



Islington Council Pension Fund

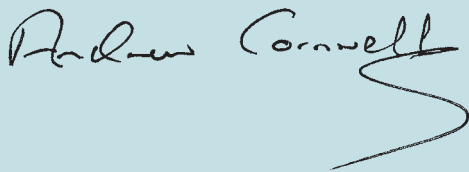
**Pension Fund Annual Report
2006/07**

Message from the Chairman

Welcome to the 2006/07 Annual Report to Members.

This annual report provides a brief summary of Islington's Pension Fund activity for 2006/07 and some of its achievements. The annual meeting in December 2006 was well attended and stakeholders had an opportunity to pose questions and hear about the objectives and proposed actions of its three year performance plan. The Pension Fund Scheme has continued to benefit from good investment returns, contributions and special contributions towards our deficit. The Fund's actuary will be carrying out our triennial valuation review with the results expected in March 2008. The Pensions Sub-Committee appreciates all the help and support from staff and partners for a successful year and will continue to strive for excellence and efficiency.

I hope you will find this report useful and an interesting read.

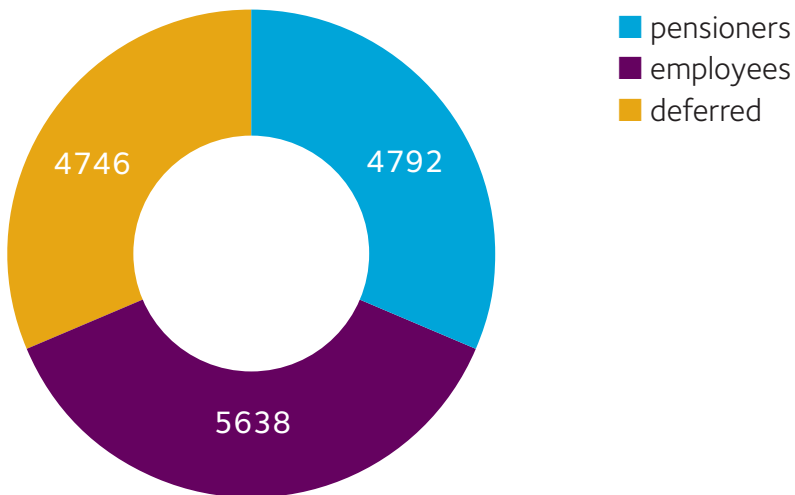
A handwritten signature in black ink, reading "Andrew Cornwell". The signature is written in a cursive style with a long, sweeping tail that extends downwards and to the right.

Councillor Andrew Cornwell

Membership

The Scheme membership continues to grow year on year. 2005/06 membership of 14,496 has increased by 4.7% to 15,176.

Pension Scheme Members as at 31/03/07



Democratic arrangements

In 2006/07 the Pensions Sub-Committee were responsible for all decision making on pensions matters and stewardship of the pension fund. There has been no significant change in the stewardship of the Fund and members of the Sub-Committee were:

Membership

Cllr Andrew Cornwell – Chair
Cllr Marisha Ray – V.Chair
Cllr Daniel Hulls
Cllr Richard Greening

Substitutes

Cllr George Allan
Cllr Paul Convery
Cllr Anna Berent
Cllr Barry Edwards

Non-voting members

Four Trade Union observers
Pensioner representative (Vacant)
Observer from CSV (An 'admitted body')

Our pension representative Mr. Brian Booker retired from his position in June 2007 and attended his last meeting on 21 June 2007. He served in that capacity for 11 years and had been instrumental in achieving many positive results for the colleagues he represented. His effort in bringing issues to the attention of the Sub-Committee was much appreciated.

A big thankyou to Brian Booker for his services and best wishes for the future.

A ballot document has since been sent out to nominate a new retired members representative.

Your Local Government Pension Scheme (LGPS)

Benefits under the (LGPS) are based on final salary and length of service in the scheme. This makes it a 'defined benefit' scheme, as benefits paid are set out in the LGPS regulations.

The LGPS is a 'funded' scheme, which means that the council is required to maintain a separate pension fund comprising investments, from which benefits are paid. These investments provide the growth and income with which to pay the benefits.

The "defined benefits" are guaranteed and do not vary depending on investment performance, which means they are stable and predictable for scheme members, who can plan their retirement around this security.

This contrasts with many other company schemes and personal pensions (money purchase schemes) where individual pensions are directly related to how well contributions have done when they are invested. Pension benefits in these schemes are not as predictable.

The core benefits of the scheme are:

- a guaranteed pension based on final pay and the length of time in the scheme
- a tax free lump sum of three times the annual pension
- life assurance cover of at least twice members' yearly pay from the day they join the scheme
- a pension for spouses or children
- an entitlement paid early if a member has to stop work permanently due to ill health
- pension increases in line with inflation (measured by RPI)

The fixed nature of the benefits also has important implications for the council if the investment income falls; the council is required to increase its contributions to keep the scheme funded.

Investment Objectives

Decisions on the management and investment of the Pension Fund assets are made with the long term very much in mind. Investment objectives require a balance to be struck at all times between the need to achieve good investment performance, while considering the risk attached to the various types of investment possible. The regulations now require the council to produce and publish a written 'Statement of Investment Principles (SIP)' governing their policy on investment of fund monies. This statement must include the authority's policy on social, environmental or ethical considerations and how they are taken into account.

Funding of the Scheme

The 2007 triennial valuation is still under way by Mercer our actuary, with final results due out by March 2008. The last triennial actuarial valuation as at 31/03/04 showed the Islington Council Pension Fund to be 79% funded. The deficit of 21% is to be recovered over a 25-year period to return the funding level to 100%. Islington Council Pension Fund's Funding Strategy Statement http://www.islington.gov.uk/Council/CouncilStructure/policy_performance/policy/councilpension.asp and its Statement of Investment Principles (SIP) http://www.islington.gov.uk/Council/CouncilStructure/policy_performance/policy/statementofinvestment.asp, both published on the council's website, give more details on how it is addressing its funding position and investment decisions.

Strategic Asset Allocation

The Pension Sub-Committee agreed an updated Statement of Investment Principles on 2 March 2006 and the target is to have 70% equities with 25% bonds and 5% property. This asset allocation is being reviewed with our advisers and actuaries as part of the 31 March 2007 triennial valuation to evaluate the effectiveness of the strategy and performance of the Pension Fund assets. An asset/liability study is being undertaken as part of this review and any changes deemed necessary will be implemented.

Keeping up to date

An annual employers meeting with admitted and scheduled bodies was held in October 2007 primarily to discuss the recent 2007 triennial valuation assumptions and their implications as well as recent LGPS regulation developments.

A communications plan has been produced for 2007/08, in order to give maximum publicity regarding the New Look Local Government Pension Scheme. Announcements are being made on 'Izzi' – the council's intranet, and also on the external website for those who do not have access to the intranet site.

Newsletters have been sent to current members of the LGPS, and also to people in receipt of a pension. Benefit statements were sent to current members in early summer, and statements for former members of the scheme who have deferred rights to pension benefits will be provided at the end of the year.

It is also important that you tell us about any changes in your personal circumstances or changes that may affect payment of benefits. If your situation changes contact the Pension Department at the Municipal Offices, 222 Upper St on 020 7527 2800/2165/2170.

Financial Update

Detailed reporting of the Pension Fund Accounts for 2006/07 is contained in the council's Annual Statement of Accounts, which covers all the council's services. This can be found at the following link:

http://www.islington.gov.uk/Council/CouncilStructure/policy_performance/policy/Statement_of_Accounts/

The summarised 2006/07 Income and Expenditure of the Pension Fund is detailed below:

Money Coming In	£'000s
Members' Contributions	8,533
Employers' Contributions	24,618
Investment Income	18,489
Transfer Value	6,056
Other Income	2,658
Total Income	60,354

Money Going Out	£'000s
Pensions & lump sum on retirement	28,022
Transfer Value & Leavers' Payments	5,535
Administration Fund Management Expenses	2,989
Total Expenditure	36,546

Overall Performance

The investment performance of the council's Pension Fund is monitored externally by the WM Company. During the year to 31 March 2007, the Fund produced a positive return of 7.9% (2005/06 = 24.2%), which over performs the Fund benchmark of 7.7%, on a relative basis by 0.2%. The average for local authority funds was 7.0%.

Summary of Investment Manager Performance (WM results)

The table below shows our portfolio fund managers' value of assets under management and their 12-month performance as at 31 March 2007.

Manager	Mandate	Market value of assets £'000	12-month return %
Internal (index tracking)	UK equities	237,792	11.6
Framlington	UK small cap equities	42,725	13.0
Capital International	Overseas equities	217,698	4.9
UBS	Bonds	70,918	1.1
Insight	Bonds	72,044	1.9
Morley	Property	26,702	5.7
Standard Life	Private equity	4,654	11.8
Pantheon	Private equity	3,554	-11.6
Goldman Sachs	Cash	33,253	-5.4
Total Market Value		709,340	7.9

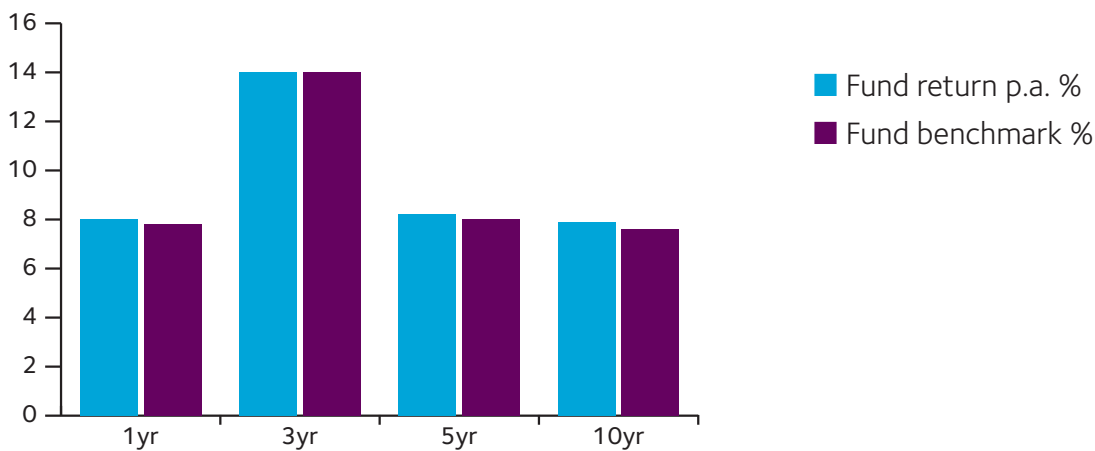
Long-Term Average Returns

It is also important to look at average performance over the longer term. The following table shows the average annual return achieved by the Fund over one, three, five and 10 years compared against Islington's customised benchmark.

Period	1 year	3 year	5 year	10 year
Fund Return per annum %	7.9	14.1	8.4	8.0
Benchmark	7.7	14.1	8.2	7.3

Over a 10-year period the Fund has outperformed its benchmark by 0.6% per annum.

Combined Fund Average Returns



Investment return compared to the Local Authority Universe 2006/07

Period	1 year	3 year	5 year	10 year
Islington Fund	7.9%	14.1%	8.4%	8.0%
Local Authority Universe	7.0%	14.3%	8.2%	7.7%
Relative Return	0.8%	-0.2%	0.2%	0.3%

Corporate Governance Report

The council recognises the responsibility it has as an owner of company shareholdings and aims to promote good corporate governance amongst the companies it invests in. This should be of long term benefit to the Pension Fund members as forward looking, well managed firms, with best practice governance processes should deliver increased shareholder value compared with less well managed firms. Good governance should also be in the long-term best interest of the companies and their workforces.

As a share owner, it is important that Islington uses its vote. We appointed Pensions & Investment Research Consultants (PIRC) in January 2007 to provide the corporate governance voting advice and proxy voting execution at AGMs & EGMs held by all companies in the FTSE All Share Index, US S&P 500 and the Eurofirst 300 Index in which the council has shareholdings.

Socially responsible investment Issues

The Pensions Sub-Committee has also adopted the principle of using its votes to favour improved environmental policies and reporting. There is an obvious link between investment in companies who manage their environmental impact in a responsible manner and the council's objectives in promoting sustainability.

In order to progress this principle, the Sub-Committee adopts the policy of maximising its influence by working with other like-minded authorities on wider governance issues, and has joined the Local Authority Pension Fund Forum and in March 2007 the Institutional Investors Group on Climate Change (IIGCC) with this objective.

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) 'exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations'.

The Chair of Islington's Pension Fund has joined the LAPFF's executive committee.

Institutional Investors Group on Climate Change (IIGCC)

The IIGCC is a forum for collaboration between pension funds and other institutional investors on issues related to climate change. The IIGCC seeks to:

- Promote better understanding of the implications of climate change amongst our members and other institutional investors.

- Encourage companies and markets in which IIGCC members invest to address any material risks and opportunities to their businesses associated with climate change and a shift to a lower carbon economy.

The Performance Plan update

In compliance with Myner's principle 1, Effective Decision Making, the Pensions Sub Committee agreed a forward business plan. The main objectives are:

- To achieve best practice in managing our investments in order to ensure long term performance and sustainability of the Fund.
- To continually improve our administration in order to deliver an excellent and cost effective service to all Fund Members.
- To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability.

During the year, actions taken to enable the Fund achieve these objectives include the development and production of key performance indicators on our pension administration service.

The first data was produced for April 2007 and will be shared annually with all London Boroughs. The following table gives the data for September and October 2007 in respect of the top priority procedures:

Process	Target days to complete	Volume	Target % Achievement	% achieved within target days	Actual average days
Death in service	5	2	95%	100%	1
Death on pension	5	28	95%	60.71%	6.6
Retirement benefits	5	41	95%	85.37%	3.71
Change of Bank	5	71	95%	97.18%	2.52
Pension Payroll adjustments	5	57	95%	71.93%	3.75
Correspondence	10	35	100%	97.14%	6.17

The percentage of cases processed within the target days exceeds the target percentage for three of the six procedures. The average days taken to complete each process demonstrates that it is only Deaths on Pension that take longer than the target days. Amendment and improvements in the methods of administration are being developed, including further automation of processing.

Results from the London CIPFA Benchmarking Club report 2007 show that Islington Pensions Administration deals with a higher caseload per Pension Team member (3,458 cases compared with 3,336 average), whilst the administration cost per scheme member is lower - £25.43 compared with the £29.22 London average.

Contract monitoring

The Fund's existing custody contract with Bank of New York Mellon was reviewed in March 2007. Members agreed to extend the agreement for a further two years to November 2009 with a further option for two additional periods of one year each.

Members also agreed to appoint AllenbridgeEpic Investment Advisers to provide an investment policy advice service to the Pensions Sub Committee for a year from January 2007 renewable annually for a further two years.

To review the investment strategy to reflect asset/liability position of the Fund, the Fund actuary, Mercer, is undertaking a full triennial actuarial review as at 31 March 2007 and the new funding level and employer contribution rates will be finalised by March 2008.

An asset/liability study conducted by our investment advisers informed the Pensions Sub-Committee of the optimal investment strategy in November 2007. Members will be working with our advisers to adopt and implement this optimal investment strategy in the longer term.

If you would like this document in large print or Braille, audiotape or in another language, please contact 020 7527 3195.

Contacts - Pension benefits office

If you have any enquiries or wish to know more about your own pension benefits position, please contact the pensions benefits staff at

Pensions Office

Room 226, 222 Upper Street
London N1 1XR

T 020 7527 2165 / 2170 / 2800

W www.islington.gov.uk

Your comments on this report?

Please send any comments to the
Head of Treasury and Pension Fund Management
Finance and Property Services
222 Upper Street
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