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

AGENDA FOR THE PENSIONS BOARD

Members of the Pensions Board are summoned to attend a meeting which will be held in the Council Chamber, Town Hall, Upper Street, N1 2UD on **5 October 2023 at 4.00pm.**

Enquiries to	:	Mary Green
Telephone	:	(020) 7527 3005
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Despatched	:	27 September 2023

Membership

Employer representatives:
Maggie Elliott (Vice-Chair)
Councillor Dave Poyser (Chair)
(vacancy)

Scheme member representatives:
Mike Calvert
Valerie Easmon-George (+ vacancy for substitute)
George Sharkey

Independent member
Alan Begg

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

A. Formal matters

1. Apologies for absence

2. Declaration of interests

If you have a Disclosable Pecuniary Interest* in an item of business:

- if it is not yet on the council's register, you must declare both the existence and details of it at the start of the meeting or when it becomes apparent;
- you may choose to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.

In both the above cases, you must leave the room without participating in discussion of the item.

If you have a personal interest in an item of business and you intend to speak or vote on the item you must declare both the existence and details of it at the start of the meeting or when it becomes apparent but you may participate in the discussion and vote on the item.

***(a)** Employment, etc - Any employment, office, trade, profession or vocation carried on for profit or gain.
(b) Sponsorship - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.
(c) Contracts - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.
(d) Land - Any beneficial interest in land which is within the council's area.
(e) Licences- Any licence to occupy land in the council's area for a month or longer.
(f) Corporate tenancies - Any tenancy between the council and a body in which you or your partner have a beneficial interest.
(g) Securities - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

This applies to all members present at the meeting.

C. Urgent non-exempt items

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

D. Exclusion of press and public

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

E. Confidential/exempt items

F. Urgent exempt items

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

The next meeting of the Pensions Board will be on 6 December 2023

London Borough of Islington

Pensions Board - 12 July 2023

Minutes of the meeting of the Pensions Board held in the Council Chamber, Islington Town Hall, Upper Street, N1 2UD on 12 July 2023 at 4.00 pm.

Present: Alan Begg, Mike Calvert, Valerie Easmon-George, Maggie Elliott (Vice-Chair) and Councillor Dave Poyser (Chair)

Councillor Paul Convery (observer from Pensions Sub-Committee)

Councillor Dave Poyser in the Chair

76 APOLOGIES FOR ABSENCE (Item A1)

None.

77 DECLARATION OF INTERESTS (Item A2)

None.

78 MINUTES OF THE PREVIOUS MEETING (Item A3)

RESOLVED:

That the minutes of the meeting held on 19 April 2023 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

Matters arising:

Noted (i) that a report detailing the new terms of reference for the Pensions Board, to be approved at the Council meeting on 13 July 2023, would be submitted to the next Board meeting for information.

(ii) that the Democratic Services' Officer would seek advice as to whether Board members could attend meetings virtually.

79 PENSION ADMINISTRATION PERFORMANCE (Item B1)

The Pensions Manager reported an increase in active membership, a high volume of beneficiaries claiming pensions and an increase in requests for pensions estimates. He proposed that the production of pensions estimates be limited to twice per annum. He anticipated that the pressure on the Pensions Team to produce the estimates would reduce once a self-service system had been introduced.

On the Mc Cloud judgement, the Board were informed that the Team were working with a software supplier to enable them to identify all staff within the scope of Mc Cloud and it was expected that precise numbers might be available by the end of the year. The Board were informed that the Council had funding in the estimates to meet any McCloud commitments.

In response to questions, the Pensions Manager reported that the Pensions Team was currently being restructured and that there would be 16 posts in the new structure, three of which were unfilled.

RESOLVED:
(a) To note the number of members auto-enrolled into the LGPS during the relevant period from 1 February to 30 April 2023, that there was one complaint being considered under the Internal Dispute Resolution Procedure, the numbers of compliments and complaints to the Pensions Team and that there were no current Internal Audit investigations, all as detailed in the report of the Corporate Director of Resources.
(b) That the performance data for the administration activities of the Council's Pensions Office, again as detailed in the report, be noted.
(c) To note the Department for Levelling Up, Housing and Communities' new consultation on the 'McCloud Remedy', detailed in paragraph 3.6 of the report.
(d) To note that the Scheme Advisory Board had commissioned a Sharia compliance report to review the scheme according to Sharia principles, looking also at governance and administering authorities' investment principals.
(e) That the Board's concern at the potential risk to performance, caused by the number of current vacancies in the Team, be noted.

80 THE KNOWLEDGE AND TRAINING POLICY AND PROGRAMME (Item B2)

The Head of Pension Fund and Treasury Management asked Board members to ensure that they had completed and returned the self-assessment training document no later than the end of August 2023.

RESOLVED:
(a) To agree the Knowledge and Training policy attached as Appendix 1 to the report of the Corporate Director of Resources.
(b) To note that members of the Board had been requested to complete "The Local Pension Boards –a technical knowledge and skills framework - a self-assessment matrix", as recommended by CIPFA, and attached as Appendix 2 to the report, no later than the end of August 2023.
(c) That officers use the matrix to propose training where required.
(d) That Board members and officers keep a record of training and review self-assessment matrices at least annually

81 PENSION FUND- DRAFT 2022/23 YEAR END ACCOUNTS (Item B3)

The following points were noted during discussion:

- Alan Begg's welcoming of the report for review of the draft Annual Accounts and the related report and appreciation of the early drafting of the Accounts by Finance.

- Fund Account (page 35) - an explanation to be added regarding the amount of £(48,041) shown as a decrease in the Fund over the year, especially since the commentary made mention of annual income marginally exceeding annual costs. Also, in the Fund Account ,the figure of £25,857 for Investment Income differed from its note on page 51 by £297.
- Useful to add narrative to Note 1 (a) General - regarding the composition of Investments by expanding on the meaning of "commitment" against each type of fund and ensuring that, as at year end, the full allocation of the Council's investments by asset class was highlighted and confirm more clearly the sums drawn down at year end against each asset allocation.
- Page 37 – amend "Schedule" to "Scheduled"
- Page 38, Note 1(d) - Funding - whilst stated that the Fund was in deficit, the qualification to be added to it was that the deficit arose from the latest actuarial valuation.
- Page 59, Note 21 - Contingent Assets and Liabilities - substitute "as at 31 March 2023" for "as 2022/23".
- Page 59 – paragraph 20 – line 3 – delete the figure ".85"
- Page 59 – paragraph 24 – include the % of salary of key personnel involved in managing the Fund
- The Chair of the Pensions Sub-Committee's comments that the figures in the draft accounts were unlikely to change in the near future and that the Fund was in a good position, at a level of 96% funding. Many changes had been made to the Investment Strategy over the past months to be on target to meet the Paris agreement of 1.5C degrees by 2050 or sooner.
- Page 50 – fees – all Funds had different strategies for fees and it would be difficult to compare whether Islington was spending more than other boroughs
- Avoid acronyms eg "HRA" for " Housing Revenue Account"
- Page 63 – misspelling of "Dividends"

RESOLVED:
That, subject to the matters raised above, the draft pension fund accounts attached as Appendix 1 to the report of the Corporate Director of Resources, be approved, before external audit commenced later in the year.

82 LGPS - PENSIONS RISK REGISTER (Item B4)

A suggestion was made that the risk for item 7 – "Failure to apply correct Pensions Increase (Corporate Payroll)" – should move from 12 to 9 and that the title of the column currently marked "residual risk score" should be changed to "risk score"

It was noted that the red rating for item 14 – "Loss of Investment returns; bond yields fall" would remain. The Fund was stable, despite market turmoil.

Members agreed that, given the speed with which the financial situation could change, the Risk Register should be presented to each Board meeting.

RESOLVED:
(a) To note the contents of the report of the Corporate Director of Resources and revisions made to the Pensions Risk Register, detailing possible risks associated with the loss of data by Pensions Administrators and cyber risk and the failure to apply the correct Pensions Increase for all pensioner datasets due to software calculation issues
(b) To note that the late provision of payroll reports had moved from a mitigated score rating of 12 to 10, as a consequence of the progress made in creating the year-end reports by the Human Resources Payroll Consultant for the Pensions Team.
(c) That the Risk Register be submitted to each meeting for review.

83 FORWARD PLAN OF BUSINESS FOR PENSIONS BOARD (Item B5)

RESOLVED:
(a) To note Appendix A attached to the report of the Corporate Director of Resources, comprising the forward programme of business for the Board, and Appendix 2, Mercer's "LGPS News Issue May 2023".
(b) To note that a report on "Investment Review" will be presented to the next meeting of the Board.

84 ADDITIONAL ITEM - CONSULTATION ON ASSET POOLING

The Deputy Director of Finance outlined a consultation by Government on the pooling of Local Government Pensions Fund assets to one of eight pooling organisations to invest on their behalf, increasing investment in infrastructure projects and achieving cost savings through economies of scale. Funds would be required to invest 10% in private equity, with all listed assets transferred no later than March 2025.

A draft response would be prepared and circulated to members of the Board and the Sub-Committee for consideration, before the deadline for closure of the consultation on 2 October 2023.

The meeting ended at 5.35 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.

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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.

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ISLINGTON
For a more equal future

Resources Department
7 Newington Barrow Way
London, N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Board

Date: 5th October 2023

Subject: PENSION ADMINISTRATION PERFORMANCE

1. Synopsis

1.1. This report provides the Board with information on the administration activities and performance of the Pension Administration. The information is in respect of the period from 1 May 2023 to 31 July 2023 and includes the number of Local Government Pension Scheme (LGPS) members auto-enrolled into the scheme for this period.

1.2. The report also provides information regarding the Internal Dispute Resolution Procedure (IDRP), compliments and complaints.

2. Recommendations

2.1. To note the number of members' auto-enrolled into the LGPS.

2.2. To note the information in respect of the IDRP, compliments and complaints.

2.3. To review the performance data for the administration activities of the Council's Pensions Office.

2.4. To note any new Internal Audit Investigations in Pensions Administration.

2.5. To note the publication by DLUHC of the LGPS Amendment (No.3) Regulations 2023 implementing the 'McCloud Remedy'.

2.6. To note the reported breach of the law to the Pensions Regulator regarding the production of the Annual Benefit Statements for Active members.

2.7. To note the updated Pensions Risk Register (Appendix 1)

3. Background

3.1. The membership profile in April 2023 and July 2023 is shown in the following table.

Category	Apr-23	Jul-23
Number of current active members	6,744	6,634
Number of preserved benefits	8,502	8,736
Number of Pensions in payment	6,598	6,700
Number of Teachers Compensation Pensions in payment	106	105
Number of Spouses/dependants pensions in payment	1007	1,149
Number of Teachers Compensation Spouses Pensions in payment	12	13
Total	22,969	23,337

Active membership has seen a marginal reduction of 1.63%. The Fund's preserved beneficiaries and retirements continue to grow with a 2.75% and 1.55% increase respectively during this period.

3.2. The table below shows performance against case type for the period from 1 May to 31 July 2023:

Process	**Total Cases Processed**	**Target Days**	**% Achieved within target days**	**Actual average days**
Deaths	34	10	95%	10.5
Retirement benefits	94	7	88%	11.0
Pension estimates	147	10	70%	15.0
Preserved benefits	32	30	75%	35.0
Pension Payroll Adj.	42	10	100%	8.0
Transfer-in quotation	58	10	90%	15.0
Transfer-in actual	55	10	93%	12.5
Transfer out quotation	21	15	85%	18.0
Transfer out actual	12	12.5	96%	14.0
Transfer out (Non-Public Sector) actual	0	-		-
Refunds	20	10	89%	12.0
Starters	175	30	95%	31.0
All key processes	**690**		**81%**	

Key processes have increased by 6.3% during this quarter. Overall performance has increased by 3% from the 78% achieved in the last quarter in completed processes within the target days.

3.3. The table below shows the number of members auto-enrolled into the LGPS from May 2023 to July 2023:

Month	Starters No.	Opt Outs	Opt Outs %
May	44	3	6.8
June	85	0	0
July	46	0	0
Total	175	3	1.7

3.4. The Pension Office received -9- communications thanking Pension Administration staff for their service and -4- complaints.

Audit Investigations

3.5. No new cases of potential fraud have been identified by the Pensions Office and reported to Internal Audit for investigation during this period.

McCloud Remedy – Update

3.6. The McCloud remedy regulations are due to take effect from 1 October 2023. These regulations extend the LGPS statutory underpin protection to ensure it works effectively and consistently for all qualifying younger members with pensions built up in the remedy period, between 1 April 2014 and 31 March 2022.

3.7. The implementation of McCloud remedy is complex and will require additional resourcing in terms of assessing former, current and deceased member records of those in scope. The Pensions Office is working in partnership with Heywood's (the Council's pensions software supplier) to conduct this retrospective review. The Scheme Advisory Board have provided guidance on the options available where an employer has not supplied the data or there is missing data. The Pension Office will consult with the Council's actuaries on the types of assumptions to be made in those scenarios.

3.8. The Pensions Office will keep the Board informed of developments.

Breach of law – Annual Benefit Statements

3.9. Under Section 70 of the Pensions Act 2004 Islington Pension Fund is required to report breaches of the law to the Pensions Regulator where a legal duty which is relevant to the administration of the scheme has not been met. Technical issues around accessing required payroll reports led to the delay in sending out the Annual Benefit Statements for our active members. The software supplier was engaged at an early stage however the scale of work required meant that the deadline was missed. Future mitigations of this problem are addressed on the risk register. The statements were due to be sent out by the 31st August and our now being sent in September 2023.

3.10. Following a case review to identify why the statements were delayed, HR Senior Management have committed to allocating additional resources to this area in order to provide the specified pension reports needed and to mitigate any risk of future delays.

4. Implications

4.1. Financial Implications

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

4.2. Legal Implications

4.2.1. There are no specific legal implications in this report.

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. Equalities Impact Assessment

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

4.4.2. An Equalities Impact Assessment is not required in relation to this report, because there are no adverse impacts in terms of equalities arising from the contents of this report. The LGPS is a statutory public service pension scheme open to all Council employees.

5. Conclusion and reasons for recommendations

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

Appendices:

Appendix 1 – Pension Risk Register

Background papers:

Final report clearance:

Signed by:

Corporate Director of Resources

Date:

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Islington Council Pension Board Risk Register - Sep2023

No	Objective/strategic risk	Risk Description	Cause of risk	Consequence	Inherent Risk Score: Impact (1=Low, 5=High)	Inherent Risk Score: Likelihood (1=Low, 4=High)	Rating Score	Current controls in place to manage risk	Further actions to mitigate risks	Risk Score		Risk rating following mitigation	Trend	Target Date	Risk Owner
1	**Strategy & Finance, People** To grow membership and a robust pension scheme administration.	Loss of data by administrator.Cyber risk.	Fire; increased risk of fraud and data loss specially from laptops if home working. Cyber attack.	Loss of sensitive data. Timely pension payments not made to members and third parties.	4	2	8	Business continuity plan. Daily & weekly backups kept offsite. Scheme manager to keep up to date with information and guidance on threats.	Disaster Recovery Plan. Moving servers to the Cloud. Any supplier to be checked for having a business continuity plan in place.	4	1	4	↓	Jan-24	Pensions Manager/Deputy Manager/IT Manager
2		Conflicts of Interest.	Incomplete/inaccurate data provided by payroll or third party agents incl. details as required re McCloud	Errors in producing pension statements/benefits to members. Complaints may lead to fines.	2	5	10	Pro-active engagement with internal and external employers, school Business Managers and payroll providers.	Regular data Quality Auditing.	2	4	8	↔	Nov-23	Pensions Manager/Deputy Manager
3		Poor administration of pension fund leads to complaints.	Resourcing/inadequate training of staff and poor service efficiency	Strong dependency on key staff and failure to recruit to improve service.	2	4	8	Invest in staff, their development, workloads and review compensation.	Review complaints register and establish corrective actions	2	3	6	↔	Ongoing	Head of Treasury & Pension Fund
4		Internal Fraud.	Inadequate internal fraud controls	Fraudalent activity resulting in loss of benefits to fund members. Adverse impact on the Pension Fund.	4	1	4	Cross checking of work and the segragation of duties.	Internal & External Audits. National Fraud Initiative Exercise, NI Database check. Life certificates.	3	1	3	↔	Ongoing	Head of Treasury & Pension Fund
5		Failure to deduct accurate employee/employer contributions (Corporate Payroll).	Payroll calculation failure and service impairment; financial failure of third party.	Additional work to request and correct data. Financial Loss. Reputational damage.	4	1	4	Monthly reconciliations.	Regular Data Contributions Audit.	3	1	3	↔	Dec-23	Head of Treasury & Pension Fund
6		The late provision of payroll reports (Corporate Payroll).	Lack of resources/time	Late issue of pension statements & govt. statutory returns. Possible complaints.	5	3	15	Pro-active engagement with Payroll Manager and other relevant stakeholders. Use of External Consultant.	Establish self-service running reports.	4	3	12	↑	Nov-23	Pensions Manager/Deputy Manager
7		Failure to apply correct Pensions Increase (Corporate Payroll).	Software design fault/training required	Inaccurate pension benefit calculations and reputational damage.	5	3	15	Pro-active engagement with Payroll Manager and other relevant stakeholders.	Early engagement with software suppliers to find a solution & test.	4	3	12	↔	Nov-23	Pensions Manager/Deputy Manager
8		Failure to deduct accurate employee/employer contributions (External Payroll Providers).	Payroll calculation failure	Additional work to request and correct data. Reputational damage and loss of confidence.	4	3	12	Monthly reconciliations.	Data Contributions Audit.	3	3	9	↑	Dec-23	Head of Treasury & Pension Fund
9		The late provision of payroll reports (External Payroll Providers).	Ineffective planning	Late issue of pension statements & govt. statutory returns.	4	3	12	Pro-active engagement with external payroll provider and other relevant stakeholders.	Early engagement with external payroll providers	3	3	9	↔	Dec-23	Pensions Manager/Deputy Manager
10		Low take-up of pension scheme membership.	Cost/Retirement Age/Personal Pension	Increased employer costs.	4	2	8	Comms. & website on the benefits of scheme membership. Pension surgeries.	Further promotion of the pension scheme. Auto-enrolment.	4	1	4	↔	Ongoing	Pensions Manager/Deputy Manager
11		Remedies in relation to the Mccloud judgement	Unlawful age discrimination.	Increased employer costs.	4	3	12	To ensure the accurate re-calculation of pension benefits.	Report the final outcome to Actuary.	3	3	9	↔	Dec-23	Pensions Manager/Deputy Manager
12		Lack of understanding among scheme members of scheme issues/options.	Limited awareness/Comms Deficit	Complaints/Opt-outs.	2	3	6	Comms & website on the benefits of scheme membership 50/50 & AVCs. Pension surgeries on AA & LTA.	Work with HR to run surgeries on Wellbeing & pension planning. The annual pension statements will direct members to LBI's pension website for guidance notes and other information in relation to pension planning.	2	2	4	↓	Jan-24	Pensions Manager/Deputy Manager
13	**Contract Management** To establish robust data security and to avoid system failure	Pension database may not be secure and appropriately mantained; pensioners living longer.	Poor management/inadequate training	Service impairment and financial lost to the Pension Fund. Life expectancy increases would increase liabilities.	5	2	10	Electronic access control systems are deployed on Islington's network that rely on user credentials and authentication. Passwords are regularly changed and there are robust user administration procedures to access the pension's database. The system is regularly updated to ensure regulatory compliance with the LGPS and is protected against viruses and other types of malware.	Moving servers to the Cloud.	4	2	8	↔	Nov-23	Pensions Manager/Digital Services
14	**Finance** Strong Financial and contract Management	Loss of Investment returns; bond yields fall.	Market turbulence/Inflation; bond prices falling often due to falling interest rates and market caution.	Reduction in asset market values; increase value of liabilities. Discount rate falls will increase liability valuations.	5	3	15	Clear investment strategy,quarterly monitoring of managers' performance and a diversfied portfolio	Managers are set 3 year + targets as long term investors. On apointment a terms of reference is agreed as a tool to monitor and identify scrutiny level.	5	2	10	↑	Ongoing	Director of Finance/Pension Sub-Cttee
15		Failure of non-public sector employers.	Poor Management/Market Adjustments	Additional cost to the Pension Fund.	4	3	12	Use of bonds and guarantees. Governance monitoring.	Triennial valuation process of determining contributions consults with employers to agree affordability and sustainability of the Fund	4	2	8	↔	Ongoing	Head of Legal/Head of Treasury & Pension Fund
16		AVC Providers failure to produce year-end SOA.	Resourcing issues with AVC Providers	Late reporting of AVC funds, delay in year end fund closure.	4	3	12	Early engagement with AVC Providers.	Reporting any breach to the Pensions Regulator.	5	2	10	↓	Jan-24	Pensions Manager/Deputy Manager
17		Failure to sign off annual accounts and reports on time.	Late information from 3rd parties	Qualified audit opinion.	3	1	3	Early dialogue with external auditor.	Ensure external audit work is complete.	1	1	1	↓	Ongoing	Director of Finance/Head of Treasury & Pensions

Islington Council Pension Board Risk Register - Sep2023

No	Objective/strategic risk	Risk Description	Cause of risk	Consequence	Inherent Risk Score		Rating Score	Current controls in place to manage risk	Further actions to mitigate risks	Risk Score		Risk rating following mitigation	Trend	Target Date	Risk Owner
					Impact (1=Low, 5=High)	Likelihood (1=Low, 4=High)									
18	**Governance & Compliance** Compliance with statutory regulations and guidance issued by TPR and LGA	Employer failure to pay monthly contributions into scheme.	Poor staff oversight by external body	Late receipt of contributions.	2	3	6	Monthly monitoring of contribution payments by Treasury & Pension Admin Staff.	Regular quarterly Audits reviews.	2	2	4	↓	Ongoing	Pensions Manager/Deputy Manager
19		Failure to interpret rules or legislation correctly.	Poor management/inadequate training.	Financial and reputational damage.	4	2	8	Networking with key partners, Actuaries, Govt. LGA and TPR. Guidance taken from all statutory and regulatory literatures and websites.	The Fund's Investment Advisors and Actuary provide briefings on new legislation and guidance on implementation. Auditors also test our process to ensure best practice. Staff training courses taken at the LGA.	2	2	4	↓	Ongoing	Pensions Manager/Deputy Manager
20		Conflicts of Interest.	None disclosure/lack of transparency	Inability for Board member to participate.	2	2	4	All pension board members have completed educational material and training is ongoing.	Conflicts of interest declaration is signed by all pension board members, recorded in conflicts register. Reminder, and any changes or additional conflicts, will be minuted at each pension board meeting.	2	1	2	↓	Ongoing	Pension Board Chair/Democratic Services
21		Insufficient knowledge and understanding by Pensions Board Members.	Lack of knowledge and understanding by Pension Board Members.	Poorly informed for decision making.	3	2	6	Members to adopt a training plan, including Regulator's and CIPFA's 2021 Code of Practice on Knowledge and Skills;officers and investment advice when needed.	Re-appraisal of members skill set.	2	2	4	↓	Nov-23	Pension Board Chair/Head of Treasury & Pension Fund
22		Non-compliance with GDPR/data protection requirements.	Poor data protection processes/inadequate staff training	Data protection breach and reputational damage.	3	3	9	Review letters/internal processes and procedures, Privacy statements, data share agreements, contracts with 3rd parties. Use of secure portals to share information with key stakeholders, mandatory data protection training for staff.	Regular review of data protection polices.	2	3	6	↔	Ongoing	Pensions Manager/Deputy Manager
23	**Strategy & Finance** Sustainable investment and climate actions	Non-compliance with Investment Strategy Statement; London CIV fail to achieve performance targets over the longer term.	Investment managers fail to take adequate note of ESG risks	Investment in stranded assets.Increases in ER contributions. Pressure on liabilities and funding level perhaps impacting on ER contributions.	4	2	8	Regular monitoring of Investment managers performance.	The fund will monitor ESG risks annually and set targets to mitigate these risks.	3	2	6	↔	Ongoing	Pension Sub-Ctte.
24	**Customer Outcomes & Quality** Incorrect information in public domain including pension fund website	Non accurate information on information platforms.	Failure to update information platforms.	Adverse media courage. Complaints which take up time to resolve. Compensation payments.	4	2	8	Prompt action to ensure data quality.	Quarterly review of data on information platforms.	3	2	6	↔	Dec-23	Pensions Manager/Deputy Manager

Islington Council
Pensions Risk Register 2023

The Pensions Risk Register outlines the key objectives of the Pension Fund and its administration; establishes the methodology for implementing proactive risk management to ensure the 'Fund' has sufficient assets to meet its pension liabilities.

The Pensions Risk Register is forward looking and under continuous review with relevant stakeholders to identifying potential problems and the tools needed to mitigate any obstacles that may endanger critical objectives.

The Pensions Risk Register sets out these risks and the risk heat map assesses the probability and impact.

Risk scoring guide

Likelihood ratings	Description	Example	Probability	
1	Rare	Very unlikely that this will ever happen.	1%	1 in 100
2	Unlikely	Expected to occur in only exceptional circumstances.	10%	1 in 10
3	Possible	Expected to occur in some circumstances. Has happened elsewhere.	20%	1 in 5
4	Likely	Expected to occur in many circumstances. Has happened in the past.	50%	1 in 2

Impact Score	Financial	Service Delivery	Reputation
5	Over £1M	Repeated disruption of a core/critical service	Long-term reputational damage
4	£500K - £1M	Major disruption to a critical service	Medium term reputational damage
3	£100K-£500K	System failure/Cyber attack	Adverse media coverage. Reputational damage
2	£10K - £100K	Disruption of service affecting multiple pension scheme members	Adverse local media coverage
1	£1K - £10K	Disruption of service affecting an individual	Unaffected

Risk Heat Map - September 2023

Impact				
5		14, 16		
4	1, 10	13, 15	6, 7	
3	4, 5	23, 24	8, 9, 11	
2	20	12, 18, 19, 21	3, 22	2
1	17			
	1	2	3	4

Likelihood

Definition
Risk: An action or event that will affect the Pension Fund's ability to achieve it's objective

Assessing Risk

Date: 26/09/2023

Low
Medium
High

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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 Board

Date: 5 October 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 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

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Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	The pooled funds in which Islington pension fund invests have a combined assets under management of £4.78 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.

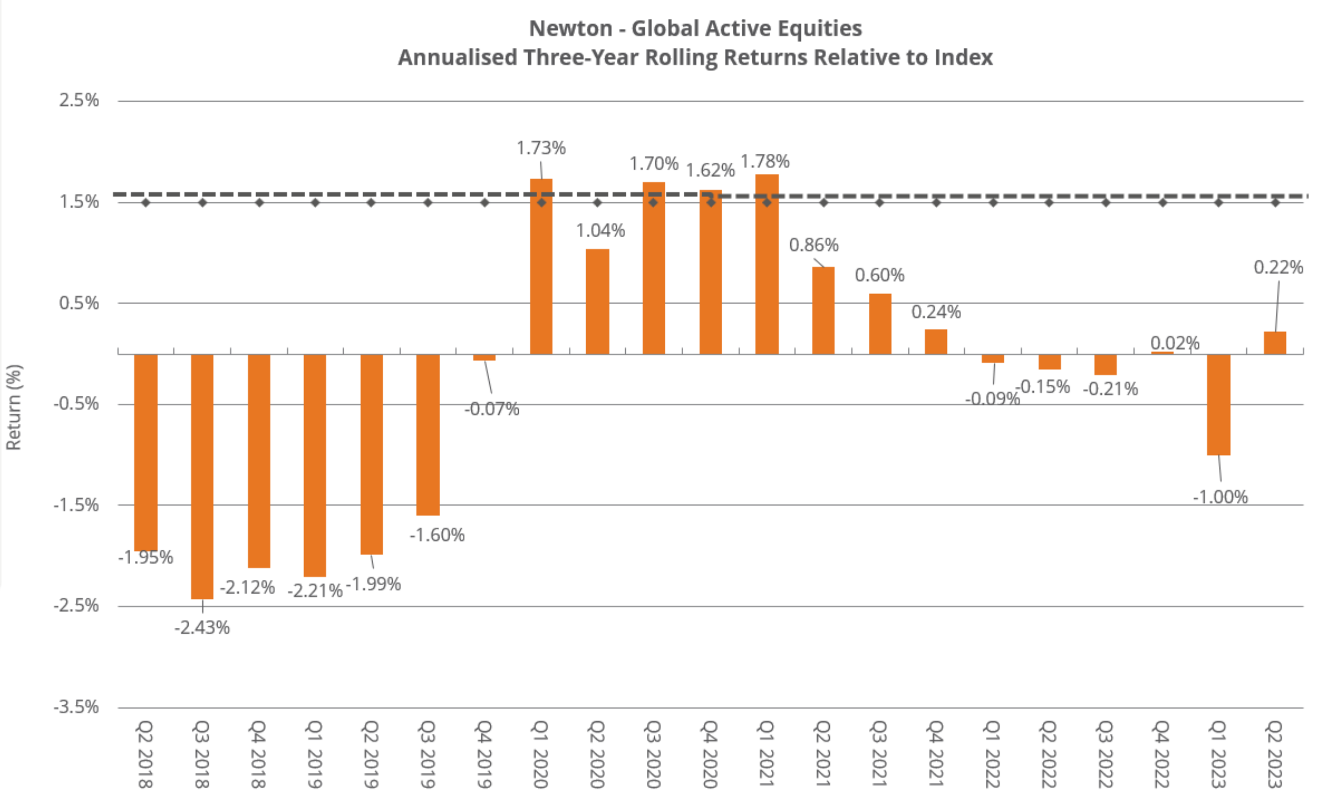
LCIV Global Equity Fund (Newton) – Global Active Equities

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).

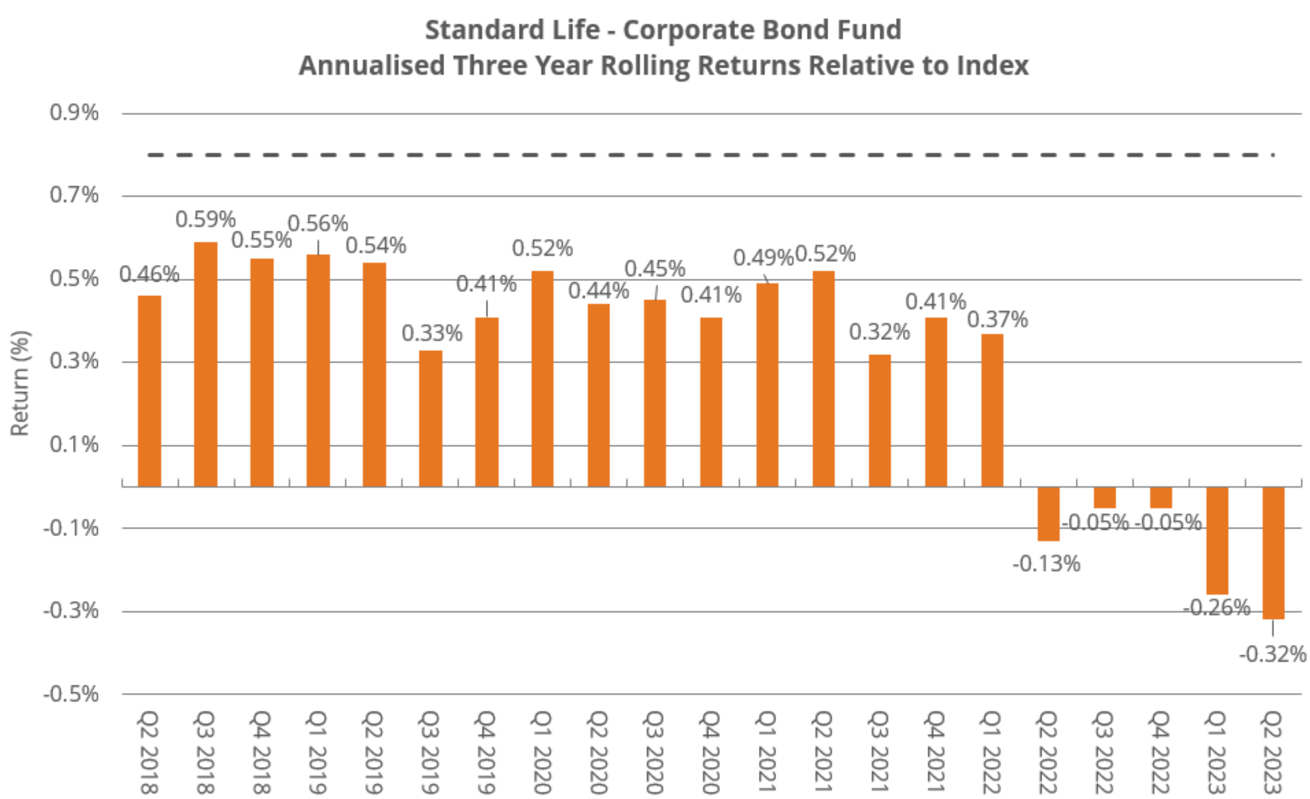
Standard Life – Corporate Bond Fund

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%

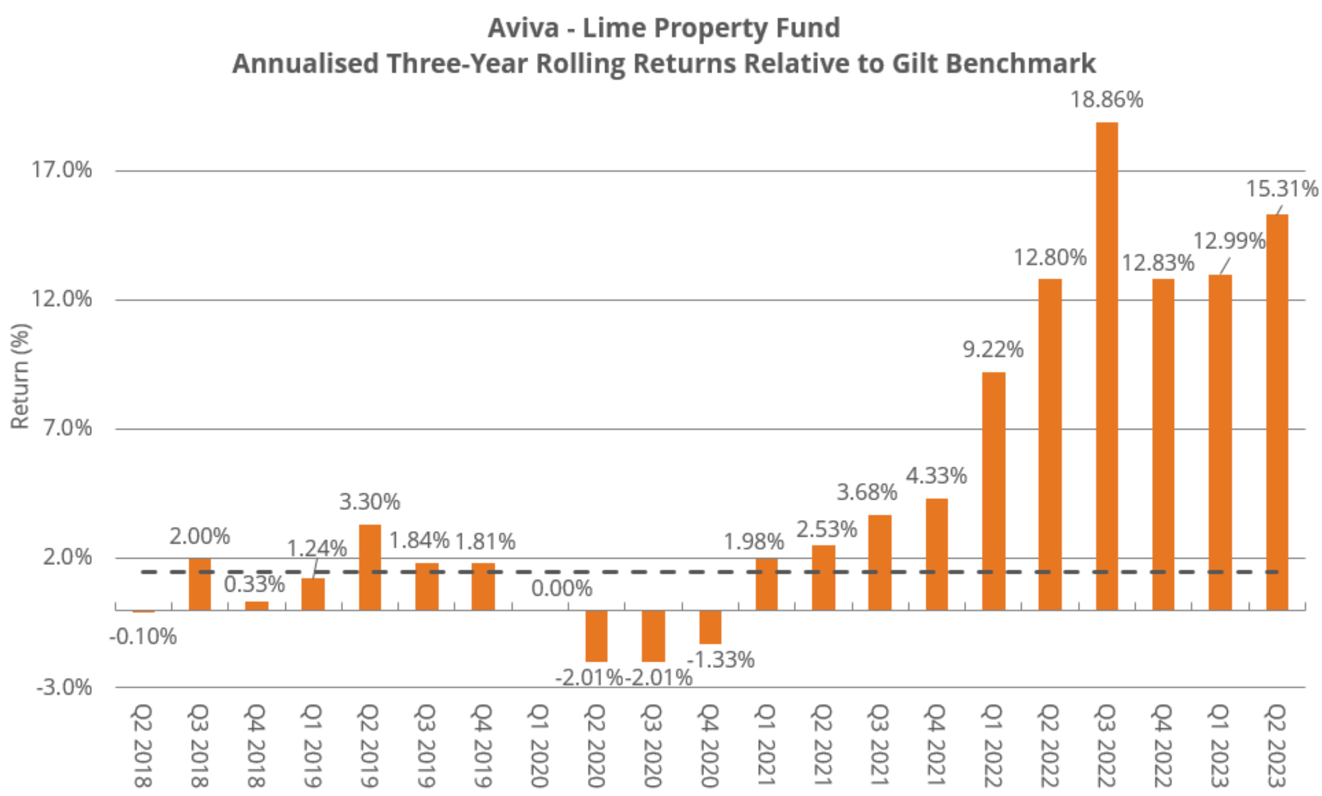
p.a., and over one-year outperformed by +3.73%. It is also ahead of the benchmark since inception in October 2004, by 1.97% p.a.

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.

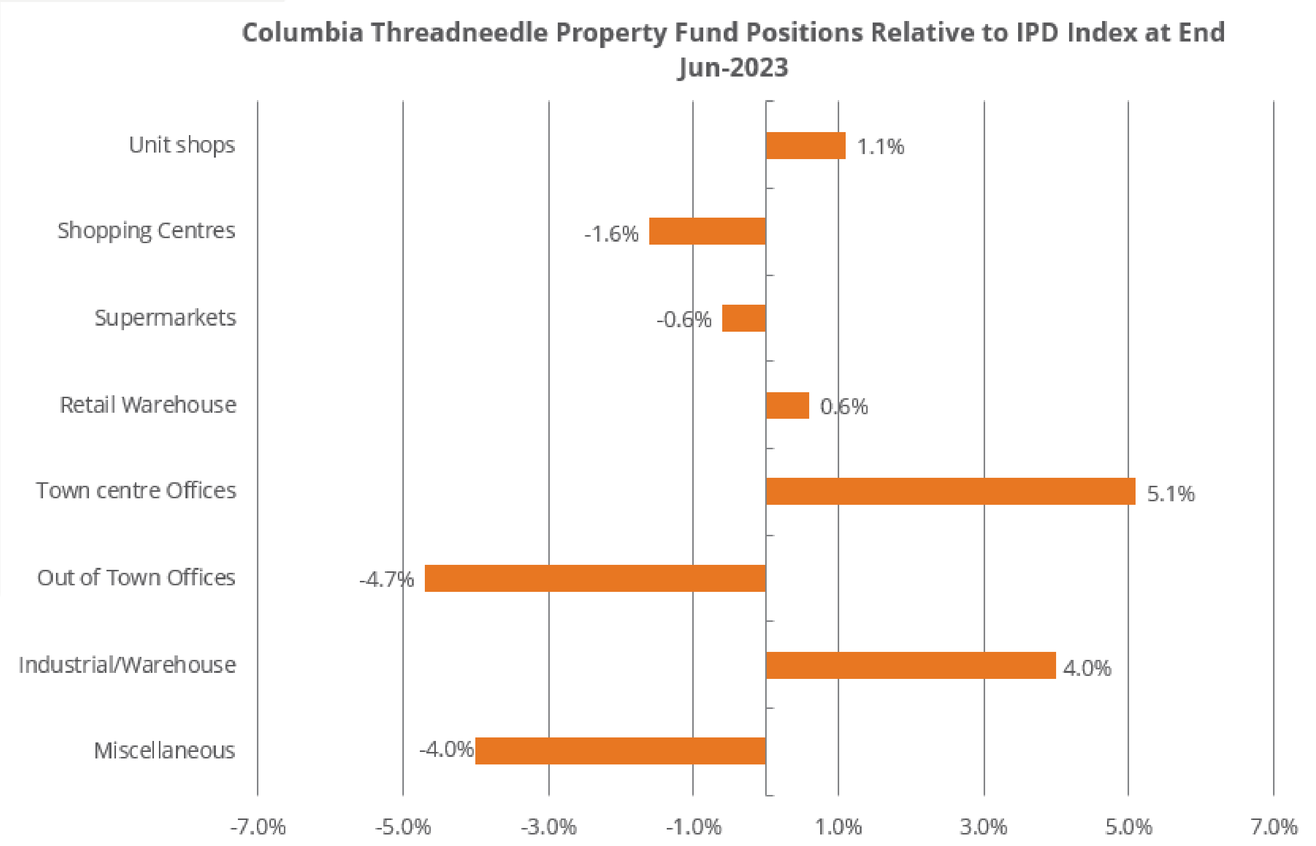
Columbia Threadneedle – Pooled Property Fund

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.

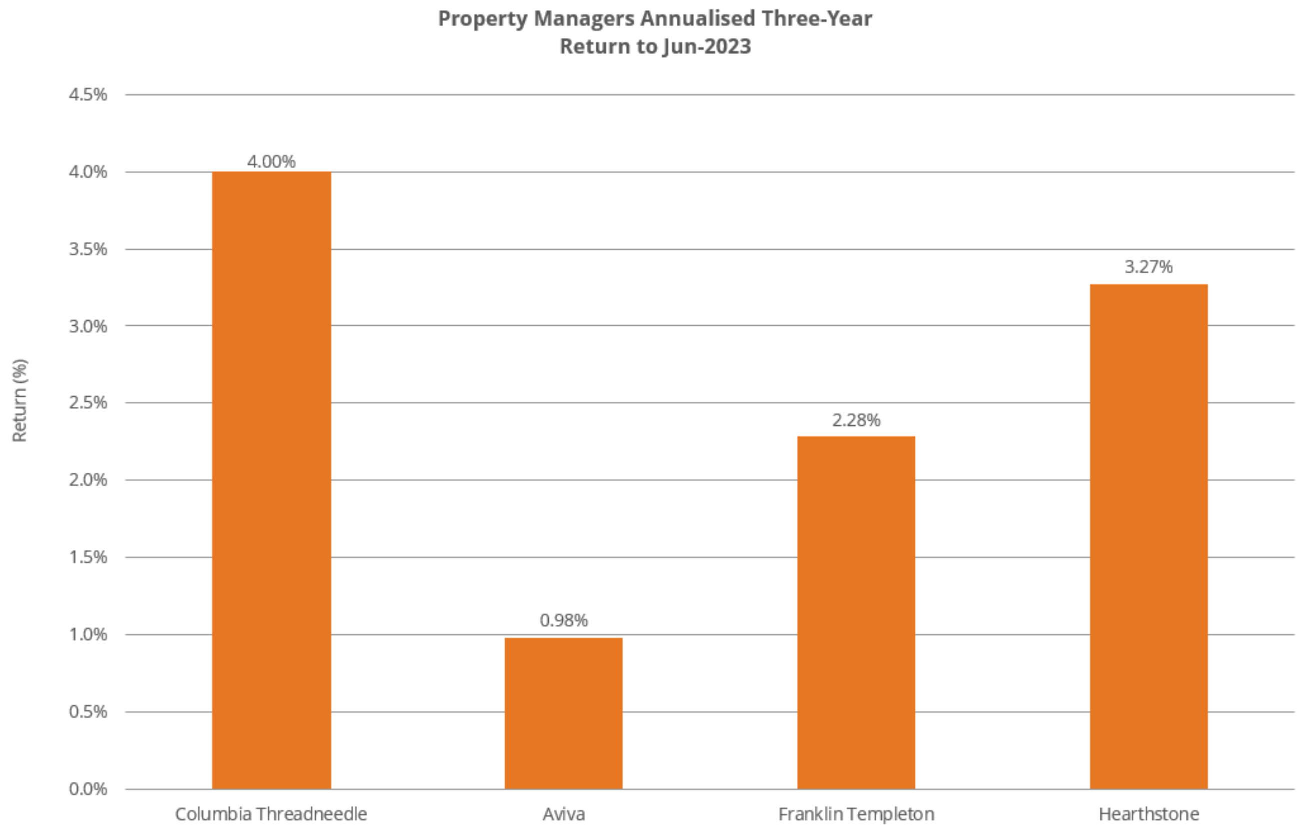
Franklin Templeton – Global Property Fund

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.

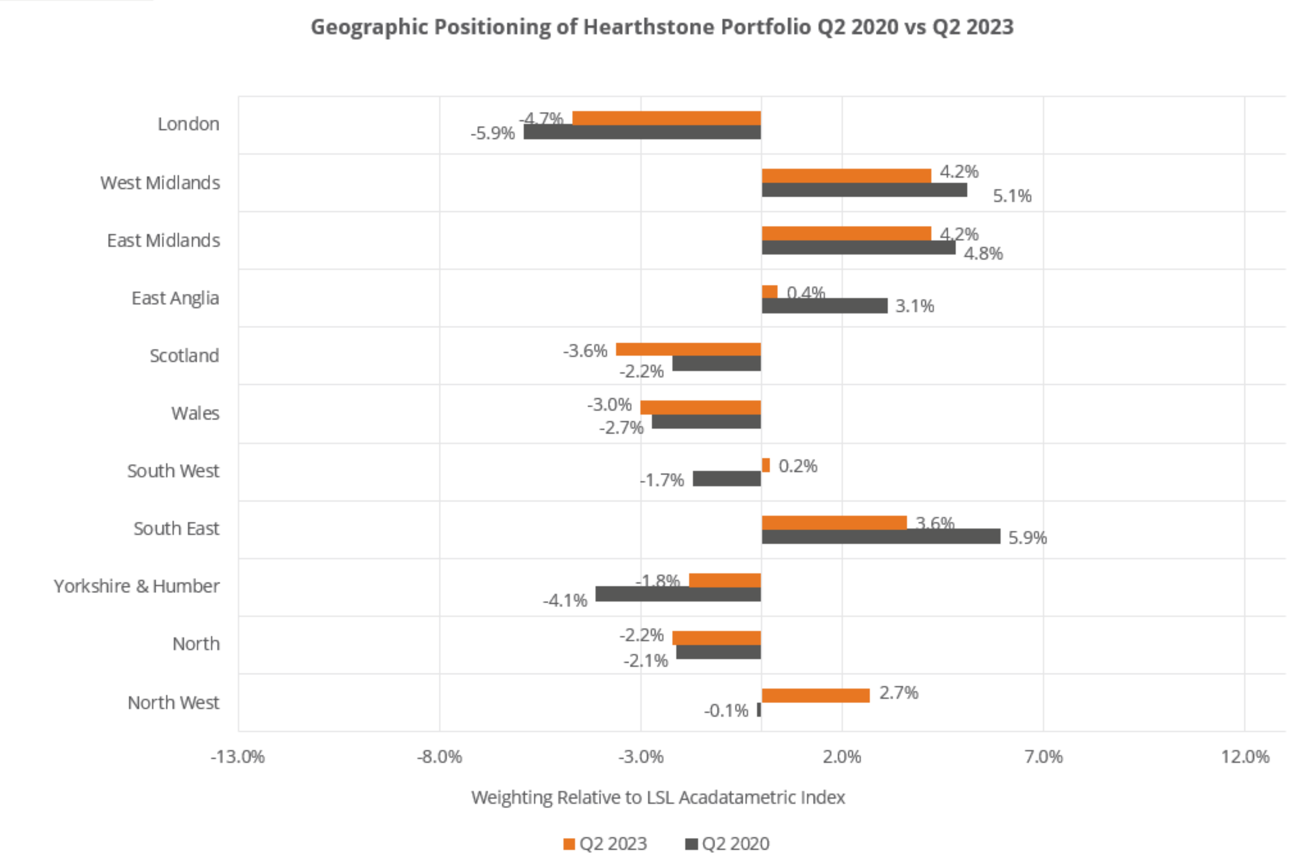
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

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

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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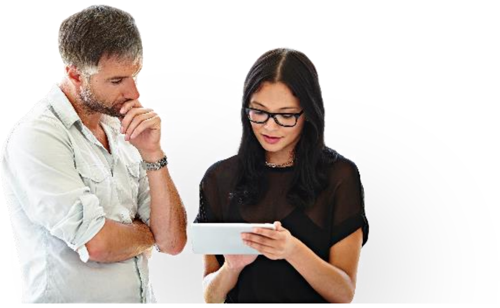
McCloud remedy (various)

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

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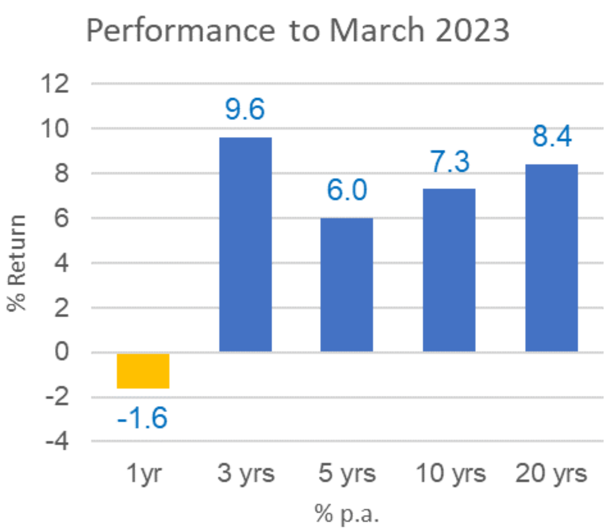
Islington Pension Fund

Performance to March 2023

How Did The LGPS Perform?



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

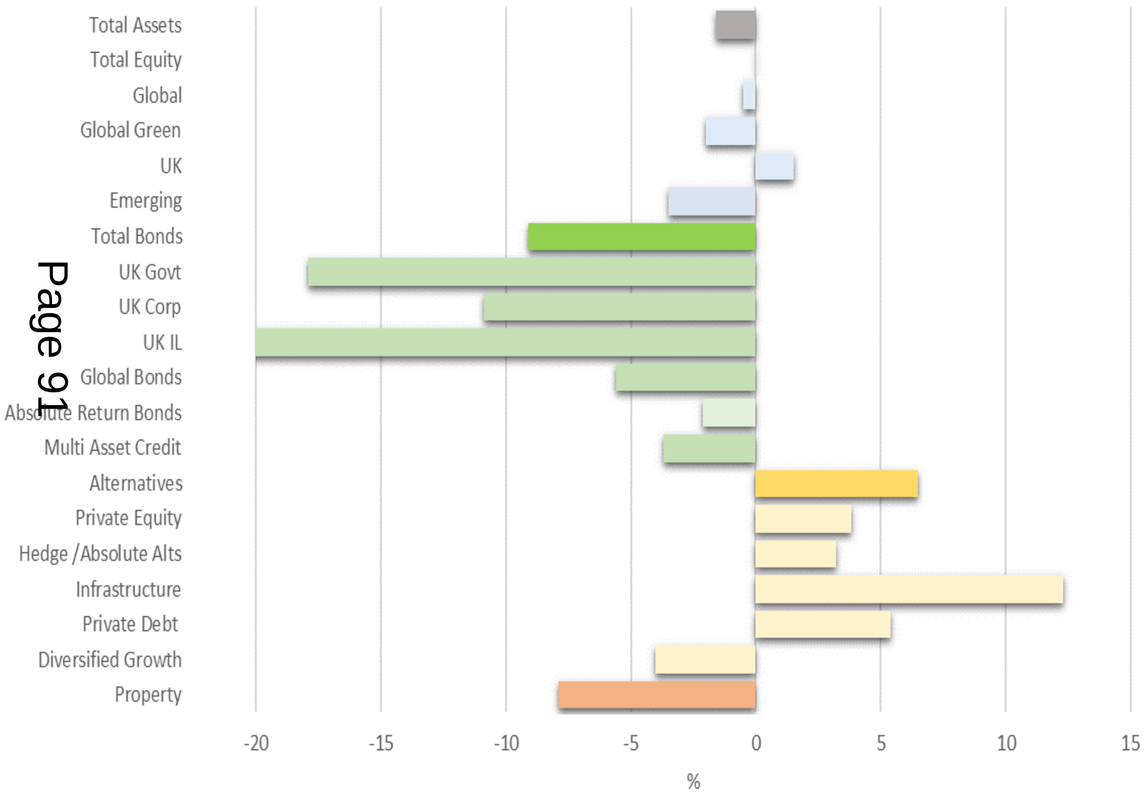
Asset class results strongly diverged and the range of results widened.

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.

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Longer Term Results

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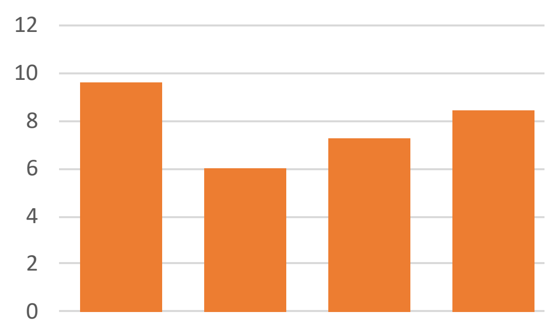


Yrs % p.a.	3	5	10	20
Total Assets	9.6	6.0	7.3	8.4
Equity	14.5	7.6	8.8	10.0
Global	*14.9*	*8.4*	*10.0*	*6.4*
UK	*13.1*	*4.8*	*6.0*	*8.3*
Overseas	*14.2*	*7.6*	*9.6*	*10.6*
Emerging	*8.6*	*2.2*	*4.8*	*10.0*
Bonds	-0.9	0.3	2.6	4.5
Cash	0.9	0.6	0.7	1.0
Alternatives	11.6	10.3	9.8	8.5
Private Equity	*17.1*	*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

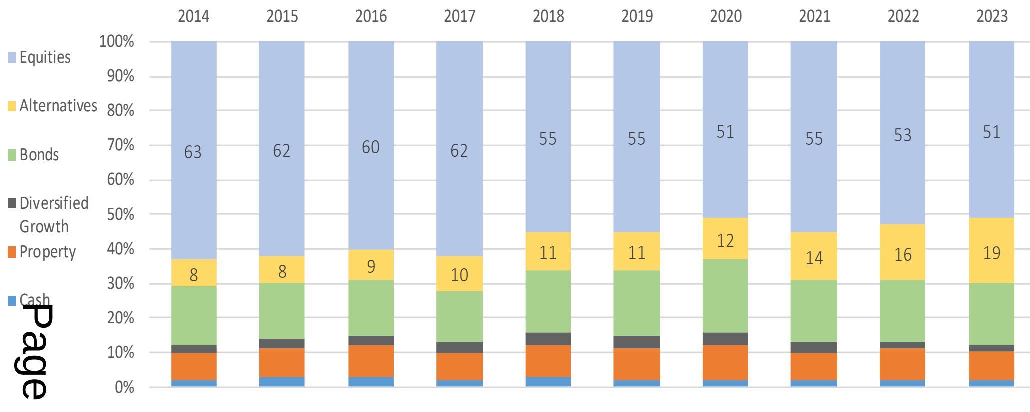
The best results (green) over the longer term were delivered by equities.

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



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
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.

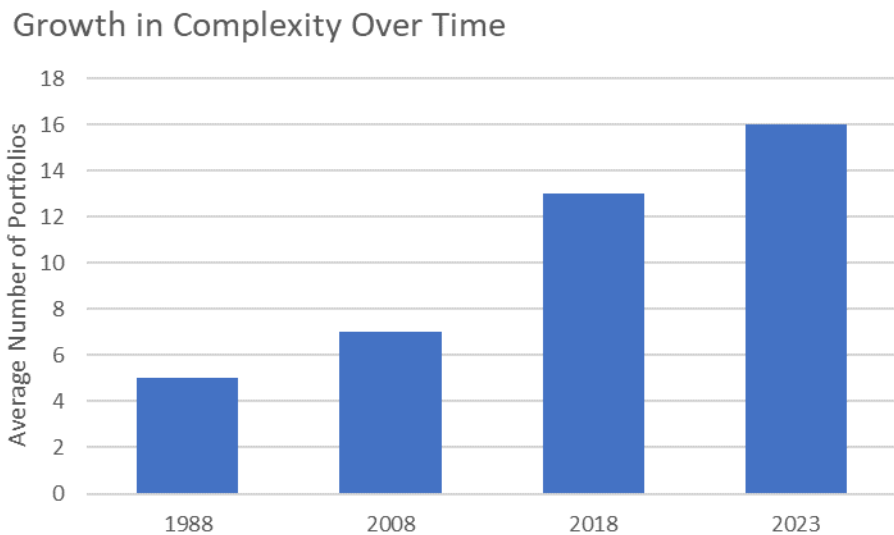
This has been the key structural change.

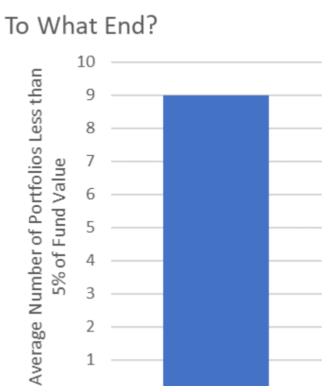
Infrastructure has emerged into a significant proportion of assets.

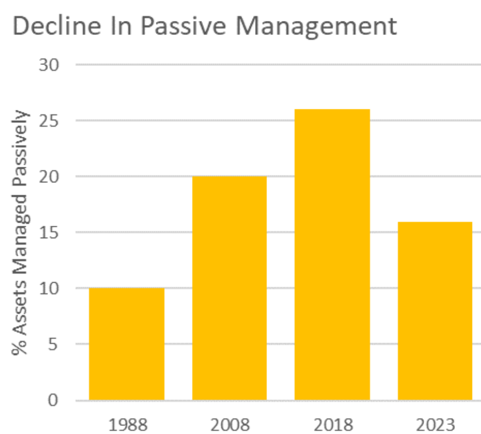
2016/17 was a pivotal year in terms of equity management away from regional to global mandates.

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

Fund Structures (2)







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

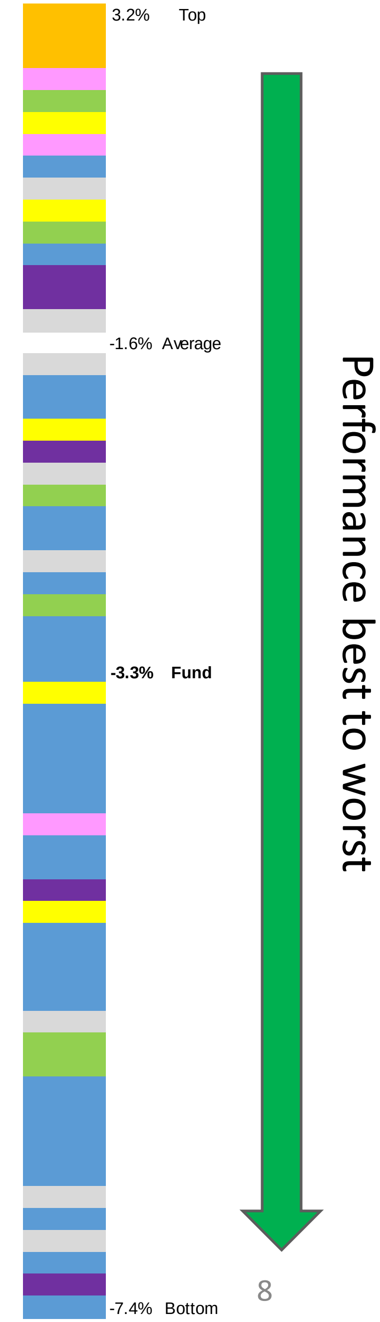
The blocks on the right show the funds listed from that with the highest to that with the lowest return.

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.

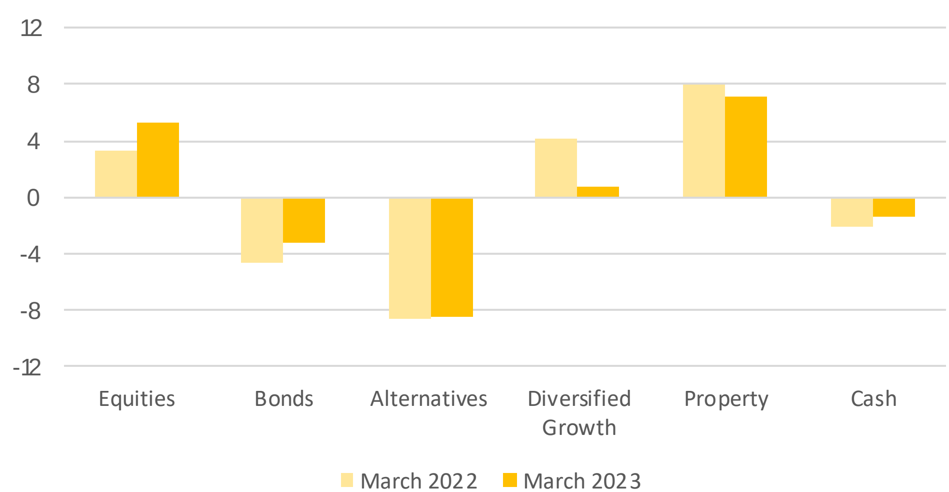


Wales
LPPI
Northern
London
Brunel
Borders to Coast
Access

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.

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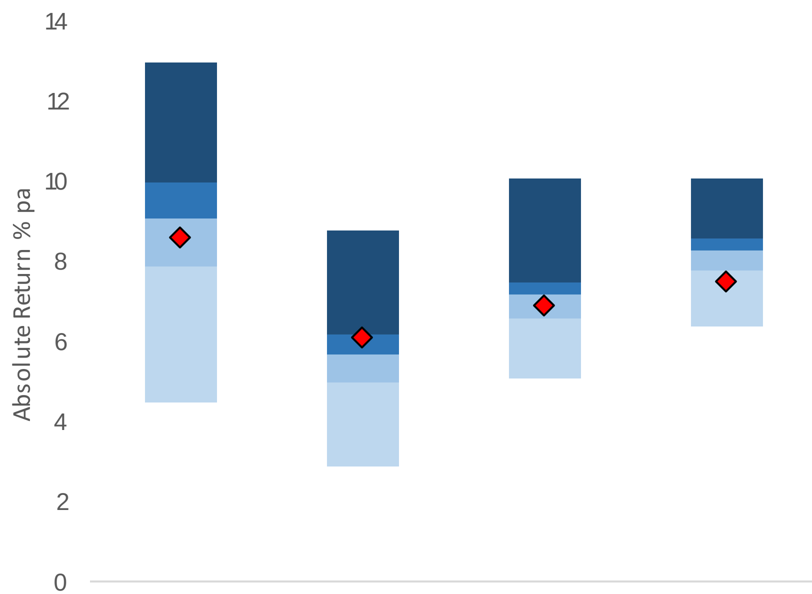
Longer Term Performance

Longer Term Returns and Rankings

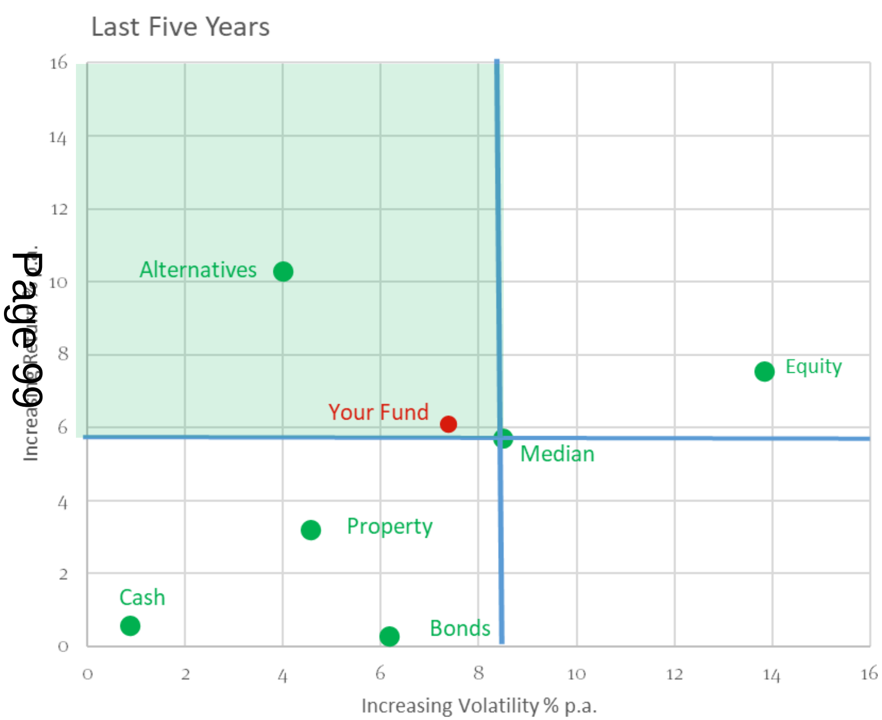


	3 Year	5 Year	10 Year	20 Year
Fund	**8.6**	**6.1**	**6.9**	**7.5**
Average	9.6	6.0	7.3	8.4
Ranking	(65)	(32)	(60)	(91)
CPI Inflation	*6.0*	*4.3*	*2.8*	*2.7*

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

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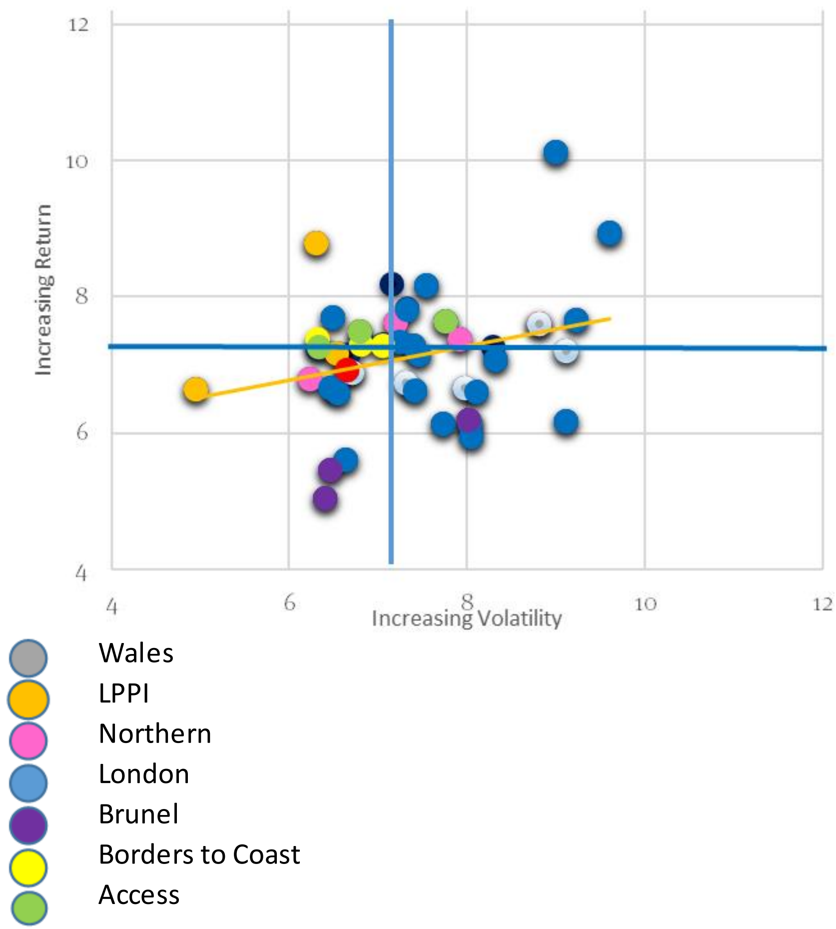
Here we show the individual funds in risk / return space with your Fund shown in red.

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

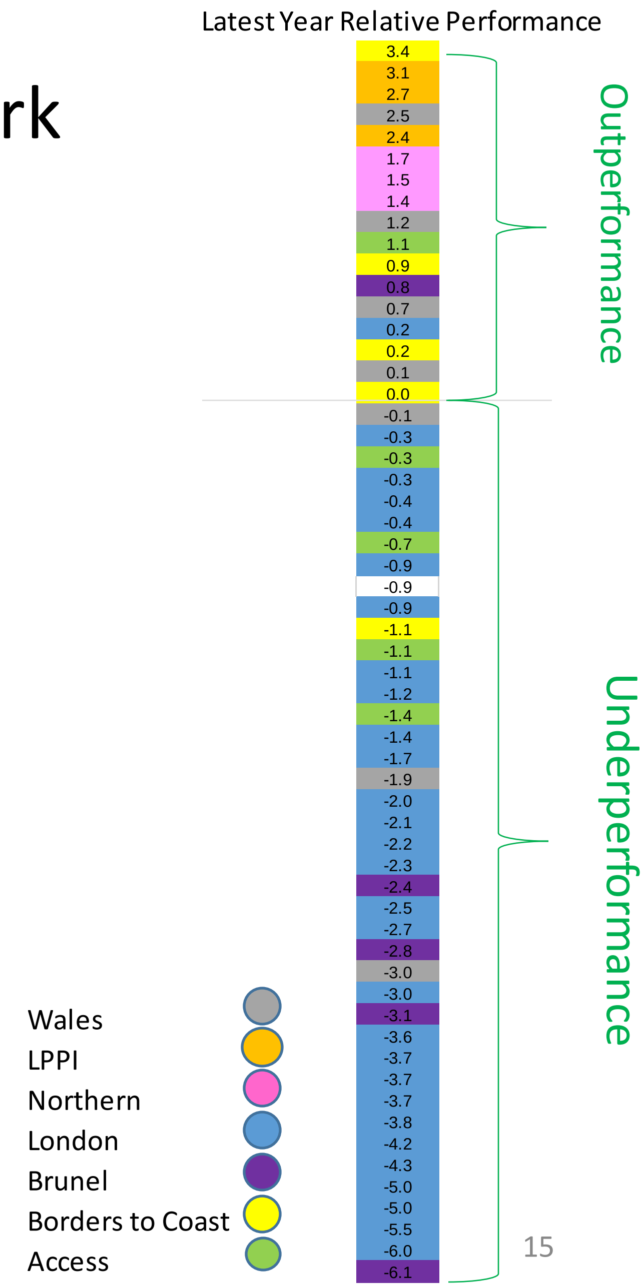
Performance Relative to Benchmark Latest Year

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.

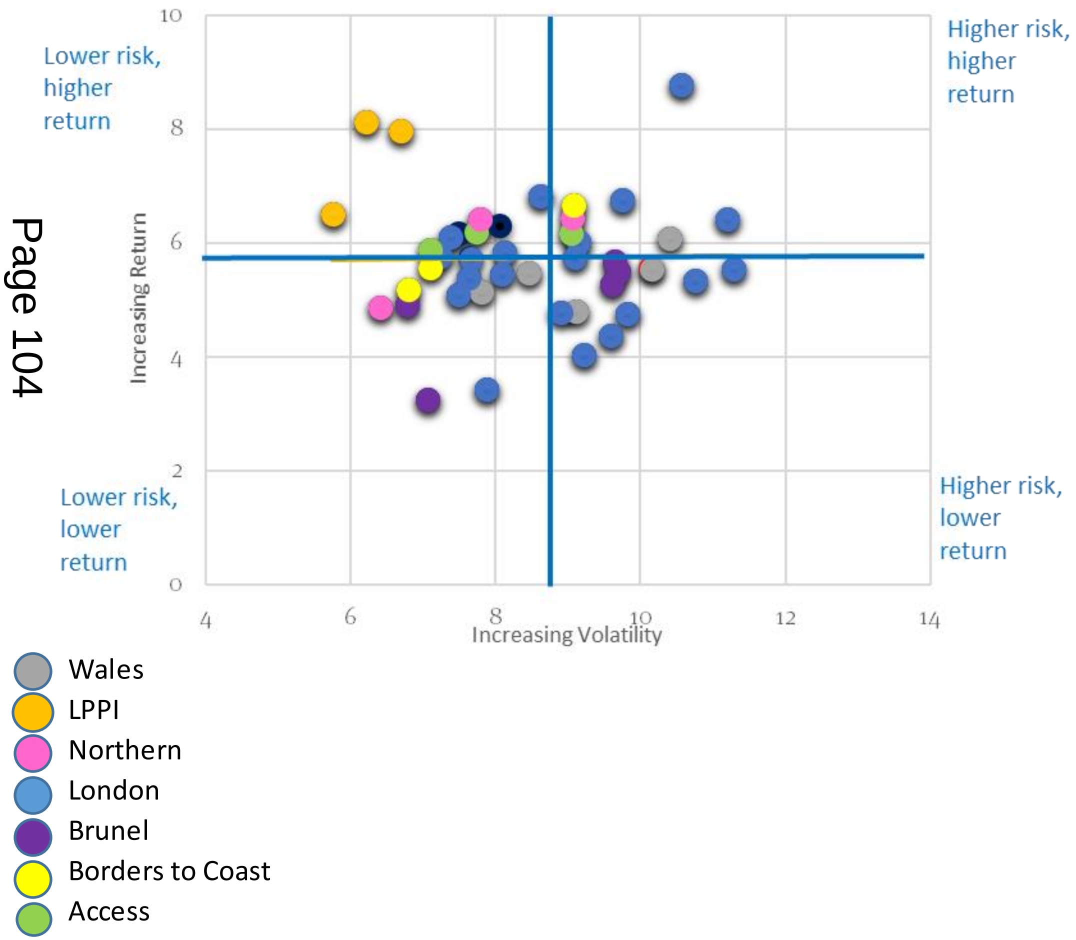
In the latest year three quarters of funds failed to outperform their strategic benchmark.

Only one London Fund outperformed.
Conversely funds within LPPI and the Northern pool all outperformed.



PIRC LAPPA

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

Resources
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pension Board

Date: 5th October 2023

Ward(s): n/a

Pension Board 2023/24 Forward Work Programme

1. Synopsis

1.1 The Appendix A to this report provides information for Members of the Board on agenda items for forthcoming meetings and training topics where required as per its work programme objectives.

2. Recommendations

2.1 To consider and note Appendix A attached and amend the forward programme where there is change in priorities.

2.2 To note attached Appendix 2 the Mercer LGPS News Issue August '23 for information (NB – please refer to Appendix 2 to agenda item B3).

3. Background

3.1 The Public Services Pensions Act 2013 required the establishment of local pension boards for each Local Government Pension Fund.

3.2 Local Government Pension Scheme (Amendment) Governance Regulations 2014 (the Governance Regulations) provide that Pensions Board will have responsibility for assisting the 'scheme manager' (the Pensions Committee in Islington's case) in relation to the following matters:

To ensure compliance with:

- the Local Government Pension Scheme Regulation (LGPS),
- other legislation relating to the governance and administration of the LGPS, and
- the requirements imposed by the Pensions Regulator in relation to the LGPS to ensure the effective and efficient governance and administration of the scheme.

3.3 The Pensions Committee is the decision making body of the Fund and the Pension board can only advise or make recommendations to the Pensions Committee
The Pension Board should therefore be mindful;

- Its work plan should take account of the Fund's own work programme and seek to add value
- Servicing the Pension board will consume Fund management resources and time
- Senior Fund officers servicing the pension Board may on some fund performance issues be personally compromised and conflicted
- Some work items required may need the use of specialist external consultancy resources rather than using the officers servicing the Fund.

3.4 Based on the LGPS and The Pension Regulator's guidance on the role of the pension boards, the focus should include the following:

a) Its own training, knowledge and understanding
b) Avoiding any conflicts of interest
c) Ensuring its own statutory compliance
d) Checking fund governance
e) Reviewing fund risks and internal systems and controls
f) Checking fund external advisors/service providers and their internal controls
g) Reviewing fund member record keeping
h) Checking fund contributions
i) Reviewing fund administration
j) Benchmarking fund performance and Value for Money (VFM)
k) Fraud prevention
l) Employer and member communications
m) Complaints and dispute resolution
n) Reporting regulatory breaches

3.5 The Pension Board must also consider its Annual Report and the review of Pension Fund's draft Annual Report and audited accounts and triennial actuarial review.

3.6 Members need to consider their priorities for the next 12months and use that to formulate their agenda for forthcoming meetings. The draft programme and timetable attached as Appendix A is a guide for members to discuss and amend. It will be updated as necessary at each meeting, to reflect any changes in administration policy, new regulation and pension fund priorities after discussions with Members

4. Implications

Financial implications

4.1 Any cost associated with the governance of the fund will be treated as administration cost and charged to the Fund.

4.2 **Legal Implications**
The Public Services Pensions Act 2013 required the council to establish a local pension board by 1 April 2015. The board must comply with the requirements of the relevant legislation and regulations.

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.

4.4.1 An equalities impact assessment has not been conducted because this report is seeking. opinions on a policy 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 Pension Board and training and note some current news from the SAB website.

Appendices: Appendix A- Work programme for 2023/24
Appendix 2- Mercer LGPS Issues Aug'23

Background papers:
None:

Final report clearance:

Authorised by:

Corporate Director of Resources

Date of final approval

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Finance implication author: Joana Marfoh

Legal implications author: n/a

APPENDIX A
Pensions Board Forward Plan for March 2023 to June 2024

Date of meeting	Work programme objective	Reports
	To ensure the effective and efficient governance and administration of the Scheme	Please note: there will be a standing item to each meeting on: • Admin Performance report • Forward work programme
5th October 2023		Risk register review Draft Annual Report Pension Fund Performance Review of 26th June 2023 Pensions Committee minutes
6th December 2023		Risk register review Review of 26th Sept Pension Fund committee minutes
		Annual Pension Meeting
20th March 2024		3 yr. Budget and Annual Cash Flow Risk Register Review
July 2024		Draft financial statement

Planned and Previous Training on committee meeting dates

November 2018- pension sub cttee meeting	Training Actuarial Review update
September 2019 joint pension sub and board training	Funding strategy and actuarial valuation
February 2021- joint pension sub and board training	Net zero carbon transition training
September 2022- joint pension sub and board training	Actuarial Valuation training
On going self training	The Pension Regulator Toolkit
12th July 2023	CIPFA skill and knowledge assessment matrix

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

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