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

AGENDA FOR THE PENSIONS COMMITTEE

Members of the Pensions Committee are summoned to a meeting which will be held in Committee Room 1, Islington Town Hall, Upper Street, N1 2UD on **26 September 2023 at 7.00 pm.**

Enquiries to	:	Mary Green
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Despatched	:	18 September 2023

<u>Membership</u>	<u>Substitute Members</u>
Councillor Paul Convery (Chair)	Councillor Jenny Kay
Councillor Diarmaid Ward (Vice-Chair)	Councillor Ben Mackmurdie
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

5. Review of Council Constitution - Approved changes to Terms of Reference for Pensions Committee and Pensions Board 5 - 20

B. Non-exempt items

1. Pension Fund performance - 1 April to 30 June 2023 21 - 96

2. Investment Strategy Statement update 97 - 112

3.	Annual review and progress on the 2021-2025 Pension Business Plan	113 - 120
4.	Investment Strategy review update on implementation	121 - 126
5.	Draft response to DLUHC consultation on pooling	127 - 134
6.	Pension Fund forward work plan	135 - 138
7.	London CIV update	139 - 144

C. Urgent non-exempt items

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

D. Exclusion of press and public

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

E. Confidential/exempt items

1.	Pension Fund performance - 1 April to 30 June 2023 - exempt appendix	145 - 162
2.	Investment Strategy review update on implementation - exempt appendices	163 - 182
3.	London CIV update - exempt appendices	183 - 252

F. Urgent exempt items

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

The next meeting of the Pensions Committee is scheduled for 21 November 2023

London Borough of Islington

Pensions Sub-Committee - 3 July 2023

Non-confidential minutes of the meeting of the Pensions Committee held in Committee Room 1, Town Hall, Upper Street, N1 2UD on 3 July 2023 at 7.00 pm.

Present:	**Councillors:**	Paul Convery (Chair), Diarmaid Ward (Vice-Chair), Satnam Gill OBE and Mick O'Sullivan
	Pension Board observers:	Mike Calvert and Maggie Elliott

Councillor Paul Convery in the Chair

290 APOLOGIES FOR ABSENCE (Item A1)

Received from Alan Begg, Valerie Easmon-George and Councillor Dave Poyser, all members of the Pensions Board.

291 DECLARATION OF SUBSTITUTES (Item A2)

None

292 DECLARATION OF INTERESTS (Item A3)

Councillor Convery declared an interest in items on the agenda as a deferred member of the Scheme.

293 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:

That the minutes of the meeting held on 6 March 2023 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

Matters arising

In response to various performance matters raised at the last meeting, Karen Shackleton from MJ Hudson reported that:

the performance from Pantheon, the Fund's Infrastructure manager, at almost -7% for the last quarter, whereas yearly performance was indicated at 27%, Pantheon had confirmed that they do not consider short-term figures and the variance was probably attributable to methodology;

on the matter of Islington owning over 50% of the LCIV Global Equity Fund (Newton) sub-fund and the implications of other investors leaving the Fund, LCIV had expressed confidence that no other investors would leave the Fund but, when pressed, undertook to notify Islington if the Fund went from three to two sub-funds.

294 MEMBERSHIP, TERMS OF REFERENCE AND DATES OF MEETINGS FOR PENSIONS SUB-COMMITTEE IN 2023-24 (Item A5)

RESOLVED:
(a) To note the membership of the Pensions Sub-Committee, appointed by the Audit Committee on 23 May 2023, its terms of reference and dates of meetings for the municipal year 2023/24, as set out at Appendix A of the report of the Interim Director of Law and Governance and Monitoring Officer.
(b) To note that the terms of reference of the Sub-Committee were to be reviewed at the Council meeting on 13 July 2023.

295 PENSION FUND PERFORMANCE - JANUARY TO MARCH 2023 (Item B1)

The meeting noted that Islington owned approximately 0.89% of chip manufacture through its holdings in four companies, a significant amount of exposure. They also noted that, although Hearthstone's performance had improved, its progress on conveyancing was slow. The position on both managers would be monitored closely.

RESOLVED:
(a) That the performance of the Fund from 1 January to 31 March 2023, 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) To note for information the Mercer "LGPS Current Issues May 2023" at Appendix 2 to the report.

296 DECARBONISATION POLICY MONITORING- CARBON FOOTPRINT RESULTS AND NEXT STEPS (Item B2)

In response to questions, Tony English and Alex Goddard, Mercer representatives, undertook to check:
i) with LGIM, if it was possible to distinguish between their oil and gas revenues
ii) with the LCIV Sustainable mandate (RBC), why the implied temperature rise seemed high

RESOLVED:
(a) To note the carbon footprint of the Fund's public equities and credit, as detailed in the report of the Corporate Director of Resources.
(b) To note the fund's progress in reducing its exposure to carbon intensive companies since 2016 and absolute emissions as set out in Exempt Appendix 1.
(c) To note that officers will continue to engage with the Fund's portfolio managers to improve ESG ratings and achieve the targets set in 2025 and long-term net zero target for the whole fund.
(d) That progress on decarbonisation and the current metrics as detailed in the exempt appendix, be noted.
(e) That officers report to the next meeting on options for sustainable infrastructure.

297 INVESTMENT STRATEGY REVIEW AND IMPLEMENTATION PLAN (Item B3)

RESOLVED:

(a) To note the presentation from Mercer attached as Exempt Appendix 1 to the report of the Corporate Director of Resources

(b) To note the strategy review and the risk and return analysis.

(c) To agree the strategic allocation, congruent with risk and return that was affordable and sustainable.

(d) To agree portfolio strawman 3- additional allocation to alternates and credit, as detailed in the exempt appendix.

(e) That an implementation strategy for the final agreed asset allocation be approved, as detailed in the exempt appendix.

(f) That the presentation from Mercer, attached as Exempt Appendix 2 to the report, be noted and the executive summary be approved.

298 LONDON CIV UPDATE (Item B4)

RESOLVED:

To note the progress and activities presented at the May business update session (exempt appendix 1) and minutes of the shareholders' committee meeting held on 30th March 2023 (exempt appendix 2), attached to the report of the Corporate Director of Resources.

299 PENSION FUND FORWARD WORK PROGRAMME (Item B5)

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.

300 INVESTMENT STRATEGY REVIEW AND IMPLEMENTATION PLAN - EXEMPT APPENDIX (Item E1)

Noted.

301 DECARBONISATION POLICY MONITORING- CARBON FOOTPRINT RESULTS AND NEXT STEPS - EXEMPT APPENDIX (Item E2)

Noted.

302 LONDON CIV UPDATE - EXEMPT APPENDIX (Item E3)

Noted.

The meeting ended at 8.25 pm

CHAIR

ISLINGTON
For a more equal future

Law & Governance
Town Hall, Upper Street, London, N1 2UD

Report of: Interim Director of Law & Governance and Monitoring Officer

Meeting of: Pensions Committee/Pensions Board

Date: 26 September 2023/5 October 2023

Subject: Review of Council Constitution – Approved changes to Terms of Reference for Pensions Committee and Pensions Board

1. Synopsis

1.1. At its meeting on 13 July 2023, the Council approved revised Terms of Reference for the Pensions Committee (formerly the Pensions Sub-Committee) and the Pensions Board, as part of an overall review of the Constitution, to ensure legal compliance and high ethical standards were maintained.

1.2 This report advises the members of the Committee and the Board of those approved changes, which are detailed in the Appendix to this report.

2. Recommendation

2.1. To note the changes to the Terms of Reference of the Pensions Committee and the Pensions Board, as approved by the Council on 13 July 2023 and detailed in the Appendix to this report.

3. Background

3.1 The Constitution sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent, and accountable to local people. The Council has a legal duty to publish an up-to-date Constitution, to be reviewed annually with any necessary changes being considered at the full Council meeting.

3.2 Responsibility to monitor and review the operation of the Constitution is set out in Article 15 and belongs to full Council. The Monitoring Officer is authorised to make minor consequential amendments as necessary or required by legislation from time to time.

3.3 The Constitution must contain:

- The Council's standing orders/ procedure rules.
- The Members' Code of Conduct
- Such information as the Secretary of State may direct.
- Such other information (if any) as the Council considers appropriate

4. Pensions Committee

4.1 Under the previous Constitution, the Audit Committee under its terms of reference had responsibility for establishing a Pensions Sub-Committee (PSC). The PSC membership was separate from the Audit Committee, not a derivation of its membership as required under the Local Government Act 1972. The process of how its membership was selected was undefined. The previous terms of reference stated: "No special requirements apply to the composition of the Pensions Sub-Committee".

4.2 The membership of the PSC was composed of four elected members and had a quorum of two, which did not require either the Chair or Vice Chair in attendance. There were two named substitute members, which was considered very small, given the scale and significance of the investments and decisions that were made.

4.3 Although there is no single model in operation across the over 80 Pension Fund authorities (LGPS) in England and Wales, most Funds are managed by a formal Committee appointed by the full Council. This Committee is usually called the Pension(s) Committee or sometimes the Pension Committee. The arrangement in Islington is unusual and it was considered that it was creating legal risk. It was agreed that the Pensions Sub-Committee should be separated from the Audit Committee and established as a separate committee with an elected member membership of 5 or 7 voting councillors.

4.4 Individual LGPS Pension Funds are administered by the relevant council and are a separate legal entity within the overall structure of that council. Under the Local Authority (Functions and Responsibilities) (England) Regulations 2000 (as amended), the LGPS is not an Executive function. Therefore, the Executive of a Council cannot make decisions in respect of the Pension Fund. Bullet point six of the previous Terms of Reference stated: "To consider the overall solvency of the Pension Fund, including assets and liabilities and to make appropriate recommendations to the Executive regarding the allocation of resources to the

Pension Fund." The Executive should not be involved in setting the resources of the Pension Fund. The Sub-Committee itself should be responsible for setting its own budget. The Committee responsible for the Pension Fund must report to the Council and cannot be subject to the Executive.

4.5 The former Pensions Sub-Committee's terms of reference were considered unusually brief at just seven bullet points. A comprehensive list of requirements has been listed in the new Terms of Reference to ensure that the Committee are aware of their full remit. These are set out as track changes to the proposed new Pensions Committee's Terms of Reference in the Appendix. New changes are highlighted in blue ink.

4.6 Members of the Committee are the ultimate decision makers for investment related matters. As such, members are bound by the Directive on Markets in Financial Instruments repealing Directive 2004/39/EC (commonly known as MIFID II). This legislation requires the Pension Fund to "opt up" to professional status, and for decision makers to demonstrate they have the collective knowledge and skills to make investment decisions. If members were not able to demonstrate this, there was a risk that the Pension Fund would not be able to access professional investments. A comprehensive training plan should be agreed for PSC members, which has been added to its Terms of Reference.

5. Pensions Board

5.1 The LBI Pension Board composition was previously three employer representatives, three member representatives and one independent member. The former Constitution provided that all members of the Board would be appointed by full Council or its Audit Committee, which would also appoint a chair from among the members of the Board. This practice was considered unusual, as the Pension Board should be responsible for electing its own chair. It was normal practice for the chairmanship to rotate annually from employer to member representatives. Paragraph 5.38 of the Statutory Local Government Pension Scheme (LGPS) Guidance on the creation and operation of Local Pension Boards in England and Wales alluded to this being appropriate.

5.2 Members of the Pension Board were required, under the LGPS scheme regulations 2013, to have "capacity" to represent the members and employers of the scheme. The statutory guidance interpreted this as a requirement to ensure that the knowledge and skills of the membership were appropriate to effectively scrutinise the decisions of the Pensions Committee. To assist the Administering Authority, it was implicit that members of a Local Pension Board understood the duties and obligations that apply to the Administering Authority as well as to themselves. This was expanded in section 6 of the statutory guidance which made it clear this was a legal requirement. It was also suggested that Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan and that this should be added to the Terms of Reference. This is currently in train, with Board members invited to complete the personal training needs analysis at their last meeting on 12 July 2023.

5.3 The Pension Board Terms of Reference were considered too brief and did not capture all the elements sufficiently from paragraphs 5.35 of the Statutory Guidance. Revised Terms of Reference to be included in Part 5 of the Constitution were approved by the Council and are shown as tracked changes (blue ink) in the Appendix to this report to reflect the full requirements of the Statutory Guidance.

6 Implications

6.1 **Financial Implications**

There are no financial implications arising from this report.

6.2 **Legal Implications**

A local authority is under a duty to prepare and keep up to date its constitution under section 9P Local Government Act 2000 as amended. The Constitution must contain:

a) The Council's standing orders/ procedure rules.
b) The Members' Code of Conduct
c) Such information as the Secretary of State may direct.
d) Such other information (if any) as the authority considers appropriate.

A Constitution Direction was issued by the Secretary of State in December 2000 that required around 80 matters to be included within constitutions, covering members' allowances schemes, details of procedures for meetings, details of joint arrangements with other local authorities and a description of the rights of inhabitants of the area, amongst other things. Whilst issued under Part II Local Government Act 2000, the Direction survives the re-enactment into Part 1A (section 9B et seq.) of the 2000 Act by the Localism Act 2011 (under section 17 Interpretation Act 1978).

Constitutions must be available for inspection at all reasonable hours by members of the public and supplied to anyone who asks for a copy on payment of a reasonable fee.

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

There are no environmental implications.

6.4 **Resident Impact Assessment**

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

An Resident Impact Assessment Screening Tool for the completed Constitution was completed on 24 April 2023 and indicated no negative impacts.

An up-to-date Constitution will ensure decisions contribute to the advancement of equality and good relations and demonstrate that the Council is paying due regard in decision making in the design of policies and in the delivery of services.

17. Reason for recommendations

To ensure legal compliance and high ethical standards were maintained.

Appendix:

- Appendix - Revised Terms of Reference of the Pensions Committee and Pensions Board

Background papers: None

Authorised by:

Marie Rosenthal, Interim Director of Law & Governance and Monitoring Office

Date: August 2023

Report Authors:

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Legal Implications Author:

Marie Rosenthal. Interim Director of Law and Governance and Monitoring Officer

Financial implications: none.

Appendix

AMENDED TERMS OF REFERENCE FOR THE PENSIONS COMMITTEE AND PENSIONS BOARD

Pensions Committee

A Pensions Committee whose functions shall include all matters relating to the Local Government Pension Fund.

PENSIONS ~~SUB-~~COMMITTEE

Composition

No special requirements apply to the composition of the Pensions ~~Sub-~~Committee.

Quorum

The quorum of the sub-committee shall be two members.

Terms of Reference

To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as Administering Authority of the London Borough of Islington Pension Fund. This includes but is not limited to the following matters:

Terms of Reference

~~1. To consider policy matters in relation to the pension scheme, including the policy in relation to early retirements.~~

~~2. To administer all matters concerning the Council's pension investments in accordance with the law and Council policy.~~

~~3. To establish a strategy for disposition of the pension investment portfolio.~~

~~4. To determine the delegation of powers of management of the fund and to set boundaries for the managers' discretion.~~

~~5. To review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the investment managers. (Note: The allocation of resources to the Pension Fund is a function of the Executive).~~

~~6. To consider the overall solvency of the Pension Fund, including assets and liabilities and to make appropriate recommendations to the Executive regarding the allocation of resources to the Pension Fund.~~

~~7. The Chair of the Pensions Sub-Committee will represent Islington Council at shareholder meetings of the London Collective Investment Vehicle (London LGPS CIV Limited). In the absence of the Chair a deputy may attend.~~

1. Reviewing and approving the statutory policies of the Fund including the Governance Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Pension Administration Strategy, Communications Strategy.

2. To determine the arrangements for the appointment of the Fund Actuary, Investment Consultant and any other Advisor that it may be determined appropriate to appoint.

3. To receive an annual Internal Audit Plan in respect of the Pension Fund which will include, at least, an annual assurance review of the Pensions Administration service and a report on the outcome of planned internal audit activity.

4. To regularly receive and review a comprehensive Risk Register relating to the activities of the Pension Fund.

5. To agree the Business Plan and Annual Budget of the Fund.

6. To agree the Pension Fund Annual Report and Financial Statements.

7. To determine, approve and regularly monitor the arrangements relating to the provision of all matters relating to Pensions Administration functions and the provision of a Pensions Administration Service to the Pension Fund.

8. To receive regular performance monitoring reports, in such form as it determines, in respect of the Pensions Administration Service.

9. To review and approve a Reporting Breaches of the Law procedure for the Pension Fund and to regularly receive the Breaches Log.

10. To make and review an Admission Policy in relating to the admission of Employers to the Fund and be responsible for determining the admission of Employers to the Fund.

11. To agree the investment strategy and strategic asset allocation having regard to the advice of the Investment Consultant.

12. To determine the Fund management arrangements, including the appointment and termination of the appointment of Fund Managers.

13. To monitor the performance of the Pension Funds appointed Fund Managers.

14. To determine the relationship of the Pension Fund with the London Collective Investment Vehicle and to monitor its activity and performance.

15. To determine the arrangements for the provision of Additional Voluntary Contributions for Fund members.

16. To ensure that the Covenants of Employers are thoroughly assessed as required and at least during every Triennial Actuarial Valuation.

17. To receive, from the Fund Actuary, Actuarial Valuations of the Fund.

18. To consider and determine a response to any advisory Recommendation received from the Pension Board.

19. To receive and consider the External Auditors Annual Report (audit findings report / ISA260) on the Pension Fund.

20. To ensure compliance with all relevant statutes, regulations, government guidance and other codes and best practice as applicable to the Local Government Pension Scheme.

21. To determine such other policies that may be required so as to comply with the requirements of Government or bodies acting on behalf of Government.

22. To ensure all members of the Pensions Committee undertake appropriate, and ongoing, training to fulfil their responsibilities

ISLINGTON PENSIONS BOARD

Introduction

This document sets out the terms of reference of the Local Pension Board of The London Borough of Islington (the 'Administering Authority') a scheme manager as defined under Section 4 of the Public Service Pensions Act 2013.

The Local Pension Board (hereafter referred to as 'the Board') is established in accordance with Section 5 of that Act and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).

The Board is established by the Administering Authority and operates independently of the Pensions Committee. The Board is not a committee constituted under Section 101 of the Local Government Act 1972 and therefore no general duties, responsibilities or powers assigned to such committees or to any sub-committees or officers under the constitution, standing orders or scheme of delegation of the Administering Authority apply to the Board unless expressly included in this document.

The Board's Terms of Reference as set out in this document have been produced in line with the relevant regulations, legislation and guidance.

Terms of Reference

1. To assist the London Borough of Islington as scheme manager in securing compliance with:

    a. the Local Government Pension Scheme Regulations 2013;
    b. any other legislation relating to the governance and administration of the Local Government Pension Fund Scheme (LGPS);
    c. requirements imposed by the Pensions Regulator in respect of the LGPS;
    d. such other matters as the LGPS regulations may specify

2. To assist the London Borough of Islington in securing the effective and efficient governance and administration of the scheme;

3. To consider cases that have been referred to the Pension Regulator and/or the Pension Ombudsman; recommending changes to processes, training and/or guidance where necessary;

4. To produce an annual report outlining the work of the Board throughout the financial year.

5. To make recommendations to the Pensions Committee.

6. Retain oversight of the administration and governance of the Fund including:

  a. Direction of the Fund and its overall objectives

  b. the administration of benefits and contributions

7. Activity of the board may consist of, but is not limited to:

  a. Review Fund governance policy documents.

  b. Reviewing the Fund's administrative and investment performance.

  c. Reviewing the performance of the London Collective Investment Vehicle (LCIV)

  d. Reviewing the ongoing training requirements of Board Members

  e. Reviewing the Fund's risk register

  f. Reviewing the Fund's audit findings report / ISA260.

Composition

The membership of the Board shall consist of:

- 3 Islington Council Pension Fund employer representatives
- 3 Islington Council Pension Fund member representatives
- 1 independent member (non-voting)

No substitutes are permitted, with the exception of the member of the Board who is appointed to represent pensioner members of the LGPS.

All members of the Board shall be appointed by full Council the Board shall vote on its own Chair.

Employee Representatives

No officer or elected member of the Council who is responsible for the discharge of any function in relation to the LGPS.

Employee representatives shall be members of the scheme in either an active, deferred or retired member capacity.

Employee representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

A total of three employee representatives shall be appointed. A pensioner rep shall be appointed following a transparent recruitment process which should be open to all pensioner members and be approved by the Administering Authority.

Two employer reps will also be nominated through the respective union channels through their own process.

Employee representatives will normally serve a term of either three or four years, provided they remain members of the Fund, but shall be free to stand for re-election at the end of that period provided they are still a member of the Scheme.

If employee representatives repeatedly fail to attend training or Board meetings they will be removed from post and a new process will be undertaken to replace them, this discretion will lie with the scheme manager.

Employer Representatives

No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board

Employer representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

A total of three employee representatives shall be appointed by the administering authority. These may be up to two elected members of the London Borough of Islington Council and up to two members of the other remaining employers within the Fund.

Employer representatives will normally serve a term of three or four years, provided they remain associated with an employer of the Fund, but shall be free to stand for re-election at the end of that period provided they are still a member of the Scheme.

Terms of Office

Representatives shall serve their positions for three or four years, but may re-apply at the end of their terms.

Board membership may be terminated prior to the end of the term of office due to:

(a) A employee representative appointed on the basis of their membership of the scheme no longer being a scheme member in the Fund.

(b) A Board member no longer being able to demonstrate to the Administering Authority their capacity to attend and prepare for meetings or to participate in required training.

(c) The representative being withdrawn by the nominating body

(d) A Board member has a conflict of interest which cannot be managed in accordance with the Board's conflict policy.

(e) A Board member becomes a member of the Local Pension Committee.

(f) A Board member who is an officer of the Administering Authority becomes responsible for the discharge of any function of the Administering Authority under the Regulations.

(g) An employer representative ceases to be an elected Councillor for the local authority they represent.

The Scheme manager will rule if any of the above criteria have been met.

Meetings

The Board shall meet in accordance with the Pensions Committee reporting cycle, which is currently four times per annum.

Urgent meetings of the Local Pension Board may be called by the Chair in consultation with the Scheme Manager if a matter arises that does not allow delay.

Members of the Pensions Board shall be invited to attend meetings of the Sub-Committee as observers.

The Board's meetings will be open to the general public (unless there is an exemption under relevant legislation which would preclude part (or all) of the meeting from being open to the general public).

The Administering Authority shall also publish other information about the Board including:

(a) Public agendas and minutes

(b) Annual reports on the work of each Board member.

The Local Pension Board is not a committee of the Administering Authority but the Authorities' rules, as set out in the Constitution, regarding notice of meetings, publishing agendas, reports, minutes papers (unless confidential), will apply.

Quorum

A meeting is only quorate when 50% of the total employer and employee representatives are present (ie. 3 members), including at least one employee representative and one employer representative.

A meeting that becomes inquorate may continue but any decisions will be non-binding.

Decision making

Each Member of the Board will have an individual voting right, however it is expected that the Board will, as far as possible, reach a consensus.

In the event of a tied vote the chair will not have a casting vote. The matter under consideration which has been the subject of a tied vote shall be referred to the Pensions Committee and/or Administering Authority together with the views of the members on the matter.

Meetings of the Board will be formal occasions to be minuted accordingly. Meetings will be conducted adhering to the standing orders of the Administering Authority, as set out in its Constitution, so far as such do not make the business of the Board unviable.

Officers representing the Administering Authority will be expected to produce reports for the Board and provide advice and clarification during the Board's meetings.

Advisors to the Board

The Board may be supported in its role and responsibilities through the appointment of advisers and shall, subject to any applicable regulation and legislation from time to time in force, consult with such advisers to the Board and on such terms as it shall see fit to help better perform its duties including:-

a. The Governance Adviser

b. The Fund's Actuary;

c. The Administering Authority

d. The Fund's Legal Adviser;

e. The Scheme Manager.

f. Other advisers, so approved by the Scheme Manager.

Standards of Conduct and Conflicts of interest

All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change and complete a register of interests, any potential conflict of interest arising as a result of their position on the Board.

A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme.

The principles included in London Borough of Islington's Code of Conduct for Members will apply to all Members of the Board.

Knowledge and Skills

Following appointment, each Member of the Board should be conversant with:

a) the legislation and associated guidance of the LGPS; and,
b) any document recording policy about the administration of the LGPS which is for the time being adopted by the Fund.

The Administering Authority will provide a training programme which all Board Members will be required to attend. Board members should indicate to officers which areas they feel they require the most attention through a training needs assessment.

Expenses

The Pension Fund does not pay for Board member expenses.

Board Members are entitled to claim reasonable travel and subsistence expenses from the Council.

For the avoidance of doubt, Board members shall not receive an annual allowance of any kind.

Budget

The Board is to be provided with adequate resources to fulfil its role. In doing so the budget for the Board will be met from the Fund.

ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7
7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 26th September 2023

Ward(s): n/a

Appendix 4 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: Pension Fund Performance 1 April to 30 June 2023

1.	**Synopsis**
1.1	This is a quarterly report to the Pensions Committee to allow the Council as administering authority for the Fund, to review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.
2.	**Recommendations**
2.1	To note the performance of the Fund from 1 April to 30 June 2023 as per BNY Mellon interactive performance report
2.2	To receive the presentation by MJ Hudson, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.
2.3	To note for information the Mercer NewsAlert LGPS Issues August'23 – Appendix 2
2.4	To note the Annual performance report by PIRC attached as Appendix3
2.5	To note the latest ESG ratings of our managers prepared by Mercer(attached exempt Appendix 4)

3. Fund Managers Performance for 1 April to 30 June 2023

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.
Mercer has provided the latest ESG ratings for the Fund's 9 strategies across equities, fixed income, DGFs, property and private equity attached as Exempt Appendix 4.

3.1 Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (Apr-June'23) Gross of fees		12 Months to June 2023 Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LCIV Sustainable EQ- RBC	9.4%	Global equities	1	-0.1%	3.9%	1.1%	13.2%
LCIV -Newton	19.3%	Global equities	2	5.6%	3.4%	15.7%	11.9%
Legal & General	13.6%	Global equities	1	3.5%	3.6%	11.9%	12.4%
Legal & General-Paris Aligned	9.7%	Global equities	N	4.0%	4.5%	n/a	n/a
Polen Capital (previously BMO)	3.6%	Emerging equities	2	-5.2%	-1.7%	-4.5%	-2.4%
Quinbrook	5.6%	Renewable Infrastructure		-1.6%	2.9%	0.6%	12.0%
Pantheon	4.0%	Infrastructure		2.2%	2.4%	15.1%	10.0%
Aviva (1)	7.3%	UK property	2	-1.2%	-7.1% 1.0%	-15.1%	-18.9% -16.9%
ColumbiaThreadneedle Investments (TPEN)	5.2%	UK commercial property	3	0.9%	0.4%	-16.6%	-17.4%
Hearthstone	1.6%	UK residential property	N	0.5%	1.0%	2.1%	-16.9%
Standard Life	3.7%	Corporate bonds	2	-3.4%	-3.4%	-6.5%	-6.9%
M&G Alpha Opportunities	4.5%	Multi Asset Credit	3	2.5%	1.9%	9.5%	6.6%
Schroders	2.6%	Diversified Growth Fund	2	-0.6%	3.7%	-1.9%	15.7%
Churchill Senior loan Fund IV	3.3%	Private Debt	N	-0.6%	1.2%	0.2%	5%
Market value of total fund	£1,768m						

-7.1% & -18.9% = original Gilts benchmark; 1.0% and -16.9% 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. Copies of the latest quarter fund manager's reports are available to members for information if required.

3.3 The combined fund performance and benchmark for the last quarter ending June 2023 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to June'23 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	1.8	2.0	3.5	4.8

3.4 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1,3- and 5-year periods to June'23 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	3.5%	6.1%	5.7%
Customised benchmark	4.8%	5.5%	5.2%

3.5 The total fund performance compared to its peer group as at **fiscal year- end 31st March** is attached as Appendix 3 for information. The longer term performance compared to the median and rankings is shown in the table below.

	3year p.a	5year p.a	10year p.a	20 year p.a
Islington fund	8.6%	6.1%	6.9%	7.5%
Average fund	9.6%	6.0%	7.3%	8.4%
Ranking	(65)	(32)	(60)	(91)
CPI	6.3	4.3	2.8	2.7

The drag can be attributed to comparatively low exposure to alternatives and high level property. The fund has experienced low volatility over the last five years comparatively and achieved higher returns and hence very efficient. It also holds diversified assets to reduce volatility of equities.

3.6 The strategic allocation and actual position as at 30th June is shown in the table below. Some rebalancing was implemented in August and should be reflected in the next quarter. Cash held is mostly distributions from private assets and used to fund drawdowns.

Asset Class	**Strategic Allocation**	**Current benchmark**

Equities	45	56.2
property	20	15.4
Private debt	10	6.0
infrastructure	12.5	9.6
Impact investment	5	0
Multi asset credit	7.5	4.5
Investment grade credit	0	3.7
Diversified growth fund	0	2.6
Cash	0	2.0

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 June by -4.0% and a twelve-month under performance of -12.1%. This was primarily due to stock selection, underperformance was wide across the portfolio as several high conviction positions are currently not favoured by the market. These are typically companies with longer term investment horizons and a high level of intangibles which given the current environment of macroeconomic uncertainty and high interest rates are being penalised.

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 5.6% against a benchmark of 3.4% for the June quarter. Since inception, the fund has delivered an absolute return of 11.7% against benchmark of 11.6%. Stock selection was the main contributor to performance and the biggest contributions came from information technology, health care and financial stocks.

3.7.4 Islington owns 54.8 % of the fund with 2 other local authorities on the LCIV platform and reduced its allocation during August to rebalance the whole fund closer to the agreed strategic asset allocation.

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 and now stands at £164m.

3.8.2 The quarter performance to June was 4.0% against a benchmark of 4.5%.
As mentioned last quarter discussions with London CIV about an oversight recharge invoice received by the Fund in April in addition to the normal investment management fees continues.

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 £241m(233m) with a performance of 3.5% against a benchmark of 3.6%.

3.10 **Polen Capital (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 June quarter saw an under performance of -3.5%, and mainly due to stock selection.

3.10.2 The manager investment thesis prefers bottom-up stock selection and believing that it can reduce risk by only holding the highest conviction positions for up to 5years.

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 -1.2% against a gilt benchmark of 7.1%. The All Property IPD benchmark returned 1.0% for this quarter. Since inception, the fund has delivered an absolute return of 5.1%

3.11.3 As at the end of this June quarter the fund's unexpired average lease term is 20.8 years. The Fund holds 84 assets with 53 tenants. This year the strategy has been to sell investments with weaker tenant credit ratings and shorter lease terms than the portfolio average with the aim to de-risk the portfolio and continue to provide secure cashflows for investors. This quarter two sales were completed a car showroom and an office investment. The fund has 7.0% cash and has been notified of redemptions of around 17.5% till year end.

3.11.4 Islington made purchases in the secondary market of around £45m to rebalance our property asset allocation from 7.25% to 10%.

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 March was £90.3million (89.8m Dec)

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 0.9% against its benchmark 0.4% for the June quarter. Since inception it has delivered an absolute return of 5.6% per annum.

3.12.3 The cash balance now stands at 3.6%. During the quarter, one strategic sale was made and there were no acquisitions. Rent collection is improving at 97% 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.

3.12.5 Islington have moved to a share class that allows tiered fees and will receive a 5 basis point reduction when the additional units purchase is completed as part of the property rebalancing.

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 drawn down. $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 June 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.

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 $30.7m. The NAV is $17.2m

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 $18.8m has been drawdown and a distribution of $8.6m had been received. There was a further drawdown of $5m in August.

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

For the June quarter, the value of the fund investment was £28million and total funds under management is £67.7m. Performance net of fees was 0.5% compared to the IPD UK All Property benchmark of 1.0%.

3.14.2 Members agreed to option 2 to speed the reduction of holdings in the Fund.
A further £2m redemption requested in July is due for payment in October. A total redemption received to date is £3m in addition to income of £700k.

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 and total distribution is $31.4m to date with a NAV of $63m

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 August was $55.7m.

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 June'23 is $89.65m and distribution of $29.5m nearing its harvesting period.

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 The value of the portfolio is now £45**.**4m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The June quarter performance before fees was -0.6% against the benchmark of 3.7% (inflation+5%). The performance since inception is 2.9% against benchmark of 9.8% before fees.

3.17.3 The new benchmark effective from 1 April 2022 is ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum.

3.18 **Standard Life**

3.18.1 Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the June quarter, the fund returned

-3.4% against a benchmark of -3.4% and an absolute return of 3.7% per annum since inception.

3.18.2 Stock selection was a small positive and duration was added to the portfolio as gilt yields rose.

3.18.3 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 June quarter, the hedged overseas equities had a positive cash value of £14m.

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.

The mandate guidelines of M&G include

- Fund can invest across the full spectrum of developed market corporate credit (IG, HY, Loans) as well as securitised credit (ABS, MBS), some illiquid opportunities and defensive holdings (e.g. cash).
- Investment process is predominantly bottom up, with a defensive value style that seeks to buy cheap mispriced securities.
- Targets a return of 1 month LIBOR +3% - 5% (gross of fees) over an investment cycle (3-5 years)
- No local currency EM debt is permitted
- Low level of interest rate duration
- Maximum exposure to sub-investment grade credit of 50% of assets,
- Focus is primarily on Europe, although there is some exposure to the US (c. 15%).

Risk and triggers for review:

- Key man - risk
- Issues at the firm level
- Change in investment process/ structure or risk/return profile of the mandate.
- Failure to deliver target return over 3 Year period of Cash +3% - 5% (gross of fees), unless there is a compelling market-based reason for underperformance
- Downgrade of Mercer rating lower than B+
- Downgrade of Mercer ESG rating lower than ESG3.
- Long term trend of staff turnover and changes within the investment team.

3.20.1 The June quarter performance was 2.5% against a benchmark of 1.9% and a one year over performance of 2.8%. The primary contributors to performance were exposures to corporate bonds and leveraged loans.

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/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending June 2023 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers. Appendix 2 -Mercer NewsAlert LGPS current issues as at August'23 is attached for information. Appendix 3- is the annual whole fund performance compared to our peers as at March'23 and the updated ESG ratings of our managers prepared by Mercer is attached as Exempt Appendix 4

Appendices: Appendix 1 – MJ Hudson Fund Mgr monitoring report
Appendix 2 - News Alert LGPS Current Issues as at Mar'23
Appendix 3**-** The annual whole fund performance by PIRC
Exempt Appendix 4- Mercer ESG ratings of our managers

Background papers:

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

Final report clearance:

Signed by: David Hodgkinson

Corporate Director of Resources Date:

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London Borough of Islington

Report to 30th June 2023

09 September 2023

apexgroup.com

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MJ Hudson's Investment Advisory business comprises the following companies: MJ Hudson Investment Advisers Limited (no. 4533331) and MJ Hudson Trustee Services Limited (no. 12799619), which are limited companies registered in England & Wales. Registered Office: 6th Floor, 125 London Wall, London, England, EC2Y 5AS. MJ Hudson Investment Advisers Limited (FRN 539747) is an Appointed Representatives of Khepri Advisers Limited (FRN 692447) which is Authorised and Regulated by the Financial Conduct Authority

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 £4.78 billion at end June 2023.
Schroders (multi-asset diversified growth)	There were no team changes during Q2 2023.	Fund made a loss of -0.65% during the quarter and delivered a return of +2.74% p.a. over 3 years, -11.01% p.a. behind the target return.	Total AUM stood at £726.5 billion as at end June 2023, down from £776.3 billion as at end December2022.
Polen Capital (active emerging equities)	No staff changes reported. During Q1 2023 the Columbia Threadneedle emerging markets team was sold to Polen Capital.	Underperformed the benchmark by -3.49% in the quarter to June 2023. The fund is behind over three years by -1.00% p.a.	Total AUM stood at approximately $55bn as at end December 2022 (most recent data available).

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 Q2 2023 by +2.15%. Over three years the portfolio outperformed the benchmark by +0.22% but is under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +1.00% p.a.	At the end of Q2 2023, the London CIV sub-fund's assets under management were £620.8 million. London Borough of Islington owns 54.9% of the sub-fund.
LCIV Sustainable Equity Fund (RBC)	None reported by LCIV.	Over Q2 2023 the fund made a return of +0.12%, and this underperformed the benchmark return of +4.02%. The one-year return was +1.13%, positive in absolute terms but behind the benchmark by -12.08%. The three-year return underperformed the benchmark by -4.92% p.a.	As at end June 2023 the sub-fund's value was £1,239 million. London Borough of Islington owns 13.42% 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 +2.50% over Q2 2023, ahead of the target return by +0.59%. Over one year, the fund returned +9.46% which was ahead of the target return by +2.85%.	The fund size was £6.1 billion as at end June. London Borough of Islington's investment amounts to 1.30% of the fund.
Standard Life (corporate bonds)	There were eight joiners and 13 leavers during the quarter. No joiners or leavers related to the fixed income groups.	The portfolio marginally outperformed the benchmark return during the quarter by +0.01%, delivering an absolute return of -3.38%. Over three years, the fund was behind the benchmark return (by -0.33% p.a.) and behind the performance target of +0.80% p.a.	As at end June the fund's value was £2,134 million, down from £2,233 million as at end March. London Borough of Islington's holding of £65.9m stood at 3.1% of the total fund value.
Aviva (UK Property)	Information not available at the time of going to print.	Outperformed against the gilt benchmark by +5.93% for the quarter to June 2023 and outperformed the benchmark over three years by +15.31% p.a., delivering a return of +0.98% p.a., net of fees.	The fund was valued at £3.08 billion as at end Q2 2023. London Borough of Islington owns 4.2% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Columbia Threadneedle	Tom Hatfield is a new asset manager on the TPEN Property Fund. He replaces Rob Flavelle and Alex Brouwer who both retired.	The fund outperformed the benchmark in Q2 2023, with a quarterly return of +0.89% compared with +0.38% for the benchmark. Over three years, the fund is outperforming the benchmark by +0.62% p.a.	Pooled fund has assets of £1.56 billion. London Borough of Islington owns 5.84% of the fund.
Franklin Templeton (global property)	There were no joiners or leavers during Q2 2023.	The portfolio return over three years was +2.13% p.a., and so behind the target of 10% p.a. Over 5 years the fund is behind the benchmark by -0.13% p.a.	£1,152 billion of assets under management for the Franklin Templeton Group as at end March 2023 (latest figures reported).
Hearthstone (UK residential property)	Verbal update to be given.	The fund underperformed the IPD UK All Property Index by -0.48% in Q2 2023. It is now behind the IPD benchmark over three years by -0.61% p.a. to end June 2023.	Fund was valued at £67.7m at end Q2 2023. London Borough of Islington owns 41.2% of the fund and is in a phased redemption process.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Quinbrook (renewable energy infrastructure)	There were three new joiners and two leavers during Q2. A new Global Head of Compliance joined after quarter end.	For the three years to Q2 2023 the fund returned +16.55% p.a., and therefore was ahead of the annual target return of +12.00% p.a.	Net Assets were £602 million as at June 2023.
Pantheon (Private Equity and Infrastructure Funds)	Not reported.	The private equity fund returned +9.99% p.a. over three years, and +4.12% p.a. over five years. The infrastructure fund returned +17.38% p.a. over three years to end June.	$60.9bn of assets under management as at March 2023. (latest figures available)
Churchill (Middle Market Senior Loan Fund)	Not reported.	The fund has achieved a return of -0.62% for the quarter to 30 June 2023, underperforming the benchmark return of +1.23. Over 1-year, the fund is underperforming the benchmark by -5.17%	
Crescent (Credit Solutions Fund)	Not reported.	The fund returned -5.55% over Q2 2023, underperforming the benchmark by -7.96%.	$41 billion of assets under management as at March 2023. (latest figures available)

Source: Apex

Minor Concern

Major Concern

Individual Manager Reviews

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

Headline Comments: The three passive index funds (FTSE-RAFI Emerging Markets fund, MSCI World Low Carbon Target index fund, and the ESG Paris Aligned World Equity Fund) were within the expected tracking range, when compared with their respective benchmarks, in Q2 2023.

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. The wider MSCI World Index returned 4%, compared with 4.19% for the MSCI World Low Carbon Index and 4.35% for the Solactive Paris Aligned World Index.

TABLE 2:

	Q2 2023 Fund	Q2 2023 Index	Tracking
FTSE – RAFI Emerging Markets	+0.03%	-0.06%	+0.09%
MSCI World Low Carbon Target	+4.15%	+4.19%	-0.04%
ESG Paris Aligned World Equity Fund	+4.01%	+4.35%	+0.34%

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 49.61% to the MSCI World Low Carbon Target index fund, 41.39% to the ESG Paris Aligned World Equity Fund, and 9.00% 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 loss of -0.65% in Q2 2023, and in relative terms it underperformed the CPI + 5% target by -4.32% (as reported in the BONY performance report) and underperformed the cash + 4.5% target by -2.75% (this being the manager's preferred target since March 2022). Over three years, the fund is behind the CPI + 5% target return by -11.01% 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 loss of -0.65% in Q2 2023 while global equities made a return of +6.4%. Over three years, the DGF delivered a return of +2.74% p.a.

In Q2 2023, equity positions contributed +0.9% to the total return, alternatives detracted -0.2%, credit and government debt detracted -0.9%, while cash and currency detracted -0.2% (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 7.0% compared to the three-year volatility of 15.6% in global equities (i.e., 44.9% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 61% in internally managed funds (up from last quarter), 11% in active bespoke solutions (down from last quarter), 6% in externally managed funds (down from last quarter), and 17% in passive funds (down from last quarter) with a residual balance in cash, 6% (up from last quarter), as at end June 2023. In terms of asset class exposure, 32.6% was in equities, 22.2% was in alternatives and 39.0% in credit and government debt with the balance in cash.

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

The manager had increased government bonds, in preparation for a slowdown in economic activity. It has now changed its positioning to "neutral" on most asset classes, after seeing that the economic slowdown is likely less imminent.

Schroders reported that the carbon intensity of the fund was 65.4% that of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 63% of the portfolio (compared with 92% for the comparator). Using a Science Based Targets

Initiative methodology, the portfolio temperature alignment stood at 2.4 degrees as at end June over a medium term horizon.

Organisation: There were no team changes during Q2 2023.

Polen Capital (formerly Columbia Threadneedle/BMO) – Global Emerging Market Growth and Income Fund

Headline Comments: The portfolio made a loss of -5.23% in Q2 2023, compared with the benchmark loss of -1.74%, an underperformance of -3.49%. Over one year the fund is behind the benchmark by -2.11%, and over three years it is trailing by -1.00% per annum (this is still a big improvement on a year ago when the portfolio was trailing the three year benchmark by -4.4% p.a.)

Mandate Summary: The manager 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 underperformed the index in the quarter. Overexposure in comparison to the benchmark to Portugal and Vietnam contributed positively to performance, though overexposure to Uruguay detracted from performance.

During the quarter, the largest positive contributors to the quarterly relative return came from Dino Polska Sa (+0.75%), Rala Drogosil Sa (+0.47%), and Jeronimo Martins (+0.39%). Companies which detracted most from performance included Anta Sports Products Ltd (-1.05%), Momo.com (-0.84%), and Dlocal Ltd (-0.59%).

Portfolio Risk: Within the emerging markets portfolio there is a 17.0% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio was Uruguay (+5.4% overweight). The most underweight country allocation was Taiwan (-5.1%). The manager also held 16.1% of the portfolio in four developed countries, compared with the benchmark's 1.8% in Hong Kong and 0.3% in United States.

Portfolio Characteristics: The largest absolute stock position was Tencent Holdings at 5.9% of the portfolio, while the largest absolute country position was China/HK and accounted for 32.1% of the portfolio.

As at end June, the portfolio had a 16% allocation to technology, below the benchmark allocation of 21%. The Manager states that its bottom-up stock selection process means it puts less emphasis on sector diversification, believing that it can reduce risk by only holding the highest conviction positions. It also states that the technology sector has a very broad range of underlying sub-industries and verticals.

The Manager looks to hold investments for 5 years, and states that it has a turnover of below 20%.

Staff Turnover/Organisation: not reported.

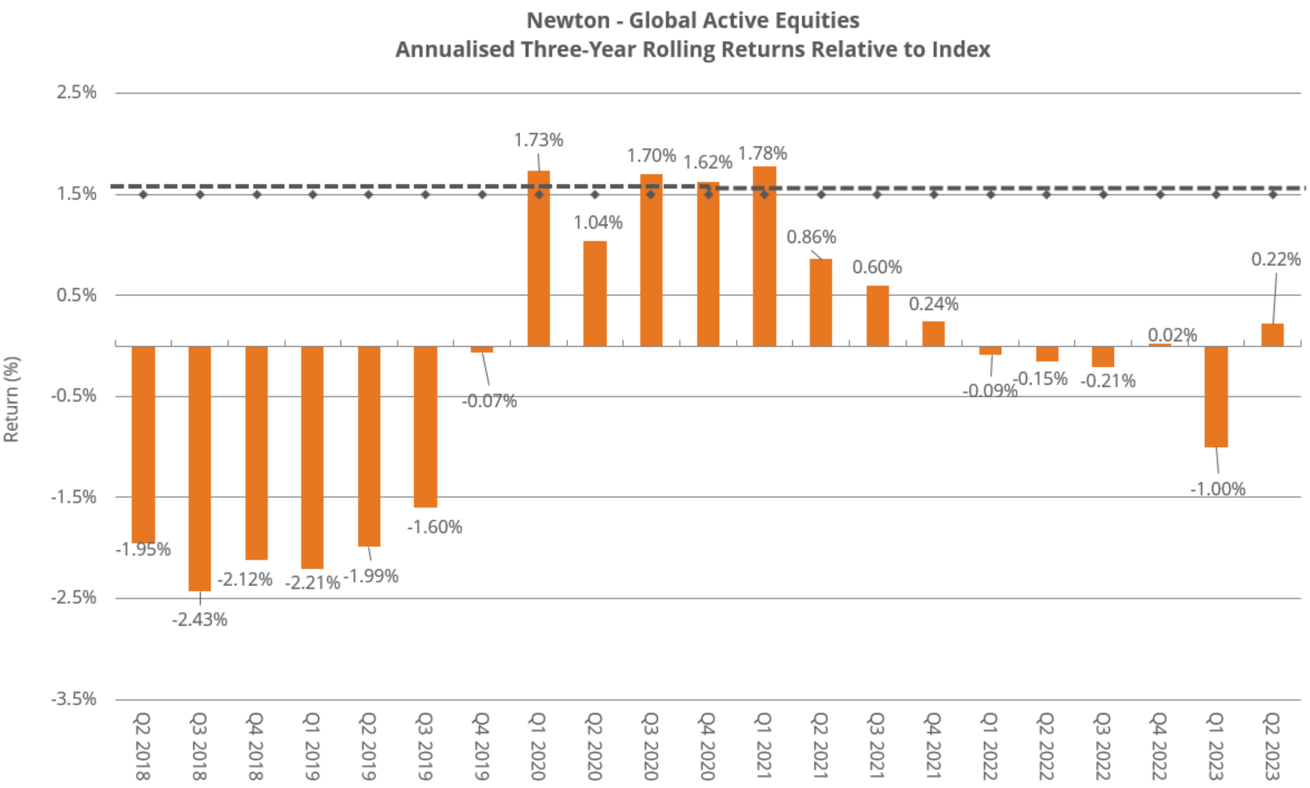
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q2 2023 by +2.15%. Over three years the portfolio outperformed the benchmark by +0.22% p.a. Over five years the manager is ahead of the benchmark return by +1.00% 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 overleaf shows the three-year rolling returns of the portfolio relative to the benchmark (the orange bars) and compares this with the performance target, shown by the grey dotted line.

CHART 1:



Source: Apex; 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. By Q2 2023 the fund has now outperformed the benchmark over three years by +0.22% p.a. but is underperforming the performance objective by -1.28% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as Nvidia (+1.18%), Amazon (+0.94%), and Microsoft (+0.82%). Negative contributions came from positioning in Universal Music Group (-0.33%), Samsung (-0.27%), and Alibaba (-0.25%).

In its peer group analysis, the London CIV reported that Newton is now delivering returns below the median over the shorter (3 years) and longer term (7 years+). 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.

Portfolio Risk: The active risk on the portfolio stood at 3.09% as at quarter end, slightly higher than as at end March when it stood at 3.05%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.98, up by 0.01 from previous quarter (if the market falls by -10% the portfolio can be expected to fall -9.8%).

At the end of Q2 2023, the London CIV sub-fund's assets under management were £620.8m, compared with £588.5m last quarter. London Borough of Islington now owns 54.87% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 58 as at quarter-end (down 1 from last quarter). The fund added two positions; LAM Research and Dassault Systems and completed three sales; Volkswagen, Abbot Laboratories and Darling Ingredients.

The portfolio continues to be heavily weighted to Technology (an allocation of 28.54%), which has increased and is again overweight against the Benchmark.

Financials is the second largest allocation (21.2%) and is overweight against the benchmark. This is due to the Manager continuing to build on existing holdings in a number of insurance companies.

The Manager typically envisages a holding period of between 3 to 5 years, though where long term thematic trends remain very supportive of investment case, a security may be held for a longer period.

In Q2 2023, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 45% that of the benchmark index (the MSCI World Index). The highest contributor was Shell (13.36% 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 (Exelon contributes a further 5.8% to the weighted average carbon intensity).

Staff Turnover: None reported by LCIV for Q2 2023.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q2 2023 the fund made a return of -0.12%. This underperformed the benchmark return by -4.02%. The one-year return was +1.13%, positive in absolute terms but behind the benchmark by -12.08%. The three-year underperformance was -4.92% p.a. against the benchmark. Islington's investment makes up 13.42% 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, the fund has underperformed the benchmark in Q2 2023, and has made a loss for the quarter in absolute terms. The portfolio has overweight allocations to the Financial, Consumer Staples, Industrials, Consumer Discretionary, and Health Care sectors. Over the quarter the largest contributors to return included Microsoft (+1.00%), Nvidia (+0.91%), and Amazon (+0.82%). The largest detractors include positioning in MarketAxess (-0.86%), Anheuser-Busch Inbev (-0.77%), and Estee Lauder (-0.59%).

The London CIV is now comparing managers against their peer group and reported that RBC is performing well over the medium and 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 one-year period.

Portfolio Characteristics: As at end of June 2023 the fund had 38 holdings (the same as last quarter) across 13 countries. The active risk of the fund was 3.51%, slightly higher than Newton.

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

In Q2 2023, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 69% that of the benchmark index (the MSCI World Index) which is up from last quarter (when it was 65%). The highest contributors were InterContinental Hotels Group (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 13.61%), Equinor ASA (8.06%) and First Quantum Minerals (6.64%)

In June, London CIV completed a full due diligence review of the manager. ‘Resourcing’ now has an amber rating and ‘Cost transparency/Value for Money’ has a red rating, reflecting concerns about the investment team and performance. Somewhat surprisingly, London CIV has kept the overall rating as “normal monitoring” because they believe the manager can reverse the trend and deliver improved returns in future.

M&G – Alpha Opportunities Fund

Headline Comments: During Q2 2023 the M&G Alpha Opportunities Fund made a return of +2.50%, outperforming the benchmark return of +1.91%. Over one year it is outperforming the benchmark (cash plus 3.5%) by +2.85%.

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 SONIA/one-month Euribor plus 3-5% gross of fees p.a. over a market cycle.

Performance Attribution: During the quarter, the fund made a return of +2.50% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +1.91%. Exposure to industrial corporate bonds was the top contributor, with financial corporate bonds also performing well. Yield curve hedging/currency hedging was the top detractor (-0.21%). Over one year, the fund is outperforming the target return by +2.85% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to industrials (32%), Financials (27%), and Securitised debt (12%). 40% of the portfolio was rated BB* or below. The Manager reduced overall exposure to selective high yield names following strong performance. It also retained a preference for EUR denominated bonds over USD debt due to generally wider spreads in Europe.

In terms of outlook, the manager feels a recession is now less likely in the short term which they acknowledge is good news for credit because the risk of defaults decreases.

As at end June, the weighted average carbon intensity (WACI) of the portfolio was 34% of the WACI of a benchmark index, with 78% of the portfolio being measured where data was available (compared with 89% coverage for the benchmark).

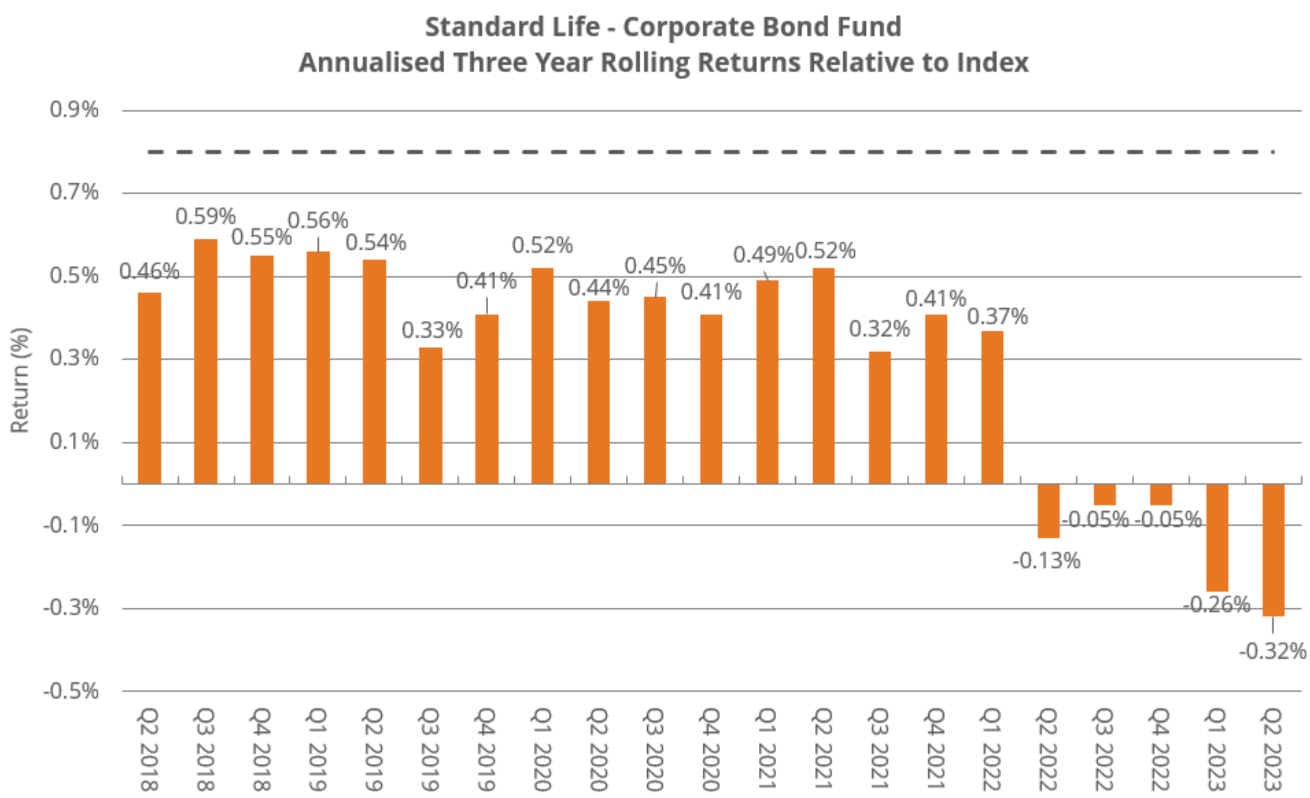
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio marginally outperformed the benchmark return during the quarter by +0.01% and made an absolute return of -3.38%. Over three years, the fund was behind the benchmark return (by -0.33% p.a.) for the fifth 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: Apex; BNY Mellon

Over three years, the portfolio has returned -6.62% p.a. net of fees, compared to the benchmark return of -6.30% p.a.

Portfolio Risk: The largest holdings in the portfolio at quarter-end was Cppib Capital 1.25% and BNG Bank 1.625%, each at 0.8% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end June 2023 stood at £2,134 million. London Borough of Islington's holding of £65.9m stood at 3.1% of the total fund value. This allocation is being gradually drawn down to fund the infrastructure investments.

Staff Turnover: There were eight joiners and 13 leavers during the quarter. No joiners or leavers related to the fixed income groups.

Aviva Investors – Property – Lime Property Fund

Headline Comments: The Lime Fund made a loss of -1.20%. It outperformed the benchmark return by +5.93% in Q2. Over three years, the fund is ahead of the benchmark return by +15.31%

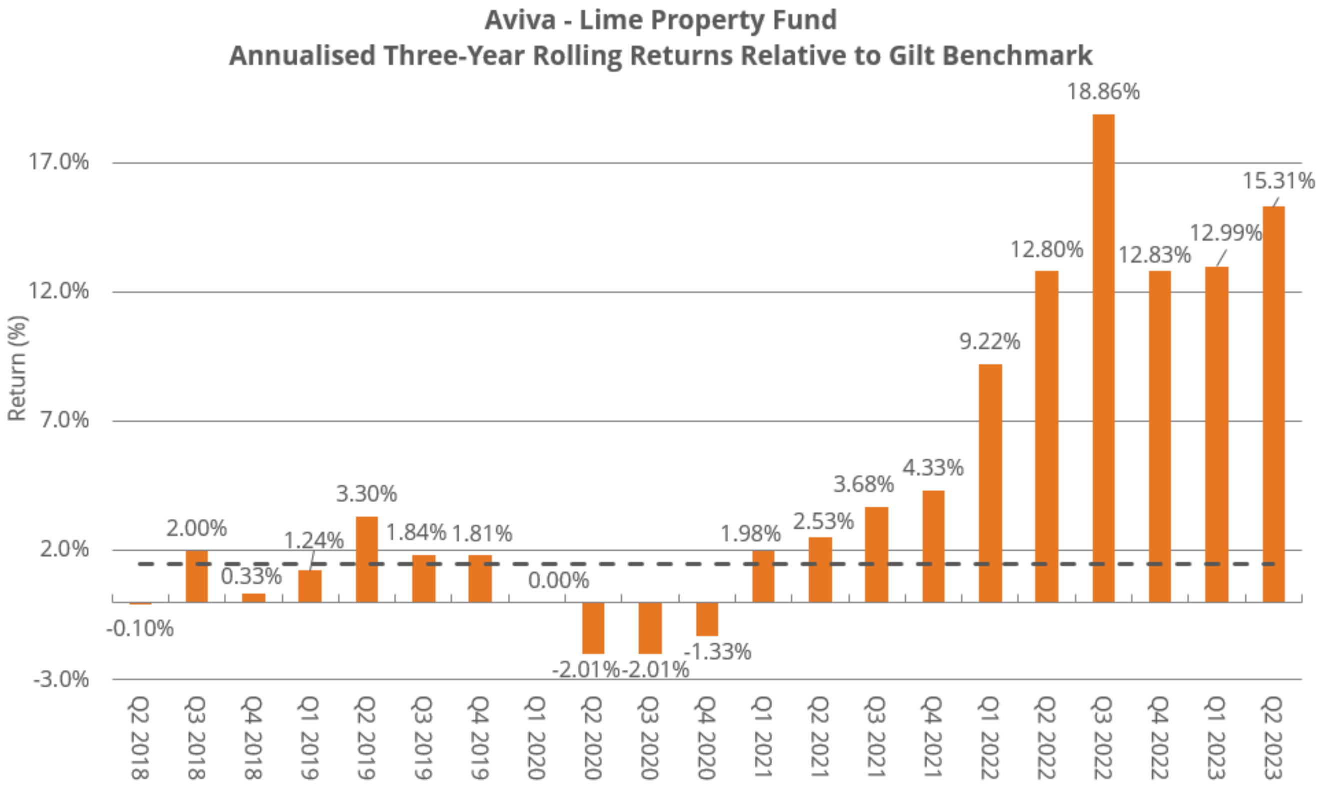
p.a., and over one-year outperformed by +3.73%. It is also ahead of the benchmark since inception in October 2004, by 1.97% p.a.

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

Performance Attribution: The fund's Q2 2023 return was attributed by Aviva to -2.16% capital return and +1.09% income return.

Over three years, the fund has returned +0.98% p.a., ahead of the gilt benchmark of -14.33% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 3. However, it is worth noting that the 3-year absolute return is much lower than was seen a year ago (when it was +8.7%).

CHART 3:



Source: Apex; BNY Mellon

Over three years, 251% of the return came from income and -151% 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 acquisitions over the quarter and two sales. The manager stated that it received more redemption requests than it expected before its annual redemptions window closed at the end of the quarter, at c.17.5% of NAV (£540 million).

The average unexpired lease term was 20.80 years as at end June 2023. 12.7% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 24.97% (proportion of current rent), and the number of assets in the portfolio is 84. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at June 2023, the Lime Fund had £3.08 billion of assets under management, a decrease of -£54 million from the previous quarter end reflecting the fall in capital value. London Borough of Islington's investment represents 4.2% of the total fund.

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

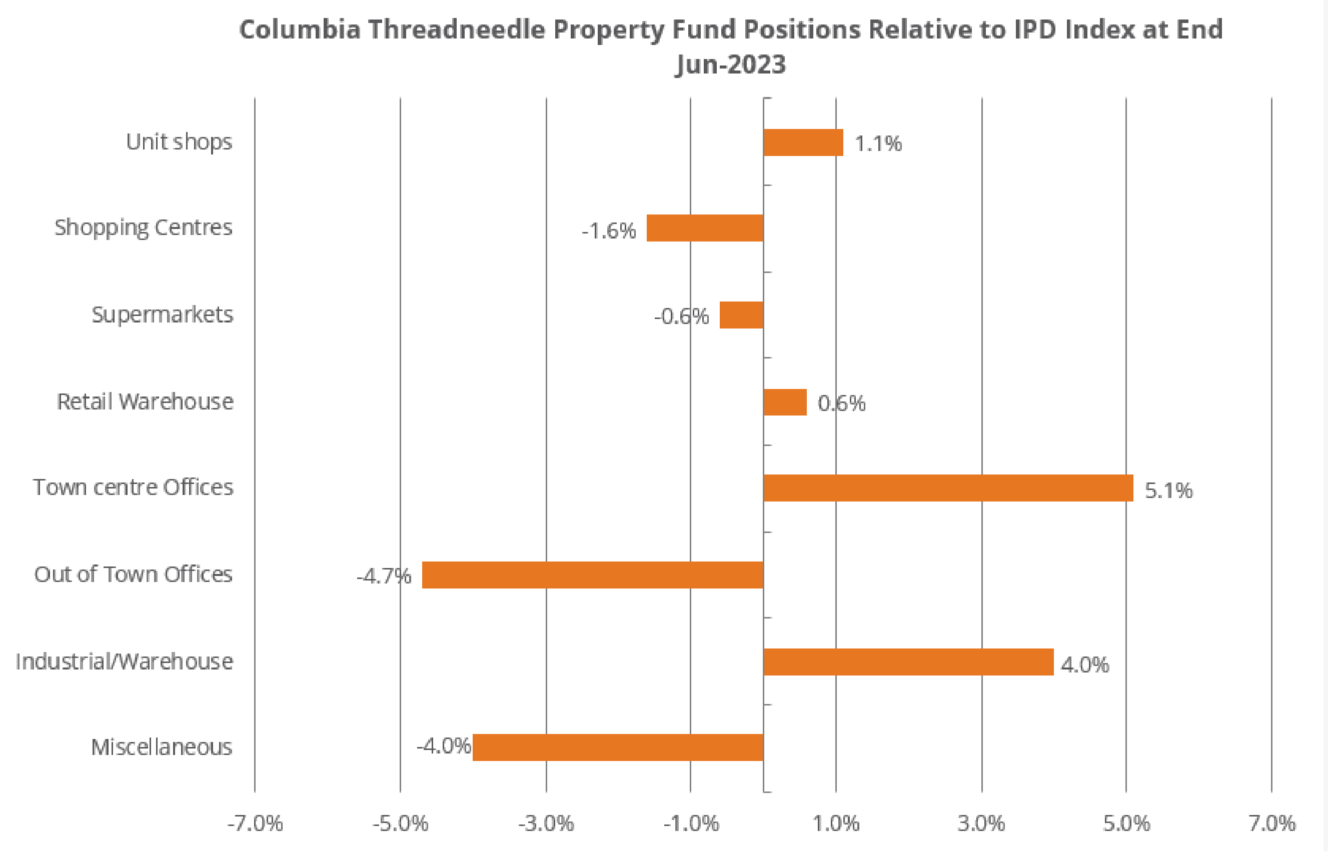
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund delivered a positive absolute return and outperformed the benchmark in Q2 2023, with a quarterly return of +0.89% compared to the benchmark return of +0.38%. Over three years, the fund outperformed the benchmark by +0.62% p.a. and as such is behind the performance target of +1.0% p.a. above benchmark.

Mandate Summary: An actively managed UK commercial property portfolio, the Columbia Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Historically, the performance objective has been 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. However, going forward the manager has amended their performance target to be outperformance on their quarterly benchmark over three years (i.e. losing the 1% per annum outperformance target).

Portfolio Risk: Chart 4 shows the relative positioning of the fund compared with the benchmark.

CHART 4:



Source: Apex; Columbia Threadneedle

During the quarter, the fund made no acquisitions and one sale. The cash balance at end March was 3.6%, compared with an average cash allocation of 5.7% for the peer group benchmark. The Manager states that it continues to monitor liquidity closely as a means of protecting the fund against the prevailing market volatility.

Performance Attribution: The fund outperformed the benchmark in Q2 2023, with a quarterly return of +0.89% compared to +0.38%. Over 1-year the fund outperformed the benchmark by +0.77%. The fund is now outperforming the benchmark over three years by +0.62%.

Portfolio Characteristics: As at end June 2023, the fund was valued at £1.56bn, an increase of £5m from the fund's value in March 2023. London Borough of Islington's investment represented 5.84% of the fund.

Staff Turnover: Tom Hatfield is a new asset manager on the TPEN Property Fund. He replaces Rob Flavelle and Alex Brouwer who both retired. Given the fund now holds fewer properties than historically, the Manager did not feel the need for a second replacement. Robin Jones remains the Fund Manager for the TPEN portfolio.

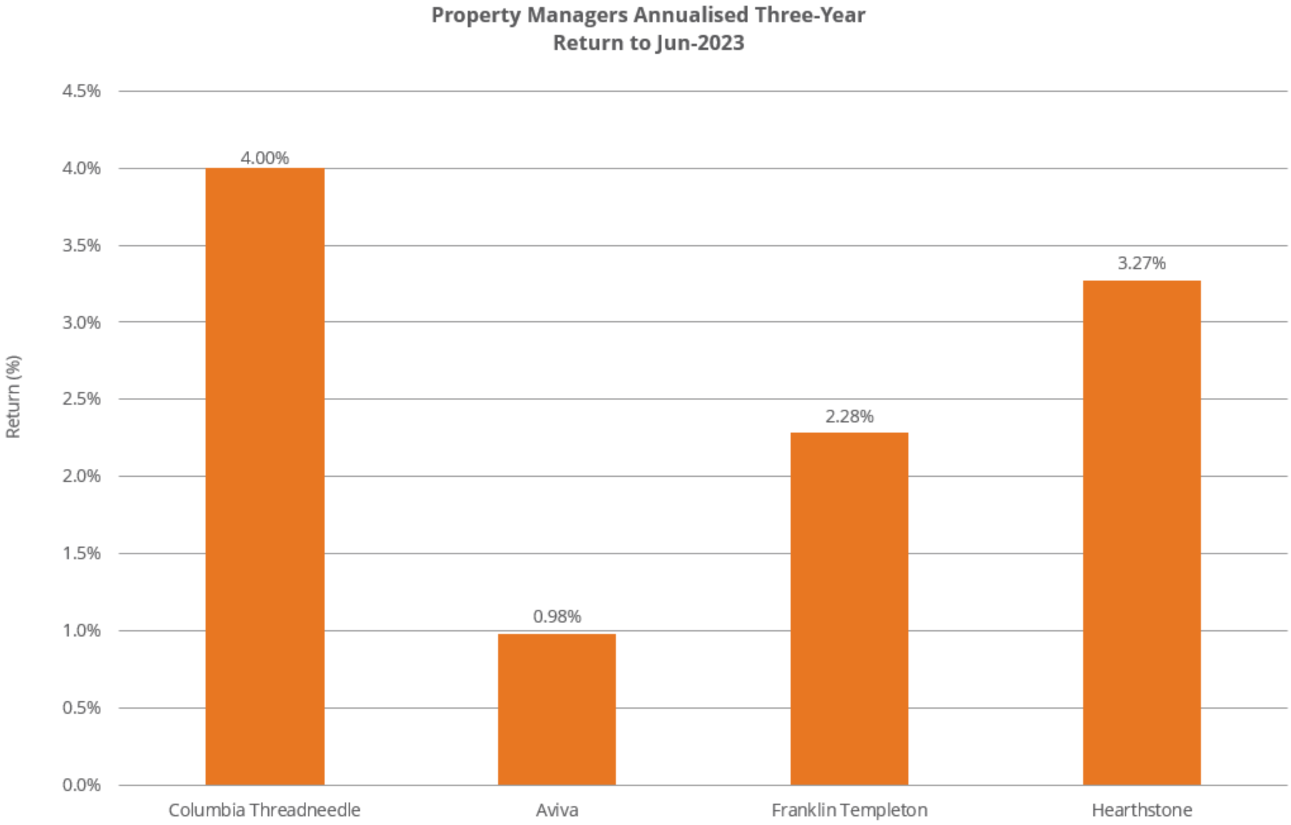
Franklin Templeton – Global Property Fund

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 underperformed the absolute return benchmark of 10% p.a. over three years by -7.72% 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 June 2023, Franklin Templeton ranks third out of the property managers for performance. Chart 5 compares their annualised three-year performance, net of fees.

CHART 5:



Source: Apex

Portfolio Risk: Fund I continues to be in its harvesting phase. Ten of the underlying Funds in the portfolio have now been fully realised, with four remaining, and total distributions to date have been US$503.4 million, or 138% of total Fund equity. Overall, the manager reported that the return on this fund has exceeded the target return, to date.

The largest remaining allocation in Fund I is to the US (73% of funds invested), followed by Europe (27%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Fund II is fully invested in a diverse mix of property sectors including office and retail uses. As at end June 2023, 87.0% of committed capital had been distributed and there now remain six active underlying holdings. Leverage remains at 53% for the quarter to June 2023. The manager notes that the pandemic followed by the dramatic increase in interest rates has led to some delays in implementing business plans. However, the return has exceeded the original return target, to date.

The largest geographic allocation in Fund II is to Europe (62% of funds invested), followed by the US (29%), and Asia (9%).

Fund III continues to invest in a diverse mix of property sectors including residential, retail, industrial and office uses. The portfolio consists of five investments, two having been realised. There was no change to the total distributions made over the period, and no new investments or realisations. The portfolio is allocated 61% to Europe and 39% to the US.

Staff Turnover/Organisation: There were no joiners or leavers during Q2 2023.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending June 2023 by -0.48%, and is underperforming over three years by -0.61% p.a. A phased redemption of this fund was negotiated with the manager and a verbal update will be given at the meeting.

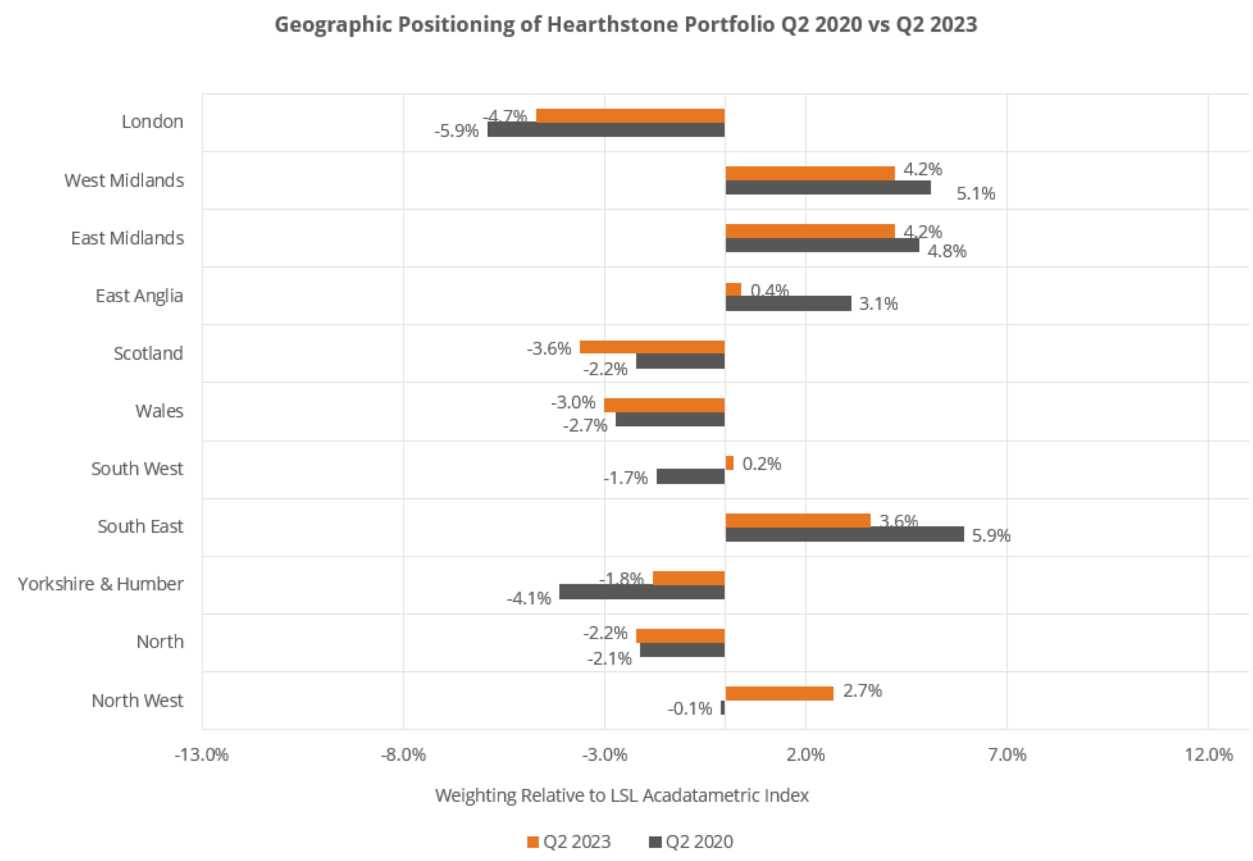
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to June 2023 by -0.61% p.a., returning +3.27% p.a. versus the index return of +3.88% p.a. The manager has outperformed over 5 years by +0.34% p.a. The gross yield on the portfolio as at end June 2023 was 5.04%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 3.05%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 11.96% (£8.1 million), which is 1.99% lower than at the end of March 2023. To date the manager has successfully met two redemptions of £500,000 each. After the quarter end, on 3rd July 2023 the manager met a further redemption of £2,000,000.

Chart 6 compares the regional bets in the portfolio in Q2 2023 (orange bars) with the regional bets three years ago, in Q2 2020 (grey bars).

CHART 6:



Source: Apex; 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 March there were 224 properties in the portfolio and the fund stood at £67.7 million. London Borough of Islington’s investment represents 41.2% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: There were no joiners or leavers during the quarter to June 2023.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 30th June 2023 was positive at +0.57%, but underperforming the target return of +12.00%. Over three years, the fund returned +16.55% p.a. and therefore was ahead of the target by +4.55% p.a.

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 Q2 2023, on an unaudited, provisional basis, the fund had invested USD 478.1 in 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 367MW (including those with minority stakeholders), as at 30 June 2023 (latest data available).

Organisation: During the quarter, Quinbrook had two leavers, both Vice Presidents, and three new joiners, a Senior Director for Investor Relations, a Senior Advisor and a Chief Financial Officer, Stuart Palmer. It is also worth noting that after quarter end, the Manager hired Susanna Seng as Global Head of Compliance.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +9.99% per annum. This compares with a three-year return on listed global equities of +12.43% per annum. The three-year return on the infrastructure fund was +17.38% versus the absolute return target of 10%.

Mandate Summary: London Borough of Islington have made total commitments of £106.7m 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 £77.4m. (Both the total fund commitment and Islington commitment have been converted to sterling as at Q2 2023, according to the Manager.)

Portfolio Characteristics: Over the period Q1 2023 – Q2 2023, there were no drawdowns but there were distributions of £59,011 from PUSA CII Ltd (£23,604) and PGSF IV Feeder (£35,407).

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 30 June 2023 the fund had closed commitments of £3.6 billion (€4.2 bn) and had made a total of 13 investments equalling 46.1% invested. 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 £70.9 million to June 2023, equalling 75% of committed capital. The fund has achieved a return of -0.17% for the year to 30 June 2023, underperforming the absolute target return of +5.00% by +5.17%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. No defaults have been reported.

Crescent – Credit Solutions Fund

Headline Comments: The Crescent Credit Solutions Fund VIII is part of the new private debt allocation. The fund closed two new investments during the quarter: April Group and Pushpay, bringing invested capital to 64% of commitments. The fund has achieved a return of -5.55% for the quarter to 30 June 2023, underperforming the benchmark return of +2.41% by -7.96%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period.

Karen Shackleton
Senior Advisor, Apex
11th September 2023

Mercer

LGPS CURRENT ISSUES

August 2023

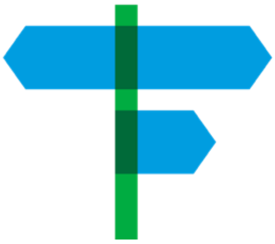
welcome to brighter

In this edition

It’s been a very busy summer already, especially on the sporting front with Wimbledon, the Open, thrilling finishes in both the women’s and men’s Ashes and currently the Women’s World Cup with the Lionesses now just one win away from being World Champions.

Whilst many of you will have already enjoyed your own summer holiday or will be taking yours soon, the same can’t be said for workloads in the LGPS as we approach annual benefit statement, pension saving statement deadlines, the release of McCloud regulations and a recently published pooling consultation. In this edition of the Current Issues, we provide further comment on these and other recent developments, alongside a few summer holiday facts and figures!

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



Investment Update

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Next steps on Investment: Pooling Consultation

Following on from the Chancellor's Mansion House speech on 10 July 2023, on 11 July 2023, DLUHC published its long awaited consultation on pooling in the LGPS. The consultation closes on 2 October 2023 and focusses on the following areas.

Area	Proposals
Asset Pooling	• Acceleration of pooling. • 31 March 2025 deadline to transition at least all listed assets. • Potential transition to fewer pools. • Increased transparency of pooling progress in ISS and annual report. • Permit investment in another pool's investment vehicle, via a fund's existing pool.
Levelling Up	• Funds to publish a plan for investing up to 5% of assets in projects which support levelling up anywhere in the UK. • 12 medium term "levelling up missions" set out to define investments which count towards the 5% target. • Funds to report on progress against their plan in the annual report.
Private Equity	• Fund's to consider investments to meet the government's ambition of 10% of the LGPS being invested in Private Equity.

The consultation also includes comment on the provision of investment consultancy services and minor technical amendments to regulations.

Mercer's response to the consultation is currently being prepared and we will share further details with clients in due course. We very much welcome the views of our LGPS clients to help inform our response.

According to the United Nations World Tourism Organization, the most visited country in 2022 was France with nearly 80 million visitors, followed by Spain and the USA. The UK was 7th.

Climate Risk Reporting

On **15 June 2023** a letter from the Minister to the SAB confirmed that the implementation of climate reporting obligations for LGPS Funds (in England and Wales) would be delayed by at least a year until 2024. Reports covering the period 1 April 2024 to 31 March 2025 would therefore need to be produced by December 2025 if regulations are forthcoming in time for the financial year beginning 1 April 2024.

Whilst regulations (and formal reporting) have been delayed, we would still advise that Funds consider what is likely to be required if they haven't done so already. Recent reports from the TPR (in relation to private sector reporting) and the SAB (in relation to planning by LGPS Funds) have shown that:

- The length of reporting has varied – from 10 to 85 pages (average of 34) indicating further work needed to consider content (TPR)
- Data quality/suitability and coverage/accessibility remain a challenge (TPR and SAB)
- Sufficient background information often not provided (TPR)
- Resource/Project planning could be an issue for some Funds (SAB)

To be ready for climate risk reporting, it's important that Funds familiarise themselves with the provisional requirements, agree responsibilities and engage with members and other stakeholders. Please speak to your Mercer consultant if you need assistance in preparing for the climate risk reporting requirements.

Economic Activity of Public Bodies (Overseas Matters) Bill

On **23 June 2023** The Government published a Bill which, if enacted, would prevent administering authorities from making investment decisions "influenced by political or moral disapproval of foreign sates", except where is required by formal Government legal sanctions, embargoes and restrictions. While private sector pension funds have been excluded, the LGPS would be covered by the Bill. TPR would be responsible for overseeing compliance. The Bill will be considered by the House of Commons Public Bill Committee, which is expected to first sit on 5 September 2023. The Committee has issued a call for evidence and the SAB will be considering this further.

The Scheme Advisory Board responded as follows to the announcement of the Bill:

> *We would point out that LGPS is a well-funded and well-run scheme. Administering authorities take their statutory and fiduciary duties around the investment of pension funds very seriously.*
>
> *They also take very seriously their duties under the Equality Act to foster good relations between different communities and to eliminate discrimination.*
>
> *As far as the Board is aware, there is no evidence that any LGPS fund has instituted inappropriate politically motivated boycott or divestment policies*
>
> *We have concerns that there would also be scope for judicial review by "interested third parties" in parallel to TPR action*

Whilst Mercer is not able to offer legal advice, as drafted the Bill does appear to have the potential to limit Pensions Committees from making country-specific exclusions on ESG grounds, unless there is a financial argument for doing so (with some limited exceptions). **We will therefore be monitoring developments closely in relation to the Bill in order that we can provide the necessary advice to Funds as and when required.**

Other news in brief

Sharia Law - the Scheme Advisory Board has appointed Amanah Associates to provide expert advice on a range of issues around Sharia Compliance in the LGPS. The report will be due in the autumn.

UK Pension Investment Conference – on **21 September 2023** we will be holding our annual UK Pension Investment conference in London. Whilst not LGPS focussed, the conference will cover the key investment issues facing UK pension schemes currently, including investment stewardship and the government's recent drive to encourage investment in the UK and private equity . Further details on content will be released in due course but you can register to secure your place here.

The first package holiday reported was in 1841 when Derbyshire Cabinet maker Thomas Cook arranged his first "tour", a bespoke train trip for 500 Temperance supporters from Leicester to Loughborough.

Funding Matters

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Inter-valuation updates

The dust has now settled on completion of the 2022 actuarial valuations in England and Wales. As we approach the mid-way point of the inter-valuation cycle (as scary as that sounds!) we would recommend Funds consider:

- Impact on the funding position of changes in market conditions / economic outlook (e.g. continued high inflation / rising interest rates etc.) alongside approach for terminations/admissions.
- Impact on underyling funding assumptions (and thus funding position) as part of any review of the investment strategy.
- Whether covenant for any employers (where there is a risk of potential unfunded liabilities emerging) has changed – see Covenant section for more details.
- Whether there are any employers for whom exiting the Fund would now be affordable – for example any charities/other employers for whom consideration has been given to putting a DDA or where active membership is maturing and diminishing.

The highest pound to Euro rate was 1.752 on 3 May 2000 (shortly after the Euro was launched in 1999). The lowest was 1.02 on 30 December 2008 during the global financial crisis.

Employer investment/covenant risk

Largely as a consquence of the continued rise in gilt yields over the end of last year and the course of this year, many Funds are seeing requests from employers regarding options that may be made available to “de-risk” their position in the Fund. This is against a backdrop of more affordable termination settlements in current financial market conditions, which employers wish to protect from worsening in the future. These requests include:

- Some form of “partial exit” from the Fund, designed to allow an employer to terminate the Fund in respect of some but not all liabilities. This would leave the remaining employers to underwrite the risks of the employer’s terminated liablities, whilst the employer in question remains ongoing in the Fund, underwriting only its remaining liabilities (typically these would be in respect of some or all of the active member liabilities).
- Adoption of a lower risk investment strategy (which may be actual or notional) which would allow the employer to reduce investment risks whilst termination funding levels are higher, and therefore risk reduction is affordable (thereby leaving the Fund less exposed to the employer covenant risk).

These requests are being raised at a national level and clearly there are a number of factors for Funds to consider in relation to these requests, which include:

- Whether a partial termination is a legally viable option
- If it is, is it appropriate for Funds to allow this
- Whether investment de-risking options are already available for employers (some Funds are already operating these) and if not, will the position be reviewed
- If Funds decide not to offer de-risking, will there be recourse for employers against Funds in the future, if market conditions revert and termination deficits have increased when such employers actually exit the Fund.

Please get in touch with your usual Mercer consultant should you require any additional support on these or similar issues.

Strain Costs

Following completion of the 2022 actuarial valuations and following recent changes to early retirement factors arising from a change in the SCAPE discount rate we have reviewed the factors adopted in early retirement strain calculations within the administration systems for those Funds where we are Actuary.

The new strain costs factors will produce costs that are comparative (on average) to current quotations and also, from an administrative perspective, remove the potential for unexpected strain costs to emerge (i.e. where benefits are being reduced).

In the longer term, we would recommend liaising with Funds/Advisors/Software providers to revisit and update the current calculation specfications where necessary e.g. to reflect current interaction between factors and also any potential changes emerging from forthcoming regulatory changes e.g. McCloud etc.

Accounting – Asset Ceilings

Disclosures for 31 July 2023 accounting cases are now in full swing and the larger 31 August 2023 exercise for academies in England Wales also on the horizon. Changes in market conditions (namely rising corporate bond yields), are likely to result in a number of employers being in surplus for the first time on an accounting basis.

Whilst not impacting on what contributions they pay into the Fund, based on experience from the 31 March exercise the change in balance sheet position is likely to lead to employers (and their auditors) potentially raising queries / asking for additional information, which will add to the project management for Funds associated with these exercises.

For further details on the potential scenarios that could emerge, and what options are available to employers, please contact your usual Mercer Consultant.

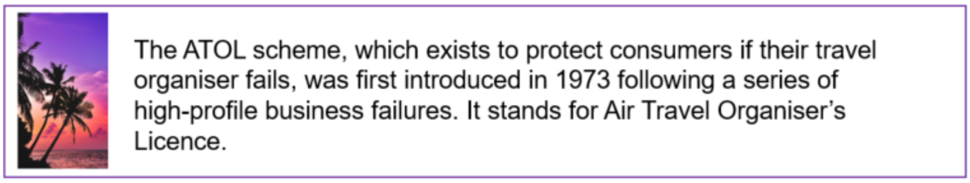
SAB Publication of 2022 Scheme Valuation Report

On 9 August 2023, the Scheme Advisory Board published a report summarising the outcomes of the 2022 actuarial valuation exercise for all Funds (with information sourced from reports for individual Funds).

Alongside setting out a summary of the main assumptions adopted (discount rate, life expecancy, inflation, salary incrases etc.), the report sets out the following headline balance sheet / contribution outcomes:

- *The average funding level has improved from 98% in 2019 to 107% at 2022 (on local funding bases), with all Funds reporting an improvement in their position since 2019*
- *Average contribution rates to meet future service costs rose from 18.6% of payroll at 2019 to 19.8% of payroll at 2022*
- *Overall, contribution rates fell – reflecting lower deficit contributions – to 21.1% of payroll at 2022 from 22.9% of payroll at 2019*
- *Employee contributions increased marginally from 6.5% of pay to 6.6%*

We would view this report as a pre-cursor to GAD's Section 13 assessment of the 2022 valuations. Whilst it can be difficult to directly compare figures without the fuller details such as overall funding objectives / risk manamagent policies in place etc, Funds will nonetheless be interested to contrast their own position against the aggregate data.



The ATOL scheme, which exists to protect consumers if their travel organiser fails, was first introduced in 1973 following a series of high-profile business failures. It stands for Air Travel Organiser's Licence.

Covenant

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Integrated Risk Management

The level of risk and expected return incorporated into a Fund's investment strategy will feed into the funding strategy adopted by the Actuary when setting Employer contributions. Alongside funding and investment strategies, the third element of an integrated risk management approach that looks to balance risk versus long-term affordability is employer covenant.

Employer covenant is an employer's financial ability to support its pensions obligations now and in the future, effectively underwriting the risks inherent in the investment strategy (member benefits ultimately being paid via a combination of assets and contributions).

How can Mercer help Funds manage Covenant risk?

Led by experts in corporate finance and restructuring, Mercer's specialist covenant team has been providing support to LGPS Funds for nearly 20 years.

The range of services available to Funds has evolved over time, recognising the diverse range of employers now participating in Funds. Examples of how the team now provides direct support in the following areas:

- **Valuation Assessments/Ongoing Monitoring** - We can provide Funds with a covenant tool that can be used on a self-service basis or by ourselves. This tool triages employers using readily available information from their financial accounts, analysing KPIs, and delivering an easily understood Red-Amber-Green rating. The tool can also prepare reports for individual employers to support discussions and to also update Committee/Members.

- **Employer Transactions** – we can help Funds to understand the impact of Employer transactions on their covenant strength e.g. refinancing exercises, mergers and acquisitions, or perhaps assessing the impact of a bulk transfer of liability into a Fund.

- **Employer Distress –** the ability of employers to meet their ongoing contribution requirements can be impacted by macro events such as high inflation and volatile energy prices, or employer specific events such as the loss of contracts or key personnel. This can prompt the need for inter-valuation contribution rate reviews where the Fund determines that the covenant has deteriorated and the employer presents a greater risk to the Fund.

- **Employer Exits –** with the introduction of flexible exit arrangements for employers in recent years, Funds will need to be able to determine an employer's ability to pay a termination contribution in full or over a fixed period.

For all these services, our proportionate approach provides Funds with the key information and advice required to make informed decisions on a timely basis.

Climate Change

Another area in this sector that is becoming more important is Climate Change. Alongside the potential impact on funding and investment strategies (e.g. impact on life expectancy and net-zero targets etc.), employer covenant can also be impacted as employers face and react to climate challenges and regulatory requirements. We can help Funds to consider this in a proportionate manner, focussing on broader sector analysis to consider impacts to particular employer groups, which would complement scenario analysis work in relation to funding and investment impacts.

Further information

Should you wish to discuss further how Mercer can help you manage your covenant risks in any of the above scenarios, please contact your usual Mercer Consultant or Nick Tinker (Nick.Tinker@mercer.com)

According to analysis by Resume.io the country with the most statutory paid leave days in the world is Iran, with 52 (with 27 paid public holidays). The country with the least is Micronesia, with 9.

Regulatory round up

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McCloud remedy (various)

Remedy

On 30 May 2023 DLUHC published a consultation and draft regulations concerning the McCloud remedy. As summarised below, alongside setting out new approaches to how underpin protections will be applied (to better align the LGPS with other public service pension schemes) the consultation also sought views on new areas that weren't included in the original consultation.

Area	Comment
Old areas (updated approach)	• Extending protection to pension accounts where prior periods of membership aren't aggregated. • Granting protection where a member has previous membership (prior to 31 March 2012) of other public service pension schemes (even if not transferred to LGPS). • Granting protection to benefits built up in the period to 1 April 2022 after a member (with protection) takes flexible retirement prior to 1 April 2022.
New	• Policies for individuals with excess teacher service. • Compensation for those members who have suffered a loss due to the McCloud case. • Interest terms that will apply for any late payments arising due to McCloud.

The consultation closed on 30 June 2023 and a response is now awaited. Given Regulations are scheduled to be laid three weeks prior to becoming effective on 1 October 2023, the timescales for Funds and Software Providers to be "McCloud ready" is limited and it is crucial that statutory guidance is made available as soon as possible to assist the relevant stakeholders.

Some of the complexities around the implementaiton of the remedy, as highlighted in the consultation document, will undoubtedly put pressure on administration teams and software providers, in particular given the time available prior to 1 October 2023.

If you would like to discuss how Mercer can help you with regard to the McCloud remedy (e.g. indepedently validating/tesitng the data you have collated) then please contact your consultant.

According to Visit Britian, the most popular visitor attraction in the UK (paid) is the Tower of London. The most popular (free) attraction is the Natural History Museum.

Tax

On 22 May 2023 a consultation was launched by HMRC on the Public Service Pension Scheme (Rectification of Unlawful Discrimination) (Tax) (No 2) Regulations 2023 which supplement the first set of regulations which became effective from 6 April 2023 and set out the correct tax treatment for public service pension schemes when implementing the McCloud remedy. Following closure of the consultation on 19 June, HMRC published guidance on 26 June to assist schemes in this area.

Cost management processes

During May 2023, there were a number of developments in relation to both the HMT and SAB Cost Management processes, namely:

- A written ministerial statement published by HMT on 15 May 2023 confirming that reformed scheme design only will be included in the cost control mechanism. Further detail was also provided in a policy paper published alongside the statement.
- A response from DLUHC published on 11 May 2023 setting out its response to the consultation on changes to the SAB's cost management process. As a result of the changes, the SAB and HMT processes will be better aligned going forwards and SAB will be provided with greater flexibility in relation to making recommendations to the Secretary of State where the cost corridor is breached.

- LGPS Regulations were laid on 11 May 2023 to coincide with the DLUHC response (becoming effective on 1 June 2023).

Academies

On 17 May 2023 the DFE published their policy for guaranteeing the outsourcing arrangements of academy trusts in England. The guarantee covers employees eligible for the LGPS who are transferred to a contractor from an academy trust, work for a contractor providing a service to an LEA school which subsequently converts to academy status, or work for a local authority providing services to an academy trust, and the trust subsequently opts to outsource these services to a third party.

The guarantee also changes the requirements for trusts to seek approval from the Education and Skills Funding Agency (ESFA) should the relevant criteria set out in the DFE policy be met.

We would recommend Funds review their existing policies in relation to such outsourcings given the additional security the guarantee now affords and we would be happy to discuss such policies further as required.

Other regulatory news in brief

TPR’s New General Code is expected to be published in the Autumn. Further comment on the final code will be included in the next edition.

Cyber Security Following on from the Capita cyber attack in March, TPR updated its website reminding scheme managers of their their responsibilities and accountability in relation to the security of their Funds data. There have also been other recent incidents involving the Ombudsman and MOVEit. again reiterating the importance for Funds to have robust cyber security and business continuity plans in place to manage this risk

Many of the proposed requirements of the General Code are consistent with those in the LGPS Good Governance recommendations. For those Funds wishing to carry out a gap analysis in advance of the General Code becoming effective, including in relation to Cyber Security policies and procedures, then please contact your Mercer consultant.

According to a Travelodge survey, the most popular UK coastal destination in 2023 is Cornwall, followed by Devon and the Isle of Wight.

And in other news…

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Pensions Dashboards Update

The biggest development over the quarter saw DWP lay the Pension Dashboard (Amendment) Regulations 2023. As expected though, the phased staging timeline has been removed from the Regulations and instead a single connection deadline of 31 October 2026 for all Schemes has been set. This removal was confirmed by Laura Trott in a written ministerial statement.

Whilst formally removed from Regulations, Guidance however will still be issued by DWP and MaPS on a Staged Connection timeline for individual schemes (including the LGPS) and Schemes are still expected to continue their preparations accordingly.

In addition, the quarter saw:

- Data Value Guidance and updated Data Accuracy Guidance published by PASA.
- Updated dashboards guidance published by TPR to reflect the Regulations and to set out what schemes need to do to demonstrate their governance and decision making processes etc.
- The Pensions Dashboards (Prohibition of Indemnification) Act 2023 receive Royal Assent and prevents Trustees/Scheme Managers being reimbursed for any penalties imposed.

Gender Pay Gap Report

Following on from their report issued in January 2023 which identified differences in average LGPS pension benefits for male and female members, GAD published an updated report in June 2023 setting out details of the patterns identified in their investigations. In particular, the report highlights the complex interaction between part-time working, service breaks and career progression for women.

Going forwards, the SAB is to establish a working group to consider next steps in light of the GAD report, and has proposed that consistent reports be published across all public sector schemes as part of the quadrennial scheme valuation process.

Abolition of Lifetime Allowance

Following on from the announcements in the Spring Budget in March 2023, On 18 July 2023, a consultation was issued by HMRC formally setting out its approach to abolishing the Lifetime Allowance from 6 April 2024 onwards. The consultation includes comment on what limits will apply to lump sum benefits in the future and how such benefits will be taxed.

The Finance (No 2) Act 2023 also received Royal Assent in July 2023 thereby delivering the tax changes announced in the budget.

The only 7 start hotel in the world is the Burj Al Arab in Dubai

Meet the team

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Each issue we share some interesting facts about three members of our team at Mercer. This issue, meet Liam, Sarah and Nick.

Name: Liam Culshaw

Role: Actuarial Analyst

Joined Mercer: June 2023

Place of Birth: Liverpool

Favourite film: Very difficult to pick just one, but some that spring to mind are Pulp Fiction, Full Metal Jacket, and One Flew Over the Cuckoo's Nest.

If money was no object, where in the world would you want to travel to on holiday, and why? Probably either the Great Lakes in North America, or somewhere of historical significance such as the pyramids of Giza, Gunung Padang or Machu Picchu.

Can you speak a foreign language / do you try to when overseas? I'm not currently able to speak a foreign language but I have now completed 200 concurrent days on a language app to learn Spanish, so hopefully someday!

Name: Sarah Rafferty

Role: Cyber Security Consultant

Joined Marsh (Mercer sister company): May 2023

Place of Birth: London

Favourite film: Any sort of romcom!

If money was no object, where in the world would you want to travel to on holiday, and why? To the Bahamas to swim with the pigs!

Can you speak a foreign language / do you try to when overseas? Never!

Name: Nick Tinker

Role: Mercer's LGPS Employer Covenant lead

Joined Mercer: November 2019

Place of Birth: Leeds

Favourite film: Love Actually

If money was no object, where in the world would you want to travel to on holiday, and why?
I'd love to have the time and money to spend three months traveling by train around the old cities of Europe. As a new graduate, the exciting thrills and spills of a pending career as a chartered (!) meant I missed out on the Interrailling rite of passage.

Can you speak a foreign language / do you try to when overseas? My wife is fluent in French and Spanish and so she regularly despairs at my mangling of these beautiful languages. However, she speaks no German so I have the opportunity to exploit my O level German to my heart's content!

Contacts

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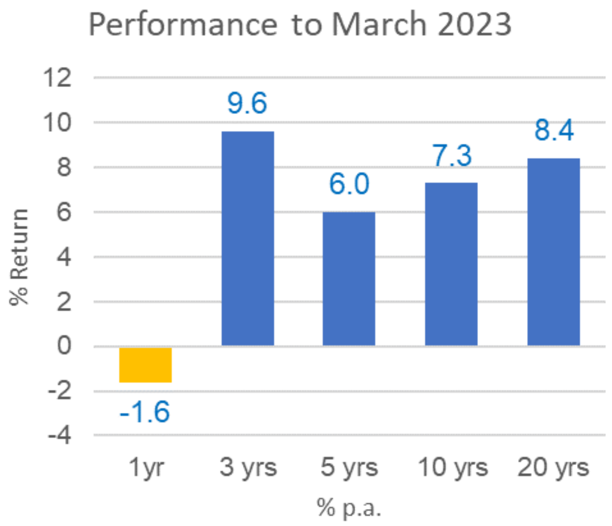
For further information on how Mercer can help LGPS Funds and their stakeholders, please visit our website at www.uk.mercer.com/lgps

Source - https://unsplash.com/s/photos/summer-holiday /

Islington Pension Fund

Performance to March 2023

How Did The LGPS Perform?



The average fund delivered a negative investment return in the latest year.

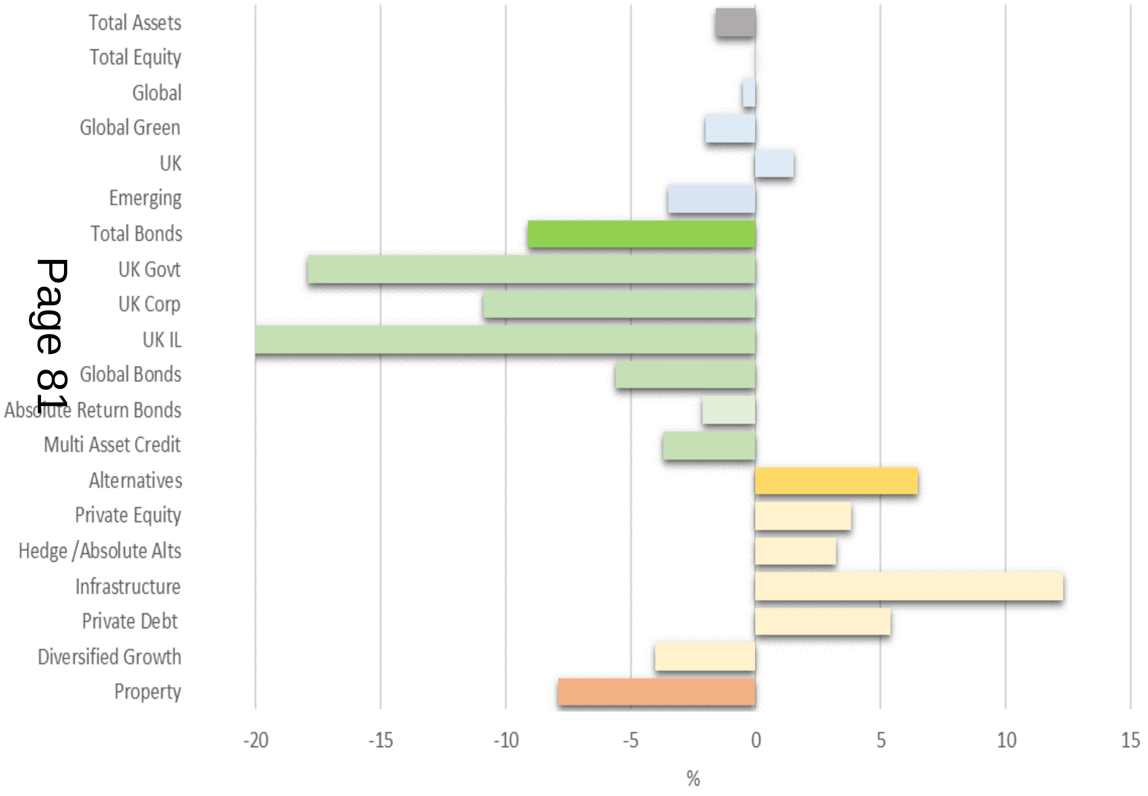
Asset class results strongly diverged and the range of results widened.

The average return was well ahead of the median (three quarters of funds underperformed the average)

The Northern Pool funds and LPPI performed particularly strongly

Longer term results are still well ahead of inflation and funds' actuarial assumptions.

The Latest Year



A good year for alternative investments, the only area to deliver positive results.

Equity performance was flat – and most active managers failed to add value.

Bond performance was deeply negative with diversified strategies performing least badly.

Property saw a strong decline in values over the year.

Longer Term Results

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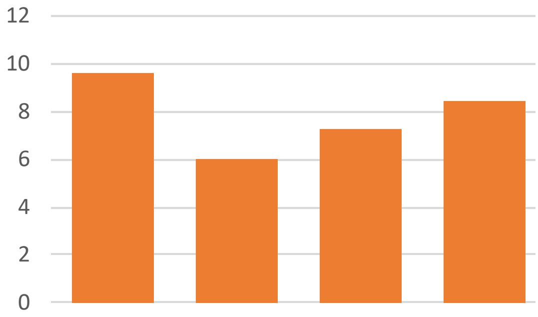


	Yrs % p.a.			
	3	5	10	20
Total Assets	9.6	6.0	7.3	8.4
Equity	14.5	7.6	8.8	10.0
Global	*14.9*	*8.4*	*10.0*	*6.4*
UK	*13.1*	*4.8*	*6.0*	*8.3*
Overseas	*14.2*	*7.6*	*9.6*	*10.6*
Emerging	*8.6*	*2.2*	*4.8*	*10.0*
Bonds	-0.9	0.3	2.6	4.5
Cash	0.9	0.6	0.7	1.0
Alternatives	11.6	10.3	9.8	8.5
Private Equity	*17.1*	*15.7*	*13.9*	*9.0*
Hedge Funds	*6.4*	*3.9*		
Infrastructure	*8.0*	*8.2*		
Property	2.9	3.2	6.8	6.0

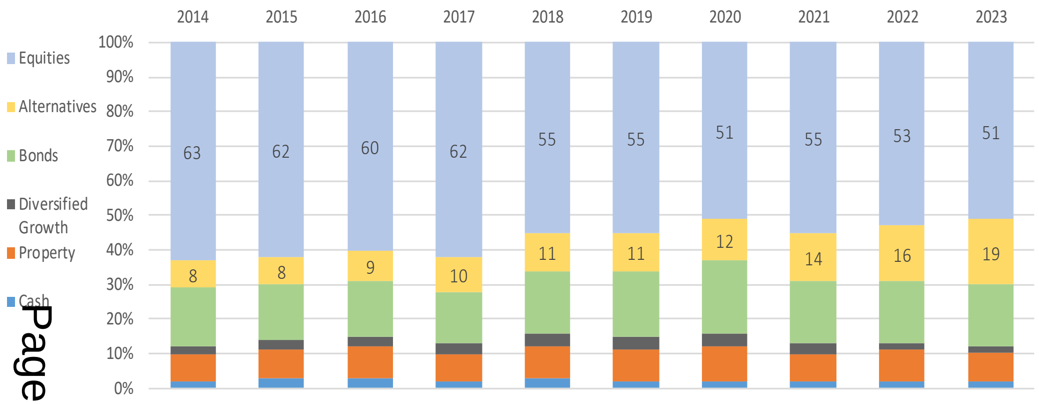
The best results (green) over the longer term were delivered by equities.

Over the medium term alternatives have performed best, driven by excellent private equity results over all periods. Infrastructure has also delivered strong returns.

Property performance has been poor over the recent past.

Bonds, the worst performing of the major asset classes (in red), have now delivered a return below CPI over the last ten years.

Fund Structures



Global Equities	6	7	12	30	34	33	33	35	35	36
UK Equities	24	21	20	14	12	11	9	9	7	6
Overseas Equities	33	33	28	13	9	11	10	12	10	9
UK Govt / Inv Grade	13	13	13	8	9	9	10	8	8	8
Overseas Bonds	3	2	2	3	3	2	2	2	1	1
Absolute Return Bonds	1	1	2	3	4	4	5	5	4	3
MAC	0	0	0	1	2	3	3	3	4	5
Private Debt	0	0	0	0	0	0	1	2	2	2
Private Equity	4	4	5	5	5	5	5	7	8	8
Infrastructure	0	0	1	2	3	3	4	5	6	7
Hedge Funds	2	2	2	2	2	2	2	1	2	2
Diversifying Alts	1	2	1	1	1	1	1	1	1	1
Diversified Growth	3	3	3	3	4	4	4	2	2	2
Property	8	8	9	8	9	9	10	8	9	9
Cash	3	3	3	2	3	2	1	3	2	2

Funds have reallocated 12% of total assets from equities into alternatives over the last decade.

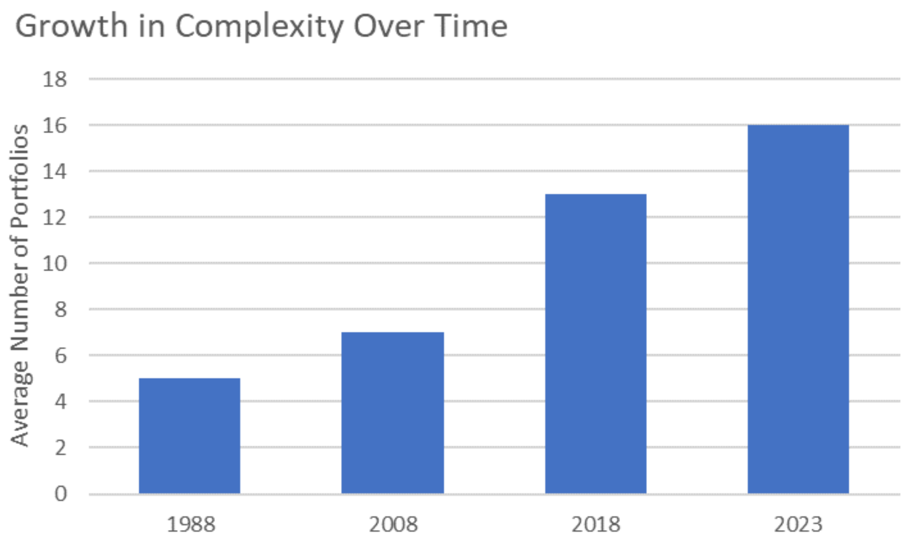
This has been the key structural change.

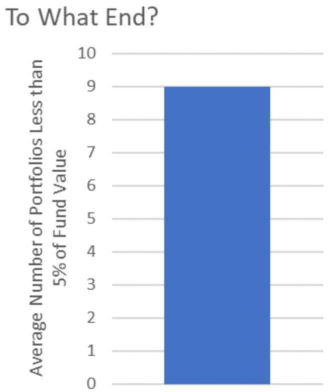
Infrastructure has emerged into a significant proportion of assets.

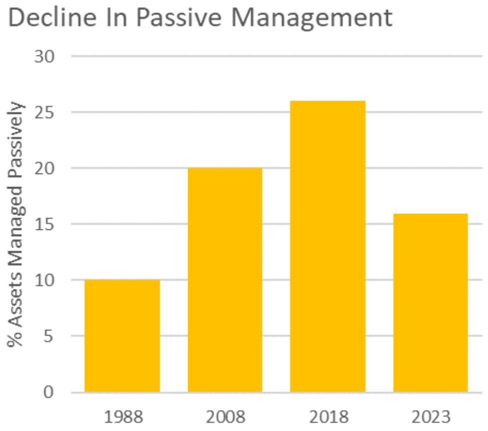
2016/17 was a pivotal year in terms of equity management away from regional to global mandates.

This was also the year funds really began to diversify bond exposure away from government to alternative forms of credit.

Fund Structures (2)


Growth in Complexity Over Time


To What End?


Decline In Passive Management

The top chart shows funds have continued to become ever more complex. Pooling has made little impact.

Increased complexity brings increased administration, cost and governance.

It is generally accepted that, at a level of less than 5% of a fund's total value a portfolio is likely to have little meaningful impact on the overall risk or return delivered. Currently the average fund has 8 portfolios less than this value.
Why then such a proliferation?

Passive management, the lowest cost of investment strategies has declined as funds invest in higher cost alternatives where there is no passive option.

Fund Performance

Latest Year Range of Results

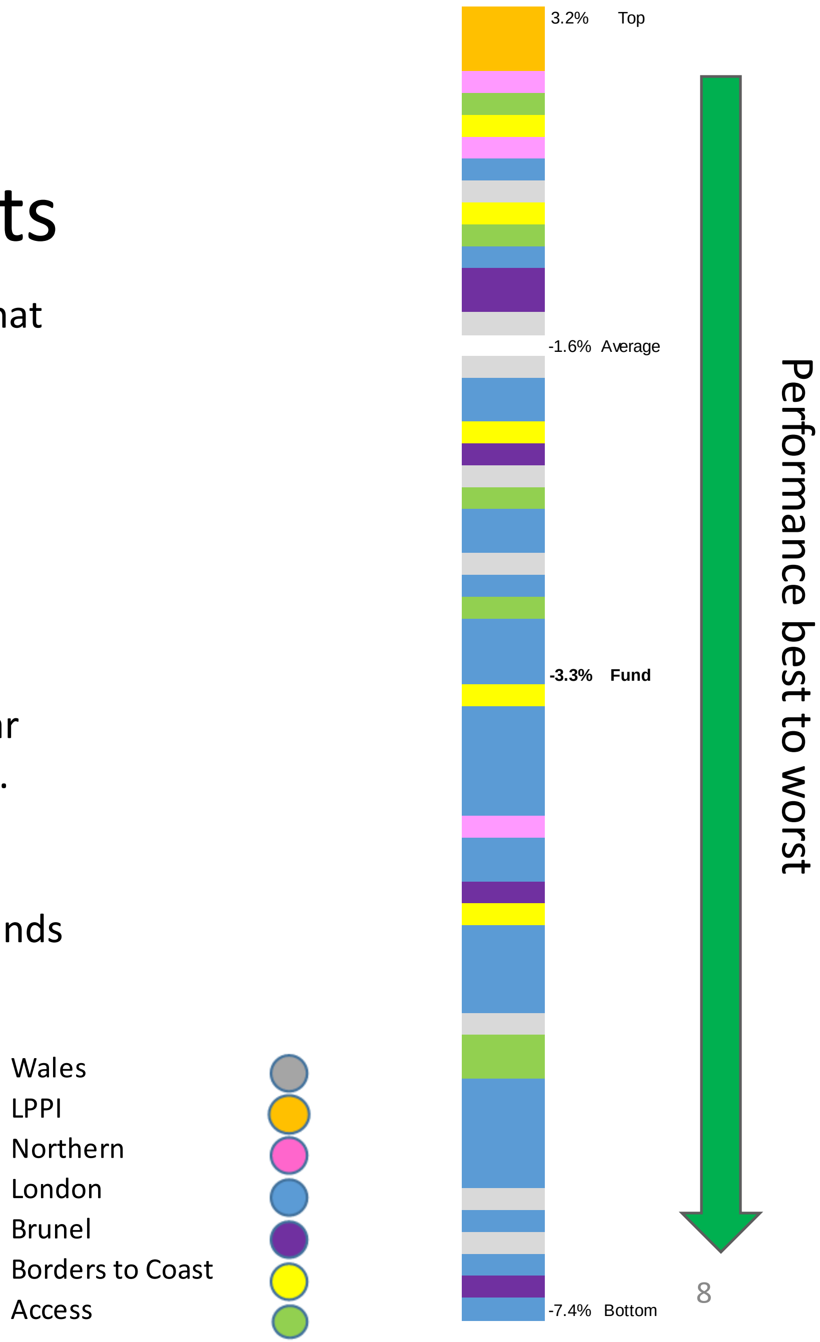
The blocks on the right show the funds listed from that with the highest to that with the lowest return.

The Fund, with a return of –3.3% ranked in the 50th percentile (median).

All top three funds this year (in green) were in LPPI.

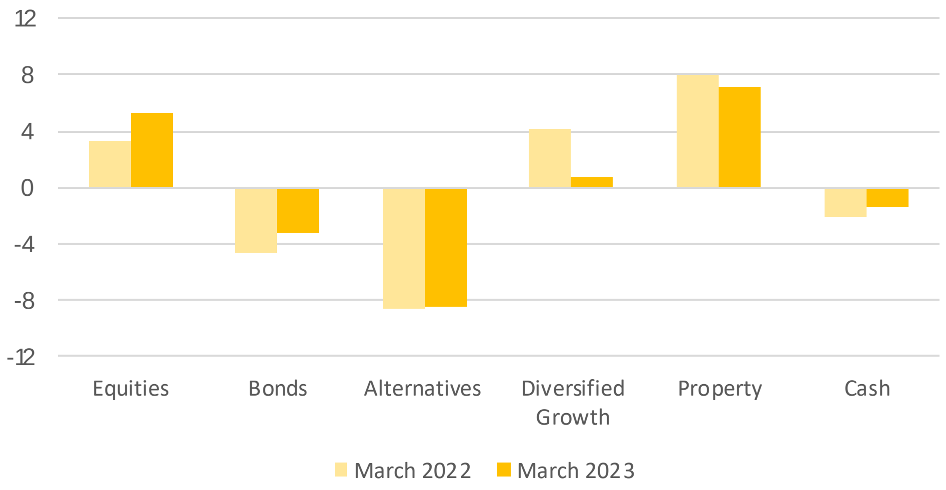
London funds performed relatively poorly with all bar one underperforming its benchmark over the period.

Large funds had a strong year with 6 of the 7 top performers being over £5bn in value. The smallest funds largely delivered bottom quartile results.



What Drove Performance in 2022/23?

	Fund	Universe	Relative	*Ranking*
Fund	**-3.3**	**-1.6**	**-1.7**	***50***
Asset Class Performance				
Equity	-1.5	0.0	-1.5	*57*
Bonds	-4.0	-9.1	5.6	*26*
Alternatives	17.7	6.5	10.5	*3*
Diversified Growth	-6.5	-4.0	-2.6	*83*
Property	-9.9	-7.9	-2.2	*43*
Asset Allocation				

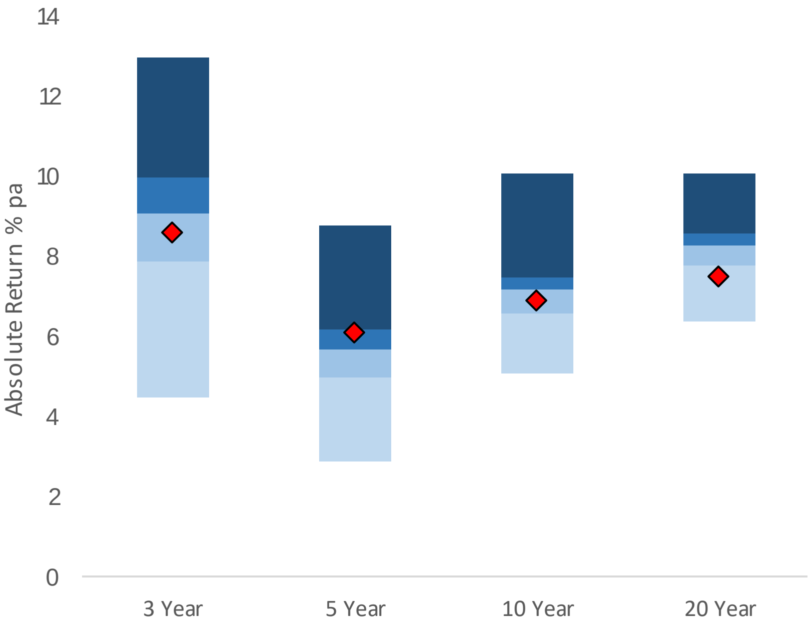


Strong results from the bond and alternative assets were only partly offset by the from equities.

Asset allocation had a drag on performance over the year – principally the result of the high commitment to property and underweighting of alternatives.

Longer Term Performance

Longer Term Returns and Rankings

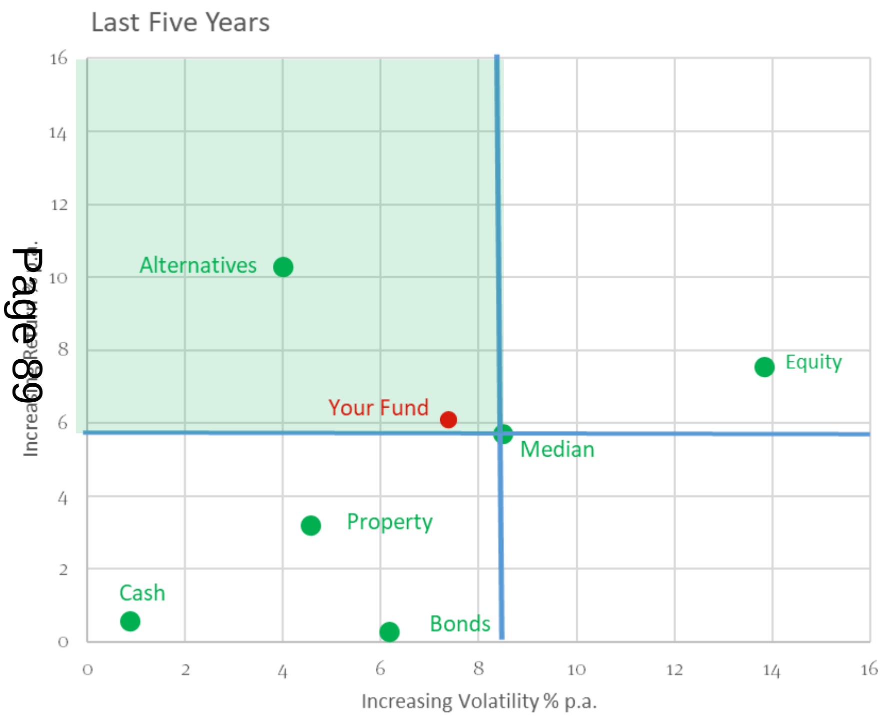


Fund	**8.6**	**6.1**	**6.9**	**7.5**
Average	9.6	6.0	7.3	8.4
Ranking	(65)	(32)	(60)	(91)
CPI Inflation	*6.0*	*4.3*	*2.8*	*2.7*

The Fund is below average over all bar the last five year period.

The low exposure to alternatives has had a drag on performance as had the high level of property held.

Diversification

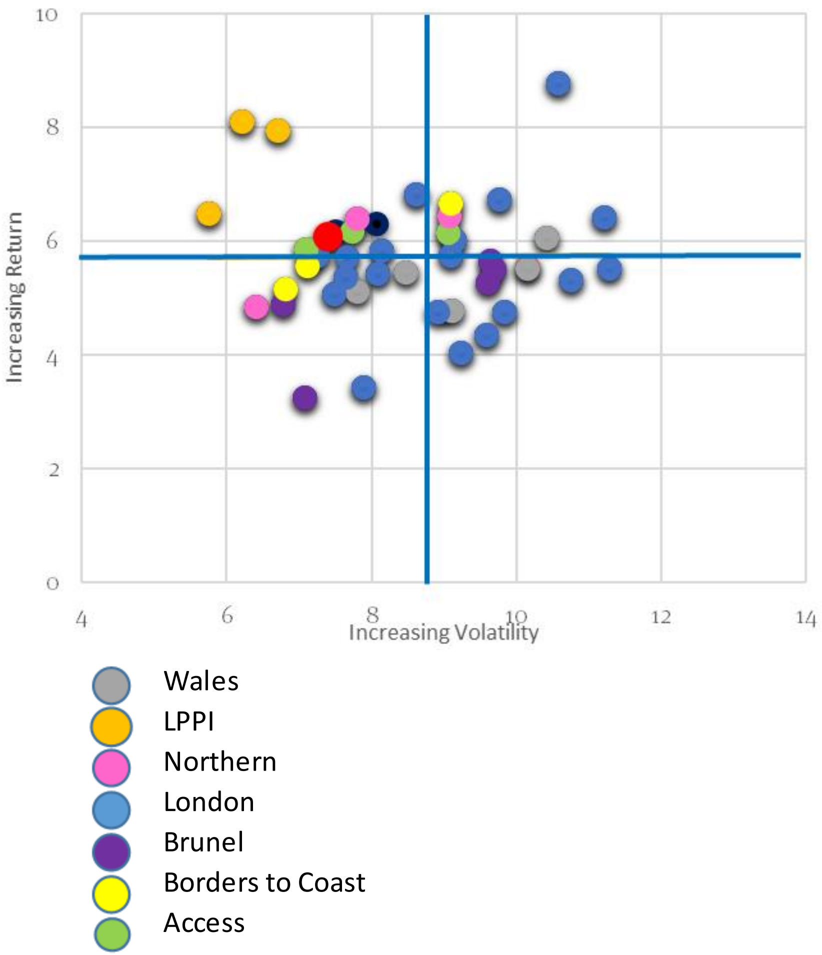


The Fund holds a range of assets to provide diversification, principally to reduce the volatility of equities.

Over the last five years equities have delivered a higher return than most other assets but at substantially higher volatility.

Your Fund has experienced lower volatility than most over this period and has delivered a higher return. This is a very efficient result.

Risk And Return – Last Five Years



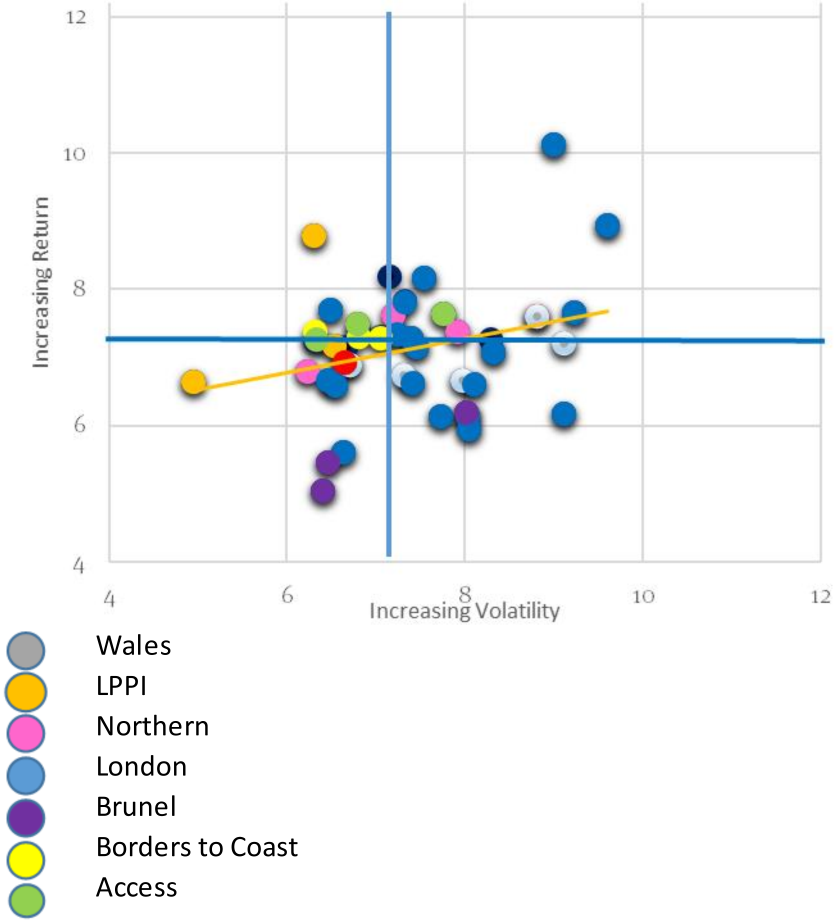
Here we show the individual funds in risk / return space with your Fund shown in red.

Over the last five years there has been no reward for accepting additional volatility.

Over this period Pool membership is beginning to have an impact on outcomes.

LPPI (orange) have delivered above average results at some of the lowest levels of volatility in the LGPS.
While funds in other pools are seeing returns come closer together London results (blue) remain widely dispersed.

Risk and Return – Last Ten Years



Over the last ten years the median fund has achieved a return of 7.3% pa with the same level of volatility.

Whilst outcomes vary across funds, in aggregate there has been some reward for accepting volatility (see orange trend line).

Over the ten year period, the Fund (in red) has experienced well below average volatility but has delivered a lower than average return.

Appendices

Performance Relative to Benchmark – Latest Year

Guide to Risk and Return Charts

Performance Relative to Benchmark Latest Year

Performance relative to other funds will depend on two factors:

The benchmark set

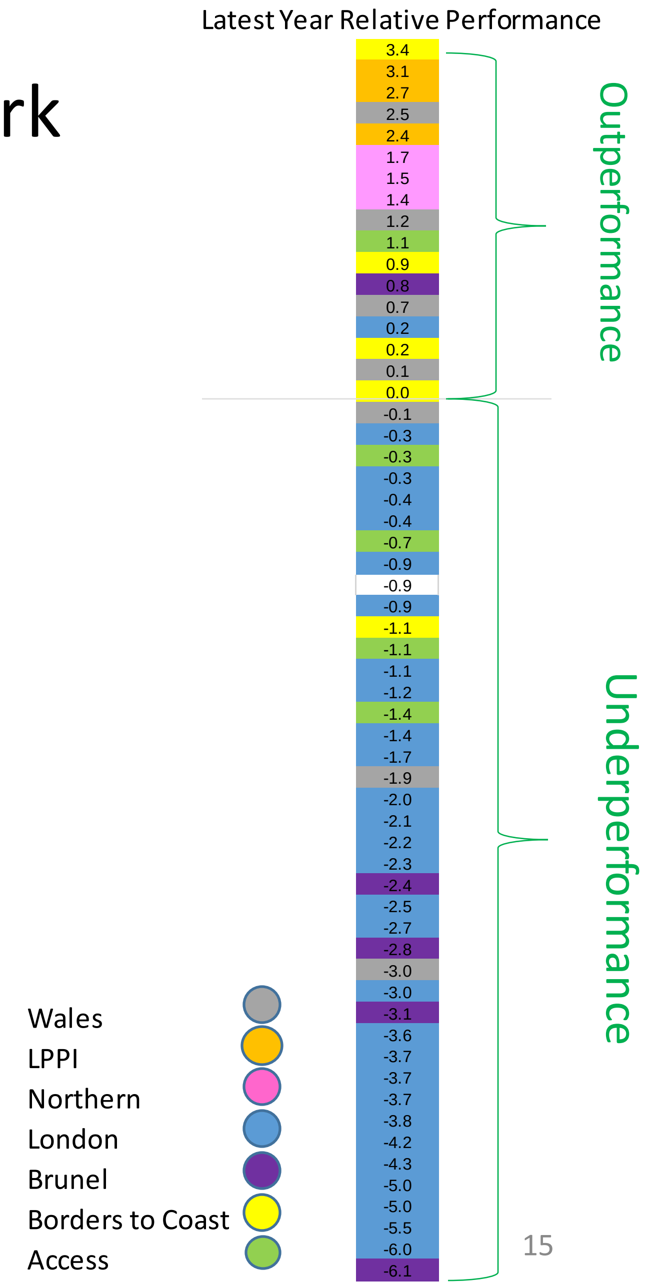
Performance relative to that benchmark

While pooling won't impact the former it should now be having an effect on the latter.

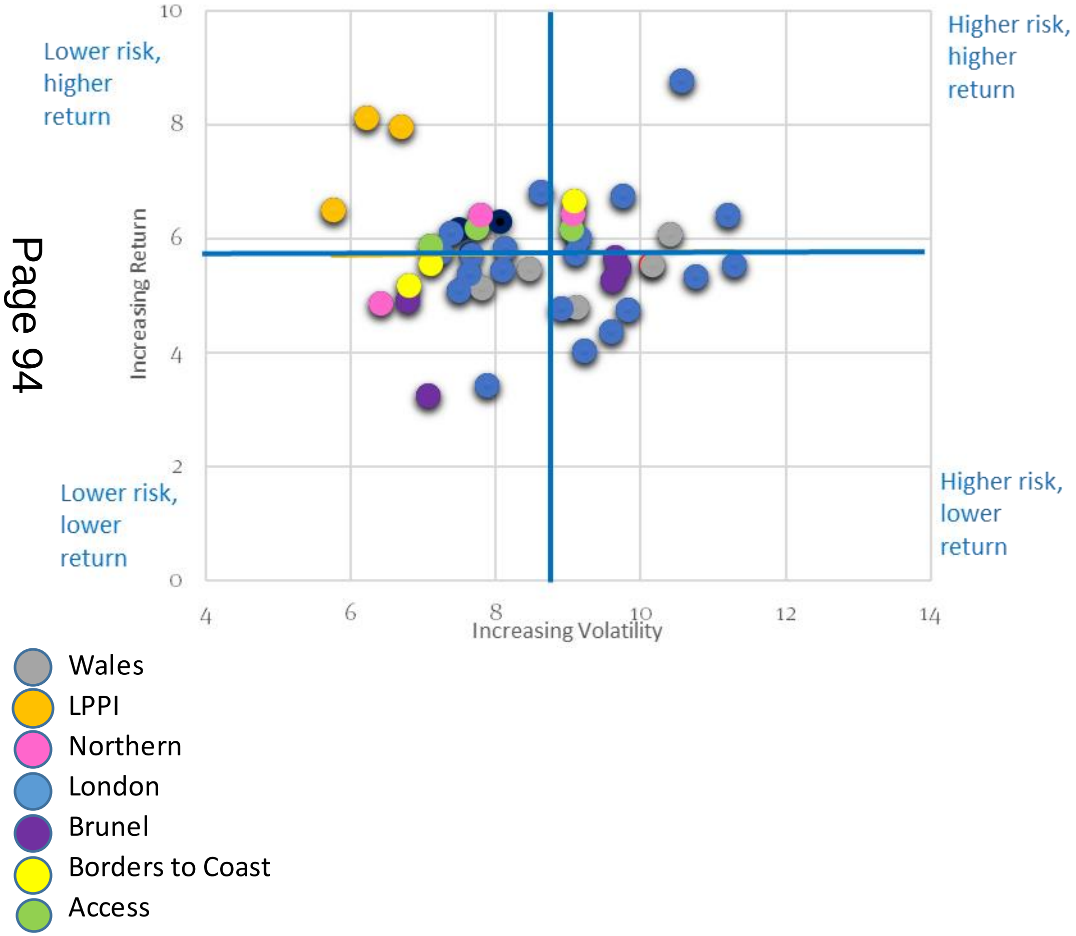
In the latest year three quarters of funds failed to outperform their strategic benchmark.

Only one London Fund outperformed.

Conversely funds within LPPI and the Northern pool all outperformed.



Guide to Risk Return Charts



Within investments there is always a trade-off between risk and return. Normally the higher a return that is being looked for the more volatility the fund must expect.

The charts show all funds with sufficiently granular data, identified by Pool.

The further along the x axis the more variable the returns have been, the further up the y axis the better the return delivered.
The blue lines mark the median risk and return.

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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 Committee

Date 26th September 2023

Ward(s): n/a

SUBJECT: INVESTMENT STRATEGY STATEMENT UPDATE

1. Synopsis

1.1 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from 1st November 2016 and required all funds to publish an Investment Strategy Statement (ISS) by 1 April 2017.

1.2 The ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. The ISS must also include the authority’s policy on how social environmental or corporate governance considerations are taken into account in the selection, non- selection, retention and realisation of investments.

1.3 As part of the 2022 Actuarial valuation process the existing strategic asset allocation was reviewed and agreed at the July 2023 meeting. The draft ISS (attached as Appendix 1) is now being updated to reflect the new strategic asset allocation and our new net zero targets.

2. Recommendations

2.1 To note the draft ISS document tracked (attached as Appendix 1)

2.2 To agree the changes and instruct officers to publish the new ISS.

2.3 To note that a stand-alone responsible policy document is being developed for consideration at a future meeting

3. Background

Introduction

3.1 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from 1st November 2016 and required all funds to publish an Investment Strategy Statement (ISS) by 1 April 2017.

3.2 The ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. The ISS must also include the authority's policy on how social environmental or corporate governance considerations are reflected in the selection, non- selection, retention and realisation of investments.

3.3 As part of the 2022 actuarial valuation process the investment strategy was reviewed to ascertain the risk and return parameters that could deliver the long-term investment target return to maintain affordability and pay our pensioners. Members agreed new carbon targets in June 2022 and the strategic asset allocation was also amended and agreed at the July 2023 meeting and the ISS needs to be amended to reflect these changes.

3.4 Members are asked to consider and accept the tracked changes in the draft ISS attached as Appendix 1 so officers can publish our updated ISS document. Further work is underway on Responsible Investment policy as a standalone document and will be a future agenda item to be considered by Members.

3.5 The Fund, as an administering authority, will take advice from its investment advisors and actuary as well as consult the Pension Board as required by the guidance.

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 LGPS (Management and Investment of Funds) Regulation 2016, Regulation 7(1) requires an administering authority, after taking proper advice, to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State. The investment strategy must include the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non- selection, retention and realisation of investments.

The administering authority owes fiduciary duties both to the scheme employers and to the scheme members where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decisions or strategies developed, such as a carbon strategy, must not negatively influence this primary responsibility.

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

The Pension Fund must take investment advice on investment decisions.

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

Environmental implications will be included in each report to the Pension Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 **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 ask Members to consider the updates in the tracked draft ISS document attached as Appendix 1 and agree to the changes so officers can publish the final document and note that, a stand-alone Responsible Investment policy is being developed for discussion at a future meeting.

Appendix 1- Draft ISS document
Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

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Email:joana.marfoh@islington.gov.uk

Financial implications Author: joana marfoh
Legal implications – Marina Lipscomb
Interim Assistant Director of Law
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INVESTMENT STRATEGY STATEMENT

LONDON BOROUGH OF ISLINGTON PENSION FUND – ~~December 2020~~SEPTEMBER 2023

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1. Introduction

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

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

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

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The Fund, in preparing and reviewing its ISS, will consult with interested stakeholders including, but not limited to, Fund employers, investment managers, advisers to the Fund and other parties that it deems appropriate to consult with.

Myners Principles

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

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2. Investment Beliefs and Objectives

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

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

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- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate ~~against~~the impact of adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.

- Managing risk is a multi-dimensional and complex task.
- Risk mitigation will be prioritised according to size of potential impact and risks will only be taken where they are expected to be rewarded.

"Environmental Social and Governance (“ESG”) factors increasingly have an impact on investment risk and return outcomes; and a responsible investment policy can lead to new opportunities and to better reputational and financial risk management.

Long term environmental sustainability is an important investment consideration as the world economy adjusts to the 2015 Paris Agreement; this presents long-term risks and opportunities to which the Fund's strategy will respond."

- ~~“Environmental, Social and Governance ((“ESG) issues”) factors can have a materialan impact on long-terminvestment risk and return outcomes and considering these issues is consistent with the fiduciary duty of the. The Committee. In particular, the Fund believes that having a broader perspective with regard to investment policy can improve risk management and lead to new opportunities. The Committee also recognises that long-term sustainability issues, particularly climate change poses a systemic risk with potential long-term investment , present risks and opportunities”. that increasingly may require explicit consideration.~~

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

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

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

Asset class	**Allocation %**	~~Allowable ranges %~~	**Role~~-~~(s) within the strategy**
Equity (developed~~,~~ and emerging ~~and frontier markets~~)	~~46~~45.0	~~+/-6.0~~	-Long term growth in excess of inflation expected -Significant integration of ESG/sustainability factors
~~Private Equity~~	~~4.0~~	~~+/-2.0~~	~~-Additional returns in excess of public equit~~
~~Multi Asset Credit~~	~~5.0~~		~~-Diversification across credit spectrum~~ ~~-higher risk adjusted returns~~ ~~-Liquid instruments~~
Infrastructure~~Property including~~ ~~Social Housing~~	~~25.0~~12.5	~~+/-2.0~~	-Diversification from equity markets -Generates investment income -Returns expected to be inflation-sensitive -Exposure to Illiquidity premium
Private Debt	10.0	~~+/- 2.5~~	-Access to ‘credit risk ~~premium.~~ -premium’ and Illiquidity premium -Generates cashflows through income and principal payments

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Impact Investments	5.0	-Access broad range of impact opportunities across asset classes -Increase integration of sustainable investments into strategy
Property~~Infrastructure~~	~~10~~20.0	-Diversification from equity markets -Generates investment income -Returns expected to be inflation-sensitive -Exposure to Illiquidity premium
Multi Asset Credit	7.5	-Diversification across credit markets -Income-focused return providing lower volatility than equities
Total	**100.0**	

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

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

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

4. Risk measurement and management

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

~~A~~a) Investment Risks

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

Inflation –The Fund's liabilities are impacted by inflation, both explicitly and implicitly, and the required return on assets is expressed in terms of inflation plus a premium. The Fund will seek to

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invest in a range of assets that provide returns in excess of inflation, and in some cases provide an inflation-linked income/capital values that are positively correlated with inflation, subject to a tolerable level of volatility.

~~Diversifying assets~~Diversification – The Fund's portfolio is well diversified across asset classes, geographies and asset managers. As different asset classes have varying correlations with other asset classes, the Fund, by investing in a range of different investments, can reduce the overall level of risk it is exposed to.

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The Fund has a significant ~~amount~~proportion of assets allocated to a range of non-equity~~,~~ diversifying assets, with allocations to property, ~~bonds, diversified growth~~multi-asset credit, infrastructure, private debt and a plan to build ~~allocations to real assets such as infrastructure and social housing~~an allocation to 'impact investments' across asset classes. The risks that these investments bring at an individual level are not insignificant but the Committee believes that over the long term these assets will provide returns that compensate for the risks being run. Additionally the level of diversification the assets provide helps to reduce the Fund's reliance on returns from equities. ~~-~~Illiquid assets such as property are also a valuable source of income, which will become increasingly important as the Fund matures and cashflow requirements increase.

Active ~~Manager Risk~~Management – Investment Managers are appointed to manage the Fund's investments on its behalf, a number of which are ~~active managers. Active manager risk is small relative~~actively managed (as opposed to ~~other risks; the Fund still addresses this risk.~~ passively managed). Extensive due diligence is undertaken before managers are selected, with ~~a number of~~several different managers employed in some asset classes to prevent manager concentration risk~~-~~. The investment managers are also monitored regularly by the Committee and by the Fund's Advisors.

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

~~B-~~b) Demographic Risks

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

~~C-~~c) Cashflow Management Risks

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The Fund is ~~cash flow positive. However, this position will~~expected to be ~~reviewed regularly and is a factor~~'cashflow negative' in future, meaning that ~~is incorporated into the Fund's investment strategy reviews with the~~all else equal disinvestments may be required to meet regular cash outgo. The long-term aim is that a portfolio of income generating ~~assets~~mandates is built~~-~~-up ~~over~~

~~time.~~such that any negative cashflow can be met automatically from asset income, and this has been an important component of recent strategy reviews.

~~D~~ d) Governance Risks

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

Details of the Fund's governance structure can be found in the Governance Compliance Statement in the Annual Report found via ~~https://www.islington.gov.uk/about-the-council/apply-for-a-job/council-pension-scheme~~https://www.islington.gov.uk/jobs-and-careers/council-pension-scheme/about-the-fund useful documents. The Committee members receive training on a regular basis as a group and attend individual training courses and seminars. Each member must attend the ~~3~~three Day Trustee Training organised by the Local Government Association.

~~E.~~ e) Environmental, Social and Corporate Governance ("ESG") Risks

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

The Fund encourages its underlying investment managers to comply with the UK Stewardship Code and will monitor progress~~, as well as~~ in this regard, and will also monitor the ESG ratings of its Fund managers by way of an annual report from its Investment Consultant. The Committee accepts that engagement is key in relation to strong corporate governance, which in turn will reduce ESG risks. ~~on the ESG credentials of its investment managers.~~

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

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

Notably, the Fund has set a target of 'Net Zero' carbon emissions by 2050; further information is set out in Section 6.
~~The Committee accepts that engagement is key in relation to strong corporate governance, which in turn will reduce ESG risks.~~

5. Approach to asset pooling

The Fund has formally joined the London Collective Investment Vehicle ~~(~~("CIV~~)~~") as part of the Government's pooling agenda. The London CIV has been operational ~~for some time~~since 2015 and

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Formatted: Default, Space After: 3.05 pt has opened a range of sub-funds covering liquid asset classes and is in the process of ~~opening~~building out a fund range covering less liquid asset classes.

The Fund already invests assets with the London CIV (c. £~~408m~~490m as at ~~September 2020~~31 March 2023 in active sub funds and £~~182m~~397m in ~~passives~~passive funds) and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

The Fund holds a proportion of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool. These assets are included in the figure for ‘passive’ funds stated above.

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

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

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

The Committee ~~has a fiduciary duty to invest Fund assets in members’ best interests and so must ensure~~believes that ~~assets are invested in an appropriate manner; as a result all~~ESG risks can have material ~~ESG considerations, including climate change, must~~financial impacts and should be taken ~~in light of expected risk~~into account on an ongoing basis, and that the Committee should also consider return ~~implications.~~

~~The Fund seeks to fully incorporate ESG (including climate change) risks and~~ opportunities ~~into its~~associated with ESG and sustainable investment. ESG considerations are an integral part of the Fund’s strategy and objective of being a long term investor, and are considered as part of each investment strategy review and implementation~~, with a view to further a reduce or remove exposures to carbon dioxide from fossil fuel energy sources and other greenhouse gases and reduce ESG risks of the portfolio in line with stated objectives. In particular the Fund will seek to allocate investment to sustainability-themed investments, as well as uphold high standards of ESG incorporation the Fund.~~ decision.

The Committee believes that the Fund has been a leader within the LGPS in terms of the consideration and management of ESG-related risks and opportunities; this has included setting a 2050 ‘Net Zero’ objective, as part of a broader decarbonisation journey that started in 2016. The Fund also has a formal target to increase exposure to sustainable investments over time, targeting a 20% minimum allocation by 2026. This has so far been achieved through allocations to sustainable equity and renewable energy, and is expected to develop through the implementation of a new ‘impact’ allocation (5% of total Fund assets).

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

a. Administering authorities are free to adopt a policy of responsible investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

b. Administering authorities are free to avoid certain kinds of investment, which they consider scheme members would regard as objectionable as long as they make equally financial advantageous and prudent investments elsewhere. They may also make "ethical" investments provided these are otherwise justifiable on investment grounds.

c. Administering authorities are not entitled to subordinate the interests of members to ethical or social concerns. The financial performance of the Fund consistent with proper diversification and prudence is paramount.

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

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

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

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

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As ~~noted~~mentioned earlier, the Fund has made a commitment to reduce its exposure to carbon intensive companies and assets~~.~~, as well as tilt the portfolio towards sustainable investment opportunities over time. The Fund previously set targets to reduce absolute potential emissions and carbon intensity (as measured by Weighted Average Carbon Intensity or "WACI"), which covered the period from 2016 to 2022.

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The ~~Fund seeks to achieve the~~ following revised targets ~~by May 2022~~were formally adopted by the Committee as a result of analysis completed in 2021:

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~~1) Reducing future emissions by focussing on absolute potential emissions (tons of CO2e), a reserves based measure that focusses on emissions that could be generated if the proven and probable fossil fuel reserves owned by the companies in the portfolio were burned, in the public equity allocation by more than three quarters compared to the exposure at June 2016, the date of the Fund's latest carbon footprinting exercise.~~

1. ~~2) Reducing "exposure to carbon intensive companies" as measured~~Long Term Target: 'Net Zero' absolute emissions by 2050 for the whole investment portfolio

2. Interim absolute emission reduction targets: -49% by 2026 and -60% by 2030 for the listed equity and corporate bond portfolios, using the Fund's 2016 baseline.

Sustainable investment target: 20% of total Fund assets ***by*** ~~Weighted Average Carbon Intensity [1], an indicator of current climate-related risks facilitating comparison across asset classes and across industry sectors in the public equity allocation by more than half compared to the exposure at June 2016, the date of the Fund's latest carbon footprinting exercise.~~

3. ~~3) Will invest at least 15% per cent of the Fund in sustainability-themed investment - for example in~~ 2026. This may include investments in sustainable infrastructure, climate change mitigation, low carbon technology, ~~social housing, sustainable infrastructure,~~ energy efficiency and other opportunities.~~-~~

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

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The Fund will review targets annually. The Fund will form a view on decarbonisation of all ~~assets~~asset classes beyond public equities ~~by 2022~~and corporate bonds over time, and will develop mechanisms to evaluate the progress. The Fund will also incorporate analysis of scope 3 emissions as and when data availability improves to the extent this information is considered reliable.

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

Voting:

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

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote

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

in accordance with voting alerts issued by the LAPFF as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

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

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

Stewardship:

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

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

8. Advice Taken

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

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APPENDIX A
Myners Investment Principles - Compliance Statement

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

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

Principle 1 - Effective decision-making

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

Comment

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

Principle 2 - Clear Objectives

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

Comment

The Council seeks to undertake regular reviews of investment strategy, most recently in ~~2014~~2023, which took into account the scheme's liabilities, the strength of the employer covenant and the attitude to risk of both the trustees and the sponsor.

Principle 3 - Risk and Liabilities

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

Comment

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

Principle 4 - Performance Assessment

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

Comment

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

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

Pension benefits administration performance is reported regularly to Pensions Board

Principle 5 - Responsible Ownership

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

Comment

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

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

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

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

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

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

Principle 6 - Transparency and Reporting

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

Comment

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

ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 26th September 2023

Ward(s): n/a

SUBJECT: ANNUAL REVIEW AND PROGRESS ON THE 2021-2025 PENSION BUSINESS PLAN

1. Synopsis

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

2. Recommendations

2.1 To consider and note Appendix A attached.

2.2 To review the business plan objectives and agree the required changes if any for the next year.

3. Background

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

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

3.3. The Myners principles and compliance forms part of Islington Pension Fund's published Statement of Investment Principles. Myners Principle 1- Effective decision-making through a forward looking business plan is a key requirement. Members agreed a four-year business plan to June 2023 and to review the plan annually.

3.4 The key objectives of the five-year business plan agreed at the September 2022 Pensions sub-committee:

- To achieve best practice in managing our investments in order to ensure good long-term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities "plus an expectation of strong business ethics from fund managers also"
- To continually improve our administration and governance in order to deliver an excellent and cost effective service to all fund members.
- To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members.
- To actively monitor and challenge poor performance in managers and to pursue new investment opportunities
- To develop collaboration opportunities with other funds for sharing of services and pooling

3.5 The four-year business plan with progress to June 2023 is attached as Appendix A. Members are asked to consider and note progress made and undertake a review of the plan's objectives for any amendments for the next 4 years.

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

Elected members have a fiduciary duty to the Fund, scheme members and local council tax payers in relation to the LGPS.

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

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

records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughof
ngtonpensionfundinvestmentstrategystatement.pdf

4.4 **Equality Impact Assessment:**
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 To note progress made and review the agreed objectives to the business plan and make amendments if necessary.

Appendix – Appendix A -4 year business plan

Background papers:
None

A

Final report clearance:

Signed by:

Corporate Director of Resources

Date of final approval

Report Author: Joana Marfoh
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Email: Joana.marfoh@islington.gov.uk

Financial implications : Joana Marfoh

Legal implications : Marina Lipscomb, Interim Assistant Director of Law
marina.lipscomb@islington.gov.uk

ACTION TO BE TAKEN

Action to be taken	Timescale	Details (primary responsibility)	Progress to June 2021	Progress to June 2022	Progress to June 2023
1. “To achieve best practice in managing our investments in order to ensure good long- term performance, sustainability of the Fund, value for money and a reduction in managers’ fees wherever possible and pursue new investment opportunities” plus an expectation of strong business ethics from fund managers also”					
(a) Consider an interim valuation and LGPS scheme changes	Ongoing	Use results to review funding level and any potential effect of the scheme changes	Following Covid pandemic and lockdown funding and asset allocation was reviewed in June.	The Whole fund funding valuation was assessed as at September to determine future contribution levels.	2022 Actuarial Valuation was completed and signed off by 31/3/23.
(b) Review investment strategy to reflect asset/liability position To commence as part of the 31 March 2019 actuarial valuation process	2019-2023	To use results and other analyses to set benchmark asset allocations and Fund outperformance targets and risk levels *(Pensions sub-cttee, Investment advisers).*	Strategic allocation was still fit for purpose after impact of lockdown and probable recovery scenario testing was undertaken.	Assumptions on discount rates, inflation and investment outlook were discussed for the 2022 valuation because of the conflict in Ukraine.	. A full investment strategy review and allocation as was discussed by members. The themes taken into consideration included liquidity, risk and net zero carbonisation targets.
(c) Implement any resulting changes to asset allocation, portfolio and fund management structures.	Ongoing	Plan procurement and tendering process with transition of assets requirement to minimize cost and optimize value of assets	Preferred manager was appointed to run the MAC mandate of £75m and funded in March 2021	An initial procurement was undertaken for 2nd tranche of private debt managers.	
(d) Review all contracts on a rolling basis including, actuary, voting services, investment advisers and custodial services.	2020-2024	Committee to agree conclusions of all reviews. Corporate Director of Resources to have delegated authority to review contracts and performance and fee levels when required. *(Pensions Sub-Committee, Officers).*	Members complied with TPR directives of reviewing agreed objectives and performance of investment consultancy service providers by December 2020	Investment advisors service was reviewed on performance and agreed objectives.	Investment advisors service was reviewed on performance and agreed objectives.
(e) Closely monitor new legislation affecting the LGPS or pension provision.	Ongoing	Consider reports on the implications for the Fund and agree actions necessary to ensure full compliance when final legislation is enacted including meeting deadlines. *(Pensions sub-committee, Officers, Actuary).*	Work in progress	Updated FSS was consulted on with employers to incorporate new legislation on terminations and valuations.	Members and officers submitted a response to the government’s consultation on LGPS- governance and reporting of climate change risks.
2. To continually improve our administration and governance in order to deliver an excellent and cost effective service to all fund members					
(a) Agree key performance indicators for the administration of the Fund and continue to benchmark against similar funds.	Ongoing.	Pension Board now monitors the administration and governance of the Fund. Continue ongoing CIPFA benchmarking. *(Officers).*	Risk register is reviewed 6monthly to include pandemic impact and improvements have been requested in the layout.	Risk register has been reviewed and realigned to corporate layout and objectives.	A revamped risk register is now reviewed at each pension board meeting.

APPENDIX A

Actions to be taken	**Timescale**	**Details (primary responsibility)**	**Progress to June 2021**	**Progress to June 2022**	**Progress to June 2023**
(b) Carry out a survey to gain feedback from pensioners and active employees on customer satisfaction and implement changes	Ongoing	Analyse survey results (pension board, officers) Changes required from survey to be implemented. *(Pensions sub cttee, Officers including LBI communications team)*	To encourage take up of membership, new employees who join the lgps and stay on are entered into a draw to win a token cash prize	Board monitors performance and resources to achieve benchmark targets and monitor complaints and feedback.	Board monitors performance and resources to achieve benchmark targets and monitor complaints and feedback.
(c) Ensure governance of the admin	Ongoing		McCloud implementation process has been discussed with pension software provider and resource engagement is now required to carry this forward.	Automatic email response has been installed for the pension mailbox to let customers know when contact will be made.	Complaints register is now in place to mitigate future complaints and new tender for pension software is to include an online facility to enhance self- service.
(d) To devise a communication plan and consultation to stakeholders	Ongoing	Newsletters, annual benefit statements, annual reports, AGM and employers' meetings to continue as previously *(Officers).*	ABS has been issued within the deadline. A new improved website is almost completed, with documents accessible on -line for some self- service options.	31 August deadline was missed and reported to the Pension Regulator. Some documents are now on the website for self-service online	Though deferred and Councillors ABS was on time the delay to corporate and school members has been communicated via izzi and other bulletins with a new target date
3. To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members					
(a) Continue to engage with companies through active membership of LAPFF, IIGCC and other suitable bodies.	Ongoing.	Key themes will be corporate governance especially relating to human rights, employment practices and protection of the environment. *(Pensions sub cttee, Investment advisers, PIRC, Officers.)*	Engagement with LAPFF, IIGCC, LCIV and North London Pensions chairs forum continues. Carbon footprinting for equity and credit portfolios and ESG measurement of our fund managers was undertaken as of March 2021. Voting records are published in Annual report	Engagement with LAPFF, IIGCC, LCIV and North London Pensions Chairs forum continues. Filed a joint shareholder resolution to Sainsbury's AGM. Carbon footprinting for equity and credit portfolios and ESG measurement of our fund managers was undertaken as of March 2022.	We continue to engage with LAPFF, IIGCC, PLSA,LCIV and North London Pension Chairs forum on our common values. Carbon footprinting for equity and credit portfolios and ESG measurement of our fund managers was undertaken as of March 2023 with positive results.
(b) Develop improved monitoring of fund manager engagement activity.	Ongoing.	To include engagement with managers on their own corporate governance as part of terms of reference on appointment. *(Pensions sub cttee, investment advisers, Officers).* To include potential for publication of LBI voting record. *(Officers and PIRC).*	Recent appointment of MAC had a specific criterion on ESG integration in the investment process.	Voting records are published in Annual report.	LCIV provides engagement reports for our equity managers.
(c) Improve communication of engagement activities to stakeholders and public.	Ongoing		Net Zero carbon target to 2050 was agreed by Members in June along with new carbon reductions targets to 2026 and 2030 to include green opportunities	A new commitment was made to our renewable infrastructure manager to maintain exposure green opportunities	voting records are published in our annual report.
	Ongoing	To include consideration of appropriate responsible investment funds. Manager policies on equalities, environment and			

Actions to be taken	Timescale	Details (primary responsibility)	Progress to June 2021	Progress to June 2022	Progress to June 2023
(d) Integrate our responsible investment policy into the Fund's investment review		corporate governance to form review criteria alongside performance and fee considerations. *(Pensions sub cttee, Investment advisers, Officers).*			Our investment strategy review undertaken in March took into account our net zero carbon target
4. To actively monitor and challenge poor performance in managers and to pursue new investment opportunities					
(a) Review current fund manager performance against agreed targets over three- to five year rolling periods	Ongoing	Use existing terms of reference for appointment and firing of managers as a guideline to monitor performance of fund managers *(Pensions sub cttee, Investment advisers, Officers).*	Ongoing	Ongoing	Ongoing reviews by both LCIV, officers and our external investment advisors
(b) Review current fund manager quarterly monitoring arrangements	Ongoing	Agree a forward plan for existing fund managers to meet the pensions sub- committee. The Corporate Director of Resources to continue monitoring managers between quarterly meetings (*Pensions sub cttee, Investment advisers, Officers).*	Due to Covid pandemic impact on real estate, 1>1 meetings were held with property managers to understand the effects and recovery strategy. Regular monitoring meeting were also arranged with emerging/frontier market manager for reassurances on strategy after changes in management.	In March following Ukarine invasion and subsequent sanctions, all managers were engaged to identify Russian stocks and divestment options Continuous monitoring with property and equity managers and the LCIV.	Review meetings held include Hearthstone, Polen, M&G, Pantheon, Columbia Threadneedle
To consider new investment opportunities which can help improve the fund's financial performance	Ongoing	Pensions sub-committee have a long term objectives and clear investment policies to achieve them. (*Pensions sub cttee, Investment advisers, Officers).*	Members agreed to recommit to global property FTRETP III in December.	Members agreed to appoint a new private debt manager Briefing was undertaken on social housing and impact investments	Members agreed to transition the IN-House UK passive fund to a Paris-Aligned global passive index with Legal &General
(c) To keep abreast of developments on pension and investment issues	Ongoing	Pensions sub-committee will agree a training plan and evaluate annually training undertaken and future needs *(Pensions sub cttee, Investment advisers, Officers).*	Net–zero carbon target transition training run be Mercer was provided to all pension sub cttee and board members. Members attend seminars and LCIV AGMs as shareholders and business meeting days.	Training reviews for self-assessment of skill and knowledge for members of pension board. Members and officers attend seminars and LCIV AGMs as shareholders and business meeting days.	Training reviews for self-assessment of skill and knowledge for members of pension board Members and officers attend seminars and LCIV AGMs as shareholders and business meeting days.
5. Develop collaboration opportunities with other funds for sharing of services and pooling					

APPENDIX A

Actions to be taken	Timescale	Details (primary responsibility)	Progress to June 2021	Progress to June 2022	Progress to June 2023
a) Seek to collaborate with other partners to achieve efficiencies and value for money	Ongoing	To agree to share services where it is beneficial to the fund objectives of sustainability and performance	Officers sourced collaboration with previous LA procurement to procure Private debt due to commonality of best in class. Members' participate in a North London LA Pension Chairs group It is a forum to share ideas, identify common goals and work together alongside the LCIV.	Members' participate in a North London LA Pension Chairs group . It a forum to share ideas, identify common goals and work together alongside the LCIV.	Members' participate in a North London LA Pension Chairs group . It a forum to share ideas, identify common goals and work together alongside the LCIV

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 26th September 2023

Ward(s): n/a

Appendix 1 and Appendix2 attached are exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

SUBJECT: INVESTMENT STRATEGY REVIEW UPDATE ON IMPLEMENTATION

1. Synopsis

1.1 This report is an update report after Members agreed the full investment strategy review and allocation as part of the 2022 Actuarial review process. The themes taken into consideration included liquidity, risk and net zero carbonisation targets.

1.2 An action plan was agreed to implement the agreed strategy, and this is a progress report to update members on actions and timelines.

2. Recommendations

2.1 To note the report from Mercer on M&G Sustainable attached as Exempt Appendix 1

2.2 To consider the key characteristics of the sustainable strategy and make a decision
(i) to transition to the new proposed sustainable version
or
(ii) keep the existing portfolio

2.3 To consider exempt Appendix 2- note prepared by our independent advisor on Pantheon Infrastructure

2.4 Subject to 2.3 agree to re-commitment to the next vintage to maintain our allocation of 6%.

2.5 To note the progress made on rebalancing our property allocation to the agreed 20%.

2.6 To note initial action taken on our emerging markets portfolios

2.7 To agree to receive a further progress report at the next meeting in November

3. Background

3.1 The 2022 actuarial valuation was finalised in March 2023, and as part of the process, work was undertaken to produce an 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 6th March 2023 meeting, members discussed the initial, Mercer presentation considering the current strategy and funding level following the 2022 valuation and post valuation market outlook. The options of Strawman 1 and 2 were discussed extensively on the themes of liquidity, return and risk. However, it was agreed that officers and Mercer would provide an alternative Strawman 3 portfolio option, modelled with the goal of achieving an increase in the allocation to alternatives compared to the current strategy, but with a lower risk profile.

3.1.3 Members agreed the new strawman 3 strategy at their July meeting and an action plan to implement the strategy. The Table below shows current strategy and the new strategy

3.1.4 The table 1- below shows the 2020 strategy, actual allocation of assets as at June, and agreed new strategy Strawman 3.

3.1.5

	2020 Strategy	**Actual Allocation As at June'23**	**New Strawman 3**
Equity	46	**56**	**45**
Alternatives	29	**16.6**	**27.5(5% to Impact)**
Property	25	**15.6**	**20**
Liquid Fixed income	-	**4.5**	**7.5**
DGF/Corporate bonds		**7.3**	**0**
Expected return	CPI+5.1%		**CPI+5.2%**
Downside risk	680m		**688m**

3.1.6 Members also agreed the implementation plan to proceed to implement the new strategy and asked officers to report on progress.

Implementation plan

3.1.7 Officers met with Mercer in July to look at the executive summary action plan, the actual allocations of the fund, and timeline to achieve these objectives. The topics discussed, actions and timelines are shown in the table2 below:

Table 2

Asset Allocation	Action	Responsible person
Emerging market	A further due diligence and receive presentations from Polen Capital and LCIV	Mercer/ officers in July/August
Multi asset credit	A further due diligence and receive presentation from M&G	Mercer Officers-July/August
Property	To rebalance to 20% by toping up Aviva and Columbia Threadneedle	Officers- August
Infrastructure	Produce a commitment analysis to identify gap to achieve 12.5%	Mercer-August
Private Debt	Commitment analysis to identify gap and allocate to Europe in Q4	Yet to be assigned
Impact	Produce a paper on types and identify best suit for Islington	Yet to be assigned
Equity rebalance	Drawdown equities to fund property top up	Officers- July

3.1.8 Progress

(i) **Emerging market**- officers and Mercer arranged meetings with LCIV-JP Morgan and our incumbent manager Polen Capital. The presentation covered investment process, ESG, performance and market outlook and fees. **Members are asked to agree that further work be done on cost of transition including the passive mandate and then take a view of any changes to the mandates.**

(ii) **Property**- officers engaged parties on the secondary market and have now completed trades to increase our Aviva allocation to nearly 10% from 7.25%. We have also agreed to switch mandate to a tiered fee class in Columbia Threadneedle where there is a reduction in fees as the mandate increases. We have also increased our allocation by 2%.
Members are asked to note the rebalancing of our property allocation.

(iii) **Infrastructure**- Mercer have now completed the commitment analysis and estimated a gap of £180m to reach the new 12.5% allocation over the next few years.
Members appointed Pantheon and Quinbrook in 2018 and recently made a further commitment to Quinbrook in 2022. Our current Pantheon III fund is now entering the harvesting stage where cash is being returned and another commitment will recycle the cash received and maintain our allocation.
Karen Shackelton(independent advisor), met with Pantheon and discussed the Pantheon Fund IV. The notes of her meeting is attached as Exempt Appendix 2.
The next Pantheon IV fund is closing at the end of September and members are asked to agree to make a commitment to Fund IV to maintain our allocation.

(iv) **Multi asset credit-** Our current mandate with M&G is the Alpha Opportunities fund of around 4.5% of the total fund. M&G have proposed to launch an alternative Sustainable Alpha Opportunities fund in November. Mercer and officers met with M&G where they presented the new fund characteristics. A summary of the fund characteristics and the full Mercer report is also attached as exempt Appendix 1. M&G have offered to provide an in-specie transition of around 50% of the current holdings to the new fund for early seeder investors and a 5 basis point reduction in fees.

Members are asked to consider the Mercer report and discuss the pros and cons of the product and make a decision to transition to the Sustainable Option or keep the existing product

(v) **Equities rebalancing-** the allocation to LCIV Newton was reduced by initial, £90m to reduce our equity allocation towards the 45% objective**.**
Members are asked to note the drawdown

3.1.9 A further update report will be provided to members in November as per the implementation action plan.

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 advice on investment matters.

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

Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 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 recommendations

5.1 Members are asked to consider the action and progress items in paragraph 3.1.8 and agree the recommendations.

Appendices: Exempt Appendix 1- Mercer presentation-M&G Sustainable Alpha Opportunities Fund
Exempt Appendix 2- MJ Hudson notes on Pantheon Infrastructure Fund III and IV

Background papers:
None

Final report clearance:

Signed by: Corporate Director of Resources

Date: report received final clearance

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

Meeting of: Pensions Committee

Date 26th September 2023

Ward(s): n/a

SUBJECT: DRAFT RESPONSE TO CONSULTATION ON POOLING

1. Synopsis

1.1 The Appendix to this report is the draft response to the government's consultation on pooling due on 2nd October. Members are being consulted on for their comments to form part of the response.

1.2 This consultation seeks views on proposals relating to the investments of the Local Government Pension Scheme (LGPS). It covers the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

2. Recommendations

2.1 The note the consultation document Local Government Pension Scheme (England and Wales): Next steps on investments - GOV.UK (www.gov.uk)

2.2 To consider the five main areas focused for consultation as list in para 3.3 and give their comments on the draft response attached as Appendix 1

2.3 To agree to authorise officers to send the final version by 2nd October.

3. Background

3.1 After the Chancellor's Mansion House speech on 10 July 2023, Department for Levelling Up, Housing and Communities (DLUHC) published its long awaited consultation on pooling in the

LGPS on 11 July 2023. The consultation closes on 2 October 2023, and focusses on five areas.

3.2 This consultation seeks views on proposals relating to the investments of the Local Government Pension Scheme (LGPS). It covers the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

3.3 The five areas covered are listed below:

- First, the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why. While pooling has delivered substantial benefits so far, we believe that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. We propose a deadline for asset transition by March 2025, noting we will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, we want to see a transition towards fewer pools to maximise benefits of scale.
- Second, the government proposes to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the Levelling Up White Paper (LUWP). This consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.
- Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- Fourth, the government is seeking views about proposed amendments to the LGPS's regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.
- Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations.

3.4 The link to the full consultation document is Local Government Pension Scheme (England and Wales): Next steps on investments - GOV.UK (www.gov.uk)

3.5 Officers have drafted a response for discussion and comments and will be circulated to the pension board as well for comments before finalised and sent by 2nd October 2023.

4. Implications

4.1 Financial implications

4.1.1 None in the context of this report.

4.2 Legal Implications

None applicable to this report

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

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

4.4 **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 Members are asked to consider the consultation document and comment on the draft response prepared by officers so it can be finalised for despatch by 2nd October.

Appendix 1- Draft response on pooling consultation

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

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

London Borough of Islington Pension Fund (LBI) Draft Response

LBI as administering authority of the Islington Council Pension Fund, welcomes the Government's consultation that is well overdue and in large supports the majority of the proposals, indeed many of the proposals the LBI already does, such as member training and objective setting for consultants.

LBI does have some concerns and we will tackle these question by question below.

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

LBI believes that pooling has already achieved savings on listed assets and has furthered the existing collaboration that already existed amongst LGPS Funds. It has forced asset managers to collectively engage and has reduced fees in the market overall. There does need to be more collaboration between pools themselves, with pools willing to share expertise freely rather than treat each other as competitors.

LGPS Funds invest across a range of (in some cases) highly specialised and long term focused asset classes. If individual Funds currently invest in niche products for which there isn't an economies of scale at the pool, it may be very difficult for the Fund to transition.

Other barriers to investing include where existing investment consultants do not rate the pools investment product as either appropriate, or as inferior to the Funds existing products. What does the government suggest Funds do where investment advisors have advised on such matters, even if it goes against pooling?

On reducing fees, the Fund believes that the focus should be on investment outperformance against a relevant benchmark net of fees. Focusing on the absolute fees may provide some assistance but the value added to Funds should be considered as more relevant and useful information. In some cases, the costs of an asset class/manager may be greater, but these may be justified by the higher returns. This is especially true for high-cost niche products. Therefore, it would seem counterintuitive to transition those assets into pools at the expense of performance.

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Although LBI agrees in principle that transferred listed assets should be achievable (indeed only one listed asset at LBI is held outside LCIV), it would be impossible where a pool does not provide an existing product unless they have plans to implement. Setting a hard fast deadline may not work in certain situations or no existing comparable products. There is also market impact risk if all assets are being transitioned by this set date as such this should be avoided.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

As above, with funds responsible for setting their own strategic asset allocations, the pool companies may not always have suitable strategies/sub-funds on offer on their platforms, or sufficient resource to investigate these strategies. There is concern that the increased demand on the pool companies may be significant, especially those with many clients, leading to inadequate product offerings and service.

Scheme Funds have their own investment advisors so consequently there is potential for conflict between advice received from a consultant and a pool. Effective collaboration between a fund and a pool companies should be possible, but we do not see the need for guidance on how interaction should take place.

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Agree – LBI already has its own training policy and any guidance that improved the requirements for member training and standards generally would improve governance and provide better outcomes for the LGPS.

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Disagree – LGPS Funds have different investment styles and asset allocations so comparing performance of two Fund is always extremely challenging. Assets classes also vary wildly within themselves; a Fund that has high equity growth bias VS high value equity bias would not be appropriate or consistent with each other. This is even more apparent with complex illiquid strategies such as infrastructure.

PIRC already does this to some degree with its annual statistics, which although can be interesting they are not meaningful.

If this reporting requirement were to be implemented, any guidance from the SAB would be welcomed.

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Agreed - if Q5 were agreed it would be reasonable to have a uniform set of statistics, so comparability is achievable.

Question 7: Do you agree with the proposed definition of levelling up investments?

LBI understand the term local to be UK and to include pooled investments.

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Agree - some asset pools do not have the size or expertise to invest within all asset classes, particularly private markets. Therefore, it would make sense for pools to collaborate with other asset pools to offer those broader asset ranges to clients. Although client assets should be unitised and held within their respective asset pools.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

Disagree – Pension Funds are there to serve the best interest of members and local taxpayers not the Government's own priorities.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

The Fund is able to report on its UK investments but does not accept that this should be labelled as "levelling up investments" as this infers these are part of a Government agenda rather than generating value for members and local taxpayers.

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

Disagree – a mandatory 10% allocation to private equity, alongside the government's ambition of 5% within infrastructure and 5% in levelling up investments, undermines LGPS autonomy to make their own investment decisions.

Whilst LBI already meets two of these, investing 10% in private equity would require a huge change from the current investment strategy.

Private equity is inherently the single riskiest asset class and although can make significant returns for investors, many investments fail and there are countless examples of questionable ESG practices from private equity managers that are not congruent with LBI's investment beliefs.

Any investment in private equity would need to be consistent with risk, return and ESG hurdles of LBI.

If this were limited to UK only, LBI believes (given the opportunity set in the UK and the amount of resource at LGPS Funds) mandatory allocation is bordering on reckless.

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

LBI does not believe this is appropriate for a small fund. If a pooled Fund were set up it would be appropriate to review the opportunities with legal and investment consultants before any decisions were taken.

Under no circumstances should Pension Fund's be mandated to invest in highly speculative venture capital investments.

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Agree - LBI already sets these objectives, as per the requirements of the Competition and Markets Authority (CMA).

Question 14: Do you agree with the proposed amendment to the definition of investments?

Agree.

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

LBI does not feel there is enough information to come to a firm agreement on the point above, although indicatively it does not appear to impact a specific group in a negative way.

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Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date 26th September 2023

Ward(s): n/a

SUBJECT: PENSIONS COMMITTEE 2023/24 FORWARD WORK PROGRAMME

1. Synopsis

1.1 The Appendix to this report provides information for Members of the 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/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 Equalities Impact Assessment

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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:

Signed by:

Corporate Director of Resources Date

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

APPENDIX A

Pensions Committee Forward Plan September 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
26th September	• Update of strategy review implementation • 4 yr Business plan review • ISS and RI update • DLUHC consultation LGPS pooling • TOR on pension committee
October	• Annual Pension Meeting
21st November	• Investment advisors objective setting review • Update of Strategy review implementation
11th March 2024	Investment training- topics to be discussed
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
September 2022- joint pension sub and board training	Actuarial Valuation training

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Meeting of: Pensions Committee

Date: 26th September 2023

Ward(s): n/a

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

Subject: The London CIV Update

1. Synopsis

1.1 This is a report informing the committee of the progress made at the London CIV in launching funds, running of portfolios, reviewing governance and investment structure, over the period May to August 2023.

2. Recommendation

2.1 To note (exempt appendix1) and AGM meeting presentation slides on 18th July and the progress and activities presented at the August business update session(exempt appendix2)

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 August 2023**

3.5.1 The London LCIV AGM was held on 18th July and the presentation slides from the meeting is attached as Exempt Appdx 1. The meeting covered annual review of London CIV, annual accounts and nominations. Highlights of their area of focus for this financial year include

- ➢ **Concluding the strategic business review in 2023**
- Formal regulatory (FCA) approval that London CIV's regulatory capital position is now resolved
- Funding model review in collaboration with the Cost Transparency Working Group (CTWG)
- Agreeing measures of success relevant to the business and our partners
- Revise organisational design to ensure we are as efficient and effective as possible

- **Tenets of pooling**
- Conclude review of current range, ensuring optimal structures and best managers and making any changes required
- Drive down cost of manufacturing through negotiations with all 3rdparty providers including funds managers
- Greater ownership of and engagement on performance to enhance outcomes
- **Value add services**
- Development of bi-monthly education seminars on topical areas
- Support with net zero delivery through revamped Responsible Investment Reference Group

3.5.2 **The Business Update**

It was announced in August that the current chief investment officer is leaving at the end of October after three years with the LCIV.

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 2. 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 LCIV short duration and long duration buy and maintain credit fund has been awarded to Insight and should be launched in November. Existing funds being modified are Absolute real return fund to ESG aware version, a new manager to the renewable infrastructure platform.

3.5.4 **Operational activities**

The following activities are underway in the medium term; strategic business review is to focus on governance, funding model and cost of ownership, commercial property planning.

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.
In April 2023 invoices received covered DFC(57k+VAT) , annual service charges (25k+VAT) and LGIM recharge 11.4k+VAT.

4. Implications

4.1 Financial implications:

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

4.2 Legal Implications:

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

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

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

4.3.1 None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is:

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

4.4 **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 and 2 is attached for information.

Appendices: Exempt Appendix 1- Business Update-Aug'23
Exempt Appendix2- AGM presentation-July '23

Background papers: none

Final report clearance:

Signed by:

Corporate Director of Resources Date

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

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