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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 Committee Room 3, Islington Town Hall, Upper Street, London N1 2UD on **6 December 2023 at 4.00pm.**

Enquiries to	:	Mary Green
Telephone	:	(020) 7527 3005
E-mail	:	democracy@islington.gov.uk
Despatched	:	28 November 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.

3. Minutes of the previous meeting 1 - 4

4. Training/Conferences - an opportunity for members of the Board to feedback on attendance at any pensions' conferences and training opportunities. This meeting to also include feedback from the AGM held on 27 November 2023

5. Decisions of Pensions Committee held on 21 November 2023 (including Pensions' Performance report considered by the Committee on 21 November 2023) 5 - 48

B. **Non-exempt items**

1.	Pension administration performance - 1 August to 31 October 2023	49 - 54
2.	Risk Register review	55 - 66
3.	Forward plan of business for Pensions Board	67 - 72

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 20 March 2024

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London Borough of Islington

Pensions Board - 5 October 2023

Minutes of the meeting of the Pensions Board held in the Council Chamber, Town Hall, Upper Street, N1 2UD on 5 October 2023 at 4.00 pm.

Present: Alan Begg, Valerie Easmon-George and Councillor Dave Poyser (Chair)

Councillor Paul Convery (observer from Pensions Committee)

Councillor Dave Poyser in the Chair

85 APOLOGIES FOR ABSENCE (Item A1)

Received from Maggie Elliott.

86 DECLARATION OF INTERESTS (Item A2)

None.

87 MINUTES OF THE PREVIOUS MEETING (Item A3)

RESOLVED:

That the minutes of the meeting held on 12 July 2023 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them

88 REVIEW OF COUNCIL CONSTITUTION - APPROVED CHANGES TO TERMS OF REFERENCE FOR PENSIONS COMMITTEE AND PENSIONS BOARD (Item A4)

Under the paragraph on "Expenses" in the Board's revised Terms of Reference, a Board member recommended that clarification was needed on the reference to the final sentence "For the avoidance of doubt, Board members shall not receive an annual allowance of any kind". A suggestion was made that the following be added as a final sentence: "Councillors on the Board do not receive a member's allowance of any kind for this role".

It was noted that a recommendation to amend the Board's Terms of reference would have to be made to Islington Council, who were custodians of the Constitution.

A member of the Board drew attention to the fact that both the Board's and the Committee's Terms of Reference gave responsibility for reviewing the Risk Register relating to the Pension Fund. A suggestion was made that it was appropriate for both bodies to consider the Risk Register and that it should therefore be considered by the Committee annually and the Board quarterly.

Confirmation was given that travelling expenses incurred by Board members would be reimbursed by the Head of Pension Fund and Treasury Management.

RESOLVED:
That, subject to the addition to the paragraph on "Expenses" detailed in the preamble above, 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 the report of the Corporate Director of Resources.

89 TRAINING/CONFERENCES - AN OPPORTUNITY FOR MEMBERS OF THE BOARD TO FEEDBACK ON ATTENDANCE AT ANY PENSIONS' CONFERENCES AND TRAINING OPPORTUNITIES (Item A5)

(a) Valerie Easmon-George reported that she had attended a useful online pensions course organised by Westminster Council, covering a range of diverse pension-related subjects.
(b) Alan Begg reported that he was a regular attender of finance-related conferences, which were probably more relevant to the work of the Pensions Committee, on ESG and climate change. He had attended a conference last summer on the Pension Regulator's requirements for pensions' managers on climate change and how this might be managed.

The Head of the Pension Fund and Treasury Management drew the Board's attention to a further training opportunity from CIPFA for 8 November 2023, which had recently been circulated. She invited those interested to contact her directly in order that she could make the necessary booking.

90 DECISIONS OF PENSIONS COMMITTEE HELD ON 26 SEPTEMBER 2023 (Item A6)

Noted. The notice of decisions from the Pensions Committee was considered in tandem with relevant agenda items.

91 PENSION ADMINISTRATION PERFORMANCE (Item B1)

The Pensions Manager reported that some of the complaints received related to pension death benefit, where an employee had not completed the necessary form to indicate to whom the lump sum death grant should be allocated. These cases went to probate, but the Council's position was that it did not wish to become involved in disputes between family members of the deceased. It would be necessary to clarify the policy in this respect and he suggested that the Pensions Team could remind Fund members by including a message on the annual benefit statements.

He also reported that the scoping impact of the McCloud remedy was being assessed for former, current and deceased members of the Fund. Additional resources were being utilised for this purpose. Admitted bodies had not supplied the information required by the Pensions Team so assumptions would have to be made about the missing data. Members of the Board urged the Pensions Manager to prompt schools and admitted bodies to supply the required information on their employees who fell within the scope of McCloud as a matter of urgency.

Unfortunately, annual benefit statements for active members had been despatched later than anticipated and this would have to be reported to the Pensions Regulator. Work was ongoing with the Council's Human Resources Team to mitigate this happening in the future.

On the Risk Register, the Pensions Manager said that he met monthly with Human Resources and felt confident that their input would have a positive affect on trends in the Register. He suggested that new software for use by Pensions Team and Human Resources would mitigate some of the red areas highlighted in the Register.

A member of the Board suggested that any areas marked in red on the Register should include some narrative. He noted that some of the "Trend" arrows on the Register were incorrect and required attention. Narrative should also be included in the Register to indicate "no new risks" where appropriate.

The Board noted that, with reference to risk no 14 "Loss of Investment returns; bond yields fall", which was coloured red, it was likely always to remain so, despite the very good work by the Pensions Committee to avoid.

RESOLVED:

(a) To note the number of members auto-enrolled into the LGPS during the relevant period from 1 May to 31 July 2023, that there were no complaints under consideration 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 publication by Department for Levelling Up, Housing and Communities of the LGPS Amendment (No.3) Regulations 2023 implementing the 'McCloud Remedy'.

(d) To note the reported breach of the law to the Pensions Regulator regarding the production of the Annual Benefit Statements for active members.

(e) To note the updated Pensions Risk Register at Appendix 1 of the report.

(f) To note that three new staff had been recruited to the Pensions Team since the Board's last meeting.

92 **DRAFT ANNUAL REPORT 2022/23 (Item B2)**

A suggestion was made that it would be helpful for one page setting out all the Fund's investments to be included in the Annual Report.

RESOLVED:
(a) To note the draft 2022/23 pension annual report attached as Appendix 1 to the report of the Corporate Director of Resources.
(b) To note the 2022/23 Pension Fund statement of accounts, activities, governance and performance, also as attached to the report.

93 **PENSION FUND PERFORMANCE - 1 APRIL TO 30 JUNE 2023 (Item B3)**
Noted the position on the Fund's investment in property, which was long-term. The Pensions Committee had decided to postpone any decision to invest further in property at the current time and would be looking at all asset classes for future investment. Although Islington's Fund was 20% invested in property and this was in the top quartile, some other Funds had a larger investment of property in their funds.

RESOLVED:
To note the decisions of the Pensions Committee held on 26 September 2023, particularly as they related to performance.

94 **FORWARD PLAN OF BUSINESS FOR PENSIONS BOARD (Item B4)**
It was noted that the date for the AGM had not yet been confirmed, but was likely to be in November 2023.

RESOLVED:
To note Appendix 1 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 August 2023"

95 **PENSION FUND PERFORMANCE - 1 APRIL TO 30 JUNE 2023 - EXEMPT APPENDIX (Item E1)**
Noted.

The meeting ended at 5.15 pm

CHAIR

PENSIONS BOARD – 6 DECEMBER 2023 – AGENDA ITEM A6

SUMMARY OF THE DECISIONS OF THE PENSIONS COMMITTEE HELD ON 21 NOVEMBER 2023

SUBJECT	RECOMMENDATION(S)	DECISIONS
B1 - PENSION FUND PERFORMANCE FROM 1 JULY TO 30 SEPTEMBER 2023	**2.1 To note the performance of the Fund from 1 July to 30 September 2023 as per BNY Mellon interactive performance report** **2.2 To receive the presentation by Apex, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.**	**AGREED recommendations** **Also noted that the Committee was keen to explore new investment trends via the Investment Strategy**
B2 - INVESTMENT STRATEGY REVIEW UPDATE **+Exempt Appendix 1- Mercer presentation- Impact Investment Overview (training)**	**2.1 To note the progress made to date on the implementing the agreed strategy.** **2.2 To consider paragraph 3.2.1** **2.3 To agree responses to questions 1 and 2 as set out in para 3.2.2** **2.4 Subject to 2.3, agree that officers and advisors formulate an implementation plan.**	**AGREED recommendation 2.1, 2.4, 2.5 and 2.6** **2.2 and 2.3 – with regard to the questions in para 3.2.2, agreed to consider a longer list of one or more managers for the emerging markets portfolio for decision at the next meeting.** **Impact assessment mandate to also include an inclusive local economy**

	2.5 Receive a Mercer training presentation (attached as exempt appendix 1) **2.6 To agree to receive a further progress report at the next meeting in March**	**approach and Biotech/life sciences themes.**
B3 - REVIEW OF OBJECTIVES SET FOR PROVIDERS OF INVESTMENT CONSULTANCY SERVICES **+Exempt Appendix 1**	**2.1 To note that the legal requirement for trustees of occupational pensions (including LGPS) to set strategic objectives for investment consultancy providers, came into effect from 10 December 2019.** **2.2 To note the objectives agreed in December 2022, and agree the performance rating of our investment consultancy provider as set out in Exempt Appendix 1.** **2.3 To agree to review these objectives at least annually and / or where there is a change in the fund's requirements.**	**AGREED recommendations**
B4 - THE LONDON CIV UPDATE **+ EXEMPT APPENDIX – MONTHLY BUSINESS UPDATE – OCTOBER 2023**	**2.1 To note (Exempt Appendix1) October business update session and further updates on fund launches**	**Noted.**

B5 - PENSIONS COMMITTEE 2023/24 FORWARD WORK PROGRAMME	**2.1 To consider and agree Appendix A attached**	**AGREED recommendation**
E1 – EXEMPT MINUTES OF THE PENSIONS COMMITTEE HELD ON 26 SEPTEMBER 2023	**Agreed**	

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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: Pension Board

Date: 6th December 2023

Ward(s): n/a

Subject: Pension Fund Performance 1 July to 30 September 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 July to 30 September 2023 as per BNY Mellon interactive performance report
2.2	To receive the presentation by Apex, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.
3.	**Fund Managers Performance for 1 July to 30 September2023**

3.1 Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (July-Sept'23) Gross of fees		12 Months to September 2023 Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LCIV Sustainable EQ- RBC	9.3%	Global equities	1	-0.9%	0.5%	-1.3%	11.5%
LCIV -Newton	14.1%	Global equities	2	-0.6%	0.7%	13.5%	11.0%
Legal & General	13.8%	Global equities	1	0.9%	0.9%	11.0%	11.3%
Legal & General-Paris Aligned	9.6%	Global equities	1	-0.3%	-0.6%	12.7%	12.9%
Polen Capital (previously BMO)	3.6%	Emerging equities	2	0.1%	1.2%	-0.4%	2.6%
Quinbrook	6.2%	Renewable Infrastructure		3.3%	2.8%	-7.9%	12.0%
Pantheon	4.3%	Infrastructure	1	5.0%	2.4%	1.9%	10.0%
Aviva (1)	10%	UK property	2	-2.3%	-2.2% -0.2%	-14.9%	-5.5% -13.6%
ColumbiaThreadneedle Investments (TPEN)	6.8%	UK commercial property	3	0.2%	-0.4%	-12.1%	-14.3%
Hearthstone	1.4%	UK residential property	N	-2.8%	-0.2%	-1.4%	-13.6%
Standard Life	3.8%	Corporate bonds	2	2.1%	2.2%	6.9%	6.9%
M&G Alpha Opportunities	4.6%	Multi Asset Credit	2	2.7%	2.1%	11.8%	7.5%
Schroders	2.5%	Diversified Growth Fund	2	-0.6%	1.7%	1.4%	13.8%
Churchill Senior loan Fund IV	3.5%	Private Debt	2	6.9%	1.2%	-1.8%	5%
Permira Credit Solution	1.1%	Private Debt	3	1.5%	1.4%	n/a	n/a
Crescent Capital	1.8%	Private Debt	N	7.2%	2.4%	n/a	n/a
Cash	1.4%	cash		n/a	n/a	n/a	n/a
Market value of total fund	**£1,766m**						

-2.2% & -5.5% = original Gilts benchmark; -0.2% and -13.6% are the IPD All property index; for information

3.1	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.
3.2	The combined fund performance and benchmark for the last quarter ending September 2023 is shown in the table below.
3.3	**Total Fund Position** The Islington combined fund absolute performance with the hedge over the 1,3- and 5-year periods to September'23 is shown in the table below.
3.4	The strategic allocation and actual position as at 30th September is shown in the table below. Cash held is mostly distributions from private assets and used to fund drawdowns.
3.5 3.5.1	**LCIV RBC Sustainability Fund** 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.

Table (3.2):

	Latest Quarter Performance **Gross** of fees		12 Months to Sept'23 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	0.5	0.07	4.8	8.9

Table (3.3):

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	4.8%	5.5%	5.4%
Customised benchmark	8.9%	5.1%	4.9%

Table (3.4):

Asset Class	**Strategic Allocation**	**Current Allocation**
Equities	45	50.4
Property	20	20
Private debt	10	6.3
Infrastructure	12.5	10.5
Impact investment	5	0
Multi asset credit	7.5	4.6
Investment grade credit	0	3.8
Diversified growth fund	0	2.6
Cash	0	1.8

3.5.2	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%
3.5.3	The fund underperformed its quarterly benchmark to September by -1.5% and a twelve-month under performance of -12.9%. 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 effects were mainly determined by broader market forces, namely uncertainty about the path of interest rates, shorter time horizons of mainstream investors and an 'ESG intangibles' headwind.
3.6	**LCIV Newton Investment Management**
3.6.1	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.
3.6.2	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.
3.6.3	The fund returned -0.5% against a benchmark of 0.7% for the September quarter and a 12month outperformance of 2.5% against a benchmark of 11.0%. The only observable theme attributed to underperformance was profit-taking in a selection of stocks which had outperformed in the first half of the year.
3.6.4	Islington now owns 47.3% (54.8 %) of the fund with 2 other local authorities on the LCIV platform after a £90m withdrawal to rebalance our property allocation.
3.7	**The Legal and General Paris Aligned ESG Passive Index**
3.7.1	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 £170m.
3.7.2	The quarter performance to September was -0.3% against a benchmark of -0.7%. 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.
3.8	**Legal and General**
3.8.1	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

3.8.2	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. 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 £243m(241m) with a performance of 0.9% against a benchmark of 0.9%.
3.9	**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.
3.9.1	The September quarter saw an under performance of -1.1%, and this was mainly due to stock selection.
3.9.2	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.
3.10	**Aviva**
3.10.1	Aviva manages the fund's UK High Lease to Value property portfolio. They were appointed in 2004 and the target of the mandate is to outperform their customised gilts benchmark by 1.5% (net of fees) over the long term. The portfolio is High Lease to Value Property managed under the Lime Property Unit Trust Fund.
3.10.2	The fund for this quarter delivered a return of -2.4% against a gilt benchmark of -2.2%. The All Property IPD benchmark returned -0.18% for this quarter. Since inception, the fund has delivered an absolute return of 4.8%
3.10.3	As at the end of this September quarter the fund's unexpired average lease term is 20.8 years. The Fund holds 82assets with 50 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 three sales were completed: a manufacturing facility, a car showroom and a concert hall investment. The fund has 7.7% cash and has been notified of redemptions of around 15.7% till year end in December.

3.11	**Columbia Threadneedle Property Pension Limited (TPEN)**
3.11.1	This is the fund's UK commercial pooled property portfolio that was fully funded on 14 January 2010 with an initial investment of £45 million. The net asset value at the end of September was £121m includes purchase of additional units of £30m. The agreed mandate guidelines are as listed below: • Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 April 2014. • Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods. • Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term. • Income yield on the portfolio at investment of c.8.5% p.a. • Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.
3.11.2	The fund returned a performance of 0.2% against its benchmark -0.4% for the September quarter. Since inception it has delivered an absolute return of 5.5% per annum.
3.11.3	The cash balance now stands at 3.2%. During the quarter, one strategic sale was made and there were no acquisitions. Vacancy rate stands at 9.4% and the number of properties are 171 with 961 tenancies.
3.11.4	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	**Franklin Templeton**
3.12.1	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.

3.12.2 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 September quarter is $62.1m. The NAV is $0.2m

3.12.3 The Fund is in the harvesting phase of its life cycle and continues to benefit from the realization of investments.

3.12.4 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 $17.6m

3.12.5 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.

3.12.6 As at the quarter end $18.8m has been drawdown and a distribution of $8.6m had been received.

3.13. **Hearthstone**

3.13.1 This is the fund's residential UK property manager. The fund inception date was 23 April 2013, with an initial investment of £20million funded by withdrawals from our equity's portfolios. The agreed mandate guidelines are as follows:

- Target performance: UK HPI + 3.75% net income.
- Target modern housing with low maintenance characteristics, less than 10 years old.
- Assets subject to development risk less than 5% of portfolio.
- Regional allocation seeks to replicate distribution of UK housing stock based on data from Academics. Approximately 45% London and Southeast.
- 5-6 locations per region are targeted based on qualitative and quantitative assessments and data from Touchstone and Connells.
- Preference is for stock, which can be let on Assured Shorthold Tenancies (ASTs) or to companies.

	• Total returns expected to be between 6.75% and 8.75% p.a., with returns split equally between income and capital growth. Net yields after fund costs of 3.75% p.a. • The fund benchmark is the LSL Academetrics House Price Index
3.13.2	For the September quarter, the value of the fund investment was £25million and total funds under management is £62.5m. Performance net of fees was -2.8% compared to the IPD UK All Property benchmark of -0.2%. The £2m redemption requested in July was received in October.
3.13.3	FCA have agreed for the Fund to be terminated and liquidated effective from 1st December 2023. The initial cash held of £5m will be distributed on a pro rata basis with Islington receiving 40% share. The programme of disposal will continue as properties become vacant and protection of shareholder value is paramount.
3.14	**Quinbrook Infrastructure**
3.14.1	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.
3.14.2	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 September was $62.7m.
3.15	**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.
3.15.1	Drawdown to September '23 is $90.95m and distribution of $27.05m nearing its harvesting period.
3.15.2	Members agreed to re-commit to Pantheon IV infrastructure fund at the September meeting and the on- boarding was completed on 3rd October with a $100m commitment.

3.16	**Schroders** This is the Fund's diversified growth fund manager. The fund inception date was 1 July 2015, with an initial investment of £100million funded by withdrawals from our equity's portfolios**.**
3.16.1	The agreed mandate guidelines are as follows: • Target performance: UK RPI+ 5.0% p.a., • Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years). • Aims to invest in a broad range of assets and varies the asset allocation over a market cycle. • The portfolio holds internally managed funds, a selection of externally managed products and some derivatives. • **Permissible asset class ranges (%):** • 25-75: Equity • 0- 30: Absolute Return • 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash • 0-20: Commodities, Convertible Bonds • 0- 10: Property, Infrastructure • 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.
3.16.2	The value of the portfolio is now £45**.**4m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The September quarter performance before fees was -0.6% against the benchmark of 1.7% (inflation+5%). The performance since inception is 2.0% against benchmark of 10% before fees.
3.16.3	The new benchmark effective from 1 April 2022 is ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum. A drawdown of £25m was made in October to fund new infrastructure capital call.
3.17	**Standard Life**
3.17.1	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 September quarter, the fund returned 2.1% against a benchmark of 2.2% and an absolute return of 3.8% per annum since inception.
3.17.2	Stock selection was a small positive and duration was added to the portfolio as gilt yields rose.
3.17.3	The agreed infrastructure mandates are being funded from this portfolio and to date £80m has been drawn down.
3.18	**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 loss negative cash value of £4m.

3.18.1	The hedge has now been in place since 25 November 2020 for quarterly hedge rolls
3.19	**M&G Alpha Opportunities** This is the multi asset credit manager appointed and funded on 1st March 2021**.** The total allocation is approximately 5% funded mostly from profit made from equity protection in March 2020. <u>The mandate guidelines of M&G include</u> • Fund can invest across the full spectrum of developed market corporate credit (IG, HY, Loans) as well as securitised credit (ABS, MBS), some illiquid opportunities and defensive holdings (e.g. cash). • Investment process is predominantly bottom up, with a defensive value style that seeks to buy cheap mispriced securities. • Targets a return of 1 month LIBOR +3% - 5% (gross of fees) over an investment cycle (3-5 years) • No local currency EM debt is permitted • Low level of interest rate duration • Maximum exposure to sub-investment grade credit of 50% of assets, • Focus is primarily on Europe, although there is some exposure to the US (c. 15%). <u>Risk and triggers for review:</u> • Key person - risk • Issues at the firm level • Change in investment process/ structure or risk/return profile of the mandate. • Failure to deliver target return over 3 Year period of Cash +3% - 5% (gross of fees), unless there is a compelling market-based reason for underperformance • Downgrade of Mercer rating lower than B+ • Downgrade of Mercer ESG rating lower than ESG3. • Long term trend of staff turnover and changes within the investment team.
3.19.1	The September quarter performance was 2.7% against a benchmark of 2.1% and a one year over performance of 4.3%. The primary contributors to performance were exposures to bonds in the Industrial, Financial and Leveraged Loan sectors. The agreed change of mandate to Sustainable Alpha Opportunity Fund was transitioned on 1st November. The full cost of transition will be reported at the next meeting.
3.20.	**Private Debt Mandates**

Fund and year	Commitment	Capital call	Distribution
Churchill Fund IV-2021	\$95m	\$85.08m	\$14.19m
Permira V-2021	£50m	£18.815m	£1.16m
Crescent VIII-2022	\$87m	\$40.7m	\$3.9m

4.	**Implications**

4.1	**Financial implications:** The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation. Fund management and administration fees and related cost are charged to the pension fund.
4.2	**Legal Implications:** As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.
4.3	**Equality Impact Assessment:** The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding”. An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising**.**
4.4	**Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:** Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is: https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf
5.	**Conclusion and reasons for recommendations**
5.1	Members are asked to note the performance of the fund for the quarter ending September 2023 as part of the regular monitoring of fund performance and Appendix 1- Apex Advisors commentary on managers.

Appendices: Appendix 1 – Apex- Fund Mgr monitoring report

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:

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

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

London Borough of Islington

Report to 30th September 2023

11 November 2023

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Contacts

Karen Shackleton
Senior Adviser
+44 20 7079 1000
karen.shackleton@apexgroup-fs.com

Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
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 £4.79 billion at end September 2023.
Schroders (multi-asset diversified growth)	There were no team changes during Q3 2023. The Manager updated its Global Asset Allocation Committee in October.	Fund made a loss of -0.59% during the quarter and delivered a return of +1.47% p.a. over 3 years, -12.27% p.a. behind the target return.	Total AUM stood at £724.3 billion as at end September 2023, down from £726.5 billion as at end June 2023.
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 -1.15% in the quarter to September 2023. The fund is behind over three years by -1.72% p.a.	Total AUM stood at approximately $61bn as at end March 2023 (most recent data available).

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
LCIV Global Equity Fund (Newton) (active global equities)	Following the departure of the lead portfolio manager, LCIV have downgraded their rating of the manager to “enhanced monitoring”. An in-depth review will take place in December 2023.	The LCIV Global Equity Fund underperformed its benchmark during Q3 2023 by -1.36%. Over three years the portfolio underperformed the benchmark by -0.37% and therefore under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.38% p.a.	At the end of Q3 2023, the London CIV sub-fund’s assets under management were £528.0 million. London Borough of Islington owns 47.36% of the sub-fund.
LCIV Sustainable Equity Fund (RBC)	Team is stable but LCIV is concerned about the oversight of less experienced team members. A junior analyst left the firm just after quarter end.	Over Q3 2023 the fund made a return of -0.98%, and this underperformed the benchmark return of +0.56%. The one-year return was -1.37%, negative in absolute terms and behind the benchmark by -12.91%. The three-year return underperformed the benchmark by -6.40% p.a.	As at end September 2023 the sub-fund’s value was £1,205 million. London Borough of Islington owns 13.67% 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 +2.74% over Q3 2023, ahead of the target return by +0.66%. Over one year, the fund returned +11.86% which was ahead of the target return by +4.36%.	The fund size was £6,208 billion as at end September. London Borough of Islington's investment amounts to 1.32% of the fund.
Standard Life (corporate bonds)	There were nine joiners and 14 leavers during the quarter. Two Investment Managers have left the UK fixed income team and one new Investment Manager was hired into the fixed income team in Singapore.	The portfolio underperformed the benchmark return during the quarter by -0.07%, delivering an absolute return of +2.20%. Over three years, the fund was behind the benchmark return (by -0.29% p.a.) and behind the performance target of +0.80% p.a.	As at end September the fund's value was £2,218 million, up from £2,134 million as at end June. London Borough of Islington's holding of £67.3m stood at 3.0% of the total fund value.
Aviva (UK Property)	There were no joiners or leavers during the quarter	Underperformed against the gilt benchmark by -0.12% for the quarter to September 2023 and outperformed the benchmark over three years by +14.27% p.a., delivering a return of -0.32% p.a., net of fees.	The fund was valued at £2.99 billion as at end Q3 2023. London Borough of Islington owns 6.0% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Columbia Threadneedle	Not reported.	The fund outperformed the benchmark in Q3 2023, with a quarterly return of +0.23% compared with -0.42% for the benchmark. Over three years, the fund is outperforming the benchmark by +0.81% p.a.	Pooled fund has assets of £1.51 billion. London Borough of Islington owns 8.05% of the fund. This compares with 2018 when the fund owned just 4% of the fund.
Franklin Templeton (global property)	Not reported.	The portfolio return over three years was +3.60% p.a., and so behind the target of 10% p.a. Over 5 years the fund is behind the benchmark by -0.82% p.a.	£1,124 billion of assets under management for the Franklin Templeton Group as at end September 2023.
Hearthstone (UK residential property)	Verbal update to be given on termination and liquidation of the fund.	The fund underperformed the IPD UK All Property Index by -2.62% in Q3 2023. It is now behind the IPD benchmark over three years by -1.45% p.a. to end September 2023.	Fund was valued at £62.5m at end Q3 2023. London Borough of Islington owns 40.2% of the fund and is now in a redemption process.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Quinbrook (renewable energy infrastructure)	Not reported.	For the three years to Q3 2023 the fund returned +16.85% 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 (latest figures available).
Pantheon (Private Equity and Infrastructure Funds)	Not reported.	The private equity fund returned +11.99% p.a. over three years, and +2.62% p.a. over five years. The infrastructure fund returned +21.16% p.a. over three years to end September.	$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 +6.94% for the quarter to 30 September 2023, outperforming the benchmark return of +1.23 Over 1-year, the fund is underperforming the absolute return target of 5% by -6.85%.	
Crescent (Credit Solutions Fund)	Not reported.	The fund returned +7.17% over Q3 2023, outperforming the benchmark by +4.76%.	$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 Q3 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 -3.36%, compared with 0.52% for the MSCI World Low Carbon Index and -0.77% for the Solactive Paris Aligned World Index.

TABLE 2:

	Q3 2023 Fund	Q3 2023 Index	Tracking
FTSE – RAFI Emerging Markets	+3.32%	+3.37%	-0.05%
MSCI World Low Carbon Target	+0.51%	+0.52%	-0.01%
ESG Paris Aligned World Equity Fund	-0.29%	-0.77%	+0.48%

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 49.65% to the MSCI World Low Carbon Target index fund, 41.10% to the ESG Paris Aligned World Equity Fund, and 9.25% 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 -0.59% in Q3 2023, and in relative terms it underperformed the CPI + 5% target by -2.33% (as reported in the BNY performance report) and underperformed the cash + 4.5% target by -3.09% (this being the manager's preferred target since March 2022). Over three years, the fund is behind the CPI + 5% target return by -12.27% p.a.

Mandate Summary: The fund invests in a broad mix of growth assets and uses dynamic asset allocation over the full market cycle, with underlying investments in active, passive and external investment, as appropriate. The target for this fund changed on 1st April 2022 and is now the ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum (before fees have been deducted) over a 5-7-year period. The manager aims to deliver capital growth and income, with a volatility of less than two-thirds the volatility of equities.

Performance Attribution: The DGF made a return of -0.59% in Q3 2023 while global equities (MSCI All Country World Index hedged to sterling) made a return of -2.6%. Over three years, the DGF delivered a return of +1.47% p.a.

In Q3 2023, equity positions detracted -0.4% to the total return, alternatives contributed +0.1%, credit and government debt detracted -1.0%, while cash and currency contributed +0.7% (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 6.8% compared to the three-year volatility of 15.5% in global equities (i.e., 43.9% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 71% in internally managed funds (up from last quarter), 3% in active bespoke solutions (down from last quarter), 4% in externally managed funds (down from last quarter), and 16% in passive funds (down from last quarter) with a residual balance in cash, 6% (the same as last quarter), as at end September 2023. In terms of asset class exposure, 33.9% was in equities, 23.4% was in alternatives and 37.0% 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.

Following the Managers change in stance in Q2 from gearing up for an imminent recession to an economic slowdown further in the future, it is now positioned for a soft-landing. The manager remains broadly neutral on most asset classes, with emphasis on opportunities in specific geographies or sub-sectors. It is also considering moving from a neutral to a positive stance on equities, believing that there is an opportunity towards year end, with recent market moves triggering a cheapening of equity valuations and stabilisation in rate volatility.

Schroders reported that the carbon intensity of the fund was 79.7% as at end Q3 2023 that of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 69% of the portfolio (compared with 94% for the comparator). Using a Science Based Targets Initiative methodology, the portfolio temperature alignment stood at 2.55 degrees as at end September over a medium term horizon.

Organisation: There were no team changes during Q3 2023. Shortly after quarter end, the Manager updated its Global Asset Allocation Committee (GAAC). Philip Chandler, Head of UK Multi-Asset will join the GAAC as a voting member, and Joanna Kyrklund, Group CIO, will continue to manage and chair the GAAC but will no longer be a voting member.

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

Headline Comments: The portfolio made a return of +0.10% in Q3 2023, compared with the benchmark return of of +1.25%, an underperformance of -1.15%. Over one year the fund is behind the benchmark by -3.04%, and over three years it is trailing by -1.72% per annum (this is still a big improvement from last year 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 Russia (at points in the quarter, but no allocation as at quarter end) and cash contributed positively to performance, though overexposure to Uruguay and United States detracted from performance.

During the quarter, the largest positive contributors to the quarterly relative return came from Dlocal Ltd (+1.95% and the largest holding in the portfolio at 5.8%), Fpt Corp (+0.61%), and Mobile World Investment Corp (+0.53%). Companies which detracted most from performance included Wizz Air Holdings plc (-1.24%), Dino Polska Sa (-1.05%), and Las Vegas Sands Corp (-0.57%).

Portfolio Risk: Within the emerging markets portfolio there is a 20.0% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio was Uruguay (+8.5% overweight). The most underweight country allocation was Taiwan (-5.6%). The manager also held 12.1% of the portfolio in four developed countries, compared with the benchmark's 1.7% in Hong Kong and 0.3% in United States.

Portfolio Characteristics: The largest absolute stock position was Dlocal Ltd Uruguay at 5.8% of the portfolio, while the largest absolute country position was China/HK and accounted for 30.8% of the portfolio.

As at end September, the portfolio had a 16.7% allocation to technology, below the benchmark allocation of 20.2%. 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.

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

Staff Turnover/Organisation: not reported.

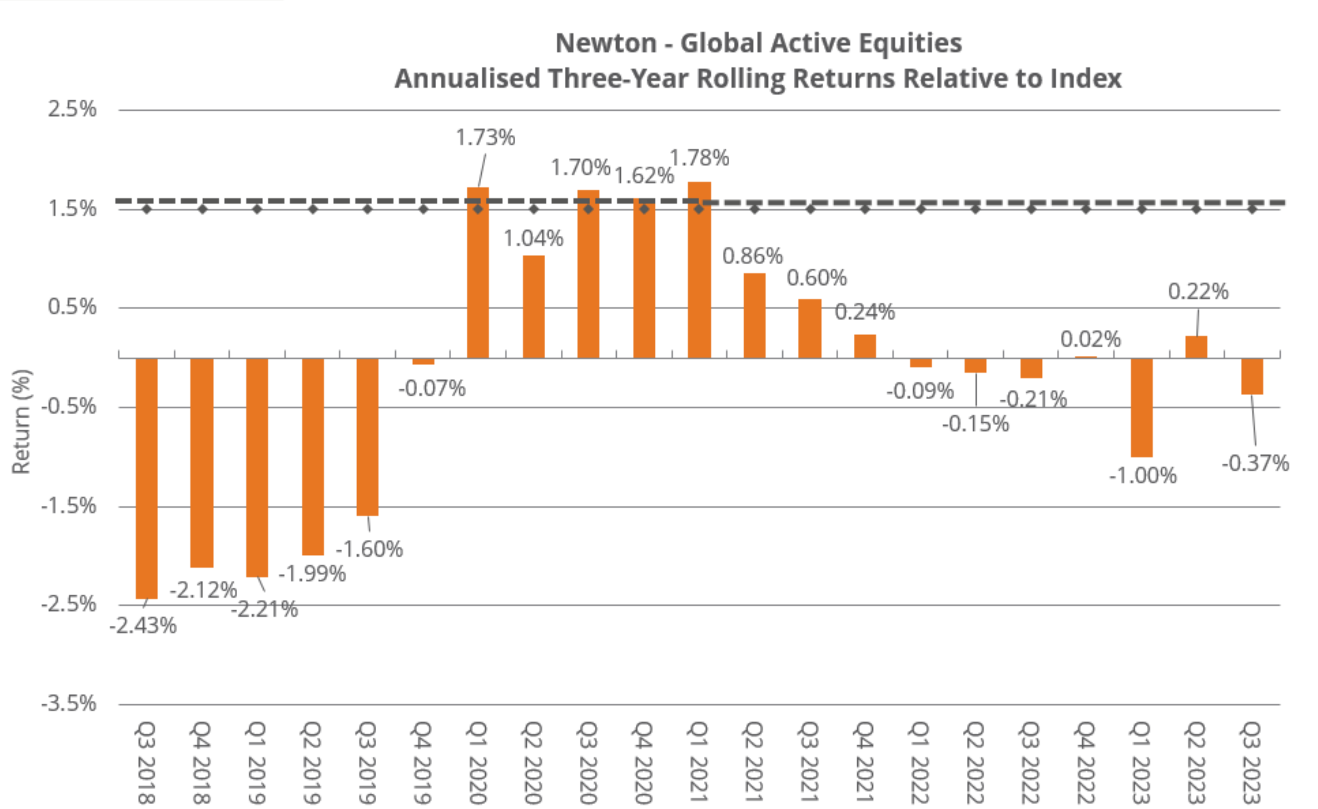
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q3 2023 by -1.36%. Over three years the portfolio underperformed the benchmark by -0.37% p.a. Over five years the manager is ahead of the benchmark return by +0.38% 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 has been falling since Q1 2021, when the fund was ahead of the benchmark by +1.78% p.a. By Q3 2023 the fund has now underperformed the benchmark over three years by -0.37% p.a. and is underperforming the performance objective by -1.87% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as Alphabet Inc (+0.44%), Eli Lilly & Company (+0.34%), and Universal Music Group (+0.29%). Negative contributions came from positioning in Apple (-0.39%), Samsung (-0.32%), and AIA Group (-0.31%).

In its peer group analysis, the London CIV reported that Newton is now delivering returns in line with the median over 3 years and over the longer term (7 years+); however, short term performance has been stronger, placing it in the top quartile over 1 year. Over the past three years the risk has been low relative to peers. The London CIV also noted that turnover on the strategy for the 12 months to end September has been 40%, compared with 34% in 2022 and 14% in 2021, which they consider to be at the high end of expectations. The manager has incurred higher turnover to respond to volatile and changing markets.

Portfolio Risk: The active risk on the portfolio stood at 2.99% as at quarter end, slightly lower than as at end June when it stood at 3.09%. The portfolio remains defensive, with the beta on the portfolio at end September standing at 0.98, unchanged from the previous quarter (if the market falls by -10% the portfolio can be expected to fall -9.8%).

At the end of Q3 2023, the London CIV sub-fund's assets under management were £528.0m, compared with £620.8m last quarter. London Borough of Islington now owns 47.36% of the sub-fund, having sold £90 million on 26 July 2023.

Portfolio Characteristics: The number of stocks in the portfolio stood at 57 as at quarter-end (down 1 from last quarter). The fund added three positions; Novo Nordisk, Saint Gobain, and Credicorp, and completed four sales; Altria Group, Swedbank, SSE and Dollar General.

The portfolio continues to be heavily weighted to Technology (an allocation of 27.0%), and remains overweight against the Benchmark. Financials is the second largest allocation (22.0%) and is also overweight against the benchmark.

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 Q3 2023, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 47% that of the benchmark index (the MSCI World Index). The highest contributor was Exelon Corporation (16.61% contribution to the weighted average carbon intensity) followed by Shell (15.3% contribution).

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.

London CIV has announced that the Global Equity Fund has been downgraded to "Enhanced Monitoring" following the departure of the lead portfolio Manager. There are concerns that the new management team may introduce significant changes to the investment process. The new team took full responsibility for the portfolio in September. LCIV plan to carry out a full in-depth review of the Sub-fund in December, and this will be shared with investors in Q1 2024.

Staff Turnover: None reported by LCIV for Q3 2023.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q3 2023 the fund made a return of -0.98%. This underperformed the benchmark return by -1.54%. The one-year return was -1.37%, negative in absolute terms and behind the benchmark by -12.91%. The three-year underperformance was -6.40% p.a. against the benchmark. Islington's investment makes up 13.67% 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 Q3 2023, and has made a loss for the quarter in absolute terms. The portfolio has overweight allocations to the Consumer Staples, Communication Services, Industrials, Consumer Discretionary, Energy, and Health Care sectors. Over the quarter the largest contributors to return included Alphabet Inc (+0.51%), Unitedhealth Group (+0.47%), and EOG Resources (+0.46%). The largest detractors include positioning in Adyen (-0.96%), Estee Lauder (-0.42%), and AIA Group (-0.42%).

The London CIV is now comparing managers against their peer group and reported that RBC is performing well over the long term (7 years +). However, the short- and medium-term has been challenging, ranking in the third or fourth quartile for all periods that it tracks up to 5-years.

Portfolio Characteristics: As at end of September 2023 the fund had 39 holdings (one up from last quarter) across 12 countries. The active risk of the fund was 3.29%, slightly higher than Newton.

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

In Q3 2023, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 70% that of the benchmark index (the MSCI World Index) which is slightly up from last quarter (when it was 69%). The highest contributors were InterContinental Hotels Group (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 16.31%), Equinor ASA (10.29%) and First Quantum Minerals (5.85%)

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 Q3 2023 the M&G Alpha Opportunities Fund made a return of +2.74%, outperforming the benchmark return of +2.08%. Over one year it is outperforming the benchmark (cash plus 3.5%) by +4.36%.

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 +2.74% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +2.08%. Exposure to financial corporate bonds was the top contributor, with industrial corporate bonds also performing well. There were no detractors over the quarter. Over one year, the fund is outperforming the target return by +4.36% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to Industrials (28%), Financials (27%), and Cash & Derivatives (17%). 36% of the portfolio was rated BB* or below. The Manager continued to reduce overall exposure to selective high yield names as a result of lack of issuance supressing spreads. It also found a source of value in financial bonds and real estate over other sectors.

In terms of outlook, the Manager feels that, while fairly priced, the biggest risk to most fixed income asset classes is central bank policy error, as restrictive monetary policy begins to weigh on economic activity.

As at end September, the weighted average carbon intensity (WACI) of the portfolio was 34% of the WACI of a benchmark index, with 73% of the portfolio being measured where data was available (compared with 88% coverage for the benchmark).

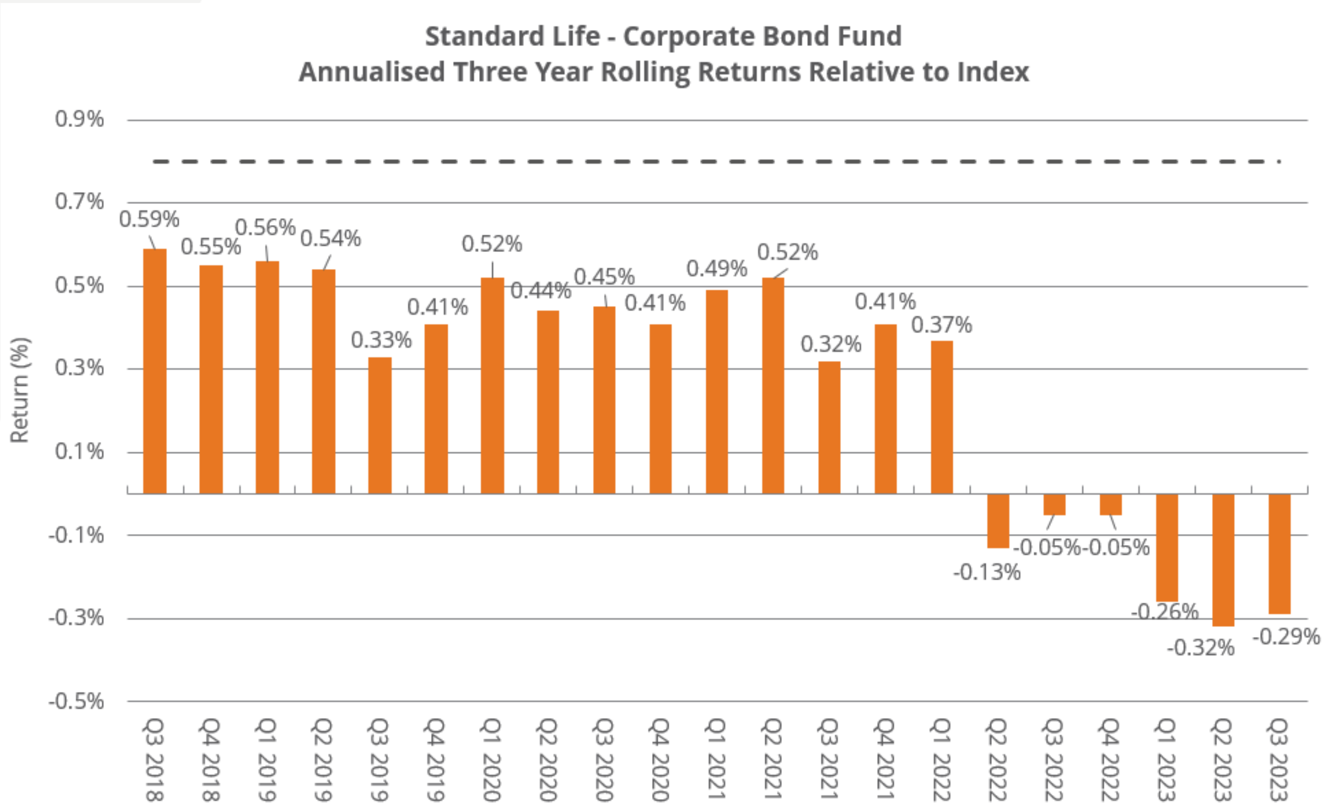
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio underperformed the benchmark return during the quarter by -0.07% and made an absolute return of +2.20%. Over three years, the fund was behind the benchmark return (by -0.29% p.a.) for the sixth 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 -6.25% p.a. net of fees, compared to the benchmark return of -5.96% p.a.

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK Government bonds 0.625% at 1.2% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end September 2023 stood at £2,218 million. London Borough of Islington's holding of £67.3m stood at 3.0% of the total fund value. This allocation is being gradually drawn down to fund the infrastructure investments.

Staff Turnover: There were nine joiners and 14 leavers during the quarter. There were two Investment Manager departures from the UK fixed income group, and one new Investment Manager hired for the fixed income team in Singapore.

Aviva Investors – Property – Lime Property Fund

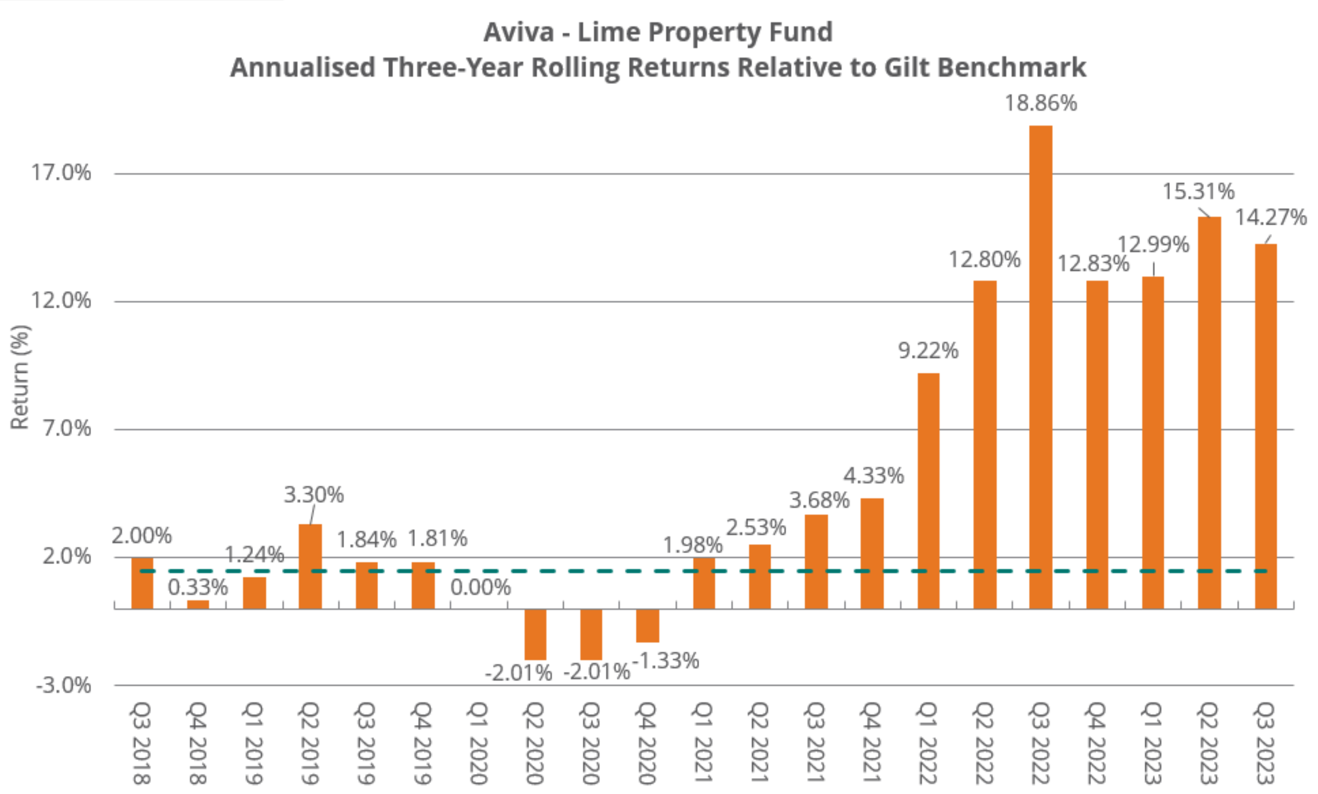
Headline Comments: The Lime Fund made a loss of -2.36%. It underperformed the benchmark return by -0.12% in Q3. Over three years, the fund is ahead of the benchmark return by +14.27% p.a., but over one-year underperformed by -9.46%. It is ahead of the benchmark since inception in October 2004, by 1.94% 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 Q3 2023 return was attributed by Aviva to -2.54% capital return and +1.06% income return.

Over three years, the fund has returned -0.32% p.a., ahead of the gilt benchmark of -14.59% 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

Portfolio Risk: within the MSCI quarterly index of UK real estate funds, the Lime Fund is the least volatile fund over ten years. There were no acquisitions over the quarter and three sales. It is worth noting that, as at 30th June, redemption requests amounted to £470 million (or 15.7% of the value of the fund).

The average unexpired lease term was 20.78 years as at end September 2023. 11.1% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.60% (proportion of current rent), and the number of assets in the portfolio is 82. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at September 2023, the Lime Fund had £2.99 billion of assets under management, a decrease of -£86 million from the previous quarter end reflecting the fall in capital value. London Borough of Islington's investment represents 6.0% of the total fund.

Staff Turnover/Organisation: There were no joiners or leavers during Q3.

Columbia Threadneedle – Pooled Property Fund

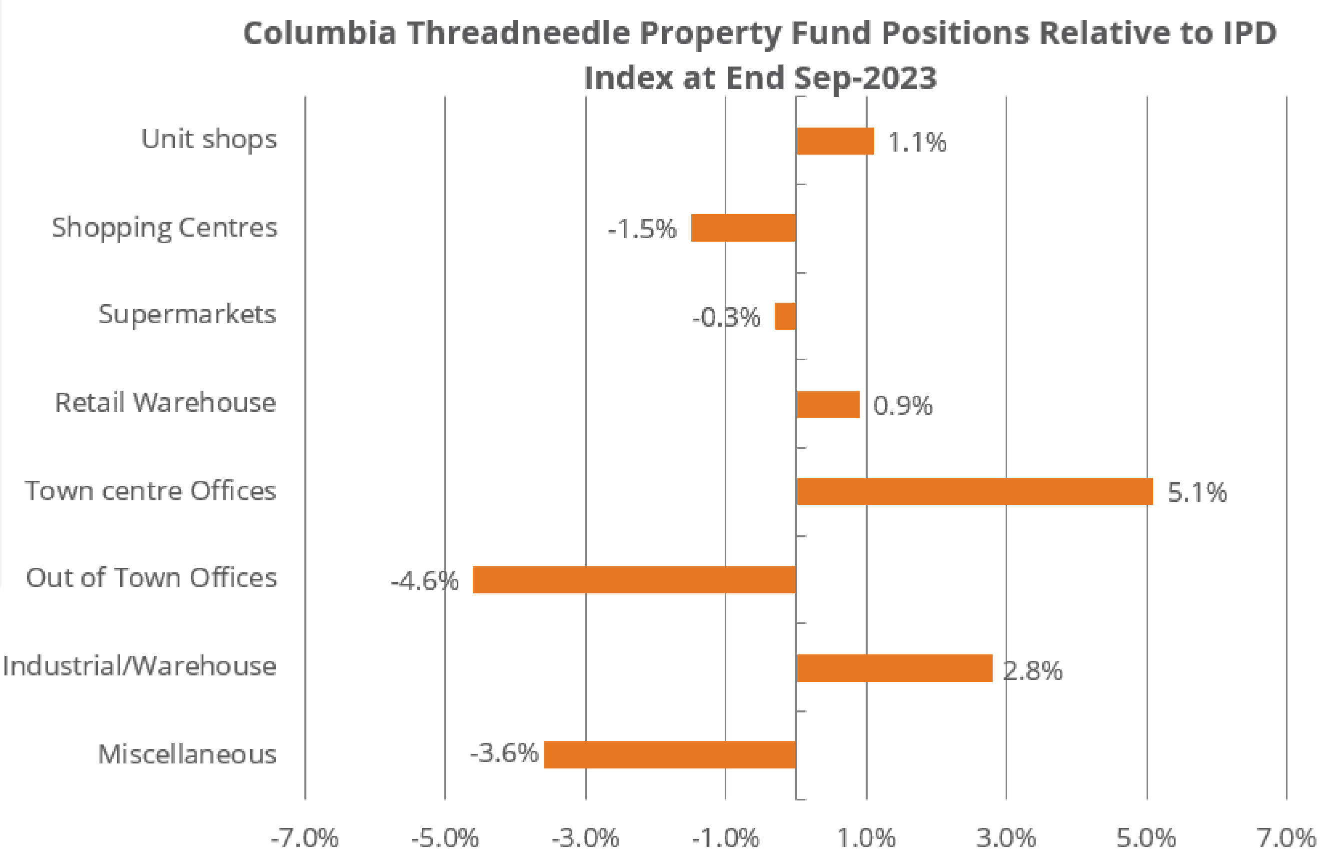
Headline Comments: The fund delivered a positive absolute return and outperformed the benchmark in Q3 2023, with a quarterly return of +0.23% compared to the benchmark return of -0.42%. Over three years, the fund outperformed the benchmark by +0.81% p.a.

The Manager wrote to investors shortly after quarter end to notify that the redemption deferral procedure that has been in place for the last 12 months will be extended until further notice.

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, during Q2 2023 the manager 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 September was 3.2%, 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 Q3 2023, with a quarterly return of +0.23% compared to -0.42%. Over 1-year the fund outperformed the benchmark by +2.26%. The fund is now outperforming the benchmark over three years by +0.81%.

Portfolio Characteristics: As at end September 2023, the fund was valued at £1.51bn, a decrease of £5m from the fund's value in June 2023. London Borough of Islington's investment represented 8.05% of the fund.

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

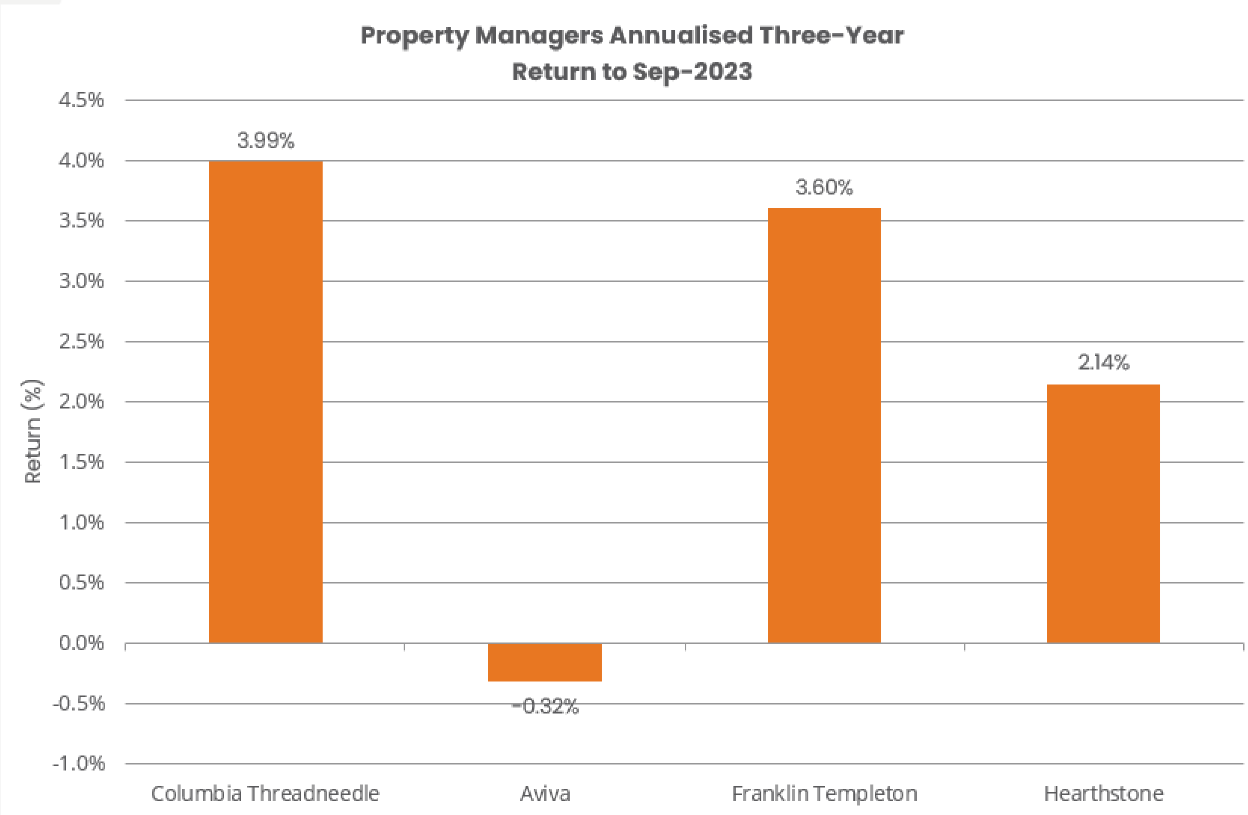
Franklin Templeton – Global Property Fund

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 -6.40% 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 September 2023, Franklin Templeton ranks second 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$503.6 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 (83% of funds invested), followed by Europe (17%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Information on Fund II and III was not available at the time of going to print. For reference, the Q2 update is shown below:

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: Not reported at the time of going to print.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending September 2023 by -2.26%, and is underperforming over three years by -1.45% p.a. A phased redemption of this fund was negotiated with the manager during Q2 2023.

Shortly after Q3 quarter end, the Manager obtained approval from the FCA to terminate and liquidate the fund. This termination will be effective from 1st December 2023, and an initial distribution is planned from the c.£5 million cash available in the fund in early December on a pro rata basis to all investors. The exact distribution to Islington is likely to be confirmed during November 2023.

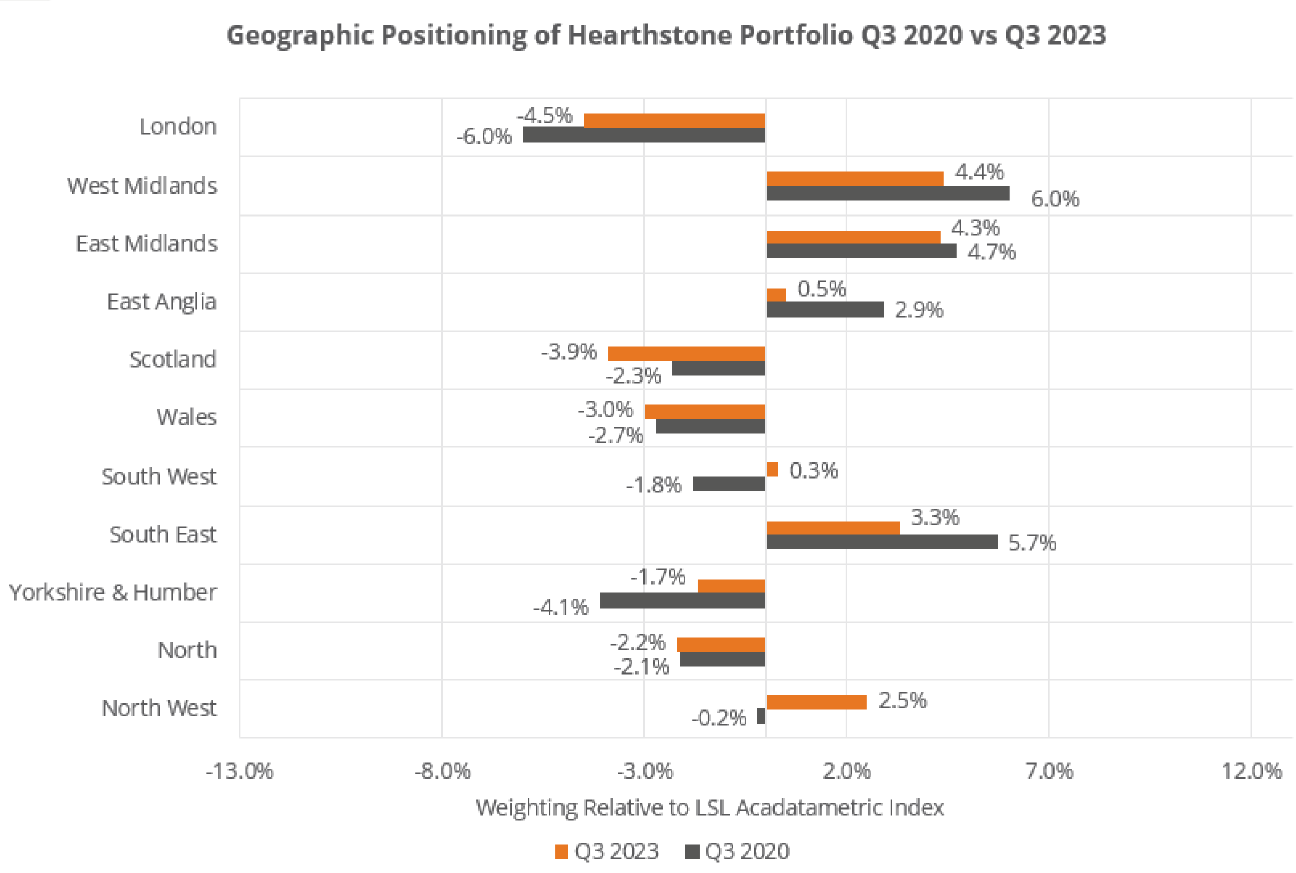
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to September 2023 by -1.45% p.a., returning +2.14% p.a. versus the index return of +3.59% p.a. The manager has underperformed over 5 years by -0.25% p.a. The gross yield on the portfolio as at end September 2023 was 5.12%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 3.6%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 8.31% (£5.2 million), which is 3.65% lower than at the end of June 2023. To date the manager has successfully met three redemptions, 2 of which were of £500,000 each, and a third redemption of £2,000,000. There were no further redemptions during Q3 2023.

Chart 6 compares the regional bets in the portfolio in Q3 2023 (orange bars) with the regional bets three years ago, in Q3 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 27% in semi-detached.

As at end September there were 222 properties in the portfolio and the fund stood at £62.5 million. London Borough of Islington's investment represents 40.2% 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 September 2023.

Quinbrook – Low Carbon Power Fund and Net Zero Power Fund

Headline Comments: Performance for the year to 30th September 2023 was negative at -7.95%, and underperforming the target return of +12.00%. Over three years, the fund returned +16.85% p.a. and therefore was ahead of the target by +4.85% p.a.

Mandate Summary: The Low Carbon Power 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. Islington subsequently committed $100m to Quinbrook's Net Zero Power Fund on 25 August 2023. This fund also invests in the UK, US and Australia with an emphasis on net zero transition and a target net return of 12% p.a. over a 5-8 year holding period.

Portfolio Characteristics: information on the Low Carbon Power Fund was not available at the time of going to print. A verbal update will be provided at the meeting.

The Net Zero Power Fund was 62% drawn as at end September. The target fund size is $2 billion by March 2024. The fund is seeking large scale solar assets, decarbonisation data centres, sequencers and battery storage across the UK, US, and Australia.

Carbon emission measurement: the manager takes scope 3 emissions into account when assessing new opportunities. This means that emissions can look high during the construction phase (logistics and trucking emissions). However, when investments reach the production phase, the scope 3 emissions are significantly less. The manager notes that not all asset managers take scope 3 into account which can present comparison issues. However, they believe that this is the correct way to measure the real world impact. They are seeking assets which align to a net zero pathway.

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

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +11.99% per annum. This compares with a three-year return on listed global equities of +11.10% per annum. The three-year return on the infrastructure fund was +21.16% versus the absolute return target of 10%.

Mandate Summary: As at 30th September 2023, London Borough of Islington have made total commitments of £106.8m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. In October 2023, London Borough of Islington committed £83.6m / $100m to the Pantheon's latest Global Infrastructure Fund, Pantheon Global Infrastructure Fund IV (PGIF IV).

Portfolio Characteristics: The net internal rate of return (IRR) at 30th September 2023 across all strategies (excluding PGIF IV) was 11.3%, with a net multiple of 1.50x. Over the quarter, there was one drawdown of £1,059,883 from PGIF III and one distribution from PUSA VII Ltd totalling £28,676.

Overall, the programme's rolled for cash valuation at Q3 2023 was £77.9m, up 5.5% from £73.7m at Q2 2023. It is worth noting that this uplift was caused by the in-period foreign exchange movement and it does not reflect any uplift in underlying asset values.

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. As at end September 2023, it has six investments totalling £57.9 million. The portfolio has a weighted average net total leverage of 4.7x and a weighted average company EBITDA of- USD 65 million. The fund has achieved a return of -1.85% for the year to 30 September 2023, underperforming the absolute target return of +5.00% by -6.85%, 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 has achieved a return of +7.17% for the quarter to 30 September 2023, outperforming the benchmark return of +2.41% by +4.76%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period.

Karen Shackleton
Senior Advisor, Apex
7th November 2023

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: 6th December 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 August 2023 to 31 October 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 completion of the initial data analysis undertook by Heywoods in respect of the Pension Fund data as it relates to the 'McCloud Remedy' and the publication of HMRC guidance for members.

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

3. Background

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

Category	Jul-23	Oct-23
Number of current active members	6634	6664
Number of preserved benefits	8736	8881
Number of Pensions in payment	6700	6709
Number of Teachers Compensation Pensions in payment	105	105
Number of Spouses/dependants pensions in payment	1022	1038
Number of Teachers Compensation Spouses Pensions in payment	13	13
Total	23210	23410

Active membership has seen a marginal increase of 0.5%. The Fund's preserved beneficiaries and retirements continue to grow with a 1.66% and 0.13% increase respectively during this period. The figure of 1149 Spouses/Dependants pension in the previous quarter report included incorrectly suspended pensions and have subsequently been amended to show 1022 Spouses/Dependants pensions in payment in July 2023.

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

Process	**Total Cases Processed**	**Target Days**	**% Achieved within target days**	**Actual average days**
Deaths	43	10	92%	12.0
Retirement benefits	52	7	85%	10.0
Pension estimates	132	10	74%	14.0
Preserved benefits	44	30	80%	32.0
Pension Payroll Adj.	61	10	100%	7.0
Transfer-in quotation	52	10	93%	14.0
Transfer-in actual	48	10	95%	11.5
Transfer out quotation	35	15	82%	20.0
Transfer out actual	22	12.5	90%	15.0
Transfer out (Non-Public Sector) actual	1	30	100%	27
Refunds	22	10	94%	11.0
Starters	189	30	87%	33.0
All key processes	701		82%	

Key processes have increased by 1.6% during this quarter. Overall performance has increased by 1% from the 81% 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 August 2023 to October 2023:

Month	Starters No.	Opt Outs	Opt Outs %
August	62	2	3.2
September	80	0	0
October	47	0	0
Total	189	2	1.1

3.4. The Pension Office received -5- communications thanking Pension Administration staff for their service and -3- 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. Heywoods have provided an initial report on our data which is being reviewed and actions taken on resolving the validation errors prior to running a live data load. It is anticipated that the validation process will be complete in January 2024.

3.6.1 HMRC published in October 2023 a newsletter on the McCloud remedy for public service pension schemes and a link will be provided on the Council's pension webpages for members in November 2023.

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

Breach of law – Annual Benefit Statements

3.7. Following Islington Council's notification to The Pensions Regulator(TPR) that the Annual Pension Statements were sent out late, TPR has written to the Council for further information on the mitigation the Council will have in place to prevent any future breaches of law. We are currently awaiting access to their secure portal to provide a detailed response.

3.8. As detailed in the risk register, officers are working with the external payroll provider, Zellis, to develop an appropriate year end report to enable the annual benefit statement process to work efficiently for 2024.

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 and updates from SAB website.

Appendices: none

Background papers: none

Final report clearance:

Signed by:

Corporate Director of Resources

Date: Date the report received final approval

Report Author: Patrick Fullerton, Pensions Manager
Tel: 020 7527 2588
Email: patrick.fullerton@islington.gov.uk

Financial Implications Author: joana marfoh
Tel:02075272382
Email: joana.marfoh@islington.gov.uk

Legal Implications Author: n/a
Tel:
Email:

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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: 6th December 2023

Subject: LGPS – Pensions Risk Register

1. Synopsis

1.1. The Pensions Risk Register (PRR) attached as Appendix 1, outlines the key objectives of Islington Pension Fund and its administration. It establishes the methodology for implementing proactive risk management to ensure that Islington Pension Fund has sufficient assets to meet its pension liabilities in accordance with the Pensions Regulator code of practice.

1.2. This report summarises the risks that have been reviewed during the period from August 2023 to October 2023. The PRR (Appendix 1) is prefaced by an explanatory table (risk matrix) that sets out how the impact and likelihood ratings of 'low', 'medium' and 'high' rating can be interpreted.

2. Recommendations

2.1. To note the contents of the report and revisions made to the PRR.

2.2. To note the risk associated with the failure to apply the correct Pensions Increase for all pensioner dataset due to software calculation issues.

2.3. To note the risk associated with the late provision of year-end payroll reports

2.4. To note the risk associated with loss of investment returns, bond yields fall.

3. Background

3.1. The Pensions Risk Register (PRR) outlines the key objectives of Islington Pension Fund and its administration. It establishes the methodology for implementing proactive risk management to ensure that Islington Pension Fund has sufficient assets to meet its pension liabilities in accordance with the Pensions Regulator code of practice. **Appendix 1** sets out the current risks identified by the Pension Fund in collaboration with the Council's Pensions Board.

3.2. The PRR is reviewed and movement in risks levels of activities and mitigation factors applied are reported to the Pension Board quarterly and annually to the Pensions committee. There are three activities that have been assessed as high and are reviewed below together with the mitigated actions.

3.3. **Strategy and Finance, People**

3.3.1 **Risk – Failure to apply correct Pensions Increase**

The Pensions Office recommended that Payroll test the annual Pensions Increase (PI) program in October 2023, because of the previous failures to get the program working as intended without significant manual intervention. The Payroll Manager has now left Islington Council and the new Payroll Manager is due to take up their post in January 2024. This presents an increased risk as the new Payroll Manager is not familiar with the Payroll System and the testing period is now reduced. The mitigation required is full engagement and adequate resourcing on this project by Payroll. In view of shortened timetable for implementation, the trend on the risk register despite mitigation shows an increased risk.

3.3.2 **Risk – The late provision of payroll reports**

The Pensions Office have engaged in productive meetings with the HR Payroll Consultant working on creating a new suite of pension reports. This work needs to continue until all the Pension Reports are completed and tested. The year-end report remains a major challenge and other actions are being considered to find a simplified solution to capture the data Pensions require. The trend on this particular risk is rated medium and the mitigated score remains at 12.

3.4 **Finance, Strong Financial and Contract Management**

3.4.1 **Risk – Loss of investment returns**

The Council has delegated the investment arrangements of the scheme to the Pensions Committee who decide on the investment policy most suitable to meet the liabilities of the Scheme and the ultimate responsibility for the investment policy that lies with it. To mitigate risk there is a clear investment strategy informed by Investment Advisers and the Council's actuary. There is no change to the mitigated risk score of 10.

4. Implications

4.1. **Financial Implications**

4.1.1. The cost of administering the LGPS is chargeable to the Pension Fund. There are no financial implications arising directly from the report.

4.2. **Legal Implications**

4.2.1. The Pensions Regulator code of practice requires the Pension Fund to prepare, review and publish a Pensions Risk Register. This Register must thereafter be kept under review.

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. There is a legal requirement for the Pension Fund to regularly review its Risk Register. In identifying and reviewing the Register the Pension Fund must have regard to ensuring effective internal controls that will not lead to a serious loss of confidence in the public service. Members are asked to note the updates to the PRR attached as Appendix 1.

Appendices: Appendix 1 – Pension risk register

Background papers: None

Final report clearance:

Signed by:

Corporate Director of Resources

Date:

Report Author: Patrick Fullerton, Pensions Manager
Tel: 020 7527 2588
Email: patrick.fullerton@islington.gov.uk

Financial implications : joana.marfoh@islingon.gov.uk

Legal Implications: Sonal Mistry

Islington Council Pension Board Risk Register - Oct-2023

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	Mitigated Risk Score		Risk rating following mitigation	Trend	Target Date	Risk Owner
					Impact (1=Low, 5=High)	Likelihood (1=Low, 4=High)				Impact (1=Low, 5=High)	Likelihood (1=Low, 4=High)				
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	↔	Jan-24	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	2	8	Cross checking of work and the segragation of duties.	Internal & External Audits. National Fraud Initiative Exercise, NI Database check. Life certificates.	4	1	4	↑	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	2	8	Monthly reconciliations.	Regular Data Contributions Audit.	4	1	4	↑	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.	5	2	10	↓	Jan-24	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.	5	2	10	↓	Jan-24	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.	4	2	8	↓	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	4	2	8	↓	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.	4	2	8	↓	Dec-23	Pensions Manager/Deputy Manager
12		Lack of understanding among scheme members of scheme issues/options.	Limited awareness/Comms Deficit	Complaints/Opt-outs.	3	3	9	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.	3	2	6	↑	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.	5	1	5	↓	Feb-24	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.	4	2	8	↓	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	2	6	Early dialogue with external auditor.	Ensure external audit work is complete.	3	1	3	↑	Ongoing	Director of Finance/Head of Treasury & Pensions

Islington Council Pension Board Risk Register - Oct-2023

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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.	4	1	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.	3	1	3	↓	Mar-24	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.	3	2	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.	4	1	4	↓	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.	4	1	4	↓	Jan-24	Pensions Manager/Deputy Manager

Islington Council
Pensions Risk Register 2023

The Pensions Risk Register outlines the key objectives of the Pension Fund and its adn
for implementing proactive risk management to ensure the 'Fund' has sufficient assets

The Pensions Risk Register is forward looking and under continuous review with releva
potential problems and the tools needed to mitigate any obstacles that may endanger

The Pensions Risk Register sets out these risks and the risk heat map assesses the prc

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

Risk Heat Map - October 2023

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

Likelihood

Definition

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

Assessing Risk

(green)	Low
(amber)	Medium
(red)	High

ninistration; establishes the methodology
. to meet its pension liabilities.

ant stakeholders to identifying
critical objectives.

obability and impact.

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

Date:20/11/2023

ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pension Board

Date: 6th December 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. Recommendation

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

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.

Appendices: Appendix A - Work programme for 2023/24

Background papers:
None:

Final report clearance:

Signed by:

Corporate Director of Resources

Date of final approval

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

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
6th December 2023		Risk register review Review of 21st Pension Fund committee minutes
27th November 2023		Annual Pension Meeting
20th March 2024		3 yr. Budget and Annual Cash Flow Risk Register Review
July 2024		Draft financial statements

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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