



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 an additional meeting which will be held in Committee Room 1, Town Hall, Upper Street, N1 2UD on **16 October 2017 at 2.30 pm**.

Yinka Owa
Director of Law and Governance

Enquiries to : Mary Green
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Despatched : 5 October 2017

Membership 2017/18

Councillor Richard Greening (Chair)
Councillor Andy Hull (Vice-Chair)
Councillor Michael O'Sullivan
Councillor Paul Smith

Substitute Members

Councillor Mouna Hamitouche MBE
Councillor Angela Picknell
Councillor Robert Khan
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.

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| 4. | Minutes of the previous meeting | 1 - 4 |
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B. Non-exempt items

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| 1. | Protecting the Recovery Plan - Equity protection | 5 - 8 |
|----|--|-------|

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

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|----|--|--------|
| 1. | Protecting the Recovery Plan - Equity protection - exempt appendix | 9 - 30 |
|----|--|--------|

F. Urgent exempt items

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

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

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London Borough of Islington

Pensions Sub Committee - 5 September 2017

Non-confidential minutes of the meeting of the Pensions Sub Committee held at on 5 September 2017 at 7.30 pm.

Present: **Councillors:** Richard Greening (Chair), Michael O'Sullivan and Paul Smith

Also Present: Karen Shackleton, Allenbridge Investment Adviser
Marion Oliver and George Sharkey (members of Pensions Board and observers)
Norbert Fullerton and Nikeeta Kumar – Mercer Limited

Councillor Richard Greening in the Chair

93 APOLOGIES FOR ABSENCE (Item A1)
Received from Councillor Andy Hull.

94 DECLARATION OF SUBSTITUTES (Item A2)
None.

95 DECLARATION OF INTERESTS (Item A3)
None.

96 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED

That the minutes of the meeting held on 12 June 2017 be confirmed as a correct record and the Chair be authorised to sign them.

97 PENSION FUND PERFORMANCE FROM 1 APRIL TO 30 JUNE 2017 (Item B1)

Following consideration of recommendation 2.3 in the report, which sought approval to the delegation of the decision on the implementation of an appropriate insurance mechanism to protect the Pension Fund's current high funding level, members expressed a strong preference for the Sub-Committee to consider and agree options for this, rather than delegating responsibility to officers on this occasion. Whilst recognising the requirement for expediency, members agreed that an additional meeting of the Sub-Committee be arranged to consider the options.

RESOLVED:

(a) That the performance of the Fund from 1 April to 30 June 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 an additional meeting of the Sub-Committee be held at 2.30pm on 16 October 2017 for the purposes of agreeing how recent gains in equity values might be protected.

99 INVESTMENT STRATEGY UPDATE (Item B2)

RESOLVED:

- (a) That approval be given to the procurement of an infrastructure manager(s).
- (b) That an update on progress be submitted to the Sub-Committee in November 2017.

100 INFRASTRUCTURE - PRESENTATION BY AMP CAPITAL (Item B3)

Matt Evans, Principal, Global Infrastructure and Alice Franks, Institutional Director, AMP Capital, gave a presentation on infrastructure investment.

Matt Evans described the characteristics of infrastructure assets, such as provision of essential services and sustainable long-term cash flows, through investment in prisons, pipelines and hospitals and a range of other assets. He also detailed AMP's Environmental, Social and Governance principles.

Noted.

101 PRESENTATION BY PIRC ON VOTING AND GOVERNANCE (Item B4)

Tessa Younger, Engagement Services Manager and Lara Blecher, Engagement Executive at PIRC Ltd, a research and engagement partner to the Local Authority Pension Fund Forum (LAPFF), gave a presentation to the Sub-Committee on the work of LAPFF and, in particular, its work on voting and governance. They described the practical support provided to LAPFF representatives attending AGMs.

Members asked that LAPFF information on dates of company AGMs be circulated to LAPFF members and how briefings produced by LAPFF might be shared.

Noted.

102 IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DERIVATIVE (MIFID II) (Item B5)

RESOLVED:

(a) That the potential impact on the investment strategy of this administering authority becoming a retail client with effect from 3 January 2018, under the Markets in Financial Instrument Directive 2014/65, as detailed in paragraph 3.4 of the report of the Corporate Director of Resources, be noted.

(b) That officers commence applications for elected professional client status with all relevant institutions immediately, in order to ensure the implementation of an effective investment strategy.

(c) That, in electing for professional client status, acknowledgement be given to the fact that the protections available to retail clients as detailed in schedule 1 of Appendix 4 will be foregone.

(d) That the Corporate Director of Resources, in consultation with the Director of Law and Governance, be authorised to complete the necessary applications and determine the basis of those applications as either full or single service.

103 LONDON CIV UPDATE (Item B6)

RESOLVED:

That the progress made at the London CIV in launching funds and running of portfolios from the period from May to July 2017, as detailed in the report of the Corporate Director of Resources, be noted.

104 FORWARD PLAN (Item B7)

RESOLVED:

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

(b) That it be noted that there will be an additional meeting of the Sub-Committee on 16 October 2017, at 2.30pm, for the purposes of considering how recent gains in equity values might be protected

(c) That it be noted that a speaker from the Carbon Trust will attend the annual meeting on 16 October 2017.

The meeting ended at 9.10 pm

CHAIR

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	16 October 2017		n/a

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

SUBJECT: PROTECTING THE RECOVERY PLAN- EQUITY PROTECTION

1. Synopsis

- 1.1 As part of the ongoing investment strategy update this report and Exempt -Appendix 1 considers the recovery plan agreed at the 2016 Actuarial Valuation and the current funding position of the fund and recommends strategy options to capture some of the gains.
- 1.2 Mercer our investment advisor, has prepared a presentation that will be presented to Members attached as Exempt Appendix 1- Protecting the recovery plan

2. Recommendations

- 2.1 To consider Mercer's presentation Appendix 1 – Protecting the recovery plan (Exempt)
- 2.2 To agree to consider using an equity protection strategy to maintain some of the improved asset valuation
- 2.3 Subject to 2.2, to consider the impact on contributions and investment outcomes for different levels of equity protection
- 2.4 Then consider and agree one of the following options:
 - i) Option 1 – protect the downside of an equity market fall, by paying a premium, and participate in equity market rise
 - ii) Option 2- Simple collar strategy that protects the downside of an equity market fall and give up some of the equity market rise potential, without paying a premium

- iii) Option 3-Put spread collar that protects the downside from equity market, apart from large market falls, and give up some of the equity market rise potential, without paying a premium.

2.5 Agree that, Mercer and officers explore the design and implementation mechanism, dynamic or static; including cost, providers, governance and report to members at the next committee meeting in November.

3. Background

3.1 March 2016 valuation

The triennial valuation was completed in March 2017 with a calculated funding level of 78% and a deficit of £299m. a 22year recovery plan was agreed with projected contributions over to this period to achieve a 100% funding level

3.2 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.

3.3 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.

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

3.4 Members at the last September meeting had initial discussions of an equity protection strategy and asked for a report to a special meeting to consider the strategy fully. Mercer, our investment advisors have prepared a presentation -Exempt Appendix 1 for consideration.

3.4 Members are asked to consider the presentation and agree the recommendations 2.1 to 2.3 and subject to 2.3 agree 2.4 and 2.5.

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 a portfolio on its behalf (Regulation 8(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)).

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 consider the Mercer presentation Exempt Appendix I and agree the recommendations 2.1 to 2.5.

Background papers:

None

Final report clearance:

Signed by:

Received by:	Corporate Director of Resources	Date
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	Head of Democratic Services	Date
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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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