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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 the Council Chamber, Islington Town Hall, Upper Street, N1 2UD on
23 November 2021 at 7.00 pm.

Enquiries to	:	Mary Green
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Despatched	:	15 November 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 - July to September 2021	5 - 42
2.	Draft Funding Strategy Statement - outcome of consultation with employers	43 - 110
3.	Pensions Sub-Committee 2021/2022 - Forward work programme	111 - 114
4.	Funding review update	115 - 118
5.	Implementation plan for new indices -passive equities (to follow)	-
6.	London CIV update	119 - 124
7.	Objectives set for providers of investment consultancy - annual review	125 - 128

C. **Urgent non-exempt items**

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

D. **Exclusion of press and public**

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

E.	**Confidential/exempt items**	
1.	Funding review update - exempt appendix	129 - 136
2.	Implementation plan for new indices -passive equities - exempt appendix (to follow)	-
3.	London CIV update - exempt appendices	137 - 192

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 8 March 2022

WEBCASTING NOTICE

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London Borough of Islington

Pensions Sub-Committee - 14 September 2021

Non-confidential minutes of the meeting of the Pensions Sub-Committee held in Committee Room 5, Islington Town Hall, Upper Street, N1 2UD on 14 September 2021 at 7.00 pm.

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

Maggie Elliott (Pensions Board)
Tony English - Mercer
Karen Shackleton – MJHudson Allenbridge

Councillor Paul Convery in the Chair

196 **APOLOGIES FOR ABSENCE (Item A1)**
Received from Alan Begg (observer) and Councillor Mick O'Sullivan.

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

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

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

RESOLVED:
That the minutes of the meeting held on 21 June 2021 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

200 **PENSION FUND PERFORMANCE - APRIL TO JUNE 2021 (Item B1)**
Members noted the overall satisfactory performance of the Fund. However, members noted that the Diversified Growth Fund, held by Schroders, was behind the target over three years and agreed to keep this under review.

RESOLVED:
(a) That the performance of the Fund from 1 April to 30 June 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 August 2021 "LGPS Current Issues", attached as Appendix B to the report, be noted.

(d) That the Fund's annual performance report to March 2021 compared to the LA Universe, attached as Appendix 2 to the report, be noted.

201 **DRAFT FUNDING STRATEGY STATEMENT CONSULTATION WITH EMPLOYERS (Item B2)**

Maggie Elliott, Vice-Chair of the Pensions Board, reported that the Board had also considered this report and had agreed that the draft Funding Strategy Statement attached to the report be used for consultation with employers over proposed changes, with the addition of a two-page introductory letter from the Head of Pension Fund and Treasury Management, highlighting the changes.

RESOLVED:

(a) That the summary of the main updates to the draft Funding Strategy Statement, appended to the report of the Corporate Director of Resources, be noted as the basis for consultation with employers between September and October 2021.
(b) That officers update the Funding Strategy Statement, with the Fund Actuary, for consultation with employers admitted into the Islington Fund.

202 **ANNUAL REVIEW AND PROGRESS ON THE 2019 - 2023 PENSION BUSINESS PLAN (Item B3)**

Members noted that there was no explicit mention of "net zero carbon" in the key objectives of the business plan set out in paragraph 3.4 of the report and discussed whether the action plan needed to be more specific on how this was to be achieved.

RESOLVED:

(a) That the action plan to achieve the objectives of the Pension Fund Business Plan, appended to the report of the Corporate Director of Resources, be noted.
(b) That it be noted that the Head of Pension Fund and Treasury Management would amend the action plan to include specific actions as to how net zero carbon is to be achieved by 2050 and that an amended version of the action plan be submitted to the next meeting for review and approval.

203 **PENSION FUND FORWARD PLAN (Item B4)**

RESOLVED:

That, subject to the addition of a report to the schedule of items for the meeting on 23 November 2021 on the next steps on net zero carbon targets, the appendix to the report of the Corporate Director of Resources, detailing agenda items for forthcoming meetings, be approved.

204 **THIRD GENERATION INDICES REVIEW-PASSIVE EQUITIES (Item B5)**

RESOLVED:

(a)To the exempt Mercer presentation be noted.
(b) That the Fund's Responsible Policy be updated to reflect the new Net Zero commitment and its carbon emission reduction target of 49% by 2026 and 60% by 2030.
(c) That it be noted that 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.
(d) That officers and investment advisers be authorised to explore with the recommended two service providers (exempt appendix), their offerings in more detail to agree the preferred indices and provider(s).
(e) That officers submit a progress report on the preferred indices and provider(s) and an implementation plan.

205 LONDON CIV UPDATE (Item B6)

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

206 THIRD GENERATION INDICES REVIEW-PASSIVE EQUITIES - EXEMPT APPENDIX (Item E1)
Noted.

207 LONDON CIV UPDATE - EXEMPT APPENDICES (Item E2)
Noted.

The meeting ended at 8.35 pm

CHAIR

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7
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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	23rd November 2021		

Delete as appropriate	~~Exempt~~	Non-exempt

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Subject: PENSION FUND PERFORMANCE 1 JULY TO 30 SEPTEMBER 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 July to 30 September 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.
3.	**Fund Managers Performance for 1 July to 30 September 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 (July-Sept'21) Gross of fees		12 Months to September 2021-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	9.9%	UK equities	N	1.8%	2.2%	25.6%	27.9%
LCIV Sustainable EQ- RBC	10.4%	Global equities	1	2.6%	2.4%	25.4%	23.5%
LCIV -Newton	17.8%	Global equities	2	2.2%	1.5%	21.3%	22.7%
Legal & General	12.8%	Global equities	1	2.1%	2.2%	24.7%	24.7%
Standard Life	9.4%	Corporate bonds	2	-1.5%	-0.9%	-0.6%	-0.4%
Aviva (1)	7.9%	UK property	3	6.5%	-0.04% 4.6%	10.6%	-8.1% 13.4%
ColumbiaThreadneedle Investments (TPEN)	5.5%	UK commercial property	2	4.5%	4.51%	9.0%	8.4%
Hearthstone	1.6%	UK residential property	N	-0.4%	4.6%	1.8%	13.4%
Schroders	7.8%	Diversified Growth Fund	2	-0.1%	2.7%	14.5%	9.8%
M&G Alpha Opportunities	4.3%	Multi Asset Credit	N	0.45	0.9	n/a	n/a
BMO Investments-LGM	4.3%	Emerging equities	2	-0.3%	-5.7%	14.3%	13.7%

-0.04% & -8.1 = original Gilts benchmark; 4.6% and 13.4% 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 Sept' 2021 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to Sept'2021 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	1.5	1.04	16.4	13.6

3.4	Copies of the latest quarter fund manager's reports are available to members for information if required.
3.5	**Total Fund Position** The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years' period to September 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	16.4%	8.8%	8.4%
Customised benchmark	13.6%	7.6%	7.3%

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 September by 1.2% and a twelve-month out performance of 1.8%. The manager has maintained its style away from value

	factors, investing in quality companies with low debt. The fund has now had a soft close to allow the manager to maintain capacity and invest in quality stocks.
3.7	**LCIV Newton Investment Management**
3.7.1	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.
3.7.2	The inception date for the LCIV NW Global Equity Fund was 22 May 2017. The new benchmark is the MSCI All Country World Index Total return. The outperformance target is MSCI All Country Index +1.5% per annum net of fees over rolling three- year periods.
3.7.3	The fund returned 2.3% against a benchmark of 1.5% for the September quarter. Since inception, the fund has delivered an absolute return of 12.7% and relative underperformance of -0.02% net of fees per annum. The performance this quarter was attributed to stock selection in materials, communications and industrials.
3.7.4	The transfer of Mellon Investment Management's equity and multi-asset businesses to Newton is now complete. This has doubled assets under management at Newton, giving the firm an expanded footprint in the US and resulting in a significant expansion of the investment research group
3.8	**LBI- In House**
3.8.1	Since 1992, the UK equities portfolio of the fund has been managed in-house by officers in the Loans and Investment section by passive tracking of the FTSE 350 Index. The mandate was amended as part of the investment strategy review to now track the FTSE All Share Index within a +/- 0.5% range per annum effective from 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.
3.8.2	The fund returned 1.8% against FTSE All Share Index benchmark of 2.2% for the September 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	**Standard Life**
3.9.1	Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the June quarter, the fund returned 1.8% against a benchmark of 1.7% and an absolute return of 6.5% per annum since inception.
3.9.2	The Fund benefited from overweight positioning in subordinated financials and an overweight to the real estate sector. An underweight to higher-quality supranationals was also beneficial.

3.9.3	The agreed infrastructure mandates are being funded from this portfolio and to date 6.5% has been drawn down.
3.10 3.10.1 3.10.2 3.10.3 3.10.4	**Aviva** Aviva manages the fund's UK High Lease to Value property portfolio. They were appointed in 2004 and the target of the mandate is to outperform their customised gilts benchmark by 1.5% (net of fees) over the long term. The portfolio is High Lease to Value Property managed under the Lime Property Unit Trust Fund. The fund for this quarter delivered a return of 3.3% against a gilt benchmark of -2.2%. The All Property IPD benchmark returned 4.6% for this quarter. Since inception, the fund has delivered an absolute return of 6.14% This September quarter the fund's unexpired average lease term is 21.6years. The Fund holds 89 assets with 53 tenants. During the quarter, there was one sale of an office block in Edinburgh. 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 provided capital to Next, to install photovoltaic panels (PVs) at their distribution centre in South Elmsall. The PVs have been installed onto the roof, which will provide clean energy for Next enabling them to generate off grid energy to power their robotics inside the warehouse.
3.11 3.11.1 3.11.2 3.11.3	**Columbia Threadneedle Property Pension Limited (TPEN)** 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 September was £91.7million. 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. The fund returned a performance of 4.5% against its benchmark 4.5% for the September quarter mainly due to higher income return, overweight positions to industrials and office, and underweight exposure to retail warehousing and in-town retail.

3.11.4	The cash balance now stands at 6.7% compared to 7.8% last quarter. During the quarter, there were no strategic acquisitions and one disposal. There is a strong asset diversification at portfolio level with a total of 268 properties and 1265 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. The Fund has set net zero target to neutralise carbon emissions within portfolios by 2050.
3.12	**Passive Hedge**
3.12.1	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 £1.24m.
3.12.2	The hedge has now been in place since 25 November 2020 for quarterly hedge rolls.
3.13	**Franklin Templeton**
3.13.1	This is the fund's global property manager appointed in 2010 with an initial investment commitment of £25million. Members agreed in September 2014 to re-commit another $40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. The agreed mandate guidelines are listed below: • Benchmark: Absolute return • Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point. • Bulk of capital expected to be invested between 2 – 4 years following fund close. • Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.
3.13.2	Fund I is now fully committed and 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 September 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. 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.
3.13.6	As at the quarter end \$7.8m has been drawdown and a distribution of \$4.0m has been received.
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 £222.7m with a performance of 2.1%. (Rafi -£37m) The Rafi emerging markets fund has now be reconstituted to RAFI Fundamental EM (ex Korea) Reduced Carbon Pathway - the number of holding has increased from 472 to 968 and hence the energy holdings has decreased from 18% to 14% as at September.
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 September, quarter the value of the fund investment was £28.5million and total funds under management is £70m. Performance net of fees was 1.83% compared to the IPD UK All Property benchmark of 4.5%. 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 drawndown 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 September. They are working closely with their tenants to help them through this period. £18.6m of cash was being held for pipeline acquisitions.

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

3.16.2 3.16.3	The value of the portfolio is now £138.5m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The September quarter performance before fees was 4.7% against the benchmark of 6.3% (inflation+5%). The one -year performance is 14.5% against benchmark of 9.9% before fees. Contributions to return over the quarter were achieved across return-seeking assets, driven by alternatives and cash whilst equities and debt were detractors.
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 was returned.
3.17.1 3.17.2 3.17.3	The September quarter saw an out performance of 5.4%. Stock selections in the Consumer and IT sectors added most to performance whilst the lack of exposure to energy (particularly in countries like Russia and Saudi Arabia) were detractors. 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. It was announced that BMO Financial Group's agreement to sell its EMEA asset management business to Ameriprise Financial, Inc., has received regulatory approval The BMO asset management business in EMEA is now 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 September 2021 is $67.0m – this 100% of our commitment **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 October 2021 is $67m 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. <u>The mandate guidelines of M&G include</u> • 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%). <u>Risk and triggers for review:</u> • 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 September quarter performance was 0.4% against a benchmark of 0.8% and since inception an underperformance of 0.37%. The positive contributors to performance was exposure to industrial corporate bonds, with financial corporate bonds also performing strongly.
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 September 2021 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers.

Background papers:

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

Final report clearance:

Signed by:

Corporate Director of Resources Date

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London Borough of Islington

Report to 30th September 2021

MJ Hudson

NOVEMBER 2021

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Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
M&G Alpha Opportunities Fund	Not reported by the manager.	The Fund returned +0.45% over Q3 2021, under the benchmark return by –0.43%.	The fund size was £10.06 billion as at end September. London Borough of Islington's investment amounts to 7.55% of the fund.
LCIV Global Equity Fund (Newton) (active global equities)	Newton's head of Sustainable Investment will leave the firm February 2022 and Jennifer Law joined Newton as the Head of Stewardship. The transition of Mellon Investments Corporation's equity and multi asset-focused business, announced in February, has now been completed.	The LCIV Global Equity Fund outperformed its benchmark during Q3 2021 by +0.75%. Over three years the portfolio outperformed the benchmark by +0.60% but is under the performance target of benchmark +1.5% p.a.	At the end of Q3 2021, the London CIV sub-fund's assets under management were £786.7m. London Borough of Islington owns 40.16% of the sub-fund.

LCIV Sustainable Equity Fund (RBC) (active global equities)	None reported by LCIV.	Over Q3 2021 the fund delivered a return of +2.64%, this outperformed the benchmark return of 2.45%. The one-year return was +25.39%, strong in absolute terms and well ahead of the benchmark by +1.87%.	As at end September the sub- fund's value was £1,246.1 million. London Borough of Islington owns 14.83% of the sub-fund.
BMO/LGM (active emerging equities)	In Q3 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. Juan Salaza, Director of Responsible Investment, is leaving BMO at the end of November.	Outperformed the benchmark by +5.41% in the quarter to September 2021. The fund is behind over three years by -3.00%.	Not reported.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Standard Life (corporate bonds)	There were 13 joiners, but 28 people left the firm during the quarter. One joiner and seven leavers were in the Fixed Income Group.	The portfolio was behind the benchmark return during the quarter by -0.52%, delivering an absolute loss of -1.50%. Over three years, the fund was ahead of the benchmark return (by +0.32% p.a.) but behind the performance target of benchmark +0.80% p.a.	As at end June the fund's value was £2,945 million. London Borough of Islington's holding of £166.94m stood at 5.7% of the total fund value.
Aviva (UK property)	Not reported at the time of writing.	Outperformed against the gilt benchmark by +5.46% for the quarter to September 2021 and outperformed the benchmark over three years by +3.68% p.a., delivering a return of +7.29% p.a., net of fees.	Fund was valued at £3.33 billion as at end Q3 2021. London Borough of Islington owns 4.2% of the fund.
Columbia Threadneedle (UK property)	During Q3 2021 there were five leavers, one of which was from the Property team, although he did not work on TPEN Property. There were also two joiners to the equity team.	The fund marginally underperformed the benchmark in Q3 2021, with a quarterly return of 4.49% compared to 4.51%. Over three years, the fund is slightly trailing the benchmark by -0.16% p.a. (source: Columbia Threadneedle).	Pooled fund has assets of £2.09 billion. London Borough of Islington owns 4.38% 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)	Four new joiners during Q3, Adam Tavel (Research Analyst), Rebecca Little (Transactions Manager), Ash Shah (Fund Controller), and Klaus Schmid (Director Acquisitions).	The portfolio return over three years was +9.48% p.a., slightly behind the target of 10% p.a. although over 5 years the fund is still +2.09% 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 Q3.	The fund underperformed the IPD UK All Property Index by -4.93% in Q3. Additionally, it is trailing the IPD benchmark over three years by -2.56% p.a. to end September 2021.	Fund was valued at £70.2m at end Q3 2021. London Borough of Islington owns 40.6% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Schroders (multi-asset diversified growth)	During Q2 there were internal changes. Clement Yong a Multi-Asset Fund Manager has left the Team. Dominique Braeuninger joined the team as a Multi-Asset Fund Manager	Fund made a loss of -0.11% during the quarter and delivered a return of +6.59% p.a. over 3 years, -1.21% 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)	Mark Breen joined as a Senior Director, Charles Miller-Stirling as an Associate and David Velasquez as Vice President. There was one leaver (administrator).	For the year to Q3 2021 the fund returned +18.74%, 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 +3.95% p.a. over three years with a particularly strong 12 months, delivering a return of +38.66% to end September.	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

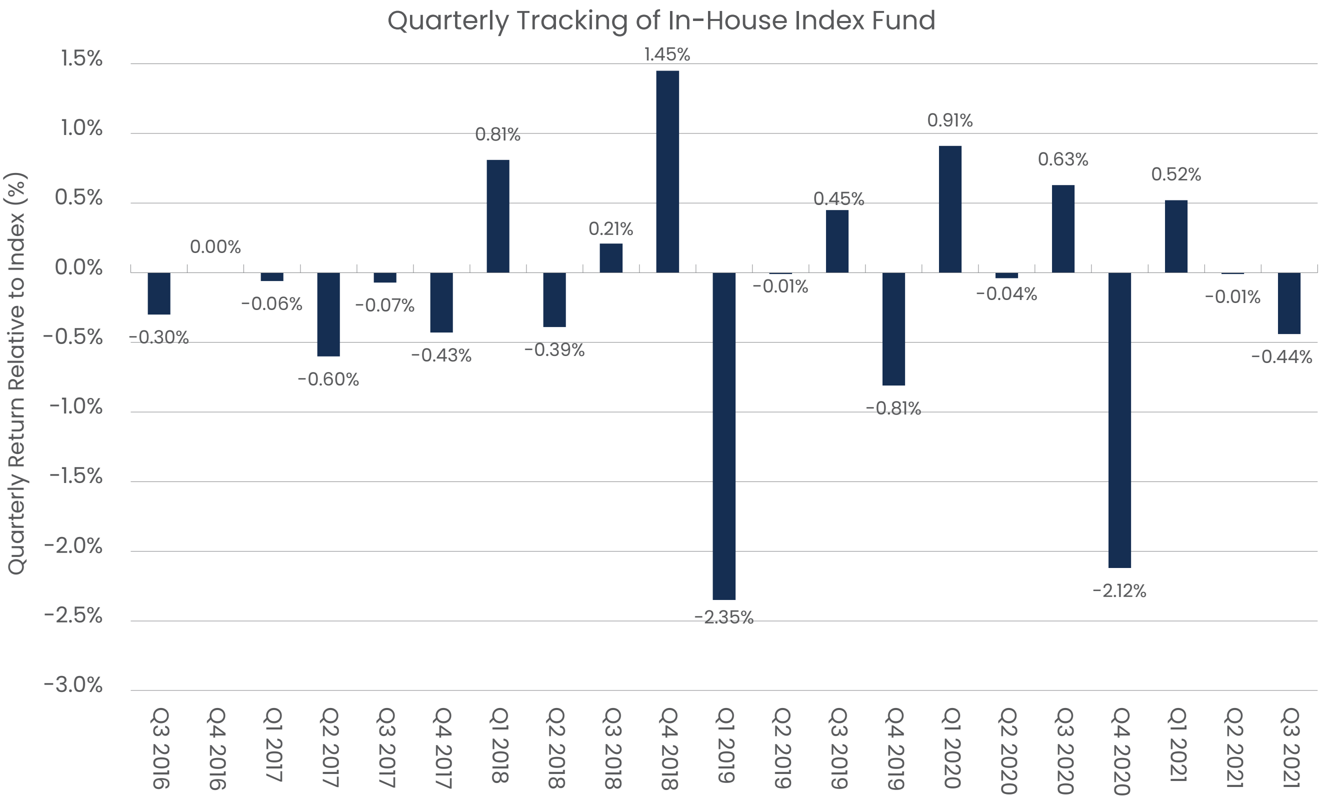
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q3 2021 the fund returned +1.79% for the quarter, compared to the FTSE All-Share index return of +2.23%. Over three years the fund has returned +3.17% p.a., ahead of the FTSE All-Share Index by +0.09%.

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 +0.09% 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 Q3 2021 the M&G Alpha Opportunities Fund returned +0.45%, underperforming 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 +0.45% 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 corporate bonds also performing strongly.

Portfolio Characteristics: the largest allocations in the portfolio were to industrials (34%), Securitised Assets (16%) and Financials (14%). 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.

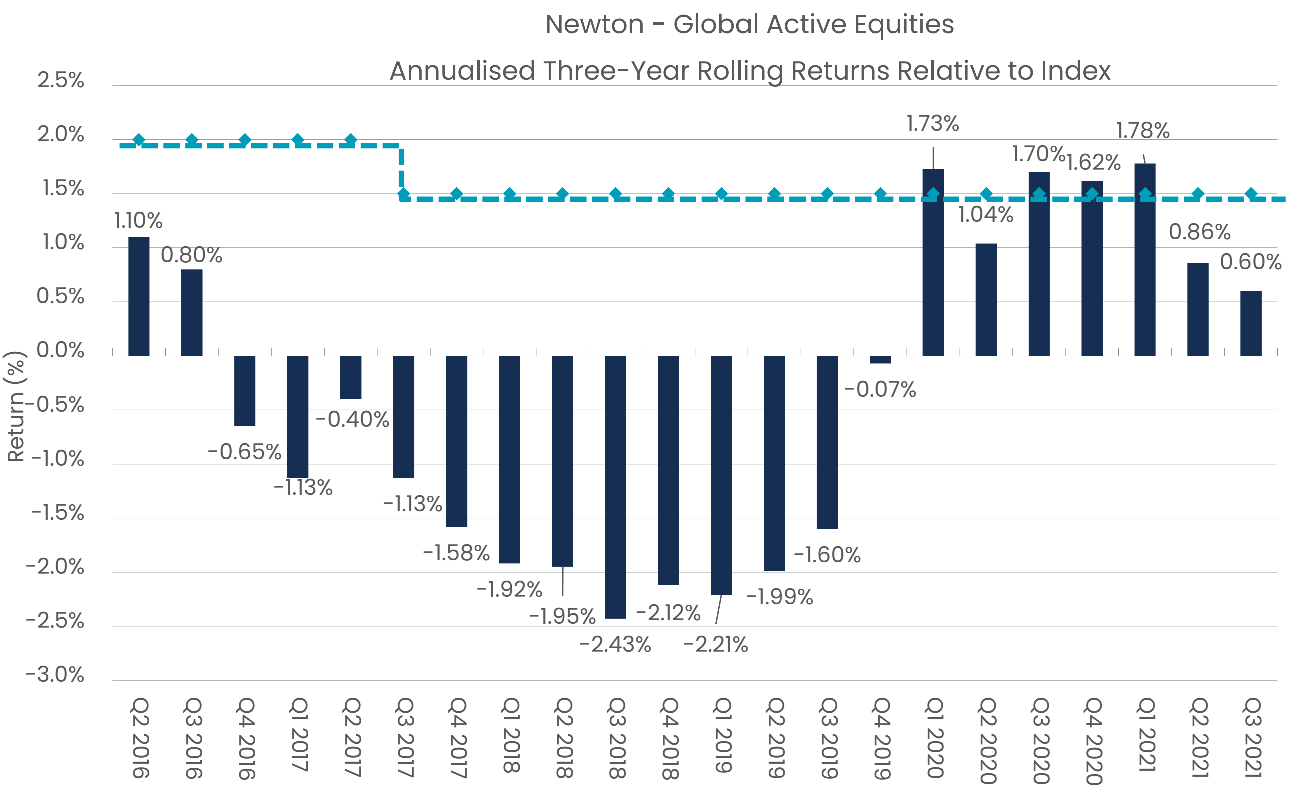
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q3 2021 by +0.75%. Over three years the portfolio outperformed the benchmark by +0.60% 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

Chart 3 shows that the level of outperformance over three years has been falling since Q1 2021, when the fund was ahead of the benchmark by +1.78% p.a. By Q3 2021 the outperformance had dropped to +0.6% p.a. This means it underperformed the performance objective by -0.90% 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 (+0.58% contribution to the total return), Albemarle (+0.43%), and Sony (+0.41%).

Negative contributions came from holdings including Alibaba Group (-0.74%), Ping An Insurance Company of China (-0.30%), and Continental AG (-0.23%).

The London CIV is now providing peer group analysis in its reporting, and they confirmed that Newton has consistently delivered returns in the middle range over the long term but for Q3 2021, their position dropped to the third quartile for the year to date. Over the past three-year period the level of *ex post* risk has been in the bottom quartile. (i.e. lower risk than its peers).

Portfolio Risk: The active risk on the portfolio stood at 3.0% as at quarter end, slightly lower than as at end March when it stood at 3.11%. The portfolio remains defensive, with the beta on the portfolio at end September 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 Q3 2021, the London CIV sub-fund's assets under management were £786.7m, compared with £769.4m last quarter. London Borough of Islington now owns 40.16% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 57 as at quarter-end (same as last quarter). The fund added three positions: Universal Music Group, Cooper Cos, and Vitesco Technologies Group Ag. Newton completed sales of Merck, Meituan Dianping, and Organon & Co

The manager invests on the basis of selected themes which evolve over time. As at September 2021, Newton favoured "Net Effects" (a concept built around the impact of modern technology), Consumer Power, Earth Matters (facilitators and beneficiaries of the transition to lower carbon economies) and Healthy Demand (affordable healthcare for aging populations.

LCIV has also introduced carbon foot-printing of sub funds, monitored by Trucost, and in Q3 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 Royal Dutch Shell (5.92% contribution to the weighted average carbon intensity), Taiwan Semiconductor (5.45%) and Norfolk Southern Corporation (5.13%).

Staff Turnover: Newton's head of Sustainable Investment will leave the firm in February 2022 and Jennifer Law joined Newton as Head of Stewardship.

The transition of Mellon Investments Corporation's (Mellon's) equity and multi asset-focussed clients, employees and assets to Newton, has been completed as of the 1st September 2021.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q3 2021 the fund delivered a return of +2.64%. This outperformed the benchmark return of +2.45%. The one-year return was +25.39%, strong in absolute terms and ahead of the benchmark by +1.87%. The fund does not yet have a three-year track record. Islington's investment makes up 14.83% 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, consumer staples, and materials. The portfolio performance was mainly driven by stock selection within communication services, materials and industrial companies, while gains on stocks within these sectors were offset by losses on holdings in Alibaba and Ping An. 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 performing very well 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 third quartile for its peer group for the first half of the year.

Portfolio Characteristics: As at end of September 2021 the fund had 37 holdings across 16 countries. The active risk of the fund was 13.18%. Over the quarter the largest contributors to return included Blackstone Group (+0.80%), Alphabet (+0.65%), and SBV Financial Group (+0.62%). There largest detractors include Anheuser-Busch Inbev SA/Nv (-0.56%), Naspers (-0.24%) and T-Mobile US (-0.23%).

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 Q3 2021 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 (16.15% contribution to the weighted average carbon intensity), Intercontinental Hotels (8.80%) and Neste Oyj (6.97%).

Organisation: RBC have announced that they are introducing a soft close on some of their funds. This means that they will stop marketing to new investors. The London CIV reports that they are generally supportive of the manager's efforts to control capacity issues.

BMO/LGM – Emerging Market Equities

Headline Comments: The portfolio made a loss of -0.30% in Q3 2021, compared with the benchmark loss of -5.71%, an overperformance of +5.41%. Meanwhile, over one year the fund is ahead of the benchmark by +0.64%, and over three years it is trailing by -3.00% per annum. 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: The Portfolio outperformed the index in the quarter, but the performance continued to be volatile, with added regulatory pressure in China. While some countries saw gains, others struggled in Q3. India was the standout performer in Emerging markets, but while BMO has a large exposure to the Indian market, it has a larger exposure to China, which saw the second highest loss of the quarter.

During the quarter, the largest positive contributors to the quarterly relative return for the emerging markets portfolio came from Alibaba Group Holdings (+1.5%), HDCF Bank (+0.7%), and Infosys (+0.7%). Companies which detracted most from performance included Hualan Biological Engineering (-0.3%), and Zhejiang Supor Cookware (-0.3%)

Over one year, the fund has outperformed the benchmark for the first time since Q3 2019. 12-month performance to September 2021 shows the fund outperform against its benchmark by +0.64%. Not being exposed to Alibaba was the largest positive contributor to relative performance.

Portfolio Risk: Within the emerging markets portfolio there is a 9.4% allocation to non-benchmark countries (excluding holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio remained India (+14.2% overweight). The most underweight country allocation was South Korea (-9.2%).

Portfolio Characteristics: The portfolio held 38 stocks as at end September compared with the benchmark which had 1,418. The largest absolute stock position was TSMC at 7.8% of the portfolio, while the largest absolute country position was China/HK and accounted for 32.7% of the portfolio.

Staff Turnover: In Q3 2021, there was one new joiner, and no leavers in the BMO LGM team. June Lui, CFA has joined Rishikesh Patel and Irina Hunter as Co-Portfolio Manager of the BMO LGM GEM Growth & Income Fund. Juan Salaza, Director of Responsible Investment for the wider BMO team, is leaving at the end of November.

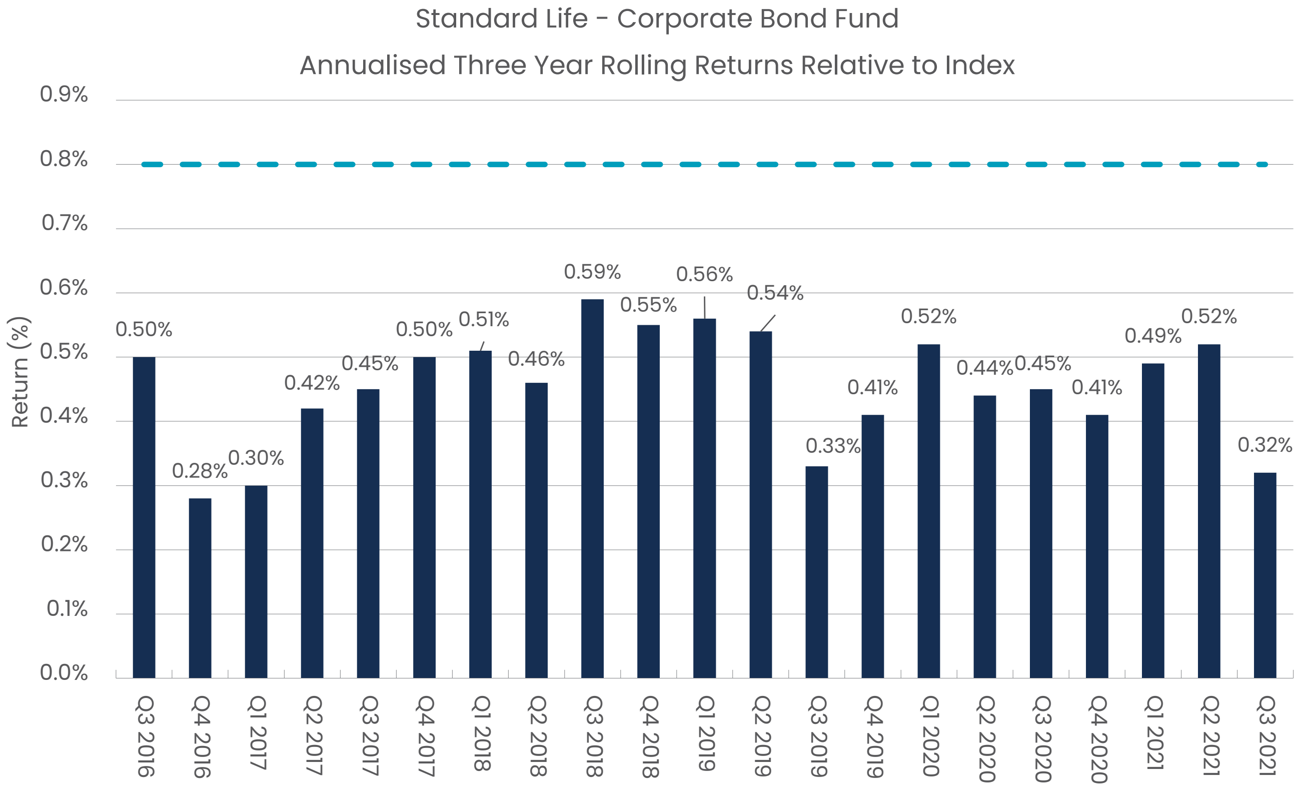
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was behind the benchmark return during the quarter by -0.52%, with an absolute return of -1.50%. Over three years, the fund was ahead of the benchmark return (by +0.32% 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 +4.75% p.a. net of fees, compared to the benchmark return of +4.43% p.a. Over the past three years, asset allocation has added +0.25% value, meanwhile stock selection has added +0.28%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK gilt 4.75% 2030 at 3.7% of the portfolio. The largest overweight sector position remained Financials (+5.3% relative) and the largest underweight position is Supranational (-8.7%). The fund holds 5.2% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end September 2021 stood at £2,946 million. London Borough of Islington's holding of £166.94m stood at 5.7% of the total fund value.

Staff Turnover: There were 13 joiners, but 28 people left the firm during the quarter. One of the joiners was to the Fixed Income Group, a Credit Research Analyst. Seven of the leavers were part of the Fixed Income Group, this included the head of ESG – Fixed Income, the Head of Total Return Bond, four Investment Directors and one Investment Manager.

Aviva Investors – Property – Lime Property Fund

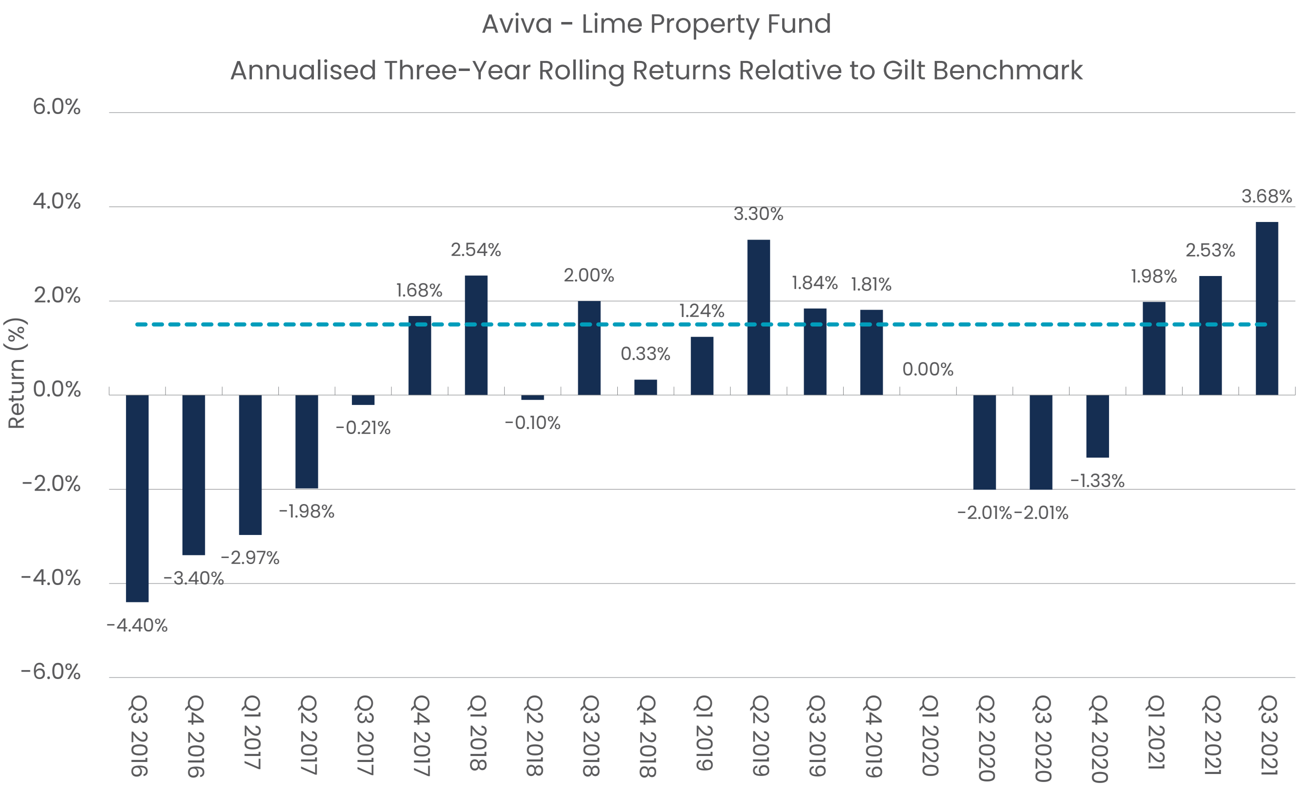
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it outperformed the fund benchmark return, with an overperformance of +5.46% in Q3. Over three years, the fund is ahead of the benchmark return by +3.68% p.a., with a particularly strong one-year outperformance of +18.63%.

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

Performance Attribution: The fund's Q3 2021 return was attributed by Aviva to +2.44% capital return and +0.83% income return.

Over three years, the fund has returned +7.29% p.a., ahead of the gilt benchmark of +3.61% 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, 50% of the return came from income and 50% from capital gain.

Portfolio Risk: During the quarter, the fund sold one investment, an Office in Edinburgh let to the Convention of Scottish Local Authorities on a lease that expires in November 2030. There was strong interest from multiple bidders resulting in a final offer above the asking price and valuation. The sale delivered a c.9% IRR for this investment since acquisition.

The Fund provided capital to Next to install photovoltaic panels (PVs) at their distribution centre in South Elmsall. The Lime Fund has funded this PV installation at a cost of £3 million and will receive an annual rent roll of £210,000 subject to annual reviews to CPIH +1% for the next 24 years.

The fund has £313 million of investible capital and the manager believes the current drawdown period for new capital is 12 months.

The average unexpired lease term was 21.46 years as at end September 2021. 11.1% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 24.92%, and the number of assets in the portfolio is 90. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at September 2021, the Lime Fund was valued at £3.33 billion, an increase of £83 million from the previous quarter end. London Borough of Islington's investment represents 4.2% of the total fund.

Staff Turnover/Organisation: Not reported at the time of going to print.

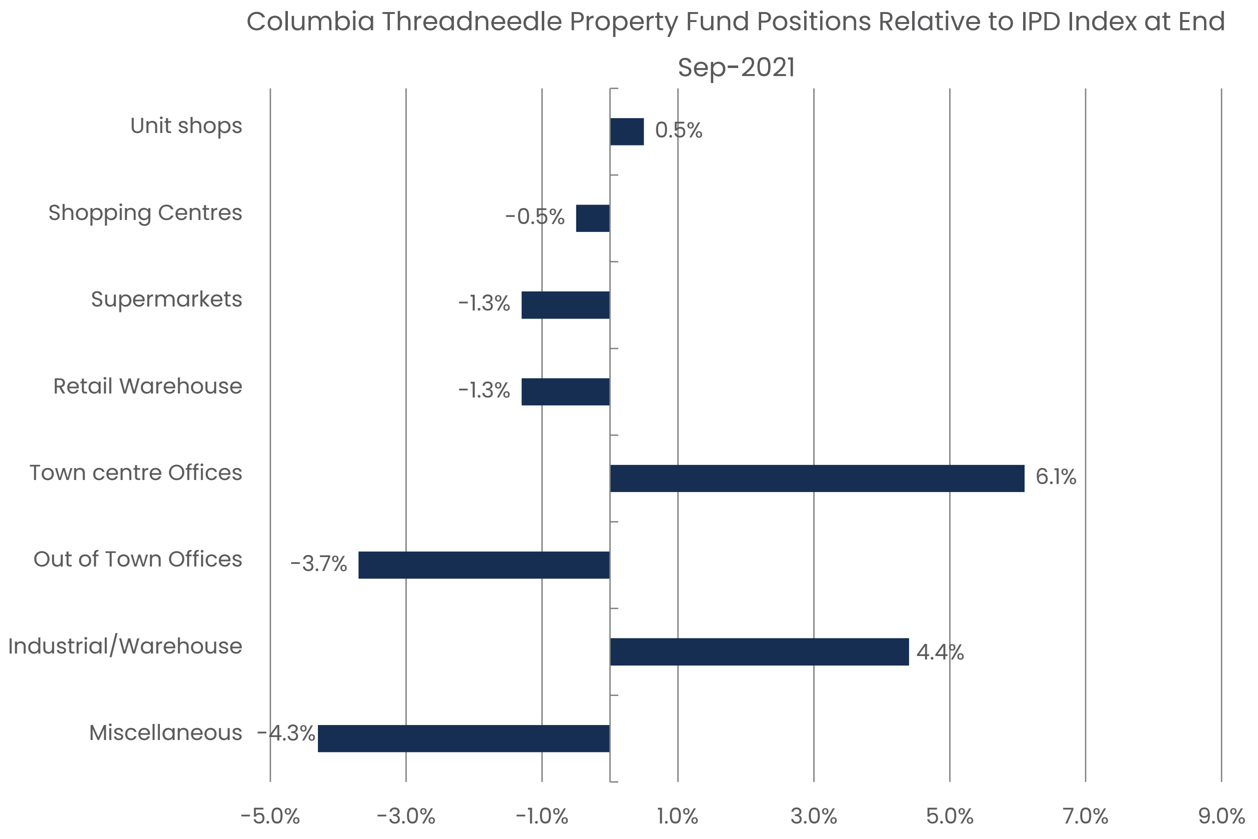
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund marginally underperformed the benchmark in Q3 2021, with a quarterly return of 4.49% compared to 4.51% (source: Columbia Threadneedle). Over three years, the fund underperformed the benchmark by -0.16% (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 no acquisitions and one sale.

The fund's void rate has decreased from 12.3% at end of June to 11.7% at end of September 2021, versus the benchmark's 9.6%. 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 94% by end June 2021 (most recent data point available).

The cash balance at end September was 6.0%.

Performance Attribution: The fund marginally underperformed the benchmark in Q3 2021, with a quarterly return of 4.49% compared to 4.51% (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 September 2021, the fund was valued at £2.09bn, an increase of £55m from the fund's value in June 2021. London Borough of Islington's investment represented 4.38% of the fund.

Staff Turnover: During Q3 2021 there were five leavers, one of which was from the Property team, although he did not work on TPEN Property. There were also two joiners to the Equity Team.

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 Q3.

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 MSC Low Carbon index fund tracked its benchmark as expected, as shown in Table 2, although the FTSE-RAFI fund was higher than has been seen in recent quarters.

TABLE 2:

	Q3 2021 FUND	Q3 2021 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+0.45%	+0.86%	-0.41%
MSCI World Low Carbon Target	+2.44%	+2.46%	-0.02%

Source: LGIM

Portfolio Risk: The tracking errors over three years are all within expected ranges. The allocation of the portfolio, as at quarter end, was 83.67% to the MSCI World Low Carbon Target index fund, and 16.33% 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 -0.52% p.a.

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

Performance Attribution: Over the three years to September 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: Not reported this quarter (The Manager's report was not available at the time of going to print)

Staff Turnover/Organisation: During Q3 2021 the firm announced that there were four new joiners to the Franklin Real Asset Advisors team, Adam Tavel (Research Analyst), Rebecca Little (Transactions Manager), Ash Shah (Fund Controller), and Klaus Schmid (Director Acquisitions). There were no departures from the team in Q3.

Hearthstone – UK Residential Property Fund

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

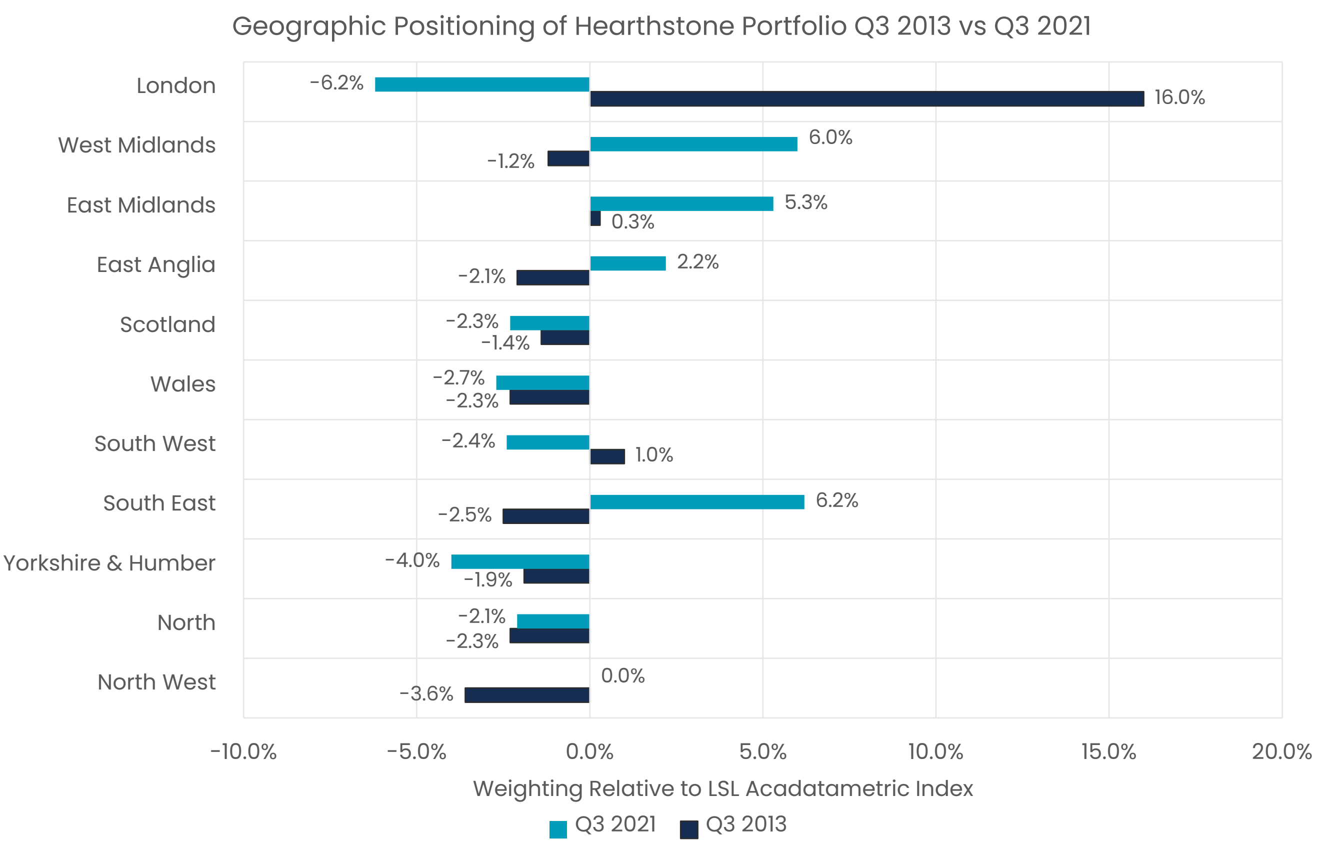
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to September 2021 by -2.56% p.a., returning +1.74% p.a. versus the index return of +4.30% p.a. The gross yield on the portfolio as at September 2021 was 4.77%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 3.79%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 26.28% (£18.6 million), which is 10% higher than at the end of June 2021. Hearthstone have commented that £4.5 million is committed to acquisitions in Preston and Doncaster and £5 million is earmarked for further acquisitions on which they are carrying out due diligence. However, this is something to monitor because it could result in a drag on performance.

Chart 8 compares the regional bets in the portfolio in Q3 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, 41% allocated to flats, 27% in terraced accommodation and 24% in semi-detached.

As at end September there were 200 properties in the portfolio and the fund stood at £70.2 million. London Borough of Islington's investment represents 40.6% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: In Q3 there were no leavers or joiners from the team.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a loss in Q3 2021, and in relative terms it underperformed its target by -2.80%. Over three years, the fund is behind the target return of RPI plus 5% p.a. by -1.20% 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 made a loss of -0.11% in Q3 2021. This is below the RPI plus 5% p.a. target return for Q3 which returned +2.69%. Over three years, the DGF delivered a return of +6.59% p.a. compared with the target return of +7.80% p.a., behind the target by – 1.20% p.a.

In Q3 2021, equity positions detracted -0.4% from the total return, alternatives added +0.4%, credit and government debt -0.1%, and cash and currency added +0.4% (figures are gross of fees).

The return on global equities was +11% p.a. for the three years to September 2021 compared with the portfolio return of +6.6%. 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 8.5% compared to the three-year volatility of 17.2% in global equities (i.e., 49.4% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 50% in internally managed funds (up from last quarter), 34% in active bespoke solutions (down from last quarter), 6% in externally managed funds (up from last quarter), and 4% in passive funds (up from last quarter) with a residual balance in cash, 6% (up from last quarter), as at end September 2021. In terms of asset class exposure, 43.9% was in equities, 25.3% was in alternatives and 25.2% in credit and government debt, with the balance in cash, 5.6%.

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 37% lower than a comparator (a mix of equities, bonds, and alternative indices).

Organisation: During the quarter, Clement Yong, a Multi-Asset Fund Manager, left the Diversified Growth Team, he relocated to Hong Kong in August but remains within Multi-Asset. Dominique Braeuninger joined the team asa Multi-Asset Fund Manager supporting the team. He is an internal hire based in Zurich. He previously worked as a fund manager in the convertible bonds team.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 30th September 2021 was positive at +18.74%, thus well 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 Q3 2021, on an unaudited basis, the fund had invested USD 603.1 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).

Note, the total invested by the fund has reduced since Q2 2021 because of the refinancing of certain assets in the Velox Power portfolio and completion of the proposed transfer of assets to the Quinbrook Renewables Impact Fund and Quinbrook Net Zero Power Fund.

Organisation: During the quarter, Joanne Hammond left her role as the bookkeeper in the Australia office. Mark Breen has joined as Senior Director, Charles Miller Stirling as an Associate and David Velasquez as Vice President.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +3.95% 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.

Portfolio Characteristics: Not available at the time of going to print.

Karen Shackleton
Senior Adviser, MJ Hudson
8th November 2021

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MJ HUDSON

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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	23rd November 2021		n/a

Delete as appropriate	~~Exempt~~	Non-exempt

SUBJECT: EMPLOYER FLEXIBILITIES TO FUNDING STRATEGY STATEMENT(FSS)- OUTCOME OF CONSULTATION

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 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 outcome of the consultation with employers admitted into the Fund, on the draft FSS.

2. Recommendations

2.1 To note the summary of the main updates in the draft FSS, that Employers were consulted on in October as listed in paragraph 3.1.3.

2.2 To note that no comments were received from Employers admitted into the Islington Fund during the consultation period.

2.3 Agree the changes to the draft FSS attached as Appendix 1 and allow officers with the Fund Actuary to complete the updates and publish the FSS.

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 **Consultation with Employers admitted to the Islington Fund**

Members agreed to begin the consultation with Employers at their September meeting. Officers wrote to all the Fund's scheduled and admitted bodies on 7th October highlighting the main issues as listed below in para 3.1.3 and asked for responses by 28th October. No comments were received during the period.

3.1.3 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) Upfront payment of the exit debt (the existing approach)
This will remain as the default option when an employer terminates.

b) Spreading exit payments
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) Deferred Debt Arrangement (DDA)

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.

3.1.4 Members are asked to note that no comments were received from the consultation with Employers. It is recommended that Members review the updates and agree the changes to the draft FSS (attached as Appendix 1). Members are asked to allow officers with the Fund Actuary to complete the updates to the draft FSS for publication in 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 agree the updates to the draft FSS and allow officers to publish the finalised FSS.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources

Date

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DRAFT – SUBJECT TO CONSULTATION

FUNDING STRATEGY STATEMENT

Islington Council Pension Fund

October 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 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 low risk termination basis 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 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**
Multi Asset Credit	5
Total Bonds	**5**
Property	25
Private Equity	4
Infrastructure	10
Private Debt	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 was 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 low risk termination methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a 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 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 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 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 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 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 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 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 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 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 “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.

Termination bases

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.

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% on the 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 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.

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 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.

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.

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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	23rd November 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

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APPENDIX A

Pensions Sub-Committee Forward Plan for November 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
23 November 2021	• Objectives set for providers of investment consultancy –Annual review • Implementation plan for new indices –passive equities • Draft FSS- outcome of consultation with employers • Funding Overview to September 2021
December 2021	• Annual Pensions Meeting
8 March 2022	ESG monitoring of managers Funding Overview update
June 2022	• Annual fund performance • Actuarial valuation - timetable

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

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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	23rd November 2021		n/a

Delete as appropriate	Exempt	Non-exempt

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

SUBJECT: FUNDING REVIEW UPDATE

1. Synopsis

1.1 This is an update report on the funding level of the Fund since the 2019 actuarial review to September 2021. It also set out some commentary on related funding matters, which the Actuary will be considering in the coming months in preparation for the 31 March 2022 actuarial valuation.

2. Recommendations

2.1 To note the briefing prepared by our Fund Actuary attached as Exempt Appendix1

2.2 To note that based on 2019 actuarial valuation assumptions the funding position as at September 2021 is estimated to be 102%.

3. Background

3.1 The 2019 actuarial valuation was completed in March 2020 and is undertaken to determine the funding position and investment strategy that can support sustainable contributions from employers.

3.2 The actuarial review covers three main elements; processing and validation of data, funding strategy review and covenant assessment.

3.3 The 30 months since the valuation has seen market volatility, Brexit, the COVID-19 pandemic, recovery after vaccine roll out and inflation rises. These factors will have an effect on the medium term funding level and it is prudent for Members to review any risk mitigation factors they may consider.

3.4 Mercers our Fund actuary has prepared a presentation (attached as Exempt Appendix 1) to review the whole funding level.

3.5 The summary findings to note include the following:

- On the assumptions adopted for the 2019 actuarial valuation, the funding position has continued to improve and as at 30 September 2021, the position was estimated to be 102%.

- The main drivers of the improvement in funding position since 2019 have been larger than expected investment returns and the deficit contributions payable by employers.

- However, despite the improvements in the funding position, the current economic outlook is uncertain for a number of reasons – rising inflation, continued fallout from the pandemic, Brexit, etc.

- These uncertainties will have an impact on the level of expected investment return the Fund may achieve in the future, and in particular the excess return above inflation i.e. real return.

- It is likely therefore that the discount rates adopted by the Actuary at the 2022 valuation may need to reduce relative to those adopted in 2019. The Actuary has illustrated in the attached presentation that the funding position would fall to 98% were discount rates to reduce by 0.25% p.a. This would result in an increase in the percentage (%) contributions payable towards ongoing benefit accrual of 1-2 % of pay p.a. under this scenario.

- Whilst still representing a very good funding position relative to that in 2019, contribution outcomes for employers from the 2022 valuation will depend on the extent to which any reduction in deficit contributions (arising due to the improved funding level) will offset any increase in the future service rate to emerge (arising due to an anticipated reduction in discount rate). For the Council, there is already a planned phased increase to the future service rate following the 2022 valuation (14.6% to 16.9%), which would be in addition to any contribution increases that may apply due to a reduction in the discount rate.

- However, the Council has also made a commitment to pay c£30m into the Fund prior to the valuation date. This commitment has been communicated to the Government Actuary's Department (GAD) as part of the discussions around their Section 13 report that will be released in the future and has ensured that the Fund did not get "flagged" in the report.

- Along with the strong investment returns, this additional contribution will provide additional mitigation against the impact of the increase in contributions due from 2023, thereby helping to reduce future budget pressures.

3.6 The Actuary will undertake a more detailed analysis on the current funding position and subsequent contribution outcomes under different scenario, over the coming months, to commence discussions with Officers around future budgetary pressures for the Council.

3.7 Members are asked to note the presentation and the summary findings in paragraph 3.5.

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

No legal implications

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 note the presentation from our Fund Actuary and the summary findings in para 3.5.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

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Agenda Item B6

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	23rd November 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 August to September 2021.

2. Recommendations

2.1 To note the progress and activities presented at the September business update session (exempt Appendix1) and news briefing Collective Voice-September 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 London CIV programme. The London 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 registered address is 4th Floor, 22 Lavington Street, London, SE1 0NZ. 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 September 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, , monitoring and governance, 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 Sterling Credit Fund. The Passive Equity Paris Aligned Global Equity Fund has now received FCA approval and was scheduled for launch by end of October with commitments from Havering and Lewisham boroughs.

3.5.4 **Net Zero Strategy**

The London CIV has made a commitment to become a Net-Zero company by 2040 in line with the Paris Agreement objectives to limit global temperature rise below 1.5°C. The interim targets set include reducing the carbon intensity of the Pool's investments by 35% by 2025 (relative to 2020), and 60% by 2030 across funds invested via the London CIV ACS, EUUT and SLP and become a Net-Zero company across operational and supply chain emissions by 2025.

3.3.5 **Operational and People**

London CIV have appointed a Head of Public markets; Rob Treich (ex Coal Pension Trustee, Mercers and Mellon Bank) joined the team on 6 September 2021. Vanessa Shia, Head of Private Markets returned from maternity leave. Jacqueline Jackson, Head of Responsible Investment, will be on maternity leave from November. A Head of Public Funds Accounting, commenced employment on 26 October 2021, and also a Senior Fund Accountant to focus specifically on Private Markets, commences employment on 1 November 2021. Two leavers are Paul Tenconi, Company Secretariat and Governance Manager and Jessica Amaro, client relations officer.

Regulatory Capital

3.3.6 The FCA have recently reviewed the London CIV as part of their application for additional regulatory permissions and raised the following observations ;

i) The FCA have indicated that the A and B shares as described in the Articles of Association and Shareholder Agreement do not meet their definition of regulatory capital
ii) In particular, the way the documents describe the mechanism to buy back (redeem) the B shares in the unlikely event that a shareholder wished to exit London CIV, do not meet the permanent capital requirement.
iii) Furthermore, the redemption characteristic means that under accounting standard FRS102 the shares have been classified as debt rather than equity in the LCIV accounts since 2016.

The required changes can be summarised as follows:

i) The changes seek to address the issues raised by the FCA and their view that the B shares do not meet the definition of regulatory capital. The changes achieve this by removing reference to the redemption ability of A and B shares in the documents.
ii) These changes will result in the A and B shares being treated as equity not debt as confirmed by Deloitte, LCIVs external auditors.
iii) The revised documents still allow shareholders to ask the company to buy back shares but do not give the company an obligation to do so.

iv) The documents emphasise shareholders rights to agree between themselves to buy/sell shares in order to facilitate a shareholder exit.

- The action required is for all Shareholders to agree amendements to the Shareholder Agreement, and Articles of Association as well as any changes to the rights attached to shares. A detailed report was prepared by Corporate Director of Resources and agreed in accordance with urgency provisions in the Constitution (Part 3, Paragraph 8.9).

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.

Final report clearance:

Signed by:

Corporate Director of Resources Date

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ISLINGTON

Finance Department
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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	23rd November 2021		n/a

Delete as appropriate		Non-exempt

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

SUBJECT: REVIEW OF OBJECTIVES SET FOR PROVIDERS OF INVESTMENT CONSULTANCY SERVICES

1. Synopsis

1.1 This report updates Members on the performance of the Fund's Investment Consultant, Mercer against the strategic objectives set and agreed at their meeting of 3rd December 2019 and reviewed in December 2020, for our Investment Consultancy providers in accordance with the requirements of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the 'Order').

2. Recommendations

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

2.2 To note the objectives agreed in December 2020, and agree the performance rating of our investment consultancy provider as set out in Exempt Appendix 1

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

2.4 • To delegate to the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, authority to submit an annual compliance statement confirming compliance with Part 7 of the Order. The compliance statements must be submitted to the CMA by 7 January each year.

3. Background

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

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

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

3.4 Members considered and agreed a set of strategic objectives for their IC Provider at their 3 December 2019 meeting. These objectives and performance were reviewed at their 8 December 2020. Members also agreed to review the objectives at least annually and or where there is a change in the Funds requirements.

3.5

Performance

Exempt Appendix 1 attached, details the Fund requirements and objectives set for the investment consultant provider Mercer, against which the consultant's performance has been assessed and reviewed. A commentary has been assigned to each strategic objective and then rated from excellent to poor. Mercers' ratings are from excellent to good reflecting the high standard of service received over the year.

3.6 Members are asked to consider whether the objectives still meet the fund requirements or should be amended and to review and agree the performance ratings.

3.7 The CMA Order includes a requirement for LGPS funds to submit an annual compliance statement confirming compliance with Part 7. The compliance statements must be submitted to the CMA by 7 January each year. Members are asked to delegate authority to the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance to submit the compliance statement.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

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

4.3 IC Services are defined as the provision of advice:

- on investments that may be made or retained;
- in relation to the preparation or revision of the statement of investment principles;
- on strategic asset allocation; and
- on manager selection.

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

4.4 Under Part 7, the council may not enter into a contract with an investment consultancy provider or the provision of IC Services or continue to receive such services from an existing provider unless it has set Strategic Objectives for the provider. Strategic Objectives are objectives for the provider's advice by reference to the four areas in paragraph 4.3 above in accordance with the council's pension investment strategy.

4.5 Article 12 of the Order requires the council to set Strategic Objectives for Mercers, its Investment Consultancy provider applicable to its advice regarding the matters set out in paragraphs 4.3 above. The council is required to submit annual Compliance Statement to the CMA by 7 January each year confirming that this requirement has been complied with during the year.

4.6 **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

4.7 **Resident Impact Assessment:**

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

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

5. Conclusion and reasons for recommendation

5.1 Members are asked to review fund requirements and objectives and agree performance ratings attached as Exempt Appendix 1, and agree to delegate authority to the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance to submit the compliance statement by 7 January 2022

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

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