



ISLINGTON

PENSIONS SUB COMMITTEE

13 June 2016

SECOND DESPATCH

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Enquiries to : Mary Green
Tel : 0207 527 3005
Email : democracy@islington.gov.uk
Date : 8 June 2016

Dear members and observers of Islington's Pension Fund Sub-Committee

I am writing to apologise for the late despatch of some of the reports for Monday's Sub-Committee meeting. I will be discussing the delay with officers at the pre-meeting at 6:45pm on Monday and you are welcome to participate in that discussion if you wish.

Councillor Richard Greening, Chair of Pensions Sub-Committee



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Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	13 June 2016		

Delete as appropriate	Exempt	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 JANUARY TO 31 MARCH 2016

1. Synopsis

- 1.1 This is a quarterly report to the Pensions Sub-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 January to 31 March 2016
- 2.2 To receive the presentation by Allenbridge EPIC Investment Advisers, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 2.
- 2.3 To note the WM Company quarterly report (enclosed as Annex A)(to follow)
- 2.4 To note for information the Mercer bulletin- LGPS Current Issues-May 2016" attached as Appendix 3.
- 2.5 To receive an Annual WM Fund performance presentation from State Street(our fund performance service provider)

3. Fund Managers Performance for January to March 2016

- 3.1 The fund managers' latest quarter net performance figures compared to the benchmark is shown in the table below.

Fund Managers	Asset Allocation	Mandate	Latest Quarter Performance (Jan- Mar'16) Net of fees		12 Months to March 2016 Performance Net of fees	
			Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	24%	UK equities	-0.4%	-0.4%	-3.0%	-3.9%
London CIV Allianz	7%	Global equities	0.6%	2.2%	-0.3%	-1.3%
Newton	14%	Global equities	2.0%	3.0%	2.9%	-0.5%
Legal & General	6%	Global equities	9.9%	9.7%	-7.9%	-7.8%
Standard Life	21%	Corporate bonds	3.0%	3.0%	0.2%	0.4%
Aviva (1)	5%	UK property	1.3%	6.3% 1.1%	6.9%	4.0% 11.7%
Columbia Threadneedle Investments (TPEN)	6%	UK commercial property	1.7%	1.1%	11.9%	10.6%
Hearthstone	2%	UK residential property	1.3%	1.8%	12.8%	6.2%
Schroders	9	Diversified Growth Fund	-0.9%	1.4%	n/a	n/a

(1) 6.3 and 4.0% = original Gilts benchmark; 1.1% and 11.7% are the IPD All property index; for information

- 3.2 The WM Company quarterly report (enclosed as Annex A) gives a detailed analysis of our fund managers' latest quarter performance as well as the combined fund performance. The fund's March 2016 market value and asset allocation is also shown in this report. Members are asked to note this report.
- 3.3 The combined fund performance for the last quarter ending March 2016 is shown in the table below. The Fund's quarterly under performance of -0.9% was attributable to -0.7% of stock selection and -0.1% to asset allocation.

Combined Fund Performance	Latest Quarter Performance Net of fees		12 Months to March 2016 Performance Net of fees	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
LB of Islington Fund	1.2%	2.10%	-0.1%	-0.4%

- 3.4 Copies of the latest quarter fund manager reports are available to members for information if required.
- 3.5 The WM local authority universe is group of pension funds of similar characteristics but different sizes and deemed as a peer group for comparison. The Islington combined fund performance over the 1, 3 and 5 years period to March 2016 compared to its customised benchmark and percentile ranking are shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance	-0.1%	6.1%	7.0%
LBI customised benchmark	-0.4%	6.1%	7.2%
Percentile ranking in the peer group	47	64	65

A summary page showing the fund's long term returns at asset class level with its rankings in the WM LA Universe peer group is attached as Appendix 1.

3.6 **AllianzGI (RCM)**

- 3.6.1 AllianzGI (formerly known as RCM) is the fund's global equity manager with a mandate to outperform the FTSE All World Index Benchmark by 3% per annum, gross of fees, measured over a 3-year rolling period from 8 June 2011.
- 3.6.2 On 2 December, the portfolio was transferred to the London CIV platform to Allianz sub fund as agreed by Members at the November 2015 meeting. The new benchmark is to outperform the MSCI World Index. The outperformance target is MSCI World +2% per annum over 2 years gross of fees.
- 3.6.3 This quarter there was an underperformance of -1.6%. The main drivers were underweight positions in the utilities sector and stock selection in materials and financial sectors. It is anticipated that the portfolio performance will reflect in time the structural growth and high return prospects of companies owned.

3.7 **Newton Investment Management**

- 3.7.1 Newton is the fund's other global equity manager with an inception date of 1 December 2008. The objective of the fund is to outperform the FTSE All World Index by 2.0% per annum over rolling 3 year periods, net of fees.
- 3.7.2 The fund underperformed by returning 2.0% net of fees against a benchmark of 3.0% for the March quarter. Since inception the fund has delivered a relative over performance of 0.71% per annum.
- 3.7.3 The under performance this quarter was driven mainly by overweight position in healthcare sector and underweight positions in emerging markets. The consumer services and industrial sectors were positive contributors due to stock selection.

3.8 **In House Tracker**

- 3.8.1 Since 1992, the UK equities portfolio of the fund has been managed in-house by officers in the Loans and Investment section by passive tracking of the FTSE 350 Index. The mandate was amended as part of the investment strategy review to now track the FTSE All Share Index within a +/- 0.5% range per annum effective from December 2008. The fund returned -0.4% against a benchmark of -0.4% for the March quarter and a relative over performance of 1% over the 12 month period.
- 3.8.2 The fund currently holds 296 stocks and the main activities were corporate actions over the period.

3.9 **Standard Life**

- 3.9.1 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 March quarter, the fund returned 3.0% against a benchmark of 3.0% and a 3 year relative return of 0.3% per annum.
- 3.9.2 The main driver behind the performance during the quarter was exposure to gilts offset by underweight in supranationals and overweight in financials.
- 3.9.3 The forward strategy is to retain a core overweight in credit and continue to look for opportunities to reduce some risk (in subordinated credit). European and US credit exposure (off benchmark exposure) will be reduced over time. .

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 1.3% against a gilt benchmark of 6.3%. The All Property IPD benchmark returned x% for this quarter. Since inception the fund has delivered an absolute return of 6.6% net of fees.
- 3.10.3 This Mach quarter there were no purchases, even though 3 assets totalling around £250m have been placed under offer The fund's unexpired average lease term of 20.03 years reduced to 19.7years. Lime is well positioned to deliver attractive returns over the medium term.
- 3.10.4 The fund now holds 69 assets with 43 tenants and a 0% void. It also has £351m of investor commitments in the current queue.

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 October 2010 with an initial investment of £45 million. The net asset value at the end of March was £70.1million.
- The agreed mandate guidelines are as listed below:
- 3.11.2
- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 January 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.
- 3.11.3 The fund returned 1.7% against its benchmark of 1.1% for the March quarter and a rental income yield of 6.1%. The cash balance now stands at 10.0% of the fund and the aim is to maintain it within a range of 6 to 9% for the 2016 year. During the quarter there was one acquisition and one sale. There is a strong asset diversification at portfolio level with a total of 260 properties. The medium to long term prospects of commercial property will be dominated by rental income supported by modest capital value growth and the Fund is well positioned to benefit from this.

3.12 **Passive Hedge**

- 3.12.1 The fund currently hedges 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is being run by BNY Mellon our custodian. At the end of the March quarter, the hedged overseas equities returned 2.0% compared to the unhedged combined return of 4.6%.

3.13 **Franklin Templeton**

- 3.13.1 This is the fund's global property manager appointed in 2010 with an initial investment commitment of £25million. Members agreed in September 2014 to re-commit another \$40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. The agreed mandate guidelines are listed below:

- Benchmark: Absolute return
- Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point.
- Bulk of capital expected to be invested between 2 – 4 years following fund close.
- Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.

- 3.13.2 Fund I has now been fully committed. The remaining capital commitments \$8.1m will be drawn down in the future as per business plans. The final portfolio is comprised of nine funds and five co-investments. The funds is well diversified as shown in table below:

Commitments	Region	% of Total Fund
5	Americas	36
4	Europe	26
5	Asia	38

During the quarter there were 2 distributions to bring the total distribution received to \$30.5m

- 3.13.3 Fund II has made 3 investments to date in Europe, USA and Asia, in the retail and office sector. The projected geographic exposure is 42% Asia, US 26% and 32% Europe.

3.14. **Legal and General**

- 3.14.1 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 are managed passively against regional indices to formulate a total FTSE All World Index series. The portfolio returned 9.9% net of fees against a benchmark of 9.7% for the quarter The 3 year absolute return is -1.2%. The market value is now £70m.

3.15 **Hearthstone**

- 3.15.1 This is the fund's residential UK property manager. The fund inception date was 23 January 2013, with an initial investment of £20million funded by withdrawals from our equities 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 South East.
 - 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
- 3.15.2 For the March quarter the value of the fund investment was £25.8m and total funds under management is £41.8million. Performance net of fees was 1.3% compared to the benchmark of 1.8%, and 12 month relative return 6.1%. The income yield after cost was 3.08%. The portfolio has 146 properties, 17 are let on licence and leaseback agreement to house builders and 113 properties let on assured short term agreements.
- 3.15.3 4 properties have received notices to vacate between April and June. There are 16 vacant properties 10 of which are new acquisitions 9 prospective tenants have been received and the remaining 7 properties continue to be marketed.
- 3.16 **Schroders-**
- 3.16.1 This is the Fund's diversified growth fund manager. The fund inception date was 1 July 2015, with an initial investment of £100million funded by withdrawals from our equities portfolios. The agreed mandate guidelines are as follows:
- Target performance: UK RPI+ 5.0% p.a.,
 - Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).
 - Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.
 - The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.
 - **Permissible asset class ranges (%):**
 - 25-75: Equity
 - 0- 30: Absolute Return
 - 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash
 - 0-20: Commodities, Convertible Bonds
 - 0- 10: Property, Infrastructure
 - 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.
- 3.16.2 This is the third quarter since funding and the value of the portfolio is now 96.9m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The March quarter performance after fees was -0.9% against the benchmark of 1.4% (inflation+5%).
- 3.16.3 The underperformance was predominately due to equities while government bonds, high yield and emerging market debt absolute return made gains, helping to cushion returns..

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 carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising.

4.4 Environmental Implications

None applicable to this report.

5. Conclusion and reasons for recommendations

- 5.1 Members are asked to note the performance of the fund for the quarter ending March 2016 as part of the regular monitoring of fund performance, receive the last WM annual fund performance presentation from State Street and note the Mercer bulletin LGPS May 2016 .

Background papers:

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

Final report clearance:

Signed by:

Received by:	Corporate Director for Finance and Resources	Date
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	Head of Democratic Services	Date
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Report Author: Joana Marfoh
Tel: 0207-527-2382
Fax: 0207-527 -2056
Email: joana.marfoh@islington.gov.uk

APPENDIX 1

Summary of Long Term Returns

LONDON BOROUGH OF ISLINGTON - TOTAL COMBINED

Periods to end March

2016

Benchmark - LOCAL AUTHORITY UNIVERSE

Pound Sterling

This page summarises the long term returns at asset class level

A ranking against the peer group is shown in brackets.

Return %	----- 2013 -----			----- 2014 -----				----- 2015 -----				2016	1yr	3yrs % pa	5yrs % pa
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1			
Total Equity	-0.6 (67)	4.3 (19)	4.6 (75)	0.1 (56)	2.9 (1)	0.2 (95)	1.7 (85)	5.4 (97)	-1.2 (1)	-6.7 (69)	5.1 (95)	0.9 (63)	-2.3 (60)	5.4 (83)	6.6 (80)
Private Eq	6.9	0.6	-1.6	2.6	0.6	1.2	0.9	-0.5	3.8	-0.2	-2.8	2.3	3.0	4.6	3.6
UK Equities	-1.7 (75)	5.5 (74)	5.5 (56)	-0.3 (28)	2.3 (26)	-0.9 (37)	0.8 (53)	4.8 (39)	-1.2 (52)	-5.5 (32)	4.1 (26)	-0.1 (28)	-2.9 (15)	4.3 (46)	6.5 (40)
O/S EQ Hedge	-0.4	3.5	4.6	0.1	4.0	1.3	2.9	7.0	-2.1	-8.9	7.3	2.0	-2.4	6.9	7.3
O/S Equities	-1.1 (73)	1.3 (63)	3.7 (70)	-0.2 (82)	3.0 (18)	2.6 (48)	3.9 (46)	8.2 (63)	-4.3 (15)	-7.3 (72)	8.8 (29)	4.6 (14)	1.0 (39)	7.5 (59)	8.0 (51)
N. America	2.8 (37)	1.0 (16)	8.6 (12)	0.8 (85)	2.3 (58)	5.1 (76)	8.9 (18)	7.1 (35)	-3.7 (8)	-3.1 (28)	10.8 (10)	3.4 (51)	6.8 (11)	15.0 (12)	14.5 (12)
Europe ex UK	1.5 (20)	4.1 (84)	5.9 (32)	0.8 (91)	1.7 (14)	-2.0 (42)	0.9 (34)	10.1 (78)	-6.3 (91)	-2.1 (18)	6.7 (44)	0.9 (25)	-1.2 (25)	7.3 (37)	8.5 (20)
Japan	7.8	3.9	-4.0	-5.6	3.2	3.4	0.8	15.5	-3.6	-10.3	19.0	-2.9	-0.1	8.0	7.9
MGJE	4.4	0.3	0.0	-5.9	4.2	3.1	1.6	16.4	-2.3	-8.0	12.5 #				
Pacific	-9.0 (48)	0.3 (68)	-4.8 (92)	-2.7 (90)	2.6 (45)	4.8 (9)	2.4 (51)	12.3 (13)	-5.9 (30)	-13.3 (66)	14.1 (23)	5.8 (30)	-1.5 (19)	1.0 (60)	2.9 (68)
Other Intl.	-8.9 (84)	-1.2 (63)	-1.8 (85)	-0.8 (54)	5.3 (13)	1.7 (61)	-1.3 (81)	5.8 (76)	-3.3 (15)	-17.6 (91)	3.0 (89)	10.2 (17)	-9.5 (97)	-3.9 (84)	-2.9 (93)
Global Eq											-0.1 #	0.6 (73)			
Bonds + IL	-2.8 (20)	2.5 (6)	0.4 (17)	2.8 (36)	2.3 (11)	2.6 (68)	4.2 (59)	3.4 (27)	-4.0 (69)	0.9 (59)	0.4 (14)	3.0 (59)	0.2 (70)	5.2 (31)	7.5 (40)
Total Bonds	-2.8 (25)	2.5 (11)	0.4 (16)	2.8 (30)	2.3 (17)	2.6 (66)	4.2 (60)	3.4 (32)	-4.0 (52)	0.9 (60)	0.4 (33)	3.0 (70)	0.2 (79)	5.2 (30)	7.5 (37)
UK Bonds	-2.8 (18)	2.5 (14)	0.4 (17)	2.8 (30)	2.3 (21)	2.6 (72)	4.2 (69)	3.4 (26)	-4.0 (65)	0.9 (69)	0.4 (24)	3.0 (69)	0.2 (80)	5.2 (37)	7.5 (45)
UK Corp Bond	-2.8	2.5	0.4	2.8	2.3	2.6	4.2	3.4	-4.0	0.9	0.4	3.0	0.2	5.2	7.5

	(18)	(37)	(18)	(38)	(46)	(78)	(68)	(41)	(59)	(40)	(50)	(65)	(57)	(42)	(38)
Multi Asset									0.0 #	-4.8	2.6	-0.7			
										(84)	(19)	(70)			
Cash/ Alts	2.5	0.1	0.2	0.6	0.3	0.4	0.2	0.1	-0.2	-0.1	0.1	0.1	-0.1	1.4	1.2
	(19)	(27)	(56)	(55)	(52)	(69)	(71)	(74)	(60)	(76)	(71)	(79)	(89)	(62)	(72)
Cash	2.5	0.1	0.2	0.6	0.3	0.4	0.2	0.1	-0.2	-0.1	0.1	0.1	-0.1	1.4	1.2
	(16)	(21)	(25)	(19)	(27)	(35)	(41)	(53)	(65)	(82)	(54)	(61)	(82)	(30)	(42)
Curr Instr	n/a	n/a	n/a	n/a	n/a	n/a	364.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	n/a	n/a	n/a	n/a	n/a	n/a	(17)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK Property	1.8	1.7	3.2	2.6	3.9	3.5	3.1	2.5	4.1	2.1	2.5	1.6	10.6	11.2	8.6
	(44)	(78)	(80)	(78)	(63)	(76)	(87)	(77)	(4)	(89)	(73)	(32)	(58)	(91)	(80)
Gbl Property	5.3	-7.9	3.7	1.4	20.7	9.0	6.8	9.4	6.6	6.1	8.8	1.8	25.3	25.1	
FRANKLIN TEM															
FRANKLIN TEM															
FRANKLIN TEM	5.3	-7.9	3.7	1.4	20.7	9.0	6.8	9.4	6.6	6.7	10.2	4.3	30.7	26.9	
Property Uni											-100.0 #	n/a n/a			
Total Assets	-0.7	3.4	3.5	0.9	2.9	1.1	2.4	4.6	-1.0	-3.5	3.4	1.2	0.0	6.1	7.0
	(43)	(14)	(57)	(55)	(4)	(90)	(79)	(81)	(4)	(51)	(85)	(70)	(47)	(64)	(65)

not invested in this area for the entire period

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REPORT PREPARED FOR

**London Borough of Islington
Pension Fund**

6th June 2016

Karen Shackleton

AllenbridgeEpic Investment Advisers Limited (Allenbridge)

karen.shackleton@allenbridge.com

www.allenbridge.com

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1. 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	Change in strategy/risk	Manager specific concerns
AllianzGI	Not reported.	Underperformed the Index for the quarter by -1.6%% but outperforming by +0.2% p.a. over three years to end March 2016. Behind the target of +2.0% p.a. over three years.	£358 billion AUM as at 31 st March.	Now on the London CIV. New performance target is 2% per annum outperformance over 3 years (was 3%).	
Newton	One joiner and no leavers this quarter.	Underperformed the Index by -1.0% in the quarter. Outperforming over three years by +1.6% per annum and by +0.71% per annum since inception.	£48.3 billion as at 31 st March 2016, up from £47.0 billion as at 31 st December 2015.		
Standard Life	18 joiners (none in fixed income), and six leavers (one from fixed income) during the quarter.	Over three years the Fund has outperformed by +0.3% p.a., behind the performance target of +0.8% p.a.	Underlying fund value rose by £94 million in Q1 2016. London Borough of Islington's holding is 6.1% of the value of the total pooled fund.	Holding 6.4% in high yield non-benchmark bonds.	

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Aviva	Mike Craston joined as new Head of Business Development. Dan James appointed Head of Global Fixed Income.	Outperformed the gilt benchmark by +1.5% p.a. over three years and in line with the performance target.	Fund was valued at £1.65 billion as at end Q1 2016. Firm-wide assets under management of £290 billion as at end December 2015, up from £267 billion as at end June 2015.		
Columbia Thread-needle	Three joiners and three leavers in the quarter	Outperformed the benchmark by +0.5% per annum over three years. Slightly behind their performance target.	Combined assets of new firm £323 billion as at 31 st March 2016. Pooled fund has assets of £1.70 billion.		
Legal and General	Not reported.	Regional funds are all tracking the indices.	Assets under management of £757 billion at end December 2015. £288 billion in passive strategies.		
Franklin Templeton	Still seeking a replacement for the fund manager, Witsard Schaper, who left in Q4 2015.	Outperformed the absolute return target of 10% p.a. by 13.8% per annum.			

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Hearth-stone	Team of three new staff from Mill Group has joined the firm.	Outperformed the benchmark by +2.1% p.a. over three years to end March 2016.	Fund was valued at £45.5 m at end Q1 2016. Islington's investment represents 56% of the Fund.		
Schroders	Vice Chairman and global head of distribution is retiring.	Fund returned -0.9% during the quarter.	Total AUM of £324.9 billion as at 31st March 2016.		

Key to shading in Table 1:



Minor concern



Monitoring required

2. Individual Manager Reviews

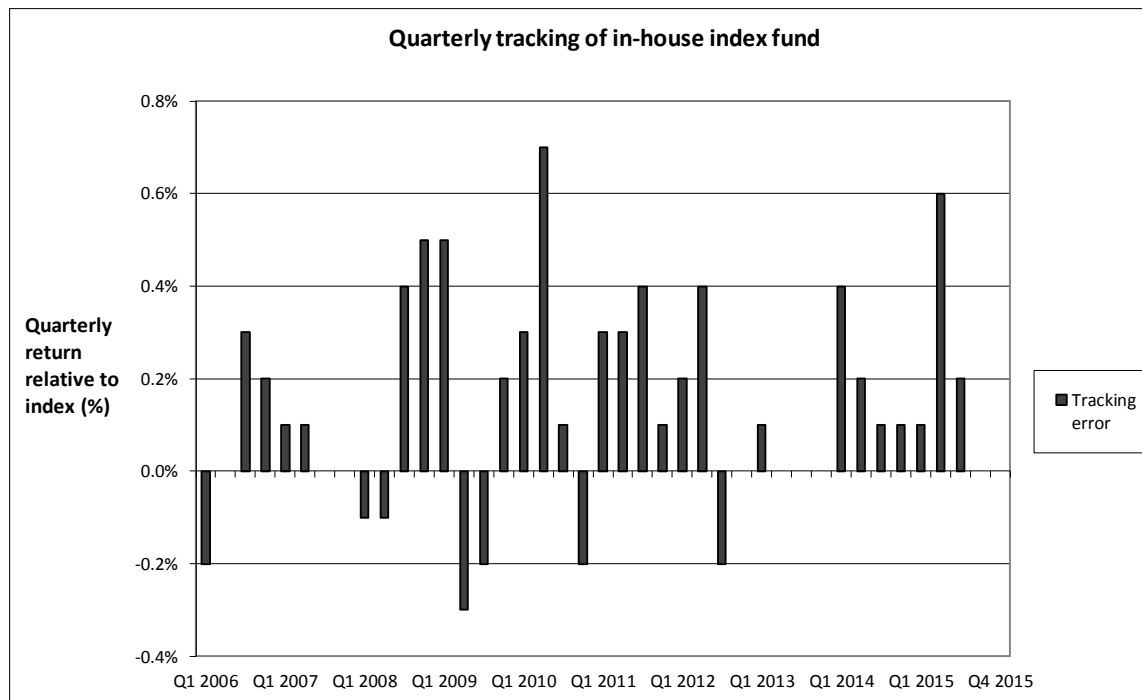
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

Headline comments: The portfolio continues to meet its objectives. The fund delivered a quarterly return in line with the index benchmark return of -0.4%. Over three years the fund has outperformed the index by +0.6% p.a. and delivered a return of +4.3% per annum.

Mandate summary: A UK equity index fund designed to match the total return on the UK FTSE All Share Index. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the index.

Performance attribution: Chart 1 shows the tracking error of the in-house index fund against the FTSE All Share Index since Q1 2006. **There are no performance issues.** Over three years, the small quarterly positive relative returns (shown in Chart 1) have accumulated, and as a result the portfolio has outperformed its three-year benchmark by +0.6% per annum.

Chart 1



Source: Allenbridge based on WM figures

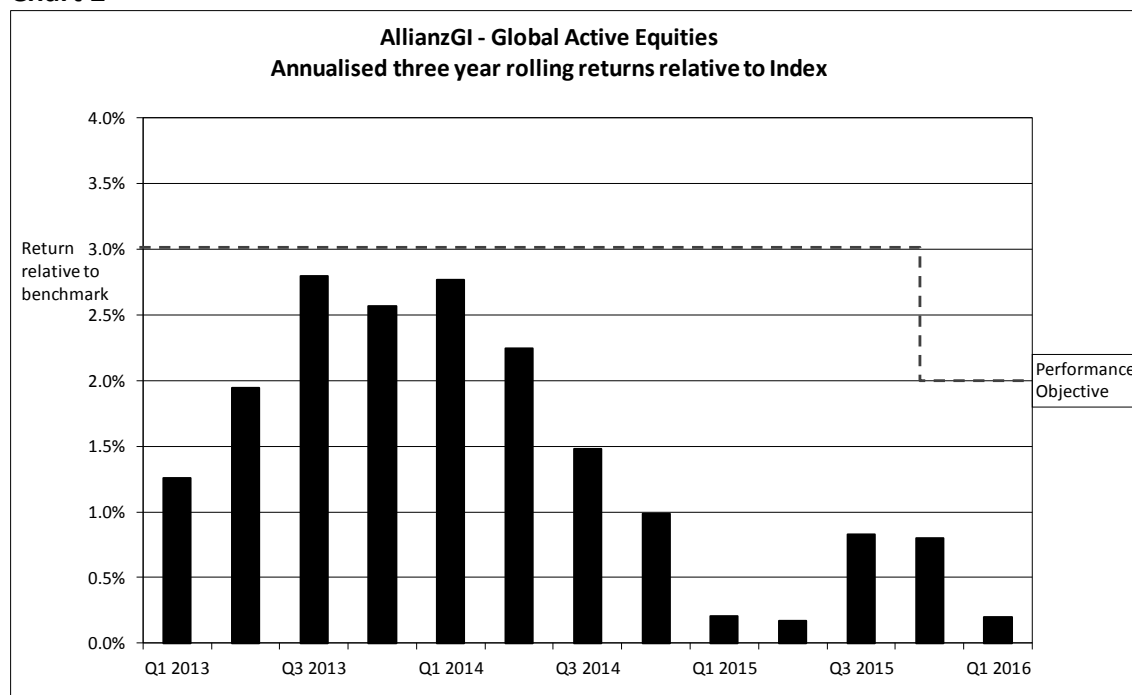
2.2. AllianzGI (RCM) – Global Active Equities

Headline comments: In terms of relative performance, the fund was behind the benchmark return of +2.2% for Q1 2016, delivering an absolute return of +0.6%. Over three years the fund is ahead of the benchmark by 0.2% per annum: however, this is behind the target of 3% per annum.

Mandate summary: An active global equity portfolio. AllianzGI operates a bottom-up global stock selection approach. They employ a team of research analysts to identify undervalued stocks in each geographical region (Europe, US, Asia Pacific). A global portfolio team is responsible for constructing the final portfolio. London Borough of Islington invests in this approach via the London CIV. The new objective of the fund (after transferring to the CIV) is to outperform the MSCI World Index by 2.0% per annum over rolling 3 year periods net of fees.

Performance attribution: For the three years to March 2015, AllianzGI is ahead of its benchmark by +0.2% per annum, although **they are still trailing their new performance target of 2% per annum**, shown by the dotted line in Chart 2. Note that the dotted line drops in Q4 2015 when the mandate transferred to the London CIV sub fund, which has a lower performance objective than when AllianzGI ran a bespoke mandate for London Borough of Islington.

Chart 2



Source: Allenbridge based on AllianzGI figures

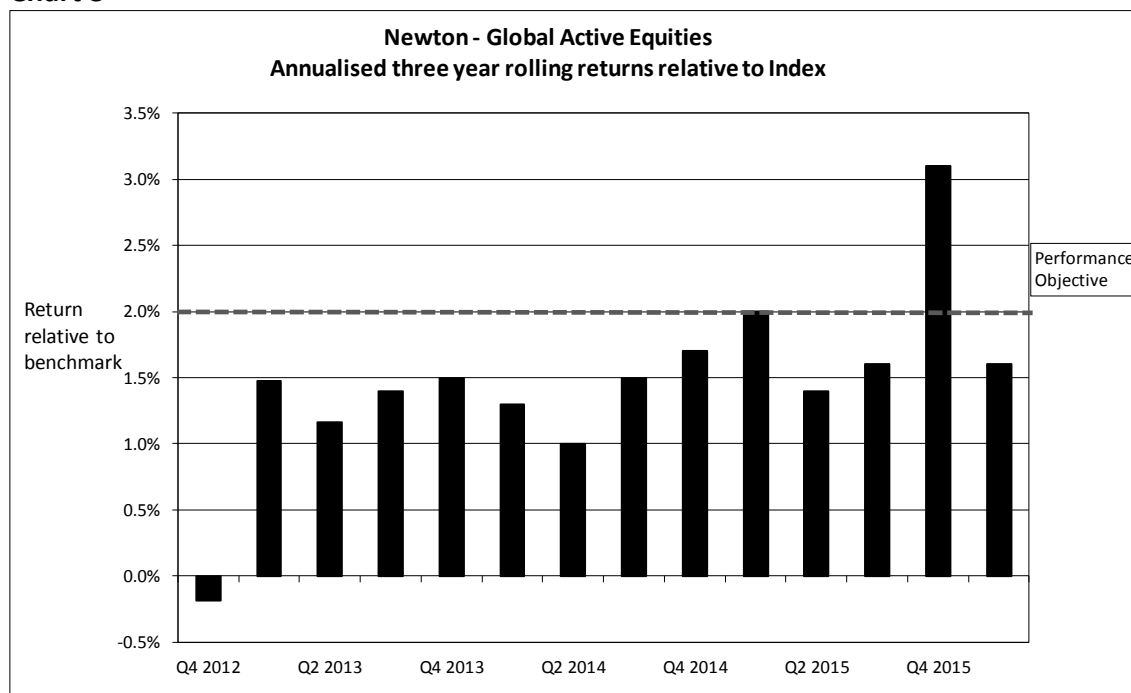
2.3. Newton – Global Active Equities

Headline comments: Newton were behind their benchmark by -1.0% during Q1 2016, trailing for the first time in almost two years. Over three years the portfolio outperformed by +1.6% per annum, behind the target of 2% p.a. Two-thirds of the outperformance of +1.6% per annum over three years can be attributed to successful stock selection with the rest coming from successful asset allocation.

Mandate summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that 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 is to outperform the FTSE All World Index by 2.0% per annum over rolling 3 year periods, net of fees.

Performance attribution: Chart 3 shows the three year rolling returns of the portfolio relative to the Index (the black bars) and compares this with the performance target, shown by the dotted line.

Chart 3



Source: Allenbridge based on data from Newton and WM

Chart 3 shows the good progress being made by the manager, relative to the performance objective, although for the three-year period to the end of Q1 2016, the fund (shown by the right hand black bar) is +1.6% p.a. ahead of benchmark so trailing the performance objective by -0.4% per annum ahead (shown by the dotted line).

Over the three years to March 2016, Newton's return was +9.9% p.a. compared to the index return of +8.2% p.a., an outperformance of +1.6% p.a. Stock selection accounted for two-thirds of the outperformance with the balance from asset allocation.

Since the inception of Newton's portfolio in November 2008, the pension fund is better off than it would have been with a passive mandate. Newton's 'since inception' return is +13.2% per annum, compared to the benchmark return at 12.5% per annum, an outperformance of +0.7% p.a. (*source: Newton, gross of fees performance shown*).

During the quarter the most successful sector was Consumer Services (+0.7% contribution to relative performance), most of which came from strong stock selection, but which was boosted by an overweight allocation to the sector (+9.9% overweight position). The least successful sector was Healthcare (-0.76% from relative performance). This was evenly attributed to poor stock selection and an overweight allocation to the sector.

Portfolio Risk: The largest overweight regional allocation was in UK Equities (+3.4% overweight). This replaced the long-standing overweight allocation to Europe that had been in place since Q3 2011. The most underweight allocation was Other Equities (-5.6%) - being underweight emerging markets detracted from performance as news from China improved and commodity prices dramatically reversed.

In terms of sector bets, Newton remained overweight in Consumer Services (+9.9% relative to benchmark.) The most underweight sector remained in Financials (-13.0%). This underweight position has been in place since Q2 2009 but is now at its largest level.

The level of active risk in the portfolio (i.e. the relative risk of the active bets being taken by Newton, or the tracking error) stood at 2.6%, as at end March 2016. This is within Newton's normal range of 2% and 6%.

Portfolio characteristics: At the end of Q1 2016, the portfolio held 64 securities (67 as at the end of Q4 2015). The steady drop in the number of stocks in the portfolio continues. At the end of 2009, Newton held 138 stocks. Turnover over the past 12 months remained at 22%, at the low end of Newton's normal expected range of turnover to 30%-70%.

Staff turnover: during the quarter there was one new joiners and no leavers. Ashwin Palta joined the fixed income team as a credit analyst and Jon Bell left his role as a portfolio manager to move to Newton's commercial team.

2.4. Standard Life – Fixed Income

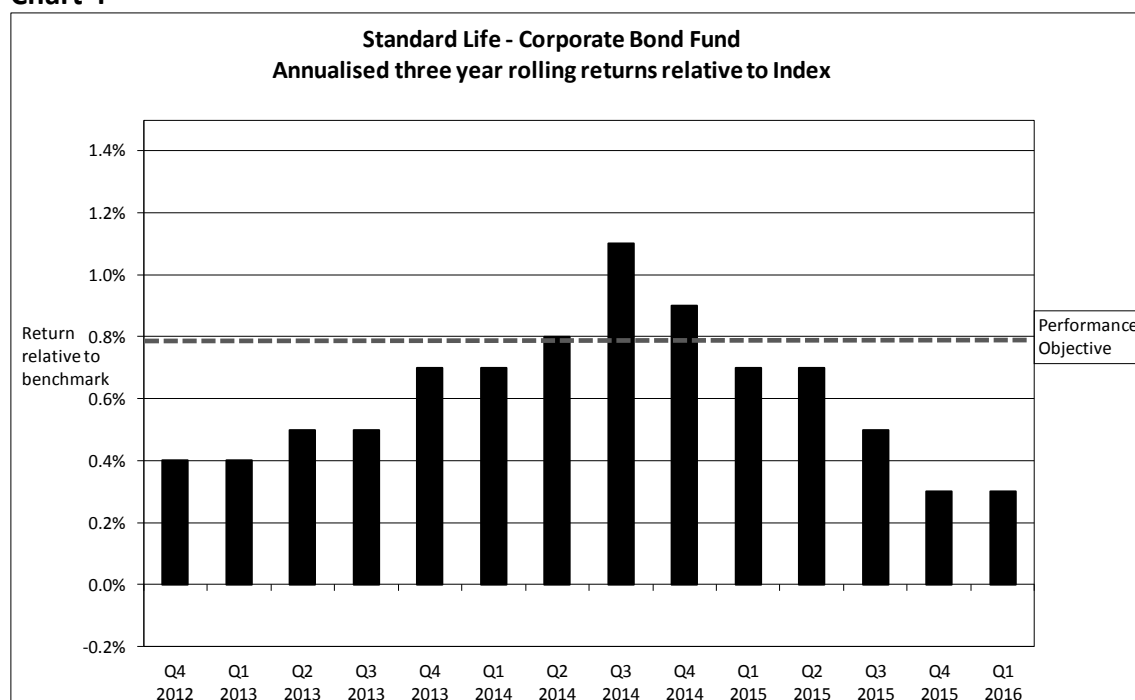
Headline comments: The portfolio was in line with the benchmark during the quarter with a return of +3.0%. Over three years, Standard Life's outperformance was +0.3% per annum relative to the benchmark, but this is behind their performance target of +0.8% per annum.

Mandate summary: An actively managed bond portfolio, invested in Standard Life's Corporate Bond Fund. The objective of the fund is to outperform the Merrill Lynch UK Non Gilt All Stocks Index by 0.8% per annum over rolling 3 year periods.

Performance attribution:

Chart 4 shows the performance the Corporate Bond Fund versus its benchmark and performance target.

Chart 4



Source: Allenbridge based on WM figures

Over three years, the portfolio has returned +5.2% p.a. compared to the benchmark return of +4.9% p.a., an outperformance of +0.3% p.a. The fund is behind its performance objective of outperforming the benchmark by +0.8% per annum.

Over the past three years, most of the outperformance has come from successful stock selection, followed by asset allocation. The outperformance has been partly offset by a negative contribution to performance from curve plays.

It is also worth noting that the absolute level of the three-year return on the portfolio has nearly halved since three years ago. At the end of Q1 2013 the portfolio returned +8.9% p.a. compared to +5.1% p.a. as at the end of Q1 2016.

Portfolio Risk: The largest holding in the portfolio at quarter end was EIB 5.625% 2032 (1.3% of the portfolio). The largest overweight sector position remained Financials (+7.6%). The long-standing underweight position in sovereigns and sub-sovereigns remains (-18.6%) and now stands at its largest relative position since inception.

The fund holds 6.4% of the portfolio in non-investment grade bonds (these do not form part of the benchmark).

Portfolio characteristics: The value of Standard Life's total pooled fund at end March 2016 was £3,640.4 million, £90.8 million higher than at the end of Q4 2015. London Borough of Islington's holding of £220.8 million is 6.1% of the total fund value. When Islington first invested, the percentage holding was 3.4%.

Staff turnover: there were 18 joiners during the quarter (none in fixed income), and six leavers including Mark Kedar who was an Investment Director in the Fixed Income – Credit team.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: With gilts performing strongly in Q1, the Lime Fund lagged its gilt benchmark by -4.7% in Q1 (having outperformed by +3.5% during Q4 2015). Over three years, the Fund returned +7.7% p.a. compared to the gilt benchmark return of +6.1% p.a. – an outperformance of +1.5% p.a. and in line with the performance target of +1.5% per annum outperformance.

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% per annum, over three year rolling periods.

Performance attribution: The fund trailed the gilt benchmark this quarter by -4.7%, as bond markets rose sharply. The fund rose by +1.3% whilst the benchmark increased by +6.3%. The portfolio was ahead of the IPD Index in Q1 2016 by +0.2%.

Over three years, the fund has returned +7.7% p.a. compared to the gilt benchmark of +6.1% p.a., an outperformance of +1.5% per annum. The **portfolio is meeting its performance objective of +1.5% per annum outperformance over three years.** Of the

+7.7% fund return over three years, 5.1% came from income, with the balance from capital gain.

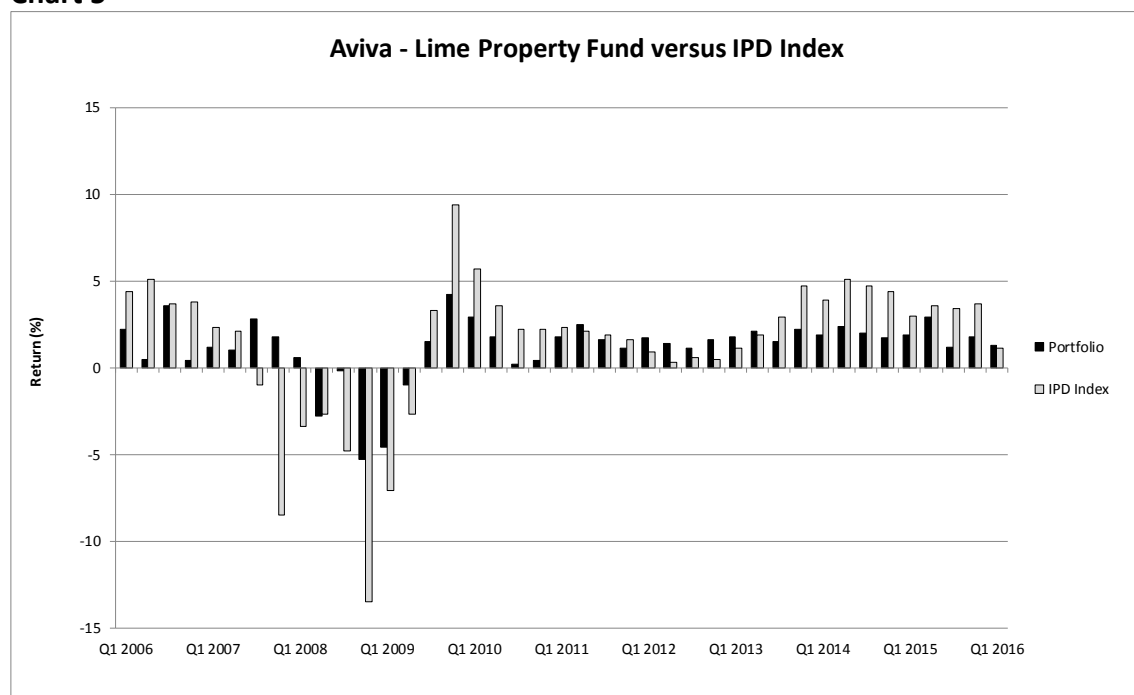
Portfolio risk: There were no purchases during the quarter but three assets were placed under offer, valued at approximately £250 million. The average unexpired lease term fell slightly below 20 years for the first time in several years. The manager anticipates that this is temporary and the average unexpired lease term will be over 20 years again by the end of next quarter. 9.3% of the portfolio's lease exposure in properties is in 30-35 year leases, and 1.9% in over-35-year leases. The largest sector exposure remains offices at 28.4%. The cash allocation stood at 5.9% as at quarter end.

Diversification is a key feature of Aviva's strategy. They had implemented a soft ceiling of 25% in their allocation to supermarkets, but this allocation is now down to 15.2%. The number of assets in the portfolio has also increased from 61 to 69.

As the fund has grown, finding deals has been a challenge because Aviva will not consider assets under £25 million. This restricts the number of assets that are eligible. However, they are now looking to be more creative, for example, partnering with their other funds, in order to invest in larger assets than the fund could prudently consider on its own.

The Lime Fund is a low risk property portfolio and this is shown clearly in Chart 5 which shows the absolute performance of the Fund each quarter compared to the IPD Index. This shows the return stream of the portfolio (in black) following a more muted profile (in both up and down markets) than the IPD Index as a whole.

Chart 5



Source: Allenbridge based on WM figures

Portfolio characteristics: As at end March 2016 the Lime Fund was valued at £1.647 billion, an increase of £16 million from the previous quarter end.

Lime has now been running for just over 11 years. The fund has built a strong reputation of delivering a consistent return profile. It continues to diversify and grow. Aviva have

recently seen some large new commitments of around £430 million. This means that London Borough of Islington is now no longer in the top five investors: once all the new investors are drawn down, the pension scheme will rank as the 14th largest investor.

The Fund has 88% allocated to inflation linked/fixed uplifts, and approximately two-thirds of this allocation is inflation-linked. In terms of recent new assets, three out of the five transactions have been “off market” and 100% were inflation-linked, with an average unexpired term of 25 years.

Staff turnover/organisation: Last July, Ed Casaal was appointed as CEO of Aviva’s global real estate division. He has been reviewing the global real estate business, and has made some organisational changes, which were communicated to London Borough of Islington in February 2016.

Renos Booth was previously a fund manager for both the Lime Fund and the Aviva Staff Pension Fund’s real estate portfolio. In the new team structure, Renos Booth is the Lead Fund Manager for the Lime Fund, with Andrew Davey as the Co-Fund manager. Andrew Davey has also been promoted to take over responsibility for the staff pension fund. This has freed Renos up to become the overall Head of Real Estate Long Income. Renos is looking to grow his team and there is a budget for two additional staff. This will release some of Renos’ time on the execution side of transactions, which will be applied to his new role.

London CIV: Aviva are hoping the Lime Fund will go onto the CIV. They have just been appointed to a second London Borough.

2.6. Columbia Threadneedle - Pooled Property Fund

Headline comments: The Fund’s performance was ahead of its benchmark in Q1 2016 by +0.6%. Over three years, the Fund has outperformed by +1.2% per annum, ahead of the performance target of 1% p.a. above benchmark over three years.

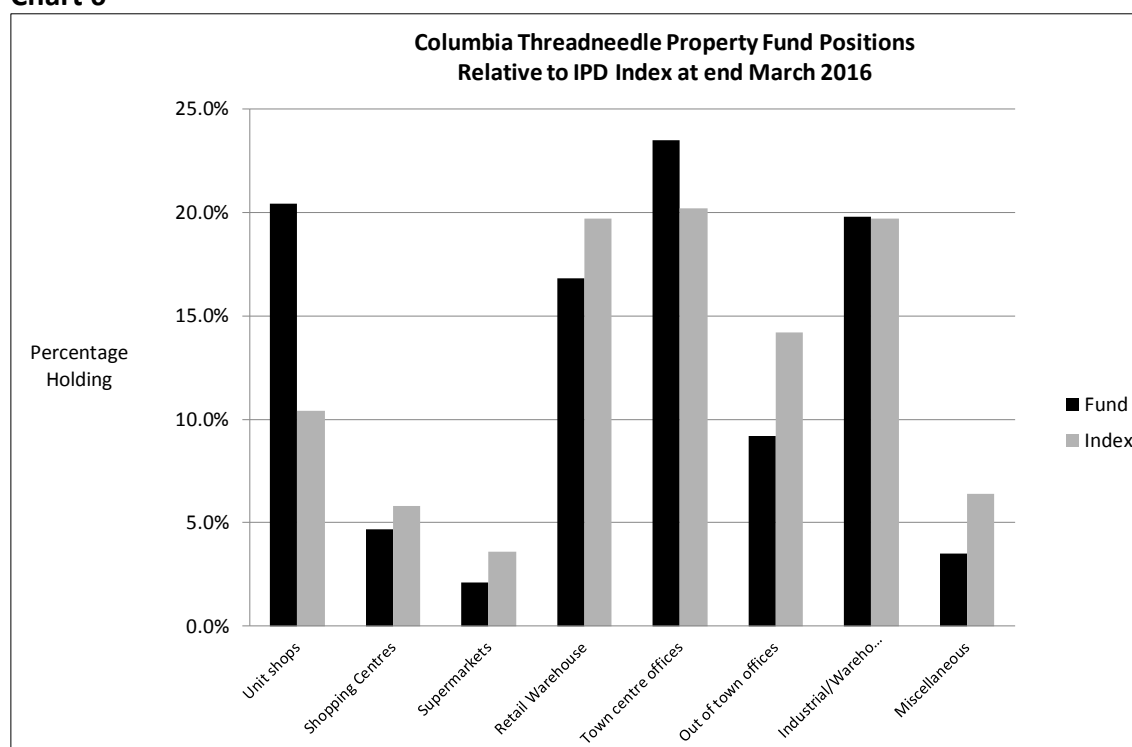
Mandate summary: An actively managed UK commercial property portfolio, the Columbia Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Its performance objective is to outperform the AREF/IPD All Balanced – Weighted Average (PPFI) Index by at least 1% p.a., net of fees, on a rolling three year basis. The benchmark changed at the end of Q4 2013. Prior to this, the benchmark was the CAPS pooled property median fund.

Performance attribution: The portfolio was ahead of the benchmark in Q1 2016, by +0.6% (source: Columbia Threadneedle), delivering a return of +1.3%. Income accounted for all the return this quarter, with a slightly negative capital return. In terms of the three-year performance, the Fund is ahead of its benchmark by +1.2% per annum and ahead of the performance target of +1% per annum. The absolute return over three years remains strong. The portfolio returned +13.7% p.a. over three years compared to the benchmark return of +12.3% p.a.

Portfolio Risk: the Fund made one acquisition and two disposals during the quarter. The acquisition was a £15.3 million purchase of Octavia House in Banner Street in London EC1. Threadneedle intends to develop the asset, floor by floor, and re-let. The disposals

included an office in Piccadilly in London, which was sold for £9.9 million, crystallising a profit of £2.1 million.

Chart 6



Source: Allenbridge based on Columbia Threadneedle data.

Portfolio characteristics: As at 31st March 2016, the Threadneedle Property Fund was valued at £1.70 billion, an increase of £24.1 million compared with December 2015. London Borough of Islington's investment represented 4.4% of the Fund as at end March 2016.

Staff turnover: three joiners and three leavers in the quarter. Jeremy Collin, one of the leavers, worked in the property team but was not involved in the TPEN Fund, so his departure does not affect London Borough of Islington's investment.

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

Headline comments: All the index funds were within the expected tracking range when compared with their respective benchmarks and there are no issues. The fundamental FTSE-RAFI Emerging Markets index fund outperformed its market capitalisation-weighted counterpart in Q1 by +2.8%. For the 12 months to Q1 2016 the outperformance was +3.3%.

Mandate summary: Four regional overseas equity index funds, in Europe, Japan, Asia Pacific ex Japan, and emerging markets, designed to match the total return on the FTSE All World Regional Indices. One additional index fund is designed to match the total return on the FTSE-RAFI Emerging Markets Equity Index. The FTSE All World Indices are based on capitalisation weights whereas the FTSE-RAFI Index is based on fundamental factors.

Performance attribution: The regional portfolios are all tracking their benchmarks, as shown in Table 2.

Table 2

Q1 2016	Fund	Index	Tracking
Europe	+0.1%	+0.1%	0.0%
Asia Pacific ex Japan	5.6%	5.6%	0.1%
FTSE emerging markets	8.8%	8.8%	0.0%
RAFI emerging markets	14.8%	14.9%	-0.1%

Source: LGIM

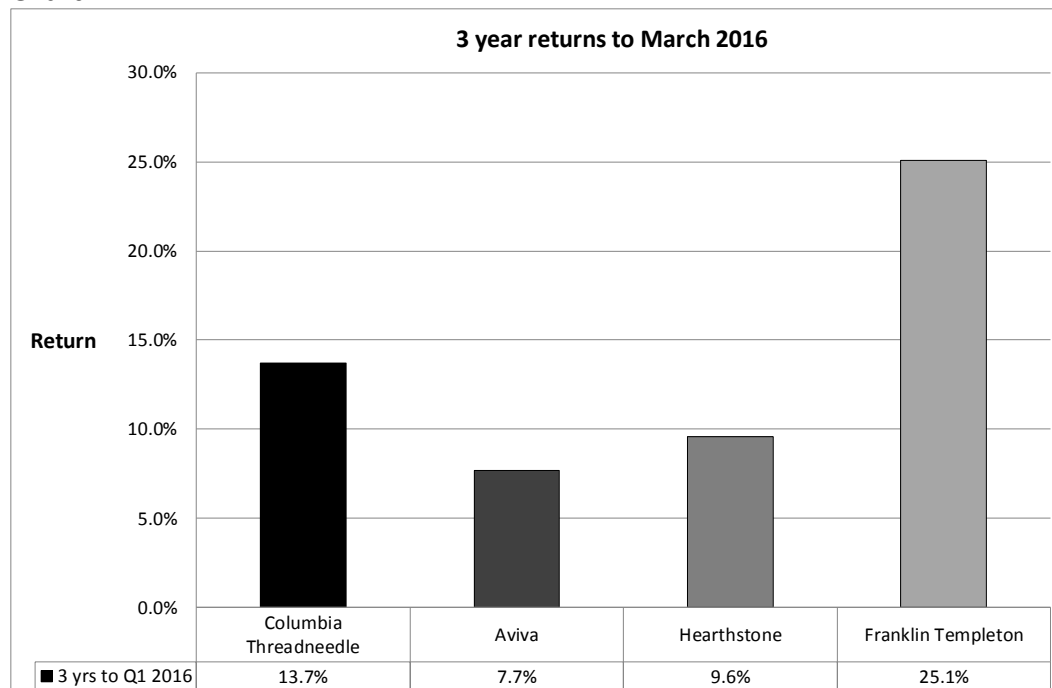
Portfolio Risk: The percentage allocation to each regional fund is based on pre-agreed band widths, which also take into account the global equity managers' allocations. The largest deviation from the benchmark allocation is North America which is 4.2% overweight.

2.8. 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 two funds in which London Borough of Islington invests. The portfolio in aggregate delivered a return of +25.1% per annum over the three years to end March 2016, outperforming the absolute return benchmark by +13.8% per annum.

Mandate summary: Two 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% per annum.

Performance attribution: Over the three years to March 2016, **Franklin Templeton was the best performing fund across all four property managers**, by some way, as shown in Chart 7. The Fund is now comfortably ahead of its target absolute return of 10% per annum, and for the three years to March delivered a return of +25.1% per annum.

Chart 7

Source: WM

Portfolio risk: Leverage on Fund 1 was 53% as at end March, with all funds showing leverage below 70%. Leverage on Fund 2 was 47% as at end March 2016.

Franklin Templeton describe their current level of leverage as “modest”, and at levels well below what is seen in their peers’ Funds. They also argue that the risk/reward trade-off is attractive: Fund 1 is generating a 20% IRR for 53% leverage.

Of the 14 investments in Fund 1, four are on target (10%-15% projected net internal rate of return (IRR)), seven are above target (15-25% projected net IRR) and three are substantially above target (more than 25% projected net IRR). The three funds which are substantially above target are: GreenOak, Project Redfish (a Toyko fund managed by Green Oak) and Secured Capital Japan V. Fund 1 is now 96% committed so can be considered to be fully invested.

Of the three investments in Fund 2, one is on target and two are too early to assess. Fund 2 is targeting investment in the three regions (US/Europe/Asia) equally distributed. There is a cap of 20% to Emerging Markets.

The expected primary vs co-investment ratio in Fund 2 is expected to be 60/40. Leverage, at 53%, is below target. The projected IRR (investment rate of return) is 18.28%.

Franklin Templeton are ahead of their timeline, in terms of capital deployment. They expect to call a more capital towards the end of 2016. This is a function of deal flow which is strong at present.

Staff turnover/organisation: following on from Witsard Schaper’s departure in Q4 2015, Franklin Templeton have confirmed that it is their intention to replace the portfolio manager. David Germer in London is, in the meantime, covering Witsard’s role. They are not in a rush to replace Witsard because they want to find the right person. There have been no other changes to team, which consists of 16 real estate investment professionals in five global offices: London, Geneva, Singapore, New York and California.

Franklin Templeton have \$764 billion in assets under management, of which \$195 billion is in institutional mandates. The alternatives division (which oversees the London Borough of Islington mandate) has assets under management of \$16.5 billion. \$4.1 billion of this is in real asset strategies.

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +1.3% compared to the benchmark return of +1.8% for the quarter ending March 2016. Over three years, the Fund delivered a return of +9.6% p.a. compared to the benchmark return of +7.4% p.a., an outperformance of +2.1% p.a.

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.

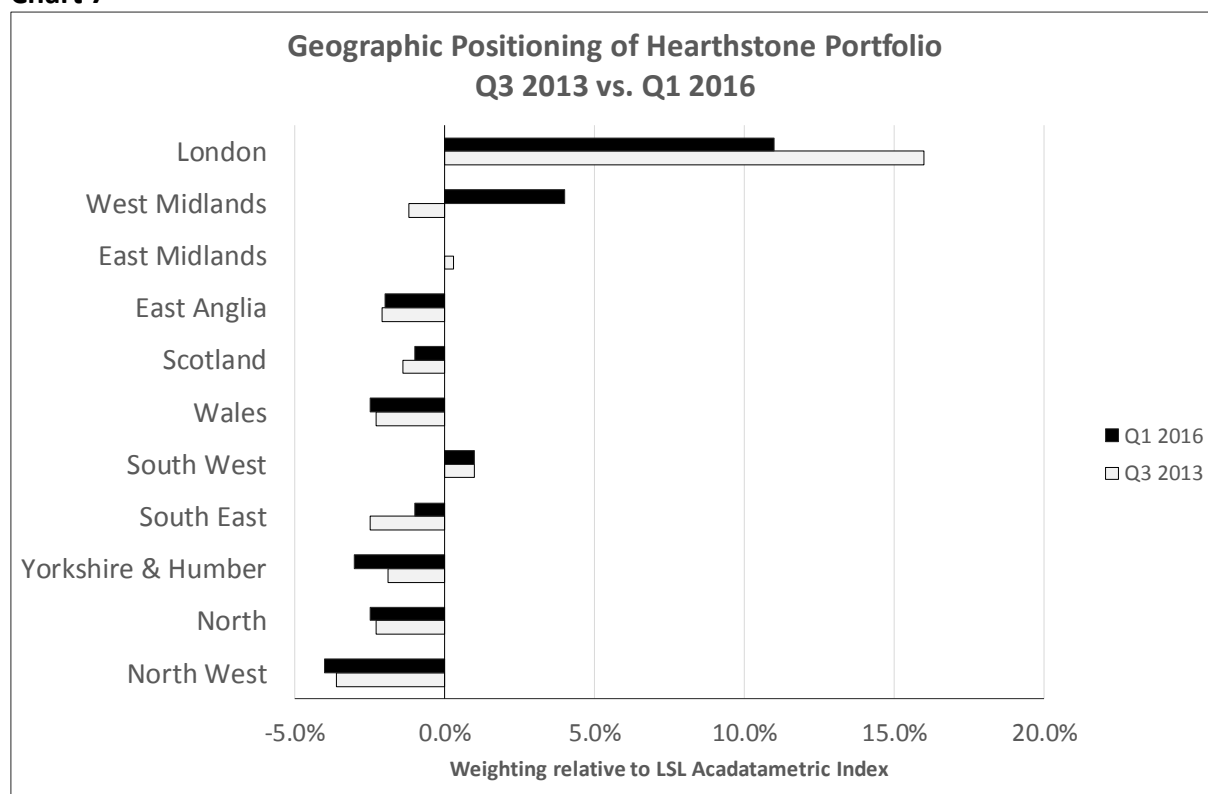
Performance attribution: The Fund returned +9.6% p.a. compared to the return on the index of +7.4% p.a. over the three years to March 2016, an outperformance of +2.1% p.a.

The gross yield on the portfolio was 5.4% at the end of March. This compares with LDL's average gross yield for properties in England and Wales (as calculated for their Buy to Let Index) of 5.0%.

Portfolio risk: The overweight position in London, primarily a result of the Wembley investment opportunity, is gradually decreasing as the Fund attracts new money which is being invested in other regions. Hearthstone's long term strategy is to maintain broadly neutral regional bets in the portfolio. At the end of Q3 2013, the Fund was 16.0% overweight to London. At the end of Q1 2016, that had dropped to an 11% overweight position.

Chart 7 compares the regional bets in the portfolio in Q3 2013 with the bets in Q1 2016. The reduced London overweight is shown by the top black bar (2016), compared with the top grey bar (2013).

Chart 7



Source: Allenbridge based on Hearthstone figures

Portfolio characteristics: The Fund has an 18% allocation to detached houses, 47% allocated to flats, 31% in terraced accommodation and 4% in semi-detached. The allocation to flats remains a significant overweight position relative to the Index (47% for the Fund compared to 17% for the Index). This is offset by an underweight position in semi-detached houses (4% for the Fund compared to 24% for the Index).

Hearthstone have reported that they are seeing fund flows increase quite significantly, since the middle of last year. A key milestone was hitting their three-year performance

track record. Now they are seeing inflows of approximately £1.5 million a month, compared to the average last year of £1 million per month.

As a result, as at end March 2016, the Fund stood at £45.5 million. When it reaches £50 million, Hearthstone will gain entry to the wealth manager platforms. Once it reaches £100 million it can open up to even more flows. At the same time, Hearthstone have reported that there has been relatively little in terms of redemptions. As at end March, London Borough of Islington's investment represented 56% of the total Fund, compared to 74% at the end of March 2015.

Organisation and staff turnover: During the quarter, Hearthstone acquired a small team from Mill Group. Andrew Smith, Richard Otten and Cristoforo Rocco are all now Hearthstone employees.

Andrew Smith was previously from Aberdeen Asset Management, Richard Otten was more recently at Fairbridge Estates, and Cristoforo Rocco spent 15 years at Schroders on the institutional fund raising side, especially working with LGPS investors.

London CIV: in terms of dialogue to date, Hearthstone has not yet engaged with the London CIV.

2.10. Schroder – Diversified Growth Fund (DGF)

Headline comments: The Diversified Growth Fund delivered a return of -0.9% in Q1 2016. This compared with their RPI plus 5% p.a. target return of +1.4% for Q1.

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. Schroders aim to outperform RPI plus 5% per annum over a full market cycle, with two-thirds the volatility of equities.

Performance attribution: In Q1 2016, Schroders' exposure to absolute return made the largest contribution to the portfolio return (+0.6%), with smaller contributions from government debt (+0.3%). This was offset by negative contributions from Japanese equities (-1.2%), European equities (-0.6%), and global equities (-0.3%).

Portfolio risk: The portfolio is expected to deliver equity-like returns with two-thirds the volatility of equities. However, this is over a full 3-5 year market cycle. Over the past 12 months, the volatility of the Fund was 8.9% compared to a 12-month volatility of 16.0% in equities.

Portfolio characteristics: The Fund had 11% in internally managed funds, 40% in bespoke solutions, 14% in externally managed funds, 29% in passive funds and 6% in cash, as at end March 2016. In terms of asset class exposure, 37.4% was in equities, 31.8% in alternatives and 25.2% in credit and government debt, with the balance in cash.

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

Senior Adviser, Allenbridge
6th June 2016



Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	13 June 2016		

Delete as appropriate	Exempt	Non-exempt

NOT FOR PUBLICATION- Appendix 1, 2 and 3

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

SUBJECT: The London CIV Update

1. Synopsis

- 1.1 This is a report informing the committee of the progress made at the London CIV in launching funds and running of portfolios over the period from March 2016 to 6 June 2016

2. Recommendations

- 2.1 To note the progress made to 6 June 2016
- 2.2 To note that Islington Pension Fund is unlikely to join the London CIV LGIM phase because by the September launch we will have appointed an emerging markets active manager and transferred our LGIM assets to the new manager.
- 2.3 To note the LGIM CIV transfer cost and benefit analyses for Islington attached as Appendix1 (private and confidential)
- 2.4 To note London CIV budget forecast reported to the Joint Committee on 14 June attached as Appendix 2 (private and confidential)
- 2.5 To consider the draft completed 17 July submission from London CIV attached as Appendix 3 (private and confidential) The DCLG template is to be completed by each pool for the submission.

3. Background

3.1 Setting up of the London CIV Fund

Islington is one of 32 London local authorities who have become active participants in the CIV programme. The CIV has been constructed as a FCA regulated UK Authorised Contractual Scheme (ACS). The ACS is composed of two parts: the Operator and the Fund.

3.2 Progress to Date

A limited liability company (London LGPS CIV Ltd) has been established, with each participating borough holding a nominal £1 share. The company is based in London Councils' building in Southwark Street. A branding exercise has taken place and the decision was taken to brand the company as 'London CIV.'

3.2.1 A full time board made up of three Non-Executive Directors and the three Executive Directors of the company which include the Chief Executive (CEO), the Chief Operating Officer (COO) and the Investment Oversight Director (IOD). Hugh Grover (previously Programme Director of the CIV for London Councils) was appointed CEO. Three other posts have also been recruited into.

3.2.2 The company has procured a number of specialist advisors to help not only with the establishment of the ACS (both Operator and Fund) but also with the day to day running of the company for its first few years of trading. Northern Trust were appointed as the Asset Servicer to the ACS (fulfilling custody, depository and transfer agency roles) in December 2014. Eversheds and Deloitte were both appointed in the Spring of 2014 to help establish the vehicle from both a legal and tax perspective.

3.2.3 As an FCA authorised entity, both the Operator and the Fund are required to go through the FCA authorisation process. The Operator application for authorisation went to the FCA in July and the Fund application is planned to be submitted in September. The London CIV received its ACS authorisation in November.

3.3 Launching of the CIV

It was noted that a pragmatic starting point was to analyse which Investment Managers (IM) boroughs were currently invested through, to look for commonality (i.e. more than one borough invested with the same IM in a largely similar mandate), and to discuss with boroughs and IMs which of these 'common' mandates would be most appropriate to transition to the ACS fund for launch. Each mandate would become a separate, ring-fenced, sub-fund within the overall ACS fund. Boroughs would be able to move from one sub-fund to another relatively easily, but ring-fencing would prevent cross contamination between sub-funds.

3.3.1 Further discussions have been held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers have now been identified as offering potential opportunities for the launch of the CIV. These managers would provide the CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds will consist of 6 'passive' equity sub-funds covering £4.2bn of assets, 2 Active Global Equity mandates covering £1.6bn and 1 Diversified Growth (or multi-asset) Fund covering just over £300m. Those boroughs that do not have an exact match across for launch are able to invest in these sub-funds from the outset at the reduced AMC rate that the CIV has negotiated with managers.

3.3.2 The Sub Funds identified are:

Manager	LGIM	LGIM	LGIM	Blackrock	Blackrock	Blackrock	Baillie Gifford	Baillie Gifford	Allianz	Total
Sub Fund(s)	World Devel. ex UK	UK Equity Index	World Emerging Markets Eq Index	World Devel. ex UK	UK Equity Index	World Emerging Markets Eq Index	Global Alpha Fund	Diversified Growth Fund	Global Equity High Alpha	9
AUM	£1,372,958,854	£1,024,597,553	£168,189,926	£937,417,764	£571,324,102	£155,341,753	£1,113,921,440	£319,823,905	£525,004,960	£6,188,580,257

- 3.4 The Phase 1 launch was with Allianz our global equity manager and Ealing and Wandsworth are the 2 other boroughs who hold a similar mandate. The benefits of transfer include a reduction in basic fees and possible tax benefits because of the vehicle used. Members agreed to transfer our Allianz portfolio in Phase 1 launch that went ahead on 2 December.
- 3.5 The next phase where Islington could be involved is Legal and General (LGIM) which the CIV is planning to launch in September 2016. Our current Legal and General investment is mainly in Emerging markets and RAFI Emerging index valued at £70million in total. A copy of the CIV transfer cost and benefit analyses is attached for information as Appendix 1 (private and confidential). However we agreed to replace our passive investment in emerging markets with an active manager. Recruitment of an active manager has already started and is expected to be complete by September, so we may have already reallocated our LGIM assets by the time that the CIV launches its LGIM fund.
- 3.6 Members agreed to procure an active emerging and frontier market manager in November 2015 and this process has already commenced. Shortlisting and interviews are scheduled in July and if a suitable manager is appointed our current L&G portfolio will be used for its funding. It is therefore likely that we may have already reallocated our LGIM assets by the time that the CIV launches its LGIM fund and members should note that we will only join the CIV's LGIM pool if we still have assets invested in LGIM after the conclusion of our tendering and appointment of an active manager.
- 3.7 A London CIV Joint Committee meeting and AGM is due on 14 June and a report providing resources and budget forecast is attached as Appendix 2 (private and confidential)
- 3.8 **CIV Financial Implications- Implementation and running cost**
A total of 75,000 was contributed by, each London Borough, including Islington, towards the setting up and receiving FCA authorisation to operate between 2013 to 2015. All participating boroughs also agreed to pay £150,000 to the London CIV to subscribe for 150,000 non-voting redeemable shares of £1 each as the capital of the Company. After the legal formation of the London CIV in October 2015, there is an agreed annual £25,000 running cost invoice for each financial year. The transfer of our Allianz managed equities to the CIV in December 2015 was achieved at a transfer cost of £7,241.
- 3.9 **DCLG -pooling response due on 17 July**
The investment regulations and pooling consultation response requested by DCLG was in two parts, an initial response due in March and detailed submission on pooling due in July. The DCLG/Treasury have provided a draft template to be completed by each Pool. The London CIV is leading on this submission and are happy to include all individual boroughs comments submitted as appendices to the main submission.
The draft completed submission template is attached for information and comments as Appendix 3 (private and confidential). The final submission will be circulated to members before the 17 July deadline.

4. Implications

4.1 Financial implications:

4.1.1 Fund management and administration fees are charged directly to the pension fund.

4.2 Legal Implications:

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

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

4.3 Environmental Implications:

4.3.1 None specific to this report

4.4 Resident Impact Assessment:

4.4.1 An equalities impact assessment has not been conducted because this report is updating members on the implementation of a fund structure by external managers. There are therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendations

5.1 The Council is a shareholder of the London CIV and has agreed in principle to pool assets when it is in line with its Fund strategy and will be beneficial to fund members and council tax payers. This is a report to allow Members to review progress at the London CIV.

Appendices: 1& 2 and 3 (private and confidential)

Background papers:

Final report clearance:

Signed by:

Received by:	Corporate Director for Finance and Resources	Date

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



Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	13 June 2016		n/a
Delete as appropriate		Non-exempt	

SUBJECT: FURTHER PAPER ON ISLINGTON FUND EQUITIES' CARBON FOOTPRINT

1. Synopsis

- 1.1 The Appendix 1 to this report is a presentation paper prepared by our investment advisor, Mercer on the Fund's current equities carbon footprint, options, risk and opportunities for consideration.

2. Recommendations

- 2.1 To consider and discuss the presentation prepared by Mercer and attached as Appendix 1
- 2.2 To note the findings of the Fund's equities carbon footprint analyses
- (i) The Fund's carbon footprint (CF) results – show that the aggregate listed equity portfolio has a CF that is approximately 30% lower than the FTSE All World.
 - (ii) The relatively high CF of the UK passive equity assets portfolio is driven by the overweight exposure in the UK to the Energy and Utilities sectors.
 - (iii) That the two active equity mandates have a very low CF.
 - (iv) the LGIM portfolio has a very high CF – driven by the EM and RAFI components
- 2.3 To consider the options listed below as the next step:
- (i) Include climate risk within the broader manager due diligence in the on going active EM equity search process e.g. by asking specific questions of shortlisted managers.
 - (ii) Allocate some of the Fund's UK passive equity assets to a lower carbon UK passive equity fund.

- (iii) Allocate assets to an active Global equity strategy with a thematic sustainability focus.
- (iv) As an alternative to point (iii), allocate assets to a lower carbon Global passive equity fund.

- 2.4 Agree after discussions which of the options in 2.3 are to be implemented and the timescales for implementation.

3. Background

- 3.1 Regulation 12(2)(f) of the Management and Investment of Funds Regulations requires that the Statement of Investment Principles (SIP) must be a statement of the principles governing the authority's decisions about the investment of fund money, which covers the extent to which social, ethical or environmental (SEE) considerations are taken into account in the selection, retention and realisation of investments.
Our current SIP paragraphs, on social and ethical considerations were updated in November 2014 to reflect the Pension Sub committees' policy.
- 3.2 The Council is the administering authority for the London Borough of Islington Pension Fund, within the Local Government Pension Scheme (LGPS). It is managed within the legal framework set down in the Local Government Pension Scheme Regulations 2007/8 as amended. The body responsible for decision making in relation to the Pension Fund is the Pensions Sub-Committee of the Audit Committee.
- 3.3 The Pensions Sub-Committee, as the administering authority, is aware of its fiduciary responsibility to obtain the best possible financial return on investments over appropriate investment periods, within acceptable levels of risk and will apply this principle when making investment decisions on behalf of the Islington pension fund.
- 3.4 Members agreed at March meeting to consider a further paper to analyse the Fund's carbon footprint and consider available options to lower this footprint. . Mercer has prepared a presentation on their findings and next steps options for consideration. The risk and opportunities to lower carbon footprint and shortfalls in methodology are also presented for Members' consideration.

4. Implications

4.1 Financial implications

There are no financial implications arising from this report.

4.2 Legal Implications

Regulation 12(2)(f) of the Management and Investment of Funds Regulations requires that the Statement of Investment Principles (SIP) must be a statement of the principles governing the authority's decisions about the investment of fund money, which covers the extent to which social, ethical or environmental (SEE) considerations are taken into account in the selection, retention and realisation of investments.

4.3 Environmental Implications

Environmental considerations can lawfully be taken into account in investment decisions.

4.4 **Equality Impact Assessment**

4.4.1 The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

4.4.2 An equalities impact assessment has not been conducted because this report is not considering any policy changes. All employers have been consulted on changes to assumptions and there are no equalities issues arising.

5. **Conclusion and reasons for recommendation**

5.1 To consider Mercer's paper Appendix 1 on the Fund's carbon footprint analysis and agree options and timescales to reduce the existing footprint.

Background papers:

Islington Council Statement of Investment Principle (November 2014)

Final report clearance:

Signed by:

Received by:	Corporate Director of Finance & Resources	Date
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	Head of Democratic Services	Date
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Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk

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Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	13 June 2016		n/a
Delete as appropriate		Non-exempt	

SUBJECT: PENSIONS SUB-COMMITTEE 2016/17– FORWARD PLAN

1. Synopsis

- 1.1 The Appendix to this report provides information for Members of the Sub-Committee on agenda items for forthcoming meetings and training topics.

2. Recommendation

- 2.1 To consider and note Appendix A attached.
- 2.2 To note the update on the process to procure and appoint an Emerging/frontier market manager

3. Background

3.1 Update on Emerging/Frontier Market Manager Appointment

Mercer our investment advisors assisted officers to draw up request for proposal (RFP) tendering document to be published in the European journal. The categories of Schedule A services which require advertisement in OJEU (if the value of the contract is estimated at or above 200,000 Euros include:

- “6. Financial Services
- (a) Insurance services
 - (b) Banking and investment services other than financial services in connection with the issue, sale, purchase and transfer of securities or other financial instruments, and central bank services”.

Further contracts for financial services in connection with the issue, purchase, sale or transfer of securities or other financial instruments are excluded from the ambit of the regulations.

- 3.2 The tender documents were released on the London Tenders Portal and published in the European Journal on 17 May. The projected timetable is now as follows:

Activity	Date
Closing date for submissions ITT	20 June 2016
Short listing- Mercer and officers	2 nd week in July
Site visit/video conferencing clarification meetings - Mercer and officers	3 rd week in July
Presentation to an evaluation panel- members/officers and advisors	To be confirmed

The tender process will be conducted in three stages:.

- i) Mercer and Officers met to discuss the best fit managers and agree a long and short list
- ii) The head of treasury and pensions and Mercer will then conduct due diligence meetings with prospective managers
- iii) Following the due diligence evaluation of the initial shortlisted managers, no more than 4 managers will be invited to present on: an overview of their proposed product and investment process, their competitive strength, proposed investment return ,terms and fees and market environments to a joint officer/member evaluation group.

- 3.3 Members will have to agree a date for the presentation and evaluation of the shortlisted fund managers. .

- 3.4 The Forward Plan will be updated as necessary at each meeting, to reflect any changes in investment policy, new regulation and pension fund priorities after discussions with Members.

- 3.5 Details of agenda items for forthcoming meetings will be reported to each meeting of the Sub-Committee for members' consideration in the form of a Forward Plan. There will be a standing item to each meeting on performance

4. Implications

4.1 Financial implications

None applicable to this report. Financial implications will be included in each report to the Pensions Sub-Committee as necessary.

4.2 Legal Implications

None applicable to this report. Legal implications will be included in each report to the Pensions Sub-Committee as necessary.

4.3 Environmental Implications

None applicable to this report. Environmental implications will be included in each report to the Pensions Sub-Committee as necessary.

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

5. **Conclusion and reasons for recommendation**

5.1 To advise Members of forthcoming items of business to the Sub-Committee and training topics

Background papers:

None

Final report clearance:

Signed by:

Received by:	Corporate Director of Finance & Resources	Date
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	Head of Democratic Services	Date
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Report Author:	Joana Marfoh
Tel:	(020) 7527 2382
Email:	Joana.marfoh@islington.gov.uk

Pensions Sub-Committee Forward Plan for June 2016– April 2017

Date of meeting	Reports
	<p><u>Please note:</u> there will be a standing item to each meeting on:</p> <ul style="list-style-type: none"> • Performance report- quarterly performance and managers' update • CIV update report
6 September 2016	Actuarial valuation funding assumptions and training Appointment of emerging and frontier market manager(s)
17 October 2016	Annual pension meeting
15 November 2016	Introduction of Investment strategy statement –ISS (DCLG requirement) Strategy review Funding strategy statement (FSS) draft for consultation Initial results from actuarial review
13 March 2017	FSS and consultation results

Proposed training for Members before committee meetings-

Date	Training
16 September 2014	Investment in Sub Saharan Africa - 6.20-.6.50pm Infrastructure - 6.55- 7.25pm
25 November 2014	Multi asset credit- 6.15-6.45pm Real estate including social housing- 6.50-7.20pm
9 March 2015	Frontier Market public equity- 6.15 -6.45pm Emerging market debt- 6.50- 7.20 pm
11 June 2015	Impact investing
14 September 2015- 4.45pm pm	Social bonds
13 June 2016	
6 September 2016	Actuarial review and assumptions training

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