ISLINGTON

Finance Department
7 Newington Barrow Way
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Report of: **Corporate Director of Finance and Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pension Sub -Committee	9 November 2015		

Delete as appropriate		Non-exempt

SUBJECT: INFRASTRUCTURE IMPLEMENTATION PROPOSAL VIA THE LONDON CIV

1. Synopsis

1.1 A report to discuss and consider a proposal to the London CIV to develop a sub fund infrastructure vehicle that includes social housing over the next 12 to 18 months.

2. Recommendations

2.1 To note the latest government trend on investment policy of local government pension funds

2.2 To reaffirm Islington pension fund's investment strategy to invest up 15% on infrastructure and social housing

2.3 To agree 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,

2.4 To agree that if confirmation is not forthcoming from the London CIV alternative plans of implemention be sought.

3. Background

3.1 **Asset Allocation to Infrastructure**
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.

3.2 In March 2015, Members agreed the parameter of the Fund's allocation to infrastructure and a specification of what the Fund 's infrastructure mandate would look for was drawn out. The table

below sets out the areas typically specified when seeking a mandate and suggested potential or indicative targets.

3.3

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)

3.4 **Recent Government Policy**

The Chancellor at his summer budget announced that the goernment will work with local government pension scheme administering authoritiies to ensure that they pool investments to significantly reduce cost while maintaining overall investmement performance . There was a further announcement at his party conference that, "*the existing 89 Local Authority pension funds will be pooled into half a dozen British Wealth Funds, each with assets of over £25 billion. This step will save millions of pounds every year in costs and fees. The new funds will develop the expertise to invest in infrastructure"* The Chancellor's statement provides the clearest sign yet of the scale of ambition that the LGPS has been tasked to come up with on pooling and facilitating investment in the nation's infrastructure.

3.5 It should however be noted the principal objective of the LGPS is to provide pensions to its members in a sustainable and cost effective way This requires an approach that covers credible and transparent funding plans, effective cost management, best-in-class governance, return generating investments and risk management.

3.6 Members are mindful that discussions are also ongoing around the London CIV, and have expressed the view that illiquid investments such as infrastructure would be a natural area for the CIV to concentrate on in its early years, given the governance requirements to investing in private markets. The above considerations / mandate specification could be used to understand if any infrastructure mandates considered by the CIV would meet the objectives of the Fund.

3.7 Members are asked to agree to formally ask and seek confirmation from the London CIV to set up an infrastructure sub fund or investment vehicle ideally to include social housing and cover our mandate specification. If this is accepted and a timeline of 12 to 18months is feasible, then our implementation will be tailored down that route. However, if the CIV cannot make a commitment within our timelines and specification then a bespoke or alternative plans should be looked at to develop our mandate.

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:**

4.2.1 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).

4.2.2 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.
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4.3 **Environmental Implications**
None specific to this report

4.4 **Resident Impact Assessment:**
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 resident impact assessment has not been conducted because this report is only proposing an implementation strategy and there are no equalities issues arising**.**

5. Conclusion and reasons for recommendations

5.1 Members have agreed to make an asset allocation to infrastructure and have defined their specification and targets. They are mindful of government policy but also aware that the London CIV could be a natural source to lead on such an asset class. Members should therefore agree to seek formal confirmations from the London CIV to set up such a sub fund within a feasible timeframe of 12-18months. If this not forthcoming then alternative implementation plans should be undertaken.

Appendices. none

Background papers:mercer briefing paper on infrastructuure to officers

Final report clearance:

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