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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, N1 2UD, on **20 March 2024 at 4.00pm.**

Enquiries to	:	Mary Green
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E-mail	:	democracy@islington.gov.uk
Despatched	:	12 March 2024

Membership

Employer representatives:
Maggie Elliott (Vice-Chair)
Councillor David 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 scheme 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

B.	**Non-exempt items**	
1.	Pension administration performance	5 – 22
2.	Pensions' Performance report considered by the Committee on 11 March 2024 (enclosed) and decisions (to follow)	23 - 62
3.	Risk Register	63 - 70
4.	Pension Fund administration cost 3-year forecast and annual cashflow	71 - 76
5.	Forward plan of business for Pensions Board	77 - 82

C. Urgent non-exempt items

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

D. Exclusion of press and public

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

E.	**Confidential/exempt items**	
1.	Pension administration performance - exempt appendix	83 - 86

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 16 July 2024

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London Borough of Islington

Pensions Board - 6 December 2023

Minutes of the meeting of the Pensions Board held in Committee Room 3 at Islington Town Hall, Upper Street, London N1 2UD on 6 December 2023 at 4.00 pm.

Present: Alan Begg, Mike Calvert, Maggie Elliott (Vice-Chair), Councillor David Poyser (Chair) and George Sharkey

Councillor Paul Convery (observer from Pensions Committee)

Councillor Dave Poyser in the Chair

96 POSITION OF CHAIR OF THE PENSIONS BOARD

Councillor Poyser, the current Chair of the Board, informed the meeting of his intention to stand down as a councillor in the forthcoming year and consequently, as Chair of the Board. In accordance with the recent governance review of the terms of reference for the Board, the position of Chair of the Board should be considered in rotation and the next Chair of the Board should consequently be from the Scheme member category of membership.

Seconded by Mike Calvert, George Sharkey was nominated as Chair from May 2024.

97 APOLOGIES FOR ABSENCE (Item A1)

Received from Valerie Easmon-George.

98 DECLARATION OF INTERESTS (Item A2)

None.

99 MINUTES OF THE PREVIOUS MEETING (Item A3)

Subject to an amendment as follows:

Minute 88 – paragraph 1 – that the following words be added after "For the avoidance of doubt, Board members shall not receive an annual allowance of any kind"- "with the exception of the Independent Member".

RESOLVED:

That, subject to the above amendment, the minutes of the meeting held on 5 October 2023 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

100 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 (Item A4)

The Board noted recent training organised by Westminster City Council on a range of issues, including Engagement versus Divestment, an update on the Pooling consultation, an overview of the current state of the economy and insights into Artificial Intelligence, which some attendees had found useful.

Alan Begg reported on training sessions he had attended on investment issues for pension funds, the Pension Regulator toolkit and CIPFA training on pension matters.

Annual General Meeting held on 27 November 2023
The Chair thanked the Head of the Pension Fund and Treasury Management and Pensions Team staff for organising the AGM. He also thanked Karen Shackleton, adviser from Apex, for her presentation to the AGM on the Fund's activities during the year.

He expressed a hope that the Fund's accounts for next year could be audited in time to be included in next year's Annual Report and that the AGM could be held earlier in the year, perhaps to encourage better attendance. It was noted that the Council's new auditors, KPMG, had been positive about meeting a deadline for completion of the audit of the Fund's accounts, perhaps by the end of July 2024.

101 DECISIONS OF PENSIONS COMMITTEE HELD ON 21 NOVEMBER 2023 (INCLUDING PENSIONS' PERFORMANCE REPORT CONSIDERED BY THE COMMITTEE ON 21 NOVEMBER 2023) (Item A5)

The decisions of the Pensions Committee from their meeting held on 21 November 2023 were noted.

Councillor Convery, Chair of the Pensions Committee, noted that there were investment gaps across all asset classes and highlighted the importance of intelligence from horizon scanning for new investment opportunities.

The Board noted that the FCA had agreed that the Hearthstone (property) Fund be terminated and liquidated, with effect from 1 December 2023. The initial cash held of £5m would be distributed on a pro rata basis, with Islington receiving a 40% share. Hearthstone was in the process of selling properties and it was likely to take some time before the cash from sales could be realised.

102 **PENSION ADMINISTRATION PERFORMANCE - 1 AUGUST TO 31 OCTOBER 2023 (Item B1)**

The Pensions Manager described the work being undertaken by the Pensions Team to check information on the ~~couple of thousand~~ seven hundred plus suspended pensions and the importance of establishing this in order for the Fund actuary to make accurate assumptions for valuation purposes.

The Pensions Manager also stated that he intended to circulate information to pensioners during the first quarter of ~~January~~ 2024 on the McCloud remedy for public service pension schemes.

He expressed disappointment that, although approximately five and a half thousand invitations had been sent out for this year's AGM, the attendance on the day was less than two hundred persons. He suggested that, for the future, it might be helpful for members to access the AGM remotely, by way of a webcast or recording of the proceedings, which could be accessed on-line. He thought it might also aid attendance if invitations were sent out via email, in addition to post.

He anticipated that performance indicators could improve from next year onwards, given that there would be a self-service portal in operation for pension estimates implemented later in the year. The Pensions Team had recently been restructured and there were currently two vacancies to be filled. The Deputy Director of Finance added that the new restructure, which included additional resources, should lead to improved performance. On indicative target dates for processes, he suggested that it would be helpful to benchmark these with other pension funds and would bring the results of this to a future meeting.

In response to a question about training for Pensions' staff, confirmation was given that all staff undertook mandatory training on security of records.

RESOLVED:

(a) To note the number of members auto-enrolled into the LGPS during the period from 1 August to 31 October 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 completion of the initial data analysis undertaken by Heywoods in respect of the Pension Fund data as it related to the 'McCloud Remedy' and the publication of HMRC guidance for members, again as detailed in the report.

(d) 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, as detailed in paragraphs 3.7 and 3.8 of the report.

103 **RISK REGISTER REVIEW (Item B2)**

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An observation was made that risk no 6 "The late provision of payroll reports (Corporate Payroll)", which had been given a rating score of 15, had been given a risk rating of 10 following mitigation and that text needed to be included to explain why the rating of 10 following mitigation had been awarded.

The same ratings of 15 and 10 had been applied for risk no 7 "Failure to apply correct Pensions Increase (Corporate Payroll)".The Pensions Manager suggested that additional text could have been included in the mitigations column to the effect that "Further work had been carried out on running the reports"

An error was noted in the "Inherent Risk Score" column for risk no 2: "Conflicts of Interest", which had been allocated a risk of 5, whereas it should have been allocated a risk of 4, as per the "Mitigated Risk Score" column, to total 8.

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RESOLVED:
(a) To note the contents of the report of the Corporate Director of Resources and revisions made to the Pensions Risk Register, since the Board's last meeting.
(b) To note the risk associated with the failure to apply the correct Pensions Increase for all pensioner dataset, due to software calculation issues.
(c) To note the risk associated with the late provision of year-end payroll reports
(d) To note the risk associated with loss of investment returns or bond yields fall.

104 **FORWARD PLAN OF BUSINESS FOR PENSIONS BOARD (Item B3)**

RESOLVED:
To note Appendix 1 attached to the report of the Corporate Director of Resources, comprising the forward programme of business for the Board.

The meeting ended at 5.25 pm

CHAIR

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: 20th March 2024

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 November 2023 to 31 January 2024 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.

1.3. The Report also provides an update on the procurement process for the Pension Fund administration system.

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 Scheme Advisory Board (SAB) news update and briefing statement on funding surpluses attached as Appendix 1

2.6. To note the contract award report in relation to the procurement of a new pensions administration software attached as Appendix 2

3. Background

3.1. The membership profile in Oct 2023 and Jan 2024 is shown in the following table.

Category	Oct-23	Jan-24
Number of current active members	6664	6630
Number of preserved benefits	8881	8776
Number of Pensions in payment	6709	6674
Number of Teachers Compensation Pensions in payment	105	102
Number of Spouses/dependants pensions in payment	1038	959
Number of Teachers Compensation Spouses Pensions in payment	13	13
Total	23410	23154

Active membership has seen a marginal decrease of 0.5%. The Fund's preserved beneficiaries and retirements have also seen a decrease of 1.17% and 0.5 respectively during this period. The most significant fall is the 7.6% decrease in the number of spouses/dependent's pension in payment. The reason for this fall is a combination of pension suspensions, the cessation of dependants pensions due to non-eligibility and deaths.

3.2. The table below shows performance against case type for the period from 1 November to 31 January 2024:

Process	**Total Cases Processed**	**Target Days**	**% Achieved within target days**	**Actual average days**
Deaths	44	10	95%	11.0
Retirement benefits	47	7	89%	9.0
Pension estimates	144	10	77%	12.0
Preserved benefits	23	30	84%	31.0
Pension Payroll Adj.	46	10	91%	11.0
Transfer-in quotation	57	10	94%	12.0
Transfer-in actual	48	10	96%	11.0
Transfer out quotation	41	15	85%	18.0
Transfer out actual	33	12.5	92%	14.0
Transfer out (Non-Public Sector) actual	5	30	100%	23.0

Refunds	39	10	90%	12.0
Starters	209	30	100%	28.0
All key processes	736		85%	

Key processes have increased by 5% during this quarter. Overall performance has increased by 3% from the 82% 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 November 2023 to January 2024:

Month	Starters No.	Opt Outs	Opt Outs %
November	55	5	9.09
December	58	2	3.44
January	96	0	0
Total	209	7	3.35

3.4. The Pension Office received -11- communications thanking Pension Administration staff for their service and -4- complaints.

Audit Investigations

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

Scheme Advisory Board (SAB) – News Update

3.6. SAB commissioned a report to consider the Sharia compliance of the LGPS. The report examines the issue from the starting point that the LGPS is an extension of the employer/employee contract. The report concludes that as a part of the contractual arrangement between employer and employees, Muslim employees can continue to contribute to, and benefit from, the benefits offered by the LGPS.

3.7. SAB reports that they are studying the new General Code of Practice published by the Pensions Regulator to identify any new requirements for administering authorities and also its alignment with their Good Governance recommendations. The new General Code of Practice is expected to become law on 27th March 2024.

3.8. SAB issued on 20th December 2023 guidance on the issue of fund surpluses, (attached as Appendix 1)

Contract award report for Pensions Administration Software

3.9. Islington Pension Fund in February 2024 procured a new Pensions Administration Software via the National LGPS Framework. Using this Framework reduce the time and cost associated with the procurement process by offering a facility that has been competitively tendered.

3.10. Islington Pension Fund is looking to improve its service as part of this new contract award. Heywood's the incumbent supplier and winning bidder will host the Council's data, introducing member self-service and other technical solutions to enable continued service improvements and resilience. The award report is attached as (Appendix 2).

3.11. Officers will update members as the implementation of the new system and introduction of added benefits progresses.

4. Implications

4.1. **Financial Implications**

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

4.1.2. The maximum value of the pensions administration contract is up to £1.8m.

4.2. **Legal Implications**

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

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

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

4.4. **Equalities Impact Assessment**

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

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

5. Conclusion and reasons for recommendations

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

Appendices:

Appendix 1 – SAB Fund Surpluses

Appendix 2 – Contract award report for Pensions Administration Software

Background papers:

Final report clearance:

Signed by:

Corporate Director of Resources

Date: Date the report received final approval

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Scheme Advisory Board (SAB) Statement on Surpluses

Key points:

- Funding levels across the scheme increased at the 2022 valuation and subsequent market movements have led to some funds experiencing further improvements
- Local Government Pension Scheme (LGPS) regulations emphasise the desirability of stability in primary contributions for employers
- Funds should carefully consider their approach to employer-specific investment and funding strategies and take professional advice as needed
- Clear communication with employers about the impact (or lack of impact) of funding improvements is key – as well as the potential longevity of those improvements
- Funds should have a clear rationale and be able to explain their approach to setting secondary contributions and how employers' covenant positions have been recognised
- Employer flexibilities regulations, statutory guidance and the Board's guide are clear on the circumstances in which mid-cycle reviews of employer contributions are appropriate

As highlighted in the 2022 Scheme Valuation Report, the average funding level of LGPS funds in England and Wales has improved from 98% in 2019 to 107% at 2022 (on local funding bases), with all funds reporting an improvement in their position since 2019. For funds who link their discount rate to gilt yields, more recent market movements are likely to have further increased funding levels for many funds, despite overall asset values being relatively stable. However, with scheme membership continuing to mature, the cash flow position for some funds is becoming as important to manage as their overall funding level.

While being in surplus is clearly a very welcome position for LGPS members and employers, it does raise some novel issues for funds. In line with its statutory function to provide advice on the effective administration and management of the Scheme, the Board has agreed to make this statement.

The Board is already on record emphasising the importance of stability in employer contribution rates but recognises the extremely challenging financial position within local government and for scheme employers generally. Stability of employer contributions helps employers with financial planning and breeds confidence in the sustainability of the scheme.

The Board is aware that there is increased appetite from some employers and their advisers to try to influence funds' investment and funding strategies. Increased employer engagement is welcome, and many funds have been trying to increase this for some time, but expectations may need to be managed. In particular, tailoring of strategies does require additional resource, governance, support from advisers and consistency with the regulations.

Funds should consider how the costs of tailored approaches might be met and how they fit with their overall risk management approach. They are more likely to be appropriate where there is a critical mass of employers targeting a particular strategy (e.g. admitted bodies looking to de-risk a path to exit the fund). Funds will need to consider their own circumstances, those of their employers and their members – and be ready to provide a clear justification for their approach.

Some employers have also proposed "partial termination" (whereby an employer exits the fund for deferred and pensioner members but remains a participating employer for active members). The objective is to lock in current liability values for deferred and pensioner members, but also means that there is no recourse to that employer if those estimates prove too low in future. If that happens, the extra costs become the responsibility of all employers in the fund. Funds should satisfy themselves that such an approach is consistent with the regulations and will need to consider the best way to help an employer manage risk, as well as whether it is consistent with the interests of other employers in the scheme.

Investment and funding strategies are set in line with the LGPS Investment Regulations 2016 and associated guidance. The Board is currently working with the Chartered Institute of Public Finance and Accountancy (CIPFA) to refresh the existing (2016) funding strategy statement guidance. We have already identified that more guidance is needed around risk management, exit credit policy and how to conduct effective consultation with fund employers.

Smoothing of contributions, where fluctuations are caused by market movements, can work both ways – reflecting a fund's deficit or surplus position. The LGPS regulations allow funds to set negative secondary contribution rates where there is a surplus, which can help deliver contribution stability. As secondary contributions are set for employers specifically (not at fund level), funds' funding strategy statements should set out and explain their approach. Funds should also be willing to explain and share their rationale on how their general approach applies to particular employers or cohorts of employers. Parity of treatment is important and means treating like cases alike. That does not necessarily mean treating all employers the same, as different employers have different covenant values and differing circumstances.

Regulation 64A of the LGPS Regulations permits administering authorities to review an employer's contribution rate where there has been a significant change to the liabilities or covenant value of that employer. Examples of appropriate trigger points for such a review should be set out in the fund's funding strategy statement. As advised previously, the Board considers that funds may review the contributions of an employer where there has been a significant change to the liabilities of that employer, for example, if there has been a bulk transfer in, or out. An example of a significant change in covenant would include a material change in an employer's immediate financial strength (evidence should be available to justify such a view).

Generally, local authorities and other tax-backed employers are not subject to change in covenant. They have a statutory obligation to pay employer contributions to the fund in which they participate. Even in the event of a s114 notice being issued, authorities must honour existing contracts and meet statutory duties, including paying employer contributions.

Scheme Advisory Board

Changes in funding values due to market movements are not of themselves sufficient to trigger a review and are best managed through the triennial valuation process.

Administering authorities wishing to review their own employer contribution will need to consider very carefully how they manage the conflict of interest between their role as an employer in the scheme and as an administering authority.

Given differing levels of expertise and resources amongst the 18,000+ LGPS employers, funds may find it helpful to have specific communications to explain to employers particularly why their accounting surplus looks different from their funding surplus, and why neither are necessarily ‘realisable’ (even if employer exit is permitted). It may also be advisable for funds to consider how they would respond to enquiries from scheme members about the issues covered in this statement.

In the rare cases where it is proposed to set a negative secondary contribution at a level that puts the overall employer contribution in line with, or below, average employee contributions (generally around 6.5%), funds should consider how best to present this and may wish to seek views from employee representative members on their Local Pension Board, before moving to do so.

December 2023

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Resources Department
222 Upper Street
London, N1 1XR

Report of: Corporate Director of Resources.

Date: 19th January 2024

Ward(s): n/a

Appendix 1 to this report is not for publication because it contains exempt information.

Subject: Contract award report for Pensions Administration Software

1. Synopsis

1.1. This contract award report is in relation to the procurement of a pensions administration software to provide the Pensions Team with a technology solution to enable continued service provision and further resilience.

2. Recommendations

2.1 To note the summary evaluation outcome of submissions of Service provider A and B (attached as exempt Appendix 1) for the procurement of the pension administration software.

2.2 To note that the contract award to the winning tender is based on the most economically advantageous tender, delivering best value for money in combination of price and quality as scored by the evaluation panel.

2.3 To approve the award of the contract to service provider A as recommended (attached in exempt Appendix 1) subject to agreeing terms and conditions for a period of up to 60 months from February 2024 with an option to extend for 2 years. The maximum value of the contract over the seven year period is £1.8million.

3. Date the decision is to be taken

3.1. 19th January 2024

4. Background

4.1. **Nature of the service**

4.1.1. The Pensions Team is responsible for the administration of the Local Government Pensions Scheme (LGPS) for Council employees and employees of other organisations that have chosen to participate in the Scheme. The Pensions Team handles a consistently high volume of work. The work of this team includes all aspects of pension's administration, assisting in matters of interpretation of the scheme, policy implementation and the processing of estimates, transfers, retirements, divorces, and deaths.

4.1.2. The Pensions Team provide information to senior managers and HR during any process of organisational change and workforce planning. Underpinning all of this is a heavy reliance on the pensions administration software.

4.1.3. The pension's function is also highly regulated with governance and oversight performed by the Pensions Board, the Pensions Regulator and Pensions Ombudsman, the last two bodies empowered to impose financial sanctions for maladministration.

4.2. **Options appraisal**

4.2.1. A full options appraisal was been considered in the procurement strategy and it was determined that the national LGPS Framework for Pensions administration software as the most efficient route to market.

4.3 Procurement Process

4.3.1 The procurement process was undertaken via the National LGPS Framework for Pensions Administration Software Primarily in Support of the Local Government Pension Scheme (NCCT41608) contract as a single stage Further Competition process.

4.3.2 Two submissions were received in response to the call for further competition. This was as expected given the few competitors in the market capable of providing this software.

4.3.3 Members of the evaluation panel were the Deputy Director of Finance Corporate, Head of Treasury and Pensions and the Pensions Manager.

4.3.4 There was a significant amount of work that was required to build the specification both with Islington Digital Services, Procurement and the Pensions Team which delayed the invitation to tender to October 2023.

4.4 Evaluation

4.4.1 The criteria below were used to evaluate the further competition submissions:
Cost price - 30%
Quality - 70%

4.4.2 Quality criteria (70%) was split as outlined below in Table 2

Criteria	**Weighting**
Social Value	20%
Implementation	10%
Training resources	10%
Product Development	10%
User Engagement	10%
Support & Maintenance	5%
Business Intelligence	5%

4.4.3 The contract is being awarded to the most economically advantageous tender. The winning tender service provider A achieved the highest score in the evaluation process (see exempt Appendix1).

4.5 Key considerations: outcomes, efficiencies, and savings

4.5.1 Delivering a contribution to the Council's social value objectives is a key element of this procurement strategy. The supplier must demonstrate their contribution over the duration of the contract to economic, environmental, and social benefits.

4.5.2 The considerations of the social value outcomes and benefits demonstrated in the service providers submission is detailed under the social value criteria evaluation description in exempt appendix 1 (attached)

4.5.3 A commitment by the successful provider to pay at least the National Living Wage is a requirement of the final call-off contract agreement.

4.5.4 There is no TUPE, pensions or staffing implications associated with this procurement and subsequent contract award recommendation.

4.5.5 The Pension Fund is looking to improve its service as part of this procurement process, as such there will be a number of service improvements, with the most notable being access to member self service for the first time. This will also include access to the i-connect data service and hosting on the providers own servers as opposed to Islington's (which is a significant risk to the Council's data currently).

4.5.6 As a result of the increased scope of the service, the contract price has increased by a significant amount, from £140k per annum to £260k per annum. The cost is reflective of all project and implementation costs. This increase in cost will be paid wholly by the Pension Fund and is not a direct cost to the general fund.

4.6 Contract management

4.6.1 The timetable for award and implementation is as out below:

Evaluation of submissions	December 2023
Issue Intention to Award letters	January 2024
Standstill Period	January 2024
Contract Award	February 2024
Implementation commencement	March 2024

4.6.2 The Head of Treasury and Pensions will be responsible for the contract management.

4.6.3 Support and maintenance was an award criterion for each provider and a separate service level agreement will be agreed after the award with response times and performance indicators in line with the providers contract submission.

4.6.4 The bidders have quoted an all-inclusive fixed 5-year contract price and no variations are anticipated.

4.6.5 Contract management meetings will be held at least quarterly and more frequently during implementation period based on needs of the service and performance requirement of the provider.

4.6.6 Business Risk

Risk	Likelihood	Impact	Mitigation
Delay in procurement	Low	Low	Existing contract programme in place
Service provider performance	Low	Medium	KPI, rigorous assessment at tender and contract management

4.7 The Employment Relations Act 1999 (Blacklist) Regulations 2010 explicitly prohibit the compilation, use, sale, or supply of blacklists containing details of trade union members and their activities. Following a motion to full Council on 26 March 2013, all tenderers will be required to complete an anti-blacklisting declaration. Where an organisation is unable to declare that they have never blacklisted, they will be required to evidence that they have 'self-cleansed'. The Council will not award a contract to organisations found guilty of blacklisting unless they have demonstrated 'self-cleansing' and taken adequate measures to remedy past actions and prevent re-occurrences.

5 Implications

5.1 Financial Implications

5.1.1 The cost of administering the LGPS is chargeable to the Pension Fund. There is no charge to the general fund on the estimated value of the contract covered in section 2.2. The cost of the service will increase from approximately £140k per annum to £260k per annum.

5.2 Legal Implications

5.2.1 The council has power to procure and enter into this contract pursuant to Section 111 of the Local Government Act 1972, Section 1 of the Local Government (Contracts) Act 1997 and Section 1 of the Localism Act 2011.

5.2.2 This contract was procured via a mini competition through the National LGPS Framework for Pensions Administration Software which is compliant with the Public Contracts Regulations 2015 and the council's Procurement Rules.

5.2.3 The Corporate Director of Resources has power to award contracts of this value pursuant to Procurement Rule 18.1.1 and may award this contract subject to being satisfied that the contract represents value for money for the council.

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

5.3.1 There are no direct environmental implications associated with the purchase of new pensions administration software.

5.4 Equalities Impact Assessment

5.4.1 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.

5.4.2 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.

6 Conclusion and reasons for the decision

6.1 The tendering process is now complete, and submissions received from Service provider A and B have been evaluated and scored using the criteria agreed by the procurement strategy. The recommendation is to award the contract to Service provider A (as per exempt appendix 1) for a period of 60 months with the option to extend for two years subject to agreeing terms and conditions.

7 Record of the decision

7.1 I have today decided to take the decision set out in section 2 of this report for the reasons set out above.

Authorised by:

Corporate Director of Resources

Date: 19 January 2024

Appendices:

- Exempt Appendix1

Background papers: none

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ISLINGTON
For a more equal future

Finance Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee/Pensions Board

Date: 11th March 2024/20th March 2024

Ward(s): n/a

Subject: Pension Fund Performance 1 October to 31 December 2023

1. Synopsis

1.1 This is a quarterly report to the Pensions Committee to allow the Council as administering authority for the Fund, to review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.

2. Recommendations

2.1 To note the performance of the Fund from 1 October to 31 December 2023 as per the 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.

2.3 To note LGPS Current Issues -February 2024 for information https://lgpscurrentissues.mercer.com/lgps-newsletter-feb-24/

3. Fund Managers Performance for 1 October to 31 December 2023

3.1Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (Oct-Dec'23) Gross of fees		12 Months to December 2023 Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LCIV Sustainable EQ- RBC	9.6%	Global equities	1	5.5%	6.7%	4.6%	16.8%
LCIV -Newton	14.7%	Global equities	2	6.4%	6.4%	18.1%	15.9%
Legal & General	14.3%	Global equities	1	6.4%	6.4%	15.7%	15.8%
Legal & General-Paris Aligned	10.1%	Global equities	1	7.8%	7.8%	18.9%	19.0%
Polen Capital (previously BMO)	3.7%	Emerging equities	2	3.5%	1.2%	1.0%	4.1%
Quinbrook	4.0%	Renewable Infrastructure		-22.3%	2.9%	-24.3%	12.0%
Pantheon	6.5%	Infrastructure	1	-3.8%	2.4%	4.9%	10.0%
Aviva (1)	9.8%	UK property	2	-0.4%	11.3% -1.2%	-6.1%	3.8% -0.1%
ColumbiaThreadneedle Investments (TPEN)	6.6%	UK commercial property	3	-1.1%	-1.2%	0.6%	-1.4%
Franklin Templeton	1.5%	Global property	N	-3.9%	2.4%	-14.7%	10.0%
Hearthstone	1.3%	UK residential property	N	-8.2%	-1.2%	-10.1%	-0.1%
Standard Life	4.0%	Corporate bonds	2	8.0%	7.3%	9.1%	8.6%
M&G Sustainable Alpha Opportunities	4.6%	Multi Asset Credit	2	2.8%	2.1%	10.1%	8.1%
Schroders	1.2%	Diversified Growth Fund	2	4.9%	1.4%	5.0%	10.2%
Churchill Senior loan Fund IV	3.4%	Private Debt	2	-1.1%	1.2%	3.9%	5%
Permira Credit Solution	1.2%	Private Debt	3	2.5%	1.5%	10.9%	6.0%
Crescent Capital	1.9%	Private Debt	N	-0.9%	2.4%	7.9%	10.0%
Cash	1.3%	cash		n/a	n/a	n/a	n/a
Market value of total fund	**£1,809m**						

11.3% & 3.3% = original Gilts benchmark; -1.2% and -0.1% are the IPD All property index; for information

3.2 BNY Mellon our performance monitoring service provider now provides our quarterly interactive performance report. Performance attributions can be generated via their portal if required. Copies of the latest quarter fund manager's reports are available to members for information if required.

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

	Latest Quarter Performance **Gross** of fees		12 Months to Dec'23 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	2.2	5.8	7.4	12.2

3.4 **Total Fund Position**

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

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	7.4%	4.0%	6.6%
Customised benchmark	12.2%	5.0%	7.2%

3.5 The strategic allocation and actual position as at 31st December is shown in the table below. Cash held is mostly distributions from private assets and used to fund drawdowns.

Asset Class	**Strategic Allocation**	**Current Allocation**
Equities	45	52.5
Property	20	19.2
Private debt	10	6.4
Infrastructure	12.5	10.5
Impact investment	5	0
Multi asset credit	7.5	4.6
Investment grade credit	0	4.0
Diversified growth fund	0	1.2
Cash	0	1.6

3.5 **LCIV RBC Sustainability Fund**

3.5.1 RBC is the fund's global sustainable equity manager on the LCIV platform and was originally appointed in November 2018 to replace our Allianz mandate also on the LCIV platform.

3.5.2 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 December by -1.2% and a twelve-month under performance of -12.2%. This was primarily due to stock selection, even though the market environment was favourable to add value.

3.5.4 In light of this broader performance concerns, the LCIV has brought forward the annual due diligence of the investment manager by a few months. This will now be conducted in February 2024. Following a review, the annual management fee payable by the fund has declined by c.4 basis points. The reduced fees have been applied with effect from the 1st of January 2024.

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 6.4% against a benchmark of 6.4% for the December quarter and a 12month outperformance of 2.3% against a benchmark of 15.9%. Good stock selection was the main source of outperformance in 2023.
Islington now owns 47.2% (47.3 %) of the fund with 2 other local authorities on the LCIV platform.

3.6.4 LCIV have arranged a meeting to discuss their decision to have an enhanced monitoring after departure of the lead portfolio manager.

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 £183.4m.

3.7.2 The quarter performance to December was 7.8% against a benchmark of 7.8%.
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 AllianzGI (RCM). The funds were managed passively against regional indices to formulate a total FTSE All World Index series.
Member agreed restructuring in 2016, and the funding of BMO (our emerging market manager and restructuring of the fund to the MSCI World Low Carbon was completed on 3rd July 2017.

3.8.2 The components of the new mandate as at the end of June inception, was £138m and benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets. For this quarter, the fund totalled £259m(243m) with a performance of 6.4% against a benchmark of 6.4%.

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 December quarter saw positive performance of 0.2% against a benchmark 0f 3.3%, 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 -0.3% against a gilt benchmark of 11.2%. The All Property IPD benchmark returned -1.2% for this quarter. Since inception, the fund has delivered an absolute return of 4.8%

3.10.3 As at the end of this December quarter, the fund's unexpired average lease term is 20.7 years. 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 and diversify the portfolio and continue to provide secure cashflows for investors. This quarter five sales and one purchase were completed. The fund has now raised £300m cash meet redemptions by June 2024, with another £70m to raise.

3.10.4 The Lime fund was awarded the Real Estate Long Income Manager of the year at the Professional Pensions Investment Awards for providing a track record of secure income and attractive returns as well as being at the forefront of ESG initiatives to decarbonise the portfolio.

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 December was £120m(£121m in Sept) 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 -1.1% against its benchmark -1.2% for the December quarter. Since inception it has delivered an absolute return of 5.3% per annum.

3.11.3 The cash balance now stands at 3.0%. During the quarter, three strategic sales were made and there were no acquisitions. Vacancy rate stands at 9.5% and with 162 properties and 921 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 December quarter is $62.1m. The NAV is $98k

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 $24.6m 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 December quarter, the value of the fund investment was £22.7million and total funds under management is £57.5m. Performance net of fees was -8.2% compared to the IPD UK All Property benchmark of -1.2%. 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 £5.7m was distributed on a pro rata basis with Islington receiving £2.2m on 12th December. 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 December was $45.4m as there was an equalisation return of funds of $22m in November.

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 December '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. As at December'23 there had been capital calls totalling $56.3m and $1.2m distribution.

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 £21.0m after a redemption of £25m in October. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The December quarter performance before fees was 4.91% against the benchmark of 1.4% (inflation+5%). The performance since inception is 3.3% against benchmark of 9.6% 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.

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 December quarter, the fund returned 8.0% against a benchmark of 7.3% and an absolute return of 4.3% per annum since inception.

3.17.2 Stock selection and duration were all positive contributors to the portfolio as gilt yields fell.

3.17.3 The agreed private debt 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 December quarter, the hedged overseas equities had a positive cash value of £7.3m.

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 agreed change of mandate to Sustainable Alpha Opportunity Fund was transitioned on 1st November. 60% of the legacy fund was transitioned in specie to the sustainable fund on 1st November and the rest traded in the market, at a cost of £137k as per contract notes.

3.19.2 -The December quarter performance was 2.7% against a benchmark of 2.1% and a one year over performance of 2.0%. The primary contributors to performance were exposures to bonds in the Industrial, Financial and Leveraged Loan sectors.

3.20. **Private Debt Mandates**

Fund and year	Commitment	Capital call	Distribution
Churchill Fund IV-2021	$95m	$85.08m	$16.07m
Permira V-2021	£50m	£18.815m	£1.16m
Crescent VIII-2022	$87m	$40.7m	$6.1m

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 December 2023 as part of the regular monitoring of fund performance and Appendix 1-Apex Advisors commentary on managers. There is a LGPS Current Issues -February'24- for information https://lgpscurrentissues.mercer.com/lgps-newsletter-feb-24/.

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:

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London Borough of Islington

Report to 31st December 2023

19 February 2024

apexgroup.com

Table of Contents

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Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	The pooled funds in which Islington pension fund invests have a combined assets under management of £5.12 billion at end December 2023.
Schroders (multi-asset diversified growth)	There were no team changes during Q4 2023. The Manager updated its Global Asset Allocation Committee in October.	Fund made a return of +3.62% during the quarter and delivered a return of +0.66% p.a. over 3 years, -13.01% p.a. behind the target return.	Total AUM stood at £724.3 billion as at end September 2023, (latest data available) down from £726.5 billion as at end June 2023.
Polen Capital (active emerging equities)	No staff changes reported. Shortly after Q4 23 end, the Manager acquired the Somerset Capital Emerging Markets team.	Outperformed the benchmark by +0.19% in the quarter to December 2023. The fund is behind over three years by -1.15% 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 took place in December, and findings are to be announced shortly.	The LCIV Global Equity Fund outperformed its benchmark during Q4 2023 by +0.02%. Over three years the portfolio outperformed the benchmark by +0.03% and therefore under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.13% p.a.	At the end of Q4 2023, the London CIV sub-fund's assets under management were £561.4 million. London Borough of Islington owns 47.42% of the sub-fund.
LCIV Sustainable Equity Fund (RBC)	Team is stable but LCIV is concerned about the oversight of less experienced team members. An in-depth review is due to be undertaken, and findings will be reported in Q2 2024.	Over Q4 2023 the fund made a return of +5.50%, and this underperformed the benchmark return of +6.67%. The one-year return was +4.55%, positive in absolute terms but behind the benchmark by -12.25%. The three-year return underperformed the benchmark by -8.06% p.a.	As at end December 2023 the sub-fund's value was £1,271 million. London Borough of Islington owns 13.66% 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 +2.79% over Q4 2023, ahead of the target return by +0.68%. Over one year, the fund returned +10.14% which was ahead of the target return by +2.03%.	The fund size was £5,083 billion as at end December. London Borough of Islington's investment amounts to 1.65% of the fund.
Standard Life (corporate bonds)	There were 15 joiners and 49 leavers during the quarter. There were a number of leavers from the fixed income group, including an Investment Director, two Investment Managers and Head of Fixed Income in Hong Kong.	The portfolio outperformed the benchmark return during the quarter by +0.66%, delivering an absolute return of +8.01%. Over three years, the fund was behind the benchmark return (by -0.16% p.a.) and behind the performance target of +0.80% p.a.	As at end December the fund's value was £2,125 million, up from £2,218 million as at end September. London Borough of Islington's holding of £72.7m stood at 3.4% of the total fund value.
Aviva (UK Property)	There were no joiners or leavers during the quarter	Underperformed against the gilt benchmark by -11.65% for the quarter to December 2023 and outperformed the benchmark over three years by +10.69% p.a., delivering a return of +1.02% p.a., net of fees.	The fund was valued at £2.96 billion as at end Q4 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	The Manager undertook a restructuring of its investment teams in Q4, and this saw two departures from the Property group.	The fund outperformed the benchmark in Q4 2023, with a quarterly return of -1.08% compared with -1.16% for the benchmark. Over three years, the fund is outperforming the benchmark by +1.11% p.a.	Pooled fund has assets of £1.44 billion. London Borough of Islington owns 8.33% 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 +4.62% p.a., and so behind the target of 10% p.a. Over 5 years the fund is behind the benchmark by -2.92% p.a.	£1,460 billion of assets under management for the Franklin Templeton Group as at end December 2023.
Hearthstone (UK residential property)	Not reported.	The fund underperformed the IPD UK All Property Index by -3.48% p.a. for the three years to end December 2023.	Fund was valued at £56.8 at end Q4 2023. London Borough of Islington owns 40.5% of the fund which 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 +3.75% p.a., and therefore was behind 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 +6.51% p.a. over three years, and +0.93% p.a. over five years. The infrastructure fund returned +17.91% p.a. over three years to end December relative to the target of 10% p.a.	$62.3bn of assets under management as at September 2023 (latest figures available).
Churchill (Middle Market Senior Loan Fund)	Not reported.	Over 1-year, the fund is underperforming the absolute return target of 5% by -1.07%, delivering a return of +3.93%.	
Crescent (Credit Solutions Fund)	Not reported.	The fund returned +7.91% for the year to December 2023, underperforming the target return of +10%.	$41 billion of assets under management as at March 2023. (latest figures available)

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Permira	Not reported.	The fund returned +10.93% over 1 year, ahead of the target return of +6.0%	€78 billion of committed capital.

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 Reduced Carbon Pathway 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 Q4 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 an LGIM customised reduced carbon pathway 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 +3.29%, compared with 6.95% for the MSCI World Low Carbon Index and +7.73% for the Solactive Paris Aligned World Index.

TABLE 2:

	Q4 2023 Fund	Q4 2023 Index	Tracking
FTSE – RAFI Emerging Markets	+3.29%	+3.29%	+0.00%
MSCI World Low Carbon Target	+6.98%	+6.95%	+0.03%
ESG Paris Aligned World Equity Fund	+7.80%	+7.73%	+0.08%

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 49.66% to the MSCI World Low Carbon Target index fund, 41.41% to the ESG Paris Aligned World Equity Fund, and 8.93% allocated to the FTSE RAFI Emerging Markets Reduced Carbon Pathway index fund.

Staff Turnover/Organisation: Not reported by LGIM.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a return of +3.62% in Q4 2023, and in relative terms it underperformed the CPI + 5% target by -3.31% (as reported in the BNY performance report) but outperformed the cash + 4.5% target by +1.12% (this being the manager's preferred target since March 2022). Over three years, the fund is behind the CPI + 5% target return by -13.00% 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 +3.62% in Q4 2023 while global equities (MSCI All Country World Index hedged to sterling) made a return of +9.2%. Over three years, the DGF delivered a return of +0.66% p.a.

In Q4 2023, equity positions contributed +2.4% to the total return, alternatives contributed +0.3%, credit and government debt contributed +2.9%, while cash and currency detracted -0.6% (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 6.4% compared to the three-year volatility of 14.9% in global equities (i.e., 43.0% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 71% in internally managed funds (the same as last quarter), 0% in active bespoke solutions (down from 3% last quarter), 1% in externally managed funds (down from last quarter), and 20% in passive funds (up from last quarter) with a residual balance in cash, 8% (up from last quarter), as at end December 2023. In terms of asset class exposure, 43.4% was in equities, 19.4% was in alternatives, 29.6% in fixed income, 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, the Manager remains positioned for a soft-landing. However, given the rally in markets towards year end, the Manager states it now has slightly less positive views across asset classes, while being too early in the rally to turn negative.

Schroders reported that the carbon intensity of the fund (scopes 1, 2 and 3) was 82% as at end Q4 2023 of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 73% of the portfolio (compared with 93% for the comparator). Using a Science Based Targets Initiative methodology, the portfolio temperature alignment stood at 2.55 degrees as at end December over a medium term horizon.

Organisation: There were no team changes during Q4 2023.

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

Headline Comments: The portfolio made a return of +3.53% in Q4 2023, compared with the benchmark return of +3.34%, an outperformance of +0.19%. Over one year the fund is behind the benchmark by -3.05%, and over three years it is trailing by -1.15% 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 outperformed the index in the quarter. Overexposure in comparison to the benchmark to China contributed positively to performance, though overexposure to Vietnam States detracted from performance.

During the quarter, the largest positive contributors to the quarterly relative return came from Tencent Music Entertainment (+1.49% and the largest holding in the portfolio at 5.8%), Dino Polska (+1.02%), and Wizz Air Holdings plc (+0.75%). Companies which detracted most from performance included Netease Inc (-0.84%), Mobile World Investment Corp (-0.79%), and Dlocal ltd (-0.77%). *(Return contributions in US dollar terms).*

Portfolio Risk: Within the emerging markets portfolio there is a 19.0% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio was Uruguay (+8.7% overweight). The most underweight country allocation was Taiwan (-6.6%). The manager also held 12.8% of the portfolio in three developed countries, compared with the benchmark's 1.5% in Hong Kong and 0.3% in United States.

Portfolio Characteristics: The largest absolute stock position was Tencent Music Entertainment Group at 5.8% of the portfolio, while the largest absolute country position was China/HK and accounted for 28.4% of the portfolio.

As at end December, the portfolio had a 17.6% allocation to technology, below the benchmark allocation of 22.1%. 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 has previously stated that it has a turnover of below 20%. However, it is worth noting that turnover for the 12 months to end December 2023 stood at 46%.

Staff Turnover/Organisation: Shortly after quarter end, the Manager announced the acquisition of the Emerging Market capabilities of Somerset Capital, along with four of its experienced investment personnel. According to the Manager, the Emerging Markets strategy at Somerset Capital shares a closely aligned investment philosophy with its existing team.

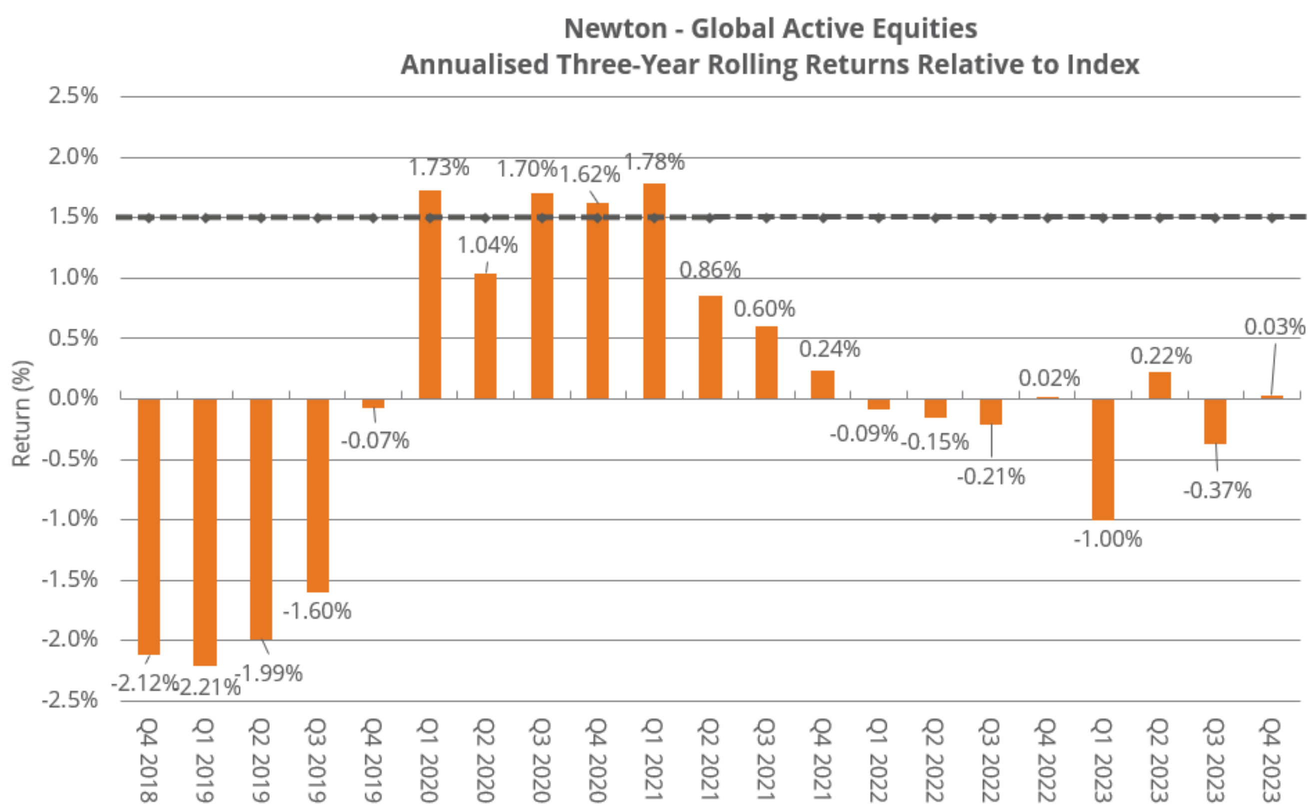
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund marginally outperformed its benchmark during Q4 2023 by +0.02%. Over three years the portfolio outperformed the benchmark by +0.03% p.a. Over five years the manager is ahead of the benchmark return by +0.13% 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 Q4 2023 the fund was only slightly outperforming the benchmark over three years by +0.03% p.a. and as such is underperforming the performance objective by -1.47% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as Microsoft (+0.80%), Amazon (+0.62%), and Apple (+0.38%). Negative contributions came from positioning in Sanofi (-0.28%), Scor (-0.18%), and Lonza Group (-0.16%).

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+). Over the past three years the risk has been low relative to peers.

Portfolio Risk: The active risk on the portfolio stood at 3.13% as at quarter end, slightly higher than as at end September when it stood at 2.99%. The portfolio remains defensive, with the beta on the portfolio at end December standing at 0.94 (if the market falls by -10% the portfolio can be expected to fall -9.8%).

At the end of Q4 2023, the London CIV sub-fund's assets under management were £561.4m, compared with £528.0m last quarter. London Borough of Islington now owns 47.47% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 57 as at quarter-end (unchanged from last quarter). The fund added ten positions, and made ten sales.

The portfolio continues to be heavily weighted to Technology (an allocation of 26.4%), and remains overweight against the Benchmark. Financials is the second largest allocation (18.4%) 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 Q4 2023, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 55% that of the benchmark index (the MSCI World Index). The highest contributor was Nestle (6.18% contribution to the weighted average carbon intensity) followed by Taiwan SMC (3.35% 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. During the quarter, the Manager sold its two energy holdings, Shell and Exelon. There were concerns around Shell's pace of growth given poor performance in the company's renewable energy operations. Exelon has been adversely impacted by regulatory ruling in the US which has increased the company's risk profile.

During Q3, London CIV had 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 Executive Investment Committee are to discuss the full in-depth review completed during December, during its meeting on the 13th February, and will be issuing an update to investors shortly.

Staff Turnover: The lead portfolio manager left the firm in September 2023. No additional staff turnover reported by London CIV.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q4 2023 the fund made a return of +5.50%. This underperformed the benchmark return by -1.18%. The one-year return was +4.55%, positive in absolute terms but behind the benchmark by -12.25%. The three-year underperformance was -8.06% p.a. against the benchmark. Islington's investment makes up 13.66% 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 Q4 2023, but has made a gain for the quarter in absolute terms. The portfolio has overweight allocations to the Financials, Consumer Staples, Communication Services, Industrials, Consumer Discretionary, Energy, and Health Care sectors. Over the quarter the largest contributors to return included Microsoft (+1.02%, and the largest holding in the portfolio), Salesforce Inc (+0.68%), and Amazon (+0.65%). The largest detractors include positioning in First Quantum Minerals (-1.11%), Estee Lauder (-0.26%), and EOG Resources (-0.24%).

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 December 2023 the fund had 37 holdings (two down last quarter) across 12 countries. The active risk of the fund was 3.42%, slightly higher than Newton.

London CIV report that the fund continues to tilt towards quality and growth factors.

In Q4 2023, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 62% that of the benchmark index (the MSCI World Index) which is lower than last quarter (when it was 70%). The highest contributors were InterContinental Hotels Group (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 19.00%), Equinor ASA (9.42%) and EOG Resources (4.75%)

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. The Manager is, however, undertaking another in-depth review in February and is expected to share findings with investors in early Q2 2024.

M&G – Alpha Opportunities Fund

Headline Comments: During Q4 2023 the M&G Alpha Opportunities Fund made a return of +2.79%, outperforming the benchmark return of +2.11%. Over one year it is outperforming the benchmark (cash plus 3.5%) by +2.03%.

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 +2.79% compared to the benchmark return (one month SONIA plus 3.5% being used in Northern Trust's performance analysis) of +2.11%. Exposure to financial corporate bonds was the top contributor (+0.97%), with industrial corporate bonds also performing well (+0.70%). Cash marginally detracted from performance over the quarter. Over one year, the fund is outperforming the target return by +2.03% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to Financials (28%), Industrials (25%), and Cash & Derivatives (18%). 36% of the portfolio was rated BB* or below. The manager reduced exposure to various utility, industrial and sub-insurance bonds following strong performance, and instead increased exposure to UK building societies.

In terms of outlook, the Manager feels that while there is talk of a soft landing, the number of elections scheduled in 2024 could pose a risk in terms of geopolitical events, and so continues to follow a patient and highly selective approach.

As at end December, the weighted average carbon intensity (WACI) of the portfolio was 34% of the WACI of a benchmark index, with 70% of the portfolio being measured where data was available (compared with 88% coverage for the benchmark).

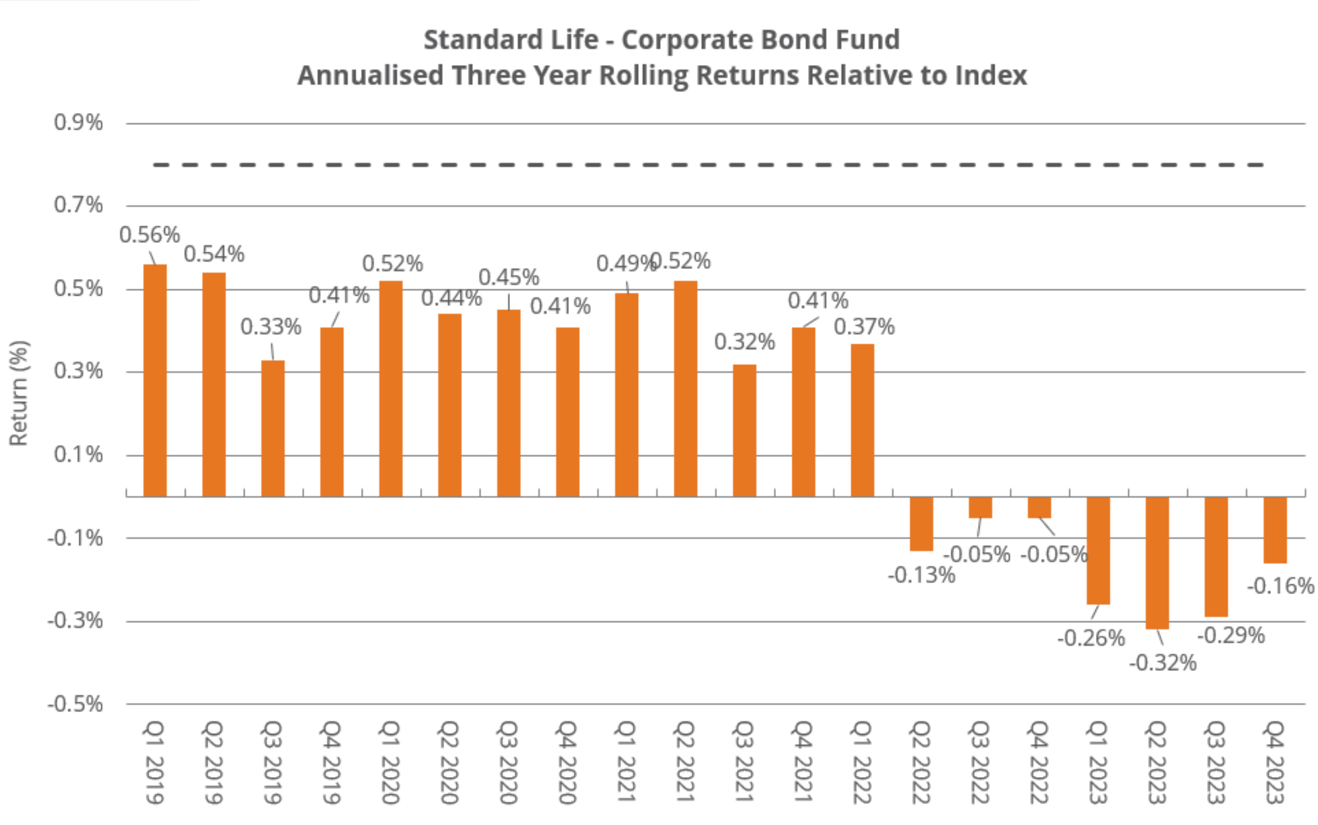
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio outperformed the benchmark return during the quarter by +0.66% and made an absolute return of +8.01%. Over three years, the fund was behind the benchmark return (by -0.16% p.a.) for the seventh 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 -4.85% p.a. net of fees, compared to the benchmark return of -4.69% p.a.

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK Gilts at 3.6% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end December 2023 stood at £2,125 million. London Borough of Islington's holding of £72.7m stood at 3.4% of the total fund value. This allocation is being gradually drawn down to fund the infrastructure investments.

Staff Turnover: There were 15 joiners and 49 leavers during the quarter, a higher number of departures than has been seen recently. There were no new joiners to the fixed income group, but in terms of leavers, UK departures include an investment director, two investment managers, the head of nominal rates, and an analyst.

Aviva Investors – Property – Lime Property Fund

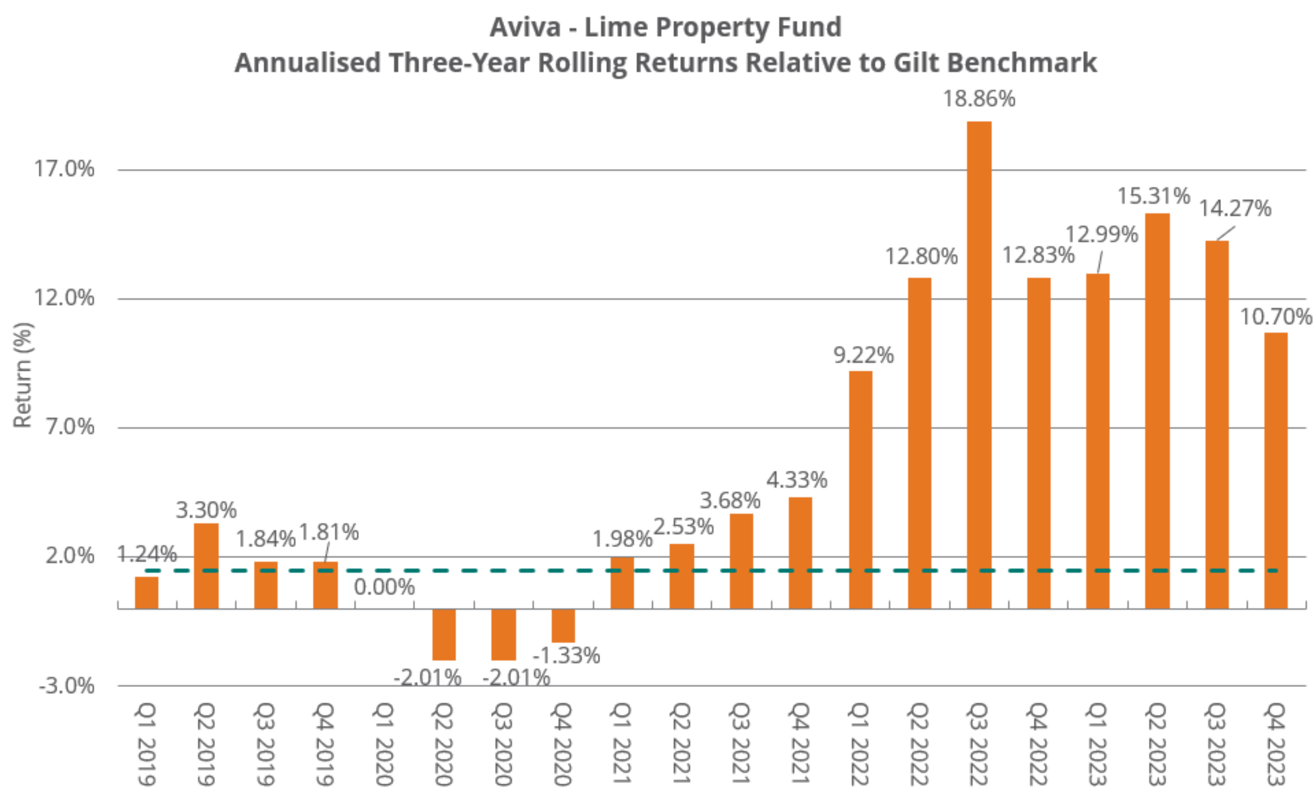
Headline Comments: The Lime Fund made a loss of -0.39%. It underperformed the benchmark return by -11.65% in Q4. Over three years, the fund is ahead of the benchmark return by +10.69% p.a., but over one-year underperformed by -9.88%. It is ahead of the benchmark since inception in October 2004, by +5.66% 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 -1.27% capital return and +1.07% income return.

Over three years, the fund has returned -1.02% p.a., ahead of the gilt benchmark of -11.72% 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 was one acquisition over the quarter and three sales. It is worth noting that, as at 30th June, redemption requests amounted to £470 million, (or 15.9% of the value of the fund). As of the end of December, the Manager had raised nearly £400m of available cash to pay out the redeeming investors (equating to 85% of the redemption amount).

The average unexpired lease term was 20.70 years as at end December 2023. 12.0% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 24.94% (proportion of current rent), and the number of assets in the portfolio is 77. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at December 2023, the Lime Fund had £2.96 billion of assets under management, a decrease of -£35 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 Q4.

Columbia Threadneedle – Pooled Property Fund

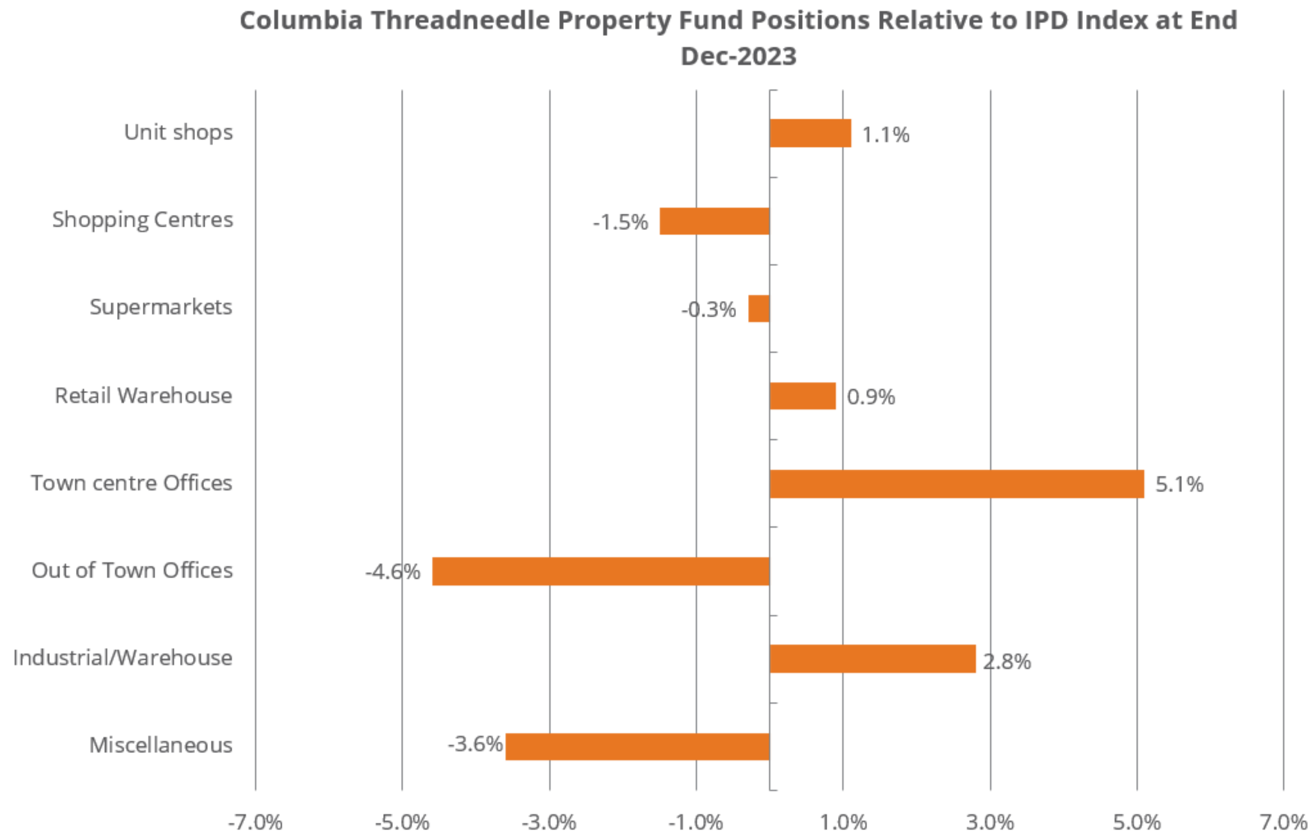
Headline Comments: The fund delivered a negative absolute return but outperformed the benchmark in Q4 2023, with a quarterly return of -1.08% compared to the benchmark return of -1.16%. Over three years, the fund outperformed the benchmark by +1.11% p.a.

The Manager wrote to investors during the quarter to notify that the redemption deferral procedure that has been in place for the last 12 months will be extended until further notice. The Manager has also appointed a new third-party administrator for the fund, SS&C Financial Services Europe Ltd to provide administration services including client servicing, registration and dealing services, subject to regulatory approval.

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 eight sales. The cash balance at end September was 3.0%, compared with an average cash allocation of 6.1% 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 Q4 2023, with a quarterly return of -1.08% compared to -1.16%. Over 1-year the fund outperformed the benchmark by +1.97%. The fund is now outperforming the benchmark over three years by +1.11% p.a.

Portfolio Characteristics: As at end December 2023, the fund was valued at £1.44bn, a decrease of £65m from the fund's value in September 2023. London Borough of Islington's investment represented 8.33% of the fund.

Staff Turnover: The manager has been restructuring a number of its investment teams in part due to strategic changes as well as industry-wide challenges under the current environment. As a result, there have been 35 leavers and 6 joiners during Q4, although it is important to note that there were only 2 leavers from the Property Management group.

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 -5.38% 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: Notwithstanding the poor relative performance, over the three years to December 2023, Franklin Templeton ranks the highest out of the property managers for absolute 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 (82% of funds invested), followed by Europe (18%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Fund II is fully invested in a diverse mix of property sectors including office, industrial and retail uses. As at end December 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 December 2023. The manager notes that the pandemic followed by the dramatic increase in interest rates has led to some delays in implementing business plans for the residual portfolio. However, the return has exceeded the original return target, to date.

The largest geographic allocation in Fund II is to Europe (64% of funds invested), followed by the US (27%), and Asia (9%).

Fund III is invested mainly in the residential and retail sectors. The portfolio consists of five investments, two of the original seven having already been realised. There was no change to the total distributions made over the period, and no new investments or realisations. The portfolio is allocated 58% to Europe and 42% to the US.

During the quarter, the Manager announced that the extension to the investment period for Fund III had been approved by a majority of the limited partners, to end December 2024 (an extension of 12 months).

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

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark over three years by -3.48% p.a. A phased redemption of this fund was negotiated with the manager during Q2 2023.

During Q4, 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 of £5.7 million to investors was made on 12th December 2023, equivalent to approximately 9% of the funds value.

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 December 2023 by -3.48% p.a., returning -0.98% p.a. versus the index return of +2.50% p.a. The manager has underperformed over 5 years by -1.61% p.a. The gross yield on the portfolio as at end December 2023 was 5.2%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 2.7%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 1.35% (£0.8 million), which is 6.95% lower than at the end of September 2023.

Portfolio Characteristics: By value, the fund has an 8% allocation to detached houses, 33% allocated to flats, 31% in terraced accommodation and 27% in semi-detached.

As at end September there were 217 properties in the portfolio and the fund stood at £56.8 million. London Borough of Islington's investment represents 40.5% 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 December 2023.

Quinbrook – Low Carbon Power Fund and Net Zero Power Fund

Headline Comments: Performance for the year to 31st December 2023 on both funds was negative at -24.13%, and underperforming the target return of +12.00%. Over three years, the fund returned +3.75% p.a. and therefore was behind of the target by -8.25% 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.

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 +6.51% per annum. This compares with a three-year return on listed global equities of +11.21% per annum. The three-year return on the infrastructure fund was +17.91% 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 31st December 2023 across all strategies was 10.6%, with a net multiple of 1.31x. Over the quarter, there were three drawdowns totalling £45,728,751 and one distribution totalling £1,000,823, both from PGIF IV.

Overall, the programme's rolled for cash valuation at Q4 2023 was £119.4m, down 3.9% from Q3 2023. It is worth noting that this fall in NAV was caused by the in-period foreign exchange movement and does not reflect any movement in underlying asset value.

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 end September 2023 (latest data available) the Fund had a total of 16 investments remaining in the portfolio. 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 December 2023, it has 11 new investments totalling £143.5 million ($182.8 m). The portfolio has a weighted average net total leverage of 5.8x and a weighted average company EBITDA of USD 78 million. The fund has achieved a return of +3.93% for the year to 31 December 2023, underperforming the absolute target return of +5.00% by -1.07%, 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 achieved a return of +7.91% for the year to 31 December 2024, underperforming the target return of +10.0% by -2.09%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period.

Karen Shackleton
Senior Advisor, Apex

19th February 2024

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ISLINGTON
For a more equal future

Resources Department
222 Upper Street
London, N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Board/ Pensions Committee

Date: 20th March 2024

Subject: LGPS – Pensions Risk Register

1. Synopsis

1.1. This report provides the Board with information on the potential risks identified in the administration of Islington Pension Fund. The Pensions Risk Register (PRR) also provides tangible mitigation measures to de-escalate risks preventing them from becoming critical problems.

1.2. This report summarises the further development and assessment of those risks that were initially identified on the PRR with the highest risk rating score before mitigation measures.

1.3. All risks have been reviewed during the period from November 2023 to January 2024 and if no additional concerns or external actions impact on the designated risk, the trend arrow will be positioned horizontally.

1.4. 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. In reviewing and making revisions to the PRR in accordance with the Pensions Regulator code of practice issued under section 90(2)(k) of the Pensions Act 2004, the Pension Fund must have regard to the extent to which the exercise of identifying and evaluating risks and the mitigation satisfy the legal requirements to have appropriate internal controls.

Strategy & Finance, People

Risk – Failure to apply correct Pensions Increase

3.4. Testing of the Pensions Increase Program is planned for February/March 2024. This has been placed on the risk register due to staffing changes in the payroll team.

Risk – The late provision of payroll reports

3.5 The Pensions Office continue to engage in productive discussions with the HR Payroll Consultant to build a new suite of pension reports. This exercise should be completed by April 2024. The mitigated risk score whilst still high remains stable and is subject to constant review.

Finance, Strong Financial and contract Management

3.6 **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. The mitigated risk score whilst still high remains stable and is subject to constant review.

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. There are no specific legal implications in this report. 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

Background papers: None

Final report clearance:

Signed by:

Corporate Director of Resources

Date: Date the report received final approval

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Islington Council Pension Board Risk Register - February-2024

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		May-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.	3	4	12	Pro-active engagement with internal and external employers, school Business Managers and payroll providers.	Regular data Quality Auditing.	2	4	8		Apr-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		Apr-24	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		Apr-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		Mar-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		Apr-24	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		Apr-24	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		May-24	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		May-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		Jun-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 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		Mar-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 - February-2024

No	Objective/strategic risk	Risk Description	Cause of risk	Consequence	Inherent Risk Score Impact (1=Low, 5=High)	Inherent Risk Score Likelihood (1=Low, 4=High)	Rating Score	Current controls in place to manage risk	Further actions to mitigate risks	Mitigated Risk Score Impact (1=Low, 5=High)	Mitigated Risk Score Likelihood (1=Low, 4=High)	Risk rating following mitigation	Trend	Target Date	Risk Owner
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	↔	May-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 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	↔	Apr-24	Pensions Manager/Deputy Manager

Islington Council - Pensions Risk Register 2024

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

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

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

Risk scoring guide

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

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

Risk Heat Map - October 2023

Impact	1	2	3	4
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				

Likelihood

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

Assessing Risk

Low
Medium
High

Date:21/02/2024

Finance Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Board

Date: 20th March 2024

Ward(s): n/a

SUBJECT: PENSION FUND ADMINISTRATION COST 3-YEAR FORECAST AND ANNUAL CASHFLOW

Synopsis

1.1 This report is for the Pension Board to review the Fund administration's 3-year income and expenditure forecast and annual cash flow, as part of its work programme objective to make recommendations on statutory and non-statutory policies and strategies.

2. Recommendation

2.1 To review the cash flow and forecast of administration cost attached as Appendix 1 and Appendix 1A.

3. Background

3.1 The Public Services Pensions Act 2013 requires the establishment of local Pension Boards for each Local Government Pension Fund. Each administering authority were required to establish a Pension Board no later than 1 April 2015.

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.

The 3-year Forecast of Pension Fund Admin Income and Expenditure and Annual Cashflow

3.4 A 3-year forecast for pension administration costs including investment management, has been prepared based on actuals to month ten in 2023/24. The year end position is projected to have £10m in cash at the bank to be rolled over into 2024/25. The Fund is then forecasted to remain in net negative cashflow position and will have to call on investment income to meet expenditure from then in the region of £17m till 2026/27.

3.5 The 2024/25 cashflow plots the monthly income and expenditure expected and best use of surplus cash to minimize cost and investment capital. This is a monitoring tool to avoid unnecessary disinvestment and for future investment strategies to generate enough investment income to meet future cashflow requirements. The need to draw down investment income is delayed because of the excess cash at bank at the end of March 2024.

3.6 Members are asked to review the cashflow and 3 year forecast.

4. Implications

4.1 Financial implications

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 requires the council to establish a local pension boards by 1 April 2015. The board must comply with the requirements of the relevant Legislation.

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

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

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

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

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

5. Conclusion and reasons for recommendation

5.1 Members are asked to note and review 2024/25 cashflow forecast and 3-year forecast of administration cost for the period covering 2023/24 to 2026/27 as per their agreed work plan.

Appendices: 1and 1A- 3 yr forecast and cashflow forecast

Background papers:
Islington pension board's terms of reference

Final report clearance:

Signed by:

Corporate Director of Resources

Received and final clearance date

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Financial Implications: Joana Marfoh

Legal implications: Marina Lipscomb
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	Actual	Forecast	Forecast	Forecast	Forecast
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£'000	***£'000***	***£'000***	***£'000***	***£'000***
Contributions receivable					
Employer contributions	33,032	40,000	42,500	44,000	45,500
Members contributions	15,618	16,000	17,500	18,500	18,800
Deficit recovery contributions	20,591	14,793	542	580	15,600
Transfers in from other pension funds	7,866	9,300	8,400	8,700	8,900
Other Income/Recharges*	2,382	2,600	3,000	3,300	3,500
Total Income	**79,489**	**82,693**	**71,942**	**75,080**	**92,300**
Benefits payable					
Pensions (Monthly Payroll)**	(54,275)	(57,000)	(60,000)	(62,000)	(63,500)
Lump sum benefits	(10,860)	(13,000)	(13,500)	(14,000)	(14,000)
Payment to and on account of leavers	(2,218)	(5,000)	(5,100)	(5,300)	(5,500)
Administrative fees (Icl. Oversight & custodian)	(561)	(800)	(1,000)	(1,200)	(1,400)
Investment Management Expenses	(2,500)	(3,000)	(3,200)	(3,300)	(3,500)
Other Payables/Recharge/Expenses^	(1,450)	(1,500)	(1,550)	(1,700)	(1,800)
Reinvestment	(20,000)				
Total Expenditure	**(91,864)**	**(80,300)**	**(84,350)**	**(87,500)**	**(89,700)**
Net additions/ (withdrawals) from dealing with members	**(12,375)**	**2,393**	**(12,408)**	**(12,420)**	**2,600**
Closing Cash at Bank as at 31st March			**10,000**		
Drawdown of income	**14,500**	**-**	**4,000**	**13,000**	
In-year (deficit)/ surplus	**2,125**	**2,393**	**1,592**	**580**	**2,600**

Notes
* Other income is comprised of LBI & HMRC VAT, recharges, bacs recalls, fund managers fee rebates & thesis
** Gross payroll
^ Other payables is comprised of LBI recharges, cheques, LBI & HMRC refunds
23/24 LBI 3yrs advance deficits approx 14.285m
23/24 Budget increased in retirement
23-26 deficit lumpsum's figures taken from actuary report

Pension Fund Cashflow														
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total	
Inflow	**Apr-24**	**May-24**	**Jun-24**	**Jul-24**	**Aug-24**	**Sep-24**	**Oct-24**	**Nov-24**	**Dec-24**	**Jan-25**	**Feb-25**	**Mar-25**		
Contributions	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	60,000,000	5,000,000.00
Transfer in	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	8,400,000	700,000.00
Lumpsum		0	0	0	0	0	0	0	0	0	0	542,000	542,000	
Other income/Recharges	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	3,000,000	250,000.00
Investment income/self fund	0								4,000,000				4,000,000	
Total inflow	**5,950,000**	**5,950,000**	**5,950,000**	**5,950,000**	**5,950,000**	**5,950,000**	**5,950,000**	**5,950,000**	**9,950,000**	**5,950,000**	**5,950,000**	**6,492,000**	**75,942,000**	
Outflow	**Apr-24**	**May-24**	**Jun-24**	**Jul-24**	**Aug-24**	**Sep-24**	**Oct-24**	**Nov-24**	**Dec-24**	**Jan-25**	**Feb-25**	**Mar-25**	**Total**	
Image Cheques	3,000	3,000	3,000	2,500	3,000	3,000	2,500	3,000	3,000	3,000	3,000	3,000	35,000	2,857.14
Monthly payroll	4,700,000	4,700,000	4,700,000	4,700,000	4,700,000	4,740,000	4,700,000	4,750,000	4,700,000	4,700,000	4,750,000	4,750,000	56,590,000	4,712,857.14
Benefits paid	640,000	640,000	640,000	640,000	640,000	640,000	640,000	640,000	640,000	640,000	640,000	640,000	7,680,000	640,000.00
Transfer out	420,000	410,000	430,000	450,000	420,000	420,000	420,000	440,000	430,000	410,000	420,000	430,000	5,100,000	427,142.86
Islington Council(recharge) overheard							1,450,000	0	0	0	0	0	1,450,000	
HMRC	800,000	750,000	800,000	750,000	750,000	800,000	750,000	700,000	800,000	750,000	750,000	800,000	9,200,000	757,142.86
Bank charges/invest fees/oversight	350,000	350,000	350,000	350,000	350,000	350,000	380,000	350,000	350,000	350,000	350,000	380,000	4,260,000	354,285.71
Refunds/Returns	5,000		5,000		5,000							10,000	25,000	1,428.57
Money Transfers/self fund			3,000			2,000			2,000			3,000	10,000	
Total outflow	**6,918,000**	**6,853,000**	**6,931,000**	**6,892,500**	**6,868,000**	**6,955,000**	**8,342,500**	**6,883,000**	**6,925,000**	**6,853,000**	**6,913,000**	**7,016,000**	**84,350,000**	
Movement Summary	**Apr-24**	**May-24**	**Jun-24**	**Jul-24**	**Aug-24**	**Sep-24**	**Oct-24**	**Nov-24**	**Dec-24**	**Jan-25**	**Feb-25**	**Mar-25**	**Total**	
Net in/outflow	-968,000	-903,000	-981,000	-942,500	-918,000	-1,005,000	-2,392,500	-933,000	3,025,000	-903,000	-963,000	-524,000		
Opening balance	10,000,000	9,032,000	8,129,000	7,148,000	6,205,500	5,287,500	4,282,500	1,890,000	957,000	3,982,000	3,079,000	2,116,000	1,592,000	
Closing balance	**9,032,000**	**8,129,000**	**7,148,000**	**6,205,500**	**5,287,500**	**4,282,500**	**1,890,000**	**957,000**	**3,982,000**	**3,079,000**	**2,116,000**	**1,592,000**	**1,592,000**	

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ISLINGTON
For a more equal future

Finance Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pension Board

Date: 20th March 2024

Ward(s): n/a

Pension Board 2024/25 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 2024/25

Background papers:
None:

Final report clearance:

Signed by:

Corporate Director of Resources

Date of final approval

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APPENDIX A
Pensions Board Forward Plan for March 2024 to June 2025

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 • Review of last Pensions committee minutes
20th March 2024		3 yr Forecast Cashflow and 2024/25 Annual Cash Flow Risk Register Review Pension administration software tender award report Pensions Performance report
16th July 2024		Draft financial statement Risk Register Review Pension Performance report Draft Annual Report Pensions Performance report
30th September 2024		Annual Pension Meeting
7th October 2024		Risk Register Review Pensions Performance report
10th December 2024		Whole fund funding review
25th March 2025		3 yr Forecast Cashflow and 2024/25 Annual Cash Flow Risk register review

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

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

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