



ISLINGTON

# **PENSIONS SUB COMMITTEE**

## **3 December 2019**

### **SECOND DESPATCH**

**Please find enclosed the following items:**

Item B10 Investment Strategy update- Hearthstone

Item F1 Investment Strategy update- Hearthstone - exempt appendix

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Date : 28 November 2019



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**Report of: Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	3 December 2019		n/a

<b>Delete as appropriate</b>		Non-exempt
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**Appendix 1 attached** is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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: INVESTMENT STRATEGY UPDATE- HEARTHSTONE**

### **1. Synopsis**

- 1.1 This is an update report informing members on the outcome of an operational due diligence commissioned by the Fund and undertaken by MJ Hudson Allenbridge in August 2019. The summary findings are attached as Exempt –Appendix 1.

### **2. Recommendations**

- 2.1 To consider the summary findings and consider the next steps as outlined in Exempt Appendix 1.
- 2.2 To delegate authority to officers to consider and agree with Hearthstone other proposals that will help make the Fund more attractive to investors and reduce our holdings over time.

### **3. Background** Introduction

- 3.1 This is the fund's residential UK property manager. The fund inception date was 23 April 2013, with an initial investment of £20million. The Target performance: UK HPI + 3.75% net income and the fund benchmark is the LSL Academics House Price Index but BNY Mellon performance report that we use benchmarks them against the IPD UK All Property Index.
- 3.1.1 The Fund invests in private rented sector housing across the mainland UK regions and aims to capture UK house price growth plus provide an element of income return.

The property investment manager, Hearthstone Asset Management Limited, uses quantitative asset allocation methods and qualitative regional stock selection to build a portfolio of assets reflecting the distribution of UK mainland housing stock. Properties are let under assured shorthold tenancies (AST's) and corporate lets. Investment returns comprise capital growth and rental income.

- 3.1.2 Islington was one of the feeder investors in TM Home Investors in 2013 and had hoped its institutional status would attract other similar investors. In 2013, Islington owned 72% of the fund. The total assets under management is now £60m that still leaves Islington being the biggest shareholder with 46%. The 5year absolute performance is 5.34% per annum.
- 3.1.3 Islington would want to reduce its percentage holding in the fund over time and commissioned MJ Hudson to conduct an operational due diligence to satisfy itself the business was operationally sound and the summary report attached as Exempt Appendix 1 did not find any red flags. Members are asked to note and consider the recommendations and next steps by MJ Hudson.
- 3.1.2 The officers have also held a meeting with Hearthstone and discussed proposals that could help the growth of the fund and hence speed up the process of reducing our holdings and
  - (i) these would include moving from our current accumulation share class to an income receiving share class.
  - (ii) Agree to fund expenses from capital rather than income as this would make income yield more attractive to investors
  - (iii) to continue to have a regular dialogue with Hearthstone

Members are asked to agree to delegate authority to officers and advisors to consider and agree these and other proposals through continuous dialogue to make the fund more attractive to investors and reduce our holdings.

## **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**

No legal implications

### **4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

Environmental considerations can lawfully be taken into account in investment decisions. 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 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf>

#### 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.

- 4.4.1 A resident impact assessment has not been conducted because this report is an update on existing exercise and the consultation of employers will mitigate any inequality issues.

### 5. **Conclusion and reasons for recommendation**

- 5.1 Members are asked to consider the MJ Hudson summary report attached as Exempt Appendix 1 and agree to delegate authority to officers and advisors to have continuous dialogue with Hearthstone to explore and agree proposals to help make the fund more attractive to investors and speed up the process to reduce our percentage of holdings.

#### **Background papers:**

None

Final report clearance:

**Signed by:** Corporate Director of Resources

Date

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