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ISLINGTON

PENSIONS SUB COMMITTEE

23 March 2021

SECOND DESPATCH

Please find enclosed the following items:

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Despatched: 19 March 2021

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7
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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	23rd March 2021		

Delete as appropriate	Exempt	Non-exempt

. **Appendix 2 is** exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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: PENSION FUND PERFORMANCE 1 OCTOBER TO DECEMBER 2020

1. Synopsis

1.1 This is a quarterly report to the Pensions Sub-Committee to allow the Council as administering authority for the Fund to review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.

2. Recommendations

2.1 To note the performance of the Fund from 1 October to 31 December 2020 as per BNY Mellon interactive performance report

2.2 To receive the presentation by MJ Hudsons Allenbridge, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.

2.3 To note the update on BMO (emerging and frontier manager) attached as Exempt Appendix 2

2.4 To note January 2021 LGPS Current Issues attached as Appendix B

3. Fund Managers Performance for 1 October to 31 December 2020

3.1 The fund managers' latest quarter net performance figures compared to the benchmark and Mercer ESG ratings is shown in the table below.

Mercer's ESG ratings provide an assessment of the integration of ESG issues into the investment process and provides an overall rating – ESG 1 is the highest possible rating and ESG 4 is the lowest possible rating. As such, Mercer has provided the latest ESG ratings for the Fund's 9 strategies across equities, fixed income, DGFs, property and private equity.

Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (Oct-Dec'20) Gross of fees		12 Months to Dec' 2020-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	10.2%	UK equities	N	10.5%	12.6%	-9.8%	-9.8%
LCIV Sustainable EQ- RBC	10.1%	Global equities	1	11.9%	7.8%	24.6%	12.3%
LCIV -Newton	17.2%	Global equities	2	7.40%	8.6%	15.4%	13.2%
Legal & General	12.2%	Global equities	1	9.2%	9.1%	9.9%	10.4%
Standard Life	10.6%	Corporate bonds	2	3.3%	3.1%	8.6%	7.8%
Aviva (1)	7.8%	UK property	3	1.8%	0.75% 2.0%	5.2%	9.8% -1.0%
ColumbiaThreadneedle Investments (TPEN)	5.0%	UK commercial property	2	1.26%	2.1%	-1.7%	-1.1%
Hearthstone	1.8%	UK residential property	N	0.73%	2.0%	1.2%	-1.0%
Schroders	8.0%	Diversified Growth Fund	2	7.5%	1.6%	8.4%	6.2%
BMO Investments-LGM	5.1%	Emerging/ Frontier equities	2	11.6%	13.3%	7.3%	15.0%

0.75% & 9.8% = original Gilts benchmark; 2.0% and -1.0% are the IPD All property index; for information

3.2 BNY Mellon our new performance monitoring service provider now provides our quarterly interactive performance report. Performance attributions can be generated via their portal if required.

3.3 The combined fund performance and benchmark for the last quarter ending December 2020 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to Dec' 2020 Performance Gross of fees		
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %	
	6.9	6.0	12.8	7.0	

3.4 Copies of the latest quarter fund manager's reports are available to members for information if required.

3.5 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years' period to December 2020 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	12.8%	7.1%	9.0%
Customised benchmark	7.0%	6.1%	8.4%

3.6 **LCIV RBC Sustainability Fund**

3.6.1 RBC is the fund's global sustainable equity manager on the LCIV platform and was originally appointed in November 2018 to replace our Allianz mandate also on the LCIV platform.

3.6.2 LCIV RBC Sustainability was fully funded on 5 August 2019. Mandate guidelines include the following;

- The sub fund manager will invest only where they find all four forces of competitive dynamics (business model, market share opportunity, end market growth & management and ESG
- Target performance is MSCI World Index +2% p.a. net of fees over a three-year period.
- Target tracking error range over three years 2% p.a – 8.0%.
- Number of stocks 30 to 70
- Active share is 85% to 95%

3.6.3 The fund out performed its quarterly benchmark to December by 4.13% and a twelve-month out performance of 12.4%. The outperformance was mainly due to stock selections in sectors financials, industrials and utilities sectors, while the healthcare sector detracted over the quarter.

3.7 **LCIV Newton Investment Management**

3.7.1 Newton is the Fund's other global equity manager with an inception date of 1 March 2008. There have been amendments to the mandate the latest being a transfer to the London CIV platform.

3.7.2 The inception date for the LCIV NW Global Equity Fund was 22 May 2017. The new benchmark is the MSCI All Country World Index Total return. The outperformance target is MSCI All Country Index +1.5% per annum net of fees over rolling three- year periods.

3.7.3 The fund returned 7.5% against a benchmark of 8.6% for the December quarter. Since inception the fund has delivered an absolute return of 11.4% but relative under performance of 0.55% net of fees per annum. The underperformance this quarter was attributed to defensive stocks and sector positions in particular to consumer discretionary stocks.

3.8 **LBI- In House**

3.8.1 Since 1992, the UK equities portfolio of the fund has been managed in-house by officers in the Loans and Investment section by passive tracking of the FTSE 350 Index. The mandate was amended as part of the investment strategy review to now track the FTSE All Share Index within a +/- 0.5% range per annum effective from March 2008. After a review of the Fund's equities' carbon footprint Members agreed to track the FTSE UK All Share Carbon Optimised Index and this became effective in September 2017.

3.8.2 The fund returned 10.5% against FTSE All Share Index benchmark of 12.6% for the December quarter and a relative over performance of 0.26% since inception in 1992.

3.9 **Standard Life**

3.9.1 Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the December quarter, the fund returned 3.3% against a benchmark of 3.1% and an absolute return of 7.0% per annum since inception.

3.9.2 The drivers behind the performance were due to overweight exposure to the banking sector and utilities that made positive contributions. The biggest contributor, however, was the Fund's underweight to supranationals (government related entities such as KFW, UKRAIL and European Investment Bank).

3.9.3 The agreed infrastructure mandates are being funded from this portfolio and to date 5% has been drawn down.

3.10 **Aviva**

3.10.1 Aviva manages the fund's UK High Lease to Value property portfolio. They were appointed in 2004 and the target of the mandate is to outperform their customised gilts benchmark by 1.5% (net of fees) over the long term. The portfolio is High Lease to Value Property managed under the Lime Property Unit Trust Fund.

3.10.2 The fund for this quarter delivered a return of 1.8% against a gilt benchmark of 0.75%. The All Property IPD benchmark returned 2.0% for this quarter. Since inception, the fund has delivered an absolute return of 5.9%

3.10.3 This December quarter the fund's unexpired average lease term is now 20.6 years. The Fund holds 89 assets with 53 tenants. During the quarter, two sales to de- risk the portfolio were completed whilst the three purchases of a distribution facility, university sport science facility and finally an office facility went towards improving percentage of income linked to inflation, distribution yield and unexpired lease length. Rent collection for the period was at 84%.

3.10.4 One of Aviva's objectives in its transition strategy to net zero by 2040 is to reduce real estate carbon intensity by 30% and energy intensity by 10%. The Fund's diverse portfolio of high-quality properties let to secure tenants on long-term leases with 95% subject to inflation or fixed uplifts is well placed to weather the current uncertainties.

3.11 **Columbia Threadneedle Property Pension Limited (TPEN)**

3.11.1 This is the fund's UK commercial pooled property portfolio that was fully funded on 14 January 2010 with an initial investment of £45 million. The net asset value at the end of December was £82.2 million.

3.11.2 The agreed mandate guidelines are as listed below:

- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 April 2014.
- Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods.
- Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term.
- Income yield on the portfolio at investment of c.8.5% p.a.
- Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.

3.11.3 The fund returned a performance of 1.3% against its benchmark 2.1% for the December quarter mainly due to higher income return, overweight positions to industrials and underweight exposure to retail.

3.11.4 The cash balance now stands at 8.9% compared to 9.6% last quarter. During the quarter, there were no acquisitions and 5 disposals. There is a strong asset diversification at portfolio level with a total of 273 properties and 1343 tenancies. Rent collection is improving and tenants are being dealt with on a case by case to enable their viability on the short to medium term.

3.11.5 The UK commercial real estate market is forecast to experience significant turbulence until the economy returns to some form of normality following the debilitating effects of a prolonged lockdown' period. In times of such material uncertainty, defensively positioned Property Funds with high relative income yields and significant levels of portfolio diversification are considered to be best positioned to deliver relative out-performance. Here are some of TPEN features that cushions its prospects:

- Maximum diversification at both portfolio (267 properties, 1,306 tenancies) and
- at client levels (65 Pension Fund clients)
- Highly liquid average lot size of c.£6.6million
- Strategic portfolio positioning, with a focus on the strongest underlying subsectors
  (c.44%* of direct property exposure to the buoyant industrial market, with a 'last mile' focus)
- Significant unrealised potential to add value through pro-active asset management across the portfolio
- Defensive Fund positioning with ZERO property-level debt, no exposure to property company shares and no speculative property development
- Proven track record of delivering relative out-performance in periods of significant macroeconomic volatility.

3.12 **Passive Hedge**

3.12.1 The fund currently targets to hedge 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is run by BNY Mellon our custodian. At the end of the September quarter, the hedged overseas equities had a cash value of £6.9m.

3.12.2 Members agreed to reinstate the full 50% to the current global portfolios in their last meeting and the legal and fund documentation has now been completed. The hedge is now in place effective from 25 November for quarterly hedge rolls.

3.13 **Franklin Templeton**

3.13.1 This is the fund's global property manager appointed in 2010 with an initial investment commitment of £25million. Members agreed in September 2014 to re-commit another $40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. The agreed mandate guidelines are listed below:

- Benchmark: Absolute return
- Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point.
- Bulk of capital expected to be invested between 2 – 4 years following fund close.

- Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.

3.13.2 Fund I is now fully committed and drawn down, though $7.1m can be recalled in the future as per business plans. The final portfolio is comprised of nine funds and five co-investments. The funds is well diversified as shown in table below:

Commitments	Region	% of Total Fund
5	Americas	36
4	Europe	26
5	Asia	38

The total distribution received to the end of the December quarter is $60.1m.

3.13.3 The Fund is in the harvesting phase of its life cycle and continues to benefit from the realization of investments. The COVID-19 pandemic has interrupted progress on real estate business plans across the globe. Our expectation is that the primary effect upon the Fund will
be a delay in execution of asset sales.

3.13.4 Fund II is fully invested and the completed portfolio of 10 holdings consist of a diverse mix of property sectors including office, retail and industrial uses and the invested geographic exposure is 6% Asia, US 26% and 68% Europe. The admission period to accept new commitments from investors was extended with our consent through to June 2017 when it finally closed. The total capital call to the quarter end was $36m and a distribution of $33.9m. There was no call or distribution during this quarter and the NAV is $20m.

3.13.5 Members agreed to commit $50m to Fund III at the December meeting and the documentation was finalised in December to meet the final close date.

3.14. **Legal and General**

3.14.1 This is the fund's passive overseas equity index manager. The fund inception date was 8 June 2011 with an initial investment of £67million funded from transfer of assets from AllianzGI (RCM). The funds were managed passively against regional indices to formulate a total FTSE All World Index series.
Member agreed restructuring in 2016, and the funding of BMO (our emerging market manager and restructuring of the fund to the MSCI World Low Carbon was completed on 3rd July 2017.

3.14.2 The components of the new mandate as at the end of June inception, was £138m and benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets. For the quarter, the fund totalled £199m with a performance of 9.2%.

3.14.3 The equity protection strategy was settled on 12 June with a total cash value of £74.6m now invested in a money market fund but earmarked to fund the new Multi Asset Credit mandate.

3.15 **Hearthstone**

3.15.1 This is the fund's residential UK property manager. The fund inception date was 23 April 2013, with an initial investment of £20million funded by withdrawals from our equities portfolios. The agreed mandate guidelines are as follows:

- Target performance: UK HPI + 3.75% net income.
- Target modern housing with low maintenance characteristics, less than 10 years old.
- Assets subject to development risk less than 5% of portfolio.
- Regional allocation seeks to replicate distribution of UK housing stock based on data from Academics. Approximately 45% London and South East.
- 5-6 locations per region are targeted based on qualitative and quantitative assessments and data from Touchstone and Connells.
- Preference is for stock, which can be let on Assured Shorthold Tenancies (ASTs) or to companies.
- Total returns expected to be between 6.75% and 8.75% p.a., with returns split equally between income and capital growth. Net yields after fund costs of 3.75% p.a.
- The fund benchmark is the LSL Academetrics House Price Index

3.15.2 For the December, quarter the value of the fund investment was £28.8m and total funds under management is £60m. Performance net of fees was 0.74% compared to the IPD UK All Property benchmark of 2.0%.

Officers continue to monitor the fund on a quarterly basis with discussions with management. On 1 July as agreed, we switched from our current accumulation share class to an income share class that will enable annual cash dividend distribution at around 650k.

3.15.3 As with most property funds, Covid-19 uncertainty led to the suspension of the fund but has now been lifted. Income from residential rents has been more sustainable than many other sources of income, and rent collection is comparably high. They are working closely with their tenants to help them through this period. Cash balance stands at 14.0% with 204 properties.

3.16 **Schroders**

3.16.1 This is the Fund's diversified growth fund manager. The fund inception date was 1 July 2015, with an initial investment of £100million funded by withdrawals from our equities portfolios**.** The agreed mandate guidelines are as follows:

- Target performance: UK RPI+ 5.0% p.a.,
- Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).

- Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.
- The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.
- **Permissible asset class ranges (%):**
  - 25-75: Equity
  - 0- 30: Absolute Return
  - 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash
  - 0-20: Commodities, Convertible Bonds
  - 0- 10: Property, Infrastructure
  - 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.

3.16.2 The value of the portfolio is now £130m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The December quarter performance before fees was 7.5% against the benchmark of 1.6% (inflation+5%). The one -year performance is 8.4% against benchmark of 6.2% before fees.

3.16.3 Contributions to return over the quarter were achieved across return-seeking assets, driven by global and US equities. Gains in credit and emerging market debt supplemented these returns. Alternative assets also contributed, driven by absolute return strategies, while hedging positions in government bonds detracted from returns.

3.17 **BMO Global Assets Mgt**

This is the new emerging and frontier equity manager seeded in July 2017 with a total £74.4m withdrawn from LGIM. The mandate details as follows:

- A blended portfolio with 85% invested in emerging market and 15% in frontier markets
- Target performance MSCI Emerging Markets Index +3.0% (for the global emerging markets strategy)
- Expected target tracking error 4-8% p.a
- The strategy is likely to have a persistent bias towards profitability, and invests in high quality companies that pay dividends.

3.17.1 The December quarter saw a combined performance of 11.6% against a benchmark of 13.3% before fees. The biggest contributor to performance was not owning Alibaba. Lack of exposure to the strong Korean market as well as having less than benchmark exposure to China detracted performance.

3.17.2 The strategy remains to continue to research new companies that appear worthy of capital and continue to have a close communication with our existing investments to push them to higher business and governance standards which are believed to ultimately enhance long term return.

3.17.3 Officers and our independent advisor met the fund portfolio manager in February 2021 to discuss the portfolio and details of the discussion is attached as an Exempt Appendix 2.

3.18 **Quinbrook Infrastructure**
This one of the infrastructure managers appointed in November 2018. The total fund allocation infrastructure was 10% circa £130m. 40% of the allocation equivalent to $67m was allocated to low carbon strategy. Merits of Quinbrook include:

- Low carbon strategy, in line with LB Islington's stated agenda
- Very strong wider ESG credentials
- 100% drawn in 12-18 months
- Minimal blind pool risk
- Estimated returns 7%cash yield and 5% capital growth

Risks: Key Man risk

Drawdown to December 2020 is $65.2m

Pantheon Access- is the other infrastructure manager also appointed in November 2018. Total allocation was $100m and merits of allocation included:

- 25% invested with drawdown on day 1
- Expect fully drawn within 2-3 years
- Good vintage diversification between secondary's and co-investments
- Exposure to 150 investments
- Estimated return 5% cash yield and 6% capital growth

Risks: No primary fund exposure.

Drawdown to December 2020 is $39.85 and distribution of $3.75m

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:**
As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.

4.3 **Resident Impact Assessment:**
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".

An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising.

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

Environmental implications will be included in each report to the Pensions-sub 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

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending December 2020 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers. To note January2021 LGPS Current Issues attached as Appendix B
Members are also asked to note meeting briefing with BMO in February 2021 attached as Exempt Appendix 2.

Background papers:

1. Quarterly management reports from the Fund Managers to the Pension Fund.
2. Quarterly performance monitoring statistics for the Pension Fund – BNY Mellon

Final report clearance:

Signed by:

Corporate Director of Resources Date 19 March 2021

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London Borough of Islington

Report to 31st December 2020

MJ Hudson

FEBRUARY 2021

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Fund Manager Overview

Table 1 provides an overview of the external managers, in accordance with the Committee's terms of reference for monitoring managers.

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
LCIV Global Equity Fund (Newton) (active global equities)	Euan Munro will be joining them as their new CEO. Euan has most recently worked at Avia Investors in the same capacity.	Underperformed the benchmark by -1.16% in the quarter. Over three years the fund is ahead of the benchmark return by +1.57% p.a., and above the performance target of +1.50% p.a.	As at end December the sub- fund's value was £696.3 million. London Borough of Islington owns 40.18% of the sub-fund.
LCIV Sustainable Equity Fund (RBC) (active global equities)	None reported by the London CIV.	In Q4 2020 the fund delivered a return of +11.94%, ahead of the benchmark return of +7.78%. Over one year, the fund is +12.26% ahead of the benchmark.	As at end December the sub- fund's value was £625.0 million. London Borough of Islington owns 26.40% of the sub-fund.
BMO/LGM (active emerging and frontier equities)	Frederik Axsater joined BMO Global Asset Management as CEO of LGM Investment Management on 16th July 2020. George Lawrence joined the investment team as an Analyst in October.	Underperformed the benchmark by -1.62% in the quarter to December 2020. The fund is behind over three years by -3.94%.	Not reported.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Standard Life (corporate bonds)	There were 6 joiners, but 33 people left the firm during the quarter. None of the joiners were from fixed income, but six of the leavers were from the wider fixed income group.	The fund was marginally ahead of the benchmark by +0.19% in the quarter to December 2020. Over three years the fund is +0.41% p.a. ahead of the benchmark return net of fees, but behind the performance target of +0.8% ahead p.a.	Not available at the time of going to print.
Aviva (UK property)	During Q4, there were four joiners and three leaver from the Real Asset business, but not changes to the Lime Property team or the Executive team.	Outperformed against the gilt benchmark by +1.01% for the quarter to December 2020 but underperformed the benchmark over three years by -1.33%, delivering a return of +4.88% p.a., net of fees.	Fund was valued at £3.04 billion as at end Q4 2020. London Borough of Islington owns 4.2% of the fund.
Columbia Threadneedle (UK property)	There were three leavers during the quarter, two of whom have already been replaced by pre-existing Columbia Threadneedle employees.	The fund underperformed the benchmark return in Q4 2020 by -0.9%. It underperformed the benchmark by -0.5% p.a. over three years, below the target of 1% p.a. outperformance. (source: Columbia Threadneedle)	Pooled fund has assets of £1.95 billion. London Borough of Islington owns 4.21% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	Assets under management of £1.2 trillion at end June 2020. Net flows of +£6.4 billion to 30 September 2020.
Franklin Templeton (global property)	One leaver during the quarter, Riccardo Abello. However, his departure will not affect the funds in which London Borough of Islington invests.	The portfolio return over three years was +15.72% p.a., well ahead of the target of 10% p.a.	$1,498 billion of assets under management as at end December 2020.
Hearthstone (UK residential property)	There was one addition to the team in Q4 2020, Darren Cotter, who joined as Director of Institutional Business Development.	The fund underperformed the IPD UK All Property Index by -1.23% in Q4. Additionally, it is trailing the IPD benchmark over three years by -0.62% p.a. to end December 2020.	Fund was valued at £59.8m at end Q4 2020. London Borough of Islington owns 48.1% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Schroders (multi-asset diversified growth)	During Q4 there were no changes to investment team.	Fund returned +7.48% during the quarter and +4.34% p.a. over 3 years, -2.70% p.a. behind the target return.	Total AUM stood at £536.3 billion as at end September 2020, an increase of £10.5 billion compared to June 2020.
Quinbrook (renewable energy infrastructure)	No changes to the team in Q4 2020. However, early Q1 2020 saw James Allan joined as a Director and Team Leader.	For the year to Q4 2020 the fund returned +10.88%, slightly behind the annual target return of +12.00%, although performance should be assessed over a longer time period for this fund.	
Pantheon (Private Equity and Infrastructure Funds)		The combined funds returned +15.76% p.a. over three years.	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

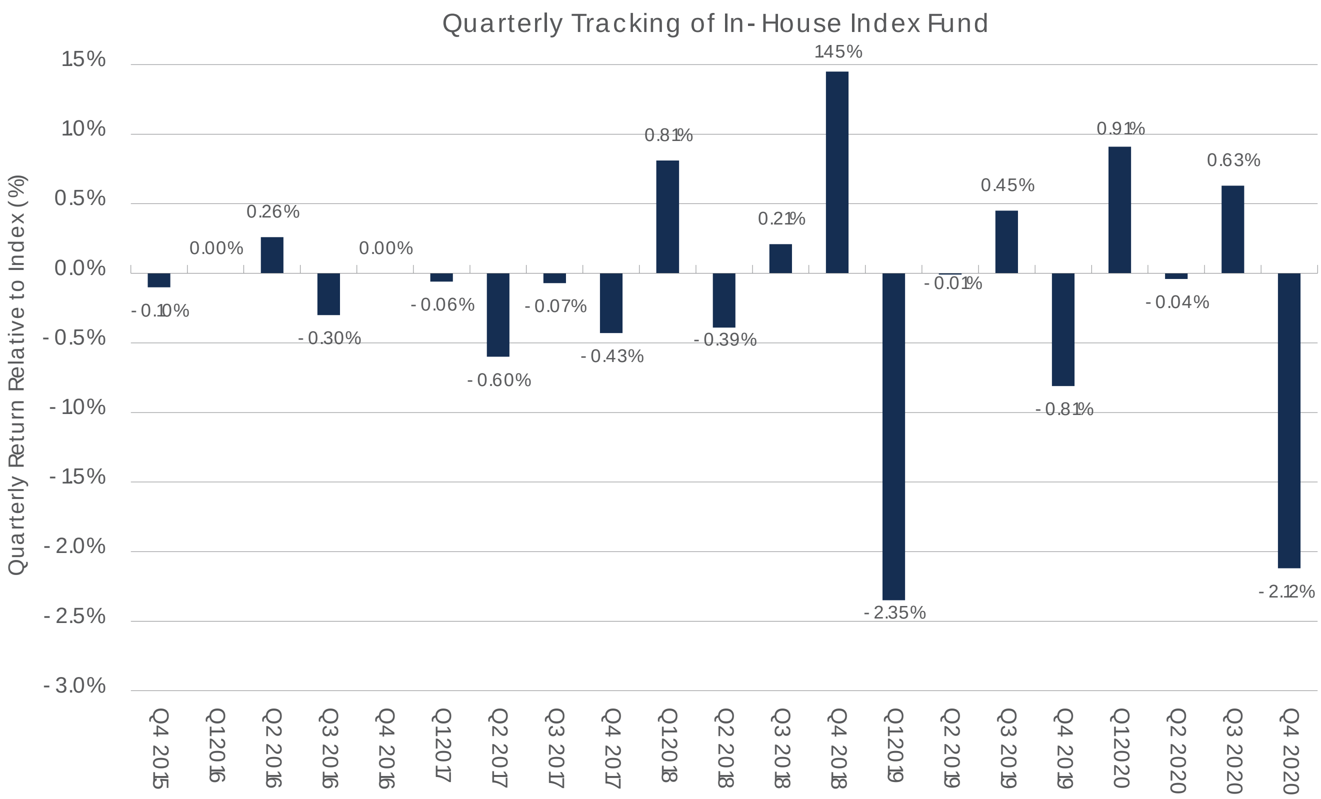
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q4 2020 the fund returned +10.50% for the quarter, compared to the FTSE All-Share index return of +12.62%. Over three years the fund has returned -0.61 p.a., ahead of the FTSE All-Share Index by +0.30%.

Mandate Summary: A UK equity index fund designed to match the total return on the UK FTSE All-Share Index. In Q3 2017, the fund switched to tracking the FTSE UK Low Carbon Optimisation Index. This Index aims to deliver returns close to the FTSE All-Share Index, over time. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the low carbon index.

Performance Attribution: Chart 2 shows the quarterly tracking error of the in-house index fund against the FTSE All-Share Index over the last five years. There are no performance issues although the new mandate is resulting in wider deviations quarter-on-quarter since the transition to the low carbon fund. While the low carbon index underperformed the FTSE All Share index in Q4 by -3.85%, it has outperformed the All Share by +10.95% over one year. Over three years, the portfolio outperformed its three-year benchmark by +0.30% p.a.

CHART 2:



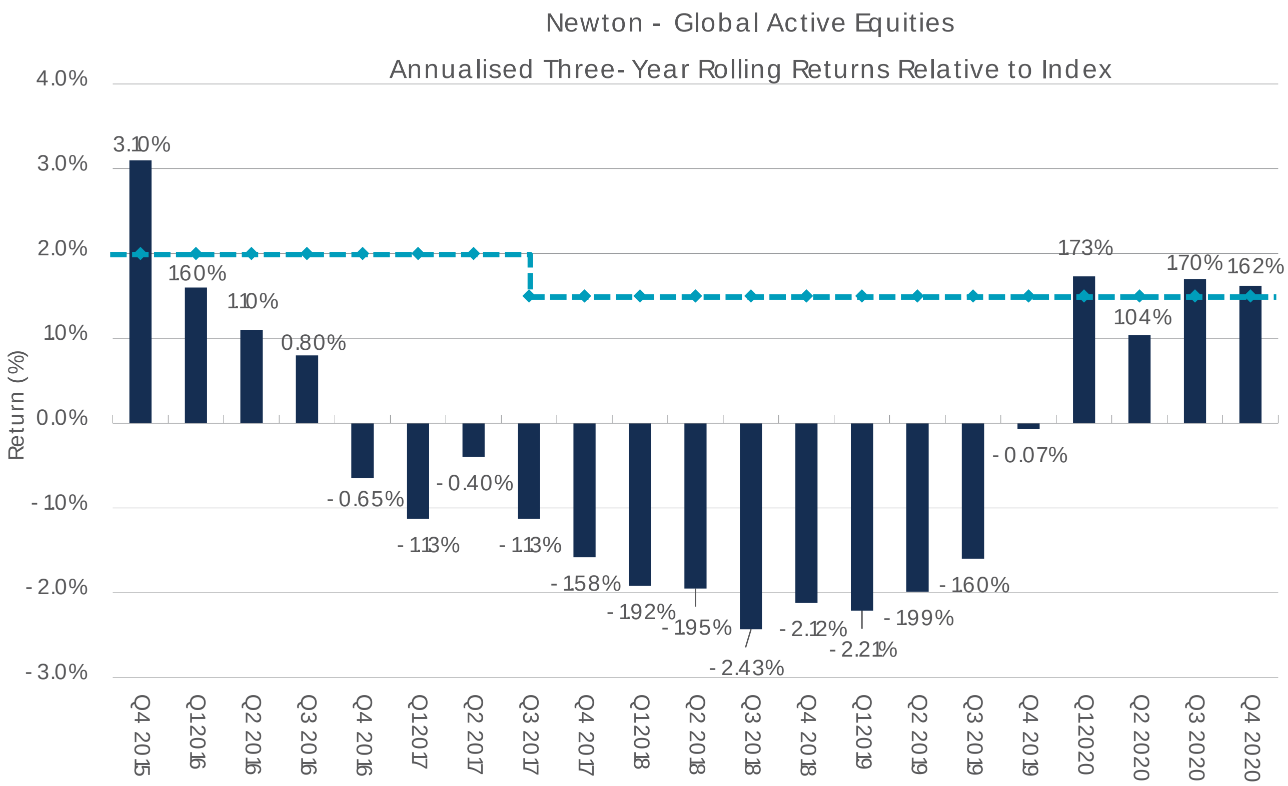
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q4 2020 by -1.16%. Over three years the portfolio outperformed the benchmark by +1.57% and is ahead of the performance target of benchmark +1.5% p.a.

Mandate Summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that they believe will impact the economy and industry. Some are broad themes that apply over the longer term; others are cyclical. Stock selection is based on the industry analysts' thematic recommendations. The objective of the fund since 22nd May 2017 is to outperform the FTSE All-World Index by +1.5% p.a. over rolling three-year periods, net of fees.

Performance Attribution: Chart 3 shows the three-year rolling returns of the portfolio relative to the benchmark (the navy bars) and compares this with the performance target, shown by the blue dotted line.

CHART 3:



Source: MJH; BNY Mellon

For the three-year period to the end of Q4 2020, the fund was ahead of the benchmark by +1.57% p.a. This means it outperformed the performance objective by +0.07% (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

Overall, the portfolio's sector allocation has aided performance while individual stock selection has detracted from performance. In particular largest detractor in the last quarter was Alibaba, the Chinese e-commerce giant, which saw a significant drop in its share price due to an anti-trust investigation and the obstruction to the IPO for its financial arm, Ant Group, by the Chinese regulators. The manager believes it continues to be attractively priced, however.

Positive contributions to the total return came from holdings such as Citi Group (+0.84% contribution to the total return), Samsung Sdi (+0.75%) and Applied materials (+0.73%).

Although previously the London CIV has expressed concern over lacklustre performance, the fund return is now outperforming the benchmark by +2.15% over one year.

Portfolio Risk: The active risk on the portfolio stood at 3.08% as at quarter end, lower than as at end September when it stood at 3.26%. The portfolio remains defensive, with the beta on the portfolio at end December standing at 0.93, in line with the previous quarter (if the market increases by +10% the portfolio can be expected to rise +9.3%).

At the end of Q4 2020, the London CIV sub-fund's assets under management were £696.3m, compared with £665.4m last quarter. London Borough of Islington now owns 40.18% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 55 as at quarter-end (four less than last quarter). The fund added three positions, Unilever Plc, Norfolk Southern, Barclays. It completed sales on Unilever NV, Cisco Systems, Lennar, Gilead Sciences, Suntory Beverage & Food, CMS Energy and Dnb.

Staff Turnover: Euan Munro will be joining them as their new CEO. Euan has most recently worked at Aviva Investors in the same capacity, before stepping down on 4th January 2021.

LCIV Sustainable Equity Fund

Headline Comments: Over Q4 2020 the fund delivered a return of +11.94%, this was ahead of the benchmark return of +7.78%. The one-year return was +24.59%, ahead of the benchmark by +12.26%. The fund does not yet have a three-year track record. Islington's investment makes up 26.40% of the total fund.

Mandate Summary: A global equities fund that considers environmental, social and governance factors. The fund aims to deliver, over the long term, a carbon footprint which is lower than that of the MSCI World Index Net (Total Return). The fund also aims to achieve capital growth by outperforming the MSCI World Index Net (Total Return) by 2% per annum net of fees annualised over rolling three-year periods.

Performance Attribution: The portfolio has overweight allocations to the financial and consumer discretionary sectors, healthcare, industrials, materials and utilities. The portfolio performance was mainly driven by exposure to financials, industrials and utilities, while the healthcare sector detracted over the quarter. The manager continues to add value through active stock selection.

Portfolio Characteristics: As at end of December 2020 the fund had 37 holdings across 14 countries. The tracking error of the fund was 3.70% meanwhile volatility stood at 16.93%. Over the quarter the largest contributors to return include Orsted A/S (+1.30%), SVB Financial Group (+1.24%), and Nidec (+0.94%). There largest detractors include Bluebird Bio (-0.28%), Nvidia (-0.19%) and Roche Holdings (-0.15%).

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of +11.66 % in Q4 2020, compared with the benchmark return of +13.28%, an underperformance of -1.62%. The emerging market component of this portfolio returned +18.26% (source: BMO, and in US dollars) compared with the index return of +19.70%. The frontier markets portfolio was ahead of the index return, delivering a return of +16.44% vs +14.0%, (source: BMO, and in US dollars). Over one year, the total fund is behind of the benchmark return by -7.77% (source BNY Mellon, in sterling). Over three years, the fund has returned +2.25%, compared to the index return of +6.19% (an underperformance of -3.94%). Please note that the frontier markets fund is due to close in the near future.

Mandate Summary: The manager invests in a selection of emerging market and frontier market equities, with a quality and value, absolute return approach. The aim is to outperform a combined benchmark of 85% MSCI Emerging Markets Index and 15% MSCI Frontier Markets Index by at least 3% p.a. over a three-to-five-year cycle.

Performance Attribution: while performance was strong on an absolute basis, the manager did lag the index over the quarter. The biggest contributor to relative performance came from not owning Alibaba, a benchmark heavyweight that lost 20.8% after the cancellation of the IPO of its financial services subsidiary (Ant Group) and subsequent announcement of antitrust investigations by the Chinese government caused considerable downward pressure on the share price.

During the quarter, the largest positive contributors to the quarterly absolute return for the emerging markets portfolio came from Taiwan Semiconductor Manufacturing (+1.8%), Anta Sports Products Ltd (+1.6%), and HDFC Bank Ltd Common Stock (1.5%). Companies which detracted most from performance included Reliance Ltd (-0.3%), Newgold Issuer Ltd (-0.2%), and Unilever (-0.1%).

In the frontier market portfolio, the top positive contributors to the quarterly absolute return were Bank of Georgia Group (+2.2%), Phu Nhuan Jewelry (+2.2%), and Humansoft Holdings Co KSC (+1.9%). Companies which detracted the most from performance were Commercial International Bank GDR (-1.0%), Newgold Issuer Ltd (-0.5%, held in both portfolios), and Alicorp SAA (-0.5%).

Over one year, both the emerging market and the frontier market portfolios continues to trail behind the benchmark. For the frontier market portfolio, the return over 12 months was -8.29% versus the benchmark return of +4.55% (source BMO, in US dollars). The emerging market portfolio is trailing by -4.89%. Whilst the frontier market fund is closing in the coming weeks, the level of underperformance on the emerging market portfolio is something to continue monitoring closely.

Portfolio Risk: Within the emerging markets portfolio, 16.7% was allocated to developed or frontier markets (with the frontier markets allocation at around 5%), and cash was at 3.2% as at quarter-end. The largest overweight country allocation in the emerging markets portfolio remained India (+17.0% overweight). The most underweight country allocation was China/HK (-13.5%).

Within the frontier markets portfolio, it is worth noting that 62.5% of the portfolio was invested in countries that are not in the benchmark index, including Egypt, Pakistan, Costa Rica and Peru. This explains the high tracking error of returns versus the benchmark (7.7% as at end December 2020). The most overweight country allocation remained Egypt (+11.2%) and the most underweight was Vietnam (-12.9%).

Portfolio Characteristics: The frontier markets portfolio held 33 stocks as at end December compared with the benchmark which had 79. The emerging markets portfolio held 34 stocks as at end December compared with the benchmark which had 1,380.

Organisation: Frederik Axsater joined BMO Global Asset Management as CEO of LGM Investment Management on 16th July 2020. George Lawrence joined the investment team as an Analyst in October.

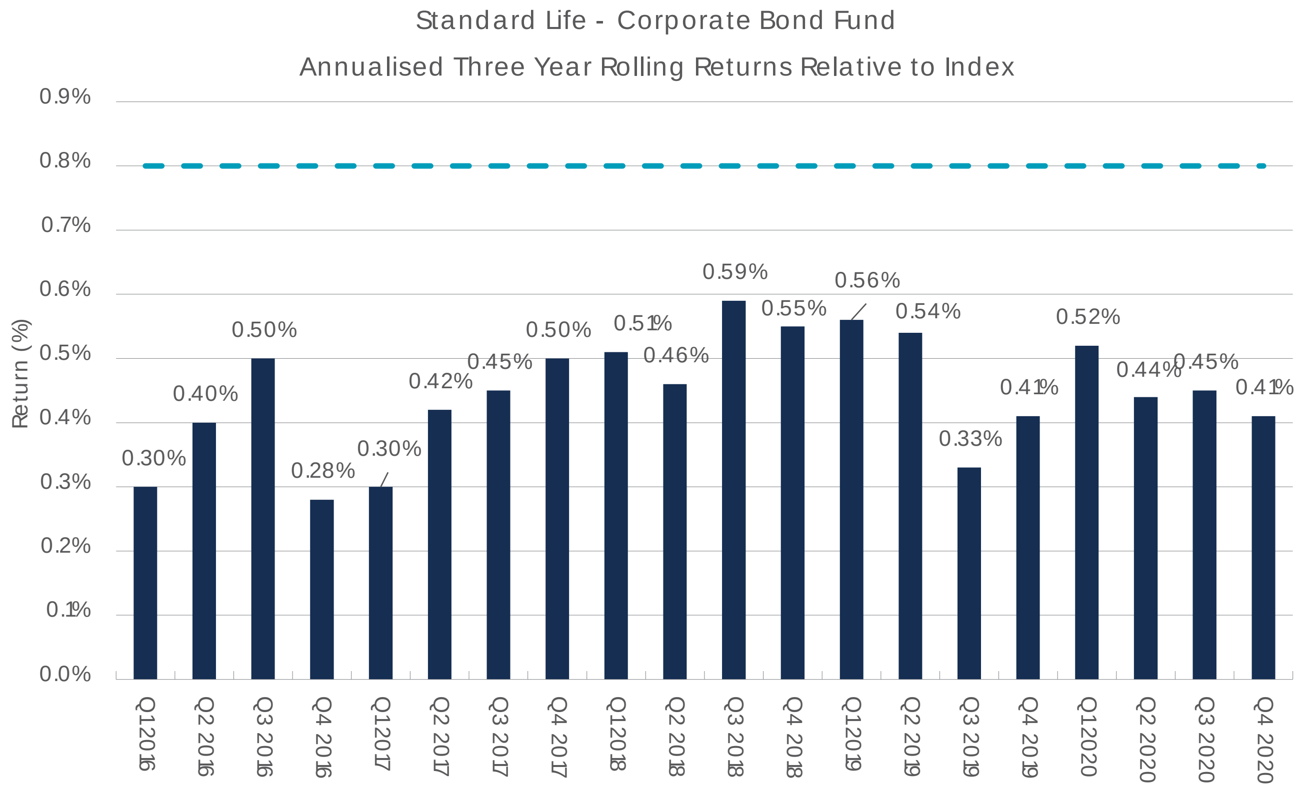
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was marginally ahead of the benchmark return during the quarter by +0.19%. Over three years, the fund was ahead of the benchmark return (by +0.41%) but behind the performance target of benchmark +0.80% p.a.

Mandate Summary: The objective of the fund is to outperform the iBoxx Sterling Non-Gilt Index (a UK investment grade bond index) by +0.8% p.a. over rolling three-year periods.

Performance Attribution: Chart 4 shows the three-year performance of the Corporate Bond Fund compared to the Index, over the past five years. This shows the fund continues to be ahead of the benchmark over three years but has been trailing the performance objective for some time (shown by the dotted line in Chart 4).

CHART 4:



Source: MJH; BNY Mellon

Over three years, the portfolio has returned +5.48% p.a. net of fees, compared to the benchmark return of +5.07% p.a. Over the past three years, asset allocation has added +0.01% value, meanwhile stock selection has added +0.20% and curve plays +0.01%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was EIB 5.625% 2032 at 1.5% of the portfolio. The largest overweight sector position remained Financials (+7.1%) and the largest underweight position remained sovereigns and sub-sovereigns (-14.9%). The fund holds 4.1% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: not available at the time of going to print.

Staff Turnover: there were 6 joiners, but 33 people left the firm during the quarter. No joiners were related to fixed income but 6 of the leavers were part of the wider fixed income team.

Aviva Investors – Property – Lime Property Fund

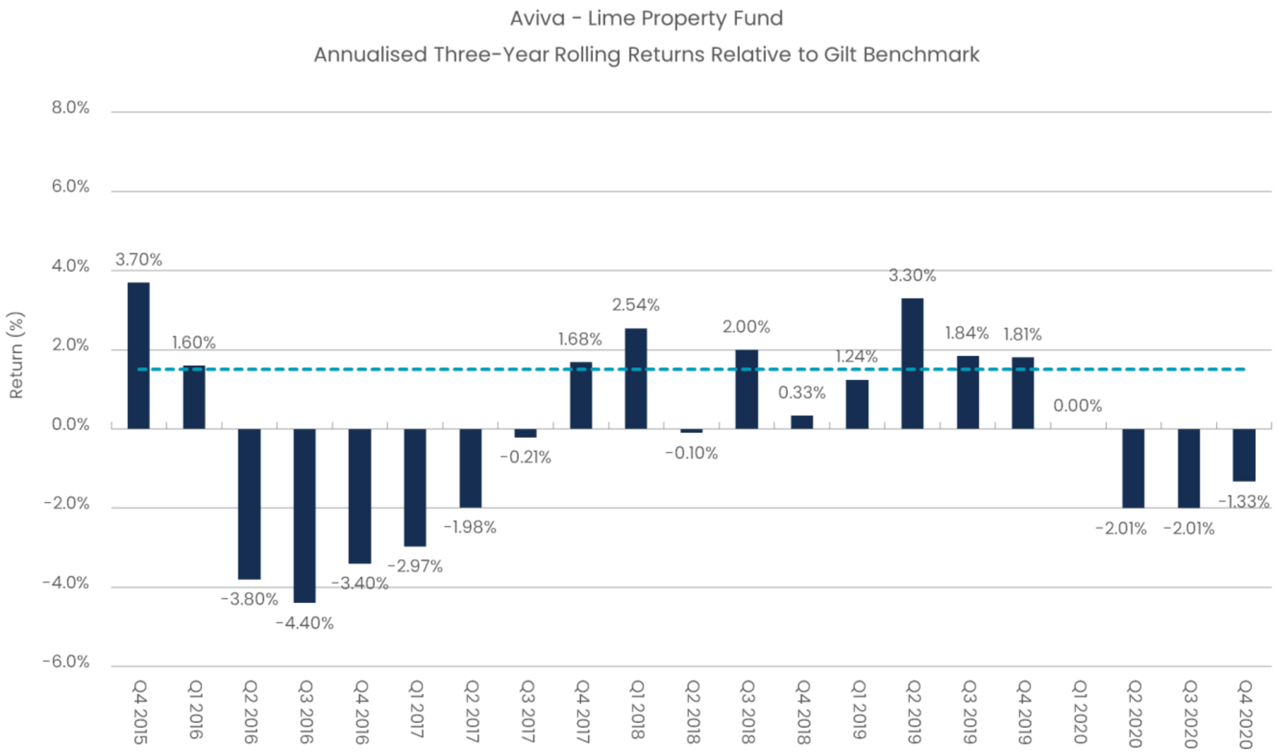
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it surpassed the fund benchmark return, with a relative overperformance of +1.01% in Q4. Over three years, the fund is behind the benchmark return by -1.33%.

Mandate Summary: An actively managed UK pooled property portfolio, the Lime Fund invests in a range of property assets including healthcare, education, libraries, offices and retail. The objective of the fund is to outperform a UK gilt benchmark, constructed of an equally weighted combination of the FTSE 5-15 Years Gilt Index and the FTSE 15 Years+ Gilt Index, by +1.5% p.a., over three-year rolling periods.

Performance Attribution: The fund's Q4 2020 return was attributed by Aviva to +0.99% capital return and +0.95% income return.

Over three years, the fund has returned +4.88% p.a., below the gilt benchmark of +6.21% p.a., and behind its outperformance target of +1.5% p.a., as can be seen in Chart 5.

CHART 5:



Source: MJH; BNY Mellon

Over three years, 60% of the return came from income and 40% from capital gain.

Portfolio Risk: This quarter the fund sold two investments, the first being a £5.1m sale of an HSBC high street bank in Lincoln. The second was the sale of a John Lewis distribution centre for £110m in Milton Keynes. These two sales were aimed at de-risking the portfolio and reducing credit risk and property risk. Three purchases during the quarter included a £139m distribution centre let to Sainsbury's on a 25-year lease in Birmingham, a £60m sale and lease back with Leeds Beckett University on their new sport science facility, and a £22m deal funding new offices for M&G Investments for a 20-year inflation linked rent agreement.

The fund has £244 million of investible capital and the manager believes the current drawdown period for new capital is 12-15 months.

The average unexpired lease term was 20.6 years as at end December 2020. 10.4% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.4%, and the number of assets in the portfolio increased from 87 to 89 in Q4. The weighted average tenant credit quality rating of the Lime Fund changed from A- in the previous quarter to BBB+ this quarter.

Portfolio Characteristics: As at December 2020, the Lime Fund was valued at £3.04 billion, an increase of £199 million from the previous quarter end. London Borough of Islington's investment represents 4.2% of the total fund. The fund had 96% allocated to inflation-linked or fixed rental uplifts as at end December 2020.

Staff Turnover/Organisation: During Q4, there were four joiners and three leavers from the Real Asset business, but not changes to the Lime Property team or the Executive team.

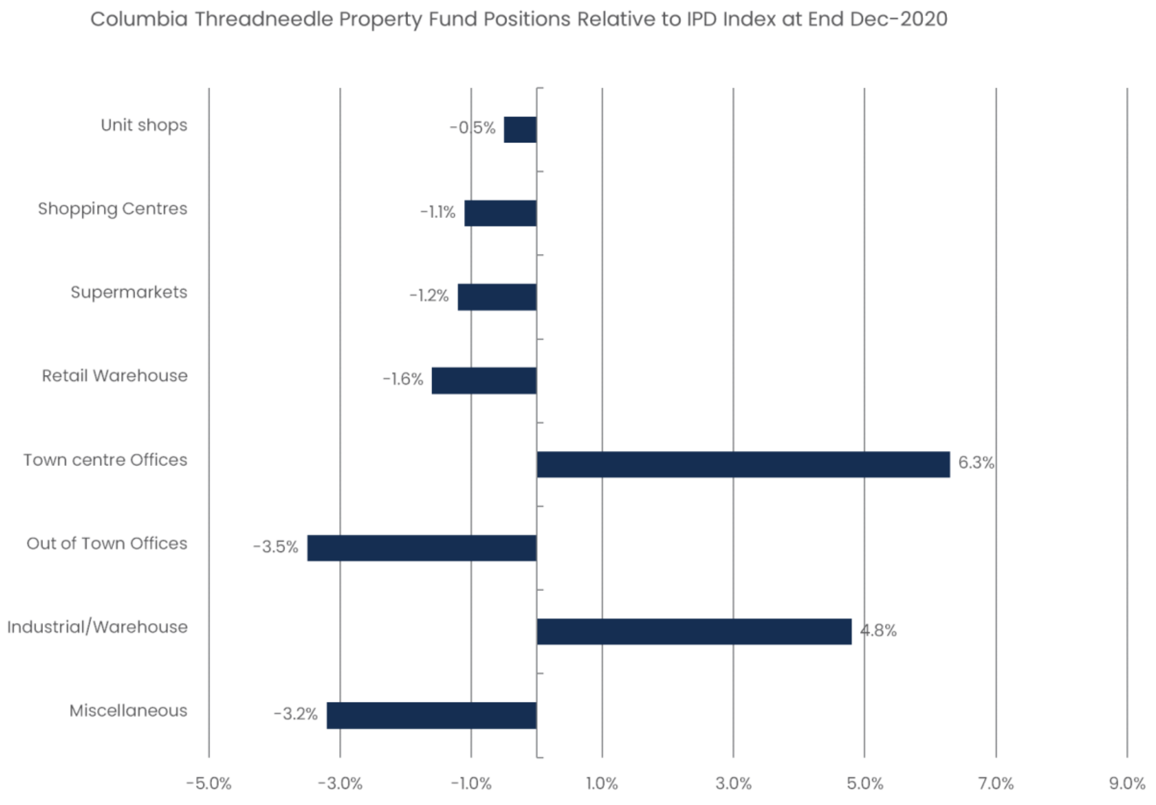
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund underperformed the benchmark return in Q4 2020 by -0.9% (source: Columbia Threadneedle). Over three years, the fund also underperformed the benchmark by -0.5% (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. above benchmark.

Mandate Summary: An actively managed UK commercial property portfolio, the Columbia Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Its performance objective is to outperform the AREF/IPD All Balanced – Weighted Average (PPFI) Index by at least 1.0% p.a., net of fees, on a rolling three-year basis.

Portfolio Risk: Chart 6 shows the relative positioning of the fund compared with the benchmark.

CHART 6:



Source: MJH; Columbia Threadneedle

During the quarter, the fund made no acquisitions and five sales.

The fund's void rate has increased from 9.7% at end September to 10.1 at end of December, versus the benchmark's 9.0%. This has been monitored because a higher-than-benchmark void rate could pull the performance down on a relative basis. The rent default rate has increased during the pandemic, and this is worth noting. At December 2019, 99% of rents were collected by Columbia Threadneedle. This fell to a low of 82% by June 2020, but has begun to improve, with rent collections running at 88% by end September (most recent data point available).

The cash balance at end December was 8.9%.

Performance Attribution: The portfolio slightly underperformed the benchmark in Q4 2020, by -0.9% (source: Columbia Threadneedle). Over three years, the fund is behind its benchmark, a relative underperformance of -0.5% p.a., this means the fund is underperforming the target of +1.0% p.a. above the benchmark (source: Columbia Threadneedle).

Portfolio Characteristics: As at end December 2020, the fund was valued at £1.95bn, slightly down from the fund's value in September 2020. London Borough of Islington's investment represented 4.21% of the fund.

Staff Turnover: There were three leavers from the team, two of whom have already been replaced by existing staff at the manager (John Willcock, who retired, has been replaced by Joseph Vullo who was previously Head of Asset Management, Real Estate, and Tim Jagger who sadly passed away). The manager noted that there may be further recruitment into the team.

Legal and General Investment Management (LGIM) – Overseas Equity Index Funds

Headline Comments: The two passive index funds were within the expected tracking range when compared with their respective benchmarks. Both FTSE-RAFI Emerging Markets and MSCI World Low Carbon Target index funds performed in line with their benchmarks in Q4.

Mandate Summary: Following a change in mandate in June 2017, the London Borough of Islington now invests in two of LGIM's index funds: one is designed to match the total return on the FTSE-RAFI Emerging Markets Equity Index; the second is designed to match the total return on the MSCI World Low Carbon Target Index. The MSCI World Low Carbon Target is based on capitalisation weights but tilting away from companies with a high carbon footprint. The FTSE-RAFI Index is based on fundamental factors.

Performance Attribution: The two index funds both tracked their benchmarks as expected, as shown in Table 2.

TABLE 2:

	Q4 2020 FUND	Q4 2020 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+16.02%	+16.01%	0.01%
MSCI World Low Carbon Target	+7.95%	+7.97%	-0.02%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 83.36% to the MSCI World Low Carbon Target index fund, and 16.64% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

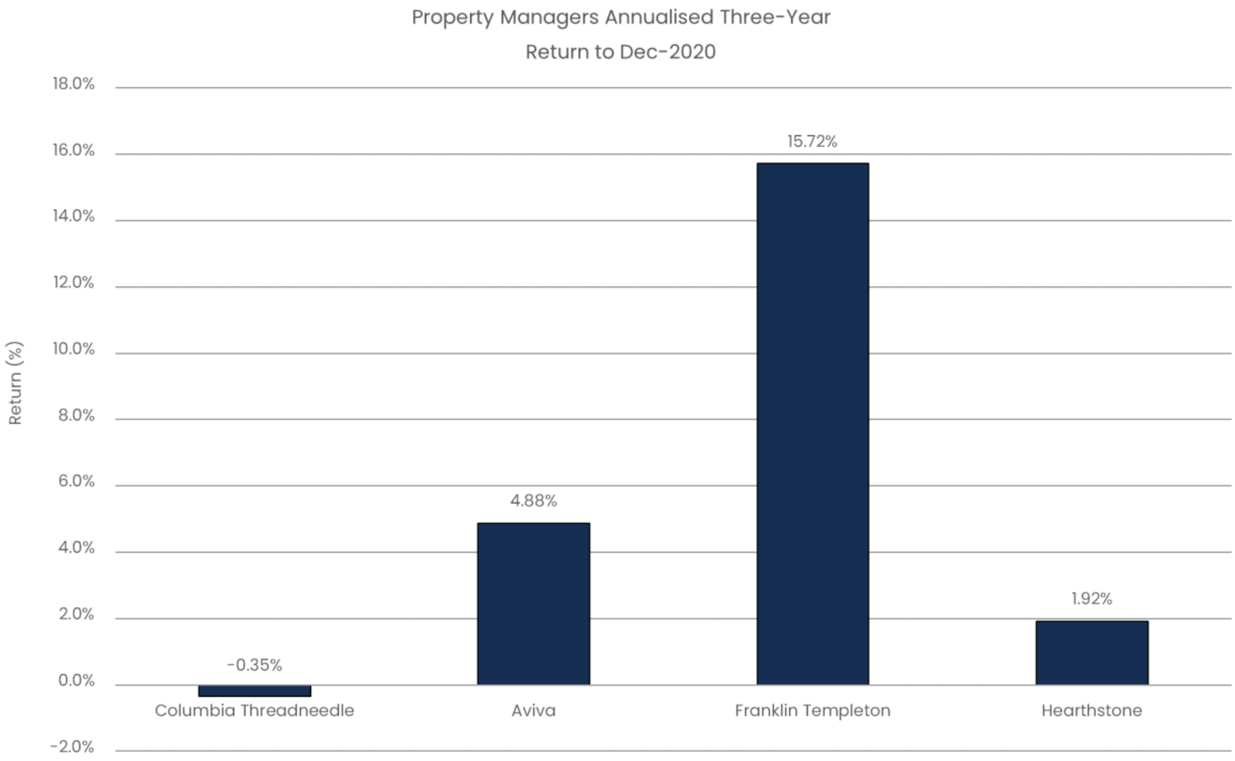
Franklin Templeton – Global Property Fund

Headline Comments: This is a long-term investment and as such a longer-term assessment of performance is recommended. There are two funds in which London Borough of Islington invests. The portfolio in aggregate outperformed the absolute return benchmark of 10% p.a. over three years by +5.72%.

Mandate Summary: Two global private real estate fund of funds investing in sub-funds. The performance objective is an absolute return benchmark over the long term of 10% p.a.

Performance Attribution: Over the three years to December 2020, Franklin Templeton continues to be the best performing fund across all four property managers. Chart 7 compares their annualised three-year performance, net of fees.

CHART 7:



Source: MJH; Columbia Threadneedle

Portfolio Risk: Fund I is currently in its harvesting phase. Ten of the underlying Funds in the portfolio have now been fully realised, with four remaining, and total distributions to date have been US$494.2 million, or 154.8% of total Fund equity. The Fund's use of leverage was at 42% for the quarter.

The largest remaining allocation in Fund I is to the US (48% of funds invested), followed by Spain (36%), Italy (10%), and UK (6%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Of all the underlying funds (realised and unrealised), three have performed well ahead of expectations, five were above expectations, four were on target and two were below expectations, Sveafastigheter III and Lotus Co-Investment (Lotus has now been fully liquidated).

Fund II is now fully invested in a diverse mix of property sectors including office, retail and industrial uses and is continuing to make distributions. As at end December 2020, 74.0% of committed capital had been distributed. Leverage stood at 54%. The manager notes that the pandemic has led to some delays in implementing business plans in some of the underlying investments, in this Fund.

The largest geographic allocation in Fund II is to Italy (53% of funds invested), followed by the US (39%) and China (6%).

Three of the underlying funds are performing well ahead of expectations, two are above expectations, and five are on target.

Staff Turnover/Organisation: During Q4 2020 there was only one change to the team, Riccardo Abello, who left in December 2020. However, his role was focussed on the acquisition of European assets and, since both Fund I and Fund II are fully invested, his departure will not affect London Borough of Islington's portfolio.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending December 2020 as well as over three years.

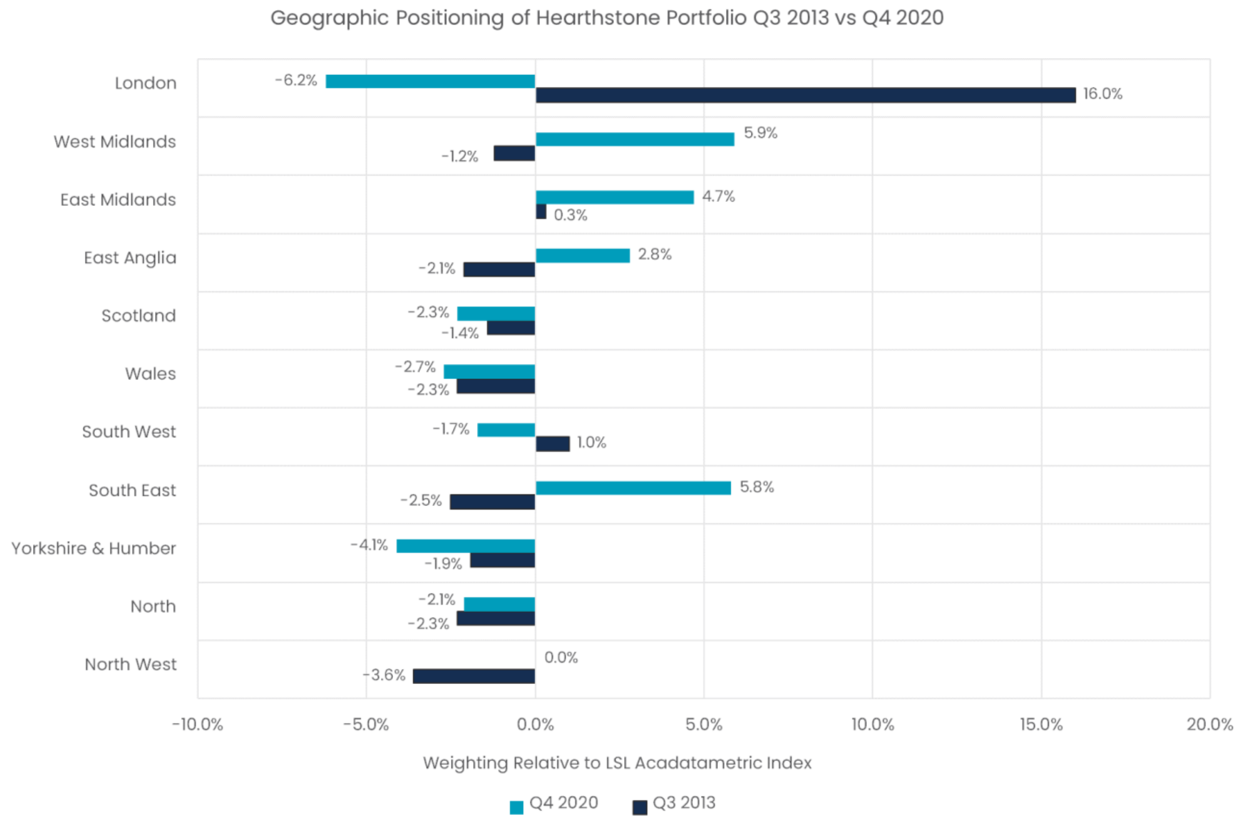
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to December 2020 by -0.62% p.a., returning +2.16% p.a. versus the index return of +2.78% p.a. The gross yield on the portfolio as at December 2020 was 4.43%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 2.26%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 14.08%.

Chart 8 compares the regional bets in the portfolio in Q4 2020 (turquoise bars) with the regional bets at the start of the mandate, in Q3 2013 (navy bars).

CHART 8:



Source: MJH; Hearthstone

Portfolio Characteristics: By value, the fund has a 9% allocation to detached houses, 42% allocated to flats, 26% in terraced accommodation and 24% in semi-detached.

As at end December there were 204 properties in the portfolio and the fund stood at £60.0 million. London Borough of Islington's investment represents 48.1% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: In Q4 there were no leavers. However, there was one new addition to the team, Darren Cotter, as Director of Institutional Business Development.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a positive return in Q4 2020, and in relative terms it outperformed against its target. However, over three years, the fund is behind the target return of RPI plus 5% p.a. by -2.70%.

Mandate Summary: The fund invests in a broad mix of growth assets and uses dynamic asset allocation over the full market cycle, with underlying investments in active, passive and external investment, as appropriate. Schroders aim to outperform RPI plus 5% p.a. over a full market cycle, with two-thirds the volatility of equities.

Performance Attribution: The DGF delivered a return of +7.48% in Q4 2020. This is +1.58% ahead of the RPI plus 5% p.a. target return of +5.90% for Q4. Over three years, the DGF delivered a return of +4.34% p.a. compared with the target return of +7.03% p.a., behind the target by –2.70% p.a. This underperformance remains a concern, particularly as the underperformance over three years has not improved since Q2 2018, when it was trailing its target by -3.81%.

In Q4 2020, equity positions contributed +6.5% to the total return, alternatives +0.6%, credit and government debt +1.2%, and cash and currency detracted -1.1% (figures are gross of fees).

The return on global equities was +8.3% p.a. for the three years to December 2020 compared with the portfolio return of +4.3%. Over a full three-to-five-year market cycle the portfolio is expected to deliver equity-like returns.

Portfolio Risk: The portfolio is expected to exhibit two-thirds the volatility of equities over a full three to five-year market cycle. Over the past three years, the volatility of the fund was 8.5% compared to the three-year volatility of 17.2% in global equities (i.e. 50% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 38% in internally managed funds (same as last quarter), 35% in active bespoke solutions (same as last quarter), 3% in externally managed funds (same as last quarter), and 16% in passive funds (down from 21% last quarter) with a residual balance in cash, 10% (up from 4% last quarter), as at end December 2020. In terms of asset class exposure, 43.8% was in equities, 16.9% was in alternatives and 29.2% in credit and government debt, with the balance in cash, 10.1%

Alternative assets include absolute return funds, property, insurance-linked securities, private equity, infrastructure debt and investment trusts.

Organisation: During the quarter, there were no changes to the investment team.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 30th December 2020 was positive at 10.88%, behind the target return of +12.0%.

Mandate Summary: The fund invests in renewable energy and low carbon assets across the UK, US and Australia as well as selected OECD countries. The fund is expected to make between 10 and 20 investments in its lifetime and targets a net return of 12% per annum. The fund held a final closing in February 2019 with approximately $730 million committed by 15 limited partners.

Portfolio Characteristics: As at Q4 2020, on an unaudited basis, the fund had invested $622.8 million into projects ranging from onshore wind farms, solar power plants, battery storage and natural gas peaking facilities (power plants that generally run only when there is a high demand for electricity, in order to balance the grid). The total operational generating capacity of operational projects which the Fund is invested in is 1,406 MW (including those with minority stakeholders) as at 31 December 2020.

Organisation: During the quarter there were no changes to the team. However, early in Q1 2021 James Allan joined as a Director and Team Leader, specialising in Digital Applications.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +15.76% per annum.

Mandate Summary: London Borough of Islington have made total commitments of £103.5m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. This infrastructure fund, Patheon Global Infrastructure Fund III "PGIF III", was the most recent commitment from Islington in 2018 totalling £74.6m. Net IRR at 30 September 2020 across all strategies was 9.6%, up from 9.4% at Q2 2020, with a net multiple of 1.41 x at Q3 2020, up from 1.40 x at Q2 2020.

Portfolio Characteristics: Over the quarter, a total of £4.5m was drawn down, wholly to PGIF III, the infrastructure fund. Distributions were received across all strategies bar one (Pantheon Global Secondaries Fund III 'A'), totalling £1.0m over the period. Overall, the programme's rolled for cash valuation at Q4 2020 was £31.1m.

Karen Shackleton
Senior Adviser, MJ Hudson
3rd March 2021

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LGPS CURRENT ISSUES

JANUARY 2021

welcome to
brighter

In this edition

Happy New Year! We hope you had a rest over Christmas and enjoyed a break, despite the pressures of the various lockdown measures at the time.

For 2021 so far, it is not so much "out with the old, in with the new" - but more a case of development of the key themes we saw last year with a few new twists as things unfold. We hope this edition of Mercer Current Issues finds you safe and well in these challenging circumstances. This issue provides an update on developments over recent months.

COVID-19

A new year, a new lockdown but 3 new vaccines

At the time of writing, all parts of the UK are experiencing a tightening in lockdown restrictions over the short-term. With this we see continued pressure on employers, the wider economic outlook and of course every individual in relation to their physical, mental and financial wellbeing. First and foremost, we therefore hope this edition of Current Issues finds you safe and well.

In addition to the challenges of new strains and increased lockdown measures, saw a new hope with the advent of an increasing number of vaccines licensed for use in the UK and the implementation of the vaccination programme. In anticipation of the licensing of the vaccines we also saw a climb in growth assets towards the end of last year as the markets began to anticipate and price in the good news.

Notwithstanding the positive reaction from investment markets, the economic outlook remains challenging and this is likely to put pressure on future investment returns on Fund assets and to the extent the returns are not achieved in the future, on employer contributions. This comes at a time where some employers will be facing significant financial challenges as the extended Furlough arrangements unwind.

Ongoing monitoring of funding and covenant for “at risk” employers therefore continues to be a fundamental part of a robust risk management framework. The effects of Covid-19 potentially places more employers into the “at risk” group. Our PFaroe tool is available to provide you with easy access to daily funding information at your fingertips. We recommend a proportionate approach to monitoring however, as we recognise that budgets will be challenging. Therefore it will be important to target spend where the quantum of risk exposure is greatest. Your usual Mercer consultant will be well placed to guide you on what this means for your Fund.

THE CONTINUING IMPACT OF THE COVID-19 OUTBREAK

Extension of the furlough scheme

Due to the new lockdown in England, the Chancellor has extended the furlough scheme until 30 April 2021.

The Chancellor also announced that business in the hospitality, leisure and retail sectors are to receive a one-off grant worth up to £9,000 to support businesses and protect jobs.

Interim Reviews

Given the increased financial pressures likely to be faced by many employers, funds should plan ahead for the 2022 valuation with a view to being able to provide an early warning to employers where there is a potential for contributions to increase.

An interim check on funding and strategy can help funds to provide a more informed picture to employers of the likely direction of travel for the next valuation. This is an area on which we are supporting funds along with probabilistic analysis of the potential range of funding outcomes and risk.

Please get in touch with your usual Mercer consultant if this is something you would like to consider further.

The Pensions Regulator's updated COVID-19 guidance

A review of TPR's COVID-19 related easements was due in September 2020, and TPR announced updates to its COVID-19 guidance on 16 September.

In its updated guidance, TPR notes that the Code sets out other specified circumstances, for example fraud or persistent process failures, in which late contributions would be viewed as material and should be reported to TPR; funds are still expected to report such cases as soon as possible, regardless of the 90 or 150 day timeframe.

Regulatory round up

THE MCCLOUD REMEDY

As you will be aware, on 16 July MHCLG released the much anticipated consultation on the McCloud remedy for the LGPS in England and Wales (here). This article provides a high level summary of recent developments.

To recap, the Court of Appeal's ruling in December 2018 confirmed that the transitional protections provided for members of the Judges' and Firefighters' pension schemes when the public sector pension reforms were implemented in 2014 and 2015, were age discriminatory. This was because eligibility for these protections was based on an age criterion. Similarly, age-restricted transitional protections were also provided across the other public service pension schemes and last year the government announced that it would seek to remedy the position, including for the LGPS. In the LGPS the protections took the form of a final salary underpin to the new CARE benefit structure implemented in 2014.

- In October 2020, SAB published its response (here) to the consultation on the McCloud remedy for the LGPS.
- The Government Actuary's Department ("GAD") have worked with the Northern Ireland Department of Justice by developing its response to the McCloud judgment, and provided wider pensions consultancy advice.
- Further clarity on the timing for the final MHCLG regulations is expected shortly. Statutory guidance is expected to be provided alongside the regulations, to cover issues such as Fund priorities in implementing the remedy.

HM Treasury directions regarding the 2016 COST CAP MECHANISM are now anticipated for early spring 2021. As reported in previous Current Issues, this will **include** the cost of the McCloud remedy in the assessment of the impact on member benefits.

CONTRIBUTION FLEXIBILITIES

Amending regulations came into force with effect from 23 September 2020 which provide the ability for Administrating Authorities to review Employer contributions between valuations under defined circumstances. In addition these regulations introduced a new "deferred" employer status for Employers who have entered into a formal agreement (a "Deferred Debt Agreement") with the Administering Authority and formalised the ability to spread a termination payment over a short period after they have formally exited the Fund.

There are a number of requirements to be adhered to before a Fund can carry out an interim contribution review or offer flexibility to an employer approaching termination. One of these is that the Fund must have set out its policy on its approach within the Funding Strategy Statement.

MHCLG has prepared statutory guidance to funds on the expected content of the policy and this is expected to be published very shortly. In addition, SAB has prepared a more general Q&A style guide to employers and administering authorities regarding operating the flexibilities in practice. The guide is expected to be finalised shortly and issued alongside the statutory guidance.

Central to the policy in both instances will be the assessment and monitoring of employer covenant, which will be key to the decision making process. Monitoring of the funding position will also be very important including consideration of an employer's termination liabilities and how this exposure changes relative to the underlying employer covenant.

Where Mercer is your Fund Actuary, we will be in touch shortly to provide support on the formulation of the Fund's policy, although this has already commenced for many funds.

£95K CAP UPDATE

Dovetailing with Halloween and a Full Moon, funds will be all too aware that in autumn last year the proposed HMT Restriction on Exit Payment Regulations, which would introduce the £95K exit cap, were accelerated and came into force on 4 November 2020. Crucially, however, changes to the LGPS regulations required in order to operate the HMT exit cap regulations, have not yet been made. This created a conflict in respect of members over age 55 who breached the £95K exit cap on redundancy because:

- The prevailing LGPS regulations require funds to pay members a full unreduced pension;
- The newly introduced HMT Restriction on Exit Payment Regulations prevent an employer from paying a benefit package on redundancy that exceeds £95K, including in England and Wales, the pension strain cost of the unreduced pension.

SO WHERE ARE WE NOW?

- **SAB, MHCLG and HMT information and guidance** for funds and Employers has been issued (SAB updates, MHCLG letter, MHCLG Guide, HMT Guidance). This provides guidance on a low risk approach to navigating the current conflicting regulations, until the new LGPS regulations are in force. From a Fund perspective this involves not putting the unreduced pension into payment for an employee who breaches the £95K exit cap and instead offering the member a fully reduced or a deferred pension. This is contrary to the prevailing LGPS regulations in respect of members over age 55 and the Ombudsman has asked that funds be clear in communications with members when a policy decision has been made to not pay the full unreduced pension, this approach is in line with guidance received.
- **Current pension strain factors** should now have been reviewed by funds. This is because whilst previously, strain factors were used only to calculate the funding cost an employer had to pay when an unreduced pension was paid early, this costing now also forms part of the calculation of whether or not a person will be capped (where the employer is subject to the £95K cap regulations). This means that the pension strain cost factors will determine actual benefits a member can receive. Where we are your actuarial advisers, we have provided advice on strain factors and made recommendations on the approach. It is expected that the new LGPS regulations, once in force, will require the use of overarching factors, prepared by the GAD.
- **Legal Challenge** - there will be a Judicial Review of the legitimacy of the accelerated HMT Cap Regulations, which is expected towards the end of March.
- **Ombudsman rulings** relating to the exit cap (specifically the non-payment of immediate unreduced pension) will be paused whilst the Judicial Review is ongoing, although funds should not discourage members from approaching the Ombudsman where the IDRP has ran its course.
- **MHCLG proposals for wider reforms of redundancy pay and additional member options** were consulted on during the latter part of 2020 and we reported on this is the last edition of Current Issues. The consultation period for the draft regulations is now over, however funds and employers should not anticipate these reforms in redundancy calculations as the timing of implementation and the detailed proposals have not yet be confirmed. This is not expected until *after* the outcome of the Judicial Review referred to above, is known.

How Mercer can support funds

We anticipate that many funds will have already experienced high demand for pension strain costs calculations from employers who are implementing structural changes. However many other employers may have pressed pause on making these requests, in the hope that there would be further clarity on the position in the New Year. As it is now clear that there will not be a solution before 31 March, it's likely that funds see an increased volume of requests from employers no longer able to defer.

To the extent that funds require support in this area, we are able to provide a tool for processing these strain cost calculations. Speak to your Mercer representative for further information on this.

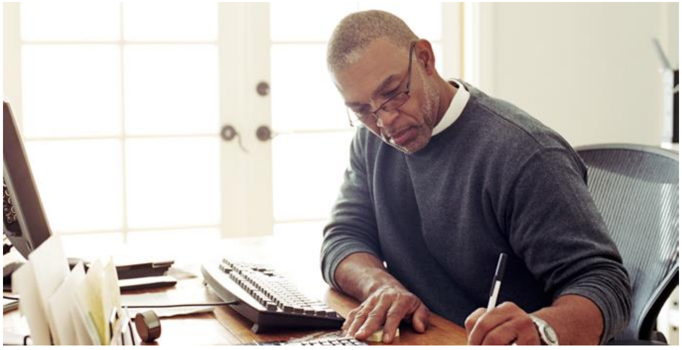
And in other news...

GOVERNMENT RESPONDS TO RPI REFORM CONSULTATION

In March 2020, the Government and UK Statistics Authority issued a consultation on reforming the Retail Prices Index (RPI). On 25 November 2020, the Government responded to the consultation, confirming that RPI will increase in line with CPIH from 2030. The construction of CPIH (the Consumer Prices Index, or CPI, plus housing costs) generally gives lower inflation figures than RPI, so this means RPI inflation will be lower from 2030 than it would otherwise have been.

Impact on assets

In the immediate aftermath of the Government's response to the consultation, we have seen small movements in real gilt prices relative to nominal gilts, suggesting this outcome was largely (but not completely) priced in to the market before the announcement. Such movements will be reflected in a fund's, RPI-linked assets. Over the past two years, uncertainty over the future of the RPI resulted in fewer index-linked gilts being issued by the UK Debt Management Office. With fewer issues, this has arguably has led to excess demand in the market, resulting in Liability Driven Investment (LDI) demand "bidding up" gilt inflation. The Government announcement means there could be a greater index-linked gilt supply from early 2021. Combined with the fact that CPI liabilities will have a better matching asset, our view is that inflation hedging is likely to be more cost-effective in future.



Impact on funding and accounting positions

In addition to the impact on Fund assets described above, there is also a potential impact on the valuation of Fund liabilities even though Fund benefits increase in line with *CPI* rather than *RPI*. This is because market pricing of RPI is used as a reference point to determine appropriate assumptions for the valuation of CPI linked benefits. Therefore given the change in RPI from 2030 this triggers a review of the methodology used to derive the assumption for valuing CPI benefits also.

BREXIT AND PENSIONS

The UK left the EU on 31 January 2020, entering an 11 month transition period during which our relationship with Europe has been largely "business as usual".

From 1 January 2021, however, the UK has entered a new stage following the deal reached at the end of last year although there remains a number of aspects still to be worked through. TPR has periodically updated its guidance for funds and you can access the latest guidance here.

Investment risk and funding

Brexit gives rise to fears of investment volatility, but in reality it is just one part of a much broader risk landscape; COVID-19 has demonstrated this all too clearly in 2020. TPR's guidance stresses that Brexit-related risk, while real, is a short term issue, and funds need to focus on their long term investment plan and integrated risk management strategy.

Employer covenant

The effect of Brexit on employer covenant may be significant for some employers, for example universities, but it will play out differently depending on the specific circumstances. A robust employer covenant framework should help funds to identify which employers are most at risk from current challenges, including (but not limited to) the impact of Brexit.

Administration

Funds will need to consider what changes are needed in respect of any overseas transfer requests, given the continued uncertainties for many aspects of the Brexit deal that remain outstanding, particularly in respect of financial markets. EEA based receiving schemes may have changed their position on receiving transfers after 31 December, and there is uncertainty over the UK tax position on transfers to Gibraltar schemes after this date.

Some banks have withdrawn UK accounts from EEA resident clients, meaning some EEA based pensioners will have to put alternative arrangements in place for their pension payments. While this is largely a matter for individual members, funds should consider how to handle communications with members who may be affected.

Data protection

The UK's data protection (GDPR) legislation, which reflects the EU directive, currently remains in force. However, where data is sent between the EEA and the UK, current rules may change. It is hoped that the EU will recognise the UK for data protection purposes under "adequacy" provisions, but this is not yet certain. If adequacy status is not granted, receiving data from the EEA is likely to be a particular issue. The UK's data authority, the ICO, has issued guidance on data and Brexit.

CHANGE TO CMI_2020 MORTALITY PROJECTIONS MODEL CONFIRMED

The Institute and Faculty of Actuaries' Continuous Mortality Investigation (CMI) has responded to its consultation on changes to the CMI_2020 version of its model for projecting future improvements in mortality. It has confirmed that, in the core version of the model, no weight will be placed on mortality data for 2020 to avoid the exceptional mortality rates in 2020 from, potentially, distorting the results. However, users who wish to take some account of 2020 rates in the projections will be able to adjust the amount of weight placed on the 2020 data. The other proposed change to the age range used to calibrate the model will not be going ahead.

The change means that moving from the core version of CMI_2019 to the core version of CMI_2020 is likely to result in small reductions in projected life expectancies. The overall impact for any particular scheme of adopting CMI_2020 will depend on a number of factors including the age and sex distribution of the Fund, the particular parameters selected and the current assumption for future mortality improvements.

The CMI_2020 version of the model is due to be published in March 2021 and we will also be considering the impact of this and the COVID-19 outbreak in advance of 2022 valuations.

THE PENSION SCHEMES BILL 2019/21

The Bill has now completed its progress through the House of Commons and will now go back to the House of Lords for final consideration before receiving Royal Assent, which is expected to be by the end of the year.

The Pension Schemes Bill was introduced in 2019 and one of the key aims of Government was to protect members' benefits in DB schemes, largely through enhanced powers for the Pensions Regulator (TPR) and a more prescriptive statutory scheme funding regime. However, the Bill covers a wide range of provisions including:

- **Pensions Dashboards** - the Bill introduces a framework for pension's dashboards, including provisions for state, occupational, personal and stakeholder pension schemes to provide information for qualifying pension's dashboards or any dashboard provided by the Money and Pensions Service.

- **Climate change disclosures for pension schemes** - the Bill was amended to include additional requirements intended to ensure funds have effective governance in relation to climate change risks. It sets out a framework within which funds should consider and disclose the risks. The requirements are expected to apply initially to larger employers.

Looking ahead
Once the Bill is enacted, secondary legislation will be required for most of its provisions. We anticipate further consultations on regulations over the coming year, and some provisions will also need Codes and/or guidance from TPR to be updated in order to fully implement them.

2020 GAD DATA REQUEST

Funds in England and Wales should have submitted the data to GAD as at 31 March 2020 by 23 November 2020.

The outcomes are expected later in the year.

LLOYDS BANKING GROUP JUDGMENT ON GMP EQUALISATION

Following the original Lloyds Banking Group judgment in October 2018, there was a further High Court ruling on 20 November 2020. This provided clarification on the obligations of the Lloyds Banking Group to equalise past transfer values to allow for the effects of Guaranteed Minimum Pensions accrued between 17 May 1990 and 5 April 1997 ("GMP equalisation").

The impact of the ruling in the LGPS is expected to be muted however the position is currently under further consideration with Treasury and we will provide an update on developments in a future edition of Current Issues.

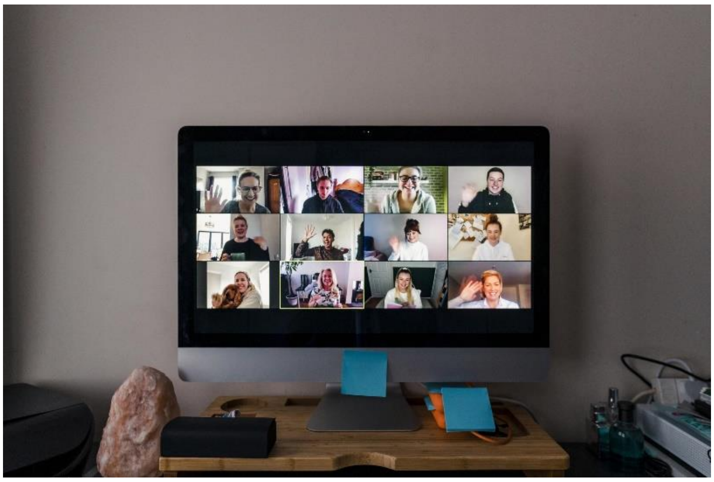
Notwithstanding the potentially muted impact for LGPS of this ruling, it is expected to be on auditors' radar and therefore Funds and Employers may see this raised as part of the audit process. We will provide a comment on this in our standard information we share alongside the accounting information which will aim to address auditor queries that may be raised.

PENSION SCAMS

One of the consequences of COVID-19 outbreak has unfortunately been an increased prevalence of pension scams. At a time when individuals are concerned about their financial and physical health, they are more likely to fall victim to scammers who are experts at targeting the most vulnerable.

Over £30 million has been reportedly lost to pension scammers since 2017. Anecdotally, public sector pension scams seem to be the larger end of the scale.

Although it is an extremely busy time for funds, thought should be given as to how members can be better protected to reduce the risk of pension scams. In particular whether access to a "vetted" firm or panel of firms which provide IFA advice (at the member's cost) could support this and also protect funds from potential future claims.



Dates to remember

DATE	ISSUE	THE LATEST
31 March 2020	2020 Actuarial Valuation	The effective date of the Scottish LGPS actuarial valuations.
6 April 2020	Change in the lifetime Allowance (LTA)	The LTA for 2020/21 is increased from £1,055,000 to £1,073,000 in line with CPI increases.
6 April 2020	Change in tapered Annual Allowance (TAA)	The TAA is to increase so it only applies to individuals with "adjusted income" of over £240,000. The minimum TAA changes from £10,000 to £4,000.
21 July 2020	Call for evidence on pension tax administration for low earners (closed October 2020)	The Treasury has launched a call for evidence concerning the different outcomes for lower earners depending on whether their pension schemes use the relief at source or net pay method of tax relief.
From 10 December 2020	Competition and Markets Authority (CMA) legally binding Order	Investment management firms, investment consultancies and fiduciary management providers) subject to the CMA Order must submit a compliance statement to the CMA within 12 months and 4 weeks of the date when the Order first applied, confirming they have complied with their obligations under the Order.
Expected March 2021	Judicial Review of Exit Cap Regulations	Court date yet to be confirmed but the Judicial Review is expected to proceed during the second half of March 2021.
Expected after Q1 2021	Governance and Registration draft regulations	Regulations that will replace some of the measures in the Competition and Markets Authority (CMA) Order were expected to come into force from 6 April 2020 and have been delayed due to COVID-19. Until such time as they are implemented, the CMA Order will continue to be legally-binding.
2030	RPI to increase in line with CPIH	The Government's consultation response in November 2020 confirmed that RPI will increase in line with CPIH from 2030.

Meet the team

Name: Eleanor Dowling
Role: Pensions Lawyer
Joined Mercer: 21st April 1997 – I moved from Scotland to start work at Mercer in London.
Place of Birth: Glasgow
Favourite series: The first series of True Blood (it deteriorated after that); also Borgen, which was a drama all about the Danish parliament - but was much more interesting than that sounds!
What was your favourite Christmas gift?: A Lindt chocolate bear that I nabbed from my nine year old's huge haul.
Favourite take away: I'm not keen on takeaways... I bought my husband the new Ottolenghi cookbook for Christmas.
What are your New Year resolutions?: Get (much) better at yoga, learn to drive, and get my son enthused about cycling.

Name: Barbara Forbes
Role: Title has changed a few times, if not the role. Used to be "admissions, bonds and terminations calculations workflow manager". Try fitting that on a name badge.
Joined Mercer: 3 September 1990. Seems like decades ago. Oh wait...
Place of Birth: Lancashire
Favourite series: "Grace and Frankie" (I want their beach house), Schitts Creek (I want Moira's wigs) and House of Cards USA (I want Frank's cufflinks)
What was your favourite Christmas gift?: Getting to shoot my son's favourite Christmas gift – an air rifle – at a fixed target I hasten to add...
Favourite take away: I don't really do take away. I do slow cooker. As in slow cooked skirt beef in beer with button onions and mushrooms. Etc.
What are your New Year resolutions?: To get out more. Wish me luck.

Name: Clive Lewis
Role: Principal
Joined Mercer: When the FTSE all share index was at 2,990...
Place of Birth: Liverpool
Favourite series: Impractical Jokers
What was your favourite Christmas gift?: I only get socks but my 8 year old's RC car is pretty "sick"
Favourite take away: Can't beat a Chinese takeaway
What are your New Year resolutions?: Everything in moderation...

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