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ISLINGTON

Governance and Human Resources
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 **5 September 2017 at 7.30 pm.**

Yinka Owa
Director of Law and Governance

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Despatched	:	23 August 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 - 6

B. Non-exempt items

1.	Pension Fund performance from 1 April to 30 June 2017	7 - 14
a.	Presentation from AllenbridgeEPIC Investment Advisers on quarterly performance	15 - 30
2.	Investment Strategy update	31 - 34

C. Urgent non-exempt items

Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

D. Exclusion of press and public

To consider whether, in view of the nature of the remaining items on the agenda, any of them are likely to involve the disclosure of exempt or confidential information within the terms of Schedule 12A of the Local Government Act 1972 and, if so, whether to exclude the press and public during discussion thereof.

E. Confidential/exempt items

F. Urgent exempt items

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

The next meeting of the Pensions Sub Committee is scheduled for 21 November 2017

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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:

Agenda Item	Title	Reason for Exemption
E1	Independent investment adviser appointment - exempt appendix	Category 3 – 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

ISLINGTON

Resources Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	5 September 2017		

Delete as appropriate	~~Exempt~~	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 APRIL TO 30 JUNE 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 April to June 2017 as per BNY Mellon interactive performance report

2.2 To receive the presentation by Allenbridge Investment Advisers, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.

2.3 To agree to delegate responsibility to the Corporate Director of Resources in consultation with the Chair of the Sub Committee to implement if required an appropriate insurance mechanism to protect the pension fund's current high funding level.

3. Fund Managers Performance for April to June 2017

3.1 The fund managers' latest quarter net performance figures compared to the benchmark is shown in the table below

Fund	Asset	Mandate	Latest Quarter	12 Months to June

Managers	Allocation		Performance (Apr-June) Gross of fees		2017 Performance Gross of fees	
			Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	13%	UK equities	0.82%	1.42%	17.0%	18.1%
London CIV Allianz	8%	Global equities	3.86%	0.32%	24.9%	22.3%
LCIV -Newton	15%	Global equities	1.6%	0.5%	16.1%	23.1%
Legal & General	13%	Global equities	-0.76%	0.24%	26.6%	24.2%
Standard Life	19%	Corporate bonds	0.93%	0.47%	6.8%	5.4%
Aviva (1)	5%	UK property	1.96%	-1.6% 2.5%	7.24%	-1.03% 5.07%
Columbia Threadneedle Investments (TPEN)	6%	UK commercial property	1.7%	2.3%	11.2%	6.0%
Hearthstone	2%	UK residential property	1.9%	2.5%	3.7%	5.07%
Schroders	9.5	Diversified Growth Fund	0.93%	2.3%	8.7%	8.5%

(-1.6% and -1.0% = original Gilts benchmark; 2.5% and 5.07% 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 June 2017 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to June 2017 Performance Gross of fees	
Combined Fund Performance ex-hedge	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	1.68	0.9	14.0%	12.6%

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

3.5 **Total Fund Position and Protection**

The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years period to June 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	13.6%	8.5%	10.2%

3.5.1 As at June 2017, the value of the fund was £1.29bn compared to the March 2016 position of £1.07bn. This will translate to a funding level of around 90% compared to 78% at the 2016 actuarial valuation. The improvement in funding level is mainly due to growth of assets versus expected returns. This increase is attributed to the rally in equity markets over the period and one cannot predict the future.

3.5.2 Officers have had initial discussions with the fund actuary to consider using an equity protection strategy to reduce the likelihood that further deficit contributions will be required at 2019 valuation compared to current levels and seek to bank the recent upside in asset valuations.

3.5.3 Options to consider could include

(i) De-risking the whole portfolio by moving funds from equities to other classes
(ii) Purchase an option to protect against market falls
(iii) Purchase an option to protect against downside losses to a point and participate in the upside to a certain level

3.5.4 Further work will have to be undertaken to determine the optimal structure for the Fund within the current manager framework, and implementation of an equity protection strategy in a short timeframe as well as cost implications once Members agree.

3.5.5 In the interest of time and resources, Members are asked to agree to delegate responsibility to Director Resources in consultation with the Chair of the Sub Committee to commence the process of implementing if required, an appropriate insurance mechanism to protect the pension fund's current high funding level.

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 have 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 3.9% against a benchmark of 0.3%. Since inception with the London CIV in December 2015, there is a relative over performance of 1.64%. The main drivers were stock selection and sector weight positions and country allocation in Information Technology, Financials, and Consumer Staples sectors. Underweight in Energy was also a positive.

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. There has been amendments to the mandate the latest being a transfer to the London CIV platform.

3.7.2 The inception date for the LCIV NW Global Equity Fund was 22 May 2017. The new benchmark is the MSCI All Country World Index Total return. The outperformance target is MSCI All Country Index +1.5% per annum net of fees over rolling three year periods.

3.7.3 The fund over performed by returning 1.6% gross of fees against a benchmark of 0.5% for the June quarter. Since inception the fund has delivered an absolute return of 12.8% but relative under performance of -0.3% gross of fees per annum

3.7.4 The performance this quarter was driven mainly by stock selection in consumer services and health care sectors, while stocks in industrials was a drag. The transition cost incurred was 32k.

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 has now been mapped out with sales and purchases of stocks required to match the new index.

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 June quarter, the fund returned 0.9% against a benchmark of 0.5% and an absolute return of 7.8% per annum since inception.

3.9.2 The main driver behind the over performance in this quarter was positive asset allocation with overweight positions in banks and underweight exposure to supranationals

3.9.3 The forward strategy is to pare back on lower rated bonds where spread picks no longer provides adequate compensation. Liquidity is being held in cash and gilts to take advantage of any upcoming opportunities. High yield holdings continue to be in financials.
The merger with Aberdeen Investment is now complete and the new organisation is Aberdeen Standard Investment.

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 1.96% against a gilt benchmark of -1.6%. The All Property IPD benchmark returned 2.5% for this quarter. Since inception the fund has delivered an absolute return of 6.68% net of fees.

3.10.3 This June quarter the fund's unexpired average lease term is now 19.1years. Lime fund is well positioned to deliver attractive returns over the medium term.

3.10.4 The fund also has £565m of investor cash (£161m newly signed subscriptions in the June quarter.) The current queue period to invest is around 18months. As agreed our fund has now committed £50m to the Lime Fund.

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 June was £73.9million.

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 1.7% against its benchmark of 2.3% for the June quarter and a one year underperformance of -2.4%. The cash balance now stands at 10.8% and with post Brexit uncertainties, will continue to adopt a conservative cash management strategy but is forecast to reach 8.5% by the third quarter. During the quarter there were 6 acquisitions totalling £66.7m and disposals of £11.5m. 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 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 June quarter, the hedged overseas equities were valued at £7m

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 $1m to bring the total distribution received to $41.8m

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 $11.2m and a distribution of $2.5m.

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 -0.7% gross of fees for the quarter. The 3 -year absolute return is 10.9% and 6.5% gross of fees since inception.

3.14.2 The funding of BMO (our emerging market manager and restructuring of fund to the MSCI World low carbon was completed on 3rd July over 7 weeks at a cost of £232k. The components of the new mandate as at the end of June was £138m benchmarked against MSCI World Low Carbon Index and £28m benchmarked against RAFI emerging markets.

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

For the June quarter the value of the fund investment was £27m and total funds under

management is £54million. Performance net of fees was 1.9% compared to the LSL benchmark of
3.15.2 -0.78%.
The income yield after cost was 3.5%. The portfolio has 183 properties (15 have been sold from the 198), 9 are let on licence and leaseback agreement to house builders and 166 properties let on assured short term agreements.

There are 8 vacant properties, 2 of which have just been purchased, 1 sold subject to contract 7 being marketed for rent.

3.15.3

3.16 **Schroders-**

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

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

3.16.2 This is the eighth quarter since funding and the value of the portfolio is now £123m including an additional cash injection of £15m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The June quarter performance before fees was 0.9% against the benchmark of 2.3% (inflation+5%). The one -year performance is 8.7% against benchmark of 8.5% 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 resident 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 June 2017as part of the regular monitoring of fund performance and delegate responsibility to the Director of Resources in consultation with the Chair to implement if required an appropriate insurance mechanism to protect the pension fund's current high funding level.

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 of Resources Date

Received by:

Report Author: Joana Marfoh
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REPORT PREPARED FOR

London Borough of Islington Pension Fund

August 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.	Outperformed in the quarter to June 2017, by +3.5%. Now outperforming by +0.9% p.a. over 3 years to end June 2017 but still behind the target of +2.0% p.a. and still trailing the index since inception.	London CIV sub fund had £691 million of assets under management as at end June 2017, an increase of £24 million since end March.		
Newton	Monitored by London CIV – no changes reported. On 10th August Newton announced a new management structure. Curt Custard appointed CIO.	Outperformed the Index by +1.1% in the quarter and but underperformed -6.9% over one year. Behind the benchmark over three years by -0.4% per annum and by -0.3% per annum since inception.	London CIV sub fund had £659 million of assets under management as at end June 2017.	Transitioned onto the London CIV during the quarter.	
Standard Life	15 joiners including two fixed income analysts and 7 leavers (none from fixed income).	Outperformed the Index by +0.5% in Q2 2017. Over three years the Fund is +0.4% p.a. ahead of the benchmark return but behind the performance target of +0.8% p.a.	Fund value fell to £3,525 million in Q2 2017, a fall of £522 million. Islington's holding rose to 7.0% of the Fund's value.		The merger between Standard Life and Aberdeen Asset Management has now been sanctioned at the Court of Session in Edinburgh.

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Aviva	8 joiners in the real estate team, of whom three were investment professionals. Two departures. No changes to the Lime Fund team.	Outperformed the gilt benchmark by +3.6% for the quarter to June 2017 and by +8.3% over 12 months. Still trailing the gilt benchmark by -2.3% p.a. over three years, however.	Fund was valued at £1.93 billion as at end Q2 2017. London Borough of Islington owns 3.2% of the Fund.		London Borough of Islington joined a queue of new money waiting to be invested on 13 July for their additional allocation. Aviva expect this to take 18 months to be drawn down.
Columbia Thread-needle	Two leavers in equities, and one joiner in the responsible investment team during the quarter.	Behind the benchmark return by -0.6% in Q2. Ahead of the benchmark by +0.3% per annum over three years but trailing the performance target of 1% p.a. outperformance.	Pooled fund has assets of £1.80 billion. London Borough of Islington owns 4.3% of the fund.		
Legal and General	Not reported.	Funds are all tracking as expected. Emerging markets RAFI fund has outperformed market cap fund by 3.5% in past 12 months.	Assets under management of £957 billion at end June 2017.		
Franklin Templeton	Glenn Uren, Managing Director retired on 1st May. No other staff changes.	Portfolio return over three years was +25.5% p.a., well ahead of the target of 10% p.a.			

Manager	Leavers, joiners and departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Hearth-stone	Two joiners on business development side.	Outperformed the benchmark by +2.5% p.a. over three years to end June 2017.	Fund was valued at £54.1 m at end Q2 2017. London Borough of Islington owns 50% of the fund.		
Schroders	48 joiners and 50 leavers in the UK business but no changes to the DGF team.	Fund returned +0.9% during the quarter and +8.7% over 12 months, +0.2% ahead of the target return.	Total AUM of £418.2 billion as at end June 2017.		

Key to shading in Table 1:

Minor concern

Monitoring required

2. Individual Manager Reviews

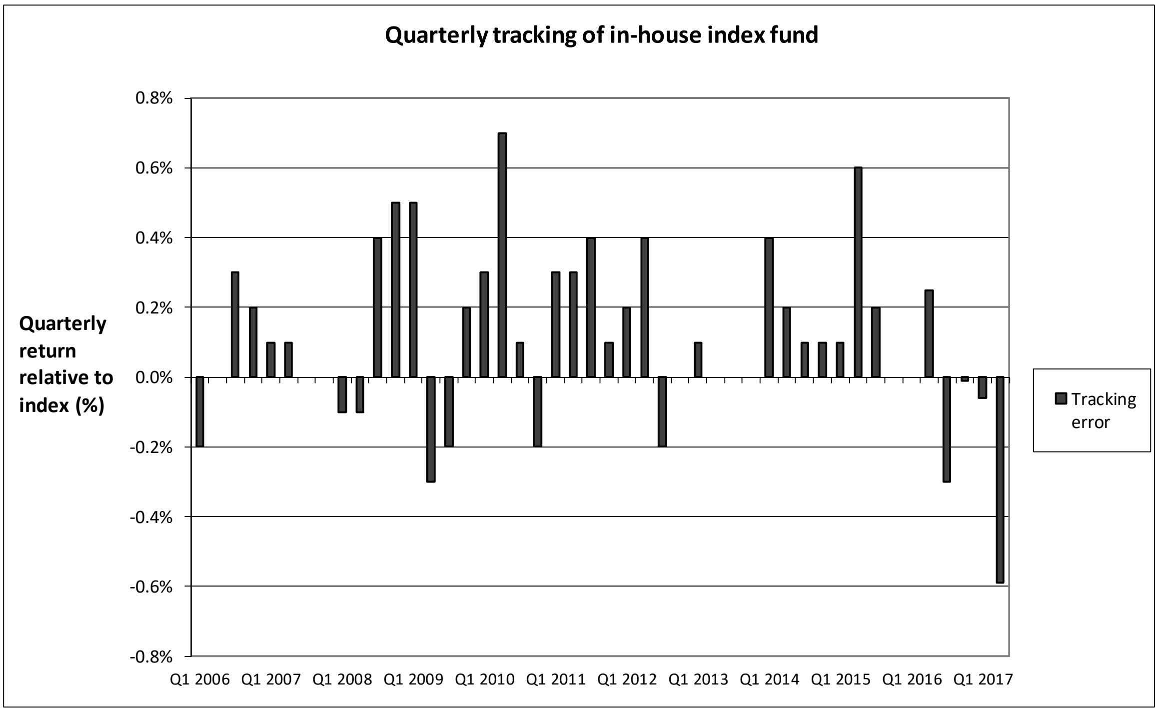
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

Headline comments: The portfolio continues to meet its objectives. The fund delivered a quarterly return of +0.8%, which was behind the index benchmark return of +1.4%. Over three years the fund has outperformed the index by +0.2% p.a. and delivered a return of +7.6% per annum.

Mandate summary: A UK equity index fund designed to match the total return on the UK FTSE All Share Index. This will be transitioning to a fund tracking the MSCI Low Carbon Target Index in Q3. 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 +0.2% per annum.

Chart 1



Source: Allenbridge based on BNY Mellon performance calculations

Portfolio risk: The index fund will be transitioning into a low carbon passive portfolio in Q3. This will be implemented in two tranches totalling £25 million. As at quarter end, the portfolio had a tracking error of 0.61% against the MSCI Low Carbon Target Index and a tracking error of 0.37% against the FTSE All Share Index. No trading has been undertaken on the fund since the decision to convert to a low carbon alternative, which is why the tracking on the fund was larger in Q2 than has been seen historically.

After the rebalancing has been implemented, the manager expects the portfolio to be fully tracking the MSCI Low Carbon Target Index with a tracking error of 0.19%.

2.2. London CIV – Global Equity Alpha Fund – Allianz

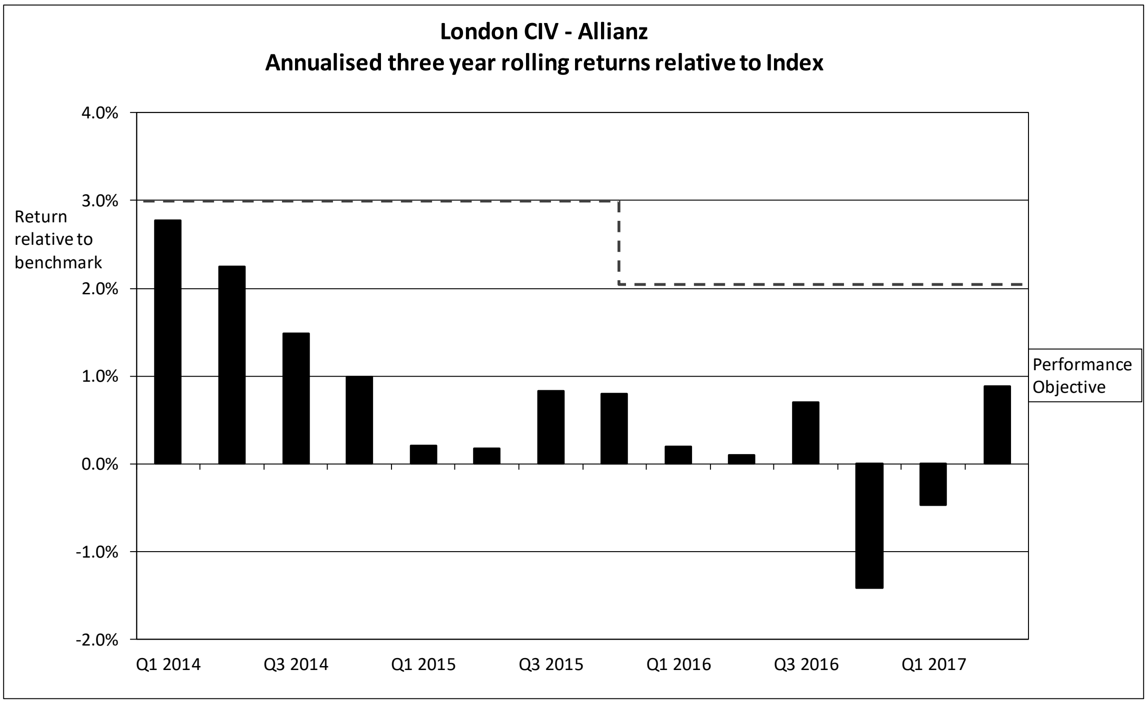
Headline comments: The London CIV – Allianz sub fund delivered a second quarter of outperformance in Q2 2017. The fund delivered a return of +3.9% against the benchmark return of +0.3% in Q2, an outperformance of +3.5%. This helped the three-year numbers, which mean the fund is now outperforming the benchmark by +0.9% per annum but it 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 June 2017, the AllianzGI portfolio is ahead of its benchmark by +0.8% per annum, but 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 Q2 was attributed by the London CIV to strong stock selection in Information Technology (which added +1.3%), Financials (+0.9%) and Consumer Staples (+0.2%). The underweight in Energy also had a positive impact, contributing +0.45% to the relative return, as did stock selection in the US and the overweight allocation to China.

Chart 2



Source: Allenbridge based on BNY Mellon performance data

Portfolio Risk: The largest overweight regional allocation remained European Equities (+8.3% overweight). The most underweight allocation was Japan Equities (-6.1% underweight). In terms of sector bets, the most overweight allocation was in Information Technology (+10.5% overweight). Energy was the most underweight sector (-4.7%). Both these positions have now been in place since Q1 2016.

Portfolio Characteristics: as at end Q2 2017, the portfolio held 49 stocks, compared to 50 last quarter. The portfolio has a beta of 0.99 so is broadly neutral relative to the market.

2.3. Newton – Global Active Equities

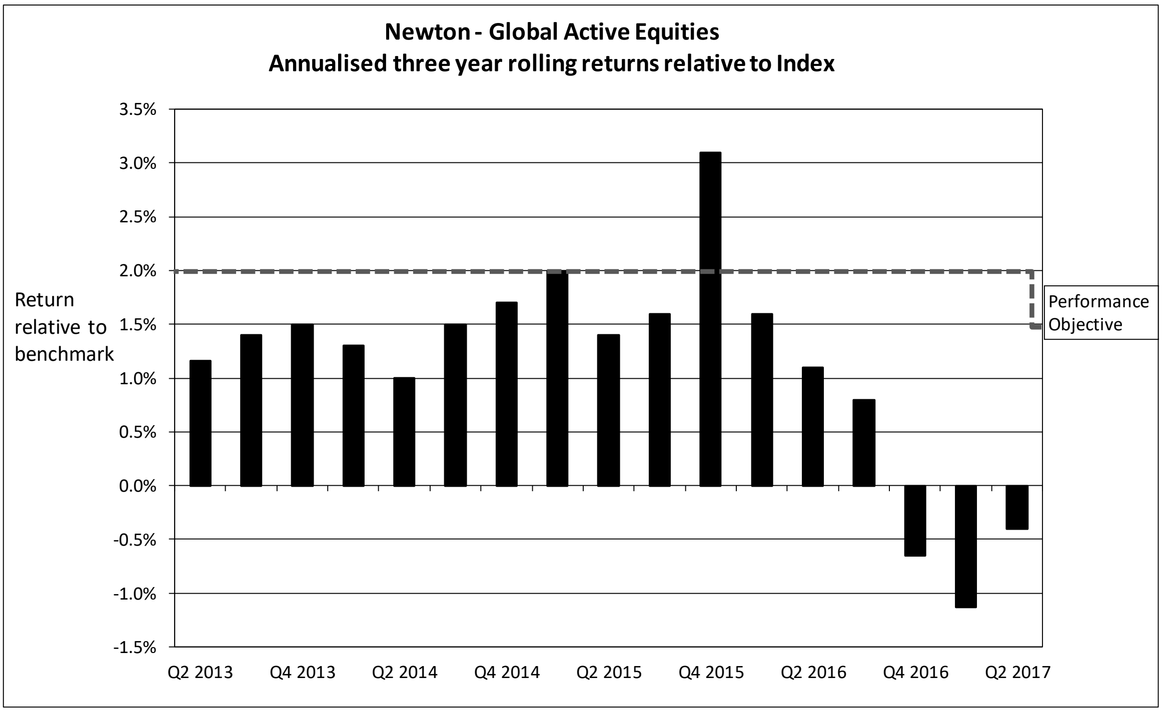
Headline comments: Newton outperformed their benchmark by +1.1% during Q2 2017, but recent underperformance before this meant that the one-year figures are still trailing the benchmark by -6.9%. Over three years the portfolio has underperformed the benchmark by -0.4% per annum, behind the target of +2% p.a. On 22nd May the London CIV sub-fund for Newton began trading, so London Borough of Islington's assets with this manager have now been transferred across to the London pool. **Note that this sub fund has a lower performance target and aims to outperform by +1.5% per annum over three years, compared with +2.0% previously.** This will be reflected in next quarter's chart.

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 since 22nd

May 2017 is to outperform the FTSE All World Index **by +1.5% 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 Q2 2017, the fund (shown by the right hand black bar) has trailed the benchmark by -0.4% 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 performance over the past 12-18 months. The portfolio has underperformed the benchmark by -6.9% for the 12 months to June 2017.

The underperformance over three years can mostly be attributed to poor stock selection which detracted -0.8% p.a., partially offset by successful asset allocation which added +0.3% per annum.

Since the inception of Newton's portfolio in November 2008, the fund is now trailing its benchmark by -0.29% per annum. Newton's 'since inception' return is +12.8% per annum, compared to the benchmark return at 13.1% per annum *(source: Bank of New York, gross of fees performance)*. This means that a passive portfolio would have outperformed the Newton portfolio during this time.

London CIV attributed the poor relative performance in the quarter to June primarily to poor stock selection in Industrials and Consumer Staples. Stock selection in these two sectors detracted -0.5%. This was exacerbated in Consumer Staples by the allocation to the sector which detracted a further -0.2%. Healthcare, having previously detracted from relative returns, added +0.3% this quarter, with stocks such as Teva doing well (+0.2%

contribution in Q2 although the stock has fallen heavily since quarter end), but unfortunately the overall portfolio relative return was negative.

Portfolio Risk: The largest overweight regional allocation was in UK Equities (+5.6% overweight). The most underweight allocation was Pacific ex Japan Equities (-1.9%). The cash holding stood at 0.5% as at end Q2.

In terms of sector bets, Newton remained most overweight in Consumer Services (+9.6% relative to benchmark.) The most underweight sector remained in Financials (-6.4%) although the underweight position, which has been in place since Q2 2009, was reduced somewhat during the quarter, having stood at 11.1% at the end of Q1 2017.

Portfolio characteristics: At the end of Q2 2017, the London CIV sub fund's assets under management stood at £659 million. London Borough of Islington's holding represents 29.1% of the Fund.

Staff turnover: After the quarter end, Newton announced a new management structure. Curt Custard has been appointed Chief Investment Officer from 14th August 2017, overseeing the investment team and the investment process. Prior to joining Newton, he was Head of Global Investment Solutions at UBS Asset Management. The current Global Head of Distribution, Julian Lyne, has taken on the role of Chief Commercial Officer, with responsibility for new business and client relationships. There were no changes to the Chief Operating Officer (Andrew Downs) and Chief Risk Officer (James Helby).

2.4. Standard Life – Fixed Income

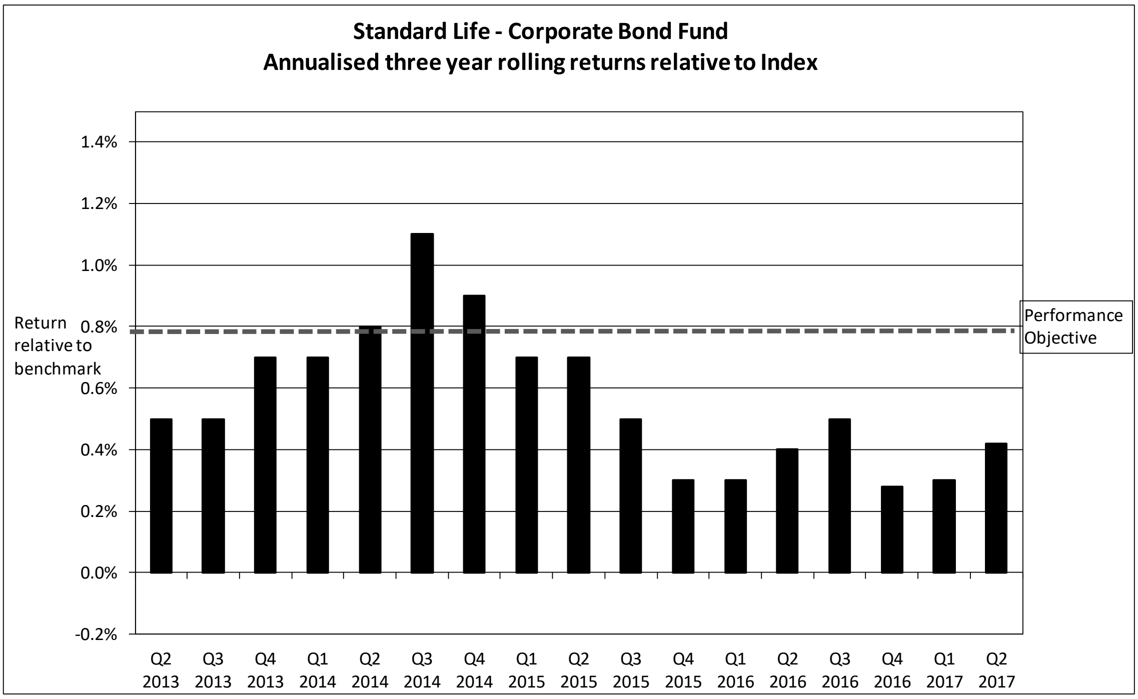
Headline comments: The portfolio was ahead of the benchmark by +0.5% during the quarter, delivering a positive absolute return of +0.9%. Over three years, Standard Life's return was +0.4% p.a. ahead of the benchmark return of +7.0% p.a., but behind the performance target of +0.8% per annum.

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 +7.3% p.a. compared to the benchmark return of +7.0% p.a. Over the past three years, stock selection has added 0.4% value, followed by asset allocation (+0.2%). 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 (0.8% of the portfolio, reduced from 1.4% last quarter). The largest overweight sector position remained Financials (+9.1%) and the largest underweight position remained sovereigns and sub-sovereigns (-15.1%).

The fund holds 3.4% of the portfolio in non-investment grade bonds.

Portfolio characteristics: The value of Standard Life's total pooled fund at end June 2017 saw a significant fall in value to £3,525.4 million, £521.8 million lower than at the end of Q4 2016. As a consequence of this, London Borough of Islington's holding of £246.7 million rose to 7.0% of the total fund value (compared to 6.0% last quarter).

Staff turnover: there were 15 joiners and 7 leavers during the quarter. Two joiners will be in the fixed income team (Jacob Thomas and Aash Shah have joined as analysts).

Organisation: On 4th March 2017, Standard Life plc and Aberdeen Asset Management plc announced their intentions to merge, bringing their total assets under management to £581 billion. This merger has now been approved by the relevant authorities, and with effect from 14th August the new company will be known as Aberdeen Standard Investments.

As previously mentioned, with any corporate merger of this type, a closer level of due diligence monitoring is recommended during the transitionary period of the merger, particularly if staff departures begin to emerge.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: Whilst gilts continued to swing from negative (Q4) to positive (Q1) and back to negative (Q2) territory, the Lime Fund has continued to deliver steady returns. The Fund delivered a return of +2.0%, compared with the benchmark which returned -1.6%. Over three years, the fund is trailing the gilt benchmark by -2.3% p.a. Note that the new allocation to the Lime Fund is expected to take 18 months before it is invested.

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 Q2 2017 return of +2.0% was attributed by Aviva to 1.1% from income, with the balance from capital gains.

Over three years, the fund has returned +6.8% p.a. compared to the gilt benchmark of +9.1% p.a., an underperformance of -2.3% per annum. The **portfolio is trailing its performance objective of +1.5% per annum outperformance over three years**.

Of the +6.8% p.a. fund return over three years, 4.7% p.a. came from income, with the balance from capital gain.

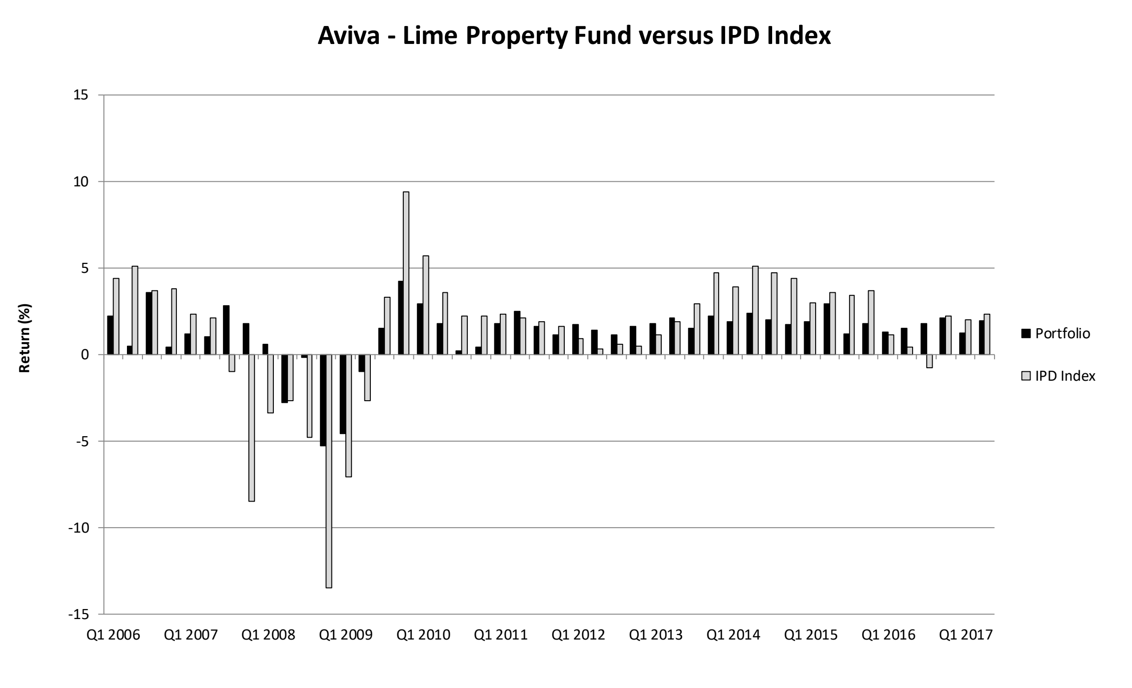
Portfolio risk: There was no turnover on the portfolio this quarter. The average unexpired lease term was 19.1 years as at end June. 8% of the portfolio's lease exposure in properties is in 30-35 year leases, the largest sector exposure remains offices at 29.2%, and the number of assets in the portfolio remains at 72. The weighted average unsecured credit rating of the Lime Fund was A- as at end June 2017.

Following the tragic events at Grenfell Tower, Aviva have reviewed fire risk across their entire portfolio. They state that "all buildings across Aviva Investors managed funds are compliant with government fire safety regulations. In addition, the vast majority of our residential buildings are less than 15 years old, therefore complying with strict modern regulation standards. Furthermore, we have relatively limited exposure to social housing." A fire risk assessment property group has been set up to assess the level of exposure in the underlying investments, to inspect higher risk properties, and to upgrade the fire risk policy.

The Lime Fund continues to see a flow of new capital joining the investment queue for the Fund. On 13th July, just after quarter end, London Borough of Islington increased the allocation to the Lime Fund, joining the existing queue of new money waiting to be invested. Aviva expects this to take 18 months to be drawn down (i.e. January 2019).

The low volatility of the Lime Fund is shown in Chart 5. The portfolio is shown by the black bars, compared to the more volatile IPD Index, shown by the light grey bars.

Chart 5



Source: Allenbridge based on WM and BNY Mellon performance data

Portfolio characteristics: As at end June 2017, the Lime Fund was valued at £1.926 billion, an increase of £80.1 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 June 2017.

Staff turnover/organisation: There were two leavers from the real estate team and eight joiners during Q2. Three of the new joiners were investment professionals. However, there were no changes to the Lime Property Fund team.

Louise Kay appointed as Global Head of Distribution and Client Relations, replacing Mike Craston on the Executive Committee. Louise joined Aviva in 2015. Mike Craston formally stepped down from the Aviva Investors Executive team on 30th June 2017.

2.6. Columbia Threadneedle - Pooled Property Fund

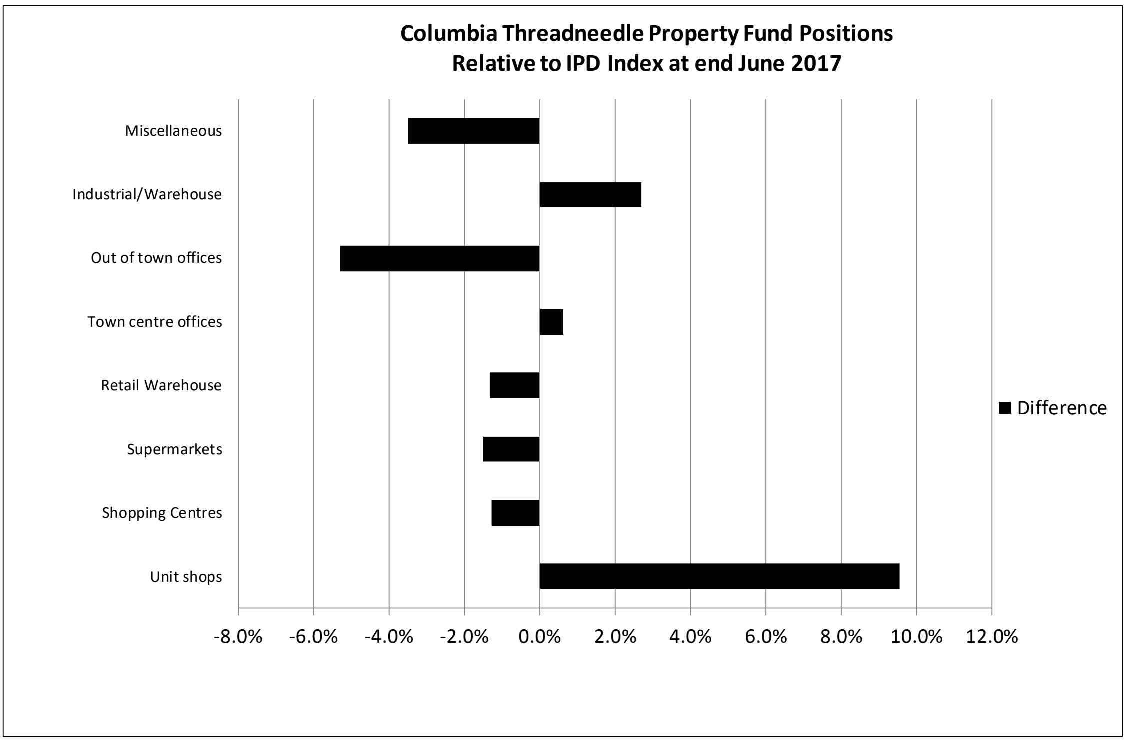
Headline comments: The Fund delivered a return of +1.7% in Q2 2017, behind the benchmark return of +2.3%. Over three years, the Fund has outperformed the benchmark by +0.3% per annum, slightly behind the performance target of 1% p.a. above benchmark.

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 underperformed the benchmark by -0.6% in Q2 2017, delivering a return of +1.7%. Over three years, the Fund is ahead of its benchmark by +0.3% per annum but is trailing the performance target of +1% per annum. The absolute return over three years continues to decline.

Portfolio Risk: Chart 6 shows the relative positioning of the Fund compared with the benchmark.

Chart 6



Source: Allenbridge based on Columbia Threadneedle data.

As previously mentioned, 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.

During the quarter, the Fund invested in six assets totalling £65.7 million and sold nine retail assets worth £11.4 million. The sales decreased the Fund's exposure to the high street retail sub-sector.

Portfolio characteristics: As at 30th June 2017, the Threadneedle Property Fund was valued at £1.805 billion, an increase of £76.0 million compared with March 2017. London Borough of Islington's investment represented 4.3% of the Fund as at end March 2017.

Staff turnover: Bernard Lim, a portfolio manager in Asia Pacific equities, and Andrew Harvie, from the global equity team, left the firm in Q2. Chris Anker joined as a Senior Analyst in the responsible investment team.

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

Headline comments: The index funds were within the expected tracking range when compared with their respective benchmarks. At the end of the quarter, the regional market-capitalisation weighted index funds transitioned into the MSCI World Low Carbon index fund, bringing the total quarterly dealing costs (but not including market impact) to £316,291.

Mandate summary: Following a change in mandate in June 2017, the Fund now invests in two of LGIM's index funds: one is designed to match the total return on the FTSE-RAFI Emerging Markets Equity Index; the second is designed to match the total return on the MSCI World Low Carbon Target Index. The MSCI World Low Carbon Target is based on capitalisation weights but tilting away from companies with a high carbon footprint. The FTSE-RAFI Index is based on fundamental factors.

Performance attribution: The regional portfolios were still in place during the quarter and these all tracked their benchmarks as expected, as shown in Table 2.

Table 2

Q2 2017	Fund	Index	Tracking
Europe	4.8%	4.8%	0.0%
Asia Pacific ex Japan	0.3%	0.3%	0.0%
FTSE emerging markets	0.2%	0.2%	0.0%
RAFI emerging markets	-4.0%	-3.9%	-0.1%

Source: LGIM

The RAFI emerging markets index fund underperformed the market capitalisation index by -4.1% in Q2. This has somewhat eroded the positive performance differential that had been experienced since Q1 2016. For the 12-month period, the RAFI index fund outperformed the market capitalisation weighted fund by +3.1%, compared to +17.0% for the 12-month period to Q1 2017. Since the inception of the RAFI fund, it has now underperformed by -0.4% per annum.

Portfolio Risk: The tracking errors are all within expected ranges. The new allocation of the portfolio, as at quarter end, was 83.2% to the MSCI World Low Carbon Target index fund, and 16.8% allocated to the FTSE RAFI index fund.

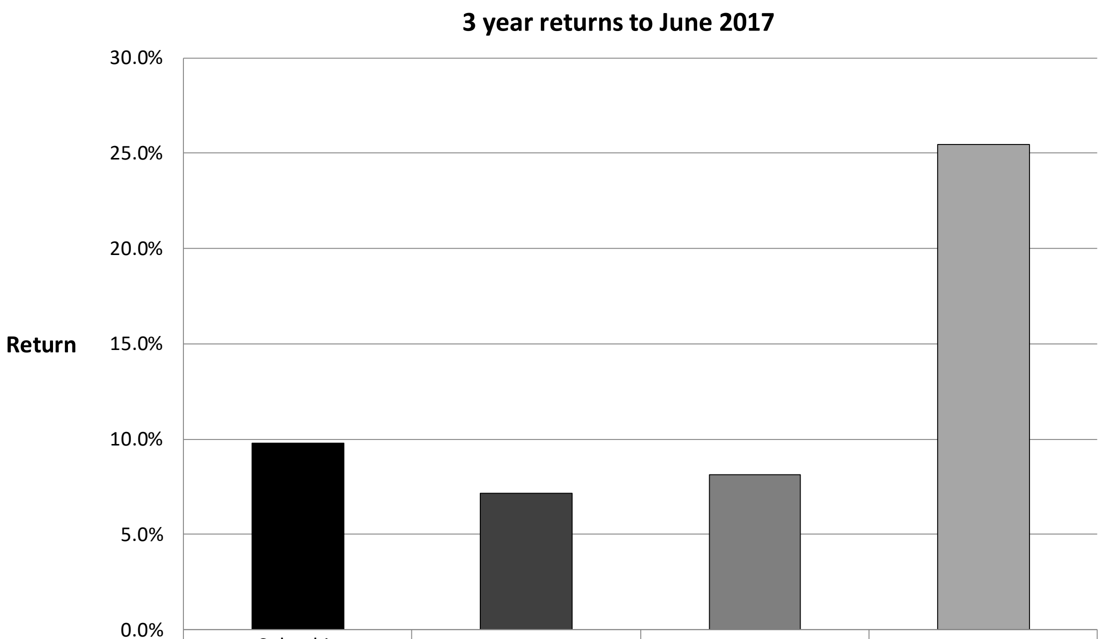
2.8. Franklin Templeton – Global Property Fund

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. The portfolio in aggregate delivered a return of +25.5% per annum over the three years to end June 2017, outperforming the absolute return benchmark of 10% per annum by +15.5% p.a.

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 June 2017, Franklin Templeton continues to be the best performing fund across all four property managers. Chart 7 compares their annualised three-year performance, net of fees.

Chart 7



	Columbia Threadneedle	Aviva	Hearthstone	Franklin Templeton
3 yrs to Q2 2017	9.8%	7.1%	8.1%	25.5%

Source: BNY Mellon, Columbia Threadneedle

Staff turnover/organisation: Glenn Uren, Managing Director of real estate, Glenn Uren, Managing Director retired on 1st May after 20 years at Franklin Templeton Real Asset Advisors. His responsibilities are being shared between Managing Directors Raymond Jacobs and Marc Weidner.

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +1.9% compared to the benchmark return of +2.5% for the quarter ending June 2017. Over three years, the Fund delivered a return of +8.0% p.a. compared to the benchmark return of +5.5% p.a., an outperformance of +2.5% 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.

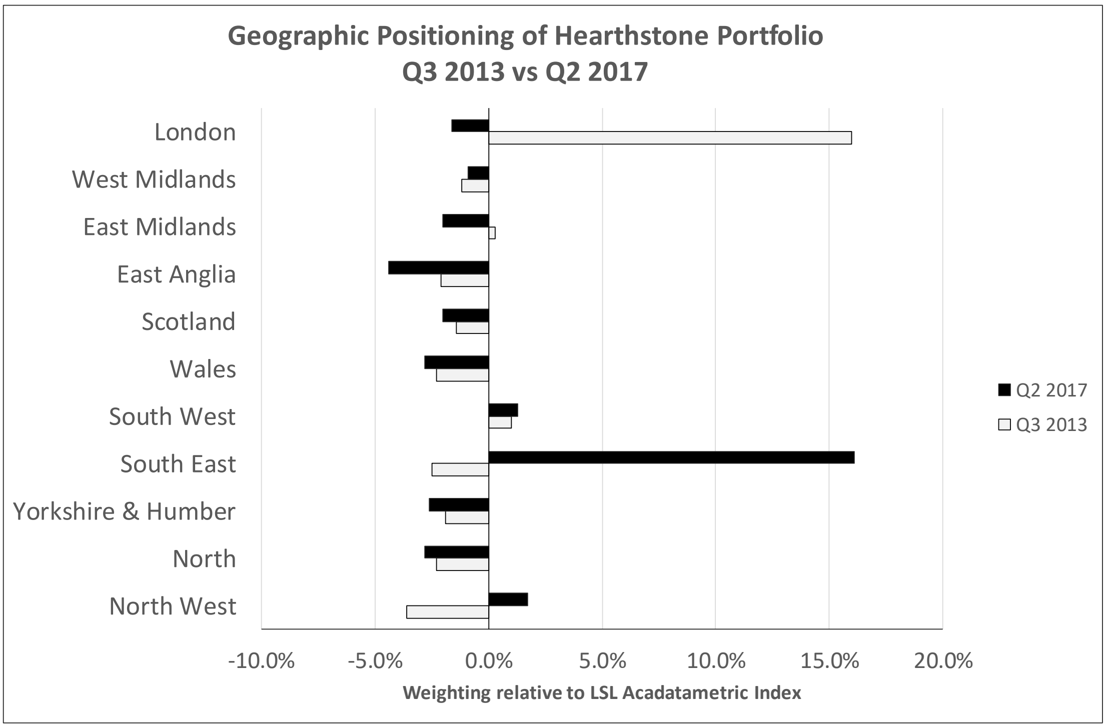
Performance attribution: The Fund returned +8.0% p.a. compared to the return on the index of +5.4% p.a. over the three years to June 2017, an outperformance of +2.5% p.a. The gross yield on the portfolio as at 30th June 2017 was 5.1%. Adjusting for voids, however, the gross yield on the portfolio falls to 4.8%.

Portfolio risk: The cash and liquid instruments on the fund stood at 14.4% as at end June 2017, broadly in line with 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 long term intention to run the portfolio on a region-neutral basis.

Chart 7 compares the regional bets in the portfolio in Q2 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 14% allocation to detached houses, 51% allocated to flats, 22% in terraced accommodation and 13% 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 June 2017, the Fund stood at £54.1 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, Edward Lane and Phil Mason joined as Business Development Managers.

2.10. Schroder – Diversified Growth Fund (DGF)

Headline comments: The Diversified Growth Fund delivered a return of +0.9% in Q2 2017. This compared with the RPI plus 5% p.a. target return of +2.3% for Q2. Over one year, the Fund's return was +8.7%, compared to the target return of +8.5%, so it is just ahead of the target over one year.

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 Q2 2017, Schroders' holdings in US and emerging market equities made the largest contribution to equity performance whilst US 10 year Treasury bond positions, a short exposure to German bonds and high yield positioning were the main contributors on the fixed income side.

Over 12 months, the largest contributor remained global equities (+3.5%) followed by North American equities (+1.7%). The negative detractors were Pacific ex Japan equities (-0.1%), commodities (-0.8%) and currency (-0.4%).

The return on global equities was +18.3% for the 12-month period, compared with +8.7% for the Fund (a 47% capture of the equity return, somewhat lower than expected). 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 2.8% compared to a 12-month volatility of 5.1% in equities (i.e. 55% of the volatility of the Index).

Portfolio characteristics: The Fund had 16% in internally managed funds (down from 39% last quarter), 37% in internal bespoke solutions (up from 27% last quarter), 8% in externally managed funds (down from 15%), and 37% in passive funds (significantly up from 7%) and 3% in cash, as at end June 2017. In terms of asset class exposure, 47.0% was in equities, 28.3% was in alternatives and 22.1% in credit and government debt, with the balance in cash.

Alternative assets include absolute return funds, infrastructure, property, insurance-linked securities, private equity. Commodity positions have now been unwound, having fallen 3% in Q2 and 6.5% over the past 12 months.

Organisation: during the quarter, there were 108 joiners and 92 leavers globally, with 48 joiners and 50 leavers in the UK business. There were no changes to the team responsible for the Diversified Growth Fund.

Karen Shackleton
Senior Adviser, Allenbridge
15th August 2017

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	5 September 2017		n/a

Delete as appropriate	Exempt	~~Non-exempt~~

SUBJECT: INVESTMENT STRATEGY UPDATE

1. Synopsis

1.1 This is a progress report on investment strategy review to consider changes to the asset allocation of the Fund's 25% defensive assets. This report updates the parameters agreed by Members in the June meeting of investing in infrastructure and agree to commence the infrastructure procurement.

2. Recommendations

2.1 To receive a training presentation from AMP Capital –a third party fund manager

2.2 To agree to commence procurement of an infrastructure manager(s)

2.3 Subject to 2.2 receive an update report in November of progress made.

3. Background

3.1 **Asset Allocation to Infrastructure**

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

Members then agreed in November 2015, to ask and seek confirmation from the London CIV to develop an Infrastructure sub fund or investment vehicle ideally including social housing covering our mandate specification over the next 12 to 18 months, and if confirmation is not forthcoming alternative plans be sought. Nothing has been forthcoming from the LCIV to date on infrastructure and as such

Members asked Mercer to review and update the previously agreed parameters.

3.1.2 In June 2017, Members reaffirmed the parameters of the Fund's allocation to infrastructure and a specification of what the Fund 's infrastructure mandate. The table below sets out the areas typically specified when seeking a mandate and suggested potential or indicative targets.

3.1.3

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

3.2 Members also received a presentation from Mercer on implementation options and after consideration agreed to use the third party fund manager route and asked for a training section from a third party fund manager.

3.3 AMP Capital an infrastructure manager will be providing training presentation covering the type of infrastructure projects, their investment process, ESG framework and risk mitigation factors. Members are asked to receive the presentation.

3.4 Members are also asked to agree the next step to commence the procurement process and receive a progress report at their November meeting.

3.5 <u>Increasing the allocation to HLV property-update</u>
Following the 2016 actuarial review and agreement by Members to now move to a CPI plus discount rate for valuing pension liabilities, it was agreed to review the current strategy to evaluate risk and assets to ascertain that they can meet our new objective. Members completed the last investment review in 2014. Members agreed the investment strategy framework at the March meeting and agreed to considering increasing the fund's current strategic asset allocation to HLV property.
.

3.5.1 Members considered Mercer's presentation in June 2017 and increased the current allocation to 10% Officers completed the subscription paper work in June and are now placed in the queue waiting drawdown within the next 12-18 months.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

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

4.2.1 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**

Environmental considerations can lawfully be taken into account in investment decisions

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 Members asked to note the progress made on implementing the 25% liability matching asset allocation strategy review . Receive the presentation training and agree to commence the procurement process via a third party fund manager.

Background papers:

None

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ISLINGTON

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

Meeting of:	Date	Agenda item	Ward(s)
Pensiosn Sub -Committee	5 September 2017		

Delete as appropriate	~~Exempt~~	Non-exempt

SUBJECT: Implementation of the Markets in Financial Instruments Derivative (MiFID II)

1. Synopsis

1.1 This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018 and recommends that the committee agree that elections for professional client status should be made on behalf of the authority immediately.

2. Recommendations

2.1 To consider and note the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018

2.2 To agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy

2.3 In electing for professional client status the committee acknowledges and agrees to forgo the protections available to retail clients attached as schedule 1 of Appendix 4 (NB – Appendices 1 and 2 have been combined with Appendix 4)

2.4 To authorise the Corporate Director of Resources in consiultation with the Director of Law and Governance to complete the necessary applications and determine the basis of those applications as either full or single service**.**

3. Background

3.1 Under the current UK regime, local authorities are automatically categorised as per se professional clients in respect of non‐ MiFID scope business and are categorised as 'per se professional clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt up criteria'.

3.2 Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt ("local authority") as a "per se professional client" or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted-up by firms to an "elective professional client" status.

3.3 Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

Potential impact of being a retail client

3.4 A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

3.4.1 Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

3.4.2 Even if the institution secures the ability to deal with retail clients the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

<u>Election for professional client status</u>

3.5 MiFID II does allow for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution. the quantitative and the qualitative test

3.5.1 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities

3.5.2 The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests can be viewed via the link http://www.lgpsboard.org/images/PDF/MiFIDII/Highlights.pdf

The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take ‘appropriate action’ which could include a termination of the relationship at a significant financial risk to the authority.

The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.A flowchart of the process is attached as Appendix 3.

Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is acheived via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience or if the relationship with the authority’s investment advisor was terminated.

LGPS Pools

3.6 LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.

In some circumstances, in particular where the pool only offers access to fund structures such as ACS the pool could use ‘safe harbour’ provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the “FPO”) or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the “PCISO”). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.

Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions the number of which would reduce as assets are liquidated and cash transferred.

Next Steps

3.7 In order to continue to effectively implement the authority’s investment strategy after 3rd January 2018, applications for election to be treated as a professional clients should be submitted to all financial institutions with whom the authority has an existing or potential relationship with in relation to the investment of the pension fund.

This process should commence as soon as possible in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments

The officer named in the recommendations should be granted the necessary delegation to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis .

4. Implications

4.1 **Financial implications:**

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

4.2 **Legal Implications:**

Following the 2008 financial crisis, the European Commission commissioned a review of the Markets in Financial Instruments Directive (MiFID). MiFID is the legislative framework for all investment firms that provide services to clients in shares, bonds, collective investment schemes and derivatives. It originally took effect in the UK in November 2007. The commissioning of the review reflected a concern that financial products were becoming increasingly complex, as well as a desire to strengthen investor protection. .

The new regulatory framework, known as MiFID II, is due to to come into effect on 3rd January 2018. The new framework is designed for the entire European Union across all investor types. Under the new regime local authorities will be classified as a retail cliemt which affords greater protections (see Schediule 1 of Appendix 4) but limits the investment products that can be offered by investment firms. However, a local authority may opt to be treated as professional client provided the qualitative and quantitine treasts set out in this report are met and this status would eable the council to invest in the full range of investments available.

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 recommendations

5.1 MIFID II directive is effective from 3 January 2018 and the default category for Local Authourities will be 'retail ' unless the process to "opt up " is completed . Members are asked to consider the implications of being a retail client and also protective status lost for opting up.

Members if in agreement should give delegated authority to Corporate Director of Resources and Director of Law and Governance to complete the application process.

Background papers: none

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Appendix 3- The flow chart of Client opt out

UK Local Authority Client Opt-Up Process

STAGES	TIMELINE	GUIDANCE
Preparatory Stage Finalise standard opt-up process	End July 2017	(i) Finalise industry standard quantitative and qualitative questionnaire; (ii) Finalise request and consent letter from Local Authority to be opted-up; and (iii) Finalise response letter from investment firms agreeing to the opt-up.
Stage 1 Local authorities to complete letter and questionnaire and send to investment firms	August – September 2017	Local authorities to complete and send investment firms: (i) request and consent letter to be opted-up to professional client status; and (ii) completed quantitative and qualitative questionnaire (to allow investment firms to satisfy themselves that the local authority passes the qualitative test).
Stage 2 Investment Firms to validate the information and run the client status assessment	September – October 2017	Investment firms to validate information received from local authorities to determine information is (i) sufficient; and (ii) appropriate. Assess the information received by the local authority and confirm that it: (i) has provided the request and consent letter to be treated as a professional client; and (ii) passes (i) the quantitative test and (ii) the qualitative test Log and store the local authority information and the results of the internal assessment.
Stage 3 Dispatch the confirmation letter to LA clients confirming professional client status	October 2017	If a local authority has provided the request and consent letter and has satisfied the requirements for both: (i) the quantitative test; and (ii) the qualitative test, send a letter confirming the classification of the client as a professional client.
Stage 4 Client re-categorisation	3 January 2018	Once the steps above are complete, as of 3 January 2018, the firm may continue to treat the local authority as a professional client.

Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear [●]

Request to be treated as a professional investor

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by NAME OF AUTHORITY (the "Local Authority") to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

(a) any and all investment service(s) which it receives from you (the "Services"); and/or

(b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the "Fund Promotions/Investments").

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client ("Professional Client"). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client ("Retail Client") as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administrating authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

(a) its request to be categorised as a Professional Client, in its capacity as an administrating authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.

(b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority's request to be categorised as a Professional Client) is true, accurate and complete.

(c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.

(d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.

(e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.

(f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

……………………………………………

[insert name and position] [Authority]

Schedule 1

Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

Part 1 – Loss of protections as a Professional Client when receiving Services

1. **Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

(A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;

(B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

(C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

4. **Appropriateness**

For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions

1. **Fund promotion**

   It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

2. **Non-mainstream pooled investments**

   For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an "unregulated collective investment scheme". The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

3. **Communicating with clients, including financial promotions**

   Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

4. **Financial Ombudsman**

   The services of the Financial Ombudsman Service may not be available to you as a Professional Client

5. **Investor compensation**

   Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

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Elective Professional Client - Status Assessment

NAME OF LOCAL AUTHORITY:____
CAPACITY: **As administering authority of the local government pension scheme**
NAME OF OFFICIAL COMPLETING QUESTIONNAIRE:_____________________________
DATE:___________________

QUANTITATIVE TEST

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

Please answer question (a) with a "Yes" / "No" answer	
(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme **exceed GBP 10,000,000**? Portfolio size_______ as at date: ………………………………………………….	☐ Yes ☐ No
(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?	☐ Yes ☐ No
If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases	
(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least **10 per quarter** for the **previous four quarters** (i.e. at least 40 investments on the relevant market in the last year)? Transaction total: …………………………………………………………………..	☐ Yes ☐ No ☐ N/A
(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged? Details of role: ………………………………………………………………………	☐ Yes ☐ No ☐ N/A

QUALITATIVE TEST

The "qualitative test" requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions** and **understanding the risks involved**[1].

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.

a	All decisions delegated to committee or sub-committee. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
c	All decisions delegated to an officer or officers.	YES NO	☐ ☐
d	Other	YES NO	☐ ☐

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed Link	☐ ☐

3.	If you have selected model "d - other" above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions. Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

[1] COBS 3.5.3R (1)

Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee? (*Please tick whether you have enclosed or provided a link to a copy of an example of the briefing*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Are members provided with training on investment matters? (*Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.	hours offered hours delivered	
3	Is the attendance of members at training monitored and recorded?	YES NO	☐ ☐
4	Please state the average number of hours of training committee members have attended over the last 12 months.	hours	
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.	hours	
6	Are members required to complete a self-assessment with regard to their knowledge of investments? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
7	Please state the number of years served on the committee (or other such investment committees) on average for each member	years	
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Index-linked securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Listed equities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property PIVs	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Private equity funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Exchange traded derivatives (ETDs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Over-the-counter derivatives (OTCs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commodities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Cash deposits	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commercial paper	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Floating rate notes	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Money market funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed Link	☐ ☐
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES NO	☐ ☐

Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	Does the authority have a risk framework and/or risk management policy in place in relation to investments? (*Please tick whether you have enclosed or provided a link to a details of the framework/policy*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?	YES NO	☐ ☐
	If yes, please provide the name of the advisor:		
3	Is the risk framework/policy reviewed on a regular basis?	YES NO	☐ ☐
	If YES please state the frequency of the review.		
	(*Please tick whether you have enclosed or provided a link to details of the last review*)	Enclosed Link	☐ ☐
4	Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments? (*Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
5	Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each officer providing support to the committee or sub-committee please provide the following information.

Job title	Relevant qualifications	Years experience in role[2]

2.	For each officer with delegated investment powers please provide the following information (these may be the same officers as above).

Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers? (*Please tick whether you have enclosed or provided a link to details of the succession plan*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

4.	For each individual investment advisor used by the authority please provide the following information *only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below)*.

Name	Relevant qualifications	Years experience in role[3]

[2] Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

[3] Or similar role which would provide knowledge of the provision of the services envisaged.

5.	For each <u>investment advisory firm</u> used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6.	For each <u>individual investment consultant</u> used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below)*.

Name	Relevant qualifications	Years experience in role[4]

7.	For each <u>investment consultancy firm</u> used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8.	Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities.	YES ☐ NO ☐

[4] Or similar role which would provide knowledge of the provision of the services envisaged.

Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment? (*If yes please tick whether you have enclosed or provided a link to a details of the breach*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

2.	Please use the box below to provide any further information which may be useful in the support of your application.

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	5 September 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 May 2017 to July 2017

2. Recommendation

2.1 To note the progress made to July 2017 .

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 **<u>Update to May 2017</u>**

3.5.1 **i) 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.

ii) 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

3.6. **<u>Update to July 2017</u>**

i. **IAC Membership** – The membership of the Investment Advisory Committee is reviewed on annual basis with SLT members asked for nominations either for themselves or for their pension managers. This year's request for membership nominations has again received a very strong response and we are pleased to report that all nominations have been accepted. Whilst this has lead to an increase in size for the IAC, it is recognised that not all members are able to attend every meeting. In total 28 nominations were received representing 29 LLA's

ii. **Sub-funds available within the London CIV** – Current funds available –

a. <u>3 global equity funds:</u>

b. LCIV Global Equity Alpha (management delegated to Allianz)
c. LCIV Global Alpha Growth (management delegated to Baillie Gifford)
d. LCIV NW Global Equity (management delegated to Newton)
e. <u>1 UK equity:</u>
f. LCIV MJ UK Equity (management delegated to Majedie)
<u>4 multi-asset/total return funds:</u>
g. LCIV BG DGF (direct investment into the Baillie Gifford Diversified Growth Fund)
h. LCIV NWT RR (direct investment into Newton Real Return Fund)
i. LCIV PY TR (direct investment into Pyrford Real Return Fund)
j. LCIV RF AR (direct investment into Ruffer Absolute Return Fund)

iii. **Sub-Fund Launches July to September** – Over the next 3 months, a further 4 sub-funds are scheduled for launch on the CIV platform, 1 under the CQC (Commonality, Quantum and Conviction) mechanism and a further 3 that have come from the global equity procurement process.
   a. The sub-fund launch under the CQC basis:
      Longview Global Equity (17-07-17) – now launched
   b. Additional global equity sub-fund launches following global equity procurement, one in July and two in September:
      Henderson Emerging Markets (17-07-17)
      Epoch Global Equity Income (09/17)
      RBC Sustainable Equity (09/17)

iv. **Sub-Fund Capacity** – The IAC reviewed the capacity constraints within LCIV sub-funds at its meeting in June and agreed a communication to be issued to London Funds highlighting which of LCIV sub-funds were "limited capacity" sub-funds.

v. **Equity Strategies** – A global equity information day was held on 11th May (invitations were sent to Pensions Sectoral Joint Committee (PSJC) Members, Treasurers and Pension Managers). This provided Funds the opportunity to meet with Longview, Henderson, Epoch and RBC. Due to the timing of the general election, there was a limited presence from elected Members, but over 30 attendees were present. The feedback to the format of the day and also the presentations themselves was overall very positive. Attendees were also asked to indicate what additional equity strategies they would be interested in and this would then help inform future sub-fund launches. From the feedback on the day, the indications were that demand was highest for low volatility, core and low carbon funds. LLAs will be approached with a global equity survey to gauge demand for additional equity investment strategies.

vi. **Fixed Income and Cashflow Strategies –** This has been the prime focus for LCIV and the IAC over the last quarter, with regular meetings of the fixed income working group taking place to review a range of approaches. Following a review of Pension Fund's investment requirements and a survey of treasurers and officers, it is clear that there is strong demand for products in this area including private debt, multi-asset income, multi-asset credit, buy & maintain and corporate bonds. LCIV are currently undertaking a tender process for an adviser prior to commencing a full search for managers in key fixed income products. The timetable for launching funds in this area is being progressed and it is anticipated that sub-funds will be launched in advance of the business plan date of March 2018. LCIV and the fixed income working group are currently working to a timeline of sub-fund launches towards the end of the calendar year 2017 or early 2018.

vii. **LLA Changing Asset Allocation and Investment Strategies –** LCIV has been reviewing the LLA Investment Strategy Statements and holding meetings with the LLAs to better understand their future strategic asset allocation requirements. This shows that there is about a 6% (or about £1.8bn) move out of equity or growth type mandates into fixed income and cashflow generating asset classes. In addition LLAs are also looking to build exposure in infrastructure and property assets. This will be taken into account by LCIV as it considers its business plans for future years. As noted earlier the shift in LLA requirements means that LCIV is targeting an earlier launch date for fixed income products where feasible to do so.

viii. **Passive Funds and Fee Charges** – This is by way of a reminder to Funds that it was agreed where the CIV had negotiated London wide fee reductions on passive life funds then a charge could be applied from 1st April 2017 charged annually and based on monthly AUMs at a rate

0.005% on AUM.

ix. **London CIV Budget and Medium Term Financial Strategy** – Regular reporting on progress against the budget and targets in the Medium Term Financial Strategy is being provided to the PSJC and a copy of the report that went to the July meeting can be found here: http://www.londoncouncils.gov.uk/node/32109

x. **Recruitment** – LCIV has been actively recruiting over the last few months with a Corporate Development Director (1 year fixed term) Head of Fixed Income & Alternatives, Chief Risk Officer, Fund Accountant and Client Relations Executive having been appointed. Further recruitment is underway focusing on a Head of Global Equities and Investment Analyst. Vacancies will be placed on LCIV website and will be open to colleagues from local authorities to apply where they have the requisite skills to fulfil the roles. In addition, LCIV has also appointed two additional non-executive directors with extensive investment experience to the Board: Linda Selman (Hymans, Baillie Gifford and Scottish Provident) and Paul Niven (BMO, ISIS and RSA).

xi. **MiFID II** – The long awaited announcement from the FRC finally arrived and in line with expectations included provisions which made it easier for LA Pension Funds to opt up to professional status by recognising the collective nature of decision making in LA Pension Funds with the Committee Structures and also acknowledging the role of advisers. All local authority pension funds will need to opt-up to professional status by 3rd January 2018 to avoid being classified as retail clients leading to significant restrictions in what fund managers are able to provide to authorities by way of investment products. The LGA are working closely with the Investment Association (IA) to agree a template for all fund managers to use for Local Authority Pension Funds, which should help ease the opt-up process. LCIV are running a briefing session on the 27th July to cover both MiFID II and the Code of Transparency. In addition the LGA are running a MiFID II briefing in August. Funds should consider taking action over the coming months to opt up in order to retain professional status, rather than leaving it until towards the end of the year. LCIV will also need to receive confirmation from Funds on their ability to meet the new FCA opt-up criteria.

xii. **Stewardship** – Following the end of the year, LCIV collated a voting and engagement report from the underlying managers on LCIV platform, this was distributed to investors in the relevant sub-funds. LCIV officers have also been engaging with the Cross Pools Responsible Investment Group and the LGA on draft guidance for Administering Authorities which is due to be consulted on by the Scheme Advisory Board. The officer Stewardship Working Group will also be considering the statements issued by Pension Funds in their Investment Strategy Statements in relation to ESG, Voting and Stewardship to assess whether further work is required by LCIV to assist Funds in meeting their stewardship responsibilities.

xiii. **Governance Review of the CIV** – Colleagues will recall that it has been agreed that a governance review be carried out to look at structures and decision making for LCIV. The project Steering Committee comprises**:**

- Mark Boleat (Chair) (PSJC Chair)
- Lord Kerslake (Vice Chair)
- Eric Mackay (LCIV NED)
- Cllrs Johnson and Heaster (PSJC Party Group Chairs)
- Ian Williams and Gerald Almeroth (SLT representatives)

Pre-market engagement has taken place with 3 advisers and the ITT issued, one of whom has withdrawn. For information the final specification is attached at Appendix 6, as are the Terms of Reference for the Steering Committee.

-

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 investors 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.

4. Implications

4.1 **Financial implications:**

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

4.2 **Legal Implications:**

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

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

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4.3 **Environmental Implications:**

4.3.1 None specific to this report

4.4 **Resident Impact Assessment:**

4.4.1 The Council must, in 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 July 2017.

Background papers:
Final report clearance:

Signed by:

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

Report Author: Joana Marfoh
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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	5 September 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 Resources Date

Received by:

Head of Democratic Services Date

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk

APPENDIX A

Pensions Sub-Committee Forward Plan for September 2017 to 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
5 September	Engagement policy development-Presentation from PIRC MIFIID II update Infrastructure training presentation
16 October	AGM Agenda- Presentation on carbon footprint risk and mitigation Investment activities presentation
21 November	Investment strategy update- infrastructure Alternative products to corporate bond portfolio Climate risk strategy and objectives Strategies to protect the fund recovery plan
5 March	Actuarial funding update

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

21 November 2017	Asset backed securities

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