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ISLINGTON

PENSIONS SUB COMMITTEE

12 June 2017

SECOND DESPATCH

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Enquiries to	:	Mary Green
Tel	:	0207 527 3005
Email	:	democracy@islington.gov.uk
Date		5 June 2017

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Agenda Item B5

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Finance and Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	13 March 2017		n/a

Delete as appropriate	Exempt	~~Non-exempt~~

Appendix 2 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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: INVESTMENT STRATEGY UPDATE

1. Synopsis

1.1 As part of the ongoing investment strategy update the report and appendices considers changes to asset allocation of the Fund's 25% defensive assets. This report discusses and updates the parameters agreed by Members in 2015 of investing in infrastructure and considers options on implementation and the next steps.

This report also considers the case for increasing our current allocation to High Lease Value (HLV) property to reduce liability risk.

1.2 Mercer our investment advisor, has prepared 2 briefing papers that will be presented to Members.
Appendix 1- Infrastructure Implementation Update

Exempt Appendix 2- Increasing the Fund's Allocation to HLV Property

2. Recommendations

2.1 To consider Mercer's presentation Appendix 1 on infrastructure

2.2 To agree the parameters and mandate specifications

2.3 To consider options and agree an implementation route and next steps

2.4 To consider Mercer's presentation Exempt Appendix 2- Increasing Allocation to HLV

Properties

2.5 To agree to increase our current strategic allocation from 5% to 10%

2.6 Subject to 2.5 , agree the next steps to achieving the new allocation

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.

3.1.2 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.

3.1.3

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 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 be sought.

3.3 Nothing is forthcoming to date from the London CIV, and so Mercers were asked to review and update the above mandate specification and provide options of implementation and next steps. They will present Appendix 1 to Members for their consideration.

3.4 Members are asked to consider the presentation and agree the mandate specifications, options to implement and next steps.

3.5 Increasing the allocation to HLV property

Following the 2016 actuarial review and agreement by Members to now move to a CPI plus discount rate for valuing pension liabilities, it was agreed to review the current strategy to evaluate risk and assets to ascertain that they can meet our new objective. Members completed the last investment review in 2014. Members agreed the investment strategy framework at the March meeting and agreed to considering increasing the fund's current strategic asset allocation to HLV property
.

3.5.1 Mercer have prepared a briefing paper, Exempt- Appendix 2- Increasing Fund's Strategic Allocation to HLV Property, for consideration.

3.5.2 The briefing paper covers an overview of HLV property, rationale for investing, risks, Mercer's view and next steps.

3.5.3 Members are asked to consider Mercer's presentation and if in agreement increase the current allocation to 10% and agree the next steps.

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
.

5. Conclusion and reasons for recommendation

5.1 Members asked to consider the Mercer presentation Appendix I and agree options and mandate specification for the next steps.

5.2 Members are asked to consider the Mercer presentation Exempt Appendix 2 and if in agreement increase the current allocation and next steps

Background papers:
None

Final report clearance:

Signed by:

	Corporate Director of Finance & Resources	Date
Received by:		
	Head of Democratic Services	Date

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

INFRASTRUCTURE IMPLEMENTATION - UPDATE
LONDON BOROUGH OF ISLINGTON PENSION FUND

Background

The Pensions Sub-Committee agreed a revised investment strategy for the Islington Council Pension Fund ("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. It was agreed that this allocation is to be funded from the Fund's corporate bond allocation.

The Fund has been awaiting the introduction of the London CIV infrastructure allocation. As there has been no progress made to date, the Pensions Sub-Committee has agreed to proceed with implementation in order to move closer towards its agreed long-term strategy. In addition as part of the 2016 Actuarial Valuation, the liability discount rate is no longer based on volatile gilt yields and instead adopts a CPI Plus approach. Therefore, the risk reduction benefit of investing in bonds is lessened and there is scope for risk reduction achieved through investing in potentially inflation-sensitive assets. This enhances the strategic rationale for investing in infrastructure as discussed as part of the 2017 investment strategy review (but noting that the degree of inflation-sensitivity will vary by investment). We have therefore updated our paper issued in September 2015 that outlined the most appropriate mandate specification (based on the current market environment).

Decisions made so far

Following the decision to invest in infrastructure, the Pensions Sub-Committee and Officers of the Fund had further discussions on the objective of the allocation, as 'Infrastructure' can encompass listed equity, private equity or private debt investments in a range of infrastructure assets with varying degrees of risk and economic exposure. In March 2015, the Pensions Sub-Committee agreed the following parameters for the infrastructure allocation:

- As the allocation is to be funded from the corporate bond allocation and be within the defensive allocation, it should have a defensive role in the portfolio.
- Both private equity and debt investments should be considered.
- Public-Private Partnership ('PPP'), Core and Core Plus (ideally with an inflation component) investments should be considered.

The implementation of such an allocation was discussed in May 2015, with the size of the allocation and the level of asset diversification required from the allocation within a suitable governance structure under consideration. The following parameters were agreed:

- No direct investments or co-investments on diversification and governance grounds.
- Global allocation preferred for diversification.
- Vintage year diversification desirable; mandate to be 'ongoing' and secondary funds may be considered.

Mercer remains comfortable with these objectives agreed by the Pensions Sub-Committee in 2015.

As a reminder, we have set out below the three different implementation routes that the Pensions Sub-Committee has previously considered:

Implementation route	Overview	Key advantages	Key disadvantages
"Self-Build" by investing in direct pooled funds	The investor self-builds an allocation to funds that choose direct infrastructure investments that are suitable for the Fund's objective. Under an "advisory approach", Mercer can help aid in the construction of an infrastructure portfolio of "top pick" funds. The Pensions Sub-Committee remains in control of the construction and implementation of the infrastructure programme and Mercer helps in an advisory capacity.	· The Pensions-Sub Committee would retain discretion over the construction and implementation of the allocation. · The Pensions-Sub Committee can draw on the investment advisor's expertise and due diligence (if an advisory approach is chosen).	· Need for in-house expertise and thorough due diligence. · Building an allocation through a portfolio of individual funds, with adequate manager, investment and vintage year diversification, would mean significant governance required. · The portfolio is likely to be more concentrated. · Significant assets required in order to gain sufficient diversification. · Under an advisory approach, costs will be incurred to ensure thorough due diligence.
Third-party fund- of-funds	Invest in an "off-the-shelf" fund run by a manager that chooses underlying infrastructure funds to invest in.	· Theoretically, a third-party fund-of-funds should achieve the highest level of diversification and therefore a lower volatility of returns. · Potential for value enhancement through portfolio construction and investment selection. · Almost no in-house resource or expertise required. · Consolidated valuation and performance is provided – no need for investor to consolidate this from the underlying infrastructure funds.	· As an individual investor there is no ability to influence the strategy followed by the fund-of funds. Many fund-of-funds allocate to opportunistic investments in order to enhance the return target. · As an individual investor there is no ability to influence the terms and fee arrangements of the underlying infrastructure funds. · Achieving a strong alignment of interests at several levels can be an issue, as investors have limited ability to influence the governance structures in place with third-party fund-of-funds. · Potential lack of transparency in the way that the fund-of-funds operates, particularly regarding the payment of fees. · An additional level of fees is paid. · Relatively small universe of suitable vehicles in the third-party fund-of-funds space.

Implemented investing/ fiduciary (bespoke fund of funds)	Fund selection decisions are delegated to a specialist (manager), who chooses underlying infrastructure funds on the Fund's behalf (as the only investor)	· Enhanced ability to customise the mandate from both a strategy and governance perspective. · As the allocation does not depend on discrete fund-raising periods, there is the potential to manage commitment amounts based on market conditions, and/or with a more holistic basis with the rest of the portfolio. · Potential for value enhancement through portfolio construction and investment selection. · Almost no in-house resource or expertise required. · Consolidated valuation and performance is provided – no need for investor to consolidate this from the underlying infrastructure funds.	· An additional level of fees is paid. · As an individual investor there is no ability to influence the terms and fee arrangements of the underlying infrastructure funds. · Requires a larger minimum investment than a third-party fund of funds to achieve adequate diversification.

It is our understanding that the Pensions-Sub Committee does not wish to consider the fiduciary route.

Mandate Specification

The decisions noted above clarified the mandate for the Fund's infrastructure allocation. The table below sets out the areas typically specified when seeking a mandate and suggested the potential or indicative targets (updated based on the current market environment), given the discussions with Officers in 2015.

Considerations	Islington Indication
Target return (gross IRR)	c.8% - 10% Gross IRR
Target cash yield (gross % 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	Predominantly brownfield
Target capital structure	Predominantly equity, some debt
Target number of underlying managers	7-10[1]
Target number of underlying funds	7-10 (initial allocation)
Target number of underlying assets	50-75
Target vintage diversification	Rolling programme, consider secondary[2] opportunities

[1] Theoretically, 7-10 underlying managers still seems reasonable as a target. However in practical terms, a more realistically achievable range would be 6-8 underlying managers. This is because we have seen a number of managers move up the risk spectrum over recent years (to varying degrees) given return compression. Whilst they are high-quality in nature, they may not fit with the Fund's target risk profile. It may ultimately be possible to make 7-10 underlying manager allocations that are consistent with this risk profile, but that may take time and/or involve a degree of compromise in certain areas (e.g. risk / return profile, manager/fund quality etc).

[2] It should be noted that in the current market environment secondary investments are relatively scarce, and (in general) are trading around NAV rather than at significant discount (for high-quality managers/funds, they would likely trade at premium). As such, they should be seen as being an opportunistic (rather than 'guaranteed') investment as part of the portfolio build-out. Even if they are accessible, they would likely be for portfolio build-out rather than

Considerations	Islington Indication
Target allocation to direct/co-investments	0%
Average maturity / term of programme	c. 15 years - ability to invest in longer term PPP projects, balaced with shorter term secondary and debt opporutnities[2,3]
Investment period for programme	Initial 5 years and then rolling (for vintage year diversification)
Approach to ESG integration	Preference for managers who integrate ESG considerations into investment process
Fee schedule	TBC (base fee preferred?)
Performance reporting arrangements	Report on portfolio as a whole quarterly (with monthly information)

Next Steps

The decisions taken in 2015 resulted in an initial agreed mandate specification and understanding of the role and aims of the portfolio. As the Pensions Sub-Committee has now agreed to proceed with implementation, the next step is to conduct a search for a manager to build the portfolio.

As further clarity on the timing of any CIV infrastructure allocation is not forthcoming, we suggest that the Pensions Sub-Committee proceeds with implementation, bearing in mind the longer term nature of implementing an investment in this asset class.

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return enhancement. In addition, we have seen a trend towards continuation vehicles (i.e. funds being rolled on rather than liquidated at the end of their terms) – whilst these can be a source of secondary opportunities, these continuation vehicles are also typically long-dated in nature (i.e. 15- 20 years+).

[3] This seems a reasonable estimate given the target strategy and likely types of fund investments, but it should be noted that the portfolio could end up being 'barbelled' in terms of its maturity, i.e. closed-ended equity infrastructure funds and junior debt funds with terms of 10 – 12 years at one end, and (senior) infrastructure debt funds and long-dated PFI/PPP funds with maturities of 20-30 years at the other end. Unless there is a recycling of capital over time, beyond the first 15 years, the portfolio is likely to consist entirely of infrastructure debt and PFI/PPP funds.

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Nick Sykes
June 2017

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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	12 June 2017		n/a

Delete as appropriate		Non-exempt

SUBJECT: ANNUAL REVIEW AND PROGRESS ON THE 2015-2019 PENSION BUSINESS PLAN

1. Synopsis

1.1 To report to the Pensions Sub- committee progress made to date on some of the action plans in the agreed five year business plan and undertake an annual review of the plan

2. Recommendation

2.1 To consider and note Appendix A attached.

2.2 To review the business plan objectives and agree the required changes if any for the next 5years

3. Background

3.1 CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5) publication, is based on ten principles proposed by the Myners review of Institutional Investment in the United Kingdom, and was adopted by the Government as a model for best practice in 2001.

3.2 The 10 Myners principles were reviewed by the NAPF in 2007 and after consultation a response document was published in October 2008 and adopted by CLG (government department responsible for the oversight of the LGPS). The LGPS administering authorities are required to prepare, publish and maintain a statement of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.

3.3. The Myners principles and compliance forms part of Islington Pension Fund's published Statement of Investment Principles. Myners Principle 1- Effective decision-making through a forward looking business plan is a key requirement. Members agreed a five year business plan to April 2019 and to review the plan annually.

3.4 The key objectives of the five year business plan agreed at the September 2015 Pensions sub-committee :

- To achieve best practice in managing our investments in order to ensure good long-term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities

- To continually improve our administration in order to deliver an excellent and cost effective service to all Fund Members

- To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability.

- To actively monitor and challenge poor performance in managers and to pursue new investment opportunities

- To develop collaboration opportunities with other funds for sharing of services

3.5 The five year business plan with progress to May 2017 is attached as Appendix A. Members are asked to consider and note progress made and undertake a review of the plan's objectives for any amendments for the next 3 years .

4. Implications

4.1 **Financial implications**
It is envisaged that a good business plan with effective actions as a whole will lead to efficiencies in running the fund and cost savings.

4.2 **Legal Implications**
Elected members have fiduciary duty to the Fund, scheme members and local council tax payers in relation to the LGPS.

4.3 **Environmental Implications**
None applicable to this report.

4.4 **Equality 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

.

5. Conclusion and reasons for recommendation

5.1 To note progress made and review the agreed objectives the business plan make amendments if necessary.

Background papers:
None

Final report clearance:

Signed by:

	Corporate Director of Resources	Date
Received by:		
	Head of Democratic Services	Date

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

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APPENDIX A

Action to be taken	Timescale	Details (primary responsibility)	Progress to June 2015	PR Progress to June 2016	Progress to May 2017
1. "To achieve best practice in managing our investments in order to ensure good long- term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities"					
(a) Consider an interim valuation and LGPS scheme changes	Ongoing	Use results to review funding level and any potential effect of the scheme changes	Received an initial Funding update in June 2015 and noted that alternative approaches on assumptions would need to be considered	Training sessions have been arranged in September to review assumptions and implications for 2016 Actuarial Review	2016 Actuarial Valuation was consulted on and signed off 31/3/17
(b) Review investment strategy to reflect asset/liability position To commence as part of the 31 March 2016 actuarial valuation process	2016-2019	To use results and other analyses to set benchmark asset allocations and Fund outperformance targets and risk levels *(Pensions sub-cttee, Investment advisers).*	A further drill down into matching assets has been considered through briefing and training of members	Members agreed to allocate 10% to bonds and 15% to infrastructure and social housing in November 2015	Members after consulting with the London CIV are now to agree a tendering plan on infrastructure
(c) Implement any resulting changes to asset allocation, portfolio and fund management structures.	Ongoing	Plan procurement and tendering process with transition of assets requirement to minimize cost and optimize value of assets	A DGF manager was seeded on 30 June 2015-funded from UK and global equities	A proposal for an Emerging and Frontier market manager is being sought through an open tender process with a deadline of 20 June 2016. Currency hedging of overseas equities was reviewed in September 2015	An equities emerging market manager was appointed in September 2016 and was seeded in May'17 Still ongoing

APPENDIX A

Actions to be taken **Timescale** **Details (primary responsibility)** **Progress to June 2015** **Progress to June 2016**
Progress to May 2017

(d) Review all contracts on a rolling basis including, actuary, voting services, investment advisers and custodial services.	2015-2019	Committee to agree conclusions of all reviews. Director of Corporate Finance to have delegated authority to review contracts and performance and fee levels when required. *(Pensions Sub-Committee, Officers).*	BNY Mellon contract extended for 2 years.	Fee reductions were negotiated with our UK commercial property manager and our Global property manager	BNY Mellon contract was reviewed and updated to conform to new regulations and combine all services including performance monitoring
(e) Closely monitor new legislation affecting the LGPS or pension provision.	Ongoing	Consider reports on the implications for the Fund and agree actions necessary to ensure full compliance when final legislation is enacted including meeting deadlines. *(Pensions sub-committee, Officers, Actuary).*	Responded to DCLG consultation on scheme governance in August 2014 Local Pension Board has been formulated as per new regulations in April 2015. Funding Strategy Statement was updated in March 2015 to reflect new 2013 LGPS Regulations	A further response on the consultation on pooling and investment regulation was sent in March 2016	The Investment Strategy Statement that replaces SIP was drafted, consulted and published by 1 April 2017 2016 Funding Strategy Statement was also consulted on and published by 1 April 2017
2. To deliver an excellent and cost effective administration service to all fund members					
(a) Agree key performance indicators for the administration of the Fund and continue to benchmark against	Ongoing.	Development complete by Q2 2011 with regular reporting to schedule to Pension sub cttee thereafter. Continue ongoing	Local Pension Board will now scrutinise admin performance and will receive a semi –annual *monitoring*	Ongoing	Pension Board on reviewing resources have recommended extra resources in

Actions to be taken	Timescale	Details (primary responsibility)	Progress to June 2015	Progress to June 2016	Progress to May 2017
similar funds.		CIPFA benchmarking. *(Officers).*			order to deliver a high standard of services Deferred benefit statements are to be sent out in July 2017
(b) Carry out a survey to gain feedback from pensioners and active employees on customer satisfaction.	2012	Analyse survey results (pension sub cttee, officers)	All members are now asked at point of accessing the service for their feedback that is logged and reported quarterly.	Annual benefit statements were sent out by the end of 2015	Communications policy was reviewed by the Pension Board in September 2016
(c) Implement changes based on survey responses	Oct 2012-Mar 2013	Changes required from survey to be implemented during 2012. *(Pensions sub cttee, Officers including LBI communications team)* .	Annual benefits statements were sent out in October 2014 and the same is aimed for 2015	Communication on changes to LGPS are highlighted in staff bulletins and the intranet	2016 Annual benefit statement were sent out in October 2016
d) To devise a communication plan and consultation to stakeholders	Ongoing	Newsletters, annual benefit statements, annual reports, AGM and employers meetings to continue as previously *(Officers).*		*The Pension internal and external websites are regularly updated with fund policy information and any new regulations* .	AGM chaired by the Pension Board Chair person was held in October 2016 and copies of the Pension Annual Report for 2015/16 were distributed

APPENDIX A

Actions to be taken	**Timescale**	**Details (primary responsibility)**	**Progress to May 2017**	**Progress to June 2015**	**Progress to June 2016**
3. To be active and responsible investors focusing on corporate governance and environment sustainability through engagement.					
(a) Continue to engage with companies through active membership of LAPFF, IIGCC and other suitable bodies.	Ongoing.	Key themes will be corporate governance especially relating to human rights, employment practices and protection of the environment. *(Pensions sub cttee, Investment advisers, PIRC, Officers.)*	Work with LAPFF and IIGCC continues	Work with LAPFF and IIGCC continues	.Work with LAPFF and IIGCC continues
(b) Develop improved monitoring of fund manager engagement activity.	Ongoing.	To include engagement with managers on their own corporate governance as part of terms of reference on appointment. *(Pensions sub cttee, investment advisers, Officers).*	Members have attended a number of AGMs of companies as shareholder to exercise our voting rights	Members continue to attend a number of AGMs of companies as shareholders to exercise our voting rights and speak to company directors	Members continue to attend a number of AGMs of companies as shareholders to exercise our voting rights and speak to company directors
(c) Improve communication of engagement activities to stakeholders and public.	Review during 2012	To include potential for publication of LBI voting record. *(Officers and PIRC).*	PIRC service provider presented our voting records and engagement at the 2014 AGM	Voting records are published in the Annual Pension Fund report	Members reviewed the carbon footprint of its equities portfolio and after a series of training and presentations agreed to lower its existing footprint by restructuring its passive equities to low carbon benchmarks. Implementation

Actions to be taken **Timescale** **Details (primary responsibility)** **Progress to June 2015** **Progress to June 2016**
Progress to May 2017

					should complete by July with a up a 50% reduction.
(d) Integrate our responsible investment policy into the Fund's investment review	Ongoing	To include consideration of appropriate responsible investment funds. Manager policies on equalities, environment and corporate governance to form review criteria alongside performance and fee considerations. *(Pensions sub cttee, Investment advisers, Officers).*	The Fund's SIP was updated in November 2014 to incorporate amendments to the paragraphs on social, environmental and ethical considerations	Members agreed to disinvest from SOCO International on the basis of its future returns, current human rights and environmental issues	Low carbon alternatives on property and bonds are now being sought.
4. To actively monitor and challenge poor performance in managers and to pursue new investment opportunities					
(a) Review current fund manager performance against agreed targets over three- to five year rolling periods	Ongoing	Use existing terms of reference for appointment and firing of managers as a guideline to monitor performance of fund managers *(Pensions sub cttee, Investment advisers, Officers).*	a)Members monitoring continue	a)Members monitoring continues	Ongoing
(b) Review current fund manager quarterly monitoring arrangements	Ongoing	Agree a forward plan for existing fund managers to meet the pension sub committee. The Corporate Director of Finance to continue monitoring managers between quarterly meetings (*Pensions sub cttee, Investment advisers,*	(b)The forward plan continues to schedule managers	The forward plan continues to schedule existing managers.	A key man change triggered a review of our property manager Hearthstone mandate.

APPENDIX A

Actions to be taken **Timescale** **Details (primary responsibility)** **Progress to May 2017** **Progress to June 2015** **Progress to June 2016**

		Officers).			
(c) To consider new investment opportunities which can help improve the fund's financial performance	Ongoing	Pension sub committee have a long term objectives and clear investment policies to achieve them. (*Pensions sub cttee, Investment advisers, Officers).*	Reinvestment of $40m with Franklin Templeton our global property manager was agreed in September 2014 Additional £5m was invested in Aviva , Lime Fund to bring our investment to 5% of the total Fund in June 2015 Equities were reduced to fund the £100m DGF , in June 2015	Joint training sessions are now scheduled with the Local Islington Pension Board to keep both members abreast with investment issues	Joint training sessions are now scheduled with the Local Islington Pension Board to keep both members abreast with investment issues Active Frontier and emerging market manager has been seeded to replace a passive emerging market manager
(d) To keep abreast of developments on pension and investment issues	Ongoing	Pension sub committee will agree a training plan and evaluate annually training undertaken and future needs *(Pensions sub cttee, Investment advisers, Officers).*	Training sessions are scheduled before each committee meeting and topics have included Emerging and frontier markets, infrastructure, social housing, and impact investing		Training sessions before and during and committee meetings continue.

Actions to be taken	Timescale	Details (primary responsibility)	Progress to June 2015	Progress to June 2016	Progress to May 2017
5. Develop collaboration opportunities with other funds for sharing of services and pooling					
a) Seek to collaborate with other partners to achieve efficiencies and value for money	Ongoing	To agree to share services where it is beneficial to the fund objectives of sustainability and performance	Progress of the CIV is continuing and should be seeded by the end of the year.	The London CIV received its FCA approval in September 2015 and Islington moved its Allianz portfolio to the CIV platform on 2 December 2015 The government has now agreed that all England and Wales LGPS will now pool their assets into six funds. A pathway response on pooling timetable and cost is due in July 2016	The Fund as an active member of the London CIV continues to work on policy and investment issues The passive LGIM mandates where pooled under a CIV negotiated lower fee even though it sits off the platform Newton mandate was transition to Newton London CIV platform in May 2017 Another 5 new global equities sub funds have been appointed unto the London CIV platform to boroughs alternative managers to invest.

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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	12 June 2017		

Delete as appropriate	Exempt	Non-exempt

SUBJECT: INDEPENDENT INVESTMENT POLICY ADVISOR APPOINTMENT

1. Synopsis

1.1 This report considers new contract proposals on independent investment policy advice service and results from the tendering exercise

2. Recommendations

2.1 To consider the outcome of the tendering exercise for an independent investment policy advice service

2.2 To consider the evaluation criteria attached as Appendix 1(private and confidential)

2.3 To agree to award an initial 5 year contract with an option to renew for a further 3 years subject to review to the preferred provider.

3. Background

3.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 (as amended requires an authority "to obtain proper advice at reasonable intervals about their investments and to consider such advice in taking any steps about their investment."

3.2 The Council's Actuary, Mercer, also currently provides to the pension fund an investment advisory service that includes: investment manager selection and monitoring, attendance to our quarterly pension sub committee meetings with oral commentary (but not to provide a commentary report) undertaking investment strategy reviews, investment manager structure, regulatory and legislative changes and ad hoc advice to officers and members on investment issues.

3.3 Members agreed to reappoint Allenbridge in March 2011 for an initial 3 year contract with an option to renew for a further 2 years to March 2016. Members then agreed for the Director of Finance to extend the contract for another 18months to September 2017.

3.4 Tender documents were sent out to suppliers for a fixed quote on an agreed service level agreement and an additional fee quote per day. They were also asked to provide a copy of a recent investment report written for a pension fund.

3.5 Standard Level of Service

To provide independent investment policy advice to the pension sub- committee and Corporate Director, Resources and Finance (or representative). This will call for attendance at up to six notified meetings.

- Four committee meetings normally scheduled at 7.30pm on dates to be notified together with an appropriate level of preparation and a written briefing note for each committee and evaluation of investment managers' performance.

- Two ad hoc meetings to advise at Officer-manager monitoring meetings or special projects

Advice will be required on any investment-related issues but specific requirements include:

- Advice on investment strategies, policies and asset pooling

- Asset allocation and portfolio structure (once every 3 years).

- Assistance in the selection and review of investment managers, custodians and other investment professionals appointed from time to time.

- Assistance in the review of our Investment Strategy Statement

- Briefing and assistance in respect of new industry developments, regulations, best practise compliance and governance.

- Some briefings to the Islington Pension Board

Ad hoc Investment Advice

Training

3.6 The assessment criteria were:

40% - price

60% - quality to include proposals on the following
methodology and approach to service delivery, time and resource management; demonstrating knowledge of local government schemes; customer care and communication,

3.7 Five suppliers were invited to submit their tender proposals and three responded.

3.8 The shortlisted suppliers' evaluation is attached as Appendix 1(private and confidential.) Members are asked to consider the evaluation and appoint their preferred supplier.

4. Implications

4.1 **Financial implications:**

4.1.1 Fund management and administration fees are charged directly to the pension fund. Investment advice is a fund management expense.

4.2 **Legal Implications:**

4.2.1 As the administering authority for the Pension Fund, the Council is responsible for investing fund money. The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 requires an authority "to obtain proper advice at reasonable intervals about their investments and to consider such advice in taking any steps about their investment."

4.2.2 Accordingly, the Council has power to enter into contracts for the provision of investment advice (the 2009 Regulations and section 1 of the Local Government (Contracts) Act 1997.

4.2.3 The procurement has been undertaken in accordance with the Council's Procurement Rules and the Public Contracts Regulations 2015.

4.2.4 The Council has a fiduciary duty to the members of the Pension Fund and accordingly the sub committee needs to consider fully and carefully the extent of the services and advice required by the Council to discharge properly its investment functions and the external service provider(s) best able to provide those services and that advice. The sub committee should be reasonably satisfied that chosen service provider(s) is competent to deliver the services and advice required and the cost represents value for money for the Council.

4.3 **Resident Impact Assessment:**

4.3.1 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

4.3.2 An equalities impact assessment has not been conducted because this report is not considering any policy changes.

4.4 **Environmental Implications**

4.4.1 Not applicable

5. Conclusion and reasons for recommendations

5.1 Members are asked to consider the tendering evaluation attached as Appendix1 (private and confidential) and agree to appoint their preferred supplier. To allow the Corporate Director of Finance to negotiate terms and conditions award the contract for initial 5 years with an option to extend by another 3years

Appendix 1 - (private and confidential) Tender submission evaluation.

Background papers: none

Final report clearance:

Signed by:

	Corporate Director of Resources	Date
Received by:		
	Head of Democratic Services	Date

Report Author: Joana Marfoh
Tel: 020-75272382
Fax: 020-75272056
Email: Joana.marfoh@islington.gov.uk

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