

London Borough of Islington

Pensions Sub Committee - 26 November 2018

Non-confidential minutes of the meeting of the Pensions Sub Committee held at Islington Town Hall, Upper Street, N1 2UD, on 26 November 2018 at 7.30 pm.

Present: **Councillors:** David Poyser (Chair), Andy Hull (Vice-Chair), Sue Lukes and Michael O'Sullivan

Also Present: Maggie Elliott and George Sharkey (Pension Board members and observers)
Nikeeta Kumar, Tony English, Peter Tornkvist and Tomi Nummela, Mercer Limited
Karen Shackleton – MJ Hudson Allenbridge
Paul Middleman and Jonathan Perera, Mercer Limited

Councillor Dave Poyser in the Chair

32 APOLOGIES FOR ABSENCE (Item A1)

None received.

33 DECLARATION OF SUBSTITUTES (Item A2)

None.

34 DECLARATION OF INTERESTS (Item A3)

Councillor Poyser declared a personal interest in agenda item B1, specifically paragraph 3.16.4, as godfather to the child of an employee at Ruffer.

35 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:

That the minutes of the meeting held on 12 September 2018 be confirmed as a correct record and the Chair be authorised to sign them.

36 PENSION FUND PERFORMANCE - 1 JULY TO 30 SEPTEMBER 2018 (Item B1)

RESOLVED:

(a) That the performance of the Fund from 1 July to 30 September 2018, as set out in the BNY Mellon interactive performance report, and detailed in the report of the Interim Corporate Director of Resources, be noted.

- (b) That the report by MJ Hudson Allenbridge Advisers on fund managers' quarterly performance, detailed in Appendix 1 to the report and their presentation, be noted.
- (c) That exempt Appendix 2 (Mercer's performance analysis of Schroder's Diversified Growth Fund) be noted.
- (d) That the position of Hearthstone and Schroder in the Fund be reviewed as part of the June 2019 Investment Strategy Review.

37 TRAINING - ACTUARIAL REVIEW UPDATE (VERBAL) (Item B2)

Jonathan Perera, Mercer, and Paul Middleman, Mercer Fund Actuary, gave a presentation on: the purpose of an Actuarial Valuation, liability calculations, Funding Strategy Statement, 2016 Valuation Recap and what had happened since 2016.

It was noted that there had been a 21% return in real investment returns since March 2016. However, the outlook for future real returns was lower relative to that in 2016. The Fund had implemented an equity protection strategy to protect against equity market price falls and this would impact on the level of prudence that could be considered in the 2019 valuation assumptions. Life expectancy improvements were slowing down, meaning a possible reduction in liabilities/% contributions. Islington was similar to other London boroughs in that contributions were in the middle. There were a number of employees who were currently not in the Fund, who would be re-enrolled in the future. The Pensions Team/Human Resources would need to communicate all the benefits of the Scheme to these employees to encourage them not to opt out in the future.

Also, the public sector pay cap had been removed, meaning that the impact for individual employers would need to be considered. The Actuary would work with the Pension Team on data quality, since good data was important to ensure liabilities were not affected. It was also noted that it was likely that there would be an improvement in benefits/contributions from 2019, leading to an increase in cost for employers. The introduction of Exit Credits for exiting employers from May 2018 would impact on the Fund's policies and employers needed to consider their own commercial arrangements with outsourced contracts. It was thought that guaranteed minimum pension equalisation was unlikely to affect the LGPS, but would affect private schemes.

It was also thought that Brexit would not impact on the Fund's liabilities, but that it could impact on overseas investments.

Jonathan Perera and Paul Middleman were thanked for their presentation.

38 DECARBONISATION POLICY AND DRAFT INVESTMENT STRATEGY STATEMENT (Item B3)

The Chair had agreed that this item be considered as urgent business in order that the policy on decarbonisation could be integrated into Islington Pension Fund's Investment Strategy Statement as soon as possible, in order to ensure that

exposure to climate risk and opportunities were taken into account in the selection, non-selection, retention and realisation of investments going forward.

The Chair of the Sub-Committee thanked staff from Mercer for their work in producing a draft Strategy for the Sub-Committee's consideration.

RESOLVED:

(a) That, subject to the following amendments to page 7 of the agenda, comprising Mercer's recommended policies, the draft decarbonisation policy document produced by Mercer, attached as Appendix 1 to the report of the Corporate Director of Resources, be noted:

Second hyphen, line 2 - add the word "April" before "2022" and "or earlier" after "2022", so sentence reads "The Fund seeks to achieve the following targets by April 2022, or earlier"

Recommendation 1), line 4 – replace "XX" with the words "more than half" and delete the words "per cent"

Recommendation 3), line 1 – insert "at least" before the figure "15%"

(b) That the draft decarbonisation policy document be approved and integrated into the draft Investment Strategy Statement, detailed in Appendix 2 to the report.

(c) That the following next steps be implemented:

- The integration of ESG issues, including climate change, in investment policy
- The consideration of positive allocations to sustainable opportunities
- The formulation of a regular monitoring and reporting regime on progress
- The extension of decarbonisation beyond listed equities over the next four years
- The continuation of engagement and collaboration with relevant parties, including the London CIV, on responsible investment

(d) That officers be authorised to update the Investment Strategy Statement (Appendix 2 to the report), in liaison with Mercer, and to publish it on the Council's website.

39

EQUITY PROTECTION STRATEGY - SEMI-ANNUAL MONITORING
(Item B4)

RESOLVED:

(a) That the Fund's market to market equity exposure position, as detailed in the report of the Interim Corporate Director of Resources, be noted.

(b) That Mercer's report and presentation highlighting the main features and activities of the strategy to September 2018, detailed in Appendix 1 of the report, be noted.

40 **LISTED EQUITY PORTFOLIO REVIEW - LCIV ALLIANZ TRANSFER (Item B5)**

RESOLVED:

(a) That the process of reviewing the global equities managers currently available on the LCIV platform, as detailed in the report of the Interim Corporate Director of Resources, be noted.

(b) That the results of the due diligence process, also detailed in the report, be noted.

(c) That Manager A (detailed in exempt appendix E2 of the agenda) be appointed to replace the Allianz sub-fund on the LCIV platform.

(d) That the Interim Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, be authorised to negotiate and agree the following matters with the London CIV:

- The fund management agreement with Manager A
- The appointment of a transition manager to manage the transfer of assets
- The costs associated with the termination of the Allianz sub-fund

41 **CONTRACT AWARD FOR INFRASTRUCTURE MANAGER(S) (Item B6)**

RESOLVED:

(a) That the outcome of the tender process to procure an infrastructure manager, detailed in the report of the Interim Corporate Director of Resources and the exempt appendix at agenda item E3), be noted.

(b) That Fund Managers A and B (detailed in the exempt appendix at agenda item E3) be appointed as the Islington Pension Fund Infrastructure preferred managers.

(c) That 40% be allocated to Manager A and 60% to Manager B

(d) That Fund Manager C be appointed as the reserve manager for the Islington Pension Fund Infrastructure.

(e) That the Interim Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, be authorised to negotiate and agree the fund management agreement with Fund Managers A and B.

42 **LONDON CIV UPDATE (Item B7)**

RESOLVED:

(a) That the progress made at the London CIV in launching funds, running of portfolios and reviewing governance and investment structure, from the period August to November 2018, and detailed in the report of the Interim Corporate Director of Resources, be noted.

(b) That a representative from the London CIV be invited to attend a meeting of the Sub-Committee in the near future to address issues around progress and development.

43 PENSION FUND FORWARD PLAN (Item B8)

RESOLVED:

That, subject to the addition of the following items to the Forward Plan, the contents of Appendix A to the report of the Interim Corporate Director of Resources, detailing proposed agenda items for future meetings, be noted:

June 2019 – Actuarial valuation results (Mercer)

Date TBA – Update from LCIV representative

44 PENSION FUND PERFORMANCE - EXEMPT APPENDIX 2 (Item E1)

Noted.

45 LISTED EQUITY PORTFOLIO REVIEW - LCIV ALLIANZ TRANSFER - EXEMPT APPENDIX (Item E2)

Noted.

46 CONTRACT AWARD FOR INFRASTRUCTURE MANAGER(S) - EXEMPT APPENDIX (Item E3)

The Sub-Committee noted the contents of the exempt appendix at agenda item B3. They concurred with the views of the shortlisting meeting that the London CIV should not be appointed at this stage as a possible infrastructure manager as their carbon footprint offer was based on a London borough- wide policy and the fact that it could take five years until full deployment.

47 MEMBER'S REPORT - PENSIONS FOR PURPOSE

Councillor O'Sullivan reported that he had attended a recent conference on impact investment, run by the organisation "Pensions for Purpose". He commended the work of Pensions for Purpose, suggesting that it made sense to invest in companies, organisations and funds, which had the commercial purpose of solving social or environmental problems, alongside a financial return. He congratulated Karen Shackleton, one of the founder members of Pensions for Purpose.

RESOLVED:

That Islington Pension Fund affiliate to Pensions for Purpose.

The meeting ended at 9.40pm.

CHAIR