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**AGENDA FOR THE PENSIONS SUB COMMITTEE**

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A meeting of the Pensions Sub Committee will be held in Committee Room 5, Town Hall, Upper Street, N1 2UD on **9 November 2015 at 7.30 pm.**

**John Lynch**  
**Head of Democratic Services**

Enquiries to : Mary Green  
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Despatched : 30 October 2015

Membership 2015/16

Councillor Richard Greening (Chair)  
Councillor Andy Hull  
Councillor Michael O'Sullivan  
Councillor Rupert Perry

Substitute Members

Councillor Alex Diner  
Councillor Jean Roger Kaseki  
Councillor Alice Perry  
Councillor Paul Smith

**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 meeting held on 14 September 2015 1 - 4  
(19:35)

**B. Non-exempt items**

1. Pension Fund performance from July to September 2015 (to follow) -  
(19:40)

(a) Quarterly WM Company performance report

(b) Presentation from AllenbridgeEPIC Investment Advisers on quarterly performance

2.	Presentation - Franklin Templeton - global property	- (20:00)
3.	Presentation – Hearthstone – residential property	- (20:20)
4.	Pensions Sub-Committee - Forward Plan 2015/16	5 - 8 (20:40)
5.	Allianz - transfer of assets	9 - 12 (20:50)
6.	Infrastructure implementation proposal via the London CIV	13 - 16 (21:15)
7.	Responsible investment in equities - disinvestment from SOCO International	17 - 20 (21:45)

**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**

1.	Allianz - transfer of assets - exempt appendix	21 - 22
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**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 next meeting of the Pensions Sub Committee will be on 11 April 2016

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London Borough of Islington

## **Pensions Sub Committee – 14 September 2015**

Non-confidential minutes of the meeting of the Pensions Sub-Committee held at the Town Hall on 14 September 2015 at 7.30 pm.

**Present:**           **Councillors:**           Richard Greening (Chair), Andy Hull (Vice-Chair),  
Michael O'Sullivan and Rupert Perry

**Also Present:**                           Maggie Elliott (observer)  
David Bennett (observer)

  Catherine Bermingham and Nick Sykes, Mercer  
  Investment Consulting  
  Karen Shackleton, AllenbridgeEpic Investment Advisers

### **Councillor Richard Greening in the Chair**

67    **APOLOGIES FOR ABSENCE (Item 1)**

None. Apologies for lateness were received from Councillor Michael O'Sullivan.

68    **DECLARATION OF SUBSTITUTES (ITEM 2)**

None

69    **DECLARATION OF INTERESTS (Item 3)**

None.

70    **MINUTES OF THE MEETING HELD ON 11 JUNE 2015 (Item 4)**

**RESOLVED:**

That the minutes of the meeting held on 11 June 2015 be confirmed as a correct record and the Chair be authorised to sign them.

71    **PENSION FUND PERFORMANCE FROM 1 APRIL TO 30 JUNE 2015 (Item B1)**

**RESOLVED:**

(a) That the performance of the Fund from 1 April to 30 June 2015, 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 2015, detailed in Appendix 1 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 information in the Mercer bulletin of August 2015, entitled "LGPS Current Issues – August 2015", attached as Appendix 3 to the report, be noted.

72 **CURRENCY HEDGING BRIEFING (Item B2)**

Members considered a briefing note produced by AllenbridgeEpic on currency hedging to assist them on the question of whether to take on additional currency risk in addition to the risks associated with overseas equity holdings. Given the likely volatility in the next 18 months, the recommendation in the briefing was for an unhedged equity allocation, if the short term impact was not considered a concern, on the basis that research indicated that the currency effects washed out over time, so not hedging would save the modest costs associated with implementing the strategic currency hedge. It was noted that the hedging fee was relatively small at £5k.

**RESOLVED:**

That the existing 50% currency hedge on overseas equities be maintained for the time being and that the position be reviewed in twelve months' time.

73 **PRESENTATION FROM PANTHEON - PRIVATE EQUITY USA (Item B4)**

The Sub-Committee welcomed Andrea Echberg, Alex Scott and Rob Barr, representing Pantheon, to the meeting. A presentation on Islington's Fund was circulated to members. This covered an overview of the private equity market, progress in the last year, performance versus public benchmarks and portfolio forecasts. It was pointed out that the IRR had achieved just under 11% since inception and that much cash had been received back from the portfolio.

In response to a question from the Chair, Rob Barr confirmed that Wonga was part of Islington's portfolio, though it comprised only 1% of the fund. It would not be possible to dispose of it into a secondary market as Pantheon could sell only a whole fund and not individual underlying funds, such as Wonga. The Chair stressed that Islington wished to see an end to any investment in Wonga.

**RESOLVED:**

That the presentation be noted.

74 **PRESENTATION FROM STANDARD LIFE CAPITAL - PRIVATE EQUITY IN EUROPE (Item B3)**

The Sub-Committee welcomed Robert Pimm, representing Standard Life Capital, to the meeting. A presentation on Islington's Fund was circulated to members. This covered an overview of Islington's commitments in the Standard Life Capital Fund. A sum of 57.7m euros had been committed, with a capital return of 19.2m euros, with good performance across the portfolios

The Chair pointed out that Islington had invested in private equity approximately ten years ago and had expected higher returns. Roger Pimm said that Standard Life hoped to achieve a double digit performance. He thought that the ESP 2008 and ESF I-Funds would be the strongest in Islington's portfolio. The Chair concluded by saying that he hoped that the IRR improved, especially in the earlier Funds (ESP 2004 and ESP 2006).

**RESOLVED:**

That the presentation be noted.

75 **ANNUAL REVIEW AND PROGRESS ON THE 2011-2015 PENSION BUSINESS PLAN (Item B5)**

Members considered that fees were detracting from overall performance and that reference to value for money and achieving a reduction in fees wherever possible should be incorporated into the first objective of the business plan. Members requested a report on fees to the next meeting, commencing with basic fees for the whole Fund.

**RESOLVED:**

(a) That the progress to date on some of the action plans in the business plan at Appendix A to the report of the Corporate Director of Finance and Resources, be noted.

(b) That, subject to the following amendment being made to the first key objective in the business plan, the business plan objectives detailed in paragraph 3.4 of the report be approved:

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

(c) That officers report to the next meeting of the Sub-Committee on basic fees for the whole Fund.

76 **RESPONSIBLE INVESTMENT AND ENGAGEMENT (Item B6)**

Members considered a paper by Mercers on drivers and approaches to responsible investment and engagement and options to consider on implementation. Islington’s membership of LAPFF was considered to cover many of the environmental, social and governance aspects Islington wished to see governing company behaviour.

Members discussed methods of holding managers to account and how effective it was for Sub-Committee meetings to receive presentations from individual managers. Cllr Perry thought it might be more useful for two or three members of the Sub-Committee to visit managers at their premises. Councillor Hull recounted his experiences of attending company AGMs to lobby them on, for example, implementing the Living Wage and welcomed a more assertive approach from members. He suggested that members of the Pension Board could form part of these visits.

**RESOLVED:**

(a) That Mercer’s briefing paper on “Responsible Investment and Engagement”, attached at Appendix 1 to the report of the Corporate Director of Finance and Resources, be noted.

(b) That officers contact LAPFF to explore members’ attendance at a range of company AGMs, to include Pension Board members and that visits be arranged for members of the Sub-Committee and Board to Fund managers to scrutinise Islington’s holdings with these managers.

77 **PENSION SUB-COMMITTEE - FORWARD PLAN 2015/16 (Item B7)**

**RESOLVED:**

That the manager presentations scheduled after 16 November 2015 be reviewed, with a view to visits by members of the Sub-Committee and Board being scheduled to individual managers.

## Pensions Sub Committee – 11 June 2015

The meeting ended at 9.40 pm.

**CHAIR**





Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	9 November 2015		n/a
Delete as appropriate		Non-exempt	

## SUBJECT: PENSIONS SUB-COMMITTEE 2015/16– 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.
- 2.2 To note the update on the process to procure and appoint an Emerging/frontier market manager

### 3. Background

#### 3.1 Update on Emerging/Frontier Market Manager Appointment

Proposals have been invited to lead on the tendering process and once considered by Officers the process of tendering will proceed to be completed in the first quarter of 2016.

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

- 3.3 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

### 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:**

**Received by:** Corporate Director of Finance & Resources Date

Head of Democratic Services Date

Report Author: Joana Marfoh  
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Email: Joana.marfoh@islington.gov.uk

## APPENDIX A

### Pensions Sub-Committee Forward Plan for June 2015– April 2016

Date of meeting	Reports
	<p><u>Please note:</u> there will be a standing item to each meeting on:</p> <ul style="list-style-type: none"><li>• Performance report- quarterly performance and managers' update(include CIV update)</li></ul>
11 April 2016	Actuarial valuation timetable Emerging market/frontier appointment
June 2016	WM presentation
September 2016	Actuarial valuation funding assumptions and training

### **Proposed training for Members before committee meetings-**

<b>Date</b>	<b>Training</b>
16 September 2014	Investment in Sub Saharan Africa - 6.20-.6.50pm Infrastructure - 6.55- 7.25pm
25 November 2014	Multi asset credit- 6.15-6.45pm Real estate including social housing- 6.50-7.20pm
9 March 2015	Frontier Market public equity- 6.15 -6.45pm Emerging market debt- 6.50- 7.20 pm
11 June 2015	Impact investing
14 September 2015- 4.45pm pm	Social bonds
16 November 2016	
11 April 2016	

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Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	9 November 2015		

Delete as appropriate	Exempt	Non-exempt

### EXEMPT AND NOT FOR PUBLICATION- Appendix 1

Appendix 1 is not for publication as it contains the following category of exempt information as specified in Paragraph 3 of 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: Allianz Transfer of Assets to the London CIV

### 1. Synopsis

- 1.1 The report informs the committee of the intended launch of the London CIV with 9 sub funds and discusses the proposal to transfer our current mandate with Allianz to the Allianz CIV sub fund platform
- 1.2 Appendix 1- a cost and benefit analyses is attached as private and confidential

### 2. Recommendations

- 2.1 To consider the CIV proposal to be part of launch –Phase 1
- 2.2 To agree the transfer of our current Allianz equity portfolio to the London CIV platform by December 2015  
Or  
Agree to transfer our appropriate assets to the other sub funds when launched in 2016

### 3. Background

- 3.1 **Setting up of the London CIV Fund**  
Islington is one of 31 London local authorities who have become active participants in the CIV programme and have each contributed £50,000 to the designated fund with a further £25,000 for the 2015-16 financial year to be invoiced shortly. The CIV has been constructed as a FCA regulated UK Authorised Contractual Scheme (ACS). The ACS is composed of two parts: the Operator and the Fund.

### 3.1.1 Progress to Date

A limited liability company (London LGPS CIV Ltd) has been established, with each participating borough holding a nominal £1 share. The company is based in London Councils' building in Southwark Street. A branding exercise has taken place and the decision was taken to brand the company as 'London CIV.'

3.1.2 The interim board of the company, which has been in place since the autumn of 2014, is shortly to be replaced by a full time board made up of three Non-Executive Directors and the three Executive Directors of the company which include the Chief Executive (CEO), the Chief Operating Officer (COO) and the Investment Oversight Director (IOD). Hugh Grover (previously Programme Director of the CIV for London Councils) was appointed CEO before the summer and the positions of COO and IOD were both filled during the last month.

3.1.3 The company has procured a number of specialist advisors to help not only with the establishment of the ACS (both Operator and Fund) but also with the day to day running of the company for its first few years of trading. Northern Trust were appointed as the Asset Servicer to the ACS (fulfilling custody, depository and transfer agency roles) in December 2014. Eversheds and Deloitte were both appointed in the Spring of 2014 to help establish the vehicle from both a legal and tax perspective.

3.1.4 As an FCA authorised entity, both the Operator and the Fund are required to go through the FCA authorisation process. The Operator application for authorisation went to the FCA in July and the Fund application is planned to be submitted in September. Subject to the FCA's timeline London CIV aim to have the ACS authorised by the beginning of November.

### 3.2 Launching of the CIV

It was noted that a pragmatic starting point was to analyse which Investment Managers (IM) boroughs were currently invested through, to look for commonality (i.e. more than one borough invested with the same IM in a largely similar mandate), and to discuss with boroughs and IMs which of these 'common' mandates would be most appropriate to transition to the ACS fund for launch. Each mandate would become a separate, ring-fenced, sub-fund within the overall ACS fund. Boroughs would be able to move from one sub-fund to another relatively easily, but ring-fencing would prevent cross contamination between sub-funds.

3.2.1 Further discussions have been held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers have now been identified as offering potential opportunities for the launch of the CIV. These managers would provide the CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds will consist of 6 'passive' equity sub-funds covering £4.2bn of assets, 2 Active Global Equity mandates covering £1.6bn and 1 Diversified Growth (or multi-asset) Fund covering just over £300m. Those boroughs that do not have an exact match across for launch are able to invest in these sub-funds from the outset at the reduced AMC rate that the CIV has negotiated with managers.

### 3.2.2

The Sub Fund identified are

Manager	LGIM	LGIM	LGIM	Blackrock	Blackrock	Blackrock	Baillie Gifford	Baillie Gifford	Allianz	Total
Sub Fund(s)	World Devel. ex UK	UK Equity Index	World Emerging Markets Eq Index	World Devel. ex UK	UK Equity Index	World Emerging Markets Eq Index	Global Alpha Fund	Diversified Growth Fund	Global Equity High Alpha	9
AUM	£1,372,958,854	£1,024,597,553	£168,189,926	£937,417,764	£571,324,102	£155,341,753	£1,113,921,440	£319,823,905	£525,004,960	£6,188,580,257

3.3 The Phase 1 launch is with Allianz our global equity manager and Ealing and Wandsworth are the 2 other boroughs who hold a similar mandate. The benefits of transfer include a reduction in basic fees and possible tax benefits because of the vehicle used. A comparison of the CIV proposal and our current mandate is attached as Appendix 1 (private and confidential)

### 3.4 Current Allianz mandate and performance

The current mandate 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.

The performance to September net of fees is as follows compared to benchmark

Period	1yr	3yr	5yr
Performance	3.43%	10.39%	9.79%
Benchmark-FTSE ALL World	0.58	9.95%	8.22%

The outperformance since inception is -0.9% after fees.

### 3.5 The Whole Fund Strategy

The Islington Fund agreed interim and final strategy is shown in the table below

Asset Allocation	Current %	Final %
In-House Passive Equity - UK	24	20
Active Global equity	19	0
Frontier / Emerging Market	7	6
Diversified Growth Fund (DGF)	10	10
External Passive Equity ex-UK	0	20
Private Equity	4	4
Property - high risk	9	10
Property low risk	5	5
Fixed Income/Credit	20	10
Infrastructure	0	Flexible % split between infrastructure and social housing
Social Housing	0	

3.6 Members are asked to consider the London CIV proposal as part of its overall strategy and decide if it is appropriate to join Phase 1 transfer to Allianz sub fund

## 4. Implications

### 4.1 Financial implications:

4.1.1 Fund management and administration fees are charged directly to the pension fund.

### 4.2 Legal Implications:

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

4.2.2 The Council is able to invest fund money in a London CIV fund asset without undertaking a competitive procurement exercise because of the exemption for public contracts between entities in the public sector (regulation 12 of the Public Contracts Regulations 2015). The conditions for the application of this exemption are satisfied as the London authorities exercise control over the CIV similar to that exercised over their own departments and CIV carries out the essential part of its activities (over 80%) with the controlling London boroughs.

4.2.3 In deciding whether to agree the transfer of the current Allianz equity portfolio to the London CIV Allianz sub fund the sub committee must

- (i) reasonably believe that the sub fund manager's ability in and practical experience of financial matters makes them suitably qualified to make investment decisions for the Council
- (ii) be satisfied that the fund (or relevant part of it) is managed by an adequate number of investment managers and that where there is more than one investment manager, the

value of fund money to be managed by any one of them will not be disproportionate (in their view) in comparison with the value of fund money managed by other investment managers

- (iii) have regard to the advice of the Corporate Director of Finance and Resources and its advisor, Mercers in relation to the proposed appointment

#### 4.2.4

In considering the recommendations in this report members must also take into account the information contained in the exempt appendix to this report.

#### 4.3 **Environmental Implications:**

4.3.1 None specific to this report

#### 4.4 **Resident Impact Assessment:**

4.4.1 An equalities impact assessment has not been conducted because this report is updating members on the implementation of a fund structure by external managers. There are therefore no specific equality implications arising from this report.

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

- 5.1 The Council is a shareholder of the London CIV and has agreed in principle to pool assets when it is in line with its Fund strategy and will be beneficial to fund members and council tax payers.
- 5.2 The Pensions Sub-Committee, as the administering authority, has a fiduciary responsibility to obtain the best possible financial return on investments over appropriate investment periods, within acceptable levels of risk and applies this principle when making investment decisions on behalf of the Islington pension fund.
- 5.3 The agreed interim to long term strategy is to move our Active Global Equities portfolio to an External passive manager. Members are asked to consider the proposal of the London CIV Phase 1 –Allianz transfer, taking into account its agreed investment strategy and Appendix 1 -cost and benefit analyses and decide to join Phase 1 or to wait and join one of the other 8 sub funds

#### **Appendices: 1 (private and confidential)**

**Background papers:** None

Final report clearance:

#### **Signed by:**

**Received by:** Corporate Director for Finance and Resources Date

Head of Democratic Services Date

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Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Pension Sub -Committee	9 November 2015		
Delete as appropriate		Non-exempt	

## SUBJECT: INFRASTRUCTURE IMPLEMENTATION PROPOSAL VIA THE LONDON CIV

### 1. Synopsis

- 1.1 A report to discuss and consider a proposal to the London CIV to develop a sub fund infrastructure vehicle that includes social housing over the next 12 to 18 months.

### 2. Recommendations

- 2.1 To note the latest government trend on investment policy of local government pension funds
- 2.2 To reaffirm Islington pension fund's investment strategy to invest up to 15% on infrastructure and social housing
- 2.3 To agree to ask and seek confirmation from the London CIV to develop an Infrastructure sub fund or investment vehicle ideally including social housing covering our mandate specification over the next 12 to 18 months,
- 2.4 To agree that if confirmation is not forthcoming from the London CIV alternative plans of implementation be sought.

### 3. Background

#### 3.1 Asset Allocation to Infrastructure

The Pensions Sub-Committee agreed a revised investment strategy for the Fund at its November 2014 meeting. The revised strategy maintained the Fund's 75% growth, 25% defensive split and included a 15% flexible allocation to infrastructure and social housing, with the allocation between the assets dependent on market conditions. This allocation is to be funded from the Fund's corporate bond allocation.

- 3.2 In March 2015, Members agreed the parameter of the Fund's allocation to infrastructure and a specification of what the Fund's infrastructure mandate would look for was drawn out. The table

below sets out the areas typically specified when seeking a mandate and suggested potential or indicative targets.

3.3

Considerations	Islington Indication
Target return (net IRR)	c.10% Gross IRR
Target cash yield (net % p.a.)	c. LIBOR + 2.0% - 3.0%
Target risk profile	Defensive, income focused
Target geographies	Global with UK bias
Target sectors	Regulated, core and core plus (if strong inflation component)
Target development stage	Predominately brownfield
Target capital structure	Predominately equity, some debt
Target number of underlying managers	7- 10
Target number of underlying funds	7-10 initial allocation
Target number of underlying assets	70-100
Target vintage diversification	Rolling programme, consider secondary opportunities
Target allocation to direct/co-investments	0%
Average maturity / term of programme c. 15 years - ability to invest in longer term PPP	c. 15 years –ability to invest in longer term PPP projects, balanced with shorter term secondary and debt opportunities
Investment period for programme	Initial 5 years and then rolling for vintage year diversification
Approach to ESG integration	Preference for managers who integrate ESG
Fee schedule	TBC(base fee preferred)
Performance reporting arrangements	Report on portfolio as a whole quarterly (with monthly information)

3.4

#### Recent Government Policy

The Chancellor at his summer budget announced that the government will work with local government pension scheme administering authorities to ensure that they pool investments to significantly reduce cost while maintaining overall investment performance. There was a further announcement at his party conference that, *“the existing 89 Local Authority pension funds will be pooled into half a dozen British Wealth Funds, each with assets of over £25 billion. This step will save millions of pounds every year in costs and fees. The new funds will develop the expertise to invest in infrastructure”* The Chancellor's statement provides the clearest sign yet of the scale of ambition that the LGPS has been tasked to come up with on pooling and facilitating investment in the nation's infrastructure.

3.5

It should however be noted the principal objective of the LGPS is to provide pensions to its members in a sustainable and cost effective way. This requires an approach that covers credible and transparent funding plans, effective cost management, best-in-class governance, return generating investments and risk management.

3.6

Members are mindful that discussions are also ongoing around the London CIV, and have expressed the view that illiquid investments such as infrastructure would be a natural area for the CIV to concentrate on in its early years, given the governance requirements to investing in private markets. The above considerations / mandate specification could be used to understand if any infrastructure mandates considered by the CIV would meet the objectives of the Fund.

3.7

Members are asked to agree to formally ask and seek confirmation from the London CIV to set up an infrastructure sub fund or investment vehicle ideally to include social housing and cover our mandate specification. If this is accepted and a timeline of 12 to 18 months is feasible, then our implementation will be tailored down that route. However, if the CIV cannot make a commitment within our timelines and specification then a bespoke or alternative plans should be looked at to develop our mandate.

## 4. Implications

### 4.1 Financial implications:

The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.

Fund management and administration fees and related cost are charged to the pension fund.

4.2 **Legal Implications:**

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

4.2.2 The Council is able to invest fund money in a London CIV fund asset without undertaking a competitive procurement exercise because of the exemption for public contracts between entities in the public sector (regulation 12 of the Public Contracts Regulations 2015). The conditions for the application of this exemption are satisfied as the London authorities exercise control over the CIV similar to that exercised over their own departments and CIV carries out the essential part of its activities (over 80%) with the controlling London boroughs.

4.3 **Environmental Implications**

None specific to this report

4.4 **Resident 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 resident impact assessment has not been conducted because this report is only proposing an implementation strategy and there are no equalities issues arising.

## 5. Conclusion and reasons for recommendations

5.1 Members have agreed to make an asset allocation to infrastructure and have defined their specification and targets. They are mindful of government policy but also aware that the London CIV could be a natural source to lead on such an asset class. Members should therefore agree to seek formal confirmations from the London CIV to set up such a sub fund within a feasible timeframe of 12-18months. If this not forthcoming then alternative implementation plans should be undertaken.

**Appendices. none**

**Background papers:**mercer briefing paper on infrastructure to officers

Final report clearance:

**Signed by:**

**Received by:** Corporate Director for Finance and Resources Date

Head of Democratic Services Date

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Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	9 November 2015		

Delete as appropriate	Exempt	Non-exempt

## SUBJECT: RESPONSIBLE INVESTMENT IN EQUITIES- DISINVESTMENT FROM SOCO INTERNATIONAL

### 1. Synopsis

- 1.1 A report on the background to Islington Fund's investment policy on social and responsible investment and discuss the options available to exclude unethical investments in particular SOCO International taking due regard to its fiduciary duty and legal position.

### 2. Recommendations

- 2.1 To consider the extent to which social, ethical or environmental implications can be taken into account in investment decisions as per the agreed Statemnet of Investment Principles
- 2.2 To authorise the Corporate Director of Finance to disinvest the pension fund from its investment in Soco International and reinvest the provceeds in other FTSE All Share Companies as part of the In House Tracker Fund as far as it is legal and adhering to its fiduciary duty.

### 3. Background

#### 3.1 The Company- SOCO International

SOCO International plc is a United Kingdom-based oil and gas exploration and production company. The Company has oil and gas interests in Vietnam, which includes Block 9-2 and Block 16-1; Republic of Congo (Brazzaville), which includes Marine XI Block and Nanga II A; the Democratic Republic of Congo (Kinshasa), consisting of Block V and the Virunga National Park, and Angola, consisting of Cabinda Onshore North Block. The Company's operations are located in South East Asia and Africa. It holds its interests in Marine XI and the Nanga II A Blocks in Congo (Brazzaville) through its 85%-owned subsidiary, SOCO Exploration and Production Congo SA (SOCO EPC). It holds its interests in the Democratic Republic of Congo (Kinshasa) through its 85%-owned subsidiary

SOCO Exploration. It also holds a 60% working interest in the Mer Profonde Sud Block, offshore Congo (Brazzaville) through its wholly owned subsidiary, SOCO Congo BEX Limited.

- 3.2 London-listed Soco International has been criticised in the past two years by conservationists including WWF and Sir David Attenborough for its attempt to drill in Virunga in the Democratic Republic of Congo (DRC), which is a world heritage site and home to around half the world's mountain gorillas.
- 3.3 Soco reached an agreement last summer with WWF to rule out exploration within the park, but critics have since raised concerns that the company has not ruled out exploration if the boundary changes. The DRC's prime minister has said he wants to allow oil exploration in the park and has said, "Soco had brought the issue of the boundary to the government's attention."
- 3.4 The Church Commissioners responsible for the Church of England investment fund disinvested from Soco in 2015 after consideration by their ethics committee for the following reasons the failure to publish an independent inquiry into the human rights abuse allegations or adopt best practice environmental and social standards; concerns over the independence of the board and chairman; and a failure to explicitly rule out future drilling if the park's boundaries changed .
- 3.5 **Statement of investment principle(SIP)policy**  
Members reviewed and agreed its social and responsible investment considerations after seeking legal advice from Counsel in November 2014
- 3.6 The current SIP policy on social ethical and environmental considerations states that:
- 24 The Pensions Sub-Committee, as the administering authority, is aware of its fiduciary responsibility to obtain the best possible financial return on investments over appropriate investment periods, within acceptable levels of risk and will apply this principle when making investment decisions on behalf of the Islington pension fund.
- 25 The Pensions Sub-Committee takes the view that well-managed companies that evaluate and assess their social and environmental impacts are likely to add shareholder value in the long term more successfully than companies that do not manage these impacts. In considering its choice of investments in **segregated funds**, priority will be given to achieving a wide variety of suitable investments that is best for the financial position of the Fund. It will encourage its Fund managers to work positively with companies to promote forward- looking social, environmental and ethical standards and integrate **Environmental, Social and Governance (ESG)** into their investment decisions.
- 26 The Fund will use its position as shareholder to actively engage with companies by appropriate means collectively or individually, to ensure best practice in the management of these impacts and in line with the Council's 'Fairer Islington' corporate approach, and in particular the key policy objectives of promoting fairness and sustainability.
- 3.7 **Islington's Pension Fund Investment**  
The Islington Fund currently holds 37,000 shares in SOCO international valued at £58,367 the end of September and this is 0.03% of the index. It is owned as part of the In House Passive Fund which tracks the FTSE All Share Index within a +/-0.5% range per annum. As a tracker fund it operates under a buy and hold policy. The stock selection and % of institutions is determined with a Barra software using the optimisation method. The software therefore replicates the characteristics of the full index and determines which stocks and what percentage within the risk parameters and tracking errors. As such the index holds 644 institutions by market capital value but the In House fund only holds 296 .

- 3.8 The size of the SOCO holdings is small and as such a sale to disinvest will not impact on the tracking error. The stock can be sold immediately if it is so wished or can be part of sales and purchases the next time the Fund rebalances.

## 4. Implications

### 4.1 Financial implications:

- 4.1.1 Policies which restrict the range of investments available in the universe of possibilities carry a potential cost as there is a risk that the Fund will become less diversified and the volatility of returns could increase, without accompanying additional reward.

- 4.1.2 Fees for advice and engagement services are chargeable to the Pension Fund

### 4.2 Legal implications

- 4.2.1 As the administering authority for the pension fund, the Council owes a fiduciary duty both to the scheme employers and scheme members. The Council must exercise its discretionary powers rationally for a proper purpose and by reference to legally relevant considerations.

- 4.2.2 This means that in exercising its powers to invest fund monies it must make its choice of investments for investment purposes and not for some other purpose. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments and to what is best for the financial position of the fund (balancing risk and return in the normal way). Further, investment decisions must be consistent with the Council's investment policy formulated under regulation 11 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

- 4.2.3 The precise choice of investment may be influenced by wider social, ethical or environmental considerations so long as that does not risk material financial detriment to the fund and the Council's Statement of Investment Principles provides for such considerations to be taken into account in the selection and realisations of investments. The SIP was amended in November 2014 to permit this. In taking account of such considerations the Council, as administering authority should not seek to impose its particular views where those would not be shared by other scheme employers and members in the fund.

- 4.2.4 The power to invest includes the power to realise investments for the purposes of reinvestment.

- 4.2.5 The Council's shareholding in SOCO international is held as part of the in house tracker fund. It would be lawful to reach a decision to sell those shares and reinvest the proceeds in other companies in the FTSE All Share Index provided that such sale and reinvestment will not materially adversely affect the performance of that fund (taking into account any transaction costs) or the ongoing tracking error

### 4.3 Resident 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 A resident impact assessment has not been conducted because the investment is already in place and the sale being proposed will not have any sizeable impact on the Fund.

### 4.4 Environmental Implications

- 4.4.1 These are set out in this report.

## 5. Conclusion and reasons for recommendations

- 5.1 SOCO International is a UK listed mining company that has received a lot of criticism because of exploratory work in a world heritage site and the alleged bribery, human rights violation and corruption, though there is no evidence directly linked to the company. It has a strong financial position, with no debt on the balance sheet and attractive Vietnam production economics providing strategic flexibility.

Our current SIP takes the view that well-managed companies that evaluate and assess their social and environmental impacts are likely to add shareholder value in the long term more successfully than companies that do not manage these impacts. It will encourage its Fund managers to work positively with companies to promote forward-looking social, environmental and ethical standards and integrate **Environmental, Social and Governance (ESG)** into their investment decisions.

The passive fund is run on a buy and hold policy. Sale of our holdings will not have any financial impact on the tracking error of the passive fund.

### Appendices

#### Background papers:

Final report clearance:

#### Signed by:

**Received by:** Corporate Director for Finance and Resources      Date

Head of Democratic Services      Date

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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