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

AGENDA FOR THE PENSIONS SUB COMMITTEE

Members of the Pensions Sub Committee are summoned to a meeting which will be held in Committee Room 4, Islington Town Hall, Upper Street, London N1 2UD, on **26 June 2018 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	:	18 June 2018

Membership 2018/19	Substitute Members
Councillor Dave Poyser (Chair)	Councillor Mouna Hamitouche MBE
Councillor Andy Hull (Vice-Chair)	Councillor Jenny Kay
Councillor Sue Lukes	Councillor Angela Picknell
Councillor Michael O'Sullivan	Councillor Flora Williamson

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 — 1 - 4

B. Non-exempt items

1. Pension Fund performance - January to March 2018 — 5 - 38

2. Annual Fund performance - presentation — -

3. Pensions Sub-Committee Members' training — 39 - 46

C. Urgent non-exempt items

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

D. Exclusion of press and public

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

E. Confidential/exempt items

F. Urgent exempt items

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

The next meeting of the Pensions Sub Committee is scheduled for 18 September 2018. Thereafter, meetings are scheduled for: 26 November 2018 and 25 March 2019

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London Borough of Islington

Pensions Sub Committee - 5 March 2018

Non-confidential minutes of the meeting of the Pensions Sub Committee held at Islingon Town Hall on 5 March 2018 at 7.30 pm.

Present:	**Councillors:**	Richard Greening (Chair), Michael O'Sullivan and Paul Smith, Mouna Hamitouche MBE (substitute)
Also Present:	**Councillors:**	Councillor Dave Poyser (Chair of Pensions Board and observer) Karen Shackleton, Allenbridge Nikeeta Kumar and Adam Love, Mercer Limited David Bennett (independent member of Pensions Board and observer)

Councillor Richard Greening in the Chair

125 **APOLOGIES FOR ABSENCE (Item A1)**

Received from Councillor Andy Hull. Apologies for lateness were received from Councillor Mick O'Sullivan.

126 **DECLARATION OF SUBSTITUTES (Item A2)**

Councillor Mouna Hamitouche declared that she was substituting for Councillor Andy Hull.

127 **DECLARATION OF INTERESTS (Item A3)**

None.

128 **MINUTES OF THE PREVIOUS MEETING (Item A4)**

RESOLVED:

That the minutes of the meeting held on 21 November 2017 be confirmed as a correct record and the Chair be authorised to sign them.

129 **PENSION FUND PERFORMANCE (Item B1)**

RESOLVED:

(a) That the performance of the Fund from 1 October to 30 December 2017, as per the BNY Mellon interactive performance report, detailed in the report of the Corporate Director of Resources, be noted.

(b) That the report by Allenbridge Investment Advisers on fund managers' quarterly performance, detailed in Appendix 1 to the report and their presentation, be noted.

(c) That the LGPS Current Issues – January 2018 leaflet, also attached to the report, be noted.

130 LONDON CIV (LCIV) UPDATE (Item B2)

RESOLVED:
(a) That the progress made at the LCIV in launching funds and running of portfolios over the period from October 2017 to February 2018, detailed in the report of the Corporate Director of Resources, be noted.
(b) That LCIV's governance restructure and strategy consultation documents (exempt appendix E1) be noted and that the Head of the Pension Fund and Treasury Management relay the comments of the Sub-Committee on the consultation document (- pages 79 to 82 of exempt appendix E1) to the LCIV.

131 PRESENTATION FROM REPRESENTATIVE FROM LONDON CIV (Item B3)

Kevin Cullen, the Client Relations Director at London CIV (LCIV), gave a presentation to the Sub-Committee on progress on the LCIV, outlined priorities for 2018 and the future direction for the LCIV.

The following points were noted during discussion:

- The LCIV's priorities for 2018 included the recruitment of key staff, a revised strategic framework, managing regulatory, operational and enterprise risk to acceptable tolerances and building out the operational systems
- The governance review of the LCIV in 2017 highlighted the need to clarify the purpose of the CIV and to establish new governance arrangements
- Consultation was taking place with shareholders on governance arrangements, formalisation of relationship between LCIV and clients and the level of investment discretion granted to the LCIV
- LCIV was looking to recruit an IT specialist to improve communications with clients
- Members questioned why Newton had appeared on LCIV's "watch" list and why LCIV had written to all 33 London boroughs about this, when only 3 had investments in Newton. Islington, in particular, had significant credit with Newton. Mr Cullen said that a decision was made at LCIV to let all boroughs know as they could have invested in Newton, other than through the LCIV. The LCIV's decision on Newton had not been due to global equity.
- The LCIV was hopeful of being able to explore investment in housing association bonds and infrastructure going forward.
- Islington Council had made a public commitment to invest in infrastructure, which required investment from a number of boroughs, but there had not been enough progress.

132 EQUITY PROTECTION IMPLEMENTATION UPDATE (Item B4)

RESOLVED:
(a) That the procurement and implementation schedule for an equity protection strategy, detailed in paragraph 3.5.1 of the report of the Corporate Director of Resources, be noted.
(b) That the presentation from Mercer and their exempt appendix ("Equity protection strategy – implementation") (agenda item E2) be noted.
(c) That quarterly monitoring reports be submitted to the Sub-Committee on the equity protection strategy.

133 FORWARD PLAN 2018/19 (Item B5)

RESOLVED:
That the contents of Appendix A to the report of the Corporate Director of Resources, detailing proposed agenda items for future meetings, be noted.

134 LONDON CIV UPDATE - EXEMPT APPENDIX (Item E1)
Members discussed the LCIV's exempt questionnaire and responded to each question. Generally, the Sub-Committee expressed a wish to see revisions to the LCIV investment strategy to include infrastructure and housing; changes to the numbers of meetings per year with shareholders and the inclusion of chairs of Pension Boards and trade union representatives; the expansion of the LCIV Board to include two shareholders.

Noted LCIV's proposed strategy for consultation (pages 55 to 78 of the agenda).

135 EQUITY PROTECTION IMPLEMENTATION UPDATE-EXEMPT APPENDIX (Item E2)
Noted.

136 VOTE OF THANKS
Councillor O'Sullivan referred to the fact that Councillor Greening would be standing down from the Council in May 2018. On behalf of the Sub-Committee, he proposed a vote of thanks to Councillor Greening, describing his knowledge of pensions issues as "unsurpassed".

RESOLVED:
Accordingly.

The meeting ended at 9.25pm.

CHAIR

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ISLINGTON

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	26 June 2018		

Delete as appropriate	~~Exempt~~	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 JANUARY TO 31 MARCH 2018

1. Synopsis

1.1 This is a quarterly report to the Pensions Sub-Committee to allow the Council as administering authority for the Fund to review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.

2. Recommendations

2.1 To note the performance of the Fund from 1 January to 31 March 2018 as per BNY Mellon interactive performance report

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

2.3 To note the LGPS Current Issues- May 2018 Appendix 2.

2.4 To receive the Annual Fund performance compared to the LA Universe from PIRC Performance Services

3. Fund Managers Performance for 1 January to March 2018

3.1 The fund managers' latest quarter net performance figures compared to the benchmark and Mercer ESG ratings is shown in the table below.
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 for the Fund's 9 strategies across equities, fixed income, DGFs, property and private equity.

Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (Jan-Mar'18) Gross of fees		12 Months to March 20 Performance Gross of fees
				Portfolio	Benchmark	Portfolio
LBI-In House	13%	UK equities	N	-6.06%	-6.87%	1.05%
London CIV Allianz	8%	Global equities	2	-2.88%	-4.68%	9.01%
LCIV -Newton	15%	Global equities	2	-4.45%	-4.38%	1.60%
Legal & General	11.3%	Global equities	1	-3.66	-3.52%	2.12%
Standard Life	19%	Corporate bonds	3	-1.31%	-1.15%	1.58%
Aviva (1)	5%	UK property	2	1.82%	0.25% 2.30%	8.06%
Columbia Threadneedle Investments (TPEN)	7%	UK commercial property	2	1.98%	1.90%	10.3%
Hearthstone	2%	UK residential property	N	0.43%	2.30%	4.16%
Schroders	10%	Diversified Growth Fund	4	-0.82%	1.27%	5.25%
BMO Investments-LGM	5.7%	Emerging/ Frontier equities	2	-3.37%	2.15%	n/a

0.25% & 0.69% = original Gilts benchmark; 2.30% and 11.26% 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 March 2018 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to March 2018 Performance Gross of fees	
Combined Fund Performance ex-hedge	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	-2.56	-2.87	4.14	2.82

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

3.5 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years' period to March 2018 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	4.10%	6.50%	7.61%
Customised benchmark	2.82%	5.92%	7.32%

3.5.1 **<u>The PIRC LA Pension Fund Universe 2017/18 Results</u>**
The PIRC Local Authority Universe comprised of 61 funds as at the end of March 2018 with a value of £177 billion. The Funds ranking and league table has now been finalised and the comparative data is shown in the table.

	2017/18	3yrs (% PA)	5yrs(%PA)	10yrs(%PA)	20 yrs(%PA)
average	4.5	8.3	8.8	7.7	6.5
median	4.0	7.7	8.5	7.5	6.1
Islington Fund performance	4.1	6.5	7.61	6.5	5.6
Ranking in percentile	40th	83rd	78th	87th	90th

Members are asked to note the results above. A representative from PIRC will be presenting our Fund's individual manager performance over the long term and the Universe trends.

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 -2.9% against a benchmark of -4.8%. Since inception with the London CIV in December 2015, there is a relative over performance of 2.4% whiles since January 2009 the original inception date, relative outperformance is 0.3% per annum. The main drivers were stock selection in an increased volatile market. The portfolio holds 48 stocks.

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 have 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 -4.45% gross of fees against a benchmark of -4.38% for the March quarter. Since inception the fund has delivered an absolute return of 11.72% but relative under performance of -0.5% gross of fees per annum

3.7.4

The under performance this quarter was driven mainly by overweight positions in Consumer Staples and underweight position in Financial and Material sectors as well as regional positions in Emerging Markets and US.

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 -6.06% against FTSE All Share Index benchmark of -6.87 % for the March quarter and a relative over performance of 0.34% over the five- year period. The portfolio is now mirroring the low carbon 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 March quarter, the fund returned -1.3% against a benchmark of -1.2% and an absolute return of 7.2% per annum since inception.

3.9.2 The main driver behind the under- performance in this quarter was due to asset allocation with overweight positions in financials and underweight exposure to supra nationals

3.9.3 The forward strategy is to reduce exposure to gilts and shorter maturity corporate bonds.

3.10 **Aviva**

3.10.1 Aviva manages the fund's UK High Lease to Value property portfolio. They were appointed in 2004 and the target of the mandate is to outperform their customised gilts benchmark by 1.5% (net of fees) over the long term. The portfolio is High Lease to Value Property managed under the Lime Property Unit Trust Fund.

3.10.2 The fund for this quarter delivered a return of 1.8% against a gilt benchmark of 0.25%. The All Property IPD benchmark returned 2.3% for this quarter. Since inception, the fund has delivered an absolute return of 6.14% net of fees.

3.10.3 This March quarter the fund's unexpired average lease term is now 19.6years. During the quarter a value add asset management was completed enabling the lease to be extended by 19years.

3.10.4 The fund also has £622m of investor cash of which £286m is committed to developments and close to completion. The current queue period to invest is around 18months.

3.10.5 As agreed, our fund has now committed £50m to the Lime Fund. An opportunity arose in May when an existing investor was selling their units and we were able to purchase £24m of these units. This has therefore halved our existing commitment in the queue to £26m. Our purchase was funded from Standard life corporate bond portfolio.

3.11 **Columbia Threadneedle Property Pension Limited (TPEN)**

3.11.1 This is the fund's UK commercial pooled property portfolio that was fully funded on 14 October 2010 with an initial investment of £45 million. The net asset value at the end of March was £79.9million.

3.11.2 The agreed mandate guidelines are as listed below:

- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since I January 2014.
- Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods.
- Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term.
- Income yield on the portfolio at investment of c.8.5% p.a.
- Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.

3.11.3 The fund returned a relative outperformance return against its benchmark 0.1% for the March quarter and a 0.3% three - year relative return. The cash balance now stands at 4.7% compared to 5.4% last quarter and with post Brexit uncertainties, will continue to adopt a conservative cash management strategy. During the quarter there were two acquisitions totalling £29.6m and four secondary high street retail assets disposals. There is a strong asset diversification at portfolio level with a total of 276 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 March quarter, the hedged overseas equities were valued at £6.8m.

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 drawn down, though $7.1m 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

The total distribution received to the end of the March quarter is $48m.

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 $17.4.m and a distribution of $3.0m.

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. Member agreed restructuring in 2016 in 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.

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 March quarter, the fund totalled £146m with a performance of -3.6%% and relative return of -0.14%. the decrease from last quarter was because £25m was used to fund our equity protection premium.

3.15 **Hearthstone**

3.15.1 This is the fund's residential UK property manager. The fund inception date was 23 January 2013, with an initial investment of £20million funded by withdrawals from our equities portfolios. The agreed mandate guidelines are as follows:

- Target performance: UK HPI + 3.75% net income.
- Target modern housing with low maintenance characteristics, less than 10 years old.
- Assets subject to development risk less than 5% of portfolio.
- Regional allocation seeks to replicate distribution of UK housing stock based on data from Academics. Approximately 45% London and South East.
- 5-6 locations per region are targeted based on qualitative and quantitative assessments and data from Touchstone and Connells.
- Preference is for stock which can be let on Assured Shorthold Tenancies (ASTs) or to companies.
- Total returns expected to be between 6.75% and 8.75% p.a., with returns split equally between income and capital growth. Net yields after fund costs of 3.75% p.a.
- The fund benchmark is the LSL Academetrics House Price Index

3.15.2 For the March, quarter the value of the fund investment was £27.6m and total funds under management is £56million. Performance net of fees was 0.43% compared to the LSL benchmark of 0.3%.
The income yield after cost was 3.2%. The portfolio has 192 properties and 1set of parking spaces. 6 are let on licence and leaseback agreement to house builders and 172 properties let on assured short term agreements.

3.15.3 There are 14vacant properties, 1 of which is being sold, 13 being marketed for rent all of which are re-lets.

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 eleventh quarter since funding and the value of the portfolio is now £128m including an additional cash injection of £15m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The March quarter performance before fees was -0.82% against the benchmark of 1.27% (inflation+5%). The one -year performance is 5.25% against benchmark of 8.3% before fees.

3.16.3 The underperformance was attributed to market falls in traditional asset classes detracting from returns. However, losses were cushioned by gains in selected alternative strategies and currency positions.

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 March quarter saw a combined performance of -3.37% against a benchmark of -2.15% before fees. The detraction is mainly due to market volatility and stock selection.

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 March 2018 as part of the regular monitoring of fund performance and receive the Annual Fund performance presentation. Members are also asked to note for information LGPS News update to May.

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

Final report clearance:

Signed by:

	Corporate Director 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

London Borough of Islington
Report to 31st March 2018

JUNE 2018

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 (active global equities)	Monitored by London CIV – no changes reported.	Outperformed in the quarter to March 2018, by +1.8%. Outperforming by +2.12% p.a. over 3 years to end March 2018 and ahead of the target of +2.0% p.a.	London CIV sub fund had £748 million of assets under management as at end March 2018, however two boroughs have since redeemed their units.		The two other London Boroughs invested in the LCIV Allianz sub fund redeemed their units, leaving London Borough of Islington as the sole investor in the fund.
London CIV – Newton (active global equities)	Monitored by London CIV – no personnel changes reported.	Underperformed the Index by -0.07% in the quarter. Behind the benchmark over three years by -1.92% per annum.	London CIV sub fund had £530.6 million of assets under management as at end March 2018.		London CIV continues to put this fund on "Watch" following the FCA investigation into IPO practices on the UK equity desk.
BMO/LGM (emerging and frontier equities)	No leavers or joiners in Q1, within LGM.	Underperformed the benchmark by -1.2% in the first quarter of 2018.	Assets under management of $5.4 billion as at end March 2018.		

Manager	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY /RISK	MANAGER SPECIFIC CONCERNS
Standard Life (corporate bonds)	No joiners, and 13 leavers (including two from fixed income).	Underperformed the Index by -0.12% in Q1 2018. Over three years the Fund is +0.51% p.a. ahead of the benchmark return but behind the performance target of +0.8% p.a.	Fund value fell to £3,183 million in Q1 2018, a fall of £278 million. Islington's holding stood at 7.8% of the Fund's value.		In February, Scottish Widows announced its intention to withdraw £109 billion of assets, causing a 9% fall in the share price of Aberdeen Standard Investments.
Aviva (UK property)	8 new joiners and 5 leavers in the real estate team during the quarter. No changes to the Lime Fund team.	Outperformed the gilt benchmark by +0.25% for the quarter to March 2018 and by +2.90% p.a. over three years.	Fund was valued at £2.07 billion as at end Q1 2018. London Borough of Islington owns 3.1% 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 (UK property)	No changes to the property team in Q1 2018. Firmwide, 2 joiners and 2 leavers.	Outperformed the benchmark return by +0.08% in Q1 2018 and ahead of the benchmark by +0.46% per annum over three years. Trailing the performance target of 1% p.a. outperformance.	Pooled fund has assets of £1.94 billion. London Borough of Islington owns 4.37% of the fund.		
Legal and General (passive equities)	None reported.	Funds are tracking as expected.	Assets under management of £983.3 billion at end December 2017. £43.5 bn of net inflows, mainly into multi asset strategies.		

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Manager	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY /RISK	MANAGER SPECIFIC CONCERNS
Franklin Templeton (global property)	One new joiner: John Levy joined as Director of Impact from the Multi-Asset solutions team on January 22.	Portfolio return over three years was +15.33% p.a., well ahead of the target of 10% p.a.			
Hearthstone (UK residential property)	One departure and two joiners, including Cedric Bucher as CEO, during Q1 2018.	Underperformed the IPD UK All Property Index by -1.80% in Q1. Trailing the benchmark over three years by -0.58% p.a. over three years to end March 2018.	Fund was valued at £55.981 m at end Q1 2018. London Borough of Islington owns 49.4% of the fund.	Pension fund will need to consider a vote at an EGM on 15th June 2018, in relation to Hearthstone's rebranding exercise.	
Schroders (multi asset diversified growth)	72 joiners and 396 leavers in the UK business but no changes to the DGF team.	Fund returned -0.82% during the quarter and +5.25% over 12 months, -3.09% behind the target return.	Net inflows of nearly £10 bn in 2018. Total AUM of £447 billion as at end December 2017.		

Source: MJ Hudson Allenbridge

Note:

Minor Concern

Major Concern

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Individual Manager Reviews

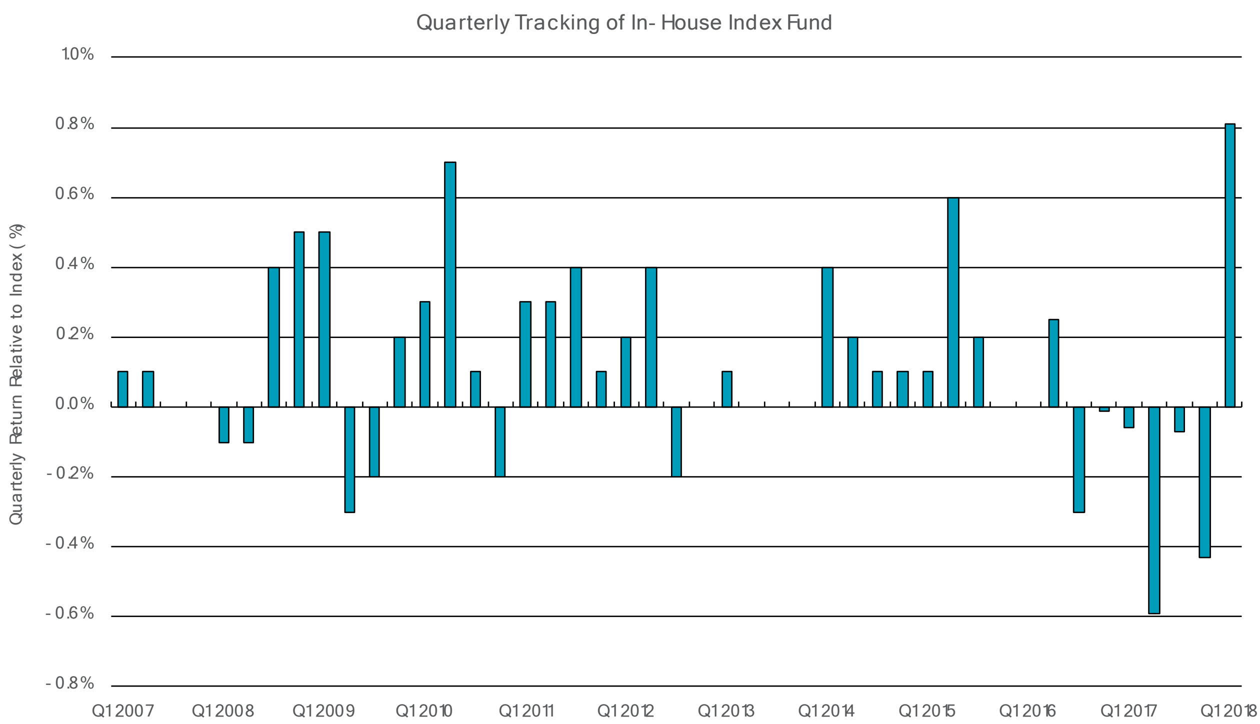
In-house – Passive UK Equities – FTSE All Share Index Fund

Headline Comments: The portfolio continues to meet its objectives. The fund delivered a quarterly return of -6.06%, which was +0.81% ahead of the index benchmark return of -6.87%. Over three years the fund has outperformed the index by +0.25% p.a. and delivered a return of +6.11% per annum.

Mandate Summary: A UK equity index fund designed to match the total return on the UK FTSE All Share Index. With effect from Q3, the fund switched to tracking the MSCI Low Carbon Target Index. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the low carbon index.

Performance Attribution: Chart 1 shows the tracking error of the in-house index fund against the FTSE All Share Index since Q1 2006. There are no performance issues. Over three years, the small quarterly positive relative returns (shown in Chart 1) have accumulated, and thus the portfolio has outperformed its three-year benchmark by +0.25% per annum.

CHART 1:



Source: MJH Allenbridge; BNY Mellon

Portfolio risk: In Q3 2017, the index fund transitioned into a low carbon passive portfolio. This means that, although the portfolio will continue to track the FTSE All Share Index over time, there are likely to be wider quarterly deviations than previously experienced, because the fund is now targetting the performance of the MSCI Low Carbon Target Index. Chart 1 shows the performance of the low carbon index fund against the FTSE All Share Index. The higher-than-previously-experienced deviation in returns can be observed in Q1 2018 (the right hand bar in Chart 1), when the fund outperformed the FTSE All Share by +0.81%.

As at quarter end, the portfolio had a tracking error of 0.25% against the MSCI Low Carbon Target Index and a tracking error of 0.52% against the FTSE All Share Index. The largest underweight sector was Consumer Staples. The portfolio held 12.7%

in Consumer Staples at quarter end, compared with 13.3% in the benchmark, a difference of -0.6%. The most overweight sector was Consumer Discretionary: the portfolio weight was 11.3% versus the index at 10.9%, a difference of +0.4%.

As at the end of March, the fund held 298 stocks.

London CIV – Global Equity Alpha Fund – Allianz

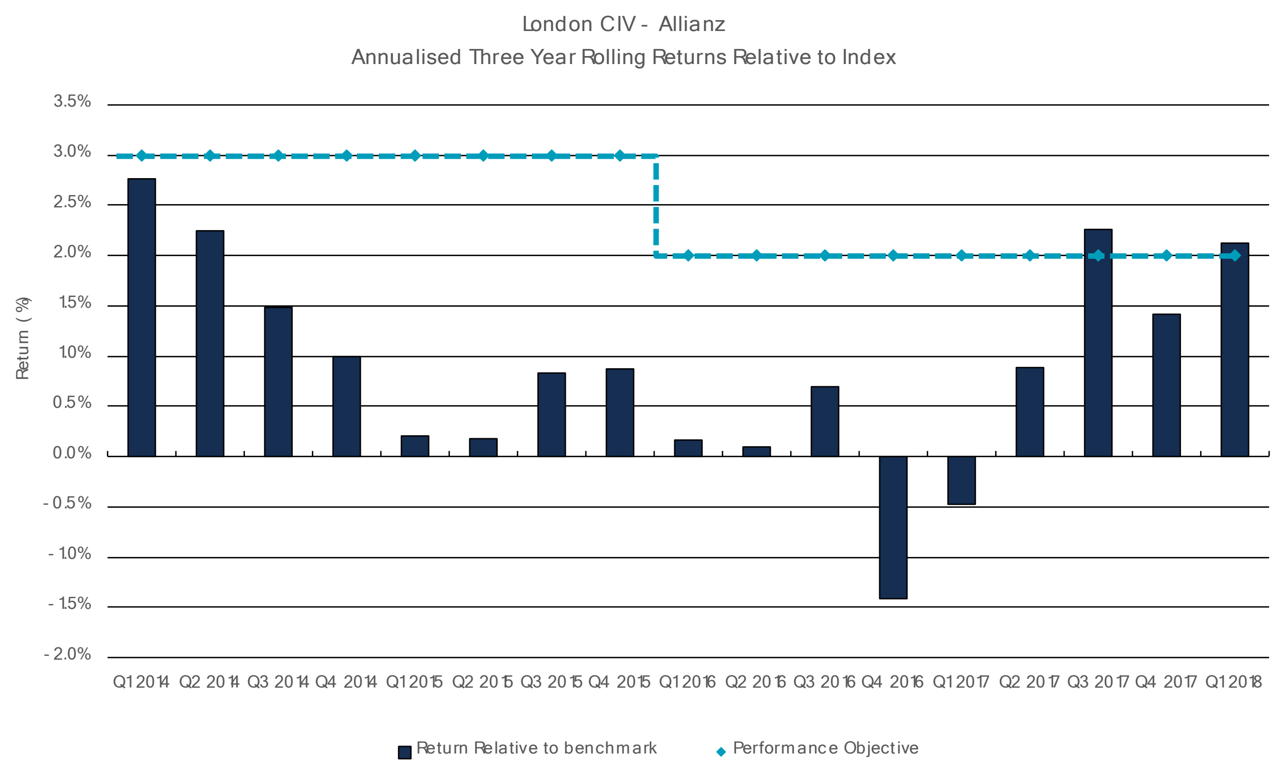
Headline Comments: The London CIV – Allianz sub fund delivered strong outperformance in Q1 2018, as the global equity market fell by -4.68%. The fund delivered a return of -2.88%, outperforming the benchmark return by +1.80%. This continued to help the three-year numbers, and it means the fund is now outperforming the benchmark by +2.12% per annum and 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 March 2018, the AllianzGI portfolio is ahead of its benchmark by +2.12% 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.

The portfolio's outperformance, for the quarter to end March 2018, was attributed by the London CIV to the fund's tilt towards quality. Booking Holdings and Estee Lauder were the two best performing holdings adding 0.42% and 0.40% to returns respectively, whilst Albemarle was the largest detractor at -0.44%.

CHART 2:



Source: MJH Allenbridge; BNY Mellon

Portfolio Risk: despite the recent quarter's strong outperformance, the two other London Boroughs invested in the LCIV Allianz sub fund redeemed their units after the quarter end, leaving London Borough of Islington as the sole investor in the fund.

Portfolio Characteristics: as at end Q1 2018, the portfolio held 48 stocks.

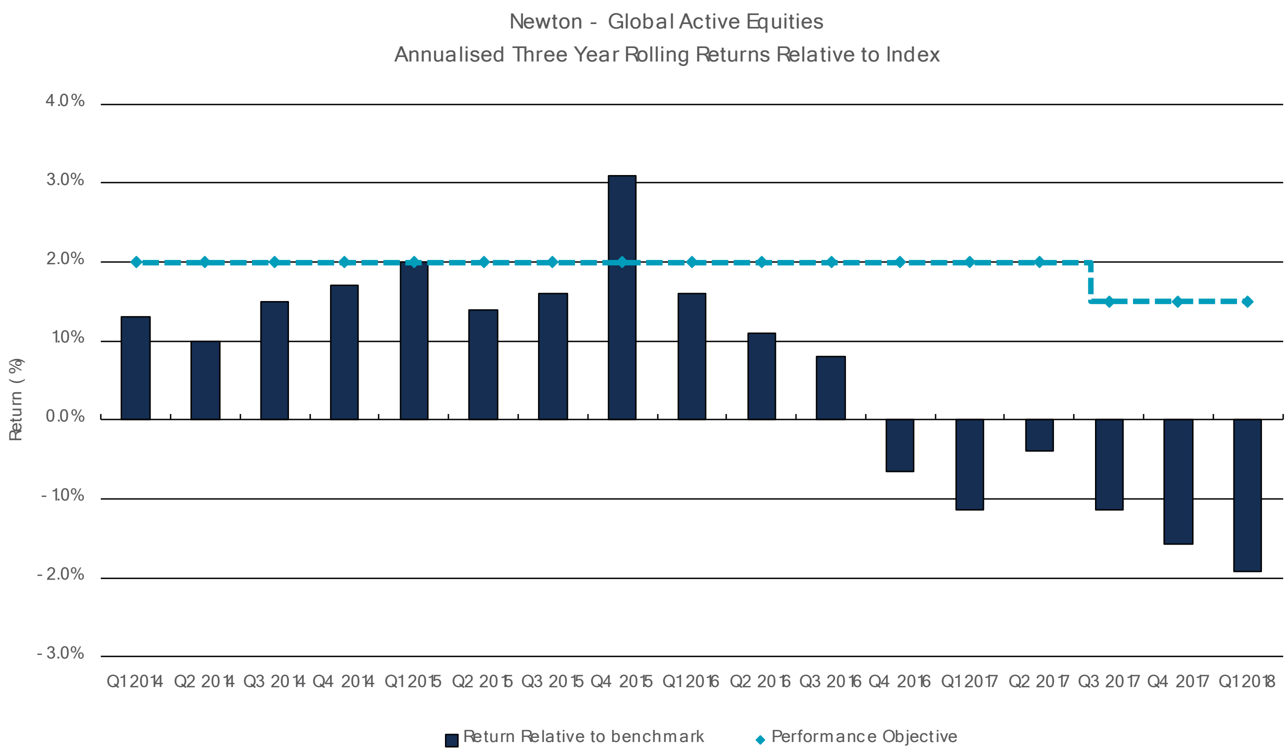
London CIV - Newton – Global Active Equities

Headline Comments: The London CIV - Newton sub-fund underperformed its benchmark by -0.07% during Q1 2018, with a fund return of -4.45% compared with the benchmark index return of -4.38%. Over three years the portfolio has underperformed the benchmark by -1.92% per annum, well behind the target of +2% p.a. and below the performance that could be achieved with a passive mandate.

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: MJH Allenbridge; BNY Mellon

For the three-year period to the end of Q1 2018, the fund (shown by the right hand black bar) has trailed the benchmark by -1.92% 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).

London CIV attributed the poor relative performance in the quarter to March 2018 to the fund's overweight sector position in Consumer Staples, with tobacco stocks being the main detractor. The underweight positions in Financials and Materials also detracted from performance. This was somewhat offset by the overweight allocation to IT stocks, with Cisco Systems and Microsoft being the main contributors to relative return in Q1.

Portfolio Risk: the portfolio's defensive stance unfortunately failed to protect the portfolio in Q1

Portfolio Characteristics: At the end of Q1 2018, the London CIV sub fund's assets under management were £530.6 million. The number of stocks in the portfolio stood at 63 as at quarter end.

Staff Turnover: The London CIV reported that there were no personnel changes.

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of +3.37% in Q1 2018, compared with the benchmark return of -2.15%. The emerging market component of this portfolio returned -1.23% compared with the index return of 1.42%. The frontier markets portfolio was ahead of the index, however, delivering a return of +8.12% against the index return of +4.98%.

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 for the emerging markets portfolio came from Mr Price (+0.7%), Commercial International Bank (+0.6%) and Public Bank Berhad (+0.3%). Companies which detracted from performance included British American Tobacco (-0.9%), Magnit (-0.8%) and ICICI Bank (-0.6%).

In the frontier market portfolio, positive contributors included Eastern Tobacco (+3.3%), Phu Nhuam Jewelry (+1.1%) and Commercial International Bank (+0.9%). Companies which detracted from performance included BBVA Banco Frances (-0.5%) and Vietnam Dairy Products (-0.3%).

Portfolio Risk: As previously noted, there are some companies that are held in both portfolios, such as Commercial International Bank. 18.4% of the portfolio was invested in non-frontier market countries. Turnover for the previous 12 months was 15.5%. Within the emerging markets portfolio, 15.9% was allocated to developed or frontier markets. Turnover for the previous 12 months was somewhat higher, at 32.7%.

The largest overweight country allocation in the emerging markets portfolio was India (+10.4% overweight). The most underweight country allocation was South Korea (-15.1%). For the frontier markets portfolio, the most overweight country allocation was Egypt (+14.0%) and the most underweight was Argentina (-20.3%).

Portfolio Characteristics: The frontier markets portfolio held 37 stocks as at end March compared with the benchmark which had 109. The emerging markets portfolio also held 37 stocks as at end March compared with the benchmark which had 846.

Organisation: during the quarter, there were no joiners and leavers within the LGM business.

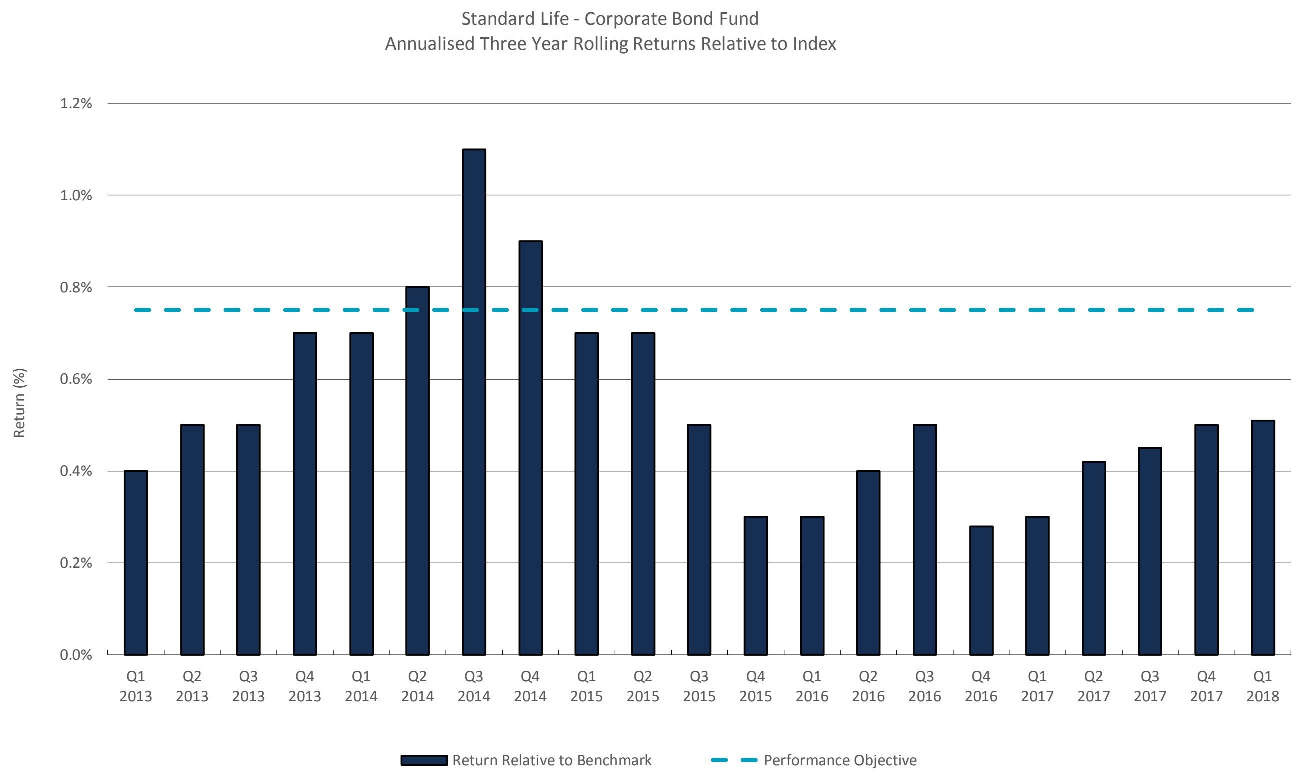
Standard Life – Fixed Income

Headline Comments: The portfolio was slightly behind the benchmark return during the quarter, by -0.12% during the quarter, delivering a return of -1.28%. Over three years, Standard Life's return was +0.51% p.a. ahead of the benchmark return of +3.59% 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: MJH Allenbridge; BNY Mellon

Over three years, the portfolio has returned +4.1% p.a. compared to the benchmark return of +3.59% p.a. Over the past three years, stock selection has added 0.36% value, followed by asset allocation (+0.13%) and curve plays (+0.03%).

Portfolio Risk: The largest holding in the portfolio at quarter end remained EIB 5.625% 2032 at 1.5% of the portfolio. The largest overweight sector position remained Financials (+9.0%) and the largest underweight position remained sovereigns and sub-sovereigns (-14.0%).

The fund holds 4.3% of the portfolio in non-investment grade bonds.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end March 2018 stood at £3,184 million, £278 million lower than at the end of Q4 2017. London Borough of Islington's holding of £248.5 million stood at 7.8% of the total fund value (compared to 7.3% last quarter).

Staff Turnover: there were no joiners, and 13 leavers, including Len Currie who was head of institutional sales and Miguel Aguayo Negrete, Investment Director in the Fixed Income Credite team.

Organisation: In February, Scottish Widows announced its intention to withdraw £109 billion of assets, causing a 9% fall in the share price of Aberdeen Standard Investments. As at end December 2017 assets under management were £576.0 billion, so this withdrawal would represent nearly 20% of the firm's business. The reason for the proposed withdrawal was a concern that the newly merged firm was now a competitor.

Aviva Investors – Property – Lime Property Fund

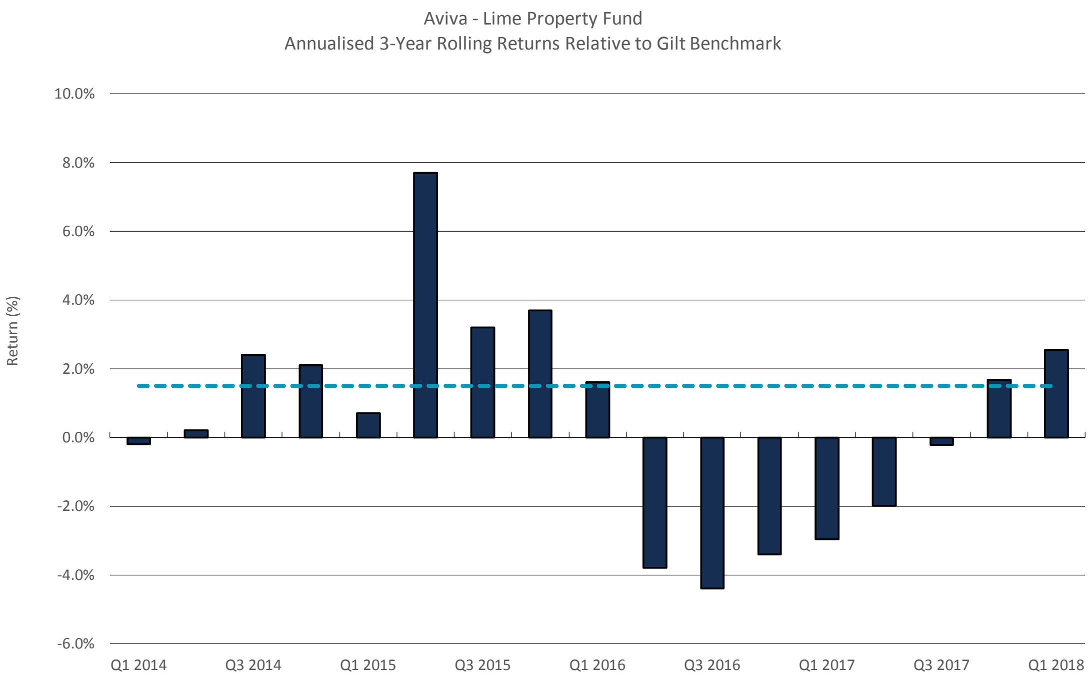
Headline Comments: The Lime Fund delivered another quarter of steady return. The Fund returned +1.82%, compared with the benchmark which returned +0.25%. Over three years, the fund is now well ahead of the gilt benchmark, delivering a return of +7.24% compared with the benchmark return of +4.35%. The additional allocation to the Lime Fund remains in a queue that is expected to be invested by the end of 2018 although there may be a chance of purchasing some units in the secondary market, a little earlier than that.

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 Q1 2018 return of +1.82% was attributed by Aviva as follows: 0.98% from income, with the balance from capital gains.

Over three years, the fund has returned +7.24% p.a. compared to the gilt benchmark of +4.35% p.a., an outperformance of +2.54% per annum. The **portfolio is ahead of its performance objective of +1.5% per annum outperformance over three years**, by a comfortable margin, as can be seen in Chart 5.

CHART 5:



Source: MJH Allenbridge; BNY Mellon

Of the +7.24% p.a. fund return over three years, 4.40% p.a. came from income, with the balance from capital gain.

Portfolio Risk: The fund restructured an office investment in Lytham St. Annes which has reduced the risk on the portfolio. The rationale for the restructuring was extending the lease by 19 years and maintaining the annual RPI rent reviews.

The average unexpired lease term was 19.6 years as at end March 2018. 11.7% of the portfolio's lease exposure in properties is in 30-35 year leases, the largest sector exposure remains offices at 28.6%, and the number of assets in the portfolio remains stood at 79 as at end March. The weighted average unsecured credit rating of the Lime Fund remained A-.

London Borough of Islington still has an additional £50 million to invest in the Lime Fund. This is in a queue and is expected to be invested by the end of 2018. During the quarter, Aviva indicated that CBRE were offering secondary units for sale, and after assessing the pricing of these units, an offer has been made to CBRE to purchase them. At the time of writing, the outcome was unknown but it is hoped that this could speed up the deployment of the new capital allocated by the pension fund committee.

Portfolio Characteristics: As at end March 2018, the Lime Fund was valued at £2.065 billion, an increase of £27.87 million from the previous quarter end. London Borough of Islington's investment represents 3.1% of the total fund. The Fund had 66.9% allocated to inflation-linked rental uplifts as at end March 2018.

Staff Turnover/Organisation: There were eight new joiners and one leaver from the real estate team during Q1. However, there were no changes to the Lime Property Fund team.

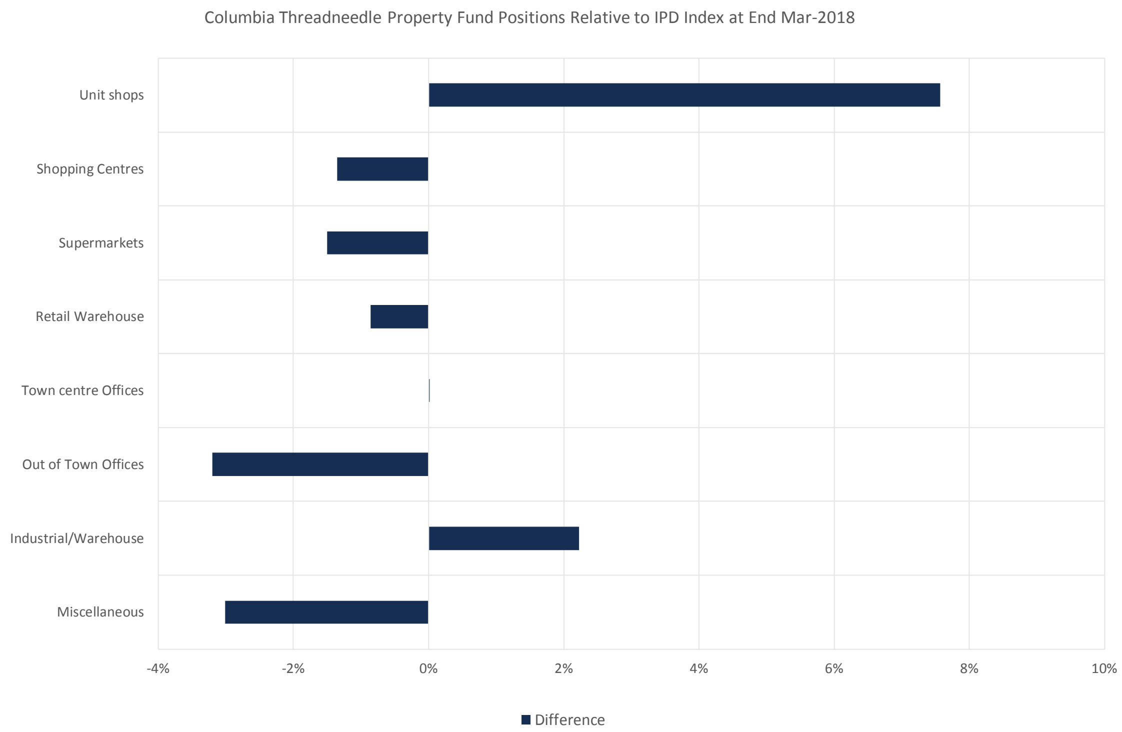
Columbia Threadneedle - Pooled Property Fund

Headline Comments: The Fund delivered a return of +1.98% in Q1 2018, ahead of the benchmark return of +1.9%. Over three years, the Fund has outperformed the benchmark by +0.46% per annum, although this is behind the performance target of 1% p.a. above benchmark.

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.

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

CHART 6:



Source: MJH Allenbridge; Columbia Threadneedle

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 two new assets. The first was an acquisition of a retail warehouse park in Haverfordwest in South Wales totalling £17.5 million. The second was a retail park in Aviemore, Scotland, for £11.865 million. The fund also sold four secondary retail assets during the quarter.

Performance Attribution: The portfolio outperformed the benchmark by +0.08% in Q1 2018, delivering a return of +1.98%. Over three years, the Fund is ahead of its benchmark by +0.46% per annum, with a return of +8.54% per annum, but it is still trailing the performance target of +1% per annum.

Portfolio Characteristics: As at 31st March 2018, the Threadneedle Property Fund was valued at £1.941 billion, an increase of £32.5 million compared with December 2017. London Borough of Islington's investment represented 4.4% of the Fund as at end March 2018.

Staff Turnover: There were no changes to the property team in Q1 2018. Firmwide, there were 2 joiners and 2 leavers during the quarter.

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

Headline Comments: The two passive index funds were within the expected tracking range when compared with their respective benchmarks. The MSCI World Low Carbon index fund marginally underperformed the benchmark index by -0.01%. The FTSE-RAFI Emerging Markets index fund outperformed its low carbon benchmark index by +0.09%.

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 2018 FUND	Q3 2018 INDEX	TRACKING
FTSE-RAFI Emerging Markets	1.01%	0.92%	0.09%
MSCI World Low Carbon Target	-4.66%	-4.65%	-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 78.6% to the MSCI World Low Carbon Target index fund, and 21.4% allocated to the FTSE RAFI index fund.

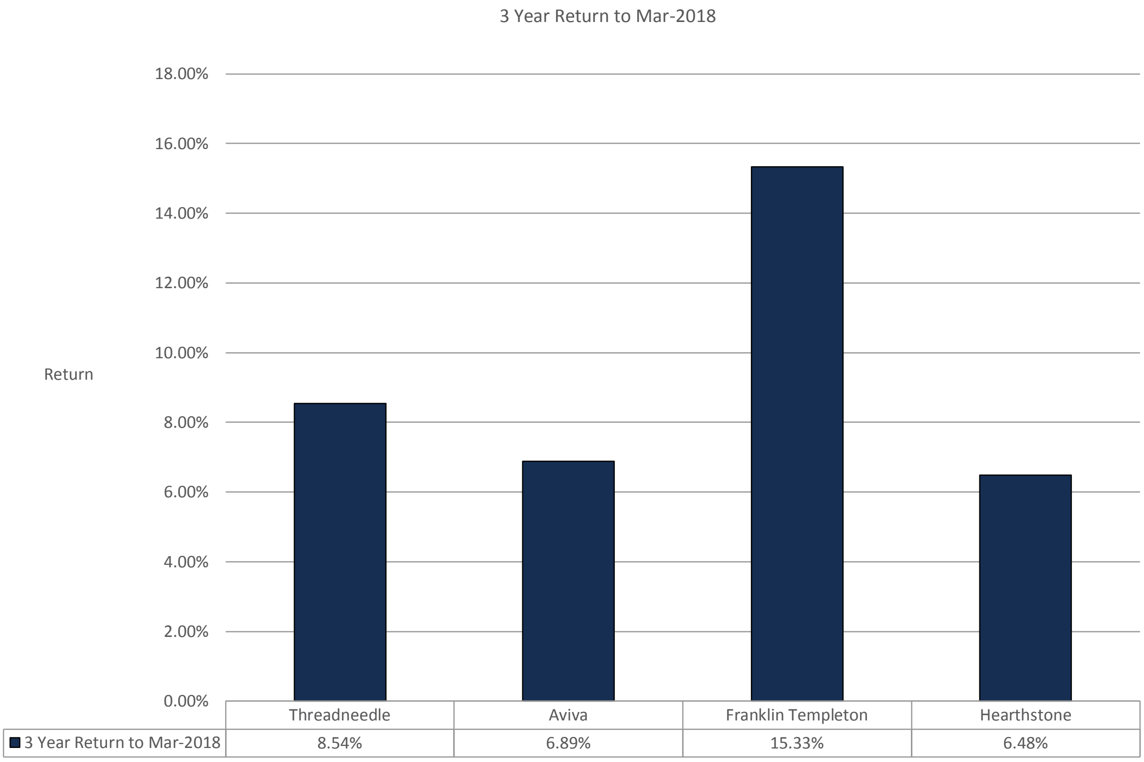
Franklin Templeton – Global Property Fund

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 +15.33% per annum over the three years to end March 2018, outperforming the absolute return benchmark of 10% per annum by +5.33% 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 March 2018, 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: MJH Allenbridge; Colombia Threadneedle

Staff Turnover/Organisation: During the quarter, John Levy moved across from the multi asset solutions team to the real estate advisers team. He has become the Director of Impact for the group. There were no other leavers or joiners.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio returned +0.49% net of fees, compared to the IPD Property Index return of +2.30% for the quarter ending March 2018. Over three years, the Fund delivered a return of +6.48% p.a. compared with the IPD Index return of +7.06% p.a. and compared with the LSL Acadata House Price Index return of +4.8% p.a.

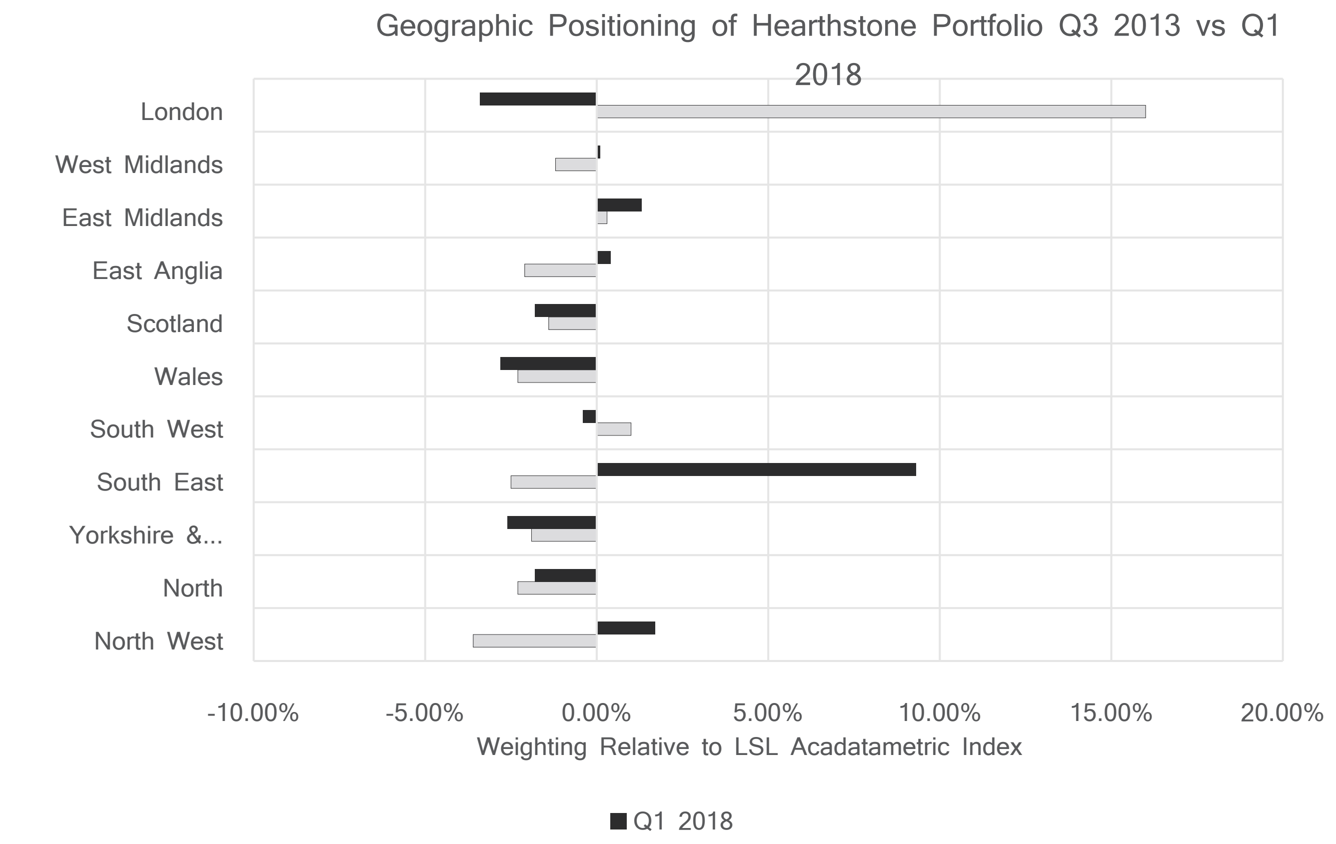
Mandate Summary: The Fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by Bank of New York is the IPD UK All Property Monthly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

Performance Attribution: The Fund returned +6.48% p.a. compared to the return on the IPD index of +7.06% p.a. over the three years to September 2017, an underperformance of -0.58% p.a. The gross yield on the portfolio as at 31st March 2018 was 5.03%. Adjusting for voids, however, the gross yield on the portfolio falls to 4.47%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 18.5% as at end March 2018, which is above Hearthstone's target level of 15%. However, 6.6% is allocated to property purchases that have exchanged contracts and are awaiting completion.

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 8 compares the regional bets in the portfolio in Q1 2018 (black bars) with the regional bets at the start of the mandate, in Q3 2013 (light grey bars). The overweight allocation to the South East is shown by the large black bar on the right.

CHART 8:



Source: MJH Allenbridge; Hearthstone

Portfolio Characteristics: The Fund has a 13% allocation to detached houses, 49% allocated to flats, 22% in terraced accommodation and 16% in semi-detached. The allocation to flats remains a significant overweight position relative to the Index (49% for the Fund compared to 17% for the Index).

In terms of Hearthstone's views, they are now buying in economic areas where they are seeing more growth, for example, Manchester, and East and West Midlands. They are appraising southern Birmingham and Leeds (not the city centre but in the surrounding towns such as Wakefield, Barnsley and Keighley). They believe that Leeds should outperform the rest of the North East. They would like more investments in York and Harrogate: however, these are towns where residents will pay more if they are an occupier, but there is more resistance towards higher rents from tenants.

As at end March 2018, the Fund stood at £56.0 million. London Borough of Islington's investment now represents 49% of the Fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: During the quarter, Phil Mason (Business Development Manager) left Hearthstone to become an Independent Financial Advisor (IFA). Cedric Bucher joined as Chief Executive and Andy Tarbit joined as a Fund Controller. Cedric Bucher has a background in retail/wealth management, with some experience of the intermediary market in the UK. He worked at Barclays Wealth for several years and at Barclays Financial Planning. He also spent some time at Architas (a long only manager) where he ran the UK office.

Schroder – Diversified Growth Fund (DGF)

Headline Comments: The Diversified Growth Fund delivered a return of -0.82% in Q1 2018. This compared with the RPI plus 5% p.a. target return of +1.27% for Q1. Over one year, the Fund's return was +5.25%, compared to the target return of +8.34%, behind the target over one year by -3.09%.

Mandate Summary: The Fund invests in a broad mix of growth assets and uses dynamic asset allocation over the full market cycle, with underlying investments in active, passive and external investment, as appropriate. Schroders aim to outperform RPI plus 5% per annum over a full market cycle, with two-thirds the volatility of equities.

Performance Attribution: In Q1 2018, Schroders' holdings in UK equities, property, insurance linked securities, emerging market debt and currency forward exchange contracts all made positive contributions to performance, totalling +0.7%. However, this was more than offset by other asset classes which delivered negative returns, with global equities, Japanese equities and North American equities, and infrastructure detracting -1.3% between them.

Whilst equity allocations were the main detractor for the quarter, over 12 months these allocations have accounted for +4.1% of the positive total portfolio return of +5.25%. Only infrastructure, commodities and currency forwards have delivered negative returns over one year.

The return on global equities was +9.9% for the 12-month period, compared with the portfolio return of +5.25% (a 53% capture of the equity return, somewhat lower than expected). 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. Over the past 12 months, the volatility of the Fund was 4.5% compared to a 12-month volatility of 8.3% in equities (i.e. 54% of the volatility of the Index).

Portfolio Characteristics: The Fund had 25% in internally managed funds (up from 21% last quarter), 33% in internal bespoke solutions (down from 36% last quarter), 7% in externally managed funds (down from 8%), and 30% in passive funds (31% last quarter) with 5% in cash, as at end March 2018. In terms of asset class exposure, 38.4% was in equities, 29.6% was in alternatives and 27.3% in credit and government debt, with the balance in cash.

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

Organisation: During the quarter, there were 72 joiners and 39 leavers within the UK business. There were no changes to the team responsible for the Diversified Growth Fund.

Karen Shackleton

Senior Adviser, MJ Hudson Allenbridge

30th May 2018

8 Old Jewry, London EC2R 8DN, United Kingdom | +44 20 7079 1000 | london@MJHudson.com | mjhudson.com | mjhudson-allenbridge.com

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LGPS CURRENT ISSUES

NEWS IN BRIEF

IN THIS ISSUE

HOT TOPICS

- **LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018 -** Our previous Newsalert summarised the new LGPS Regulations that came into force on 14 May 2018, (noting that some of the Regulations have effect from 1 April 2014). Following on from this, it is now important for Funds to review their policies to ensure that they allow sufficiently for the introduction of exit credits. In particular, do you have a clear termination policy in place? Have you considered how the new Regulations may affect it?

  It may also be appropriate to communicate the changes to employers (particularly those that let contracts) to alert them to the changes and highlight the importance of reviewing any commercial agreements in light of the new Regulations. It is not clear currently how any exit credit will be treated for tax purposes (i.e. will they be treated as a public service scheme payment and be exempt from tax or will they be subject to an authorised surplus payment charge of 35%) and we will update you once we know more. The Local Government Association Bulletin sets out a summary of all of the Regulation changes in more detail here.

- **LGPS AVC CLUB -** At recent LGPS conferences, it has been acknowledged that members are falling well short of the 2/3rds pension target and Funds, understandably, want to help members make best use of the opportunities the LGPS provides. The tax-efficient AVC facility is an area where Administering Authorities (and employers) can focus efforts in promoting the options to meet the future needs of employees.

  LGPS Administering Authorities should be reviewing their AVC arrangements (or at least the investment performance) on a regular basis. Given that most LGPS Funds' AVC arrangements make use of one or more of a common group of AVC providers, any reviews undertaken by Funds are likely to have material similarities.

  Mercer's specialist AVC team is therefore pleased to invite you to join our new **"LGPS AVC CLUB"**, an independent monitoring and governance service. The club is open to all LGPS funds who wish to reduce the cost and governance burden associated with these arrangements. Participation in this new club will avoid the unnecessary duplication of costs of undertaking AVC reviews and will therefore entitle member Funds to a material discount for our AVC monitoring reports due to these greater efficiencies. For more information about joining the club, please contact david.r.barker@mercer.com (0207 178 3392) or your usual Mercer consultant.

- Mercer recently presented to the London Pension Officers Group about the importance of good quality data (particularly with actuarial valuations just around the corner) and how Funds can benefit from BULK TRIVIAL COMMUTATION EXERCISES, leading to:
    - reduced risk and an effective way of managing liabilities (particularly for employers planning to exit the fund)
    - reduced administration costs

  Given that typically up to a quarter of the pensioner membership can qualify for trivial commutation, we expect that these exercises will become fairly common place in future.

- We would like to WELCOME ALL NEW PENSION FUND COMMITTEE MEMBERS following the recent local elections. At this time it is key for Funds to keep in mind the training requirements for members who will be joining their Committees (not forgetting Local Pensions Board members too). Keeping on top of training is vital, particularly with the 2019 actuarial valuations next year. Mercer will again be supporting CIPFA and the LGA with their respective "Introduction to LGPS" and "Fundamentals" training programmes in the autumn. Bespoke training sessions will also enhance knowledge of Fund characteristics - for further information on the training that we offer and how we can help, please contact your usual Mercer consultant.

- NOT SO FAST: WHAT DOES A SLOW DOWN IN LIFE EXPECTANCY MEAN FOR SCHEME LIABILITIES? - Improvements in life expectancy are slowing in the UK. Depending on the actuarial assumptions adopted, this has the potential to reduce pension scheme liabilities by billions of pounds. The latest analysis of national death data from the Actuarial Profession's Continuous Mortality Investigation (CMI) shows that people are still living longer than previously, but recent improvements in life expectancy have been slower than expected.

  Rates of improvement in longevity have been slowing since 2010, suggesting a trend that may be driven by medium or long-term influences rather than a short-term "blip" in experience. Compared to the assumptions adopted for the 2016 valuations, the latest CMI data could see liabilities fall by c2%. The impact on liabilities may yet be greater in the future too. Mercer's analysis of the latest national death data for 2018 so far shows higher rates of mortality than in 2017, suggesting the slowdown in life expectancy improvements may be continuing.

  This will be considered again later in the year at a Fund level when we perform our demographic analysis ahead of the 2019 valuations.

- THE EQUITABLE LIFE BOARD is in the final stages of evaluating the options for the future of the Society and is expected to communicate further at their AGM on 31 May 2018 in London. We are advised that this will not be subject to a vote at the AGM (the Resolution would need to be listed in the Notice regarding the AGM, which has already been issued to Members of the Society). For group pension schemes, a "Member" broadly means the trustee(s) or an authorised representative thereof. However, the Society does wish their Members to engage with them regarding these options.

Equitable Life has been evaluating all the following possible strategies, and combinations thereof:

- Sale of the Society (no approaches from other companies yet),
- Reopening to new business / buying closed books (unlikely),
- Liquidation (material potential tax issues, as Equitable Life is solvent),
- Continuing in "run off" (despite the risk to the Capital Distribution, indeed guarantees, within a low interest rates environment, as well as the likely increase in operational costs per policy as the Society gradually shrinks),
- Increasing the Capital Distribution to encourage With Profits Fund transfers (thereby reducing future capital intensive guarantees, potentially making the sale of the remaining Society more feasible).

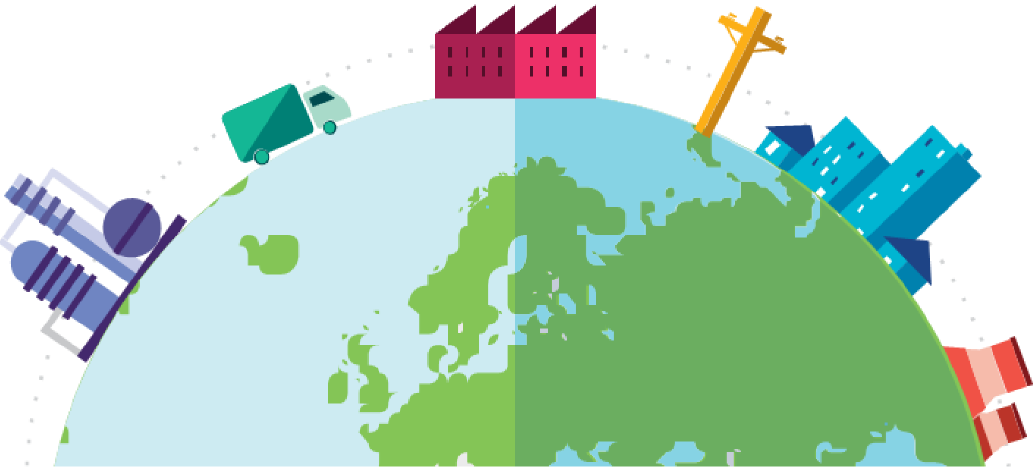
Further information can be found on their website.

- POOLING – Now that we have passed April 2018, LGPS funds must now begin transitioning their assets into their new investment pools. Representatives from the eight asset pools reported their progress in establishing their organisational structures and governance arrangements to an open session containing the Chairs of LGPS pension committees and local pension boards on 27th March 2018.

  A Cross Pool Open Forum will soon be established which will contain three representatives from each of the eight pools and three trade union representatives.

- GDPR comes into force on 25 May 2018 replacing the Data Protection Directive. It includes new standards for protecting personal data and applies to all EU member states. As we have previously noted, the Secretariat commissioned Squire Patton Boggs to produce template privacy statements for administering authorities to use and a memorandum of understanding document for participating employers (published on 1 April 2018). In addition, the Secretariat has published an 'actions for administering authorities' document, a Q&A for members and example documents from the West Midlands Pension Fund in order to assist Funds with the process.

  The Information Commissioner's Office's website also contains a host of information that can assist Funds including a data protection self-assessment toolkit.



OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATION

GOVERNMENT ACTUARY'S DEPARTMENT

The Government Actuary's Department is offering a number of regional workshops to discuss DATA QUALITY and the SECTION 13 PROCESS aimed at pension managers and administrative authorities. The dates are as follows:

- London - 4 June 2018
- Cardiff - 7 June 2018
- Wolverhampton - 11 June 2018
- Manchester - 18 June 2018 (hosted by Mercer – hurry, this one will be a sell out!!)
- Durham - 25 June 2018

SCHEME ADVISORY BOARD UPDATES

TIER 3 EMPLOYERS – Having gathered the results of the surveys, Aon confirmed at the Scheme Advisory Board meeting in February that they are ready to analyse this and the interview data. A draft report from Aon is expected at the 27 June 2018 meeting for consideration by the Board. Further details on the project can be found here.

DATES TO REMEMBER

DATE	ISSUE	THE LATEST
14 May 2018	Exit credits	Effective date for the introduction of exit credits for employers leaving the LGPS.
25 May 2018	Data protection	Date by which EU member states must comply with the new General Data Protection Regulation.
13 January 2019	IORP II	Date by which member states must adopt the new EU directive covering occupational pensions
March 2019	Brexit	It is expected that the UK will formally leave the EU by the end of this month.
2018	Tier 3 Employers	Outcome of the Tier 3 employers review
2018	Academies	Outcome of the academies review
2019	Pensions Dashboard	These are expected to go live some time in 2019

MEET SOME OF THE TEAM -
THINGS YOU MAYBE DIDN'T KNOW

Name: Maria Cass
Role: Actuarial Consultant
Joined Mercer: April 1992
Place of Birth: Liverpool
Favourite Film: 13 Going on 30 and the Bourne Trilogy
Summer Holiday Destination: Disney and Universal in Orlando, Florida or a caravan in Prestatyn, North Wales
Did you watch the Royal Wedding: I saw parts of it but it was a sunny day (see next question)…
Have you been enjoying the British Summer: Yes, I like to spend as much time as possible outdoors when the weather is good
Top tip for cooling down in this weather: Work in the Mercer Liverpool office – it's freezing!

Name: Paul Clare
Role: Actuarial Consultant
Joined Mercer: 2010
Place of Birth: Ormskirk
Favourite Film: Forrest Gump
Summer Holiday Destination: Kiev for a day in May and then Porto/Douro Valley, Portugal
Did you watch the Royal Wedding: No, I was too busy sunbathing!
Have you been enjoying the British Summer: Of course. The grass needs cutting too often though…
Top tip for cooling down in this weather: Do they still sell Fab lolly ices?

Name: Nick Page
Role: Investment Consultant
Joined Mercer: April 2015
Place of Birth: Birkenhead, Wirral
Favourite Film: Jurassic Park
Summer Holiday Destination: Last year we went to Miami and Ibiza. This year we'll be under new born baby house arrest.
Did you watch the Royal Wedding: There was a wedding on?! Nobody mentioned it
Have you been enjoying the British Summer: Apart from the office being a sauna, it's been great to get as much golf in as possible ahead of the new arrival.
Top tip for cooling down in this weather: Find the optimal position to best mooch off of Mark Wilson's desk fan.

CONTACTS

Paul Middleman
paul.middleman@mercer.com
0151 242 7402

Leanne Johnston
leanne.johnston@mercer.com
0161 837 6649

Ian Kirk
ian.x.kirk@mercer.com
0151 242 7141

Nigel Thomas
nigel.thomas@mercer.com
0151 242 7309

John Livesey
john.livesey@mercer.com
0151 242 7324

Clive Lewis
clive.lewis@mercer.com
0151 242 7297

Charlotte Dalton
charlotte.dalton@mercer.com
0161 837 6660

Jonathan Perera
Jonathan.perera@mercer.com
0151 242 7434

This edition of LGPS: Current Issues is for information purposes only.
The articles do not constitute advice specific to your Fund and you are responsible for obtaining such advice.
Mercer does not accept any liability or responsibility for any action taken as a result of solely reading these articles.
For more information about other training or advice about how any article in this issue relates to your Fund, please contact your usual Mercer consultant.

Visit us at www.uk.mercer.com

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ISLINGTON

Finance Department
Municipal offices, 7 Newington Barrow Way London, N7 7EP

Report of: **Corporate Director of Resources**

Meeting of	Date	Agenda Item	Ward(s)
Pensions Sub-Committee	26 June 2018		

Delete as appropriate	~~Exempt~~	Non-exempt

Subject: ISLINGTON COUNCIL PENSIONS SUB COMMITTEE MEMBERS TRAINING

1. Synopsis

1.1 This is an information report to engage Members of the Pensions Sub-Committee especially after new committee appointments, to explore their training requirements and consider the options attached as Appendix A and B.

2. Recommendations

2.1 To explore Members' training needs and consider training options attached as Appendix A and B.

3. Background

3.1 CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5) publication, is based on ten principles proposed by the Myners review of Institutional Investment in the United Kingdom, and was adopted by the Government as a model for best practice in 2001.

.6 \s

3.2 The Myners Principles were reviewed by the Pension and Lifetime Savings Association (PLSA) during 2008 and a revised set of six principles were issued in October 2008. The Myners principle and compliance forms part of Islington Pension Fund's published Investment Strategy Statement. *Myners Principle 1- Effective decision-making* states that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

3.3 Local Government Pension Scheme (Amendment) Governance Regulations 2014 ("the Governance Regulations) provide that Pensions Board will have responsibility for assisting the 'scheme manager' (the Pensions Sub Committee in Islington's case) in relation to the following matters:

To ensure compliance with:

- the Local Government Pension Scheme Regulation (LGPS),
- other legislation relating to the governance and administration of the LGPS, and
- the requirements imposed by the Pensions Regulator in relation to the LGPS to ensure the effective and efficient governance and administration of the scheme.

This reinforces the need for Pensions Sub- Committee members to undertake regular training to ensure sufficient knowledge of the LGPS, pension benefits and investment issues to make informed decisions for the benefit of all stakeholders.

3.4 Training requirements can be split into two categories
a) the role of a trustee and knowledge required to perform those duties
b) technical knowledge on the local government scheme and investment expertise

3.5 The Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector, and Technical Guidance for Elected Representatives and Non-Executive Members in the Public Sector (the frameworks), published in January 2010, were launched as good practice guidance and were intended to have persuasive rather than mandatory force. This Code of Practice represents a key element in complying with this principle and is intended to complement the Myners requirements for knowledge and skills in decision-makers.

3.6 **The Code of Practice is underpinned by five key principles**:

3.6.1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making, governance and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.

3.6.2. Organisations have the necessary resources in place to acquire and retain the necessary public sector pension scheme finance knowledge and skills.

3.6.3 Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.

3.6.4 The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

3.6.5 The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

3.7 The Pensions Sub-Committee requires new members serving on the Sub-Committee to source appropriate training within 6 months of joining the Sub-Committee. **The three-day course run by the Local Government Pensions Committee of the Employers Organisation is recognised as particularly relevant training for new Members**, but other paid courses or seminars, and requisite experience are also recognized as appropriate. A copy of the course dates is attached for information –Appendix A

3.8 Other training options available include members choosing an investment topic that could then be presented as part of our fund managers' performance presentation at some of our regular quarterly meetings, half day sessions tailored to cover a few investment topics, discussion papers prepared by our investment advisers or actuary.

3.9 Self-tutorial courses taken on line at members own speed and time such as The Pension Regulator Trustee Toolkit. This is a free, online learning program from The Pensions Regulator aimed at trustees of occupational pension schemes. The Trustee toolkit includes a series of online learning modules and downloadable resources developed to help you meet the minimum level of knowledge and understanding introduced in the Pensions Act 2004.

3.10 Members are therefore asked to consider in the first instance their training requirements and consider LGA course program Appendix A and some of the other training options available attached as Appendix B

4. Implications

4.1 Finance Implications

4.1.1 Fund management and administration fees are charged directly to the Pension Fund. Training fees will be covered as part of fund management.

4.2 Legal Implications

4.2.1 There are no specific legal implications arising from this report

4.3 Resident Impact Assessment

4.3.1 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. Environmental Implications

None applicable to this report

6. Conclusion and reasons for recommendations

This report covers members training requirements and asks them to consider the options proposed to make effective decisions with the necessary skills and knowledge.

Background papers:

Islington Councils Pension Fund ISS

Final Report Clearance

Signed by

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Corporate Director of Resources	Date

Received by

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Head of Democratic Services	Date

Report author : Joana Marfoh
Tel : 0207-527-2382
Fax : 0207-527-2056
E-mail : joana.marfoh@islington.gov.uk

Appendix A- LGPS “TRUSTEE” TRAINING FUNDAMENTALS XVII

The 2018 programme is currently being reviewed and will be advertised early June when bookings will become live. We just wanted to alert you to the dates that Fundamentals will be run this year:

. Fundamentals XVII 2018 will be delivered at three locations as follows:

Leeds Day 1 2 October
Day 2 6 November
Day 3 5 December

London Day 1 10 October
Day 2 30 October
Day 3 4 December

Cardiff Day 1 23 October
Day 2 13 November
Day 3 11 December

Fundamentals XVII 2018 is designed as a 3-day course, with identical material being delivered at each location. It is therefore possible to attend the course by visiting different locations should delegates’ diaries not allow attendance on all three days at a particular location.

Appendix B

Training Options available to Members

1**. Third party training providers** -Many external providers offer training courses to members and trustees. Some are specifically aimed at LGPS schemes, others are generic in nature.

2. **Training from fund managers-** Fund managers are generally delighted to have an opportunity to provide training to their clients or prospective clients, and are usually happy to do so at no additional cost. Such training can either be provided as an "away-day" session or immediately before the regular quarterly Pensions Sub-Committee meeting. An example of this was a briefing on Residential Housing from M&G Investors.

3. **Presentations from investment advisers**- Advisers are usually well-placed to provide training to members, and have the benefit of a closer understanding of the fund's investment strategy and the existing level of knowledge around the table. As with fund managers, such training can either be provided as a closed session, or as part of the regular quarterly panel meeting.

   Example -The Fund's actuary and investment adviser from Mercer run a 1-hour session on the actuarial valuation for members in 2016

4. **Fast-track one-to-one briefing sessions by advisers -**These are topic-specific intensive sessions and can be tailored to suit the individual, or a small group of individuals, requesting the training. MJ Hudson Allenbridge Advisors run a 1 to 1 for a member on the Fund, terminology and asset classes.

5**. Briefing papers with Q&A-** Briefings can be organised at convenient times for members (eg at 6pm or 6:30pm before a pensions sub-committee meeting). Briefings can be delivered by investment advisers on a topic of interest. A time-saving alternative is to receive a briefing paper on a topic of interest and to supplement this with a short Q&A session. Briefing papers could be provided by the fund manager, the adviser, or the officers, although ideally the author of the paper should attend the Q&A session.

6. Web-based training - Another alternative is to set up a discrete web area for the Pensions Committee, with a glossary of terms, thought pieces of a generic pension fund or asset class nature, "hot-links" to external websites such as CIPFA, LGPC, PLSA, TPR, and LGE and an area in which members could raise questions of a pension fund investment related nature. These web links are not investment-specific, and can offer wider training: particularly useful for new members. In particular, the CIPFA Pensions Panel is developing a financial knowledge, skills and competency framework for members, to be applied on a self-regulated basis using self-assessment, and tailored to members' roles and experience.

   Example https://trusteetoolkit.thepensionsregulator.gov.uk/

ISLINGTON

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	26 June 2018		n/a

Delete as appropriate		Non-exempt

SUBJECT: PENSIONS SUB-COMMITTEE 2018/19– 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, the LCIV and equity protection.

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:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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

APPENDIX A

Pensions Sub-Committee Forward Plan for June 2018 to March 2019

Date of meeting	Reports
	Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update • CIV update report • Equity protection- quarterly monitoring
26 June	Global equity review - Allianz Training Policy Review Annual Fund presentation – PIRC performance
18 September	Infrastructure procurement update Alternative products to corporate bond portfolio Actuarial funding update Business Plan Update Review of Investment Strategy Statement
15 October	Pension annual meeting
26 November	
25 March	

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

September 2018	Asset backed securities

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Report of: **Corporate Director of Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	26 June 2018		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: LISTED EQUITY PORTFOLIO REVIEW- LCIV ALLIANZ

1. Synopsis

1.1 This report and exempt appendices provide information on the Fund's listed equities portfolio and considers next steps on the LCIV Allianz global equity portfolio.

1.2 Mercer, our investment advisors have prepared a high level presentation of our current equity portfolios and style and current sub funds available on the LCIV platform.(attached as exempt appendix 1and 2)

2. Recommendation

2.1 To receive and consider the presentation by Mercer, our investment advisors

2.2 To agree one of the below options
(i) to continue investing in Allianz
(ii) to terminate Allianz and transfer assets to alternative global equity LCIV sub fund(s)
(iii) to terminate Allianz and rebalance the whole fund to meet the long term strategic allocation

2.3 Depending on recommendation 2.2; agree that officers and Mercer prepare further analysis and evaluate the most suitable option for the Fund and report progress at the next meeting.

3. Background

3.1 The Committee agreed to transfer our global equity assets with Allianz to the LCIV Allianz sub fund as part of the Phase 1 funding in December 2015. We were part of 3 boroughs who completed this transition at the time. As of the 2nd quarter of this year the other 2 boroughs terminated their mandate with Allianz due to changes in asset allocation and requirements.

3.2 The LCIV will not terminate the Allianz sub fund because asset under management c £110m still makes it viable. Members are being asked to reconsider the portfolio because we are the only investors at the moment. A factsheet of the alternatives available on the LCIV platform and the current capacity is attached as Exempt Appendix 2 for information.

3.3 Mercer will discuss in their presentation attached as Exempt Appendix 1 more details about the portfolio and the options available for consideration.

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 presentation and LCIV factsheet attached as exempt appendix 1and 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

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ISLINGTON

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	26 June 2018		

Delete as appropriate	Exempt	~~Non-exempt~~

Appendix A 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: 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, running of portfolios and reviewing governance and investment structure, over the period March to May 2018.

2. Recommendations

2.1 To note the progress and news to May 2018

2.2 To note and consider the Exempt Appendix A - letter from LCIV on the next phase of implementing the new governance structure, terms of reference and notice of dissolution of Pension CIV Sectoral Joint Committee.

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 **<u>Update in June – following consultation on governance, client communication and investment structure</u>**

3.5.1 The London CIV was formally established two and half years ago. Since then it has secured regulatory approval, established a team of 16 staff and by the end of this year will have brought £14bn of LLAs assets under LCIVs oversight. In the current year, there will be an annualised £6m of savings to the LLAs in management fees as a result of the work of the CIV. This puts the CIV some way ahead of the other pooled funds that are currently being established.

However the wider context has changed radically since London Councils took its decision to establish the CIV. In particular, the Government has decided that pooling should be mandatory across the country and have set an ambitious timetable for this to be progressed. The London CIV was very consciously set up as a voluntary scheme with the decisions on investment lying with the individual LLA pension funds.

3.5.2 In order to respond to this changed context and take stock of progress, a Governance review was undertaken last year jointly by LCIV, the Joint Committee (PSJC) overseeing the work of the CIV, and the LLA Treasurers. Willis Towers Watson was commissioned to lead the review and presented their final report to the Governance Review Steering Group in December.

The Towers Watson report pointed to the need to both clarify the purpose of the CIV and establish new governance arrangements that reflected this purpose. At present, the CIV is reporting to multiple different stakeholders in a complex way with the risk that none of them feel entirely satisfied with their ability to influence it. The report also recommended that the CIV strengthen its capacity to engage with individual LLAs.

3.5.3 **New Governance Structure**

The shareholder Governance of the London CIV will now move to the revised meeting structure of two General Meetings and Quarterly Shareholder Meetings in line with the Terms of Reference and this sectoral joint committee of London Councils is dissolved with the written agreement of all the participating local authorities all being shareholders in the London CIV.

3.5.4. A joint letter from LCIV and London Councils attached as Exempt Appendix A, updates you on the new governance framework for London CIV to be implemented from 12 July 2018 onwards. The letter seeks support in moving to the next phase of formally implementing the changes to the governance of the London CIV that have been previously discussed.

Key points to highlight are:

- confirmation of the new arrangements at the AGM on 12 July 2018 and the transition to new arrangements starting with the September Board and Shareholder Committee meetings and approval of the next financial and business plan at the January Shareholder General meeting.

- ratification of the appointment of two new Non-Executive Directors, a Treasurer Observer, and members of the Shareholder Committee at the 12 July 2018 AGM.

- signing of the written notice revoking the delegation to the joint sectoral committee (the Pensions CIV Sectoral Joint Committee)

At the next AGM of the London CIV the Chairs, Directors and members would be confirmed.

3.5.5 To complement the new shareholder governance arrangements set out in the letter, there will be an improved framework for client services, informed by shareholder consultation, including a Service Level Agreement and programme of events for clients collectively.

3.6 Members are asked to note the progress to date on review consultation and consider the implementation of the new governance structure.

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.
In a April 2018 annual service charge of 25k (+VAT) and 65k (split 43.3k and16.6k) development fund was invoiced to all members

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 and note and consider the current implementation of the new governance structure, and client communication

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

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Agenda Item B7

ISLINGTON

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	26 June 2018		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- QUARTERLY MONITORING

1. Synopsis

1.1 This is a quarterly monitoring report on the implemented equity protection strategy to allow Pensions Sub-Committee to review the performance of the strategy regularly. The end of quarter market to market exposure and option gain or loss position will be discussed and noted for information.

1.2 Mercer our investment advisor, has prepared a presentation to highlight the main features of activities to May 2018 and performance during the quarter to March 2018.

2. Recommendations

2.1 To note the options value as at March 2018

2.2 To receive Mercer's presentation highlighting the main features and activities of the strategy to May 2018- attached as Exempt Appendix 1-Equity Protection Monitoring

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 22-year recovery plan was agreed with projected contributions over this period to achieve a 100% funding level.

3.2 Members agreed at the October 2017 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 2020, the next actuarial valuation, and then reviewed.

3.3 The protection strategy was implemented on 2nd February and was based on an equity notional value of £734m (equity value at 31 December 2017 less premium of £25m). The premium was sourced from our LGIM MSCI Global Low Carbon Fund. The target maturity is March 2020 except for Japan that expires in June 2020. The actual premium for the structure was £24.7m. The weighted average upper and lower strike were 94.9% and 78.3% respectively.

3.4 Members agreed to receive quarterly monitoring reports to track our equity exposure and the market to market value of our protection. As at March 2018 our equities exposure had decreased by £41m but our option had improved by £7m. Members should note that as the strategy is for a fixed term any gains and losses will only be realised at the end of the contract.

3.5 Mercer will be presenting in more detail activities during the quarter and how the protection has performed.

4. Implications

4.1 **Financial implications**

4.1.1 The cost of providing independent investment advice and fund management 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 are asked to note the Fund's market to market equity exposure position and receive a presentation from Mercer highlighting the equity protection strategy performance during the quarter to March 2018 and activities to May 2018, attached as Exempt Appendix 1 – Equity Protection Monitoring.

Background papers:
None

Final report clearance:

Signed by:

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

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

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