Public Document Pack

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, Town Hall, Upper Street, N1 2UD on **3 December 2024 at 7.00 pm.**

Enquiries to	:	Mary Green
Tel	:	(0207 527 3005
E-mail	:	democracy@islington.gov.uk
Despatched	:	25 November 2024

Membership	Substitute Members
Councillor Paul Convery (Chair)	Councillor Jenny Kay
Councillor Diarmaid Ward (Vice-Chair)	Councillor Sara Hyde
Councillor Satnam Gill OBE	
Councillor Ben Mackmurdie	
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 - July to September 2024	5 - 42
2.	Update on passive equity restructuring (to follow)	-
3.	Interim Valuation Funding review	43 - 46

C. Urgent non-exempt items

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

D. Exclusion of press and public

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

E. Confidential/exempt items

F. Urgent exempt items

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

The next meeting of the Pensions Committee is scheduled for 10 March 2025

This page is intentionally left blank

London Borough of Islington

Pensions Committee - 26 September 2024

Non-confidential minutes of the meeting of the Pensions Committee held in Committee Room 4, Islington Town Hall, Upper Street, N1 2UD on 26 September 2024 at 7.00 pm.

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

Councillor Paul Convery in the Chair

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

Received from Councillors Gill and Mackmurdie.

Apologies for absence also received from Alan Begg, George Sharkey and Councillor Una O'Halloran, members of the Pensions Board, and observers on the Committee.

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

None.

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

Councillor Convery declared an interest in items on the agenda as a member of the Scheme.

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

The Chair proposed that line 4 of minute 351(a) – "Update on passive portfolio restructuring" – be amended as follows:

Replace the word "compliant" with "complicit".

RESOLVED:

That subject to the above amendment, the minutes of the meeting of the Committee held on 24 July 2024 be confirmed as an accurate of proceedings and the Chair be authorised to sign them.

363 **PENSION FUND PERFORMANCE FROM 1 APRIL TO 30 JUNE 2024 (Item B1)**

RESOLVED:

(a) That the performance of the Fund from 1 April to 30 June 2024, as detailed in the BNY Mellon interactive performance report, and detailed in the report of the Corporate Director of Resources, be noted.

(b)To receive the presentation by Apex, independent investment advisers, on fund managers' quarterly performance, attached as Appendix 1 to the report.

(c) To note the whole fund performance report. compared to peer universe of 63 funds as at 31st March 2024, prepared by PIRC and attached as Appendix 2 to the report, noting that Islington Pension Fund appeared in the upper quartile, ahead of average, over the past five years.
(d) To note Mercers' "LGPS Current Issues – September 2024".

364 (A) INVESTMENT STRATEGY REVIEW UPDATE ON IMPLEMENTATION (Item B2)

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) To note the briefing paper from Pension for Purpose on impact investing, attached as appendix 1 to the report.
(c) That officers carry out due diligence on the possibility of investment in Temporis, Clean Growth and Future Planet impact funds, which aligned with the Fund's climate goals and, subject to results, appoint two funds with an allocation of 50%.
(d) That 50% be kept in reserve for possible future opportunities in this area.
(e) To agree delegated authority to the Corporate Director of Resources to make the required commitment to cover the projected gap on private debt of around £120m.
(f) That officers and advisors (i) review the existing US Private debt manager, Churchill's, next vintage Fund V and, if appropriate, make a commitment as per the gap analysis agreed in July and (ii) commence a procurement process for a European private debt manager, including having regard to the LCIV Private Credit mandate.
(g) To agree to invest with LCIV the Fund's natural capital allocation, subject to meeting investment objectives.
(h) To receive a further progress report at the next meeting in December 2024.

365 (B) FUNDING REVIEW UPDATE (Item B3)

RESOLVED:
(a) To note the report prepared by the Fund Actuary, Mercer, attached as Appendix1 to the report of the Corporate Director of Resources, detailing the estimated funding level of the Fund since the 2022 triennial actuarial valuation to June 2024, related funding matters, which the Actuary would consider, a snapshot of the whole Fund position as at 30 June 2024 and the next steps for the 2025 Actuarial valuation.
(b) To note the summary headlines in paragraph 3.5 of the report.
(c) To note the timeline and activities for the March 2025 triennial valuation, as set out in paragraph 3 of the report

366 PASSIVE EQUITY PORTFOLIO RESTRUCTURING UPDATE (Item B4)

RESOLVED:
(a) To note the contents of the report of the Corporate Director of Resources and:
i) to restructure the two existing LGIM passive equity funds to create a single pooled fund of one investor, combining both portfolios into one, mirroring the Paris-aligned strategy.
ii) to note due diligence progress towards compliance with the regulatory and legal conditions outlined in Counsel's advice before divesting from 10 companies listed by the UNHRC, including consultation with Fund members.
b) That a report on the outcome of i) and further progress towards ii) above be reported to the next meeting of the Committee.
4) That officers and external advisers be thanked for their work on this project.

369 **DRAFT PENSION ANNUAL REPORT 2023/24 (Item B7)**

RESOLVED:
(a) To note the draft 2023/24 Pension Annual Report, attached as Appendix 1 to the report of the Corporate Director of Resources.
(b) To note the 2023/24 pension fund statement of account, activities, governance and performance, all as detailed in the Appendix to the report.
(c) To note that a summary of the draft annual report would be distributed to pension members at the 30th September 2024 Annual General Pension Meeting.
(d) To agree that the Annual Report be signed off in the name of the "Chair of the Pensions Committee", rather than the "Chair of the Pensions Board", since it reflected the work of the Committee.

370 **ANNUAL REVIEW AND PROGRESS ON THE 2022-2026 PENSION BUSINESS PLAN (Item B8)**

RESOLVED:
(a) To note and approve the actions and objectives comprising the four year business plan, as detailed in Appendix A to the report of the Corporate Director of Resources.
(b) That an update on the Investment Strategy be presented to the Committee in March 2025 for consideration.

371 **LONDON CIV UPDATE (Item B9)**

RESOLVED:
To note exempt appendix 1 to the report of the Corporate Director of Resources, comprising the August 2024 business update session, and further updates on fund launches.

372 **PENSION FUND FORWARD WORK PROGRAMME (Item B10)**

RESOLVED:
To approve the addition of the following items to the forward plan:

3 December 2024 – " Passive equity portfolio restructuring update - responses to consultation and equality impact assessment" (and decision on restructure)

10 March 2025 – "Investment Strategy update"

373 **LONDON CIV UPDATE - EXEMPT APPENDIX (Item E1)**
Noted.

374 **PASSIVE EQUITY PORTFOLIO RESTRUCTURING UPDATE - EXEMPT APPENDIX (Item E2)**

Noted the exempt appendix comprising and exempt briefing from Mercer Company.

The meeting ended at 8.55 pm

CHAIR

ISLINGTON

For a more equal future

Resources Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 3rd December 2024

Ward(s): n/a

Subject: Pension Fund Performance 1 July to 30 September 2024

1. Synopsis

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

2. Recommendations

2.1 To note the performance of the Fund from 1 July to 30 September 2024 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.

3. Fund Managers Performance for 1 July to 30 September 2024

3.1Fund Managers	Asset Allocation	Asset Value £m	Mandate	*Mercer ESG Rating	Latest Quarter Performance (July- Sept'24) Gross of fees		12 Months to Sept' 2024 Performance Gross of fees	
					Portfolio	Benchmark	Portfolio	Benchmark
LCIV Sustainable EQ- RBC	9.9%	196.6	Global equities	1	0.3%	0.5%	19.4%	20.5%
LCIV -Newton	15.5%	306.7	Global equities	2	2.5%	2.9%	22.5%	20.4%
Legal & General	14.9%	294.5	Global equities	1	1.2%	1.5%	20.8%	21.8%
Legal & General-Paris Aligned	10.6%	209.6	Global equities	1	-0.2%	-0.2%	23.2%	23.4%
Polen Capital (previously BMO)	3.7%	73.3	Emerging equities	2	5.5%	2.6%	12.9%	15.1%
Quinbrook	4.6%	90.3	Renewable Infrastructure		1.9%	2.9%	3.1%	12.0%
Pantheon	5.6%	111.9	Infrastructure	1	-3.8%	2.4%	-1.1%	10.0%
Aviva (1)	9.1%	180.9	UK property	2	0.3%	2.6% 1.8%	1.6%	9.2% 2.9%
Columbia Threadneedle Investments (TPEN)	6.3%	124.3	UK commercial property	3	1.2%	1.3%	2.4%	1.8%
Franklin Templeton	1.0%	23.4	Global property	N	-7.8%	2.4%	-27.8%	10.0%
Hearthstone	1.0%	19.6	UK residential property	N	-6.7%	1.8%	-10.3%	2.9%
Standard Life	3.8%	74.7	Corporate bonds	2	2.1%	2.3%	10.8%	9.7%
M&G Sustainable Alpha Opportunities	4.6%	90.1	Multi Asset Credit	2	2.1%	2.1%	11.0%	8.7%
Schroders	1.2%	22.8	Diversified Growth Fund	2	2.3%	1.6%	13.8%	7.7%
Churchill Senior loan Fund IV	2.7%	53.9	Private Debt	2	-3.3%	1.2%	1.8%	5.0%
Permira Credit Solution	1.4%	28.6	Private Debt	3	2.5%	1.5%	10.4%	6.0%
Crescent Capital	2.4%	47.3	Private Debt	N	-3.4%	2.4%	3.1%	10.0%
Cash/legacy PE	2.2%	32.8	cash		n/a	n/a	n/a	n/a
Market value of total fund	**100%**	**£1,982m**						

2.6% & 9.2% = original Gilts benchmark; 1.8% and 2.9% are the IPD All property index; for information. Value of fund at June'24 was £1,982m

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 September 2024 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to Sept'24 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	0.68	1.98	12.5	15.5

3.4 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1,3- and 5-year periods to Sept'24 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	12.5%	4.3%	6.8%
Customised benchmark	15.5%	5.7%	6.5%

3.5 The strategic allocation and actual position as at 30th Sept is shown in the table below. Cash held is mostly distributions from private assets and used to fund drawdowns and hedge account for collateral.

Asset Class	**Strategic Allocation**	**Current Allocation**
Equities	45	54.6
Property	20	17.4
Private debt	10	6.5
Infrastructure including natural capital	14.5	10.2
Impact investment	3	0
Multi asset credit	7.5	4.6
Investment grade credit	0	3.8
Diversified growth fund	0	1.2
Cash	0	1.7

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 June by -0.50% and a twelve-month under performance of -1.06% an improvement from last quarter. Stock selection was the main detractors, and the manager remains under watch.

3.6 **LCIV Newton Investment Management**

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

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

3.6.3 The fund returned 0.3% against a benchmark of 0.5% for the September quarter and a 12month outperformance of 2.1% against a benchmark of 20.4%. The biggest contributor to performance, was the overweight positions to industrial companies and the materials sector. The underweight to information technology companies, which lagged in Q3 after a very strong run in the previous 12 months, was also beneficial. Islington now owns 49.3% (49.2 %) of the fund with 2 other local authorities on the LCIV platform.

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 £209.5m(£210m)

3.7.2 The quarter performance to September was -0.2% against a benchmark of -0.2%.

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 September inception, was £138m and benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets. For this quarter, the fund totalled £294m(290m) with a performance of 1.2% against a benchmark of 1.5%.

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

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

- A blended portfolio with 85% invested in emerging market and 15% in frontier markets
- Target performance MSCI Emerging Markets Index +3.0% (for the global emerging markets strategy)
- Expected target tracking error 4-8% p.a
- The strategy is likely to have a persistent bias towards profitability and invests in high quality companies that pay dividends.

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

3.9.1 The September quarter saw an over performance of 2.8% against a benchmark of 2.6%, and this was mainly due to stock selection and regional exposures. Since inception in 2017 the fund has underperformed by -3.5% per annum.

3.9.2 Following Members decision to appoint an alternative active manager, initial discussion have been held about transition and it is anticipated the process should complete by the December quarter.

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 2.6%. The All Property IPD benchmark returned 1.8% for this quarter. Since inception, the fund has delivered an absolute return of 4.7%.

3.10.3 As at the end of this September quarter, the fund's unexpired average lease term is 20.78 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 there were three sales. The Fund is holding £230 million of available cash with a further £100 million due to be added from sales in December 2023. The are plans to sell another c. £250 million of property between now and the end of the year to raise capital to meet these redemptions of around 15.7%of NAV.

3.10.4 The Fund's annual redemption window closed on the 30th June 2024. Due to the current market situations some of the redemptions may be deferred.

3.11 Columbia Threadneedle Property Pension Limited (TPEN)

3.11.1 This is the fund's UK commercial pooled property portfolio that was fully funded on 14 January 2010 with an initial investment of £45 million. The net asset value at the end of September was £124.3m(£124m in June) 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.2

3.11.2 The fund returned a performance of 1.2% against its benchmark 1.3% for the September quarter. Since inception it has delivered an absolute return of 5.3% per annum.

3.11.3 The cash balance now stands at 7.2%. During the quarter, five strategic sales were made and there were no acquisitions. The fund cash balance stands at 3.7% of NAV and further sales have been targeted to reach the 10% of NAV target. Rent collection is at 94.5%. TPEN continues to work with its occupiers on a case by case basis to agree appropriate strategies for rent collection having regard to government legislation.

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

3.12 Franklin Templeton

3.12.1 This is the fund's global property manager appointed in 2010 with an initial investment commitment of £25million. Members agreed in September 2014 to re-commit another $40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. The agreed mandate guidelines are listed below:

- Benchmark: Absolute return
- Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point.
- Bulk of capital expected to be invested between 2 – 4 years following fund close.

- Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.

3.12.2 Fund I is now fully committed and drawn down. \$3.5m remains undrawn. The final portfolio is comprised of nine funds and five co-investments. The funds are well diversified as shown in table below:

Commitments	Region	% of Total Fund
5	Americas	36
4	Europe	26
5	Asia	38

The total distribution received to the end of the September quarter is \$62.1m. The NAV is (\$29.4k). The Fund is in the harvesting phase of its life cycle and continues to benefit from the realization of investments from 2 active holdings.

3.12.3 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 \$36.9m and total distribution of \$30.7m. The NAV is \$16.9m and the fund has 6 active holdings.

3.12.4 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.

3.12.5 Current portfolio consist of 8 holdings over a geographic exposure of 46% in Europe and 52% in USA with vintages of 28% in 2019, 33%in 2021, 6% in 2022 and 33% in 2024

3.12.6 As at the quarter end \$24.6m has been drawdown and a distribution of \$8.6m had been received with a NAV of \$12.0m

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 September quarter, the value of the fund investment was £19.6m and total funds under management is £48.9m. Performance net of fees was -6.7% compared to the IPD UK All Property benchmark of 1.8%.

3.13.3 FCA have agreed for the Fund to be terminated and liquidated effective from 1st December 2023.

Three capital distribution have now been paid since the termination process began:

- 12/12/2023 – c. 5.7m total, of which Islington received £2,277,628
- 31/05/2024 – c. £3m total, of which Islington received £1,229,297
- 30/09/2024 – c. £3m total, of which Islington received £1,184,497

It is intended that capital distributions will be made on the income payment dates set out in the prospectus (end of February, May, October and November) subject to there being at least 5% cash available

By year-end the aim is to have marketed over 80% of the portfolio and to have completed sales on approximately 100 properties. As a number of properties are under sale the dividend distribution will cease after this September quarter. 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 $50.05m to date with a NAV of $47m.

3.14.2 Islington completed documentation and onboarding to The Net Zero Power Fund on 25 August 2023 with a commitment of $100m. The terms and conditions were negotiated and agreed with a side letter. Total capital call to the end of September was $64.6m with a NAV of $74m

.

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 Sept '24 is $90.95m and distribution of $36.45m 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'23 with a $100m commitment.
As at September'24 there had been capital calls totalling $57.49m and $4.0m 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 £22.7m after a redemption of £25m in October. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The September quarter performance before fees was 2.3% against the benchmark of 1.5% (inflation+5%). The performance since inception is 3.9% against benchmark of 9.5% 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 September quarter, the fund returned 2.1% against a benchmark of 2.2% and an absolute return of 4.2% per annum since inception.

3.17.2 The funds long duration position (relative to index) benefited from falling bond yields. An overweight to banks and subordinated debt contributed and offset the negative impact from the Fund's exposure to UK water companies.

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 June quarter, the hedged overseas equities had a positive cash value of £22.1m.

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

3.19 **M&G Sustainable 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.

<u>The mandate guidelines of M&G include</u>

- 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%).

<u>Risk and triggers for review:</u>

- 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'23. 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 September quarter performance was 2.1% against a benchmark of 2.1% and a one year over performance of 1.6%. The primary contributors to performance for the quarter were exposures to bonds in the Industrial, Financial while utility bonds were detractors.

3.20. **Private Debt Mandates**

Fund and year	Commitment	Capital call	Distribution	Net Asset Value
Churchill Fund IV-2021	$95m	$87.54m	$28.95m	$74.16m
Permira V-2021	£50m	£28.0m	£3.046m	£29.38m
Crescent VIII-2022	$87m	$68.69	$14.5m	$64.87m

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 2026 and 2030 to reduce the current and future absolute emissions by 49% and 60% respectively compared to when it was measured

in 2016 and also invest 20% of the fund in green opportunities. The link to the full document is Islington Pension Fund Investment Strategy Statement

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending September 2024 as part of the regular monitoring of fund performance and Appendix 1- Apex Advisors commentary on managers.

Appendices: Appendix 1 – Apex- Fund Mgr monitoring report

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

Final report clearance:

Signed by: David Hodgkinson

Corporate Director of Resources Date: 25 November 2024

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

Legal implications author : Sonal Mistry

London Borough of Islington

Report to 30th September 2024

7 November 2024

Table of Contents

Contacts

Karen Shackleton
Senior Adviser
+44 20 7079 1000
karen.shackleton@apexgroup-fs.com

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 £6.38 billion at end September 2024.
Schroders (multi-asset diversified growth)	There were no team changes during Q3 2024.	Fund made a return of +2.26% during the quarter and delivered a return of +1.26% p.a. over 3 years, -11.37% p.a. behind the target return. The five-year return was +4.19%, -6.77% p.a. behind the target return.	Total AUM stood at £773.7 billion as at end June 2024, up from £750.6 billion as at end December 2023. (most recent data available)
Polen Capital (active emerging equities)	Not reported by Polen	Outperformed the benchmark by +2.88% in the quarter to September 2024. The fund is behind over three years by -2.56% p.a. and by -3.65% p.a. over five years.	Total AUM stood at approximately $58bn as at end June 2024 (most recent data available).

LCIV Global Equity Fund (Newton) (active global equities)	The monitoring status of the Sub-fund was downgraded to 'Enhanced' in September 2023 following the departure of the lead portfolio manager. This was re-confirmed in February 2024, but with a more positive outlook. LCIV will update the monitoring status again in Q4 2024.	The LCIV Global Equity Fund underperformed its benchmark during Q3 2024 by -0.27%. Over three years the portfolio outperformed the benchmark by +0.68% p.a. but was behind the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.74% p.a.	At the end of Q3 2024, the London CIV sub-fund's assets under management were £620.7 million. London Borough of Islington owns 49.36% of the sub-fund.
LCIV Sustainable Equity Fund (RBC)	Given the Sub-fund's 'Enhanced' monitoring status, LCIV continue to monitor 'Resourcing', 'Process' and 'Investment Risk', where LCIV have identified weaknesses and assigned an 'Amber' score in their last in-depth review.	Over Q3 2024, the fund made a return of -0.26%, and this underperformed the benchmark return of +0.24%. The one-year return was +19.44%, positive in absolute terms but behind the benchmark by -1.06%. The three-year return underperformed the benchmark by -7.17% p.a. and by -2.25% over five years.	As at end September 2024 the sub-fund's value was £1,438 million. London Borough of Islington owns 13.67% of the sub-fund.

M&G Alpha Opportunities Fund	Not reported by the manager.	The Fund made a return of +2.11% over Q3 2024, outperforming the target return by +0.04%. Over three years, the fund returned +5.73% which was behind the target return by -1.06% p.a.	The fund size was £5.58 billion as at end September. London Borough of Islington's investment amounts to 1.61% of the fund.
Standard Life (corporate bonds)	There were 11 joiners and 15 leavers during the quarter. There were four leavers from the fixed income group, including an Investment Director, two Investment Managers and an Investment Analyst.	The portfolio underperformed the benchmark return during the quarter by -0.11%, delivering an absolute return of +2.17%. Over three years, the fund was ahead of the benchmark return (by +0.09% p.a.) but behind the performance target of +0.80% p.a. Over five years the fund was +0.2% p.a. ahead of benchmark.	As at end September the fund's value was £2,026 million, up from £1,975 million as at end June. London Borough of Islington's holding of £74.7m stood at 3.7% of the total fund value.
Aviva (UK Property)	There were no joiners or leavers during the quarter.	The fund underperformed against the gilt benchmark by -2.36% for the quarter to September 2024 but outperformed the benchmark over three years by +6.46% p.a., delivering a return of -3.08% p.a., net of fees.	The fund was valued at £2.54 billion as at end Q3 2024. London Borough of Islington owns 7.1% of the fund.

Columbia Threadneedle	There were some real estate departures, but none relating to the TPEN Property team.	The fund underperformed the benchmark in Q3 2024, with a quarterly return of +1.27% compared with +1.34% for the benchmark. Over three years, the fund is outperforming the benchmark by +0.72% p.a.	Pooled fund has assets of £1.38 billion. London Borough of Islington owns 9.0% of the fund. This compares with 2018 when the pension fund owned just 4% of the fund.
Franklin Templeton (global property)	There were no changes to the investment team in Q3 2024.	The portfolio return over three years was -5.18% p.a., and so behind the target of 10% p.a. Over 5 years the fund is behind the benchmark by -13.60% p.a.	£1,640 billion of assets under management for the Franklin Templeton Group as at end May 2024 (most recent data available).
Hearthstone (UK residential property)	Not reported.	The fund underperformed the IPD UK All Property Index by -2.38% p.a. for the three years to end September 2024 although is now being redeemed.	Fund was valued at £59.7m at end Q3 2024. London Borough of Islington owns 39.5% of the fund which is now in a redemption process.
Quinbrook (renewable energy infrastructure)	The Global Head of Sustainability and Impact Investment left Quinbrook during Q3 2024 and is going to be replaced by Hilkka Komulainen	For the three years to Q3 2024 the fund returned +9.23% 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 -4.83% p.a. over three years, and -1.60% p.a. over five years, behind the benchmark. The infrastructure fund returned +11.33% p.a. over three years to end September relative to the target of 10% p.a.	$68bn of assets under management as at June 2024 (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 -3.26%, delivering a return of +1.77%.	$50bn of committed capital for parent Nuveen as at 31 March 2024 (latest figures available)
Crescent (Credit Solutions Fund)	Not reported.	The fund returned +3.07% for the year to September 2024, underperforming the target return of +10%.	$40 billion of assets under management as at March 2024. (latest figures available)
Permira	Not reported.	The fund returned +10.40% over 1 year, ahead of the target return of +6.0%	€80 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 FTSE-RAFI Emerging Markets Reduced Carbon Pathway fund, the MSCI World Low Carbon Target index fund, and the ESG Paris Aligned World Equity Fund were all within the expected ranges, when compared with their respective benchmarks, in Q3 2024.

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 World index funds tracked their respective benchmarks as expected, as shown in Table 2. The wider MSCI World Index returned +4.84%, compared with +0.78% for the MSCI World Low Carbon Index and -0.30% for the Solactive Paris Aligned World Index.

TABLE 2:

	Q3 2024 Fund	Q3 2024 Index	Tracking
FTSE – RAFI Emerging Markets	+4.94%	+4.84%	-0.10%
MSCI World Low Carbon Target	+0.76%	+0.78%	-0.02%
ESG Paris Aligned World Equity Fund	-0.22%	-0.30%	+0.09%

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 49.60% to the MSCI World Low Carbon Target index fund, 41.54% to the ESG Paris Aligned World Equity Fund, and 8.86% 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 +2.26% in Q3 2024, and in relative terms it outperformed the RPI + 5% target by +0.70% (as reported in the BNY performance report) but underperformed the cash + 4.5% target by -0.24% (this being the manager's preferred target since March 2022). Over three years, the fund is behind the RPI + 5% target return by -11.73% p.a. and behind the manager's own target by -7.94% 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 +2.36% in Q3 2024 while global equities (MSCI All Country World Index hedged to sterling) made a return of +4.8%. Over three years, the DGF delivered a return of +1.26% p.a.

In Q3 2024, equity positions contributed +1.3% to the total return, alternatives contributed +0.9%, cash and Credit and Government Debt contributed +1.8%, while Cash and Currency detracted -1.4% (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 6.7% compared to the three-year volatility of 14.9% in global equities (i.e., 45.0% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 83.9% in internally managed funds (down 3.2% from last quarter), 0% in active bespoke solutions (same as last quarter), 0.7% in externally managed funds (down 0.1% from last quarter), and 12.5% in passive funds (up 5% from last quarter) with a residual balance in cash, 2.9% (down 1.7% from last quarter), as at end September 2024. In terms of asset class exposure, 51.2% was in equities, 19.9% was in alternatives, 26.0% 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.

The baseline forecast from the Manager predicts a soft landing for the global economy, highlighting solid growth and steady disinflation, which supports a positive outlook for equities while adopting a neutral stance on government bonds. At the time of writing, the looming US election and hostilities in the Middle East were creating further market volatility.

As at end Q3 2024, Schroders reported that the carbon intensity of the fund (scopes 1, 2 and 3) was 80.1% of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 74% of the portfolio (compared with 94% for the comparator).

Organisation: There were no team changes during the quarter.

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

Headline Comments: The portfolio made a return of +5.49% in Q3 2024, compared with the benchmark return of +2.61%, an outperformance of +2.88%. Over one year the fund is behind the benchmark by -2.22%, and over three years it is trailing by -2.56% per annum.

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 Russia contributed positively to performance (+4.45%), though overexposure to Ireland detracted from performance (-0.42%).

During the quarter, the largest positive contributors to the quarterly relative return came from Moscow Exchange Micex-Rts (+4.52%), Samsung Electronics Co (+1.07%), and Yum China Holdings (+0.84%). Companies which detracted most from performance included Wizz Air Holdings (-1.94%), Tencent Music Entertainment (-1.57%), and Alibaba Group Holding (-0.89%). *(Return contributions in US dollar terms).*

It is worth noting that the Managers only Russian Holding, Moscow Exchange Micex-Rts, was sold during the quarter, and hence while positively contributing to performance, is not present in the quarter end allocation.

Portfolio Risk: Within the emerging markets portfolio there is a 11.6% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio was China/HK (+9.5% overweight). The most underweight country allocation was India (-8.6%). The manager also held 19.9% of the portfolio in developed countries, compared with the benchmark which had just 1.2% in Hong Kong, 1.1% in Ireland, and 0.3% in United States.

Portfolio Characteristics: The largest absolute stock positions were Taiwan Semiconductor Manufacturing Co Ltd at 6.7% and Tencent Music Entertainment Group at 5.2% of the portfolio, while the largest absolute country position was China/HK and accounted for 36.00% of the portfolio.

Staff Turnover/Organisation: Not reported by Polen.

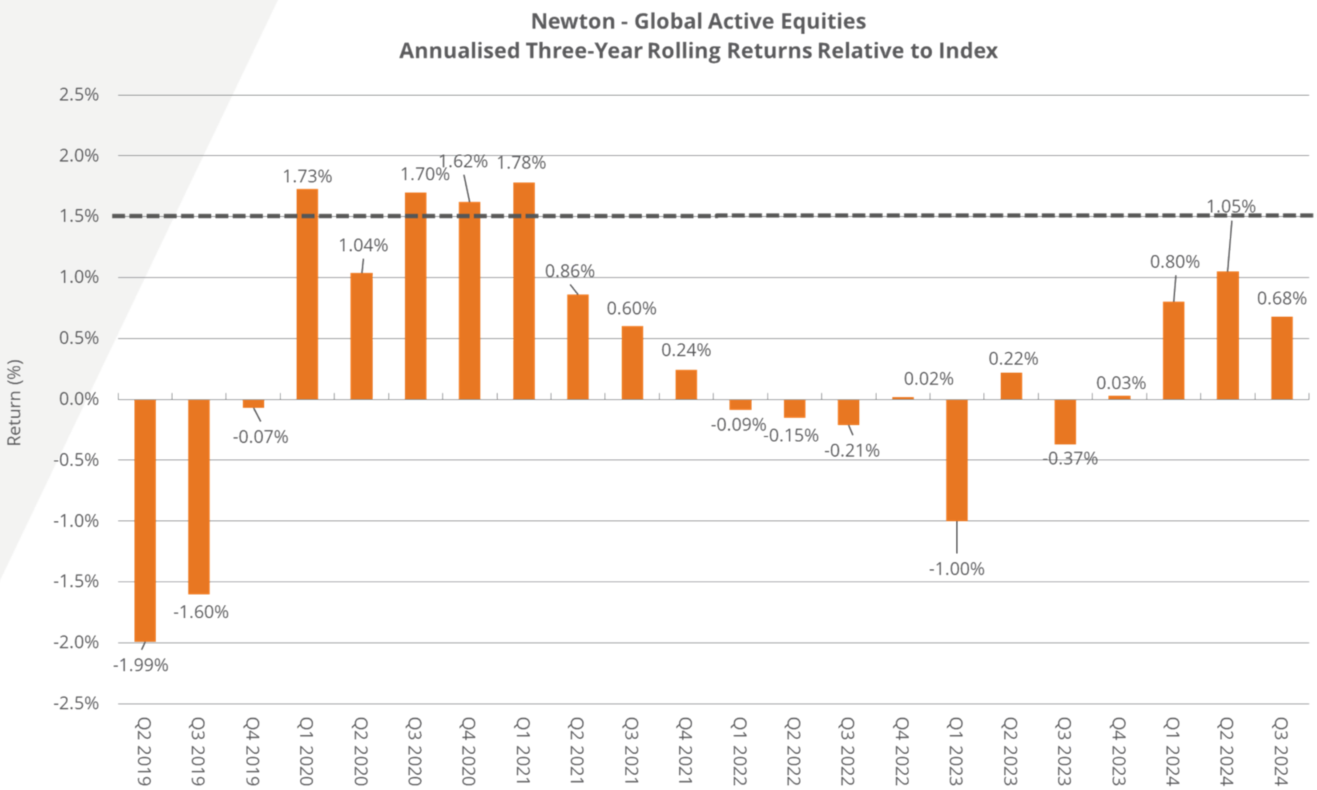
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q3 2024 by -0.27%. Over three years the portfolio outperformed the benchmark by +0.68% p.a. Over five years the manager is ahead of the benchmark return by +0.74% 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 fund was outperforming the benchmark over three years by +0.68% p.a. to end Q3 2024, and as such is underperforming the performance objective by -0.82% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as GE Vernova LLC (+0.59%), AIA Group (+0.31%), and Progressive Corp (+0.25%). Negative contributions came from positioning in Microsoft (-0.67%), Novo Nordisk (-0.52%), and Alphabet Inc (-0.49%).

In its peer group analysis, the London CIV reported that Newton is now delivering returns above the median over 3 years and 5-years, as well as over the longer time horizons (seven and ten years). Over the past three years the risk has been low relative to peers and the benchmark.

Portfolio Risk: The active risk on the portfolio stood at 3.02% as at quarter end, slightly higher than as at end June when it stood at 2.97%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.93 (if the market falls by -10% the portfolio can be expected to fall -9.3%).

At the end of Q3 2024, the London CIV sub-fund's assets under management were £620.7m, compared with £619.9m last quarter. London Borough of Islington now owns 49.36% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 55 as at quarter-end (down 4 from last quarter). The fund added three positions and made five sales.

The portfolio continues to be heavily weighted to Technology (an allocation of 20.7%), but the portfolio is underweight (-3.8%) compared to the benchmark and continues to reduce exposure quarter on quarter. The Manager has actively adjusted the portfolio to maintain balanced exposure to company performance drivers. While optimistic about high-profile companies, there are concerns about overly-ambitious expectations, prompting the trimming of favoured positions.

This ties in with Newton's new 'brand proposition' in which their intention is to focus more on the future than relying on what has worked well in the past. This is a response to the increased complexity in the world today.

Industrials is the second largest allocation (17.5%) and is overweight against the benchmark (+6.9%).

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

In Q3 2024, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 57% that of the benchmark index (the MSCI World Index). The highest contributor was CRH (21.35% contribution to the weighted average carbon intensity) followed by Linde plc (13.58% contribution).

The Manager has a generally cautious view about companies in the oil and gas sector and, therefore, been underweight in the sector for at least the last 10 years.

During Q3 2023, London CIV had announced that the Global Equity Fund has been downgraded to "Enhanced Monitoring" following the departure of the lead portfolio Manager. This was confirmed in February 2024, but with a positive outlook. LCIV is currently undertaking an in-depth review of the sub fund and will update investors in Q4 2024.

Staff Turnover: No staff changes reported by London CIV.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q3 2024 the fund made a return of -0.26%. This underperformed the benchmark return by -0.50%. The one-year return was +19.44%, positive in absolute terms but behind the benchmark by -1.06%. The three-year underperformance was -7.17% p.a. against the benchmark. Islington's investment makes up 13.67% of the total London CIV sub-fund.

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

Performance Attribution: The fund underperformed the benchmark in Q3 2024 and made a loss in absolute terms. The portfolio had overweight allocations to the Consumer Staples, Materials, Consumer Discretionary, and Health Care sectors. Over the quarter the largest contributors to return included HCA Healthcare (+0.71), AIA group (+0.56%), and UnitedHealth Group (+0.50%). The largest detractors include positioning in Novo Nordisk (-0.81%), Microsoft (-0.79%), and Amazon (-0.60%).

The London CIV compares managers against their peer group and reported that RBC is performing well over the long term (7 to 10 years). However, medium term (3 years to 5 years) has been poor, with the account ranking in the bottom two quartiles. There has been an improvement, however and for the year to date and 1-year performance, the return is in the first/second quartile. Absolute risk and maximum drawdown are higher than the median.

Portfolio Characteristics: As at end of September 2024 the fund had 38 holdings (1 down from last quarter) across 12 countries. The active risk of the fund was 3.76%, slightly higher than Newton the other active global equity manager.

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

The London CIV reported that the RBC sub fund had a weighted average carbon intensity of 92% of the benchmark index (the MSCI World Index) as at end September 2024. This is a decrease of 2% since last quarter, but it is still much higher than 6-months ago, which is a concern given that this is a sustainable mandate. Two holdings contribute to c.40% of the portfolio's carbon intensity: CRH Plc (28.6%) and Intercontinental Hotels (11.2%)

The London CIV performed an in-depth review of this fund in February 2024 and have moved the overall rating for this manager from "normal" to "enhanced monitoring". They downgraded their ratings for resourcing (in light of high junior staff turnover), financial processes, investment processes (loss of confidence in the ability of the team to execute the process effectively) and risk management. LCIV will undertake another deep dive review in November 2024.

Staff turnover: With a 10 year career at RBC Global Asset Management, in the Global Equity team, Marcus Lun is departing to take a career break. Ya (Anne) Xue joined the team nearly three years ago and will be taking over responsibility for leading the team's investment research into the Global Energy and Basic Materials sectors.

M&G – Alpha Opportunities Fund

Headline Comments: During Q3 2024 the M&G Alpha Opportunities Fund made a return of +2.11%, outperforming the benchmark return of +2.07%. Over one year it is outperforming the benchmark (cash plus 3.5%) by +1.65% but is underperforming the benchmark over 3 years by -1.06% p.a.

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 +2.11% compared to the benchmark return (one month SONIA plus 3.5% being used in Northern Trust's performance analysis) of +2.07%. Exposure to industrial corporate bonds was the top contributor (+0.60%), with financial corporate bonds also performing well (+0.29%). Securitised Corporate Bonds marginally detracted from performance over the quarter (-0.03%), but the largest detractor was residual differences due to currency rates and securities pricing (-0.05%). Over one year, the fund is outperforming the target return by +1.65% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to Net cash and derivatives (28%), Financials (22%), and Industrials (18%). 28% of the portfolio was rated BB* or below. During the quarter, the Manager continued to focus on taking profits and directing proceeds toward financial bonds, which continue to remain a source of value compared to other sectors. The Manager is less enthusiastic about national champion European banks, which are trading wide to Industrials.

In terms of outlook, the Manager feels that the credit markets are continuing to perform strongly, with spreads nearing historically tight levels. Inflation will continue to remain a key theme as major central banks are now expected to cut rates on a more regular basis, which are expected to drive bond yields down. The potential for unforeseen financial or geopolitical events still remain and the Manager is cautious of bond market volatility and even a sharp turn in monetary policy.

As at end September, the weighted average carbon intensity (WACI) of the portfolio was 29% of the WACI of a benchmark index, with 66% of the portfolio being measured where data was available (compared with 87% coverage for the benchmark).

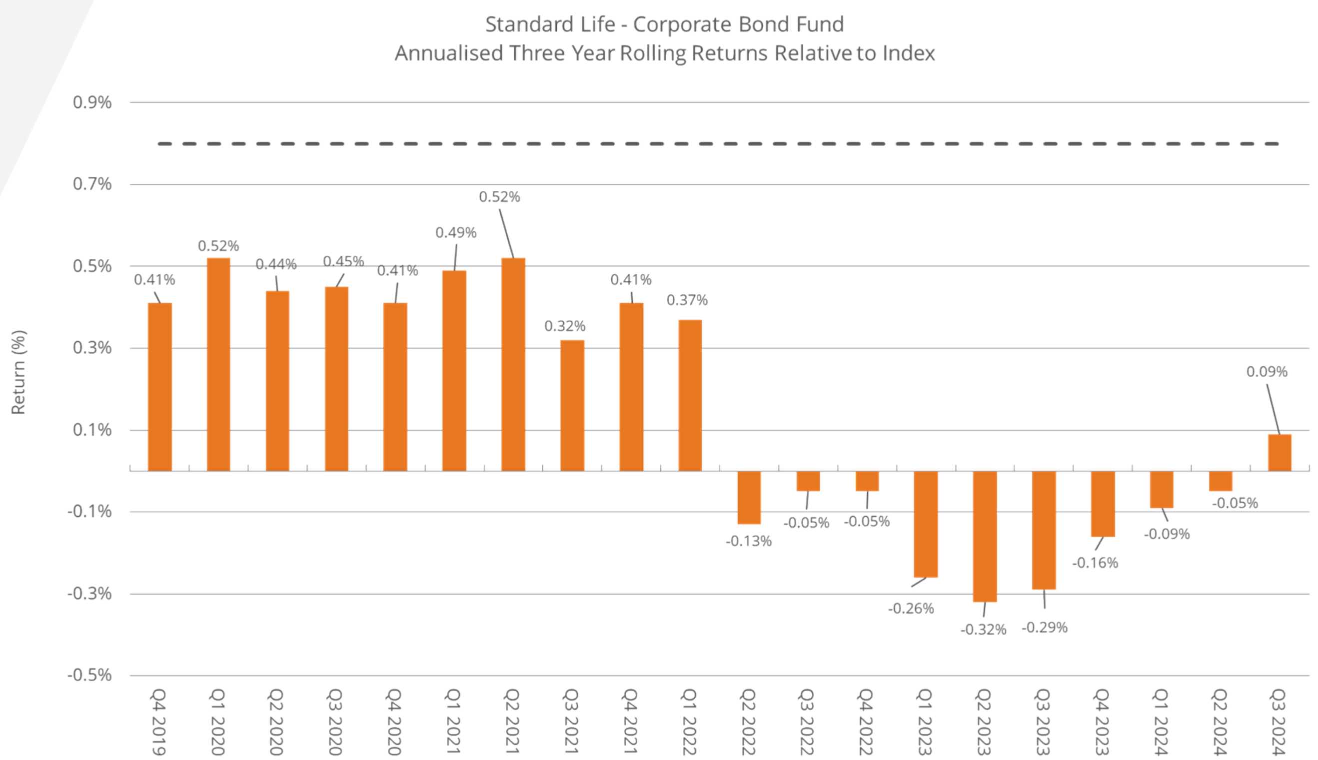
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio underperformed the benchmark return during the quarter by -0.11% and made an absolute return of +2.17%. Over three years, the fund was ahead of the benchmark return (by +0.09% p.a.) for the first time in ten quarters, but is still 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 ahead of the benchmark over three years but is 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 -2.78% p.a. net of fees, compared to the benchmark return of -2.87% p.a.

Portfolio Risk: The largest holding in the portfolio at quarter-end was in UK Gilts, at 6.3% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end September 2024 stood at £2,026 million. London Borough of Islington's holding of £74.7m stood at 3.7% of the total fund value. This allocation is being gradually drawn down to fund the infrastructure investments.

Staff Turnover: There were 11 joiners and 15 leavers during the quarter. There were four leavers from the fixed income group, including an Investment Director, two Investment Managers, and an Investment Analyst.

Aviva Investors – Property – Lime Property Fund

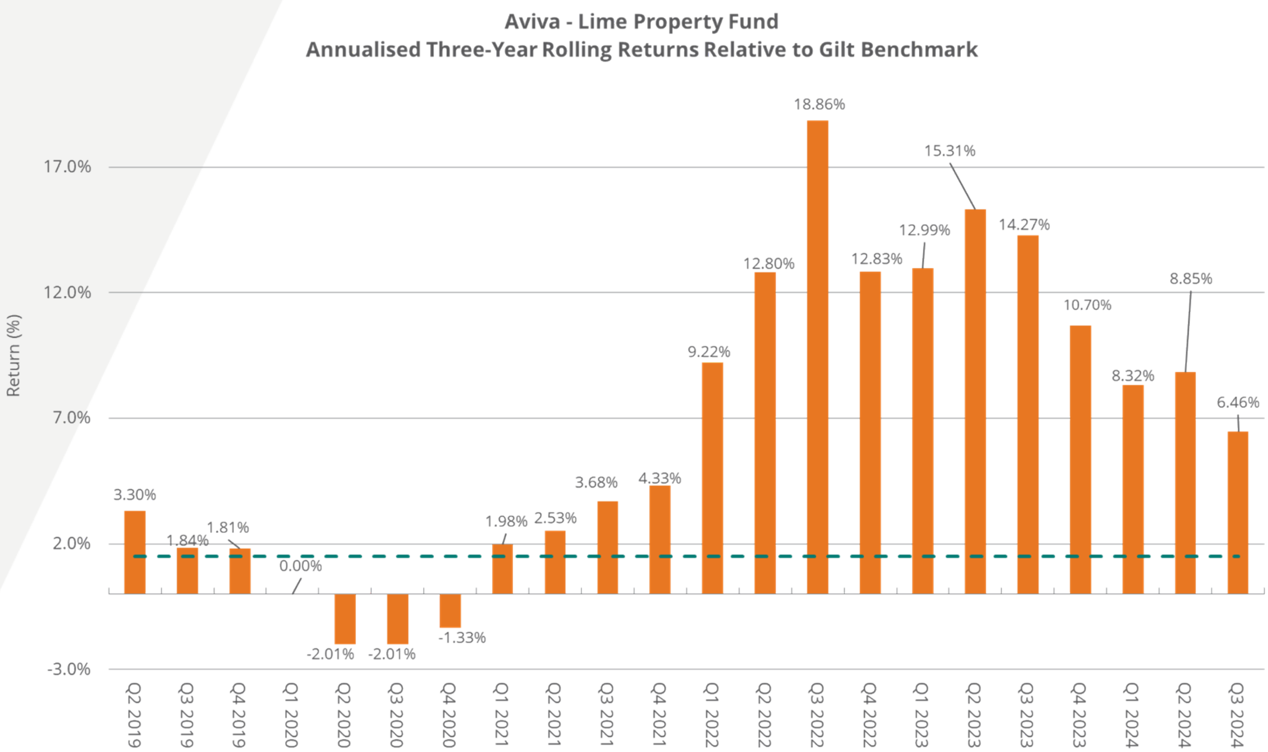
Headline Comments: The Lime Fund made a return of +0.28%. It underperformed the benchmark return by -2.36% in Q3. Over three years, the fund is ahead of the benchmark return by +6.46% p.a., albeit delivering a negative absolute return of -3.08%. Over one-year the fund has underperformed by -7.59%. It is ahead of the benchmark since inception in October 2004, by +1.47% 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 Q2 2024 return was attributed by Aviva to -0.81% capital return and +1.03% income return.

Over three years, the fund has returned -3.08% p.a., ahead of the gilt benchmark of -9.54% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 3.

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.

This quarter, the Manager completed on a sale of £6.9 million on a Premier Inn hotel, and a sale of £7.6 million on a car showroom. The Fund's annual redemption window closed on 30th June, 2024, with the number of units investors wishing to redeem exceeding expectations. The Manager is on track to pay out the remaining £70 million of 2023 redemptions in November and will update investors during Q4 2024 on the payment of the 2024 redemptions, which it plans to complete during 2025.

The average unexpired lease term was 20.15 years as at end September 2024. 8.57% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 22.97% (proportion of current rent), and the number of assets in the portfolio is 72. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at September 2024, the Lime Fund had £2.54 billion of assets under management, a decrease of -£20 million from the previous quarter end. London Borough of Islington's investment represents 7.1% of the total fund.

Staff Turnover/Organisation: There were no joiners or leavers during Q3 2024.

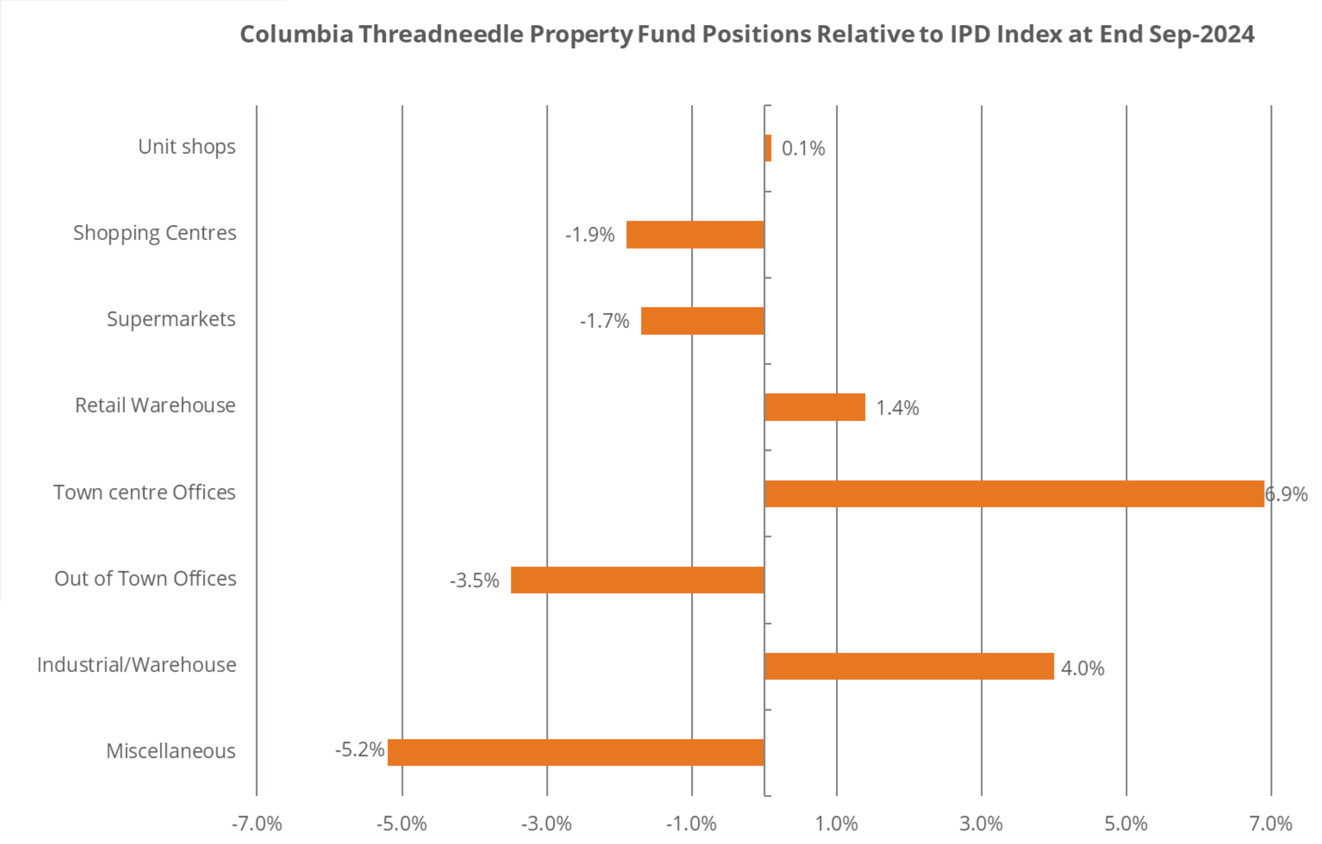
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund delivered a positive absolute return but underperformed the benchmark in Q3 2024, with a quarterly return of +1.27% compared to the benchmark return of +1.34%. Over three years, the fund outperformed the benchmark by +0.72% p.a.

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 five sales. The cash balance at end September was 2.2%, compared with an average cash allocation of 5.8% 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.

The Manager believes that the market has reached a turning point, with inflation trending down and property prices stabilising for the most part. The Manager expects the portfolio to achieve positive long-term total returns through active property asset management, with high conviction in sectors like industrials and retail warehousing, which benefit from strong demand and sustainable rental income.

Performance Attribution: The fund underperformed the benchmark in Q3 2024, with a quarterly return of +1.27% compared to +1.34% (source: BNY Performance report). This was split between income return (+1.0%) and capital return (+0.2%) (source: Columbia Threadneedle). The fund's holdings in retail assets and offices outperformed the benchmark during the quarter. Over 1-year the fund outperformed the benchmark by +0.66%. The fund is now outperforming the benchmark over three years by +0.72% p.a.

Portfolio Characteristics: As at end September 2024, the fund was valued at £1.38bn, £90m lower than the fund's value in June 2024. London Borough of Islington's investment represented 8.98% of the fund.

Staff Turnover: During the quarter there were 8 new joiners and 20 leavers. One leaver and one joiner relate to the property team, but none related specifically to the TPEN fund in which London Borough of Islington invests.

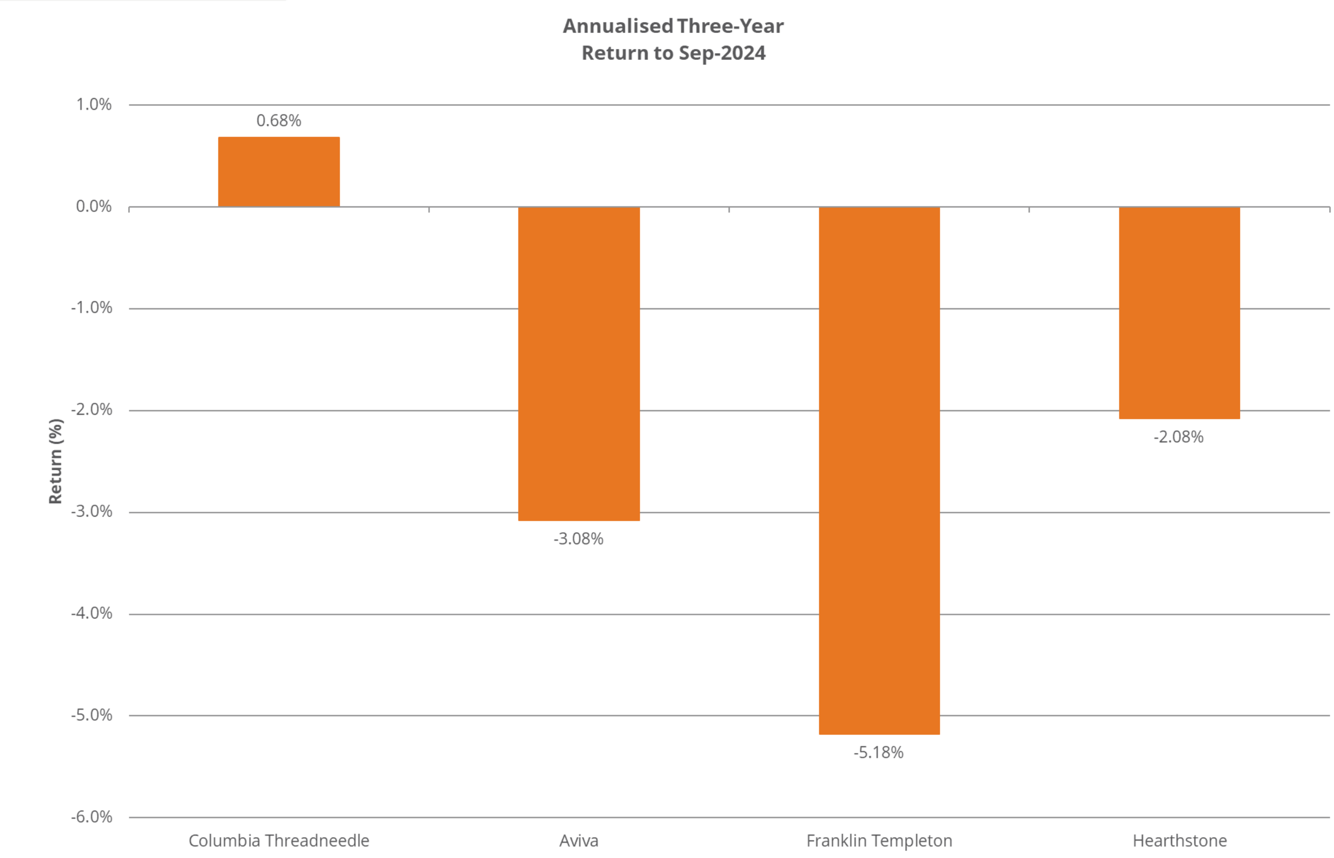
Franklin Templeton – Global Property Fund

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 -15.18% 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: With the poor relative performance, over the three years to September 2024, Franklin Templeton ranks the lowest 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 final portfolio was comprised of a total of 14 investments. 12 of these ae fully realized and liquidated. 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 original target return, to date.

The last two investments remaining in Fund I are in the US (79% of funds invested), and Europe (21%). FCPII, in the US, has one property remaining, with the other 41 investments having been realised and distributions exceed 180% of equity investments. GO Spain also has one property remaining, which has sold all of their real estate assets but is awaiting a decision on a tax appeal before it can be fully realised.

Fund III is invested mainly in the residential and retail sectors. The portfolio consists of twelve investments, two of the original twelve having already being closed, and two further investments having been realised in Q3. These two investments consist of a luxury condominium complex in Florida and an industrial development deal of two to-be-completed industrial buildings in Texas. There was no change to the total distributions made over the period. The portfolio is allocated 46% to Europe and 54% to the US.

The report for Fund II was not available at the time of going to print.

Staff Turnover/Organisation: No changes to the investment team during Q3 2024.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark over three years by -2.39% p.a. A phased redemption of this fund was negotiated with the manager during Q2 2023.

As at end September, the fund had completed on 32 property sales for a total of £9.2m since its termination began in December, had agreed sales on 79 for a total of £21.8m, and had a further 52 on the market for a total asking price of £14.5m. The Manager anticipates that the rate of completed sales should increase over the fourth quarter. Three capital distributions have been paid since the termination process began:

- £5.7 m on 12th December 2023 of which Islington received £2.3m
- £3m on the 31st May 2024 of which Islington received £1.2m
- £3m on the 30th September 2024 of which Islington received £1.2m

The Manager confirmed that further capital distributions will be made on the same payment dates as income distributions (end of February, May, October, and November) provided the fund holds at least 5% cash. The next capital distribution is currently expected at the end of November and is forecast to be approximately £3m in total of which Islington will receive its share of c. £1.1m.

Income distributions are expected to be nil from now on due to the low number of occupied properties and the associated void costs whilst properties are empty until sold.

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: According to the BNY performance report, the fund returned -2.08% for the three years to September 2024. The manager's internal calculation puts the return at +2.07%. They say that BNY's performance figures are still missing the fund's capital distributions hence their 12-month and 3-year performance figures are understated. This is despite them contacting BNY about the issue.

Portfolio Risk: The cash and liquid instruments on the fund stood at 3.56%, which is 3.07% higher than at the end of June 2024.

Portfolio Characteristics: By number, the fund has an 5% allocation to detached houses, 38% allocated to flats, 30% in terraced accommodation and 27% in semi-detached.

As at end June there were 188 properties in the portfolio and the fund stood at £59.7 million. London Borough of Islington's investment represents 39.5% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: no updates this quarter.

Quinbrook – Low Carbon Power Fund and Net Zero Power Fund

Headline Comments: Performance for the three years to September 2024 for the fund was +9.32% p.a. and therefore was behind the target of 12% p.a. by -2.68% 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: at the time of going to print, the manager report had not been received.

Organisation: During the Quarter, Quinbrook had one leaver and one joiner. The leaver, Anne Foster, held the position of Global Head of Sustainability and Impact Investment. After quarter end, the Manager announced that she will be succeeded by Hilkka Komulainen, a highly experienced sustainability professional. The Chief Operating Officer resigned and is completing his tenure in October. A Managing Director in the US team is leaving following an assessment of resourcing needs in that team.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was -4.83% per annum. This compares with a three-year return on listed global equities of +10.88% per annum. The three-year return on the infrastructure fund was +11.40% versus the absolute return target of 10%.

Mandate Summary: As at 30th September 2024, London Borough of Islington have made total commitments of £187.7 million across six Pantheon strategies including two US primary funds, two global secondary funds and two global infrastructure funds.

Portfolio Characteristics: The net internal rate of return (IRR) at 30th September across all strategies was 9.9%, with a net multiple of 1.33x. Over the quarter, there was two distributions, one for PUSA VII Ltd totalling £0.18 million, and one for Pantheon – Islington Pension Fund totalling £4.18 million, and one deemed capital call for PGIF IV with a net impact of £1.12 million.

Overall, the programme's rolled for cash valuation at Q3 2024 was £113.4 million. It is worth noting that when reviewing this in GBP, there was a negative in-period FX movement of c.6% however this does not reflect any uplift in underlying asset values as it based on a rolled for cash valuation.

Permira – Credit Solutions Senior Fund

Headline Comments: The Permira Credit Solutions V ("PCS5") is part of the pension fund's private debt allocation. To end June 2024 (latest data available) the Fund had a total of 24 investments remaining in the portfolio and has realised two investments. No defaults have been reported. The one-year return to end September 2024 stood at 10.40% versus the target absolute return of 6% net of fees.

Churchill – Middle Market Senior Loan Fund

Headline Comments: The fund has achieved a one-year return of +1.77% as to 30 September 2024, underperforming the absolute target return of +5.00% by -3.26%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. The Churchill Middle Market Senior Loan Fund IV is part of the private debt allocation. For Q3, the fund has made 9 new investments totalling £50.17 million ($63.7 m). The portfolio has a weighted average net total leverage of 4.5x.

Crescent – Credit Solutions Fund

Headline Comments: The Crescent Credit Solutions Fund VIII is part of the private debt allocation. The fund achieved a 1-year return of +3.07% as to 30 September 2024, underperforming the target return of +10.0% by -6.93%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. Two new fund investments were closed during the quarter. These contributed towards the invested capital reaching $6.1 billion across 54 portfolio companies as at quarter end. The Manager stated these companies are performing well and the manager expects them to generate strong returns in an attractive rate environment that the Managers expect to continue. No defaults were reported.

Karen Shackleton
Senior Advisor, Apex

15th November 2024

ISLINGTON

For a more equal future

Resources Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 3rd December 2024

Ward(s): n/a

The appendix to the report is exempt and not for publication

SUBJECT: INTERIM FUNDING REVIEW UPDATE

1. Synopsis

1.1 This is an update report on the interim funding review of the Fund since the 2022 triennial actuarial valuation to September 2024. It sets out some key considerations and assumptions, which the Actuary will consider and a snapshot of the whole fund position as at 30 September 2024 (including a sensitivity to illustrate the impact of a change in discount rate) and the next steps for the 2025 Actuarial valuation.

2. Recommendations

2.1 To note the report prepared by the Fund Actuary, Mercer attached as Exempt Appendix1.

2.2 To note the key developments, assumptions and results for the whole Fund and Council as at September 2024

2.3 To note the other considerations that will form part of the March 2025 Triennial valuation.

3. Background

3.1 The last triennial valuation was completed in March 2023 and is undertaken every 3 years to determine the funding position and investment strategy that can support sustainable contributions from employers. The next triennial valuation will take place as at 31 March 2025 (and will be completed by 31 March 2026).

3.2 The actuarial review covers three main elements: processing and validation of data, funding strategy review and assessment of contribution outcomes for employers (including any necessary covenant assessments).

3.3 The period since the 31 March 2022 valuation has seen market volatility, the Russian invasion of Ukraine, higher inflation and resulting higher interest rates as well as conflict in the Middle East. These factors will have had a significant impact on liabilities, and it is prudent for Members to review any risk mitigation factors they may consider relevant.

3.4 The position as at 30 June 2024 was discussed at the September meeting and the results, on a like for like assumptions as the 2022 triennial valuation, showed a fall in the funding position, and making prudent allowance for changes in the expected return outlook (and mortality) resulted in an increase to 99% of the funding position relative to that as at 31 March 2022.

3.5 An 18-month interim valuation has been undertaken by the Actuary at 30 September 2024 attached as exempt appendix1. This is a full reassessment of the expected return outlook / investment strategy changes and stochastic modelling of discount rates (including consideration of the impact on the balance sheet) and updated mortality trends. Ongoing discussions with officers in relation to the underlying funding strategy and affordability will continue through the triennial valuation process.

3.6 **Table1 - Headline position for the whole fund as at September 2024**

	31st of March 2022	**30th September 2024**	
	Final Valuation Position	Valuation- update past discount rate & mortality	Alternative discount rate (0.5% past)
Real discount rate - past	1.55%	2.00%	2.50%
Real discount rate - future	2.00%	2.00%	2.00%
Prudence-past/future	69%/63%	92%/(92%)	89%/92%
Life expectancy	CMI21 1.75%	CMI23 1.75%	CMI23 1.75%
Assets(£m)	1787	1982	1982

Liabilities (£m)	1866	1990	1845
Surplus/Deficit (£m)	-79	-8	137
Funding Level	96%	100%	107%
Primary Contributions	18.4%	18.6%	18.6%

3.7 Mercer will present the economic factors as well as demographics, affordability, political outlook and discount rates and sensitivities around these factors for a discussion to inform the valuation at 31 March 2025.

3.8 Members are asked to note the presentation and results and form a view on discount rates sensitivity and note other considerations such as Academies, covenants and ill-health for the valuation in March.

4. Implications

4.1 Financial implications

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

4.1.2 The funding level of the pension fund assessed as part of a triennial actuarial valuation directly affects employer contributions. A reduced Pension Fund deficit emerging from the 2025 valuation would provide employers with a lower required deficit recovery contribution. Full financial implications to employers will be available once the final valuation is completed.

4.2 Legal Implications

No legal implications.

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 2026 and 2030 to reduce the current and future absolute emissions by 49% and 60% respectively compared to when it was measured in 2016 and also invest 20% of the fund in green opportunities. The link to the full document is Islington Pension Fund Investment Strategy Statement

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

4.4.1 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 the interim valuation results as per attached Exempt Appendix1.

Appendices : Exempt Appendix1- Interim valuation results to September 2024.

Background papers:
None

Final report clearance:

Signed by: Corporate Director of Resources

Date: 25 November 2024

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

Financial implications Author: Joana Marfoh
Legal implications –

ISLINGTON
For a more equal future

Resources Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 3rd December 2024

Ward(s): n/a

The appendix to this report is exempt and not for publication

SUBJECT: INVESTMENT STRATEGY REVIEW UPDATE ON IMPLEMENTATION

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 and recent amendment on impact strategy. The themes taken into consideration included liquidity, risk, inclusive economy 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 and receive a presentation from Mercer on the LCIV natural capital proposition attached as exempt Appendix1.

2.3 Subject to 2.2, agree delegated authority to Corporate Director of Resources to agree terms and conditions for 2% commitment.

2.4 To note that considering the governments' consultation on pooling, Officers are reviewing the LCIV proposition before a recommitment to our existing US Private debt manager Churchill's next vintage Fund V via delegated authority to Corporate Director of Resources.

2.5 To note the termination of our legacy Emerging Markets mandates are now in transition to be able to fund our new manager.

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

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'23 meeting and an action plan to implement the strategy. Following a further review of impact investing a Strawman 3a strategy was agreed in July '24 with an allocation to natural capital and impact.

3.1.3 Members received a further progress report in September 2024 and agreed the following:
(i) to conduct due diligence on a short list of 3 prospective impact managers, and be able to invest 50% of our current asset allocation.
(ii) delegated authority to Corporate Director of Resources to recommit to existing US private debt manager, Churchill
(iii) commence a procurement process for a European private debt manager, including having regard to the LCIV Private Credit mandate
(iv) to review LCIV natural capital proposition to invest if it meets our investment objectives

3.1.4 The table 1- below shows the agreed New Strawman 3a allocation, actual allocation of assets as at July'23 and progress made to Sept'24
.

3.1.5

	Current Strawman 3a	Actual Allocation As at July'23	Actual Allocation As at Sept'24
Equity	**45**	56	54.6
Alternatives	**27.5(3% to Impact)**	16.6	17.0
Property	**20**	15.6	17.4
Liquid Fixed income	**7.5**	4.5	4.5
DGF/Corporate bonds/cash	**0**	7.3	6.5
Expected return	**CPI+5.12%**		
Downside risk	**680m**		

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	Complete onboarding and transition legacy portfolios	Officers/ investment managers
Impact	Short list agreed and due diligence commissioned	Apex/Officers
Private Debt	On boarding process commenced on Churchill V and agree to procure a European manager	Members/Advisors /officers

3.2 **Update September'24 to November'24**

3.2.1 **Emerging market -new mandate**
On boarding process is in progress and being reviewed by the custodian and transition of legacy portfolios has been instructed. The new mandate should be in place by December.

3.2.2 **Impact investment**
The fund agreed a 5% allocation to impact investment. Mercer (our advisors) presented a training session on our required returns and risk from this allocation, what impacts means, how to measure and monitor and types of investments in the market. A briefing prepared by Karen Shackleton scoping current investment managers that have some element of inclusive economy approach and biotech/life sciences was presented at the March meeting.

3.2.3 At the September meeting, members received a more in-depth briefing covering a bit more research on some selected funds that meet the committee's themes:

- Inclusive economy/supporting UK SMEs
- Regional UK (London/South East)
- Biotech/life sciences focus

Members agreed a short list of managers for 50% of the 3% strategic allocation taking into consideration risk, return, diversity and investment viability; for officers and advisors to conduct due diligences(DD). The DD has now been commissioned but due to the nature of these investments more time is required to finalise and report back the results.

3.2.4 Members are asked to note the progress and receive the full results in next committee meeting.

3.2.5 **Private Debt Gap Analysis**
The analysis conducted by Mercer and discussed showed a projected gap of around £120m over the next 3 years. Members agreed to deploy this capital, either via the Fund's existing manager(s) or by new commitments. Mercer agreed the strategy remains the same. At the September meeting Members agreed delegated authority to officers with consultation with advisors to make the required commitment to cover the projected gap of around £120m.

3.2.6 Officers and advisors have reviewed the LCIV private debt II proposition of 4 managers and taking into account value for money, complexity and best fit with our current portfolio of private debt managers, have agreed to recommit to our existing US core manager Churchill and review the LCIV proposition for a European manager.

3.2.7 The Onboarding process for Churchill Fund V was due to commence but considering the governments' consultation will review options and report on progress to the March meeting.

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 2026 and 2030 to reduce the current and future absolute emissions by 49% and 60% respectively compared to when it was measured in 2016 and also invest 20% of the fund in green opportunities. The link to the full document is Islington Pension Fund Investment Strategy Statement

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, and agree the recommendations 2.1 to 2.6 to continue to implement the agreed strategy allocation

Appendices: Exempt Appendix 1- Mercer presentation on Natural Capital.

Background papers:
None

Final report clearance:

Signed by: Corporate Director of Resources

Date: 25 November 2024

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

Financial implications Author: Joana Marfoh

Legal Implications Author: Sonal Mistry
Tel:
Email:

ISLINGTON

For a more equal future

Resources Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 3rd December 2024

Ward(s): n/a

SUBJECT: Local Government Pension Scheme (England and Wales): Fit for the future consultation

1. Synopsis

1.1 This report highlights the recently released consultation for the future of the local government pensions scheme (LGPS) and what it means for the London Borough of Islington Pension fund. The Chancellor of the Exchequer has appeared to signal a step change in the pooling of assets for LGPS towards 100% pooling by March 2026.

2. Recommendation

2.1 To note the report.

3. Consultation

3.1 The last pooling consultation by the previous government concluded on 3rd October 2023, with little formal progress made since then in terms of a direction of travel. Since the new government has come to power, there has been increasing rhetoric from the Chancellor involving consolidation of the LGPS and encouraging them to invest in UK assets.

3.2 The direction of travel is now becoming more clear, with the Chancellor's Mansion House speech setting out accelerated pooling of investment assets for LGPS funds, with the formulation of eight "mega pools" of £80bn each by 2030.

3.4 **Asset Pooling**

- **Full Delegation:** Administering Authorities (AAs) to fully delegate investment strategy implementation to pools in full (including active vs passive investing, geographical split etc). Fund's will be expected to use a simple template to tell the pool what their strategic asset allocation is (example shown Table 2).
- **Principal Advice:** AAs to take principal investment advice from pools. This looks to be the governments way to reduce spend on external investment consultants.
- **FCA Regulation:** Pools to be established as FCA-authorised investment management companies. This places question marks of some of the pools that are not FCA regulated given the time frame to get to this position is challenging.
- **Legacy Assets:** AAs to transfer legacy assets to pool management. The proposal is for all assets (including illiquid assets) to be transferred under pool management by March 2026.
- **Fund Responsibility:** The Fund will have limited involvement in investment strategy, but will still lead on RI policy. Figure 1 below shows how the responsibilities are drawn.

Figure 1: The roles and responsibilities of the Administering Authority versus the pool

	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
	Strategic asset allocation		Decide (optional)	Advise/ Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Implementation	Tactical asset allocation		Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
	Investment manager selection		Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
	Stock selection		Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
	Investment stewardship		Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
	Cashflow management	Low	Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary

Table 2: template for strategic asset allocation

Asset class	Strategic asset allocation (%)	Tolerance range (±%)
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		
Other alternatives		
Credit (i)		
UK Government bonds		
Cash (ii)		

3.5 **Local investment**

- **Investment Strategy**: AAs to include local investment objectives in their strategies.
- **Collaboration:** AAs to work with local authorities and combined authorities to identify investment opportunities.
- **Due Diligence:** Pools to develop capabilities for due diligence on local investments. The asset pools should deliver the local investments of its partner funds.
- **Reporting:** AAs to report annually on local investments and their impacts.

3.6 **Governance of funds and pools**

- **Governance and Training Strategy:** AAs to prepare and publish a strategy, including a conflicts of interest policy.
- **Senior LGPS Officer:** AAs to appoint a senior officer responsible for fund management.
- **Administration Strategy:** AAs to prepare and publish an administration strategy.
- **Independent Governance Review:** Biennial reviews to ensure compliance with governance standards.
- **Knowledge and Skills:** Pension committee members to have appropriate knowledge and understanding.
- **Independent Adviser:** Consideration of appointing an independent adviser to pension committees.

3.7 The London Borough of Islington Pension Fund has recently undertaken a governance review in 2023 and has already got plans in place to implement all the governance requirements, or, has indeed already implemented them. As such the fund is in a much better position to manage these requirements than others.

3.8 As a result of the consultation above it is clear to officers that manager selection as an activity is effectively over for partner funds and all such activity should be taken through the pool. This has resulted in some changes to the investment strategy implementation paper that was previously agreed in September, as officers will now place on hold manager selections for European private debt and impact investment mandates.

3.9 Given that the London CIV does not currently have any impact investment / private equity allocations, officers will contact them to set up how they may work with us to get this implemented as soon as possible.

4. Implications

4.1 Financial implications

4.1.1 Investment costs are charged to the Pension Fund.

4.2 Legal Implications

4.2.1 Any changes to the Local Government Penson Scheme regulations would require primary legislation.

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 2026 and 2030 to reduce the current and future absolute emissions by 49% and 60% respectively compared to when it was measured in 2016 and also invest 20% of the fund in green opportunities. The link to the full document is Islington Pension Fund Investment Strategy Statement

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

4.4.1 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 the report.

Appendices - none

Background papers:
None

Final report clearance:

Signed by:	Corporate Director of Resources
Date: 25 November 2024	

Report Author: Matthew Hopson
Tel:
Email: Matthew.hopson@islington.gov.uk

Financial implications Author: Joana Marfoh
Legal implications –

This page is intentionally left blank

ISLINGTON
For a more equal future

Resources Department
222 Upper Street,
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date 3rd December 2024

Ward(s): n/a

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 encouraged to log any training so it can be recorded in skills and knowledge assessments.

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

The legal implications are as set out in the body of the 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 Pensions Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2026 and 2030 to reduce the current and future absolute emissions by 49% and 60% respectively compared to when it was measured in 2016 and also invest 20% of the fund in green opportunities. The link to the full document is Islington Pension Fund Investment Strategy Statement

4.4 Equalities Impact Assessment

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding
An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

5. Conclusion and reasons for recommendation

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

Appendix A- Proposed work program for annual committee cycle

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date 25 November 2024

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

Financial implications Author: Joana Marfoh

Legal implications author – Sonal Mistry

APPENDIX A

Pensions Committee Forward Plan December 2024 to November 2025

Date of meeting	Reports Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update • CIV update report
3rd December 2024	Investment consultancy review Interim Funding Review to September 2024 Investment strategy implementation update Passive equity portfolio restructuring
10th March 2025	Training review TPR general code Investment strategy implementation update
30th June 2025	Carbon monitoring progress report Annual Admin performance report and risk register
September 2025	4 year Business Plan review Annual Report
September 2025	Annual General meeting
November	Draft FSS for consultation Draft ISS for review

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
July 2024	Shareholder voting guidance training TPR General single code training

ISLINGTON

For a more equal future

Resources Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 3rd December 2024

Ward(s): n/a

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

Subject: 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 August to October 2024

2. Recommendation

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

3. Background

3.1 **Setting up of the London CIV Fund**
Islington is one of 33 London local authorities who have become active participants in the London CIV programme. The London CIV has been constructed as a FCA regulated UK

Authorised Contractual Scheme (ACS). The ACS is composed of two parts: the Operator and the Fund.

3.2 A limited liability company (London LGPS CIV Ltd) has been established, with each participating borough holding a nominal £1 share. The company registered address is 4th Floor, 22 Lavington Street, London, SE1 0NZ. A branding exercise has taken place and the decision was taken to brand the company as 'London CIV.' The London CIV received its ACS authorisation in November 2015.

3.3 **Launching of the CIV**

It was noted that a pragmatic starting point was to analyse which Investment Managers (IM) boroughs were currently invested through, to look for commonality (i.e. more than one borough invested with the same IM in a largely similar mandate), and to discuss with boroughs and IMs which of these 'common' mandates would be most appropriate to transition to the ACS fund for launch. Each mandate would become a separate, ring-fenced, sub-fund within the overall ACS fund. Boroughs would be able to move from one sub-fund to another relatively easily, but ring-fencing would prevent cross contamination between sub-funds.

3.3.1 Further discussions were held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers were identified as offering potential opportunities for the launch of the London CIV. These managers would provide the London CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds consisted of 6 'passive' equity sub-funds covering £4.2bn of assets, 2 Active Global Equity mandates covering £1.6bn and 1 Diversified Growth (or multi-asset) Fund covering just over £300m. Those boroughs that did not have an exact match across for launch were able to invest in these sub-funds from the outset at the reduced AMC rate that the London CIV has negotiated with managers.

3.4 The Phase 1 launch was with Allianz our then global equity manager and Ealing and Wandsworth are the 2 other boroughs who held a similar mandate. The benefits of transfer included a reduction in basic fees and possible tax benefits because of the vehicle used. Members agreed to transfer our Allianz portfolio in Phase 1 launch that went ahead on 2 December. This manager was terminated in July 2019.

3.5 **Update to October 2024**

3.5.1 **The Business Update**

The full presentation on 24th October is attached as exempt appendix 1 and some of the highlights are listed below:

(i) **Fund monitoring and performance**

The EM equity fund has been downgraded because of poor stock selection and evidence of weakness in research function and in execution of process. Action is intensify monitoring and look to strength sub-fund with a complementary manager

(ii) In Q4, Global Equity, Global Equity Quality, PEPPA, Buy & Maintain Credit, RRF are scheduled for monitoring

3.5.2 **Fund Launches and Pipeline**

(i) The private debt II fund was launched and the final seed investor group meeting was held on 6th November. The proposed fund structure will be closed ended multi manager structure. Four managers were selected and the first close is scheduled for December 2024.

(ii) Nature-based Solutions
Three managers for initial portfolio approved by EIC and Exco. The final seed investor group met on 4th November and the fund has now been launched with the first close scheduled for December 2024.

(iii) A proposition is being considered for a private equity fund in the near future.

(iv) A global value equity fund and all Maturities Buy & Maintain Credit Fund were all launched in October.

3.5.4 **People**

A new chief implementation officer, and client relationship manager have been appointed, whilst the client relationship director and chief financial officer have decided to step down.

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

A total of £75,000 was contributed by each London Borough, including Islington, towards the setting up and receiving FCA authorisation to operate between 2013 to 2015. All participating boroughs also agreed to pay £150,000 to London CIV to subscribe for 150,000 non-voting redeemable shares of £1 each as the capital of the Company. After the legal formation of the London CIV in October 2015, there is an agreed annual £25,000 running cost charge for each financial year

The transfer of the 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.
In April 2024 we received an LGIM recharge £21.4k+VAT and residual DFC of £18.6k.

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 2026 and 2030 to reduce the current and future absolute emissions by 49% and 60% respectively compared to when it was measured in 2016 and also invest 20% of the fund in green opportunities. The link to the full document is Islington Pension Fund Investment Strategy Statement

4.4 **Equality Impact Assessment:**

4.4.1 The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."
An equalities impact assessment has not been conducted because this report is updating members on the implementation of a fund structure by external managers. There are therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendations

5.1 The Council is a shareholder of the London CIV and has agreed in principle to pool assets when it is in line with its Fund strategy and will be beneficial to fund members and council tax payers. This is a report to allow Members to review progress at the London CIV and note the progress to date. Exempt Appendix 1 is attached for information.

Appendices: Exempt Appendix 1- Business update-Oct' 2024

Background papers: none

Final report clearance:

Signed by:

Corporate Director of Resources Date 25 November 2024

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

Financial implications Author: Joana Marfoh
Legal implications author – Sonal Mistry

This page is intentionally left blank

ISLINGTON

For a more equal future

Resources Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 3rd December 2024

Ward(s): n/a

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

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

1. Synopsis

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

2. Recommendations

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

2.2 To note the objectives agreed in December 2023, and agree the performance rating of our investment consultancy provider as set out in Exempt Appendix 1.

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

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

3. Background

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

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

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

3.4 Members considered and agreed a set of strategic objectives for their IC Provider at their 3 December 2019 meeting. These objectives and performance were reviewed at the 21st November 2023 meeting. Members also agreed to review the objectives at least annually and or where there is a change in the Funds requirements.

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

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

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

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

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

4. Implications

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

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

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

4.4 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**
None applicable to this report. Environmental implications will be included in each report to the Pensions Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2026 and 2030 to reduce the current and future absolute emissions by 49% and 60% respectively compared to when it was measured in 2016 and also invest 20% of the fund in green opportunities. The link to the full document is Islington Pension Fund Investment Strategy Statement

4.5 **Equality Impact Assessment:**
The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps

to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding".

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

5. Conclusion and reasons for recommendation

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

Appendices: Exempt Appendix 1

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date 25 November 2024

Report Author: joana marfoh
Tel:0207 527 2382
Email:joana.marfoh@islington.gov.uk

Financial implications Author: joana marfoh
Legal implications – Sonal Mistry

Document is Restricted

This page is intentionally left blank

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

Agenda Item D2

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank