ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	21 November 2017		n/a

Delete as appropriate	~~Exempt~~	Non-exempt

SUBJECT: INVESTMENT STRATEGY UPDATE -INFRASTRUCTURE

1. Synopsis

1.1 This is a progress report on investment strategy review to consider changes to the asset allocation of the Fund's 25% defensive assets. This report updates members on progress made on the infrastructure procurement process.

2. Recommendations

2.1 To note progress made

2.2 To agree to collaborate with other local authorities to pursue a joint tender if that is feasible within our timetable.

2.3 To agree to contribute to the London CIV infrastructure working group.

3. Background

3.1 **Asset Allocation to Infrastructure**

3.1.1 The Pensions Sub-Committee agreed a revised investment strategy for the Fund at its November 2014 meeting. The revised strategy maintained the Fund's 75% growth, 25% defensive split and included a 15% flexible allocation to infrastructure and social housing, with the allocation between the assets dependent on market conditions. This allocation is to be funded from the Fund's corporate bond allocation.

Members then agreed in November 2015, to ask and seek confirmation from the London CIV to develop an Infrastructure sub fund or investment vehicle ideally including social housing covering our mandate specification over the next 12 to 18 months, and if confirmation is not forthcoming alternative plans sought. Nothing has been forthcoming from the LCIV to date on infrastructure and

as such, Members asked Mercer to review and update the previously agreed parameters.

3.1.2 In June 2017, Members reaffirmed the parameters of the Fund's allocation to infrastructure and a specification of what the Fund 's infrastructure mandate. The table below sets out the areas typically specified when seeking a mandate and suggested potential or indicative targets.

3.1.3

Considerations	**Islington Indication**
Target return (net IRR)	c.10% Gross IRR
Target cash yield (net % p.a.)	c. LIBOR + 2.0% - 3.0%
Target risk profile	Defensive, income focused
Target geographies	Global with UK bias
Target sectors	Regulated, core and core plus (if strong inflation component
Target development stage	Predominately brownfield
Target capital structure	Predominately equity, some debt
Target number of underlying managers	7- 10
Target number of underlying funds	7-10 initial allocation
Target number of underlying assets	70-100
Target vintage diversification	Rolling programme, consider secondary opportunities
Target allocation to direct/co-investments	0%
Average maturity / term of programme c. 15 years - ability to invest in longer term PPP	c. 15 years –ability to invest in longer term PPP projects, balanced with shorter term secondary and debt opportunities
Investment period for programme	Initial 5 years and then rolling for vintage year diversification
Approach to ESG integration	Preference for managers who integrate ESG
Fee schedule	TBC(base fee preferred)
Performance reporting arrangements	Report on portfolio as a whole quarterly (with monthly information)

3.2 Members agreed in September to commence the procurement process and receive a progress report at their November meeting.

3.3 Officers have discussed with other London local authorities the possibility of a joint tender to procure infrastructure within our time line. The London Borough of Merton has agreed to lead and is preparing a scoping document for consultation. This will inform on the tender specifications and llow all participants to input their requirements. Our advisors and members will be part of the selection process after a long list of managers is ascertained. Members are asked, to agree to collaborate with other interested local authorities in a joint tender for infrastructure.

3.4 The London CIV asked for volunteers to form an infrastructure-working group to progress launching an infrastructure fund. The group met in October and have agreed an initial high level of specifications and a March 2018 deadline to invest in a Fund. The LCIV will need to seek FCA approval to set up this vehicle and that may affect the target date. An infrastructure informative paper and educational seminar is planned for all boroughs in December.

3.5 All parties recognized that, how quickly the LCIV can receive investment permissions, and relatedly, set-up the unauthorised alternative investment fund will impact on the launch date. The Head of treasury and pensions is a member of the working group and will continue to contribute and update LCIV on any progress made internally.

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**

The Council, as the administering authority for the pension fund may appoint investment managers to manage and invest an infrastructure portfolio on its behalf (Regulation 8(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

4.2.1 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**

Environmental considerations can lawfully be taken into account in investment decisions

4.4 **Resident Impact Assessment**

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

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5. Conclusion and reasons for recommendation

5.1 Members asked to note the progress made on implementing the 25% liability matching asset allocation strategy review. Agree to pursue a joint tender with other local authorities and keep contributing to the LCIV infrastructure- working group.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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