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Governance and Human Resources
Town Hall, Upper Street, London, N1 2UD

AGENDA FOR THE PENSIONS SUB COMMITTEE

Members of the Pensions Sub Committee are summoned to a meeting which will be held in Committee room 4, Town Hall, Upper Street, London N1 2UD on **21 September 2016 at 7.30 pm.**

Debra Norman
Assistant Chief Executive – Governance and Human Resources

Enquiries to	:	Mary Green
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Despatched	:	13 September 2016

<u>Membership 2016/17</u>	<u>Substitute Members</u>
Councillor Richard Greening (Chair)	Councillor Satnam Gill OBE
Councillor Andy Hull (Vice-Chair)	Councillor Mouna Hamitouche MBE
Councillor Michael O'Sullivan	Councillor Angela Picknell
Councillor Paul Smith	

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.

B. **Non-exempt items**

C. Urgent non-exempt items

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

D. Exclusion of press and public

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

E. Confidential/exempt items

F. Urgent exempt items

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

The next meeting of the Pensions Sub Committee is scheduled for 15 November 2016

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London Borough of Islington

Pensions Sub Committee - 13 June 2016

Non-confidential minutes of the meeting of the Pensions Sub Committee held at Town Hall, Upper Street, London N1 2UD on 13 June 2016 at 7.30 pm.

Present:	**Councillors:**	Richard Greening (Chair), Hull (Vice-Chair), O'Sullivan and Smith
Also present:		Vaughan West (observer, Chair of Pensions Board) Thelma Harvey (observer, Pensions Board) Marion Harvey (observer, Pensions Board) Nick Sykes and Aled Jones, Mercer Investment Consulting Karen Shackleton, AllenbridgeEpic Investment Advisers

Councillor Richard Greening in the Chair

Councillor Greening apologised for the late distribution of reports for this meeting. He had discussed the matter with officers and was confident that all reports would be despatched with the agenda in the future.

27 APOLOGIES FOR ABSENCE (Item 1)

Received from David Bennett, Mike Calvert, Maggie Elliott and Councillor Dave Poyser.

Apologies for lateness were received from Councillor Michael O’Sullivan.

28 DECLARATION OF SUBSTITUTES (Item 2)

None.

29 DECLARATION OF INTERESTS (Item 3)

None.

30 MINUTES OF THE PREVIOUS MEETING (Item 4)

RESOLVED:

That the minutes of the meeting held on 11 April 2016 be confirmed as a correct record and the Chair be authorised to sign them.

31 PENSION FUND PERFORMANCE (Item B1)

The Head of Pension Fund and Treasury Management introduced her report, highlighting the section in Appendix 3 to the report “LGPS Current Issues” which referred to the 2016 Actuarial Valuation. Members of the Sub-Committee and Board would be offered a dedicated training session on 21 September 2016 to prepare for this.

RESOLVED:
(a) That the performance of the Fund from 1 January to 31 March 2016, detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That the report by AllenbridgeEpic Investment Advisers on fund managers' quarterly performance, detailed in Appendix 2 to the report and their presentation, be noted.
(c) That the WM quarterly report on the overall performance, updated market value and asset allocation of the Fund as at 31 March 2016, detailed in Appendix 1 to the report, be noted.
(d) That the information bulletin from Mercers – "LGPS Current Issues – May 2016", attached as Appendix 3 to the report, be noted.

34 WM COMPANY ANNUAL PRESENTATION (Item B2)

David Cullinan, State Street Global Services, gave a presentation on the annual performance of the Fund. Copies of the presentation were circulated to members.
He reported that Islington's Fund had outperformed the benchmark this year and that it continued to show healthy absolute returns, but had lagged its benchmark over the medium term. The impact of overseas equity underperformance during 2008 – 2010 remained. The fund had performed in line with the sector average over the longer term and had returned 3.5% per annum ahead of inflation over twenty years.

Members noted that this would potentially be the final report from WM Company, since their performance measurement service provider, State Street, had given notice of termination of their contract. Members expressed a hope that an alternative would materialise as it had been useful to compare Islington's Fund against others local authorities.

In response to a question about the number of local authority pension funds investing in Diversified Growth Funds, Mr Cullinan said that there was growth in that area and that Islington's performance in 2015/16 was not untypical.

35 ANNUAL REVIEW AND PROGRAMME ON 2015 - 2019 PENSION BUSINESS PLAN (Item B3)

During discussion of the key objectives of the five year business plan, detailed in paragraph 3.4 of the report of the Corporate Director of Finance and Resources, members decided that it would be more appropriate for the Pensions Board to address the objective "To continually improve our administration in order to deliver an excellent and cost effective service to all Fund members".

RESOLVED:
(a) That the five year business plan with progress to May 2016, detailed in Appendix A to the report, be noted.
(b) That, with the exception of the second objective "To continually improve our administration in order to deliver an excellent and cost effective service to all Fund members", which is to be monitored and addressed by the Pensions Board, the remaining four objectives be approved for the five year business plan.

36 LONDON CIV UPDATE (Item B4)

The Head of Pension Fund and Treasury Management amended her report on submission as follows:

Recommendation 2.5 – change the date from "17 July" to "15 July"

RESOLVED:
(a) That progress made at the London CIV in launching funds and running of portfolios over the period from March to 6 June 2016, detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That it be noted that the Islington Pension Fund was unlikely to join the London CIV LGIM phase because, by the September 2016 launch, Islington would have appointed an emerging markets active manager and transferred its LGIM assets to the new manager.
(c) That the LGIM CIV transfer cost and benefit analyses for Islington, detailed in exempt Appendix 1 to the report, be noted.
(d) That the London CIV budget forecast, which was to be reported to the Joint Committee on 14 June 2016, detailed in exempt Appendix 2 to the report, be noted.
(e) That the draft completed submission template for the DCLG for asset pooling, to be submitted before the deadline of 15 July 2016 and detailed in exempt Appendix 3 to the report, be also noted.

37 **CARBON RISK MANAGEMENT - UPDATE (Item B5)**

Aled Jones, Principal for Responsible Investment at Mercer, presented his paper on the Fund's equities carbon footprint, options, risks and opportunities to reduce the carbon footprint.

Members noted the following:

(a) That the Fund's carbon footprint results showed that the aggregate listed equity portfolio had a carbon footprint that was approximately 30% lower that the FTSE All World
(b) That the relatively high carbon footprint of the UK passive equity assets portfolio (50% of the aggregate portfolio) was driven by the overweight exposure in the UK to the energy and utilities sectors
(c) That the two active equity mandates (40% of the aggregate portfolio) had a low carbon footprint and a moderating effect on the overall carbon footprint
(d) The LGIM portfolio had a very high carbon footprint, driven by the EM and RAFI components, but accounted for a minority of the aggregate portfolio and therefore did not significantly influence the overall carbon footprint result.

Members agreed that they wished to reduce the carbon footprint in the long term and would consider further whether to have an active approach. Officers were asked to provide further information on the carbon footprint of all investments held by the Fund and alternatives outside equities.

RESOLVED: That, as part of the next steps to reduce the Fund's carbon footprint:
(a) Climate risk be included within the broader manager due diligence in the active emerging market equity search process eg by asking specific questions of shortlisted managers.
(b) To pursue the idea of moving some of Islington's invesments to low carbon funds or assets and that officers be requested to develop specific proposals on how to do this, including entering a tendering process, or simply re-allocating assets to low carbon funds and/or sectors or managers.
(c) The Head of Pension Fund and Treasury Management be asked to request Mercers to carry out further work on moving the whole Fund to a lower carbon footprint and submit their findings to the next meeting of the Sub-Committee for consideration.

38 **PENSION FUND FORWARD PLAN 2016 (Item B6)**

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 the update on the process to procure and appoint an emerging/frontier market manager, also detailed in paragraph 3 of the report, be noted.
(c) That the presentation and evaluation of the shortlisted emerging market/frontier fund managers be arranged for the end of July 2016.

39 **LONDON CIV UPDATE - EXEMPT APPENDIX (Item E1)**
RESOLVED:
That the contents of the exempt appendix on the London CIV update be noted.

The meeting ended at 9.40 pm

CHAIR

Agenda Item B1

ISLINGTON

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	21 September 2016		

Delete as appropriate	~~Exempt~~	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 April TO 30 JUNE 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 April to 30 June 2016 as per BNY Mellon interactive performance report

2.2 To receive the presentation by Allenbridge EPIC Investment Advisers, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.

3. Fund Managers Performance for April to June 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 (Apr-June) Gross of fees		12 Months to June 2016 Performance Gross of fees	
			Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	24%	UK equities	4.9%	4.70%	2.77%	2.21%
London CIV Allianz	7%	Global equities	8.07%	8.82%	12.79%	13.10%
Newton	14%	Global equities	8.23%	8.79%	15.9%	13.9%
Legal & General	6%	Global equities	9.8%	9.4%	4.85%	4.12%
Standard Life	21%	Corporate bonds	4.46%	4.15%	9.08%	8.88%
Aviva (1)	5%	UK property	0.49%	8.76% 0.12%	4.91%	18.34% 7.1%
Columbia Threadneedle Investments (TPEN)	6%	UK commercial property	1.5%	0.12%	2.49%	7.1%
Hearthstone	2%	UK residential property	0.54%	-0.61%	3.73%	6.04%
Schroders	9	Diversified Growth Fund	2.67%	1.99%	-0.72	6.64

(1) 8.76 and 18.34% = original Gilts benchmark; 0.12% and 7.1% are the IPD All property index; for information

3.2 Following State Street cessation of their service to provide performance figures from 31 March 2016, we have now agreed a 6 month rolling contract with BNY Mellon. The June quarter figures will be the first from this new provider and because the accounting figures for all managers had to be loaded on their platform there are still differences between managers' and BNY Mellon reports. The reconciliation is ongoing and once complete the performance figures will be rerun to reflect the agreed positions and benchmarks.

3.3 The combined fund performance with the hedge for the last quarter ending June 2016 is shown in the table below.

Combined Fund Performance	Latest Quarter Performance **Gross** of fees		12 Months to June 2016 Performance Gross of fees	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
LB of Islington Fund- hedged	3.98%	n/a	4.90%	n/a%

3.4 Copies of the latest quarter fund manager reports are available to members for information if required.

3.5 The Islington combined fund absolute performance over the 1, 3 and 5 years period to June 2016 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	4.90%	7.73%	7.57%

The Islington combined fund performance over 1 and 3 years without the hedge compared to the ex-hedge customised benchmark is shown in table 2 below

Period	1 year per annum	3 years per annum
Combined LBI fund performance ex-hedged	6.74%	8.06%
Combined LBI fund ex-hedged customised benchmark	8.15%	8.36%

3.6 **AllianzGI (RCM)**

3.6.1 AllianzGI (formerly known as RCM) is the fund's global equity manager and was originally appointed in December 2008. There has been amendments to the mandate, the last being a transfer to the CIV platform.

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 the fund returned 8.1% against a benchmark of 8.6%. Since inception with the London CIV in December 2015, there is a relative underperformance of -1.76%. The main drivers were underweight positions in the utilities and energy 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 8.2% gross of fees against a benchmark of 8.8% for the June quarter. Since inception the fund has delivered a relative over performance of 0.61% gross of fees per annum.

3.7.3 The under performance this quarter was driven mainly by underweight position in oil and gas and basic material sectors. The healthcare sector and the Europe region 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 4.9% against a benchmark of 4.7% for the

June quarter and a relative over performance of 0.5% over the 12 month period.

3.8.2 The fund currently holds 312 stocks and the main activities were corporate actions over the period and a payment of £10m to cover or losses on the global equity passive hedge.

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 June quarter, the fund returned 4.6.0% against a benchmark of 4.1% and a 3 year relative return of 0.3% per annum net of fees.

3.9.2 The main driver behind the performance during the quarter was the strong fall in underlying gilt yields and AAA rated supranational. Off benchmark holdings in US dollars also outperformed.

3.9.3 The forward strategy in the post Brexit era of political and macro uncertainty, is to take advantage of further opportunities and focus on global issuers with little exposure to the UK economy .

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 1.5% against a gilt benchmark of 7.9%. The All Property IPD benchmark returned 0.12% for this quarter. Since inception the fund has delivered an absolute return of 6.6% net of fees.

3.10.3 This June quarter there were 1 purchase, and 1 lease extension. The fund's unexpired average lease term is now 19.8years. Lime is well positioned to deliver attractive returns over the medium term.

3.10.4 The fund now holds 70 assets with 45 tenants and a 0% void. It also has £455m of investor commitments (£110m new) 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 June was £70.3million.

3.11.2 The agreed mandate guidelines are as listed below:

- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since I 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 1.5% against its benchmark of 0.1% for the June quarter. The cash balance now stands at 8.7% and with post Brexit uncertainties, will continue to adopt a conservative cash management strategy for the rest of the year. During the quarter there were two opportunistic acquisitions 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 post referendum are likely to be a catalyst for moderate capital value declines but the fund is cushioned by its high relative income return and maximum diversification at both portfolio and client level.

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 June quarter, the hedged overseas equities returned -0.80%. As a result of the pound sterling decline after the referendum results, we had to make a shortfall payment of £10m on 26 July to cover our hedging loss. This was funded from the In-House Passive Fund.

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 was 1 capital call of $809,600 and 1 distribution to bring the total distribution received to $31.5m

3.13.3 Fund II has made 4 investments to date in Europe, USA and Asia, in the retail and office sector and the projected geographic exposure is 42% Asia, US 26% and 32% Europe. The Admission period to accept new commitments from investors has been extended with our consent through to March 2017.

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 9.7% net of fees against a benchmark of 9.4% for the quarter. The 3 year absolute return is 4.03%. The market value is now £76m.

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 June quarter the value of the fund investment was £26.0m and total funds under management is £41.8million. Performance net of fees was 0.53% compared to the benchmark of -0.61%., and 12 month relative return -2.31%. The income yield after cost was 3.1%. The portfolio has 178 properties, 12 are let on licence and leaseback agreement to house builders and 140 properties let on assured short term agreements.

3.15.3 There are 26 vacant properties, 8 of which are new acquisitions. 11applications from prospective tenants have been received and the remaining 15 properties continue to be marketed. 6 properties have received notices to vacate between July and August.

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 fourth quarter since funding and the value of the portfolio is now £99.5.m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The June quarter performance after fees was 2.0% against the benchmark of 1.9% (inflation+5%).

3.16.3 Global equities, government bonds, commodities and the Japanese yen, all contributed to performance whilst Japanese equities detracted.

3.16.4 With respect to Brexit, it is seen as a UK economic growth issue and not global, even though gilts yields will have an impact on valuations. In terms of opportunities to generate return, the portfolio has been diversified into value return stocks, local currency emerging market debt, and commodities. To reduce risk government bonds have been sold and replaced with investments in TIPS(treasury inflation protected securities , gold , Japanese yen and equity put strategy.

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 **Resident 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 June 2016 as part of the regular monitoring of fund performance.

Background papers:
1. Quarterly management reports from the Fund Managers to the Pension Fund.
2. Quarterly performance monitoring statistics for the Pension Fund – BNY Mellon

Final report clearance:

Signed by:

Corporate Director for Finance Date

Received by:

Head of Democratic Services Date

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APPENDIX 1

REPORT PREPARED FOR

London Borough of Islington Pension Fund

August 2016

Karen Shackleton
AllenbridgeEpic Investment Advisers Limited (Allenbridge)

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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
London CIV - AllianzGI	Now monitored by London CIV.	Underperformed the Index for the quarter by -0.8% but outperforming by +0.1% p.a. over three years to end June 2016. Behind the target of +2.0% p.a. over three years.	£358 billion AUM as at 31st March.	New performance target is 2% per annum outperformance over 3 years (was 3% prior to transferring onto CIV).	
Newton	One joiner and no leavers this quarter. After quarter end, Newton announced that the CEO will be stepping down.	Underperformed the Index by -0.6% in the quarter. Outperforming over three years by +1.1% per annum and by +0.6% per annum since inception. Trailing the performance target of 2% p.a. outperformance, however.	£51.8 billion as at 30th June 2016, up from £48.3 billion as at 31st March 2016.		
Standard Life	11 joiners (one in fixed income), and 13 leavers (one from the credit team) during the quarter.	Over three years the Fund has outperformed by +0.4% p.a., behind the performance target of +0.8% p.a.	Underlying fund value rose by £192 million in Q2 2016. Islington's holding is 5.9% of the value of the total pooled fund.	Holding 4.8% in high yield non-Investment-grade bonds.	
Manager	**Leavers,**	**Performance**	**Assets under**	**Change in**	**Manager**

	joiners and departure of key individuals		management	strategy/risk	specific concerns
Aviva	Andrew Davey, Co-Manager of the Lime Property Fund, has resigned and will be leaving Aviva Investors on 27 July.	Underperformed the gilt benchmark by -3.8% p.a. over three years following the strong rally in gilts post the EU referendum.	Fund was valued at £1.72 billion as at end Q2 2016.		
Columbia Thread-needle	6 joiners and 4 leavers in the quarter. One new member of the property team.	Outperformed the benchmark by +0.8% per annum over three years. Slightly behind their performance target of 1% p.a. outperformance.	Combined assets of new firm £344 billion as at 30th June 2016. Pooled fund has assets of £1.58 billion.		
Legal and General	Not reported.	Regional funds are all tracking the indices.	Assets under management of £841.5 billion at end June 2016, growing by 18%.	Fundamental index fund in emerging markets has outperformed the market capitalisation index by 9% over the past 12 months.	
Franklin Templeton	Karim Hassouna, senior vice president, and Danita Johnson, vice president, are leaving the firm.	70% of investments in Fund 1 are trading above target or better. Portfolio return over three years was +25.8% p.a., well ahead of the target of 10% p.a.		One sub-fund in Fund 1 has been downgraded to below target.	

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Hearth-stone	Four new joiners including team from Mill Group.	Outperformed the benchmark by +1.7% p.a. over three years to end June 2016.	Fund was valued at £48.4 m at end Q2 2016.		
Schroders	44 joiners and 59 leavers including senior management departures.	Fund returned +2.7% during the quarter and -0.7% over 12 months.	Total AUM of £343.8 billion as at 30th June 2016.		

Key to shading in Table 1:

Minor concern

Monitoring required

2. Individual Manager Reviews

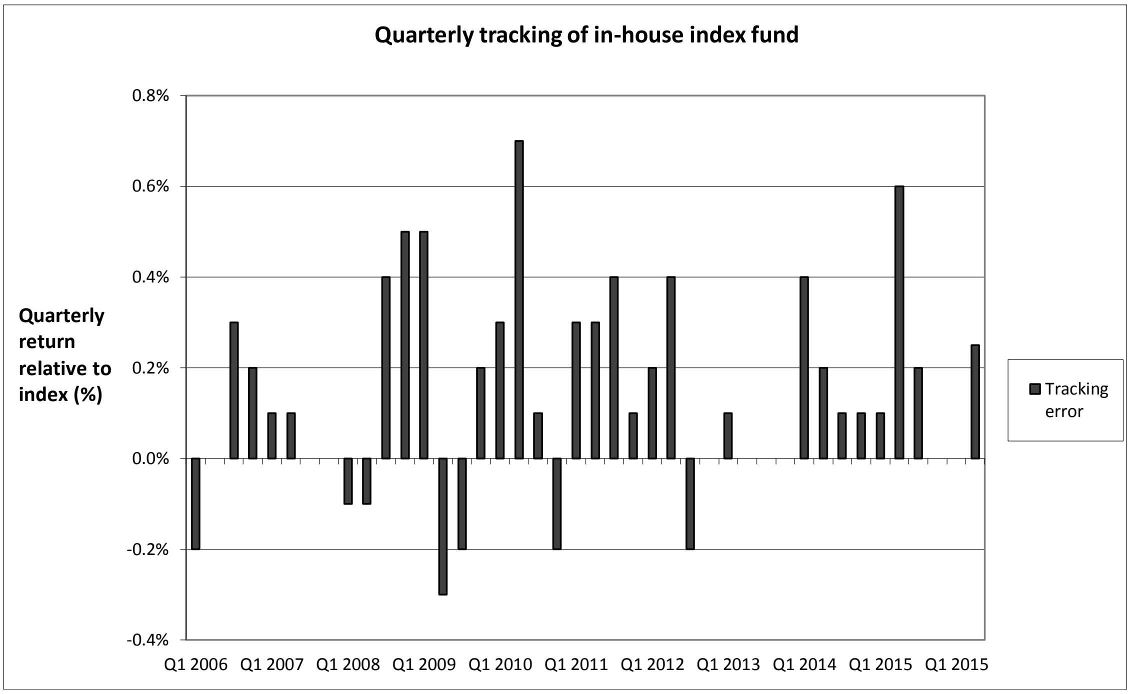
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

Headline comments: The portfolio continues to meet its objectives. The fund delivered a quarterly return of +5.0%, which was +0.3% ahead of the index benchmark return of -4.7%. Over three years the fund has outperformed the index by +0.75% p.a. and delivered a return of +6.6% 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 +0.75% per annum.

Chart 1



Source: Allenbridge based on BNY Mellon performance calculations

2.2. AllianzGI (RCM) – Global Active Equities

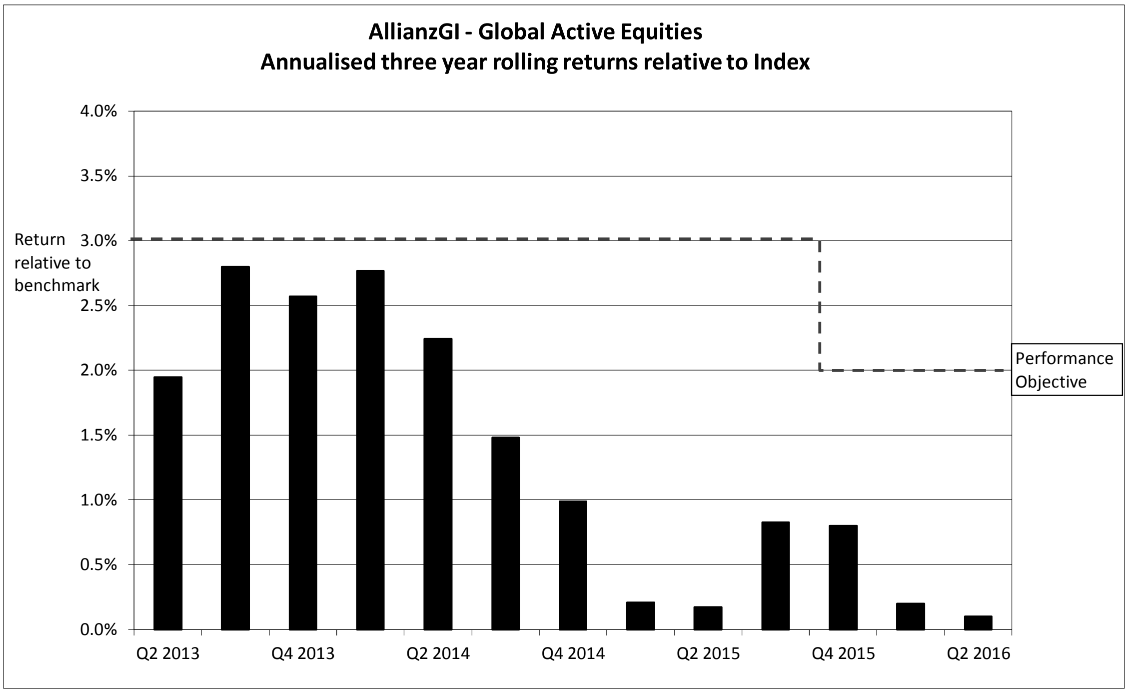
Headline comments: In terms of relative performance, the fund was behind the benchmark return of +8.8% for Q2 2016, delivering an absolute return of +8.1%, net of fees. Over three years the fund is ahead of the benchmark by 0.1% per annum: however, this is behind the performance target of 2% per annum.

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 June 2015, AllianzGI is ahead of its benchmark by +0.1% per annum, so **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.

The portfolio's underperformance in Q2 was attributed by the manager to a lack of exposure to low growth sectors such as Energy and Utilities.

Chart 2



Source: Allenbridge based on BNY Mellon performance data

Portfolio Risk: The largest overweight regional allocation was in European Equities (+9.8% overweight). The most underweight allocation was North American Equities (-5.7%), replacing Japan which in Q1 was the most overweight region.

In terms of sector bets, AllianzGI's most overweight allocation was in Information Technology. Energy was the most underweight sector in Q2.

Portfolio Characteristics: as at end Q2, the portfolio held 51 stocks, down from 55 as at end Q1 2016. During the quarter the manager sold some of the lower conviction holdings in the portfolio and this accounted for the drop in number. The portfolio has a beta of 0.99 so is broadly matched to the market, but the active share of the portfolio increased to 90%, following the introduction of several new names. The active share measures how different the holdings in the portfolio are, compared to the index.

Organisation: On June 6th, AllianzGI announced that it had completed an acquisition of Rogge Global Partners (RGP). RGP is a fundamental global fixed income manager.

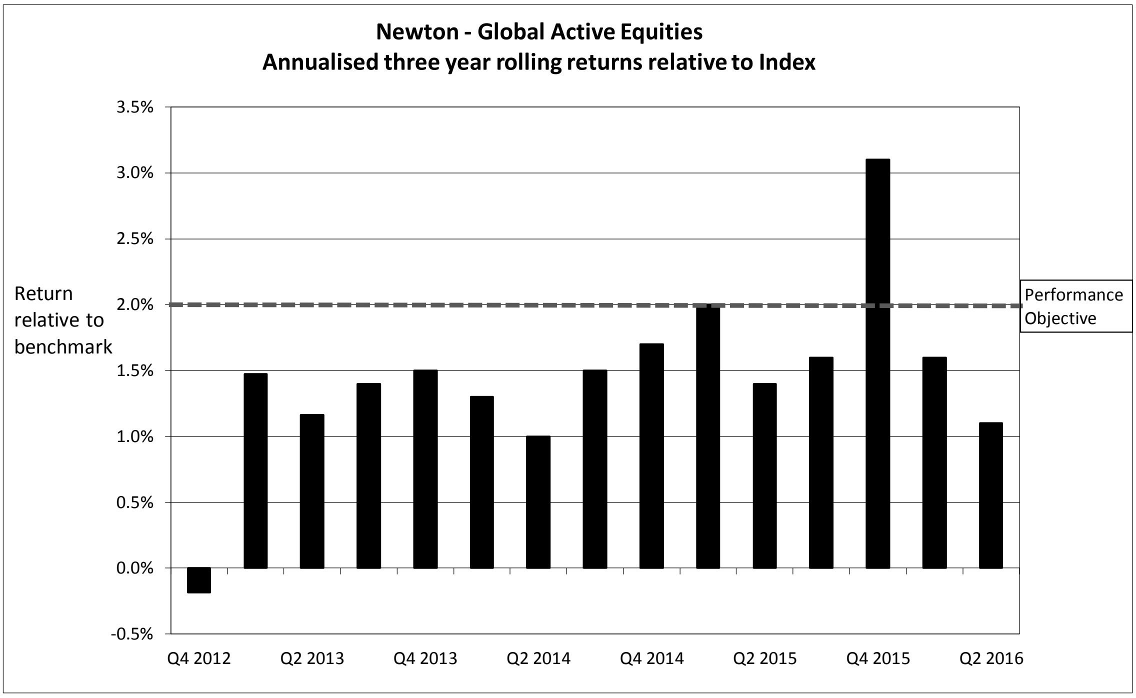
2.3. Newton – Global Active Equities

Headline comments: Newton were behind their benchmark by -0.6% during Q2 2016 but delivered a strong absolute return of +8.2%. Over three years the portfolio has outperformed by +1.1% per annum, but this is behind the target of 2% p.a. This outperformance can be equally attributed to successful stock selection and 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 BNY Mellon performance numbers

For the three-year period to the end of Q2 2016, the fund (shown by the right hand black bar) is +1.1% p.a. ahead of benchmark so trailing the performance objective by -0.9% per annum ahead (the performance objective is shown by the dotted line).

Over the three years to June 2016, Newton's return was a very strong +12.4% p.a. compared to the index return of +11.3% p.a., an outperformance of +1.1% p.a. Stock selection accounted for approximately half 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, before taking fees into account. Newton's 'since inception' return is +13.9% per annum, compared to the benchmark return at 13.3% per annum, an outperformance of +0.6% p.a. *(source: Newton, gross of fees performance shown)*.

During the quarter the largest sector contribution came from the underweight allocation to Financials (+0.8% contribution to relative performance), of which +0.5% came from good stock selection, and the balance from being -10.9% underweight. The least successful sector was Oil and Gas (-0.54% from relative performance). -0.43% came from being underweight, and the balance was attributed to poor stock selection. The Oil and Gas sector of the Index returned +17.54% in Q2.

Portfolio Risk: The largest overweight regional allocation was in Europe ex UK Equities (+4.4% overweight). The most underweight allocation was Other Equities (-5.3%).

In terms of sector bets, Newton remained most overweight in Consumer Services (+8.5% relative to benchmark.) The most underweight sector remained in Financials (-10.8%). This underweight position has been in place since Q2 2009 but is now at its highest 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 2.9%, as at end June 2016. This is within Newton's normal range of 2% and 6%.

Portfolio characteristics: At the end of Q1 2016, the portfolio held 65 securities (64 as at the end of Q1 2016). Turnover over the past 12 months was 24%, at the low end of Newton's normal expected range of turnover to 30%-70%.

Staff turnover: during the quarter there was one new joiner and no leavers. Amy Chamberlain joined as a global industry analyst.

In August (post the quarter end), Newton issued a press statement indicating that Helena Morrissey, the Chief Executive (CEO), was standing down after 15 years in the role. She will become the Chair of the Board of Directors. Hanneke Smits has been appointed as Helena Morrissey's successor. She was the Chief Investment Officer of Adams Street Partners and a member of their Executive Committee. These changes came into effect on 12th August. There will be a short period of transition ahead of the FCA approving Hanneke Smits in the new role. Mitchell Harris, the CEO of BNY Mellon Investment Management, was appointed as the interim CEO during this transitionary period.

2.4. Standard Life – Fixed Income

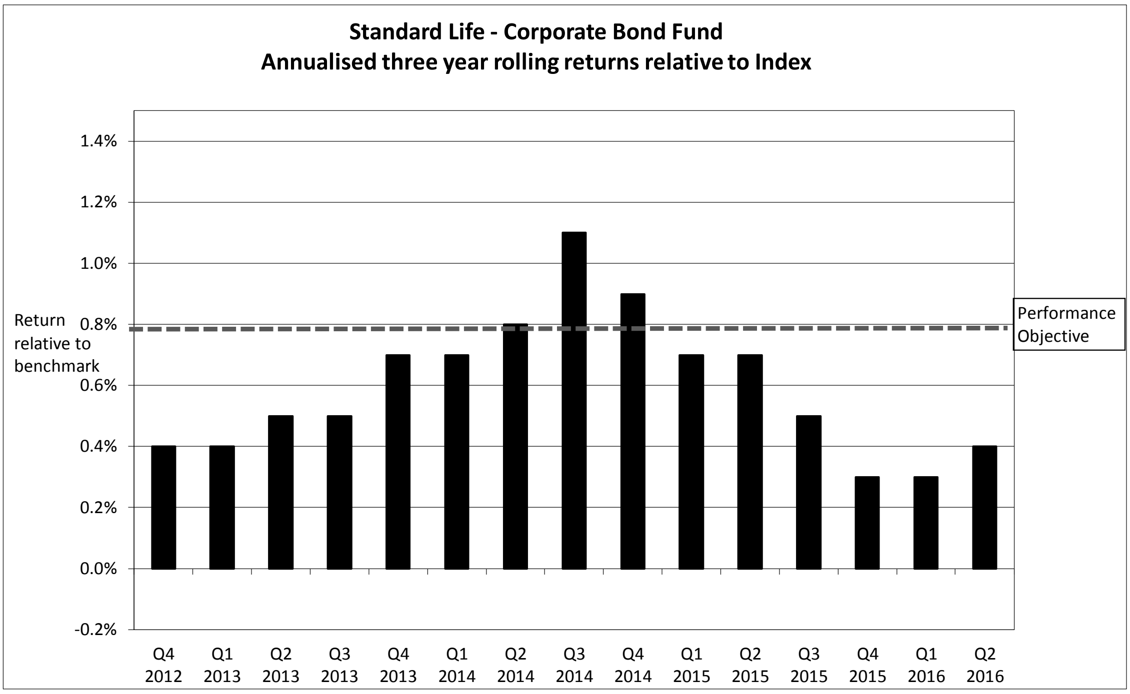
Headline comments: The portfolio was +0.3% ahead of the benchmark during the quarter with a return of +4.5%. Over three years, Standard Life's outperformance was +0.4% per annum relative to the benchmark, but this is behind their performance target of +0.8% per annum.

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 BNY Mellon performance data

Over three years, the portfolio has returned +7.8% p.a. compared to the benchmark return of +7.4% p.a., an outperformance of +0.4% p.a. and a strong absolute return. However, 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 one-year return on the portfolio was +9.1%, after a strong rally.

Portfolio Risk: The largest holding in the portfolio at quarter end was UK Treasury 1.75% 2022 (1.4% of the portfolio). The largest overweight sector position remained Financials (+7.1%) and the largest underweight position remained the long-standing allocation in sovereigns and sub-sovereigns (-18.5%).

The fund holds 4.2% of the portfolio in non-investment grade bonds.

Portfolio characteristics: The value of Standard Life's total pooled fund at end June 2016 was £3,832.0 million, £191.6 million higher than at the end of Q1 2016. London Borough of Islington's holding of £225.0 million is 5.9% of the total fund value.

Staff turnover: there were 11 joiners and 13 leavers during the quarter. Within fixed income, Findlay Hyde joined as an Investment Analyst in the Macro – Rates team and David Ennett, Head of European High Yield, left the firm.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: With gilts continuing to perform strongly in Q2, the Lime Fund lagged its gilt benchmark by -7.3% in Q2. Over three years, the Fund returned +7.2% p.a. This was very similar to the last quarter's three-year return. The difference is that last quarter it outperformed gilts by +1.5% p.a. This quarter it has underperformed the gilt benchmark by -3.8% p.a. The underperformance is much more a reflection of a volatile gilt market than concern about the property portfolio itself.

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 -7.3%, as bond markets rose sharply. The fund rose by +1.5% whilst the benchmark increased by +8.8%.

Over three years, the fund has returned +7.2% p.a. compared to the gilt benchmark of +11.0% p.a., an underperformance of -3.8% per annum. The **portfolio is trailing its performance objective of +1.5% per annum outperformance over three years**. However, the property fund itself has been delivering a steady three-year return of around 7-8% for each of the past four quarters. In contrast, the three-year return for the gilt benchmark has ranged from 4.2% to 11.0% during that time.

Of the +7.2% fund return over three years, 5.0% came from income, with the balance from capital gain.

Portfolio risk: There was one new purchase during the quarter. The fund acquired Newcastle Business School in Newcastle Upon Tyne. The rent on this asset will increase in line with RPI, subject to a floor of 1% p.a. and a cap of 4% p.a.

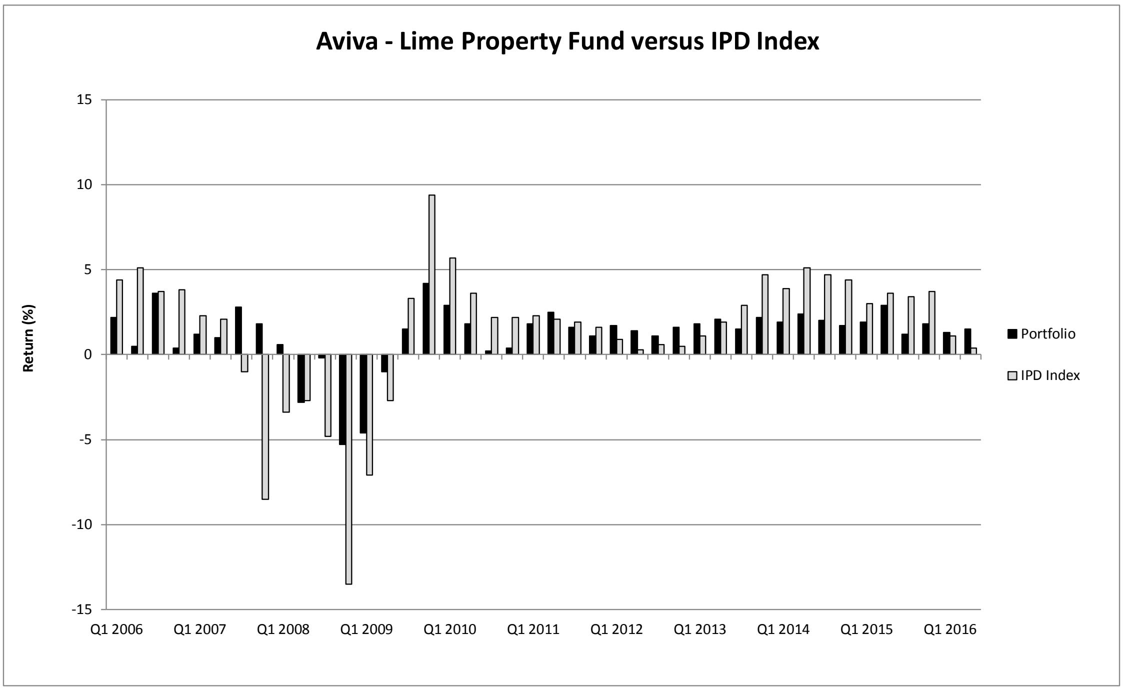
The average unexpired lease term was 19.9 years. Last quarter, the manager anticipated that this was a temporary dip and that the average unexpired lease term would be over 20 years again by the end of Q2 – this is something to monitor again, next quarter. 10.9% of the portfolio's lease exposure in properties is in 30-35 year leases.

The largest sector exposure remains offices at 30.0%. The cash allocation stood at 5.2% as at quarter end. The fund also has around £455 million of investable cash sitting outside the fund, pending investment.

The number of assets in the portfolio has increased from 69 as at end Q1 2016 to 70 as at end Q2.

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 BNY Mellon performance data

The redemption trend seen in the real estate market in the days following Brexit are unlikely to impact the Lime Fund. Because it is a low risk property fund, the manager has already received interest and verbal commitments from new investors, in the post-referendum period.

Portfolio characteristics: As at end June 2016 the Lime Fund was valued at £1.721 billion, an increase of £74 million from the previous quarter end.

The Fund has 89% allocated to inflation linked/fixed uplifts, and approximately three-quarters of this allocation is inflation-linked.

Staff turnover/organisation: Last quarter, a change in roles and responsibilities for Renos Booth (fund manager) and Andrew Davey (co-fund manager) were outlined. Unfortunately, Andrew Davey has now decided to leave Aviva. Andrew had been the co-fund manager of the Lime Fund for the past six months and had been at Aviva for three years. He is joining a privately owned European investment group in a very different role. Aviva have said that a replacement will be announced soon by Renos Booth.

2.6. Columbia Threadneedle - Pooled Property Fund

Headline comments: The Fund's performance was ahead of its benchmark in Q2 2016 by +0.3%. Over three years, the Fund has outperformed by +0.8% per annum, slightly behind the performance target of 1% p.a. above benchmark over three years.

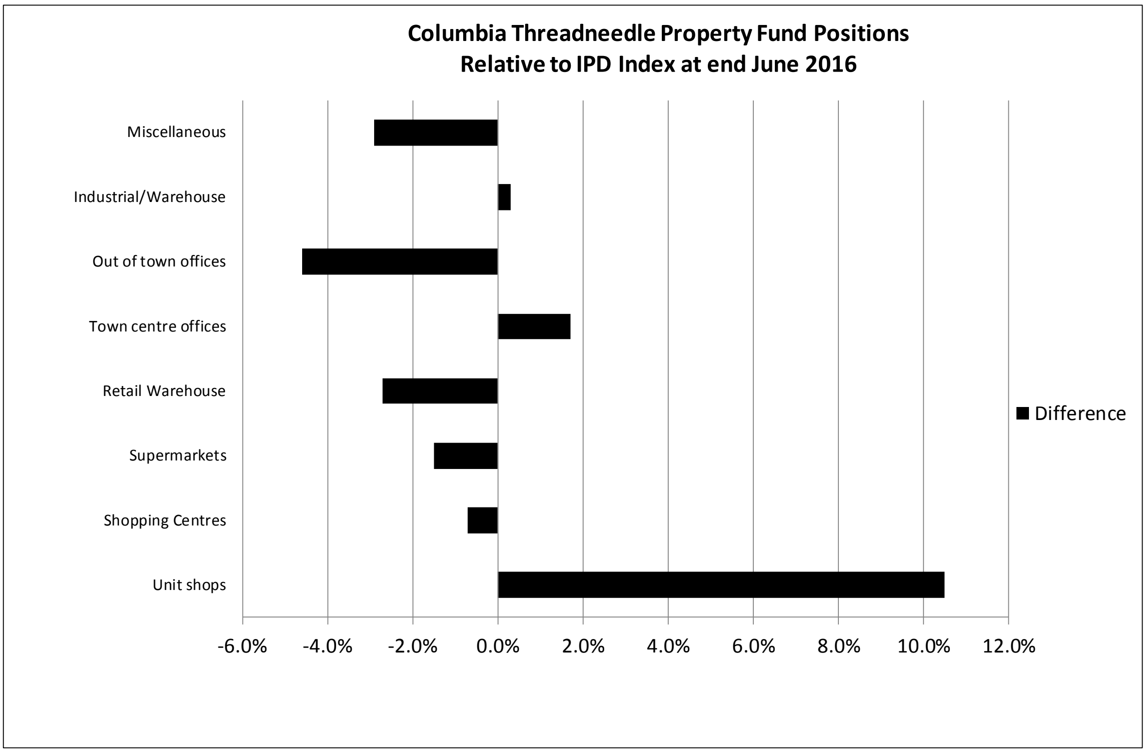
Mandate summary: An actively managed UK commercial property portfolio, the Columbia Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Its performance objective is to outperform the AREF/IPD All Balanced – Weighted Average (PPFI) Index by at least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

Performance attribution: The portfolio was ahead of the benchmark in Q2 2016, by +0.3% (source: Columbia Threadneedle), delivering a return of +3.3%. Income accounted for around 1.3% of this, and the balance came from capital growth. In terms of the three-year performance, the Fund is ahead of its benchmark by +0.8% per annum and slightly trailing the performance target of +1% per annum. The absolute return over three years remains strong. The portfolio returned +12.5% p.a. over three years compared to the benchmark return of +11.7% p.a.

Portfolio Risk: The Fund made one acquisition and one disposal during the quarter. The acquisition was a £1.75 million purchase of an industrial estate in Bellshill. The disposal was the sale of a manufacturing warehouse in Northampton, which crystallised a significant profit.

Chart 6 shows the relative positioning of the Fund compared with the benchmark. The Fund has a significant overweight allocation to unit shops.

Chart 6



Source: Allenbridge based on Columbia Threadneedle data.

Portfolio characteristics: As at 30th June 2016, the Threadneedle Property Fund was valued at £1.584 billion, a decrease of £115.6 million compared with March 2016. London Borough of Islington's investment represented 4.5% of the Fund as at end June 2016.

Staff turnover: during Q2 there were 6 new joiners and 4 leavers. Of the new staff, Samantha Hadland joined as an analyst/asset manager in the property team. She will be working across different funds, so from time to time will have input into the property fund in which London Borough of Islington invests.

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 Q2 by +2.3%. For the 12 months to Q2 2016 the outperformance was +9.0%.

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

Q2 2016	Fund	Index	Tracking
Europe	4.3%	4.3%	0.0%
Asia Pacific ex Japan	7.8%	7.8%	0.0%
FTSE emerging markets	9.5%	9.4%	0.1%
RAFI emerging markets	11.8%	11.8%	0.0%

Source: LGIM

The RAFI emerging markets index fund outperformed the market capitalisation index by 2.3% in Q2. For the 12-month period, this took the relative outperformance to +9.0%. Since inception, the RAFI index fund is now only -1.7% behind the market capitalisation index fund in emerging markets. 18 months ago, it was trailing by -9.3%.

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 4.8% overweight.

Organisation: LGIM's assets under management grew by 18% in the first half of 2016, bringing the total figure to £841.5 billion as at end June 2016. The retail business saw net inflows of £700 million, whilst index funds saw net inflows of £1.6 billion.

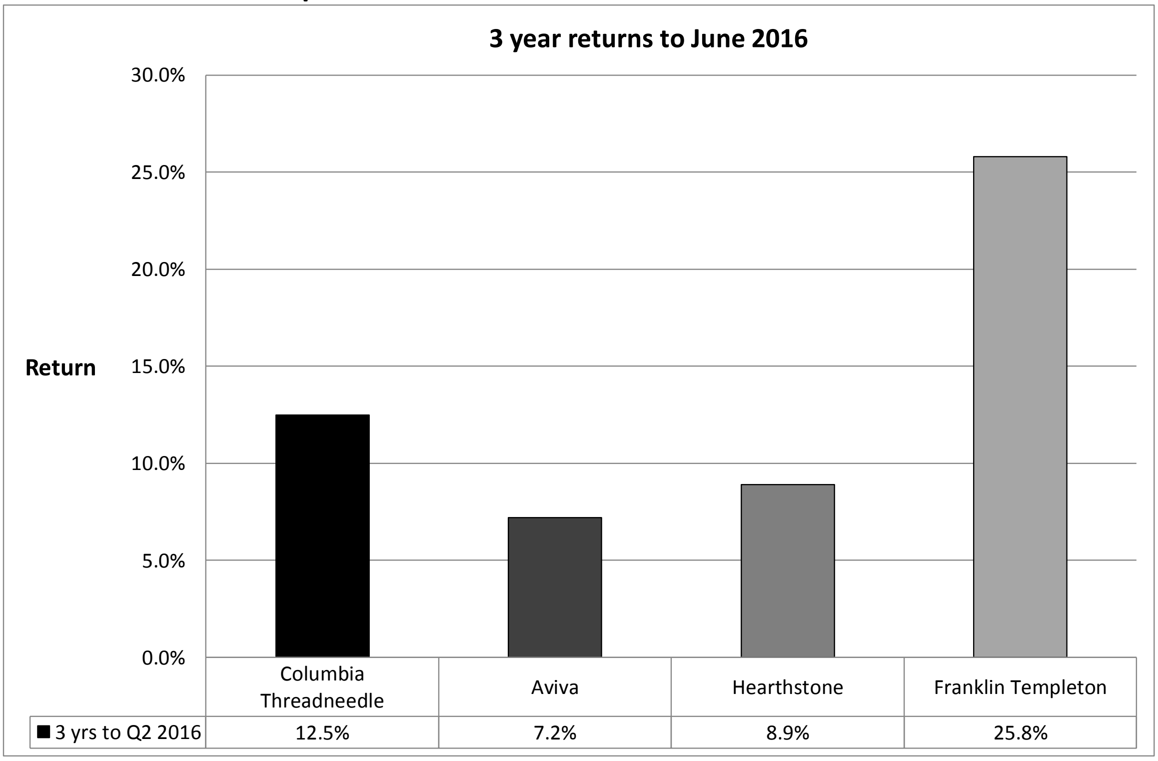
2.8. Franklin Templeton – Global Property Fund

Headline comments: This is a long term investment and as such a longer term assessment of performance is recommended. There are two funds in which London Borough of Islington invests. Both funds are on track and Fund 1 has a significant proportion (70%) of investments that are above target performance or better. The portfolio in aggregate delivered a return of +25.8% per annum over the three years to end June 2016, outperforming the absolute return benchmark by +15.8% 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 June delivered a return of +25.8% per annum.

Chart 7 – Franklin Templeton return to be added



Source: BNY Mellon

Portfolio risk: Leverage on Fund 1 was 55% as at end June, with all funds showing leverage below 70%. Leverage on Fund 2 was 46% as at end June 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 projecting an IRR in excess of 20% for 55% leverage.

Of the 14 investments in Fund 1, three are on target (10%-15% projected net internal rate of return or IRR), seven are above target (15-25% projected net IRR) and three are substantially above target (more than 25% projected net IRR). One Fund has been downgraded to "below target": Sveafastigheter III. The majority of remaining investments were sold in February 2016 and the fund has been downgraded to reflect the residual portfolio and also to take into account currency depreciation since the acquisition was originally made.

Of the four investments in Fund 2, two are 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. During the quarter the Fund completed on an office park in Madrid, Spain, purchasing at a substantial discount.

Staff turnover/organisation: during the quarter, two senior members of the real estate team left the firm. Karim Hassouna was a senior vice president and member of the Asia real estate team based in New York. A replacement is being sought. Danita Johnson was a vice president and member of the US real estate team, based in New York. She was responsible for sourcing, underwriting and monitoring private US real estate investments. Franklin Templeton do not plan to replace her.

The other organisational change is to centralise their European investment functions into the London office. The Geneva office will move to London later this year.

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +0.5% compared to the benchmark return of -0.6% for the quarter ending June 2016. Over three years, the Fund delivered a return of +9.2% p.a. compared to the benchmark return of +7.2% p.a., an outperformance of +2.0% p.a.

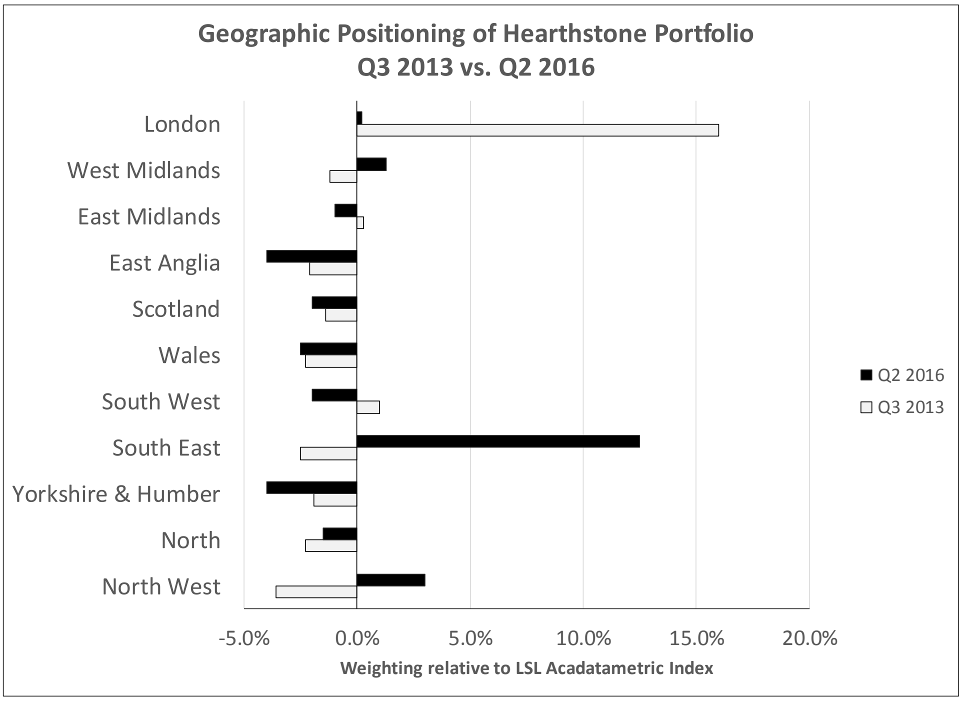
Mandate summary: The Fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return.

Performance attribution: The Fund returned +9.2% p.a. compared to the return on the index of +7.2% p.a. over the three years to June 2016, an outperformance of +2.0% p.a. The gross yield on the portfolio, adjusted for voids, was 4.4% at the end of June.

Portfolio risk: The manager has used new money to correct the overweight position in London, by investing 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. By the end of Q2 2016, however, that had dropped to a neutral position. The largest position is now to the South East where the Fund is 12.5% overweight. This followed the purchase of four houses in Eastbourne and four houses in Horsham for a total value of £2.2 million.

Chart 7 compares the regional bets in the portfolio in Q3 2013 with the bets in Q2 2016. The reduced London overweight is shown by the top black bar (2015), compared with the top grey bar (2013).

Chart 7



Source: Hearthstone

Portfolio characteristics: The Fund has an 14% allocation to detached houses (down from 18% last quarter), 51% allocated to flats, 29% in terraced accommodation and 5% in semi-detached. The allocation to flats remains a significant overweight position relative to the Index (51% for the Fund compared to 17% for the Index). This is offset by an underweight position in semi-detached houses (5% for the Fund compared to 24% for the Index).

As at end June 2016, the Fund stood at £48.4 million.

Organisation and staff turnover: The team from Mill Group (Andrew Smith, Richard Otten and Cristoforo Rocco) joined Hearthstone, as announced in last quarter's report. In addition, David Chapman joined as a telephone account manager. There were no leavers.

2.10. Schroder – Diversified Growth Fund (DGF)

Headline comments: The Diversified Growth Fund delivered a return of +2.7% in Q2 2016.This compared with their RPI plus 5% p.a. target return of +2.0% for Q2. However, over one year, the fund is trailing this target return by -7.4%.

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 Q2 2016, Schroders' exposure to global equities made the largest contribution to the portfolio return (+0.6%), with smaller contributions from commodities (+0.4%), high yield debt (+0.4%), infrastructure (+0.3%) and currency (+0.3%). This was offset by negative contributions from Japanese equities (-0.2%).

Over 12 months, the largest contributor was absolute return (+0.9%) followed by infrastructure (+0.6%) and government bonds (+0.6%). The biggest detractors were

Japanese equities (-1.9%), Europe ex UK equities (-0.9%) and North American equities (-0.8%).

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 8.5% compared to a 12-month volatility of 17.2% in equities (i.e. less than half the volatility of the Index).

Portfolio characteristics: The Fund had 12% in internally managed funds, 46% in bespoke solutions, 15% in externally managed funds, 24% in passive funds and 2% in cash, as at end June 2016. In terms of asset class exposure, 40% was in equities, 35% was in alternatives and 22% 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.

Organisation: there were 44 joiners and 59 leavers within the UK business in Q2 2016. This included changes within the multi asset investment team. Richard Coghlan was a member of the Global Asset Allocation committee but has now left the firm. He has been replaced by Remi Olu-Pitan who has been a team member for ten years.

Nico Marais who headed up the Multi-Asset and Portfolio Solutions teams has left Schroders. His role will now be split up between existing team members. In particular, Johanna Kyrkland, the portfolio manager for London Borough of Islington, will lead the Multi-Asset team, although Schroders have stressed that her priority is as portfolio manager. Henriette Bergh, the head of UK and European products, has left the firm.

There were additionally some changes at a senior management level in Q2. Michael Dobson stepped down as Chief Executive to become Chairman. He was replaced by Peter Harrison, the former Head of Investment. Andrew Beeson, the incumbent Chairman, is retiring.

Karen Shackleton
Senior Adviser, Allenbridge
2nd September 2016

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ISLINGTON

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	21 September 2016		

Delete as appropriate	Exempt	Non-exempt

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 June 2016 to September 2016

2. Recommendations

2.1 To note the progress made to 6 September 2016

2.2 To note that Islington Pension has agreed to move its current Legal and General passive portfolio into the On Fund Costs(OFC) fund .

2.3 To note the link to the final version of the July submission from London CIV for information.http://londonciv.org.uk/wp-content/uploads/2016/07/LCIV-Pool-Response-Final.pdf

3. Background

3.1 **Setting up of the London CIV Fund**

Islington is one of 33 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 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, depositary 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 submitted in September. The London CIV received its ACS authorisation in November 2015.

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.

3.4 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 **Progress since June 2016**

The London CIV has also had further success with developing the Fund, opening the LCIV PY Global Total Return Fund investing into the Pyford Global Total Return sub-fund on 17 June and the LCIV RF Absolute Return Fund investing into the Ruffer Absolute Return sub-fund on 21 June. These two funds bring theirr assets under management up to around £2.4 billion, with 14 boroughs invested across the five sub-funds and some £1.6 million of fund manager fee savings being delivered a year. They working towards opening the three sub-funds previously trailed with Newton and Majedie acting as sub-managers in the autumn and hope to get the Longview sub-managed fund opened towards the end of this year or early in 2017.

3.5.1 <u>Legal and General pooled passive funds</u>

The next phase where Islington is getting involved is Legal and General (LGIM). Our current Legal and General investment is mainly in Emerging markets and RAFI Emerging index valued at £70million in total. The original plan to pool assets onto the CIV platform has now been abandoned because of structural complexities and the value for money . The CIV have negotiated a reduction of fees for the passive equities held by London Bouroghs but this structure will not sit on the CIV platform. All the funds wanting to participate will have to agree to move their portfolios into the On Fund Costs(OFC) fund. These new funds have costs such as custody , license fee, valuations are automatically taken from the fund whilst the previous structure included these cost in the invoiced fee. The projected savings for this external pooling for Islington is projected at around 100k per year effective from 1 July 2016. This does not affect the decision to appoint an active emerging market manager

.

3.6 **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.

3.7 **DCLG -pooling response due on 15 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 polling due in July. The DCLG/Treasury provided a draft template to be completed by each Pool. The London CIV led on this submission and a copy of the final submission can be found via this link.
http://londonciv.org.uk/wp-content/uploads/2016/07/LCIV-Pool-Response-Final.pdf

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 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 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.

Background papers:

Final report clearance:

Signed by:

Corporate Director for Finance and Resources Date

Received by:

Head of Democratic Services Date

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Report of: **Corporate Director of Finance and Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	21 September 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

3. Background

3.1 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.

3.2 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 **Resident 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:

	Corporate Director of Finance & Resources	Date
Received by:		
	Head of Democratic Services	Date

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APPENDIX A

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

Date of meeting	Reports
	Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update • CIV update report
17 October 2016	Annual pension meeting
15 November 2016	Funding strategy statement (FSS) draft for consultation Initial results from actuarial review
13 March 2017	FSS and consultation results

Past 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	
21 September 2016	Actuarial review training

Proposed Training before committee meetings

October/November	Schroders update meeting
15 November	
13 March 2017	

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Report of: **Corporate Director of Finance and Resources**

Meeting of	**Date**	**Agenda Item**	**Ward(s)**
Pensions Sub- Committee	21 September 2016		n/a

Delete as appropriate	Exempt	Non-exempt

Appendix 1 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, 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: CONTRACT AWARD FOR EMERGING/FRONTIER EQUITY MANAGER

1. Synopsis

1.1. This report sets out the procurement process undertaken to award a contract to an emerging and frontier market equities manager. Members agreed to make changes to the fund's existing passive allocation to emerging markets and move to an active emerging market mandate with a meaningful exposure to frontier markets.

2. Recommendations

2.1. To note the outcome of the tender process to procure an Emerging and Frontier market manager(s)

2.2. To agree the appointment of Fund Manager A as the Islington Pension Fund Emerging and Frontier market equities manager as recommended in Appendix 1 (private and confidential)
.

2.3. To agree the appointment of Fund Manager B as the Islington Pension Fund Emerging and

	Frontier market equities reserve manager as recommended in Appendix 1 (private and confidential) .
2.4	To delegate to the Corporate Director of Finance & Resources, in consultation with the Assistant Chief Executive, Governance and HR, authority to negotiate and agree the fund management agreement with Fund Manager A.
3.	**Background**
3.1.	**Emerging/Frontier Market Manager Tender and Appointment** Members agreed in November 2014, a new asset allocation and an implementation plan over the short to medium term period, in particular • To allocate part of its assets to new areas of investment, namely frontier emerging markets, infrastructure and social housing, coupled with the DGF allocation. • Identify implementation considerations of the proposed investment strategy; and • Identify the governance requirements of the proposed investment strategy
3.2.	The DGF manager was appointed in April 2015, resourced from 10% of our equities allocation. In December 2015 our Global Equity Allianz portfolio was transitioned to the CIV platform and thereafter the process to procure an active emerging and frontier market manager commenced in 2016.
3.3.	Mercer our investment advisors assisted officers to draw up a request for proposal (RFP) tendering document to be published in the Official Journal of the European Union ('OJEU'). A contract for the provision of financial investment services in connection with the investment of pension fund monies is subject to the requirement to advertise advertisement in OJEU where the value of the contract is estimated at or above 207,000 Euro. .
3.4	The tender documents were released on the London Tenders Portal and published in OJEU on 17 May 2016. The projected timetable was as follows:

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

The tender process was conducted in three stages:.

i) Mercer and Officers met to discuss the best fit managers and agree a long and short list on 11 July 2016.

ii) The head of treasury and pensions and Mercer then conducted due diligence meetings with eight prospective managers at their offices. The manager scope covered both debt and equity strategies. Four managers covered debt, three covered equities, and one covered multi assets.

iii) Following the due diligence evaluation of the initial 8 shortlisted managers, 4 managers were invited to present on: idea generation, portfolio construction and implementation ,terms and fees and market environments to a joint officer/member

	evaluation group on 25 July. Membership of the evaluation group is shown in table 1
3.5	Table 1

Councillor Richard Greening	Chair
Councillor Paul Smith	Pension Sub committee member
Nick Sykes Nikeeta Kumar	Mercer Mercer
Karen Shackleton	AllenbridgeEpic
Mike Curtis	Corporate Director of Finance & Resources
Alan Layton	Service Director Financial and Asset Management
Joana Marfoh	Head of Treasury and Pension Fund Management

3.6	The outcome of the evaluation is set out in exempt Appendix 1 to this report
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 an appoint investment managers to manage and invest pension fund monies in emerging and frontier market equities 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 procurement has been undertaken in accordance with the Council's Procurement Rules and the Public Contracts Regulations 2015. The tenders received have been evaluated by a joint officer/ member evaluation group in accordance with the tender evaluation model following presentations by four of the shortlisted tenderers.
4.2.3	In deciding which manager to appoint, the Pensions Sub-committee will need to consider fully and carefully the outcome of the tender evaluation and determine whether or not to accept the recommendation of the tender evaluation group.

4.2.4 4.2.5	.The sub committee must (i) reasonably believe that the recommended investment manager's ability in and practical experience of financial matters makes them suitably qualified to make investment decisions for the Council (ii) be satisfied that the fund (or relevant part of it) is managed by an adequate number of investment managers and that where there is more than one investment manager, the value of fund money to be managed by any one of them will not be disproportionate (in their view) in comparison with the value of fund money managed by other investment managers (iii) have proper regard to the advice of the Corporate Director of Finance and Resources and its external adviser, Mercers in relation to the proposed appointment In considering the recommendations in this report, members must take into account the information contained in the exempt Appendix 1 to this report.
4.3.	**Environmental Implications** The environmental impacts were considered as part of the tender submissions where managers were asked to demonstrate how they took environmental and social governance issues in their portfolio construction. it was identified that the proposals in this report would have no adverse impacts.
4.4.	**Resident Impact Assessment:**
	The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding. A Resident Impact Assessment has not been completed because the contents of this report relate to the statutory Local Government Pension Scheme Regulations. The LGPS Regulations are made under the Superannuation Act 1972.
5.	**Conclusion and reasons for recommendations**
5.1	The evaluation group consider that the recommended Manager A will be able to add value to

	the fund through their investment strategy and skill. Members are asked to agree to award the contract to Manager A subject to agreeing terms and conditions and to keep Manager B as a reserve manager.

Background papers
Tender documentation

Final report clearance:

Signed by:		
	Corporate Director of Finance & Resources	Date
Received by:		
	Head of Democratic Services	Date

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Report of: **Corporate Director of Finance and Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	21 September 2016		n/a

Delete as appropriate		Non-exempt

SUBJECT: ISLINGTON FUND' CARBON FOOTPRINT UPDATE

1. Synopsis

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

2. Recommendation

2.1 To consider and discuss the presentation prepared by Mercer and attached.as Appendix 1

2.2 To note that Mercer's ESG ratings for the Fund's strategies show we are exposed to a number of managers with above average ESG capabilities

2.3 To manage the current ESG risks in our Fund by focusing on the ESG capabilities of existing and prospective managers

2.4 To consider the implementation option listed below as the next step to reduce carbon footprint in equities:

(i) Allocate assets to a passive low carbon Global equity strategy

2.5 To make allocations to actively managed sustainability themes via for example listed and private equities and infrastructures

2.6 Agree after discussions 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 At the June meeting, Members considered a Mercer presentation on their findings of the Fund's equities carbon footprint, as well as opportunities to lower carbon footprint and shortfalls in methodology
.

3.5 Members agreed at the June meeting to consider a further paper that analysed the whole Fund carbon footprint and possible options to reduce it. The Mercer presentation is attached as Appendix 1.

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 Resident 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 reduces the existing footprint.

Background papers:
Islington Council Statement of Investment Principle (November 2014)

Final report clearance:

Signed by:

	Corporate Director of Finance & Resources	Date
Received by:		
	Head of Democratic Services	Date

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

Agenda Item E2

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