

London Borough of Islington

Pensions Sub Committee - 12 June 2017

Non-confidential minutes of the meeting of the Pensions Sub Committee held at on 12 June 2017 at 7.30 pm.

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

Also Present: Karen Shackleton, Allenbridge Investment Adviser
Maggie Elliott and George Sharkey (members of Pensions Board and observers)
Nick Sykes and Nikeeta Kumar – Mercer Limited

Councillor Richard Greening in the Chair

77 APOLOGIES FOR ABSENCE (Item A1)

Received from Marion Oliver and Thelma Harvey (observers) and Councillor Paul Smith.

78 DECLARATION OF SUBSTITUTES (Item A2)

Councillor Mouna Hamitouche substituted for Councillor Paul Smith.

79 DECLARATION OF INTERESTS (Item A3)

None.

80 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED

That the minutes of the meeting held on 13 March 2017 be confirmed as a correct record and the Chair be authorised to sign them.

81 CARBON FOOTPRINT REDUCTION IMPLEMENTATION UPDATE (Item B1)

Having addressed equities, Members discussed which asset class might next be reviewed to achieve a lower carbon footprint. Members requested officers to investigate with Schroders, the Diversified Growth Fund Manager, whether the carbon footprint in this Fund could be reduced.

RESOLVED:

(a) That the implementation timeline and proposed process for a lower carbon footprint on the passive equity portfolio in the Fund, as detailed in paragraph 3.2 of the report of the Corporate Director of Resources, be noted.

(b) That officers investigate with Schroders whether the carbon footprint in Islington's allocation in the Diversified Growth Fund could be reduced.

82 PRESENTATION: COLUMBIA THREADNEEDLE- TPEN AND LOW CARBON FUND (Item B2)

The Sub-Committee received presentations from Moira Gorman, Client Director, and Sandy Wilson, Fund Manager, at Columbia Threadneedle, on Threadneedle Pensions Property Fund (TPEN) and Low Carbon Workplace Fund.

Moira Gorman described the key sectors of the TPEN commercial property sub-sectors in which Columbia Threadneedle invested. These included office, industrial, shopping centres and retail warehousing. The Fund focused on higher income yield property, which was rated according to Energy Performance Certificate. The Fund had outperformed the market against the index over the long term.

Sandy Wilson described the Low Carbon Work Place Fund, a tripartite arrangement between Columbia Threadneedle, the Carbon Trust and Stanhope, which sought to provide investors with attractive returns from the refurbishment and ownership of low carbon compliant buildings. All tenants were required to sign up to a low carbon undertaking. Reducing carbon emissions from commercial property was key to climate change mitigation.

Members considered that investment into the Low Carbon Workplace Fund was riskier than TPEN and asked officers and advisers to check whether any potential investment in this Fund would impact at social fund level, thus ensuring that the Sub-Committee could not be challenged on its fiduciary duties to the Pension Fund.

RESOLVED:

That officers (i) liaise with Pension officers in Hackney to check how long they have invested in the Low Carbon Workplace Fund and their experience of this investment and (ii) explore further with Columbia Threadneedle the benefits of investment in the Low Carbon Workforce Fund and report back to the next meeting.

83 PRESENTATION: M & G INVESTMENTS- PRIVATE RESIDENTIAL INVESTMENT (Item B3)

Alex Greaves, Fund Manager at M&G UK Residential Property Fund, gave a presentation to the Sub-Committee.

He stated that the Fund had over 200 institutional investors including 175 pension funds, with an income focus delivering long-term sustainable returns. The Fund had shown a three year outperformance, was worth about £320m and comprised 1,704 properties. The Fund had shown strong performance, with net returns of 12.4% p.a. since June 2013.

The investment strategy was based on the identification of assets located close to centres of strong economic activity and good transport networks, rental growth prospects and targeted young professionals in employment.

He acknowledged that there had been recent evidence of a slow down in the housing market. Most of the Fund's properties were located in Greater London, rather than inner London. He anticipated rental growth of 3-4% in London. On sales, the average property was held for fifty years and refurbished after ten years. The average length of a tenancy was two and a half years.

The Sub-Committee thanked Mr Greaves for his presentation.

84 PENSION FUND PERFORMANCE FROM 1 JANUARY TO 31 MARCH 2017 (Item B4)

Karen Shackleton drew members' attention to the fact that the performance objective in Chart 3 of her report, representing Newton – Global Active Equities – should have been set at 2.6%.

Members requested officers to continue to monitor the performance of Hearthstone and the possibility of selling this allocation for reinvestment elsewhere.

RESOLVED:

(a) That the performance of the Fund from 1 January to 31 March 2017, as per the BNY Mellon interactive performance report, detailed in the report of the Corporate Director of 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 median and average annual PIRC Local Authority Pension Fund Universe performance data for 2016/17, detailed in paragraph 3.5.1 of the report, be noted.

85 INVESTMENT STRATEGY UPDATE (Item B5)

Members considered the report from Mercer "Infrastructure implementation – update", attached to the report of the Corporate Director of Resources, which presented options for investment in infrastructure. Having considered the possibilities described in the report, the Sub-Committee decided that they were not in a position to make a decision at this meeting and would need further information before coming to any investment decisions. However, they expressed an interest in the "Third party fund of funds" option in the Mercer report. Officers were requested to make enquiries with managers running this type of fund and to report back to the Sub-Committee at a future date. Members noted that they would also require training on all aspects of the operation of this type of fund.

RESOLVED:

(a) That Mercer's presentation on Infrastructure, detailed in Appendix 1 of the report of the Corporate Director of Resources, be noted.

(b) That officers make enquiries with managers running "Third party fund of funds" type of funds and report back to the Sub-Committee at a future date, including training for Members on all aspects of the operation of this type of fund.

(c) That the contents of the exempt appendix (item E2) from Mercer, comprising an overview of High Lease to Value (HLV) property, risks and rationale for investments, be noted.

(d) That £50m be moved from bonds to HLV property and that officers seek to achieve minimum transition costs and rapid timescales for the transition.

86 ANNUAL REVIEW AND PROGRESS ON THE 2015 - 2019 PENSION BUSINESS PLAN (Item B6)

Members considered the key objectives of the five year business plan and how they could best be amended to reflect the Sub-Committee's intention to invest more sustainably in the future, whilst also addressing their fiduciary duty to the Fund.

RESOLVED:

- (a) That the five-year business plan with progress to May 2017, attached as Appendix A to the report of the Corporate Director of Resources, be noted.
- (b) That the third bullet point be amended by the inclusion of the words “financial return and societal impact” ie

“To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the Fund and addressing societal impact”

87 LONDON CIV UPDATE (Item B7)

RESOLVED:

- (a) That the progress made by the London CIV in launching funds and running portfolios over the period from March to May 2017, and detailed in the report of the Corporate Director of Resources, be noted.
- (b) That it be noted that the transfer of Newton global equity assets took place on 25 May 2017, as scheduled.
- (c) That the proposal offered by Newton regarding credit accrued from performance fee, detailed in paragraph 3.8 of the report, be noted.

88 FORWARD PLAN 2017/18 (Item B8)

RESOLVED:

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

89 INDEPENDENT INVESTMENT ADVISER APPOINTMENT (Item B9)

RESOLVED:

- (a) That the outcome of the tendering exercise for an independent investment policy advice service, detailed in the report of the Corporate Director of Resources, be noted.
- (b) That the outcome of the evaluation criteria exercise, detailed in exempt appendix 1 (Item E1) to the report, be noted.
- (c) That an initial 5-year contract be awarded to Allenbridge Investment Advisers Ltd, with an option to renew for a further 3 years, subject to review, for an independent investment policy advice service.

90 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:

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<u>Agenda Item</u>	<u>Title</u>	<u>Reason for Exemption</u>
E1	Independent investment adviser appointment - exempt appendix	<u>Category 3</u> – Information relating to the financial or business affairs of any particular person (including the authority holding that information).
E2	Investment strategy update - Mercer report exempt appendix	ditto

91 **INDEPENDENT INVESTMENT ADVISER APPOINTMENT - EXEMPT APPENDIX (Item E1)**

RESOLVED:

That the exempt information in the appendix to agenda item B9 be noted (See minute 89 for decision).

92 **INVESTMENT STRATEGY UPDATE - EXEMPT APPENDIX (Item E2)**

RESOLVED:

That the exempt information in the appendix to agenda item B5 be noted (See minute 85 for decision).

The meeting ended at 10.07 pm

CHAIR