



ISLINGTON

PENSIONS SUB-COMMITTEE

14 March 2022

SECOND DESPATCH

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Date 10 March 2022



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Finance Department
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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	14 th March 2022		

Delete as appropriate	Exempt	Non-exempt
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Subject: PENSION FUND PERFORMANCE 1 OCTOBER TO 31 DECEMBER 2021

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 2021 as per BNY Mellon interactive performance report
2.2	To receive the presentation by MJ Hudsons, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.
2.3	To note the LGPS Current Issue - February'22 for information, attached as Appendix 2.
3.	Fund Managers Performance for 1 October to 31 December 2021

3.1	<p>The fund managers' latest quarter net performance figures compared to the benchmark and Mercer ESG ratings is shown in the table below.</p> <p><i>NB: 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.</i></p>
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3.1 Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (Oct-Dec'21) Gross of fees		12 Months to December 2021-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	9.7%	UK equities	N	3.5%	4.2%	17.6%	18.3%
LCIV Sustainable EQ- RBC	10.8%	Global equities	1	6.6%	7.3%	19.4%	22.9%
LCIV -Newton	18.4%	Global equities	2	6.5%	6.3%	20.2%	20.1%
Legal & General	13.1%	Global equities	1	6.2%	6.1%	21.2%	21.2%
Standard Life	7.8%	Corporate bonds	2	0.4%	0.3%	-3.4%	-3.1%
Aviva (1)	7.9%	UK property	3	3.6%	3.4% 7.9%	12.6%	-5.9% 19.9%
ColumbiaThreadneedle Investments (TPEN)	5.5%	UK commercial property	2	9.3%	7.5%	21.8%	19.1%
Hearthstone	1.6%	UK residential property	N	2.2%	7.9%	3.4%	19.9%
Schroders	7.8%	Diversified Growth Fund	2	1.5%	4.1%	8.1%	12.5%
M&G Alpha Opportunities	4.3%	Multi Asset Credit	N	0.04%	0.9	n/a	n/a
BMO Investments-LGM	4.3%	Emerging equities	2	0.3%	-1.7%	2.7%	-1.3%

3.4% & -5.9 = original Gilts benchmark; 7.9% and 19.9% 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 2021 is shown in the table below.				
		Latest Quarter Performance Gross of fees		12 Months to Dec'2021 Performance Gross of fees	
	Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
		4.1	4.3	13.3	11.8
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 year periods to December 2021 is shown in the table below.				
	Period	1 year per annum	3 years per annum	5 years per annum	
	Combined LBI fund performance hedged	13.3%	11.4%	9.1%	
	Customised benchmark	11.8%	11.0%	7.9%	
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; <ul style="list-style-type: none">• 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 underperformed its quarterly benchmark to December by -0.7% and a twelve-month under performance of -3.5%. This was driven in equal parts by holdings that did not deliver and notably by what is not held in the portfolio. One of those areas is Energy				

	where the traditional extraction and major oil industries drove returns. The manager has maintained its style away from value factors, investing in quality companies with low debt.
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 6.5% against a benchmark of 6.3% for the December quarter. Since inception, the fund has delivered an absolute return of 13%. The performance this quarter was attributed to a blend of companies which are expected to grow their profits at a relatively steady pace, more cyclical non-financial companies and banks and insurers which are linked to the interest rate cycle.
3.7.4	Newton have reduced exposure to highly valued growth stocks in favour of companies which can capitalise on strong market positions to benefit from reflation and higher interest rates.
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 3.5% against FTSE All Share Index benchmark of 4.2% for the December quarter and an absolute performance of 8.3% since inception in 1992. The In-House fund will be part of the indices review of Paris Aligned new generation indices.
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 0.4% against a benchmark of 0.34% and an absolute return of 6.1% per annum since inception.
3.9.2	Asset allocation was a small positive. Overweight exposure to telecoms and utilities benefitted performance, offset by exposure to property and banking.
3.9.3	The agreed infrastructure mandates are being funded from this portfolio and to date £80m 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 3.6% against a gilt benchmark of 3.2%. The All Property IPD benchmark returned 7.9% for this quarter. Since inception, the fund has delivered an absolute return of 6.27%
3.10.3	As at the end of this December quarter the fund's unexpired average lease term is 21.3 years. The Fund holds 89 assets with 53 tenants. During the quarter, there were sales of two car showrooms and a purchase of student accommodation in Bath.
3.10.4	<p>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%. In 2021, the energy intensity across the portfolio reached 226kWh/m2. To further this progress and achieve the 2025 target of 213kWh/m2, asset managers allocated £29 million towards Environmental, Social, and Governance (ESG) improvements across the portfolio. The most significant savings will be made through:</p> <ul style="list-style-type: none"> - LED lighting (expected reduction of 7kWh/m2) - Smart buildings – Electricity and Gas (expected reduction of 8kWh/m2) - Solar panels (expected reduction of 10kWh/m2)
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 £100million.
3.11.2	<p>The agreed mandate guidelines are as listed below:</p> <ul style="list-style-type: none"> • 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 9.2% against its benchmark 7.5% for the December quarter mainly due to higher income return, overweight positions to industrials, and retail warehousing and underweight exposure to in-town retail and offices.
3.11.4	The cash balance now stands at 10.3% compared to 6.7% last quarter. During the quarter, there were three strategic acquisitions and seven disposal. There is a strong asset diversification at portfolio level with a total of 265 properties and 1267 tenancies.

	Rent collection is improving and tenants are being dealt with on a case by case basis to enable their viability on the short to medium term.												
3.11.5	The Fund has set net zero target to neutralise carbon emissions within portfolios by 2050. An income distribution share class, will be available from quarter 1 in 2022, for investors who want to draw down income.												
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 June quarter, the hedged overseas equities had a cash value of £4m.												
3.12.2	The hedge has now been in place since 25 November 2020 for quarterly hedge rolls.												
3.13	Franklin Templeton												
3.13.1	<p>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:</p> <ul style="list-style-type: none">• 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	<p>Fund I is now fully committed and drawdown. \$3.5m remains undrawn. The final portfolio is comprised of nine funds and five co-investments. The funds is well diversified as shown in table below:</p> <table><tr><td>Commitments</td><td>Region</td><td>% of Total Fund</td></tr><tr><td>5</td><td>Americas</td><td>36</td></tr><tr><td>4</td><td>Europe</td><td>26</td></tr><tr><td>5</td><td>Asia</td><td>38</td></tr></table> <p>The total distribution received to the end of the December quarter is \$61.8m. The NAV is \$0.8m</p>	Commitments	Region	% of Total Fund	5	Americas	36	4	Europe	26	5	Asia	38
Commitments	Region	% of Total Fund											
5	Americas	36											
4	Europe	26											
5	Asia	38											
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 is \$40m and total distribution of \$33.8m. The NAV is \$19m.
3.13.5	<p>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. Fund III made its final close on 30th December with total equity commitment of \$218m.</p> <p>Current portfolio consist of 5 holdings over a geographic exposure of 77% in Europe and 23% in USA with a 95% vintage in 2019 and 5% in 2021.</p>
3.13.6	As at the quarter end \$7.8m has been drawdown and a distribution of \$4.0m has been received.
3.14.	Legal and General
3.14.1	<p>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.</p> <p>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.</p>
3.14.2	<p>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 £241.4m with a performance of 6.1%. (Rafi -£37m)</p> <p>The Rafi emerging markets fund has now be reconstituted to RAFI Fundamental EM (ex Korea) Reduced Carbon Pathway - the number of holding has increased from 472 to 1000 and hence the energy holdings has decreased from 18% to 14% as at December.</p>
3.15	Hearthstone
3.15.1	<p>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:</p> <ul style="list-style-type: none"> • 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.

3.15.2	<ul style="list-style-type: none"> • 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 <p>For the December quarter, the value of the fund investment was £28.6million and total funds under management is £72m. Performance net of fees was 2.25% compared to the IPD UK All Property benchmark of 7.9%.</p> <p>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. A total of £1million has been drawn down over the last financial year and discussions are ongoing to draw down some more cash in 2022.</p>
3.15.3	<p>As with most property funds, Covid-19 uncertainty led to the suspension of the fund for part of year in 2020. Income from residential rents has been more sustainable than many other sources of income, and rent collection is comparably high up to 99% at the end of September. They are working closely with their tenants to help them through this period. Cash balance at the end of the December quarter was £15.5m.</p>
3.16	<p>Schroders</p> <p>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:</p> <ul style="list-style-type: none"> • 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 (%): <ul style="list-style-type: none"> • 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	<p>The value of the portfolio is now £140.6m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The December quarter performance before fees was 1.5% against the benchmark of 4.7% (inflation+5%). The performance since inception is 5.2% against benchmark of 8.2% before fees.</p>

3.16.3	Contributions to return over the quarter were achieved from exposure of 40.2% in equities, 27.1% in alternatives and 25.8% in credit and government debt, with the balance in cash of 6.9%.
3.16.4	The fund manager has announced a change in benchmark effective from 1 April 2022. The current target of RP1+5% will change to ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum. They have deemed a change necessary because market conditions have progressively made it more difficult to consistently achieve both the current return and risk objectives of the underlying Fund, which were originally set in a very different environment. This new return objective will better reflect the return outcomes achievable in the current market. There is also a reduction of 7basis point on the annual fee.
3.17	<p>BMO Global Assets Mgt</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>The mandate was amended in March'21 when the frontier element was liquidated and \$11.3m was returned.</p>
3.17.1	The December quarter saw an out performance of 2.0%. Stock selections in the China /Hong Kong added most relative value to performance whilst the lack of exposure to a weak Brazilian market also added alpha. The main drag was lower exposure to Taiwanese equities.
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	It was announced that BMO Financial Group's agreement to sell its EMEA asset management business to Ameriprise Financial, Inc., has received regulatory approval. The BMO asset management business in EMEA became part of Columbia Threadneedle Investments, the global asset management business of Ameriprise in November 2021.
3.18	<p>Quinbrook Infrastructure</p> <p>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:</p> <ul style="list-style-type: none"> • 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

	<ul style="list-style-type: none"> Estimated returns 7% cash yield and 5% capital growth <p>Risks: Key Man risk</p> <p>Drawdown to December 2021 is \$67.0m – this 100% of our commitment</p> <p>Pantheon Access- is the other infrastructure manager also appointed in November 2018. Total allocation was \$100m and merits of allocation included:</p> <ul style="list-style-type: none"> 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 <p>Risks: No primary fund exposure.</p> <p>Drawdown to December 2021 is \$69.65m and distribution of \$12.05m</p>
3.19	<p>M&G Alpha Opportunities</p> <p>This is the multi asset credit manager appointed and funded on 1st March 2021. The total allocation is approximately 5% funded mostly from profit made from equity protection in March 2020.</p> <p><u>The mandate guidelines of M&G include</u></p> <ul style="list-style-type: none"> Fund can invest across the full spectrum of developed market corporate credit (IG, HY, Loans) as well as securitised credit (ABS, MBS), some illiquid opportunities and defensive holdings (e.g. cash). Investment process is predominantly bottom up, with a defensive value style that seeks to buy cheap mispriced securities. Targets a return of 1 month LIBOR +3% - 5% (gross of fees) over an investment cycle (3-5 years) No local currency EM debt is permitted Low level of interest rate duration Maximum exposure to sub-investment grade credit of 50% of assets, Focus is primarily on Europe, although there is some exposure to the US (c. 15%). <p><u>Risk and triggers for review:</u></p> <ul style="list-style-type: none"> Key man - risk Issues at the firm level Change in investment process/ structure or risk/return profile of the mandate. Failure to deliver target return over 3 Year period of Cash +3% - 5% (gross of fees), unless there is a compelling market-based reason for underperformance Downgrade of Mercer rating lower than B+ Downgrade of Mercer ESG rating lower than ESG3. Long term trend of staff turnover and changes within the investment team.
3.19.1	<p>The December quarter performance was 0.04% against a benchmark of 0.9% and since inception an underperformance of -1.23%. The primary driver of the positive performance was the exposure to leveraged loans. Whilst industrial and financial bonds also produced modest positive contributions, with securitised assets detracting marginally from performance.</p>

4.	Implications
4.1	<p>Financial implications:</p> <p>The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.</p> <p>Fund management and administration fees and related cost are charged to the pension fund.</p>
4.2	<p>Legal Implications:</p> <p>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.</p>
4.3	<p>Resident Impact Assessment:</p> <p>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".</p> <p>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.</p>
4.4	<p>Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:</p> <p>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:</p> <p>https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf</p>
5.	Conclusion and reasons for recommendations
5.1	<p>Members are asked to note the performance of the fund for the quarter ending December 2021 as part of the regular monitoring of fund performance and Appendix 1-MJ Hudson commentary on managers. The February'22 edition of LGPS Current Issue is attached as Appendix 2 for information.</p>

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:

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Corporate Director of Resources

Date:9/03/22

Received by:

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London Borough of Islington

Report to 31st December 2021

MJ Hudson

FEBRUARY 2022

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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
M&G Alpha Opportunities Fund	Not reported by the manager.	The Fund returned +0.04% over Q4 2021, under the benchmark return by -0.85%.	The fund size was £10.37 billion as at end December. London Borough of Islington's investment amounts to 0.74% of the fund.
LCIV Global Equity Fund (Newton) (active global equities)	Therese Niklasson will be joining the firm as Global Head of Sustainable Investment in February 2022, and an additional Stewardship Analyst was added to the team over the quarter.	The LCIV Global Equity Fund overperformed its benchmark during Q4 2021 by +0.21%. Over three years the portfolio outperformed the benchmark by +0.24% but is under the performance target of benchmark +1.5% p.a.	At the end of Q4 2021, the London CIV sub-fund's assets under management were £781.9m. London Borough of Islington owns 43.03% of the sub-fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
LCIV Sustainable Equity Fund (RBC) (active global equities)	None reported by LCIV.	Over Q4 2021 the fund delivered a return of +6.59%, this underperformed the benchmark return of 7.28%. The one-year return was +19.39%, strong in absolute terms but behind the benchmark by -3.55%.	As at end December the sub-fund's value was £1,468 million. London Borough of Islington owns 13.42% of the sub-fund.
BMO/LGM (active emerging equities)	In Q4 2021, there was one departure, and no new joiners in the BMO LGM team. The departure was an analyst with a speciality in the technology sector.	Outperformed the benchmark by +2.00% in the quarter to December 2021. The fund is behind over three years by -3.57% p.a.	Not reported.
Standard Life (corporate bonds)	There were 19 joiners and 19 leavers during the quarter. Four joiners and two leavers were in the Fixed Income Group.	The portfolio outperformed the benchmark return during the quarter by +0.10%, delivering an absolute return of +0.44%. Over three years, the fund was ahead of the benchmark return (by +0.41% p.a.) but behind the performance target of benchmark +0.80% p.a.	As at end June the fund's value was £2,276 million. London Borough of Islington's holding of £142.6m stood at 6.3% of the total fund value.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Aviva (UK property)	Not reported at the time of writing.	Outperformed against the gilt benchmark by +0.48% for the quarter to December 2021 and outperformed the benchmark over three years by +4.33% p.a., delivering a return of +8.14% p.a., net of fees.	The fund was valued at £3.55 billion as at end Q4 2021. London Borough of Islington owns 4.1% of the fund.
Columbia Threadneedle (UK property)	One joiner and four leavers in Q4. Two leavers from the property division but not involved in London Borough of Islington's mandate.	The fund outperformed the benchmark in Q4 2021, with a quarterly return of +9.13% compared to +7.50%. Over three years, the fund is outperforming the benchmark by +0.32% p.a. (source: Columbia Threadneedle).	Pooled fund has assets of £2.27 billion. London Borough of Islington owns 4.42% of the fund.
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	Assets under management of £1.3 trillion at end June 2021 (most recent data available).

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Franklin Templeton (global property)	No joiners or leavers within the real estate investment team during Q4 2021.	The portfolio return over three years was +6.76% p.a., and so behind the target of 10% p.a. although over 5 years the fund is still +0.35% p.a. ahead of the target return.	£542.6 million of assets under management for the real estate group as at end September 2021 (latest figures reported).
Hearthstone (UK residential property)	Richard Smith, Business Development Manager (Retail IFAs) retired, and Andrea Antonioni joined as Institutional Business Development Manager just after the quarter end.	The fund underperformed the IPD UK All Property Index by -5.59% in Q4. Additionally, it is trailing the IPD benchmark over three years by -4.25% p.a. to end December 2021.	Fund was valued at £72.8m at end Q4 2021. London Borough of Islington owns 39.4% of the fund.
Schroders (multi-asset diversified growth)	There were no team changes during Q4 2021.	Fund returned +1.50% during the quarter and delivered a return of +9.11% p.a. over 3 years, -1.81% p.a. behind the target return.	Total AUM stood at £716.9 billion as at end September 2021, up from £700.4 billion as at end June 2021.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Quinbrook (renewable energy infrastructure)	Two joiners and two new advisers joined the Quinbrook Advisory Board.	For the year to Q4 2021 the fund returned +6.70%, 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)	Not reported.	The private equity fund returned +3.14% p.a. over three years and the infrastructure fund returned +23.09% for the one year to end December.	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

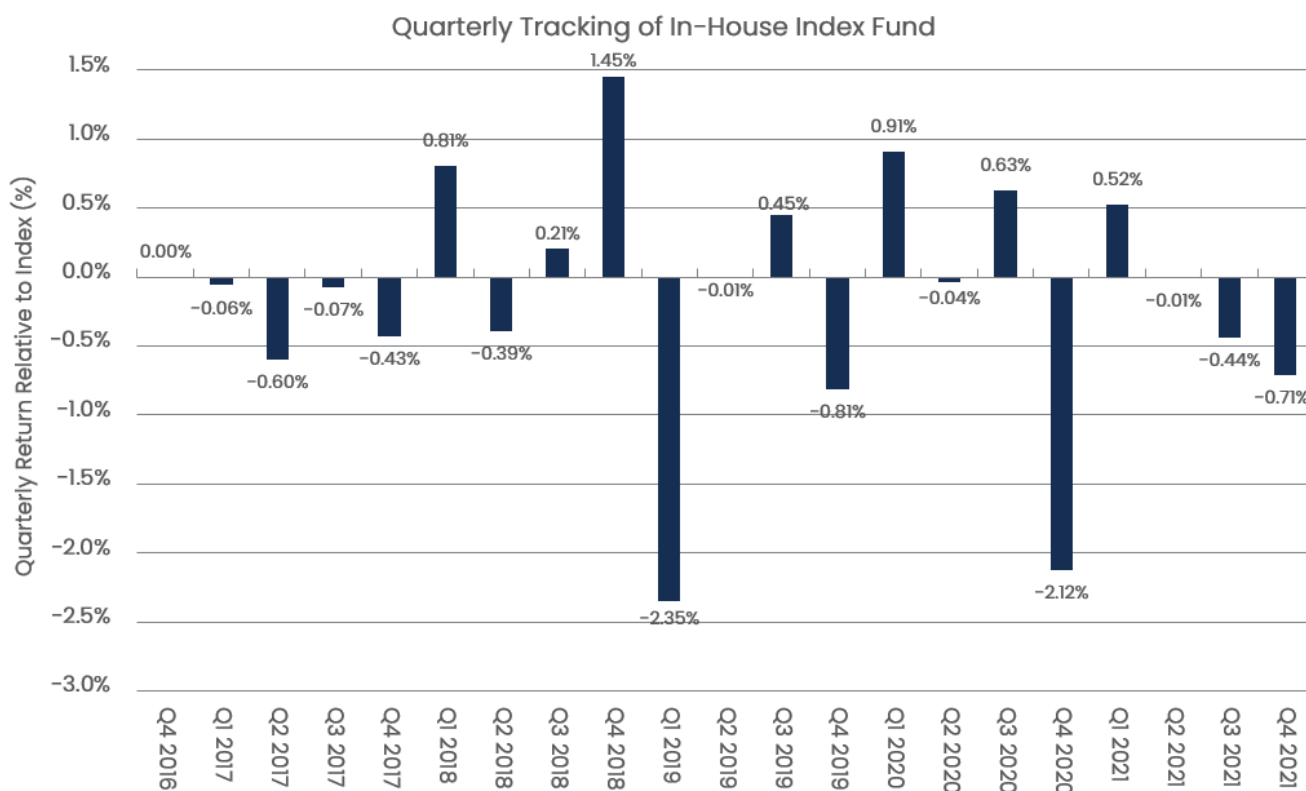
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q4 2021 the fund returned +3.49% for the quarter, compared to the FTSE All-Share index return of +4.20%. Over three years the fund has returned +7.61% p.a., behind the FTSE All-Share Index by -0.73%.

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. Over three years, the portfolio underperformed its three-year benchmark by -0.73% p.a.

CHART 2:



Source: MJH; BNY Mellon

M&G – Alpha Opportunities Fund

Headline Comments: This is a new allocation for the pension fund, with proceeds from the equity protection strategy being invested in a Multi Asset Credit fund managed by M&G. During Q4 2021 the M&G Alpha Opportunities Fund returned +0.04%, underperforming the benchmark return of +0.88%.

Mandate Summary: A Multi Asset Credit fund, in which M&G aims to take advantage of opportunities in public and private credit markets by identifying fundamental value across securities and credit asset classes. In periods when the fund is not being sufficiently compensated for taking risk, the manager seeks to protect capital through allocating to low-risk asset classes. The objective of the fund is to deliver a total return of one month Libor / Euribor +3-5% per annum, gross of fees, over a full market cycle.

Performance Attribution: during the quarter, the fund returned +0.04% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +0.88%. Exposure to leveraged loans was the top contributor, with industrial and financial corporate bonds also performing strongly.

Portfolio Characteristics: the largest allocations in the portfolio were to industrials (30%), Securitised Assets (16%) and Financials (13%). 42% of the portfolio was rated BB* or below. The manager continues to focus on reducing the level of risk in the fund. The manager believes that credit markets are overvalued and as a result they intend to remain defensively positioned.

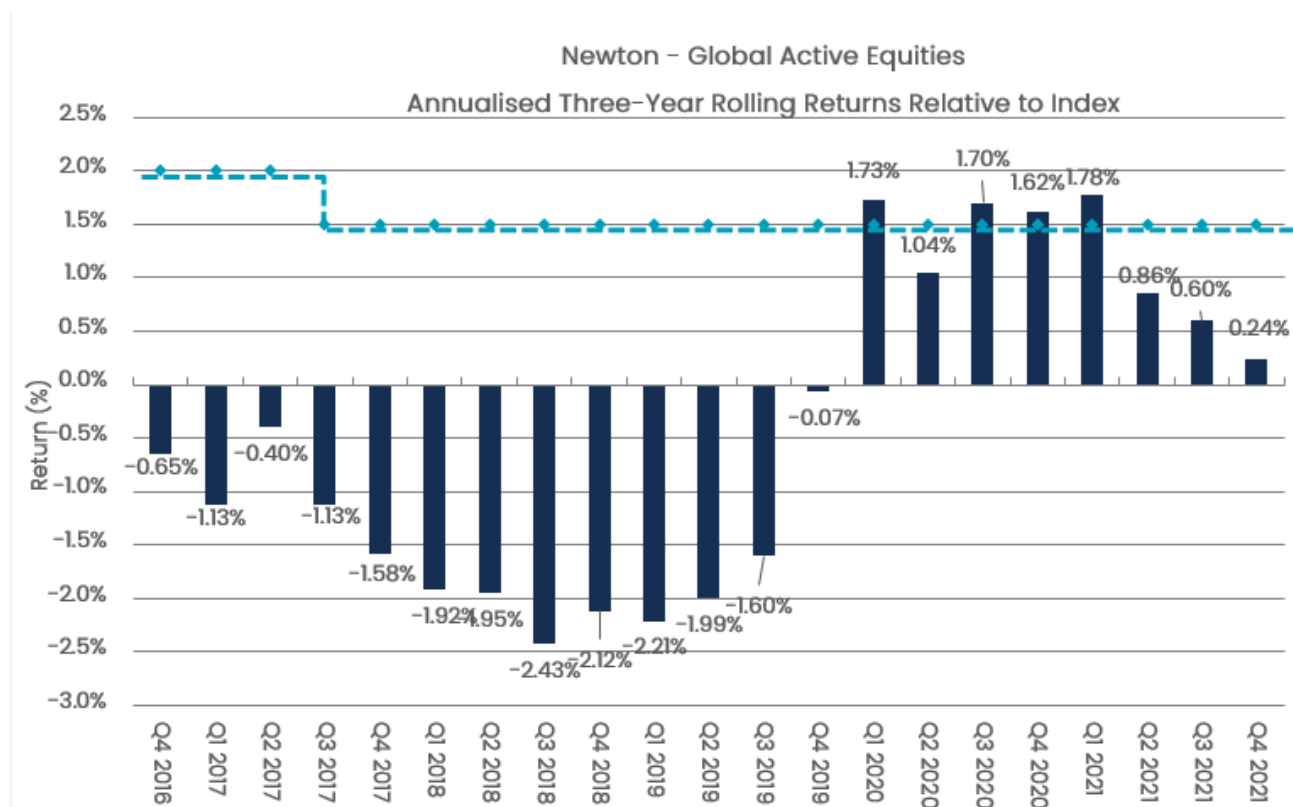
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q4 2021 by +0.21%. Over three years the portfolio outperformed the benchmark by +0.24% p.a. but has slipped behind 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

Chart 3 shows that the level of outperformance over three years has been falling since Q1 2021, when the fund was ahead of the benchmark by +1.78% p.a. By Q4 2021 the outperformance had dropped to +0.24% p.a. This means it underperformed the performance objective by -1.26% p.a. (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

Positive contributions to the total return came from holdings such as Apple (+1.18% contribution to the total return), Microsoft (+0.99%), and Accenture (+0.69%).

Negative contributions came from holdings including Citigroup Inc (-0.31%), Medtronic (-0.31%), and AIA Group (-0.29%).

The London CIV is now providing peer group analysis in its reporting, and they confirmed that Newton has consistently delivered returns in the middle range over the long term but for their position dropped to the third quartile in the last year. Over the past three years period the risk has been in the bottom quartile. (i.e. lower risk than its peers).

Portfolio Risk: The active risk on the portfolio stood at 3.13% as at quarter end, slightly higher than as at end September when it stood at 3.00%. The portfolio remains defensive, with the beta on the portfolio at end December standing at 0.92, in line with the previous quarter (if the market increases by +10% the portfolio can be expected to rise +9.2%).

At the end of Q4 2021, the London CIV sub-fund's assets under management were £781.9m, compared with £786.7m last quarter. London Borough of Islington now owns 43.03% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 58 as at quarter-end (one up from last quarter). The fund added three positions: JPMorgan Chase, Ecolab, and HDFC Bank ADR. Newton completed sales of Brenntag AG and Vitesco Technologies Group Ag

The manager invests on the basis of selected themes which evolve over time. As at December 2021, Newton favoured "Net Effects" (a concept built around the impact of modern technology) and Healthy Demand (affordable healthcare for aging populations). As a result, the portfolio is heavily weighted to Technology (an allocation of 27%) and Healthcare (10%).

LCIV has also introduced carbon foot-printing of sub funds, monitored by Trucost, and in Q4 2021 reported that the Newton sub fund had a weighted average carbon intensity of just over half that of the benchmark index (the MSCI World Index). The highest contributors were Royal Dutch Shell (7.23% contribution to the weighted average carbon intensity), and Norfolk Southern Corporation (6.90%) and Novozymes A/S (5.15%).

The Manager has a generally cautious view about companies in the oil and gas sector, and the outlook for energy companies, and has therefore been underweight in the sector for at least the last 10 years. Shell is the only energy holding in the LCIV portfolio, and currently represents c.1.2% of the portfolio. The Manager justifies its position in Shell on the view that the company has a large portfolio of assets, and a clear plan to shift the business away from fossil fuels, and toward cleaner energy forms. In the Manager's view, it has been towards the top of the sector when it comes to emissions' targets and engagement.

Staff Turnover: Therese Niklasson will be joining the firm as Global Head of Sustainable Investment in February 2022, and an additional Stewardship Analyst was added to the team over the quarter.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q3 2021 the fund delivered a return of +6.59%. This underperformed the benchmark return of +7.28%. The one-year return was +19.39%, strong in absolute terms but behind the benchmark by -3.55%. The fund does not yet have a three-year track record. Islington's investment makes up 13.42% of the total fund (source: LCIV)

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, consumer discretionary sectors, healthcare, consumer staples, and materials. Over the quarter the largest contributors to return included Unitedhealth Group (+1.21%), Microsoft (+1.08%), and Nvidia (+0.93%). There largest detractors include Industria De Diseno Textil (-0.44%), AIA Group (-0.37%) and Neste Oyj (-0.32%). Not owning Apple was also a key performance detractor during the quarter.

The London CIV is now comparing managers against their peer group and reported that RBC is performing very well over the long term. This has been achieved whilst taken only average risk, when compared with peers. However, 2021 has been challenging, ranking at the third quartile for its peer group for the year to end September 2021.

Portfolio Characteristics: As at end of December 2021 the fund had 37 holdings across 15 countries. The active risk of the fund was 3.79%.

London CIV report that the fund has sustained its “anti-value” stance and continues to favour quality companies with low gearing.

LCIV has also introduced carbon foot-printing of sub funds, monitored by Trucost, and in Q4 2021 reported that the RBC sub fund had a weighted average carbon intensity of 57% that of the benchmark index (the MSCI World Index). The highest contributors were InterContinental Hotels Group plc (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 12.77%), Orsted (12.45%) and Neste Oyj (8.34%).

BMO/LGM – Emerging Market Equities

Headline Comments: The portfolio delivered a return of +0.32% in Q4 2021, compared with the benchmark loss of -1.69%, an overperformance of +2.00%. Meanwhile, over one year the fund is ahead of the benchmark by +4.05%, and over three years it is trailing by -3.57% per annum. The frontier markets portfolio previously held has now been closed, as such reporting on BMO now only discusses the emerging markets component.

Mandate Summary: Following the closure of their frontier markets fund, the manager now only invests in a selection of emerging market equities, with a quality and value, absolute return approach. The aim is to outperform the MSCI Emerging Markets Index by at least 3% p.a. over a three-to-five-year cycle.

Performance Attribution: The Portfolio outperformed the index in the quarter, but the performance continued to be volatile, with the emergence of the Covid-19 Omicron Variant. While some countries saw gains, others struggled in Q4. Taiwan was the standout performer in Emerging markets, but while BMO has a large exposure to the Taiwan market, it has a larger exposure to China, which saw the second highest loss of the quarter.

During the quarter, the largest positive contributors to the quarterly relative return for the emerging markets portfolio came from Infosys Ltd (+0.6%), Wal Mart De Mexico SAB De CV (+0.5%), in which the fund was overweight, and Alibaba Group Holdings (+0.5%), where the fund had a zero holding and the stock fell by -16.5%. Companies which detracted most from performance included AIA Group Ltd (-0.5%), an off-benchmark holding, Moscow Exchange Micex-Rts OAO (-0.5%), and HDFC Bank Ltd Common Stock (-0.3%), another off-benchmark holding.

Over one year, the fund has outperformed the benchmark by +4.05%. Security selection in China/Hong Kong was the largest positive contributor to relative performance, as well as having limited exposure to a weak Brazilian Market and being underweight in China.

Portfolio Risk: Within the emerging markets portfolio there is a 9.6% allocation to non-benchmark countries (excluding holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio remained India (+12.4% overweight). The most underweight country allocation was South Korea (-8.9%).

Portfolio Characteristics: The portfolio held 38 stocks as at end December compared with the benchmark which had 1,418. The largest absolute stock position was TSMC at 8.2% of the portfolio, while the largest absolute country position was China/HK and accounted for 35.7% of the portfolio.

Staff Turnover: In Q4 2021, there was one departure - an analyst with a speciality in the technology sector.

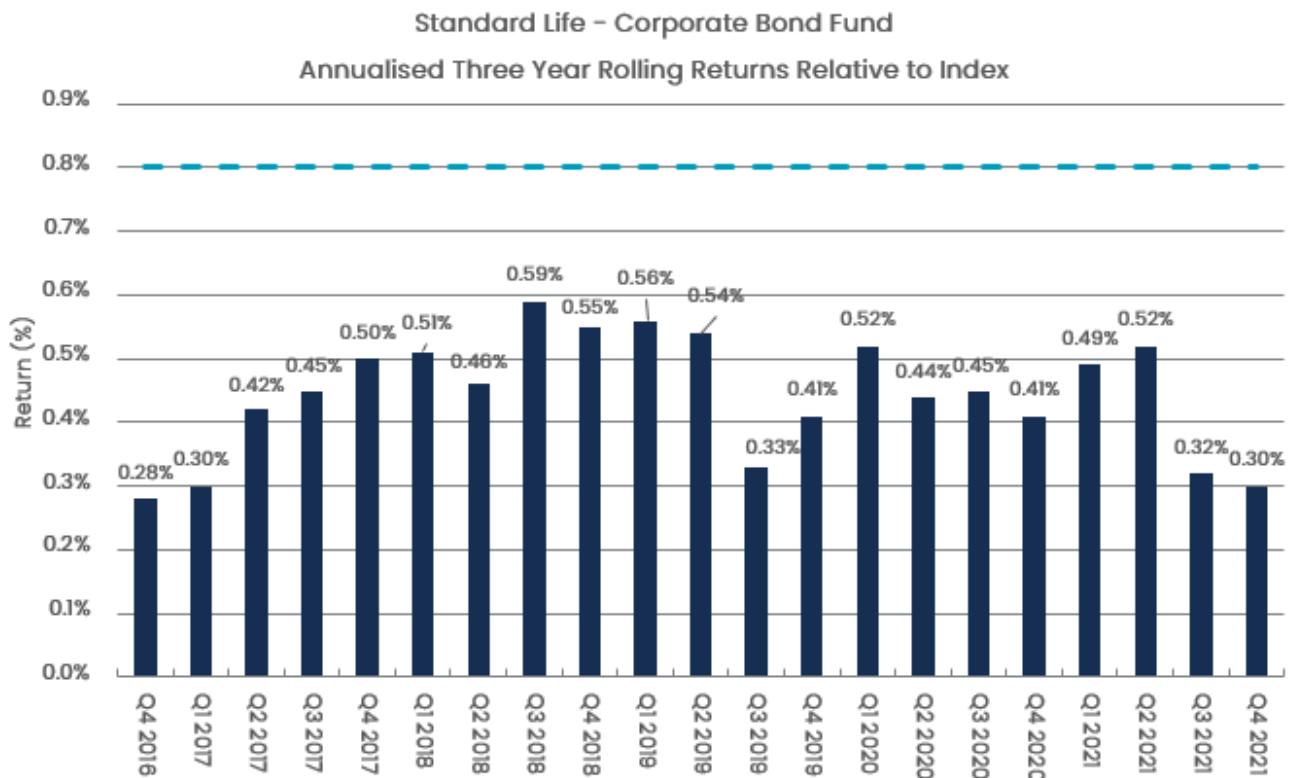
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio outperformed the benchmark return during the quarter by +0.10%, with an absolute return of +0.44%. Over three years, the fund was ahead of the benchmark return (by +0.41% p.a.) 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 +4.92% p.a. net of fees, compared to the benchmark return of +4.51% p.a. Over the past three years, asset allocation has added +0.27% value, meanwhile stock selection has also added +0.27%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was European Investment Bank 5.625% 2032 at 2.8% of the portfolio. The largest overweight sector position was real estate (+3.9% relative) and the largest underweight position is Supranational (-6.7%). The fund holds 2.6% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end September 2021 stood at £2,276 million. London Borough of Islington's holding of £142.6m stood at 5.3% of the total fund value.

Staff Turnover: There were 19 joiners and 19 leavers during the quarter. Four joiners were into the fixed income group, including two Investment Managers, and two Investment Analysts, one of which is focused on ESG. There were two leavers from the fixed income group; an Investment Director, and a Senior Research Analyst. None of the staff changes were in the UK.

Aviva Investors – Property – Lime Property Fund

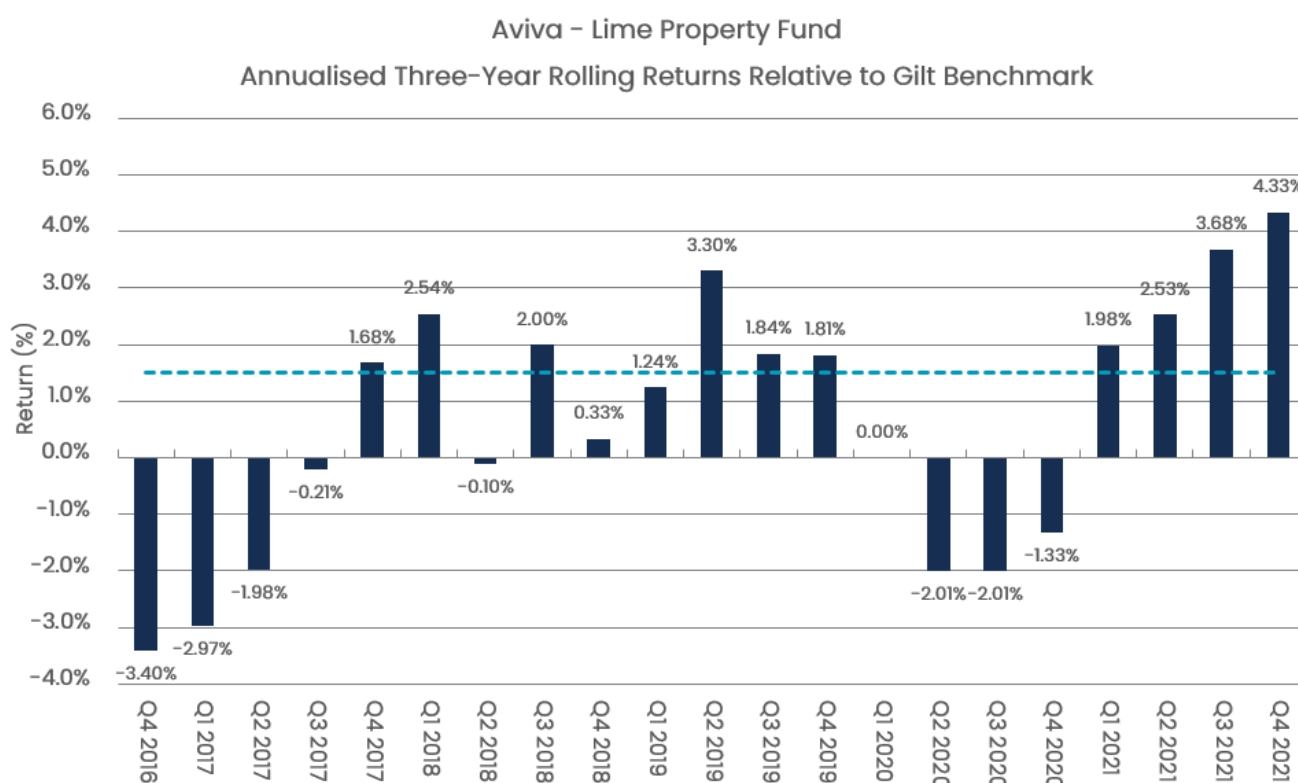
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it outperformed the fund benchmark return, with an overperformance of +0.48% in Q4. Over three years, the fund is ahead of the benchmark return by +4.33% p.a., with a particularly strong one-year outperformance of +18.48%.

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 2021 return was attributed by Aviva to +2.93% capital return and +0.89% income return.

Over three years, the fund has returned +8.14% p.a., ahead of the gilt benchmark of +3.81% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 5.

CHART 5:



Source: MJH; BNY Mellon

Over three years, 45% of the return came from income and 55% from capital gain.

Portfolio Risk: During the quarter, the fund sold two car showroom investments. There was strong interest from multiple bidders resulting in a final offer 28% above the valuation. The sale delivered a 4.59% Net Initial Yield.

The Fund acquired a student accommodation investment in Bath. The Lime Fund worked with the University of Bath to acquire the property on market and lease it back to them on a 27-year lease with annual CPI rent reviews.

The average unexpired lease term was 21.3 years as at end December 2021. 11.2% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.23% (proportion of current rent), and the number of assets in the portfolio is 89. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at December 2021, the Lime Fund had £3.49 billion of assets under management, an increase of £177 million from the previous quarter end. London Borough of Islington's investment represents 4.1% of the total fund.

Staff Turnover/Organisation: Not reported at the time of going to print.

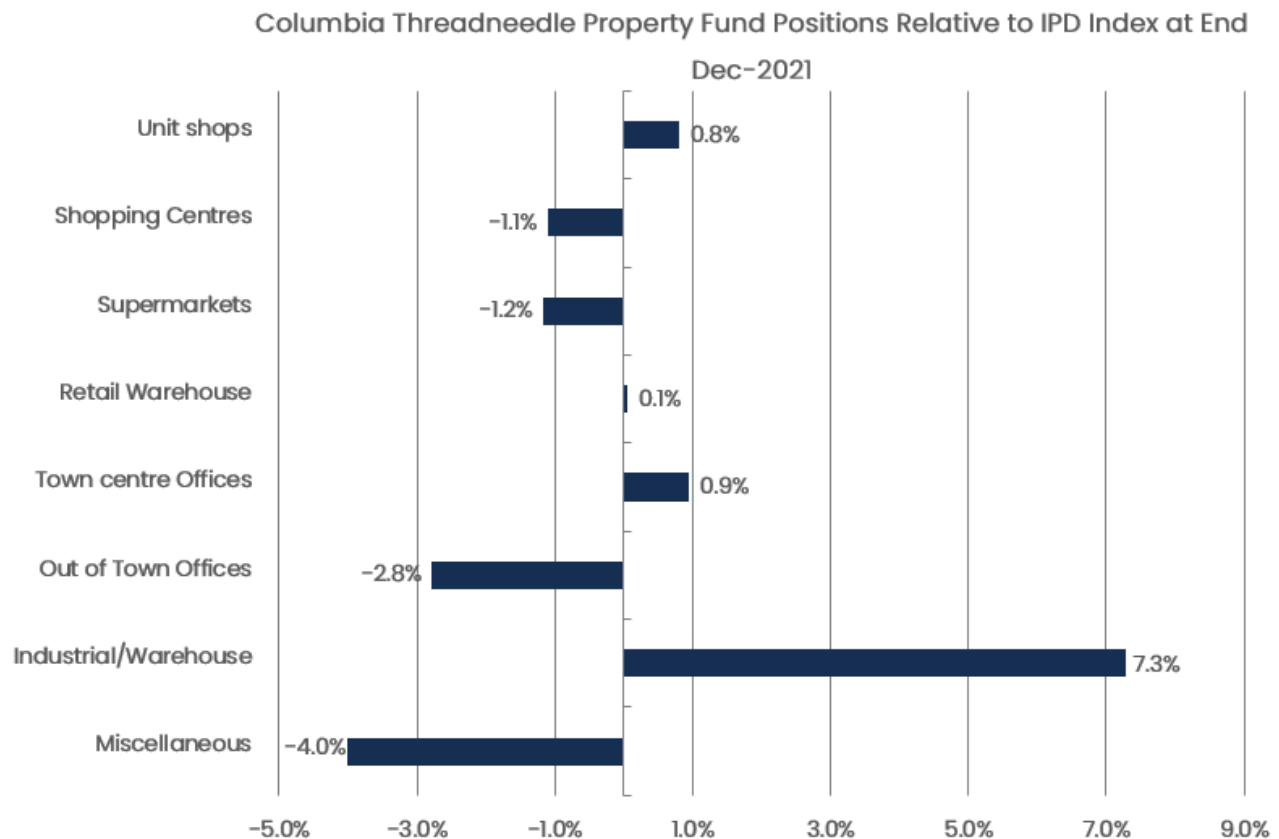
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund outperformed the benchmark in Q4 2021, with a quarterly return of +9.13% compared to +7.50% (source: Columbia Threadneedle). Over three years, the fund outperformed the benchmark by +0.32% (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 three acquisitions and seven sales. The acquisitions include an office building in Manchester, and a mixed-use retail and office-building in Richmond, and the sales included the longstanding Grade II listed office and retail asset in Tottenham Court Road (Heals). This sale has addressed the Central London office overweight position (shown in Chart 6 – last quarter "town centre offices" was 6% overweight). Heals had been the largest asset in fund for some time and had the highest vacancy rate (40%). Following the trade, the vacancy rate of the portfolio dropped from 12.1% to 9.6%, more in line with the benchmark.

The cash balance at end September was 10.3%. This is marginally higher than target liquidity levels with TPEN PF which has been addressed following the completion of a number of acquisitions in January 2022, which should bring liquidity in line with target parameters.

Performance Attribution: The fund outperformed the benchmark in Q4 2021, with a quarterly return of +9.13% compared to +7.50% (source: Columbia Threadneedle). Over three years, the fund outperformed the benchmark by +0.32% (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. above benchmark.

Portfolio Characteristics: As at end December 2021, the fund was valued at £2.27bn, an increase of £175m from the fund's value in September 2021. London Borough of Islington's investment represented 4.42% of the fund.

Staff Turnover: During Q4 2021 there were four leavers, two of whom were from the property team, although they did not work on TPEN Property. There was also one joiner on the fixed income side.

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 MSC Low Carbon index fund tracked its benchmark as expected, as shown in Table 2, although the FTSE-RAFI fund was higher than the benchmark.

TABLE 2:

	Q4 2021 FUND	Q4 2021 INDEX	TRACKING
FTSE-RAFI Emerging Markets	-0.25%	-0.69%	+0.44%
MSCI World Low Carbon Target	+7.39%	+7.40%	-0.01%

Source: LGIM

Portfolio Risk: The tracking errors over three years are all within expected ranges. The allocation of the portfolio, as at quarter end, was 84.65% to the MSCI World Low Carbon Target index fund, and 15.35% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

Franklin Templeton – Global Property Fund

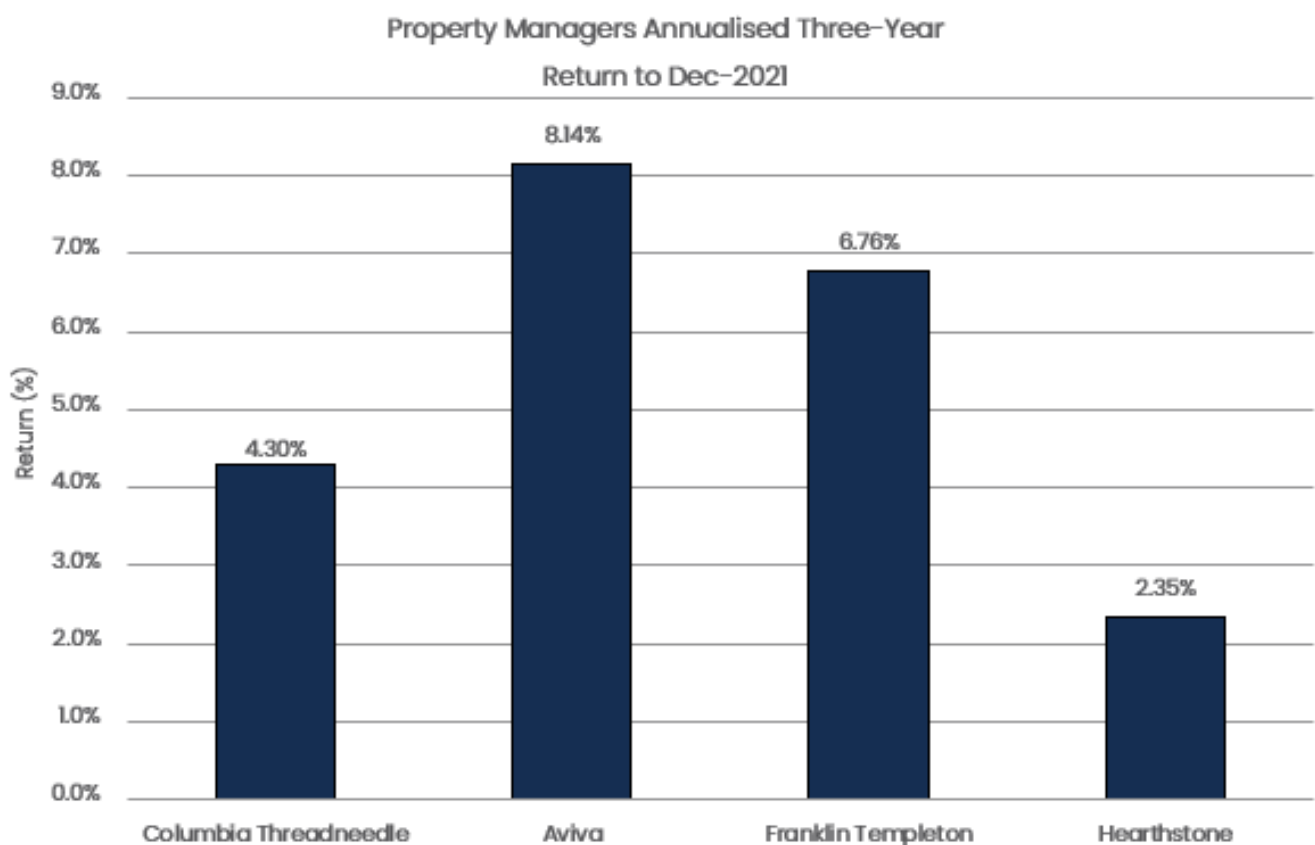
Headline Comments: This is a long-term investment and as such a longer-term assessment of performance is recommended. There are two funds in which London Borough of Islington

invests. The portfolio in aggregate underperformed the absolute return benchmark of 10% p.a. over three years by -3.24% p.a.

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 2021, Aviva is the best performing fund across all four property managers, overtaking Franklin Templeton who have held the top position for a considerable amount of time. Chart 7 compares their annualised three-year performance, net of fees.

CHART 7:



Source: MJH; Columbia Threadneedle

Portfolio Risk: The Manager's report was not available at the time of going to print

Staff Turnover/Organisation: During Q4 2021 there were no new leavers or joiners to the Franklin Real Asset Advisors (FRAA) team. The total assets under management for the FRAA investment group was £542.6 million as of 30 September 2021 (latest available figures).

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending December 2021 by -5.29% as well as over three years by -4.25% p.a.

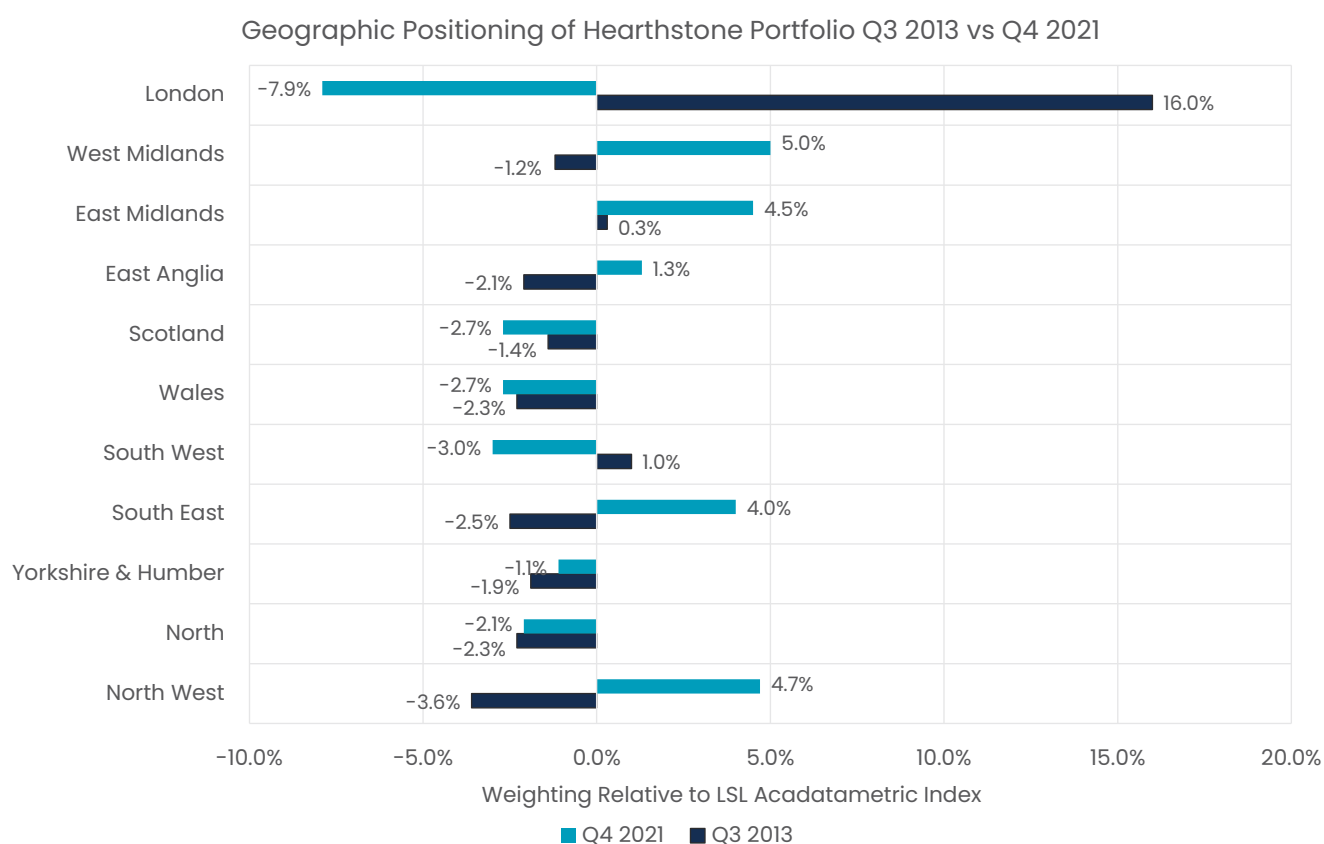
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to December 2021 by -4.25% p.a., returning +2.35% p.a. versus the index return of +6.60% p.a. The gross yield on the portfolio as at end December 2021 was 4.81%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 4.41%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 21.81% (£15.5 million), which is 4.5% lower than at the end of September 2021.

Chart 8 compares the regional bets in the portfolio in Q4 2021 (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 an 8% allocation to detached houses, 37% allocated to flats, 28% in terraced accommodation and 27% in semi-detached.

As at end September there were 221 properties in the portfolio and the fund stood at £72.8 million. London Borough of Islington's investment represents 39.4% of the fund. This compares with 72% at the start of this mandate in 2013.

Market outlook: Hearthstone have provided an outlook for 2022, the highlights of which include an expectation of continued house price rises, but some cooling off in the market; wage inflation leading to rent inflation whilst inflation in building supplies leading to increased costs; demand for properties in suburban areas with access to green space; and climate action leading to energy efficient homes.

Organisation and Staff Turnover: In Q4 there was one retirement by Richard Smith, Retail Business Development Manager, and Andrea Antonioni has been recruited as a new Institutional Business Development Manager, joining in Q1 2022.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF returned +1.50% in Q4 2021, and in relative terms it underperformed its target by -1.90% (source: Schroders).. Over three years, the fund is behind the target return of RPI plus 5% p.a. by -1.81% p.a (source: Schroders).

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 returned +1.50%% in Q4 2021. This is below the RPI plus 5% p.a. target return for Q4 which returned +3.40% (source: Schroders). Over three years, the DGF delivered a return of +9.11% p.a. compared with the target return of +7.30% p.a., behind the target by -1.81% p.a.

In Q4 2021, equity positions contributed +1.3% to the total return, alternatives contributed +0.5%, credit and government debt +0.1%, and cash and currency detracted -0.3% (figures are gross of fees).

The return on global equities was +18.9% p.a. for the three years to December 2021 compared with the portfolio return of +9.1%. Over a full three-to-five-year market cycle the portfolio is expected to deliver equity-like returns, so at current levels it is some way behind that strategic goal.

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

8.0% compared to the three-year volatility of 15.9% in global equities (i.e., 50.3% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 57% in internally managed funds (up from last quarter), 25% in active bespoke solutions (down from last quarter), 6% in externally managed funds (the same as last quarter), and 5% in passive funds (up from last quarter) with a residual balance in cash, 7% (up from last quarter), as at end December 2021. In terms of asset class exposure, 40.2% was in equities, 27.1% was in alternatives and 25.8% in credit and government debt, with the balance in cash, 6.9%.

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

Schroder reported that the carbon intensity of the fund was 36% lower than a comparator (a mix of equities, bonds, and alternative indices).

Organisation: There were no team changes during Q4 2021.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 31st December 2021 was positive at +6.70%, thus falling behind the target return of +12.0% although it is still somewhat early to judge the success of this manager.

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 2021, on an unaudited basis, the fund had invested USD 617.0 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 1,547 MW (including those with minority stakeholders) as at 31 December 2021.

Organisation: Raimund Grube joined as Operating Partner in the US office, Alicia Bowry joined as Finance and Operations Manager in the UK office in November, and Fiona Reynolds (former CEO of UNPRI) and Kurt Akers (founder of Tangible Assets Advisory Group) have joined Mark Fulton and Dawn Turner on the Quinbrook Advisory Board.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +3.14% per annum. The one-year return on the infrastructure was +23.09% versus the absolute return target of 10%.

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 £74.2m.

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

Karen Shackleton
Senior Adviser, MJ Hudson
9th February 2022



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LGPS CURRENT ISSUES

February 2022



welcome to brighter

In this edition

In this edition of Mercer Current issues, we provide comment on investment strategy options, Funds may wish to consider which aim to manage inflation risk and we also discuss planning for the 31 March 2022 actuarial valuation for English and Welsh LGPS Funds, which is fast approaching. If you haven't already registered for our valuation webinar on 1 March then please do [register here](#) (a recording will also be available).

We also provide updates on other recent developments and what is to be expected over the next few months. [Click on the headings below to go straight to that section.](#)

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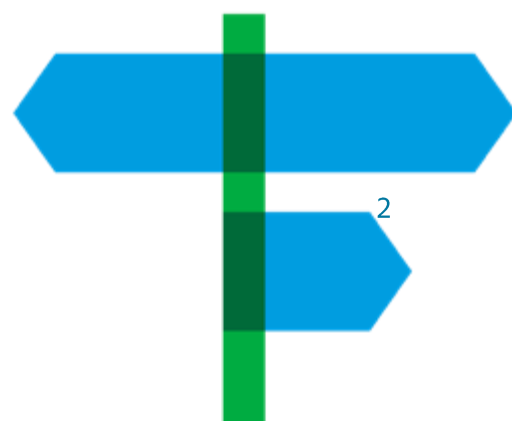
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Investment Update

Investing in an Era of Higher Inflation

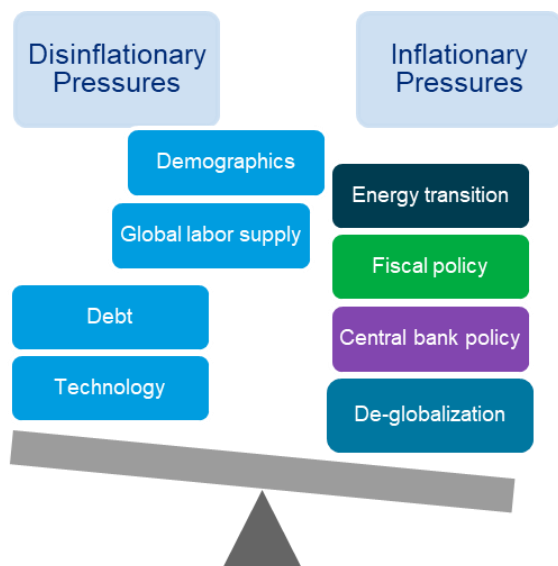
As 2022 progresses, we face the reality that the new normal may already be here. The era of strangely low inflation has ended and the traditional 60/40 portfolio now appears less convincing in providing the required diversification. An ever-growing number of investors are recognising the material nature of ESG factors which has been reinforced by the pandemic.

2022 is an important year for the LGPS. While Funds will seek to understand the post-pandemic impact on valuation assumptions from their actuaries, they will also seek to understand whether their investment portfolio is still fit for purpose.



Positioning for Unexpected Inflation

The transitory story of high inflation is being extended or abandoned as several supply side bottlenecks spread longer than anticipated. **Once inflation exceeds a threshold rate, it creates significant economic costs.** It distorts the allocation of resources, restrains savings and investment, creates sustained wage growth driven by tight labour markets and makes it more difficult for companies and workers to plan for the future.



Unless Funds have existing inflation protection such as Index-Linked Gilts, Treasury Inflation Protected Securities ("TIPS") or Inflation swaps, **the cost of explicit protection can be expensive.** Funds can however consider the following as part of their inflation sleeve:

- **Real assets have a clear role to play in managing longer term inflation risks.** Prime real estate, core infrastructure and natural resources assets typically offer the strongest inflation links.
- **Commodities** and particularly Gold is known to **preserve real value** when inflation is high and growth is weak.

Looking beyond Traditional Diversifiers

The level of portfolio protection from high-quality debt instruments and the effectiveness of duration, which has been a dominant and powerful risk protection strategy for most investors over the past 40 years, cannot be relied upon going forward, as there is a secular trend of rising rates across global developed markets. In addition, **rising inflation erodes the value of the coupons and principal, fixed rate bondholders receive in the future.**

Investors need more tools in the toolkit and should question the role of fixed income in portfolio construction. Clients should explore alternatives within or outside fixed income to seek diversification.



- **Floating rate assets do not have interest rate risks.** Funds may consider leveraged loans and consider going down the rating spectrum for higher risk adjusted yield.
- While many Funds would already hold an exposure to Private Debt, **it is worth considering whether this allocation should be increased**, keeping in mind the overall liquidity requirement of the Fund.
- **Exposure to low duration assets can provide better protection.** Further higher yielding bonds such as Emerging Market Debt and Subordinate Bank Debt can provide cushion from the impact of rising rates. This can be achieved through an allocation in **Absolute return Bonds or Multi Asset Credit.**
- Mercer have long advocated holding the Equity allocation but building protection strategies around it to reduce the volatility of outcomes. We have discussed this recently in our **De-stress don't distress** article ([here](#)).

*How long this inflation surge will last is probably the most pressing investment question in today's market. **How it affects performance of assets depends on three key points. First**, is it likely to be a Demand Pull or a Cost Push inflation or both? **Second**, how large and sustained is the level of inflation. **Third**, what is the likely response of policymakers?*

Whatever the outcome, we know that growth will be slower in 2022; central banks will continue to raise rates and traditional equity valuations are being tested by markets. **As such, it is time that Asset Owners review their asset allocation in the face of this heightened risk.**

We do not offer forecast but provide insights based on our research and analysis. Mercer has run a comprehensive set of scenarios and can use these to help Funds position their portfolio under various economic and inflation regimes.

Please feel free to get in touch with your Mercer contact if you would like to find out more.

Levelling Up - Government sets 5% target for LGPS investment in local areas

On 2 February 2022, the UK Government published its white paper on Levelling Up, setting out the **Government's plans to spread economic opportunities more equally across the UK**. The plans are wide-ranging, with the intention to address **six drivers of spatial disparity across "missions"**. The paper outlines the role of institutional investment in the Levelling Up agenda as providers of capital.

Specifically for the LGPS, the paper notes the progress to date with increasing investment in infrastructure, from <£1bn in 2016 to £21bn in 2021, largely through the asset pools.

As part of the proposals, individual **LGPS funds will need to publish their plans to target up to 5% of their assets being invested in "local" projects**.

Full details can be found on page 162 of the white paper, available at the link [here](#). It is expected a consultation will follow later in the year.

Whilst there is not much to report at the moment, we will keep an eye on this and provide further information in the coming months.

Sustainable Investment

The area of responsible investment remains a key focus for LGPS Funds and over recent months, there have been a number of developments in this area. For further information on any of these matters, please contact your usual Mercer consultant and they will put you in touch with **Mercer's Sustainable Investment team** as required.



COP26's primary aim to 'keep 1.5 alive' ended in disappointment

Global leaders met in Glasgow at the end of 2021 for the annual Conference of the Parties ("COP"). One of the key aims was to secure global net zero by 2050 to keep the "Paris Agreement" 1.5-degree warming target within reach.

The **Glasgow Climate Pact**, which details the agreement reached across 197 nations, following the two weeks of negotiations, requests that countries revisit and strengthen commitments and Nationally Determined Contributions ("NDCs") ahead of next year's COP27, with policies consistent with keeping global warming to 1.5 degrees. The Pact includes:

- Reference to **"phasing down"** unabated coal power and **"phasing out"** inefficient fossil fuel subsidies.
- Formal agreement for implementing Article 6, which includes **carbon markets and emissions trading**.
- The disaster relief and adaptation and mitigation support from developed nations to poor countries is behind target, although **developed nations pledged to double the amount given by 2025**.

TPR's Guidance on Climate-Related Risks

The Pensions Regulator's ("TPR") recently published draft guidance to help Funds **meet new standards of governance and reporting in relation to climate-related risks and opportunities**. Even though the guidance published is not LGPS specific, we believe it is useful to read in advance of the consultation for the LGPS, which is expected later this year, and you can find the latest guidance [here](#).

Update on UN Letter about Investments in the Israeli Settlement Economy

In November 2021, the United Nations (UN) Special Rapporteur on the Palestinian Territories, Michael Lynk sent a [letter](#) to all LGPS pension committee chairs (alongside LAPFF and SAB) asking a number of questions of LGPS Funds about their investments.

On **25 January 2022**, a meeting took place between the Chair and representatives of the LAPFF and the SAB secretary with Michael Lynk to discuss his letter. It was made clear that the primary objective of LGPS Funds is to ensure benefits are paid to members but Funds do take human rights issues seriously. **Discussions are to remain ongoing between all parties**.

Valuation Matters

2022 Valuation Planning

For English and Welsh LGPS Funds, the 31 March 2022 actuarial valuation is fast approaching and discussions are already underway in relation to planning for the work that lies ahead, in particular with regard to data quality, demographic studies, employer engagement and also consideration of the key issues that will impact the 2022 funding strategy.

The fourth in our successful series of **LGPS panel debates** will take place on **1 March 2022** and will focus on the hot topics underpinning funding strategy considerations in the current environment. Our panel will share their experiences and thoughts on the following key areas:

- 1. How can you deal with short-term budget pressures versus long-term contribution sustainability given the improvement in funding?*
- 2. How should we deal with increasing inflation pressures, climate risk and COVID impacts?*
- 3. How different will the outcomes be for different employers and how do we manage that?*

If you haven't already registered for the webinar then please use the link [here](#). A recording of the webinar will also be available.

Mortality - CMI's 2021 version of its Mortality Projections Model

The Continuous Mortality Investigation ("CMI") has announced that it intends to place no weight on mortality data for 2021 as well as 2020 in the core version of its next Mortality Projections Model, CMI_2021, **which is due to be published in March 2022**. The Model is widely used by pension schemes, sponsors and actuaries to determine life expectancy assumptions. The current version, CMI_2020, placed no weight on data for 2020. Moving from CMI_2020 to CMI_2021 is likely to result in small reductions in life expectancy; moving from earlier versions will give larger reductions.

New evidence continues to emerge on the impact of the pandemic on the mortality experience of UK defined benefit schemes. We will be considering this when carrying out a study of demographic assumptions as part of the 2022 actuarial valuation process where we



are carrying out your valuation, as well as considering the impact of other risks such as climate change.

Mortality – Levelling Up

The government [white paper](#) also includes details (page 420) of a mission to **narrow the gap in Healthy Life Expectancy (“HLE”) between local areas where it is highest and lowest by 2030, and by 2035 increase the HLE by 5 years.**

Any improvements in life expectancy will increase pension costs, including within the LGPS, to the extent that some benefit payments will be made for longer, notwithstanding any corresponding increases in state pension age, which may serve to mitigate impacts in respect of the 2014 Scheme benefits. We will monitor developments in this area as they arise and will provide further comment in due course.

DLUHC publishes Section 13 Report on 2019 LGPS valuations

On 16th December, the Department for Levelling Up, Housing and Communities (“DLUHC”) published the Government Actuary Department’s [report](#) on the 2019 LGPS valuations for England and Wales. This is following on from discussions over summer 2021 with various interested parties including Mercer. **This is the second formal Section 13 report**, with Section 13 applied for the first time to the fund valuations as at 31 March 2016.



In summary, Section 13 requires the Government Actuary to report on whether the following aims are achieved:

- **Compliance**
- **Consistency**
- **Solvency**
- **Long term cost efficiency**

The 2019 report notes that the **compliance** objective has been met and that in general whilst there appears to have been an improvement in **consistency** in the key assumptions, there is still progress needed and there has been little progress in relation to academy conversions.

In relation to **solvency**, the report makes the comment that liabilities are growing much faster than the size of employers backing them, which therefore presents greater risk going forward,

despite an improvement in funding levels more generally. We agree with this view, which further highlights the importance of employer covenant monitoring and ongoing review.

In relation to **long-term cost efficiency**, GAD reiterates the message of the need to consider the balance of cost between current and future generations of taxpayers and that deficit recovery plans can be demonstrated to be a continuation of the existing plan with appropriate adjustment for experience since previous valuations.

In addition, there is further commentary in their report regarding the use of contingent assets/asset transfers and the additional cost and risk associated with such arrangements with a recommendation for the SAB to consider the governance of such arrangements further.



The report also notes a number of key areas for consideration for the 2022 valuations, including on **McCloud**, the impacts of **COVID-19** and on **climate change reporting**.

Whilst Section 13 should not be the main driver of 2022 valuation funding strategies, we will be taking into account the comments from the 2019 report where appropriate.

Regulatory round up

MCLOUD REMEDY AND JUDICIAL REVIEWS

The PSPJO Bill

On **21 January 2022**, in advance of moving to Committee Stage in the House of Commons, the Government tabled further [amendments](#) to the Public Sector Pensions and Judicial Offices Bill. As expected, the **key amendment in relation to the LGPS** was to extend the scope of the remedy (by redefining “*remediable service*”) to those members not in pensionable service on 31 March 2012 but in service before then.



Other amendments relevant to the LGPS extended the types of schemes where pensionable service would not count as a disqualifying break, and to allow the final regulations to make provisions in a number of areas, namely in relation to **transfers in, pension credits and debits**, Teachers qualifying for the LGPS and also compensation and interest payments.

Further amendments have been proposed in February 2022, which are to be debated.

The Bill is on track to complete and become an Act by **31 March 2022**.

Judicial Reviews

On **15 December 2021**, six trade unions (the Public and Commercial Services Union, The Fire Brigades Union, the GMP Union, the Royal College of nursing, Unite and the POA Union) filed for a joint Judicial Review to prevent the Government imposing the cost of the McCloud remedy on their members. **The outcomes of this review may have implications for the LGPS if upheld.**

In addition, **on 7 January 2022** whilst not influencing the LGPS at present, a Judicial Review claim submitted by the Police Superintendents' Association ("PSA") in relation to the McCloud Judgment consultation process conducted by HM Treasury in 2020 was dismissed. Although some of the grounds of the claim were ruled arguable, the Judge ruled that there had been legal errors in the decision making process following the consultation. The full judgment can be found [here](#). The PSA has since announced it will seek leave to appeal to the Court of Appeal.

CONSULTATION FOR SCOTTISH FUNDS ON EMPLOYER FLEXIBILITIES AND SURVIVOR BENEFITS

As reported in the previous edition of the LGPS Current Issues, on 1 November, SPPA issued a consultation to seek the views of stakeholders about draft changes to the Local Government Pension Scheme (Scotland) (Amendment) Regulations 2021.

The consultation closed on **21 January 2022** and the outcomes are now awaited.

Further details can be found [here](#).

SECOND REVIEW OF STATE PENSION AGE

The Government has **launched the second review of State Pension Age, the results of which must be published by 7 May 2023**. The Government Actuary will provide a report assessing state pension age in the context of the latest life expectancy projections and Baroness Neville-Rolfe will lead the production of a second report considering recent trends in life expectancy and other relevant factors.

In particular, the review will consider whether the **increase to age 68** (currently legislated to happen between 2044 and 2046) should be brought **forward to 2037-39**, as recommended by the 2017 review.



And in other news...

Local Government Association Changes

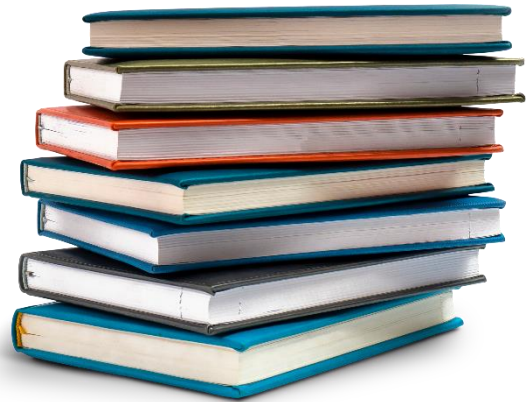
It has been recently announced that **Joanne Donnelly**, currently Senior Pensions Secretary and Deputy SAB secretary and formerly at HM Treasury, will be taking up the role of Head of Pensions at the LGA and Secretary to the Local Government Pension Scheme Advisory Board in England and Wales from 1st April 2022 following Jeff Houston's retirement.

We would like to wish Jeff all the best in his retirement and thank him for the support given to the LGPS over the years.

Finance Act 2022: Increase in the Normal Minimum Pension Age and Retrospective Changes to Scheme Pays Deadlines

Final details of the **increase in Normal Minimum Pension Age (NMPA) from 55 to 57 in April 2028** have been published in the Bill that will become the Finance Act 2022 when it gains Royal Assent next year. The Bill also confirms details of the changes to retrospective mandatory Scheme Pays deadlines from tax year 2016/17 onwards.

On 17 January 2022, HMRC published its latest [newsletter](#), which sets out further information about the plans to increase the normal minimum pension age from 55 to 57 on 6 April 2028.



LGPS administering authorities have already begun to amend their processes in relation to transfer value requests to reduce the likelihood that cases needed to be revisited in the future when changes to the LGPS regulations arising from the NMPA increase are confirmed.

Pension Transfers and Scams

Conditions for statutory transfers

As part of its attempts to combat pension scams, the Government has passed regulations **bringing in new conditions applying to statutory transfers, with effect from 30 November 2021**. The new rules apply to transfers to and from occupational schemes, and contract based schemes, and may require Funds to perform additional due diligence on transfers.

The new requirements are based on a system of “**red**” and “**amber**” flags. Where a red flag is present, the transfer cannot go ahead on a statutory basis.

TPR has published [guidance](#) on the new rules, and the Pension Scams Industry Group (“PSIG”) will be revising its code on combating pension scams later this year to reflect the new position.

The Local Government Association has also provided administering authorities with guidance and template documentation to

assist them with fulfilling their duties to ensure the requirements set out in the regulations are met.

Pensions Dashboards

Work in relation to the implementation of Pensions Dashboards continues at pace and there have been a number of developments over recent months.

On **31 January 2022**, DWP launched a [consultation](#) on the draft Pensions Dashboards Regulations. The consultation closes on 13 March 2022.

The Pensions Dashboards Programme (“PDP”) also released a number of other publications:

- On **15 December 2021**, PDP confirmed [three potential dashboard providers](#) selected to take part in the initial development of the ecosystem. Further comments from PDP, published on 11 January 2022 on the dashboard providers market **can be found [here](#)**.
- On **25 January 2022** the PDP published a [report](#) from Ipsos Mori on their research undertaken on the attitudes of dashboard users, their circumstances, behaviours and views of the dashboard concept, together with PDPs own [summary](#) of the findings.
- The PDPs [November Newsletter / progress report](#) was also published.

On 16 December 2021, the PLSA published an [A to Z industry guide](#), which **identifies 26 key issues** that need to be resolved to make the initial pensions dashboards a success.

Cyber Security

The threat of a cyber-attack remains high on the risk registers for many LGPS Funds.

Alongside specialists in our sister company Marsh, we are able to assist Funds to **understand, measure and manage** their cyber risks through a variety of measures tailored to suit client needs.

If you would like to discuss how Mercer/Marsh can assist your Fund further in this area then please get in touch with your usual Mercer Contact.



What's coming up?

Pooling Guidance / TCFD / Levelling Up

Guidance on pooling in the LGPS and a consultation on TCFD requirements are expected later this summer alongside further details in relation to Levelling Up.

Severance Payments / £95k Exit Cap

Guidance on discretionary severance payments above and beyond statutory payments is expected soon.

No timescales yet on when the Exit Cap may return.

McCloud

The Bill is expected to go through by the 31 March 2022 deadline with a formal government response and draft regulations expected in the summer, with regulations coming into force on 1 October 2023.

Good Governance

Recommendations emerging from the Good Governance Review are expected later this year.

Survivor benefits

A consultation on changes to historic survivor benefits e.g. Goodwin Judgment, is expected in the Spring/Summer.



Dates to remember

Date	Issue	The latest
Expected first half of 2022 (initially expected 6 April 2020 but now delayed)	Governance and draft regulations	Regulations that will replace some of the measures in the Competition and Markets Authority (“CMA”) Order have been delayed. Until they are implemented, the CMA Order will continue to be legally binding.
Expected 2022	Governance and draft regulations	As referenced above, there are a number of areas where consultations/regulations/publications are expected during 2022 – namely, TCFD, Asset Pooling, Levelling Up, McCloud, Good Governance, Pensions Dashboard to name a few...
31 March 2022	Actuarial Valuation	Effective date of next actuarial valuation in England and Wales.
31 March 2023	Actuarial Valuation	Effective date of next actuarial valuation in Scotland. Deadline for actuaries to sign off contribution outcomes for 2022 valuation in England and Wales.
1 October 2023	McCloud remedy regulations in force	It is now the Government’s intention that regulations providing for the “McCloud remedy” come into force from 1 October 2023.
6 April 2028	Normal minimum pension age to rise to 57	The Government has confirmed the normal minimum pension age (the earliest age from which in most circumstances, members can take a pension without incurring tax penalties) will rise from 55 to 57 from this date (with pension age protection in place for eligible members).
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: Graeme Pickard

Role: Consulting Actuarial Associate

Joined Mercer: 2022

Place of Birth: Glasgow

Favourite film: Tricky to choose just one but will have to go for Training Day

If you could have dinner with anyone famous from history who would it be: Paul Gascoigne – would be some laugh!

In the hope that we return a more normal existence this year what are you looking forward to doing, that you haven't done for 2 years:

Hopefully finally getting a honeymoon abroad in the sun!!

Name: Roshni Hainsworth

Role: Governance Leader, UK Wealth

Joined Mercer: June 2007 (and again in September 2011....and also left the UK in 2013 to work at Mercer in Vancouver, returning in July 2014)

Place of Birth: Romford (moved to West Yorkshire at the age of 3)

Favourite film: Inception for something beautifully made with an excellent Hans Zimmer soundtrack or Human Traffic for something more light hearted

If you could have dinner with anyone famous from history who would it be: I'm sure you mean further back in history than this but I would choose Freddie Mercury

In the hope that we return a more normal existence this year what are you looking forward to doing, that you haven't done for 2 years: Going to a music festival (Primavera Sound in Barcelona)



Name: Nick Page

Role: Investment Consultant and Risk Management Specialist

Joined Mercer: 2015

Place of Birth: Birkenhead, Merseyside

Favourite film: This was tough but Ghostbusters – great cast, catchy theme tune, and huge dose of nostalgia. Looking forward to seeing what my kids make of it (when they're a bit older).

If you could have dinner with anyone famous from history who would it be: Alexander Hamilton, to see if he's anything like how the musical portrays him.

In the hope that we return a more normal existence this year what are you looking forward to doing, that you haven't done for 2 years: Seeing clients face to face!

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	14 th March 2022		n/a

Delete as appropriate	Exempt	Non-exempt
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Appendices 1 and 2 are 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: THIRD GENERATION CLIMATE INDICES IMPLEMENTATION OPTIONS

1. Synopsis

- 1.1 This is an update report on implementing the pathway to transition to Net Zero Carbon emissions target by 2050.
- 1.2 Further information has been provided on current Paris Aligned Benchmark (PAB) Indices with comparative data attached as Exempt Appendix 1.
- 1.3 A summary report has been prepared by Mercer (our investment consultants) and is attached as Exempt Appendix 2 to discuss the results of the due diligence on the preferred third generation climate transition index provider and index.

2. Recommendation

- 2.1 To discuss and reconsider the Fund's current belief and future objectives to transition to Net Zero Carbon by 2050 and how to achieve the short to medium term targets.
- 2.2 To consider the comparative data on PAB indices and the LCIV PEPPA fund in Exempt Appendix 1.

- 2.3 To consider the summary report prepared by Mercer on the preferred third generation climate transition index provider and index attached as exempt Appendix2.
- 2.4 Subject to 2.1-2.3, agree the pathway to achieving the short to medium term targets of transition to Net Zero Carbon by 2050
- 2.5 To agree the Paris Aligned Benchmark Index
- 2.6 To agree to receive a progress report on implementation at the June 2022 meeting

3. Background

- 3.1 The Committee believes that Environmental, Social and Governance (“ESG”) risks should be taken into account on an ongoing basis and are an integral part of the Fund’s strategy and objective of being a long-term investor. Members agreed a decarbonisation policy as part of its Investment strategy statement and set targets to achieve further decarbonisation across its entire investment assets. The policy defines the Committee’s beliefs and takes account of sustainable opportunities and agrees a monitoring regime and progress measurement.
- 3.2 The Fund’s latest carbon foot printing exercise on the equity and corporate credit holdings as at 31st March 2021 showed that since 2016 the fund has achieved, in its equities, a reduction of 32.6% in absolute emissions. For 69% of scheme assets, our emissions is 66,096 tCO₂e. It was also identified that the in-house UK equity and RAFI Emerging Market equity allocations (c12% of total assets) were the largest contributors to the overall carbon footprint of the Fund and changing some of our current low carbon indices to third generation climate indices will enable the achievement of our short to medium targets. These indices are explicitly designed to measure initial and ongoing decarbonisation, consistent with the Intergovernmental Panel on Climate Change’s 1.5 degrees Celsius warming scenario. This is a key component to enable the Fund to achieve its net zero carbon emission target set to 2050.
- 3.3 **Transition to net zero carbon for pension investments**
The decarbonisation policy is a living document and Members have targeted decarbonisation across all asset classes of pension investment where the funds’ risk and return objectives are optimised. Any transition should still achieve the primary objective of paying benefits to pensioners and affordability for employers.
- 3.4 Members agreed at the June 2021 meeting to adopt new decarbonisation targets for the short to medium term and a net zero carbon emission for the whole Fund by 2050.
The new targets are:
 - i) Net zero emission target at 2050 including aligning with the 1.5 degree Celsius scenario
 - ii) Investing at least 20% of the fund in sustainability themed investments (such as low carbon technology or green infrastructure) by the end of April 2026

- iii) Reduce carbon emissions of all listed portfolios i.e. equities and credit by 49% by 2026, and 60% by 2030 against a baseline in 2016.

3.5 Members agreed that Mercer and officers meet some preferred index providers to enable the Fund to select indices best aligned with their objectives and the outcome report was discussed at the December 2021 meeting. The decision was to take further due diligence on a Paris Aligned Index to determine its rating and suitability.

3.6 **Factors to Consider**

As part of the decision making process it is important that a consideration is taken of the following factors:

- i) Does this index fit with our current stated beliefs in our investment strategy statement (ISS)?
- ii) What are the implications of the any changes required in our ISS?
- iii) Does the LCIV have a product that meets our objectives and provide value for money?
- iv) Will the chosen index deliver our short to medium term targets of decarbonisation?

3.7 **The current ESG paragraph of our ISS states**

"The Committee has a fiduciary duty to invest Fund assets in members' best interests and so must ensure that assets are invested in an appropriate manner; as a result all material ESG considerations, including climate change, must be taken in light of expected risk and return implications.

The Fund seeks to fully incorporate ESG (including climate change) risks and opportunities into its investment strategy and investment implementation, with a view to further reduce or remove exposures to carbon dioxide from fossil fuel energy sources and other greenhouse gases and reduce ESG risks of the portfolio in line with stated objectives. In particular the Fund will seek to allocate investment to sustainability-themed investments, as well as uphold high standards of ESG incorporation the Fund".

3.8 The exempt Appendix 1 has a comparative schedule of some of the specific details of existing and PAB indices like carbon emissions, exclusions, ESG and fees of the alternative indices. The London CIV has now launched its PAB Fund called PEPPA (details were not available last year during our selection period). The PEPPA fund fact sheets are also attached as exempt Appendix 1. Members are asked to consider these high-level details taking account of the factors listed in paragraph 3.6

3.9 Members are asked to consider exempt Appendix 2, PAB index due diligence summary report prepared by Mercer as requested at the December 2021 meeting. The rating given is now been confirmed by the Mercer ratings review committee.

3.10 Members are also asked to consider all the options and factors and reconfirm their investments beliefs on ESG, and then agree to implement the option that best aligns with the Fund's climate transition objective.

4. Implications

4.1 Financial implications

- 4.1.1 The cost of providing independent investment advice and transition cost is part of fund management and administration fees charged to the pension fund.

4.2 Legal Implications

The LGPS (Management and Investment of Funds) Regulation 2016, Regulation 7 (1) requires an administering authority to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State. The ISS must include:

The authority's policy on how social environmental or corporate governance considerations are taken into account in the selection, non- selection, retention and realisation of investments

The Sub-Committee holds a key fiduciary responsibility to manage the Fund's investments in the best interests of the beneficiary members and the council taxpayers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decisions or strategies developed, such as a carbon strategy, must not negatively influence this primary responsibility.

The precise choice of investments can be influenced by ethical and environmental, social and governance (ESG) considerations, so long as that does not risk material financial detriment to the fund. Whilst deliberating on such issues, Queen's Counsel (Nigel Giffin) advice, commissioned by the LGPS Scheme Advisory Board and published in 2014, states that the administering authority may not prefer its own specific interests to those of other scheme employers, and should not seek to impose its particular views where those views would not be widely shared by scheme employers and members (nor may other scheme employers impose their views upon the administering authority).

- 4.2.1 The Council, as the administering authority for the pension fund may appoint index providers to manage and invest in passive portfolio on its behalf (Regulation 8(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)).

The sub- committee must

- (i) reasonably believe that the recommended index provider's ability in and practical experience of financial matters makes them suitably qualified to make investment decisions for the Council
- (ii) have proper regard to the advice of the Corporate Director of Resources and its external advisers, in relation to the proposed appointment.

- 4.3 In considering the recommendations in this report, members must take into account the information contained in the Exempt Appendix 1 and 2 to this report.

4.4 Resident Impact Assessment

- 4.4.1 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

An equalities impact assessment has not been conducted because this report is seeking opinions on an existing policy document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

- 5.1 Members are asked to take into consideration the factors in paragraph 3.6 together with indices details within exempt Appendix 1 and 2 and then agree the option that is best aligned to the funds agreed climate transition pathway objective. A progress report on implementation to the next meeting is agreed.

Background papers:

None

Final report clearance:

Signed by: David Hodgkinson

Corporate Director of Resources

Date: 9/03/22

Received by:

Head of Democratic Services

Date

Report Author: Joana Marfoh

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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	14 th March 2022		n/a

Delete as appropriate		Non-exempt
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Appendix 1 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: RUSSIA/UKRAINE CONFLICT ISSUES AND IMPACT

1. Synopsis

- 1.1 This report provides information for Members of the Sub-Committee on the initial review of the Fund holdings and considerations to mitigate investment risk and uncertainty to funding levels.
- 1.2 Exempt Appendix 1 to this report is our investment managers and responses to date on known direct holdings, impact and actions taken.

2. Recommendation

- 2.1 To note Exempt Appendix 1.
- 2.2 To consider the action checklist proposed in paragraph 3.7
- 2.3 To agree an action plan.

3. Background

- 3.1 Russia has launched a full-scale invasion of Ukraine with the apparent intention of installing a Russia-friendly government in the country. While the situation is rapidly deteriorating and the tragic humanitarian situation is unfolding, the Fund has undertaken an early assessment of any direct investments in Russia and Ukraine and the potential implications for the global economic growth and inflation.
- 3.2 There are uncertainties, on how and when the conflict will last, the full scale of sanctions and its impact on businesses worldwide because both Russia and Ukraine are big producers of energy, minerals and commodities; the linkages to financial markets of asset seizures and central banks' policy response.
- 3.3 The current situation has brought about a massive refugee and humanitarian crisis to European borders, higher oil and gas and other non-energy commodity prices to lead to downwards revisions to global growth and upwards revisions to inflation forecasts in the coming weeks, supply chain disruptions worsening and heightened volatility and sporadic illiquidity
- 3.4 The immediate fund review shows the direct exposure to Russia and Ukraine is mainly from our emerging market portfolios and estimated around 0.1%. The value of these holdings have now been written down to zero, and where the holdings are in passive funds, the index providers have announced their decision to delete Russian companies from the index. Our renewable infrastructure manager has also cancelled their contract with Gazprom. However with so much uncertainties and volatility, the indirect and policy impact are difficult to quantify.
- 3.5 The triennial valuation commences at 31st March and whilst funding levels as at December 2021 were estimated at 97 to 105%, the current situation will most definitely see a downward effect. This could put materially upward pressure on contributions including the future service rates, all else remaining equal, if the funding level continues to reduce. In addition to the implications for Fund assets and liabilities, the war in Ukraine may result in further pressures for employer affordability for pension contributions, as inflationary pressures work through potentially resulting in pressure on the associated operating costs e.g. pay and material costs and to the extent, any employers are involved in the relief effort.
- 3.6 Officers are continuously engaging with our investment managers on what investments actions are being taken with new government sanctions and policies and its impact on the portfolios and the exempt Appendix 1 schedules information we have to date.
- 3.7 Mercer (our investment advisors) have also prepared an action checklist that members may use as a guide to ensure risk mitigation plans are in place to maintain the funds fiduciary duty and be able to pay pension benefits.
- Direct exposure to Russia likely to be small but should engage with investment managers directly (and via Pools where applicable) to assess potential range of indirect risk exposures to the conflict –this has also been highlighted by the Scheme Advisory Board for England and Wales
 - Where equity and credit spread risk high, consider “tactical” options for reducing identified risk exposures, subject to market levels and conditions (e.g. futures, options, Credit Default Swaps)

- Removal of Russia from global equity and fixed incomes indices likely, which could result in illiquid off-benchmark exposures. Discuss exit strategy with investment managers.
- Reconfirm desirability of any planned changes to current portfolio given transactions costs higher due to market volatility and sporadic illiquidity
- Consider whether member expectations, or broader reputational risk, warrant disinvestment from all holdings in Russian assets, irrespective of exit costs
- Investigate and devise a plan/course of action to meet any liability benefits that may require to be paid to members residing in Russia, given the sanctions on the banking sector

4. Implications

4.1 Financial implications

- 4.1.1 None in the context of this report. The cost of providing independent investment advice is part of fund management and administration fees charged to the pension fund.

4.2 Legal Implications

None applicable to this report

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

None applicable to this report. 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

An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

5. Conclusion and reasons for recommendation

- 5.1 To note Exempt Appendix 1 and consider the action list proposed in paragraph 3.7 to agree an action list.

Background papers:

None

Final report clearance:

Signed by: David Hodgkinson

Corporate Director of Resources

Date: 9/03/22

Received by:

Head of Democratic Services

Date

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of the Local Government Act 1972.

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