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Resources
Town Hall, Upper Street, London, N1 2UD

AGENDA FOR THE PENSIONS COMMITTEE

Members of the Pensions Committee are summoned to a meeting which will be held in Committee Room 1, Islington Town Hall, Upper Street, London N1 2UD, on **21 November 2023 at 7.00 pm.**

Enquiries to	:	Mary Green
Tel	:	(0207 527 3005
E-mail	:	democracy@islington.gov.uk
Despatched	:	13 November 2023

Membership	Substitute Members
Councillor Paul Convery (Chair)	Councillor Jenny Kay
Councillor Diarmaid Ward (Vice-Chair)	Councillor Ben Mackmurdie
Councillor Satnam Gill OBE	
Councillor Michael O'Sullivan	

Quorum is 2 members of the 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.

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 Committee is scheduled for 11 March 2024

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London Borough of Islington

Pensions Committee - 26 September 2023

Non-confidential minutes of the meeting of the Pensions Committee held in Committee Room 1, Islington Town Hall, Upper Street, N1 2UD on 26 September 2023 at 7.00 pm.

Present: **Councillors:** Paul Convery (Chair), Diarmaid Ward (Vice-Chair), Satnam Gill OBE and Mick O'Sullivan

Councillor Paul Convery in the Chair

303 **APOLOGIES FOR ABSENCE (Item A1)**
Received from Valerie Easmon-George and Alan Begg, both members of the Pensions Board.

304 **DECLARATION OF SUBSTITUTES (Item A2)**
None.

305 **DECLARATION OF INTERESTS (Item A3)**
Councillor Convery declared an interest in items on the agenda as a deferred member of the Scheme.

306 **MINUTES OF THE PREVIOUS MEETING (Item A4)**
Subject to the deletion of the sentence "(e) That officers report to the next meeting on options for sustainable infrastructure." in minute 296,

RESOLVED:
That the minutes of the meeting held on 3 July 2023 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

307 **REVIEW OF COUNCIL CONSTITUTION - APPROVED CHANGES TO TERMS OF REFERENCE FOR PENSIONS COMMITTEE AND PENSIONS BOARD (Item A5)**

Members acknowledged that, compared to other Pension Boards across London, membership of Islington's Pensions Board was low, at four members. Members undertook to discuss with their colleagues the many positive aspects of serving on the Committee, with a view to extending membership to six and with more diversity in the make-up.

RESOLVED:
(a) To note the changes to the Terms of Reference of the Pensions Committee and the Pensions Board, as approved by the Council on 13 July 2023 and detailed in the

Appendix to the report of the Interim Director of Law and Governance and Monitoring Officer.
(b) That the Interim Director of Law and Governance and Monitoring Officer be thanked for her work on the revisions to the Terms of Reference for both the Pensions Committee and the Pensions Board and the overall work on revisions to the Constitution.

308 PENSION FUND PERFORMANCE - 1 APRIL TO 30 JUNE 2023 (Item B1)

The report of the Corporate Director of Resources was amended on submission as follows:

Paragraph 3.11.2 (Aviva) – substitute "-7.1%" for "7.1%" in line 2.

RESOLVED:

(a) That the performance of the Fund from 1 April to 30 June 2023, as per the BNY Mellon interactive performance report and detailed in the report of the Corporate Director of Resources, as amended, be noted.
(b) That the presentation by Apex on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.
(c) To note for information the Mercer NewsAlert LGPS Issues August 2023, attached as Appendix 2 to the report.
(d) To note the Annual performance report by PIRC, attached as Appendix 3 to the report.
(e) To note the latest ESG ratings of Fund managers, prepared by Mercer, attached as exempt Appendix 4 to the report.
(f) That all Fund managers be included in the table of managers' performance for the future.
(g) That it be noted that, in response to a question from members, the Deputy Director of Finance had undertaken to investigate why emissions data for Quinbrook was lower than data provided in October 2022 and to write to members.

309 INVESTMENT STRATEGY STATEMENT UPDATE (Item B2)

The Chair proposed the addition of the word "investment" before the word "policy" in recommendation 3 of the report of the Corporate Director of Resources.

RESOLVED:

(a) To note the draft Investment Strategy Statement document, indicating tracked changes and attached as Appendix 1 to the report of the Corporate Director of Resources.
(b) To agree the changes and instruct officers to publish the revised Investment Strategy Statement.
(c) To note that a stand-alone responsible investment policy document was being developed for consideration at a future meeting

310 **ANNUAL REVIEW AND PROGRESS ON THE 2021-2025 PENSION BUSINESS PLAN (Item B3)**

RESOLVED:
(a) To note Appendix A attached to the report of the Corporate Director of Resources.
(b) To agree the business plan objectives set out in paragraph 3.4 of the report, viz:

- To achieve best practice in managing our investments in order to ensure good long□term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities "plus an expectation of strong business ethics from fund managers also"
- To continually improve our administration and governance in order to deliver an excellent and cost effective service to all fund members.
- To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members.
- To actively monitor and challenge poor performance in managers and to pursue new investment opportunities
- To develop collaboration opportunities with other funds for sharing of services and pooling

311 **INVESTMENT STRATEGY REVIEW UPDATE ON IMPLEMENTATION (Item B4)**

RESOLVED:
(a) To note the report from Mercer on M&G Sustainable, attached as exempt appendix 1 to the report of the Corporate Director of Resources.
(b) To note the key characteristics of the sustainable strategy.
(c) To note exempt Appendix 2, prepared by Apex, on Pantheon Infrastructure and to re-commit to the next vintage to maintain the Fund's allocation of 6%.
(d) To note the progress made on rebalancing the Fund's property allocation to the agreed 20%.
(e) To note initial action taken on the Fund's emerging markets portfolios.
(f) To agree to receive a further progress report at the next Committee meeting in November 2023.

312 **DRAFT RESPONSE TO DLUHC CONSULTATION ON POOLING (Item B5)**

RESOLVED:
(a) To note the consultation document "Local Government Pension Scheme (England and Wales): Next steps on investments"
(b) To note the five main areas focused for consultation as listed in para 3.3 of the report.

(c) To agree the draft response on "Pooling" attached to the report and to authorise officers to send the final version to the Department of Levelling Up, Housing and Communities, no later than 2 October 2023.

313 **PENSION FUND FORWARD WORK PLAN (Item B6)**

The Committee noted that this year's Annual Meeting was more likely to be held in November, rather than October.

RESOLVED:

That Appendix A attached to the report of the Corporate Director of Resources, comprising the forward plan of business for the Committee, be noted.

314 **LONDON CIV UPDATE (Item B7)**

RESOLVED:

To note the August monthly business update from the London CIV, attached as exempt appendix 1 to the report of the Corporate Director of Resources and the AGM meeting presentation slides, attached as exempt appendix 2 to the report.

315 **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

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

Agenda item E1 - Pension Fund performance - 1 April to 30 June 2023 - - exempt appendix – category 3.

Agenda item E2 - Investment Strategy review update on implementation - exempt appendices – category 3.

Agenda item E3 - London CIV update - exempt appendices – category 3.

316 **PENSION FUND PERFORMANCE - 1 APRIL TO 30 JUNE 2023 - EXEMPT APPENDIX (Item F1)**

See exempt minutes.

317 **INVESTMENT STRATEGY REVIEW UPDATE ON IMPLEMENTATION - EXEMPT APPENDICES (Item F2)**

See exempt minutes.

318 **LONDON CIV UPDATE - EXEMPT APPENDICES (Item F3)**

Noted.

ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7
7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Committee/Pension board

Date: 21st November 2023

Ward(s): n/a

Subject: Pension Fund Performance 1 July to 30 September 2023

1. Synopsis

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

2. Recommendations

2.1 To note the performance of the Fund from 1 July to 30 September 2023 as per BNY Mellon interactive performance report

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

3. Fund Managers Performance for 1 July to 30 September2023

3.1 Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (July-Sept'23) Gross of fees		12 Months to September 2023 Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LCIV Sustainable EQ- RBC	9.3%	Global equities	1	-0.9%	0.5%	-1.3%	11.5%
LCIV -Newton	14.1%	Global equities	2	-0.6%	0.7%	13.5%	11.0%
Legal & General	13.8%	Global equities	1	0.9%	0.9%	11.0%	11.3%
Legal & General-Paris Aligned	9.6%	Global equities	1	-0.3%	-0.6%	12.7%	12.9%
Polen Capital (previously BMO)	3.6%	Emerging equities	2	0.1%	1.2%	-0.4%	2.6%
Quinbrook	6.2%	Renewable Infrastructure		3.3%	2.8%	-7.9%	12.0%
Pantheon	4.3%	Infrastructure	1	5.0%	2.4%	1.9%	10.0%
Aviva (1)	10%	UK property	2	-2.3%	-2.2% -0.2%	-14.9%	-5.5% -13.6%
ColumbiaThreadneedle Investments (TPEN)	6.8%	UK commercial property	3	0.2%	-0.4%	-12.1%	-14.3%
Hearthstone	1.4%	UK residential property	N	-2.8%	-0.2%	-1.4%	-13.6%
Standard Life	3.8%	Corporate bonds	2	2.1%	2.2%	6.9%	6.9%
M&G Alpha Opportunities	4.6%	Multi Asset Credit	2	2.7%	2.1%	11.8%	7.5%
Schroders	2.5%	Diversified Growth Fund	2	-0.6%	1.7%	1.4%	13.8%
Churchill Senior loan Fund IV	3.5%	Private Debt	2	6.9%	1.2%	-1.8%	5%
Permira Credit Solution	1.1%	Private Debt	3	1.5%	1.4%	n/a	n/a
Crescent Capital	1.8%	Private Debt	N	7.2%	2.4%	n/a	n/a
Cash	1.4%	cash		n/a	n/a	n/a	n/a
Market value of total fund	**£1,766m**						

-2.2% & -5.5% = original Gilts benchmark; -0.2% and -13.6% are the IPD All property index; for information

3.1 BNY Mellon our performance monitoring service provider now provides our quarterly interactive performance report. Performance attributions can be generated via their portal if required. Copies of the latest quarter fund manager's reports are available to members for information if required.

3.2 The combined fund performance and benchmark for the last quarter ending September 2023 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to Sept'23 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	0.5	0.07	4.8	8.9

3.3 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1,3- and 5-year periods to September'23 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	4.8%	5.5%	5.4%
Customised benchmark	8.9%	5.1%	4.9%

3.4 The strategic allocation and actual position as at 30th September is shown in the table below. Cash held is mostly distributions from private assets and used to fund drawdowns.

Asset Class	**Strategic Allocation**	**Current Allocation**
Equities	45	50.4
property	20	20
Private debt	10	6.3
Infrastructure	12.5	10.5
Impact investment	5	0
Multi asset credit	7.5	4.6
Investment grade credit	0	3.8
Diversified growth fund	0	2.6
Cash	0	1.8

3.5 **LCIV RBC Sustainability Fund**

3.5.1 RBC is the fund's global sustainable equity manager on the LCIV platform and was originally appointed in November 2018 to replace our Allianz mandate also on the LCIV platform.

3.5.2

LCIV RBC Sustainability was fully funded on 5 August 2019. Mandate guidelines include the following;

- The sub fund manager will invest only where they find all four forces of competitive dynamics (business model, market share opportunity, end market growth & management and ESG
- Target performance is MSCI World Index +2% p.a. net of fees over a three-year period.
- Target tracking error range over three years 2% p.a – 8.0%.
- Number of stocks 30 to 70

3.5.3
- Active share is 85% to 95%

The fund underperformed its quarterly benchmark to September by -1.5% and a twelve-month under performance of -12.9%. This was primarily due to stock selection, underperformance was wide across the portfolio as several high conviction positions are currently not favoured by the market. These effects were mainly determined by broader market forces, namely uncertainty about the path of interest rates, shorter time horizons of mainstream investors and an 'ESG intangibles' headwind.

3.6 **LCIV Newton Investment Management**

3.6.1 Newton is the Fund's other global equity manager with an inception date of 1 March 2008. There have been amendments to the mandate the latest being a transfer to the London CIV platform.

3.6.2 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.

3.6.3 The fund returned -0.5% against a benchmark of 0.7% for the September quarter and a 12month outperformance of 2.5% against a benchmark of 11.0%. The only observable theme attributed to underperformance was profit-taking in a selection of stocks which had outperformed in the first half of the year.

3.6.4 Islington now owns 47.3% (54.8 %) of the fund with 2 other local authorities on the LCIV platform after a £90m withdrawal to rebalance our property allocation.

3.7 **The Legal and General Paris Aligned ESG Passive Index**

3.7.1 The Paris Aligned Index was set up by transitioning the Internal UK index fund in August 2022. The original mandate was valued at £154m and now stands at £170m.

3.7.2 The quarter performance to September was -0.3% against a benchmark of -0.7%. As mentioned last quarter discussions with London CIV about an oversight recharge invoice received by the Fund in April in addition to the normal investment management fees continues.

3.8 **Legal and General**

3.8.1 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, 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 2017.

3.8.2 The components of the new mandate as at the end of June inception, was £138m and benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets. For this quarter, the fund totalled £243m(241m) with a performance of 0.9% against a benchmark of 0.9%.

3.9 **Polen Capital (BMO Global Assets Mgt)**

This is the 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 dividends.

The mandate was amended in March'21 when the frontier element was liquidated and $11.3m was returned.

3.9.1 The September quarter saw an under performance of -1.1%, and this was mainly due to stock selection.

3.9.2 The manager investment thesis prefers bottom-up stock selection and believing that it can reduce risk by only holding the highest conviction positions for up to 5years.

3.10 **Aviva**

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

3.10.2 The fund for this quarter delivered a return of -2.4% against a gilt benchmark of -2.2%. The All Property IPD benchmark returned -0.18% for this quarter. Since inception, the fund has delivered an absolute return of 4.8%

3.10.3 As at the end of this September quarter the fund's unexpired average lease term is 20.8 years. The Fund holds 82assets with 50 tenants. This year the strategy has been to sell investments with weaker tenant credit ratings and shorter lease terms than the portfolio average with the aim to de-risk the portfolio and continue to provide secure cashflows for investors. This quarter three sales were completed: a manufacturing facility, a car showroom and a concert hall investment. The fund has 7.7% cash and has been notified of redemptions of around 15.7% till year end in December.

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 January 2010 with an initial investment of £45 million. The net asset value at the end of September was £121m includes purchase of additional units of £30m.

The agreed mandate guidelines are as listed below:

- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 April 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.

3.11.2 The fund returned a performance of 0.2% against its benchmark -0.4% for the September quarter. Since inception it has delivered an absolute return of 5.5% per annum.

3.11.3 The cash balance now stands at 3.2%. During the quarter, one strategic sale was made and there were no acquisitions. Vacancy rate stands at 9.4% and the number of properties are 171 with 961 tenancies.

3.11.4 The Fund has set net zero target to neutralise carbon emissions within portfolios by 2050. An income distribution share class is now available for investors who want to draw down income. A Redemption Deferral Policy (the Policy) for TPEN PF was enacted effective for investor dealings from 3 October 2022 to protect all Investors' interests as a result of the volatility in the investment market since 23 September 2022.

3.12 **Franklin Templeton**

3.12.1 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.

3.12.2 Fund I is now fully committed and drawn down. \$3.5m remains undrawn. The final portfolio is comprised of nine funds and five co-investments. The funds are 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 September quarter is \$62.1m. The NAV is \$0.2m

3.12.3 The Fund is in the harvesting phase of its life cycle and continues to benefit from the realization of investments.

3.12.4 Fund II is fully invested and the completed portfolio of 10 holdings consist of a diverse mix of property sectors including office, retail and industrial uses and the invested geographic exposure is 6% Asia, US 26% and 68% Europe. The admission period to accept new commitments from investors was extended with our consent through to June 2017 when it finally closed. The total capital call is \$40m and total distribution of \$30.7m. The NAV is \$17.6m

3.12.5 Members agreed to commit \$50m to Fund III at the December 2020 meeting and the documentation was finalised in December to meet the final close date. Fund III made its final close on 30th December with total equity commitment of \$218m.

Current portfolio consist of 5 holdings over a geographic exposure of 77% in Europe and 23% in USA with a 95% vintage in 2019 and 5% in 2021.

3.12.6 As at the quarter end \$18.8m has been drawdown and a distribution of \$8.6m had been received.

3.13. **Hearthstone**

This is the fund's residential UK property manager. The fund inception date was 23 April
3.13.1 2013, with an initial investment of £20million funded by withdrawals from our equity's 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 Southeast.
- 5-6 locations per region are targeted based on qualitative and quantitative
3 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

3.13.2 For the September quarter, the value of the fund investment was £25million and total funds under management is £62.5m. Performance net of fees was -2.8% compared to the IPD UK All Property benchmark of -0.2%. The £2m redemption requested in July was received in October.

3.13.3 FCA have agreed for the Fund to be terminated and liquidated effective from 1st December 2023. The initial cash held of £5m will be distributed on a pro rata basis with Islington receiving 40% share. The programme of disposal will continue as properties become vacant and protection of shareholder value is paramount.

3.14 **Quinbrook Infrastructure**

3.14.1 This one of the infrastructure managers appointed in November 2018. The total fund allocation infrastructure was 10% circa £130m. 40% of the allocation equivalent to $67m was allocated to low carbon strategy. Merits of Quinbrook include:

- Low carbon strategy, in line with LB Islington's stated agenda
- Very strong wider ESG credentials
- 100% drawn in 12-18 months
- Minimal blind pool risk
- Estimated returns 7%cash yield and 5% capital growth

Risks: Key Man risk

Drawdown to December 2021 is $67.0m – this is 100% of our commitment and total distribution is $31.4m to date with a NAV of $63m.

3.14.2 Islington completed documentation and onboarding to The Net Zero Power Fund on 25 August with a commitment of $100m. The terms and conditions were negotiated and agreed with a side letter. Total capital call to the end of September was $62.7m.

3.14.3 **Pantheon Access-** is the other infrastructure manager also appointed in November 2018. Total allocation was $100m and merits of allocation included:

- 25% invested with drawdown on day 1
- Expect fully drawn within 2-3 years
- Good vintage diversification between secondaries and co-investments
- Exposure to 150 investments
- Estimated return 5% cash yield and 6% capital growth

Risks: No primary fund exposure.

3.15.2 Drawdown to September '23 is $90.95m and distribution of $27.05m nearing its harvesting period.

Members agreed to re-commit to Pantheon IV infrastructure fund at the September meeting and the on- boarding was completed on 3rd October with a $100m commitment.

3.16 **Schroders**

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 equity's portfolios**.**

3.16.1 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.

3.17 The value of the portfolio is now £45**.**4m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The September quarter performance before fees was -0.6% against the benchmark of 1.7% (inflation+5%). The performance since inception is 2.0% against benchmark of 10% before fees.

3.17.3 The new benchmark effective from 1 April 2022 is ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum. A drawdown of £25m was made in October to fund new infrastructure capital call.

3.18 **Standard Life**

3.18.1 Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the September quarter, the fund returned 2.1% against a benchmark of 2.2% and an absolute return of 3.8% per annum since inception.

3.18.2 Stock selection was a small positive and duration was added to the portfolio as gilt yields rose.

3.18.3 The agreed infrastructure mandates are being funded from this portfolio and to date £80m has been drawn down.

3.19 **Passive Hedge**

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 June quarter, the hedged overseas equities had a loss negative cash value of £4m.

3.19.1 The hedge has now been in place since 25 November 2020 for quarterly hedge rolls

3.20 **M&G Alpha Opportunities**
This is the multi asset credit manager appointed and funded on 1st March 2021. The total allocation is approximately 5% funded mostly from profit made from equity protection in March 2020.

The mandate guidelines of M&G include

- Fund can invest across the full spectrum of developed market corporate credit (IG, HY, Loans) as well as securitised credit (ABS, MBS), some illiquid opportunities and defensive holdings (e.g. cash).
- Investment process is predominantly bottom up, with a defensive value style that seeks to buy cheap mispriced securities.
- Targets a return of 1 month LIBOR +3% - 5% (gross of fees) over an investment cycle (3-5 years)
- No local currency EM debt is permitted
- Low level of interest rate duration
- Maximum exposure to sub-investment grade credit of 50% of assets,
- Focus is primarily on Europe, although there is some exposure to the US (c. 15%).

Risk and triggers for review:

- Key man - risk
- Issues at the firm level
- Change in investment process/ structure or risk/return profile of the mandate.
- Failure to deliver target return over 3 Year period of Cash +3% - 5% (gross of fees), unless there is a compelling market-based reason for underperformance
- Downgrade of Mercer rating lower than B+
- Downgrade of Mercer ESG rating lower than ESG3.
- Long term trend of staff turnover and changes within the investment team.

3.20.1 The September quarter performance was 2.7% against a benchmark of 2.1% and a one year over performance of 4.3%. The primary contributors to performance were exposures to bonds in the Industrial, Financial and Leveraged Loan sectors.
The agreed change of mandate to Sustainable Alpha Opportunity Fund was transitioned on 1st November. The full cost of transition will be reported at the next meeting.

3.21. **Private Debt Mandates**

Fund and year	Commitment	Capital call	Distribution
Churchill Fund IV-2021	$95m	$85.08m	$14.19m
Permira V-2021	£50m	£18.815m	£1.16m
Crescent VIII-2022	$87m	$40.7m	$3.9m

4. Implications

4.1 **Financial implications:**
The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.

Fund management and administration fees and related cost are charged to the pension fund.

4.2 **Legal Implications:**
As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.

4.3 **Equality Impact Assessment:**
The Council must, in 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 and contribution to achieving a net zero carbon Islington by 2030:**
Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is:
https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending September 2023 as part of the regular monitoring of fund performance and Appendix 1- Apex Advisors commentary on managers.

Appendices: Appendix 1 – Apex- Fund Mgr monitoring report

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: David Hodgkinson

Corporate Director of Resources Date:

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London Borough of Islington

Report to 30th September 2023

11 November 2023

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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
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	The pooled funds in which Islington pension fund invests have a combined assets under management of £4.79 billion at end September 2023.
Schroders (multi-asset diversified growth)	There were no team changes during Q3 2023. The Manager updated its Global Asset Allocation Committee in October.	Fund made a loss of -0.59% during the quarter and delivered a return of +1.47% p.a. over 3 years, -12.27% p.a. behind the target return.	Total AUM stood at £724.3 billion as at end September 2023, down from £726.5 billion as at end June 2023.
Polen Capital (active emerging equities)	No staff changes reported. During Q1 2023 the Columbia Threadneedle emerging markets team was sold to Polen Capital.	Underperformed the benchmark by -1.15% in the quarter to September 2023. The fund is behind over three years by -1.72% p.a.	Total AUM stood at approximately $61bn as at end March 2023 (most recent data available).

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
LCIV Global Equity Fund (Newton) (active global equities)	Following the departure of the lead portfolio manager, LCIV have downgraded their rating of the manager to "enhanced monitoring". An in-depth review will take place in December 2023.	The LCIV Global Equity Fund underperformed its benchmark during Q3 2023 by -1.36%. Over three years the portfolio underperformed the benchmark by -0.37% and therefore under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.38% p.a.	At the end of Q3 2023, the London CIV sub-fund's assets under management were £528.0 million. London Borough of Islington owns 47.36% of the sub-fund.
LCIV Sustainable Equity Fund (RBC)	Team is stable but LCIV is concerned about the oversight of less experienced team members. A junior analyst left the firm just after quarter end.	Over Q3 2023 the fund made a return of -0.98%, and this underperformed the benchmark return of +0.56%. The one-year return was -1.37%, negative in absolute terms and behind the benchmark by -12.91%. The three-year return underperformed the benchmark by -6.40% p.a.	As at end September 2023 the sub-fund's value was £1,205 million. London Borough of Islington owns 13.67% of the sub-fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
M&G Alpha Opportunities Fund	Not reported by the manager.	The Fund made a return of +2.74% over Q3 2023, ahead of the target return by +0.66%. Over one year, the fund returned +11.86% which was ahead of the target return by +4.36%.	The fund size was £6,208 billion as at end September. London Borough of Islington's investment amounts to 1.32% of the fund.
Standard Life (corporate bonds)	There were nine joiners and 14 leavers during the quarter. Two Investment Managers have left the UK fixed income team and one new Investment Manager was hired into the fixed income team in Singapore.	The portfolio underperformed the benchmark return during the quarter by -0.07%, delivering an absolute return of +2.20%. Over three years, the fund was behind the benchmark return (by -0.29% p.a.) and behind the performance target of +0.80% p.a.	As at end September the fund's value was £2,218 million, up from £2,134 million as at end June. London Borough of Islington's holding of £67.3m stood at 3.0% of the total fund value.
Aviva (UK Property)	There were no joiners or leavers during the quarter	Underperformed against the gilt benchmark by -0.12% for the quarter to September 2023 and outperformed the benchmark over three years by +14.27% p.a., delivering a return of -0.32% p.a., net of fees.	The fund was valued at £2.99 billion as at end Q3 2023. London Borough of Islington owns 6.0% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Columbia Threadneedle	Not reported.	The fund outperformed the benchmark in Q3 2023, with a quarterly return of +0.23% compared with -0.42% for the benchmark. Over three years, the fund is outperforming the benchmark by +0.81% p.a.	Pooled fund has assets of £1.51 billion. London Borough of Islington owns 8.05% of the fund. This compares with 2018 when the fund owned just 4% of the fund.
Franklin Templeton (global property)	Not reported.	The portfolio return over three years was +3.60% p.a., and so behind the target of 10% p.a. Over 5 years the fund is behind the benchmark by -0.82% p.a.	£1,124 billion of assets under management for the Franklin Templeton Group as at end September 2023.
Hearthstone (UK residential property)	Verbal update to be given on termination and liquidation of the fund.	The fund underperformed the IPD UK All Property Index by -2.62% in Q3 2023. It is now behind the IPD benchmark over three years by -1.45% p.a. to end September 2023.	Fund was valued at £62.5m at end Q3 2023. London Borough of Islington owns 40.2% of the fund and is now in a redemption process.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Quinbrook (renewable energy infrastructure)	Not reported.	For the three years to Q3 2023 the fund returned +16.85% p.a., and therefore was ahead of the annual target return of +12.00% p.a.	Net Assets were £602 million as at June 2023 (latest figures available).
Pantheon (Private Equity and Infrastructure Funds)	Not reported.	The private equity fund returned +11.99% p.a. over three years, and +2.62% p.a. over five years. The infrastructure fund returned +21.16% p.a. over three years to end September.	$60.9bn of assets under management as at March 2023 (latest figures available).
Churchill (Middle Market Senior Loan Fund)	Not reported.	The fund has achieved a return of +6.94% for the quarter to 30 September 2023, outperforming the benchmark return of +1.23 Over 1-year, the fund is underperforming the absolute return target of 5% by -6.85%.	
Crescent (Credit Solutions Fund)	Not reported.	The fund returned +7.17% over Q3 2023, outperforming the benchmark by +4.76%.	$41 billion of assets under management as at March 2023. (latest figures available)

Source: Apex

Minor Concern

Major Concern

Individual Manager Reviews

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

Headline Comments: The three passive index funds (FTSE-RAFI Emerging Markets fund, MSCI World Low Carbon Target index fund, and the ESG Paris Aligned World Equity Fund) were within the expected tracking range, when compared with their respective benchmarks, in Q3 2023.

Mandate Summary: The London Borough of Islington invests in three of LGIM's index funds. The first 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. In August 2022, the fund's passive UK equity mandate was transitioned into the third passive fund: the ESG Paris Aligned World Equity Fund. This fund is designed to match the total return on the Solactive Paris Aligned Index. It differs to the Low Carbon passive fund because it has a more ambitious goal of targeting net zero by 2050 in line with the Paris Agreement.

Performance Attribution: The three index funds tracked their respective benchmarks as expected, as shown in Table 2. The wider MSCI World Index returned -3.36%, compared with 0.52% for the MSCI World Low Carbon Index and -0.77% for the Solactive Paris Aligned World Index.

TABLE 2:

	Q3 2023 Fund	Q3 2023 Index	Tracking
FTSE – RAFI Emerging Markets	+3.32%	+3.37%	-0.05%
MSCI World Low Carbon Target	+0.51%	+0.52%	-0.01%
ESG Paris Aligned World Equity Fund	-0.29%	-0.77%	+0.48%

Source: LGIM

Portfolio Risk: The tracking errors over three years are all within expected ranges. The allocation of the portfolio, as at quarter end, was 49.65% to the MSCI World Low Carbon Target index fund, 41.10% to the ESG Paris Aligned World Equity Fund, and 9.25% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a loss of -0.59% in Q3 2023, and in relative terms it underperformed the CPI + 5% target by -2.33% (as reported in the BNY performance report) and underperformed the cash + 4.5% target by -3.09% (this being the manager's preferred target since March 2022). Over three years, the fund is behind the CPI + 5% target return by -12.27% p.a.

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. The target for this fund changed on 1st April 2022 and is now the ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum (before fees have been deducted) over a 5-7-year period. The manager aims to deliver capital growth and income, with a volatility of less than two-thirds the volatility of equities.

Performance Attribution: The DGF made a return of -0.59% in Q3 2023 while global equities (MSCI All Country World Index hedged to sterling) made a return of -2.6%. Over three years, the DGF delivered a return of +1.47% p.a.

In Q3 2023, equity positions detracted -0.4% to the total return, alternatives contributed +0.1%, credit and government debt detracted -1.0%, while cash and currency contributed +0.7% (figures are gross of fees).

Portfolio Risk: The portfolio is expected to exhibit less than two-thirds the volatility of equities over a full three to five-year market cycle. Over the past three years, the volatility of the fund was 6.8% compared to the three-year volatility of 15.5% in global equities (i.e., 43.9% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 71% in internally managed funds (up from last quarter), 3% in active bespoke solutions (down from last quarter), 4% in externally managed funds (down from last quarter), and 16% in passive funds (down from last quarter) with a residual balance in cash, 6% (the same as last quarter), as at end September 2023. In terms of asset class exposure, 33.9% was in equities, 23.4% was in alternatives and 37.0% in credit and government debt with the balance in cash.

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

Following the Managers change in stance in Q2 from gearing up for an imminent recession to an economic slowdown further in the future, it is now positioned for a soft-landing. The manager remains broadly neutral on most asset classes, with emphasis on opportunities in specific geographies or sub-sectors. It is also considering moving from a neutral to a positive stance on equities, believing that there is an opportunity towards year end, with recent market moves triggering a cheapening of equity valuations and stabilisation in rate volatility.

Schroders reported that the carbon intensity of the fund was 79.7% as at end Q3 2023 that of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 69% of the portfolio (compared with 94% for the comparator). Using a Science Based Targets Initiative methodology, the portfolio temperature alignment stood at 2.55 degrees as at end September over a medium term horizon.

Organisation: There were no team changes during Q3 2023. Shortly after quarter end, the Manager updated its Global Asset Allocation Committee (GAAC). Philip Chandler, Head of UK Multi-Asset will join the GAAC as a voting member, and Joanna Kyrklund, Group CIO, will continue to manage and chair the GAAC but will no longer be a voting member.

Polen Capital (formerly Columbia Threadneedle/BMO) – Global Emerging Market Growth and Income Fund

Headline Comments: The portfolio made a return of +0.10% in Q3 2023, compared with the benchmark return of of +1.25%, an underperformance of -1.15%. Over one year the fund is behind the benchmark by -3.04%, and over three years it is trailing by -1.72% per annum (this is still a big improvement from last year when the portfolio was trailing the three year benchmark by -4.4% p.a.)

Mandate Summary: The manager invests in a selection of emerging market equities, with a quality and value, absolute return approach. The aim is to outperform the MSCI Emerging Markets Index by at least 3% p.a. over a three-to-five-year cycle.

Performance Attribution: The portfolio underperformed the index in the quarter. Overexposure in comparison to the benchmark to Russia (at points in the quarter, but no allocation as at quarter end) and cash contributed positively to performance, though overexposure to Uruguay and United States detracted from performance.

During the quarter, the largest positive contributors to the quarterly relative return came from Dlocal Ltd (+1.95% and the largest holding in the portfolio at 5.8%), Fpt Corp (+0.61%), and Mobile World Investment Corp (+0.53%). Companies which detracted most from performance included Wizz Air Holdings plc (-1.24%), Dino Polska Sa (-1.05%), and Las Vegas Sands Corp (-0.57%).

Portfolio Risk: Within the emerging markets portfolio there is a 20.0% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio was Uruguay (+8.5% overweight). The most underweight country allocation was Taiwan (-5.6%). The manager also held 12.1% of the portfolio in four developed countries, compared with the benchmark's 1.7% in Hong Kong and 0.3% in United States.

Portfolio Characteristics: The largest absolute stock position was Dlocal Ltd Uruguay at 5.8% of the portfolio, while the largest absolute country position was China/HK and accounted for 30.8% of the portfolio.

As at end September, the portfolio had a 16.7% allocation to technology, below the benchmark allocation of 20.2%. The Manager states that its bottom-up stock selection process means it puts less emphasis on sector diversification, believing that it can reduce risk by only holding the highest conviction positions. It also states that the technology sector has a very broad range of underlying sub-industries.

The Manager looks to hold investments for 5 years, and states that it has a turnover of below 20%.

Staff Turnover/Organisation: not reported.

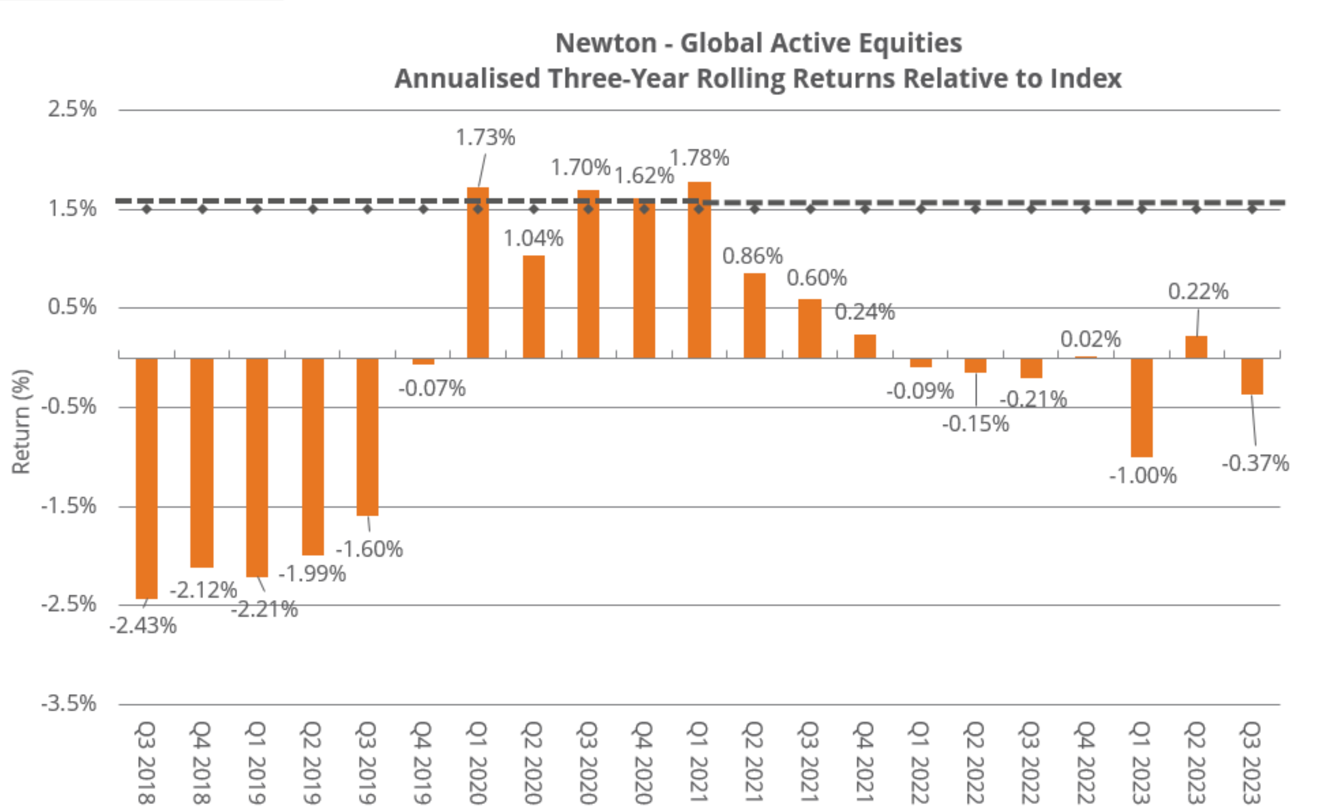
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q3 2023 by -1.36%. Over three years the portfolio underperformed the benchmark by -0.37% p.a. Over five years the manager is ahead of the benchmark return by +0.38% p.a.

Mandate Summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that they believe will 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% p.a. over rolling three-year periods, net of fees. The London CIV monitors this manager.

Performance Attribution: Chart 1 overleaf shows the three-year rolling returns of the portfolio relative to the benchmark (the orange bars) and compares this with the performance target, shown by the grey dotted line.

CHART 1:



Source: Apex; BNY Mellon

Chart 1 shows that the level of outperformance over three years has been falling since Q1 2021, when the fund was ahead of the benchmark by +1.78% p.a. By Q3 2023 the fund has now underperformed the benchmark over three years by -0.37% p.a. and is underperforming the performance objective by -1.87% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as Alphabet Inc (+0.44%), Eli Lilly & Company (+0.34%), and Universal Music Group (+0.29%). Negative contributions came from positioning in Apple (-0.39%), Samsung (-0.32%), and AIA Group (-0.31%).

In its peer group analysis, the London CIV reported that Newton is now delivering returns in line with the median over 3 years and over the longer term (7 years+); however, short term performance has been stronger, placing it in the top quartile over 1 year. Over the past three years the risk has been low relative to peers. The London CIV also noted that turnover on the strategy for the 12 months to end September has been 40%, compared with 34% in 2022 and 14% in 2021, which they consider to be at the high end of expectations. The manager has incurred higher turnover to respond to volatile and changing markets.

Portfolio Risk: The active risk on the portfolio stood at 2.99% as at quarter end, slightly lower than as at end June when it stood at 3.09%. The portfolio remains defensive, with the beta on the portfolio at end September standing at 0.98, unchanged from the previous quarter (if the market falls by -10% the portfolio can be expected to fall -9.8%).

At the end of Q3 2023, the London CIV sub-fund's assets under management were £528.0m, compared with £620.8m last quarter. London Borough of Islington now owns 47.36% of the sub-fund, having sold £90 million on 26 July 2023.

Portfolio Characteristics: The number of stocks in the portfolio stood at 57 as at quarter-end (down 1 from last quarter). The fund added three positions; Novo Nordisk, Saint Gobain, and Credicorp, and completed four sales; Altria Group, Swedbank, SSE and Dollar General.

The portfolio continues to be heavily weighted to Technology (an allocation of 27.0%), and remains overweight against the Benchmark. Financials is the second largest allocation (22.0%) and is also overweight against the benchmark.

The Manager typically envisages a holding period of between 3 to 5 years, though where long term thematic trends remain very supportive of investment case, a security may be held for a longer period.

In Q3 2023, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 47% that of the benchmark index (the MSCI World Index). The highest contributor was Exelon Corporation (16.61% contribution to the weighted average carbon intensity) followed by Shell (15.3% contribution).

The Manager has a generally cautious view about companies in the oil and gas sector, and the outlook for energy companies, and has therefore been underweight in the sector for at least the last 10 years. Shell was the only energy holding in the LCIV portfolio until Q1 2022 when Exelon was added.

London CIV has announced that the Global Equity Fund has been downgraded to "Enhanced Monitoring" following the departure of the lead portfolio Manager. There are concerns that the new management team may introduce significant changes to the investment process. The new team took full responsibility for the portfolio in September. LCIV plan to carry out a full in-depth review of the Sub-fund in December, and this will be shared with investors in Q1 2024.

Staff Turnover: None reported by LCIV for Q3 2023.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q3 2023 the fund made a return of -0.98%. This underperformed the benchmark return by -1.54%. The one-year return was -1.37%, negative in absolute terms and behind the benchmark by -12.91%. The three-year underperformance was -6.40% p.a. against the benchmark. Islington's investment makes up 13.67% of the total London CIV sub-fund.

Mandate Summary: A global equities fund that considers environmental, social and governance factors. The fund aims to deliver, over the long term, a carbon footprint which is lower than that of the MSCI World Index Net (Total Return). The fund also aims to achieve capital growth by outperforming the MSCI World Index Net (Total Return) by 2% per annum net of fees annualised over rolling three-year periods.

Performance Attribution: With continued market uncertainty, the fund has underperformed the benchmark in Q3 2023, and has made a loss for the quarter in absolute terms. The portfolio has overweight allocations to the Consumer Staples, Communication Services, Industrials, Consumer Discretionary, Energy, and Health Care sectors. Over the quarter the largest contributors to return included Alphabet Inc (+0.51%), Unitedhealth Group (+0.47%), and EOG Resources (+0.46%). The largest detractors include positioning in Adyen (-0.96%), Estee Lauder (-0.42%), and AIA Group (-0.42%).

The London CIV is now comparing managers against their peer group and reported that RBC is performing well over the long term (7 years +). However, the short- and medium-term has been challenging, ranking in the third or fourth quartile for all periods that it tracks up to 5-years.

Portfolio Characteristics: As at end of September 2023 the fund had 39 holdings (one up from last quarter) across 12 countries. The active risk of the fund was 3.29%, slightly higher than Newton.

London CIV report that the fund continues to favour quality companies with low gearing.

In Q3 2023, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 70% that of the benchmark index (the MSCI World Index) which is slightly up from last quarter (when it was 69%). The highest contributors were InterContinental Hotels Group (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 16.31%), Equinor ASA (10.29%) and First Quantum Minerals (5.85%)

In June, London CIV completed a full due diligence review of the manager. 'Resourcing' now has an amber rating and 'Cost transparency/Value for Money' has a red rating, reflecting concerns about the investment team and performance. Somewhat surprisingly, London CIV has kept the overall rating as "normal monitoring" because they believe the manager can reverse the trend and deliver improved returns in future.

M&G – Alpha Opportunities Fund

Headline Comments: During Q3 2023 the M&G Alpha Opportunities Fund made a return of +2.74%, outperforming the benchmark return of +2.08%. Over one year it is outperforming the benchmark (cash plus 3.5%) by +4.36%.

Mandate Summary: A Multi Asset Credit fund, in which M&G aims to take advantage of opportunities in public and private credit markets by identifying fundamental value across securities and credit asset classes, funded with proceeds from the equity protection strategy which matured in 2021. In periods when the fund is not being sufficiently compensated for taking risk, the manager seeks to protect capital through allocating to low-risk asset classes. The objective of the fund is to deliver a total return of SONIA/one-month Euribor plus 3-5% gross of fees p.a. over a market cycle.

Performance Attribution: During the quarter, the fund made a return of +2.74% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +2.08%. Exposure to financial corporate bonds was the top contributor, with industrial corporate bonds also performing well. There were no detractors over the quarter. Over one year, the fund is outperforming the target return by +4.36% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to Industrials (28%), Financials (27%), and Cash & Derivatives (17%). 36% of the portfolio was rated BB* or below. The Manager continued to reduce overall exposure to selective high yield names as a result of lack of issuance supressing spreads. It also found a source of value in financial bonds and real estate over other sectors.

In terms of outlook, the Manager feels that, while fairly priced, the biggest risk to most fixed income asset classes is central bank policy error, as restrictive monetary policy begins to weigh on economic activity.

As at end September, the weighted average carbon intensity (WACI) of the portfolio was 34% of the WACI of a benchmark index, with 73% of the portfolio being measured where data was available (compared with 88% coverage for the benchmark).

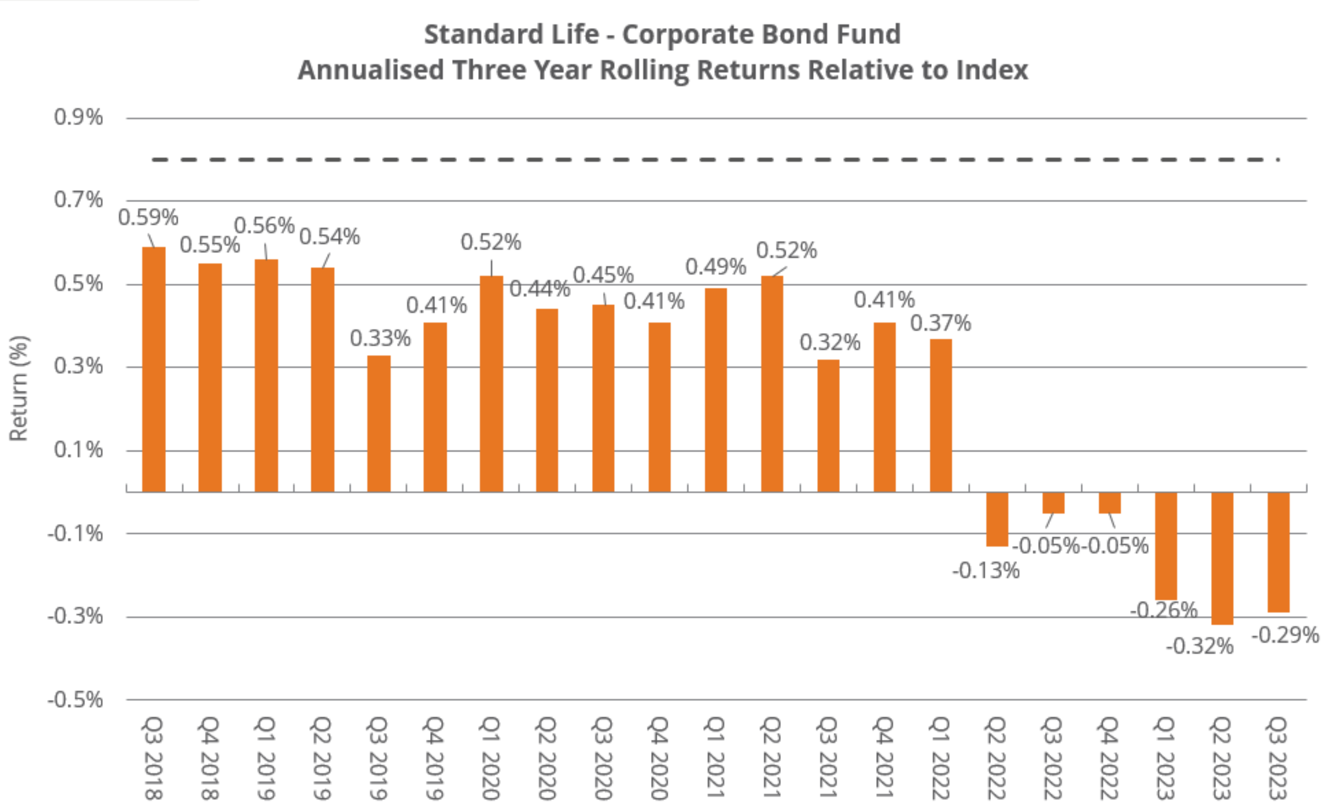
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio underperformed the benchmark return during the quarter by -0.07% and made an absolute return of +2.20%. Over three years, the fund was behind the benchmark return (by -0.29% p.a.) for the sixth consecutive quarter since inception and behind the performance target of benchmark +0.80% p.a.

Mandate Summary: The objective of the fund is to outperform the iBoxx Sterling Non-Gilt Index (a UK investment grade bond index) by +0.8% p.a. over rolling three-year periods.

Performance Attribution: Chart 2 shows the three-year performance of the Corporate Bond Fund compared to the Index, over the past five years. This shows that the fund is now behind the benchmark over three years, as well as behind the performance objective (shown by the dotted line in Chart 2).

CHART 2:



Source: Apex; BNY Mellon

Over three years, the portfolio has returned -6.25% p.a. net of fees, compared to the benchmark return of -5.96% p.a.

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK Government bonds 0.625% at 1.2% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end September 2023 stood at £2,218 million. London Borough of Islington's holding of £67.3m stood at 3.0% of the total fund value. This allocation is being gradually drawn down to fund the infrastructure investments.

Staff Turnover: There were nine joiners and 14 leavers during the quarter. There were two Investment Manager departures from the UK fixed income group, and one new Investment Manager hired for the fixed income team in Singapore.

Aviva Investors – Property – Lime Property Fund

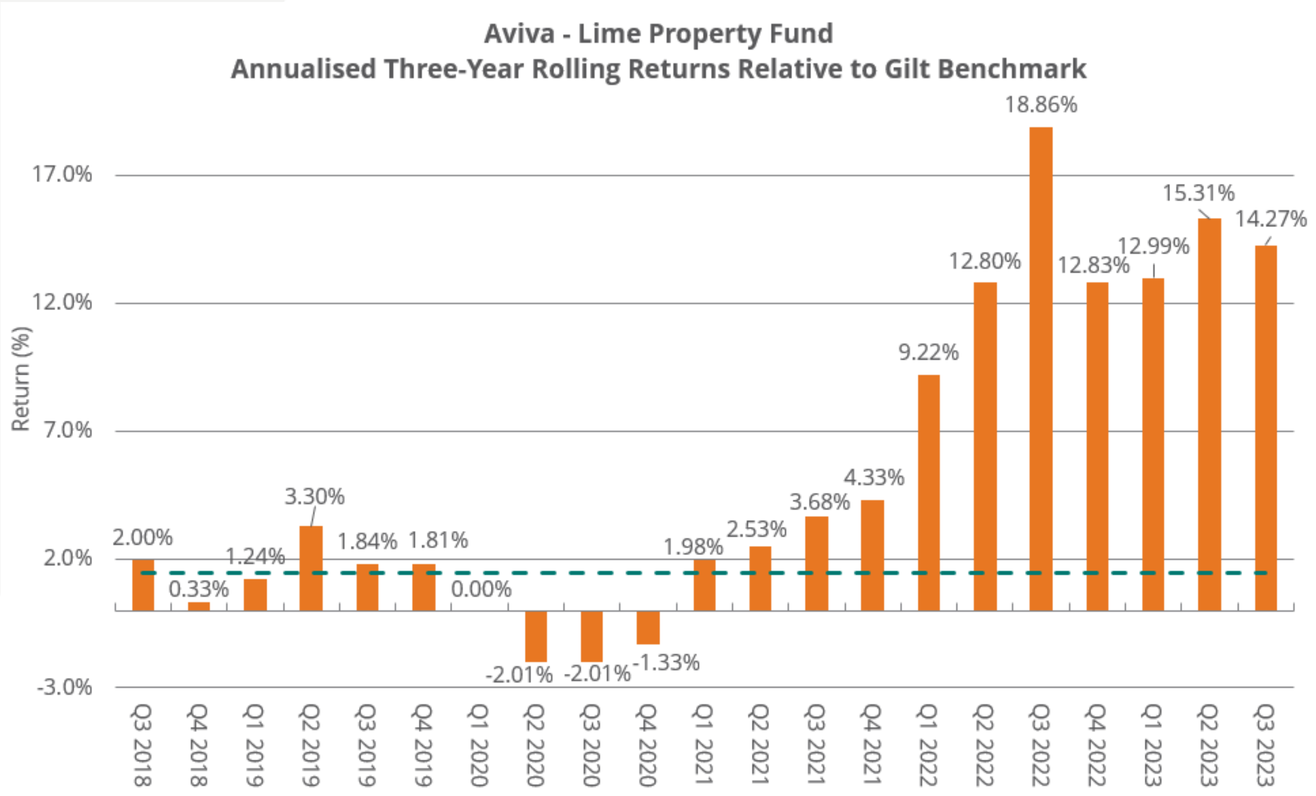
Headline Comments: The Lime Fund made a loss of -2.36%. It underperformed the benchmark return by -0.12% in Q3. Over three years, the fund is ahead of the benchmark return by +14.27% p.a., but over one-year underperformed by -9.46%. It is ahead of the benchmark since inception in October 2004, by 1.94% p.a.

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% p.a., over three-year rolling periods.

Performance Attribution: The fund's Q3 2023 return was attributed by Aviva to -2.54% capital return and +1.06% income return.

Over three years, the fund has returned -0.32% p.a., ahead of the gilt benchmark of -14.59% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 3. However, it is worth noting that the 3-year absolute return is much lower than was seen a year ago (when it was +8.7%).

CHART 3:



Source: Apex; BNY Mellon

Portfolio Risk: within the MSCI quarterly index of UK real estate funds, the Lime Fund is the least volatile fund over ten years. There were no acquisitions over the quarter and three sales. It is worth noting that, as at 30th June, redemption requests amounted to £470 million (or 15.7% of the value of the fund).

The average unexpired lease term was 20.78 years as at end September 2023. 11.1% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.60% (proportion of current rent), and the number of assets in the portfolio is 82. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at September 2023, the Lime Fund had £2.99 billion of assets under management, a decrease of -£86 million from the previous quarter end reflecting the fall in capital value. London Borough of Islington's investment represents 6.0% of the total fund.

Staff Turnover/Organisation: There were no joiners or leavers during Q3.

Columbia Threadneedle – Pooled Property Fund

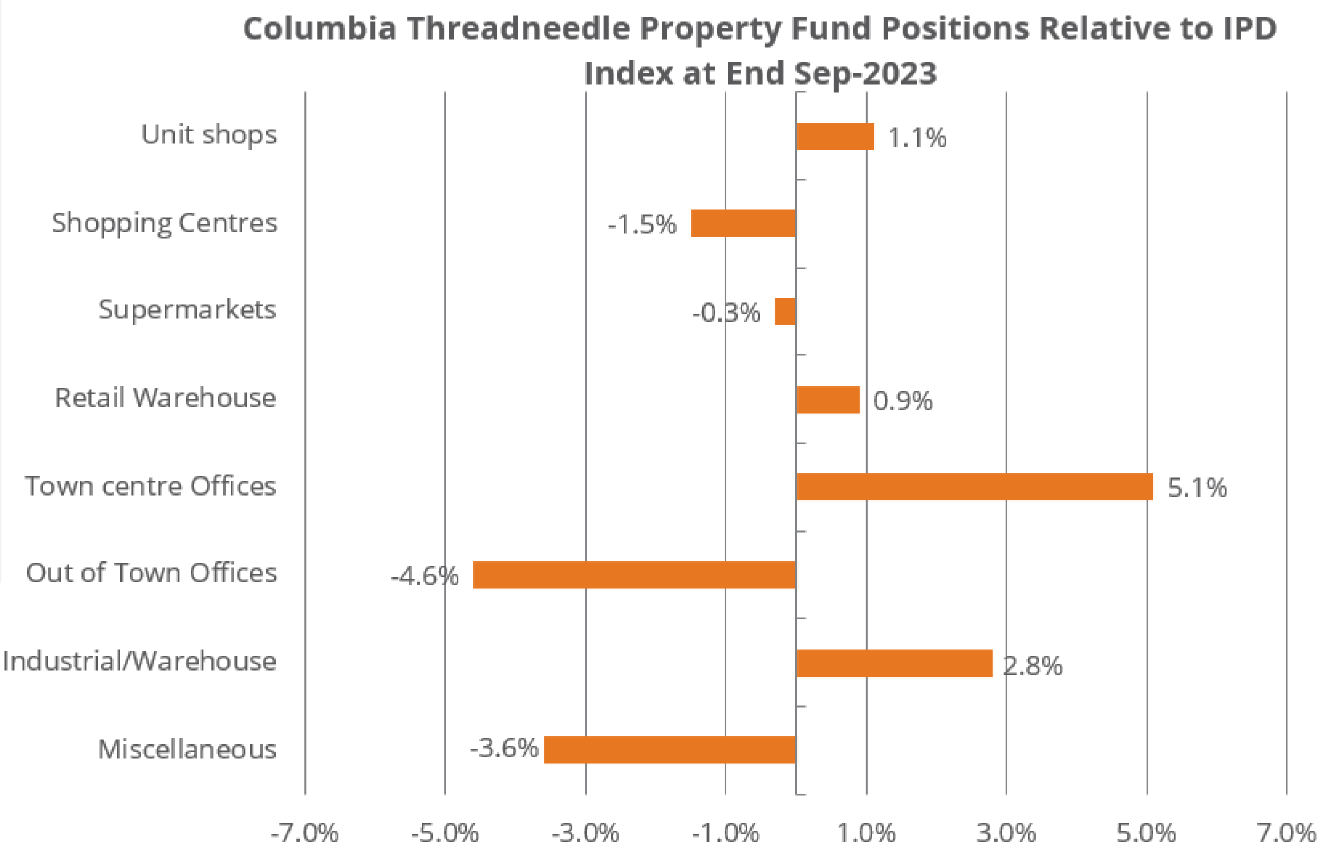
Headline Comments: The fund delivered a positive absolute return and outperformed the benchmark in Q3 2023, with a quarterly return of +0.23% compared to the benchmark return of -0.42%. Over three years, the fund outperformed the benchmark by +0.81% p.a.

The Manager wrote to investors shortly after quarter end to notify that the redemption deferral procedure that has been in place for the last 12 months will be extended until further notice.

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. Historically, the performance objective has been to outperform the AREF/IPD All Balanced – Weighted Average (PPFI) Index by at least 1.0% p.a., net of fees, on a rolling three-year basis. However, during Q2 2023 the manager amended their performance target to be outperformance on their quarterly benchmark over three years (i.e. losing the 1% per annum outperformance target).

Portfolio Risk: Chart 4 shows the relative positioning of the fund compared with the benchmark.

CHART 4:



Source: Apex; Columbia Threadneedle

During the quarter, the fund made no acquisitions and one sale. The cash balance at end September was 3.2%, compared with an average cash allocation of 5.7% for the peer group benchmark. The Manager states that it continues to monitor liquidity closely as a means of protecting the fund against the prevailing market volatility.

Performance Attribution: The fund outperformed the benchmark in Q3 2023, with a quarterly return of +0.23% compared to -0.42%. Over 1-year the fund outperformed the benchmark by +2.26%. The fund is now outperforming the benchmark over three years by +0.81%.

Portfolio Characteristics: As at end September 2023, the fund was valued at £1.51bn, a decrease of £5m from the fund's value in June 2023. London Borough of Islington's investment represented 8.05% of the fund.

Staff Turnover: Not reported at the time of going to print.

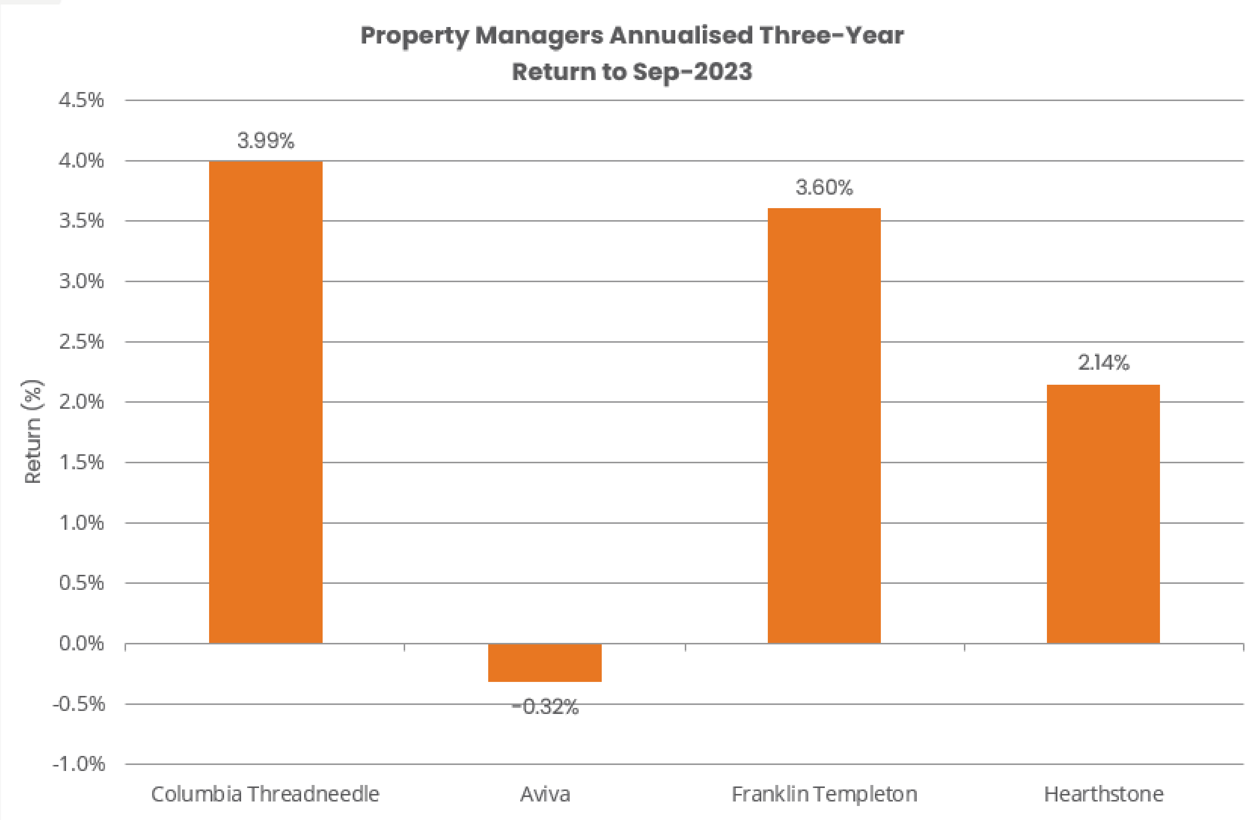
Franklin Templeton – Global Property Fund

Headline Comments: This is a long-term investment and as such a longer-term assessment of performance is recommended. There are now three funds in which London Borough of Islington invests. The portfolio in aggregate underperformed the absolute return benchmark of 10% p.a. over three years by -6.40% p.a.

Mandate Summary: Three 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% p.a.

Performance Attribution: Over the three years to September 2023, Franklin Templeton ranks second out of the property managers for performance. Chart 5 compares their annualised three-year performance, net of fees.

CHART 5:



Source: Apex

Portfolio Risk: Fund I continues to be in its harvesting phase. Ten of the underlying Funds in the portfolio have now been fully realised, with four remaining, and total distributions to date have been US$503.6 million, or 138% of total Fund equity. Overall, the manager reported that the return on this fund has exceeded the target return, to date.

The largest remaining allocation in Fund I is to the US (83% of funds invested), followed by Europe (17%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Information on Fund II and III was not available at the time of going to print. For reference, the Q2 update is shown below:

Fund II is fully invested in a diverse mix of property sectors including office and retail uses. As at end June 2023, 87.0% of committed capital had been distributed and there now remain six active underlying holdings. Leverage remains at 53% for the quarter to June 2023. The manager notes that the pandemic followed by the dramatic increase in interest rates has led to some delays in implementing business plans. However, the return has exceeded the original return target, to date.

The largest geographic allocation in Fund II is to Europe (62% of funds invested), followed by the US (29%), and Asia (9%).

Fund III continues to invest in a diverse mix of property sectors including residential, retail, industrial and office uses. The portfolio consists of five investments, two having been realised. There was no change to the total distributions made over the period, and no new investments or realisations. The portfolio is allocated 61% to Europe and 39% to the US.

Staff Turnover/Organisation: Not reported at the time of going to print.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending September 2023 by -2.26%, and is underperforming over three years by -1.45% p.a. A phased redemption of this fund was negotiated with the manager during Q2 2023.

Shortly after Q3 quarter end, the Manager obtained approval from the FCA to terminate and liquidate the fund. This termination will be effective from 1st December 2023, and an initial distribution is planned from the c.£5 million cash available in the fund in early December on a pro rata basis to all investors. The exact distribution to Islington is likely to be confirmed during November 2023.

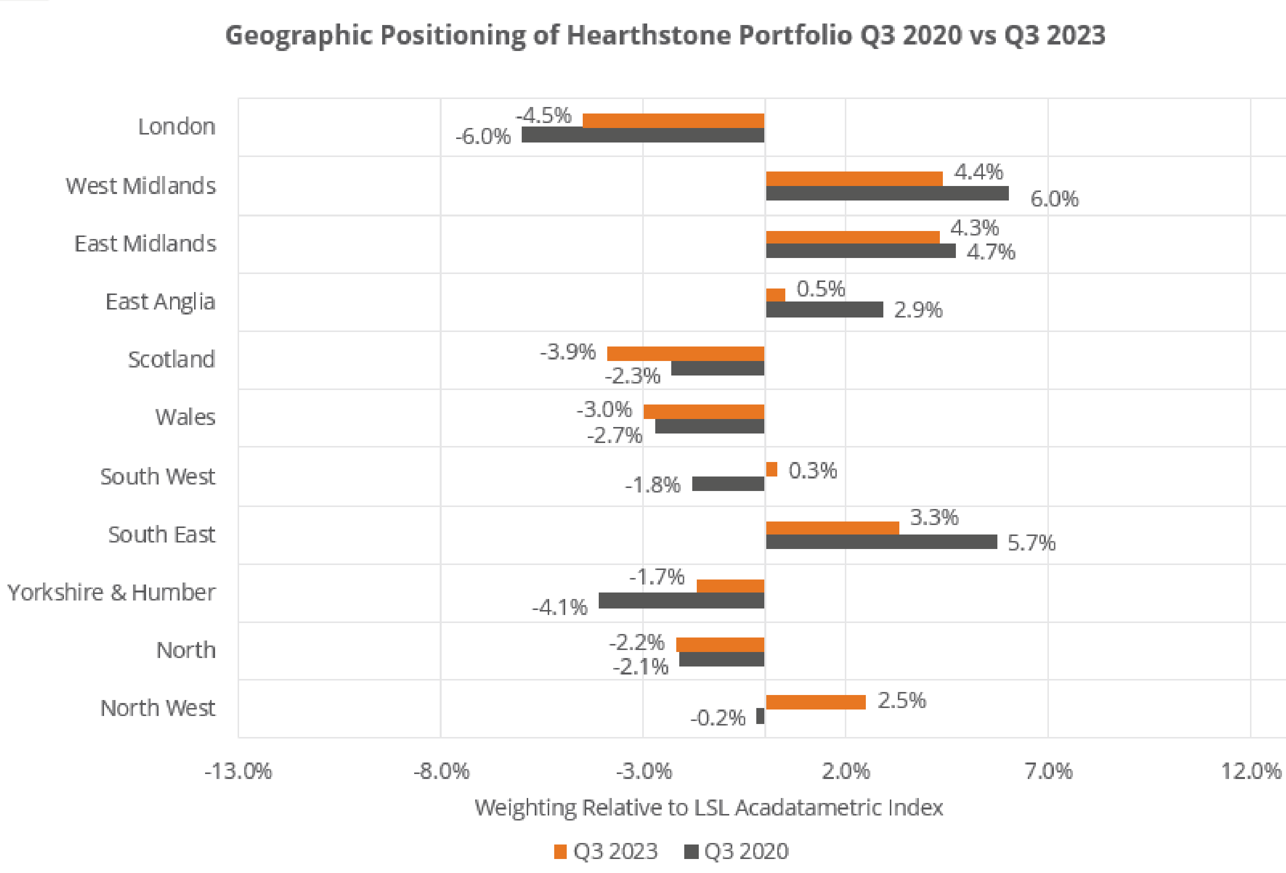
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to September 2023 by -1.45% p.a., returning +2.14% p.a. versus the index return of +3.59% p.a. The manager has underperformed over 5 years by -0.25% p.a. The gross yield on the portfolio as at end September 2023 was 5.12%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 3.6%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 8.31% (£5.2 million), which is 3.65% lower than at the end of June 2023. To date the manager has successfully met three redemptions, 2 of which were of £500,000 each, and a third redemption of £2,000,000. There were no further redemptions during Q3 2023.

Chart 6 compares the regional bets in the portfolio in Q3 2023 (orange bars) with the regional bets three years ago, in Q3 2020 (grey bars).

CHART 6:



Source: Apex; Hearthstone

Portfolio Characteristics: By value, the fund has an 8% allocation to detached houses, 34% allocated to flats, 31% in terraced accommodation and 27% in semi-detached.

As at end September there were 222 properties in the portfolio and the fund stood at £62.5 million. London Borough of Islington's investment represents 40.2% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: There were no joiners or leavers during the quarter to September 2023.

Quinbrook – Low Carbon Power Fund and Net Zero Power Fund

Headline Comments: Performance for the year to 30th September 2023 was negative at -7.95%, and underperforming the target return of +12.00%. Over three years, the fund returned +16.85% p.a. and therefore was ahead of the target by +4.85% p.a.

Mandate Summary: The Low Carbon Power Fund invests in renewable energy and low carbon assets across the UK, US and Australia as well as selected OECD countries. The fund expected to make between 10 and 20 investments in its lifetime and targets a net return of 12% per annum. The fund held a final closing in February 2019 with approximately $730 million committed by 15 limited partners and has now reached the end of its investment phase. Islington subsequently committed $100m to Quinbrook's Net Zero Power Fund on 25 August 2023. This fund also invests in the UK, US and Australia with an emphasis on net zero transition and a target net return of 12% p.a. over a 5-8 year holding period.

Portfolio Characteristics: information on the Low Carbon Power Fund was not available at the time of going to print. A verbal update will be provided at the meeting.

The Net Zero Power Fund was 62% drawn as at end September. The target fund size is $2 billion by March 2024. The fund is seeking large scale solar assets, decarbonisation data centres, sequencers and battery storage across the UK, US, and Australia.

Carbon emission measurement: the manager takes scope 3 emissions into account when assessing new opportunities. This means that emissions can look high during the construction phase (logistics and trucking emissions). However, when investments reach the production phase, the scope 3 emissions are significantly less. The manager notes that not all asset managers take scope 3 into account which can present comparison issues. However, they believe that this is the correct way to measure the real world impact. They are seeking assets which align to a net zero pathway.

Organisation: Not reported at the time of going to print.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +11.99% per annum. This compares with a three-year return on listed global equities of +11.10% per annum. The three-year return on the infrastructure fund was +21.16% versus the absolute return target of 10%.

Mandate Summary: As at 30th September 2023, London Borough of Islington have made total commitments of £106.8m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. In October 2023, London Borough of Islington committed £83.6m / $100m to the Pantheon's latest Global Infrastructure Fund, Pantheon Global Infrastructure Fund IV (PGIF IV).

Portfolio Characteristics: The net internal rate of return (IRR) at 30th September 2023 across all strategies (excluding PGIF IV) was 11.3%, with a net multiple of 1.50x. Over the quarter, there was one drawdown of £1,059,883 from PGIF III and one distribution from PUSA VII Ltd totalling £28,676.

Overall, the programme's rolled for cash valuation at Q3 2023 was £77.9m, up 5.5% from £73.7m at Q2 2023. It is worth noting that this uplift was caused by the in-period foreign exchange movement and it does not reflect any uplift in underlying asset values.

Permira – Credit Solutions Senior Fund

Headline Comments: The Permira Credit Solutions V ("PCS5") is a new allocation for the London Borough of Islington and part of the private debt allocation. To 30 June 2023 the fund had closed commitments of £3.6 billion (€4.2 bn) and had made a total of 13 investments equalling 46.1% invested. No defaults have been reported.

Churchill – Middle Market Senior Loan Fund

Headline Comments: The Churchill Middle Market Senior Loan Fund IV is part of the new private debt allocation. As at end September 2023, it has six investments totalling £57.9 million. The portfolio has a weighted average net total leverage of 4.7x and a weighted average company EBITDA of- USD 65 million. The fund has achieved a return of -1.85% for the year to 30 September 2023, underperforming the absolute target return of +5.00% by -6.85%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. No defaults have been reported.

Crescent – Credit Solutions Fund

Headline Comments: The Crescent Credit Solutions Fund VIII is part of the new private debt allocation. The fund has achieved a return of +7.17% for the quarter to 30 September 2023, outperforming the benchmark return of +2.41% by +4.76%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period.

Karen Shackleton
Senior Advisor, Apex
7th November 2023

ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 21st November 2023

Ward(s): n/a

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: INVESTMENT STRATEGY REVIEW UPDATE ON IMPLEMENATION

1. Synopsis

1.1 This report is an update report after Members agreed the full investment strategy review and allocation as part of the 2022 Actuarial review process. The themes taken into consideration included liquidity, risk and net zero decarbonisation targets.

1.2 An action plan was agreed to implement the agreed strategy, and this is a progress report to update members on actions completed and further work required.

2. Recommendations

2.1 To note the progress made to date on the implementing the agreed strategy.

2.2 To consider paragraph 3.2.1

2.3 To agree responses to questions 1 and 2 as set out in para 3.2.2

2.4 Subject to 2.3, agree that officers and advisors formulate an implementation plan.

2.5 Receive a Mercer training presentation (attached as exempt appendix 1)

2.6 To agree to receive a further progress report at the next meeting in March.

3. Background

3.1 The 2022 actuarial valuation was finalised in March 2023, and as part of the process, work was undertaken to produce an investment strategy to support sustainable contributions from employers.

3.1.1 The Pensions Committee agreed a revised investment strategy for the Fund at its June 2020 meeting. The revised strategy maintained the Fund's 75% growth, 25% defensive split and included an allocation to Multi Asset Credit ("MAC") and Private Debt, the majority of which has now been implemented.

3.1.2 At the 6th March 2023 meeting, members discussed the initial, Mercer presentation considering the current strategy and funding level following the 2022 valuation and post valuation market outlook. The options of Strawman 1 and 2 were discussed extensively on the themes of liquidity, return and risk. However, it was agreed that officers and Mercer would provide an alternative Strawman 3 portfolio option, modelled with the goal of achieving an increase in the allocation to alternatives compared to the current strategy, but with a lower risk profile. Members agreed the new strawman 3 strategy at their July meeting and an action plan to implement the strategy.

3.1.3 Members received a progress report in September and agreed the following:
to re-commit to the next Pantheon infrastructure vintage to maintain our allocation of 6% (out of a broader 12.5% allocation to Infrastructure) and to transfer our existing M&G MAC holding. These actions have been completed.

3.1.4 The table 1- below shows the agreed New Strawman 3 allocation, actual allocation of assets as at July and progress made to September.

3.1.5

	New Strawman 3	Actual Allocation As at July'23	Actual Allocation As at Sept'23
Equity	**45**	56	50
Alternatives	**27.5(5% to Impact)**	16.6	19
Property	**20**	15.6	20
Liquid Fixed income	**7.5**	4.5	4.6
DGF/Corporate bonds	**0**	7.3	6.4
Expected return	**CPI+5.2%**		
Downside risk	**688m**		

3.1.6 **Implementation plan- actions outstanding**
The implementation plan still has some action outstanding and is listed in the table 2 below.

3.1.7 Table 2

Asset Allocation	Action	Responsible person
Emerging market equities	An estimation of cost of transition and other options in the Market	Mercer/ officers/Members- October/November
Private Debt	Commitment analysis to identify gap and allocate to a	Yet to be assigned

	European strategy in Q4/Q1 2024	
Impact	Produce a paper on types and identify best suit for Islington	Mercer will present on this agenda

3.2 **Update to November**

3.2.1 **Emerging markets**-.

Members tasked officers to do further work on cost of transition including the passive mandate and then take a view of any changes to the mandates**.** Officers met with Mercer research team on emerging markets and discussed other strategies in the market. They covered value, growth and core style strategies and their performances over the last 3 to 5years'.

Our current active manager has a growth style and the passive manager is a value manager. Whilst the value manager has produced a performance of 10.3% per annum over the last three years, the growth manager has delivered -1.15%. Style biases have been the key driver of performance since 2021.

Transitions cost estimates.

The cost of transition for the Rafi passive fund default bid is 18 basis points before fees, taxes and commissions and subject to market conditions and the Polen fund estimates around 15 basis points that could rise to 52basis points after fees, taxes, commission and market impact.

The London CIV

The London CIV has an emerging market manager who is rated highly by Mercer and has good ESG credentials. However, it has a growth style bias and as such performance over the last 3years is -0.25% per annum. The London CIV does not have any immediate plans to appoint an alternative manager.

3.2.2 **Members are being asked to consider the following to enable officers and advisors to implement what best meet the funds objective.**

Question 1: the combined emerging portfolio is currently around 6%. In a review of the emerging market portfolios does the fund want one or two managers?

Question2 : RAFI(passive) is the best performing manager in the Fund for emerging markets in the last 3 years, but ESG credentials are not the best in class, do we hold or want to find an alternative manager?

The response to these questions should inform officers and advisors on the next steps and an implementation plan for discussion.

3.2.3 If members agree to have a single active or passive manager to cover emerging markets then the current incumbent managers may not be best suited, and neither would the LCIV given the growth bias, however if two managers are preferred then some combinations with the current managers could work.

3.2.4 **Impact investment**

The fund has now agreed a 5% allocation to impact investment. Mercer (our advisors) will present a training session(attached as exempt appendix 1) on our required returns and risk from this allocation, what impacts means, how to measure and monitor and types of investments in the market. Members are asked to receive the presentation and agree the parameters and next steps for implementation.

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**

Section 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires the council, after taking proper advice, to formulate an investment strategy which must be in accordance with government guidance issued from time to time. The council must publish a statement of its investment strategy and review it at least once every three years.

4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 **Equalities Impact Assessment**

Nonapplicable 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

An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked to note progress to date, considers the issues raised in para 3.2.2 and receive the training presentation from Mercer attached as exempt appendix 1.

Appendices: Exempt Appendix 1- Mercer presentation-Training Impact investment

Background papers:
None

Final report clearance:

Signed by: Corporate Director of Resources

Date: report received final clearance

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ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 21st November 2023

Ward(s): n/a

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SUBJECT: REVIEW OF OBJECTIVES SET FOR PROVIDERS OF INVESTMENT CONSULTANCY SERVICES

1. Synopsis

1.1 This report updates Members on the performance of the Fund's Investment Consultant, Mercer against the objectives set and agreed at their meeting of 3rd December 2019 and reviewed in December 20221, for our Investment Consultancy providers as per the Occupational Pensions Schemes (Governance and Registration) (Amendment) Regulations 2022. The new Pensions Regulations have integrated the previous CMA Order into pensions legislation and transferred the responsibility for regulatory oversight and compliance from the CMA to the Pensions Regulator (TPR).

2. Recommendations

2.1 To note that the legal requirement for trustees of occupational pensions (including LGPS) to set strategic objectives for investment consultancy providers, came into effect from 10 December 2019.

2.2 To note the objectives agreed in December 2022, and agree the performance rating of our investment consultancy provider as set out in Exempt Appendix 1.

2.3 To agree to review these objectives at least annually and / or where there is a change in the fund's requirements.

2.4 To delegate to the Corporate Director of Resources, in consultation with the Director of Law and Governance, authority to report on compliance via the TPR's annual scheme return.

3. Background

3.1 The Pensions Regulator (TPR) is the UK regulator of occupational pension schemes. They are a non-departmental public body established under the Pensions Act 2004. Their sponsoring body is the Department for Work and Pensions (DWP) and Parliament sets the legislative and regulatory framework within which they work.

3.2 Following an investigation into the investment consultancy and fiduciary management market, the Competition and Markets Authority (CMA) introduced new duties for trustees and managers of occupational pension schemes, that took effect from 10 December 2019.

3.3 It appears that the only Remedy applicable to the LGPS is the requirement for Administering Authorities to set strategic objectives for their IC provider. Whilst we await the MHCLG guidance and legislation, the TPR 's consultation on guidance contained roles of an investment consultant and a case study of a pension fund setting objectives and agreeing a performance monitoring scorecard. The link to the full consultation is https://www.thepensionsregulator.gov.uk/en/document-library/consultations/draft-guidance-consultation-in-response-to-cma-recommendation

3.4 Members considered and agreed a set of strategic objectives for their IC Provider at their 3 December 2019 meeting. These objectives and performance were reviewed at the 5th December 2022 meeting. Members also agreed to review the objectives at least annually and or where there is a change in the Funds requirements.

3.5 On 1 October 2022, the Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022 (the "**Sun-setting Regulations**") came into force. These Regulations brought an end to the **Order** which the Competition & Markets Authority ("**CMA**") made on 10 June 2019 following its investigation into the operation of the fiduciary management and investment consultancy markets insofar as it applies to trustees of private sector occupational pension schemes.

3.5.1 Trustees must now have regard to pensions legislation as amended by the Sun-setting Regulations, instead of the CMA Order. The Order (including obligations to report compliance to the CMA) continues in force for investment consultancy firms, fiduciary managers and joint consultancy-FM firms.

3.6 **Performance**
Exempt Appendix 1 attached, details the Fund requirements and objectives set for the investment consultant provider Mercer, against which the consultant's performance has been assessed and reviewed. A commentary has been assigned to each objective and then rated from excellent to poor. Mercers' ratings are from excellent to good reflecting the high standard of service received over the year.

3.6.1 Members are asked to consider whether the objectives still meet the fund requirements or should be amended and to review and agree the performance ratings.

3.7 The categories of "registerable information" in the Scheme Return Regulations have been extended to include details in relation to trustees' use of ICs and FMs. Trustees now need to report on these matters to the Pensions Regulator via their annual scheme return, rather than to the CMA in an annual compliance statement and certificate.

4. Implications

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

4.2 **Legal Implications**
On 10th June 2019, the Competition and Market's Authority (CMA) made the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 placing new obligations on service providers and pension scheme trustees with regard to Fiduciary Management (FM) and Investment Consultancy (IC) Services. The Order implements the CMA's recommended remedy 1 (tendering for FM services) in Part 3 and remedy 7 (Setting objectives for IC) in Part 7 which came into force on 10 December 2019.

4.3 As of the 1st of October 2022 the CMA Order is no longer in force and has been replaced by the Occupational Pensions Schemes (Governance and Registration) (Amendment) Regulations 2022. The new Pensions Regulations have integrated the Order into pensions legislation and transferred the responsibility for regulatory oversight and compliance from the CMA to the Pensions Regulator (TPR). Going forward these Regulations will need to be applied and adhered to by LGPS ; the strategic objectives are now defined as objectives under the new Pensions Regulations however the obligation to review these objectives at least annually and/or where there is a change in the fund's requirements remains the same. As previously under the Order, under the new Pensions Regulations, the council is still required to submit an annual Compliance statement, now to the TPR not the CMA and to adhere to guidance issued by the TPR.

4.4 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**
None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.5 **Equality 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".

4.6 An equalities impact assessment has not been conducted because this report is seeking opinions on a government policy document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked to review fund requirements and objectives and agree performance ratings attached as Exempt Appendix 1 and agree to delegate authority to the Corporate Director of Resources, in consultation with the Director of Law and Governance to report on compliance via the TPR's annual scheme return.

Appendices: Exempt Appendix 1

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

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Email:joana.marfoh@islington.gov.uk

Financial implications Author: joana Marfoh
Legal implications – Sonal Mistry

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 21st November 2023

Ward(s): n/a

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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, reviewing governance and investment structure, over the period September to November 2023

2. Recommendations

2.1 To note (Exempt Appendix1) October business update session and further updates on fund launches

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 London CIV programme. The London 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 registered address is 4th Floor, 22 Lavington Street, London, SE1 0NZ. 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 were held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers were identified as offering potential opportunities for the launch of the London CIV. These managers would provide the London CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds consisted 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 did not have an exact match across for launch were able to invest in these sub-funds from the outset at the reduced AMC rate that the London CIV has negotiated with managers.

3.4 The Phase 1 launch was with Allianz our then global equity manager and Ealing and Wandsworth are the 2 other boroughs who held a similar mandate. The benefits of transfer included 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. This manager was terminated in July 2019.

3.5 **Update to November 2023**

3.5.1 **The Business Update**

The London CIV shared their response to the DLUHC pooling consultation that closed on 3rd October.

As part of improved communication strategy, the LCIV have been holding regular monthly business update meetings for shareholders and investment advisors and consultants. The presentation pack is attached as exempt Appendix 2. It covers in more detail investment updates, people, governance and responsible investment actions to date. The sessions include opportunities to ask questions. Some of the topics discussed are summarised below.

3.5.2 Redington has been appointed as advisor to assist with the design, fund structuring, portfolio construction and initial selection of funds for natural capital investment. A first step education session for pension officers was held in Redington's offices on 7thNovember.

3.5.3 Initial discussions was also held with clients who have expressed an interest in allocating further or new commitments to private debt to progress and establish the most appropriate proposition. Present seed investors will be presented with fund characteristics for discussion on 30th November and launch of the fund is aimed for the end of March 2024.

3.5.4 **Fund Launches and Pipeline**

London CIV has continued to make progress in several key areas. This progress has been supported by a multitude of meetings and engagement opportunities, and Seed Investor Groups (SIG) focusing on mandates. The LCIV short duration and long duration buy and maintain credit fund has been awarded to Insight and should be launched in November. Existing funds being modified are Absolute real return fund to ESG aware version, a new manager to the renewable infrastructure platform.

3.5.5 **Operational activities**

The following activities are underway in the medium term; strategic business review is to focus on governance, funding model and cost of ownership, and commercial property planning.

3.6 **CIV Financial Implications- Implementation and running cost**

A total of £75,000 was contributed by each London Borough, including Islington, towards the setting up and receiving FCA authorisation to operate between 2013 to 2015. All participating boroughs also agreed to pay £150,000 to 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 charge 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 0.050% of AUM to the London CIV in addition to a 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 April 2018 an annual service charge of £25k (+VAT) and £65k (split £43.3k and £21.6k) development fund was invoiced to all members.
In April 2019 an annual service charge of £25k (+VAT) and £65k (split £43.3k and £21.6k) was invoiced.
In April 2020 an annual service charge of £25k (+ VAT) and £8.6k for LGIM recharge was invoiced and a final installment development charge of £84k (+VAT) was received in January 2021.
The April 2021 invoices received totalled annual service charge of £25k (+ VAT) and DFC charge of £57k(+VAT).

The April 2022 invoices received totalled annual service charge of of £25k (+ VAT) and DFC charge of £57k(+VAT).
In January the balance of DFC charge of 28k(+VAT) invoice was received.
In April 2023 invoices received covered DFC(57k+VAT) , annual service charges (25k+VAT) and LGIM recharge 11.4k+VAT.

4. Implications

4.1 **Financial implications:**

4.1.1 Fund management and administration fees are charged directly to the pension fund. This paper discusses specific financial implications which are relevant.

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 and contribution to achieving a net zero carbon Islington by 2030:**

4.3.1 None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is:
https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 **Equality Impact Assessment:**

4.4.1 The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."
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 the progress to date. Exempt Appendix 1 is attached for information.

Appendices: Exempt Appendix 1- Business Update-Oct'23

Background papers: none

Final report clearance:

Signed by:

Corporate Director of Resources Date

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Financial implications Author: Joana Marfoh
Legal implications- n/a

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ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date 21st November 2023

Ward(s): n/a

SUBJECT: PENSIONS COMMITTEE 2023/24 FORWARD WORK PROGRAMME

1. Synopsis

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

2. Recommendation

2.1 To consider and agree 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 Committee for members' consideration in the form of a Forward Plan. There will be a standing item to each meeting on performance and the LCIV.

4. Implications

4.1 **Financial implications**

4.1.1 None in the context of this report. 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 and contribution to achieving a net zero carbon Islington by 2030:**
None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 **Equalities 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
An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

5. Conclusion and reasons for recommendation

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

Appendix A- Proposed work program for annual committee cycle

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

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Financial implications Author: joana marfoh
Legal implications – n/a

APPENDIX A

Pensions Committee Forward Plan November 2023 to June 2024

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
21st November	• Investment advisors objective setting review • Update of Strategy review implementation -Appdx 1-Impact Investment training
27th November	Annual Pensions Meeting
11th March 2024	• Investment training- topics to be discussed. • Update of Strategy review implementation
25th June 2024	Carbon monitoring progress report Annual Admin performance report and risk register

Past training for Members before committee meetings -

Date	**Training**
November 2018	Actuarial update
June 2019-4pm	Actuarial review
February 2021	Net zero carbon transition training
September 2022- joint pension sub and board training	Actuarial Valuation training

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