

London Borough of Islington

**Pensions Sub Committee - 13 March 2017**

Non-confidential minutes of the meeting of the Pensions Sub Committee held at Town Hall, Upper Street, London N1 2UD on 13 March 2017 at 7.30 pm.

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

**Also Present:**                           Karen Shackleton, Allenbridge Investment Advisers  
Thelma Harvey, Marion Oliver, Councillor Dave Poyser  
(members of Pensions Board)  
Nick Sykes, Jonathan Perera and Nikeeta Kumar –  
Mercer Limited

**Councillor Richard Greening in the Chair**

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

None.

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

None

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

None.

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

**RESOLVED:**

That the minutes of the meeting held on 15 November 2016 be confirmed as a correct record and the Chair be authorised to sign them.

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

Members expressed concern about the position of Hearthstone, given the fact that its Chief Executive had resigned and its business strategy was likely to change to focus on the retail market. Nonetheless, it was agreed that it was reasonable to continue to invest in residential property and that, in the longer term, a new provider for investment in residential property should be identified. It was agreed that M&G be invited to present to the Sub-Committee on investment in social housing, as a possible future alternative to Hearthstone..

Noting the overall poor performance of the Allianz investment, members agreed that they would review the situation in a year's time, when it was anticipated that the CIV would have alternative investment opportunities..

**RESOLVED:**

(a) That the performance of the Fund from 1 October to 30 December 2016, as per the BNY Mellon interactive performance report, detailed in the report of the Corporate Director of Resources, be noted.

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- (b) That the report by Allenbridge Investment Advisers on fund managers' quarterly performance, detailed in Appendix 2 to the report and their presentation, be noted.
- (c) That the key person change at Hearthstone, the Fund's residential property manager be noted, together with the proposed change in business strategy for Hearthstone.
- (d) That there be no change in the Fund's investment in Hearthstone at the present time, but the Sub-Committee's longer term wish to retain investment in residential property, possibly with a different provider, be noted.
- (e) That M&G be invited to present to the Sub-Committee on investment in social housing.
- (f) That the Sub-Committee's concern at the poor performance of Allianz be noted and their wish to review this investment in a year's time, when the CIV would have alternative investment opportunities.
- (g) That the recent Mercer Bulletin on "LGPS Current Issues", dated February 2017, be noted.

### 71 **LONDON CIV UPDATE (Item B2)**

#### **RESOLVED:**

- (a) That the progress made to date on the London CIV, as detailed in the report of the Corporate Director of Resources, be noted.
- (b) That the additional charges due from the London CIV and detailed in paragraph 3.6.3 of the report, be noted.
- (c) That the information contained in the exempt appendix to this report, detailing the savings schedule, be noted.
- (d) That the Newton global equity assets be transferred to the London CIV platform in the second quarter of the year,

### 72 **CARBON FOOTPRINT REDUCTION IMPLEMENTATION UPDATE (Item B3)**

The Head of the Pension Fund and Treasury Management explained that technical difficulties would mean that there would be a delay in the process of transferring assets from the In-House UK Passive Fund to the L&G MSCI World Low Carbon Target Index, to achieve a 45% reduction. However, it was anticipated that some of the assets would be transferred by June 2017.

Members of the Sub-Committee noted this delay, but expressed a wish to receive further information at their next meeting on steps being taken to reduce carbon in the rest of the Fund as expeditiously as possible, especially in property and bonds.

Members of the Sub-Committee undertook to continue to engage with energy and oil companies to encourage them to move to low carbon, through the offices of LAPFF as appropriate. Members also considered the inclusion of an undertaking in the Investment Strategy Statement on their belief that a low carbon approach could assist climate change.

#### **RESOLVED:**

- (a) That the implementation timeline for a lower carbon footprint on the Fund's passive equity portfolio and the proposed process for achieving this, as detailed in paragraph 3 of the report of the Corporate Director of Resources, be noted.
- (b) That Appendix 1 to the report, which summarised and mapped out the targeted carbon footprint level after implementation of the new benchmarks be noted.
- (c) That officers report to the next meeting of the Sub-Committee on the plan for achieving carbon reduction in all other asset classes of the Fund.

**73** **FUNDING STRATEGY STATEMENT AND CONSULTATION RESULTS (Item B4)**

**RESOLVED:**

- (a) That the employer comments received from the consultation exercise (detailed at Appendix 1 of the report) on the draft Funding Strategy Statement, attached as Appendix 2 of the report of the Corporate Director of Resources, be noted.
- (b) That the draft Funding Strategy Statement, attached at Appendix 2 of the report of the Corporate Director of Resources, be approved.
- (c) That the Corporate Director of Resources be authorised to finalise and publish the Statement on the Council's website.

**74** **INVESTMENT STRATEGY STATEMENT AND STRATEGY REVIEW FRAMEWORK (Item B4A)**

**RESOLVED:**

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- (a) That the draft Investment Strategy Statement (ISS), attached as Appendix 1 to the report of the Corporate Director of Finance, be approved.
- (b) That the Pension Fund and Treasury Manager arrange to consult with members of the Board and Sub-Committee to consider revisions to the ISS to include the following points which were raised during discussion:
- The addition of the following words to paragraph E on page 5 of Appendix 1, under the heading "ESG Risk "The Sub-Committee expects asset managers to report on how carbon risk is being properly managed"
  - "Impact investments"
  - Assets being invested in the London CIV where there is a case to do so
  - Reference to carbon risk, human rights, modern slavery (and others) and the intention to achieve a lower carbon risk in the whole Fund to be included in paragraph 5 ("Social, environmental and corporate governance policy and policy of the exercise of rights (including voting rights) attaching to investments")
- (c) That a representative from the Environment Agency be invited to attend the Sub-Committee's to detail the Agency's commitment to withdraw from fossil fuels and how this has been included in their ISS.
- (d) That a Fund Manager be invited to present to the Sub-Committee on investment in private debt.
- (e) That approval in principle be given to the proposal to become a signatory to the UK Stewardship Code, as outlined in para 3.3 of the report.
- (f) That the Corporate Director of Resources be authorised to approve the final ISS, in consultation with the Chairs of the Pensions Sub-Committee and Board, for publication on 1 April 2017.
- (g) That it be noted that the ISS was a living document that would be revised as changes occurred.
- (h) That the Mercer presentation on the framework of the investment strategy be noted and that officers report to the next meeting on the sale of bonds and reinvestment into High Lease to Value property.

**75**      **FORWARD PLAN (Item B5)**

**RESOLVED:**

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

**76**      **THE LONDON CIV UPDATE - EXEMPT APPENDIX (Item E1)**

**RESOLVED:**

That the exempt information to agenda item no B2 be noted ( - see minute 71 for decision).

The meeting ended at 9.45 pm.

**CHAIR**