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Town Hall, Upper Street, London, N1 2UD

AGENDA FOR THE PENSIONS SUB-COMMITTEE

Members of the Pensions Sub-Committee are summoned to a meeting which will be held in Committee Room 1, Islington Town Hall, Upper Street, N1 2UD on **6 March 2023 at 7.00 pm.**

Enquiries to	:	Mary Green
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Despatched	:	24 February 2023

Membership	Substitute Members
Councillor Paul Convery (Chair)	Councillor Jenny Kay
Councillor Diarmaid Ward (Vice-Chair)	Councillor Mick Gilgunn
Councillor Satnam Gill OBE	
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**

C. **Urgent non-exempt items**

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

D. **Exclusion of press and public**

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

E. **Confidential/exempt items**

F. **Urgent exempt items**

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

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London Borough of Islington

Pensions Sub-Committee - 5 December 2022

Non-confidential minutes of the meeting of the Pensions Sub-Committee held in Committee Room 4, Town Hall, Upper Street, N1 2UD on 5 December 2022 at 7.00 pm.

Present:	**Councillors:**	Paul Convery (Chair), Diarmaid Ward (Vice-Chair), Satnam Gill and Michael O'Sullivan
	Pension Board observers:	Alan Begg, Councillor David Poyser, Maggie Elliott, Valerie Easmon-George
		Tony English and Jonathan Perera – Mercer John Arthur - MJHudson

Councillor Paul Convery in the Chair

264 **APOLOGIES FOR ABSENCE (Item A1)**
None.

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

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

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

RESOLVED:
That the minutes of the meeting held on 28 September 2022 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them

268 **PENSION FUND PERFORMANCE (Item B1)**

RESOLVED:
(a) That the performance of the Fund from 1 July to 30 September 2022, 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 Hudson on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.
(c) That the update briefing on Hearthstone in Appendix 1 to the report and the three exit options proposed be noted and that option 1 in the exempt appendix be approved.

(d) That the briefing from BMO giving further details on the purchase by a US investment manager, subject to regulatory approval, attached as Exempt Appendix 3 to the report, be noted.
(e) That the transition summary of the In-House UK Low Carbon Index to Legal and General ESG Paris Aligned Index on 1st September 2022 be noted.

269 **DRAFT FUNDING STRATEGY STATEMENT FOR CONSULTATION (Item B2)**

RESOLVED:
(a) That the draft presentation from Mercer attached as Exempt Appendix 1 to the report of the Corporate Director of Resources be noted.
(b) That the parameters for the investment strategic review, investment return and net zero climate target, be approved.
(c) That the plan for the actuarial valuation process to incorporate the review be noted.
(d) That a further report be submitted to the Sub-Committee in March 2023 on the full investment review

270 **INVESTMENT STRATEGY REVIEW - INITIAL CONSIDERATIONS (Item B3)**

A representative from Mercer suggested an initial consideration to recap on the existing investment strategy in the context of the 2022 Actuarial review, the volatile markets and sought agreement on potential themes to incorporate into a full investment strategy review in March 2023.

RESOLVED:
(a) That the draft presentation from Mercer on considerations for a review of the Investment Strategy Statement, detailed in exempt Appendix E3, be noted.
(b) That the parameters for the investment strategic review, investment return and net zero climate target, as discussed, be approved.
(c) That the plan for the actuarial valuation process to incorporate the review be noted.
(d) That a further report be submitted to the Sub-Committee in March 2023 on the full investment review

271 **PENSION DISCRETION POLICIES REVIEW (Item B4)**

The Pensions Manager reported that the Pensions Board had considered this report earlier in the evening and had suggested (a) that a guide for employers, explaining each discretion and its implications for the employer and employee, be included with the policy document and (b) that the proposal to include a change to the Discretions Policy, by the introduction of a Shared Cost Additional Voluntary Contributions Scheme, be approved.

RESOLVED:
(a) That the recommendations of the Pensions Board viz (i) that a guide for employers, explaining each discretion and its implications for the employer and employee, be included with the policy document and (ii) that the proposal to include a change to the Discretions Policy, by the introduction of a Shared Cost Additional Voluntary Contributions Scheme, be endorsed.
(b) That the current Council's discretions be approved, subject to the additions in resolution (a) above
(c) That, as set out in resolution (a) above, a new discretion of a Shared Cost Additional Voluntary Contribution Scheme be introduced with a new provider AVC wise.
(d) That the same policy be applied in respect of Regulation 30(8) discretions, where the Council was the administering authority and a former employer had ceased to be a scheme employer.

272 LONDON CIV UPDATE (Item B5)

RESOLVED:
(a) That the progress made at the London CIV in launching funds, running of portfolios, reviewing governance and investment structure, over the period August to October 2022, as detailed in the report of the Corporate Director of Resources, be noted.
(b) That the October business update session of the London CIV, detailed in exempt Appendix 1 to the report, be noted.

273 PENSION FUND - FORWARD WORK PROGRAMME (Item B6)

RESOLVED:
That Appendix A attached to the report of the Corporate Director of Resources, comprising the forward plan of business for the Sub-Committee, be noted.

274 OBJECTIVES SET FOR PROVIDERS OF INVESTMENT CONSULTANCY - ANNUAL REVIEW (Item B7)

Representatives from MJ Hudson and Mercer left the meeting in advance of consideration of the following agenda item.

RESOLVED:
(a) That it be noted 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.
(b) That the objectives agreed in November 2021 and detailed in the report of the Corporate Director of Resources, be noted and the performance rating of the investment consultancy providers as set out in Exempt Appendix 1 to the report be approved.
(c) That the objectives be reviewed at least annually and/or where there was a change in the Fund's requirements.

(d) That Corporate Director of Resources be authorised, in consultation with the Acting Director of Law and Governance, to report on compliance via the TPR's annual scheme return.
(e) That the contents of the exempt appendix, agenda item E4, be noted.

275 PENSION FUND PERFORMANCE - EXEMPT APPENDIX (Item E1)

RESOLVED:
(a) That the contents of exempt appendix 3 to agenda item B1, comprising an update on the BMO emerging market portfolio sale to Polen Capital, be noted.
(b) That, as part of the considerations following Columbia Threadneedle's sale of BMO, officers explore the existing emerging market portfolio run separately by Columbia Threadneedle.

276 LONDON CIV UPDATE - EXEMPT APPENDIX (Item E2)
Noted

277 INVESTMENT STRATEGY REVIEW - INITIAL CONSIDERATIONS - EXEMPT APPENDIX (Item E3)
Noted.

278 OBJECTIVES SET FOR PROVIDERS OF INVESTMENT CONSULTANCY - ANNUAL REVIEW - EXEMPT APPENDIX (Item E4)
Noted.

The meeting ended at 8.50 pm

CHAIR

ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7
7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Sub-Committee

Date: 6th March 2023

Ward(s): n/a

Subject: Pension Fund Performance 1 October to 31 December 2023

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 October to 31 December 2023 as per BNY Mellon interactive performance report
2.2	To receive the presentation by MJ Hudsons, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.
2.3	To note the LCIV prepared climate exposure report for their 2 active equity portfolios attached as Appendix 2.
2.4	To note for information the Mercer NewsAlert LGPS Issues Feb'23 – Appendix 3
3.	**Fund Managers Performance for 1 October to 31 December 2022**
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 (Oct-Dec'22) Gross of fees		12 Months to Dec' 2022-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LCIV Sustainable EQ- RBC	10.1%	Global equities	1	-0.5%	1.8%	-15.6%	-7.8%
LCIV -Newton	18.4%	Global equities	2	2.3%	1.9%	-9.4%	-7.6%
Legal & General	13.5%	Global equities	1	2.1%	2.2%	-7.0%	-6.8%
Legal & General-Paris Aligned	9.3%	Global equities	N	2.3%	2.3%	n/a	n/a
BMO Investments-LGM	3.9%	Emerging equities	2	2.0%	1.9%	-13.7%	-9.6%
Quinbrook	5.1%	Renewable Infrastructure		-5.8%	2.9%	37.9%	12.0%
Pantheon	4.5%	Infrastructure		-6.6%	2.4%	26.7%	10.0%
Aviva (1)	8.0%	UK property	2	-9.8%	-1.3% -14.1%	-8.4%	-29.6% -9.5%
ColumbiaThreadneedle Investments (TPEN)	5.4%	UK commercial property	3	-13.5%	-14.1%	-10.3%	-9.5%
Hearthstone	1.7%	UK residential property	N	0.6%	-14.4%	3.7%	-10.1%
Standard Life	4.0%	Corporate bonds	2	5.8%	5.7%	-18.7%	-17.7%
M&G Alpha Opportunities	4.6%	Multi Asset Credit	3	4.4%	1.5%	-0.1%	4.9%
Schroders	2.7%	Diversified Growth Fund	2	1.3%	4.8%	-10.1%	18.4%
Churchill Senior loan Fund IV	3.2%	Private Debt	N	-6.6%	1.2%	15.1%	5%
Market value of total fund	£1,659m						

-1.3% & -29.6% = original Gilts benchmark; -14.1% and -9.5% are the IPD All property index; for information

3.2	BNY Mellon our 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 December 2022 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to Dec'2022 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	-0.2	2.7	-7.7	-7.7

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-year periods to Dec' 2022 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	-7.7%	5.6%	5.1%
Customised benchmark	-7.7%	3.3%	4.3%

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 underperformed its quarterly benchmark to December by -2.3% and a twelve-month under performance of -7.8%. This was primarily due to stock selection within the financial sector (SVB, First Republic) and specific consumer and health care stock picks

	(Amazon, Alphabet and Roche) which remain vulnerable to downward revisions in earnings estimates and a weaker economic environment. The manager continues to position the portfolio more cautiously while also aiming to maintain its growth and upside dynamic. A copy of the funds climate exposure report is attached for information as Appdx 2.
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 1.9% for the December quarter. Since inception, the fund has delivered an absolute return of 11.3% against benchmark of 11.4%. The stock selection contribution was flat and relative contribution was from materials and industrial sectors. The focus is on growth stocks in healthcare and consumer staple that are cyclical and can withstand a prolonged slowdown.
3.7.4	Islington owns 57.4% of the fund with 2 other local authorities on the LCIV platform. A copy of the climate exposure report is attached for information as Appdx-2
3.8	**The Legal and General Paris Aligned ESG Passive Index**
3.8.1	The Paris Aligned Index was set up by transitioning the Internal UK index fund in August 2022. The original mandate was valued at £154m
3.8.2	The quarter performance to December was 2.2% against a benchmark of 2.3%.
3.9	**Legal and General**
3.9.1	This is the fund's passive overseas equity index manager. The fund inception date was 8 June 2011, with an initial investment of £67million funded from transfer of assets from AllianzGI (RCM). The funds were managed passively against regional indices to formulate a total FTSE All World Index series. Member agreed restructuring in 2016, 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.
3.9.2	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 this quarter, the fund totalled £224(219m) with a performance of 2.1%against a benchmark of 2.3%.

3.10	**BMO Global Assets Mgt** This is the 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'21 when the frontier element was liquidated and $11.3m was returned.
3.10.1	The December quarter saw an over performance of 0.2%. The positives were stock selection in China and Hong Kong, and while holdings in Indonesia, Saudi Arabia and Brazil were detractors.
3.10.2	It has now been confirmed that the transfer of asset has received regulatory sign off and transition will be effective from 1 March to Polen Capital. Officers met with the client director from Polen Capital and further discussions will be arranged once the transfer is imbedded. There was no added value after the initial delve into Columbia Threadneedle's existing emerging market fund.
3.11	**Aviva**
3.11.1	Aviva manages the fund's UK High Lease to Value property portfolio. They were appointed in 2004 and the target of the mandate is to outperform their customised gilts benchmark by 1.5% (net of fees) over the long term. The portfolio is High Lease to Value Property managed under the Lime Property Unit Trust Fund.
3.11.2	The fund for this quarter delivered a return of -9.8% against a gilt benchmark of 1.3%. The All Property IPD benchmark returned -14.4% for this quarter. Since inception, the fund has delivered an absolute return of 5.4%
3.11.3	As at the end of this December quarter the fund's unexpired average lease term is 20.8 years. The Fund holds 88 assets with 53 tenants. The manager continues to de-risk the portfolio and secure opportunities that will improve the portfolio in terms of distributions, returns and key metrics such as duration, inflation linkage and diversification. There is £141m of investible capital.
3.11.4	One of Aviva's objectives in its transition strategy to net zero by 2040 is to reduce real estate carbon intensity by 30% and energy intensity by 10%. In 2021, the energy intensity across the portfolio reached 226kWh/m2. To further this progress and achieve the 2025 target of 213kWh/m2, asset managers allocated £29 million towards Environmental, Social, and Governance (ESG) improvements across the portfolio. The most significant savings will be made through: - LED lighting (expected reduction of 7kWh/m2) - Smart buildings – Electricity and Gas (expected reduction of 8kWh/m2) - Solar panels (expected reduction of 10kWh/m2)

3.12	**Columbia Threadneedle Property Pension Limited (TPEN)**
3.12.1	This is the fund's UK commercial pooled property portfolio that was fully funded on 14 January 2010 with an initial investment of £45 million. The net asset value at the end of December was £89.8million(103m Sept) The agreed mandate guidelines are as listed below: • Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 April 2014. • Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods. • Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term. • Income yield on the portfolio at investment of c.8.5% p.a. • Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.
3.12.2	The fund returned a performance of -13.5% against its benchmark -14.3% for the December quarter. Since inception it has delivered an absolute return of 5.7% per annum.
3.12.3	The cash balance now stands at 5.4%. During the quarter, sixty three strategic disposals, were made to increase the liquidity of the fund to meet DB pensions margin calls and DC redemptions. Rent collection is improving at 92% and tenants are being dealt with on a case-by-case basis to enable their viability on the short to medium term.
3.12.4	The Fund has set net zero target to neutralise carbon emissions within portfolios by 2050. An income distribution share class is now available for investors who want to draw down income. A Redemption Deferral Policy (the Policy) for TPEN PF was enacted effective for investor dealings from 3 October 2022 to protect all Investors' interests as a result of the volatility in the investment market since 23 September 2022.
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 are 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 December quarter is $62.1m. The NAV is $0.2m

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 $19.2m

3.13.5 Members agreed to commit $50m to Fund III at the December 2020 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 $12.4m has been drawdown and a distribution of $8.6m had been received.

3.14. **Hearthstone**

3.14.1 This is the fund's residential UK property manager. The fund inception date was 23 April 2013, with an initial investment of £20million funded by withdrawals from our equity's 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 Southeast.
- 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
3.14.2	For the December quarter, the value of the fund investment was £28million and total funds under management is £70m. Performance net of fees was 0.6% compared to the IPD UK All Property benchmark of -14.4%.
3.14.3	Members agreed to option 2 to speed the reduction of holdings in the Fund. A £500k redemption as agreed in November was paid out in December and the proposal is to firm up a plan to cross with new investors to reduce redemption charge. A further implementation meeting has been scheduled for 2 March 2023.
3.15	**Quinbrook Infrastructure**
3.15.1	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 December 2021 is $67.0m – this is 100% of our commitment
3.15.2	Islington completed documentation and onboarding to The Net Zero Power Fund on 25 August with a commitment of $100m. The terms and conditions were negotiated and agreed with a side letter. Total capital call to the end of this quarter was $52m.
3.16.1	**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 secondaries and co-investments • Exposure to 150 investments • Estimated return 5% cash yield and 6% capital growth **Risks:** No primary fund exposure. Drawdown to December 2022 is $89.65m and distribution of $19.5m
3.17	**Schroders**
3.17.1	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 equity's 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.
3.17.2 3.17.3 3.17.4	The value of the portfolio is now £45**.1**m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The December quarter performance before fees was 1.3% against the benchmark of 4.8% (inflation+5%). The performance since inception is 3.0% against benchmark of 9.5% before fees. Equity positions contributed+2.7% from the total return, alternatives detracted -0.3%, credit and government debt contributed +0.6%, and cash and currency detracted -1.90%. There was another redemption of £25m to cover private debt drawdowns in December quarter. The new benchmark effective from 1 April 2022 is ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum.
3.18 3.18.1 3.18.2 3.18.3	**Standard Life** Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the December quarter, the fund returned 5.8% against a benchmark of 5.7% and an absolute return of 3.9% per annum since inception. The fund outperformed the index largely by being long UK duration versus the benchmark and underweight 30year bonds and overweight ten-year bonds. Stock selection was a small positive. The agreed infrastructure mandates are being funded from this portfolio and to date £80m has been drawn down.
3.19	**Passive Hedge** The fund currently targets to hedge 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is run by BNY Mellon our custodian. At the end of the December quarter, the hedged overseas equities had a positive cash value of £2.2m

3.19.1	The hedge has now been in place since 25 November 2020 for quarterly hedge rolls
3.20	**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.
3.20.1	The December quarter performance was 4.3% against a benchmark of 1.5% and a one year out performance of 3.9%. The primary contributors to performance were exposures to corporate bonds in the Industrial sector and leveraged loans, whilst exposure to the financial sector was a detractor.
4.	**Implications**
4.1	**Financial implications:** The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation. Fund management and administration fees and related cost are charged to the pension fund.
4.2	**Legal Implications:** As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.

4.3	**Equality Impact Assessment:** The Council must, in 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/information/adviceandinformation/20212022/20211123islingtonpensionfundinvestmentstrategystatementdec20.pdf
5.	**Conclusion and reasons for recommendations**
5.1	Members are asked to note the performance of the fund for the quarter ending December 2022 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers. Climate exposure report for LCIV funds is attached for information as Appendix 2 and Mercer NewsAlert LGPS current issues as at Feb'23 is attached for information as Appendix 3

Appendices: Appendix 1 – MJ Hudson Fund Mgr monitoring report
Appendix 2 -Climate exposures LCIV funds
Appendix 3- News Alert LGPS Current Issues as at Feb'23

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:

Authorised by: David Hodgkinson

Corporate Director of Resources Date: 23 February 2023

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London Borough of Islington

Report to 31st December 2022

MJ Hudson

FEBRUARY 2023

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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
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	The pooled funds in which Islington pension fund invests have a combined assets under management of £4.49 billion at end December 2022.
Schroders (multi-asset diversified growth)	There were no team changes during Q4 2022.	Fund made a return of +1.31% during the quarter and delivered a return of +1.71% p.a. over 3 years, -10.57% p.a. behind the target return.	Total AUM stood at £776.3 billion as at end December 2022, up from £773.4 billion as at end June 2022.
Columbia Threadneedle (BMO/LGM) (active emerging equities)	No staff changes reported by BMO. BMO Global Asset Management became part of Columbia Threadneedle Investments in November 2021 and changed its name in July 2022. During Q1 the emerging markets team is being sold to Polen Capital.	Outperformed the benchmark by +0.16% in the quarter to December 2022. The fund is behind over three years by -2.52% p.a.	Not reported.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
LCIV Global Equity Fund (Newton) (active global equities)	None reported by LCIV.	The LCIV Global Equity Fund outperformed its benchmark during Q4 2022 by +0.31%. Over three years the portfolio outperformed the benchmark by +0.02% and is under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.52% p.a.	At the end of Q4 2022, the London CIV sub-fund's assets under management were £556.6 million. London Borough of Islington owns 54.8% of the sub-fund.
LCIV Sustainable Equity Fund (RBC) (active global equities)	None reported by LCIV.	Over Q4 2022 the fund made a return of +0.48%, and this underperformed the benchmark return of +1.86%. The one-year return was -15.64%, weak in absolute terms and behind the benchmark by -7.81%. The three-year return underperformed the benchmark by -0.51% p.a.	As at end December the sub-fund's value was £1,238 million. London Borough of Islington owns 13.41% of the sub-fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
M&G Alpha Opportunities Fund	Not reported by the manager.	The Fund made a return of +4.38% over Q4 2022, ahead of the target return by +2.86%. Over one year, the fund returned -0.07% which was behind the target return by -4.97%.	The fund size was £10.79 billion as at end December. London Borough of Islington's investment amounts to 0.70% of the fund.
Standard Life (corporate bonds)	There were 5 joiners and 27 leavers during the quarter. One joiner was to the fixed income group, and two leavers were from the Fixed Income Group.	The portfolio outperformed the benchmark return during the quarter by +0.14%, delivering an absolute return of +5.87%. Over three years, the fund was behind the benchmark return (by -0.05% p.a.) and behind the performance target of +0.80% p.a.	As at end December the fund's value was £2,400 million, up from £1,826 million as at end September. London Borough of Islington's holding of £66.6m stood at 2.8% of the total fund value.
Aviva (UK property)	Information not received at the time of going to print.	Underperformed against the gilt benchmark by -11.09% for the quarter to December 2022 but outperformed the benchmark over three years by +12.83% p.a., delivering a return of +2.77% p.a., net of fees.	The fund was valued at £3.23 billion as at end Q4 2022. London Borough of Islington owns 4.1% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Columbia Threadneedle (UK property)	There were no leavers or new joiners to the property team this quarter.	The fund outperformed the benchmark in Q4 2022, with a quarterly return of -13.5.0% compared with -14.1%. Over three years, the fund is outperforming the benchmark by +0.2% p.a. (source: Columbia Threadneedle).	Pooled fund has assets of £1.61 billion. London Borough of Islington owns 5.57% of the fund.
Franklin Templeton (global property)	Information not received at the time of going to print.	The portfolio return over three years was +11.15% p.a., and so ahead of the target of 10% p.a. Over 5 years the fund is ahead of the benchmark by +5.78% p.a.	£542.6 million of assets under management for the real estate group as at end September 2021 (latest figures reported).
Hearthstone (UK residential property)	There were no leavers or joiners in Q4 2022.	The fund outperformed the IPD UK All Property Index by +15.16% in Q4. It is now ahead of the IPD benchmark over three years by +0.80% p.a. to end December 2022.	Fund was valued at £70.0m at end Q4 2022. London Borough of Islington owns 40.1% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Quinbrook (renewable energy infrastructure)	COO and head of finance is on a year's sabbatical and has been replaced by Simon Jones who has held similar positions at other firms.	For the three years to Q4 2022 the fund returned +17.74%, and therefore ahead of the annual target return of +12.00% p.a.	
Pantheon (Private Equity and Infrastructure Funds)	Not reported.	The private equity fund returned +6.55% p.a. over three years, and +15.48% p.a. over five years. The infrastructure fund returned +16.87% p.a. over three years to end December	
Churchill (Middle Market Senior Loan Fund)	Not reported.	The fund has achieved a return of -6.60% for the quarter to 31 December 2022, underperforming the benchmark return of +1.23. Over 1-year, the fund is outperforming the benchmark by +10.10%	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

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

Headline Comments: The three passive index funds were within the expected tracking range when compared with their respective benchmarks. FTSE-RAFI Emerging Markets fund, MSCI World Low Carbon Target index fund, and the ESG Paris Aligned World Equity Fund performed in line with their benchmarks in Q4.

Mandate Summary: The London Borough of Islington invests in three of LGIM's index funds. The first 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. In August 2022, the fund's passive UK equity mandate was transitioned into the third passive fund: the ESG Paris Aligned World Equity Fund. This fund is designed to match the total return on the Solactive Paris Aligned Index. It differs to the Low Carbon passive fund because it has a more ambitious goal of targeting net zero by 2050 in line with the Paris Agreement.

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

TABLE 2:

	Q4 2022 FUND	Q4 2022 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+2.96%	+3.05%	-0.10%
MSCI World Low Carbon Target	+1.97%	+1.99%	-0.02%
ESG Paris Aligned World Equity Fund	+2.26%	+2.20%	+0.06%

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 49.54% to the MSCI World Low Carbon Target index fund, 40.76% to the ESG Paris Aligned World Equity Fund, and 9.70% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a return of +1.31% in Q4 2022, and in relative terms it underperformed its target by -3.47%. Over three years, the fund is behind the target return by -10.57% 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. The target for this fund changed on 1st April 2022 and is now the ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum (before fees have been deducted) over a 5-7-year period. The manager aims to deliver capital growth and income, with a volatility of less than two-thirds the volatility of equities.

Performance Attribution: The DGF made a return of +1.31% in Q4 2022 while global equities made a return of +6.9%. Over three years, the DGF delivered a return of +1.71% p.a.

In Q4 2022, equity positions contributed +2.7% to the total return, alternatives detracted -0.3%, credit and government debt contributed +0.6%, and cash and currency detracted -1.9% (figures are gross of fees).

Portfolio Risk: The portfolio is expected to exhibit less than 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 9.2% compared to the three-year volatility of 18.7% in global equities (i.e., 49.2% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 49% in internally managed funds (down from last quarter), 26% in active bespoke solutions (the same as last quarter), 6% in externally managed funds (down from last quarter), and 11% in passive funds (up from last quarter) with a residual balance in cash, 8% (up from last quarter), as at end December 2022. In terms of asset class exposure, 32.6% was in equities, 30.0% was in alternatives and 29.2% in credit and government debt.

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

The manager has increased global equities, now that there is greater interest rate stability, which it states takes pressure off valuations. It described its stance as “cautiously optimistic” for global markets over 2023.

Schroder reported that the carbon intensity of the fund was 50% lower than a comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 57% of the portfolio (compared with 79% for the comparator).

Organisation: There were no team changes during Q4 2022.

Columbia Threadneedle (BMO/LGM) – Global Emerging Market Growth and Income Fund

Headline Comments: The portfolio made a return of +2.05% in Q4 2022, compared with the benchmark return of +1.89%, an outperformance of +0.16%. Over one year the fund is behind the benchmark by -4.06%, over three years it is trailing by -2.52% per annum. The manager has announced that the sale of the emerging markets business to Polen Capital has been delayed but is now likely to take place toward the end of Q1 2023.

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, and the performance continued to be volatile along with markets during the quarter. The portfolio added some alpha during this disrupted period, although not enough to recover losses earlier in 2022. The Chinese government eased its zero-COVID policy, meaning that allocation to China/Hong-Kong added significantly to performance. Having no exposure to Middle Eastern markets and limited exposure to Brazil also benefited relative performance. The main detractors from performance related to specific stock selection within the US and Indonesia.

During the quarter, the largest positive contributors to the quarterly relative return came from AIA Group (+1.0%), Hong Kong Exchanges And Clearing (+0.6%), and By Health Co Ltd (+0.5%). Companies which detracted most from performance included Bank Central Asia (-0.6%), Epam Systems (-0.5%), and Inner Mongolia Yili Industrial (-0.4%).

Over one year, the fund has underperformed the benchmark by -4.06%.

Portfolio Risk: Within the emerging markets portfolio there is a 14.0% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio remained India (+10.7% overweight). The most underweight country allocation was South Korea (-9.3%).

Portfolio Characteristics: The portfolio held 39 stocks as at end December compared with the benchmark which had 1,374. The largest absolute stock position was TSMC at 6.6% of the portfolio, while the largest absolute country position was China/HK and accounted for 37.2% of the portfolio.

Staff Turnover/Organisation: BMO Global Asset Management EMEA (including LGM Investments) became part of Columbia Threadneedle Investments, the global asset management business of Ameriprise in November 2021. From July, following a period of

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integration, the branding switched to sit under the Columbia Threadneedle banner. There were no staff changes for the team reported for Q4 2022.

As previously reported, the manager has announced that the emerging markets team is being sold to a US firm, Polen Capital. As of Q4 2022 the work on progressing the transfer was ongoing although Columbia Threadneedle have recently communicated that the amended target date for the transfer of the LGM business to Polen on 31 January 2023 has now been extended again, to 01 March 2023. Since the last update, the Manager has received regulatory approval from the Hong Kong regulator.

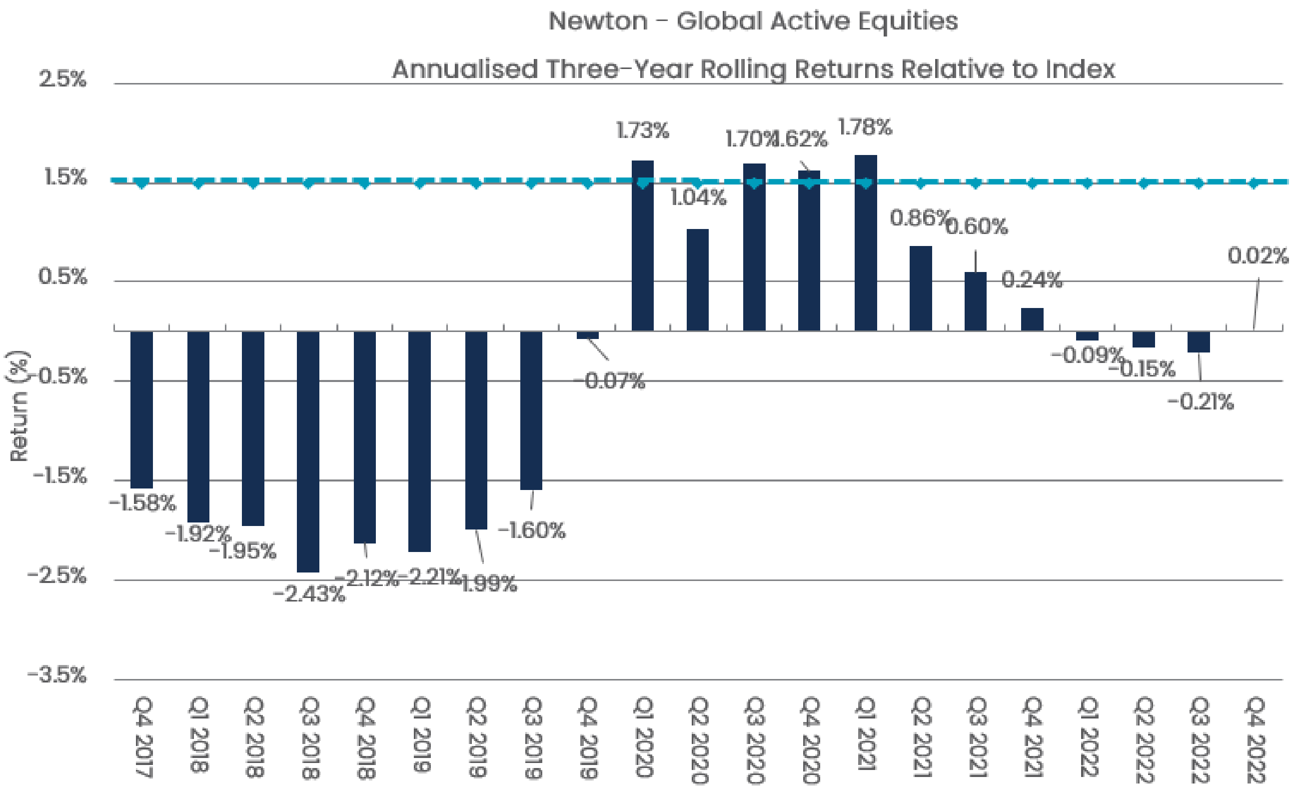
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q4 2022 by +0.31%. Over three years the portfolio outperformed the benchmark by +0.02% p.a. Over five years the manager is ahead of the benchmark return by +0.52% 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. The London CIV monitors this manager.

Performance Attribution: Chart 1 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 1:



Source: MJH; BNY Mellon

Chart 1 shows that the level of outperformance over three years had been falling since Q1 2021, when the fund was ahead of the benchmark by +1.78% p.a. However, by Q4 2022 the fund has now marginally outperformed the benchmark over three years by +0.02% p.a. This still means it is underperforming the performance objective however, by -1.48% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as AIA Group (+0.51%), JPMorgan Chase (+0.40%), and Universal Music Group (+0.39%). Negative contributions came from positioning in Amazon (-1.13%), Apple (-0.60%), and Alphabet Inc (-0.54%).

In its peer group analysis, the London CIV reported that Newton has consistently delivered returns in the middle range over the shorter and longer term. Over the past three years period the risk has been low relative to peers. The London CIV also noted that turnover on the strategy in 2022 was 34% compared with 14% in 2021, which they consider to be at the high end of expected turnover levels. The manager has incurred higher turnover to respond to volatile and changing markets.

London CIV completed an in-depth review of this Manager in November. Investors in the sub-fund will be updated in February.

Portfolio Risk: The active risk on the portfolio stood at 3.32% as at quarter end, slightly lower than as at end September when it stood at 3.38%. The portfolio remains defensive, with the beta on the portfolio at end December standing at 0.91, down by 0.01 from previous quarter (if the market falls by -10% the portfolio can be expected to fall -9.1%).

At the end of Q4 2022, the London CIV sub-fund's assets under management were £556.6m, compared with £544.1m last quarter. London Borough of Islington now owns 54.78% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 57 as at quarter-end (the same as last quarter). The fund added four positions; Progressive Corp, Scor, Darling Ingredients Inc, and Bank Mandiri. Newton completed five sales, including Texas Instruments and Costco Wholesale.

The portfolio continues to be heavily weighted to Technology (an allocation of 18.4%), though this has reduced and is no longer overweight against the Benchmark. Financials, however, has had an increase in allocation and now makes up the largest constituent (19.54%) and is the largest overweight against the benchmark. This is due to the Manager reinvesting into a number of insurance companies.

In Q4 2022, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 56% that of the benchmark index (the MSCI World Index). The highest contributor was Darling Ingredients, a new allocation (10.35% contribution to the weighted average carbon intensity).

The Manager has a generally cautious view about companies in the oil and gas sector, and the outlook for energy companies, and has therefore been underweight in the sector for at least the last 10 years. Shell was the only energy holding in the LCIV portfolio until Q1 2022 when Exelon was added. 0.944% of the portfolio's revenues are derived from fossil fuels.

Staff Turnover: None reported by LCIV for Q4 2022.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q4 2022 the fund made a return of -0.48%. This underperformed the benchmark return by -2.34%. The one-year return was -15.64%, weak in absolute terms and behind the benchmark by -7.81%. As of Q3, the fund had a three-year track record, which shows an underperformance of -0.51% p.a. against the benchmark. Islington's investment makes up 13.41% of the total London CIV sub-fund.

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: With continued market uncertainty fuelled by macroeconomic worries, the fund has underperformed the benchmark in Q4, and has made a loss for the quarter in absolute terms. The portfolio has overweight allocations to the Financial, Healthcare, Consumer Staples, Industrials, Communication Services and Energy sectors. The Manager has stated that stock selection within the financials sector, as well as some consumer and healthcare stocks, which remain vulnerable to downward revisions in earning estimates, despite the more positive outlook in global equity markets during Q4. Over the quarter the largest contributors to return included Anheuser-Busch Inbev (+0.76%), Lasertec Corp (+0.67%), and AIA Group (+0.58%). The largest detractors include positioning in Amazon (-1.32%), SVB Financial Group (-0.72%), and Alphabet Inc (-0.66%).

The London CIV is now comparing managers against their peer group and reported that RBC is performing well over the long term. This has been achieved whilst taken only average risk, when compared with peers. However, the short-term has been challenging, ranking in the fourth quartile for its peer group for the year to date and one-year periods.

Portfolio Characteristics: As at end of December 2022 the fund had 37 holdings (1 up from last quarter) across 14 countries. The active risk of the fund was 3.99%, slightly higher than Newton.

London CIV report that the fund continues to favour quality companies with low gearing.

A new holding to note is EOG Resources, a US crude oil and natural gas exploration and production company. The London CIV notes that the manager considers EOG to be one of the most efficient producers in the US and will benefit from early investments in renewables.

In Q4 2022, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 71% that of the benchmark index (the MSCI World Index) which is a slight deterioration from last quarter (when it was 69%). The highest contributors were InterContinental Hotels Group (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 10.80%), First Quantum Minerals Ltd (9.64%) and Equinor ASA (5.04%). The new holding in EOG contributes 4.74% to the weighted average carbon intensity of the portfolio.

M&G – Alpha Opportunities Fund

Headline Comments: During Q4 2022 the M&G Alpha Opportunities Fund made a return of +4.38%, outperforming the benchmark return of +1.53%.

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, funded with proceeds from the equity protection strategy which matured in 2021. 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 made a return of +4.38% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +1.53%. Exposure to industrial corporate bonds was the top contributor, with financial loans also performing well. Yield curve hedging/currency hedging was the top detractor. Over one year, the fund is trailing the target return by -4.97% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to industrials (33%), cash and derivatives (22%), and Financials (22%). 37% of the portfolio was rated BB* or below. The Manager reduced overall exposure to USD denominated industrial bonds following a period of strong performance. It also reduced exposure to high yield.

As at end December, the weighted average carbon intensity (WACI) of the portfolio was 48% of the WACI of a benchmark index, with 62% of the portfolio being measured where data was available (compared with 88% coverage for the benchmark).

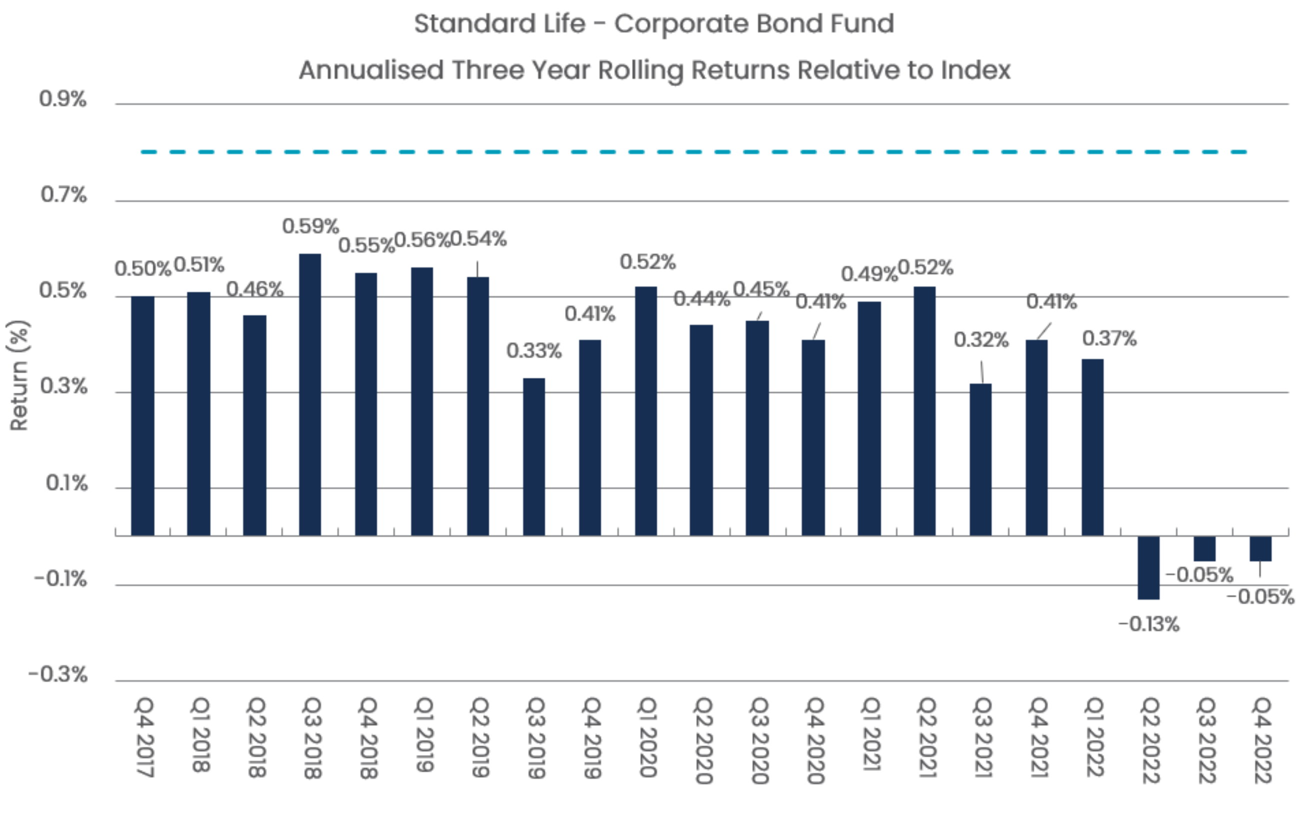
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio outperformed the benchmark return during the quarter by +0.14% and made an absolute return of +5.87%. Over three years, the fund was behind the benchmark return (by -0.05% p.a.) for the third consecutive quarter since inception and 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 2 shows the three-year performance of the Corporate Bond Fund compared to the Index, over the past five years. This shows that the fund is now behind the benchmark over three years, as well as behind the performance objective (shown by the dotted line in Chart 2).

CHART 2:



Source: MJH; BNY Mellon

Over three years, the portfolio has returned -4.97% p.a. net of fees, compared to the benchmark return of -4.92% p.a. Over the past three years, asset allocation has detracted -0.04% value, meanwhile stock selection has contributed +0.12%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was the Government of UK at 1.2% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end December 2022 stood at £2,400 million. London Borough of Islington's holding of £66.6m stood at 2.8% of the total fund value.

Staff Turnover: There were five joiners and 27 leavers during the quarter. There was one new joiner into the Fixed Income Group, a Credit Analyst. Two of the leavers were from the fixed income group; an Investment Analyst and an Investment Manager (based in Singapore).

Aviva Investors – Property – Lime Property Fund

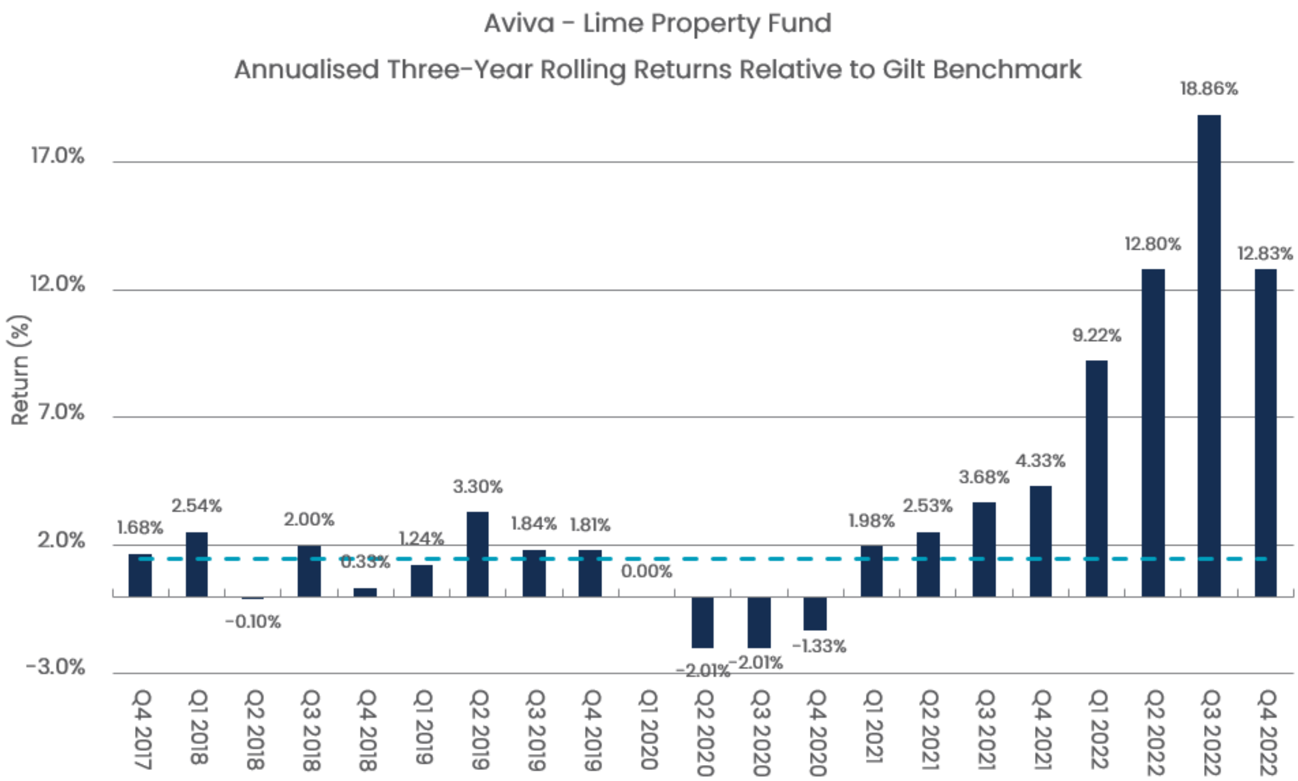
Headline Comments: The Lime Fund made a loss, for the second consecutive quarter since 2018, of -9.83%. It underperformed the benchmark return by -11.09% in Q4. Over three years, the fund is ahead of the benchmark return by +12.83% p.a., with a particularly strong one-year outperformance of +21.25%, though this has dropped significantly from +33.62% as at Q3.

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 Q4 2022 return was attributed by Aviva to -10.52% capital return and +0.89% income return.

Over three years, the fund has returned +2.77% p.a., considerably ahead of the gilt benchmark of -10.06% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 3.

CHART 3:



Source: MJH; BNY Mellon

Over three years, 115% of the return came from income and -15% from capital gain.

Portfolio Risk: within the MSCI quarterly index of UK real estate funds, the Lime Fund is the least volatile fund over the short, medium and long term. There were no transactions during the quarter.

The average unexpired lease term was 20.8 years as at end December 2022. 10.1% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.85% (proportion of current rent), and the number of assets in the portfolio is 88. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at December 2022, the Lime Fund had £3.23 billion of assets under management, a decrease of -£377 million from the previous quarter end reflecting the fall in capital value. London Borough of Islington's investment represents 4.1% of the total fund.

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

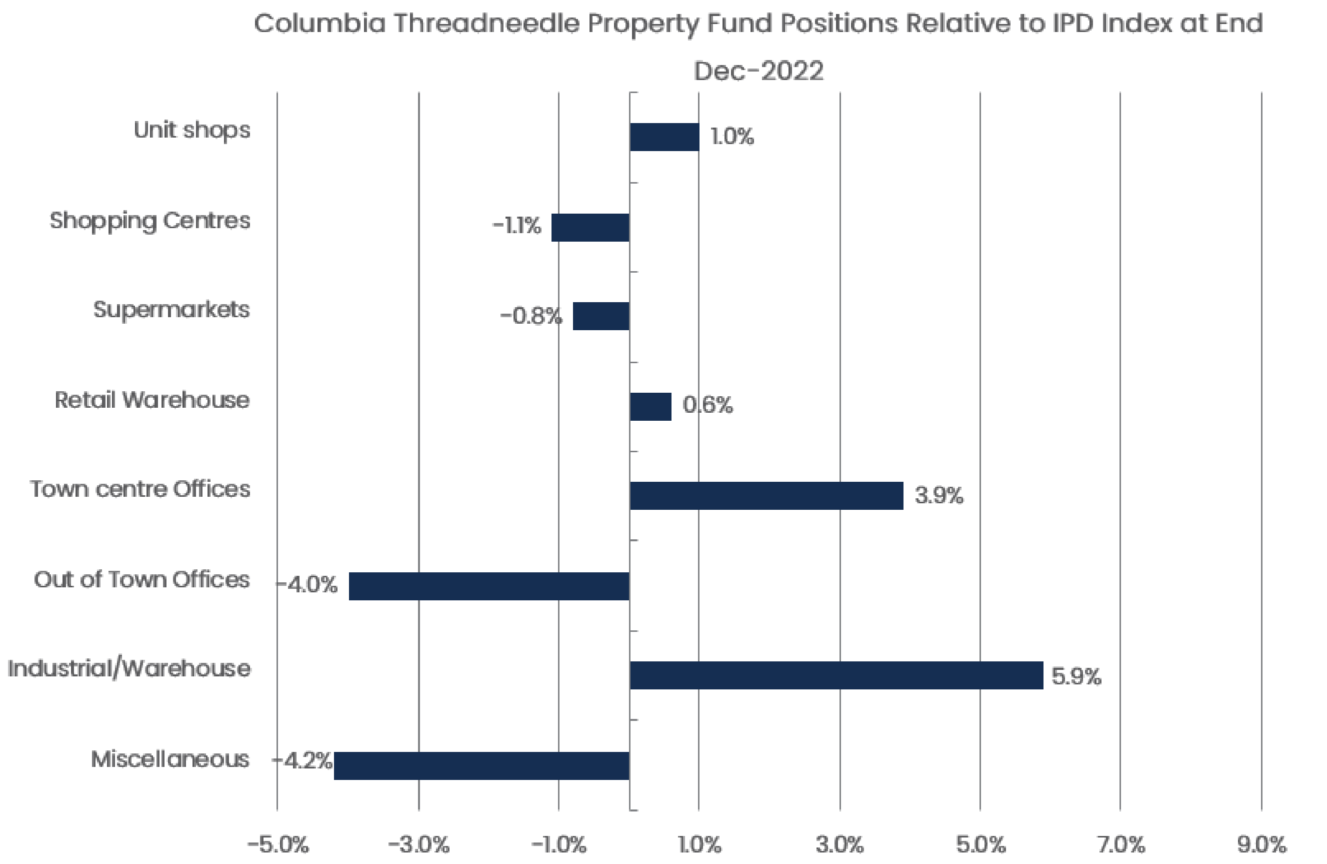
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund delivered a negative absolute return, but outperformed the benchmark in Q4 2022, with a quarterly return of -13.5% compared to -14.1%. Over three years, the fund outperformed the benchmark by +0.2% p.a. and as such is behind the performance target of +1.0% p.a. above benchmark (source: Columbia Threadneedle).

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 4 shows the relative positioning of the fund compared with the benchmark.

CHART 4:



Source: MJH; Columbia Threadneedle

During the quarter, the fund made one acquisitions and sixty-three sales (anticipating investor redemption requests following corporate pension funds' need for liquidity to meet their liability driven investment cashflow calls).

The cash balance at end December was 4.1%, which is in line with the target liquidity parameters.

Performance Attribution: The fund outperformed the benchmark in Q4 2022, with a quarterly return of -13.5% compared to -14.1% (source: Columbia Threadneedle). Over 1-year the fund underperformed the benchmark by -0.87%. The manager attributes this one-year underperformance to an accelerated sales program to meet investor redemptions. The fund is now outperforming the benchmark over three years by +0.2%, but is behind the performance target of +1.0% p.a. above benchmark (source: Columbia Threadneedle).

Portfolio Characteristics: As at end December 2022, the fund was valued at £1.61bn, a decrease of £444m from the fund's value in September 2022. London Borough of Islington's investment represented 5.57% of the fund.

Staff Turnover: There were no changes to the TPEN property team in Q4 2022, though there were five leavers from the wider property team.

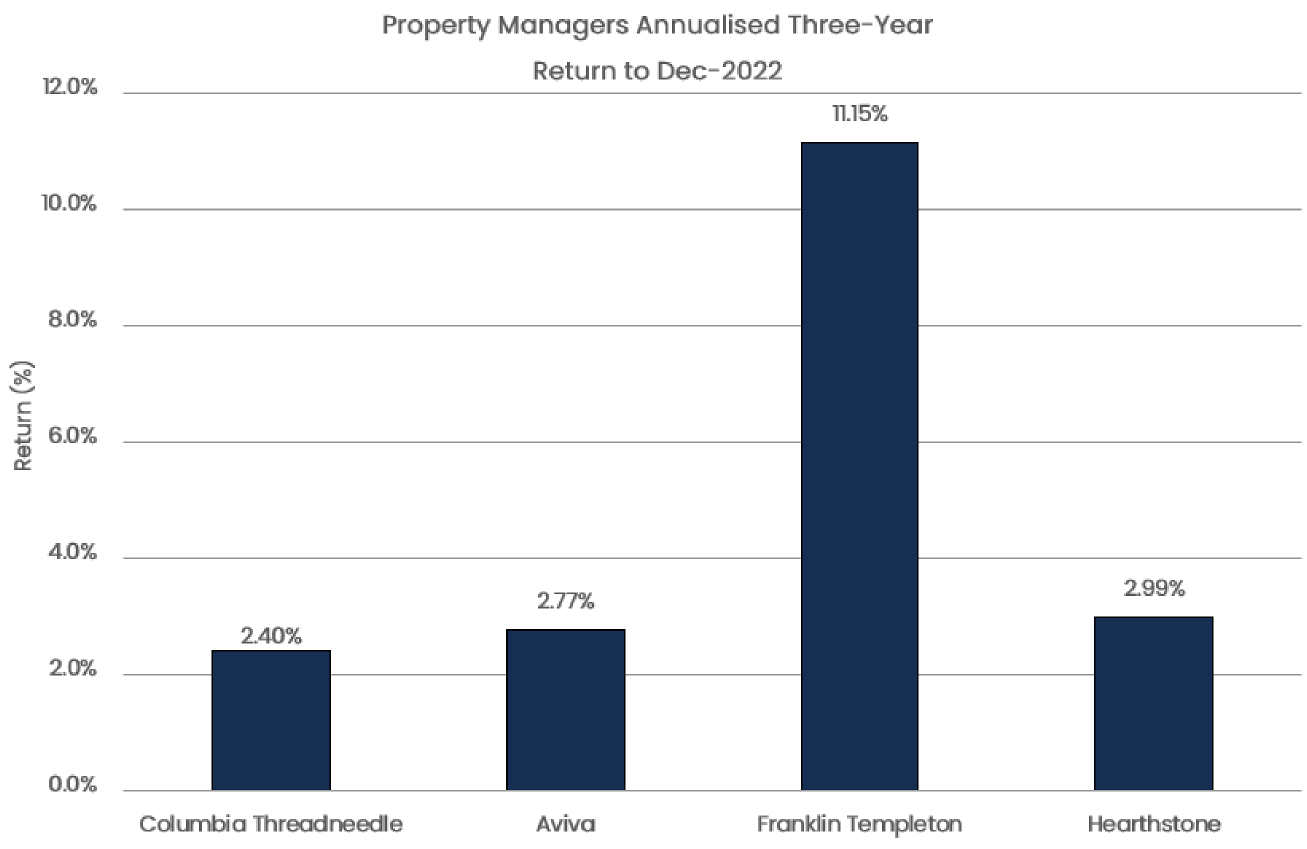
Franklin Templeton – Global Property Fund

Headline Comments: This is a long-term investment and as such a longer-term assessment of performance is recommended. There are now three funds in which London Borough of Islington invests. The portfolio in aggregate outperformed the absolute return benchmark of 10% p.a. over three years by +1.15% p.a.

Mandate Summary: Three 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 December 2022, Franklin Templeton is the best performing fund across all four property managers. Chart 5 compares their annualised three-year performance, net of fees.

CHART 5:



Source: MJH;

Portfolio Risk: report was not received at the time of going to print.

Staff Turnover/Organisation: not received at the time of going to print.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio outperformed the benchmark for the quarter ending December 2022 by +15.16%, and is outperforming over three years by +0.80% p.a.

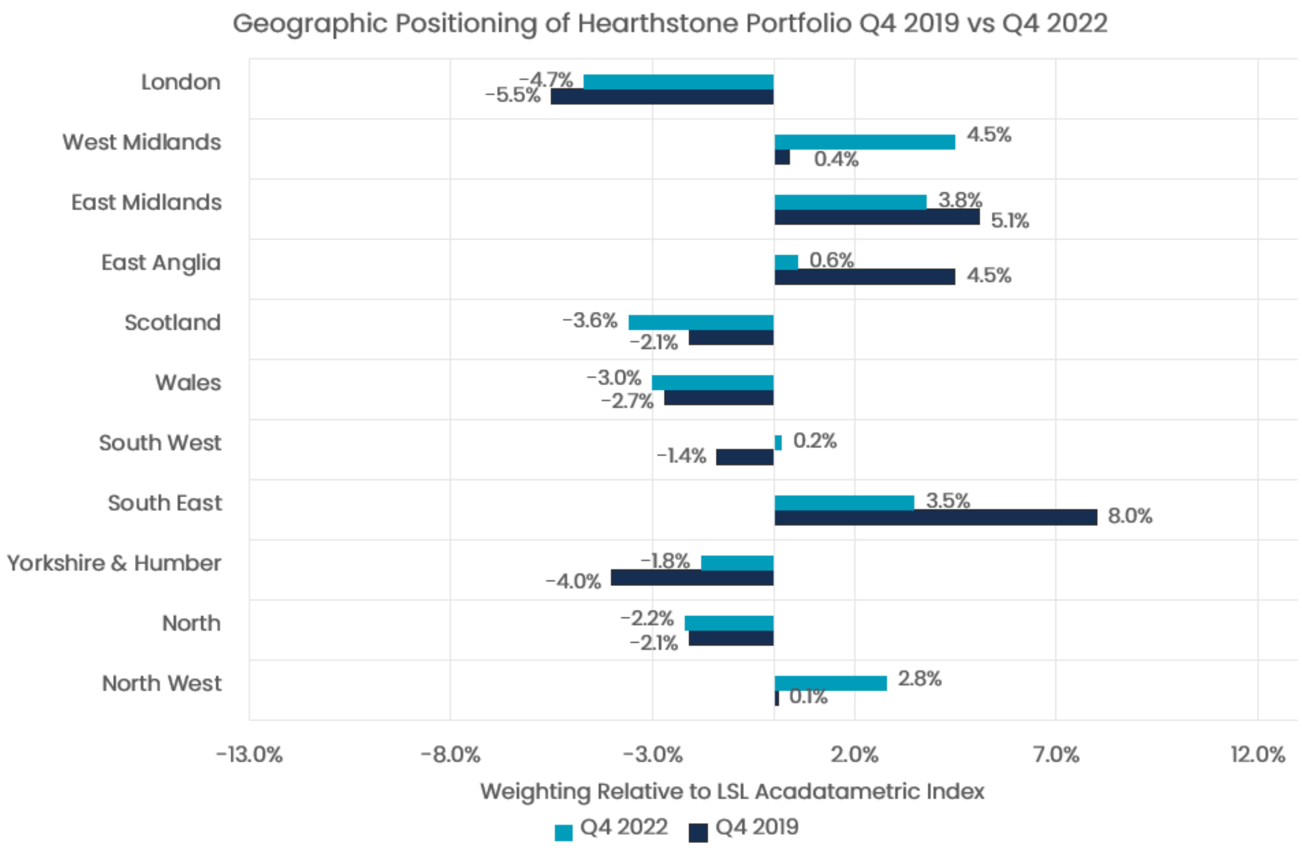
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund outperformed the IPD index over the three years to December 2022 by +0.80% p.a., returning +2.99% p.a. versus the index return of +2.19% p.a. The manager has underperformed over 5 years by -0.39% p.a. The gross yield on the portfolio as at end December 2022 was 4.93%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 3.25%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 14.37% (£10.1 million), which is 2.32% lower than at the end of September 2022.

Chart 6 compares the regional bets in the portfolio in Q4 2022 (turquoise bars) with the regional bets three years ago, in Q4 2019 (navy bars).

CHART 6:



Source: MJH; Hearthstone

Portfolio Characteristics: By value, the fund has an 8% allocation to detached houses, 34% allocated to flats, 31% in terraced accommodation and 26% in semi-detached.

As at end December there were 226 properties in the portfolio and the fund stood at £70.0 million. London Borough of Islington's investment represents 40.1% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: There were no leavers or joiners during the quarter.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 31st December 2022 was positive at +37.95%, thus outperforming the target return of +12.00%. Over three years, the fund returned +17.74% p.a. and therefore ahead of the target by +5.74%.

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 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 and has now reached the end of its investment phase.

Portfolio Characteristics: As at Q4 2022, on an unaudited, provisional basis, the fund had invested USD 474.5 million into projects ranging from onshore wind farms, solar power plants, battery storage and natural gas peaking facilities (power plants that generally run only when there is a high demand for electricity, in order to balance the grid). The total operational generating capacity of operational projects which the Fund is invested in is 748.4 MW (including those with minority stakeholders), as at 31 December 2022 (latest data available). Having reached the end of the investment period, the manager is now focusing on exits, and reported that the sale of portfolio company Scout Clean Energy completed during the quarter.

Organisation: There were four new joiners in Q4, including a Senior Analyst, Senior Associate, Associate and Analyst. The COO and Head of Finance, Pia Tapley is taking a sabbatical this year, and has been replaced by Simon Joiner, who previously held the COO position at AMP Capital.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +6.55% per annum. This compares with a three-year return on listed global equities of +10.3% per annum. The three-year return on the infrastructure fund was +16.87% versus the absolute return target of 10%.

Mandate Summary: London Borough of Islington have made total commitments of £107.0m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. This infrastructure fund, Pantheon Global Infrastructure Fund III "PGIF III", was the most recent commitment from Islington in 2018 totalling £77.6m. (Both the total fund commitment and Islington commitment have been converted to sterling as at Q4 2022, according to the Manager.)

Portfolio Characteristics: Over the period Q3 2022 – Q4 2022, a total of £7.6m was drawn down, wholly to PGIF III. Distributions were received across two strategies, Pantheon USA Fund VII and PGIF III, totalling £2.6m.

Permira – Credit Solutions Senior Fund

Headline Comments: The Permira Credit Solutions V ("PCS5") is a new allocation for the London Borough of Islington and part of the private debt allocation. To 31ST December 2022 the fund had closed commitments of £2.5 billion (€2.8 bn) and had made a total of ten investments equalling 39.2% invested (most recent data available). No defaults have been reported.

Churchill – Middle Market Senior Loan Fund

Headline Comments: The Churchill Middle Market Senior Loan Fund IV is part of the new private debt allocation. It had closed commitments of £39.6 million to June 2022, equalling 42% of committed capital (most recent data available). The fund has achieved a return of -6.60% for the quarter to 31 December 2022, underperforming the benchmark return of +1.23 by -7.83%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. No defaults have been reported.

Karen Shackleton
Senior Adviser, MJ Hudson
13th February 2023

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LCIV Global Equity Fund: ESG Summary

Climate Risk Exposure

Top Contributors - Weighted Average Carbon Intensity

The largest contributors to the portfolio's carbon intensity are shown below. The 'WACI Intensity Contribution' is the percentage change in the portfolio's intensity that would be caused by excluding the holding referenced. For more information, please consult the Appendix.

Name	Carbon Intensity (tCO2e/mGBP)	WACI Contribution	Climate 100+
Darling Ingredients Inc.	1,868.57	-10.35%	No
Shell plc	821.52	-8.60%	Yes
Exelon Corporation	641.12	-7.87%	Yes
SSE plc	1,283.46	-7.38%	Yes
Norfolk Southern Corporation	581.45	-6.77%	No
Nestle SA	589.73	-4.54%	Yes
Albemarle Corporation	510.11	-2.49%	No
Samsung SDI Co., Ltd.	299.22	-1.82%	No
Novozymes A/S	485.86	-1.82%	No
Abbott Laboratories	271.57	-1.18%	No

Top Contributors - Fossil Fuel Revenues

The table below shows the companies with the most significant weighted average fossil fuel revenues. The degree to which the company's own revenues are derived from fossil fuel activities is also indicated. For more information, please consult the Appendix.

Name	Fossil Fuel Revenue	Portfolio Weighted Fossil Fuel Revenue	Climate 100+
Shell plc	23.54%	0.496%	Yes
Exelon Corporation	8.76%	0.231%	Yes
SSE plc	20.22%	0.217%	Yes

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LCIV Sustainable Equity Fund: ESG Summary

Climate Risk Exposure

Top Contributors - Weighted Average Carbon Intensity

The largest contributors to the portfolio's carbon intensity are shown below. The 'WACI Intensity Contribution' is the percentage change in the portfolio's intensity that would be caused by excluding the holding referenced. For more information, please consult the Appendix.

Name	Carbon Intensity (tCO2e/mGBP)	WACI Contribution	Climate 100+
InterContinental Hotels Group Plc	1,471.83	-10.80%	No
First Quantum Minerals Ltd.	1,176.60	-9.64%	No
Equinor ASA	673.40	-5.04%	Yes
EOG Resources, Inc.	736.79	-4.74%	No
Neste Oyj	693.48	-4.28%	No
CSX Corporation	498.77	-4.28%	No
PepsiCo, Inc.	365.98	-4.18%	Yes
Anheuser-Busch InBev SA/NV	353.40	-3.23%	No
Orsted	934.87	-3.06%	No
Taiwan Semiconductor Manufacturing Company Limited	333.39	-2.42%	No

Top Contributors - Fossil Fuel Revenues

The table below shows the companies with the most significant weighted average fossil fuel revenues. The degree to which the company's own revenues are derived from fossil fuel activities is also indicated. For more information, please consult the Appendix.

Name	Fossil Fuel Revenue	Portfolio Weighted Fossil Fuel Revenue	Climate 100+
EOG Resources, Inc.	100.00%	1.821%	No
Equinor ASA	4.95%	0.108%	Yes
Orsted	2.35%	0.020%	No

Joana.Marfoh@islington.gov.uk

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Mercer

LGPS CURRENT ISSUES

February 2023

welcome to brighter

In this edition

Whilst markets appear to have stabled, relative to the volatility seen in 2022, a number of regulatory developments are expected in the coming months. Together with work to finalise the actuarial valuations in England and Wales, preparatory work for the valuations in Scotland, and ongoing work in relation to McCloud, Climate Risk, Pension Dashboards etc. there is still plenty to keep LGPS Funds occupied as we approach the end of the financial year.

In this edition, alongside celebrating the history of the Oscars which take place in March, we provide brief updates on recent developments and commentary on what to expect over the next months including commentary on Cyber Risk and how we can help you in this area.

Click on the headings below to go straight to that section.

Investment Update

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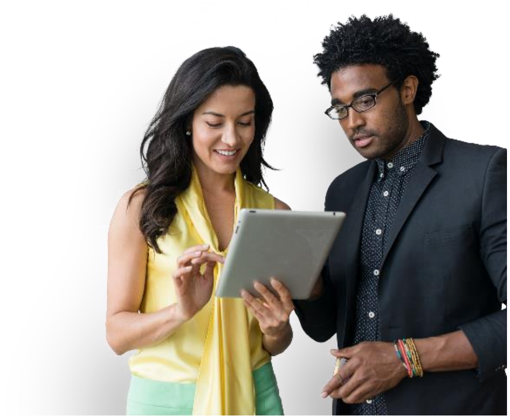
LDI Guidance

Following the market turmoil in the autumn of 2022, at the end of November 2022, a number of regulators issued a package of guidance and statements for liability driven investment (LDI) managers and investors to address the instability in the gilt market after the September "mini budget". LGPS Funds with leveraged LDI portfolios should ensure they have reviewed the guidance with their investment adviser and are taking appropriate steps to meet regulatory expectations.



The initial statement was from National Competent Authorities (NCAs), which regulate LDI funds in the country in which their provider is based. This was followed by a statement from the Financial Conduct Authority (FCA) directed at LDI asset managers and guidance from the Pensions Regulator (TPR) for trustees of occupational DB schemes who have leveraged LDI investment allocations.

The overarching theme from all the regulators is that an appropriate yield buffer is deemed to be 3-4% and this needs to be accompanied by robust governance to withstand stressed market conditions.

The FCA plans to maintain a supervisory focus on market participants to ensure vulnerabilities identified are addressed and intends to publish a further statement on good practice towards the end of the first quarter of 2023.

For LGPS Funds with LDI portfolios, please contact your usual Mercer consultant if you want to discuss what changes you may need to implement in relation to the above.

Climate Risk Lawsuit - Shell

On 9 February 2023, Client Earth launched the first ever derivative action in the High Court in England and Wales against the board of directors of Shell for failing to manage the material and foreseeable risks posed to the company by climate change. The claim is supported by a number of institutional investors, including the London CIV, who have sent a letter of support to Client Earth. This support follows a letter issued by the CIV to Shell in October 2022 for which no response was received.

The record for the shortest acceptance speech is shared by renowned director Alfred Hitchcock and William Holden. They both simply said, "Thank you."

"Edinburgh Reforms"

On 9 December 2022, the Chancellor announced a set of reforms to drive growth and competitiveness in the financial services sector, collectively known as the "**Edinburgh Reforms**". The package, consisting of 30 measures, are divided into four categories – a competitive marketplace promoting effective use of capital, sustainable finance, technology and innovation, and consumers and business.

The statement also confirmed that the Government would be consulting on asset pooling in "early 2023" (as previously expected) and also consulting on a requirement for LGPS Funds to consider investment opportunities in illiquid assets such as "venture and growth capital".

Further details in relation to these consultations and what the requirements on LGPS Funds will be, are now awaited.

Walt Disney has the most Oscar wins of all time. In all, he has won 22 competitive Oscars and 3 honorary ones, out of a total of 59 nominations.

Mercer's LGPS Sustainable Investment Conference (8 March)

Join our Mercer experts and guest speakers at our Sustainable Investment Conference on **Wednesday 8 March 2023** at our London Office, specifically for those responsible for LGPS Funds and Pools, as we explore TCFD**,** Levelling Up, and biodiversity and natural capital**.** The agenda is now available and can be viewed **here.**

You can register your place using the link here.
Secure your place

Funding Matters

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2022 and 2023 Actuarial Valuations

Across England and Wales, the 2022 actuarial valuations are entering into the final stages where Actuaries will be preparing their final reports to sign off employer contribution outcomes with any changes taking effect from 1 April 2023. Funds will need to ensure their Funding Strategy Statements are approved by Committees and finalised and consider their approach for monitoring and review of funding positions over the inter-valuation period.

The only sequel to have won Best Picture is *The Godfather: Part II* (1974).

In Scotland, preparatory work will have already begun in relation to the 31 March 2023 actuarial valuations. Despite market volatility, Funds will generally be expected to be in a healthy position relative to the previous valuation in 2020 and as for England and Wales, balancing risk vs as employer affordability will again be a key driver when determining valuation outcomes as employer finances in many cases will be even more stretched over the next few years.

Climate Change Scenario Analysis

Whilst a lot of focus to date has been on how climate change may impact Fund’s assets, as part of the 31 March 2022 valuation reporting in England and Wales, there is a requirement for Actuaries to identify the impact of transition risk (shorter term) and physical risks (longer term) on potential funding outcomes. The outcomes of any scenario analysis undertaken and supporting comments will be included in the final valuation report. Funds will also be required to include a statement in their Funding Strategy Statement.

The Government Actuary’s Department’s (GAD’s) core requirements are that Funds will at least model the progression of the funding level over 20 years on **two climate change scenarios** – one of which will be “Paris aligned” and the other consistent a higher temperature outcome.

The record for total Oscar wins in one year is 11. Three films have done it: Ben-Hur (1959), Titanic (1997), and The Lord of the Rings: The Return of the King (2003).

However we are finding Funds are generally looking to undertake a broader analysis so as to dovetail with the work done (or due) in relation to their investment strategy. Such analyses will look at impacts over the short, medium and longer term (e.g. 5, 20 and 40 years) in terms of the outcomes and also the effects of alternative investment strategies (in particular any change to their sustainable investments) in order to provide a form of measurement of the potential impact.

Mercer's climate scenarios have been developed in collaboration with Ortec Finance and price in shocks when the markets account for future impacts (both physical and transition impacts). There is also a granular insight into sector and regional impacts for equities, corporate bond and high yield allocations, with fixed income analysis considering the impact of changes in yield, spread, transitions and defaults.

SAB 2022 Scheme Valuation Report and Section 13

As the 2022 valuations are completed, Funds and Actuaries will be required to collate information to provide to the Scheme Advisory Board (SAB) for preparing the Board's 2022 Scheme Valuation Report and also to GAD for the purpose of the Section 13 assessment that they will undertake.

The oldest Oscar winner to date was Anthony Hopkins, who won Best Actor in a Leading Role for The Father (2020) at 83 years old.

Cyber Risk

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Pension schemes, including LGPS Funds, are vulnerable to cyber-attacks due to the large amount of assets and personal data they hold, as well as frequent financial transactions between stakeholders. Because of this, cyber risk for pension schemes is a topical and rapidly evolving area and is one of the growing threats to the security of members' benefits

TPR has guidance that sets expectations for trustees and administering authorities to consider how well Funds are protected against cyber risk. This will be incorporated as a module in the forthcoming single code of practice.

As this is a relatively new and developing area for pension schemes, it is important that administering authorities understand where to start the conversation and what actions they need to take.

Having cyber risk on the agenda for Committee/Board meetings, and discussing with providers (e.g. third party administrators / advisers etc.) what controls are currently in place to protect the fund, is a good starting point. TPR's guidance contains questions for carrying out cyber risk assessments, which are summarised below and can be used as initial discussion points:

- Is the cyber risk on the risk register and is it regularly reviewed
- Do the scheme managers i.e. officers have access to the right skills and expertise to understand and manage the risk?
- Are sufficient controls in place to minimise the risk of a cyber-incident occurring?
- Is there a response plan in place to deal with any incidents which occur and help swiftly and safely resume operations?
- Do the suppliers have business continuity plans in place?
- Are the controls, processes and response plans regularly tested and reviewed?
- How are the scheme managers keeping up to date with information and guidance on threats?

How Mercer can help

We have been working with cyber experts at our sister company Marsh to provide pension funds with solutions in the form of training sessions, reviewing cyber policies and risk registers as well as developing incident response plans.

Please get in touch with your usual Mercer consultant to discuss your scheme's specific needs to manage cyber risk and we'd be happy to explore how we can help you in this area.

Source: https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/administration-detailed-guidance/cyber-security-principles

The Matrix received four Oscar nominations (1999) and won in all four awards in four different categories, which included Film Editing, Sound Mixing, Sound Editing and Visual Effects.

No sci-fi film has ever won a Best Picture. Not *Star Wars* (1977), *E.T* (1982) or even *Avatar* (2009), which was the highest grossing film of all time when it lost the award.

Regulatory round up

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CARE Revaluation Date Consultation

Meryl Streep is the record holder for the most total Academy Award acting nominations with 21. She's won three times.

On 10 February 2023, a consultation was published by the Department for Levelling Up, Housing and Communities (DLUHC) to consult on changes to the LGPS Regulations 2013 to give effect to the change in the annual revaluation date from 1 April to 6 April.

The proposals seek to realign the annual revaluation of CARE benefits with the revaluation applied when determining a members Pension Input Amount (the value of growth in a member's benefits during a Pension Input Period). For 2022/23 in particular, the current disconnect between the two revaluations would lead to a greater number of members potentially being subject to an annual allowance tax charge.

From a member perspective, the change would reduce the potential for tax charges to be incurred and so will be seen as a positive change. The proposals also seek to mitigate the impact on those members where "member events" e.g. leaving/retiring etc. occur during the 1 to 5 April period.

There will also be administrative advantages to the change given the number of members who will need to be provided with a Pension Savings Statement will be lower than under the current approach and the number of queries that subsequently emerge will also reduce.

Given the timescales involved for any changes to be implemented, this consultation will only run for 2 weeks to 24 February 2023.

SAB Cost Management Process Consultation

On 30 January 2023, DLUHC published a consultation setting out proposed updates to the SAB cost management process for the LGPS. This follows from GADs report into the HMT cost management process and the resulting policy and legislative changes that followed. The proposed changes that are being consulted on are:

- A requirement to undertake the LGPS Scheme Valuation on a 4 yearly cycle rather than 3, thus bringing it into line with other public service schemes. (N.B. This doesn't change the requirement to undertake individual LGPS Fund valuations on a triennial basis.)
- Incorporating more flexibility if the SAB decide to make recommendation on costs.
- Ensuring the SAB is consulted on the technical accuracy of any changes in regulations that may be needed to incorporate the new "economic check" mechanism into the updated HMT cost management process, prior to implementation.

The consultation ends on **24 March 2023.**

Climate Change Risk Consultation

The long awaited consultation issued by the UK government on 1 September 2022 in respect of their proposals on how LGPS Funds will be expected to report on climate change risk and their governance approach to it, closed on 24 November 2022. A copy of the SAB response that was submitted on 18 November 2022 can be found here. A response to the consultation by the government is now awaited.

Since 1960, three black and white films have won Best Picture: The Apartment (1960), Schindler's List (1993), and The Artist (2011).

McCloud Remedy (Various)

Tax: On **24 November 2022** HMRC launched a consultation on how pension tax will apply to members protected by the McCloud remedy in order to seek views on draft legislation – **The Public Services Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023** – which would become effective from 6 April 2023 (with some provisions having retrospective effect).

Not all provisions within the draft legislation cover the LGPS given the legislation covers all public service pension schemes and the LGPS remedy is very different. The draft legislation (relevant to the LGPS) includes annual allowance treatment, individual/fixed protection for lifetime allowance considerations, and comment in a number of areas in relation to benefit

On **6 February 2023** the Regulations were laid and become effective from 6 April 2023.

Powers: On **14 December 2022** HMT made the Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022 which came into effect on 19 December 2022. The Directions set out how certain powers in the Public Service Pensions and Judicial Offices Act 2022 must be exercised e.g. linked to the payment of compensation/interest etc.

The making of the Directions enables relevant departments to start consulting on regulations.

Teachers: It has been confirmed that the implementation of the McCloud remedy in the Teachers Pension Scheme (TPS) will have implications for the LGPS given that some teachers will be retrospectively eligible for LGPS membership during the period 1 April 2015 to 31 March 2022. Eligibility would be for those teachers who had a part-time employment, in addition to a full-time employment, given the part-time role would not have been pensionable in the TPS legacy scheme.

In such cases the member would have been enrolled into the LGPS. An administrative process, for dealing such cases, will be needed and the LGA will work together with the DfE and DLUHC on this matter. The DfE is also to begin contacting relevant schools to confirm employment status of members during the remedy period.

Judicial Review: **On 31 January 2023,** the Judicial Review (brought by the British Medical Association and the Fire Brigades Union) over the government proposed method of paying for costs incurred by the McCloud Judgment began. The outcomes of this review may have implications for the LGPS and the outcomes of the 2016 cost management process that were announced in 2022.

Further Education Bodies

On **29 November 2022**, following the review being undertaken by the ONS, the ONS has reclassified colleges and their subsidiaries into the central government sector. The response to the consultation can be found here.

The youngest Oscar winner ever was Tatum O'Neal, who won Best Supporting Actress for Paper Moon (1973) at just 10 years old.

Although the consultation response confirms the reclassification it confirms no impact on the LGPS and further details are still awaited in relation to additional covenant assurances/guarantees for Further Education (FE) employers. FE employers will also now be removed from the separate consultation on the eligibility of FE and Higher Education employers (in particular Post 1992 Universities) in the LGPS and whether the LGPS needs to be offered to support staff.

Other regulatory news in brief

TPR's New Single Code of Practice – The new Code is now expected to be published in its final form in the next few months. It will consolidate and re-write a number of existing codes, formalise the requirement for an Effective System of Governance, and (for pension schemes with 100 or more members) introduce the new Own Risk Assessment. New actuarial, internal audit and risk functions will also be required, and cyber risk, stewardship and climate change will be included in a code of practice for the first time.

And in other news…

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Ministerial Appointment

In November 2022, Lee Rowley MP replaced Paul Scully MP as the Minister of State for Local Government and Building Safety. The Scheme Advisory Board wrote to the Minister to welcome him to the role. The letter can be found here.

LGPS Frameworks – The National LGPS Frameworks have written to administering authorities to ask for volunteers to act as founders for two new frameworks that will launch later this year – AVCs and Integrated Service Providers (ISP)/Member Data Services.

Review of TPR

DWP have announced the appointment of Mary Starks to lead a review of The Pensions Regulator (with the report expected to be delivered in May 2023).

CMI Investigation

The Continuous Mortality Investigation (CMI) has launched a consultation on how it should include mortality data for 2022 in the CMI_2022 version of its mortality projections model, which is used to estimate improvements in life expectancies of pension scheme members.

According to the consultation, adopting CMI_2022 will reduce projected life expectancies (and thus liabilities potentially) compared to earlier versions of the model. The impact will vary based on scheme characteristics and the final approach adopted by the CMI. The CMI aims to publish the model in June 2023.

Peter Finch (Network) and Heath Ledger (The Dark Knight) are the only actors to be awarded an Oscar posthumously.

Pensions Dashboards Update

There have been a number of updates recently in the Pension Dashboards programme. Further information can be found on the PDP website.

In summary:

At the end of November 2022 The Pensions Dashboard Regulations 2022 were made and came into force from 12 December 2022.

In terms of guidance/consultations, the following have been released.

- Early Connection Guidance
- Deferred Connection Guidance
- TPR Consultation on Compliance
- FCA Consultation on Regulatory Framework for dashboard operators.
- PDP Consultation on Dashboard Standards

Given the pace of developments relating to Pensions Dashboards, the LGA is looking to pull together a guide to assist LGPS administering authorities with the actions they need to take to ensure compliance.

Meet the team

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Name: Ciaran O'Donnell

Role: Associate Valuation Services Team Leader

Joined Mercer: November 2005

Place of Birth: Belfast

Favourite film: I love all of Chris Nolan's films, but I'll have to go for Indiana Jones and the Last Crusade. Adventure, plenty of wise-cracks and that John Williams theme. It did win an Oscar also in 1989 – Best Sound Editing!

Favourite actor: Harrison Ford. Played Indy, Han Solo and Deckard so that's good enough for me.

If you were an actor, what type of film would like to feature in: Sci-Fi

Name: Lucy Tusa

Role: Senior Investment Consultant

Joined Mercer: April 2007

Place of Birth: Gloucester, UK

Favourite film: Rocketman, various awards but not no Oscar unfortunately.

Favourite actor: Alfred Enoch – expect great things from him!

If you were an actor, what type of film would like to feature in: Cartoon

Name: Laura Cain

Role: Senior Investment Analyst

Joined Mercer: 2017

Place of Birth: Manchester

Favourite film: Would have to go with Notting Hill if we're going for a classic feel-good film. No Oscar but most popular film at the 2000 BAFTAs!

Favourite actor: Hugh Grant (see above, second entry would have been Love Actually…)

If you were an actor, what type of film would like to feature in: Definitely RomCom. I'm sure you're sensing a theme here.

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For further information on how Mercer can help LGPS Funds and their stakeholders, please visit our website at www.uk.mercer.com/lgps

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ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Sub-Committee

Date: 6th March 2023

Ward(s): n/a

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: INVESTMENT STRATEGY REVIEW

1. Synopsis

1.1 This report is an update report after Members agreeing potential themes to incorporate into a full investment strategy review in the context of the 2022 Actuarial review. The themes included, liquidity, net zero carbonisation target.

1.2 This report considers investment strategy review including risk and return analysis of possible portfolios.

2. Recommendations

2.1 To receive the presentation from Mercer attached as Exempt Appendix 1

2.2 To consider the strategy review and risk and return analysis.

2.3 To agree the strategic allocation, congruent with risk and return that is affordable and sustainable.

2.4 Subject to 2.3 agree to choose one of the below:
i)portfolio strawman 1- additional allocation to investment grade credit
ii) portfolio strawman 2- additional allocation to alternatives
iii) no change

2.5 Agree to next step report to implement the agreed strategy allocation.

3. Background

3.1 The 2022 actuarial valuation is now near completion. As part of the process, preparatory work is being undertaken to determine the funding position and investment strategy to support sustainable contributions from employers.

3.1.1 The Pensions Sub-Committee agreed a revised investment strategy for the Fund at its June 2020 meeting. The revised strategy maintained the Fund's 75% growth, 25% defensive split and included an allocation to Multi Asset Credit and Private Debt, the majority of which has now been implemented.

3.1.2 At the September 2022 meeting, the Actuary shared the updated data analysis, and current assumptions on inflation, life expectancy, ill health, discount rate on liabilities and funding level over the recovery period of 16years. The next step is to assess if our current assets and investment strategy can support sustainable contributions from employers and meet our net zero carbon targets.

3.1.3 At the December meeting initial considerations of themes to inform the investment strategy review were discussed and agreed to include net zero carbon target, cashflow liquidity. The presentation prepared by Mercer (attached as exempt Appendix 1) is to re-evaluate the above position in the current market outlook and agree the parameters to perform some further analysis to determine if the desired contribution can be supported through the existing strategy and investment returns.

3.1.4 The Fund's investment advisor, Mercer, have prepared a presentation considering the current strategy and funding level following the 2022 valuation and post valuation market outlook. They will discuss the modelled risk and return analysis along with probability of achieving those returns.

3.1.5 The table below shows the current strategy and proposed new options strawman 1 and 2

	Current strategy	New strawman 1	New strawman 2
Equity	46	50	46
Alternatives	29	25	34
property	25	20	20
Investment grade credit	-	5	
Expected return	CPI+5.1%	CPI+5.0%	CPI+5.2%
Downside risk	680m	660m	700m

3.1.6 Members are asked to receive the presentation, consider the proposed options and agree a strategic asset allocation to enable an implementation plan to be prepared for the next meeting.

4. Implications

4.1 Financial implications

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

4.2 **Legal Implications**
The committee is required to maintain an investment strategy statement under the 2016 management and investment regulations and take legal advice on investment matters.

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

Nonapplicable 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/information/adviceandinformation/20212022/20211123islingtonpensionfundinvestmentstrategystatementdec20.pdf

4.4 **Equalities Impact Assessment**
Nonapplicable 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 Members are asked to consider the Mercer presentation and agree a strategic allocation that meets an affordable and sustainable objective within their risk and return budget, so that an implementation plan can be prepared for the next meeting.

Appendices: Exempt Appendix 1- Mercer Presentation

Background papers:
None

Final report clearance:

Authorised by: Corporate Director of Resources

Date: 23 February 2023

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Financial implications Author: Joana Marfoh

Legal Implications Author:
Tel:
Email:

ISLINGTON

For a more equal future

Report of: Corporate Director of Resources

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pension Board / Pensions sub-Committee

Date: 6th March 2023

Ward(s): n/a

SUBJECT: 2022 ACTUARIAL VALUATION -DRAFT FUNDING STRATEGY STATEMENT CONSULTATION RESULTS

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.

1.2 This report informs the pension board and pensions sub-committee of consultation result on the main issues that employers admitted into the Fund were consulted on, in the draft FSS, as part of the 2022 actuarial review

2. Recommendations

2.1 That the Pension Board consider the draft FSS attached as Appendix 1

2.2 That the Pensions sub-committee consider the draft FSS attached as Appendix 1 and note employer comments received from the consultation exercise attached as Appendix 2

2.3 Agree to delegate authority to the Section 151 Officer and Fund Actuary to finalise any agreed amendments and regulatory changes.

2.4 Agree to delegate authority to the Section 151 Officer and Fund Actuary to publish the final FSS as part of the Actuarial Valuation Report

3. Background

Introduction

3.1 The 2022 actuarial valuation is now underway and as part of the process preparatory work is being undertaken to determine the funding position and investment strategy review that can support sustainable contributions from employers.

3.2 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.

It is a statutory document that has to be consulted upon with interested parties and approved by the Pensions sub-committee before the actuarial valuation can be completed. 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.

3.3 Given the difficult financial environment all employing bodies currently face, the Funding Strategy Statement (FSS) sets out how the issue of affordability is to be addressed in the valuation. In particular, the Fund has taken steps to ensure that as far as possible any increases in contributions are manageable from a budgetary perspective.

3.4 In January and early February, all employers admitted into the Islington council pension fund were consulted to give their views on the 2022 actuarial valuation. They were asked to consider the draft funding strategy statement, in particular the following points:

3.4.1 Consider the FSS to understand the key areas and policies as it will have a financial and operational impact on their organisation but note that whilst consultation responses from all employers in the Fund will be taken into account, it is ultimately the Administering Authority's responsibility to formulate and implement the FSS as part of the valuation process.

3.4.2 Keys areas highlighted for feedback and comments included the below:

- The affordability of contributions and in particular whether there was any particular year over 2023/2026 which will be more challenging. In order to form a view on any further flexibility required e.g. for the Fund to consider phasing of any increases (% rate and/or deficit lump sum).

- Option to prepay deficit lump sums (if applicable) – either on an annual basis or three years up front.

- If the minimum contributions result in a reduction in total contributions over 2023/26 (e.g. if the "Total 2023/26 Projected Contributions" has fallen from the 2019 plan), do you need to take the full reduction now or could you pay more (e.g. could you pay higher deficit contributions or take a smaller surplus offset back each year)?

- Whether there are any other significant post-valuation date events (e.g. major profile changes that the Fund) that the Actuary should be aware of when setting the final contributions for your employer.

3.5 The results of the consultation are attached as (Appendix 2) and Members are asked to note the results.

3.6 Members are asked to note that there were no employer comments on issues listed in para 3.4, however market outlook has changed compared to March 2022 and that needs to be incorporated in the draft FSS. Members are therefore asked to delegate authority to the Section 151 officer and Fund actuary to finalise the FSS with any updates and sign off the Actuarial Valuation's rate and adjustment certificate by 31 March 2023. The final version of FSS will be published after 31 March.

4. Implications

4.1 Financial implications

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

4.1.2 The funding level of the pension fund directly affects employer contributions. A reduced Pension Fund deficit would provide employers with a lower required deficit recovery contribution. Full financial implications to employers will be available once the final valuation is completed

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 the 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/information/adviceandinformation/20212022/20211123islingtonpensionfundinvestmentstrategystatementdec20.pdf.

4.4 **Resident Impact Assessment**

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

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

5. Conclusion and reasons for recommendation

5.1 Members are asked note the consultation results and agree to delegate authority to the Section 151 Officer and the Fund Actuary to finalise the draft FSS for publication after 31 March.

Appendices: Draft FSS -Appendix1
Employer consultation results- Appendix2

Background papers:
None

Final report clearance:

Authorised by: Corporate Director of Resources

Date: 23 February 2023

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Email: Joana.marfoh@islington.gov.uk

Financial implications Author: Joana Marfoh
Legal implications – Legal (as per previous report)

Appendix 2

Employer Consultation Results

The Islington fund as at 31 March 2022 had 27 admitted employers with active employees.

All employers were asked to comment by 10th February on the approach taken and to confirm their implied rate and past service deficit contribution where applicable. In the absence of any comment to the contrary the implied contribution rate will be certified.

The table below list the active employers written to and their response.

	2022/23 Contribution Rate		**Proposed 2023/24 Contribution Rate (prior to Consultation)**		
Employer	**Future service rate (%)**	**Deficit recovery contribution £'s**	**Future service rate%**	**Deficit recovery contribution £'s**	**Consultation Response**
Volunteering Matters(CSV)	10.8	96,500	14.0	-	Continuing discussions on proposal to agree a cessation date before March 31st
London Borough of Islington	14.6	9,900,000	18.3	4,900,000	Officers discussed the Council's position in line with the FSS parameters and affordability
Elliot Foundation	12.5	17,300	15.7	22,500	No response
Isledon Arts/ Youth Hub	20.9	(1700|)	23.9	(1,500)	No response
Camden & Islington NHS Foundation	29.0	21,100	30.5	0	No response
NCP Services	21.1	(38,6000)	23.5	(12,900)	Had a comment on presentation of rates and currently in surplus.
Islington lighting	26.3	16,300	29.0	(22,700)	No response.
New North Academy	16.9	29,600	19.5	25,600	No response
William Tyndale	17.5	33,300	17.5	30,700	No response
St Mary Magdalene Academy	16.3	-	19.4	(6,800)	Discussed how surplus will be recovered.
The Courtyard Free School	11.9	(200)	tbc	tbc	Change in payroll providers resulted in

					incomplete membership. WIP
The Pears Family Charitable Foundation School	12.4	1,600	16.2	1,200	No response
The Bridge Free School	12.1	5000	15.8	10,500	Acknowledged and received comments on pooling and requested phasing
Bridge School Academy	16.8		19.4	220,600	Acknowledged and received comments on pooling and requested phasing
Bridge Satellite	16.2	600	15.1	-	Acknowledged and received comments on pooling and requested phasing
Caterlink	23.3	(26,000)	25.5	(26,600)	No response
City of London Academy	16.2	(26,200)	20.1	(19,400)	No response
EQUANS SERVICES LTD	21.6	(39,200)	23.8	(31,500)	No response
Greenwich Leisure Ltd	23.9	(38,200)	23.9	(25,900)	No response
Bouygues E&S FM UK	22.0	300	27.9	(300)	No response
Highbury Grove (COL)	15.8	145,700	18.5	154100	No response
Primary Academy Isington(COL)	15.6	-	14.1	100	No response
(COL) Academy Highgate Hill	13.1	2,300	17.3	-	No response
London Screen Academy	11.7	-	14.9	-	No response
Hungerford Academy	18.0	54,500	19.9	61,600	Acknowledged and received comments on pooling and requested phasing
Grouped TMO:				-	
Pleydell TMO	23.0	-	21,4		No response
Braithwaite TMO	23.0	-	21.4		No response
Brunswick TMO	23.0	-	21.4		No response

DRAFT – SUBJECT TO CONSULTATION

FUNDING STRATEGY STATEMENT

ISLINGTON COUNCIL PENSION FUND

The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the Islington Council Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.

November 2022

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).

1. Guide to the FSS and Policies

The information required by overarching guidance and Regulations is included in Section 2 and Section 3 of the Funding Strategy Statement. This document also sets out the Fund's policies in the following key areas:

1. Actuarial Method and Assumptions (Appendix A)

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, known as the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits, known as the "Secondary" rate, together with other factors that may impact an employer's contribution outcomes, are set out here.

2. Deficit Recovery and Surplus Offset Plans (Appendix B)

The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out here.

3. Employer Types and Admission Policy, (Appendix C)

Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken is set out here

4. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix D)

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 former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found here

5. New Academy Conversions and Multi-Academy Trusts (Appendix E)

Current Fund policy regarding the treatment of local authority maintained schools when converting to academy status is for the new academy to inherit the school's share of the historic local authority deficit at the point of its conversion. Further details on this and multi-academy trusts can be found here.

6. Review of Employer Contributions between Valuations (Appendix F)

In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out here.

7. Ill Health Insurance Arrangements (Appendix G)

The Fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for employers whose financial position could be materially affected by ill health retirement of one of their members. The captive arrangement is reflected in the employer contribution rates (including on termination) for the eligible employers. More details are set out here.

8. Glossary (Appendix H)

A glossary of the key terms used throughout is available at the end of this document here.

2. Background

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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 Administering Authority has taken advice from the actuary in preparing this Statement.

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.

Integrated Risk Management Strategy

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 result in greater 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. Individual employer results will also have regard to their covenant strength, where deemed appropriate by the Administering Authority.

The Regulations

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 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 in order to meet the Fund's objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to 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 with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

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.

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.

3. Key Funding Principles

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Purpose of the FSS

Funding is making advance provision to meet the cost of pension and other benefit promises. Decisions taken on the funding approach therefore determine the 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 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.

The aims of the fund are to:	**The purpose of the fund is 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.	• 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.

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:	**The Individual Employer 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 Investment Strategy Statement ("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 scheme 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.	• deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a 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 pension 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 the employer paying higher contributions than otherwise would be the case if the data was of high quality.

The Fund Actuary should:	A Guarantor 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 its FSS and the Regulations • prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as 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 the 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.	• notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination. • provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations. • be aware of all guarantees that are currently in place • work with the Fund and the employer in the context of the guarantee • receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

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.

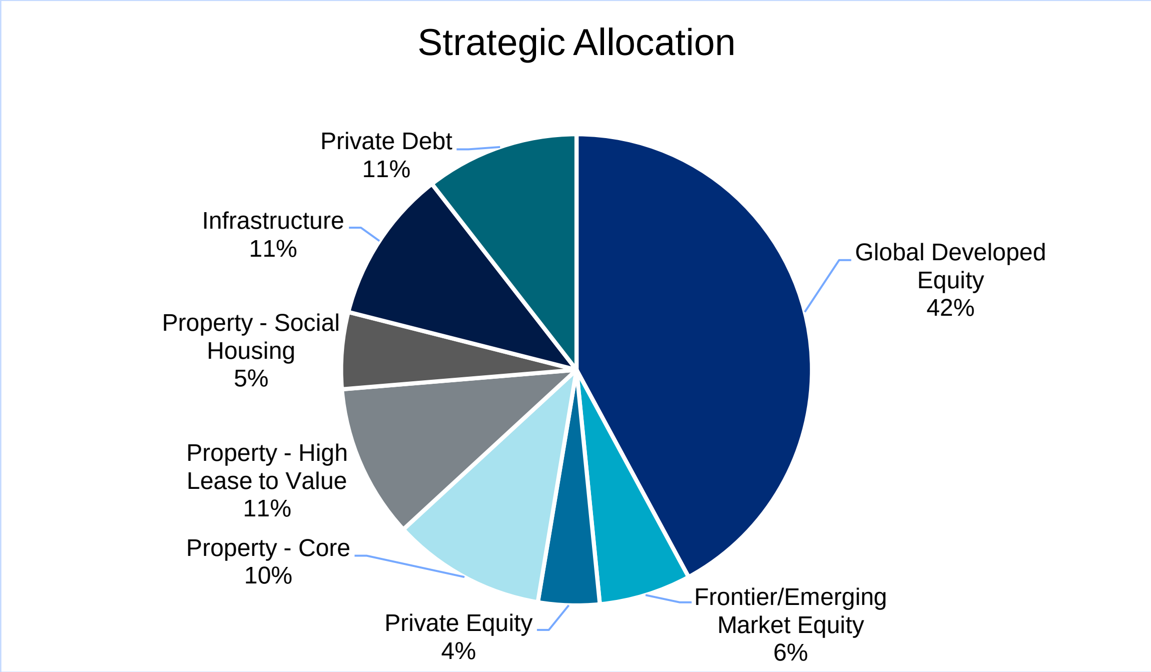
Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

The results of the 2022 valuation show the liabilities to be 96% covered by the assets, with the funding deficit of £79m being covered by future deficit contributions.

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.

The overall strategic asset allocation is set out in the ISS. The current strategy is included below.



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 2022 i.e. a 50/50 chance 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**).

Risk Management Strategy

In the context of managing various aspects of the Fund's financial risks, the Administering Authority will consider implementing investment risk management techniques where appropriate (e.g. the Equity Protection policy implemented up until 2020). Further details will be set out in the ISS.

Climate Change [Note this section is subject to finalisation once the guidance has been provided]

[An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation there will be an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position (i.e. assuming that the funding assumptions are played out). The output will be used, for example, to test whether the funding strategy is sufficiently robust in the context of the scenario analysis considered and therefore any potential contribution impacts. Where risks to the funding strategy are identified these will be highlighted and a judgement made as to how these risks can be mitigated.

The analysis will consider as a minimum the impact on investment returns and inflation under the scenarios considered. One of the scenarios will be consistent with global temperature increases of between 1.5 and 2 degrees C above pre-industrial levels. Results will be considered over a period of at least 20 years to ensure there is sufficient recognition of the transition and physical risks of climate change. The output of the analysis will be considered in the context of investment strategy and employer covenant risk in an integrated way.]

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.

<table>
<tr><th>Financial</th><th>Demographic</th></tr>
<tr><td>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 than anticipated
Future underperformance arising as a result of participating in the larger asset pooling vehicle
An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
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.</td><td>The demographic risks are as follows:-
Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds.
Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers
Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy
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.</td></tr>
</table>

Financial	Demographic
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.	

Governance	Regulatory
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.	The key regulatory risks are as follows:- • Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to the Fund, Typically these would be via the Cost Management Process although in light of the McCloud discrimination case, 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 Local Government Pension Scheme 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.

Monitoring and Review

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory 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 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 Scheme 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
- if there have been material changes in the ISS

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted. Further details on the circumstances in which the Administering Authority will review individual employer contribution rates in between actuarial valuations can be found in Appendix F.

Appendix A – Actuarial method and assumptions

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The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

Financial Assumptions		
	2022 valuation assumption	Description
Investment return / discount rate	4.65% p.a. (past) and 5.10% p.a. (future)	Derived from the expected return on the Fund assets based on the long term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of 1.55% p.a. above CPI inflation (past) and 2.0% p.a. above CPI inflation (future). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics. Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.
Inflation (Retail Prices Index)	3.90% p.a.	The investment market's expectation 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 whole Fund's accrued liabilities).
Inflation (Consumer Prices Index)	3.10% p.a. (includes an adjustment of 0.80% p.a.)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) and adjusted to incorporate an Inflation Risk Premium ("IRP"). This varies for the ongoing and low risk termination basis, reflecting the degree of inflation hedging inherent in the notional termination basis and will also reflect the duration of an employer's liabilities in the case of a low risk termination calculation.

		The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation.
Salary increases **(long-term)**	4.60% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.50% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.
Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.	
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).	

Demographic Assumptions

Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. 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) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme. 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 trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity ‘improvement’ year on year in the future in line with the CMI 2021 projections and a long term improvement trend of 1.75% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

	Male Life Expectancy at 65		Female Life Expectancy at 65	
	2019	2022	2019	2022
Pensioners	22.6	21.9	25.1	24.1
Actives aged 45 now	24.1	23.4	27.0	26.2
Deferreds aged 45 now	22.8	22.8	25.9	25.7

For example, a male pensioner, currently aged 65, would be expected to live to age 86.9. Whereas a male active member aged 45 would be expected to live until age 88.4. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

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

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	108% S3PMA_CMI_2021 [1.75%] 102% S3PFA_M_CMI_2021 [1.75%]
	Dependant	131% S3PMA_CMI_2021 [1.75%] 114% S3DFA_CMI_2021 [1.75%]
	Ill Health	131% S3IMA_CMI_2021 [1.75%] 151% S3IFA_CMI_2021 [1.75%]
	Future Dependant	131% S3PMA_CMI_2021 [1.75%] 114% S3DFA_CMI_2021 [1.75%]
Active	Normal Health	115% S3PMA_CMI_2021 [1.75%] 103% S3PFA_M_CMI_2021 [1.75%]
	Ill Health	243% S3IMA_CMI_2021 [1.75%] 322% S3IFA_CMI_2021 [1.75%]
Deferred	All	124% S3PMA_CMI_2021 [1.75%] 110% S3PFA_M_CMI_2021 [1.75%]

Future Dependant	Dependant	131% S3PMA_CMI_2021 [1.75%] 119% S3DFA_CMI_2021 [1.75%]

Other Demographic Assumptions	
Commutation	Following analysis undertaken by the Actuary, it has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. 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	Alongside commutation, as part of the 31 March 2022 valuation, the Actuary has carried out analysis to review the assumptions relating to: the incidence of ill health retirements, withdrawal rates, the proportions married/civil partnership assumption, and also the probability of member's dying prior to retirement. Following the outcomes of this analysis, the assumptions for proportions married/civil partnerships and the pre-retirement mortality have been updated in line with the recommendations from the Actuary. All other assumptions remain in line with the assumptions adopted for the last valuation. In addition, no allowance will 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.
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.9% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
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.

Further details on the demographic assumptions are set out in the Actuary's formal report.

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.

The assumptions to be used in the calculation of the funding target are set out above. 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.

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially taking into account any material changes after the valuation date up to 31 March 2023).

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. As indicated above, 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 in the Fund.

Method and assumptions used in calculating the cost of future accrual (or primary rate)

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.

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.

Other factors affecting employer contribution outcomes

Notwithstanding the policies below, the Administering Authority, in consultation with the actuary where necessary, reserves the right to consider whether any exceptional arrangements should apply in particular cases.

Covenant: 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.

Stability: 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) where deficits remain, unless there is a specific reason not to do so. As set out in Appendix B, for those employers in surplus, surplus offset secondary contributions will only be permitted in certain circumstances.

Contribution Increases: 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 2023/2026. 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.

Phasing: Where there is a material increase in total (i.e. both primary and secondary rate combined) contributions required at this valuation, in certain circumstances, the employer may be able to "phase in" contributions over a maximum 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.

Pooling Where agreed by the Administering Authority, the contribution rate outcomes for certain employers may be pooled together, with a single contribution rate being certified by the Actuary in the Rates and Adjustments Certificate e.g. for Multi-Academy Trusts who have a number of different constituent academies within the Fund (as per Appendix E). It should be noted that contributions will still be allocated to the individual employers by the administration team.

Insurance: 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.

Prepayments: Employers may also wish to make prepayments of contributions which could result in a cash saving over the valuation certificate period. Further details of the potential savings will be set out in the Rates and Adjustments Certificate produced by the Actuary. Any employers who prepay Primary Rate contributions will also be required to make "top-up" payments should actual payroll be higher than that assumed when making the prepayment to ensure no underpayment emerges.

Early Retirement Strain Costs: Any "strain" costs generated as a result of redundancy, efficiency or flexible retirements will be recovered by additional capital payments to the Fund by the employer. These will be paid in full at the point of retirement. In certain situations, depending on the covenant of the employer and at the discretion of the Administrative Authority, an alternative payment structure may be agreed.

Deaths: The extent to which any funding strain/profit emerges on the death of a member will depend on the profile of the member (status / age / whether any dependant's benefits become payable) and impacts can be material**.** Any funding strain/profit will typically emerge at the next actuarial valuation through increased/reduced deficit contributions, except where the employer is terminating, when it will be taken into account when the Actuary determines the termination position.

Appendix B – Deficit recovery and surplus offset plans

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Employer Recovery Plans – key principles

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer 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.

The maximum/average recovery period for the Fund as a whole is 16 years at this valuation which is 3 years shorter than the maximum/average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce at this valuation.

Secondary Rate contributions for each employer will be expressed as £s amounts increasing at 4.6% per annum (in line with the Fund's 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 given other competing cost pressures, 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 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 an 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	13 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. For certain employers, subject to the agreement of the administering authority, depending on affordability and other considerations, a maximum recovery

		period of up 16 years may be applied
Open Admitted Bodies	13 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 13 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. Generally for those employers providing a service this will be contract length.

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.

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.

Surplus offset plans

For those employers assessed to be in surplus at the valuation date, surplus offsets won't be available to those with a funding level of less than 110%. For those with funding levels greater than 110%, surplus offsets will be based on the surplus above 110% only. Surplus off-sets will be allowed only where there is no deficit on the termination basis.

For any employers assessed to be in surplus at the valuation date, where surplus offsets will be payable, and who are expected to exit the Fund in the period to 31 March 2026 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 default recovery period of 16 years, unless otherwise agreed by the Administering Authority.

Administering Authority Discretion

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 when determining deficit recovery/surplus offset plans.

Appendix C – Employer types and admission policy

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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). Please also refer to Appendix E in relation to academies.

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. These liabilities relate both to any staff whom it may be outsourcing for the first time and to any staff who may be transferring from one contractor to another having previously been employed by a scheme employer prior to the initial outsourcing

"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 Fund. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund 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 Appendix B.

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 Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the Fund 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 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 due to the use of a notional matching investment strategy (see below). However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the low 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 Fund, or depending on any case specific circumstances.

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Appendix D – Termination policy, flexibility for exit payments and Deferred Debt Agreements

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, as an alternative to requiring an immediate payment in full, 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 Fund'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).

For all termination cases, the underlying assumptions adopted for individual employers will be based on the approximate duration of that employer's liabilities.

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 Fund's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the Fund 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 Fund. 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. [Final regulations are awaited]. Where a surplus or deficit isn't being subsumed, an allowance will be made for McCloud within the calculations consistent with the allowance made for the 2022 valuation. 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 Regulations have been finalised, any calculations will be performed in line with the prevailing regulations and associated guidance.

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 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 / only a guarantee of last resort

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. [Final regulations are awaited.]. As part of any termination assessment, allowance will be made for McCloud within the calculations consistent with the allowance made for the 2022 valuation. 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 Regulations have been finalised, any calculations will be performed in line with these and associated guidance.

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 Deferred 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.

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

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 Basis

A lower risk approach will apply on termination where liabilities are not being subsumed, to appropriately reflect the transfer of pension risk from the exiting employer to the Fund.

The discount rate underlying the low risk basis is 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 but will be subject to a cap of the employer's nominal discount rate for ongoing funding purposes. The discount rate will be kept under review over time.

In setting the CPI assumption to apply on the low-risk basis, market RPI inflation will be reduced by 0.3% p.a. to reflect the average difference between RPI and CPI indices allowing for RPI reform in 2030, consistent with the ongoing funding approach. However no adjustment will be made for an "inflation risk premium" reflecting 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 applied at the actuarial valuation date (31 March 2022) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Low Risk assumptions	31 March 2022
Discount Rate	2.2% p.a.
CPI price inflation	3.6% p.a.
Pension increases/indexation of CARE benefits	3.6% p.a.

All demographic assumptions will be the same as those adopted for the 2022 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 2022 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.

Administering Authority discretion on low-risk assumptions.

For all terminations, where the low-risk basis of termination applies, the Administering Authority reserves the right to review the assumptions applied at the employing body's cessation date where individual circumstances warrant this, for example, in times of extreme market conditions and volatility. This is in order to ensure the assumptions adequately reflect the transfer of pension risk from the exiting employer to the Fund. The investment return assumption will be no greater than the prudent expected return on the actual portfolio in which the Fund is reasonably expected to invest the assets of the terminating employer.

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Appendix E – Academies/Multi Academy Trust Policy

Academy conversions and deficit transfers

The Fund's policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's appropriate share of the historic local authority deficit prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools.

Therefore, the transferring deficit is calculated as the capitalised amount of the funding contributions relating to past service (based on the local authority recovery period) the school would have made to the Fund had it not converted to academy status at the conversion date. The deficit allocated will be subject to a limit to ensure that the minimum asset share of the new academy is nil.

Multi Academy Trusts

Multi-Academy Trusts (MATS) are groups of academies managed and operated by one proprietor. The employer of non-teaching staff in academies is the proprietor of the Academy Trust and not the individual academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the pool (see below).

Multi-Academy Trusts are often set up to cover a number of academies across England. The employees of the former schools can be employed directly by the Trust so they can be deployed across different academy schools in the Trust if necessary.

In cases where numerous academies are operated by the same managing Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply to all constituent academies (i.e. a pool). In such cases, the Actuary will certify a pooled Primary and Secondary contribution rate for the MAT in the Rates and Adjustments Certificate. Notwithstanding this, the Fund will continue to track the constituent academies separately, in the interests of transparency and clarity around entry and exit events.

Approach to setting contribution rates

The Fund must have a separate employer number for each academy for transparency of cashflows, managing risks should an academy need to leave one Trust for another and for accounting where disaggregated disclosure reports are required. It should also be noted that the Department for Education (DfE) have confirmed that the guarantee relates to individual academies and MATs.

Any new academies joining an existing MAT pool in the Fund can contribute at the employer contribution rate already established for the MAT but an actuarial assessment will still need to be carried out to determine the deficit applicable to the transferring staff.

[Detail to be agreed] Outsourcings by Multi Academy Trusts

The Fund's current policy is in accordance with the Regulations, requiring a separate admission agreement in respect of separate contracts.

Under Schedule 2, Part 3, paragraph 5. of the 2013 Regulations, if the admission body is exercising the functions of the scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

With the development of MATs, there is a case for the Fund to allow a MAT to enter into a single admission agreement with the contractor providing similar services at various sites provided the outsourcing is covered by a single commercial contract.

The Fund will need to have sight of the contract in order to satisfy the regulatory requirement that the Admission Agreement covers one contract. The Admission Agreement will need to have provision for adding future employees should any academies join the MAT subsequent to the commencement date.

The scheme employer, the Multi Academy Trust in this instance, needs to be a party to any admission agreement and, as such, is the ultimate guarantor. In the event of contractor failure, the LGPS regulations provide that the outstanding liabilities assessed by the Fund's actuary can be called from the scheme employer i.e. the Multi Academy Trust.

At every triennial valuation the actuary reviews the funding level of the admitted body and adjusts its employer contribution rate as required. Once either the service contract comes to an end or all the LGPS members have left, the admission agreement terminates and, in accordance with Fund policy, the Trust becomes responsible for the assets and liabilities standing to the account of the admitted body. A cessation valuation can be provided by the Fund actuary should the Trust request it.

Appendix F – Review of employer contributions between valuations

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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 Regulations do not allow employer contributions to be reviewed outside of a full valuation although 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

This includes but is not limited to the following scenarios:

a) 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.
b) 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.
c) 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 G –
Ill-health insurance arrangements

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Overview of arrangement

Ill health retirements can be expensive 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.

For certain employers in the Fund (following discussions with the Fund Actuary) a captive insurance arrangement has been established by the Administering Authority to cover ill-health retirement costs. This will apply to all ill-health retirements from 1 April 2023. It applies only to ill-health retirements involving the early payment of pension and to the associated benefit costs.

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2023/26 is 0.7% of pay per annum

- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of active members i.e. there is no initial impact on the deficit position for employers within the captive and any subsequent impact should be manageable.

- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.

- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by Islington Council. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.

- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

Employers covered by the arrangement

The Fund has set an initial eligibility criteria of employers having less than 200 active members at the valuation date.

These employers have been notified of their participation. New employers entering the Fund will also be included if they meet this criteria. In certain circumstances, the

Administering Authority retains the discretion to include/exclude any employer from the arrangement.

For employers outside the captive arrangement, the current treatment of ill-health retirements will still apply, whereby an assumption for ill-health retirements is made within the calculation of employer contributions and any excess costs associated with ill-health retirements will emerge as part of the subsequent actuarial valuation assessment, and in any subsequent secondary rate contributions payable into the Fund.

Employer responsibilities

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 ensure robust processes are in place to determine eligibility for ill health retirements.

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

Appendix H – Glossary of terms

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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.

Benefits
The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. 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 scheme benefits in relation to the member only and pay 50% of the normal member contribution.

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).

Contingent Assets
Assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer

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.

Derivatives
Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

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.

Early Retirement Strain
The additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

Employer's Future Service Contribution Rate ("Primary 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. See also "Primary Rate" below.

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. For example, these include councils, colleges, universities and academies

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.

Guarantee of Last Resort
For the purposes of the FSS, a guarantee of last resort refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer in the Fund, however the liabilities are not subsumed in this case.

Ill-Health Captive
This is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium.

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.

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.

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.

Long-term cost efficiency
This is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

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.

McCloud Judgment
This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

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).

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.

Primary Contribution Rate
The contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, 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 the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

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.

SAB Funding Basis or SAB Basis
A set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the “Section 13 review” as carried out by the Government Actuary’s Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was [2.4% p.a.], so it can be substantially different from the actuarial assumptions used to calculated the Fund’s solvency funding position and contribution outcomes for employers

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).

Secondary Rate of the Employer’s Contribution
An adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate 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 that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

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.

Strain Costs
The costs arising when members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member’s employer at the retirement date and treated by the Fund as additional contributions, unless agreed with the administering authority. The costs are calculated by the Actuary.

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, expressed as an expected out-performance over CPI in the long term by the Fund’s assets i.e. the “real rate”.

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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Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Sub-Committee

Date: 6th March 2023

Ward(s): n/a

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: 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 November to January 2023.

2. Recommendati

2.1 To note the progress and activities presented at the January business update session (exempt Appendix1)

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 January 2023**

3.5.1 The Annual General meeting was held on 26 January and all shareholders were invited to attend and vote on issues including agreeing the MTFS and budget for 2023/24, amendment to AA and SHA, regulatory capital requirement and possible exit of one LA and the possible impact.

3.5.2 **The Business Update**
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. The UK housing fund terms has been shared and a manager selected. Legal and regulatory terms are being finalised for a fund launch around March. The Uk Sterling Credit fund is at its initial stage and projected launch is in 2023. The LCIV Renewable infrastructure fund is in the final stage to add a new manager to the platform.

3.5.4 **Operational activities**

The following activities are underway in the medium term; 2023 project planning strategy road map, cross team initiative working group on impact investing and corporate Net Zero will be considered, to update the Investment governance document. After consultation on LCIV participating assets in securities lending with LA it has now been put on hold for all active mandates.

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 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).
The April 2022 invoices received totalled annual service charge of of £25k (+ VAT) and DFC charge of £57k(+VAT).
In January the balance of DFC charge of 28k(+VAT) invoice was received

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/information/adviceandinformation/20212022/20211123islingtonpensionfundinvestmentstrategystatementdec20.pdf

4.4 **Equality 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 Appendix 1 is attached for information.

Appendix: Exempt Appendix 1- Business Update

Background papers: none

Final report clearance:

Authorised by: Corporate Director of Resources

Date: 23 February 2023

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Financial implications Author: Joana Marfoh
Legal implications- n/a

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ISLINGTON

For a more equal future

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Sub-Committee

Date 6th March 2023

Ward(s): n/a

SUBJECT: PENSIONS SUB-COMMITTEE 2023/24 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 agree 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/information/adviceandinformation/20212022/20211123islingtonpensionfundinvestmentstrategystatementdec20.pdf

4.4 **Equalities 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.

Appendix A- Proposed work program for annual committee cycle

Background papers:
None

Final report clearance:

Authorised by: Corporate Director of Resources

Date: 23 February 2023

Report Author: joana marfoh
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Email:joana.marfoh@islington.gov.uk

Financial implications Author: joana marfoh
Legal implications – n/a

APPENDIX A

Pensions Sub-Committee Forward Plan March 2023 to June 2024

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
6th March	• FSS consultation results • Investment Strategy Review
3rd July	• ISS update • Investment review implementation plan • Carbon monitoring progress
18th September	• 4 yr Business plan review • Update of strategy review implementation
21st November	• Draft Pension Annual report • Investment advisors objective setting review
	• Annual Pension Meeting
11th March 2024	
25th June 2024	Carbon monitoring progress report

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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