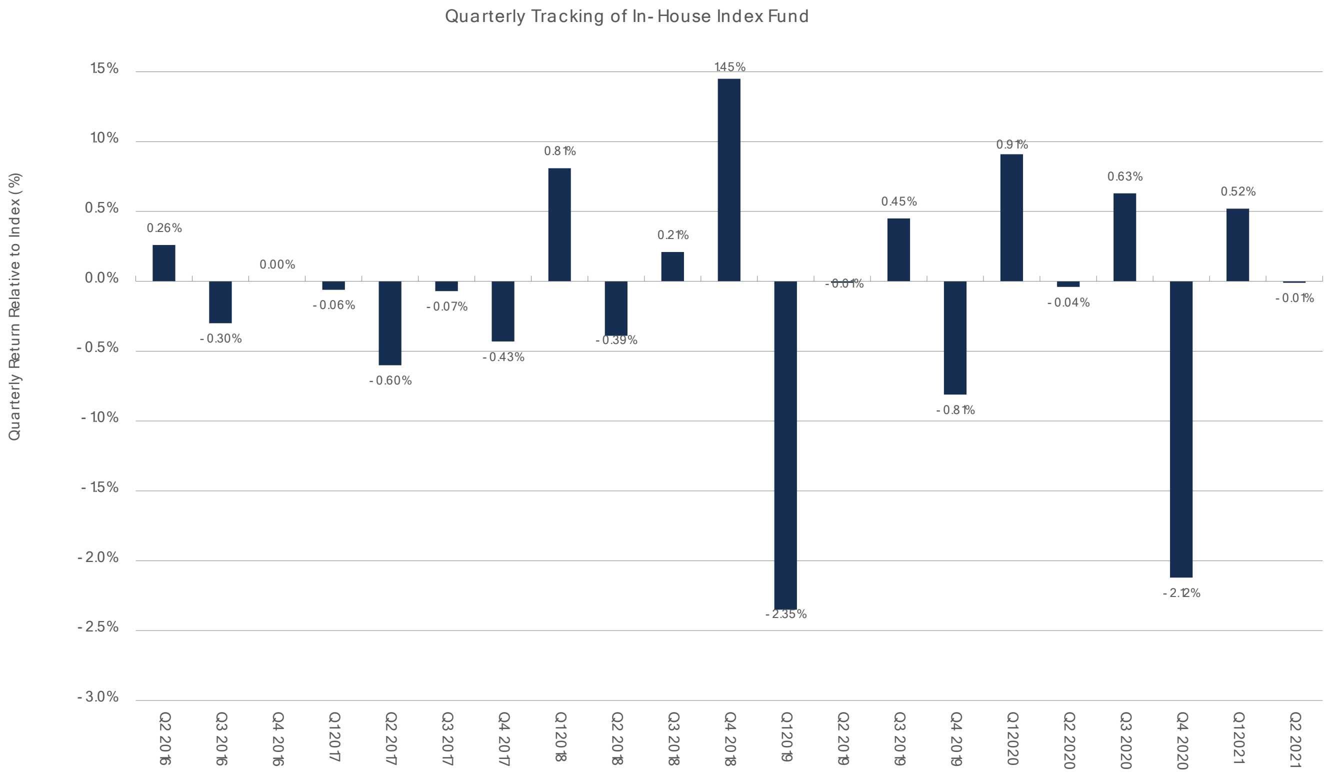
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q2 2021 the fund returned +5.60% for the quarter, compared to the FTSE All-Share index return of +5.61%. Over three years the fund has returned +2.35% p.a., ahead of the FTSE All-Share Index by +0.30%.

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 2 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 outperformed its three-year benchmark by +0.30% p.a.

CHART 2:



Source: MJH; BNY Mellon

M&G – Alpha Opportunities Fund

Headline Comments: This is a new allocation for the pension fund, with proceeds from the equity protection strategy being invested in a Multi Asset Credit fund managed by M&G. During Q2 2021 the M&G Alpha Opportunities Fund returned +0.99%, outperforming the benchmark return of +0.88%.

Mandate Summary: a Multi Asset Credit fund, in which M&G aims to take advantage of opportunities in public and private credit markets by identifying fundamental value across securities and credit asset classes. In periods when the fund is not being sufficiently compensated for taking risk, the manager seeks to protect capital through allocating to low-risk asset classes. The objective of the fund is to deliver a total return of one month Libor / Euribor +3-5% per annum, gross of fees, over a full market cycle.

Performance Attribution: during the quarter, the fund returned +0.99% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +0.88%. Exposure to industrial corporate bonds was the top contributor, with financial bonds also performing strongly.

Portfolio Characteristics: the largest allocations in the portfolio were to industrials (35%), financials (16%) and securitised assets (16%). 44% of the portfolio was rated BB* or below. The manager is focusing on reducing the spread duration of the fund whilst maintaining exposure to securities which offer an attractive level of income.

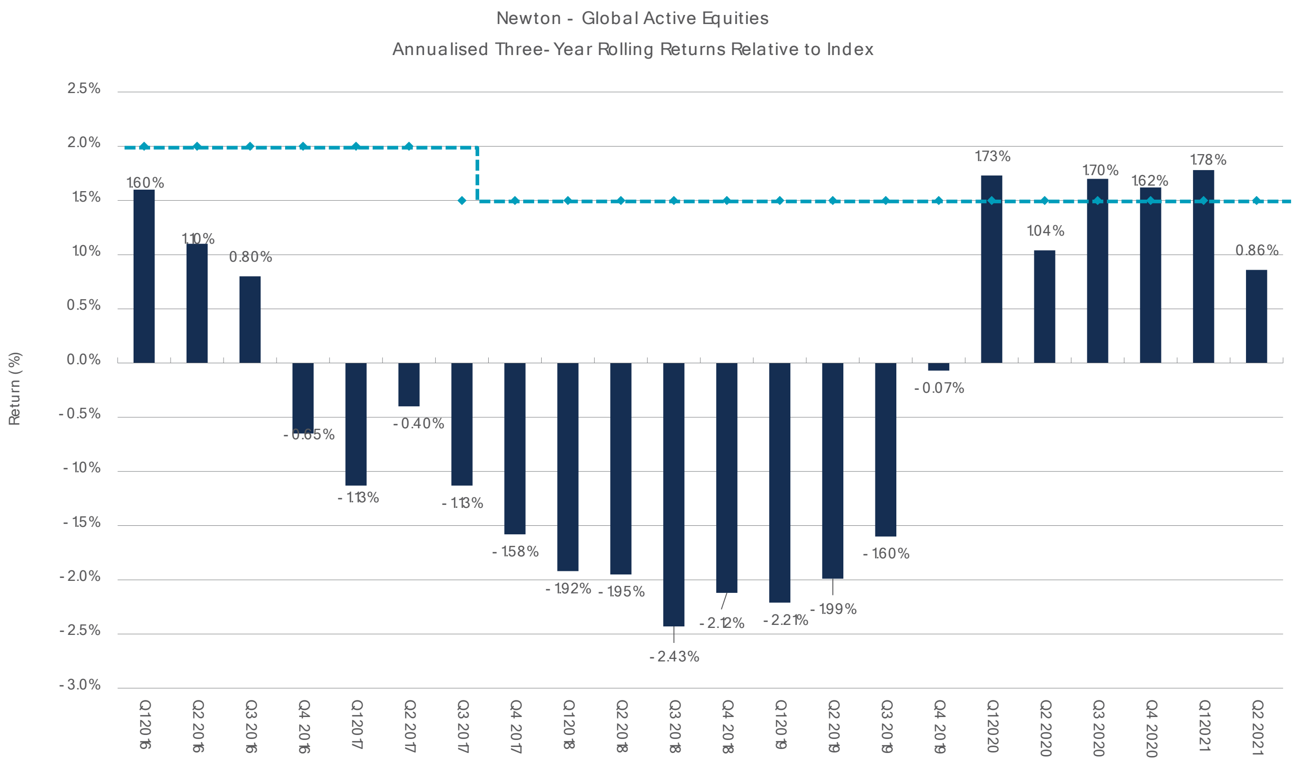
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q2 2021 by -1.27%. Over three years the portfolio outperformed the benchmark by +0.86% p.a. but has slipped behind the performance target of benchmark +1.5% p.a.

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 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; BNY Mellon

For the three-year period to the end of Q1 2021, the fund was ahead of the benchmark by +1.78% p.a. However, in Q2 2021 it was ahead the benchmark by only 0.86% p.a. This means it underperformed the performance objective by -0.64% p.a. (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

Positive contributions to the total return came from holdings such as Alphabet (+0.81% contribution to the total return), Microsoft (+0.69%), and Apple (+0.52%).

Negative contributions came from holdings including Ping an Insurance Group Company of China (-0.24%), Sony (-0.20%), and Kasikornbank (-0.14%).

The London CIV is now providing peer group analysis in its reporting, and they confirmed that Newton has consistently delivered returns in the top two quartiles in the long term but for Q2 2021, the position dropped to the third quartile. Over the past three years period the risk has been in the bottom quartile. (i.e. lower risk than its peers).

Portfolio Risk: The active risk on the portfolio stood at 3.11% as at quarter end, slightly lower than as at end March when it stood at 3.27%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.92, in line with the previous quarter (if the market increases by +10% the portfolio can be expected to rise +9.2%).

At the end of Q2 2021, the London CIV sub-fund's assets under management were £769.4m, compared with £725.2m last quarter. London Borough of Islington now owns 40.17% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 57 as at quarter-end (1 less than last quarter). The fund added two positions: Volkswagen Prf, and Organon & Co. This was to bring more cyclicality into the portfolio in expectation of an economic recovery. Newton completed sales of Kasikornbank and Verizon Communications.

The manager's positioning of the style of fund has changed from being style neutral to having tilts away from dividend generating stocks and toward companies with higheer earnings as well as being more growth orientated.

LCIV has also introduced carbon foot-printing of sub funds, monitored by Trucost, and in Q2 2021 reported that the Newton sub fund had a weighted average carbon intensity of half that of the benchmark index (the MSCI World Index). The highest contributors were Norfolk Southern Corporation (5.74% contribution to the weighted average carbon intensity), Taiwan Semiconductor (5.64%) and Royal Dutch Shell (5.28%).

Staff Turnover: Newton reported that Jeff Munroe (the lead portfolio manager) will leave the fund at the end of 2021. Paul Markham (Co-lead for the strategy) will be replacing Jeff Munroe. The CIO, Curt Custard, is also changing roles and Newton will be recruiting for his replacement, although in the interim the CEO, Euan Munro, will cover some of Curt's role. LCIV is holding a meeting with the all the team members to understand the implications of these changes.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q2 2021 the fund delivered a return of +8.93%, this outperformed the benchmark return of +7.61%. The one-year return was +29.66%, strong in absolute terms and well ahead of the benchmark by +5.30%. The fund does not yet have a three-year track record. Islington's investment makes up 18.55% of the total fund (source: LCIV)

Mandate Summary: A global equities fund that considers environmental, social and governance factors. The fund aims to deliver, over the long term, a carbon footprint which is lower than that of the MSCI World Index Net (Total Return). The fund also aims to achieve capital growth by outperforming the MSCI World Index Net (Total Return) by 2% per annum net of fees annualised over rolling three-year periods.

Performance Attribution: The portfolio has overweight allocations to the financial, consumer discretionary sectors, healthcare, industrials, and materials. The portfolio performance was mainly driven by stock selection within financials, communication services and healthcare while the utilities and consumer discretionary sector allocations detracted slightly over the quarter. The manager continues to add value through active stock selection.

The London CIV is now comparing managers against their peer group and reported that RBC is in the top quartile over the long term. This has been achieved whilst taken only average risk, when compared with peers. However, 2021 has been challenging, ranking at the bottom of the quartile range for its peer group.

Portfolio Characteristics: As at end of June 2021 the fund had 36 holdings across 15 countries. The tracking error of the fund was 3.66% meanwhile volatility stood at 17.27%. Over the quarter the largest contributors to return included Nvidia (+1.02%), Blackstone Group (+0.92%), Alphabet (+0.90%), and Deutsche Post (+0.90%). There largest detractors include Orsted A/S (-0.34%), Naspers (-0.23%) and USD Forward Currency Contracts (-0.17%).

London CIV report that the fund has sustained its "anti-value" stance and continues to favour quality companies with low gearing.

LCIV has also introduced carbon foot printing of sub funds, monitored by Trucost, and in Q2 2022 reported that the RBC sub fund had a weighted average carbon intensity of two-thirds that of the benchmark index (the MSCI World Index). The highest contributors were Orsted (16.66% contribution to the weighted average carbon intensity), Intercontinental Hotels (12.55%) and Neste Oyj (5.94%).

Staff Turnover: None reported by LCIV for Q2 2021.

BMO/LGM – Emerging Market Equities

Headline Comments: The portfolio delivered a return of +3.73% in Q2 2021, compared with the benchmark return of +4.99%, an underperformance of -1.26%. Meanwhile, over one year the fund is trailing the benchmark by -4.92%, and over three years it is trailing by -6.32%. The frontier markets portfolio previously held has now been closed, as such reporting on BMO now only discusses the emerging markets component.

Mandate Summary: Following the closure of their frontier markets fund, the manager now only invests in a selection of emerging market equities, with a quality and value, absolute return approach. The aim is to outperform the MSCI Emerging Markets Index by at least 3% p.a. over a three-to-five-year cycle.

Performance Attribution: performance across emerging markets was volatile, while some countries saw gains, others struggled in Q2. Brazil was the standout performer in Emerging markets, but BMO lacked exposure to the Brazilian market which accounts for a proportion of relative underperformance. The biggest contributor to performance came from holdings in India and South Korea.

During the quarter, the largest positive contributors to the quarterly relative return for the emerging markets portfolio came from Anta Sports Products (+0.9%), Infosys (+0.3%), and By-

Health Co (0.3%). Companies which detracted most from performance included Haier Smart Home (-0.5%), Inner Mongolia Yili Industrial (-0.4%), and Hualan Biological Engineering (-0.3%).

Over one year, the fund continues to trail behind the benchmark. 12-month performance to June 2021 shows the fund underperform against its benchmark by -4.92%. However, this includes the poor performance of the frontier markets in quarters prior to Q2. The performance for the emerging markets portfolio alone, over 12 months, was +38.67% versus a benchmark return of +40.90% (source: BMO).

Portfolio Risk: Within the emerging markets portfolio there is a 6% allocation to non-benchmark countries (excluding holding in Cash & Equivalents), as well as exposure to countries not typically considered emerging markets, such as a 1.5% exposure to the UK. The largest overweight country allocation in the emerging markets portfolio remained India (+12.9% overweight). The most underweight country allocation was South Korea (-10.3%).

Portfolio Characteristics: The portfolio held 39 stocks as at end June compared with the benchmark which had 1,406. The largest absolute stock position was TSMC at 7.4% of the portfolio, while the largest absolute country position was China/HK and accounted for 35.7% of the portfolio.

Staff Turnover: In Q2 2021, there was one new joiner, and no leavers in the BMO LGM team. June Lui has been added as co-Portfolio manager to the Emerging Market team, she previously led the LGM's Greater China strategies.

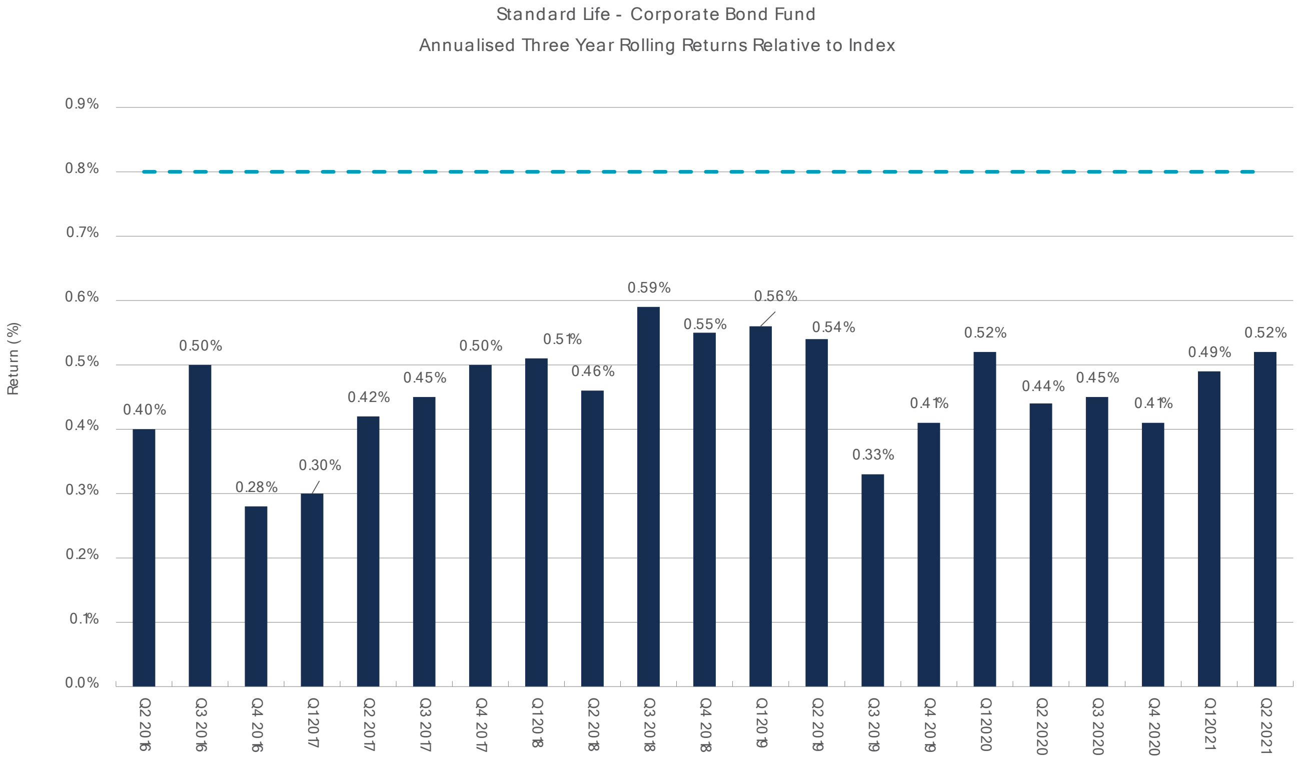
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was marginally ahead of the benchmark return during the quarter by +0.10%, delivering an absolute return of +1.81%. Over three years, the fund was ahead of the benchmark return (by +0.52% p.a.) but behind the performance target of benchmark +0.80% 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 three-year performance of the Corporate Bond Fund compared to the Index, over the past five years. This shows the fund continues to be ahead of the benchmark over three years but has been trailing the performance objective for some time (shown by the dotted line in Chart 4).

CHART 4:



Source: MJH; BNY Mellon

Over three years, the portfolio has returned +5.17% p.a. net of fees, compared to the benchmark return of +4.65% p.a. Over the past three years, asset allocation has added +0.22% value, meanwhile stock selection has added +0.31%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK gilt 4.75% 2030 at 1.7% of the portfolio. The largest overweight sector position remained Financials (+4.9% relative) and the largest underweight position is Supranationals (-8.4%). The fund holds 5.3% 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 June 2021 stood at £2,903 million. London Borough of Islington's holding of £169.48m stood at 5.8% of the total fund value.

Staff Turnover: There were 15 joiners, but 32 people left the firm during the quarter. Three of the joiners were to the Fixed Income Group, an Investment Manager, and an Analyst both in London, and an Analyst in Singapore. Eight of the leavers were part of the Fixed Income Group, this included one Investment director in Philadelphia, one senior investment manager in Jakarta, the head of Australian Macro, the head of Australian fixed income and four Analysts across multiple offices.

Aviva Investors – Property – Lime Property Fund

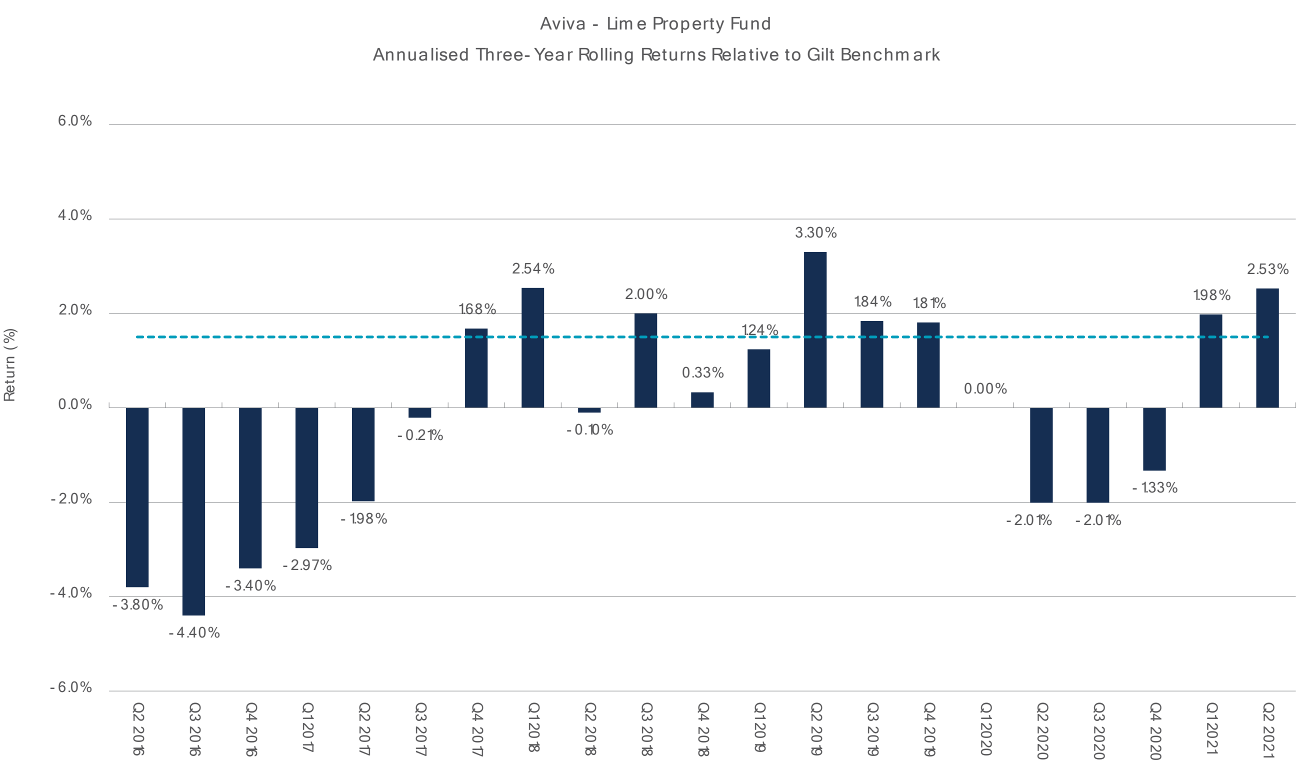
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it outperformed the fund benchmark return, with an overperformance of +0.98% in Q2. Over three years, the fund is ahead of the benchmark return by +2.53% p.a.

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 Q2 2021 return was attributed by Aviva to +2.34% capital return and +0.9% income return.

Over three years, the fund has returned +6.16% p.a., ahead of the gilt benchmark of +3.63% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 5.

CHART 5:



Source: MJH; BNY Mellon

Over three years, 54% of the return came from income and 46% from capital gain.

Portfolio Risk: During the quarter, the fund sold an investment; a Royal Mail sorting office near Manchester City Centre. It was sold on the open market and the price reflected the underlying residential value rather than the rental income. The sale is aligned with the fund strategy, this sale will deliver a 14.3% return since acquisition.

The fund has £306 million of investible capital and the manager believes the current drawdown period for new capital is 12 months.

The average unexpired lease term was 20.61 years as at end June 2021. 9.09% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.89%, and the number of assets in the portfolio remained at 91. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at June 2021, the Lime Fund was valued at £3.23 billion, an increase of £77 million from the previous quarter end. London Borough of Islington's investment represents 4.2% of the total fund.

Aviva are now monitoring the carbon intensity of their fund and reported a 10% drop in carbon emissions over the past year. They assess the physical risk exposure in the portfolio to be 'very low' (exposure to physical climate risk such as severe weather), and the transition risk exposure to be 'medium' (the portfolio's energy intensity, which determines the emission reduction required to align the fund with certain global warming scenarios). The carbon intensity on the portfolio is 10% lower than a year ago.

Staff Turnover/Organisation: Towards the end of Q2 in June the manager announced that David Cummings, current CIO Equity, will be stepping down from his role.

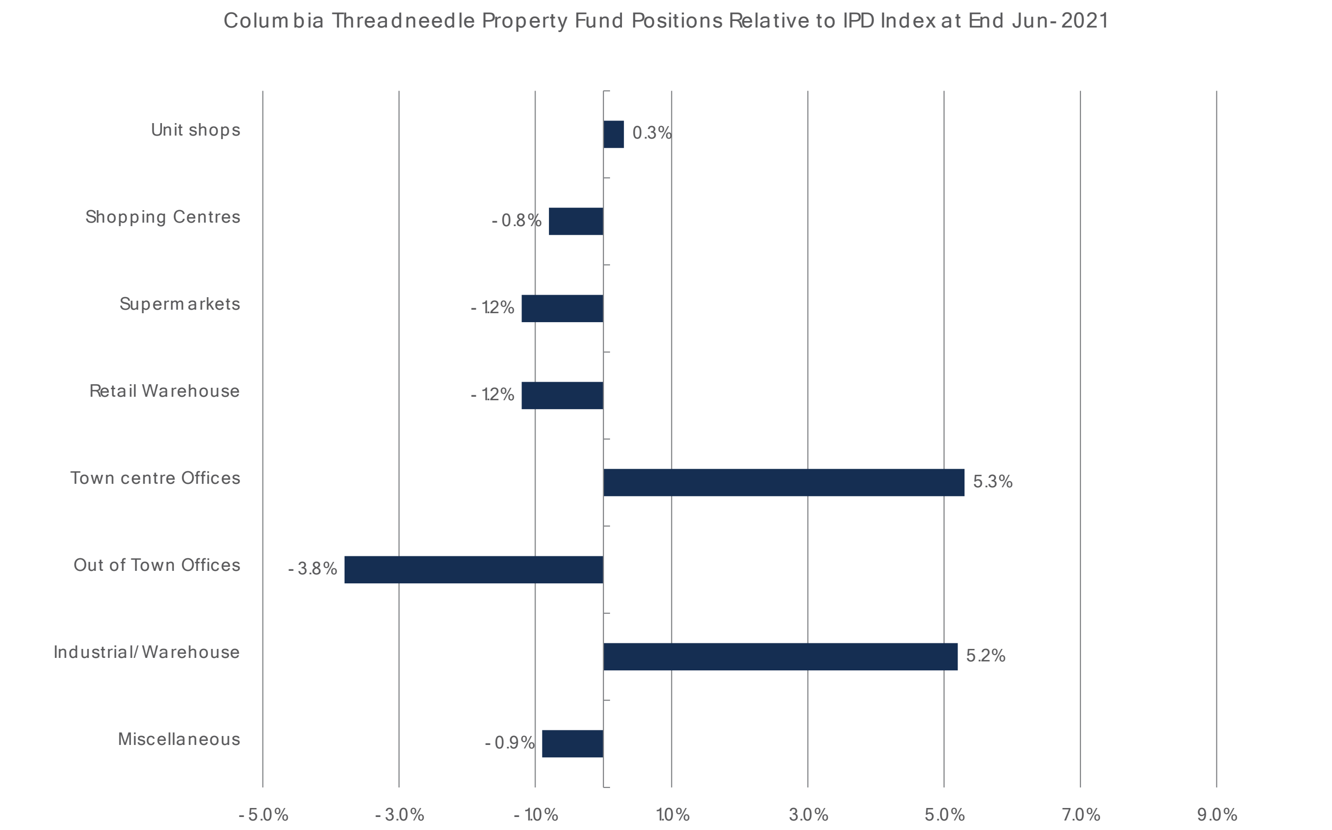
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund outperformed the benchmark in Q2 2021, with a quarterly return of 4.3% compared to 3.8% (source: Columbia Threadneedle). Over three years, the fund underperformed the benchmark by -0.2% (source: Columbia Threadneedle) 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; Columbia Threadneedle

During the quarter, the fund made two acquisitions and two sales.

The fund's void rate has increased from 10.2% at end of March to 12.3% at end of June 2021, versus the benchmark's 10.1%. This has been monitored because a higher-than-benchmark void rate could pull the performance down on a relative basis. The rent default rate increased during the pandemic: as at December 2019, 99% of rents were collected by Columbia Threadneedle. This fell to a low of 82% by June 2020, but has begun to improve, with rent collections running at 91% by end March 2021 (most recent data point available).

The cash balance at end June was 7.8%.

Performance Attribution: The fund outperformed the benchmark in Q2 2021, with a quarterly return of 4.3% compared to 3.8% (source: Columbia Threadneedle). Over three years, the fund underperformed the benchmark by -0.2% (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. above benchmark.

Portfolio Characteristics: As at end June 2021, the fund was valued at £2.04bn, an increase of £54m from the fund's value in March 2021. London Borough of Islington's investment represented 4.31% of the fund.

Staff Turnover: During Q2 2021 there were two leavers, none from the property team. There were also four joiners, two to the property team, a fund manager and an investment manager.

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. Both FTSE-RAFI Emerging Markets and MSCI World Low Carbon Target index funds performed in line with their benchmarks in Q2.

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:

	Q2 2021 FUND	Q2 2021 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+5.83%	+5.61%	+0.22%
MSCI World Low Carbon Target	+7.74%	+7.78%	-0.04%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 83.40% to the MSCI World Low Carbon Target index fund, and 16.60% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

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 underperformed the absolute return benchmark of 10% p.a. over three years by -0.72%. This was the first time it has underperformed the benchmark over three years since Q4 2014.

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 June 2021, 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; Columbia Threadneedle

Portfolio Risk: Fund I is currently in its harvesting phase. Ten of the underlying Funds in the portfolio have now been fully realised, with four remaining, and total distributions to date have been US$494.3 million, or 154.9% of total Fund equity. The Fund's use of leverage was at 36% for the quarter.

The largest remaining allocation in Fund I is to the US (53% of funds invested), followed by Spain (28%), Italy (12%), and UK (7%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Of all the underlying funds (realised and unrealised), three have performed well ahead of expectations, five were above expectations, four were on target and two were below expectations, Sveafastigheter III and Lotus Co-Investment (Lotus has now been fully liquidated).

Fund II is now fully invested in a diverse mix of property sectors including office, retail and industrial uses and is continuing to make distributions. As at end June 2021, 85.0% of committed capital had been distributed. Leverage rose from 53% to 55%. The manager notes that the pandemic has led to some delays in implementing business plans in some of the underlying investments, in this Fund.

The largest geographic allocation in Fund II is to Italy (56% of funds invested), followed by the US (34%), China (5%), Hong Kong (4%), and Spain (1%).

Three of the underlying funds are performing well ahead of expectations, two are above expectations, four are on target, and one is below target. The fund that is below target is Mistral Napoleon and was downgraded from ‘on target’ this quarter triggered by delays in leasing because of suppressed demand in the retail market due to COVID-19.

Staff Turnover/Organisation: During Q2 2021 the firm announced that there were two leavers from the Franklin Real Asset Advisors team, Jennifer McCabe (previously a transaction manager) left in April 2021 and Collin Giannini (previously a research analyst) left in June 2021. An update on replacements is expected next quarter.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending June 2021 as well as over three years.

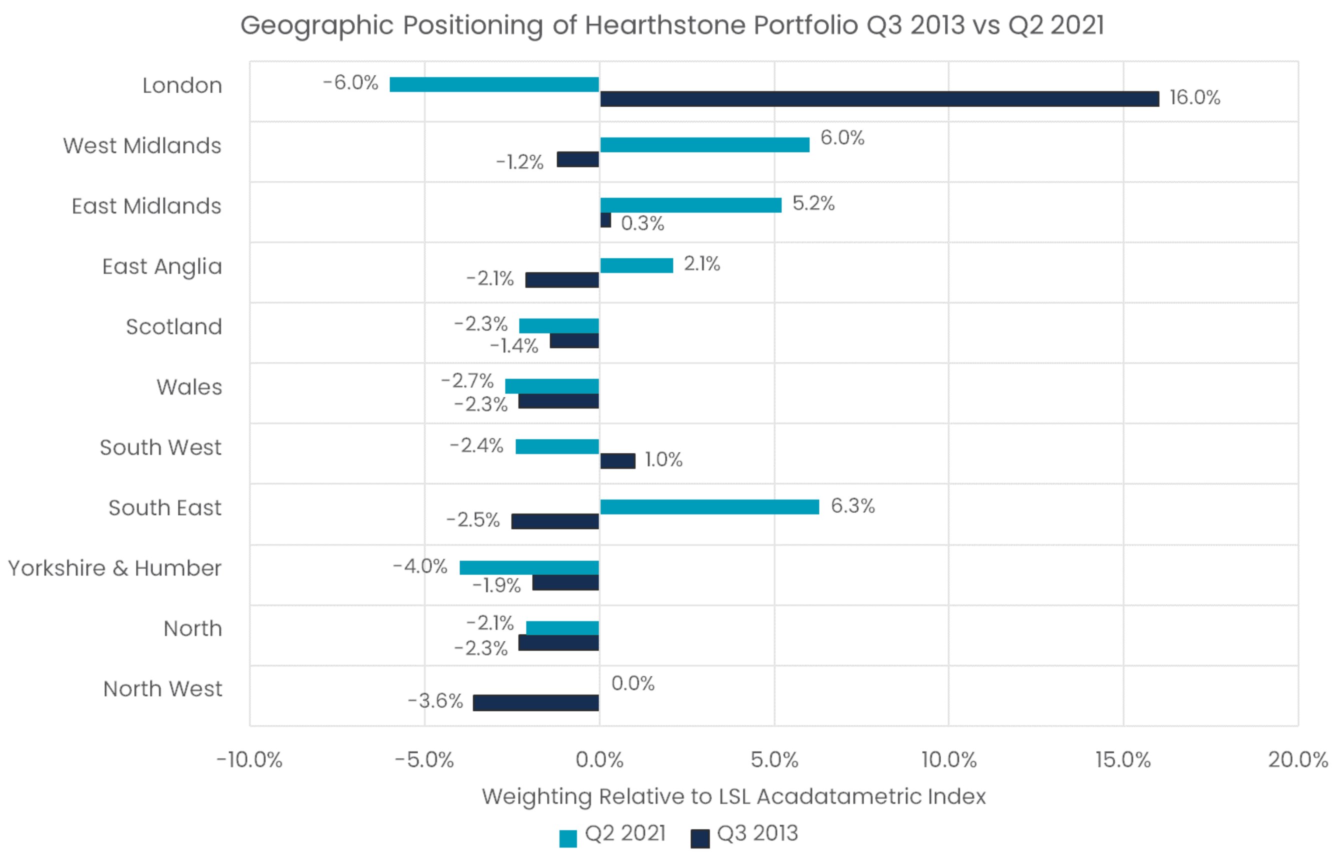
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to June 2021 by -0.84% p.a., returning +2.50% p.a. versus the index return of +3.34% p.a. The gross yield on the portfolio as at June 2021 was 4.76%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 2.62%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 16.88%.

Chart 8 compares the regional bets in the portfolio in Q2 2021 (turquoise bars) with the regional bets at the start of the mandate, in Q3 2013 (navy bars).

CHART 8:



Source: MJH; Hearthstone

Portfolio Characteristics: By value, the fund has an 8% allocation to detached houses, 42% allocated to flats, 26% in terraced accommodation and 24% in semi-detached.

As at end June there were 200 properties in the portfolio and the fund stood at £61.7 million. London Borough of Islington's investment represents 46.4% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: In Q2 there were no leavers or joiners from the team.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a positive return in Q2 2021, and in relative terms it outperformed its target by +1.30%. However, over three years, the fund is behind the target return of RPI plus 5% p.a. by -0.73% 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 +4.86% in Q2 2021. This is above the RPI plus 5% p.a. target return for Q2 which returned +3.56. Over three years, the DGF delivered

MJ HUDSON

a return of +6.87% p.a. compared with the target return of +7.60% p.a., behind the target by –0.73% p.a.

In Q2 2021, equity positions added +2.9% to the total return, alternatives +1.0%, credit and government debt +0.6%, and cash and currency was neutral at +0.0% (figures are gross of fees).

The return on global equities was +12.9% p.a. for the three years to June 2021 compared with the portfolio return of +6.9%. Over a full three-to-five-year market cycle the portfolio is expected to deliver equity-like returns, so at current levels it is some way behind that strategic goal.

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 8.4% compared to the three-year volatility of 16.9% in global equities (i.e., 49.7% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 46% in internally managed funds (same as last quarter), 43% in active bespoke solutions (up from last quarter), 4% in externally managed funds (up from last quarter), and 3% in passive funds (down from last quarter) with a residual balance in cash, 4% (same as last quarter), as at end June 2021. In terms of asset class exposure, 47.0% was in equities, 24.8% was in alternatives and 24.4% in credit and government debt, with the balance in cash, 3.8%.

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

Schroder reported that the carbon intensity of the fund was -30% lower than a comparator (a mix of equities, bonds, and alternative indices).

Organisation: During the quarter, there were no changes to the investment team.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 30th June 2021 was positive at +19.58%, thus ahead of the target return of +12.0%.

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 Q2 2021, on an unaudited basis, the fund had invested USD 668.0 million into 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). The total operational generating capacity of operational projects which the Fund is invested in is 1,471 MW (including those with minority stakeholders) as at 30 June 2021. To put this into context, New York City uses around 11,000 megawatts of electricity per day.

Organisation: During the quarter, Anne Foster (Director) relocated back to the UK from Australia in May 2021, and Will Blake was promoted to Senior Vice President. As well as this there was one new joiner, Brian Chase who took on the role of Head of Capital Formation & Investor Engagement.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +0.43% per annum.

Mandate Summary: London Borough of Islington have made total commitments of £103.5m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. This infrastructure fund, Patheon Global Infrastructure Fund III “PGIF III”, was the most recent commitment from Islington in 2018 totalling £74.2m. Net IRR at 30th March 2021 across all strategies was 10.0%, up from 9.7% at Q4 2020, with a net multiple of 1.40x.

Portfolio Characteristics: Over the period Q1 2021 – Q2 2021, a total of £3.2m was drawn down, wholly to PGIF III. Distributions were received across two strategies – Pantheon USA Fund VII and Pantheon Global Secondary Fund IV Feeder – totalling £0.5m over the period. Overall, the programme’s rolled for cash valuation at Q2 2021 was £41.1m, up from £33.8m at Q1 2021.

Karen Shackleton
Senior Adviser, MJ Hudson
1 Frederick’s Place, London, EC2R 8AE, United Kingdom | +44 20 7079 1000 | london@mjhudson.com | mjhudson.com | mjhudson.com

This page is intentionally left blank

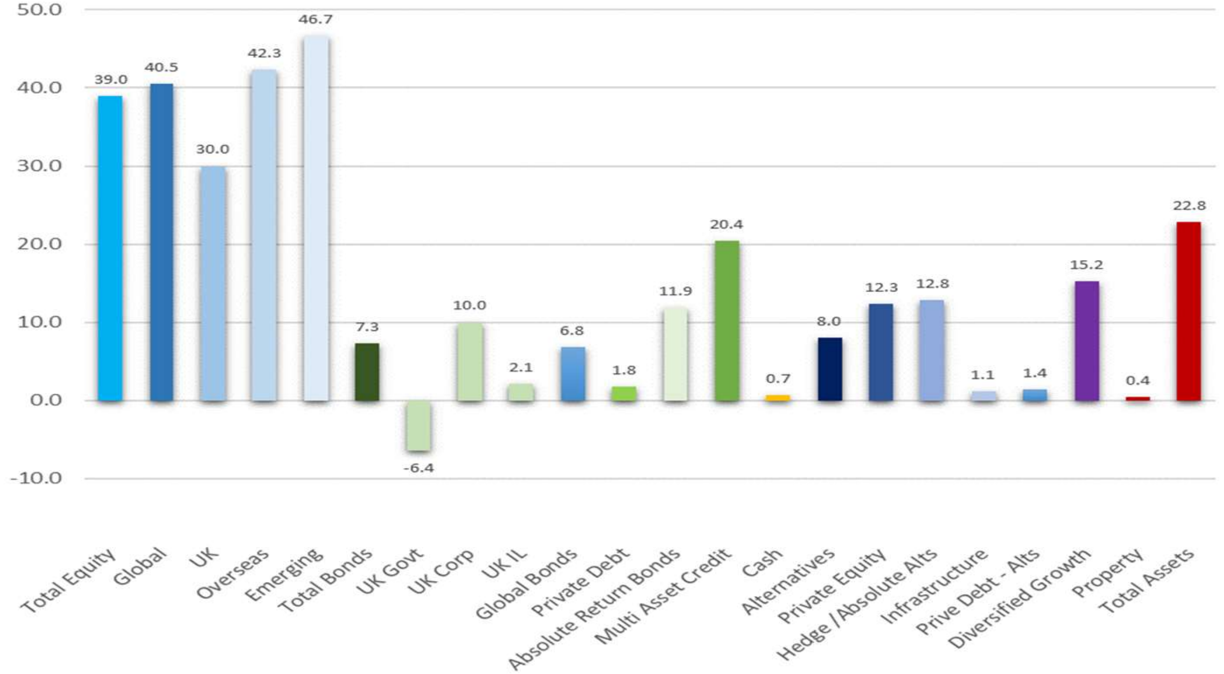
PIRC LAPPA

Islington Pension Fund Performance to March 2021

Contents

2020/21 What a Year .....

Latest Year Returns



- After the sharp fall in global markets in the Quarter to March 2020, returns bounced back almost immediately despite the ongoing challenges of the COVID pandemic which has been larger and longer lasting than predicted.
- Funds returned an average of 22.8% for the year, but the range of results was far wider than usual.
- Performance was dominated by extremely strong equity returns, enhanced for many by active manager outperformance.
- Defensive assets performed more modestly with property being the most disappointing of the major assets, only just delivering a positive result

Asset Allocation Impacted by Equity Strength

Latest Year Asset Allocation

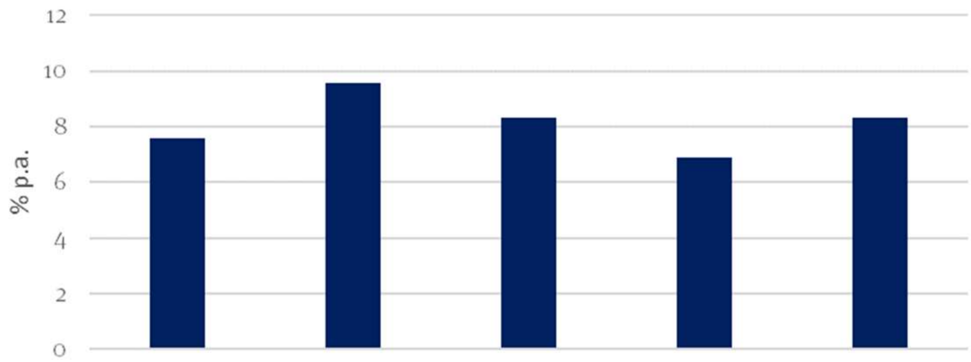
	End March		
% Allocation	2020	2021	Change
Equities	**51**	**56**	**5**
UK	*10*	*10*	*0*
Overseas	*41*	*46*	*5*
Bonds	**21**	**17**	**-4**
UK	*11*	*7*	*-4*
Global	*2*	*2*	*0*
Absolute Return	*6*	*5*	*-1*
Multi Asset Credit	*2*	*3*	1
Private Debt	*0*	*1*	1
Cash	**2**	**2**	**0**
Alternatives	**12**	**14**	**2**
Private Equity	*6*	*7*	*1*
Infrastructure	*3*	*5*	*2*
Absolute Return	*3*	*2*	-1
Private Debt	*0*	*1*	*1*
Diversified Growth	**4**	**2**	**-2**
Property	**10**	**8**	**-2**

- Most of the change to allocations at this level came about through relative market movements.
- Funds have not rebalanced following the strong equity returns over the year.
- Within Equities there was a significant switch into 'planet aware' investments.
- Elsewhere there was further diversification into multi asset credit, private debt and alternative income strategies.

PIRC LAPPA

Longer Term Results Back in Line

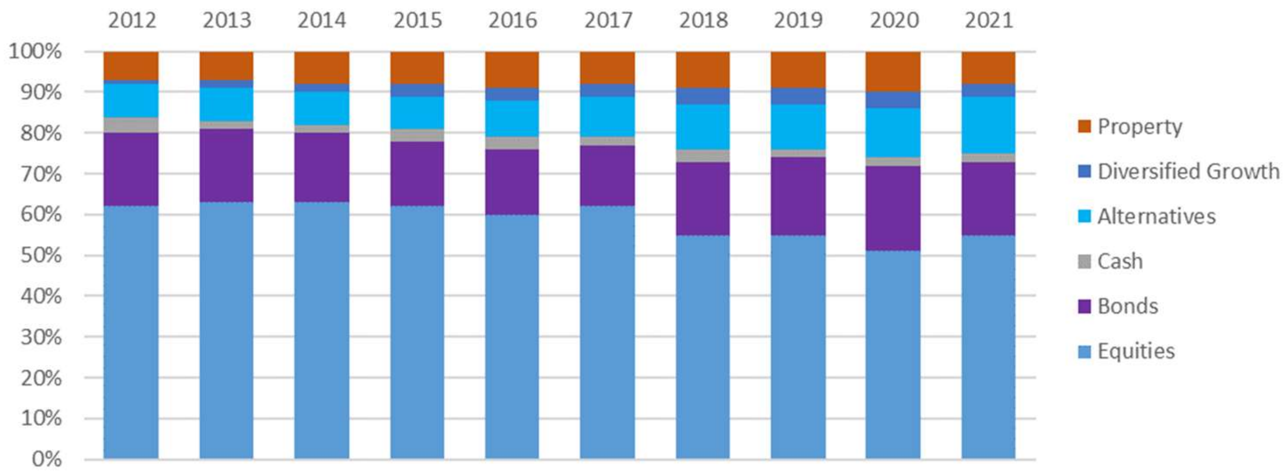
Long Term Asset Returns (% p.a.)



	3 Years	5 Years	10 Years	20 Years	30 Years
Total	**7.6**	**9.5**	**8.3**	**6.9**	**8.3**
Equity	10.0	12.3	9.7	7.5	9.0
Bonds	3.9	4.9	5.7	5.8	7.3
Cash	0.5	0.3	0.8	2.3	3.8
Diversified Growth	3.6	4.0			
Alternatives	8.1	9.2	8.3	6.2	
Property	2.5	4.5	6.9	6.5	7.7

- Long term performance of the LGPS remains extremely strong.
- The average funds delivered a positive return in all bar six of the last 30 years and delivered an annualised performance of over 8% p.a.
- Equities have driven the performance.
- Alternatives have performed strongly due in a large part to the excellent returns from private equity.

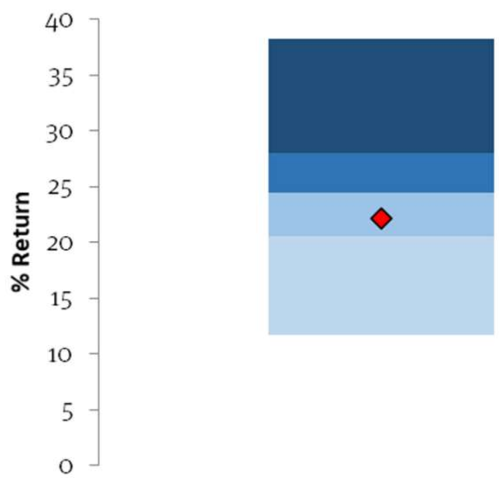
Equities Continue to Dominate Fund Structures



- Equities remain the largest allocation within most fund's assets. Over 80% of this allocation is now invested overseas.
- The Bond exposure has remained steady but, within that the allocation has changed greatly as funds have moved from a principally UK index based approach towards more global, diversified absolute return strategies.
- Alternatives have increased over the decade. Private equity makes up a half of this allocation with infrastructure becoming an ever larger component of the average fund.

Fund Performance

Fund Performance Within Universe Range of Results

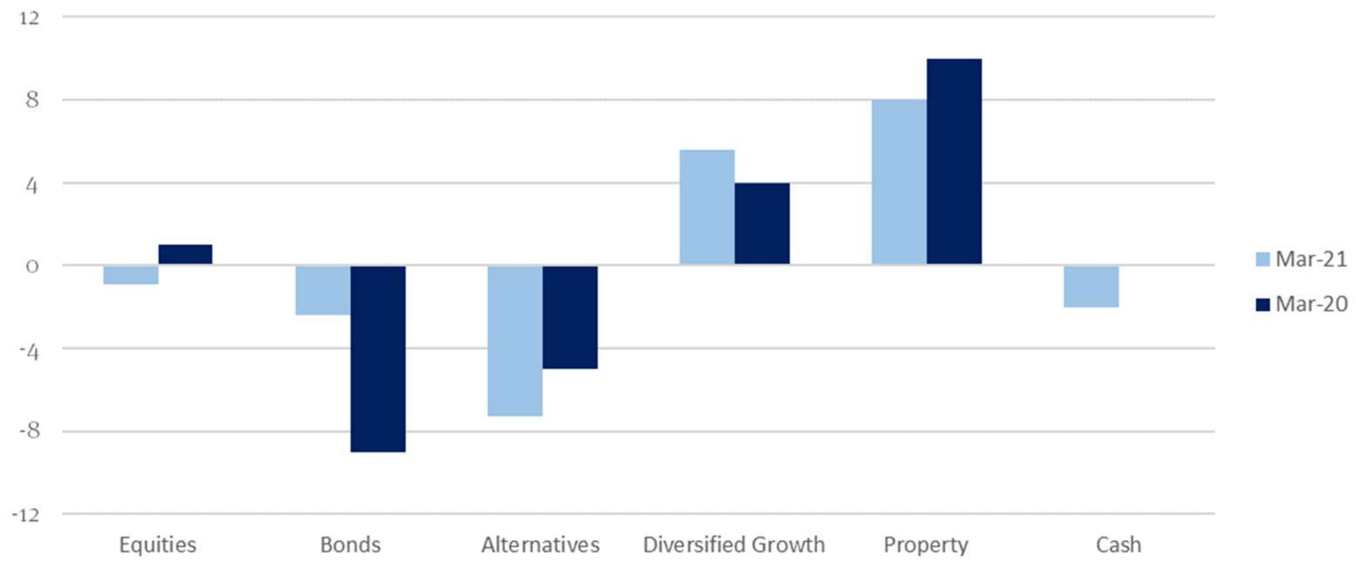


The figure shows the Fund return within the range of results achieved by the LGPS Universe in the latest year. The returns are divided into quarters (quartiles) and the fund is shown as a red diamond.

- The range of results was much wider in the latest year than is usually seen. This is mainly due to the large differences between asset classes.
- Funds with a higher equity allocation have outperformed their peers.
- In the latest year the Fund return of 22.1% was below the average of 22.7% .
- This ranked in the 67th percentile.

Fund Asset Allocation

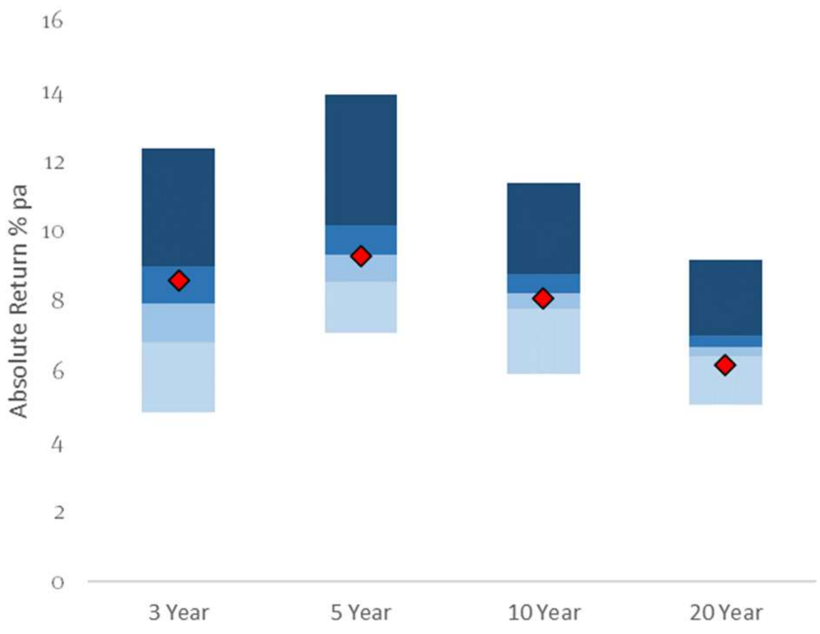
Asset Allocation Relative to Universe Average



- The Fund is structured quite differently from the average.
- The key difference is the relatively high exposure to property.
- This allocation delivered a return broadly in line with the average this year.
- Strong results within the property and diversified growth areas were offset by the relatively poor results achieved within equities.

Fund Longer Term Performance

Longer Term Returns and Rankings

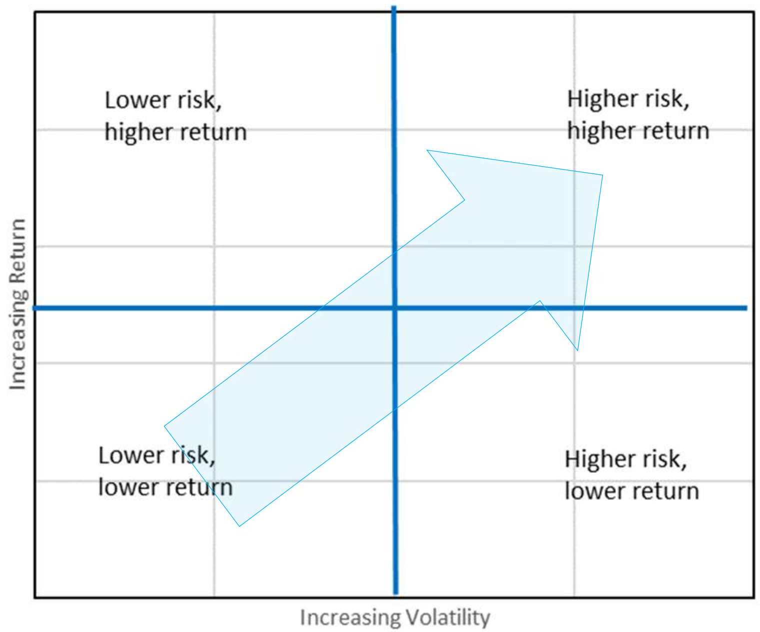


- The medium term results remain close to average.
- Over the 20 years the Fund remains well below average, largely the result of poor equity selection over the period.

	3 Year	5 Year	10 Year	20 Year
Fund	**8.6**	**9.3**	**8.1**	**6.2**
Universe Average	7.6	9.5	8.3	6.9
Ranking	(30)	(53)	(53)	(85)

PIRC LAPPA

Risk and Reward



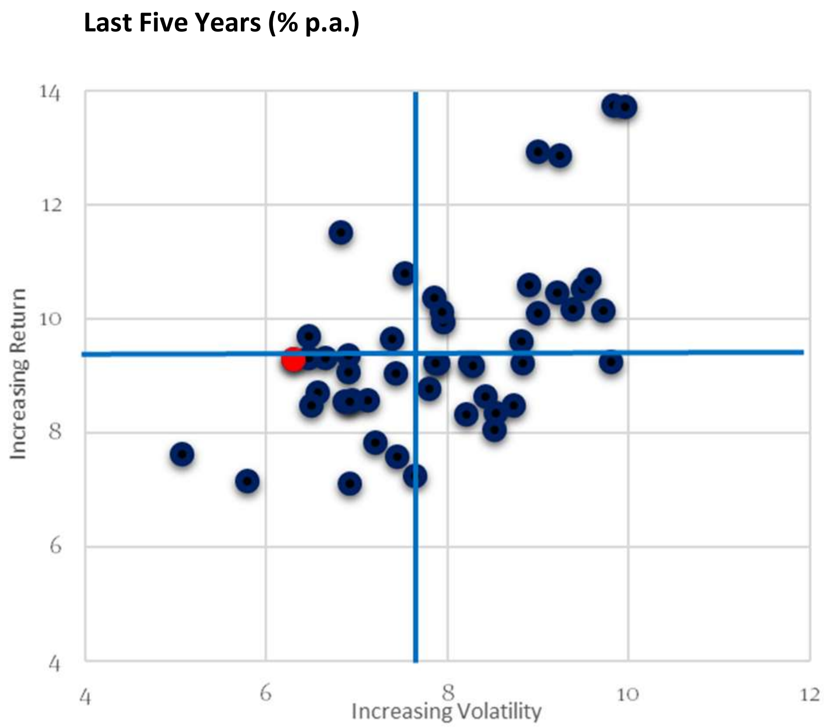
- Within investments there is always a trade-off between risk and return. Normally the higher a return that is being looked for the more volatility the Fund must expect.
- In periods to March 2020 this relationship was not visible. However, the strong results from equities in the latest year has seen it re-emerge.
- On the following pages there is a visible link between risk and return

Fund Risk and Return – Ten Years

Last Ten Years (% p.a.)

- Over the last ten years, the Fund experienced a lower level of volatility than average but delivered a below average return.

Fund Risk And Return – Five Years



- In the last five years the relative volatility has reduced further while the Fund return has improved closer to average.

Page 54

This report is intended solely for the use of the participating funds. Whilst individual fund returns and rankings may be used, the report in its entirety should not be copied or distributed beyond these funds.

Pensions & Investment Research Consultants Limited (PIRC Ltd) is authorised and regulated by the Financial Conduct Authority (FCA Register number 144331, see FCA register for registration details) and registered in England and Wales No 2300269.

This page is intentionally left blank

Mercer

LGPS CURRENT ISSUES

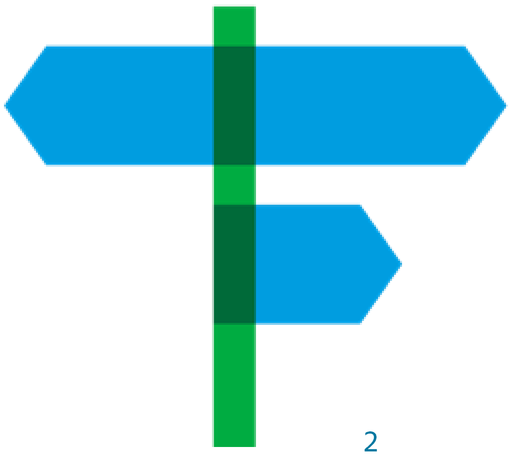
August 2021

welcome to brighter

In this edition

We hope you have been keeping well and staying safe over the summer as restrictions have been lifted all around the UK. With the unlocking of the UK, we trust you have been able to enjoy more time with friends and family and maybe even a staycation, or have this to look forward to in the near future.

In this edition of Mercer Current issues, we provide a focus on climate change, in addition updates on the recent developments and what is to be expected over the next few months.



Regulatory round up

EXIT CREDITS JUDGMENT

On 27 May 2021, a High Court judgment on exit credits found in favour of MHCLG and upheld the retrospective effect of the LGPS (Amendment) Regulations 2020. The case related to the non-payment of a £6.5 million exit credit. The judge noted that 'there were compelling public interest reasons for making the regulations retroactive' and that 'the aim of avoiding windfall payments and protecting the pension funds was legitimate'. The judgment included clarification over how this discretion may be applied and will set a precedent for other cases. The full judgment in relation to this case can be found online. Funds should review the wording in their Funding Strategy Statement regarding the exercise of the discretion to pay an exit credit in light of this judgment. Please get in touch with your usual Mercer consultant if you have any concerns in this area.

PUBLIC SECTOR EXIT PAYMENTS

On 2nd July 2021, MHCLG published a summary on exit payment data for 2019/20 and 2020/21. We expect a further publication by the MHCLG to follow shortly. The summary published outlines that the exit payment paid in 2020/21 averaged at around £26,000 across local authorities (including the pension strain). We anticipate this data will be considered as part of the wider review of the cap on exit payments and more on this is expected later this year.

HMT CONSULTATIONS: COST MANAGEMENT

Following the Government Actuary Department (GAD)'s review of the cost control mechanism for public sector pensions, on 24 June 2021 HMT issued a consultation setting out its proposed reforms to the cost control mechanism.

The consultation includes the following proposals for comment:

- To change the benefits considered by the mechanism to be based on only benefits in the reformed pension schemes and exclude the former schemes from the mechanism (but the continued inclusion of past service in the reformed schemes)
- Widen the 2% corridor for assessing whether a cost breach would trigger a benefit change, to 3%
- The introduction of an "economic check" mechanism when the cost ceiling or floor has breached. This could be the impact of the change in the SCAPE discount rate, which is given as an example, which can be used to mitigate a breach but not in itself trigger a breach.

These changes aim to address the issues identified in GAD's review of the mechanism and on which we have previously commented. Such issues were highlighted by the perverse results stemming from the 2016 cost management review which (prior to allowance for McCloud), *triggered benefit improvements* despite an *increase in costs* due to the fall in the SCAPE rate (and LGPS valuation discount rates generally). Whilst an economic check would help to limit the chance of perverse outcomes arising out of the cost management process and should be welcomed, in our view consideration of only the SCAPE rate would be insufficient to mitigate this risk – particularly for the LGPS where SCAPE is not a driver of employer contribution rates. Instead, we would prefer a more detailed economic check mechanism, which takes into account for LGPS the funded status in determining the discount rate to be used.

Where Funds are preparing their own responses, we have shared our key comments and if you would like to see a copy of our response please get in touch with your usual Mercer consultant.

HMT CONSULTATIONS: SCAPE RATE

HMT has also issued a consultation on the calculation of the SCAPE rate, which is currently based on expected long-term GDP growth. The SCAPE rate is key in the non-funded public service schemes, with its main use being the discount rate for determining pension contributions payable as part of the actuarial valuations. Included in the consultation is a review of the objectives of the rate, where stability is now prioritised alongside the requirement for the rate to provide a fair reflection of costs and to reflect future risks to Government from income.

For the LGPS the use of the SCAPE discount rate is limited to the actuarial factors, including transfer values. Any reduction in the SCAPE discount rate will serve to increase transfer value payments (with any increase in rate having the opposite impact).

We are responding to the consultation and are happy to share this with interested Funds, please get in touch with your usual Mercer consultant if you want to know more about this.

AVCS AND TAX

AVC UPDATE

As with the rest of the LGPS, it is never a quiet time in the AVC sector also!

The transfers from Equitable Life to Utmost last year and the closure by Prudential of their Property Fund in recent months highlights the importance for administering authorities to keep on top of developments in this sector and the need for appropriate (regulated) advice in order that administering authorities can carry out their fiduciary duties. Alongside this, as you will be aware, given the administration performance issues of some AVC providers at the moment we recommend that administering authorities continue to monitor the position and raise their concerns with the relevant parties, escalating these accordingly where appropriate.

Ongoing review of AVC arrangements is an important component of a Fund’s governance framework but with recent challenges of Covid, McCloud and the rise and fall of the exit cap, administering authorities have needed to focus time and resource elsewhere. Ongoing review should consider aspects such as:

- provider performance (administration and investment);
- the continued suitability of the fund range members can access and the impact of potential changes to available funds;
- member communications; and
- options to consolidate / transfer provision where possible and appropriate.

For Funds who have not reviewed the continued suitability of their AVC arrangements for some time, we recommend that this is now added to the business plan. The Mercer LGPS AVC Club will be pleased to help you in these areas as needed (please contact your usual Mercer consultant for further details).

PENSION TAX SEASON IS ABOUT TO START!

Whilst administering authorities will have been working hard to finalise and issue Annual Benefit Statements, Pension Saving Statements will need to be sent by 6 October 2021 to those members who exceed £40,000 of pension savings in the 2020/21 tax year. This year's pension tax season is slightly different because this is the first year in which changes to the tapered annual allowance apply.

In March 2020, the Government was facing huge pressure from NHS doctors who had taken early retirement or gave up overtime in order to avoid the risk of being hit with unexpected annual allowance charges. This had been affecting NHS resources, which of course was a particularly present issue in the face of the start of the pandemic.

In his first Budget, Rishi Sunak announced his only change to pensions in the form of a change to the tapered annual allowance. This was that the two tapered annual allowance thresholds for pension tax relief would increase by £90,000. This represented an increase from £110,000 to £200,000 for "threshold income" – broadly total pre-tax income. At the time, it was stated that this change would result in 98% of consultants and 96% of GPs no longer being affected by the taper. Many in the pensions industry had been calling for the complicated annual allowance taper to be scrapped altogether and that this was an opportunity missed, however, the taper increase was welcome news for not just doctors but also a number of LGPS members who were being impacted by the previous levels. This means that for the first year since 2016, members who only rely on their employed income could have a reduced annual allowance if their pensionable salary is in excess of £228,000 as opposed to £124,000.

However, with inflation remaining low we still anticipate a number of members will exceed their annual allowance limit and require support on how to undertake the complex calculations to work out if they have a liability and what their liability is.

Given the general complexities of Pension Taxation we have found that it is important for members to understand what their responsibility is, given it is a "personal" tax and what the responsibility of the administering authority is. At Mercer, we have developed a three-stage process that can help administering authorities provide members with additional information and guidance and also the opportunity to access individual financial advice should they require it at a later stage. The three stages in the support process we can provide constitute:

1. Education – workshops for Fund officers, employer HR representatives, and members.
2. Guidance – high level 1:1 guidance sessions based on an individual's pension saving statement with guidance (not advice) on next steps they should take
3. Advice – detailed sessions with members to discuss their own position, objectives and actions where independent and authorised financial advice can be delivered by a Mercer IFA specialising in the LGPS

As part of the educational workshops for 2021 that we will be delivering, we will be communicating to officers and members the impact of recent changes announced by HMRC on 20 July 2021 in relation to the extending the deadlines for submitting Scheme Pays notifications – further details of this can be found here.

If you would like further details on how Mercer can help administering authorities in relation to pension taxation please contact your usual Mercer consultant in the first instance.

Climate Change

Setting a path to Net Zero

On Monday 9th August, the United Nations Intergovernmental Panel on Climate Change released its sixth report in which it analysed the most up-to-date understanding of the climate system and climate change. The study issued stark warnings about unprecedented global warming and rising sea levels that have been seen in recent years.

In addition to the warnings over the impact of climate change, the report did seek to address what could be done to manage some of the worst impacts and address the key issues that world leaders need to consider.

Whilst none of the findings of the report are necessarily a surprise, it does highlight that action is required sooner rather than later, and this fits in with conversations we have been having with clients around setting a path to net zero. You will already know that you will not achieve net zero by simply divesting from today's high carbon companies, so we have looked to address this across a four-step guide to support LGPS funds in navigating your journey to net zero.

1. **Calculating your baseline:** Before you embark on any journey, you need to know where you are starting from. Understanding your portfolio's current emissions, transition capacity and green exposures, means you can clearly communicate your position to internal or external stakeholders, and monitor your progress.
2. **Assessing your portfolio possibilities:** It is not just about recognising and understanding the risk in your current portfolio but also the opportunities for change and transitioning that exist.
3. **Setting your metrics and targets:** Establishing your long-term goal is crucial but equally important is setting a series of milestone targets along the way that will ensure you stay on course.
4. **Implementing a transition plan:** Once you have taken the first three steps, you'll be well placed to create your transition plan, before sharing your roadmap to success with your internal and external stakeholders.

Webinar

We are hosting a Webinar looking at this subject on Tuesday, 21 September, 11am-12pm. Please contact your usual Mercer contact if you wish to join the session.

TPR publishes Climate Change Strategy

The Pensions Regulator (TPR) published a climate change strategy in April, setting out how it will help Funds meet challenges around climate change as well its own strategic response. TPR believes that any scheme that does not consider climate change is ignoring a major risk to pension savings and may be missing investment opportunities. TPR's new Climate Change Strategy outlines three aims:

1. To create better outcomes in later life for workplace savers by driving employer action on the risks and opportunities from climate change. TPR hopes to achieve this by ensuring that schemes meet the existing requirements for publishing information. It will also produce further guidance for schemes reporting in line with the TCFD framework, will review a selection of scheme implementation statements, and will publish a report on the findings. On compliance, TPR says it will strengthen enforcement where schemes are not meeting their responsibilities.
2. To seek to influence the debates around pensions and climate change - TPR says it will do this through participation in cross industry groups and by working with other regulators.
3. As a business, to take part in the transition to net zero - TPR proposes to publish a Climate Adaptation Report, which will outline how it will use TCFD recommendations as a framework for its own management of climate risk.

And in other news…

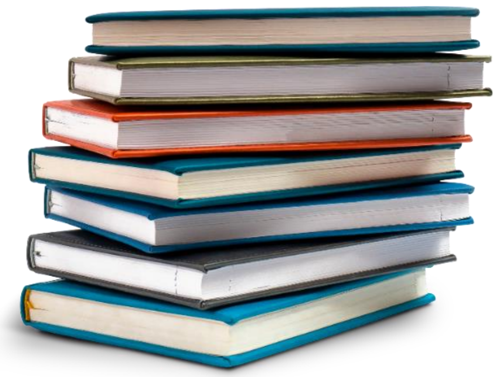
LGPS Non-Club Transfer Out Technical guide

The LGPS Non-Club Transfer Out Technical guide was updated and re-published on 30th July 2021. Version 1.3 of the guide can be found in section 1.2 of the Non-club transfer out technical guide here and in the Scottish regulations under Transfers Out here.

Special Severance Payments by local authorities

On 2 July, MHCLG commenced a consultation on statutory guidance in respect of special severance payments for local authorities.

The intention of the guidance is to limit the use local authorities make of Special Severance Payments (defined as payments made to employees, office workers, contractors, and others outside of statutory, contractual or other requirements) when leaving employment in special service. The guidance sets out the criteria and "truly exceptional circumstances" that should apply to these payments. The consultation ran for 6 weeks until 13th August 2021.



Public Service Pensions Bill

On 19th July 2021, the Public Service Pensions and Judicial Offices Bill (which will pave the way for the implementation of the McCloud remedy) made its way through parliament in the House of Lords with its first reading.

TPR published its Public Sector Survey

The Pension Regulator's (TPR's) published its annual Public Sector Survey on 1st July 2021. The main aim of the survey was to track administration and governance practices in the public sector. The 2020/21 survey also included additional questions in relation to the pension dashboard, responses to the COVID-19 pandemic and action taken in relation to climate related risks.

TPR closes consultation on new single code of practice

On 26 May 2021, TPR closed its consultation on the first phase of its new single code of practice (COP). The proposal is currently to combine its 15 existing codes into a single web-based COP.

The consultation asked for input on the first phase, which will bring together 10 existing codes and introduce additional material on new governance expectations in relation to the "own risk assessment", climate change, cyber security and remuneration policies.

COVID-19 Mortality impact report

On 15th June 2021, the LGPS Board published updated mortality impact reports on two LGPS funds (originally commissioned in September 2020 to specifically analyse the mortality during the Covid-19 pandemic). The updated reports incorporate the winter analysis also. The report can be found here.

The FCA's Long-Term Asset Fund Consultation

In May 2021, the Financial Conduct Authority (FCA) launched a consultation for a new category of authorised fund called a Long-Term Asset Fund (LTAF).

The consultation closed on 25 June 2021, and the FCA intends to publish a final policy statement and final handbook rules later in 2021. The consultation is part of a broader government agenda to facilitate investment in illiquid assets as a viable option for investors with long-term time horizons who understand the risks.

Increase to normal minimum pension age to go ahead

The Government recently published its response to the consultation on increasing the normal minimum pension age from 55 to 57 (from 6 April 2028). Some schemes and members may have protections that override these changes and individuals will be able to keep their protected pension age if they transfer their pension.

Occupational Pensions Stewardship Council

The DWP launched the Occupational Pensions Stewardship Council (OPSC) on 8th July. The aim of the Council is to develop a "stronger overall voice of trustees within the market, especially in relation to service providers". Schemes can also collaborate on stewardship activities such as shareholder resolutions, climate change and corporate governance.

Finance Act 2021

The Finance Act 2021 received Royal Assent on 10 June. The Act gives legal effect to a number of measures announced in March's Budget such as the decision to freeze the lifetime allowance at £1,073,100 for tax years 2021/22 to 2025/26.

What's coming up?

Section 13 – GAD's report on its valuation of the LGPS is due to be published in the autumn.

Pooling guidance – is expected in October 2021, alongside a consultation on climate risk and reporting.

Data Quality – As we get closer and closer to the 2022 valuations, the importance of clean and complete data grows. Funds will be carrying out their annual data quality reviews in the coming months to plan for the valuation. Speak to your Mercer consultant about arranging your review ahead of the valuation.

95k Cap – This is not the last we have heard of the cap and we expect it to come back around soon….

Dates to remember

Date	Issue	The latest
Expected Q2/Q3	Consultation on scams	Consultation is expected on draft regulations (under the Pension Schemes Act 2021) covering scams. Commencement of the scams measures (relating to transfer restrictions) is expected in early Autumn.
Expected Q3/Q4	Consultation on pensions dashboard	The Government aims to consult on proposed regulations for the dashboard later this year and lay draft regulations before Parliament for debate in 2022. Delivery of the dashboard is still projected to be in 2023.
30 September 2021	Extended Coronavirus Job Retention Scheme due to end	The Coronavirus Job Retention Scheme (CJRS), which was due to end on 30 April, has been extended across the UK until the end of September 2021. From July, employers will have to pay 10% toward hours not worked, increasing to 20% for August and September.
Expected first half of 2022 (initially expected 6 April 2020 but now delayed)	Governance and Registration draft regulations	Regulations that will replace some of the measures in the Competition and Markets Authority (CMA) Order have been delayed. Until they are implemented, the CMA Order will continue to be legally binding.
1 April 2023	McCloud remedy regulations in force	It is the Government's intention that regulations providing for the "McCloud remedy" come into force from 1 April 2023.
6 April 2028	Normal minimum pension age to rise to 57	The Government has confirmed the normal minimum pension age (the earliest age from which in most circumstances, members can take a pension without incurring tax penalties) will rise from 55 to 57 from this date (with pension age protection in place for eligible members).
2030	RPI to increase in line with CPIH	The Government's consultation response in November 2020 confirmed that RPI will increase in line with CPIH from 2030.

Meet the team

Name: Neville Khorshidchehr
Role: Chartered Financial Planner specialising in providing retirement advice to members of the LGPS
Joined Mercer: November 2010
Place of Birth: London
Favourite film: The Usual Suspects, I am definitely partial to a film with a quirky or clever ending!
Did you go anywhere nice this Summer?: Lucky enough to go to Cornwall during the July heatwave, which was like being in the Med.
After the excitement of the Euros what are your predictions for the football season ahead?: The England squad certainly gave us something to cheer this summer and I was certainly a Happy Hammer last season and hope this year brings us a European adventure of our own or an FA cup victory. It's worth remembering the last time England won something they were captained by a West Ham player.

Name: Traci Bennett
Role: Wealth Analyst
Joined Mercer: July 2017
Place of Birth: Nova Scotia, Canada
Favourite film: 10 Things I Hate About You
Did you go anywhere nice this Summer?: No, but definitely looking forward to the time I can start booking trips again. I haven't seen my family since about 2018!
After the excitement of the Euros what are your predictions for the football season ahead? I don't really follow football so wouldn't even be able to guess.

Name: Chris West
Role: Investment Consultant
Joined Mercer: 2012
Place of Birth: Wirral
Favourite film: It's a Wonderful Life (I watch it every Christmas Day) or Scarface for the soundtrack. Although I remember watching Jurassic Park in the cinema as a child and being amazed for days afterwards.
Did you go anywhere nice this Summer?: Liverpool FC's old training ground for my vaccination
After the excitement of the Euros what are your predictions for the football season ahead?: Rafa Benitez to cement his legendary status among LFC supporters ☺

Contacts

Paul Middleman
paul.middleman@mercer.com
0151 242 7402

Steve Turner
steve.j.turner@mercer.com
01483 777035

Kieran Harkin
kieran.harkin@mercer.com
0161 957 8016

Nick Buckland
nick.buckland@mercer.com
020 7528 4188

Michelle Doman
michelle.doman@mercer.com
0161 837 6643

Chris Scott
chris.scott@mercer.com
028 9055 6207

Leanne Johnston
leanne.johnston@mercer.com
0161 837 6649

Nigel Thomas
nigel.thomas@mercer.com
0151 242 7309

Lucy Tusa
lucy.tusa@mercer.com
020 7178 6941

Peter Gent
peter.gent1@mercer.com
0151 242 7050

Clive Lewis
clive.lewis@mercer.com
0151 242 7297

Karen Scott
karen.scott@mercer.com
07584 187645

Jonathan Perera
jonathan.perera@mercer.com
0151 242 7434

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pension Board/Pensions Sub-Committee	14th September 2021		n/a

Delete as appropriate	~~Exempt~~	Non-exempt

SUBJECT: EMPLOYER FLEXIBILITIES CONSULTATION TO FUNDING STRATEGY STATEMENT

1. Synopsis

1.1 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).

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 number of important regulatory changes have been made and supporting guidance came into force recently to provide greater flexibility to the Fund and employers in reviewing contributions and managing termination debts in certain circumstances. The Fund has considered its policies in these areas and has updated the FSS to reflect these changes.

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.

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 September and October.

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 A number of important regulatory changes have been made and supporting guidance came into force recently to provide greater flexibility to the Fund and employers in reviewing contributions and managing termination debts in certain circumstances. The Fund has considered its policies in these areas and has updated the FSS to reflect these changes.

3.1.1 The current Islington Council Pension Fund 2020 Funding Strategy Statement (FSS), was implemented following the 2019 Actuarial Valuation. 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.

.

3.1.2 The draft FSS has been updated to reflect the regulatory changes on flexibilities for employers on termination and contribution rates between valuations. The main changes are highlighted below:

1. Employer Flexibilities - How has the Funding Strategy Statement changed?

If certain conditions are met, the changes now allow:

- The Fund to review employer contributions between actuarial valuations (for example, where employers have a significant change in membership or financial covenant)
- An exit debt to be spread over an appropriate period
- An exit debt to be deferred, with the employer remaining in the Fund once all active members have left.

In light of the new Regulations, the Fund is required to include policies within its Funding Strategy Statement (FSS) which set out how the flexibilities will apply in practice for employers.

These policies aim to provide much needed flexibilities to manage the liabilities and have been developed allowing for the guide from the Scheme Advisory Board (SAB) (https://www.lgpsboard.org/index.php/empflexm) and the statutory FSS guidance from the Ministry of Housing, Communities and Local Government (MHCLG) (https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk/outcome/guidance-on-preparing-and-maintaining-policies-on-review-of-employer-contributions-employer-exit-payments-and-deferred-debt-agreements). These policies do not alter the main principles of the current funding plan as agreed as part of the 2019 actuarial valuation.

To implement these new policies the following updates have therefore been made to the Funding Strategy Statement.

2. Introduction of a new policy - Review of Employer Contributions between Valuations

Previously the contribution rates set out in the valuation report stayed in place until the next valuation (except in limited circumstances or where an employer exits the Fund). The new Regulations allow changes to contributions to be made before the next actuarial valuation under the following circumstances:

a) It appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
b) It appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
c) A Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review (and point (a) or (b) also applies)

It should be noted that the introduction of this new policy does not mean employers can simply request a reduction in contributions during an inter-valuation period. Further details on how this can be applied in practice are set out within the policy in Appendix D.

For the avoidance of doubt, the Fund still requires employers to notify the Fund of any material changes in their financial covenant i.e. their ability to meet their obligations to the Fund (in line with b) above) as was the case prior to the introduction of these new policies.

3. Updates to the Termination Policy when an employer exits the Fund

Whilst the Fund's policy remains that any exit debt is paid up front, the changes now allow us to develop policies that provide more flexibility to employers in certain circumstances.

The options upon termination will therefore be as follows:

a) <u>Upfront payment of the exit debt (the existing approach)</u>
This will remain as the default option when an employer terminates.

b) <u>Spreading exit payments</u>
Where the upfront payment of the deficit has been determined as unaffordable by the Fund, the parties can enter into an agreement to instead spread the payment of the final exit debt. This will be over an agreed period of time with the amounts and frequency of the payments in the payment plan agreed at the outset along with any early payment terms. The maximum period proposed in the policy is 5 years from exit, except in exceptional circumstances at the sole discretion of the Fund based on the advice of the Actuary.

c) <u>Deferred Debt Arrangement (DDA)</u>

Alternatively, where the upfront payment has been determined as unaffordable by the Fund, the parties may enter into a DDA which allows them to defer their obligation to make an exit payment and continue to make contributions to the Fund. Contribution requirements will continue to be reviewed as a minimum as part of each actuarial valuation under this option. This option is essentially an employer continuing ongoing participation, but with no contributing members. The Fund or employer can terminate the DDA and settle a revised (potentially more affordable) exit debt in the future, or the DDA would automatically cease when the exit debt is paid.

If the Fund agrees that an employer may adopt any of the flexible termination options above then the employer will be required to supply regular covenant information and to notify the Fund of any change in circumstances under a notifiable event framework. The conditions for entering into any arrangement will be set out in the agreement between the parties.

4. Termination Basis – What has changed?

Alongside the additional flexibilities potentially available to exiting employers, following a review undertaken by the Actuary, the actuarial assumptions underlying termination calculations (for those employers where a guarantor does not exist to take on responsibility for any residual liabilities of the exiting employer) have been updated. The changes made reflect changes in market conditions and the wider defined benefit pension's landscape.

A new "low risk" basis of termination is to now be applied in such cases, replacing the "minimum risk" basis that applied previously. This change will serve to slightly reduce the liabilities assessed for exiting employers.

In addition, for any employer exiting the Fund the termination liabilities assessed will now include allowance for the estimated administrative expenses associated with any members remaining in the Fund associated with the exiting employer.

5. New Admissions (less than 5 members)

When a new employer enters the Fund, the Actuary would currently be required to carry out an assessment of the contribution rate payable by the new employer. Going forwards, to assist with the process for small admissions, it is proposed that where less than 5 members are involved, the initial contribution rate for the new employer will be set in line with the contribution rate payable by the letting employer. The Actuary would then reassess the new employer's contribution requirements in full at the subsequent actuarial valuation.

Whilst this approach would mean that the new employer is paying a contribution rate that does not reflect its own membership profile (and thus could result in an under/over payment) the approach will simplify the admission process for these small admissions to ensure that all parties (both new employer and letting employer) are aware that there will be pension costs from the date of admission and these can start to be paid from the outset.

Should the new employer require accounting calculations, or should the letting employer require their own calculations to reflect the transfer to the new employer, it should be noted that the Actuary will need to carry out calculations in these circumstances based on the relevant membership data.

More generally, the Fund will be writing to employers again in the autumn to propose a separate training session in this area relating to the roles and responsibilities of employers when services are outsourced.

6. Other Changes

In addition, the termination policy has been updated to clarify the process involved in determining how an exit credit (i.e. a surplus) should be dealt with when an employer exits the Fund. In particular, upon request, the Fund will provide the exiting employer with a notice setting out who will receive the exit credit and the reasons behind this decision (e.g. details of the commercial or admission agreements referenced). The employer will be able to appeal this decision if they do not agree with the determination.

Some small clarification and technical changes have also been made throughout the document to allow for updated information after the valuation date.

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 November meeting so that an informed decision can be made to approve the final version of FSS for publication by December.

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 07 September 2021

Received by:

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk

This page is intentionally left blank

DRAFT – SUBJECT TO CONSULTATION

FUNDING STRATEGY STATEMENT

Islington Council Pension Fund

~~(date)~~August 2021

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

CONTENTS

APPENDICES

1. Executive Summary

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

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

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

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

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

Meeting the Fund’s Solvency Objective

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next to meet the primary objectives. This in turn means that contributions will be subject to change from one valuation to another.

This objective is considered on an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for this objective to be reasonably achieved in the long term at each valuation.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis, taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives.

The level of prudence has been quantified by the Actuary to show the level of contingency to provide protection against future adverse experience in the long term. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

Solvency and long term cost efficiency

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

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

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

Deficit recovery plan and contributions

As the solvency level of the Fund is 85% at the valuation date (i.e. the assets of the Fund are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall. At an individual employer level, there will be some instances where the assets allocated are higher than the liabilities and therefore a surplus will exist. In such cases, a plan may need to be implemented to remove some, or all, of the surplus over an agreed timeframe, taking into account any increases to the Primary Contribution Rate which also emerge.

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

The objective is to recover any deficit over a reasonable timeframe which in the long term provides equity between different generations of taxpayers whilst ensuring the deficit payments are eliminating a sufficient proportion of the capital element of the deficit, thereby reducing the interest cost. This will be periodically reviewed depending on the maturity profile of the scheme.

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

Where there is a material increase in contributions required at this valuation, in certain circumstances the employer may be able to 'phase in' contributions over a period of 3 years in a pattern agreed with the Administering Authority and depending on the affordability of contributions as assessed in the covenant review of an employer.

The maximum recovery period for the Fund as a whole is 19 years which is three years shorter than that adopted at the previous valuation. Subject to affordability and other considerations, individual employer recovery periods would be expected to have the same end date as the period set at the previous valuation. The average recovery period emerging from this valuation is 19 years.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. All employers in the Fund as at 31 March 2019 have chosen to include these estimated costs over 2020/23 in their certified contributions.

Actuarial assumptions

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

When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS).

The assumption for the long term expected future real returns has fallen since the last valuation. This is principally due to a combination of expectations of the returns on the Fund's assets and the higher expected level of inflation in the long term. As the Fund has implemented a number of risk management strategies since the last valuation in order to reduce the expected volatility of returns (i.e. provide more certainty on contribution outcomes), the Actuary has also taken this into account when proposing the assumptions. The assumption has therefore been adjusted so that in the Actuary's opinion, when allowing for the resultant employer contributions emerging from the valuation, the Fund can reasonably be expected to meet the Solvency and Long Term Cost Efficiency objectives.

Taking into account the above the Fund Actuary is proposing that the long term real return over CPI inflation assumptions for determining the baseline past service liabilities should be 1.8% per annum and 2.25% per annum for determining the future service ("primary") contribution rate. This compares to 2.2% per annum and 2.75% per annum respectively at the last valuation.

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

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant. For those employers terminating participation in the Fund, a more prudent mortality assumption may apply (see further comments below).

Employer asset shares

The Fund is a multi-employer pension fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

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

Other adjustments are also made on account of the funding positions of orphan bodies where any residual funding deficit is the responsibility of all other active employers in the Fund. In addition, the asset share may be restated for changes in data or other policies.

Fund policies

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

1. Covenant assessment and monitoring

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

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

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

2. Admitting employers to the Fund

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

- Mandatory Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution for example Town and Parish Councils.
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

The key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible. The different employers pose different risks to the Fund.

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

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

The policy for employers who do not have a guarantor participating in the Fund:

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

Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 6 months of completion of the cessation assessment by the Actuary. The Administering Authority will seek to modify this approach on a case by case basis if circumstances warrant it (for example, it may work with the outsourcing scheme employer to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers).

This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

The policy for employers who have a guarantor participating in the Fund:

Where there is a guarantor who would subsume the assets and liabilities of the outgoing employer, the default policy is that any deficit or surplus would be subsumed into the guarantor and taken into account at the following valuation. In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No exit credit would be payable in these circumstances.

In line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Administering Authority will provide details of the information required to make their determination for each case when the need arises. Further details are set out within the Termination Policy in **Appendix C**.

The Administering Authority can modify this approach on a case by case basis if circumstances warrant it and the parties make representation. For example if the parties make representation it may be appropriate to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and the outsourcing scheme employer.

In the event of parties unreasonably seeking to crystalise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities the basis of assessment on termination will assume the liabilities are orphaned and thus the ~~minimum risk~~low risk termination basis will apply.

The policy for repayment of exit debts:

The default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement may be entered into. If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt Agreement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements. Further details are set out with in **Appendix C**.

2. Introduction

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Islington Council Pension Fund (the “Fund”), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

Benefits

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full Fund benefits in relation to the member only and pay 50% of the normal member contribution.

Employer contributions

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

Primary rate

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

The Primary rate for each employer is specified in the rates and adjustments certificate.

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

Secondary rate

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

The Secondary rate for each employer is specified in the rates and adjustments certificate.

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

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

3. Purpose of FSS in policy terms

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

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

The purpose of this Funding Strategy Statement is therefore:

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

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

4. Aims and purpose of the Fund

The aims of the fund are to:

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

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the Regulations.

5. Responsibilities of the key parties

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

Key parties to the FSS

The **Administering Authority** should:

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

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are Deferred Employer
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- undertake administration duties in accordance with the Pension Administration Strategy.
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework

- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator’s focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.
- understand the pensions impacts of any changes to their organisational structure and service delivery model
- understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in employer paying higher contributions than otherwise would be the case if the data was of high quality.

The **Fund Actuary** should:

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

6. Solvency funding target

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

Solvency and Long Term Efficiency

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

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

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

Determination of the solvency Funding Target and deficit Recovery Plan

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

Underlying these assumptions are the following two tenets:

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

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

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

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

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

Individual employer contributions will be expressed and certified as two separate elements:

- the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits (where appropriate).

- the **Secondary rate**: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit (including phasing adjustments).

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to review from 1 April 2023 based on the results of the 2022 valuation.

Where an employer is in a surplus position and a Secondary rate deduction applies (see comment below), the Secondary rate deduction from the Primary rate will be subject to a minimum threshold of £100, below which no deduction will be made.

Deficit Recovery Plan

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

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

Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, at the sole discretion of the Administering Authority the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, over a maximum period of 3 years.

For those employers assessed to be in surplus at the valuation date and who are expected to exit the Fund in the period to 31 March 2023, the Secondary rate payments will be based on the expected length of participation in the Fund. For all other employers assessed to be in surplus at the valuation date, the Secondary rate payments will be based on the maximum recovery period, unless otherwise agreed by the Administering Authority.

For certain employers, subject to the agreement of the administering authority, the option to prepay Primary rate contributions may be made available. This option would be on the proviso that a "top-up" payment would be made by the employer prior to the end of the prepayment period in order to ensure that no underpayment emerges versus the minimum required by the valuation certificate.

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

Special circumstances to consider alternative deficit recovery plans

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

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

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

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

Employers Exiting the Fund

Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will review their certified contribution in order to target a fully funded position at exit. The costs of the contribution rate review will be payable by the employer or the outsourcing Scheme Employer (where necessary).

On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

The policy for employers who have a guarantor participating in the Fund:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor as a default policy

The interested parties will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor when considering whether an exit credit should be paid. In some instances an exit credit or debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make formal representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the final cessation by the Actuary.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

If requested, the Administering Authority will provide details of the information considered as part of the determination. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations (as noted above). For the avoidance of doubt, the Fund's default position is that where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations, provided that the Fund is aware of the provisions of the risk sharing agreement in any representation made. Any deviation from the default position will be considered on its merits based on the information provided by the relevant parties.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not currently known with any certainty although it is expected to be similar to the allowance made in the employer rates at this valuation. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations. However, if a representation is made to the Administering Authority then a reasonable estimate for the potential cost of McCloud will need to be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

In the event of parties unreasonably seeking to crystalise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the basis of assessment on termination will assume the liabilities are orphaned and the ~~minimum risk~~low risk termination basis ~~of termination~~ will apply.

The policy for employers who do not have a guarantor participating in the Fund:

In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. As part of any termination assessment, a reasonable estimate for the potential cost of McCloud will be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

Where an employer with no guarantor leaves the Fund and leaves liabilities with the Fund which the Fund must meet without recourse to that employer, the valuation of the termination payment will be calculated using the ~~minimum risk~~low risk termination basis.

The policy for repayment of exit debts:

The default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement may be entered into. If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt Agreement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements. Further details are set out in the termination policy is set out in **Appendix C** (including details of repayment plans over an agreed period and Deferred Debt Agreement).

Funding for early retirement costs

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

For those employers for whom the certified future service contribution rate excludes an allowance for ill-health or voluntary early retirement costs, the administering authority will require the costs of all early retirements to be paid in full by the employer by additional capital payments at the point of retirement.

Funding for deaths in service

The financial impact of the benefits that become payable on the death of a member differ depending on whether the member dies before or after retirement.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

In the event of a member dying whilst in active service, it is not certain that a funding profit would emerge. Whilst the Fund would no longer have to pay the accrued benefits at retirement for the deceased member, a lump sum death grant and also dependants' benefits would become payable instead. The dependants' benefits would also be based on the pensionable service that the member could have accrued had they remained in service until retirement.

Typically, the death of a young member with low pensionable service and dependants is likely to result in a large funding strain for the employer. However, the death of an older/long serving member with no dependants could actually result in a funding profit. Any funding strain or profit will emerge at the next actuarial valuation through increased/reduced deficit, except where the employer is in the termination process when it will be taken into account when the Actuary determines the termination position.

7. Link to Investment Policy and the Investment Strategy Statement (ISS)

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

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

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

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of minus 0.9% per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 51%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken.

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

The current strategy is:

	Benchmark %
Global Equities (Developed Market)	40
Global Equities (Emerging Market)	6
Total Equities	**46**
Corporate Bonds	5
Total Bonds	**5**
Property	25
Private Equity	4
Infrastructure	10
Diversified Growth Funds	10
Total Alternatives	**49**
Cash	0
Total	**100%**

The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 3.0% per annum in excess of CPI inflation as at 31 March 2019 i.e. a 50/50 change of achieving this real return. For the purposes of setting a funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations (see further comment in **Appendix A**).

During the recovery period, an overall investment return assumption in excess of that used to calculate the solvency target (up to 0.2% p.a.) will be allowed for in the calculation of the required deficit recovery contributions for certain employers on the proviso that the Fund's current investment strategy will change over 2020/23 in order to deliver additional returns over and above the current best estimate return for the same level of risk. The Administering Authority believes that this is a reasonable approach to take for certain employers following analysis undertaken by the Actuary and the Fund's investment advisors.

Risk management strategy

In the context of managing various aspects of the Fund's financial risks, the Administering Authority has implemented a number of risk management techniques. In particular:

- Equity Protection - the Fund implemented protection against potential falls in the equity markets via the use of derivatives until March 2020. The aim of the protection has been to provide further stability in employer contributions (all other things equal) in the event of significant equity market falls (although it is recognised that it will not protect the Fund in totality).

The principal aim of these risk management techniques is to effectively look to provide more certainty of real investment returns vs CPI inflation and/or protect against volatility in the termination position. It is designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates.

The effect of these techniques has been allowed for in the 2019 actuarial valuation calculations and could have implications on future actuarial valuations and the assumptions adopted. Further details of the framework have been included in the ISS.

8. Identification of Risks and Counter-Measures

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

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

Financial

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Protection and risk management policies fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

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

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of a risk management framework to manage the key financial risks will help reduce risk over time.

Demographic

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions

- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

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

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the “average” implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to minimise the number of ill-health retirements.

Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge. For some employers, a direct charge will also be levied at the point of an ill-health retirement.

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

Insurance of certain benefits

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

Regulatory

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund. Typically, these would be via the Cost Management Process although in light of the McCloud discrimination case (see further comment in Section 9) there can be exceptional circumstances which give rise to unexpected changes in Regulations
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy.

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

Governance

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

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Changes in the Committee membership.

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

Local Pension Board

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

The Board seeks to assist the London Borough of Islington to maintain effective and efficient administration and governance. The LPB comprises both Scheme members, retired and active, together with employer representatives.

It meets quarterly and all Board Members have undertaken training and have established a work programme that will enable them to meet their obligations to ensure that the Fund complies with the relevant codes of practice and current legislation.

9. Monitoring and review

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

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

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

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

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

Review of contributions

In line with the Regulations, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.

2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.

3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them.

Consideration will be given to any risk sharing arrangements (e.g. cap and collar arrangements) when reviewing contribution rates. Further information is set out within the policy in **Appendix D**.

Cost management and the McCloud judgement

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.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to 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 Schemes).

It is not known how these cases will affect the LGPS or the cost management process at this time. The Scheme Advisory Board issued guidance **here** which sets out how the McCloud case should be allowed for within the 2019 valuation.

The potential impact of the judgement (based on the information available at the time) has been quantified and communicated to employers as part of the 2019 valuation. This has been assessed by removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they will need to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation.

Appendix A –
Actuarial method and assumptions

Method

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

Financial assumptions – solvency funding target and cost of future accrual

Investment return (discount rate) – Solvency Funding Target
The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 1.8% per annum above CPI inflation, i.e. a total discount rate of 4.2% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

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

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

The financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.25% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.65% per annum.

Inflation (Consumer Prices Index)
The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date,

reflecting the profile and duration of the Fund's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum. The CPI inflation assumption at the valuation date is 2.4% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any reform of the RPI index as announced by the Chancellor of the Exchequer. Any change will then be implemented for all relevant policies in this Funding Strategy Statement. The adjustment to the RPI inflation may also vary by funding basis. Further information is set out within the termination policy

Salary increases
In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for employers The default assumption is for pay growth of 2% (covering both headline increases and incremental drift) each year from the valuation date up to 31st March 2023 although employers will be able to opt for the long-term assumption only should they wish.

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Administering Authority but as a minimum must be reasonable and practical. Employers will need to provide clear evidence that justifies any bespoke assumptions (for example a long-term pay agreement). To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension increases/Indexation of CARE benefits
Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

Demographic assumptions

Mortality/Life Expectancy
The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections and a long term improvement trend of 1.75% per annum.

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

Commutation
It has been assumed that, on average, retiring members will take 80% of the maximum tax-free cash available at retirement. This is broadly equivalent to the assumption at the 2016 actuarial valuation The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

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

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

For employers exiting the Fund, the assessment of the termination position will include an allowance for the estimated costs of future administrative expenses associated with any members remaining in the Fund who were associated with the exiting employer.

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

Method and Assumptions used in calculating Recovery Plan Contributions (or Secondary Rate)

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

Investment return on existing assets and future contributions
A maximum overall return effective as at the valuation date of 2% p.a. above CPI, reflecting the expected changes in investment strategy that will result in additional returns of up to 0.2% p.a. above CPI. This will apply to the assets of the scheme that underlie the non-pensioner as well as the pensioner liabilities.

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

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable).

Employer asset shares

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

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share maybe restated for changes in data or other policies.

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

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “primary rate”) for the 2019 actuarial valuation

Long-term yields	
Market implied RPI inflation	3.40% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.20% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases*	3.90% p.a.
Pension increases/indexation of CARE benefits**	2.40% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.65% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases*	3.90% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.

* in addition to this, an allowance for further short-term pay restraint may be made. This will be 2% per annum for 4 years to 31 March 2023 depending on an employer’s circumstances.

** for those members reaching State Pension Age between 6 April 2016 and 5 April 2021, full CPI increases on Guaranteed Minimum Pensions have been assumed once in payment. Otherwise statutory increases on Guaranteed Minimum Pension will apply e.g. nil on Guaranteed Minimum Pensions accrued prior to 6 April 1988 and in line with CPI (subject to a maximum of 3% p.a.) for Guaranteed Minimum Pensions accrued after 5 April 1988.

Life expectancy assumptions

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

-Post retirement mortality tables

Current Status	Retirement Type	Mortality Table
Pensioner	Normal Health	98% S3PMA_CMI_2018 [1.75%] 88% S3PFA_M_CMI_2018 [1.75%]
	Dependant	128% S3PMA_CMI_2018 [1.75%] 85% S3DFA_CMI_2018 [1.75%]
	Ill Health	121% S3IMA_CMI_2018 [1.75%] 129% S3IFA_CMI_2018 [1.75%]
	Future Dependant	126% S3PMA_CMI_2018 [1.75%] 109% S3DFA_CMI_2018 [1.75%]
Active	Normal Health	105% S3PMA_CMI_2018 [1.75%] 90% S3PFA_M_CMI_2018 [1.75%]
	Ill Health	121% S3IMA_CMI_2018 [1.75%] 139% S3IFA_CMI_2018 [1.75%]
Deferred	All	124% S3PMA_CMI_2018 [1.75%] 104% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Dependant	131% S3PMA_CMI_2018 [1.75%] 113% S3DFA_CMI_2018 [1.75%]

-Life expectancies at age 65

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.6	25.1
Actives aged 45 now	24.1	27.0
Deferreds aged 45 now	22.8	25.9

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

Appendix B –
Employer Deficit Recovery Plans

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

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts increasing at 3.9% per annum (in line with long-term pay growth assumption) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

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

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

Category	**Default Deficit Recovery Period**	**Derivation**
Scheme Employers	16 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan. <u>For certain employers, subject to the agreement of the administering authority, depending on affordability and other considerations, a maximum recovery period of up 19 years may be applied</u>
Open Admitted Bodies	16 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan.
Closed Employers	Lower of 16 years and the future working lifetime of the membership	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund..

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

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

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

For those employers assessed to be in surplus at the valuation date and who are expected to exit the Fund in the period to 31 March 2023, the Secondary rate payments will be based on the expected length of participation in the Fund. For all other employers assessed to be in surplus at the valuation date, the Secondary rate will based on the maximum recovery period, unless otherwise agreed by the Administering Authority.

Other factors affecting the employer deficit recovery plans

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

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

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

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

Appendix C –
Admission policy, termination policy, Flexibility for exit payments and deferred debt agreements

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

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

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

Entry to the fund

Mandatory scheme employers

Certain employing bodies are required to join the scheme under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Academies also fall under this category.

Designating Bodies

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the Regulations to provide a guarantee. These bodies usually have tax raising powers and include Parish and Town Councils.

Admission Bodies

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an "admission agreement". In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)

- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are “not for profit” organisations (formerly known as Community Admission Bodies).

Admitted bodies may only join the Fund if they are guaranteed by a scheme employer. When the agreement or service provision ceases, the Fund’s policy is that in all cases it will look to recover any outstanding deficit from the outgoing body unless appropriate instruction is received from the outsourcing employer or guaranteeing employer, in which case the assets and liabilities of the admission body will in revert to the outsourcing scheme employer or guaranteeing employer.

Connected Entities

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are “Designating Bodies” under the Regulations, they have similar characteristics to admitted bodies (in that there is an “outsourcing employer”). However, the Regulations do not strictly require such bodies to have a guarantee from a scheme employer.

However, to limit the risk to the Fund, the Fund will require that the scheme employer provides a guarantee for their connected entity, in order that the ongoing funding basis will be applied to value the liabilities.

Second generation outsourcings for staff not employed by the scheme employer contracting the services to an admitted body

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the unitary authorities, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a ‘Related Employer’ for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor.

“Related employer” is defined as “any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)”.

Risk assessments

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

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

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

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

Admitted bodies providing a service

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

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

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

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

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

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

Contribution Rate Assessments

Where there are less than 5 members transferring at the point of admission, unless agreed otherwise with the Administering Authority, the initial contribution rate payable from the date of admission, will be set in line the corresponding contribution rate payable by the letting employer towards future service benefit accrual. The initial rate payable will be a combination of the Primary Rate certified for the employer following the most recent actuarial valuation plus any % element of the employer's Secondary Rate certified i.e. excluding any certified deficit contribution / surplus offset. The initial rate will apply until the actuarial valuation following the date of admission when the new admitted body's contribution requirements will be fully reassessed.

In all other situations, unless agreed otherwise with the Administering Authority, the Actuary will undertake an assessment of the required contribution rate payable by the new admitted body.

Pre-funding for termination

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

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

Exiting the fund

Termination of an employer's participation

When an employer's participation in the Fund comes to its end, or is prematurely terminated for any reason (e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation), employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

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

Where the Fund obtains advance notice that an employer's participation is coming to an end, the Regulations enable the Fund to commission a funding assessment leading to a revised contribution certificate which is designed to eliminate, as far as possible, any surplus or deficit by the cessation date.

Whether or not an interim contribution adjustment has been initiated once participation in the Fund has ceased, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a revision of the rates and adjustment certificate showing any contributions due from the admission body.

When an employer exits the Fund the Regulations give power to the Fund to set a repayment plan to recover the outstanding debt over a period at its sole discretion and this will depend on the affordability of the repayments and financial strength of the exiting employer. Once this repayment plan is set the payments would not be reviewed for changes in the funding position due to market or demographic factors.

The Fund's policy for termination payment plans is as follows:

- The default position is for exit payments and exit credits to be paid immediately in full unless agreed otherwise with the relevant parties.
- At the discretion of the administering authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt (see further details below).
- Any costs associated with the exit valuation will be paid by the employer by either increasing the exit payment or reducing the exit credit by the appropriate amount. In the case of an employer where the exit debt/credit is the responsibility of the original employer through a risk sharing agreement the costs will be charged directly to the employer unless the original employer directs otherwise.

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

Basis of termination

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

Details of the ~~minimum~~ low risk funding basis are shown below.

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the ICPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the ICPF otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit (or surplus) on closure. In these circumstances no termination payment will be required from (or made to) the outgoing employing body itself, as the deficit (or surplus) would be recovered via the successor body's own deficit recovery plan.

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

Whether or not the termination liabilities are assessed on the valuation funding basis or the low risk termination basis, the liabilities will also include an allowance for estimated future administrative expenses in relation to any remaining members on termination.

Implementation

Admission bodies participating by virtue of a contractual arrangement

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit under the default policy. In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (**The Local Government Pension Scheme (Amendment) Regulations 2020**) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.

- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the final cessation assessment by the Actuary.

- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

If requested, the Administering Authority will provide details of the information considered as part of the determination. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).

2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations as noted above. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not currently known with any certainty although it is expected to be similar to the allowance made in the employer rates at this valuation. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations. However, if a representation is made to the Administering Authority then a reasonable estimate for the potential cost of McCloud will need to be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

In the event of parties unreasonably seeking to crystalise the exit credit on termination unreasonably the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the termination assessment will assume the liabilities are orphaned and the ~~minimum~~ low risk basis of termination will be applied.

As the guarantor will absorb the residual assets and liabilities under the default policy above, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious ~~minimum~~ low risk basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs the exiting employer would then be treated as if it had no guarantor as per the policy below.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary, based on representations from the interested parties where appropriate.

Non contract based admission bodies with a guarantor in the fund

The approach for these will be the same as that above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities. Indeed, it may be that Fund is prepared to accept that no actual termination payment is needed (even if one is calculated) and that all assets/liabilities can simply be absorbed by the guarantor.

Admission bodies with no guarantor in the fund

These are the cases where the residual liabilities would be orphaned within Fund. It is possible that a bond would be in place. The termination calculation would be on the more cautious "~~minimum~~ low risk" basis.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. As part of any termination assessment, a reasonable estimate for the potential cost of McCloud will be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

Connected Entities

In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers).

In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

Policy in relation to the flexibility for exit debt payments and deferent debt agreements (DDA)

The Fund's policy for termination payment plans is as follows:

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.

2. At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt Agreement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged as an upfront payment to the Fund.

The following policy and processes will be followed in line with the principles set out in the statutory guidance published 2 March 2021.

Policy for spreading exit payments

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.

2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to

support the payment plan before entering into an agreement to spread the exit payments.

3. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.

4. The initial process to determine whether an exit debt should be spread may take up to 6 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time

5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
    a. The spreading period that will be adopted (this will be subject to a maximum of 5 years).
    b. The initial and annual payments due and how these will change over the period
    c. The interest rates applicable and the costs associated with the payment plan devised (which will be met by the employer unless agreed otherwise with the Administering Authority)
    d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
    e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
    f. The views of the Actuary, covenant, legal and any other specialists necessary
    g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
    h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)

6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

Employers participating with no contributing members

As opposed to paying the exit debt an employer may participate in the Fund with no contributing members and utilise the "Deferred Debt Agreements" (DDA) at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority

2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).

3. The initial process to determine whether a Deferred Debt Agreement should apply may take up to 6 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.

4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered and agreed:

    - What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won't enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery period and other funding arrangements.
    - Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
    - What the updated secondary rate of contributions would be required up to the next valuation.
    - The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
    - The advice of the Actuary, covenant, legal and any other specialists necessary.
    - The responsibilities that would apply to the employer while they remain in the Fund.
    - What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
    - The circumstances that would trigger a variation in the length of the deferred debt agreement (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
    - Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

    The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a Deferred Debt Agreement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.

6. The costs associated with the advice sought and drafting of the Deferred Debt Agreement will be passed onto the employer and will be charged as an upfront payment to the Fund.

~~Minimum Risk~~ Termination bases~~is~~

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. ~~These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.~~

Minimum risk assumptions	31 March 2019
Discount Rate	1.5% p.a.
CPI price inflation	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

The discount rate underlying the minimum risk basis was set with reference to the underlying yields available on fixed interest government bond yields at the valuation date.

Since the valuation date the Administering Authority has reviewed the minimum risk basis following advice from the Fund Actuary. As a result of this review the minimum risk basis has been replaced with a low risk basis for termination calculations with an effective date of 1 September 2021 onwards.

The discount rate underlying the low risk basis will be set with reference to the return on a notional portfolio of low risk assets (comprising investments such as gilts, bonds) that can be achieved with a high likelihood (c90%). The discount rate set will initially be equal to the underlying yields available on fixed interest government bond yields at the date of termination plus an additional 0.5% per annum. The discount rate will be kept under review over time.

In addition, since the valuation date, it has been announced that the derivation of the RPI measure of inflation will change to be in line with the CPIH inflation measure with effect from 2030. This therefore needs to be reflected when deriving an updated market estimate of CPI inflation.

For example when assessing a termination position on the ongoing funding assumptions (at February 2021) we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting 0.6% per annum as opposed to the 1.0% per annum at the valuation date when assessing an employer's termination position. The adjustment to market RPI inflation will be reduced to 0.4~~[tbc]~~% on the ~~minimum~~low risk basis to reflect the fully hedged nature of the notional low risk portfolio. This adjustment will be kept under review over time.

The low risk financial assumptions that would have applied at 30 June 2021, had this new termination basis been in force at that time, are set out below. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Low risk assumptions	**30 June 2021**
Discount Rate	1.7% p.a.
CPI price inflation	3.0% p.a.
Pension increases/indexation of CARE benefits	3.0% p.a.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption. Given the ~~minimum~~ low risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.75% used in the 2019 valuation for ongoing funding and contribution purposes. This assumption will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

~~[Since the valuation date the Administering Authority has reviewed the minimum risk basis following advice from the Fund Actuary, the investment return assumption will be increased for terminations applying from [date] to [tbc]]~~

~~In addition, since the valuation date, it has been announced that RPI inflation will move to be in line with the CPIH inflation measure with effect from 2030. This therefore needs to be reflected when deriving an updated market estimate of CPI inflation.~~

~~For example when assessing a termination position on the ongoing funding assumptions (at February 2021) we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting 0.6% per annum as opposed to the 1.0% per annum at the valuation date when assessing an employer's termination position. The adjustment to market RPI inflation will be reduced to [tbc]% on the minimum risk basis to reflect the market price of hedging inflation risk through index linked gilts. This adjustment will be kept under review over time.~~

Appendix D –
Review of Employer Contributions between valuations

In line with the Regulations that came into force on 23rd September 2020, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make one request between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the overarching policy intent is that contribution reviews are not permitted outside of a full valuation cycle. However changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next valuation Rates and Adjustments Certificate.

- However, where there has been a material change in covenant, a review will be considered on a case by case basis which will determine if it should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

Situations where contributions may be reviewed

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

1) Significant changes in the employer's liabilities

This includes but is not limited to the following scenarios:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
   i. Restructuring of an employer
   ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
   iii. A bulk transfer into or out of the employer
   iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals

b) Two or more employers merging including insourcing and transferring of services

c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than ~~5~~10% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

2) Significant changes in the employer's covenant

a) This includes but is not limited to the following scenarios:

b) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.

c) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.

d) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet this obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements.

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions (see further comments below):

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund, and/or;
- Funding for termination

Process and potential outcomes of a contribution review

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intent of the Administering Authority to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer should fund for termination.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or move to fund for termination
- Whether the secondary contributions should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. The remaining recovery period from the valuation would be the maximum period

adopted (except in exceptional and justifiable circumstances and at the sole discretion of the Administering Authority on the advice of the Actuary).

The review of contributions may take up to 6 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

Appendix E – Glossary of terms

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

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

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

Benchmark
A measure against which fund performance is to be judged.

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

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

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

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

CPIH
An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

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

Deferred Debt Agreement (DDA)
A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

Deferred Employer
An employer that has entered into a DDA with the Fund.

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

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

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

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

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

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

Equity Protection
An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit
The amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

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

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

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

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

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

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

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

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

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

Low risk basis
An approach where the discount rate used to assess the liabilities is determined based on a portfolio of investments (actual or notional) designed to provide an expected rate of return over the duration of the Fund's liabilities above market yields of Government bond investments, with a very high likelihood of being achieved (c90%). This is usually adopted when an employer is exiting the Fund.

Maturity
A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment

time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 13 Valuation
In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

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

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

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

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	14 September 2021		n/a

Delete as appropriate		Non-exempt

SUBJECT: ANNUAL REVIEW AND PROGRESS ON THE 2019-2023 PENSION BUSINESS PLAN

1. Synopsis

1.1 To report to the Pensions Sub-Committee progress made to date on some of the action plans in the agreed five year business plan and undertake an annual review of the plan

2. Recommendations

2.1 To consider and note Appendix A attached.

2.2 To review the business plan objectives and agree the required changes if any for the next 4 years

3. Background

3.1 CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5) publication, is based on ten principles proposed by the Myners review of Institutional Investment in the United Kingdom, and was adopted by the Government as a model for best practice in 2001.

3.2 The 10 Myners principles were reviewed by the NAPF in 2007 and after consultation a response document was published in October 2008 and adopted by CLG (government department responsible for the oversight of the LGPS). The LGPS administering authorities are required to prepare, publish and maintain a statement of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.

3.3. The Myners principles and compliance forms part of Islington Pension Fund's published Statement of Investment Principles. Myners Principle 1- Effective decision-making through a forward looking business plan is a key requirement. Members agreed a five-year business plan to April 2021 and to review the plan annually.

3.4 The key objectives of the five-year business plan agreed at the September 2020 Pensions sub-committee:

- To achieve best practice in managing our investments in order to ensure good long-term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities" plus an expectation of strong business ethics from fund managers also"

- To continually improve our administration and governance in order to deliver an excellent and cost effective service to all fund members

  To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members

- To actively monitor and challenge poor performance in managers and to pursue new investment opportunities

- To develop collaboration opportunities with other funds for sharing of services and pooling

3.5 The five-year business plan with progress to June 2021 is attached as Appendix A. Members are asked to consider and note progress made and undertake a review of the plan's objectives for any amendments for the next 4 years.

4. Implications

4.1 **Financial implications**
It is envisaged that a good business plan with effective actions as a whole will lead to efficiencies in running the fund and cost savings.

4.2 **Legal Implications**
Elected members have fiduciary duty to the Fund, scheme members and local council tax payers in relation to the LGPS.

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 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/20192020/20190910londonboroughofi 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".

5. Conclusion and reasons for recommendation

5.1 To note progress made and review the agreed objectives the business plan make amendments if necessary.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date 07 September 2021

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk

This page is intentionally left blank

ACTION TO BE TAKEN					
Action to be taken	Timescale	Details (primary responsibility)	Progress to June 2019	Progress to June 2020	Progress to June 2021
1. “To achieve best practice in managing our investments in order to ensure good long- term performance, sustainability of the Fund, value for money and a reduction in managers’ fees wherever possible and pursue new investment opportunities” plus an expectation of strong business ethics from fund managers also”					
(a) Consider an interim valuation and LGPS scheme changes	Ongoing	Use results to review funding level and any potential effect of the scheme changes	Actuary presented an update on 2019 actuarial valuation since the last valuation in 2016	Actuary valuation was signed off on March 2020	Following Covid pandemic and lockdown funding and asset allocation was reviewed in June
(b) Review investment strategy to reflect asset/liability position To commence as part of the 31 March 2019 actuarial valuation process	2019-2023	To use results and other analyses to set benchmark asset allocations and Fund outperformance targets and risk levels *(Pensions sub-cttee, Investment advisers).*	Members agreed to review its listed equity on the LCIV platform	As part of actuarial valuation members agreed a new investment target return from amended strategic asset allocation within a risk budget.	Strategic allocation was still fit for purpose after impact of lockdown and probable recovery scenario testing was undertaken
(c) Implement any resulting changes to asset allocation, portfolio and fund management structures.	Ongoing	Plan procurement and tendering process with transition of assets requirement to minimize cost and optimize value of assets	Members agreed to appoint 2 infrastructure managers to be funded from its bond portfolio	Members agreed to tender for a new Multi asset credit mandate	Preferred manager was appointed to run the MAC mandate of £75m and funded in March 2021
(d) Review all contracts on a rolling basis including, actuary, voting services, investment advisers and custodial services.	2018-2022	Committee to agree conclusions of all reviews. Corporate Director of Resources to have delegated authority to review contracts and performance and fee levels when required. *(Pensions Sub-Committee, Officers).*	Members reviewed all the bodies it is affiliated to and agreed to continue its associations until the next review.	Work in progress	Work in progress
(e) Closely monitor new legislation affecting the LGPS or pension provision.	Ongoing	Consider reports on the implications for the Fund and agree actions necessary to ensure full compliance when final legislation is enacted including meeting deadlines. *(Pensions sub-committee, Officers, Actuary).*	Members have responded to MHCLG consultations on the LGPS pooling, 4 year cycle valuation and fair deal	Members complied with TPR directives of agreeing objectives with investment consultancy service providers by December 2019	Members complied with TPR directives of reviewing agreed objectives and performance of investment consultancy service providers by December 2020
2. To continually improve our administration and governance in order to deliver an excellent and cost effective service to all fund members					
(a) Agree key performance indicators for the administration of the Fund and continue to benchmark against similar funds.	Ongoing.	Pension Board now monitors the administration and governance of the Fund. Continue ongoing CIPFA benchmarking. *(Officers).*	Pension Board agreed to meet 4 times a year instead 2.	As part of the workplan the board requested more scrutiny of COVID 19 checklist and impact on service.	Risk register is reviewed 6monthly to include pandemic impact and improvements have been requested in the layout.
(b) Carry out a survey to gain feedback from pensioners and active employees on customer	Ongoing	Analyse survey results (pension board, officers) Changes required from survey to be implemented. *(Pensions sub cttee,*	Feed back results are feed back to the pension board every quarter	Board have also implemented regular reviews of new members through auto enrolment and opt-out numbers and	To encourage take up of membership, new employees who join the lgps and stay on are

Actions to be taken	Timescale	Details (primary responsibility)	Progress to May June 2019	Progress to June 2020	Progress to June 2021
satisfaction and implement changes		*Officers including LBI communications team)*		commented on new website layout and contents.	entered into a draw to win a token cash prize
c) Ensure governance of the admin	Ongoing		Pension board have an agreed workplan and forward plan to decide committee agenda After further review of Bulk transfer data action was deferred.		McCloud implementation process has been discussed with pension software provider and resource engagement is now required to carry this forward.
d) To devise a communication plan and consultation to stakeholders	Ongoing	Newsletters, annual benefit statements, annual reports, AGM and employers' meetings to continue as previously *(Officers).*	. Board agreed to include death benefits in annual statement and publish death benefits online		ABS has been issued within the deadline. A new improved website is almost completed, with documents accessible on line for some self- service options.
3. To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members					
(a) Continue to engage with companies through active membership of LAPFF, IIGCC and other suitable bodies.	Ongoing.	Key themes will be corporate governance especially relating to human rights, employment practices and protection of the environment. *(Pensions sub cttee, Investment advisers, PIRC, Officers.)*	Work with LAPFF and IIGCC, and the LCIV continues Members have restated their ESG beliefs and revised their ISS restating their policy on decarbonisation detailing their targets and monitoring plan.	Work with LAPFF , LCIV and the IIGCC continues Carbon policy is published and Members have shared their story with other LAs. Members continue to encourage and support the LCIV on engagement on ESG factors.	Engagement with LAPFF, IIGCC,LCIV and North London Pensions chairs forum continues Carbon footprinting for equity and credit portfolios and ESG measurement of our fund managers was undertaken as at March 2021.
(b) Develop improved monitoring of fund manager engagement activity.	Ongoing.	To include engagement with managers on their own corporate governance as part of terms of reference on appointment. *(Pensions sub cttee, investment advisers, Officers).*	Voting records are published	Voting records are published	Voting records are published in Annual report
(c) Improve communication of engagement activities to stakeholders and public.	Ongoing	To include potential for publication of LBI voting record. *(Officers and PIRC).*	Appointed a renewable infrastructure manager and sustainable global equity manager	Current investment review in 2019 reaffirmed responsible investment in strategic asset allocations	Recent appointment of MAC had a specific criteria on ESG integration in the investment process.
(d) Integrate our responsible investment policy into the Fund's investment review	Ongoing	To include consideration of appropriate responsible investment funds. Manager policies on equalities, environment and corporate governance to form review criteria alongside performance and fee considerations.	Members agreed and signed up to join Pension for Purpose a free affiliation to promote impact investing	Climate scenario analysis was undertaken for the whole fund in December 2019	Net Zero carbon target to 2050 was agreed by Members in June along with new carbon reductions targets to 2026 and 2030 to include green opportunities

APPENDIX A

Actions to be taken	Timescale	Details (primary responsibility)	Progress to May June 2019	Progress to June 2020	Progress to June 2021
		(Pensions sub cttee, Investment advisers, Officers).			
4. To actively monitor and challenge poor performance in managers and to pursue new investment opportunities					
(a) Review current fund manager performance against agreed targets over three- to five year rolling periods	Ongoing	Use existing terms of reference for appointment and firing of managers as a guideline to monitor performance of fund managers *(Pensions sub cttee, Investment advisers, Officers).*	Ongoing	Ongoing	Ongoing
(b) Review current fund manager quarterly monitoring arrangements	Ongoing	Agree a forward plan for existing fund managers to meet the pensions sub- committee. The Corporate Director of Resources to continue monitoring managers between quarterly meetings (*Pensions sub cttee, Investment advisers, Officers).*	Reviewed Schroder (DGF) manager performance against its peer groups. Regular monitoring of Hearthstone property manager due to AUM. .	Commissioned a deep dive in our residential property manager for governance assurances. 1>1 meetings with managers have been held with officers and advisors to report to members	Due to Covid pandemic impact on real estate, 1>1 meetings were held with property managers to understand the effects and recovery strategy. Regular monitoring meeting were also arranged with emerging/frontier market manager for reassurances on strategy after changes in management.
c) To consider new investment opportunities which can help improve the fund's financial performance	Ongoing	Pensions sub-committee have a long term objectives and clear investment policies to achieve them. (*Pensions sub cttee, Investment advisers, Officers).*	Members have requested training briefs on private debt and multi asset credit.	Recap of multi – asset credit briefing before agreeing to procure. Joint briefing on Actuarial valuations were held for Members to understand assumption and take funding decisions	Members agreed to recommit to global property FTRETP III in December.
(c) To keep abreast of developments on pension and investment issues	Ongoing	Pensions sub-committee will agree a training plan and evaluate annually training undertaken and future needs *(Pensions sub cttee, Investment advisers, Officers).*	New members have been enrolled to attend LGA trustee pension course. Training sessions before and during committee meetings continue. Members attend seminars and LCIV AGMs as shareholder	New members have been enrolled to attend LGA trustee pension course. Training sessions before and during committee meetings continue. Members attend seminars and LCIV AGMs as shareholder	Net–zero carbon target transition training run be Mercer was provided to all pension sub cttee and board members. Members attend seminars and LCIV AGMs as shareholders and business meeting days.
5. Develop collaboration opportunities with other funds for sharing of services and pooling					

APPENDIX A

Actions to be taken	Timescale	Details (primary responsibility)	Progress to May June 2019	Progress to June 2020	Progress to June 2021
a) Seek to collaborate with other partners to achieve efficiencies and value for money	Ongoing	To agree to share services where it is beneficial to the fund objectives of sustainability and performance	Officers collaborated for joint legal advice with 2 other LA authorities in the review of legal documents for new infrastructure mgrs Members reviewed global equity sub funds on the LCIV platform to appoint RBC to replace Allianz. Members attend seminars and LCIV AGMs as shareholder	Officers are collaborating with another LA to procure a MAC mandate after LCIV's review of current manager on LCIV platform. Members and officers worked with the LCIV on the initial workshops on ESG Members' collaboration of a north London LA group meet regularly to share ideas	Officers sourced collaboration with previous LA procurement to procure Private debt due to commonality of best in class. Members' participate in a North London LA Pension Chairs group . It a forum to share ideas, identify common goals and work together alongside the LCIV.

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	14TH September 2021		n/a

Delete as appropriate		Non-exempt

SUBJECT: PENSIONS SUB-COMMITTEE 2021/22– FORWARD WORK PROGRAMME

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 None in the context of this report. 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 07 September 2021

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk

APPENDIX A

Pensions Sub-Committee Forward Plan for September 2021 to June 2022

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
14 September 2021	• 4 year Business Plan Review • Third generation Indices-Passive equities • Draft FSS consultation with employers
October 2021	• Annual Pensions Meeting
23 November 2021	• Objectives set for providers of investment consultancy –Annual review • Implementation plan for new indices –passive equities
8 March 2022	• Actuarial valuation - timetable
June 2022	• Annual fund performance

Past training for Members before committee meetings-

Date	**Training**
November 2018	Actuarial update
June 2019-4pm	Actuarial review
February 2021	Net zero carbon transition training

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	14th September 2021		n/a

Delete as appropriate	Exempt	Non-exempt

The appendix to this report 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: THIRD GENERATION CLIMATE INDICES REVIEW- PASSIVE EQUITIES

1. Synopsis

1.1 This is a report to discuss the pathway to transition to Net Zero Carbon by 2050.

1.2 Mercer (our investment advisors) will make a presentation setting out information in relation to Third Generation Climate Indices ("3G Indices") that are explicitly designed to provide initial and ongoing decarbonisation, consistent with the Intergovernmental Panel on Climate Change's 1.5oC warming scenario. This a key component to enable the Fund to achieve its net zero carbon emission target set to 2050

2. Recommendations

2.1 To receive the exempt Mercer presentation.

2.2 To agree to update the Fund's Responsible Policy, to reflect the new Net Zero commitment and its carbon emission reduction target of 49% by 2026 and 60% by 2030.

2.2 To note the 31st March 2021 carbon foot printing exercise, identified the in-house UK equity and RAFI Emerging Market equity allocations (c12% of total assets) as the largest contributors to the overall carbon footprint of the Fund, 2.3 To agree delegated authority to officers and investment advisors to explore with the recommended two service providers their offerings in more detail to agree the preferred indices and provider(s)

2.4 To agree to receive a progress report on the preferred indices and provider(s) and an implementation plan.

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 **Progress to date**

3.2.1 Members agreed a decarbonisation policy as part of its Investment strategy statement and set targets to achieve further decarbonisation across its entire investment assets. The policy defines the Committee's beliefs and takes account of sustainable opportunities, and agrees a monitoring regime and progress measurement.

The agreed targets are as follows:

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.

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.

ESG ratings

3.2.2 Mercer conducted a review of ESG ratings for the Fund's 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. The average rating for the whole Fund has improved from 2.3 to 2.1.

Measuring carbon footprint of equities portfolio annually

3.2.3 The Fund's latest carbon foot printing exercise on the equity and corporate credit holdings as at 31st March 2021 showed that since 2016 the fund has achieved in its equities a reduction of 32.6% in absolute emissions, whilst for 69% of scheme assets our emissions is 66,096 tCO2e.

3.3 **Transition to net zero carbon for pension investments**

The decarbonisation policy is a living document and Members have targeted decarbonisation across all asset classes of its pension investment where the funds' risk and return objectives are optimised. Any transition should still achieve the primary objective of paying benefits to pensioners and still affordable for employers.

3.3.1 Members agreed at the June meeting to adopt and new decarbonisation targets for the short to medium term and a net zero carbon emission for the whole Fund by 2050.

The new targets are :

i) Net zero emission target at 2050 including aligning with 1.5 degree Celsius scenario
ii) Investing at least 20% of the fund in sustainability-themed investments (such as low carbon technology or green infrastructure) by the end of April 2026
iii) Reduce carbon emissions of all listed portfolios i.e. equities and credit by 49% by 2026, and 60% by 2030 against a baseline in 2016.

3.3.2 The 31 March 2021 carbon foot printing exercise identified the in-house UK equity and RAFI Emerging Market equity allocations (c12% of total assets) as the largest contributors to the overall carbon footprint of the Fund. As part of the transition pathway to 2050 net zero emissions target, changing some of our current low carbon indices to third generation climate indices will enable as to achieve our short to medium targets. Members are asked to receive the presentation from Mercer (attached as Exempt Appendix 1 to consider the information on these new indices.

3.3.3 Members are asked to agree to delegate authority to officers and our investment advisors to explore further details with two providers. A progress report will be brought to the next meeting to agree the preferred indices and provider(s).

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 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 seeking opinions on an existing 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 the presentation from Mercer (attached as Exempt Appendix 1) and agree to delegate authority to officers and our investment advisors to explore further third generation indices and report our findings to the next meeting.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date 07 September 2021

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk

This page is intentionally left blank

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	14th September 2021		

Delete as appropriate	Exempt	Non-exempt

Appendices 1 and 1A attached are 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, reviewing governance and investment structure, over the period May to July 2021.

2. Recommendation

2.1 To note the progress and activities presented at the July business update session (exempt Appendix1) and news briefing Collective Voice-June attached as exempt Appendix 1A .

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 were held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers were identified as offering potential opportunities for the launch of the London CIV. These managers would provide the London CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds consisted 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 did not have an exact match across for launch were able to invest in these sub-funds from the outset at the reduced AMC rate that the London CIV has negotiated with managers.

3.4 The Phase 1 launch was with Allianz our then global equity manager and Ealing and Wandsworth are the 2 other boroughs who held a similar mandate. The benefits of transfer included 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. This manager was terminated in July 2019.

3.5 **Update to July 2021**

3.5.1 **The LCIV Collective Voice**

The LCIV now publish a monthly news bulletin called the Collective Voice- a copy is attached for information as Appendix 1A (confidential). Highlights include; the new fund launches and timeline, people, responsible investment and events .

The Business Update

3.5.2 As part of improved communication strategy, the LCIV have been holding regular monthly business update meetings for shareholders and investment advisors and consultants. The presentation pack is attached as exempt Appendix 1. It covers in more detail investment updates, people, governance and responsible investment actions to date. The sessions include opportunities to ask questions. Some of the topics discussed are summarised below.

3.5.3 **Fund Launches and Pipeline**

London CIV has continued to make progress in several key areas. This progress has been supported by a multitude of meetings and engagement opportunities, and Seed Investor Groups (SIG) focusing on mandates. Funds in the pipeline include a second MAC fund, and a Paris Aligned Global Equity Fund as well as Sterling Credit Fund. The Global Bond Fund is being transitioned into a more climate aware version to be completed by August and submitted for FCA approval.

3.5.4 **Climate Risk Analysis –key findings**

The consolidated London CIV Pool has a lower Carbon Footprint than the MSCI World across all carbon intensitymetrics.
The consolidated London CIV Pool has a lower exposure to Fossil Fuels than the MSCI World.
The Pool's Paris Aligned timeline target setting is scheduled to be completed by 26.10 21 where a Roadmap proposal is made, practical steps detailed, ongoing annual assessment against progress vs. target and engagement .

3.5.5 **Operational**

AGM was held on 15 July and financial statements were approved by shareholder and will be filed at the end of the month.
System review is underway- OJEU will be underway later this year
Annual conference has been scheduled on 28/29 Ooctober.

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 charge 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 0.050% of AUM to the London CIV in addition to a 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 April 2018 an annual service charge of £25k (+VAT) and £65k (split £43.3k and £21.6k) development fund was invoiced to all members.
In April 2019 an annual service charge of £25k (+VAT) and £65k (split £43.3k and £21.6k) was invoiced.

In April 2020 an annual service charge of £25k (+ VAT) and £8.6k for LGIM recharge was invoiced and a final installment development charge of £84k (+VAT) was received in January 2021.
The April 2021 invoices received totalled annual service charge of £25k (+ VAT) and DFC charge of £57k(+VAT).

4. Implications

4.1 **Financial implications:**

4.1.1 Fund management and administration fees are charged directly to the pension fund. This paper discusses specific financial implications which are relevant.

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/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.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. Exempt Appendices 1 and 1A are attached for information.

Background papers:

Final report clearance:

Signed by:

Corporate Director of Resources Date 07 September 2021

Report Author:	Joana Marfoh
Tel:	0207-527-2382
Fax:	0207-527-2056
Email:	joana.marfoh@islington.gov.uk

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

Agenda Item E2

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank