



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 November 2017 at 7.30 pm.**

Yinka Owa
Director of Law and Governance

Enquiries to : Mary Green
Tel : (0207) 527 3005
E-mail : democracy@islington.gov.uk
Despatched : 13 November 2017

Membership 2017/18

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

Substitute Members

Councillor Mouna Hamitouche MBE
Councillor Angela Picknell
Councillor Robert Khan
Councillor Jenny Kay

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.

4. Minutes of the previous meeting

B. Non-exempt items

- | | | |
|----|--|---------|
| 1. | Pension Fund performance - 1 July to 30 September 2017 | 1 - 10 |
| a. | Presentation from Allenbridge Investment Advisers on quarterly performance | 11 - 28 |
| 2. | London CIV update | 29 - 36 |

3.	Investment strategy update - infrastructure	37 - 40
4.	Pensions Sub-Committee 2017/18 - Forward Plan	41 - 44
5.	ESG and climate change risk assessment and rating	45 - 48
6.	Equity protection strategy - implementation	49 - 52

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.	ESG and climate change risk assessment and rating - exempt appendix	53 - 82
2.	Equity protection strategy - implementation - 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 5 March 2018

This page is intentionally left blank

London Borough of Islington

Pensions Sub Committee - 16 October 2017

Non-confidential minutes of the meeting of the additional meeting of the Pensions Sub-Committee held at the Town Hall, Upper Street, N1 2UD on 16 October 2017 at 2.30 pm.

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

Also present: Karen Shackleton, Allenbridge
Norbert Fullerton, Nukeeta Kumar and Adam Lane – Mercer Limited
David Bennett, Maggie Elliott, Thelma Harvey, Marion Oliver and David Poyser (members of Pension Board and observers)

Councillor Richard Greening in the Chair

105 APOLOGIES FOR ABSENCE (Item A1)

None.

106 DECLARATION OF SUBSTITUTES (Item A2)

None.

107 DECLARATION OF INTERESTS (Item A3)

None.

108 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:

That the minutes of the meeting held on 5 September 2017 be confirmed as a correct record and the Chair be authorised to sign them.

109 PROTECTING THE RECOVERY PLAN - EQUITY PROTECTION (Item B1)

The Head of the Pension Fund and Treasury Management introduced her report, which had been produced at the request of Sub-Committee at the previous meeting. The report detailed aspects of the recovery plan agreed at the 2016 Actuarial Valuation and the current funding position of the Fund and recommended strategy options to capture some of the gains. The improvement in the funding level of the Pension Fund since March 2017 was due to the increase in equity markets. The funding level of the Fund was now at around 90%, compared to 78% at the 2016 actuarial valuation. Officers had been asked to submit

options for the Sub-Committee's consideration to protect the equity accrued in the Fund, to reduce the likelihood that further deficit contributions would be required at the 2019 valuation of the Fund.

Members considered an exempt presentation from Mercer on options for this protection strategy.

RESOLVED:

- (a) That the confidential written and verbal presentation by Mercer be noted.
- (b) That an equity protection strategy be used to maintain some of the improved asset valuation in the Pension Fund.
- (c) That officers explore the impact on contributions and investment outcomes for different levels of equity protection
- (d) That Officers and Mercer explore the combination of a spread collar option to protect the Fund, with the Fund paying a premium and foregoing future benefits.

EXCLUSION OF PRESS AND PUBLIC

RESOLVED:

That the press and public be excluded during consideration of the following items as the presence of members of the public and press would result in the disclosure of exempt information within the terms of Schedule 12A of the Local Government Act 1972, for the reasons indicated:

<u>Agenda Item</u>	<u>Title</u>	<u>Reason for Exemption</u>
E1	Mercer report -exempt Appendix – Protecting the Recovery Plan	<u>Category 3</u> – Information relating to the financial or business affairs of any particular person (including the authority holding that information).

110 PROTECTING THE RECOVERY PLAN - EQUITY PROTECTION - EXEMPT APPENDIX (Item B2)

Noted.

The meeting ended at 3.50 pm

CHAIR



Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	21 November 2017		

Delete as appropriate	Exempt	Non-exempt
-----------------------	--------	------------

Subject: PENSION FUND PERFORMANCE 1 JULY TO 30 SEPTEMBER 2017

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 July to September 2017 as per BNY Mellon interactive performance report
- 2.2 To receive the presentation by Allenbridge Investment Advisers, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.

3. Fund Managers Performance for 1 July to September 2017

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

Fund	Asset	Mandate	Latest Quarter	12 Months to
------	-------	---------	----------------	--------------

Managers	Allocation		Performance (July -Sept) Gross of fees		September 2017 Performance Gross of fees	
			Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	14%	UK equities	2.07%	2.14%	11.1%	11.9%
London CIV Allianz	8%	Global equities	3.95%	1.6%	17.67%	15.05%
LCIV -Newton	15%	Global equities	0.39%	1.96%	8.53%	15.6%
Legal & General	13%	Global equities	2.03%	4.49%	15.16%	16.9%
Standard Life	19%	Corporate bonds	-0.13%	0.10%	-0.07%	-0.46%
Aviva (1)	5%	UK property	2.42%	-0.49% 2.67%	7.91%	-4.51% 10.37%
Columbia Threadneedle Investments (TPEN)	6%	UK commercial property	2.5%	2.37%	9.33%	9.26%
Hearthstone	2%	UK residential property	0.36%	2.67%	4.7%	10.37%
Schroders	9.5%	Diversified Growth Fund	1.77%	2.23%	7.9%	8.85%
BMO Investments-LGM	5.5%	Emerging/ Frontier equities	-0.91%	4.60%	n/a	n/a

(-0.49% and -4.51% = original Gilts benchmark; 2.67% and 10.37% are the IPD All property index; for information

- 3.2 BNY Mellon our new performance monitoring service provider now provides our quarterly interactive performance report. Performance attributions can be generated via their portal if required.
- 3.3 The combined fund performance and benchmark for the last quarter ending September 2017 is shown in the table below.

Combined Fund Performance ex-hedge	Latest Quarter Performance Gross of fees		12 Months to September 2017 Performance Gross of fees	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	1.33	1.37	8.20%	7.67%

- 3.4 Copies of the latest quarter fund manager's reports are available to members for information if required.
- 3.5 **Total Fund Position and Protection**
The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years' period to September 2017 is shown in the table below.

Period	1 year per	3 years per annum	5 years per annum
--------	------------	-------------------	-------------------

	annum		
Combined LBI fund performance hedged	8.20%	8.58%	9.45%
Customised benchmark	7.67%	8.43%	9.29%

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 have 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 net of fees.

3.6.3 This quarter the fund returned 3.9% against a benchmark of 1.6%. Since inception with the London CIV in December 2015, there is a relative over performance of 5.04% while since January 2009 the relative outperformance is 0.18%. The main drivers were stock selection and country allocation in Information Technology, and Healthcare.

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. There has been amendments to the mandate the latest being a transfer to the London CIV platform.

3.7.2 The inception date for the LCIV NW Global Equity Fund was 22 May 2017. The new benchmark is the MSCI All Country World Index Total return. The outperformance target is MSCI All Country Index +1.5% per annum net of fees over rolling three- year periods.

3.7.3 The fund underperformed by returning 0.4% gross of fees against a benchmark of 1.96% for the September quarter. Since inception the fund has delivered an absolute return of 12.48% but relative under performance of -0.5% gross of fees per annum

3.7.4 The under performance this quarter was driven mainly by stock selection in health care and information technology sectors, while stocks in energy and financial companies were positive.

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. After a review of the fund's equities, carbon footprint Members agreed to now track the FTSE UK All Share Carbon Optimised Index and this became effective in September 2017.

3.8.2 The fund returned 2.07% against FTSE All Share Index benchmark of 2.14 % for the September quarter and a relative over performance of 0.18% over the three- year period.

The portfolio is now mirroring the low carbon index and the December quarter performance measurement will be against this index.

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 September quarter, the fund returned -0.1% against a benchmark of 0.1% and an absolute return of 7.6% per annum since inception.

- 3.9.2 The main driver behind the performance in this quarter was positive asset allocation with overweight positions in banks and underweight exposure to supranationals
- 3.9.3 The forward strategy is to remain overweight credit risk into year- end but use opportunities to take profits and gradually de-risk portfolios

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 2.4% against a gilt benchmark of -0.5%. The All Property IPD benchmark returned 2.6% for this quarter. Since inception, the fund has delivered an absolute return of 6.75% net of fees.
- 3.10.3 This September quarter the fund's unexpired average lease term is now 19.3years. Lime fund is well positioned to deliver attractive returns over the medium term.
- 3.10.4 The fund also has £575m of investor cash (£41m newly signed subscriptions in the September quarter.) The current queue period to invest is around 12-18months. As agreed, our fund has now committed £50m to the Lime Fund.

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 September was £75.7million.
- 3.11.2 The agreed mandate guidelines are as listed below:
- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 January 2014.
 - Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods.
 - Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term.
 - Income yield on the portfolio at investment of c.8.5% p.a.
 - Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.
- 3.11.3 The fund returned a relative outperformance return against its benchmark 0.1% for the September quarter and a three year relative return of 0.1%. The cash balance now stands at 8.6% compared to 10.8% last quarter and with post Brexit uncertainties, will continue to adopt a conservative cash management strategy. During the quarter there were three acquisitions totalling £43.5m. There is a strong asset diversification at portfolio level with a total of 260 properties.
- 3.11.4 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 targets to hedge 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is run by BNY Mellon our custodian. At the end of the September quarter, the hedged overseas equities were valued at £7m.

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 is now fully committed and drawdown, though \$7.2m can be recalled 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 a net distribution of \$0.5m to bring the total distribution received to \$46m

- 3.13.3 Fund II has made 5 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. The total capital call to the quarter end was \$11.2m and a distribution of \$2.5m.

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 were managed passively against regional indices to formulate a total FTSE All World Index series. Members agreed restructuring in 2016 is now complete and the funding of BMO (our emerging market manager and restructuring of the fund to the MSCI World Low Carbon was completed on 3rd July over 7 weeks at a cost of £232k.
- 3.14.2 The components of the new mandate as at the end of June inception was £138m benchmarked against MSCI World Low Carbon Index and £28m benchmarked against RAFI emerging markets. For the September quarter, the fund totalled £169m with a performance of 2.03% and relative return of – 0.03 %.

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 September, quarter the value of the fund investment was £27.1m and total funds under management is £54million. Performance net of fees was 0.36% compared to the LSL benchmark Of -0.95%. The income yield after cost was 3.5%. The portfolio has 183 properties and 1 set of parking spaces (16 have been sold from the 199), 8 are let on licence and leaseback agreement to house builders and 165 properties let on assured short term agreements.

3.15.3 There are 10 vacant properties, 3 of which are being sold, 7 being marketed for rent (1 of which is a new purchase in 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 ninth quarter since funding and the value of the portfolio is now £125m including an additional cash injection of £15m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The September quarter performance before fees was 1.8% against the benchmark of 2.23% (inflation+5%). The one -year performance is 7.9% against benchmark of 8.8% before fees.

3.16.3 Global value equities and regional allocations US and Europe and Emerging markets made strong contributions to returns. Emerging market debt, alternatives and high yield debt also added value whilst infrastructure, insurance –linked securities and currency detracted.

3.17 **BMO Global Assets Mgt**

This is the new emerging and frontier equity manager seeded in July 2017 with a total £74.4m withdrawn from LGIM. The mandate details as follows:

- A blended portfolio with 85% invested in emerging market and 15% in frontier markets

- Target performance MSCI Emerging markets Index +3.0% (for the global emerging markets strategy)
- Expected target tracking error 4-8% p.a
- The strategy is likely to have a persistent bias towards profitability, and invests in high quality companies that pay dividend

3.17.1 The September quarter saw a combined performance of 2.3% against a benchmark of 7.9% before fees. The detractor is mainly due to strong “risk-on” periods, when there are significant flows into the investment space, all chasing the larger cap emerging “blue chip” companies in the index that are contrary to our investment philosophy and holdings.

The strategy remains to continue to research new companies that we suspect might be worthy of your hard earned capital and continue to have a close communication with our existing investments to push them to higher business and governance standards which we believe will ultimately enhance your long term return.

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

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

4.4 Environmental Implications

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 September 2017 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:

Received by:	Corporate Director of Resources	Date
---------------------	---------------------------------	------

	Head of Democratic Services	Date
--	-----------------------------	------

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

This page is intentionally left blank



REPORT PREPARED FOR

**London Borough of Islington
Pension Fund**

November 2017

**Karen Shackleton
Allenbridge**

karen.shackleton@allenbridge.com

www.allenbridge.com

www.mjhudson.com

This document is directed only at the person(s) identified above on the basis that they are a professional investor or professional customer. It is issued by Allenbridge. Allenbridge is a trading name of AllenbridgeEpic Investment Advisers Limited and Allenbridge Limited which are all appointed representative of Allenbridge Capital Limited which is Authorised and Regulated by the Financial Conduct Authority (FCA).

We understand that your preference is for your advisers to issue investment advice in the first person. We recognise that this preference is a matter of style only and is not intended to alter the fact that investment advice will be given by AllenbridgeEpic Investment Advisers Limited, an exempt person under FSMA as required by the Pensions Act.

AllenbridgeEpic Investment Advisers Limited is a subsidiary of MJH Group Holdings Ltd.

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 - Allianz	Monitored by London CIV – no changes reported.	Outperformed in the quarter to September 2017, by +2.3%. Now outperforming by +2.25% p.a. over 3 years to end September 2017 and ahead of the target of +2.0% p.a.	London CIV sub fund had £715 million of assets under management as at end September 2017, an increase of £24 million since end June.		
London CIV - Newton	Monitored by London CIV – no changes reported.	Underperformed the Index by -0.6% in the quarter and underperformed -7.1% over one year. Behind the benchmark over three years by -1.1% per annum.	London CIV sub fund had £661 million of assets under management as at end September 2017, broadly the same as at end June.		
BMO/LGM	No leavers in Q3. BMO allocated a dedicated ESG analyst to LGM in the quarter to September 2017.	Underperformed the benchmark by -5.5% in the first full quarter of this new mandate.			
Manager	Leavers,	Performance	Assets under	Change in	Manager

	joiners and departure of key individuals		management	strategy/risk	specific concerns
Standard Life	5 joiners, including one analyst in fixed income, and 14 leavers (none from fixed income).	Underperformed the Index by -0.2% in Q3 2017. Over three years the Fund is +0.4% p.a. ahead of the benchmark return but behind the performance target of +0.8% p.a.	Fund value fell to £3,467 million in Q3 2017, a fall of £58 million. Islington's holding stood at 7.1% of the Fund's value.	The benchmark for the strategy is now the iBoxx Sterling Non Gilt Index.	The newly formed Aberdeen Standard Investments reported outflows of more than \$10 billion for the year to date.
Aviva	1 new joiner in the real estate team, and two departures. No changes to the Lime Fund team.	Outperformed the gilt benchmark by +2.9% for the quarter to September 2017 and by +12.4% over 12 months. Still trailing the gilt benchmark by -0.2% p.a. over three years, however.	Fund was valued at £1.96 billion as at end Q3 2017. London Borough of Islington owns 3.2% of the Fund.		London Borough of Islington's additional allocation is in a queue which is expected to be invested by the end of 2018.
Columbia Threadneedle	No changes to the property team in Q3. Firmwide, 56 joiners and 41 leavers (only three of whom were investment professionals).	Outperformed the benchmark return by +0.14% in Q3 and ahead of the benchmark by +0.15% per annum over three years. Trailing the performance target of 1% p.a. outperformance.	Pooled fund has assets of £1.86 billion. London Borough of Islington owns 4.3% of the fund.		
Legal and General	Volker Kurr has been appointed head of Europe, institutional, for LGIM.	Funds are tracking as expected. Low Carbon index fund is now in place.	Assets under management of £957 billion at end June 2017.		
Manager	Leavers,	Performance	Assets under	Change in	Manager

	joiners and departure of key individuals		management	strategy/risk	specific concerns
Franklin Templeton	Woon Pin Chong appointed Managing Director to replace Glenn Uren who retired last quarter. Jill Barber, head of UK Institutional, has left the firm.	Portfolio return over three years was +21.9% p.a., well ahead of the target of 10% p.a.			
Hearthstone	No staff changes in Q3.	Underperformed the IPD UK All Property Index by -2.3% in Q3 but outperforming by +1.3% p.a. over three years to end September 2017.	Fund was valued at £53.9 million at end Q3 2017. London Borough of Islington owns 50% of the fund.		
Schroders	108 joiners and 50 leavers in the UK business but no changes to the DGF team.	Fund returned +1.8% during the quarter and +7.9% over 12 months, -0.95% behind the target return.	Total assets under management of £418.2 billion as at end June 2017.		

Key to shading in Table 1:



Minor concern



Monitoring required

2. Individual Manager Reviews

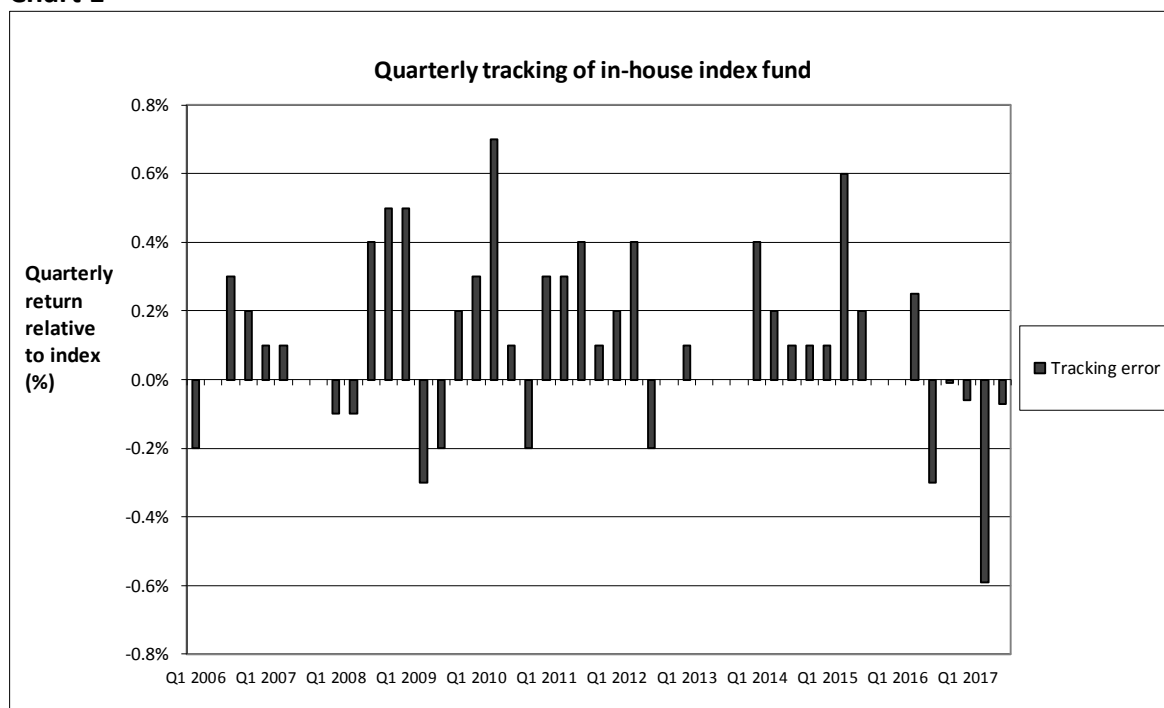
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

Headline comments: The portfolio continues to meet its objectives. The fund delivered a quarterly return of +2.07%, which was slightly behind the index benchmark return of +2.14%. Over three years the fund has outperformed the index by +0.18% p.a. and delivered a return of +8.7% per annum.

Mandate summary: A UK equity index fund which, since June 2017, is designed to match the total return on the FTSE UK All Share Carbon Optimised Index. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the low carbon index. The FTSE UK All Share Carbon Optimised Index itself is expected to perform in a similar way to the FTSE All Share Index.

Performance attribution: Chart 1 shows the tracking error of the in-house index fund against the FTSE All Share Index from Q1 2006. **There are no performance issues.** Over three years, the small quarterly positive relative returns (shown in Chart 1) have accumulated, and thus the portfolio has outperformed its three-year benchmark by +0.18% per annum.

Chart 1



Source: Allenbridge based on BNY Mellon performance calculations

Portfolio risk: The index fund's transition into a low carbon passive portfolio was finally completed in September 2017. As at quarter end, the portfolio had a tracking error of 0.21% against the FTSE UK All Share Carbon Optimised Index 298 stocks. The most underweight sector was Consumer Staples where the portfolio held a 14.32% allocation compared with the Index weighting of 15.08%. The most overweight sector was Industrials: the portfolio allocation was 9.36% compared with the Index weighting of 8.86%.

2.2. London CIV – Global Equity Alpha Fund – Allianz

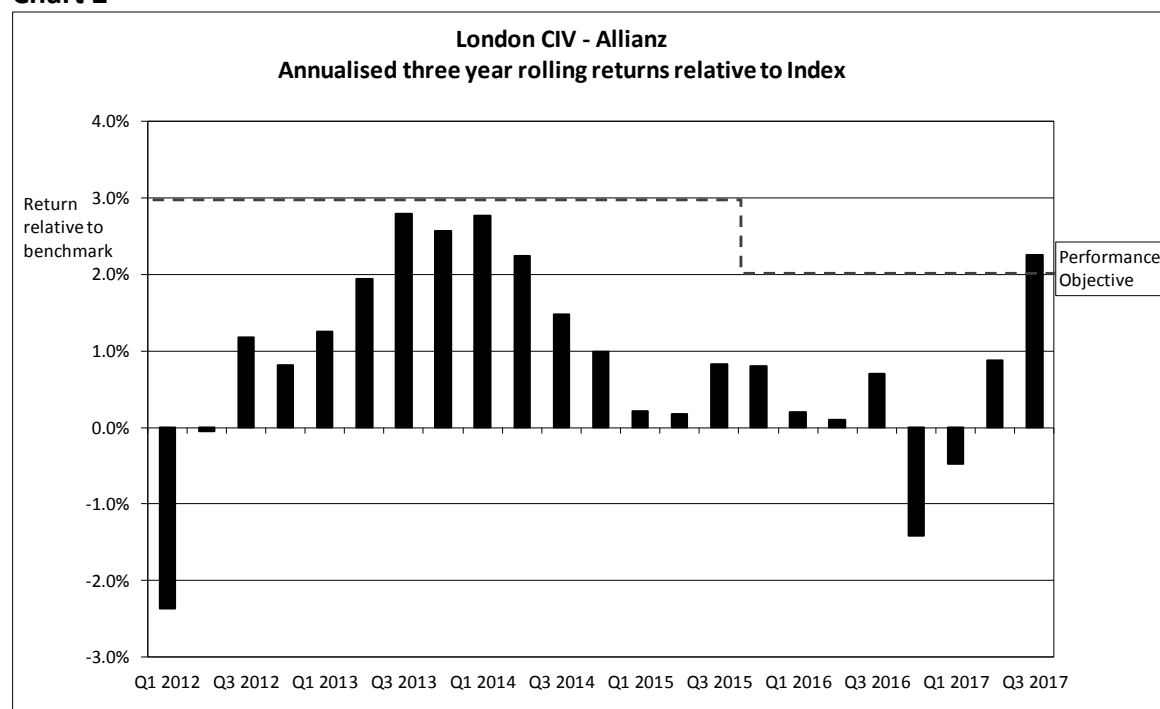
Headline comments: The London CIV – Allianz sub fund delivered a third quarter of strong outperformance in Q3 2017. The fund delivered a return of +3.95% against the benchmark return of +1.62% in Q3, an outperformance of +2.33%. This continued to help the three-year numbers, and it means the fund is now outperforming the benchmark by +2.25% per annum and for the first time it is ahead of the performance target (now +2% per annum over benchmark).

Mandate summary: An active global equity portfolio, with a bottom-up global stock selection approach. A team of research analysts identifies undervalued stocks in each geographical region (Europe, US, Asia Pacific). A global portfolio team is responsible for constructing the final portfolio. The objective of the fund (since Q4 2015) 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 September 2017, the AllianzGI portfolio is ahead of its benchmark by +2.25% per annum, and ahead of the 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 Allianz ran a bespoke mandate for London Borough of Islington. However, this is the first time that the manager has exceeded the performance target,

The portfolio's outperformance in Q3 was attributed by the London CIV to strong stock selection in Information Technology (+0.80%), Healthcare (+0.71%) and Consumer Staples (+0.37%). The overweight allocation to Information Technology added a further +0.36%. On the opposite side, an underweight allocation in Energy (1.8% versus the benchmark's 6.3% allocation) detracted from the overall return by -0.21%. Poor stock selection in Materials detracted a further -0.23%.

Chart 2



Source: Allenbridge based on BNY Mellon performance data

Portfolio Risk: The largest overweight regional allocation remained European Equities (+8.2% overweight). The most underweight allocation was Japan Equities (-5.9% underweight). In terms of sector bets, the most overweight allocation was in Information Technology (+10.6% overweight). Consumer Discretionary was the most underweight sector (-4.9%).

Portfolio Characteristics: as at end Q3 2017, the portfolio held 49 stocks (no change on previous quarter), and had a beta of 0.98 (broadly neutral relative to the market).

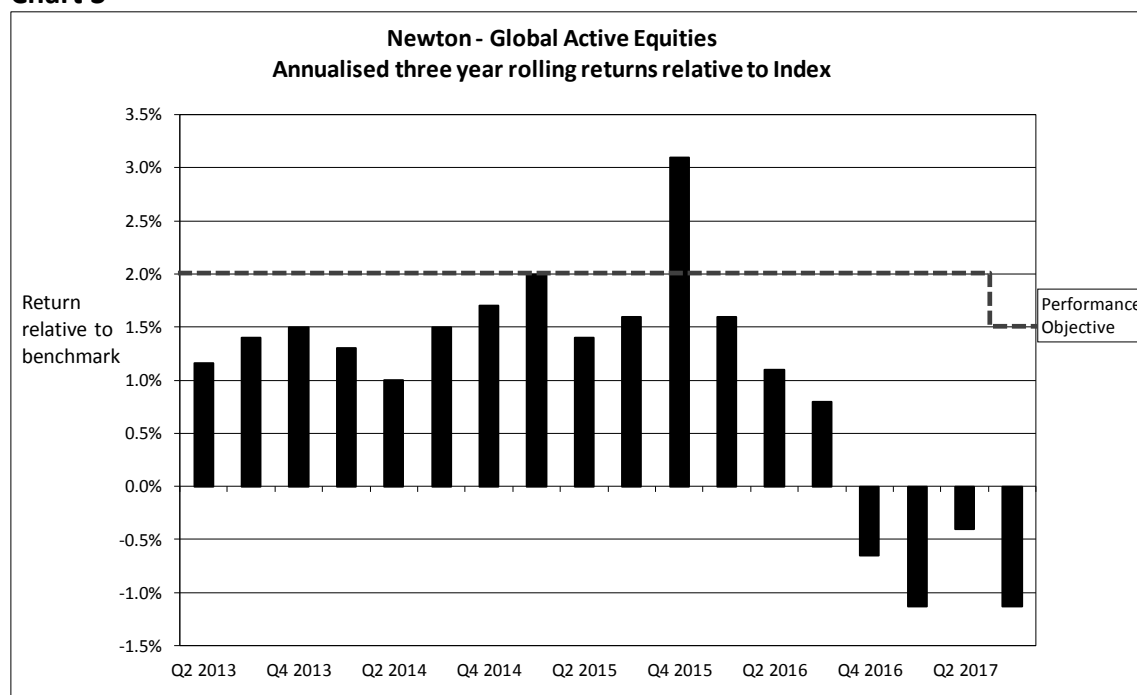
2.3. London CIV - Newton – Global Active Equities

Headline comments: Newton underperformed their benchmark by -1.56% during Q3 2017, bringing the one-year underperformance to a worrying -7.11%. Over three years the portfolio has underperformed the benchmark by -1.13% per annum, behind the target of +2% p.a. This mandate is now part of the pension fund's pooled assets on the London CIV.

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 since 22nd May 2017 is to outperform the FTSE All World Index by +1.5% 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 Q3 2017, the fund (shown by the right hand black bar) has trailed the benchmark by -1.13% per annum. This also means it is trailing

the performance objective (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund). Much of the three-year track record has been impacted by very poor performance over the past 12-18 months. The portfolio has underperformed the benchmark by -7.11% for the 12 months to September 2017.

Detailed attribution of the underperformance in Q3 was not provided by the London CIV.

Since the inception of Newton's portfolio in November 2008, the fund is now trailing its benchmark by -0.48% per annum. Newton's 'since inception' return is +12.48% per annum, compared to the benchmark return at 12.96% per annum (*source: Bank of New York, gross of fees performance*). This means that a passive portfolio would have outperformed the Newton portfolio during this time.

Portfolio Risk: The largest regional allocation was in North American equities (47.15%), followed by Western Europe (37.63%), Asia Pacific (10.16%), Central Asia (4.57%) and Africa/Middle East (0.49%). The London CIV did not provide sector or regional weightings relative to the Index.

Portfolio characteristics: At the end of Q3 2017, assets under management in the London CIV – Newton sub fund stood at £661 million. London Borough of Islington's holding represents 29.1% of the Fund.

Staff turnover: Other than confirming that the new management team is in place (Curt Custard, Chief Investment Officer; Julian Lyne, Chief Commercial Officer; Andrew Downs, Chief Operating Officer; James Helby, Chief Risk Officer), no further staff changes were reported.

2.4. BMO/LGM – Emerging market equities

Headline comments: This was the first full quarter of the new mandate with BMO Investments. The portfolio delivered a return of -0.91% in Q3 2017, compared with the benchmark return of +4.60%.

Mandate summary: the manager invests in a selection of emerging market and frontier market equities, with a quality and value, absolute return approach. The aim is to outperform a combined benchmark of 85% MSCI Emerging Markets Index and 15% MSCI Frontier Markets Index by at least 3% per annum over a 3-5 year cycle.

Performance attribution: during the quarter, positive contributors to performance came from Yes Bank, Foshan Haitian Flavouring and Food, Bim Birlesik and Mr Price. Companies which detracted from performance included ITC, Universal Robina and ICICI Bank.

Portfolio risk: The largest overweight country allocation was in India. The portfolio allocation was 18.1% compared to the index allocation of 8.4%. In terms of sector weights, the largest overweight allocation was Consumer Staples. 43.3% of the portfolio is in Consumer Staples stocks, compared to just 6.5% in the Index. The most underweight sector was Information Technology where the portfolio allocation was 1.5% compared with the Index weighting at 27.5%.

Portfolio characteristics: as at end September 2017, the portfolio held 111 stocks.

Organisation: There were no departures from the LGM team in Q3. BMO allocated a dedicated ESG analyst to LGM although this was an internal transfer rather than a new appointment.

2.5. Standard Life – Fixed Income

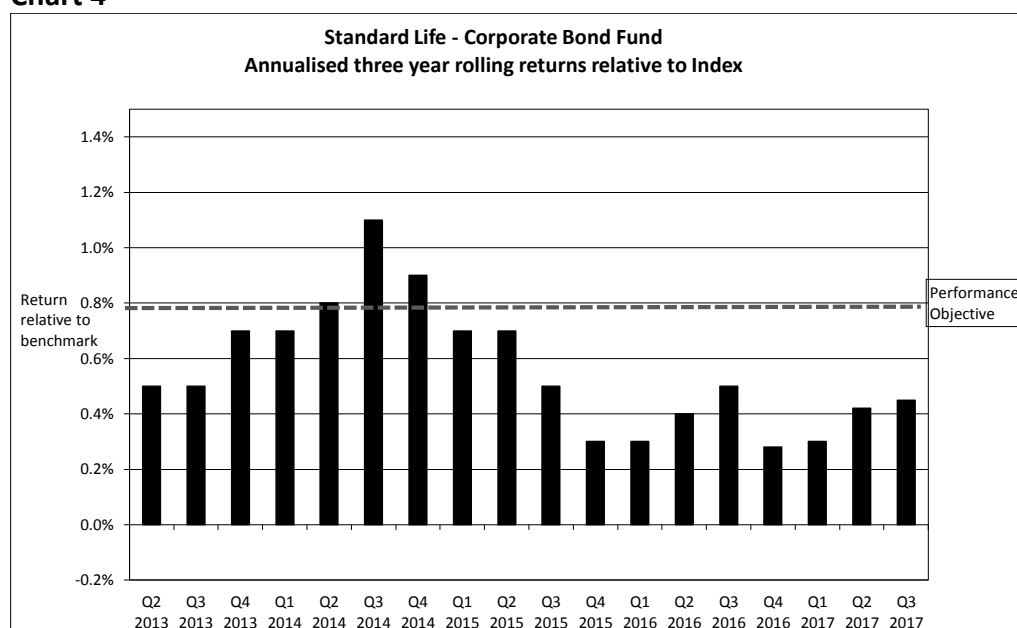
Headline comments: The portfolio was behind the benchmark by -0.23% during the quarter, delivering a return of -0.13%. Over three years, Standard Life's return was +0.38% p.a. ahead of the benchmark return of +5.98% p.a., but behind the performance target of +0.8% per annum.

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

Performance attribution:

Chart 4 shows the three-year performance of the Corporate Bond Fund compared to the Index, over the past three years. This shows the fund ahead of the benchmark over three years (right hand bar), but trailing the performance objective (shown by the dotted line in Chart 4).

Chart 4



Source: Allenbridge based on BNY Mellon performance data

Over three years, the portfolio has returned +6,36% p.a. compared to the benchmark return of +5.98% p.a. Over the past three years, stock selection has added 0.41% value, followed by asset allocation (+0.16%). This has been offset slightly by a negative contribution to performance from curve plays.

Portfolio Risk: The largest holding in the portfolio at quarter end was EIB 5.625% 2032, at 1.4% of the portfolio. The largest holding last quarter (UK Government 4.5% 2034) stood at 0.9% of the portfolio at end September.

The largest overweight sector position remained Financials (+9.7%) and the largest underweight position remained sovereigns and sub-sovereigns (-15.5%).

The fund holds 3.8% of the portfolio in non-investment grade bonds.

Portfolio characteristics: The value of Standard Life's total pooled fund at end September 2017 fell in value to £3,467 million, £58 million lower than at the end of Q2 2017. London Borough of Islington's holding of £246.4 million stood at 7.1% of the total fund value (compared to 7.0% last quarter).

Staff turnover: there were five joiners, including Claire Dunlop who has joined as a credit analyst in fixed income, and 14 leavers (none from fixed income).

Organisation: the newly formed Aberdeen Standard Investments reported outflows of more than \$10 billion for the year to date. Reported redemptions from Aberdeen totalled \$2.7 billion in September alone. These withdrawals reflected concerns over poor performance and the threat of up to 800 job losses over the next three years.

Although the newly merged firm began trading on 14th August as Aberdeen Standard Investments, clients will continue to trade on separate platforms with Chinese walls in place until the end of the year.

2.6. Aviva Investors – Property – Lime Property Fund

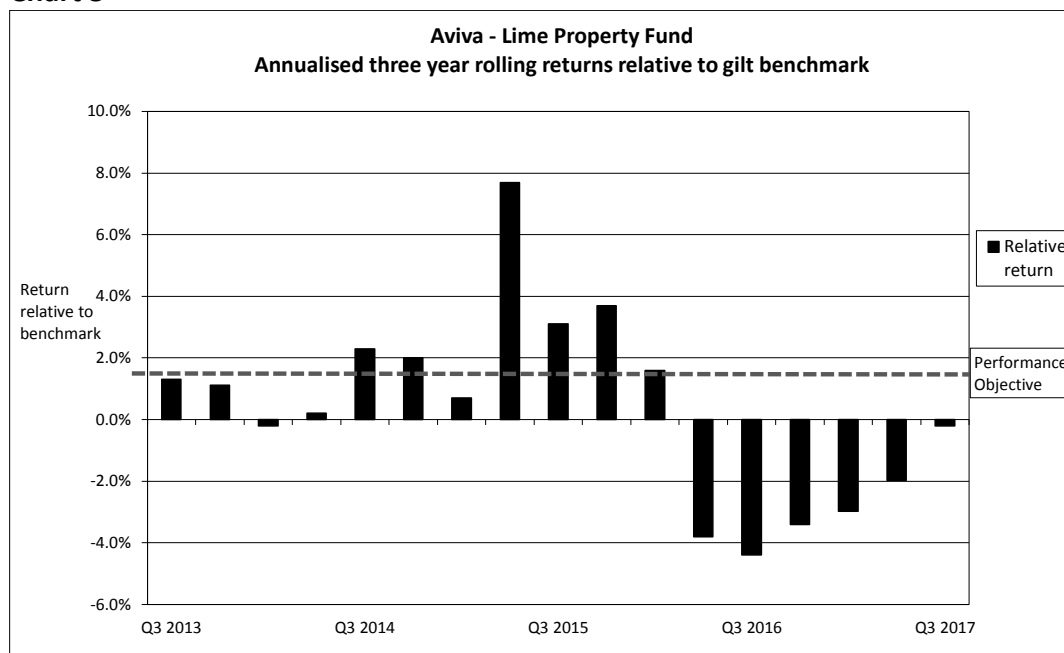
Headline comments: The Lime Fund delivered another quarter of steady return. The Fund returned +2.42%, compared with the benchmark which returned -0.49%. Over three years, the fund is trailing the gilt benchmark by just -0.21% p.a., much closer to the benchmark than has been the case recently. The new allocation to the Lime Fund is in a queue that is expected to be invested by the end of 2018.

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's Q2 2017 return of +2.42% was attributed by Aviva to 0.95% from income, with the balance from capital gains.

Over three years, the fund has returned +6.95% p.a. compared to the gilt benchmark of +7.16% p.a., an underperformance of -0.21% per annum. The **portfolio is trailing its performance objective of +1.5% per annum outperformance over three years**, although by a much narrower margin than has been the case recently, as can be seen in Chart 5. Much of the underperformance has been a result of low yields in the gilt market rather than poor performance in the Lime Fund which continues to deliver a very stable, absolute return.

Chart 5



Source: Allenbridge based on WM and BNY Mellon performance data

Of the +6.95% p.a. fund return over three years, 4.57% p.a. came from income, with the balance from capital gain.

Portfolio risk: The fund completed on a purchase of a new asset in the South East during Q3. This is a development of four care homes. The fund also completed on the sale of Parklands Court (offices) in Birmingham. This asset had been one of the top performing holdings over the past three years and the final sale price was 6% above the valuation price. The reason for the sale was the falling lease length and a concern over the credit quality of the asset.

The average unexpired lease term was 19.3 years as at end September. 8.1% of the portfolio's lease exposure in properties is in 30-35 year leases, the largest sector exposure remains offices at 29.2%, and the number of assets in the portfolio remains stood at 74 as at end September. The weighted average unsecured credit rating of the Lime Fund remained A- as at end September 2017.

Portfolio characteristics: As at end September 2017, the Lime Fund was valued at £1.926 billion, an increase of £80.1 million from the previous quarter end. London Borough of Islington's investment represents 3.2% of the total fund.

The Fund had 68.9% allocated to inflation-linked rental uplifts as at end September 2017.

At the end of last quarter, Aviva submitted data for their annual GRESB (Global Real Estate Sustainability Benchmarking) assessment. They have reported an increase in their score from 51 in 2016 to 52 in 2017 (on a range of 0 to 100 where 100 is excellent in every governance aspect). Aviva point to the fact that most of their investments are tenanted, so responsibility for sustainability and energy efficiency rests with these tenants, not with Aviva.

Staff turnover/organisation: There was one new joiner and two leavers from the real estate team during Q3. However, there were no changes to the Lime Property Fund team.

2.7. Columbia Threadneedle - Pooled Property Fund

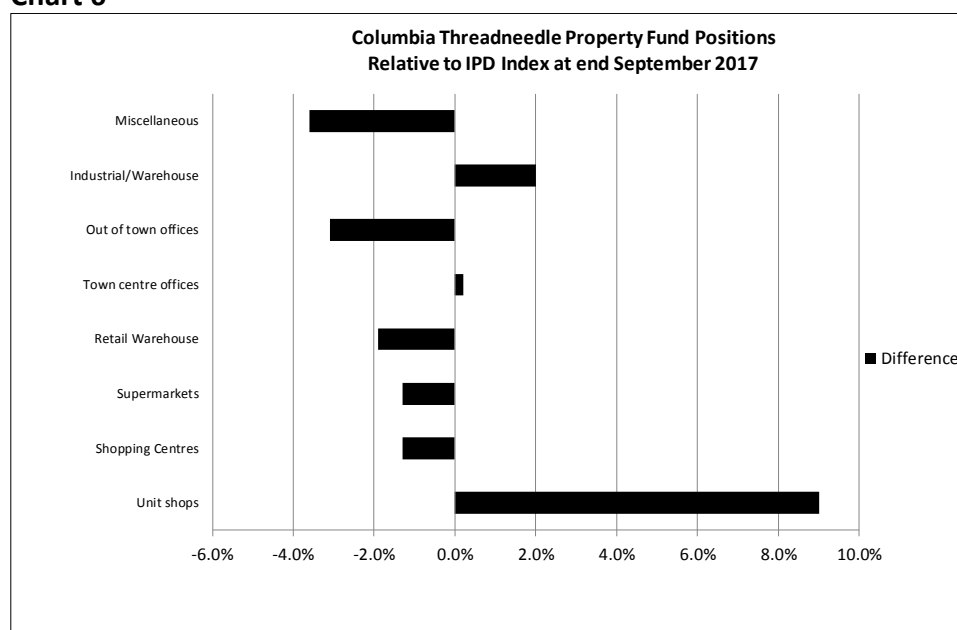
Headline comments: The Fund delivered a return of +2.51% in Q3 2017, ahead of the benchmark return of +2.37%. Over three years, the Fund has outperformed the benchmark by +0.15% per annum, although this is behind the performance target of 1% p.a. above benchmark. Over five years the performance target has been met.

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 outperformed the benchmark by +0.14% in Q3 2017, delivering a return of +2.51%. Over three years, the Fund is ahead of its benchmark by +0.15% per annum but is trailing the performance target of +1% per annum. The absolute return over three years continues to decline.

Portfolio Risk: Chart 6 shows the relative positioning of the Fund compared with the benchmark.

Chart 6



Source: Allenbridge based on Columbia Threadneedle data.

As previously mentioned, the overweight allocation to unit shops is skewed because IPD (against which the portfolio is measured) classifies two of the largest properties in Threadneedle's portfolio as retail. These are the Heals building and the South Molton Street property. In fact, based on square footage, these assets are significantly more office than retail.

During the quarter, the Fund invested in three assets totalling £43.5 million. Two were office block assets and one was an industrial unit.

Portfolio characteristics: As at 30th September 2017, the Threadneedle Property Fund was valued at £1.86 billion, an increase of £56.0 million compared with June 2017. London Borough of Islington's investment represented 4.3% of the Fund as at end September 2017.

Staff turnover: There were no changes to the property team in Q3. Firmwide, there were 56 joiners and 41 leavers during the quarter. However, of these only three leavers were investment professionals.

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

Headline comments: The index funds were within the expected tracking range when compared with their respective benchmarks. At the end of last quarter, the regional market-capitalisation weighted index funds transitioned into the MSCI World Low Carbon index fund. This fund outperformed the benchmark index by +0.01%. The FTSE-RAFI Emerging Markets index fund underperformed its benchmark index by -0.04%

Mandate summary: Following a change in mandate in June 2017, the Fund now invests in two of LGIM's index funds: one is designed to match the total return on the FTSE-RAFI Emerging Markets Equity Index; the second is designed to match the total return on the MSCI World Low Carbon Target Index. The MSCI World Low Carbon Target is based on capitalisation weights but tilting away from companies with a high carbon footprint. The FTSE-RAFI Index is based on fundamental factors.

Performance attribution: The two index funds both tracked their benchmarks as expected, as shown in Table 2.

Table 2

Q3 2017	Fund	Index	Tracking
FTSE-RAFI emerging markets	6.29%	6.33%	-0.04%
MSCI World low carbon target	1.19%	1.18%	+0.01%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The new allocation of the portfolio, as at quarter end, was 82.5% to the MSCI World Low Carbon Target index fund, and 17.5% allocated to the FTSE RAFI index fund.

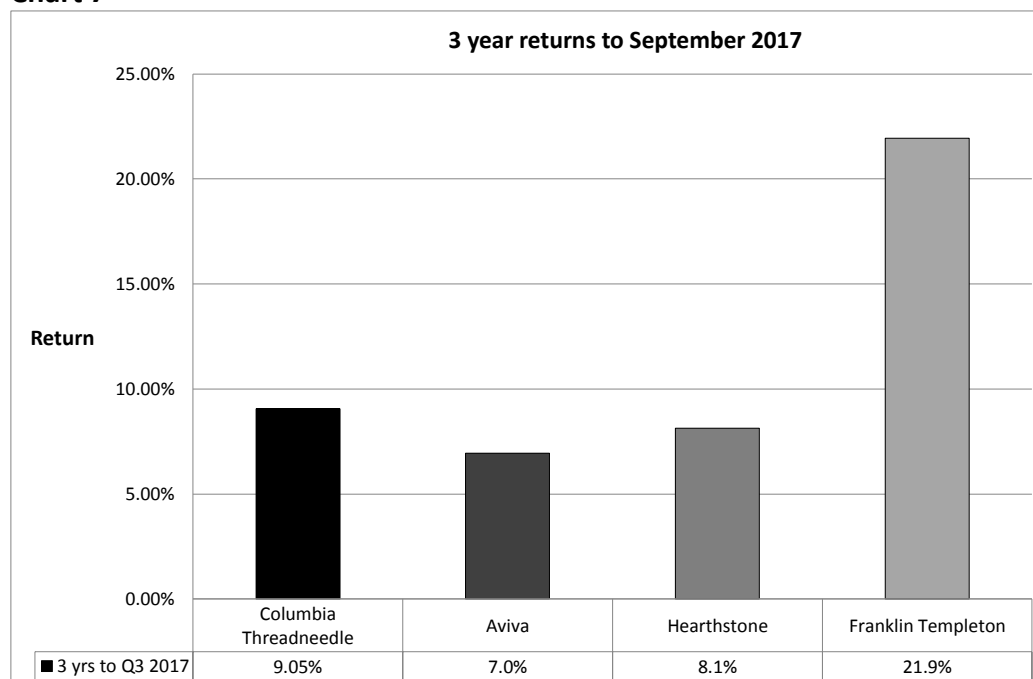
2.9. Franklin Templeton – Global Property Fund

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. The portfolio in aggregate delivered a return of +21.93% per annum over the three years to end September 2017, outperforming the absolute return benchmark of 10% per annum by +15.5% p.a.

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 September 2017, Franklin Templeton continues to be the best performing fund across all four property managers. Chart 7 compares their annualised three-year performance, net of fees.

Chart 7



Source: BNY Mellon, Columbia Threadneedle

Staff turnover/organisation: Last quarter, Glenn Uren, Managing Director of real estate, retired after 20 years at Franklin Templeton Real Asset Advisors. Franklin Templeton have recently announced the appointment of Woon Pin Chong as his replacement. In addition, Jill Barber, Head of UK Institutional business, has left the firm. Until a replacement has been found, Martyn Gilbey, Head of UK for Franklin Templeton, will assume overall responsibility for the UK institutional business.

2.10. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +0.36% compared to the benchmark return of +2.67% for the quarter ending September 2017. Over three years, the Fund delivered a return of +7.04% p.a. compared to the benchmark return of +5.72% p.a., an outperformance of +1.32% p.a.

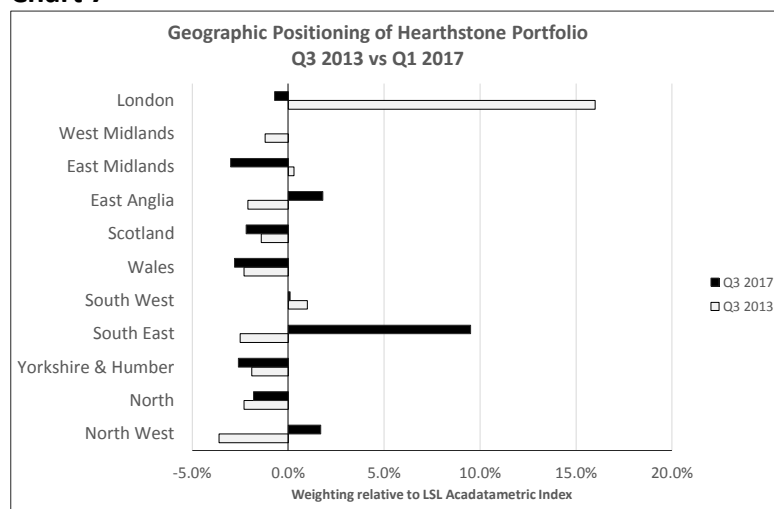
Mandate summary: The Fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by Bank of New York is the IPD UK All Property Monthly Index.

Performance attribution: The Fund returned +7.04% p.a. compared to the return on the index of +5.72% p.a. over the three years to September 2017, an outperformance of +1.32% p.a. The gross yield on the portfolio as at 30th September 2017 was 5.1%. Adjusting for voids, however, the gross yield on the portfolio falls to 4.95%.

Portfolio risk: The cash and liquid instruments on the fund stood at 19.4% as at end September 2017, which is above Hearthstone's target level of 15%.

The regional allocation, shown in Chart 7 relative to the benchmark Index, continues to have a heavy overweighting to the South East. It remains Hearthstone's long term intention to run the portfolio on a region-neutral basis. Chart 7 compares the regional bets in the portfolio in Q3 2017 with the regional bets at the start of the mandate, in Q3 2013. The overweight allocation to the South East is shown by the large black bar on the right.

Chart 7



Source: Hearthstone

Portfolio characteristics: The Fund has a 14% allocation to detached houses, 51% allocated to flats, 22% in terraced accommodation and 13% 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).

As at end September 2017, the Fund stood at £53.9 million. London Borough of Islington's investment now represents 50% of the Fund. This compares with 72% at the start of this mandate in 2013.

Organisation and staff turnover: During the quarter, there were no staff changes.

2.11. Schroder – Diversified Growth Fund (DGF)

Headline comments: The Diversified Growth Fund delivered a return of +1.77% in Q3 2017. This compared with the RPI plus 5% p.a. target return of +2.23% for Q3. Over one year, the Fund's return was +7.90%, compared to the target return of +8.85%, behind the target over one year by -0.95%.

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 Q3 2017, Schroders' holdings in US, global and emerging market equities made the largest contributions to equity performance (+1.5% in aggregate) with more muted contributions from fixed income (global high yield and emerging markets being the main contributors, adding +0.2%).

Over 12 months, the largest contributor remained global equities (+2.7%) followed by North American equities (+2.5%). The negative detractors were Pacific ex Japan equities (-0.1%), commodities (-0.6%) and currency (-0.7%).

The return on global equities was +15.6% for the 12-month period, compared with +7.9% for the Fund (a 50% capture of the equity return). Over a full 3-5 year market cycle the portfolio is expected to deliver equity-like returns.

Portfolio risk: The portfolio is expected to exhibit two-thirds the volatility of equities over a full 3-5 year market cycle. Since the inception of the pooled fund in 2006, the risk to end September was 8.1% compared with the risk on global equities of 13.9% (58% of the volatility of equities and broadly in line with expectations).

Portfolio characteristics: The Fund had 21% in internally managed funds (up from 16% last quarter), 34% in internal bespoke solutions (down from 37% last quarter), 9% in externally managed funds (up from 8%), 32% in passive funds (down from 37%) and 4% in cash, as at end September 2017. In terms of asset class exposure, 48.1% was in equities, 30.0% was in alternatives and 18.0% in credit and government debt, with the balance in cash.

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

Organisation: during the quarter, there were 178 joiners and 110 leavers within the UK business. There were no changes to the team responsible for the Diversified Growth Fund.

Karen Shackleton
Senior Adviser, Allenbridge
3rd November 2017

This page is intentionally left blank



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	21 November 2017		

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 July 2017 to October 2017.

2. Recommendations

- 2.1 To note the progress and news to October 2017.

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.' 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 **News in November**
- 3.5.1 **i) The Chief Executive Hugh Grover has stepped down and** Mr Hyde-Harrison has been appointed interim CEO. He was the chair of the National Association of Pension Funds (now the Pensions and Lifetime Savings Association) from 2011 to 2013. He was Head of Defined Contribution Strategy at consultancy Willis Towers Watson from 2013 to 2015. Prior to this he was with, the Barclays UK Retirement Fund, as Chief Investment Officer from 2002 to 2007, and Chief Executive from 2007 to 2012.
- ii)** Kevin Cullen has been appointed as the Clients Relationship Director (replacement to Jill Davys). His previous roles have been at UBS, State Street and most recently Insight.
- 3.6 Progress to October 2017 is highlighted below. The much detailed minutes and performance reports are available to Members if required and can be emailed directly.

LCIV QUARTERLY UPDATE – October 2017

1. This note is the latest quarterly update covering the progress and activity of London CIV. It has been drafted for SLT and Pension Manager colleagues and can be used, in whole or part, for inclusion in Committee papers if required. Key items this quarter are:

Investment Advisory Committee

2. The IAC has continued to meet on a monthly basis under the Chairmanship of Ian Williams. Minutes of the July, August and September meetings are attached for information, please contact Ian (ian.williams@hackney.gov.uk) with any queries.

Sub-funds available within the London CIV

Global equity funds:

- LCIV Global Equity Alpha (management delegated to Allianz)
- LCIV Global Alpha Growth (management delegated to Baillie Gifford)
- LCIV NW Global Equity (management delegated to Newton)
- LCIV LV Global Equity (management delegated to Longview)

UK equity fund:

- LCIV MJ UK Equity (management delegated to Majedie)

Multi-asset/ Total Return funds:

- LCIV BG DGF (direct investment into the Baillie Gifford Diversified Growth Fund)
 - LCIV NW RR (direct investment into Newton Real Return Fund)
 - LCIV PY TR (direct investment into Pyrford Real Return Fund)
 - LCIV RF AR (direct investment into Ruffer Absolute Return Fund)
3. All the funds are open for new subscriptions (except LCIV LV Global Equity) and LGPS Funds interested in making an investment should contact Monica Bell (monica.bell@londonciv.org.uk) in the first instance.
 4. Attached is a high level overview of the sub-funds in terms of size and performance to 30 September 2017.
 5. Quarterly oversight and monitoring reports for Q3 2017/18 are being prepared and will be circulated to Funds shortly. Once received, any queries against the reports should be directed to Chloe Crouch (chloe.crouch@londonciv.org.uk) who will ensure that the query is handled by the appropriate member of the LCIV team. Please note that the reports are confidential and should not be placed in public papers.
 6. Fund information sheets are available for the currently open funds through LCIV's new secure Client Portal, and on request for those funds not yet launched.

Sub-Fund Launches

7. Having launched the Longview fund there are three further equity sub-funds in the process of opening:
 - Henderson Emerging Markets: this fund has been awaiting 'market opening' in India, this has now been received and the fund is awaiting its seed investment (anticipated to be from LB Lambeth), after which the fund will be fully open and ready to receive further subscriptions.
 - Epoch Global Equity Income: this fund will open in November with LB Hillingdon as the seed investor.
 - RBC Sustainable Equity: this fund will open in December with LB Hackney as the seed investor.

Equity Strategies

8. A second global equity information day was held on 13 September (invitations were sent to Pensions Sectoral Joint Committee (PSJC) Members, Treasurers and Pension Managers). This provided Funds with a further opportunity to meet with Henderson, Epoch and RBC. Attendance was disappointingly low, which is perhaps an indication that September is not a good month for such events, although feedback was overall very positive.
9. With Rob Hall now on-board as LCIV's Head of Equities, further consideration is being given to the final range of equity sub-funds that will be available through LCIV. This will be discussed with colleagues in the Equity Working Group and the Investment Advisory Committee (IAC) before being put to the PSJC and disseminated more widely. Current indications are that there is significant appetite for core and low carbon funds, and LCIV is finalising plans for opening suitable sub-funds.

Fixed Income and Cashflow Strategies

10. Larissa Benbow (LCIV's Head of Fixed Income) is continuing to work on Fixed Income (FI) and will be discussing (1) investment fund design based on LLA priorities established during 1-2-1 meetings and (2) preferred manager list with the FI Working Group and the IAC. It is hoped that the FIWG will have a presentation from the short listed Liquid managers in the first week of December with the Board to sign off the final selection the following week.
11. It is planned to get the first (more liquid) FI products open early in the New Year with more to follow as soon as possible thereafter. These funds will include; Global Bonds, Liquid Loans and Multi Asset Credit (Liquid).
12. The more illiquid Fixed Income products require LCIV to go to the FCA for an extension of permissions, which in turn requires the agreement of all shareholders. The proposal for this has been sent to all Shareholder Representatives (nominated Member from each authority). It is important to receive the agreement as soon as possible as the FCA takes up to three months to process the application.

Infrastructure

13. LCIV now have an internal resource dedicated to building infrastructure products to be offered on the pool; Ryan Smart, Investment Analyst at LCIV is running with the project and will set out the medium-term strategy in the coming months. Ryan, since taking on the role six weeks ago, has been gathering intelligence by meeting with a range of fund managers, placement agents, advisors and other institutional investors within the asset class.
14. LCIV hosted the first Infrastructure working group at the end of September at which several boroughs looking to get immediate exposure to the asset class were in attendance. From the meeting it was agreed that the LCIV would look to launch a global, unlisted, income focused fund that concentrated on core/core-plus assets. As a result the LCIV are now scoping out the universe and will report back with their findings to the group.

London CIV Budget and Medium Term Financial Strategy

15. Regular reporting on progress against the budget and targets in the Medium Term Financial Strategy is being provided to the PSJC and a copy of the report that went to the September meeting can be found here: <http://www.londoncouncils.gov.uk/node/32241>.

Recruitment

16. Since the last quarterly update Rob Hall and Charlotte Hamilton have joined the LCIV team as Head of Equities and Fund Accountant respectively. In addition Tony Lambert has been engaged as Interim Director of HR to finalise LCIV's HR systems and processes and to support the recruiting programme.
17. LCIV continues to be actively recruiting to a number of roles across the organisation including Chief Risk Officer, Clients Relations Director, and Investment Team Assistant.

Events

18. Three events have been run in the last quarter; a MiFID II and Code of Transparency seminar for officer colleagues, a low carbon workshop open to officers and Members, and the global equities 'meet the manager' session mentioned above. All three were very successful and the feedback results for the first two are attached for information.
19. Forthcoming events include, an Infrastructure Seminar, and Property Seminar, both for officers and Members. Invitations to these events will be sent in due course, but feedback or suggestions for future topics are welcome; please email chloe.crouch@londonciv.org.uk with your thoughts.
20. On 31 October the first Low Carbon Members Working Group meeting will be held to further explore what products will be made available in this area.

MiFID II Opt-up Process

21. The process for opting-up Funds from Retail to Professional status ahead of the January deadline is well under way with 21 already having submitted the necessary paperwork for assessment.

22. It is vital that all London Funds have gone through the process, not just with LCIV but with all their managers, before the 3 January deadline or they will be classified as retail clients leading to significant restrictions in what fund managers are able to provide to authorities by way of investment products. Template paperwork can be found on the Scheme Advisory Board website (<http://www.lgpsboard.org/index.php/schemedata/mifidii>).

Governance Review of the CIV

23. Following a procurement exercise Willis Towers Watson have been appointed to run the governance review. A survey has been sent to over 100 'stakeholders' and so far over 50 responses have been received.
24. Workshops and follow up discussion will be taking place over the next few weeks with a view to having findings and recommendations ready for review, discussion and finalisation before Christmas.

Future Updates on Progress

25. We hope this provides useful information on what both the CIV and the Investment Advisory Committee are working on, but if you have any comments or would like us to cover specific items in more detail, please contact either of us or email chloe.crouch@londonciv.org.uk

Ian Williams Chair, CIV Investment Advisory Committee

Hugh Grover, London CIV CEO

3.7 **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.

All sub-funds investors pay a management fee of .050% of AUM to the London CIV in addition to managers' fees.

In April 2017 a service charge of 50k (+VAT) development funding was invoiced and a balance of £25k will be raised in December once the Joint Committee has reviewed the in-year budget.

Members agreed to the 0.005% of AUM option for charging fees on the LGIM passive funds that are held outside of the CIV and agreed that (depending on the outcome of discussions) the same will be applied to BlackRock passive funds.

The Newton transition cost the council 32k.

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. Members are asked to note progress made to October 2017.

Background papers:

Final report clearance:

Signed by:

	Corporate Director of Resources	Date
Received by:		

	Head of Democratic Services	Date
--	-----------------------------	------

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



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	21 November 2017		n/a

Delete as appropriate	Exempt	Non-exempt

SUBJECT: INVESTMENT STRATEGY UPDATE -INFRASTRUCTURE

1. Synopsis

- 1.1 This is a progress report on investment strategy review to consider changes to the asset allocation of the Fund's 25% defensive assets. This report updates members on progress made on the infrastructure procurement process.

2. Recommendations

- 2.1 To note progress made
- 2.2 To agree to collaborate with other local authorities to pursue a joint tender if that is feasible within our timetable.
- 2.3 To agree to contribute to the London CIV infrastructure working group.

3. Background

3.1 Asset Allocation to Infrastructure

- 3.1.1 The Pensions Sub-Committee agreed a revised investment strategy for the Fund at its November 2014 meeting. The revised strategy maintained the Fund's 75% growth, 25% defensive split and included a 15% flexible allocation to infrastructure and social housing, with the allocation between the assets dependent on market conditions. This allocation is to be funded from the Fund's corporate bond allocation.

Members then agreed in November 2015, to ask and seek confirmation from the London CIV to develop an Infrastructure sub fund or investment vehicle ideally including social housing covering our mandate specification over the next 12 to 18 months, and if confirmation is not forthcoming alternative plans sought. Nothing has been forthcoming from the LCIV to date on infrastructure and

as such, Members asked Mercer to review and update the previously agreed parameters.

- 3.1.2 In June 2017, Members reaffirmed the parameters of the Fund's allocation to infrastructure and a specification of what the Fund 's infrastructure mandate. The table below sets out the areas typically specified when seeking a mandate and suggested potential or indicative targets.

3.1.3

Considerations	Islington Indication
Target return (net IRR)	c.10% Gross IRR
Target cash yield (net % p.a.)	c. LIBOR + 2.0% - 3.0%
Target risk profile	Defensive, income focused
Target geographies	Global with UK bias
Target sectors	Regulated, core and core plus (if strong inflation component)
Target development stage	Predominately brownfield
Target capital structure	Predominately equity, some debt
Target number of underlying managers	7- 10
Target number of underlying funds	7-10 initial allocation
Target number of underlying assets	70-100
Target vintage diversification	Rolling programme, consider secondary opportunities
Target allocation to direct/co-investments	0%
Average maturity / term of programme c. 15 years - ability to invest in longer term PPP	c. 15 years –ability to invest in longer term PPP projects, balanced with shorter term secondary and debt opportunities
Investment period for programme	Initial 5 years and then rolling for vintage year diversification
Approach to ESG integration	Preference for managers who integrate ESG
Fee schedule	TBC(base fee preferred)
Performance reporting arrangements	Report on portfolio as a whole quarterly (with monthly information)

- 3.2 Members agreed in September to commence the procurement process and receive a progress report at their November meeting.
- 3.3 Officers have discussed with other London local authorities the possibility of a joint tender to procure infrastructure within our time line. The London Borough of Merton has agreed to lead and is preparing a scoping document for consultation. This will inform on the tender specifications and allow all participants to input their requirements. Our advisors and members will be part of the selection process after a long list of managers is ascertained. Members are asked, to agree to collaborate with other interested local authorities in a joint tender for infrastructure.
- 3.4 The London CIV asked for volunteers to form an infrastructure-working group to progress launching an infrastructure fund. The group met in October and have agreed an initial high level of specifications and a March 2018 deadline to invest in a Fund. The LCIV will need to seek FCA approval to set up this vehicle and that may affect the target date. An infrastructure informative paper and educational seminar is planned for all boroughs in December.
- 3.5 All parties recognized that, how quickly the LCIV can receive investment permissions, and relatedly, set-up the unauthorised alternative investment fund will impact on the launch date. The Head of treasury and pensions is a member of the working group and will continue to contribute and update LCIV on any progress made internally.

4. Implications

4.1 Financial implications

- 4.1.1 The cost of providing independent investment advice is part of fund management and administration fees charged to the pension fund.

4.2 Legal Implications

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

- 4.2.1 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

Environmental considerations can lawfully be taken into account in investment decisions

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 Members asked to note the progress made on implementing the 25% liability matching asset allocation strategy review. Agree to pursue a joint tender with other local authorities and keep contributing to the LCIV infrastructure- working group.

Background papers:

None

Final report clearance:

Signed by:

Received by:	Corporate Director of Resources	Date
--------------	---------------------------------	------

	Head of Democratic Services	Date
--	-----------------------------	------

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	21 November 2017		n/a
Delete as appropriate		Non-exempt	

SUBJECT: PENSIONS SUB-COMMITTEE 2017/18– 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.

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

- 4.1.1 The cost of providing independent investment advice is part of fund management and administration fees charged to the pension fund.

4.2 Legal Implications

None applicable to this report

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:

Received by:	Corporate Director of Resources	Date
---------------------	---------------------------------	------

	Head of Democratic Services	Date
--	-----------------------------	------

Report Author:	Joana Marfoh
Tel:	(020) 7527 2382
Email:	Joana.marfoh@islington.gov.uk

Pensions Sub-Committee Forward Plan for November 2017 to June 2018

Date of meeting	Reports
	<p><u>Please note:</u> there will be a standing item to each meeting on:</p> <ul style="list-style-type: none"> • Performance report- quarterly performance and managers' update • CIV update report
21 November	Investment strategy update- infrastructure Climate risk strategy and objectives Strategies to protect the fund recovery plan
5 March	Actuarial funding update Infrastructure award Alternative products to corporate bond portfolio
June	Training Policy Review Business plan update
September	
October	Pension annual meeting

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

March 2018	Asset backed securities



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	21 November 2017		n/a

Delete as appropriate	Exempt	Non-exempt
-----------------------	--------	------------

Appendix 1 and 2 are 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: ESG AND CLIMATE CHANGE RISK ASSESSMENT AND RATING

1. Synopsis

- 1.1 This report and exempt appendices provide information on the Fund to enable and better understand its exposure to climate risk and establish a starting point in identifying and managing these risk across all the whole portfolio.
- 1.2 Mercer, our investment advisors have prepared a briefing paper on the environment, social and governance (ESG) ratings of our existing managers and a climate risk assessment attached as Exempt Appendix 1 and 2 for consideration.

2. Recommendation

- 2.1 To receive the presentation by Mercer, our investment advisors
- 2.2 To develop existing climate investment beliefs and policies
- 2.3 To consider how to design a more climate resilient investment portfolio
- 2.4 To consider reporting and disclosure of its actions to reduce climate risk
- 2.5 To note ESG ratings of the existing managers and engage and monitor these ratings

3. Background

- 3.1 The Committee believes that Environmental, Social and Governance (“ESG”) risks should be taken into account on an ongoing basis and are an integral part of the Fund’s strategy and objective of being a long term investor.
- 3.2 Members agreed at November 2016 pension sub- committee meeting that the carbon footprint level of equities in the In-House UK Passive Fund be reduced with immediate effect, with 50% of assets allocated to Legal and General Investment Management’s MSCI World Low Carbon Target Index Fund and the remaining 50% of assets managed in house to track the FTSE UK Low Carbon Optimised index and that officers investigate how a low carbon approach could be realised for the rest of the Fund, which does not comprise equities.
- 3.3 Officers had discussions with Legal and General and the In House Manager to combine all transactions including the transfer of assets to our impending emerging market manager to minimize transition cost. The agreed way the process and timeline transition were as follows:
- LGIM received £125m in speci stocks from the In House manager on 10 May
 - LGIM crossed and sold stocks received and its existing Europe and Emerging Market to make available the cash of £59.4m for the emerging market manager by 6 June.
 - LGIM transitioned stocks to the MSCI World Low Carbon Target Index by 3 July of £140m
 - In House manager transferred his residual stocks to the new FTSE UK Low Carbon Optimised Index by 11 September.
- 3.4 Mercer has completed analysis to identify ways in which the Fund can reduce ESG risk and has conducted a review of ESG ratings for the Fund’s underlying investment managers. Mercer’s ESG ratings provide an assessment of the integration of ESG issues into the investment process and provides an overall rating – ESG 1 is the highest possible rating and ESG 4 is the lowest possible rating. As such, Mercer has provided the ESG ratings the Fund’s 9 strategies across equities, fixed income, DGFs, property and private equity.
- 3.5 Members are asked to consider the presentation, the ESG ratings of our 9 managers and focus on integration; having regular follow up discussions with managers as an important element of communicating expectations on ESG and climate integration and develop investment beliefs and a strategic approach to climate risk

4. Implications

4.1 Financial implications

- 4.1.1 The cost of providing independent investment advice and transition cost is part of fund management and administration fees charged to the pension fund.

4.2 Legal Implications

None applicable to this report

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 Members are asked receive the Mercer briefings and presentation attached as exempt appendix 1 and 2 and consider the recommendations.

Background papers:

None

Final report clearance:

Signed by:

Received by:	Corporate Director of Resources	Date
---------------------	---------------------------------	------

	Head of Democratic Services	Date
--	-----------------------------	------

Report Author:	Joana Marfoh
Tel:	(020) 7527 2382
Email:	Joana.marfoh@islington.gov.uk

This page is intentionally left blank



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	21 November 2017		n/a

Delete as appropriate	Exempt	Non-exempt

Appendix 1 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- EQUITY PROTECTION STRATEGY- IMPLEMENTATION

1. Synopsis

- 1.1 As part of the ongoing investment strategy update this report and Exempt -Appendix 1 reaffirms the objective of the Fund in implementing an equity protection strategy and considers the implementation financing, risk and opportunities
- 1.2 Mercer our investment advisor, has prepared a presentation that will be presented to Members Exempt Appendix 1- Equity protection strategy -Implementation

2. Recommendations

- 2.1 To consider Mercer's presentation Exempt Appendix 1 (available at the meeting)- Equity protection strategy-Implementation
- 2.2 To agree the objectives for implementing an equity protection strategy
- 2.3 To consider and agree the methods of financing the equity protection strategy
- 2.4 To agree to delegate authority to the Corporate Director of Resources in consultation with the Director of Law and Governance to proceed with the procurement process and due diligence to procure the services of capable managers from which Members can appoint.

3. Background

3.1 **March 2016 valuation**

The triennial valuation was completed in March 2017 with a calculated funding level of 78% and a deficit of £299m. a 22year recovery plan was agreed with projected contributions over to this period to achieve a 100% funding level

3.2 As at September 2017, the value of the fund was £1.32bn compared to the March 2016 position of £1.07bn. This will translate to a funding level of around 94% compared to 78% at the 2016 actuarial valuation. The improvement in funding level is mainly due to growth of assets versus expected returns. This increase is attributed to the rally in equity markets over the period and one cannot predict the future. Members at the last September meeting had initial discussions of an equity protection strategy and asked for a report to a special meeting to consider the strategy fully.

3.3 Members agreed at the October special meeting to implement an equity protection strategy aiming to protect 50% of the portfolio (total equities exposure is 65%). They agreed the protection will initially be to 31 March 2019, the next actuarial valuation and then reviewed.

3.4 Mercer, our investment advisors have prepared a presentation -Exempt Appendix 1 for consideration. The presentation will cover implementation and financing options taking into account, impact of paying a premium or not paying a premium on; costs, contributions, collateral and complexity. A long list of providers will also be discussed.

3.5 Members are asked to consider the presentation and agree recommendations 2.1 to 2.4

3.4 Members should note that they may have to meet before the next committee meeting in March 2018 to evaluate and appoint any shortlisted managers(a maximum of 3)

4. **Implications**

4.1 **Financial implications**

4.1.1 The cost of providing independent investment advice is part of fund management and administration fees charged to the pension fund.

4.2 **Legal Implications**

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

4.3 **Environmental Implications**

Environmental considerations can lawfully be taken into account in investment decisions

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 Members asked to consider the Mercer presentation Exempt Appendix I and agree the recommendations 2.1 to 2.4.

Background papers:

None

Final report clearance:

Signed by:

Received by:	Corporate Director of Resources	Date
---------------------	---------------------------------	------

	Head of Democratic Services	Date
--	-----------------------------	------

Report Author:	Joana Marfoh
Tel:	(020) 7527 2382
Email:	Joana.marfoh@islington.gov.uk

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank