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ISLINGTON

Governance and Human Resources
Town Hall, Upper Street, London, N1 2UD

AGENDA FOR THE PENSIONS SUB COMMITTEE

A meeting of the Pensions Sub Committee will be held in Committee Room 5, Town Hall, Upper Street, N1 2UD on, **16 September 2014 at 7.30 pm.**

John Lynch
Head of Democratic Services

Enquiries to	:	Mary Green
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Despatched	:	8 September 2014

Membership 2013/14	Substitute Members
Councillor Richard Greening (Chair)	Councillor Paul Convery
Councillor Andy Hull	Councillor Satnam Gill
Councillor Jean Roger Kaseki	Councillor Mouna Hamitouche MBE
Councillor Michael O'Sullivan	Councillor Dave Poyser

Quorum is 2 members of the Sub-Committee

A.	**Formal Matters**	**Pages (approximate times)**
1.	Apologies for absence	
2.	Declaration of substitutes	
3.	Declaration of interests	

If you have a Disclosable Pecuniary Interest* in an item of business:

- if it is not yet on the council's register, you must declare both the existence and details of it at the start of the meeting or when it becomes apparent;
- you may choose to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.

In both the above cases, you must leave the room without participating in discussion of the item.

If you have a personal interest in an item of business and you intend to speak or vote on the item you must declare both the existence and details of it at the start of the meeting or when it becomes apparent but you may participate in the discussion and vote on the item.

*(a) Employment, etc - Any employment, office, trade, profession or vocation carried on for profit or gain.
(b) Sponsorship - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.
(c) Contracts - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.
(d) Land - Any beneficial interest in land which is within the council's area.
(e) Licences- Any licence to occupy land in the council's area for a month or longer.
(f) Corporate tenancies - Any tenancy between the council and a body in which you or your partner have a beneficial interest.
(g) Securities - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

This applies to all members present at the meeting.

4.	Minutes of the previous meeting	**1 - 4** (19:35)
B.	**Non-exempt items**	
1.	Pensions administration performance - 1 June to 31 July 2014	**5 - 8** (19:40)

2.	Pension Fund performance (a) Quarterly WM Company performance report (b) Presentation from AllenbridgeEPIC Investment Advisers on quarterly performance	**9 – 32** (19:50)
3.	Presentation from Franklin Templeton (global property)	**-** (20:10)
4.	Presentation from Aviva (UK property)	**-** (20:30)
5.	Strategy update (<u>to follow</u>)	**-** (20:50)
6.	Pension Fund Forward Plan 2014/15	**33 - 36** (21:20)

C. Urgent non-exempt items

Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

D. Exclusion of press and public

To consider whether, in view of the nature of the remaining items on the agenda, any of them are likely to involve the disclosure of exempt or confidential information within the terms of Schedule 12A of the Local Government Act 1972 and, if so, whether to exclude the press and public during discussion thereof.

E. Confidential/exempt items

F. Urgent exempt items

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

The Pension Fund AGM will take place on 20 October 2014, at 1.00pm, in the Assembly Hall

The next ordinary meeting of the Pensions Sub Committee will be on 25 November 2014

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London Borough of Islington

Pensions Sub-Committee - 15 July 2014

Non-confidential minutes of the meeting of the Pensions Sub-Committee held at the Town Hall, Upper Street, London N1 2UD on 15 July 2014 at 7.30 pm.

Present: **Councillors:** Richard Greening (Chair), Andy Hull, Jean-Roger Kaseki and Michael O'Sullivan

Also present: Brian Booker, retired pensioners' representative
Karen Shackleton, AllenbridgeEPIC Investment Advisers
Nick Sykes and Catherine Bermingham, Mercer Investment Consulting
Vaughan West, GMB

Councillor Richard Greening in the Chair

1. APOLOGIES FOR ABSENCE (Item A1)

None.

2. DECLARATION OF SUBSTITUTES (Item A2)

None.

3. DECLARATION OF INTERESTS (ITEM A3)

None.

4. MINUTES OF THE PREVIOUS MEETING (ITEM A4)

RESOLVED:

That the minutes of the Sub-Committee meeting held on 13 March 2014 be confirmed as a correct record and the Chair be authorised to sign them.

5. ISLINGTON COUNCIL PENSIONS SUB-COMMITTEE MEMBERS' TRAINING (Item B1)

Members considered options for training and the various ways in which it could be delivered. The three day course run by the Local Government Pensions Committee of the Employers Organisation was recommended as particularly useful for new Members and they were encouraged to attend this year's training. In addition to attendance at outside training, Members suggested that it would be useful to have training sessions at the Town Hall, immediately before Sub-Committee meetings. Refresher training courses could also be offered.

RESOLVED:

That the Head of the Pension Fund and Treasury Management circulate details of the LGPS Trustee Training Fundamentals courses in 2014 and draw up a list of possible training topics and opportunities for Members to consider at the next meeting of the Sub-Committee.

6. PENSIONS ADMINISTRATION PERFORMANCE FROM 1 FEBRUARY TO 31 MAY 2014 (Item B2)

RESOLVED:

(a) That the performance against key performance indicators for the period 1 February to

31 May 2014, including statistics regarding the internal dispute resolution procedure, complaints and compliments, as detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That the information in paragraph 4 of the report, relating to the responses from non-Members of the Scheme to the invitation to join, be noted.
(c) That a further invitation to join the LGPS be sent to non-members, early in 2015, which Trade Unions be invited to endorse.

7. PENSION FUND PERFORMANCE – 1 JANUARY TO 31 MARCH 2014 (Item B3)

RESOLVED:
(a) That the performance of the Fund from 1 January to 31 March 2014, detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That the quarterly WM Company report on the overall performance, updated market value and asset allocation of the Fund, as at 31 March 2014, detailed in Annex A to the report, be noted.
(c) That the report by AllenbridgeEPIC Investment Advisers on fund managers' quarterly performance, detailed in Appendix 2 to the report and their presentation, be noted.
(d) That the briefing paper from Pantheon Ventures (exempt agenda item E1) relating to Wonga be noted.
(e) That consideration of recommendations 2.5 and 2.6 in the report, relating to the Franklin Templeton return of capital, be deferred to the next meeting of the Sub-Committee in September 2014, pending a presentation from representatives of Franklin Templeton at that meeting.

8. WM COMPANY ANNUAL PRESENTATION ON 12 MONTH PERFORMANCE TO MARCH 2014 (Item B4)

David Cullinan, State Street Global Services, gave a presentation on Islington's Pension Fund annual review, covering the period to the end of March 2014.

Copies of his (confidential) report were circulated to Councillors.

Mr Cullinan concluded that the fund had outperformed its benchmark in the latest year, the largest outperformance since 2003. Although the Fund had performed broadly in line with the benchmark over the last three years, it had underperformed over the medium term. Returns during 2008 to 2010 had had a major impact on this outcome.

The Chair thanked Mr Cullinan for his presentation and report.

RESOLVED:
That the contents of the report by State Street Global Services on the annual review of the Islington Pension Fund and the presentation be noted.

9. INVESTMENT STRATEGY ASSET ALLOCATION UPDATE - LIABILITY HEDGING (Item B5)

Karen Shackleton, AllenbridgeEPIC Investment Advisers Limited, outlined her report on liability hedging and why it was important to a pension fund.

Nick Sykes and Catherine Bermingham, Mercer, outlined their report at exempt appendix 2, which detailed the reasons for the suggested increased allocation to government bonds in the restructure of the bonds portfolio, given the current low level of government bond yields, and discussed by the Sub-Committee in March 2014.

RESOLVED:
That specialist investment managers for multi-asset credit, private debt and infrastructure be invited to present to the Sub-Committee on options going forward.

10. DCLG STATUTORY CONSULTATION ON SCHEME GOVERNANCE (Item B6)

RESOLVED:
(a) That the draft Regulations to introduce new governance arrangements for the 2014 Local Government Pension Scheme, in particular the need to set up a local pension board by 1 April 2015, detailed in the revised report (7 July 2014) of the Corporate Director of Finance and Resources, be noted.
(b) That responses to the consultation on policy issues, detailed in paragraph 3.3 of the report, be submitted to the Secretary of State by the deadline of 15 August 2014.

11. STATEMENT OF INVESTMENT PRINCIPLES AND ETHICAL INVESTMENT (Item B7)

RESOLVED:
(a) That the advice from Nigel Giffin QC to the Council that changes would need to be made to the Statement of Investment Principles to allow for social, ethical or environmental considerations to be taken into account in the choice of investments, be noted.
(b) That officers prepare a revised Statement of Investment Principles, for consideration by the Sub-Committee in September 2014, to reflect social, ethical and environmental considerations, which the Council may consider when making a choice on investments.

12. ANNUAL REVIEW AND PROGRESS ON THE 2011-2015 PENSION BUSINESS PLAN (Item B8)

RESOLVED:
(a) That the progress made to date on some of the action points on the 2014/15 Pension Business Plan, detailed in Appendix A of the report of the Corporate Director of Finance and Resources, be noted.
(b) That the Business Plan be approved.
(c) That the key objectives of the Business Plan detailed in paragraph 3.4 of the report be endorsed, subject to the deletion of the word "collaborate" at the end of the final bullet point.

13. PENSIONS SUB-COMMITTEE 2014/15 - FORWARD PLAN (Item B9)

RESOLVED:
That the following additions to the Forward Plan of business for meetings of the Sub-Committee for 2014/15, detailed in Appendix A to the report of the Corporate Director of Finance and Resources, be noted:

- 16 September 2014 – add presentation from Franklin Templeton
- Add training sessions, before Sub-Committee meetings, for members as appropriate

14 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED:
That the press and public be excluded during consideration of the following items as the presence of members of the public and press would result in the disclosure of exempt information within the terms of Schedule 12A of the Local Government Act 1972, for the reasons indicated:

Agenda Item	Title	Reason for Exemption
E1	Pension Fund performance – exempt Appendix 3	Category 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).
E2	Investment strategy asset allocation – liability hedging – exempt appendix B	ditto
E3	Islington Pension Fund investment in Wonga	ditto

15. PENSION FUND PERFORMANCE - EXEMPT APPENDIX 3 (Item E1)

RESOLVED:
That the contents of the briefing note by Pantheon Ventures on current issues pertaining to Wonga be noted.

16. INVESTMENT STRATEGY ASSET ALLOCATION - LIABILITY HEDGING - EXEMPT APPENDIX B (Item E2)

RESOLVED:
That the contents of the exempt briefing note by Mercer on liability hedging be noted.

17. PANTHEON VENTURES: ISLINGTON PENSION FUND INVESTMENT IN WONGA (Item F1)

The Chair stated that he had agreed that discussion on this matter be considered as a matter of urgency and that it could not wait until the next meeting of the Sub-Committee as the Council wished to disinvest any funds held in pay day lenders as soon as possible.

Representatives from Pantheon Ventures gave a presentation to the Sub-Committee on the recent media reports concerning operating practices at Wonga and the Church of England's statement that it had exited its Wonga investment.

It was noted that the regulatory changes to payday lenders announced that day were likely to have a significant impact on payday lenders' activities.

The Sub-Committee re-iterated their wish to disinvest their funding in Wonga and other payday lenders, possibly through the swap route, and authorised the Corporate Director of Finance and Resources, in consultation with the Chair of the Pensions Sub-Committee and the Executive Member for Finance and Performance, to seek a further legal opinion and to report to the next meeting of the Sub-Committee on how this could be achieved.

The meeting closed at 9.50pm.

CHAIR

Agenda Item B1

ISLINGTON

Municipal Offices
7 Newington Barrow Way
London, N7 7EP

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

Meeting of	**Date**	**Agenda Item**	**Ward(s)**
Pensions Sub Committee	16 September 2014	**B1**	

Delete as appropriate		Non-exempt

SUBJECT: PENSION ADMINISTRATION PERFORMANCE

1. Synopsis

1.1 This report provides Members with information on the administration activities of the Pension administration section of the Finance Department. The information is in respect of the period from 1 June 2014 to 31 July 2014.

1.2 The report also provides information regarding the Internal Dispute Resolution Procedure, compliments and complaints.

2. Recommendations

2.1 To note the performance against key performance indicators for the relevant period.

2.2 To note the information in respect of the Internal Dispute Resolution Procedure, compliments and complaints.

3. Background – Statistics and key performance indicators

3.1 The membership profile at 31 May 2014 and 31 July 2014 is shown in the following table.

Category	May - 14	Jul - 14
Number of current active members	6,131	5,871
Number of preserved benefits	6,463	6,483
Number of Pensions in payment	5,020	5,054
Number of Spouses/dependants pensions in payment	935	932
Total	18,549	18,340

3.2. Key performance indicators from 1 June 2014 to 31 July 2014:

Process	Target days to complete	Volume	Target % Achievement	% Achieved within target days	Actual average days
Deaths	5	8	95%	100%	2.50
Retirement benefits	5	40	95%	90.00%	4.64
Pension estimates	10	85	95%	90.59%	7.61
Preserved benefit calculations	15	66	95%	83.33%	10.60
Transfer-in quotation	10	6	95%	66.67%	9.38
Transfer-in actual	10	6	95%	66.67%	8.83
Transfer out actual	12.5	5	95%	80.00%	10.20
Transfer out quotation	15	5	95%	100%	3.20
All processes	-	366	-	91.04%	-

3.3 The overall performance shows an improvement compared to the 89.61% for the previous period 1 February 2014 to 31 May 2014. There was an improved performance in respect of the higher priority cases, but a slightly lower achievement in respect of transfers from other pension scheme.

3.4 During the 2 year period to 31 July 2014, 109 communications have been received thanking Pension Administration for the service, including 6 since the previous meeting of the Sub Committee.

3.5. Two complaints have been received since the previous meeting of the Sub-Committee.

3.5.1 The first complaint was because a beneficiary had not received a letter setting out details of the pension entitlement. This was a one-off error, but procedures have been tightened to prevent any re-occurrence.

3.5.2 The second complaint was from a former employee of the Council who had a deferred pension entitlement with London Pension Fund Authority. The complaint arose because there had been no response to the beneficiary's enquiry regarding early release of the deferred pension. The Pension Administration team had requested relevant information from LPFA, but failed to notify the person. Procedures have been adjusted in the light of this case.

3.6 There were no new Internal Dispute Resolution Procedure (IDRP) cases.

4. Implications

4.1 Financial Implications

4.1.1 The cost of administering the Local Government Pension Scheme is chargeable to the Pension Fund.

4.2 Legal Implications

4.2.1 There are no specific legal implications in this report.

4.3 Equalities Impact Assessment

4.3.1 The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

4.3.2 In respect of this report, an Equality Impact Assessment is not being made because the contents of the report relate to processes that are strictly in accordance with the statutory Local Government Pension Scheme Regulations. The LGPS Regulations are made under the Superannuation Act 1972, and the Council has a statutory duty to comply with the LGPS Regulations.

4.4 Environmental Implications

4.4.1 The environmental impacts have been considered and it was identified that the proposals in this report would have no adverse impacts

5 Conclusion and reasons for recommendations

5.1 The report is made to each meeting of the Committee and is provided in order to assess administration performance.

Background papers: None

Final Report Clearance

Signed by ....

Corporate Director of Finance and Resources Date

Received by ....

Head of Democratic Services Date

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Finance and Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	16 September 2014	**B2**	

Delete as appropriate	~~Exempt~~	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 APRIL to 30 JUNE 2014

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 April 2014 to 30 June 2014

2.2 To note the quarterly WM Company report on the overall performance updated market value and asset allocation of the fund as at 30 June 2014 at Annex A

2.3 To receive the presentation by Allenbridge EPIC Investment Advisers, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 2.

2.4 To receive a presentation from Franklin Templeton to consider cashflow projection and the proposal to re-invest the return of capital to a Franklin Templeton Private Real Estate Fund 2.

2.5 If recommendation 2.4 is agreed, then to delegate powers to the Corporate Director of Finance and Resources and the Assistant Chief Executive Governance and HR to undertake due diligence and agree terms.

2.6 To receive a presentation from Aviva, Lime Property Fund(Long Lease to Value Property Fund).

3. Fund Managers Performance for April to June 2014

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

Fund Managers	Asset Allocation	Mandate	Latest Quarter Performance (April-June'14) Net of fees		12 Months to June'14 Performance Net of fees	
			Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	33%	UK equities	2.3%	2.2%	13.7%	13.1%
AllianzGI (RCM)	9%	Global equities	2.6%	2.7%	9.8%	9.6%
Newton	12%	Global equities	1.8%	2.7%	7.8%	9.6%
Legal & General	7%	Global equities	4.6%	4.7%	4.2%	4.7%
Standard Life	20%	Corporate bonds	2.3%	2.1%	8.2%	6.9%
Aviva (1)	4%	UK property	2.4%	1.6% 5.1%	8.3%	3.3% 17.6%
Threadneedle Investments (TPEN)	6%	UK commercial property	5.3%	4.3%	15.7%	13.6%
Hearthstone	2%	UK residential property	2.6%	2.1%	7.0	10.9

(1) 1.6% and 3.3% = original Gilts benchmark; 5.1% and 17.6% are the IPD All property index; for information

3.2 The WM Company quarterly report (enclosed as Annex A) gives a detailed analysis of our fund managers' latest quarter performance as well as the combined fund performance. The fund's June 2014 market value and asset allocation is also shown in this report. Members are asked to note this report.

3.3 The combined fund performance for the last quarter ending June 2014 is shown in the table below. The Fund's quarterly outperformance of 0.2% was attributable to stock selection

Combined Fund Performance	Latest Quarter Performance **Net** of fees		12 Months to June 2014 Performance Net of fees	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
LB of Islington Fund	2.9%	2.7%	11.2%	10.9%

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

3.5

The WM local authority universe is group of pension funds of similar characteristics but different sizes and deemed as a peer group for comparison. The Islington combined fund performance over the 1, 3 and 5 years period to June 2014 compared to its customised benchmark and percentile ranking are shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance	11.2%	8.6%	12.1%
LBI customised benchmark	10.9%	8.6%	12.2%
Percentile ranking in the peer group	14	26	43

A summary page showing the fund's long term returns at asset class level with its rankings in the WM LA Universe peer group is attached as Appendix 1.

3.6 **AllianzGI (RCM)**

3.6.1 AllianzGI (formerly known as RCM) is the fund's global equity manager with a mandate to outperform the FTSE All World Index Benchmark by 3% per annum, gross of fees, measured over a 3-year rolling period from 8 June 2011.

3.6.2 In the June quarter the fund performed net of fees by returning 2.6% against a benchmark of 2.7%. Since inception in December 2008, portfolio has returned 12.9% against a benchmark of 14.4% net of fees. Relative return over three years is 2.1% per annum.
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3.6.3 The portfolio value rose in absolute terms during the quarter. Stock selection in consumer goods, health care sectors, and oil & gas was positive to performance. However, stock selection in technology and industrials detracted from performance.

3.7 **Newton Investment Management**

3.7.1 Newton is the fund's other global equity manager with an inception date of 1 December 2008. The objective of the fund is to outperform the FTSE All World Index by 2.0% per annum over rolling 3 year periods, net of fees. The fund under-performed by returning 1.8% net of fees against a benchmark of 2.7% for the June quarter. Since inception the fund has delivered a relative underperformance of 0.34%. Relative return over three years is 1.22% per annum

3.7.2 The underperformance this quarter was mainly driven by stock selection in health care, technology and telecom sectors, whilst oil and gas stocks added positively to returns.

3.8 **In House Tracker**

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 December 2008. The fund returned 2.3% against a benchmark of 2.2% for the June quarter.

3.8.2 There was very little activity during the quarter apart from private equity and global property distributions and capital calls.

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 June quarter, the fund returned 2.3% against a benchmark of 2.1% and a 3 year relative return of 1.2% per annum.

3.9.2 The main driver behind the strong absolute returns achieved during the quarter was the combination of spread tightening and a decline in yields of the underlying government bond market. Relative outperformance was largely due to good stock selection and our overweight exposure to the financial sector and asset backed assets

3.9.3 The strategy remains to hold overweight positions in subordinated financial debt, collateralised bonds and an off-benchmark exposure to high yield, with a view to reducing some of the higher risk holdings.

3.10 **Aviva**

3.10.1 Aviva manages the fund's UK 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 Long Lease to Value Property managed under the Lime Property Unit Trust Fund.

3.10.2 The fund for this quarter delivered a return of 2.4% against a gilt market of 1.6 %. The All Property IPD benchmark returned 5.1% for this quarter. Since inception the fund has delivered an absolute return of 6.31% net of fees.

3.10.3 Quarter two saw the agreement of terms of 2 assets with a transaction price of £85m. The fund has maintained an unexpired average lease term of 21 years and increased diversification. Lime is well positioned to deliver attractive returns over the medium term.

3.10.4 The fund manager will be presenting to give an update on performance and outlook of the Lime fund.

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

3.11.1 This is the fund's UK commercial pooled property portfolio that was fully funded on 14 July 2010 with an initial investment of £45 million. The net asset value at the end of June was £55.9million.

3.11.2 The agreed mandate guidelines are as listed below:

- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since I January 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 5.0% against its benchmark of 4.3% for the June quarter and a rental income yield of 6.6%. The cash balance has now been reduced to £73.2M after acquiring 6 properties during the quarter. The cash balance is now 5.6% of the fund and the aim is to maintain within a range of 5-7% throughout 2014. There is a strong asset diversification at portfolio level with a total of 250 properties. As a result of new letting activity and fixed rental value increases the fund's property portfolio rent roll is set to increase by £5.6million by 30 June 2016.

3.12 **Passive Hedge**

3.12.1 The fund currently hedges 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is being run by BNY Mellon our custodian. At the end of the June quarter, the hedged overseas equities returned 4.0% compared to the unhedged combined return of 3.0%.

3.13 **Franklin Templeton**

3.13.1 This is the fund's global property manager appointed in 2010 with an initial investment commitment of £25million. The agreed mandate guidelines are listed below:

- Benchmark: Absolute return
- Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point.
- Bulk of capital expected to be invested between 2 – 4 years following fund close.
- Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.

3.13.2 There was a capital call of $4.6m in August to bring total drawdown to $23.6million and return of funds of $6.4m. The projected net internal rate of return is 17.26%

3.13.3 Members discussed at the July meeting a cash flow projection that showed our investment peaking by the end of 2014 at $23m out of the initial investment of $40m. In order to maintain our investment level it will be necessary to commit to another fund to recycle the distributions received. Members agreed to invite Franklin Templeton to present at the September meeting to discuss further the cash flow projections and performance to date.

3.13.4 Members are asked to receive the fund manager's presentation and consider the proposal to reinvest the distributions by committing to Fund 2.

3.13.5 If agreement is reached to invest in Fund 2 then delegate to Director of Finance and Director of Legal to undertake due diligence and agree terms.

3.14. **Legal and General**

3.14.1 This is the fund's passive overseas equity index manager. The fund inception date was 8 June 2011 with an initial investment of £67million funded from transfer of assets from AllianzGI (RCM). The funds are managed passively against regional indices to formulate a total FTSE All World Index series. The portfolio returned 4.6% net of fees against a benchmark of 4.7% for the quarter with a 12 months relative return -0.5%. The 3 year absolute return is 1.2% with a market value of £71.6m.

3.15 **Hearthstone**

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

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

3.15.2 For the June quarter the value of the fund investment was £21.8m and total funds under management are £29.9million. Performance net of fees was 2.6% compared to the benchmark of 2.1%., and 12 month relative return -3.5%. The income yield after cost was 5.7%. The portfolio had 125 properties, 74 were let on licence and leaseback agreement to house builders and 51 properties let on assured short term agreements. 4 properties have received notices to vacate in July and August and 2 of these have been pre let.

4. Implications

4.1 **Financial implications:**
The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.

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

4.3 **Equality Impact Assessment:**
The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

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

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

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending June 2014 as part of the regular monitoring of fund performance and receive presentations from Aviva and Franklin Templeton.

Background papers:
1. Quarterly management reports from the Fund Managers to the Pension Fund.
2. Quarterly performance monitoring statistics for the Pension Fund – WM Company

Final report clearance:

Signed by:

Corporate Director of Finance and Resources Date

Received by:

Head of Democratic Services Date

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APPENDIX 1

Summary of Long Term Returns

LONDON BOROUGH OF ISLINGTON - TOTAL COMBINED
Benchmark - LOCAL AUTHORITY UNIVERSE

Periods to end June 2014
Pound Sterling

This page summarises the long term returns at asset class level
A ranking against the peer group is shown in brackets.

	----- 2011 -----		-------------- 2012 --------------				-------------- 2013 --------------				----- 2014 -----		1yr	3yrs	5yrs
Return %	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		% pa	% pa
Total Equity	-13.2	7.3	8.1	-3.1	5.2	2.4	10.9	-0.6	4.3	4.6	0.1	2.9	12.4	9.2	13.9
	(8)	(38)	(64)	(18)	(10)	(90)	(97)	(67)	(19)	(75)	(56)	(2)	(18)	(38)	(66)
Private Eq	2.4	-4.5	0.1	1.2	-1.1	-0.3	3.7	6.9	0.6	-1.6	2.6	0.6	2.3	3.5	7.8
UK Equities	-13.3	8.8	6.2	-2.1	4.5	3.9	10.8	-1.7	5.5	5.5	-0.3	2.3	13.6	9.6	15.2
	(43)	(24)	(58)	(14)	(77)	(44)	(39)	(75)	(74)	(56)	(28)	(31)	(46)	(51)	(48)
O/S EQ Hedge	-15.8	7.9	12.3	-5.0	7.3	1.0	12.3	-0.4	3.5	4.6	0.1	4.0	12.7	9.8	13.2
O/S Equities	-16.0	7.1	10.7	-3.4	5.1	1.9	13.8	-1.1	1.3	3.7	-0.2	3.0	8.0	7.8	12.9
	(46)	(22)	(20)	(12)	(16)	(93)	(53)	(73)	(63)	(70)	(82)	(13)	(72)	(59)	(69)
N. America	-13.5	11.4	11.4	-0.6	4.8	-2.3	19.2	2.8	1.0	8.6	0.8	2.3	13.0	14.8	18.5
	(65)	(49)	(16)	(16)	(14)	(96)	(15)	(37)	(16)	(12)	(85)	(55)	(21)	(18)	(16)
Europe ex UK	-19.7	6.7	9.4	-3.0	7.6	5.4	14.2	1.5	4.1	5.9	0.8	1.7	13.2	10.6	13.9
	(12)	(6)	(68)	(6)	(19)	(86)	(21)	(20)	(84)	(32)	(91)	(18)	(67)	(11)	(29)
Japan	-5.8	-3.2	9.4	-3.2	-1.6	1.4	22.6	7.8	3.9	-4.0	-5.6	3.2	-2.8	7.4	6.1
MGJE	-3.1	-3.6	8.0	-5.5	-3.5	5.0	19.5	4.4	0.3	0.0	-5.9	4.2	-1.6	5.9	
Pacific	-14.5	3.2	11.0	-5.5	6.1	3.7	8.7	-9.0	0.3	-4.8	-2.7	2.6	-4.7	-1.4	6.0
	(8)	(85)	(26)	(75)	(80)	(80)	(81)	(48)	(68)	(92)	(90)	(44)	(94)	(91)	(100)
Other Intl.	-20.8	4.8	10.8	-7.6	5.3	5.3	5.7	-8.9	-1.2	-1.8	-0.8	5.3	1.3	-2.8	10.1
	(72)	(50)	(52)	(63)	(36)	(33)	(64)	(84)	(63)	(85)	(54)	(9)	(62)	(79)	(42)
Bonds + IL	0.6	2.8	3.4	2.1	6.2	2.7	1.8	-2.8	2.5	0.4	2.8	2.3	8.2	8.4	8.8
	(97)	(89)	(2)	(47)	(2)	(38)	(76)	(20)	(6)	(17)	(36)	(12)	(10)	(20)	(32)
Total Bonds	0.6	2.8	3.4	2.1	6.2	2.7	1.8	-2.8	2.5	0.4	2.8	2.3	8.2	8.4	9.0
	(91)	(76)	(5)	(66)	(8)	(16)	(46)	(25)	(11)	(16)	(30)	(17)	(12)	(26)	(32)
UK Bonds	0.6	2.8	3.4	2.1	6.2	2.7	1.8	-2.8	2.5	0.4	2.8	2.3	8.2	8.4	9.7
	(93)	(82)	(2)	(69)	(10)	(13)	(27)	(18)	(14)	(17)	(30)	(17)	(13)	(27)	(22)
UK Corp Bond	0.6	2.8	3.4	2.1	6.2	2.7	1.8	-2.8	2.5	0.4	2.8	2.3	8.2	8.4	10.4
	(67)	(55)	(21)	(52)	(32)	(25)	(38)	(18)	(37)	(18)	(38)	(41)	(29)	(41)	(35)
Cash/ Alts	1.0	-0.0	-1.1	0.6	0.2	0.1	1.0	2.5	0.1	0.2	0.6	0.3	1.2	1.8	5.6
	(22)	(44)	(92)	(32)	(53)	(69)	(71)	(19)	(27)	(56)	(55)	(50)	(58)	(55)	(29)
Cash	1.0	-0.0	-1.1	0.6	0.2	0.1	1.0	2.5	0.1	0.2	0.6	0.3	1.2	1.8	-1.1
	(17)	(51)	(95)	(22)	(34)	(39)	(27)	(16)	(21)	(25)	(19)	(22)	(22)	(17)	(100)

Curr Instr	-13.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	(37)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK Property	1.6	1.5	1.1	0.6	0.5	1.3	0.7	1.8	1.7	3.2	2.6	3.9	11.8	6.9	8.0
	(33)	(28)	(19)	(25)	(28)	(18)	(64)	(44)	(78)	(80)	(78)	(72)	(88)	(66)	(77)
Gbl Property	2.3	0.2	-7.0	6.5	-11.5	-0.8	5.2	5.3	-7.9	3.7	1.4	20.7	16.8	4.8	
FRANKLIN TEM	1.0	0.2	-4.7	3.8	-8.1	0.0 #									
FRANKLIN TEM	2.5	0.2	-7.4	6.9	-12.1	0.0 #									
FRANKLIN TEM						-0.8 #	5.2	5.3	-7.9	3.7	1.4	20.7	16.8		
Total Assets	-8.6	5.5	6.1	-1.5	4.7	2.3	7.5	-0.7	3.4	3.5	0.9	2.9	11.2	8.6	12.1
	(33)	(57)	(22)	(30)	(4)	(72)	(89)	(43)	(14)	(57)	(55)	(4)	(14)	(26)	(43)

not invested in this area for the entire period

AllenbridgeEpic
investment advisers

REPORT PREPARED FOR

London Borough of Islington Pension Fund

16th September 2014

Karen Shackleton
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

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1. 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	Departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
AllianzGI (RCM)	Andy Wiggins left the firm just after quarter end. Phil Dawes has replaced him as Head of UK Institutional.	Quarterly return broadly in line with the Index. Outperforming over three years by +2.1% p.a. but still behind the target of +3.0% p.a. Outperformance is attributed to successful stock and currency selection.	£287 billion as at 31st December 2013. (Figures not available for June.)		
Newton	One joiner and two leavers during the quarter.	Underperformed the Index by -0.9% in the quarter. Outperforming over three years by +1.0% per annum, but trailing the target of +2% p.a. Outperformance is attributable to successful stock selection.	£50.9 billion as at 30th June 2014, £0.8 billion lower than at 30th December 2013.	Tracking error of 1.9% has fallen below the normal range of 2% and 6%. This is in part due to a decline in market volatility and in part due to more cautious positioning.	
Standard Life	11 joiners, including a high yield bond analyst and two joiners in private equity, and 16 leavers during the quarter.	Over three years the Fund has outperformed by +0.8% p.a. and is now meeting the performance target of +0.8% p.a.	Underlying fund has risen in value by £28.6m this quarter, for the first time since Q4 2012.	Holding 6.0% in high yield non-benchmark bonds.	

Manager	Departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Aviva	New CRM team following Luke Powell's departure.	Outperformed the benchmark by +0.2% p.a. over three years.	Fund has passed its 10th anniversary and is now valued at £1.2 billion.		
Thread-needle	Three new joiners and twelve leavers in Q2 2014. One of the leavers was from the property team: Andrew Hirons has retired.	A strong quarter - outperformed the benchmark by +0.9%. Ahead of the Index over three years by +2.3% p.a. and meeting the performance target.	£92.8 billion in assets worldwide as at 31st March 2014, £3m higher than as at end March. Pooled fund has assets of £1.3 billion.		
Legal and General	Sarah Aitken has taken over Hugh Cutler's role as Head of Europe and Middle East, Hugh Cutler left the firm to join Och-Ziff, a hedge fund.	Regional funds are all tracking the indices.	£463 billion of assets under management for over 3,000 clients worldwide as at end March 2013.		
Franklin Templeton	Not reported.	A strong quarter with a return of +20.7%. Beating the absolute return performance target of 10% p.a. by +6.2% over 12 months but trailing it by -4.7% over three years.		Manager is considering three co-investment opportunities which will bring the fund to fully invested status.	

Manager	Departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Hearth-stone	Lucy Hawkins, the Assistant Fund Manager, is on maternity leave. Alex Jaques (contractor) is providing cover.	Ahead during the quarter by +0.5%, but trailing the index by -3.5% for the twelve months to June 2014.	Fund was valued at £30.0m at end Q2 2014. Islington's holding represents 71% of the Fund.		

Key to shading in Table 1:

Minor concern

Monitoring required

2. Individual Manager Reviews

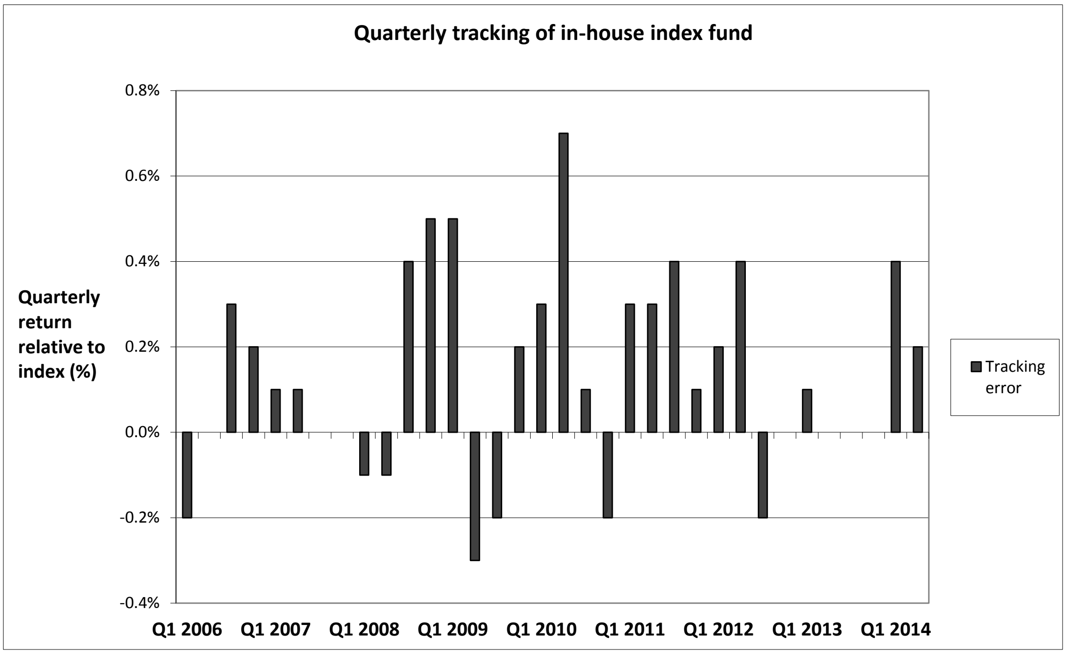
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

Headline comments: The portfolio continues to meet its objectives. The fund delivered a return slightly ahead of the index benchmark (+2.3% versus +2.2%). Over three years the fund has outperformed the index by +0.5% p.a.

Mandate summary: A UK equity index fund designed to match the total return on the UK FTSE All Share Index. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the index.

Performance attribution: Chart 1 shows the tracking error of the in-house index fund against the FTSE All Share Index since Q1 2006. **There are no performance issues.** Over three years, the small quarterly positive relative returns (shown in Chart 1) have accumulated, and as a result the portfolio has outperformed its benchmark by +0.5% per annum.

Chart 1



Source: AllenbridgeEpic based on WM figures

2.2. AllianzGI (RCM) – Global Active Equities

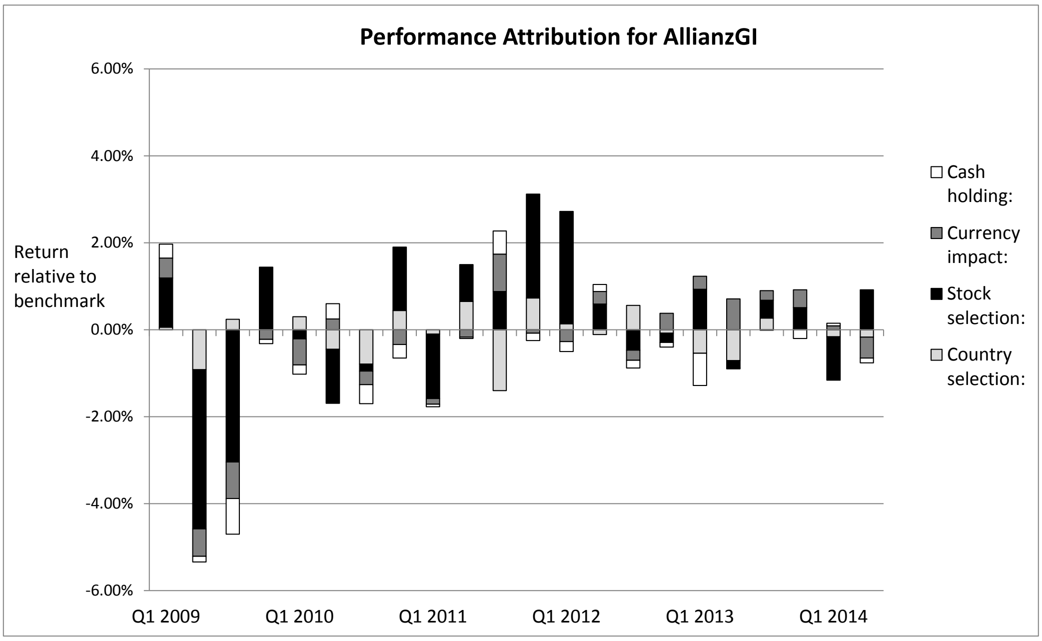
Headline comments: In terms of relative performance, the fund in line with the index during the quarter. Over three years the fund is outperforming, mainly due to successful stock selection. Andy Wiggins, the Head of Institutional, has left the firm and is being replaced by Phil Dawes.

Mandate summary: An active global equity portfolio. AllianzGI operates a bottom-up global stock selection approach. They employ a team of research analysts to identify undervalued stocks in each geographical region (Europe, US, Asia Pacific). A global portfolio team is responsible for constructing the final portfolio. The objective of the fund is to outperform the FTSE All World Index by 3.0% per annum over rolling 3 year periods gross of fees.

Performance attribution: Chart 2 shows a breakdown of AllianzGI's quarterly performance since Q1 2009 relative to the benchmark.

Over the past three years, AllianzGI is ahead of its benchmark by +2.1% per annum, although **they are still trailing their performance target of 3% per annum**. Stock selection has made the biggest positive contribution over the past three years (+2.4% per annum). This is shown in the black bars in Chart 2 for each quarter. Currency selection has also made a positive contribution over three years (+0.7% p.a.), but this has been offset by poor country bets (-0.5% p.a.) and by the cash holding (-0.3% p.a.)

Chart 2



Source: AllenbridgeEpic based on AllianzGI figures

Portfolio risk: In terms of sector bets, relative to the benchmark, the largest underweight sector position relative to the index is now Utilities (-3.5%), following a rebalancing in the Consumer Goods sector. The fund remains most overweight Industrials (+8.7%).

In terms of regional bets, the fund remains most overweight to Europe (+10.5% overweight). **Note that this is also the most significant overweight region in Newton's portfolio.** The largest underweight region remains the UK (-5.3% underweight). The cash position stood at 2.8%.

Portfolio characteristics: The total number of holdings in the portfolio stood at 59 securities at the end of Q2 2014, within AllianzGI's normal range of 50-60 names. The beta on the portfolio was 1.03 at the end of June.

Staff turnover: Just after the June quarter end, Andrew Wiggins, Head of UK Institutional, left the firm. AllianzGI has recently announced that Phil Dawes will be taking over this role. Phil was previously Head of Consultant Relations for Europe and also helped to launch AllianzGI's UK infrastructure fund.

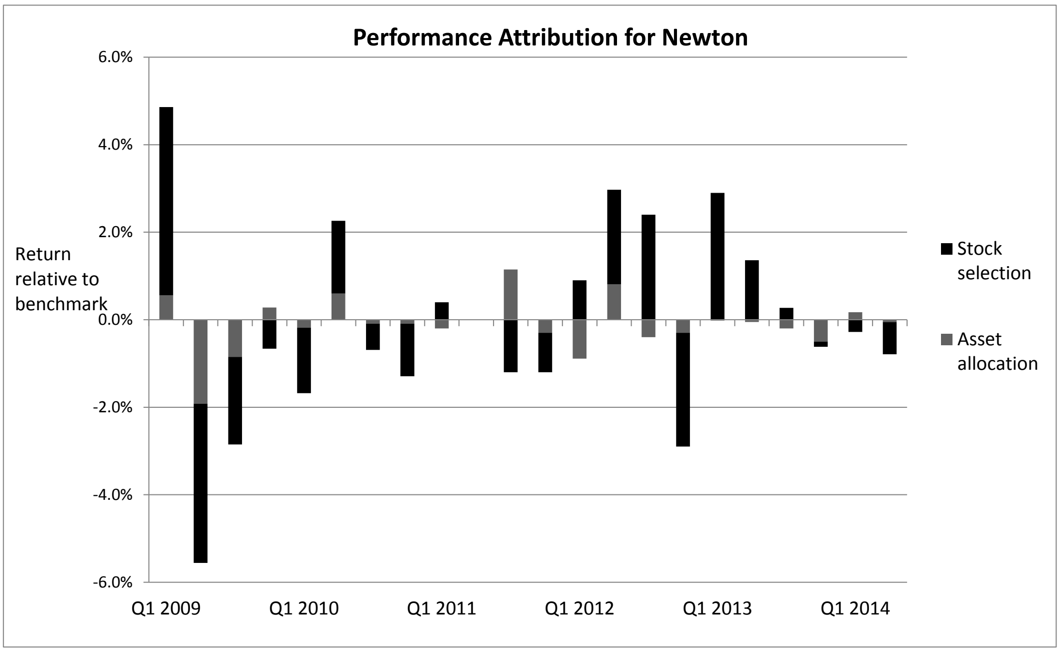
2.3. Newton – Global Active Equities

Headline comments: Newton had a poor quarter which made the 12 month relative track record slightly worse with an underperformance of some -1.7%, but they outperformed over three years by +1.0%. Newton attributes the three year outperformance to positive stock selection decisions (+1.3% p.a.) offset slightly by negative asset allocation decisions (-0.2% p.a.). The fund's target performance is +2.0% per annum ahead of the benchmark.

Mandate summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that 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 is to outperform the FTSE All World Index by 2.0% per annum over rolling 3 year periods, net of fees.

Performance attribution: Chart 3 shows the attribution of relative performance between stock selection and asset allocation. The poor 12 month relative performance can be seen in the right hand four bars which show a disappointing profile.

Chart 3



Source: AllenbridgeEpic based on Newton's performance attribution figures

Over the three years to June 2014, Newton was ahead of the benchmark, with a return of +9.6% p.a. compared to the index return of +8.5% p.a., an outperformance of +1.0% p.a. Stock selection accounted for +1.3% outperformance whilst asset allocation was slightly negative. Note that the performance target is +2% p.a. outperformance over three years. **The fund is trailing its performance objective.**

In terms of stock and sector selection, during the quarter the most successful sector bet was in Financials (+0.4% to relative performance) where Newton remained -12% underweight. The least successful sector was Healthcare (-0.6% relative performance) which was impacted by the failed Pfizer bid for AstraZeneca.

Portfolio Risk: The largest overweight regional allocation was in European Equities (+8.9% overweight). It remains the most significant regional allocation made by Newton since the inception of the portfolio, and successful stock selection in this region added +0.9% to relative performance during the quarter. The most underweight allocation was to Other Equities (-6.5%), with Newton having doubled this relative underweight position during the quarter.

In terms of sector bets, Newton remained most overweight in Healthcare (+5.9%) and most underweight in Financials (-12.2%).

The level of active risk in the portfolio (i.e. the relative risk of the active bets being taken by Newton, or the tracking error) has fallen to 1.9%. **This is below the normal range of 2% and 6%.** (As a guide, the tracking error on the UK index fund is around 0.35%. AllianzGI, on the other hand, expects their active risk to be around 6% per annum). The concern with Newton's active risk is that such a low level will limit the manager's ability to meet the performance objective of +2% per annum outperformance a year over a three year period. The worst outcome would be to end up with a "closet" index fund (but with active fees).

The manager has explained that the fall in active risk is, in part, due to a decline in market volatility but it is also due to more cautious positioning. It is the latter aspect that is more concerning, although Newton has provided reassurance that they do not expect it to impact their chances of achieving their performance objective.

Portfolio characteristics: At the end of Q2 2014, the portfolio held 80 securities (82 as at the end of Q1 2013). This at the lower end of Newton's expected range of between 80 and 120 stocks. Turnover over the past 12 months was 28%, slightly below Newton's normal expected range of turnover to 30%-70%.

Staff turnover: during the quarter one investment professional left the firm, Thomas Beevers, a strategist and economist. The head of business development, John Burke, also left the company. There was one joiner, Julian Lyne, who has been appointed head of global consultants and UK institutional business development.

Organisation: as at end June 2014, assets under management had fallen to £50.9 billion, £0.8 billion lower than at 30th December 2013.

2.4. Standard Life – Fixed Income

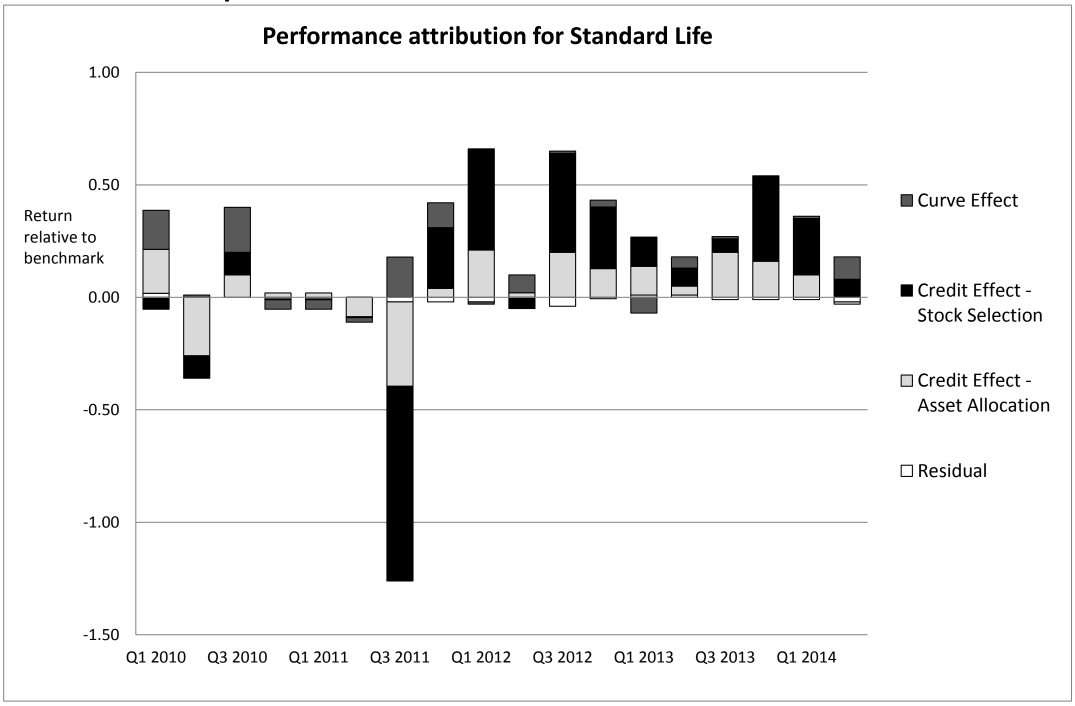
Headline comments: The portfolio was ahead of the benchmark during the quarter by +0.1%. Over three years, Standard Life's outperformance reached +0.8% per annum, so they are now meeting their performance target of +0.8% per annum. Over one year the fund is +1.2% ahead.

Mandate summary: An actively managed bond portfolio, invested in Standard Life's Corporate Bond Fund. The objective of the fund is to outperform the Merrill Lynch UK Non Gilt All Stocks Index by 0.8% per annum over rolling 3 year periods.

Performance attribution:

Chart 4 shows the performance attribution of the Corporate Bond Fund versus its benchmark. This is a pleasing profile for an active bond manager, with small but consistent levels of outperformance each quarter.

Chart 4 – to be updated



Source: AllenbridgeEpic based on Standard Life figures

Over three years, the portfolio has returned +8.4% p.a. compared to the benchmark return of +7.6% p.a., an outperformance of +0.8% p.a. **The fund is meeting its performance objective of outperforming the benchmark by +0.8% per annum**.

The three year numbers are still being impacted by the poor return in Q3 2011 when the portfolio underperformed its benchmark by -1.1%. That figure drops out next quarter, which should result in an improvement in the three year numbers. Based on the past twelve months, the portfolio is ahead by +1.2%.

Over the past three years, most of the outperformance has come from successful stock selection (+0.5%), with asset allocation contributing +0.3%. The off benchmark position in high yield has been particularly successful, contributing +0.5% per annum for the three years to Q2 2014, with small but positive contributions in every quarter.

Portfolio Risk: The largest holding in the portfolio at quarter end remains EIB 6% 2028 (2.2% of the portfolio). The largest overweight sector position remained Financials (+6.7%). The long-standing underweight position in sovereigns and sub-sovereigns remains (-15.7%). This position is at its highest level since inception.

The fund continues to hold 6.0% of the portfolio in non-investment grade bonds (these do not form part of the benchmark).

Portfolio characteristics: The value of Standard Life's total pooled fund at end June 2014 was £3,825.2 million, £28.6 million higher than at the end of Q1 2014. This is the first quarter, where the fund's value has risen, since Q3 2012, although the majority of the rise was due to the underlying return in the fund rather than net inflows. London Borough of Islington's holding of £201.3 million is now 5.3% of the total fund value.

Staff turnover: There were 11 joiners during the quarter. These included a high yield bond analyst and two joiners to SL Capital, the private equity arm. There were 16 leavers during the quarter. 12 of these were Investment Directors, mainly on the equity side of the business. John McClain, Vice President of Fixed Income, also left the firm.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: The Fund outperformed the gilt benchmark by +0.9% during the quarter but underperformed the IPD Property Index return by -2.5%, as the property market continued to rally (the index has risen over 17% in the past 12 months). Over three years the Fund is just ahead of its benchmark by +0.2% but behind the IPD Index by -1.5% per annum.

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% per annum, over three year rolling periods.

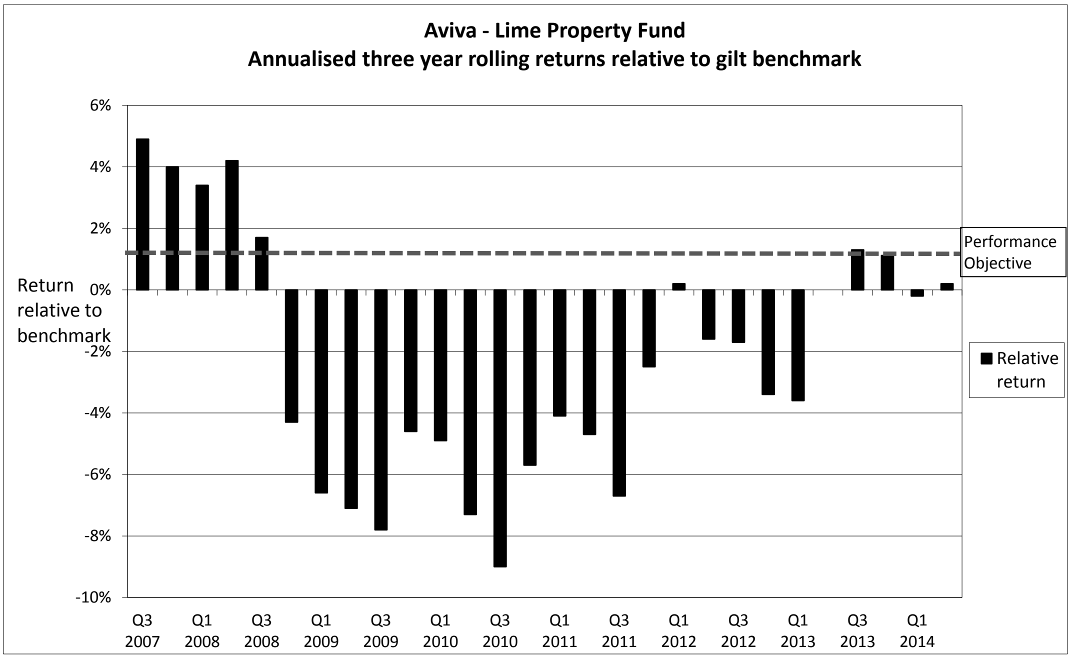
Performance attribution: The fund was just ahead of the gilt benchmark this quarter by +0.9% and over the past twelve months it has outperformed by nearly 5%. The portfolio trailed the IPD Index in Q2 2014 by -2.5% but in a strong property bull market this is to be expected with a low risk property portfolio such as the Lime Fund.

Over three years, the fund returned +7.0% p.a. compared to the gilt benchmark of +6.8% p.a. Relative to the IPD Property Index, the fund underperformed by -2.5% p.a. The **portfolio is ahead of its gilts benchmark but behind its long term performance objective of +1.5% per annum outperformance over three years**.

Of the +7.0% fund return over three years, 5.5% came from income, with the balance from capital gain. One of the key features of the Lime Fund is its positive exposure (currently over 80%) to fixed uplifts and RPI linked reviews.

Chart 5 shows the relative performance of the Fund compared to its gilt benchmark on a three year rolling basis.

Chart 5



Source: AllenbridgeEpic based on WM figures

Portfolio risk: The acquisition pipeline continued to grow during the quarter. The average unexpired lease term is 20.8 years, with 15% of the portfolio's lease exposure in properties in over-35-year leases. 46% of the properties have public tenants with the largest sector exposure remaining supermarkets (23.8%). The cash allocation stood at 5% as at quarter end.

Portfolio characteristics: As at end June the Lime Fund was valued at £1.197 billion, an increase of £29.0 million from the previous quarter end. London Borough of Islington's holding represents 3.7% of the total Fund's value.

Staff turnover: following Luke Powell's departure last quarter (the CRM for London Borough of Islington), and Geoffrey Shaw's departure some months before that (the Assistant Fund Manager), the new team for the Lime Fund now comprises: Renos Booth, Fund Manager; Andrew Davey, Assistant Fund Manager; Leanne Marx, Client Relationship Manager; Karen Willsmore, Assistant Client Relationship Manager.

2.6. Threadneedle - Pooled Property Fund

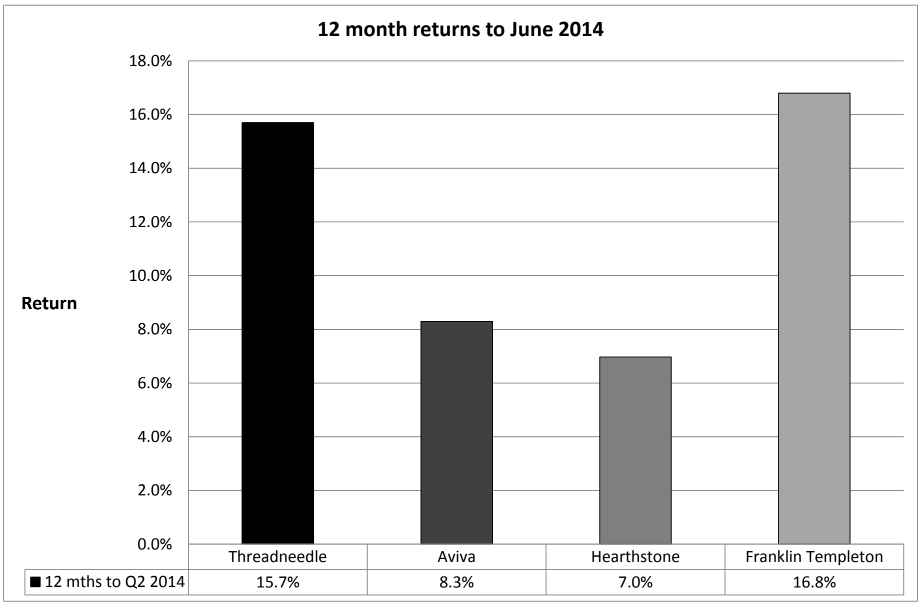
Headline comments: The Fund's performance was +0.9% ahead of its benchmark (the IPD All Balanced – Weighted Average (PPFI) Index) during the quarter. Over three years, the Fund has outperformed its benchmark by +2.3%. The Fund is ahead of its performance target of 1% p.a. above benchmark over three years.

Mandate summary: An actively managed UK commercial property portfolio, the 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% p.a., net of fees, on a rolling three year basis. The benchmark changed at the end of Q4 2013. Prior to this, the benchmark was the CAPS pooled property median fund.

Performance attribution: The fund's outperformed the benchmark during the quarter by +0.9%. In terms of the three year performance, **the Fund is well ahead of its performance target of outperforming by +1% per annum.** The portfolio returned +7.4% p.a. over three years compared with the benchmark return of +5.0% p.a.

Threadneedle remains one of London Borough of Islington's strongest performing managers (across all mandates) over the past 12 months. This is shown in Chart 6 which compares the returns for the four property managers.

Chart 6

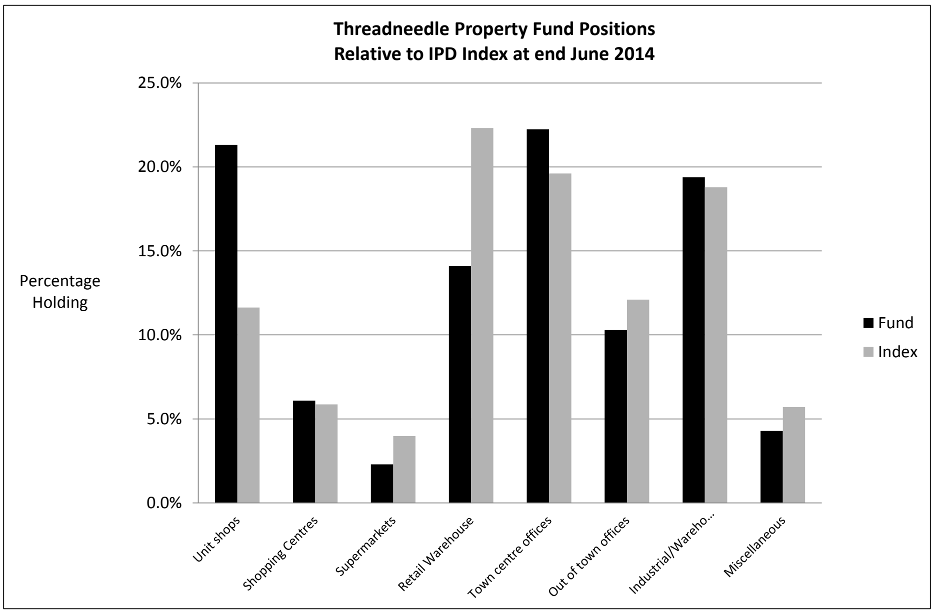


Source: AllenbridgeEpic based on WM data

Portfolio Risk: The fund continued its programme of acquisitions with the purchase of six new properties in the second quarter of 2014, totalling £54.3 million.

Chart 7 shows the current breakdown of the portfolio relative to its benchmark.

Chart 7



Source: AllenbridgeEpic based on Threadneedle data.

Portfolio characteristics: As at 30th June 2014, the Threadneedle Property Fund was valued at £1.30 billion, an increase of £63.8 million compared with June 2013. Over the past twelve months the fund has grown by £235 million. London Borough of Islington's investment represents 4.5%.

As at end June, the fund had 250 properties and 1,333 tenancies. The top ten tenants form 21.8% of the total rent roll. The cash balance continues to be kept at a prudent level. As at end June it was just over 5%, well below the target maximum of 10%.

Staff turnover: there were 12 leavers and three joiners during Q2 2014, across the organisation. Of these, one of the leavers was from the property team. Andrew Hirons has retired, but this was expected and Threadneedle arranged for a three month handover period to Nicholas Bacon who has taken over Andrew's role as an asset manager in the property team.

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

Headline comments: All the index funds were within the expected tracking range when compared with their respective benchmarks and there are no issues. The fundamental FTSE-RAFI Emerging Markets index fund outperformed its market capitalisation-weighted counterpart in Q2 2014 by +1.1%. For the 12 months to Q2 2014 however, the outperformance is more marginal (+1.28% vs +1.26%).

Mandate summary: Four regional overseas equity index funds, in Europe, Japan, Asia Pacific ex Japan, and emerging markets, designed to match the total return on the FTSE All World Regional Indices. One additional index fund is designed to match the total return on the FTSE-RAFI Emerging Markets Equity Index. The FTSE All World Indices are based on capitalisation weights whereas the FTSE-RAFI Index is based on fundamental factors.

Performance attribution: **The regional portfolios are all tracking their benchmarks**, as shown in Table 2.

Table 2

Q1 2014	Fund	Index	Tracking
Europe	-0.1%	-0.2%	0.1%
Japan	+4.2%	+4.2%	0.0%
Asia Pacific ex Japan	+2.0%	+2.0%	0.0%
FTSE emerging markets	+4.9%	+4.9%	0.0%
RAFI emerging markets	+6.0%	+5.9%	0.1%

Source: LGIM

Portfolio Risk: The percentage allocation to each regional fund is based on pre-agreed band widths, which also take into account the global equity managers' allocations. The largest deviation from the benchmark allocation is North America which is 0.7% overweight.

Staff turnover: Following Hugh Cutler's departure (Head of Europe & Middle East, Institutional Business), Legal & General announced at the beginning of June that Sarah Aitken had been appointed as Hugh's replacement, from September 2014. She was previously the Head of Distribution at Insight Investment Management.

2.8. Franklin Templeton – Global Property Fund

Headline comments: This is a long term investment and as such a longer term assessment of performance is recommended. For the year to March 2014, the Fund return was +16.8% compared to its absolute return benchmark of 10% per annum. The first three year performance numbers are now available and the fund has delivered a return of +4.8% per annum compared with the absolute return benchmark of 10% per annum.

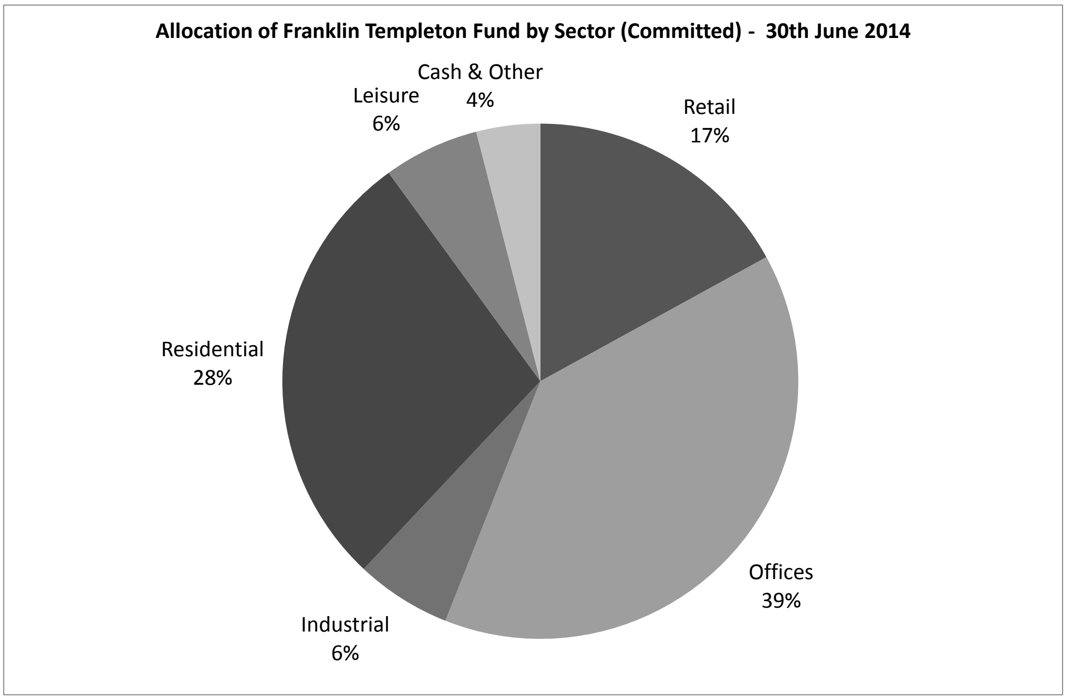
Mandate summary: A global private real estate fund of funds investing in ten sub funds. The performance objective is an absolute return benchmark over the long term of 10% per annum.

Performance attribution: The fund has commitments to 11 funds. Of these, two are in the early phase of development and it is too early to assess their progress. Of the remaining nine, three are on target, five are above target and one is substantially above target (GreenOak Japan). This is an improvement on last quarter's reported progress. Funds that are on target are expected to deliver an IRR (Investment Rate of Return) of between 10% and 15%. Funds that are above target are expected to deliver an IRR of between 15% and 25%. Funds that are substantially above target are expected to deliver an IRR of over 25%.

Distributions on five of the underlying funds continued, with 5% of the fund's commitments being distributed in Q2 2014, including a substantial distribution from Greenoak which had a positive effect on this quarter's return (as calculated by WM). The exits within the GreenOak fund, continuing over coming months, will have generated an IRR (internal rate of return) of 74%. Another of the underlying funds, Savanna, is also expected to make a "meaningful distribution" in coming months.

Portfolio characteristics: Chart 8 shows the sector allocation of the Fund. Nearly 40% of the Fund's commitments are in the office sector. Geographically, the fund is split: 40% to the US, 38% to Asia and 22% to Europe.

Chart 8



Source: AllenbridgeEpic based on Franklin Templeton figures

Portfolio Risk: The fund is in the advanced stages of due diligence on a co-investment opportunity in Asia and is reviewing two additional co-investment opportunities. These investments will mean that the fund is fully invested.

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +2.6% compared to the benchmark return of +2.1% for the quarter ending June 2014. Over 12 months the return was +7.0% compared to the benchmark return of +10.9%. Lucy Hawkins, the Assistant Fund Manager, is now on maternity leave.

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.

Performance attribution: The Fund returned +7.0% compared to the return on the index of 10.9% over the past 12 months. This places Hearthstone fourth out of the four property managers in terms of returns over the past year (see Chart 6). The yield on the portfolio was 5.7% at the end of June, after adjusting for voids.

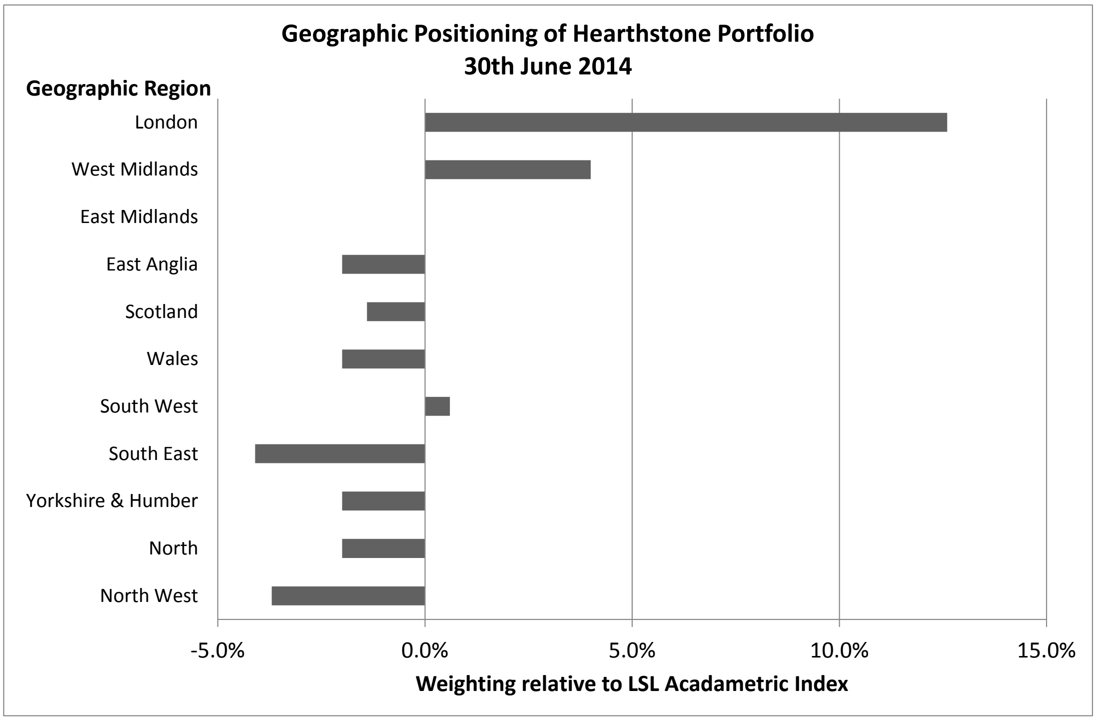
The residential property market has seen its twelfth month in succession where the average house price has risen to new record levels, although this is mainly due to price rises in Greater London and the South East. Excluding these regions, the increase is nearly halved.

Portfolio risk: The portfolio still holds a significant overweight position in London, relative to the benchmark. This is a consequence of an investment opportunity in Wembley. There were no acquisitions or disposals during Q2 2014, but the manager is looking to increase the underweight allocations in the South East, North West and the North. Hearthstone's normal strategy is to maintain broadly neutral regional bets in the portfolio.

As at end Q1 2014, the fund was valued at £30.0 million. London Borough of Islington remains the main investor, owning 71% of the total fund. Cash and liquid instruments in the portfolio stood at 11.5% at the end of Q2 2014, compared to a target level of 15%.

Portfolio characteristics: Chart 9 shows the regional bets in the portfolio. The biggest overweight region is London (+12.6%). The most underweight region relative to the index was the South East (-4.1%).

Chart 9



Source: AllenbridgeEpic based on Hearthstone figures

The Fund has a 21% allocation to detached houses, 52% allocated to flats, 22% in terraced accommodation and 5% in semi-detached.

Organisation and staff turnover: Lucy Hawkins, the Assistant Fund Manager, is on maternity leave. Alex Jaques (contractor) is providing cover.

Karen Shackleton
Senior Adviser
AllenbridgeEpic Investment Advisers Limited
4th September 2014

Agenda Item B6

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

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

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	16 September 2014	**B6**	n/a

Delete as appropriate		Non-exempt

SUBJECT: PENSIONS SUB-COMMITTEE 2014/15– FORWARD PLAN

1. Synopsis

1.1 The Appendix to this report provides information for Members of the Sub-Committee on agenda items for forthcoming meetings and training topics.

2. Recommendation

2.1 To consider and note Appendix A attached.

3. Background

3.1 Details of agenda items for forthcoming meetings will be reported to each meeting of the Sub-Committee for members' consideration in the form of a Forward Plan. There will be a standing item to each meeting on performance.

3.2 The Forward Plan will be updated as necessary at each meeting, to accord with Members' wishes.

3.3 Proposed training topics will be discussed and updated as necessary.

4. Implications

4.1 **Financial implications**
None applicable to this report. Financial implications will be included in each report to the Pensions Sub-Committee as necessary.

4.2 **Legal Implications**
None applicable to this report. Legal implications will be included in each report to the Pensions Sub-Committee as necessary.

4.3 **Environmental Implications**
None applicable to this report. Environmental implications will be included in each report to the Pensions Sub-Committee as necessary.

4.4 **Equality Impact Assessment**
None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding

.

5. Conclusion and reasons for recommendation

5.1 To advise Members of forthcoming items of business to the Sub-Committee and training topics

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Finance and Resources Date

Received by:

Head of Democratic Services Date

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

APPENDIX A

Pensions Sub-Committee Forward Plan for July 2014– June 2015

Date of meeting	Reports
	Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update • Administration report- quarterly KPI
20 October 2014	AGM
25 November 2014	Standard life presentation- bonds Governance structure and implementation Award report of Diversified Growth Fund (DGF) manager
9 March 2015	Global equities manager presentation
4 June 2015	L&G and In house Fund presentation WM annual performance presentation

Proposed training for Members before committee meetings

Date	**Training**
16 September 2014	Investment in Sub Saharan Africa - 6.20-.6.50pm Infrastructure - 6.55- 7.25pm
25 November 2014	Multi asset credit/private debt-- Social Bond
9 March 2015	Fixed income-liability hedging
4 June 2015	Commodities

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