



AGENDA FOR THE PENSIONS SUB COMMITTEE

Members of the Pensions Sub Committee are summoned to a meeting which will be held in Committee Room 1, Town Hall, Upper Street, London N1 2UD on **13 June 2016 at 7.30 pm.**

John Lynch
Head of Democratic Services

Enquiries to : Mary Green
Tel : 0207 527 3005
E-mail : democracy@islington.gov.uk
Despatched : 3 June 2016

Membership 2016/17

Councillor Richard Greening (Chair)
Councillor Andy Hull (Vice-Chair)
Councillor Michael O'Sullivan
Councillor Paul Smith

Substitute Members

Councillor Satnam Gill OBE
Councillor Mouna Hamitouche MBE
Councillor Angela Picknell

Quorum is 2 members of the Sub-Committee



A. Formal Matters

1. Apologies for absence
2. Declaration of substitutes
3. 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.

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| 4. | Minutes of the previous meeting | 1 |
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B. Non-exempt items

- | | | |
|----|--|----------|
| 1. | Pension Fund performance (<u>to follow</u>) | - |
| | | (7.40pm) |
| a. | Quarterly WM Company performance report | |
| b. | Presentation from AllenbridgeEPIC Investment Advisers on quarterly performance | |

2.	WM Company annual presentation	- (8.00pm)
3.	Annual review and programme on 2015 – 2019 Pension Business Plan	5 (8.30pm)
4.	London CIV update (<u>to follow</u>)	- (9.00pm)
5.	Carbon risk management – update (<u>to follow</u>)	- (9.30pm)
6.	Pension Fund Forward Plan 2016 (<u>to follow</u>)	- (9.40pm)

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. London CIV update – exempt appendix (to follow)

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 Sub Committee is scheduled for 21 September 2016

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London Borough of Islington

Pensions Sub Committee - 11 April 2016

Non-confidential minutes of the meeting of the Pensions Sub Committee held at the Town Hall on 11 April 2016 at 7.30 pm.

Present: **Councillors:** Richard Greening (Chair), Andy Hull and Michael O'Sullivan

Also Present: David Bennett (observer)
Councillor David Poyser (observer)
Vaughan West (observer)

Nick Sykes and Nikeeta Kumar, Mercer Investment Consulting
Karen Shackleton, AllenbridgeEpic Investment Advisers

Councillor Richard Greening in the Chair

15 APOLOGIES FOR ABSENCE

Received from Councillor Rupert Perry.

16 DECLARATION OF SUBSTITUTES

None.

17 DECLARATION OF INTERESTS

None.

18 MINUTES OF THE PREVIOUS MEETING

RESOLVED:

That the minutes of the meeting held on 9 November 2015 be confirmed as a correct record and the Chair be authorised to sign them.

Matters arising:

Minute 11 – Allianz – transfer of assets to the London Common Investment Vehicle (CIV) –
The Chair reported that the Allianz equity portfolio had been transferred to the London CIV and that Islington was now in partnership with Wandsworth and Ealing.

He also reported that the Prime Minister had made reference in the House of Commons that afternoon to Islington's Pension Fund which implied that overseas investments were the same as off shore tax avoiding funds, which was not the case. He noted that Islington's Pension Fund invested more in the UK than overseas.

19 PENSION FUND PERFORMANCE - 1 OCTOBER TO 31 DECEMBER 2015

Joana Marfoh drew the Sub-Committee's attention to recommendation 2.5 in her report highlighting the fact that State Street, WM's performance measurement service provider, had given notice of termination of contract, effective from March 2016, to third party clients in the UK and the Netherlands. She reported that officers had engaged BNY Mellon to cover

the position in the short term and had asked WM Company to pass all of Islington's data to BNY. She anticipated that, in a few weeks' time, BNY would know how many LGPS funds had engaged with them and would then be in a position to know whether there were sufficient to compare performance data.

Members discussed the benefits of measuring performance at 1,3 and 5 years, as currently provided by WM Company and whether the London CIV or LAPFF might be in a position to produce this data instead. Members thought it would be useful to know the causal reasons why Islington consistently appeared in the lower performance ranking.

RESOLVED:

(a) That the performance of the Fund from 1 October to 31 December 2015, detailed in the report of the Corporate Director of Finance and Resources, be noted.

(b) That the quarterly WM Company report on the overall performance, updated market value and asset allocation of the Fund as at 31 December 2015, detailed in Appendix 1 to the report, be noted.

(c) That the report by AllenbridgeEpic Investment Advisers on fund managers' quarterly performance, detailed in Appendix 2 to the report and their presentation, be noted.

(d) That the information bulletin from Mercers – "LGPS Current Issues – March 2016", attached as Appendix 3 to the report, be noted.

(e) That it be noted that notice had been received from State Street of their termination of contract for performance management services, effective from March 2016.

(f) That it be noted that officers had engaged BNY Mellon in the short term to measure performance and that Councillor Greening would discuss the longer term arrangements with the Head of the Pension Fund and Treasury Management, including enquiries with LAPFF and the London CIV as to whether they would consider assuming the provision of performance management data for LGPS funds.

(g) That a representative from WM Company, during their annual presentation in June to the Sub-Committee, be asked to explain likely causal reasons why Islington's Pension Fund consistently appeared in the lower performance ranking.

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LONDON CIV UPDATE

Members expressed some dissatisfaction that the London CIV had not yet proved itself as financially beneficial overall to its investors. The Chair stated that he would contact the Chief Executive of the London CIV to seek reassurances that there were no systematic problems within the organisation and that savings would be realised, as planned. The Chair would also pursue the issue of PIRC voting guidelines, being applied on our Allianz sub fund portfolio

RESOLVED:

(a) That the progress made at the London CIV in launching funds and running of portfolios over the period from November 2015 to March 2016, detailed in the report of the Corporate Director of Finance, be noted.

(b) That the information in the exempt appendix on proposals to fund further resources and budget projection to 2020 be noted.

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CARBON RISK MANAGEMENT

Members considered the paper produced by Mercer' entitled "An introduction to low carbon and fossil free passive equity" which anticipated that the policy response to managing climate change would become more urgent in the future. It would be useful to consider hedging portfolios against some of the risks posed by climate change eg rising carbon prices and "stranded assets". It was noted that a number of Funds had already withdrawn from oil and coal companies and that India and China had reduced their use of coal.

It was noted that the Environment Agency had not excluded all companies producing fossil fuels but sought to achieve a lower carbon footprint. Also, it was understood that Haringey operated a low carbon fund.

Members would have to consider whether they wished to adopt a low carbon strategy and, if so, what the approach to fund managers might be. It was considered that, if the Sub-Committee decided at a future date to pursue a low carbon and fossil free passive equity fund, it could be managed by the in-house Team.

Subject to there being no financial detriment to the Fund, members were keen to pursue the option of a low carbon and fossil free passive equity.

RESOLVED:

(a) That the Head of Pension Fund and Treasury Management undertake further work to identify how the current passive equity fund compares to a low carbon and fossil free index, including an exploration of the approaches used by the Environment Agency and Haringey Council Pension Funds.

(b) That the Environment Agency be invited to a meeting of the Sub-Committee to share their approach to this issue.

24 PENSION FUND FORWARD PLAN 2016

RESOLVED:

(a) That the contents of Appendix A, attached to the report of the Corporate Director of Finance and Resources, and detailing proposed agenda items for future meetings be noted.

(b) That it be noted that training on Actuarial Valuation would be provided to members of the Sub-Committee and Board in September 2016

(c) That it be noted that the Actuary would be attending the September Sub-Committee meeting and would give the whole Fund position.

(d) That a report on options for a carbon-free approach be submitted to the Sub-Committee on 13 June 2016.

25 THE LONDON CIV UPDATE - EXEMPT APPENDIX

RESOLVED:

That the contents of the exempt appendix be noted.

26 DATE OF SEPTEMBER 2016 MEETING

Councillor Greening said that the date of the September 2016 meetings of the Sub-Committee and Board would be notified to members as soon as possible. The new date would be either 21 or 22 September 2016, rather than 6 or 13 September, which were no longer viable.

The meeting ended at 8.45 pm

CHAIR

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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		n/a

Delete as appropriate		Non-exempt
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SUBJECT: ANNUAL REVIEW AND PROGRESS ON THE 2015-2019 PENSION BUSINESS PLAN

1. Synopsis

- 1.1 To report to the Pensions Sub- Committee progress made to date on some of the action plans in the agreed five year business plan and undertake an annual review of the plan.

2. Recommendations

- 2.1 To consider and note Appendix A attached.
- 2.2 To review the business plan objectives and agree the required changes if any for the next 5years

3. Background

- 3.1 CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5) publication, is based on ten principles proposed by the Myners review of Institutional Investment in the United Kingdom, and was adopted by the Government as a model for best practice in 2001.
- 3.2 The 10 Myners principles were reviewed by the NAPF in 2007 and after consultation a response document was published in October 2008 and adopted by CLG (government department responsible for the oversight of the LGPS). The LGPS administering authorities are required to prepare, publish and maintain a statement of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.

- 3.3. The Myners principles and compliance forms part of Islington Pension Fund's published Statement of Investment Principles. Myners Principle 1- Effective decision-making through a forward looking business plan is a key requirement. Members agreed a five year business plan to April 2019 and to review the plan annually.
- 3.4 The key objectives of the five year business plan agreed at the September 2015 Pensions sub-committee :
- To achieve best practice in managing our investments in order to ensure good long-term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities
 - 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.
 - To actively monitor and challenge poor performance in managers and to pursue new investment opportunities
 - To develop collaboration opportunities with other funds for sharing of services
- 3.5 The five year business plan with progress to May 2016 is attached as Appendix A. Members are asked to consider and note progress made and undertake a review of the plan's objectives for any amendments for the next 4 years .

4. Implications

4.1 Financial implications

It is envisaged that a good business plan with effective actions as a whole will lead to efficiencies in running the fund and cost savings.

4.2 Legal Implications

Elected members have fiduciary duty to the Fund, scheme members and local council tax payers in relation to the LGPS.

4.3 Environmental Implications

None applicable to this report.

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 note progress made and review the agreed objectives the business plan make amendments if necessary.

Background papers:

None

Final report clearance:

Signed by:

Received by:	Corporate Director of Finance & Resources	Date

Head of Democratic Services	Date

Report Author: Joana Marfoh
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APPENDIX A

Action to be taken	Timescale	Details (primary responsibility)	Progress to June 2014	Progress to June 2015	Progress to May 2016
1. "To achieve best practice in managing our investments in order to ensure good long- term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities"					
(a) Consider an interim valuation and LGPS scheme changes	Ongoing	Use results to review funding level and any potential effect of the scheme changes	31 March 2013 actuarial completed and certified on 30/3/14	Received an initial Funding update in June 2015 and noted that alternative approaches on assumptions would need to be considered	Training sessions have been arranged in September to review assumptions and implications for 2016 Actuarial review
(b) Review investment strategy to reflect asset/liability position To commence as part of the 31 March 2013 actuarial valuation process	2015-2019	To use results and other analyses to set benchmark asset allocations and Fund outperformance targets and risk levels (<i>Pensions sub-cttee, Investment advisers</i>).	b) Members agreed in November to maintain split of 75% growth and 25% matching asset allocation	A further drill down into matching assets has been considered through briefing and training of members	Members agreed to allocate 10% to bonds and 15% to infrastructure and social housing in November 2015
(c) Implement any resulting changes to asset allocation, portfolio and fund management structures.	Ongoing	Plan procurement and tendering process with transition of assets requirement to minimize cost and optimize value of assets	c)10 % of the total fund is to invested in a Diversified growth fund(DGF)	A DGF manager was seeded on 30 June 2015-funded from UK and global equities	A proposal for an Emerging and Frontier market manager is being sought through an open tender process with a deadline of 20 June 2016.
(d) Review all contracts on a rolling basis including, actuary, voting services, investment advisers and custodial services.	2015-2019	Committee to agree conclusions of all reviews. Director of Corporate Finance to have delegated authority to review contracts and performance and fee levels when required. (<i>Pensions Sub-Committee, Officers</i>).	d) Signed up to use National custody framework.	BNY Mellon contract extended for 2 years.	Currency hedging of overseas equities was reviewed in September 2015 Fee reductions were negotiated with our UK commercial property manager and our Global property manager
(e) Closely monitor new legislation affecting the LGPS or pension provision.	Ongoing	Consider reports on the implications for the Fund and agree actions necessary to ensure full compliance when final legislation is enacted including meeting deadlines. (<i>Pensions sub-committee, Officers, Actuary</i>).	Council responded to Councillors pension consultation in June'13 Also responded to Call for evidence on LGPS merger of Fund and subsequent CIV consultation in September -	Responded to DCLG consultation on scheme governance in August 2014 Local Pension Board has been formulated as per new regulations in April 2015. Funding Strategy Statement was updated in March 2015 to reflect new 2013 LGPS Regulations	A further response on the consultation on pooling and investment regulation was sent in March 2016

APPENDIX A
Actions to be taken
Timescale
Details (primary responsibility)
Progress to June 2014
Progress to June 2015
Progress to May 2016

2. To deliver an excellent and cost effective administration service to all fund members					
(a) Agree key performance indicators for the administration of the Fund and continue to benchmark against similar funds.	Ongoing.	Development complete by Q2 2011 with regular reporting to schedule to Pension sub cttee thereafter. Continue ongoing CIPFA benchmarking. (<i>Officers</i>).		Local Pension Board will now scrutinise admin performance and will receive a semi –annual monitoring	Ongoing
(b) Carry out a survey to gain feedback from pensioners and active employees on customer satisfaction.	2012	Analyse survey results (pension sub cttee, officers)	<i>Survey of satisfaction levels for active and newly retired over one year period from August 2013 was reported to Members in September Results had a high level of satisfaction.</i>	All members are now asked at point of accessing the service for their feedback that is logged and reported quarterly.	
(c) Implement changes based on survey responses	Oct 2012-Mar 2013	Changes required from survey to be implemented during 2012. (<i>Pensions sub cttee, Officers including LBI communications team</i>)			Annual benefit statements were sent out by the end of 2015
d) To devise a communication plan and consultation to stakeholders	Ongoing	Newsletters, annual benefit statements, annual reports, AGM and employers meetings to continue as previously (<i>Officers</i>).	d) Active members received their annual benefit statements (ABS) in June 2013 and deferred members in December 2013. Publicity and letters sent out on New LGPS was reported to Members in March '14	Annual benefits statements were sent out in October 2014 and the same is aimed for 2015.	Communication on changes to LGPS are highlighted in staff bulletins and the intranet
3. To be active and responsible investors focusing on corporate governance and environment sustainability through engagement.					
(a) Continue to engage with companies through active membership of LAPFF, IIGCC and other suitable bodies.	Ongoing.	Key themes will be corporate governance especially relating to human rights, employment practices and protection of the environment. (<i>Pensions sub cttee, Investment advisers, PIRC, Officers.</i>)	(a) Continue to work with LAPFF and IIGCC		Work with LAPFF and IIGCC continues
(b) Develop improved monitoring of fund manager engagement activity.	Ongoing.	To include engagement with managers on their own corporate governance as part of terms of reference on appointment. (<i>Pensions sub cttee, investment advisers, Officers</i>).		b) Members have attended a number of AGMs of companies as shareholder to exercise our voting rights	Members continue to attend a number of AGMs of companies as shareholders to exercise our voting rights and speak to company directors
(c) Improve communication of engagement activities to stakeholders and public.	Review during 2012	To include potential for publication of LBI voting record. (<i>Officers and PIRC</i>).	c) Fund voting records will form part of its Annual report 2013.	PIRC service provider presented our voting records and engagement at the 2014 AGM	

APPENDIX A

Actions to be taken

Timescale

Details (primary responsibility)

Progress to June 2014

Progress to June 2015

Progress to May 2016

(d) Integrate our responsible investment policy into the Fund's investment review	Ongoing	To include consideration of appropriate responsible investment funds. Manager policies on equalities, environment and corporate governance to form review criteria alongside performance and fee considerations. <i>(Pensions sub cttee, Investment advisers, Officers).</i>	Applied in tender procurement documents.	The Fund's SIP was updated in November 2014 to incorporate amendments to the paragraphs on social, environmental and ethical considerations	Members agreed to disinvest from SOCO International on the basis of its future returns, current human rights and environmental issues.
4. To actively monitor and challenge poor performance in managers and to pursue new investment opportunities					
Review current fund manager performance against agreed targets over three- to five year rolling periods	Ongoing	Use existing terms of reference for appointment and firing of managers as a guideline to monitor performance of fund managers <i>(Pensions sub cttee, Investment advisers, Officers).</i>	(a) Members continue to monitor fund managers performance	a)Members monitoring continues	a)Members monitoring continues
(b) Review current fund manager quarterly monitoring arrangements	Ongoing	Agree a forward plan for existing fund managers to meet the pension sub committee. The Corporate Director of Finance to continue monitoring managers between quarterly meetings <i>(Pensions sub cttee, Investment advisers, Officers).</i>	(b) The forward plan now schedules managers to present to the cttee.	(b)The forward plan continues to schedule managers	The forward plan continues to schedule existing managers.
(c) To consider new investment opportunities which can help improve the fund's financial performance	Ongoing	Pension sub committee have a long term objectives and clear investment policies to achieve them. <i>(Pensions sub cttee, Investment advisers, Officers).</i>	Members have received a number of reports on investment approaches and various training sessions.	Reinvestment of \$40m with Franklin Templeton our global property manager was agreed in September 2014 Additional £5m was invested in Aviva , Lime Fund to bring our investment to 5% of the total Fund in June 2015	Joint training sessions are now scheduled with the Local Islington Pension Board to keep both members abreast with investment issues
(d) To keep abreast of developments on pension and investment issues	Ongoing	Pension sub committee will agree a training plan and evaluate annually training undertaken and future needs <i>(Pensions sub cttee, Investment advisers, Officers).</i>	Members have received training sessions on Diversified Growth Funds and multi asset credits role in a portfolio to enable them to make asset allocation decisions	Equities were reduced to fund the £100m DGF , in June 2015 Training sessions are scheduled before each committee meeting and topics have included Emerging and frontier markets, infrastructure, social housing, and impact investing	

APPENDIX A
Actions to be taken
Timescale
Details (primary responsibility)
Progress to June 2014
Progress to June 2015
Progress to May 2016

5. Develop collaboration opportunities with other funds for sharing of services					
a) Seek to collaborate with other partners to achieve efficiencies and value for money	Ongoing	To agree to share services where it is beneficial to the fund objectives of sustainability and performance	Members have signed up to be a shareholder of the new London Collective Investment Vehicle (CIV) as an investment company for London Boroughs. The Chair of the Pensions Sub Committee will also sit on the new London Pensions CIV Joint Committee	Progress of the CIV is continuing and should be seeded by the end of the year.	<p>The London CIV received its FCA approval in September 2015 and Islington moved its Allianz portfolio to the CIV platform on 2 December 2015</p> <p>The government has now agreed that all England and Wales LGPS will now pool their assets into six funds. A pathway response on pooling timetable and cost is due in July 2016</p>