

London Borough of Islington

**Pensions Sub Committee - 13 June 2016**

Non-confidential minutes of the meeting of the Pensions Sub Committee held at Town Hall, Upper Street, London N1 2UD on 13 June 2016 at 7.30 pm.

**Present:**           **Councillors:**       Richard Greening (Chair), Hull (Vice-Chair), O'Sullivan and Smith

**Also present:**                               Vaughan West (observer, Chair of Pensions Board)

Thelma Harvey (observer, Pensions Board)

Marion Harvey (observer, Pensions Board)

Nick Sykes and Aled Jones, Mercer Investment Consulting

Karen Shackleton, AllenbridgeEpic Investment Advisers

**Councillor Richard Greening in the Chair**

Councillor Greening apologised for the late distribution of reports for this meeting. He had discussed the matter with officers and was confident that all reports would be despatched with the agenda in the future.

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

Received from David Bennett, Mike Calvert, Maggie Elliott and Councillor Dave Poyser.

Apologies for lateness were received from Councillor Michael O'Sullivan.

**28        DECLARATION OF SUBSTITUTES (Item 2)**

None.

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

None.

**30        MINUTES OF THE PREVIOUS MEETING (Item 4)**

**RESOLVED:**

That the minutes of the meeting held on 11 April 2016 be confirmed as a correct record and the Chair be authorised to sign them.

**31        PENSION FUND PERFORMANCE (Item B1)**

The Head of Pension Fund and Treasury Management introduced her report, highlighting the section in Appendix 3 to the report "LGPS Current Issues" which referred to the 2016 Actuarial Valuation. Members of the Sub-Committee and Board would be offered a dedicated training session on 21 September 2016 to prepare for this.

**RESOLVED:**

- (a) That the performance of the Fund from 1 January to 31 March 2016, detailed in the report of the Corporate Director of Finance and Resources, be noted.
- (b) That the report by AllenbridgeEpic Investment Advisers on fund managers' quarterly performance, detailed in Appendix 2 to the report and their presentation, be noted.
- (c) That the WM quarterly report on the overall performance, updated market value and asset allocation of the Fund as at 31 March 2016, detailed in Appendix 1 to the report, be noted.
- (d) That the information bulletin from Mercers – "LGPS Current Issues – May 2016", attached as Appendix 3 to the report, be noted.

**34 WM COMPANY ANNUAL PRESENTATION (Item B2)**

David Cullinan, State Street Global Services, gave a presentation on the annual performance of the Fund. Copies of the presentation were circulated to members. He reported that Islington's Fund had outperformed the benchmark this year and that it continued to show healthy absolute returns, but had lagged its benchmark over the medium term. The impact of overseas equity underperformance during 2008 – 2010 remained. The fund had performed in line with the sector average over the longer term and had returned 3.5% per annum ahead of inflation over twenty years.

Members noted that this would potentially be the final report from WM Company, since their performance measurement service provider, State Street, had given notice of termination of their contract. Members expressed a hope that an alternative would materialise as it had been useful to compare Islington's Fund against others local authorities.

In response to a question about the number of local authority pension funds investing in Diversified Growth Funds, Mr Cullinan said that there was growth in that area and that Islington's performance in 2015/16 was not untypical.

**35 ANNUAL REVIEW AND PROGRAMME ON 2015 - 2019 PENSION BUSINESS PLAN (Item B3)**

During discussion of the key objectives of the five year business plan, detailed in paragraph 3.4 of the report of the Corporate Director of Finance and Resources, members decided that it would be more appropriate for the Pensions Board to address the objective "To continually improve our administration in order to deliver an excellent and cost effective service to all Fund members".

**RESOLVED:**

- (a) That the five year business plan with progress to May 2016, detailed in Appendix A to the report, be noted.
- (b) That, with the exception of the second objective "To continually improve our administration in order to deliver an excellent and cost effective service to all Fund members", which is to be monitored and addressed by the Pensions Board, the remaining four objectives be approved for the five year business plan.

**36 LONDON CIV UPDATE (Item B4)**

The Head of Pension Fund and Treasury Management amended her report on submission as follows:

Recommendation 2.5 – change the date from "17 July" to "15 July"

**RESOLVED:**

- (a) That progress made at the London CIV in launching funds and running of portfolios over the period from March to 6 June 2016, detailed in the report of the Corporate Director of Finance and Resources, be noted.
- (b) That it be noted that the Islington Pension Fund was unlikely to join the London CIV LGIM phase because, by the September 2016 launch, Islington would have appointed an emerging markets active manager and transferred its LGIM assets to the new manager.
- (c) That the LGIM CIV transfer cost and benefit analyses for Islington, detailed in exempt Appendix 1 to the report, be noted.
- (d) That the London CIV budget forecast, which was to be reported to the Joint Committee on 14 June 2016, detailed in exempt Appendix 2 to the report, be noted.
- (e) That the draft completed submission template for the DCLG for asset pooling, to be submitted before the deadline of 15 July 2016 and detailed in exempt Appendix 3 to the report, be also noted.

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**CARBON RISK MANAGEMENT - UPDATE (Item B5)**

Aled Jones, Principal for Responsible Investment at Mercer, presented his paper on the Fund's equities carbon footprint, options, risks and opportunities to reduce the carbon footprint.

Members noted the following:

- (a) That the Fund's carbon footprint results showed that the aggregate listed equity portfolio had a carbon footprint that was approximately 30% lower than the FTSE All World
- (b) That the relatively high carbon footprint of the UK passive equity assets portfolio (50% of the aggregate portfolio) was driven by the overweight exposure in the UK to the energy and utilities sectors
- (c) That the two active equity mandates (40% of the aggregate portfolio) had a low carbon footprint and a moderating effect on the overall carbon footprint
- (d) The LGIM portfolio had a very high carbon footprint, driven by the EM and RAFI components, but accounted for a minority of the aggregate portfolio and therefore did not significantly influence the overall carbon footprint result.

Members agreed that they wished to reduce the carbon footprint in the long term and would consider further whether to have an active approach. Officers were asked to provide further information on the carbon footprint of all investments held by the Fund and alternatives outside equities.

**RESOLVED:** That, as part of the next steps to reduce the Fund's carbon footprint:

- (a) Climate risk be included within the broader manager due diligence in the active emerging market equity search process eg by asking specific questions of shortlisted managers.
- (b) To pursue the idea of moving some of Islington's investments to low carbon funds or assets and that officers be requested to develop specific proposals on how to do this, including entering a tendering process, or simply re-allocating assets to low carbon funds and/or sectors or managers.
- (c) The Head of Pension Fund and Treasury Management be asked to request Mercers to carry out further work on moving the whole Fund to a lower carbon footprint and submit their findings to the next meeting of the Sub-Committee for consideration.

**38 PENSION FUND FORWARD PLAN 2016 (Item B6)**

**RESOLVED:**

- (a) That the contents of Appendix A, attached to the report of the Corporate Director of Finance and Resources, and detailing proposed agenda items for future meetings, be noted.
- (b) That the update on the process to procure and appoint an emerging/frontier market manager, also detailed in paragraph 3 of the report, be noted.
- (c) That the presentation and evaluation of the shortlisted emerging market/frontier fund managers be arranged for the end of July 2016.

**39 LONDON CIV UPDATE - EXEMPT APPENDIX (Item E1)**

**RESOLVED:**

That the contents of the exempt appendix on the London CIV update be noted.

The meeting ended at 9.40 pm

**CHAIR**