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ISLINGTON

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 **12 June 2017 at 7.30 pm.**

Lesley Seary
Chief Executive

Enquiries to	:	Mary Green
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Despatched	:	2 June 2017

Membership 2017/18	Substitute Members
Councillor Richard Greening (Chair)	Councillor Mouna Hamitouche MBE
Councillor Andy Hull (Vice-Chair)	Councillor Angela Picknell
Councillor Michael O'Sullivan	Councillor Robert Khan
Councillor Paul Smith	Councillor Jenny Kay

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.

4. Minutes of the previous meeting 1 - 4

B. Non-exempt items

1. Carbon footprint reduction implementation update 5 - 8

2. Presentation: Columbia Threadneedle- TPEN and Low carbon Fund (10 minutes for presentation+10 minutes for questions)

3. Presentation: M & G investments- Private Residential Investment (10 minutes for presentation+10 minutes for questions)

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 ordinary meeting of the Pensions Sub Committee is scheduled for 5 September 2017

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London Borough of Islington

Pensions Sub Committee - 13 March 2017

Non-confidential minutes of the meeting of the Pensions Sub Committee held at Town Hall, Upper Street, London N1 2UD on 13 March 2017 at 7.30 pm.

Present:	**Councillors:**	Richard Greening (Chair), Andy Hull (Vice-Chair), Michael O'Sullivan and Paul Smith
Also Present:		Karen Shackleton, Allenbridge Investment Advisers Thelma Harvey, Marion Oliver, Councillor Dave Poyser (members of Pensions Board) Nick Sykes, Jonathan Perera and Nikeeta Kumar – Mercer Limited

Councillor Richard Greening in the Chair

65 APOLOGIES FOR ABSENCE (Item A1)

None.

66 DECLARATION OF SUBSTITUTES (Item A2)

None

67 DECLARATION OF INTERESTS (Item A3)

None.

68 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:

That the minutes of the meeting held on 15 November 2016 be confirmed as a correct record and the Chair be authorised to sign them.

69 PENSION FUND PERFORMANCE (Item B1)

Members expressed concern about the position of Hearthstone, given the fact that its Chief Executive had resigned and its business strategy was likely to change to focus on the retail market. Nonetheless, it was agreed that it was reasonable to continue to invest in residential property and that, in the longer term, a new provider for investment in residential property should be identified. It was agreed that M&G be invited to present to the Sub-Committee on investment in social housing, as a possible future alternative to Hearthstone..

Noting the overall poor performance of the Allianz investment, members agreed that they would review the situation in a year's time, when it was anticipated that the CIV would have alternative investment opportunities..

RESOLVED:

(a) That the performance of the Fund from 1 October to 30 December 2016, 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 2 to the report and their presentation, be noted.
(c) That the key person change at Hearthstone, the Fund's residential property manager be noted, together with the proposed change in business strategy for Hearthstone.
(d) That there be no change in the Fund's investment in Hearthstone at the present time, but the Sub-Committee's longer term wish to retain investment in residential property, possibly with a different provider, be noted.
(e) That M&G be invited to present to the Sub-Committee on investment in social housing.
(f) That the Sub-Committee's concern at the poor performance of Allianz be noted and their wish to review this investment in a year's time, when the CIV would have alternative investment opportunities.
(g) That the recent Mercer Bulletin on "LGPS Current Issues", dated February 2017, be noted.

71 LONDON CIV UPDATE (Item B2)

RESOLVED:
(a) That the progress made to date on the London CIV, as detailed in the report of the Corporate Director of Resources, be noted.
(b) That the additional charges due from the London CIV and detailed in paragraph 3.6.3 of the report, be noted.
(c) That the information contained in the exempt appendix to this report, detailing the savings schedule, be noted.
(d) That the Newton global equity assets be transferred to the London CIV platform in the second quarter of the year,

72 CARBON FOOTPRINT REDUCTION IMPLEMENTATION UPDATE (Item B3)

The Head of the Pension Fund and Treasury Management explained that technical difficulties would mean that there would be a delay in the process of transferring assets from the In-House UK Passive Fund to the L&G MSCI World Low Carbon Target Index, to achieve a 45% reduction. However, it was anticipated that some of the assets would be transferred by June 2017.

Members of the Sub-Committee noted this delay, but expressed a wish to receive further information at their next meeting on steps being taken to reduce carbon in the rest of the Fund as expeditiously as possible, especially in property and bonds.

Members of the Sub-Committee undertook to continue to engage with energy and oil companies to encourage them to move to low carbon, through the offices of LAPFF as appropriate. Members also considered the inclusion of an undertaking in the Investment Strategy Statement on their belief that a low carbon approach could assist climate change.

RESOLVED:
(a) That the implementation timeline for a lower carbon footprint on the Fund's passive equity portfolio and the proposed process for achieving this, as detailed in paragraph 3 of the report of the Corporate Director of Resources, be noted.
(b) That Appendix 1 to the report, which summarised and mapped out the targeted carbon footprint level after implementation of the new benchmarks be noted.
(c) That officers report to the next meeting of the Sub-Committee on the plan for achieving carbon reduction in all other asset classes of the Fund.

73 FUNDING STRATEGY STATEMENT AND CONSULTATION RESULTS (Item B4)

RESOLVED:

(a) That the employer comments received from the consultation exercise (detailed at Appendix 1 of the report) on the draft Funding Strategy Statement, attached as Appendix 2 of the report of the Corporate Director of Resources, be noted.
(b) That the draft Funding Strategy Statement, attached at Appendix 2 of the report of the Corporate Director of Resources, be approved.
(c) That the Corporate Director of Resources be authorised to finalise and publish the Statement on the Council's website.

74 INVESTMENT STRATEGY STATEMENT AND STRATEGY REVIEW FRAMEWORK (Item B4A)

RESOLVED:
:
(a) That the draft Investment Strategy Statement (ISS), attached as Appendix 1 to the report of the Corporate Director of Finance, be approved.
(b) That the Pension Fund and Treasury Manager arrange to consult with members of the Board and Sub-Committee to consider revisions to the ISS to include the following points which were raised during discussion:

- The addition of the following words to paragraph E on page 5 of Appendix 1, under the heading "ESG Risk "The Sub-Committee expects asset managers to report on how carbon risk is being properly managed"
- "Impact investments"
- Assets being invested in the London CIV where there is a case to do so
- Reference to carbon risk, human rights, modern slavery (and others) and the intention to achieve a lower carbon risk in the whole Fund to be included in paragraph 5 ("Social, environmental and corporate governance policy and policy of the exercise of rights (including voting rights) attaching to investments")

(c) That a representative from the Environment Agency be invited to attend the Sub-Committee's to detail the Agency's commitment to withdraw from fossil fuels and how this has been included in their ISS.
(d) That a Fund Manager be invited to present to the Sub-Committee on investment in private debt.
(e) That approval in principle be given to the proposal to become a signatory to the UK Stewardship Code, as outlined in para 3.3 of the report.
(f) That the Corporate Director of Resources be authorised to approve the final ISS, in consultation with the Chairs of the Pensions Sub-Committee and Board, for publication on 1 April 2017.
(g) That it be noted that the ISS was a living document that would be revised as changes occurred.
(h) That the Mercer presentation on the framework of the investment strategy be noted and that officers report to the next meeting on the sale of bonds and reinvestment into High Lease to Value property.

75 **FORWARD PLAN (Item B5)**

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.

76 **THE LONDON CIV UPDATE - EXEMPT APPENDIX (Item E1)**

RESOLVED:
That the exempt information to agenda item no B2 be noted (- see minute 71 for decision).

The meeting ended at 9.45 pm.

CHAIR

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	12 June 2017		n/a

Delete as appropriate		Non-exempt

SUBJECT: CARBON FOOTPRINT REDUCTION IMPLEMENTATION UPDATE

1. Synopsis

1.1 This report provides information and an update for Members on the implementation of lower carbon footprint on our passive equity portfolio and identifying lower carbon footprint in property assets.

2. Recommendations

2.1 To note the implementation timeline and proposed process in para 3.2

2.2 To receive a presentation from our property manager, Columbia Threadneedle to discuss Threadneedle Pensions Property Fund (TPEN) and Low Carbon Workplace Fund.

2.3 To agree to explore the next steps if Members would like to consider an allocation to the Low Carbon Fund

3. Background

3.1 <u>Update on implementation of lower carbon footprint of the fund</u>
Members agreed at the last November pension sub- committee meeting that the carbon footprint level of equities in the In-House UK Passive Fund be reduced with immediate effect, with 50% of assets allocated to Legal and General Investment Management's MSCI World Low Carbon Target Index Fund and the remaining 50% of assets managed in house to track the FTSE UK Low Carbon Optimised index and that officers investigate how a low carbon approach could be realised for the rest of the Fund, which does not comprise equities.

3.2 Officers have had discussions with Legal and General and the In House Manager to combine all transactions including the transfer of assets to our impending emerging market manager to minimize transition cost. The agreed way forward with a timeline to complete most of the transition by 3 July is as follows:

- LGIM receives £125m in speci stocks from the In House manager on 10 May
- L&G will cross and sell stocks received and its existing Europe and Emerging Market to make available the cash of £59.4m for the emerging market manager by 6 June .
- L&G will transition stocks to the MSCI World Low Carbon Target Index by 3 July or earlier of £140m
- Any residual non liquid stocks will be transitioned over a longer period to ensure cost is minimised through smart switch process
- In House manager will transfer his residual stocks to the new FTSE UK Low Carbon Index

3.3 Members are asked to note the implementation process and timeline para3.2

3.4 Columbia Threadneedle, our UK commercial property manager (portfolio valued at £72m) also runs a Low Carbon Workplace Property Fund and has been invited to make a presentation to Members discussing the Fund in comparison to our existing investment in TPEN.

3.4.1 Members are asked to consider the presentation and decide if they would like explore the next steps to investing in this Fund.

3.5 Officers continue to liaise with its other property and bond managers on how best to achieve a lower carbon footprint on those asset allocations.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

None applicable to this report

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**

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

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5. Conclusion and reasons for recommendation

5.1 Members are asked to note the timeline in para 3.2.and progress made to date, and receive the presentation from Columbia Threadneedle to decide if they would like to explore the next steps to investing in the Low Carbon Workplace Fund .

Background papers:
None

Final report clearance:

Signed by:

	Corporate Director of Resources	Date
Received by:		

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

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Finance and Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	12 June 2017		

Delete as appropriate	~~Exempt~~	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 JANUARY TO 31 MARCH 2017

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 January to 31 March 2017 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 1.
2.3	To note the median and average annual PIRC Local Authority Pension Fund Universe performance data for 2016/17
3.	**Fund Managers Performance for January to March 2017**
3.1	The fund managers' latest quarter net performance figures compared to the benchmark is shown in the table below

	(table below)

Fund Managers	Asset Allocation	Mandate	Latest Quarter Performance (Jan-Mar) Gross of fees		12 Months to March 2017 Performance Gross of fees	
			Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	24%	UK equities	3.9%	4.0%	21.8%	21.9%
London CIV Allianz	8%	Global equities	6.7%	5.8%	29.9%	32.6%
Newton	15%	Global equities	4.3%	6.7%	23.7%	33.1%
Legal & General	8%	Global equities	8.3%	8.7%	40%	35.5%
Standard Life	19.5%	Corporate bonds	2.1%	1.8%	10.2%	9.3%
Aviva (1)	5%	UK property	1.2%	2.1% 2.3%	7.1%	8.5% 3.8%
Columbia Threadneedle Investments (TPEN)	6%	UK commercial property	2.0%	2.0%	3.6%	3.7%
Hearthstone	2%	UK residential property	0.45%	1.2%	2.4%	2.8%
Schroders	8.5	Diversified Growth Fund	2.5%	2.0%	10.6%	8.4%

(2.1% and 8.5% = original Gilts benchmark; 2.3% and 2.8% 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 March 2017 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to Mar'2017 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
LB of Islington Fund-ex hedge	4.0%	3.3%	17.3%	17.1%

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 March 2017 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	16.1%	8.9%	9.5%

3.5.1 **<u>The PIRC LA Pension Fund Universe 2016/17 Results</u>**

The PIRC Local Authority Universe comprised of 60 funds as at the end of March 2017 with a value of £162 billion. The Funds ranking and league table is due out in mid-June.. The initial average and median fund performance figures are shown in the table below.

	2016/17	3yrs (% PA)	5yrs(%PA)	10yrs(%PA)	20 yrs(%PA)
average	21.4	11.2	10.7	7.0	7.4
median	20.6	10.8	10.6	6.9	7.1

Members are asked to note the results above. A copy of the full report and league table will be distributed as soon as it becomes available.

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 6.78% against a benchmark of 5.1%. Since inception with the London CIV in December 2015, there is a relative under performance of -2.3%. The main drivers were stock selection and sector weight positions and country allocation in Information Technology, Financials, and Consumer Discretionary sectors. Stock selection was however a detractor in Health Care. .

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 4.3% gross of fees against a benchmark of 5.8% for the March quarter. Since inception the fund has delivered an absolute return of 14.4% but relative under performance of -0.4% gross of fees per annum

3.7.3 The under performance this quarter was driven mainly by stock selection in consumer services and health care sectors.

3.7.4 The transfer of the portfolio to the London CIV Newton sub fund was affected on 25 May.

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 3.9% against a benchmark of 4.0 % for the March quarter and a relative over performance of 0.5% over the three year period.

3.8.2 The fund has been in care and maintenance since Members agreed to move 50% of the portfolio to the LGIM managed MSCI World Low Carbon Fund. £125m of stocks were transferred in speci on 10 May. The portfolio restructure is estimated to be completed by July 3.

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 March quarter, the fund returned 2.1% against a benchmark of 1.8% and a 3 year relative return of 0.1% per annum net of fees.

3.9.2 The main driver behind the over performance in this quarter was the widening of credit spreads on gilt yields during the quarter and the strong performance of financial bonds.

3.9.3 The forward strategy is to find valuations attractive in financials, senior holding company debt and certain areas of subordinated debt. Liquidity is being held to take advantage of any upcoming opportunities.
The merger with Aberdeen Investment continues and has an estimated date of 14 August for completion.

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 1.2 % against a gilt benchmark of 2.1%. The All Property IPD benchmark returned 2.3% for this quarter. Since inception the fund has delivered an absolute return of 6.66% net of fees.

3.10.3 This March quarter the fund purchased a student accommodation at Buckinghamshire New University. The fund’s unexpired average lease term is now 19.6years. Lime is well positioned to deliver attractive returns over the medium term.

3.10.4 The fund also has £395m of investor cash (£23m newly signed subscriptions in the March quarter.) The current queue period to invest is around 18months.

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 March was £72.million.

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 2.0% against its benchmark of 2.0% for the March quarter. The cash balance now stands at 10.8% 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 2 acquisitions totalling £13.5m and disposals of £33.25m. There is a strong asset diversification at portfolio level with a total of 260 properties.

3.11.4 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 of 6.3% versus the 5.3% benchmark 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 March quarter, the hedged overseas equities was valued at £5.9m

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 is now fully committed and drawn down, though $7.4m can be recalled 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 $0.9m to bring the total distribution received to $41.1m

3.13.3 Fund II has made 5 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. The total capital call to the quarter end was $10.8m

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 8.3% gross of fees for the quarter. The 3 year absolute return is 12.9%. The market value is now £97.5m.

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 March quarter the value of the fund investment was £26.5m and total funds under management is £52.7million. Performance net of fees was 0.45% compared to the LSL benchmark of 1.25%. The income yield after cost was 3.23%. The portfolio has 183 properties (12 have been sold from the initial 196), 10 are let on licence and leaseback agreement to house builders and 159 properties let on assured short term agreements.
3.15.3	There are 14 vacant properties, 3 of which are being marketed for sale and 11 being marketed for rental.

3.16
3.16.1
	Schroders-
	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 seventh quarter since funding and the value of the portfolio is now £107m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The March quarter performance before fees was 2.5% against the benchmark of 2.0% (inflation+5%). The one year performance is 10.6% against benchmark of 8.4% before fees.
3.16.3	Global value equities and regional allocations US and Europe and Emerging markets made strong contributions to returns. Emerging market debt , alternatives and high yield debt also added value whilst commodities and currency detracted

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". An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising**.**
4.4	**Environmental Implications** None applicable to this report.

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending March 2017as part of the regular monitoring of fund performance and note the PIRC LA Universe Pension Fund average and median performance.

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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REPORT PREPARED FOR

London Borough of Islington Pension Fund

May 2017

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1. Fund Manager Overview

Table 1 provides an overview of the external managers, in accordance with the Committee's terms of reference for monitoring managers.

Table 1

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
London CIV - Allianz	Monitored by London CIV – no changes reported.	A good quarter to start 2017, with the sub fund outperforming the Index by +1.5%. Underperforming by -0.5% p.a. over 3 years to end March 2017 and behind the target of +2.0% p.a.	London CIV sub fund had £667 million of assets under management as at end March 2017, an increase of £42 million since end December 2016.		
Newton	Rob Stewart appointed Head of Responsible and Charity Investing. Ian Clark appointed co-manager of the Global Income strategy.	Underperformed the Index by -1.5% in the quarter and by -9.4% over one year. Trailing the benchmark over three years by -1.1% per annum.	£54.5 billion as at 31st March 2017, down £1.3 billion on the previous quarter.		Sub-fund available on the London CIV from 22nd May.
Standard Life	12 joiners and 10 leavers of whom one was in fixed income.	Over three years the Fund is +0.3% p.a. ahead of the benchmark return of 7.5% p.a. but behind the performance target of +0.8% p.a.	Underlying fund value fell by £54.7 million in Q1 2017. Islington's holding rose to 6.0% of the Fund's value.		Standard Life announced a merger with Aberdeen Asset Management on 4th March. This will bring global AUM to £581 bn.

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Aviva	No changes to the team responsible for the Lime Fund. 6 leavers from the real estate team, and 6 joiners.	Underperformed the gilt benchmark by -3.0% p.a. over three years.	Fund was valued at £1.84 billion as at end Q1 2017. London Borough of Islington owns 3.2% of the Fund. Aviva's AUM grew by 19% in 2016 to £345 billion.		Queue of new money waiting to be invested means new allocations are taking 15-18 months to be drawn down.
Columbia Thread-needle	Michelle Scrimgeour joined as Chief Executive of Europe, Middle East and Africa.	Ahead of the benchmark return by +0.8% per annum over three years (source Columbia Threadneedle). Slightly behind the performance target of 1% p.a. outperformance.	Pooled fund has assets of £1.73 billion. London Borough of Islington owns 4.4% of the fund.		
Legal and General	Not reported.	Funds are all tracking as expected. Emerging markets RAFI fund has outperformed market cap fund by 17% in past 12 months.	Assets under management of £902 billion at end December 2016.		
Franklin Templeton	Glen Uren, Managing Director of real estate, retiring. Michel Lim appointed as investment manager in UK.	Portfolio return over three years was +32.8% p.a., well ahead of the target of 10% p.a.			Leverage continues to be on the high side, between 45-50%

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Hearth-stone	Jeff Pulsford, Chairman, has left the firm. David Gibbins, fund manager, has retired.	Outperformed the benchmark by +3.0% p.a. over three years to end March 2017.	Fund was valued at £52.7 m at end Q1 2017.		
Schroders	49 joiners and 17 leavers in the UK business but no changes to the DGF team.	Fund returned +2.5% during the quarter and +10.6% over 12 months, +2.4% ahead of the target return.	Total AUM of £416.3 billion as at 31st March 2017.		

Key to shading in Table 1:

Minor concern

Monitoring required

2. Individual Manager Reviews

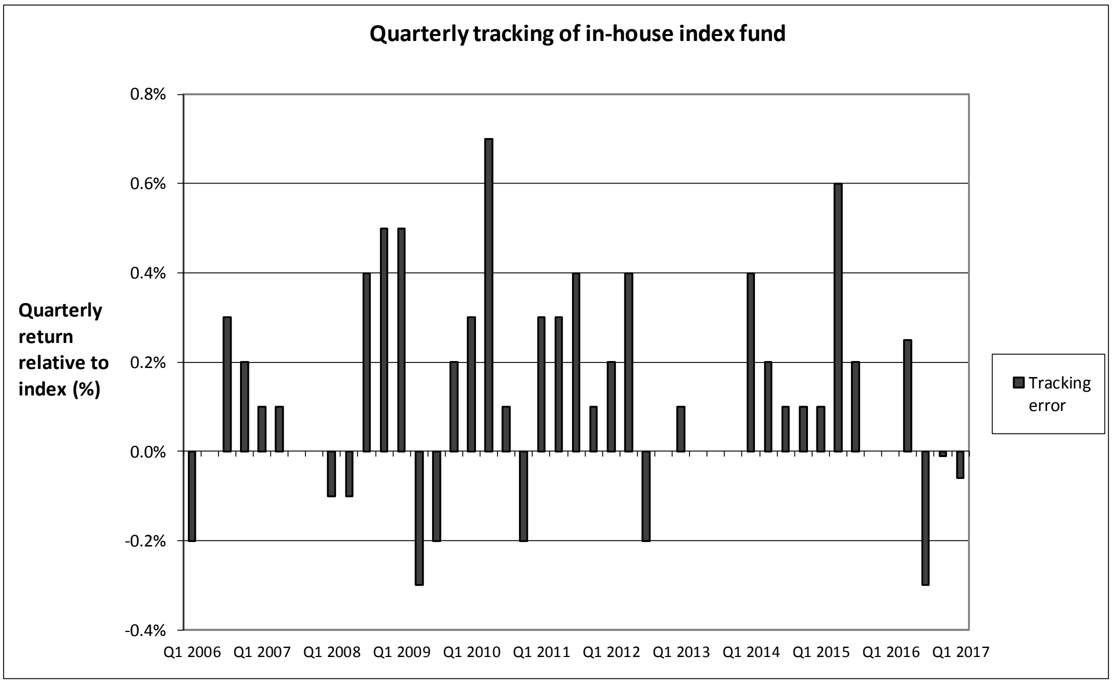
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

Headline comments: The portfolio continues to meet its objectives. The fund delivered a quarterly return of +3.96%, which was slightly behind the index benchmark return of +4.02%. Over three years the fund has outperformed the index by +0.46% p.a. and delivered a return of +8.2% 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 +0.46% per annum.

Chart 1



Source: Allenbridge based on BNY Mellon performance calculations

Portfolio risk: The tracking error on the portfolio at the end of March 2017 was 0.37% per annum. This is slightly higher than has been experienced historically, but the manager is now operating the portfolio on a care and maintenance basis as the strategy switches to a low carbon fund. In terms of sector bets, relative to the Index, at the end of March the largest underweight sector position relative to the index was Investment Trusts
(-1.27%). The fund was most overweight in Industrials (+1.07%). 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 296 securities at the end of Q1 2017.

2.2. London CIV – Global Equity Alpha Fund – Allianz

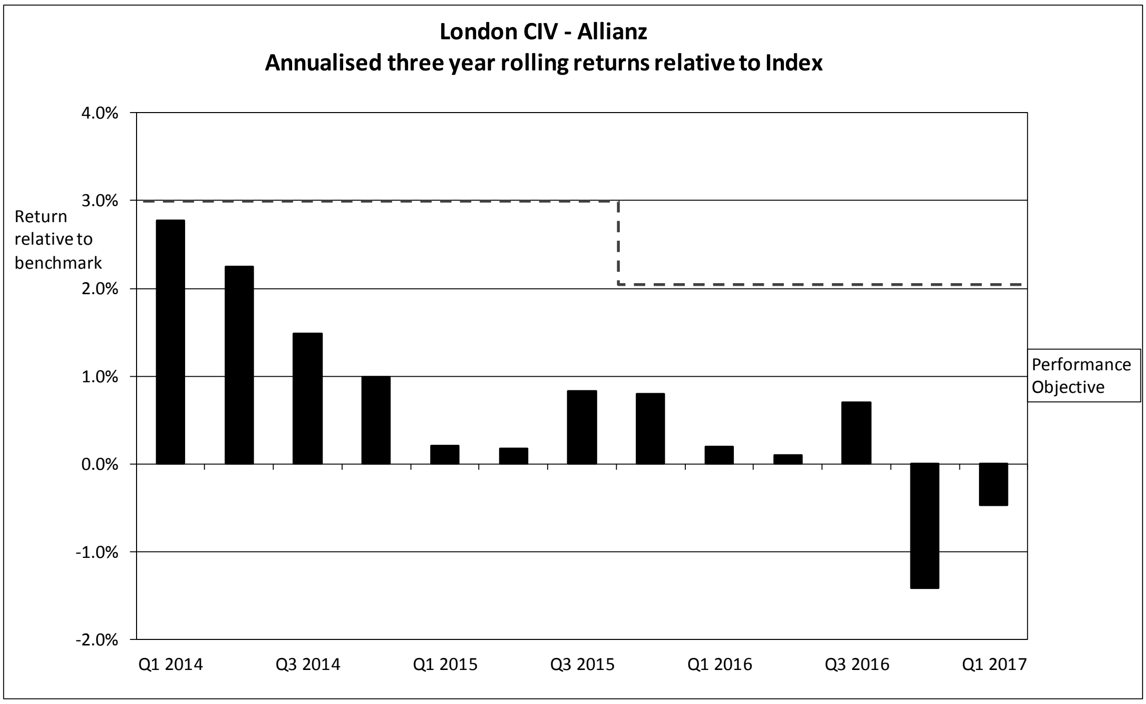
Headline comments: After a disappointing Q4 2016, the London CIV – Allianz sub fund delivered a better return in Q1 2017. The fund delivered a return of +6.8% against the benchmark return of +5.3% in Q1. This helped the three-year numbers, but the fund is still trailing the benchmark by -0.5% per annum and is behind the performance target of +2% per annum over benchmark.

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 March 2017, the AllianzGI portfolio is behind its benchmark by -0.5% per annum, so is **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 Q1 was attributed by the London CIV to an overweight allocation to Information Technology which added +0.7% and an underweight allocation to Energy which added +0.6% to the relative return. Holdings in Priceline and Facebook also added +0.7%.

Chart 2



Source: Allenbridge based on BNY Mellon performance data

Portfolio Risk: The largest overweight regional allocation was in European Equities (+7.2% overweight). The most underweight allocation was Japan Equities (-4.9% underweight). In terms of sector bets, the most overweight allocation was in Information Technology (+11.9% overweight). Energy was the most underweight sector (-5.1%). Both these positions have now been in place since Q1 2016, a year ago.

Portfolio Characteristics: as at end Q1 2017, the portfolio held 50 stocks, no change from last quarter. The portfolio has a beta of 0.99 so is broadly neutral relative to the market.

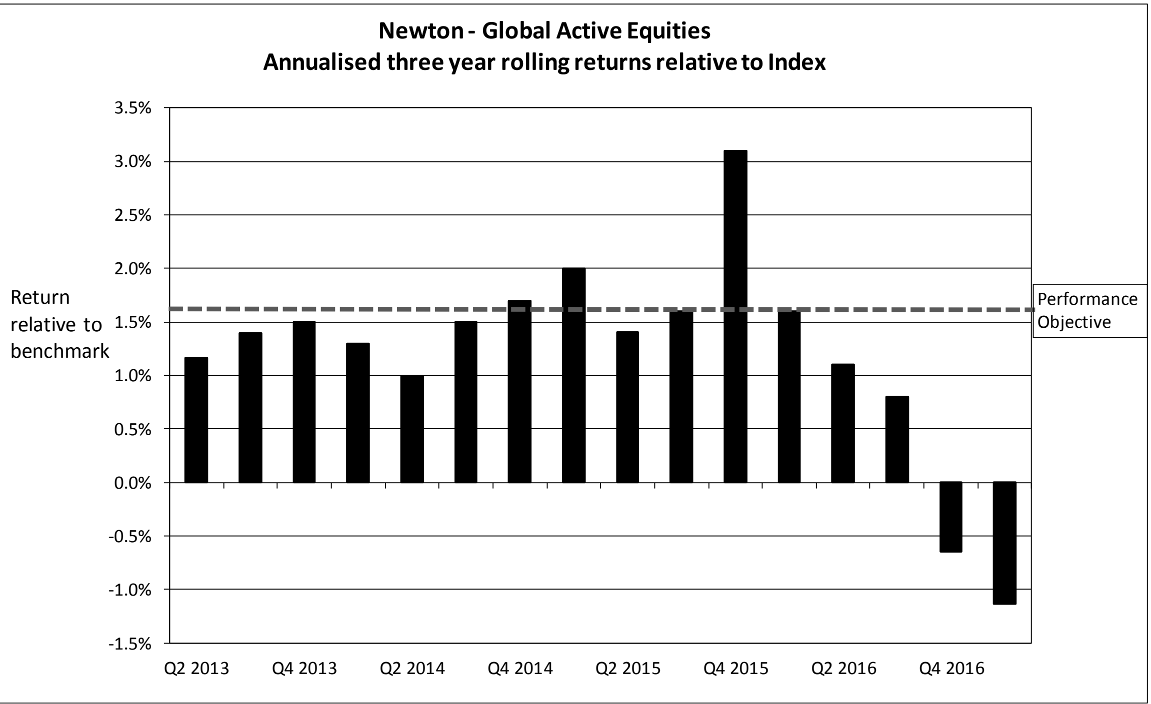
2.3. Newton – Global Active Equities

Headline comments: Newton were behind their benchmark by -1.5% during Q1 2017, bringing the one-year underperformance to -9.4%. Over three years the portfolio has underperformed the benchmark by -1.1% per annum, which puts it well behind the target of +2% p.a. This underperformance can be attributed mostly to poor stock selection
(-1.1% p.a.).

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 Q1 2017, the fund (shown by the right hand black bar) has trailed the benchmark by -1.1% per annum. This also means it is trailing the performance objective (the performance objective is shown by the dotted line). Much of the three-year track record has been impacted by very poor one year numbers. The portfolio has underperformed the benchmark by -9.4% for the 12 months to March 2017. However, that should, to some extent, be put in the context of a strong absolute portfolio return of +23.7%.

The underperformance over three years was mostly attributed by Newton to poor stock selection which detracted -1.1% p.a.

Since the inception of Newton's portfolio in November 2008, the fund is now trailing its benchmark by -0.38% per annum, before taking fees into account. Newton's 'since inception' return is +14.3% per annum, compared to the benchmark return at 14.8% per annum *(source: Newton, gross of fees performance)*.

Newton attributed the poor relative performance primarily to poor stock selection in Consumer Services. Stock selection in this sector detracted -0.7%. Healthcare stock selection also detracted a further -0.5% from the relative return, with a number of holdings, including Teva Pharmaceutical and Gilead Sciences reducing their profit forecasts by more than the markets expected. Poor stock selection in Healthcare stocks has detracted more than 2.5% from returns over the past three years.

Portfolio Risk: The largest overweight regional allocation was in UK Equities (+3.9% overweight). The most underweight allocation was Other Equities (-6.2%), both regional bets being consistent with last quarter. The cash holding stood at 4.8% as at end Q1, at the upper end of Newton's normal range.

In terms of sector bets, Newton remained most overweight in Consumer Services (+9.3% relative to benchmark.) The most underweight sector remained in Financials (-11.1%). This underweight position has been in place since Q2 2009.

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 3.4%, as at end March 2016. This is within Newton's normal range of 2% and 6%.

Portfolio characteristics: At the end of Q1 2017, the portfolio held 62 securities (61 as at the end of Q4 2016). Turnover over the past 12 months was 30%, at the low end of Newton's normal expected range of turnover to 30%-70%.

Staff turnover: Rob Stewart was appointed Head of Responsible and Charity Investing following Sandra Carlisle's departure from the firm. Ian Clark was appointed co-manager of the Global Income strategy including the Newton Global Income Fund. Terry Coles, who was previously alternate manager on the strategy will now focus on core global responsibilities.

2.4. Standard Life – Fixed Income

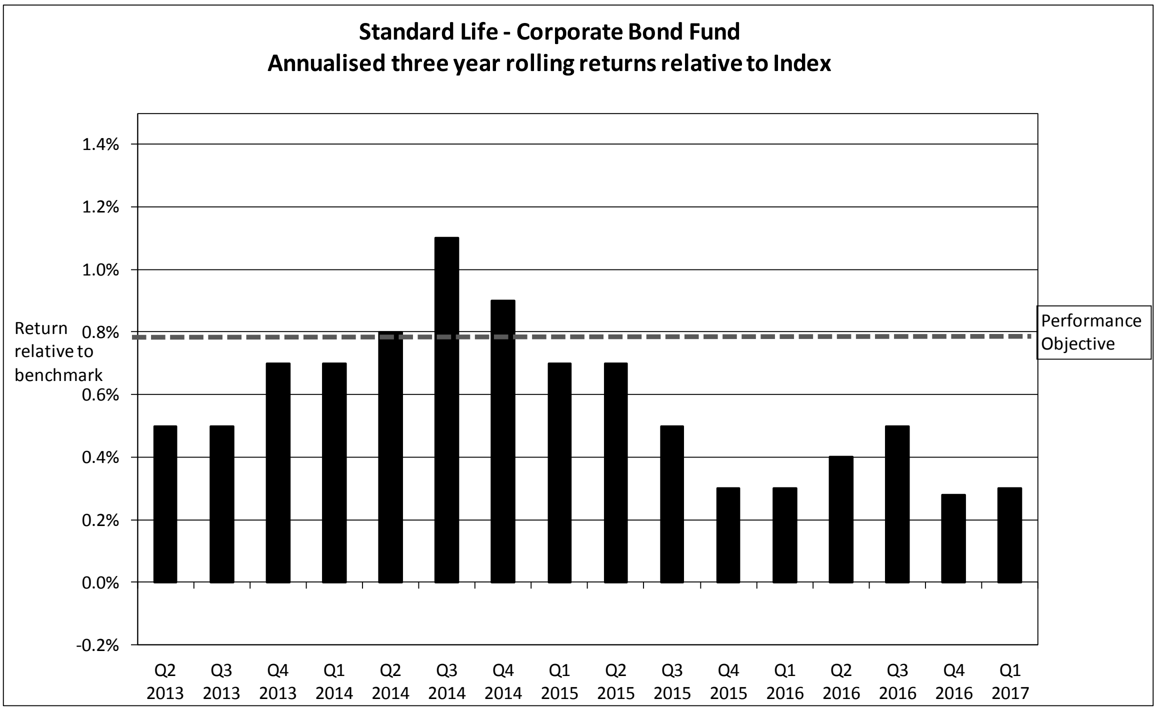
Headline comments: The portfolio was ahead of the benchmark by +0.3% during the quarter, delivering a positive absolute return of +2.05%. Over three years, Standard Life's return was +0.3% p.a. ahead of the benchmark return of +7.5% p.a., but behind the performance target of +0.8% per annum.

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, over the past three years. This shows the fund ahead of the benchmark over three years (right hand bar), but trailing the 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 +7.8% p.a. compared to the benchmark return of +7.5% p.a. Over the past three years, stock selection has added 0.3% value, followed by asset allocation (+0.1%). This has been offset slightly by a negative contribution to performance from curve plays.

Portfolio Risk: The largest holding in the portfolio at quarter end was UK Government 4.5% 2034 (1.4% of the portfolio). The largest overweight sector position remained Financials (+7.6%) and the largest underweight position remained sovereigns and sub-sovereigns (-15.2%).

The fund holds 4.1% of the portfolio in non-investment grade bonds.

Portfolio characteristics: The value of Standard Life's total pooled fund at end March 2017 was £4,047.2 million, £54.7 million lower than at the end of Q4 2016. As a consequence of this, London Borough of Islington's holding of £244.3 million rose to 6.0% of the total fund value (compared to 5.8% last quarter). Standard Life have reported that clients in Germany and the Netherlands reduced allocations to the fund in Q1.

Staff turnover: there were 12 joiners and 10 leavers during the quarter. One leaver was a member of the fixed income team (Anthony Cameron, an analyst).

Organisation: On 4th March 2017, Standard Life plc and Aberdeen Asset Management plc announced a potential merger between the two firms, bringing their total assets under management to £581 billion. Most of the areas of specialisation are complementary, but there is an overlap in assets managed in real estate (this is split 50/50 between the two firms), and in developed market credit (one third managed by Aberdeen, two-thirds by Standard Life). This includes the Corporate Bond Fund managed by Standard Life for London Borough of Islington.

It was announced that Sir Gerry Grimstone (Standard Life) would become Chairman of the Board of the Combined Group, with Aberdeen's Chairman Simon Troughton becoming Deputy Chairman. Keith Skeoch, Chief Executive of Standard Life and Martin Gilbert, Chief Executive of Aberdeen, would become co-CEOs of the Combined Group. Rod Paris (Standard Life) would become the Chief Investment Officer of the new combined company.

As with any corporate merger of this type, a closer level of due diligence monitoring is recommended during the transitionary period of the merger. It is likely that there will be some staff departures, and these are already beginning to be seen. These are most likely to be seen where there is an overlap of business between the two firms, and that could potentially impact the Corporate Bond Fund.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: After last quarter's negative return, gilts bounced back in Q1 2017, delivering a return of +2.1%, compared with the Lime Fund which returned a more muted +1.2%. Over three years, the fund is trailing the gilt benchmark by -3.0% p.a. Note that it is now taking new investors 15-18 months to become invested in the Lime Fund.

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's Q1 2017 return of +1.2% was attributed by Aviva to 1.1% from income, with the balance from capital gains.

Over three years, the fund has returned +7.3% p.a. compared to the gilt benchmark of +10.3% p.a., an underperformance of -3.0% 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 compares well against other Funds in the IPD universe of property funds, on a risk-adjusted return basis.

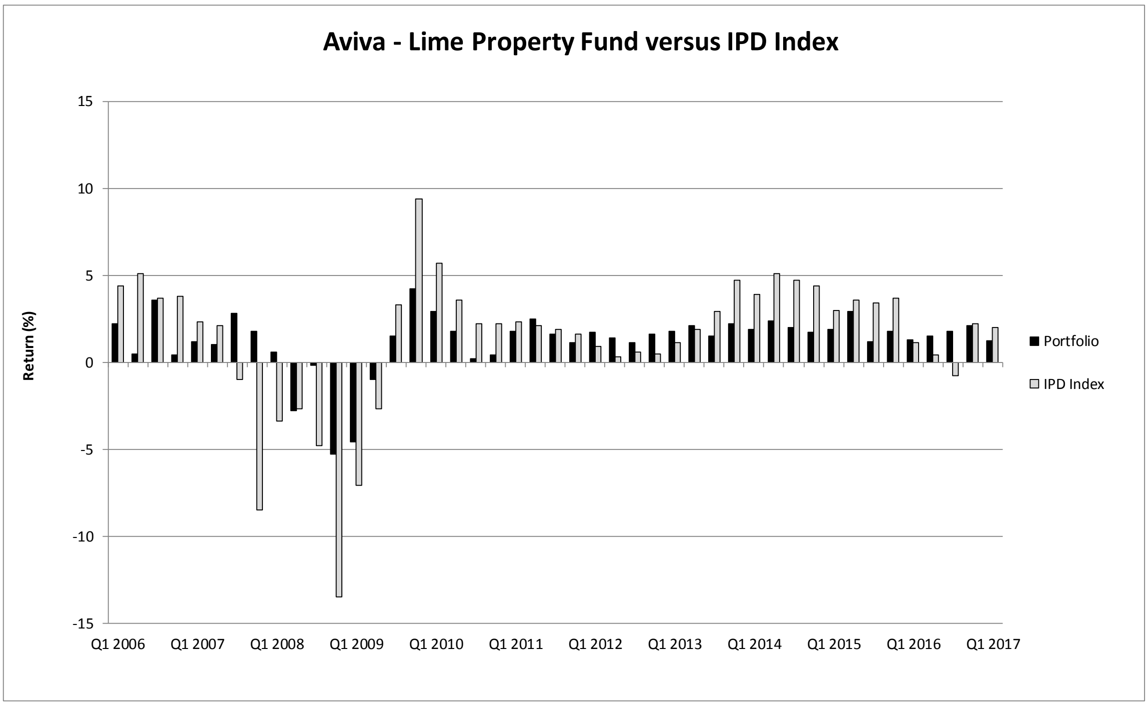
Of the +7.3% p.a. fund return over three years, 4.8% p.a. came from income, with the balance from capital gain.

Portfolio risk: There was one purchase in Q1 2017 which completed. This was a purpose-built student village of 414 beds in High Wycombe, Buckinghamshire, leased to Buckinghamshire New University for 30 years.

The average unexpired lease term was 19.6 years. 10% of the portfolio's lease exposure in properties is in 30-35 year leases, the largest sector exposure remains offices at 29.3%, and the number of assets in the portfolio stood at 72 as at quarter end. The weighted average unsecured credit rating of the Lime Fund was A- as at end March 2017.

The fund continues to see a flow of new capital joining the investment queue for the Fund. This has led to a queue of money into the fund, with the result that allocations being made to the Lime fund today could take 15 to 19 months to be drawn down. This has implications for the new investment strategy for the pension fund. The fund remains attractive because of its less volatile return stream, shown in Chart 5 which compares the absolute performance of the Fund each quarter with the return on the IPD Index. The chart 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 March 2017, the Lime Fund was valued at £1.846 billion, an increase of £13.1 million from the previous quarter end. London Borough of Islington’s investment represents 3.2% of the total fund.

The Fund had 68.4% allocated to inflation-linked rental uplifts as at end March 2017.

Staff turnover/organisation: There were six leavers from the real estate team and 6 joiners during Q1, most of whom were investment professionals. However, the Lime Property Fund was not affected by this turnover.

Group-wide, Aviva Investor’s assets under management grew by 19% in 2016, to £345 billion.

2.6. Columbia Threadneedle - Pooled Property Fund

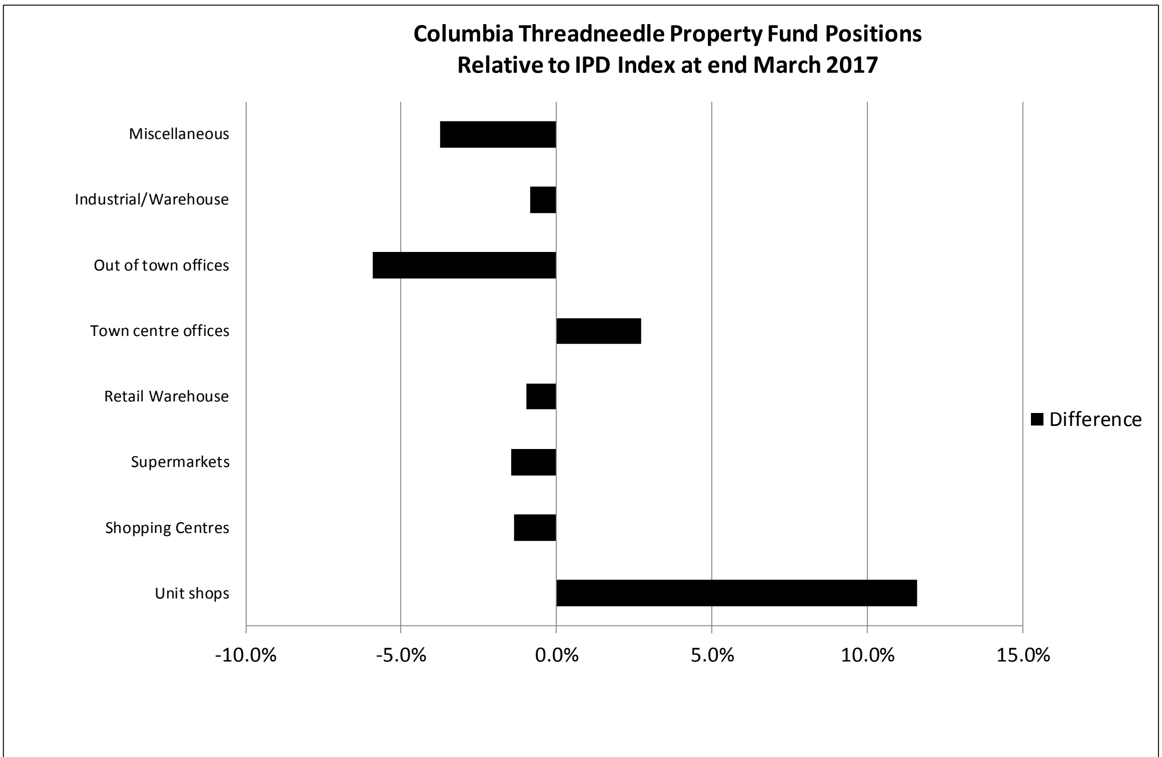
Headline comments: The Fund delivered a return of +2.0% in Q1 2017 (source: Columbia Threadneedle), in line with the benchmark return. Over three years, the Fund has outperformed the benchmark by +0.8% per annum, slightly behind the performance target of 1% p.a. above benchmark.

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 in line with the benchmark in Q1 2017, delivering a return of +2.0%. In terms of the three-year performance, the Fund is ahead of its benchmark by +0.8% per annum but is slightly trailing the performance target of +1% per annum. The absolute return over three years continues to decline. A year ago, the three-year return was +13.7% per annum. By the end of Q1 2017, this had dropped to +11.0% per annum.

Portfolio Risk: 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.

The overweight allocation to unit shops is skewed because IPD (against which the portfolio is measured) classifies two of the largest properties in Threadneedle's portfolio as retail. These are the Heals building and the South Molton Street property. In fact, based on square footage, these assets are significantly more office than retail. Threadneedle's view is that they both represent excellent value, and they do not anticipate selling them, for strategic reasons, in the short term.

Portfolio characteristics: As at 31st March 2017, the Threadneedle Property Fund was valued at £1.728 billion, an increase of £29.8 million compared with December 2016. London Borough of Islington's investment represented 4.4% of the Fund as at end March 2017.

Staff turnover: in April, as previously announced, Michelle Scrimgeour joined the firm as Chief Executive Officer (CEO), Europe, Middle East & Africa and CEO of Threadneedle Asset Management Limited. She joined from M&G Investments, where she was Chief Risk Officer of M&G Group Limited.

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

Headline comments: All the index funds were within the expected tracking range when compared with their respective benchmarks and there are no issues. The fundamental FTSE-RAFI Emerging Markets index fund underperformed its market capitalisation-weighted counterpart in Q1 by -1.5%, but for the 12 months to Q1 2017 it has outperformed by +17.0%.

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

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

Table 2

Q4 2016	Fund	Index	Tracking
Europe	7.3%	7.4%	0.0%
Asia Pacific ex Japan	11.8%	11.7%	0.1%
FTSE emerging markets	8.9%	8.9%	0.0%
RAFI emerging markets	7.5%	7.4%	0.1%

Source: LGIM

The RAFI emerging markets index fund underperformed the market capitalisation index by -1.5% in Q1. For the 12-month period, however, the RAFI index fund outperformed the market capitalisation weighted fund by +17.0%. Since the inception of the RAFI fund, it has outperformed by +1.5% per annum.

Portfolio Risk: The percentage allocation to each regional fund is based on pre-agreed band widths, which also take into account the global equity managers' allocations. The largest deviation from the benchmark allocation is North America which is 3.1% overweight.

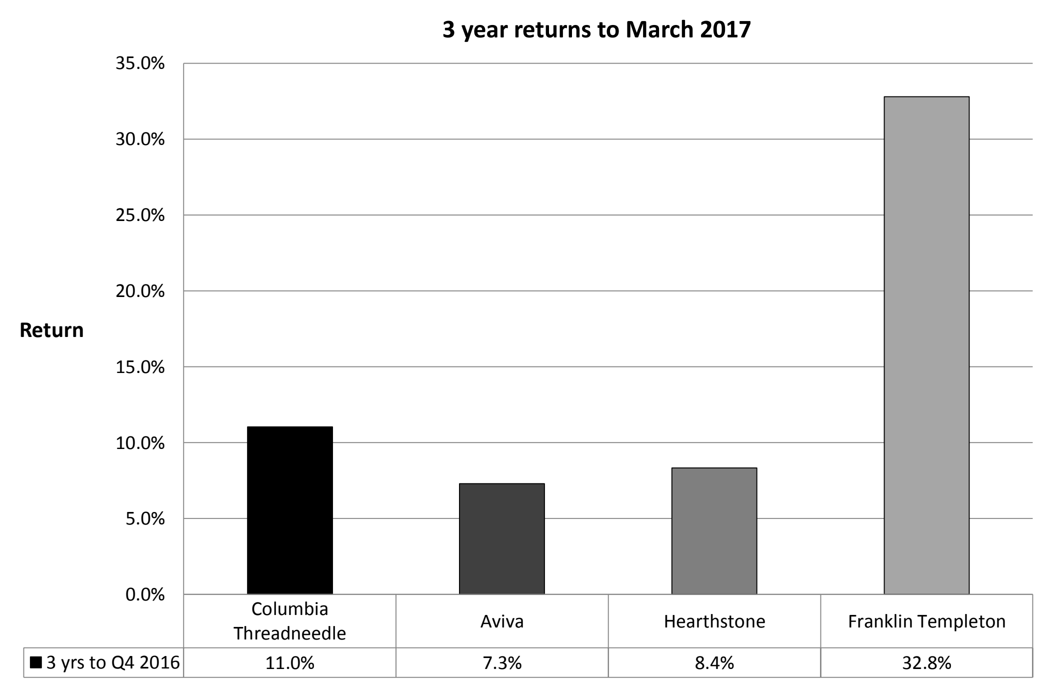
2.8. Franklin Templeton – Global Property Fund

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 +32.8% per annum over the three years to end March 2017, outperforming the absolute return benchmark by +22.8% 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 March 2017, Franklin Templeton continues to be 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, Columbia Threadneedle

Portfolio risk: Leverage on Fund 1 was 50% as at end March (down from 52% since end December 2016), with all funds showing leverage below 70%. Leverage on Fund 2 was 45% as at end March 2017, no change on the previous quarter.

Fund 1 is now beginning its distribution phase, in Fund 1, with 11 of the 14 investments making distributions in Q1. Three of the Fund's holdings are now fully or substantially realised.

Within Fund 1, three funds are substantially above target, four are above target, five are on target and two are below target.

Of the below-target funds, Sveafastigheter II sold the last asset in the Fund but the price was only 60% of the purchase price. Lotus Co-investment has now been realised and the manager is liquidating the holding entity.

Of the funds that are substantially above target, Project Redfish is a co-investment with Greenoak that will be dissolved in Q2. Greenoak real estate is fully invested and has already realised 14 assets. Secured Capital Japan V is still calling capital to buy an asset in Japan in the office sector, but most assets will be exited by the end of the year.

Of the five investments in Fund 2, one is above target, two are on target and two are 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. Fund 2 held its final close on 10th March 2017, with two new Limited Partners (LPs) committing funds, and an existing investor increasing their commitment.

Staff turnover/organisation: during the quarter, Franklin Templeton announced that Glen Uren, Managing Director of real estate, would be retiring in May, after 20 years at Franklin Templeton Real Asset Advisors. His responsibilities will be shared between Managing Directors Raymond Jacobs and Marc Weidner. Mat Gulley was appointed Head of Alternative Assets just after the quarter end. The real estate team will report into him.

Michel Lim was also appointed as investment manager in the real estate team in the UK. He will assist the European team in sourcing, underwriting, and monitoring of private real estate investments.

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +0.5% compared to the benchmark return of +2.3% for the quarter ending March 2017. Over three years, the Fund delivered a return of +8.4% p.a. compared to the benchmark return of +5.4% p.a., an outperformance of +3.0% 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.

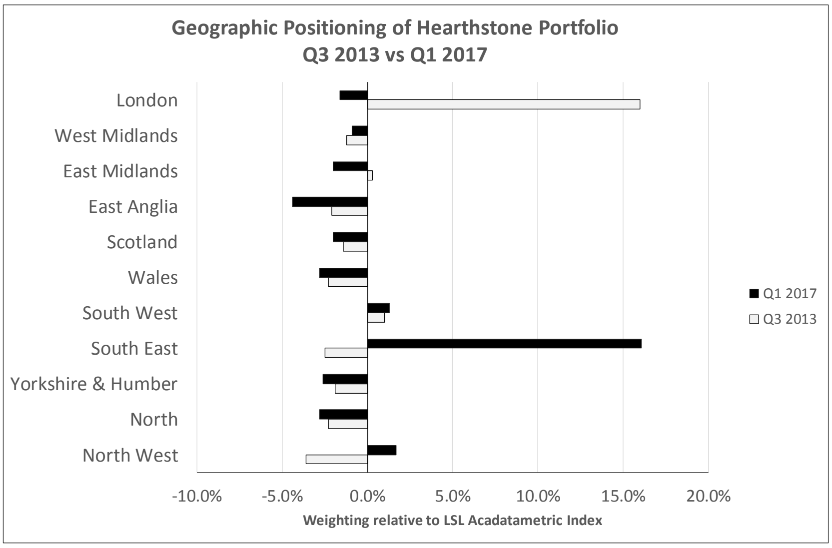
Performance attribution: The Fund returned +8.4% p.a. compared to the return on the index of +5.4% p.a. over the three years to March 2017, an outperformance of +3.0% p.a. The gross yield on the portfolio as at 31st March 2017 was 5.2%. Adjusting for voids, however, the gross yield on the portfolio falls to 4.9%.

Portfolio risk: The cash and liquid instruments on the fund stood at 18.4% as at end March 2017, slightly higher than the target level of 15%.

The regional allocation, shown in Chart 7 relative to the benchmark Index, continues to have a heavy overweighting to the South East. It remains Hearthstone's intention to run the portfolio on a region-neutral basis.

Chart 7 compares the regional bets in the portfolio in Q1 2017 with the regional bets at the start of the mandate, 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 a 15% allocation to detached houses, 51% allocated to flats, 22% in terraced accommodation and 12% 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).

As at end March 2017, the Fund stood at £52.7 million. London Borough of Islington's investment now represents 50% of the Fund. This compares with 72% at the start of this mandate in 2013.

Organisation and staff turnover: During the quarter, the Chairman, Jeff Pulsford, left the firm. He was replaced by Alan Collett. Alan is a past President of the Royal Institution of Chartered Surveyors, Deputy Chairman and Chairman of the Investment Committee at Hyde Housing Group, a member of the NHBC Council, and an Honorary Fellow of the University College of Estate Management.

David Gibbins, the Fund Manager, retired in Q1 2017. His role is being jointly covered by Alan Collett and by Mark Drysdale, who joined Hearthstone in Q1. Mark was a senior surveyor at DTZ, and an Investment Associate at RPS Capital Partners.

2.10. Schroder – Diversified Growth Fund (DGF)

Headline comments: The Diversified Growth Fund delivered a return of +2.5% in Q1 2017. This compared with the RPI plus 5% p.a. target return of +2.0% for Q1. Over one year, the Fund's return was +10.6%, compared to the target return of +8.1%, so it is ahead of the target over one year by +2.4%.

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 Q1 2017, Schroders' exposure to global equities again made the largest contribution to the portfolio return (+0.9%). This was followed by North American equities, European ex UK equities and Absolute return strategies (all contributing +0.4% each). The only negative contribution came from commodities (-0.1%).

Over 12 months, the largest contributor was again global equities (+4.0%) followed by North American equities (+1.5%). The negative detractors were Pacific ex Japan equities (-0.1%) and commodities (-0.5%).

The return on global equities was +16.1% for the 12-month period, compared with +10.6% for the Fund (a 66% capture of the equity return). 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 4.3% compared to a 12-month volatility of 9.5% in equities (i.e. 45% of the volatility of the Index).

Portfolio characteristics: The Fund had 39% in internally managed funds (up from 15% last quarter), 27% in internal bespoke solutions (down from 39% last quarter), 15% in externally managed funds, 7% in passive funds (down from 25%) and 11% in cash, as at end March 2017. In terms of asset class exposure, 46.5% was in equities, 29.0% was in alternatives and 13.0% 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 57 joiners and 27 leavers globally, with 49 joiners and 17 leavers in the UK business. There were no changes to the team responsible for the Diversified Growth Fund.

Karen Shackleton
Senior Adviser, Allenbridge
26th May 2017

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

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

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	12 June 2017		

Delete as appropriate	Exempt	Non-exempt

SUBJECT: The London CIV Update

1. Synopsis

1.1 This is a report informing the committee of the progress made at the London CIV in launching funds and running of portfolios over the period March 2017 to May 2017

2. Recommendations

2.1 To note the progress made to May 2017 .

2.2 To note the transfer of Newton global equity assets went ahead on 25 May

2.3 To note the proposal offered by Newton regarding credit accrued from performance fee.

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 Phase 1 launch that went ahead on 2 December.

3.5 **Progress to February 2017**
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 theirr 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 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 Bouroghs 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 , license fee, valuations automatically taken from the fund whilst the previous structure included these cost 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

3.5.2 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.

3.5.3 A Joint Commitees and Leaders meeting in February 2017agreed MTFS Budget and 2017/18 to 2022 and governance review to be completed in 2017.

3.6. **Update to May 2017**

i) Sub-funds available within the London CIV – Current funds available – 2 global equity funds, 4 multi-asset/total return funds.

a. LCIV Global Equity Alpha (management delegated to Allianz)
b. LCIV Global Alpha Growth (management delegate to Baillie Gifford)
c. LCIV BG DGF (direct investment into the Baillie Gifford Diversified Growth Fund)
d. LCIV NWT RR (direct investment into Newton Real Return Fund)
e. LCIV PY TR (direct investment into Pyrford Real Return Fund)
f. LCIV RF AR (direct investment into Ruffer Absolute Return Fund)

ii) Sub-Fund Launches May to September – Over the next 5 months, a further 6 sub-funds are scheduled for launch on the CIV platform, 3 under the CQC (Commonality, Quantum and Conviction) mechanism and a further 3 that have come from the global equity procurement process.

The 3 sub-fund launches scheduled under the CQC basis are:
a. Majedie UK Equity (18/05/17)
b. Newton Global Equity (22-05-17)
c. Longview Global Equity (17-07-17)

Additional global equity sub-fund launches following global equity procurement, one in July and two in September:
a. Henderson Emerging Markets (17-07-17)
b. Epoch Global Equity Income (09/17)
c. RBC Sustainable Equity (09/17)

iii) A global equity information was held on 11th May . Thisl provided Funds the opportunity to meet with Longview, Henderson, Epoch and RBC. Both Newton and Majedie.

iv) **Fixed Income and Cashflow Strategies** – Work continues with the Fixed Income working group to consider options for the launch of dedicated funds in this area later in the 2017/18 financial year. The agreed business plan would suggest that two fixed income and cashflow generating sub-funds will be launched in the first quarter of 2018

v) Government Pooling Update – Following the approval for the London CIV, like other pools, the CIV has been asked to submit a semi-annual progress update on pooling and this was submitted to DCLG on Friday 21st April with a copy of the response sent to all Funds. It is copied here in Appendix 4 along with the DCLG request for information.

vii) Stewardship – Following agreement by the PSJC and Board of LCIV, the Compliance Statement for the Stewardship Code was submitted to the FRC for consideration and has now been approved as a Tier One for Asset Owners. A copy of the Statement can be found here: https://www.frc.org.uk/FRC-Documents/Corporate-Governance/Stewardship-Code/London-CIV.pdf

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3.7 **CIV Financial Implications- Implementation and running cost**

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. All sub-funds pay a management fee of .050% of AUM to the London CIV in addition to managers fees. In April 2017 a service charge of 50k (+VAT) development funding was invoiced and a balance of £25k will be raised in December once the Joint Committee has reviewed the in-year budget. Members agreed to the 0.005% of AUM option for charging fees on the LGIM passive funds that are held outside of the CIV and agreed that (depending on the outcome of discussions) the same will be applied to BlackRock passive funds.
The Newton transition cost the council 32k.

3.8 **Newton's proposal credit post transfer to the London CIV platform**

Member's agreed to transfer to the London CIV platform in March 2017 and this was implemented on 25 May. As a result of this transfer the old agreement on performance fees was crystallized for all three participating boroughs. The side letter proposed by Newton is to net any credit calculated as at 22 May against future performance fee until spent or until the mandate is terminated. Islington's estimated credit is £1.3m. Members are asked to note this proposal.

4. Implications

4.1 **Financial implications:**

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

4.2 **Legal Implications:**

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

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

4.3 **Environmental Implications:**

4.3.1 None specific to this report

4.4 **Resident Impact Assessment:**

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

An equalities impact assessment has not been conducted because this report is 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. Members are asked to note progress made to May 2017.

Background papers:
Final report clearance:

Signed by:

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

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ISLINGTON

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

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	12 June 2017		n/a

Delete as appropriate		Non-exempt

SUBJECT: PENSIONS SUB-COMMITTEE 2017/18– FORWARD PLAN

1. Synopsis

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

2. Recommendation

2.1 To consider and note Appendix A attached.

3. Background

3.1 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.

3.2 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**

None applicable to this report

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

.

5. Conclusion and reasons for recommendation

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

Background papers:
None

Final report clearance:

Signed by:

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

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APPENDIX A

Pensions Sub-Committee Forward Plan for June 2017 March 2018

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
12 June	Investment strategy update Business plan update Independent investment advisor appointment
5 September	Engagement policy development Presentation from PIRC/Shareacion/LAPFF
16 October	AGM
21 November	
5 March	

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

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