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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 **11 March 2024 at 7.00 pm.**

| | | |
|---|---|---|
| Enquiries to | : | Mary Green |
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| Despatched | : | 29 February 2024 |

| 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.

4. Minutes of the previous meeting 1 - 4

| | | |
|---|---|---|
| **B.** | **Non-exempt items** | |
| 1. | Pension Fund performance - 1 October to 31 December 2023 | 5 - 44 |
| 2. | Investment Strategy review update on implementation | 45 – 50 |
| 3. | London CIV update | 51 - 56 |
| 4. | Pension Fund forward work programme | 57 - 60 |
| **C.** | **Urgent non-exempt items** | |
| | Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes. | |
| **D.** | **Exclusion of press and public** | |
| | To consider whether, in view of the nature of the remaining items on the agenda, any of them are likely to involve the disclosure of exempt or confidential information within the terms of Schedule 12A of the Local Government Act 1972 and, if so, whether to exclude the press and public during discussion thereof. | |
| **E.** | **Confidential/exempt items** | |
| 1. | Investment Strategy review update on implementation - exempt appendices | 61 - 100 |
| 2. | London CIV update - exempt appendices | 101 - 158 |
| **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 2 July 2024 (subject to confirmation)

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London Borough of Islington

**Pensions Committee - 21 November 2023**

Non-confidential minutes of the meeting of the Pensions Committee held in Committee Room 1, Town Hall, Upper Street, N1 2UD on 21 November 2023 at 7.00 pm.

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

Alan Begg, Maggie Elliott and Councillor David Poyser (all members of Pensions Board)

Karen Shackleton – Apex
Alex Goddard and Tony English - Mercer

**Councillor Paul Convery in the Chair**

**319** **APOLOGIES FOR ABSENCE (Item A1)**
Received from George Sharkey and Valerie Easmon-George, both observers from the Pension Board.

Apologies for lateness received from Councillors David Poyser (Pension Board Chair and observer) and Satnam Gill OBE.

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

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

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

**RESOLVED:**
That the minutes of the meeting held on 26 September 2023 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

**323** **PENSION FUND PERFORMANCE FROM 1 JULY TO SEPTEMBER 2023 (Item B1)**

The Committee noted the overall performance of individual managers, with issues for some.

The Committee was keen to explore new investment trends to achieve better returns, via the Investment Strategy.

**RESOLVED:**
(a) That the performance of the Fund from 1 July to 30 September 2023, as per the BNY Mellon interactive performance report and detailed in the report of the Corporate Director of Resources, be noted.
(b) That the presentation by Apex on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.

324 **INVESTMENT STRATEGY REVIEW UPDATE (Item B2)**

During discussion, members considered that their preference would be for two emerging market portfolio managers, noting that the current emerging markets portfolio comprised about 6% of the Fund.

Members also expressed an interest in investing in an inclusive economy approach and biotech/life sciences businesses, with a view to increasing employment opportunities for the local community.

**RESOLVED**:
(a) To note the progress made to date on the implementing the agreed strategy, as detailed in the report of the Corporate Director of Resources.
(b) That, with regard to the questions in paragraph 3.2.2 of the report, a longer list of one or more managers be considered for the emerging markets portfolio, for decision at the next meeting of the Committee.
(c) That the impact investment mandate include an inclusive local economy approach and biotech/life sciences themes.
(d) That officers and advisors formulate an implementation plan on resolution (c) above.
(e) To note the Mercer training presentation (attached as exempt appendix 1 to the report)
(f) To agree to receive a further progress report at the next meeting in March 2024.

325 **INVESTMENT CONSULTANCY OBJECTIVE REVIEWS (Item B3)**

**RESOLVED:**
(a) 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.
(b) To note the objectives agreed in December 2022 for the Fund's investment consultancy providers, and to agree the performance ratings, as set out in exempt Appendix 1 of the report.
(c) To agree to review these objectives at least annually and/or where there was a change in the Fund's requirements.
(d) To delegate authority to the Corporate Director of Resources, following consultation with the Director of Law and Governance, to report on compliance via the TPR's (Pensions Regulator) annual scheme return.

**326** **LONDON CIV UPDATE (Item B4)**

**RESOLVED:**
To note 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, and the October business update session (exempt appendix 1) and further updates on fund launches, all as detailed in the report of the Corporate Director of Resources.

**327** **PENSION FUND FORWARD WORK PLAN (Item B5)**
The Committee noted that this year's Annual Meeting would be held on 27 November 2023.

**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.

**328** **EXEMPT MINUTES OF THE MEETING HELD ON 26 SEPTEMBER 2023 (Item E1)**
Confirmed as an accurate record of proceedings.

**329** **INVESTMENT STRATEGY REVIEW UPDATE - EXEMPT APPENDIX (Item E2)**
Noted.

**330** **LONDON CIV UPDATE - EXEMPT APPENDIX (Item E3)**
Noted.

**331** **INVESTMENT CONSULTANCY OBJECTIVE REVIEWS - EXEMPT APPENDIX (Item E4)**
Noted.

The meeting ended at 8.45 pm

**CHAIR**

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ISLINGTON

For a more equal future

**Finance Department**
**222 Upper Street**
**London N1 1XR**

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 11th March 2024

Ward(s): n/a

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## Subject: Pension Fund Performance 1 October to 31 December 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 October to 31 December 2023 as per the 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.

2.3 To note LGPS Current Issues -February 2024 for information https://lgpscurrentissues.mercer.com/lgps-newsletter-feb-24/

### 3. Fund Managers Performance for 1 October to 31 December 2023

| 3.1Fund Managers | Asset Allocation | Mandate | *Mercer ESG Rating | Latest Quarter Performance (Oct-Dec'23) Gross of fees | | 12 Months to December 2023 Performance Gross of fees | |
|---|---|---|---|---|---|---|---|
| | | | | Portfolio | Benchmark | Portfolio | Benchmark |
| LCIV Sustainable EQ- RBC | 9.6% | Global equities | 1 | 5.5% | 6.7% | 4.6% | 16.8% |
| LCIV -Newton | 14.7% | Global equities | 2 | 6.4% | 6.4% | 18.1% | 15.9% |
| Legal & General | 14.3% | Global equities | 1 | 6.4% | 6.4% | 15.7% | 15.8% |
| Legal & General-Paris Aligned | 10.1% | Global equities | 1 | 7.8% | 7.8% | 18.9% | 19.0% |
| Polen Capital (previously BMO) | 3.7% | Emerging equities | 2 | 3.5% | 1.2% | 1.0% | 4.1% |
| Quinbrook | 4.0% | Renewable Infrastructure | | -22.3% | 2.9% | -24.3% | 12.0% |
| Pantheon | 6.5% | Infrastructure | 1 | -3.8% | 2.4% | 4.9% | 10.0% |
| Aviva (1) | 9.8% | UK property | 2 | -0.4% | 11.3%<br>-1.2% | -6.1% | 3.8%<br>-0.1% |
| ColumbiaThreadneedle Investments (TPEN) | 6.6% | UK commercial property | 3 | -1.1% | -1.2% | 0.6% | -1.4% |
| Franklin Templeton | 1.5% | Global property | N | -3.9% | 2.4% | -14.7% | 10.0% |
| Hearthstone | 1.3% | UK residential property | N | -8.2% | -1.2% | -10.1% | -0.1% |
| Standard Life | 4.0% | Corporate bonds | 2 | 8.0% | 7.3% | 9.1% | 8.6% |
| M&G Sustainable Alpha Opportunities | 4.6% | Multi Asset Credit | 2 | 2.8% | 2.1% | 10.1% | 8.1% |
| Schroders | 1.2% | Diversified Growth Fund | 2 | 4.9% | 1.4% | 5.0% | 10.2% |
| Churchill Senior loan Fund IV | 3.4% | Private Debt | 2 | -1.1% | 1.2% | 3.9% | 5% |
| Permira Credit Solution | 1.2% | Private Debt | 3 | 2.5% | 1.5% | 10.9% | 6.0% |
| Crescent Capital | 1.9% | Private Debt | N | -0.9% | 2.4% | 7.9% | 10.0% |
| Cash | 1.3% | cash | | n/a | n/a | n/a | n/a |
| Market value of total fund | **£1,809m** | | | | | | |

11.3% & 3.3% = original Gilts benchmark; -1.2% and -0.1% are the IPD All property index; for information

3.2 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.

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

| | Latest Quarter Performance **Gross** of fees | | 12 Months to Dec'23 Performance Gross of fees | |
|---|---|---|---|---|
| Combined Fund Performance | Portfolio % | Benchmark % | Portfolio % | Benchmark % |
| | 2.2 | 5.8 | 7.4 | 12.2 |

3.4 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1,3- and 5-year periods to December'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 | 7.4% | 4.0% | 6.6% |
| Customised benchmark | 12.2% | 5.0% | 7.2% |

3.5 The strategic allocation and actual position as at 31st December 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 | 52.5 |
| Property | 20 | 19.2 |
| Private debt | 10 | 6.4 |
| Infrastructure | 12.5 | 10.5 |
| Impact investment | 5 | 0 |
| Multi asset credit | 7.5 | 4.6 |
| Investment grade credit | 0 | 4.0 |
| Diversified growth fund | 0 | 1.2 |
| Cash | 0 | 1.6 |

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
- Active share is 85% to 95%

3.5.3 The fund underperformed its quarterly benchmark to December by -1.2% and a twelve-month under performance of -12.2%. This was primarily due to stock selection, even though the market environment was favourable to add value.

3.5.4 In light of this broader performance concerns, the LCIV has brought forward the annual due diligence of the investment manager by a few months. This will now be conducted in February 2024. Following a review, the annual management fee payable by the fund has declined by c.4 basis points. The reduced fees have been applied with effect from the 1st of January 2024.

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 6.4% against a benchmark of 6.4% for the December quarter and a 12month outperformance of 2.3% against a benchmark of 15.9%. Good stock selection was the main source of outperformance in 2023.
Islington now owns 47.2% (47.3 %) of the fund with 2 other local authorities on the LCIV platform.

3.6.4 LCIV have arranged a meeting to discuss their decision to have an enhanced monitoring after departure of the lead portfolio manager.

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 £183.4m.

3.7.2 The quarter performance to December was 7.8% against a benchmark of 7.8%.
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 £259m(243m) with a performance of 6.4% against a benchmark of 6.4%.

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 December quarter saw positive performance of 0.2% against a benchmark 0f 3.3%, 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 -0.3% against a gilt benchmark of 11.2%. The All Property IPD benchmark returned -1.2% for this quarter. Since inception, the fund has delivered an absolute return of 4.8%

3.10.3 As at the end of this December quarter, the fund's unexpired average lease term is 20.7 years. 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 and diversify the portfolio and continue to provide secure cashflows for investors. This quarter five sales and one purchase were completed. The fund has now raised £300m cash meet redemptions by June 2024, with another £70m to raise.

3.10.4 The Lime fund was awarded the Real Estate Long Income Manager of the year at the Professional Pensions Investment Awards for providing a track record of secure income and attractive returns as well as being at the forefront of ESG initiatives to decarbonise the portfolio.

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

3.11.1 This is the fund's UK commercial pooled property portfolio that was fully funded on 14 January 2010 with an initial investment of £45 million. The net asset value at the end of December was £120m(£121m in Sept) 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 -1.1% against its benchmark -1.2% for the December quarter. Since inception it has delivered an absolute return of 5.3% per annum.

3.11.3 The cash balance now stands at 3.0%. During the quarter, three strategic sales were made and there were no acquisitions. Vacancy rate stands at 9.5% and with 162 properties and 921 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 December quarter is $62.1m. The NAV is $98k

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 $24.6m has been drawdown and a distribution of $8.6m had been received.

### 3.13. **Hearthstone**

3.13.1 This is the fund's residential UK property manager. The fund inception date was 23 April 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 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 December quarter, the value of the fund investment was £22.7million and total funds under management is £57.5m. Performance net of fees was -8.2% compared to the IPD UK All Property benchmark of -1.2%. 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 £5.7m was distributed on a pro rata basis with Islington receiving £2.2m on 12th December. 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 December was $45.4m as there was an equalisation return of funds of $22m in November.

3.15 **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.

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

3.15.2 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. As at December'23 there had been capital calls totalling $56.3m and $1.2m distribution.

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.

3.16.2 The value of the portfolio is now £21.0m after a redemption of £25m in October. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The December quarter performance before fees was 4.91% against the benchmark of 1.4% (inflation+5%). The performance since inception is 3.3% against benchmark of 9.6% before fees.

3.16.3 The new benchmark effective from 1 April 2022 is ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum.

3.17 **Standard Life**

3.17.1 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 December quarter, the fund returned 8.0% against a benchmark of 7.3% and an absolute return of 4.3% per annum since inception.

3.17.2 Stock selection and duration were all positive contributors to the portfolio as gilt yields fell.

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

3.18 **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 December quarter, the hedged overseas equities had a positive cash value of £7.3m.

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

3.19 **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 person - 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.

3.19.1 The agreed change of mandate to Sustainable Alpha Opportunity Fund was transitioned on 1st November. 60% of the legacy fund was transitioned in specie to the sustainable fund on 1st November and the rest traded in the market, at a cost of £137k as per contract notes.

3.19.2 -The December quarter performance was 2.7% against a benchmark of 2.1% and a one year over performance of 2.0%. The primary contributors to performance were exposures to bonds in the Industrial, Financial and Leveraged Loan sectors.

3.20. **Private Debt Mandates**

| Fund and year | Commitment | Capital call | Distribution |
|---|---|---|---|
| Churchill Fund IV-2021 | $95m | $85.08m | $16.07m |
| Permira V-2021 | £50m | £18.815m | £1.16m |
| Crescent VIII-2022 | $87m | $40.7m | $6.1m |
| | | | |

## 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 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 December 2023 as part of the regular monitoring of fund performance and Appendix 1- Apex Advisors commentary on managers. There is a LGPS Current Issues -February'24- for information https://lgpscurrentissues.mercer.com/lgps-newsletter-feb-24/.

**Appendices:** Appendix 1 – Apex- Fund Managers' monitoring report

**Background papers:**
None

Final report clearance:

| | | |
|---|---|---|
| **Authorised by:** | David Hodgkinson | |
| | Corporate Director of Resources | Date: 28 February 2024 |


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# London Borough of Islington

## Report to 31st December 2023

**19 February 2024**

# Table of Contents

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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 £5.12 billion at end December 2023. |
| **Schroders (multi-asset diversified growth)** | There were no team changes during Q4 2023. The Manager updated its Global Asset Allocation Committee in October. | Fund made a return of +3.62% during the quarter and delivered a return of +0.66% p.a. over 3 years, -13.01% p.a. behind the target return. | Total AUM stood at £724.3 billion as at end September 2023, (latest data available) down from £726.5 billion as at end June 2023. |
| **Polen Capital (active emerging equities)** | No staff changes reported.<br>Shortly after Q4 23 end, the Manager acquired the Somerset Capital Emerging Markets team. | Outperformed the benchmark by +0.19% in the quarter to December 2023. The fund is behind over three years by -1.15% 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 took place in December, and findings are to be announced shortly. | The LCIV Global Equity Fund outperformed its benchmark during Q4 2023 by +0.02%. Over three years the portfolio outperformed the benchmark by +0.03% and therefore under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.13% p.a. | At the end of Q4 2023, the London CIV sub-fund's assets under management were £561.4 million. London Borough of Islington owns 47.42% of the sub-fund. |
| **LCIV Sustainable Equity Fund (RBC)** | Team is stable but LCIV is concerned about the oversight of less experienced team members. An in-depth review is due to be undertaken, and findings will be reported in Q2 2024. | Over Q4 2023 the fund made a return of +5.50%, and this underperformed the benchmark return of +6.67%. The one-year return was +4.55%, positive in absolute terms but behind the benchmark by -12.25%. The three-year return underperformed the benchmark by -8.06% p.a. | As at end December 2023 the sub-fund's value was £1,271 million. London Borough of Islington owns 13.66% 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 +2.79% over Q4 2023, ahead of the target return by +0.68%. Over one year, the fund returned +10.14% which was ahead of the target return by +2.03%. | The fund size was £5,083 billion as at end December. London Borough of Islington's investment amounts to 1.65% of the fund. |
| **Standard Life (corporate bonds)** | There were 15 joiners and 49 leavers during the quarter. There were a number of leavers from the fixed income group, including an Investment Director, two Investment Managers and Head of Fixed Income in Hong Kong. | The portfolio outperformed the benchmark return during the quarter by +0.66%, delivering an absolute return of +8.01%. Over three years, the fund was behind the benchmark return (by -0.16% p.a.) and behind the performance target of +0.80% p.a. | As at end December the fund's value was £2,125 million, up from £2,218 million as at end September. London Borough of Islington's holding of £72.7m stood at 3.4% of the total fund value. |
| **Aviva (UK Property)** | There were no joiners or leavers during the quarter | Underperformed against the gilt benchmark by -11.65% for the quarter to December 2023 and outperformed the benchmark over three years by +10.69% p.a., delivering a return of +1.02% p.a., net of fees. | The fund was valued at £2.96 billion as at end Q4 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** | The Manager undertook a restructuring of its investment teams in Q4, and this saw two departures from the Property group. | The fund outperformed the benchmark in Q4 2023, with a quarterly return of -1.08% compared with -1.16% for the benchmark. Over three years, the fund is outperforming the benchmark by +1.11% p.a. | Pooled fund has assets of £1.44 billion. London Borough of Islington owns 8.33% 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 +4.62% p.a., and so behind the target of 10% p.a. Over 5 years the fund is behind the benchmark by -2.92% p.a. | £1,460 billion of assets under management for the Franklin Templeton Group as at end December 2023. |
| **Hearthstone (UK residential property)** | Not reported. | The fund underperformed the IPD UK All Property Index by -3.48% p.a. for the three years to end December 2023. | Fund was valued at £56.8 at end Q4 2023. London Borough of Islington owns 40.5% of the fund which 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 +3.75% p.a., and therefore was behind 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 +6.51% p.a. over three years, and +0.93% p.a. over five years. The infrastructure fund returned +17.91% p.a. over three years to end December relative to the target of 10% p.a. | $62.3bn of assets under management as at September 2023 (latest figures available). |
| **Churchill (Middle Market Senior Loan Fund)** | Not reported. | Over 1-year, the fund is underperforming the absolute return target of 5% by -1.07%, delivering a return of +3.93%. | |
| **Crescent (Credit Solutions Fund)** | Not reported. | The fund returned +7.91% for the year to December 2023, underperforming the target return of +10%. | $41 billion of assets under management as at March 2023. (latest figures available) |

| MANAGER | LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS | PERFORMANCE | ASSETS UNDER MANAGEMENT |
|---|---|---|---|
| **Permira** | Not reported. | The fund returned +10.93% over 1 year, ahead of the target return of +6.0% | €78 billion of committed capital. |

*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 Reduced Carbon Pathway 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 Q4 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 an LGIM customised reduced carbon pathway 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 +3.29%, compared with 6.95% for the MSCI World Low Carbon Index and +7.73% for the Solactive Paris Aligned World Index.

**TABLE 2:**

| | Q4 2023 Fund | Q4 2023 Index | Tracking |
|---|---|---|---|
| FTSE – RAFI Emerging Markets | +3.29% | +3.29% | +0.00% |
| MSCI World Low Carbon Target | +6.98% | +6.95% | +0.03% |
| ESG Paris Aligned World Equity Fund | +7.80% | +7.73% | +0.08% |

*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 49.66% to the MSCI World Low Carbon Target index fund, 41.41% to the ESG Paris Aligned World Equity Fund, and 8.93% allocated to the FTSE RAFI Emerging Markets Reduced Carbon Pathway index fund.

**Staff Turnover/Organisation:** Not reported by LGIM.

## Schroders – Diversified Growth Fund (DGF)

**Headline Comments:** The DGF made a return of +3.62% in Q4 2023, and in relative terms it underperformed the CPI + 5% target by -3.31% (as reported in the BNY performance report) but outperformed the cash + 4.5% target by +1.12% (this being the manager's preferred target since March 2022). Over three years, the fund is behind the CPI + 5% target return by -13.00% 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 +3.62% in Q4 2023 while global equities (MSCI All Country World Index hedged to sterling) made a return of +9.2%. Over three years, the DGF delivered a return of +0.66% p.a.

In Q4 2023, equity positions contributed +2.4% to the total return, alternatives contributed +0.3%, credit and government debt contributed +2.9%, while cash and currency detracted -0.6% (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 6.4% compared to the three-year volatility of 14.9% in global equities (i.e., 43.0% of the volatility) which is in line with target.

**Portfolio Characteristics:** The fund had 71% in internally managed funds (the same as last quarter), 0% in active bespoke solutions (down from 3% last quarter), 1% in externally managed funds (down from last quarter), and 20% in passive funds (up from last quarter) with a residual balance in cash, 8% (up from last quarter), as at end December 2023. In terms of asset class exposure, 43.4% was in equities, 19.4% was in alternatives, 29.6% in fixed income, 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, the Manager remains positioned for a soft-landing. However, given the rally in markets towards year end, the Manager states it now has slightly less positive views across asset classes, while being too early in the rally to turn negative.

Schroders reported that the carbon intensity of the fund (scopes 1, 2 and 3) was 82% as at end Q4 2023 of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 73% of the portfolio (compared with 93% for the comparator). Using a Science Based Targets Initiative methodology, the portfolio temperature alignment stood at 2.55 degrees as at end December over a medium term horizon.

**Organisation:** There were no team changes during Q4 2023.

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

**Headline Comments:** The portfolio made a return of +3.53% in Q4 2023, compared with the benchmark return of +3.34%, an outperformance of +0.19%. Over one year the fund is behind the benchmark by -3.05%, and over three years it is trailing by -1.15% 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 outperformed the index in the quarter. Overexposure in comparison to the benchmark to China contributed positively to performance, though overexposure to Vietnam States detracted from performance.

During the quarter, the largest positive contributors to the quarterly relative return came from Tencent Music Entertainment (+1.49% and the largest holding in the portfolio at 5.8%), Dino Polska (+1.02%), and Wizz Air Holdings plc (+0.75%). Companies which detracted most from performance included Netease Inc (-0.84%), Mobile World Investment Corp (-0.79%), and Dlocal ltd (-0.77%). *(Return contributions in US dollar terms).*

**Portfolio Risk:** Within the emerging markets portfolio there is a 19.0% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio was Uruguay (+8.7% overweight). The most underweight country allocation was Taiwan (-6.6%). The manager also held 12.8% of the portfolio in three developed countries, compared with the benchmark's 1.5% in Hong Kong and 0.3% in United States.

**Portfolio Characteristics:** The largest absolute stock position was Tencent Music Entertainment Group at 5.8% of the portfolio, while the largest absolute country position was China/HK and accounted for 28.4% of the portfolio.

As at end December, the portfolio had a 17.6% allocation to technology, below the benchmark allocation of 22.1%. 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 has previously stated that it has a turnover of below 20%. However, it is worth noting that turnover for the 12 months to end December 2023 stood at 46%.

**Staff Turnover/Organisation:** Shortly after quarter end, the Manager announced the acquisition of the Emerging Market capabilities of Somerset Capital, along with four of its experienced investment personnel. According to the Manager, the Emerging Markets strategy at Somerset Capital shares a closely aligned investment philosophy with its existing team.

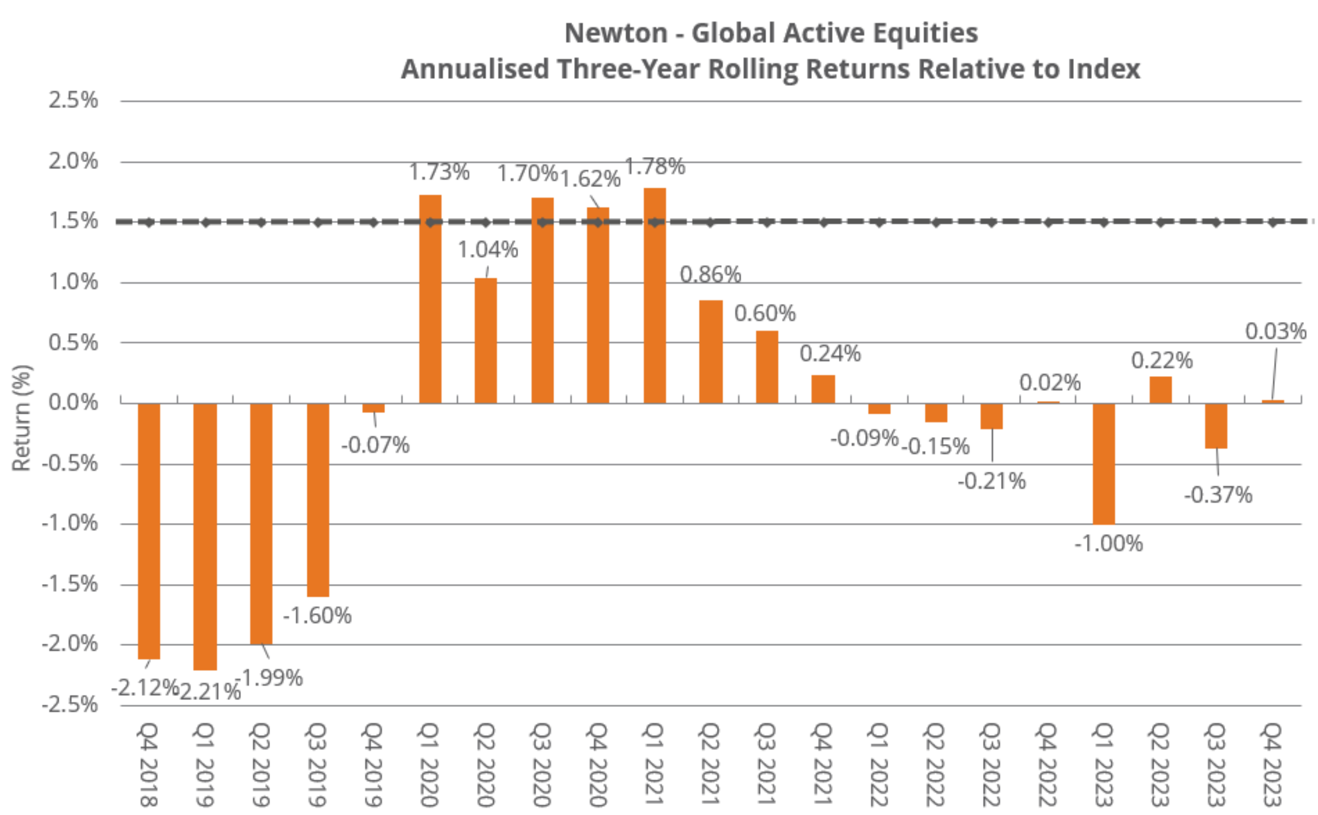
## LCIV Global Equity Fund (Newton) – Global Active Equities

**Headline Comments:** The LCIV Global Equity Fund marginally outperformed its benchmark during Q4 2023 by +0.02%. Over three years the portfolio outperformed the benchmark by +0.03% p.a. Over five years the manager is ahead of the benchmark return by +0.13% 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 Q4 2023 the fund was only slightly outperforming the benchmark over three years by +0.03% p.a. and as such is underperforming the performance objective by -1.47% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as Microsoft (+0.80%), Amazon (+0.62%), and Apple (+0.38%). Negative contributions came from positioning in Sanofi (-0.28%), Scor (-0.18%), and Lonza Group (-0.16%).

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+). Over the past three years the risk has been low relative to peers.

**Portfolio Risk:** The active risk on the portfolio stood at 3.13% as at quarter end, slightly higher than as at end September when it stood at 2.99%. The portfolio remains defensive, with the beta on the portfolio at end December standing at 0.94 (if the market falls by -10% the portfolio can be expected to fall -9.8%).

At the end of Q4 2023, the London CIV sub-fund's assets under management were £561.4m, compared with £528.0m last quarter. London Borough of Islington now owns 47.47% of the sub-fund.

**Portfolio Characteristics:** The number of stocks in the portfolio stood at 57 as at quarter-end (unchanged from last quarter). The fund added ten positions, and made ten sales.

The portfolio continues to be heavily weighted to Technology (an allocation of 26.4%), and remains overweight against the Benchmark. Financials is the second largest allocation (18.4%) 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 Q4 2023, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 55% that of the benchmark index (the MSCI World Index). The highest contributor was Nestle (6.18% contribution to the weighted average carbon intensity) followed by Taiwan SMC (3.35% 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. During the quarter, the Manager sold its two energy holdings, Shell and Exelon. There were concerns around Shell's pace of growth given poor performance in the company's renewable energy operations. Exelon has been adversely impacted by regulatory ruling in the US which has increased the company's risk profile.

During Q3, London CIV had 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 Executive Investment Committee are to discuss the full in-depth review completed during December, during its meeting on the 13th February, and will be issuing an update to investors shortly.

**Staff Turnover:** The lead portfolio manager left the firm in September 2023. No additional staff turnover reported by London CIV.

## LCIV Sustainable Equity Fund (RBC) – global equities

**Headline Comments:** Over Q4 2023 the fund made a return of +5.50%. This underperformed the benchmark return by -1.18%. The one-year return was +4.55%, positive in absolute terms but behind the benchmark by -12.25%. The three-year underperformance was -8.06% p.a. against the benchmark. Islington's investment makes up 13.66% 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 Q4 2023, but has made a gain for the quarter in absolute terms. The portfolio has overweight allocations to the Financials, Consumer Staples, Communication Services, Industrials, Consumer Discretionary, Energy, and Health Care sectors. Over the quarter the largest contributors to return included Microsoft (+1.02%, and the largest holding in the portfolio), Salesforce Inc (+0.68%), and Amazon (+0.65%). The largest detractors include positioning in First Quantum Minerals (-1.11%), Estee Lauder (-0.26%), and EOG Resources (-0.24%).

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 December 2023 the fund had 37 holdings (two down last quarter) across 12 countries. The active risk of the fund was 3.42%, slightly higher than Newton.

London CIV report that the fund continues to tilt towards quality and growth factors.

In Q4 2023, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 62% that of the benchmark index (the MSCI World Index) which is lower than last quarter (when it was 70%). The highest contributors were InterContinental Hotels Group (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 19.00%), Equinor ASA (9.42%) and EOG Resources (4.75%)

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. The Manager is, however, undertaking another in-depth review in February and is expected to share findings with investors in early Q2 2024.

## M&G – Alpha Opportunities Fund

**Headline Comments:** During Q4 2023 the M&G Alpha Opportunities Fund made a return of +2.79%, outperforming the benchmark return of +2.11%. Over one year it is outperforming the benchmark (cash plus 3.5%) by +2.03%.

**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 +2.79% compared to the benchmark return (one month SONIA plus 3.5% being used in Northern Trust's performance analysis) of +2.11%. Exposure to financial corporate bonds was the top contributor (+0.97%), with industrial corporate bonds also performing well (+0.70%). Cash marginally detracted from performance over the quarter. Over one year, the fund is outperforming the target return by +2.03% p.a.

**Portfolio Characteristics:** The largest allocations in the portfolio were to Financials (28%), Industrials (25%), and Cash & Derivatives (18%). 36% of the portfolio was rated BB* or below. The manager reduced exposure to various utility, industrial and sub-insurance bonds following strong performance, and instead increased exposure to UK building societies.

In terms of outlook, the Manager feels that while there is talk of a soft landing, the number of elections scheduled in 2024 could pose a risk in terms of geopolitical events, and so continues to follow a patient and highly selective approach.

As at end December, the weighted average carbon intensity (WACI) of the portfolio was 34% of the WACI of a benchmark index, with 70% of the portfolio being measured where data was available (compared with 88% coverage for the benchmark).

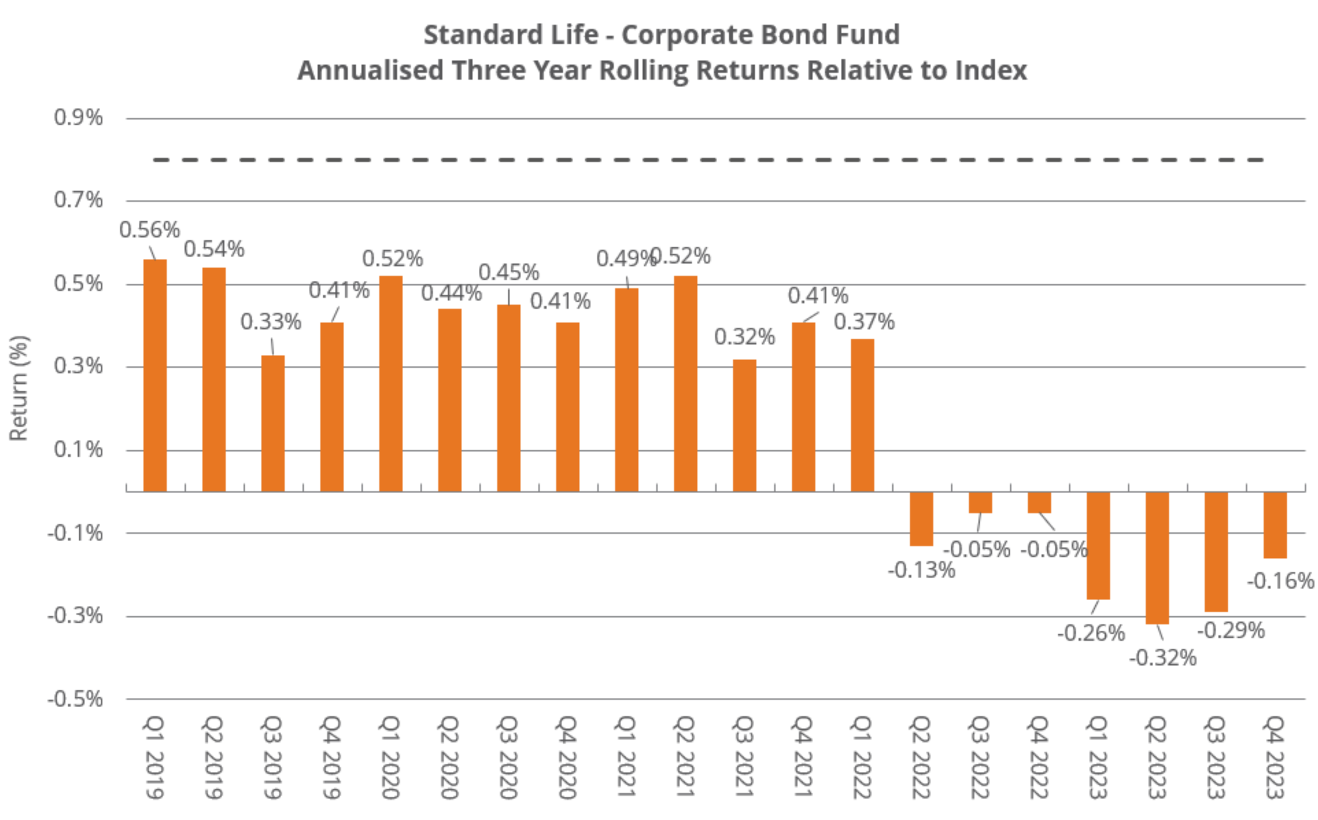
## Standard Life – Corporate Bond Fund

**Headline Comments:** The portfolio outperformed the benchmark return during the quarter by +0.66% and made an absolute return of +8.01%. Over three years, the fund was behind the benchmark return (by -0.16% p.a.) for the seventh 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 -4.85% p.a. net of fees, compared to the benchmark return of -4.69% p.a.

**Portfolio Risk:** The largest holding in the portfolio at quarter-end was UK Gilts at 3.6% of the portfolio.

**Portfolio Characteristics:** The value of Standard Life's total pooled fund at end December 2023 stood at £2,125 million. London Borough of Islington's holding of £72.7m stood at 3.4% of the total fund value. This allocation is being gradually drawn down to fund the infrastructure investments.

**Staff Turnover:** There were 15 joiners and 49 leavers during the quarter, a higher number of departures than has been seen recently. There were no new joiners to the fixed income group, but in terms of leavers, UK departures include an investment director, two investment managers, the head of nominal rates, and an analyst.

### Aviva Investors – Property – Lime Property Fund

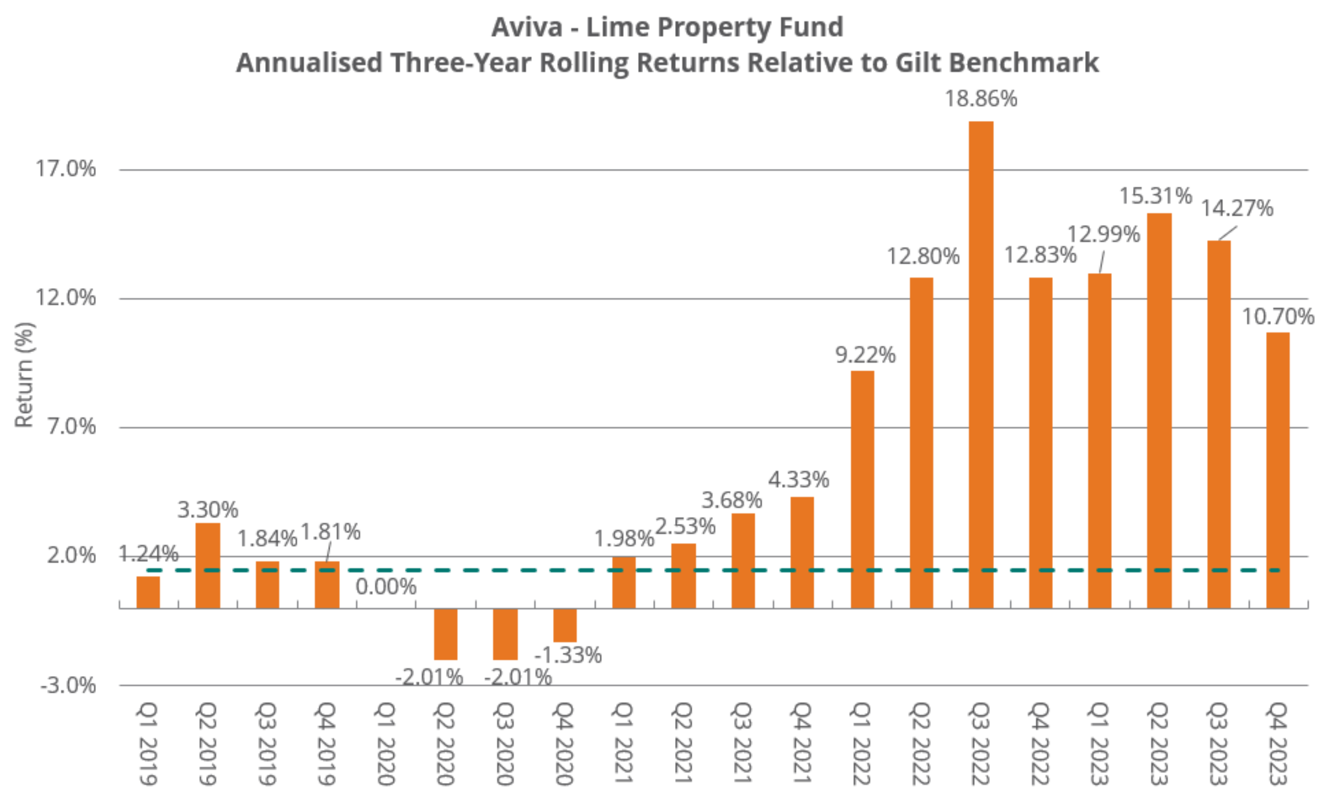
**Headline Comments:** The Lime Fund made a loss of -0.39%. It underperformed the benchmark return by -11.65% in Q4. Over three years, the fund is ahead of the benchmark return by +10.69% p.a., but over one-year underperformed by -9.88%. It is ahead of the benchmark since inception in October 2004, by +5.66% 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 -1.27% capital return and +1.07% income return.

Over three years, the fund has returned -1.02% p.a., ahead of the gilt benchmark of -11.72% 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 was one acquisition over the quarter and three sales. It is worth noting that, as at 30th June, redemption requests amounted to £470 million, (or 15.9% of the value of the fund). As of the end of December, the Manager had raised nearly £400m of available cash to pay out the redeeming investors (equating to 85% of the redemption amount).

The average unexpired lease term was 20.70 years as at end December 2023. 12.0% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 24.94% (proportion of current rent), and the number of assets in the portfolio is 77. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

**Portfolio Characteristics:** As at December 2023, the Lime Fund had £2.96 billion of assets under management, a decrease of -£35 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 Q4.

## Columbia Threadneedle – Pooled Property Fund

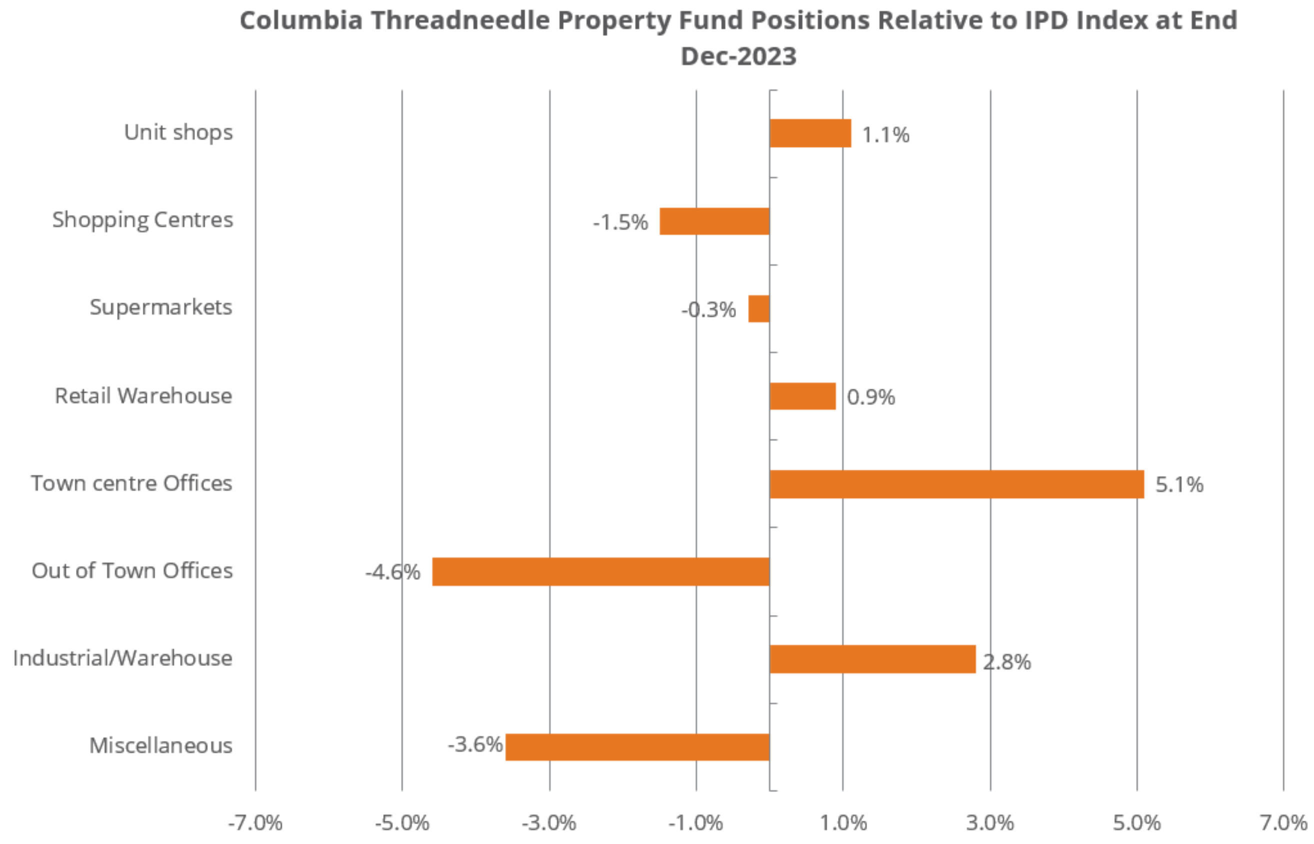
**Headline Comments:** The fund delivered a negative absolute return but outperformed the benchmark in Q4 2023, with a quarterly return of -1.08% compared to the benchmark return of -1.16%. Over three years, the fund outperformed the benchmark by +1.11% p.a.

The Manager wrote to investors during the quarter to notify that the redemption deferral procedure that has been in place for the last 12 months will be extended until further notice. The Manager has also appointed a new third-party administrator for the fund, SS&C Financial Services Europe Ltd to provide administration services including client servicing, registration and dealing services, subject to regulatory approval.

**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 eight sales. The cash balance at end September was 3.0%, compared with an average cash allocation of 6.1% 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 Q4 2023, with a quarterly return of -1.08% compared to -1.16%. Over 1-year the fund outperformed the benchmark by +1.97%. The fund is now outperforming the benchmark over three years by +1.11% p.a.

**Portfolio Characteristics**: As at end December 2023, the fund was valued at £1.44bn, a decrease of £65m from the fund's value in September 2023. London Borough of Islington's investment represented 8.33% of the fund.

**Staff Turnover:** The manager has been restructuring a number of its investment teams in part due to strategic changes as well as industry-wide challenges under the current environment. As a result, there have been 35 leavers and 6 joiners during Q4, although it is important to note that there were only 2 leavers from the Property Management group.

## 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 -5.38% 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:** Notwithstanding the poor relative performance, over the three years to December 2023, Franklin Templeton ranks the highest out of the property managers for absolute 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 (82% of funds invested), followed by Europe (18%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Fund II is fully invested in a diverse mix of property sectors including office, industrial and retail uses. As at end December 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 December 2023. The manager notes that the pandemic followed by the dramatic increase in interest rates has led to some delays in implementing business plans for the residual portfolio. However, the return has exceeded the original return target, to date.

The largest geographic allocation in Fund II is to Europe (64% of funds invested), followed by the US (27%), and Asia (9%).

Fund III is invested mainly in the residential and retail sectors. The portfolio consists of five investments, two of the original seven having already been realised. There was no change to the total distributions made over the period, and no new investments or realisations. The portfolio is allocated 58% to Europe and 42% to the US.

During the quarter, the Manager announced that the extension to the investment period for Fund III had been approved by a majority of the limited partners, to end December 2024 (an extension of 12 months).

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

### Hearthstone – UK Residential Property Fund

**Headline Comments:** The portfolio underperformed the benchmark over three years by -3.48% p.a. A phased redemption of this fund was negotiated with the manager during Q2 2023.

During Q4, 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 of £5.7 million to investors was made on 12th December 2023, equivalent to approximately 9% of the funds value.

**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 December 2023 by -3.48% p.a., returning -0.98% p.a. versus the index return of +2.50% p.a. The manager has underperformed over 5 years by -1.61% p.a. The gross yield on the portfolio as at end December 2023 was 5.2%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 2.7%.

**Portfolio Risk:** The cash and liquid instruments on the fund stood at 1.35% (£0.8 million), which is 6.95% lower than at the end of September 2023.

**Portfolio Characteristics:** By value, the fund has an 8% allocation to detached houses, 33% allocated to flats, 31% in terraced accommodation and 27% in semi-detached.

As at end September there were 217 properties in the portfolio and the fund stood at £56.8 million. London Borough of Islington's investment represents 40.5% 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 December 2023.

## Quinbrook – Low Carbon Power Fund and Net Zero Power Fund

**Headline Comments:** Performance for the year to 31st December 2023 on both funds was negative at -24.13%, and underperforming the target return of +12.00%. Over three years, the fund returned +3.75% p.a. and therefore was behind of the target by -8.25% 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.

**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 +6.51% per annum. This compares with a three-year return on listed global equities of +11.21% per annum. The three-year return on the infrastructure fund was +17.91% 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 31st December 2023 across all strategies was 10.6%, with a net multiple of 1.31x. Over the quarter, there were three drawdowns totalling £45,728,751 and one distribution totalling £1,000,823, both from PGIF IV.

Overall, the programme's rolled for cash valuation at Q4 2023 was £119.4m, down 3.9% from Q3 2023. It is worth noting that this fall in NAV was caused by the in-period foreign exchange movement and does not reflect any movement in underlying asset value.

## 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 end September 2023 (latest data available) the Fund had a total of 16 investments remaining in the portfolio. 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 December 2023, it has 11 new investments totalling £143.5 million ($182.8 m). The portfolio has a weighted average net total leverage of 5.8x and a weighted average company EBITDA of USD 78 million. The fund has achieved a return of +3.93% for the year to 31 December 2023, underperforming the absolute target return of +5.00% by -1.07%, 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 achieved a return of +7.91% for the year to 31 December 2024, underperforming the target return of +10.0% by -2.09%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period.

Karen Shackleton
Senior Advisor, Apex

19th February 2024

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ISLINGTON
For a more equal future

Finance Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 11th March 2024

Ward(s): n/a

**Appendix 1and 2 are** exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

# SUBJECT: 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 note progress on emerging market portfolio review

2.3 To agree that officers with Mercers review the Private debt commitment and identify any gap to fulfil its commitment to a European strategy.

2.4 To note the briefing scope prepared by Pension for Purpose of the currently available impact funds with an inclusive local economy approach and biotech/life sciences themes (attached as exempt Appendix 2)

2.5 To agree other impact themes for its 5% allocation (Mercer training presentation is attached at exempt appendix 1 for reference).

2.6 To agree to receive a further progress report at the next meeting in June 2024.

## 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 further progress report in November and agreed the following:
(i) a longer list of one or more managers be considered for the emerging markets portfolio,
(ii) officers and advisors formulate an implementation plan on investing in an inclusive economy approach and biotech/life sciences businesses.

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 December.

3.1.5

| | **New Strawman 3** | Actual Allocation As at July'23 | Actual Allocation As at Dec'23 |
|---|---|---|---|
| Equity | **45** | 56 | 52.5 |
| Alternatives | **27.5(5% to Impact)** | 16.6 | 17.2 |
| Property | **20** | 15.6 | 19.2 |
| Liquid Fixed income | **7.5** | 4.5 | 4.6 |
| DGF/Corporate bonds | **0** | 7.3 | 5.2 |
| Expected return | **CPI+5.2%** | | |
| Downside risk | **688m** | | |

3.1.6 **Implementation plan- actions outstanding**

The implementation plan still has some actions outstanding and is listed in the table 2 below.

3.1.7 Table 2

| Asset Allocation | Action | Responsible person |
|---|---|---|
| Emerging market equities | A longer list of one or more managers be considered for the emerging markets portfolio. | Bfinance/ officers/Members- Shortlisting and interviewing scheduled for March |
| Private Debt | Commitment analysis to identify gap and allocate to a European strategy in Q2/ 2024 | Members to agree to proceed in March |
| Impact | Produce a paper on types and identify best suit for Islington and discuss investment available in inclusive economy | Mercer/Karen Shackelton will present on this agenda |

3.2 **Update November'23 to March'24**

3.2.1 **Emerging markets- background**

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.

<u>Transitions cost estimates.</u>

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.

<u>The London CIV</u>

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 3yearsto September was -0.25% per annum. The London CIV does not have any immediate plans to appoint an alternative manager. Mercer recommended that this one single manager would not be as beneficial to

3.2.2 **Members agreed in November that a longer list of one or more managers be considered** for the emerging markets portfolio.

3.2.2.1 Officers met with advisors in January and agreed to proceed with the procurement process of an emerging equity market manager with preferred characteristics as follows:
(i) no style bias
(ii) can demonstrate performance consistency in different market cycles
(iii) demonstrate ESG integration in investment process and aiming for a net zero target
(iv) competitive fees in a pooled vehicle

3.2.2.2 Officers engaged the services of BFinance (advisors manager selection) and have met to discuss a long list of 9 managers from their emerging market universe database who best meet our criteria. We are in the process of agreeing a short list of 3 or 4 to meet for further due diligence and interviews in March. The plan is for Members to agree to appoint the recommended manager(s) at the next committee meeting.

3.2.3 **Impact investment**
The fund has now agreed a 5% allocation to impact investment. Mercer (our advisors) presented 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 then agreed in November that officers and advisors formulate an implementation plan on investing in an inclusive economy approach and biotech/life sciences businesses.**

3.2.3.1 A briefing has been prepared by Karen Shackleton (attached as exempt appendix 2) scoping current investment managers that have some element of inclusive economy approach and biotech/life sciences. The current market is quite small and so whilst further work is undertaken on managers and governance structure, Members are asked to receive the initial briefing and discuss if this meets their requirements.

3.2.3.2 Members are also asked to revisit the mercer presentation (attached as exempt appendix 1) to agree other themes on impact so a wider investment approach can be considered alongside inclusive economy to implement the 5% impact allocation.

## 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 progress made from November to date and receive the training presentation from Mercer attached as exempt appendix 1 to agree other impact themes and the briefing on scoping inclusive economy attached as exempt appendix 2.

**Appendices:** Exempt Appendix 1- Mercer presentation-Training Impact investment
Exempt Appendix 2- Karen Shackleton – Briefing inclusive economy

**Background papers:**
None

Final report clearance:

Authorised by: Corporate Director of Resources

**Date:** 28 February 2024

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ISLINGTON

For a more equal future

**Finance Department**
**222 Upper Street**
**London N1 1XR**

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 11th March 2024

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 November to January 2024

### 2. Recommendations

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

2.2 To note (Exempt Appendix2) notes from the Annual General Meeting held in January.

### 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 January 2024**

3.5.1 **The Business Update**

The full presentation on 26th January ia attached as exempt appendix 1 and some of the highlights are listed below:

(i) The new CIO, Aoifinn Devitt has now commenced at LCIV. She joins London CIV from US-based wealth management firm Moneta, where she was CIO, and extensive experience in UK LGPS, including independent adviser roles to four local authority pension funds in the UK, as well as other investment committee positions. She was also head of investment for Ireland at Hermes Fund Managers, and CIO for the Policemen's Annuity and Benefit Fund of Chicago.

(ii) Going forward, she is embarking on a listening tour with partner funds, building upon momentum of London CIV's existing funds, with a particular focus on Housing and Renewable Infrastructure, building out London CIV's new funds, with an initial focus on Nature Based Solutions and Private Credit and plans to further strengthen best in class performance and accelerate London CIV's integration as our partner funds' outsourced investment team.

3.5.2 **Fund monitoring and performance**

There are currently zero funds on watchlist, four funds on enhanced monitoring and all other funds are on normal monitoring.

3.5.3 **Fund Launches and Pipeline**

(i) On 30th January 2024, further discussions were held with clients who have expressed an interest in allocating further or new commitments to private debt II fund. The proposed fund structure will be an open ended evergreeen multi manager structure. Fund terms and commitments will be finalised with the initial seed investors group for a launch date in the second half of this year.

(ii) Nature-based Solutions

Training sessions were held on 8th February (morning and evening) for both officers and councillors, covering the voluntary carbon market and the financial aspects of investing in nature-based solutions strategies. Investment Due diligence is in the final stages after meeting with nine managers and are in the process of determining a preliminary short list which will be finalised before Exco approval and confirmatory due diligence

(iii) Indirect property pooling

The LCIV is aiming to deliver a solution for partner funds who have indirect property exposure to create cost savings and enhance performance.

3.5.4 **Operational activities**

Fee modifications have been completed on the following LCIV funds: sustainable equity fund, sustainable equity exclusions fund and diversified growth fund. The LCIV now retain a portion of all fee savings reduction.

3.6 **Shareholder annual meeting**

An agenda presentation of the most recent shareholders annual meeting held in January is attached as exempt appendix 2 for information .

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

A total of £75,000 was contributed by each London Borough, including Islington, towards the setting up and receiving FCA authorisation to operate between 2013 to 2015. All participating boroughs also agreed to pay £150,000 to 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 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 and 2 are attached for information.

**Appendices**: Exempt Appendix 1- Business update-Jan 24,
Exempt Appendix 2- General meeting presentation

**Background papers: none**

Final report clearance:

**Authorised by:**

Corporate Director of Resources Date 28 February 2024

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ISLINGTON

For a more equal future

Finance Department
222 Upper Street,
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date 11th March 2024

Ward(s): n/a

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## SUBJECT: PENSIONS COMMITTEE 2024/25 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. Recommendations

2.1 To consider and agree Appendix A attached

2.2 To consider some investment training topics

## 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.

3.3 **Training**

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

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

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

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

3.4 Members are invited to chose investment topics for future training. Some examples could include natural capital, biodiversity and good governance.

## 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:

**Authorised by:**

**Corporate Director of Resources** Date 28 January 2024

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## APPENDIX A

### Pensions Committee Forward Plan June 2024 to June 2025

| Date of meeting | Reports<br>Please note: there will be a standing item to each meeting on:<br><br>• Performance report- quarterly performance and managers' update<br>• CIV update report |
|---|---|
| 11th March 2024 | • Investment training- topics to be discussed.<br>• Investment strategy implementation update |
| 2nd July 2024 * | Carbon monitoring progress report<br>Annual Admin performance report and risk register<br>Investment Strategy Update<br>Whole fund peer performance |
| 26th September 2024* | Annual report<br>Funding Review |
| 3rd December 2024* | Investment consultancy review |
| 10th March 2025* | Training review |
| 30th June 2025* | Carbon monitoring progress report<br>Annual Admin performance report and risk register |

* dates subject to confirmation

**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 and board training | Actuarial Valuation training |
| November 2023 | Impact Investment Training |

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

# Agenda Item E1

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of the Local Government Act 1972.

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