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ISLINGTON

Resources Directorate
Town Hall, Upper Street, London, N1 2UD

AGENDA FOR THE PENSIONS SUB COMMITTEE

Members of the Pensions Sub Committee are summoned to a meeting which will be held in Committee Room 4, Town Hall, Upper Street, London N1 2UD on **15 November 2016 at 7.30 pm.**

Stephen Gerrard
Director – Law and Governance

Enquiries to	:	Mary Green
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Despatched	:	7 November 2016

Membership 2016/17	Substitute Members
Councillor Richard Greening (Chair)	
Councillor Andy Hull (Vice-Chair)	Councillor Satnam Gill OBE
Councillor Michael O'Sullivan	Councillor Mouna Hamitouche MBE
Councillor Paul Smith	Councillor Angela Picknell

Quorum is 2 members of the Sub-Committee

A. **Formal Matters**

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.

B. **Non-exempt items**

3.	Pensions Sub-Committee Forward Plan 2016/17	9 - 12
4.	Update - Lower carbon footprint implementation options (to follow)	-
5.	Update on Actuarial review Funding Strategy Statement - presentation	-

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 next meeting of the Pensions Sub Committee is scheduled for 13 March 2017

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London Borough of Islington

Pensions Sub Committee - 21 September 2016

Non-confidential minutes of the meeting of the Pensions Sub Committee held at the Town Hall, Upper Street, London N1 2UD on 21 September 2016 at 7.30 pm.

Present:	**Councillors:**	Richard Greening (Chair), Satnam Gill and Michael O'Sullivan
Also Present:		Councillor Dave Poyser (observer, Pensions Board) Vaughan West (observer, Chair of Pensions Board) Thelma Harvey (observer, Pensions Board) Marion Harvey (observer, Pensions Board) Nick Sykes, Aled jones Nikeeta Kumar, Ian Kirk and Jonathan Perera – Mercer Investments Karen Shackleton – Allenbridge Investment Advisers

Councillor Richard Greening in the Chair

40 **APOLOGIES FOR ABSENCE (Item 1)**
Received from Councillors Andy Hull and Paul Smith.

41 **DECLARATION OF SUBSTITUTES (Item 2)**
Councillor Satnam Gill substituted for Councillor Paul Smith.

42 **DECLARATION OF INTERESTS (Item 3)**
None.

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

RESOLVED:
That the minutes of the meeting held on 13 June 2016 be confirmed as a correct record and the Chair be authorised to sign them.

44 **PENSION FUND PERFORMANCE - APRIL TO JUNE 2016 (Item B1)**

RESOLVED:
(a) That the performance of the Fund from 1 April to 30 June 2016, detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That the report by Allenbridge Investment Advisers on fund managers' quarterly performance, detailed in Appendix 1 to the report and their presentation, be noted.
(c) That the Sub-Committee's concerns about the poor performance of Schroders be noted

46 **LONDON CIV UPDATE (Item B2)**

RESOLVED:
(a) That the progress made to date at the London CIV in launching funds and running portfolios over the period from June to September 2016, detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That it be noted that the Sub-Committee had agreed to move its current Legal and General passive portfolio into the "On Fund Costs" Fund.
(c) That it be noted that officers will investigate whether switching to Legal and General low carbon investments could achieve more savings than moving that investment to the London CIV ESG sub-fund.

47 **PENSION FUND FORWARD PLAN 2016 (Item B3)**

RESOLVED:
That the contents of Appendix A, attached to the report of the Corporate Director of Finance and Resources, detailing proposed agenda items for future meetings, be noted.

48 **CONTRACT AWARD FOR EMERGING/FRONTIER MANAGER (Item B4)**

RESOLVED:
(a) That the outcome of the tender process to procure an Emerging and Frontier Market Manager, as detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That Fund Manager A be appointed as the Islington Pension Fund Emerging and Frontier Market Equities Manager, as recommended in exempt appendix 1.
(c) That Fund Manager B be appointed as the Islington Pension Fund Emerging and Frontier Market Equities Reserve Manager, as recommended in exempt appendix 1.
(d) That the Corporate Director of Finance and Resources, in consultation with the Director of Law and Governance, be authorised to negotiate and agree the fund management agreement with Fund Manager A.

49 **CARBON FOOTPRINT UPDATE (Item B5)**

Members considered the information in the exempt appendix from Mercers, which detailed an approach that would better incorporate ESG and sustainability considerations into Islington's Pension Fund investment strategy.

RESOLVED:
(a) That the presentation prepared by Mercers, attached as exempt appendix 1 to the report of the Corporate Director of Finance and Resources, be noted.
(b) That it be noted that Mercer's ESG ratings for the Fund's strategies indicated that Islington's Fund was exposed to a number of managers with above average ESG capabilities.
(c) That the current ESG risks in Islington's Fund be managed by focusing on the ESG capabilities of existing and prospective managers.
(d) That officers report back on specific proposals for moving away from UK and global investments and to what extent carbon risk can be reduced, without risking performance.

50 ACTUARIAL REVIEW - PRESENTATION (Item B6)

Ian Kirk, Actuary at Mercer Investment, accompanied by Jonathan Perera from Mercer Investment, gave a presentation on the funding position of the Fund as at 31 March 2016. It was noted that the deficit had decreased since 2013 to £376m (from £393m in 2013) and a funding level of 74% (from 70% in 2013).

During discussions, it was noted that:
As an employer, Islington Council currently paid contributions from investments into the Fund every two years in order to reduce revenue contributions in the forthcoming year
There had been an increase caused by a more aged workforce
Auto-enrolment and the prospect of younger members coming into the scheme would assist the situation
The numbers of current pensioners had increased largely due to early retirements with higher benefits

RESOLVED:
That the presentation be noted.

51 EXCLUSION OF PRESS AND PUBLIC (Item)

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	Contract award for emerging/frontier manager – report from Mercer Investments -exempt Appendix	Category 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).
E2	Carbon footprint update – report from Mercer Investments - exempt appendix	ditto

52 CONTRACT AWARD FOR EMERGING/FRONTIER MANAGER - EXEMPT APPENDIX (Item E1)

RESOLVED:
That the exempt information in the appendix to agenda item B4 be noted (See minute 48 for decision).

53 **CARBON FOOTPRINT UPDATE - EXEMPT APPENDIX (Item E2)**

RESOLVED:
That the exempt information in the appendix to agenda item B5 be noted (See minute 49 for decision).

The meeting ended at 9.20 pm

CHAIR

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	15 November 2016		

Delete as appropriate	~~Exempt~~	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 JULY TO 30 SEPTEMBER 2016

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 July to 30 September 2016 as per BNY Mellon interactive performance report

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

2.3 To note the new Investment Regulations become effective from 1 November 2016. A summary of the main provisions is attached as Appendix 1

3. Fund Managers Performance for July to September 2016

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 (July-Sept) Gross of fees		12 Months to September 2016 Performance Gross of fees	
			Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	23%	UK equities	7.5%	7.78%	16.7%	16.8%
London CIV Allianz	7%	Global equities	10.3%	8.05%	30.4%	29.8%
Newton	14%	Global equities	7.4%	8.5%	29.1%	31.3%
Legal & General	6%	Global equities	12.5%	11.0%	39.8%	37.7%
Standard Life	21%	Corporate bonds	5.71%	6.03%	14.3%	14.3%
Aviva (1)	5%	UK property	1.8%	3.14% -2.3%	5.5%	16.3% 2.6%
Columbia Threadneedle Investments (TPEN)	6%	UK commercial property	-2.7%	-0.7%	3.5%	3.4%
Hearthstone	2%	UK residential property	-0.60%	-2.3%	2.9%	2.6%
Schroders	9	Diversified Growth Fund	2.5%	1.9%	6.9%	7.1%

(1) 3.14% and 16.3% = original Gilts benchmark; -2.3% and 2.6% are the IPD All property index; for information

3.2 BNY Mellon our new performance monitoring service provider now provides our quarterly interactive performance report. Performance attributions will be generated via their portal once officers receive the training.

3.3 The combined fund performance and benchmark without the hedge for the last quarter ending September 2016 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to Sept' 2016 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
LB of Islington Fund-ex hedge	6.58%	5.81%	17.4%	17.4%

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

3.5 The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years period to September 2016 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	15.62%	8.74%	10.88%

3.6 **AllianzGI (RCM)**

3.6.1 AllianzGI (formerly known as RCM) is the fund's global equity manager and was originally appointed in December 2008. There has been amendments to the mandate, the last being a transfer to the CIV platform.

3.6.2 On 2 December, the portfolio was transferred to the London CIV platform to Allianz sub fund as agreed by Members at the November 2015 meeting. The new benchmark is to outperform the MSCI World Index. The outperformance target is MSCI World +2% per annum over 2 years net of fees.

3.6.3 This quarter the fund returned 10.3% against a benchmark of 8.1%. Since inception with the London CIV in December 2015, there is a relative over performance of 0.5%. The main drivers were both stock selection and sector weight positions in Information Technology, Consumer Discretion and Financial sectors. This quarter the portfolio performance reflected the structural growth and high return prospects of companies owned.

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.

3.7.2 The fund underperformed by returning 7.4% gross of fees against a benchmark of 8.5% for the September quarter. Since inception the fund has delivered a relative over performance of 0.44% gross of fees per annum.

3.7.3 The under performance this quarter was driven mainly by overweight position in healthcare and underweight positions basic material sectors. The Technology sector and the North America regions were positive contributors due to stock selection.

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 7.5% against a benchmark of 7.8% for the September quarter and a relative over performance of 0.65% over the three year period.

3.8.2 The fund currently holds 312 stocks and the main activities were corporate actions, receipts of distributions and payments to our private equity funds over the period.

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 September quarter, the fund returned 5.7% against a benchmark of 6.0% and a 3 year relative return of 0.1% per annum net of fees.

3.9.2 The main driver behind the under performance during the quarter was the volatility in gilt yields on the last day of the quarter.

3.9.3 The forward strategy in the post Brexit era of political and macro uncertainty, is to take advantage of further opportunities to reduce risk and are now underweight bonds that are likely to be eligible for Bank of England purchases.

3.10 **Aviva**

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

3.10.2 The fund for this quarter delivered a return of 1.78 % against a gilt benchmark of 3.1%. The All Property IPD benchmark returned -2.3% for this quarter. Since inception the fund has delivered an absolute return of 6.64% net of fees.

3.10.3 This September quarter there was one completion of the development of Translation and Innovation hub let to Imperial College in White City. The fund's unexpired average lease term is now 19.7years. Lime is well positioned to deliver attractive returns over the medium term.

3.10.4 The fund also has £520m of investor commitments (£63.5m new) in the current queue.

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

3.11.1 This is the fund's UK commercial pooled property portfolio that was fully funded on 14 October 2010 with an initial investment of £45 million. The net asset value at the end of September was £73.3million.

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 -2.7% against its benchmark of -0.7% for the September quarter. The cash balance now stands at 8.9% and with post Brexit uncertainties, will continue to adopt a conservative cash management strategy for the rest of the year. During the quarter there were two opportunistic disposals. There is a strong asset diversification at portfolio level with a total of 258 properties.

The medium to long term prospects of commercial property post referendum are likely to be a catalyst for moderate capital value declines but the fund is cushioned by its high relative income return and maximum diversification at both portfolio and client level.

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 September quarter, the hedged overseas equities returned -0.14%. As a result of the pound sterling decline post referendum, we currently have another deficit of £8m due to our hedging loss. The deficit payment will be funded from the In-House Passive Fund dividend income cash.

3.13 **Franklin Templeton**

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

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

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

3.13.2 Fund I has now been fully committed. The remaining capital commitments $7.2m will be drawn down in the future as per business plans. The final portfolio is comprised of nine funds and five co-investments. The funds is well diversified as shown in table below:

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

During the quarter there was a net distribution of $429,219 to bring the total distribution received to $32.9m

3.13.3 Fund II has made 4 investments to date in Europe, USA and Asia, in the retail and office sector and the projected geographic exposure is 42% Asia, US 26% and 32% Europe. The Admission period to accept new commitments from investors has been extended with our consent through to March 2017. There was a capital call of $4.3million during the quarter.

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 12.2% gross of fees against a benchmark of 11.0% for the quarter. The 3 year absolute return is 7.8%. The market value is now £85.8m.

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 September quarter the value of the fund investment was £25.8m and total funds under management is £48.6million. Performance net of fees was -0.60% compared to the LSL benchmark of -.0.15%. and 12 month relative return 0.8%. The income yield after cost was 2.58%. The portfolio has 187 properties, 10 are let on licence and leaseback agreement to house builders and 148 properties let on assured short term agreements.

3.15.3 There are 29 vacant properties, 7 of which are being marketed for sale. 9 applications from prospective tenants have been received and the remaining 13 properties continue to be marketed.

3.16 **Schroders-**

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

- Target performance: UK RPI+ 5.0% p.a.,
- Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).
- Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.
- The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.
- **Permissible asset class ranges (%):**
  - 25-75: Equity
  - 0- 30: Absolute Return
  - 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash
  - 0-20: Commodities, Convertible Bonds
  - 0- 10: Property, Infrastructure
  - 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.

3.16.2 This is the fifth quarter since funding and the value of the portfolio is now £102m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The September quarter performance before fees was 2.5% against the benchmark of 1.89% (inflation+5%).

3.16.3 Global value equities and regional allocations to UK and emerging markets made strong contributions to returns. Property and commodities slightly detracted from returns.

4. Implications

4.1 **Financial implications:**

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

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

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

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

A Residents 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 September 2016 as part of the regular monitoring of fund performance and the main provisions of the new Investment Regulations 2016 effective from 1 November 2016.

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

Final report clearance:

Signed by:

	Corporate Director for Finance & Resources	Date
Received by:		
	Head of Democratic Services	Date

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Appendix 1

EXPLANATORY MEMORANDUM TO THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2016

Extract

1. Introduction

1.1 This explanatory memorandum has been prepared by the Department for Communities and Local Government and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 The regulations make provision in relation to the management and investment of pension funds held by administering authorities required to maintain such funds by the Local Government Pension Scheme Regulations 2013. They revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2.2 Specific provision is made for administering authorities to publish an investment strategy in accordance with guidance issued by the Secretary of State and for the Secretary of State to issue a direction to any authority which fails to act in accordance with its statutory obligations or guidance issued under Regulation 7.

Main Provisions

3.1 Regulation 3 defines what is meant by an "investment" for the purposes of the regulations. For clarification, the definition makes express reference to futures, options, derivatives, limited partnerships and some types of insurance contracts. It also defines who a person with whom a contract of insurance can be entered into is.

3.2 Regulation 4 sets out the monies that an administering authority must credit to its pension fund. It also sets out the administering authority's responsibility to pay benefits to members and that costs of administering the scheme can be charged to the fund except where prohibited by other regulations.

3.3 Regulation 5 outlines the limited circumstances under which an administering authority can borrow money that the pension fund is liable to repay.

3.4 Regulation 6 requires administering authorities to deposit all pension fund monies in a separate bank account and lists those institutions that can act as a deposit-taker. A deposit taker cannot use pension fund monies to set-off any other account held by the administering authority or a connected party.

3.5 Regulation 7 places an obligation on administering authorities to consult on and publish an investment strategy statement, which must be in accordance with guidance from the Secretary of State. The statement must demonstrate that investments will be suitably diversified and should outline the administering authority's maximum allocations for different asset classes, as well as their approach to risk and responsible investing. Separate guidance from the Secretary of State will clarify how the Government's announcement on boycotts, sanctions and divestments should be taken into account when investment decisions are taken. A copy of the guidance is available on the Government's website at https://www.gov.uk/government/publications/local-government-pensionscheme-guidance-on-preparing-and-maintaining-an-investment-strategystatement

3.6 Regulation 8 provides the Secretary of State with the power to intervene in the investment function of an administering authority if he is satisfied that the authority is failing to act in accordance with the regulations and guidance. The regulation also enables the Secretary of State to initiate enquiries if an intervention is warranted and must consult the authority concerned. The Secretary of State can intervene by directing the authority to undertake a broad range of actions to remedy the situation.

3.7 Regulation 9 details how an administering authority must appoint external investment managers.

3.8 Regulation 10 allows administering authorities to invest in Treasury approved collective investment schemes

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Consolidation

3.9 These regulations revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and one instrument which amended those regulations.

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APPENDIX 2

REPORT PREPARED FOR

London Borough of Islington Pension Fund

November 2016

Karen Shackleton
AllenbridgeEpic Investment Advisers Limited (Allenbridge)

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www.allenbridge.com

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	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
London CIV - Allianz	N.A. - monitored by London CIV.	A strong quarter with the sub fund outperforming the Index by +2.3%. Outperforming by +0.65% p.a. over 3 years to end September 2016 but behind the target of +2.0% p.a.	London CIV sub fund had £614 million of assets under management as at end September, an increase of £54 million since end June 2016.	New performance target is 2% per annum outperformance over 3 years (was 3% prior to transferring onto CIV).	
Newton	Helena Morrissey, CEO, has become non-executive Chair of the Board. Hanneke Smits now CEO.	Underperformed the Index by -1.1% in the quarter. Outperforming over three years by +0.8% per annum and by +0.4% per annum since inception. Trailing the performance target of 2% p.a. outperformance, however.	£54.6 billion as at 30th September 2016, up from £51.8 billion as at 30th June 2016.		
Standard Life	28 joiners (5 in fixed income), and 12 leavers (two from the credit team) during the quarter.	Over three years the Fund has outperformed by +0.5% p.a., behind the performance target of +0.8% p.a.	Underlying fund value rose by £242 million in Q3 2016. Islington's holding is 6.0% of the Fund's value.	Holding 4.5% in high yield non-Investment-grade bonds.	
Manager	**Leavers, joiners and**	**Performance**	**Assets under management**	**Change in strategy/risk**	**Manager specific**

	departure of key individuals				**concerns**
Aviva	Kris McPhail will be joining in December as Assistant Fund Manager on the Lime Fund, replacing Andrew Davey.	Underperformed the gilt benchmark by -4.4% p.a. over three years.	Fund was valued at £1.74 billion as at end Q3 2016. London Borough of Islington owns 3.3% of the Fund.		
Columbia Thread-needle	7 joiners and 1 leaver in the quarter. One new member of the property team.	Outperformed the benchmark by +0.4% per annum over three years. Behind the performance target of 1% p.a. outperformance.	Pooled fund has assets of £1.64 billion.		
Legal and General	Not reported.	Not reported before print deadline.	Assets under management of £853 billion at end June 2016.		
Franklin Templeton	Head of UK office is leaving the firm. One member of the real estate team has left and one has joined.	Portfolio return over three years was +31.2% p.a., well ahead of the target of 10% p.a.		Three funds in Fund II are on target, the fourth is too early to assess.	
Manager	**Leavers, joiners and departure of key individuals**	**Performance**	**Assets under management**	**Change in strategy/risk**	**Manager specific concerns**
Hearth-stone	Two leavers and two new	Outperformed the benchmark by +2.7% p.a. over	Fund was valued at £48.6 m at		

	joiners during the quarter.	three years to end September 2016.	end Q3 2016.		
Schroders	No changes to the team managing the Diversified Growth Fund.	Fund returned +2.5% during the quarter and +6.9% over 12 months.	Total AUM of £343.8 billion as at 30th June 2016.		

Key to shading in Table 1:

Minor concern

Monitoring required

2. Individual Manager Reviews

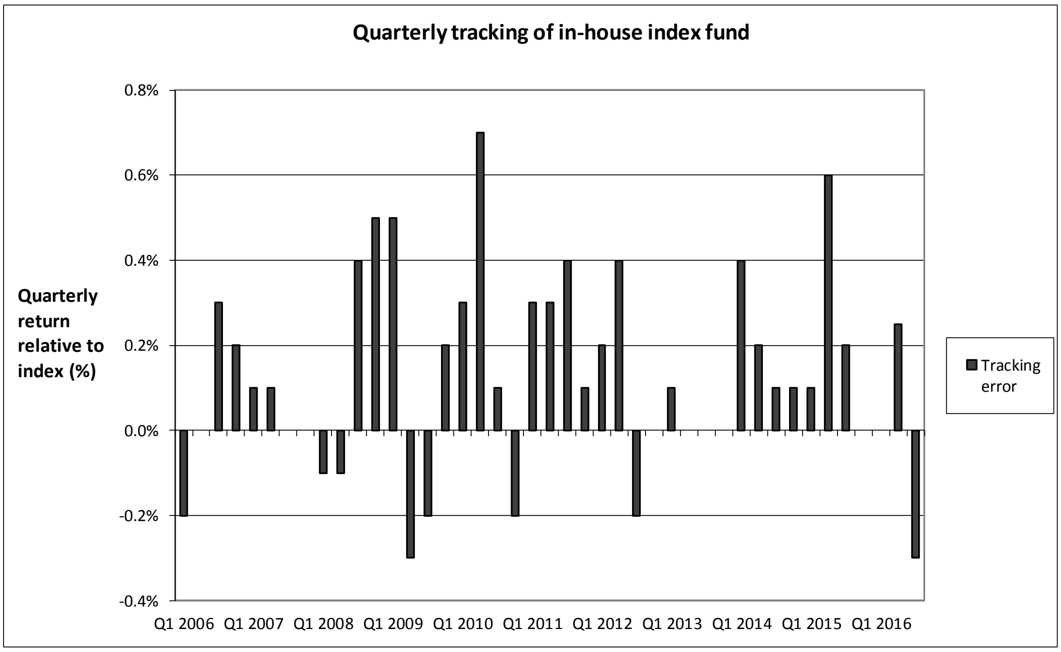
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

Headline comments: The portfolio continues to meet its objectives. The fund delivered a quarterly return of +7.5%, which was -0.3% behead the index benchmark return of +7.8%. Over three years the fund has outperformed the index by +0.65% p.a. and delivered a return of +7.2% per annum.

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 thus the portfolio has outperformed its three-year benchmark by +0.65% per annum.

Chart 1



Source: Allenbridge based on BNY Mellon performance calculations

Portfolio risk: The tracking error on the portfolio at the end of September was 0.38% per annum. This is slightly higher than has been experienced historically, but the manager was accumulating higher-than-normal cash balances to cover losses on the currency hedging strategy, which had occurred following sterling's depreciation. In terms of sector bets, relative to the Index, the largest underweight sector position relative to the index was Investment Trusts (-1.25%). The fund was most overweight in Industrials (+0.8%). This compares with sector bets of around 5-10% for the active managers.

Portfolio characteristics: The total number of holdings in the portfolio stood at 307 securities at the end of Q3 2016.

2.2. London CIV – Global Equity Alpha Fund – Allianz

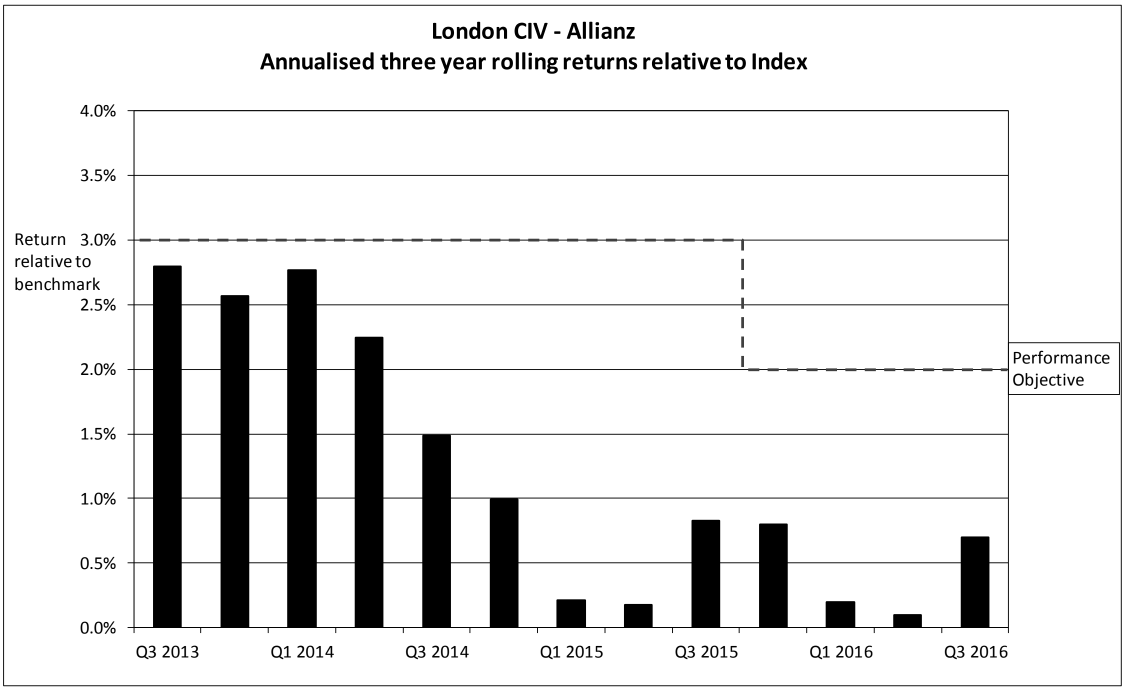
Headline comments: The London CIV – Allianz sub fund had a strong quarter, delivering a return of 10.3% against the benchmark return of +8.1% in Q3 2016. Over three years the fund is ahead of the benchmark by 0.65% per annum: however, this is behind the performance target of 2% per annum.

Mandate summary: An active global equity portfolio, with a bottom-up global stock selection approach. A team of research analysts identifies 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 MSCI World Index by 2.0% per annum over rolling 3 year periods net of fees.

Performance attribution: For the three years to September 2016, the London CIV sub fund is ahead of its benchmark by +0.65% per annum, an improvement on last quarter but **still trailing the performance target of 2% per annum**, shown by the dotted line in Chart 2. Note that the dotted line drops in Q4 2015 when the mandate transferred to the London CIV sub fund, which has a lower performance objective than when Allianz ran a bespoke mandate for London Borough of Islington.

The portfolio's outperformance in Q3 was primarily attributed by the London CIV to the overweight exposure in Information Technology stocks (+0.9% contribution).

Chart 2



Source: Allenbridge based on BNY Mellon performance data

Portfolio Risk: The largest overweight regional allocation was in European Equities (+8.6% overweight). The most underweight allocation was North American Equities (-6.4% underweight). In terms of sector bets, the most overweight allocation was in Information Technology (+11.2% overweight). This is the largest overweight sector position that the manager has taken since the inception of the mandate in 2009. Energy was the most underweight sector (-4.7%).

Portfolio Characteristics: as at end Q3 2016, the portfolio held 49 stocks, down from 51 as at end Q2 2016 and the lowest number of holdings since inception. During the quarter the manager introduced several new positions to the portfolio, including holdings in Atlas Copco, Unilever, and Ecolab. Holdings in BASF, Allianz and Itochu were sold. The portfolio has a beta of 0.96 so is slightly defensive relative to the market.

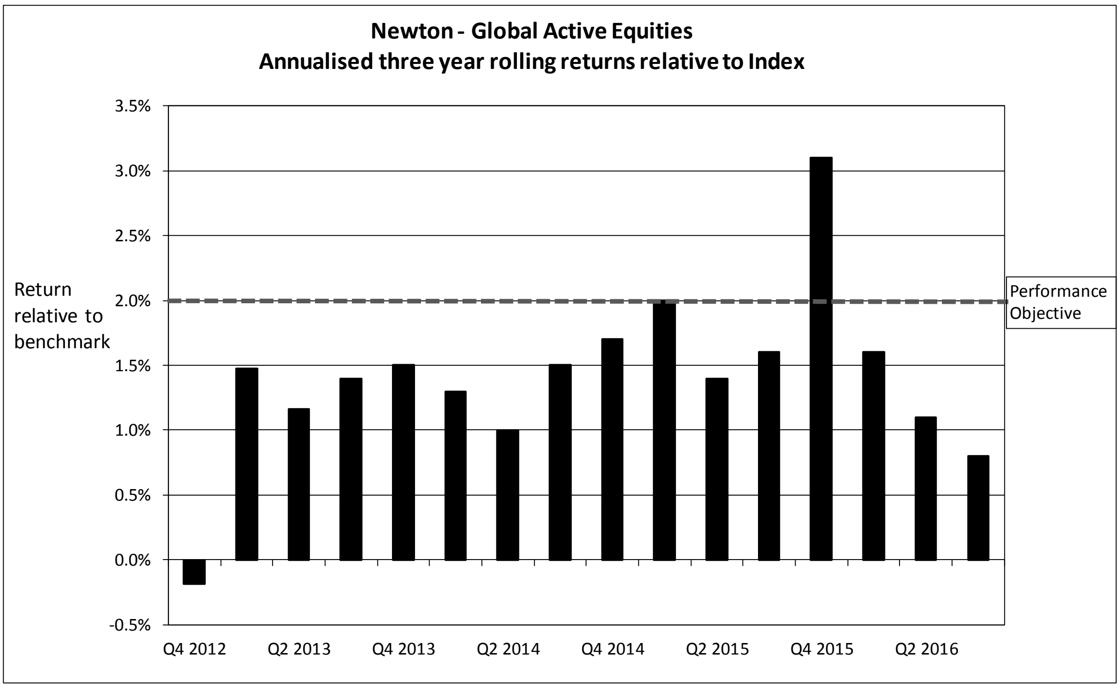
2.3. Newton – Global Active Equities

Headline comments: Newton were behind their benchmark by -1.1% during Q3 2016 but delivered a reasonable absolute return of +7.4%. Over three years the portfolio has outperformed by +0.8% per annum, but this is behind the target of 2% p.a. This outperformance can be equally attributed mainly to successful asset allocation, with the balance from successful stock selection.

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 three year rolling returns of the portfolio relative to the Index (the black bars) and compares this with the performance target, shown by the dotted line.

Chart 3



Source: Allenbridge based on BNY Mellon performance numbers

For the three-year period to the end of Q3 2016, the fund (shown by the right hand black bar) is +0.8% p.a. ahead of benchmark so trailing the performance objective by -1.2% per annum ahead (the performance objective is shown by the dotted line).

Over the three years to September 2016, Newton's absolute return was a very strong +14.7% p.a. compared to the index return of +13.9% p.a. Asset allocation accounted for three-quarters of the outperformance with the balance from stock selection.

Since the inception of Newton's portfolio in November 2008, the pension fund is marginally better off than it would have been with a passive mandate, before taking fees into account. Newton's 'since inception' return is +14.5% per annum, compared to the benchmark return at 14.1% per annum, an outperformance of +0.4% p.a. *(source: Newton, gross of fees performance)*.

During the quarter the largest sector contribution came from the overweight allocation to Technology stocks (+0.6% contribution to relative performance), although this was somewhat offset by poor stock selection which detracted -0.2%. The least successful sector was Healthcare (-0.6% from relative performance), with both stock and sector positioning detracting in broadly equal parts. Newton was overweight this sector during the quarter, and saw holdings in Sawai Pharmaceutical, Express Scripts, Teva Pharmaceutical and Novartis all underperform.

Portfolio Risk: The largest overweight regional allocation was in Europe ex UK Equities (+3.5% overweight). The most underweight allocation was Other Equities (-6.2%). The fund also held a relatively high cash balance of nearly 5% as at quarter end.

In terms of sector bets, Newton remained most overweight in Consumer Services (+9.0% relative to benchmark.) The most underweight sector remained in Financials (-10.7%). This underweight position has been in place since Q2 2009 but has recently been at its highest level.

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) stood at 2.95%, as at end September 2016. This is within Newton's normal range of 2% and 6%.

Portfolio characteristics: At the end of Q3 2016, the portfolio held 62 securities (65 as at the end of Q2 2016). Turnover over the past 12 months was 29%, at the low end of Newton's normal expected range of turnover to 30%-70%.

Staff turnover: during the quarter there was one new joiner and one leaver. Laura Sheehan joined as an oil and gas research analyst. As reported in last quarter's report, Helena Morrissey, the Chief Executive (CEO), has decided to stand down after 15 years in the role. She will become the non-executive Chair of the Board of Directors. Hanneke Smits has been appointed as Helena Morrissey's successor. She was the Chief Investment Officer of Adams Street Partners and a member of their Executive Committee. These changes came into effect on 12th August: however, there will be a short period of transition ahead of the FCA approving Hanneke Smits in the new role. Mitchell Harris, the CEO of BNY Mellon Investment Management, is the interim CEO during this transitionary period.

2.4. Standard Life – Fixed Income

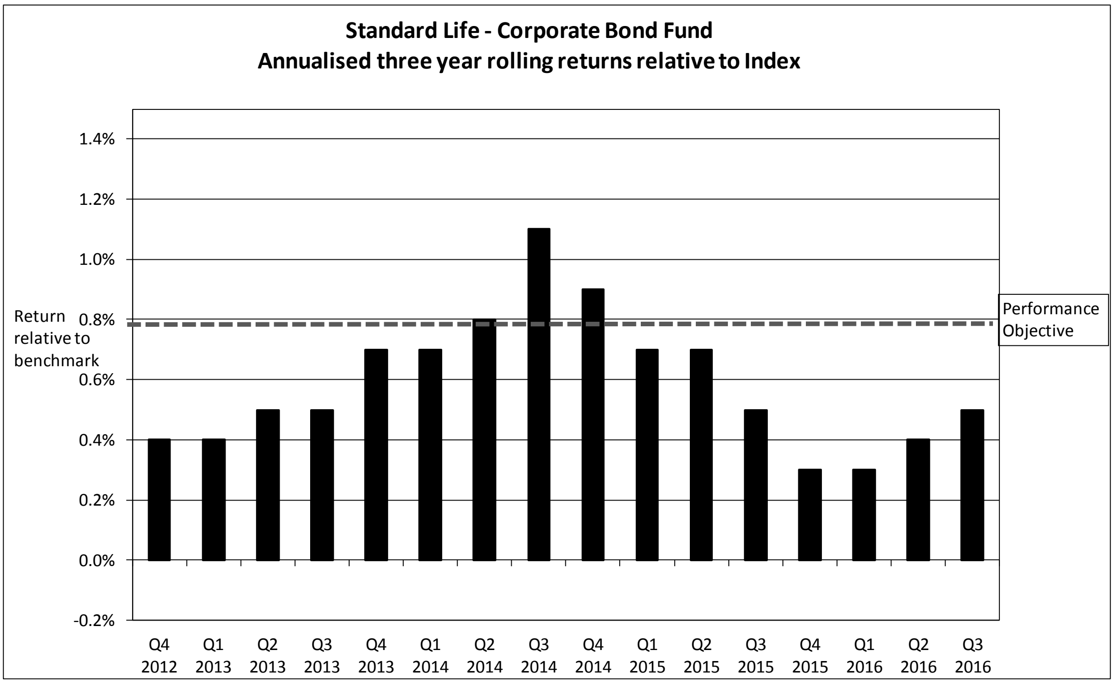
Headline comments: The portfolio was +0.7% ahead of the benchmark during the quarter with a return of +6.7%. Over three years, Standard Life's outperformance was +0.5% per annum relative to the benchmark, although this is slightly behind their performance target of +0.8% per annum.

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 three-year performance of the Corporate Bond Fund compared to the Index. This shows the fund slightly trailing its performance objective (shown by the dotted line in Chart 4).

Chart 4



Source: Allenbridge based on BNY Mellon performance data

Over three years, the portfolio has returned +9.3% p.a. compared to the benchmark return of +8.8% p.a., an outperformance of +0.5% p.a. and a relatively strong absolute return. Over the past three years, stock selection has added value, followed by asset allocation. This has been partly offset by a negative contribution to performance from curve plays.

It is also worth noting the very strong absolute level of the one-year return on the portfolio, which stood at +15.3% for the 12 months to end September 2016.

Portfolio Risk: The largest holding in the portfolio at quarter end was EIB 5.625% 2032 (1.3% of the portfolio). The largest overweight sector position remained Financials (+8.1%) and the largest underweight position remained sovereigns and sub-sovereigns (-16.9%).

The fund holds 4.5% of the portfolio in non-investment grade bonds.

Portfolio characteristics: The value of Standard Life's total pooled fund at end September 2016 was £4,074.0 million, £242.0 million higher than at the end of Q2 2016. London Borough of Islington's holding of £246.3 million is 6.0% of the total fund value.

Staff turnover: there were 28 joiners and 12 leavers during the quarter.

The new joiners included five new members of staff in fixed income. Faisal Islam joined as a high yield credit analyst and Imran Ahmad joined as an emerging market debt portfolio manager. The remaining three were new graduate entrants to the firm.

Of the 12 leavers, two were from the credit team: Eshita Kabra was a credit analyst and Jack Holmes was an investment analyst.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: Gilts had another quarter of positive returns, during Q3. Consequently, the Lime Fund again lagged its gilt benchmark by -1.4% in Q3. Over three years, the Fund returned +7.2% p.a. and underperformed the gilt benchmark by -4.4% p.a. The underperformance continues to reflect the volatility in the gilt market rather than concern about the property portfolio itself.

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 trailed the gilt benchmark this quarter by -1.4%, as bond markets continued to rise. The fund return was +1.8% compared to the benchmark return of +3.1%.

Over three years, the fund has returned +7.2% p.a. compared to the gilt benchmark of +11.6% p.a., an underperformance of -4.4% per annum. The **portfolio is trailing its performance objective of +1.5% per annum outperformance over three years**. However, the property fund itself continues to deliver a steady three-year absolute return of around 7-8% and remains the least volatile fund in the IPD universe of property funds.

Of the +7.2% p.a. fund return over three years, 4.9% p.a. came from income, with the balance from capital gain.

Portfolio risk: There were no transactions during the quarter.

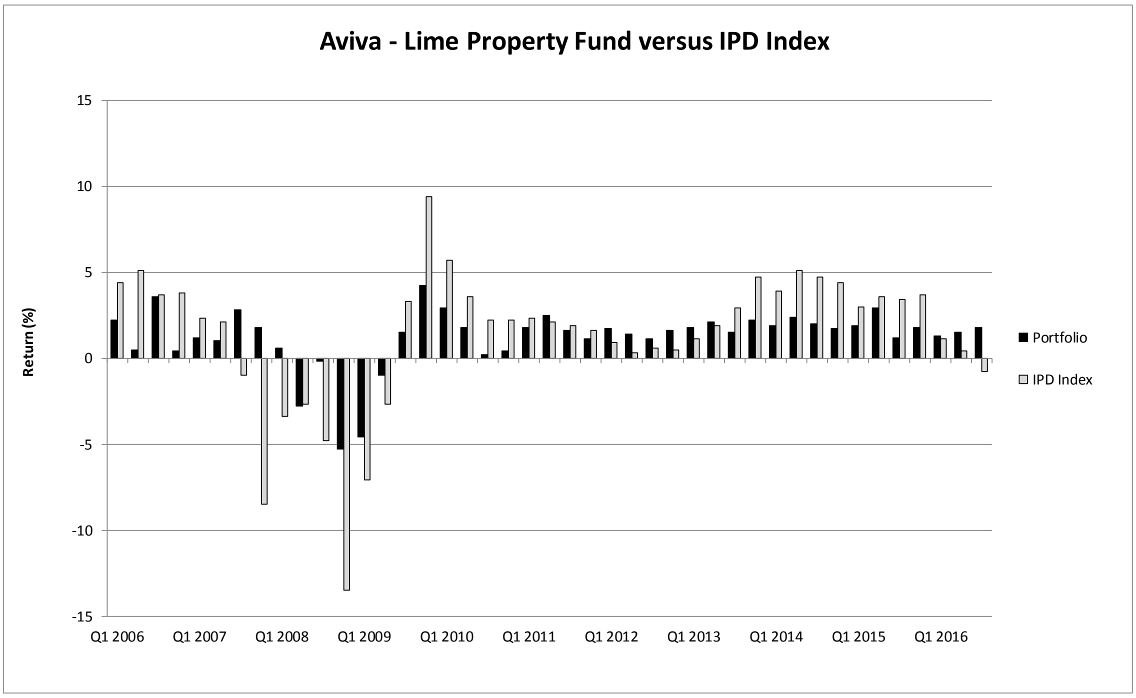
The average unexpired lease term was 19.7 years. The manager continues to anticipate that this will rise to over 20 years again although he originally forecast that this would occur by the end of Q2 – this is something to monitor again, next quarter. 10.9% of the portfolio's lease exposure in properties is in 30-35 year leases.

The largest sector exposure remains offices at 29.9%. The cash allocation stood at 0.1% as at quarter end. The fund also has around £520 million of investable cash sitting outside the fund, pending investment, of which £63.5 million was committed in Q3 2016.

The number of assets in the portfolio stood at 70 as at quarter end, in line with Q1 2016.

The Lime Fund is a low risk property portfolio and this is shown clearly in Chart 5 which shows the absolute performance of the Fund each quarter compared to the IPD Index. This shows the return stream of the portfolio (in black) following a more muted profile (in both up and down markets) than the IPD Index as a whole.

Chart 5



Source: Allenbridge based on WM and BNY Mellon performance data

Portfolio characteristics: As at end September 2016 the Lime Fund was valued at £1.743 billion, an increase of £22 million from the previous quarter end. London Borough of Islington's investment represents 3.3% of the total fund.

The Fund has 89% allocated to inflation linked/fixed uplifts.

Staff turnover/organisation: Aviva have now announced that Kris McPhail will be joining as an Assistant Fund Manager on the Lime Property Fund, in December this year. He will focus solely on the Lime Fund. There were also two new joiners to the Long Income Analysis team. Fenil Shah and Wilfrid Chan have joined as Fund Analysts.

2.6. Columbia Threadneedle - Pooled Property Fund

Headline comments: The Fund delivered a return of +4.3% in Q3 2016, ahead of the benchmark by +5.0%. Over three years, the Fund has outperformed by +0.4% per annum, behind the performance target of 1% p.a. above benchmark.

Mandate summary: An actively managed UK commercial property portfolio, the Columbia Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Its performance objective is to outperform the AREF/IPD All Balanced – Weighted Average (PPFI) Index by at least 1% p.a., net of fees, on a rolling three-year basis.

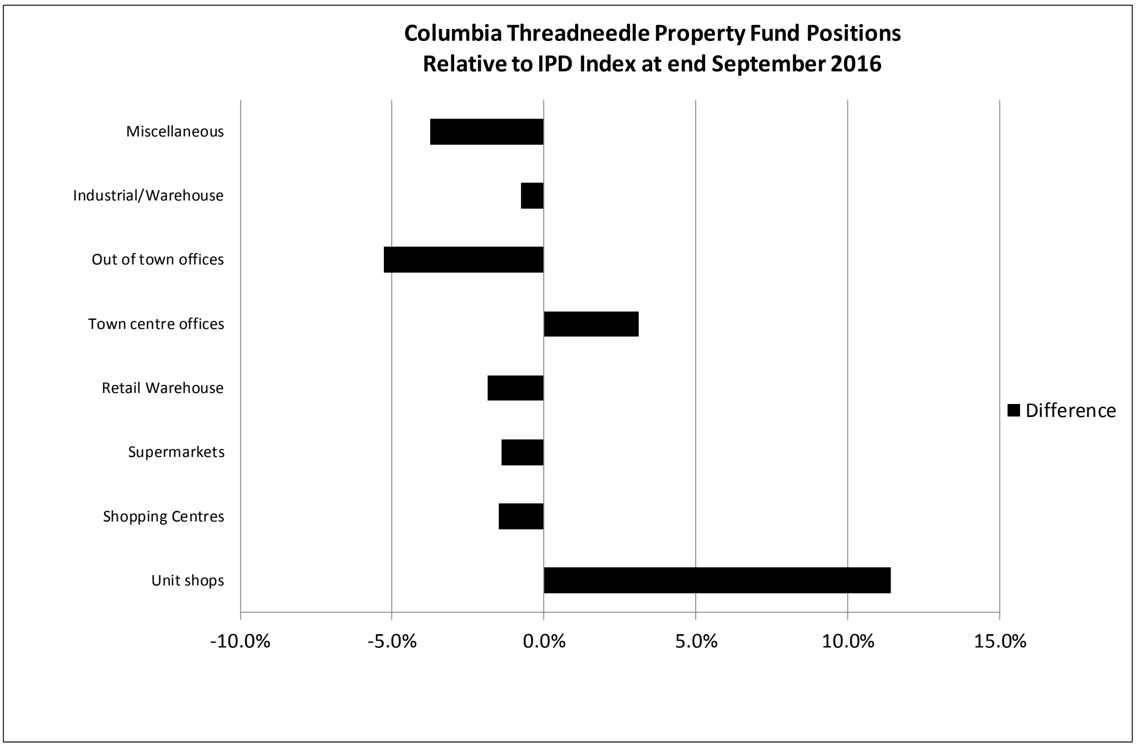
Performance attribution: The portfolio was ahead of the benchmark in Q3 2016, by +5.0% (source: Bank of New York), delivering a return of +4.3%. The benchmark was affected by several funds that had made fair value adjustments in Q2 and then reversed these in Q3. This has made the benchmark more volatile than normal.

In terms of the three-year performance, the Fund is ahead of its benchmark by +0.4% per annum and as such is trailing the performance target of +1% per annum. The absolute return over three years remains strong, however, at +12.3% per annum, although it is beginning to tail off now as the property market cycle turns down.

Portfolio Risk: The Fund made two disposals during the quarter. The first was the sale of a town centre office block, in Bourne End and the second was an industrial site in Sheffield.

Chart 6 shows the relative positioning of the Fund compared with the benchmark. The Fund has a significant overweight allocation to unit shops.

Chart 6



Source: Allenbridge based on Columbia Threadneedle data.

Portfolio characteristics: As at 30th September 2016, the Threadneedle Property Fund was valued at £1.641 billion, an increase of £57.1 million compared with June 2016. London Borough of Islington's investment represented 4.5% of the Fund as at end September 2016.

Staff turnover: during Q2 there were 7 new joiners and 1 leaver. Of the new staff, Ben Beck joined as an asset manager in the property team, working across all Columbia Threadneedle's property funds.

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

Headline comments: Unfortunately, the LGIM report was not available at the time of going to print.

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.

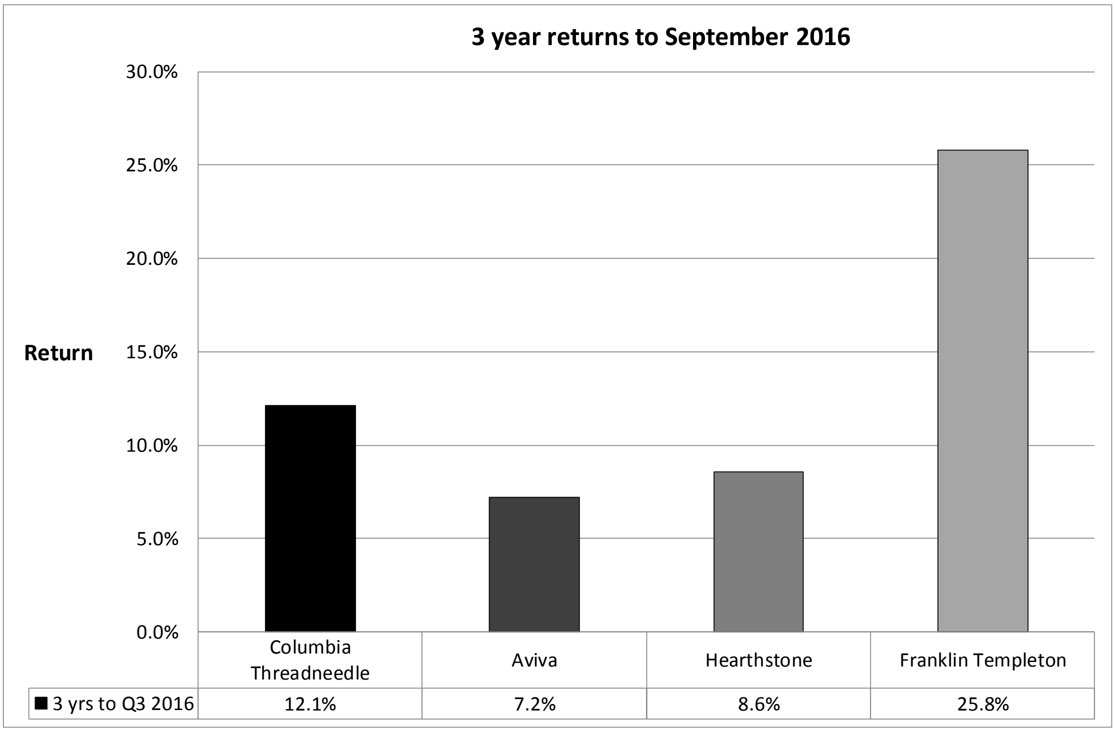
2.8. Franklin Templeton – Global Property Fund

Headline comments: This is a long term investment and as such a longer term assessment of performance is recommended. There are two funds in which London Borough of Islington invests. Both funds are on track. The portfolio in aggregate delivered a return of +31.2% per annum over the three years to end September 2016, outperforming the absolute return benchmark by +21.2% per annum.

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

Performance attribution: Over the three years to September 2016, Franklin Templeton was the best performing fund across all four property managers. Chart 7 compares the three-year performance of the other three property managers.

Chart 7



Source: BNY Mellon

Portfolio risk: Leverage on Fund 1 was 55% as at end September (no change since end June), with all funds showing leverage below 70%. Leverage on Fund 2 was 46% as at end June 2016.

Of the four investments in Fund 2, three are on target and one is too early to assess. Fund 2 is targeting investment in the three regions (US/Europe/Asia) equally distributed. There is a cap of 20% to Emerging Markets.

Staff turnover/organisation: during the quarter, Ian Wilkins, the head of the UK office, announced that he would be leaving Franklin Templeton on 8th December 2016. Jill Barber, Head of Institutional, and Alex Brotherston, Head of Retail Sales will take on Ian's responsibilities in the short term until a replacement is found.

On 7th September, Riccardo Abello joined the private real estate team and will be responsible for sourcing, underwriting, closing and monitoring private real estate investments in Europe, reporting to Raymond Jacobs.

On 16th September, David Germer, Senior Associate in the private real estate team, left the firm. He was responsible for assisting the sourcing, underwriting and monitoring of private equity real estate investments in Europe.

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned -0.6% compared to the benchmark return of -2.3% for the quarter ending September 2016. Over three years, the Fund delivered a return of +8.6% p.a. compared to the benchmark return of +5.9% p.a., an outperformance of +2.7% p.a.

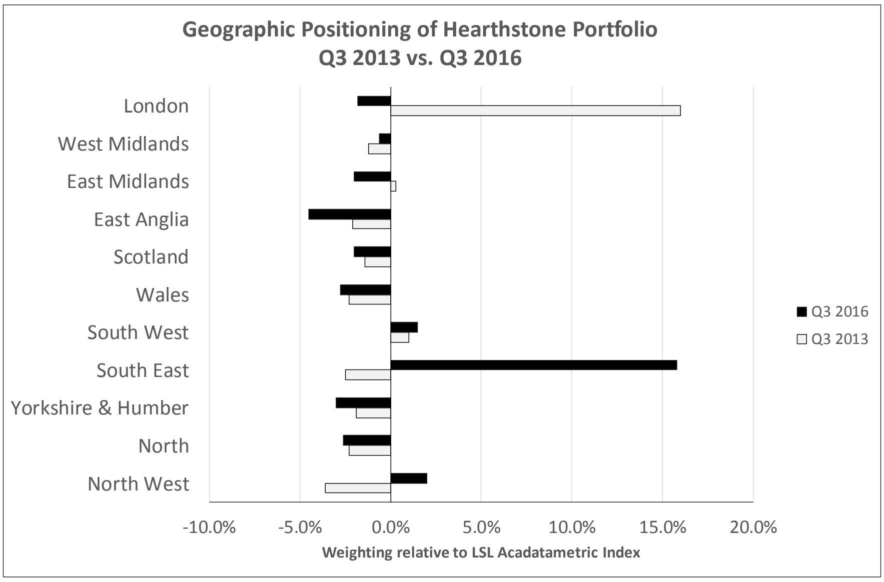
Mandate summary: The Fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return.

Performance attribution: The Fund returned +8.6% p.a. compared to the return on the index of +5.9% p.a. over the three years to September 2016, an outperformance of +2.7% p.a. The gross yield on the portfolio as at 30th September 2016 was 5.2%. This compares with an average gross yield across England and Wales, reported by LSL, of 4.9%. Adjusting for voids, however, the gross yield on the portfolio falls to 4.2%.

Portfolio risk: The manager completed on the purchase of six new build flats in Bristol, in Q3 2016. In terms of asset allocation, the largest position remains an overweight allocation to the South East where the Fund is 16% overweight. 41.8% of the portfolio was allocated to this region as at end September, including Haywards Heath, Horsham, Eastbourne, Colchester and Fareham.

Chart 7 compares the regional bets in the portfolio in Q3 2016 with the regional bets three years ago in Q3 2013. The overweight allocation to the South East is shown by the large black bar.

Chart 7



Source: Hearthstone

Portfolio characteristics: The Fund has an 14% allocation to detached houses, 51% allocated to flats, 29% in terraced accommodation and 6% in semi-detached. The allocation to flats remains a significant overweight position relative to the Index (51% for the Fund compared to 17% for the Index). This is offset by an underweight position in semi-detached houses (6% for the Fund compared to 24% for the Index).

As at end September 2016, the Fund stood at £48.6 million. London Borough of Islington's investment now represents 53% of the Fund. This compares with 72% at the start of this mandate in 2013.

Organisation and staff turnover: There were two leavers and two joiners during the quarter. Lucy Hawkins went on maternity leave and Colleen Setchell, an Executive Assistant, left the firm. Marie Cooper joined as an asset manager and Paul Thorsen joined the team as an investment manager.

2.10. Schroder – Diversified Growth Fund (DGF)

Headline comments: The Diversified Growth Fund delivered a return of +2.5% in Q3 2016. This compared with the RPI plus 5% p.a. target return of +1.9% for Q2. Over one year, the Fund's return was +6.9%, compared to the target return of +7.1%, an improvement on last quarter but still trailing the target by -0.2%.

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

Performance attribution: In Q3 2016, Schroders' exposure to global equities again made the largest contribution to the portfolio return (+1.2%). This was followed by high yield debt (+0.4% contribution) and absolute return, UK equities and emerging market equities, which each contributed +0.3%. Negative contributions came from commodities (-0.2%) and Japanese equities (-0.1%).

Over 12 months, the largest contributor was again global equities (+2.4%) followed by high yield debt (+1.0%) and infrastructure (+0.8%). The negative detractors were Japanese equities (-1.3%) and Europe ex UK equities (-0.6%).

The return on global equities was +14.0% for the 12-month period, compared with +6.5% for the Fund. Over a full 3-5 year market cycle the portfolio is expected to deliver equity-like returns.

Portfolio risk: The portfolio is expected to exhibit two-thirds the volatility of equities over a full 3-5 year market cycle. Over the past 12 months, the volatility of the Fund was 6.7% compared to a 12-month volatility of 15.8% in equities (i.e. less than half the volatility of the Index).

Portfolio characteristics: The Fund had 15% in internally managed funds, 46% in bespoke solutions, 13% in externally managed funds, 23% in passive funds and 3% in cash, as at end September 2016. In terms of asset class exposure, 45% was in equities, 33% was in alternatives and 19% in credit and government debt, with the balance in cash.

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

Organisation: during the quarter, there were no changes to the team responsible for the Diversified Growth Fund.

Karen Shackleton
Senior Adviser, Allenbridge
3rd November 2016

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	15 November 2016		

Delete as appropriate		Non-exempt

SUBJECT: The London CIV Update

1. Synopsis

1.1 This is a report informing the Sub-Committee of the progress made at the London CIV in launching funds and running of portfolios over the period from September 2016 to October 2016.

2. Recommendation

2.1 To note the progress made to October 2016.

3. Background

3.1 **Setting up of the London CIV Fund**
Islington is one of 33 London local authorities who have become active participants in the CIV programme. 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.

3.2 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.' The London CIV received its ACS authorisation in November 2015.

3.3 **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.

3.3.1 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.

3.4 The Phase 1 launch was 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. Members agreed to transfer our Allianz portfolio in the Phase 1 launch that went ahead on 2 December.

3.5 **Progress to September 2016**

The London CIV has also had further success with developing the Fund, opening the LCIV PY Global Total Return Fund investing into the Pyford Global Total Return sub-fund on 17 June and the LCIV RF Absolute Return Fund investing into the Ruffer Absolute Return sub-fund on 21 June. These two funds bring their assets under management up to around £2.4 billion, with 14 boroughs invested across the five sub-funds and some £1.6 million of fund manager fee savings being delivered a year. They are working towards opening the three sub-funds previously trailed with Newton and Majedie acting as sub-managers in the autumn and hope to get the Longview sub-managed fund opened towards the end of this year or early in 2017.

3.5.1 <u>Legal and General pooled passive funds</u>

The CIV negotiated a reduction of fees for the passive equities held by London boroughs of around £7.5bn, but this structure sits outside the CIV platform. Participating Funds have agreed to move their portfolios into the On Fund Costs (OFC) fund. These new funds have costs such as custody, licence fee, valuations automatically taken from the fund, whilst the previous structure included these costs in the invoiced fee. The projected savings for this external pooling for Islington is projected at around 100k per year effective from 1 July 2016. This does not affect the decision to appoint an active emerging market manager

.

3.6 <u>Update in October</u>

The Investment Advisory Committee was renewed in July 2016 and now comprises of 9 London Treasurers and 15 Pension Managers.

Working groups have been established to cover**:**

i. Global Equities – This group has met to consider the current procurement exercise and has had significant input into the development of the tender documentation.

ii. Fixed Income and Cashflow – This group met to provide input into the development of the fixed income work that the CIV will be undertaking over the coming months.

iii. Responsible Investing and ESG – The group met to consider a wide range of topics including the CIV's approach to voting, the Stewardship Code and appetite for sustainable equity funds as part of the broader global equities procurement.

iv. Infrastructure – Whilst recognising that this was a key area in the government pooling submission, work in other areas has taken precedence and this group is yet to formally meet

v. Housing – As with the infrastructure group, other priorities for the CIV have taken precedence although it is hoped that this group will meet shortly to start work in this key project area.

3.6.1 There was a sectorial meeting on 8 October and a CIV update forum on 19 October. Items discussed included

a) the CIV business plan and budget review of income anticipated and actual income realised based on assets under CIV management and the impact of the recent passive funds siiting outside the CIV platform.
b) Additional resources required – 17new posts by 2020 to bring the total to 28.
c) Working Members group is to look at voting, engagement and stewardship
d) The procurement tender for active gobal equity managers is in progress and the timeline is to open 3 sub-funds depending on demand from investing authorities to cover income, emerging and sustainable equitiy strategies in the first phase. Appointments should be concluded by January 2017 and implementation and funding on the CIV platform by Autumn 2017
e) Fixed income and cashflow is the next strand of asset allocation

3.7 **CIV Financial Implications- Implementation and running costs**
A total of £75,000 was contributed by each London Borough, including Islington, towards the setting up and receiving FCA authorisation to operate between 2013 to 2015. All participating boroughs also agreed to pay £150,000 to the London CIV to subscribe for 150,000 non-voting redeemable shares of £1 each as the capital of the Company . After the legal formation of the London CIV in October 2015, there is an agreed annual £25,000 running cost invoice for each financial year. The transfer of our Allianz managed equities to the CIV in December 2015 was achieved at a transfer cost of £7,241.

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.
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4.3 **Environmental Implications:**

4.3.1 None specific to this report

4.4 **Resident Impact Assessment:**

4.4.1 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.

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. This is a report to allow Members to review progress at the London CIV.

Background papers: None

Final report clearance:

Signed by:

	Corporate Director for Finance and Resources	Date
Received by:		
	Head of Democratic Services	Date

Report Author: Joana Marfoh
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Finance Department
7 Newington Barrow Way
London N7 7EP

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

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	15 November 2016		n/a

Delete as appropriate		Non-exempt

SUBJECT: PENSIONS SUB-COMMITTEE 2016/17– 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. Recommendations

2.1 To consider and note Appendix A attached.

2.2 To note that Corporate Director of Finance and Resources has agreed to renew our independent investment advice (provided by Allenbridge) for 18 months to 30/09/17. This will give officers time to conduct a full tender for approval by members next year.

3. Background

3.1 **Independent investment advice**
The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009, as amended, requires an authority "to obtain proper advice at reasonable intervals about their investments and to consider such advice in taking any steps about their investment."

3.2 The Council's Actuary, Mercer, also currently provides to the pension fund an investment advisory service that includes: investment manager selection and monitoring, attendance to our quarterly pension sub committee meetings with oral commentary (but not to provide a commentary report) undertaking investment strategy reviews, investment manager structure, regulatory and legislative changes and ad hoc advice to officers and members on investment issues.

3.3 Members agreed to reappoint Allenbridge in March 2011 for an initial 3 year contract, with an option to renew for a further 2 years to March 2016. Allenbridge have continued to provide the current service out of contract. Officers and Members are happy with the service Karen Shackelton, our advisor, provides.

3.4 The current Council procurement thresholds allow the Corporate Director of Finance and Resources to procure a service costing between £5000 to £24,999, by seeking one written quotation with a justification under value for money.

3.5 Allenbridge have provided a proposal to provide the same standard service for 18months to 30 September 2017 at a total cost of £24,375. The service will cover the following:

To provide independent investment policy advice to the Pension Sub-Committee and Corporate Director of Finance (or representative). This will call for attendance at up to six notified meetings.

- Four committee meetings normally scheduled at 7.30pm on dates to be notified together with an appropriate level of preparation and a written briefing note for each committee and evaluation of investment managers' performance.

- Two ad hoc meetings to advise at Officer-manager monitoring meetings or special projects

Advice will be required on any investment-related issues but specific requirements include:

- Advice on investment strategies and policies.

- Asset allocation and portfolio structure (once every 3 years).

- Assistance in the selection and review of investment managers, custodians and other investment professionals appointed from time to time.

- Assistance in the review of our Statement of Investment Principles.

- Briefing and assistance in respect of new industry developments, regulations, best practise compliance and governance.

Ad hoc Investment Advice

Training

3.6 Members are asked to note that the Corporate Director of Finance and Resources has secured the services of Allenbridge for 18months to 30 September 2017. This will allow enough time to finalise the Actuarial Valuation in April 2017 and run a competitive tender process to appoint a service provider.

3.7 The Forward Plan will be updated as necessary at each meeting, to reflect any changes in investment policy, new regulation and pension fund priorities after discussions with Members.

3.8 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**

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

4.2 **Legal Implications**

The procurement has been undertaken in accordance with the Council's Procurement Rules and the Public Contracts Regulations 2015.

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 **Resident Impact Assessment**

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

None applicable to this report.

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5. Conclusion and reasons for recommendation

5.1 To agree to continue the services of Allenbridge until 30 September 2017.

5.2 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 & Resources	Date
Received by:		
	Head of Democratic Services	Date

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APPENDIX A

Pensions Sub-Committee Forward Plan for September 2016– April 2017

Date of meeting	Reports
	Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update • CIV update report
13 March 2017	FSS and consultation results Actuarial review report Initial investment review objectives Investment strategy statement (replace existing SIP document)

Past 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- 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
13 June 2016	
21 September 2016	Actuarial review training

Proposed Training before committee meetings

13 March 2017	

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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	15 November 2016		n/a

Delete as appropriate		Non-exempt

Appendix 1 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

SUBJECT: ISLINGTON FUND CARBON FOOTPRINT IMPLEMENTATION UPDATE

1. Synopsis

1.1 The Appendix 1(private and confidential) to this report is a presentation paper prepared by our investment advisor, Mercer on the whole Fund's carbon footprint, asset implementation options, and risk and opportunities for consideration.

2. Recommendation

2.1 To consider and discuss the presentation prepared by Mercer attached.as Appendix 1(private and confidential)

2.2 To agree to reduce the carbon footprint level of equities in the In-House UK Passive Fund and decide whether to allocate to a low carbon fund, and by how much.

2.3 If Members agree to 2.2 then the three options to consider are listed below:

- i) Option1 - Allocate to an external global fund tracking an appropriate low carbon index
- ii) Option 2-Set up an in-house portfolio tracking an appropriate UK low carbon index
- iii) Option3 – Allocate 50% each to Option1 and Option2

2.4 Agree the timescales for implementation.

3. Background

3.1 Regulation 12(2)(f) of the Management and Investment of Funds Regulations requires that the Statement of Investment Principles (SIP) must be a statement of the principles governing the authority's decisions about the investment of fund money, which covers the extent to which social, ethical or environmental (SEE) considerations are taken into account in the selection, retention and realisation of investments. Our current SIP paragraphs, on social and ethical considerations were updated in November 2014 to reflect the Pensions- Sub committees' policy.

3.2 The Council is the administering authority for the London Borough of Islington Pension Fund, within the Local Government Pension Scheme (LGPS). It is managed within the legal framework set down in the Local Government Pension Scheme Regulations 2007/8 as amended. The body responsible for decision making in relation to the Pension Fund is the Pensions Sub-Committee of the Audit Committee.

3.3 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.

3.4 Members have considered presentations on the Fund's equities carbon footprint, as well as opportunities to lower carbon footprint and the shortfalls in methodology. Mercer's ESG ratings for the Fund's strategies showed we are exposed to a number of managers with above average ESG capabilities. It was agreed at the September meeting to manage the current ESG risks in our Fund by focusing on the ESG capabilities of existing and prospective managers.
.

3.5 Members also agreed to consider implementation options to reduce the carbon footprint of the current In House passive fund currently tracking FTSE UK All Share Index. Mercers have prepared a presentation (attached as Appendix1- private and confidential) discussing the options, cost and levels of possible carbon reduction for consideration.

3.6 Members are asked to consider the options and agree an option(s) taking into account all factors including strategy, cost, and opportunity cost. .

4. Implications

4.1 **Financial implications**
Fund management and administration fees are charged directly to the pension fund

4.2 **Legal Implications**
Regulation 12(2)(f) of the Management and Investment of Funds Regulations requires that the Statement of Investment Principles (SIP) must be a statement of the principles governing the authority's decisions about the investment of fund money, which covers the extent to which social, ethical or environmental (SEE) considerations are taken into account in the selection, retention and realisation of investments.

4.3 **Environmental Implications**
Environmental considerations can lawfully be taken into account in investment decisions.

4.4 **Resident Impact Assessment**

4.4.1 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".

4.4.2 A residents impact assessment has not been conducted because this report is not considering any policy changes. All employers have been consulted on changes to assumptions and there are no equalities issues arising**.**

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5. Conclusion and reasons for recommendation

5.1 To consider Mercer's paper Appendix 1(private and confidential) on the Fund's carbon footprint analysis and agree options and timescales to reduce the existing footprint.

Background papers:
Islington Council Statement of Investment Principle (November 2014)

Final report clearance:

Signed by:

Corporate Director of Finance & Resources Date

Received by:

Head of Democratic Services Date

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