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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, Islington Town Hall, Upper Street, N1 2UD on **26 November 2018 at 7.30 pm.**

Lesley Seary
Chief Executive

Enquiries to	:	Mary Green
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Despatched	:	16 November 2018

Membership 2018/19	Substitute Members
Councillor Dave Poyser (Chair)	Councillor Mouna Hamitouche MBE
Councillor Andy Hull (Vice-Chair)	Councillor Jenny Kay
Councillor Sue Lukes	Councillor Angela Picknell
Councillor Michael O'Sullivan	Councillor Flora Williamson

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.

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 25 March 2019

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London Borough of Islington

Pensions Sub Committee - 12 September 2018

Non-confidential minutes of the meeting of the Pensions Sub-Committee held at the Town Hall, Upper Street, N1 2UD, on 12 September 2018 at 7.30 pm.

Present:	**Councillors:**	David Poyser (Chair), Andy Hull (Vice-Chair), Sue Lukes and Michael O'Sullivan
Also Present:		Nikeeta Kumar, Tomi Nummela and tony English, Mercer Limited Karen Shackleton – MJ Hudson Allenbridge Maggie Elliott and George Sharkey – Pension Board members and observers Councillor Paul Convery

Councillor Dave Poyser in the Chair

17 APOLOGIES FOR ABSENCE (Item A1)
None received.

18 DECLARATION OF SUBSTITUTES (Item A2)
None.

19 DECLARATION OF INTERESTS (Item A3)
None.

20 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:
That the minutes of the meeting held on 26 June 2018 be confirmed as a correct record and the Chair be authorised to sign them.

21 DECARBONISATION AND RESPONSIBLE INVESTMENT POLICY REVIEW (Item B1)
Councillor Poyser stated that the Sub-Committee had a fiduciary and moral duty to Pension Fund members. The interests of Pension Fund members were paramount in all of the Sub-Committee’s considerations. Last year’s decision by the Sub-Committee to make changes to the in-house managed assets had reduced the Fund’s carbon dioxide emissions by approximately 14,243 tonnes per year. For the future, the Sub-Committee would continue to explore opportunities to reduce the Fund’s carbon footprint, would consider investment in renewable energy and green infrastructure and would continue to engage with companies, through the London CIV, the Institutional Investors Group for Climate Change and the Local Authority Pension Fund Forum, to urge them to reduce their reliance on carbon. He had asked officers to prepare a report for the Sub-Committee’s consideration in November 2018 on further options for decarbonisation of the Fund.

RESOLVED:
(a) That the exempt presentation by Mercer, attached as Appendix 1 to the report of the Interim Corporate Director of Resources, be noted.
(b) That existing climate change policies be developed to establish clear beliefs on sustainable investments and to update the Investment Strategy Statement.
(c) That, as part of next steps of implementation, approval be given to:
i) the integration of ESG in investment policy
ii) the consideration of positive allocations to sustainable opportunities
iii) the formulation of a regular monitoring and reporting regime on progress.

22 PENSION FUND PERFORMANCE - APRIL TO JUNE 2018 (Item B2)

RESOLVED:
(a) That the performance of the Fund from 1 April to 30 June 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 the LGPS Current Issues – August 2018 leaflet, also attached to the report, be noted.
(d) That the Hearthstone Fund be reviewed in due course.
(e) That Schroder's performance be compared to other DGFs.
(f) That the Pensions Board be asked to consider the impacts of Brexit on pensions benefits.

23 ANNUAL REVIEW AND PROGRESS ON THE 2016 - 2020 PENSION BUSINESS PLAN (Item B3)

RESOLVED:
(a) That the Pension Business Plan for 2016-2020, appended to the report of the Interim Corporate Director of Resources, be noted.
(b) That, subject to the deletion of the third bullet point in paragraph 3.4 of the report of the Interim Corporate Director of Resources viz – "To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability", the key objectives of the five-year business plan be approved.

24 INFRASTRUCTURE PROCUREMENT UPDATE (Item B4)

RESOLVED:
(a) That the progress made on the infrastructure procurement process, as detailed in the report of the Interim Corporate Director of Resources, be noted.
(b) That collaboration with two other Councils continue to pursue a joint tender for the procurement of infrastructure.
(c) That the Interim Corporate Director of Resources be authorised to proceed with interviews for the shortlisting of an infrastructure manager and that members of the Sub-Committee be invited to attend as observers if they are available.
(d) That a report be submitted to the Sub-Committee in due course seeking appointment to an infrastructure manager.
(e) That officers meet with the London CIV to consider their infrastructure implementation update, due in September 2018.
(f) That the Sub-Committee's continued interest in a social housing fund provider be noted.

25 LONDON CIV UPDATE (Item B5)

RESOLVED:
(a) That the progress made at the London CIV in launching funds, running of portfolios and reviewing governance and investment structure, from May to July 2018, and detailed in the report of the Interim Corporate Director of Resources, be noted.
(b) That the exempt appendix to this report, comprising the draft London CIV Responsible Investment Policy (Item E2), be noted.

26 PENSIONS SUB-COMMITTEE 2018/19 FORWARD PLAN (Item B6)

RESOLVED:
(a) That the following amendments/additions be made to the Forward Plan:

- “Alternative products to corporate bond portfolio” to be deferred from 26 November 2018 to 25 March 2019 meeting
- “Review of Schroders Fund” – Schroder’s performance to be compared to other DGFs and to be added to the agenda for 26 November 2018
- “Review of Hearthstone Fund” to be added to the agenda for 25 March 2019 meeting

(b) That an item on the Investment Strategy Review be added to the agenda for June 2019 meeting.
(c) That the contents of Appendix A to the report of the Interim Corporate Director of Resources, detailing proposed agenda items for future meetings, be noted, with the amendments/additions above.

27 LISTED EQUITY PORTFOLIO REVIEW - LCIV ALLIANZ AND NEWTON (Item B7)

RESOLVED:
(a) That the exempt presentation by Mercer on proposed next steps for the listed equity portfolio with LCIV Allianz and LCIV Newton (Item E3) be noted.
(b) That officers and Mercer conduct due diligence and evaluate expected transition costs on the options for the LCIV Allianz and LCIV Newton equities portfolios, outlined by Mercer in their exempt appendix and identify possible alternatives.

28 EXCLUSION OF PRESS AND PUBLIC

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	Mercer report -exempt appendix – Decarbonisation and Responsible Investment Policy	Category 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).
E2	London CIV update – exempt appendix	Category 3 – Information relating to the financial or business affairs of any particular person (including the authority

		holding that information).
E3	Mercer report - exempt appendix – Listed equity portfolio review	Category 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).

29 DECARBONISATION AND RESPONSIBLE INVESTMENT POLICY - EXEMPT APPENDIX (Item E1)

Noted.

30 LONDON CIV UPDATE - EXEMPT APPENDIX (Item E2)

Noted.

31 LISTED EQUITY PORTFOLIO REVIEW - LCIV ALLIANZ AND NEWTON - EXEMPT APPENDIX (Item E3)

Noted.

The meeting ended at 9.35 pm

CHAIR

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Interim Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	26 November 2018		

Delete as appropriate	~~Exempt~~	Non-exempt

Appendix 2 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: PENSION FUND PERFORMANCE 1 JULY TO 30 SEPTEMBER 2018

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 July to 30 September 2018 as per BNY Mellon interactive performance report

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

2.3 To note Exempt Appendix 2- Mercer Schroder performance analysis report

3. Fund Managers Performance for 1 July to September 2018

3.1 The fund managers' latest quarter net performance figures compared to the benchmark and Mercer ESG ratings is shown in the table below.
Mercer's ESG ratings provide an assessment of the integration of ESG issues into the investment process and provides an overall rating – ESG 1 is the highest possible rating and ESG 4 is the lowest possible

rating. As such, Mercer has provided the ESG ratings for the Fund's 9 strategies across equities, fixed income, DGFs, property and private equity.

Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (July-Sept'18) Gross of fees		12 Months to Sept' 2018-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Bench Mark
LBI-In House	14%	UK equities	N	-0.61%	-0.82%	6.19%	5.87%
London CIV Allianz	8%	Global equities	2	5.36%	6.4%	13.7%	15.1%
LCIV -Newton	16%	Global equities	2	7.19%	5.70%	15.68%	13.5%
Legal & General	11.9%	Global equities	1	6.20%	6.27%	12.65%	13.16%
Standard Life	14.4%	Corporate bonds	3	-0.34%	-0.35%	0.28%	0.17%
Aviva (1)	8.3%	UK property	2	0.06%	-2.11% 1.71%	3.17%	0.85% 9.89%
Columbia Threadneedle Investments (TPEN)	6.3%	UK commercial property	2	1.30%	1.57%	8.95%	8.81%
Hearthstone	2%	UK residential property	N	1.85%	1.71%	3.78%	9.89%
Schroders	8.3%	Diversified Growth Fund	4	0.66%	2.13%	3.2%	8.3%
BMO Investments-LGM	5.3%	Emerging/ Frontier equities	2	-3.35%	0.28%	1.1%	2.4%

-2.11% & 0.85% = original Gilts benchmark; 1.71% and 9.89% 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 can be generated via their portal if required.

3.3 The combined fund performance and benchmark for the last quarter ending September 2018 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to Sept' 2018 Performance Gross of fees	
Combined Fund Performance ex-hedge	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	2.22	1.35	7.89	6.19

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

3.5 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years' period to September 2018 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	7.85%	10.5%	8.45%
Customised benchmark	6.15%	9.86%	8.12%

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 5.4% against a benchmark of 6.3%. Since inception with the London CIV in December 2015, there is a relative over performance of 1.2% whiles since January 2009 the original inception date, relative outperformance is 0.03% per annum. The main drivers for underperformance was due to stock selection and sector weightings. The portfolio holds 50 stocks.

3.6.4 The results of due diligence conducted to replace this fund is discussed on another agenda item.

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 have 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 outperformed by returning 7.20% gross of fees against a benchmark of 5.70% for the September quarter. Since inception the fund has delivered an absolute return of 12.8% but relative under performance of -0.21% gross of fees per annum

3.7.4 The out performance this quarter was driven mainly by stock selection in Information Technology and Financial sectors.

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. After a review of the fund's equities, carbon footprint Members agreed to track the FTSE UK All Share Carbon Optimised Index and this became effective in September 2017.

3.8.2 The fund returned -0.61% against FTSE All Share Index benchmark of -0.82% for the September quarter and a relative over performance of 0.30% over the five- year period. The portfolio is now mirroring the low carbon 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 September quarter, the fund returned -0.4% against a benchmark of -0.3% and an absolute return of 6.7% per annum since inception.

3.9.2 The drivers behind the under- performance in this quarter were due to exposure to UK financials, overweight positions in financials including subordinates and underweight exposure to higher quality supra nationals. The forward strategy is to move up the credit quality and maintain a healthy exposure to gilts

3.9.3 There was a drawdown of £30m to purchase units in the Aviva Lime fund as part of our extra £50m commitment which is now complete.

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 1.76% against a gilt benchmark of -2.1%. The All Property IPD benchmark returned 1.85% for this quarter. Since inception, the fund has delivered an absolute return of 6.8% net of fees.

3.10.3 This September quarter the fund's unexpired average lease term is now 19.3years. The Fund holds 79 assets with 47 tenants and cash of £71.9 m. One sale was completed during the quarter.

3.10.4 The fund also has £550m of investor cash of which £250m is committed to developments and close to completion. Through the secondary market Islington fund completed its additional investment £50m allocation in September and is no longer in the queue to invest.

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 September was £82.5million.

3.11.2 The agreed mandate guidelines are as listed below:

- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since I April 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 a relative under performance of -0.2% against its benchmark 1.6% for the September quarter and a 0.1% three - year relative return. The cash balance now stands at 7.6% compared to

6.3% last quarter. During the quarter there was one acquisition and 2 purchases. There is a strong asset diversification at portfolio level with a total of 276 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 targets to hedge 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is run by BNY Mellon our custodian. At the end of the September quarter, the hedged overseas equities were valued at £6.8m.

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 $7.1m 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

The total distribution received to the end of the September quarter is $52m.

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 June 2017. The total capital call to the quarter end was $24.8.m and a distribution of $9.4m.

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 were managed passively against regional indices to formulate a total FTSE All World Index series. Member agreed restructuring in 2016, that is now complete and the funding of BMO (our emerging market manager and restructuring of the fund to the MSCI World Low Carbon was completed on 3rd July 2017.

3.14.2 The components of the new mandate as at the end of June inception was £132m benchmarked against MSCI World Low Carbon Index and £33m benchmarked against RAFI emerging markets.

For the September quarter, the fund totalled £165m with a performance of 6.2% and relative return of -0.07%.

3.15 **Hearthstone**

3.15.1 This is the fund's residential UK property manager. The fund inception date was 23 April 2013, with an initial investment of £20million funded by withdrawals from our equities portfolios. The agreed mandate guidelines are as follows:

- Target performance: UK HPI + 3.75% net income.
- Target modern housing with low maintenance characteristics, less than 10 years old.
- Assets subject to development risk less than 5% of portfolio.
- Regional allocation seeks to replicate distribution of UK housing stock based on data from Academics. Approximately 45% London and South East.
- 5-6 locations per region are targeted based on qualitative and quantitative assessments and data from Touchstone and Connells.
- Preference is for stock which can be let on Assured Shorthold Tenancies (ASTs) or to companies.
- Total returns expected to be between 6.75% and 8.75% p.a., with returns split equally between income and capital growth. Net yields after fund costs of 3.75% p.a.
- The fund benchmark is the LSL Academetrics House Price Index

3.15.2 For the September, quarter the value of the fund investment was £28.2m and total funds under management is £54.8million. Performance net of fees was 1.85% compared to the LSL benchmark of -0.22%. The portfolio has 206 properties. 7 properties, are being sold, and 6 are being marketed for rent. Officers will with its advisors conduct a review of the fund in early 2019.

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 thirteen quarter since funding and the value of the portfolio is now £114m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The September quarter performance before fees was 0.66% against the benchmark of 2.13% (inflation+5%). The one -year performance is 3.2% against benchmark of 8.3% before fees.

3.16.3 The underperformance was attributed to market falls in emerging market equities and currencies. However, losses were cushioned by gains in in US equities, and property and insurance linked securities.

3.16.4 Members requested some other DGF managers' performance for comparison. Our LGPS performance comparison provider, PIRC provided the below performance comparators of other managers in their database to March 2018. The average benchmark is cash +4%

	1 Year	3 Years %pa
Universe Ave.	1.6	1.9
Universe Median	1.6	2.2
Pyrford	-2.4	2.5
SLIM GARS	1.2	-0.9
Ruffer	-1.3	3.0
Schroders	5.0	3.0
Newton	-1.9	0.5
BG	4.7	4.5
Invesco	5.3	3.4
Barings	3.7	3.4
Investec	2.8	1.3
Insight	3.6	1.6

Mercer has also provided a short report on Schroder's performance compared to their universe database attached as Exempt Appendix 2 to note.

3.17 **BMO Global Assets Mgt**

This is the new emerging and frontier equity manager seeded in July 2017 with a total £74.4m withdrawn from LGIM. The mandate details as follows:

- A blended portfolio with 85% invested in emerging market and 15% in frontier markets
- Target performance MSCI Emerging Markets Index +3.0% (for the global emerging markets strategy)
- Expected target tracking error 4-8% p.a
- The strategy is likely to have a persistent bias towards profitability, and invests in high quality companies that pay dividend

3.17.1 The September quarter saw a combined performance of -3.35% against a benchmark of 0.28% before fees. The performance is mainly due to stock selection.

The strategy remains to continue to research new companies that we suspect might be worthy of your hard earned capital and continue to have a close communication with our existing investments to push them to higher business and governance standards which we believe will ultimately enhance your long term return.

4. Implications

4.1 **Financial implications:**

The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.

Fund management and administration fees and related cost are charged to the pension fund.

4.2 **Legal Implications:**
As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.

4.3 **Resident Impact Assessment:**
The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding".

An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising.

4.4 **Environmental Implications**
None applicable to this report.

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending September 2018 as part of the regular monitoring of fund performance. Members are also asked to note Exempt Appendix 2- Mercer report on Schroder performance.

Background papers:
1. Quarterly management reports from the Fund Managers to the Pension Fund.
2. Quarterly performance monitoring statistics for the Pension Fund – BNY Mellon

Final report clearance:

Signed by:

Interim Corporate Director of Resources Date

Received by:

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

London Borough of Islington

Report to 30th September 2018

MJ Hudson Allenbridge

NOVEMBER 2018

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Contacts

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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 (active global equities)	Monitored by London CIV who confirmed there were no changes.	Underperformed in the quarter to September 2018, by -1.04%. Outperformed by +0.61% p.a. over 3 years to end September 2018 but trailing the target of +2.0% p.a.	London CIV sub fund dropped in value following exits by other member funds. As at end September the sub fund's value was £120.7 million and was 100% owned by London Borough of Islington.		
London CIV – Newton (active global equities)	Monitored by London CIV who reported that Terry Brewer, co-portfolio manager, has left the firm.	Outperformed the Index by +1.49% in the quarter. Behind the benchmark over three years by -2.43% p.a. but outperforming over the past year by +2.16%.	London CIV sub fund had £616.4 million of assets under management as at end September 2018. London Borough of Islington owns 36.0% of the sub fund.		
BMO/LGM (emerging and frontier equities)	Jeff Chowdhry, Director of Emerging Markets Equities, has announced his retirement for October 2018.	Underperformed the benchmark by -3.63% in the quarter to September 2018. Behind over one year by -1.32%.	Not reported.		
Standard Life (corporate bonds)	13 joiners, but 28 leavers (including 6 from fixed income).	Broadly in line with the Index return of -0.35% in Q3 2018. Over three years the Fund is 0.59% p.a. ahead of the benchmark return net of fees, but behind the performance target of +0.8% ahead p.a.	Fund value fell to £2944 million in Q3 2018, a fall of £144.6 million. Islington's holding stood at 6.4% of the Fund's value.		

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
Aviva (UK property)	22 new joiners and 8 leavers across the firm, but no changes to the Lime Fund team.	Outperformed the gilt benchmark by +2.18% for the quarter to September 2018 and by +2.00% p.a. over three years, net of fees.	Fund was valued at £2.14 billion as at end Q3 2018. London Borough of Islington owns 5.3% of the Fund after successfully purchasing some additional units in the secondary market.		Additional allocation has now been fully invested via the secondary market.
Columbia Thread-needle (UK property)	14 joiners and 2 leavers in Q3 2018	Underperformed the benchmark return by -0.27% in Q3 2018 but ahead of the benchmark by +0.13% per annum over three years. Trailing the performance target of 1% p.a. outperformance.	Pooled fund has assets of £1.99 billion. London Borough of Islington owns 4.38% of the fund.		
Legal and General (passive equities)	Mark Zinkula announced that he will retire as CEO of LGIM in August 2019.	Funds are tracking as expected.	Assets under management of £985 billion at end June 2018.		
Franklin Templeton (global property)	None reported.	Portfolio return over three years was +18.50% p.a., well ahead of the target of 10% p.a.	$2.4 billion of assets under management as at end June 2018.		
Hearthstone (UK residential property)	Three joiners, during Q3 2018.	Outperformed the IPD UK All Property Index by +0.21% in Q3. Trailing the IPD benchmark over three years by -3.57% p.a. to end September 2018.	Fund was valued at £54.8m at end Q3 2018. London Borough of Islington owns 51.5% of the fund.		
Schroders (multi asset diversified growth)	No changes to the DGF team.	Fund returned +0.66% during the quarter and +5.99% per annum over 3 years, -2.08% behind the target return.	Total AUM rose slightly to £392.3 billion as at end September 2018.		

Source: MJ Hudson Allenbridge

Minor Concern

Major Concern

Individual Manager Reviews

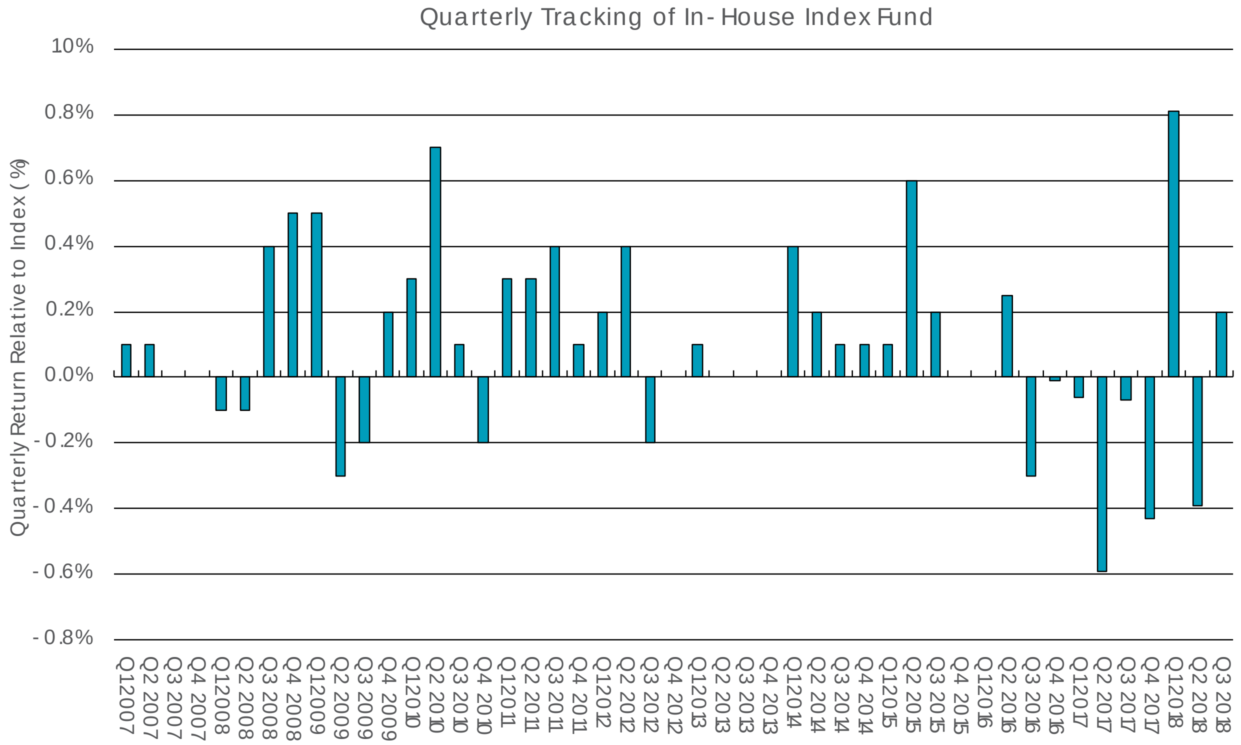
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: The portfolio continues to meet its objectives. The fund delivered a quarterly return of -0.61%, which was +0.20% ahead of the index benchmark return of -0.82%. Over three years the fund has underperformed the index by -0.17% p.a. and delivered a return of +11.28% per annum.

Mandate Summary: A UK equity index fund designed to match the total return on the UK FTSE All Share Index. In Q3 2017, the fund switched to tracking the FTSE UK Low Carbon Optimisation Index. This Index aims to deliver returns close to the FTSE All Share Index, over time. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the low carbon index.

Performance Attribution: Chart 1 shows the tracking error of the in-house index fund against the FTSE All Share Index since Q1 2007. There are no performance issues. Over three years, the portfolio underperformed its three-year benchmark by -0.17% per annum.

CHART 1:



Source: MJH Allenbridge; BNY Mellon

Portfolio risk: In Q3 2017, the index fund transitioned into a low carbon passive portfolio. As at quarter end, the portfolio had a tracking error of 0.34% against the FTSE UK Low Carbon Optimisation Index. The largest underweight sector was Consumer Staples. The portfolio held 13.83% in Consumer Staples at quarter end, compared with 14.27% in the benchmark, a difference of -0.45%. The most overweight sector was Consumer Discretionary: the portfolio weight was 11.08% versus the index at 10.45%, a difference of +0.63%.

As at the end of September, the fund held 297 stocks.

London CIV – Allianz – Global Equity Alpha Fund

Headline Comments: It was another disappointing quarter for the London CIV – Allianz sub fund as it underperformed in the quarter to September 2018, as markets rallied. The fund delivered a return of +5.36%, underperforming the benchmark return by -1.04%. Over three years the fund is outperforming the benchmark by +0.61% per annum but it is disappointing to see it continuing to fall back behind the performance target of +2.0% 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 (since Q4 2015) is to outperform the MSCI World Index by +2.0% per annum over rolling three-year periods net of fees.

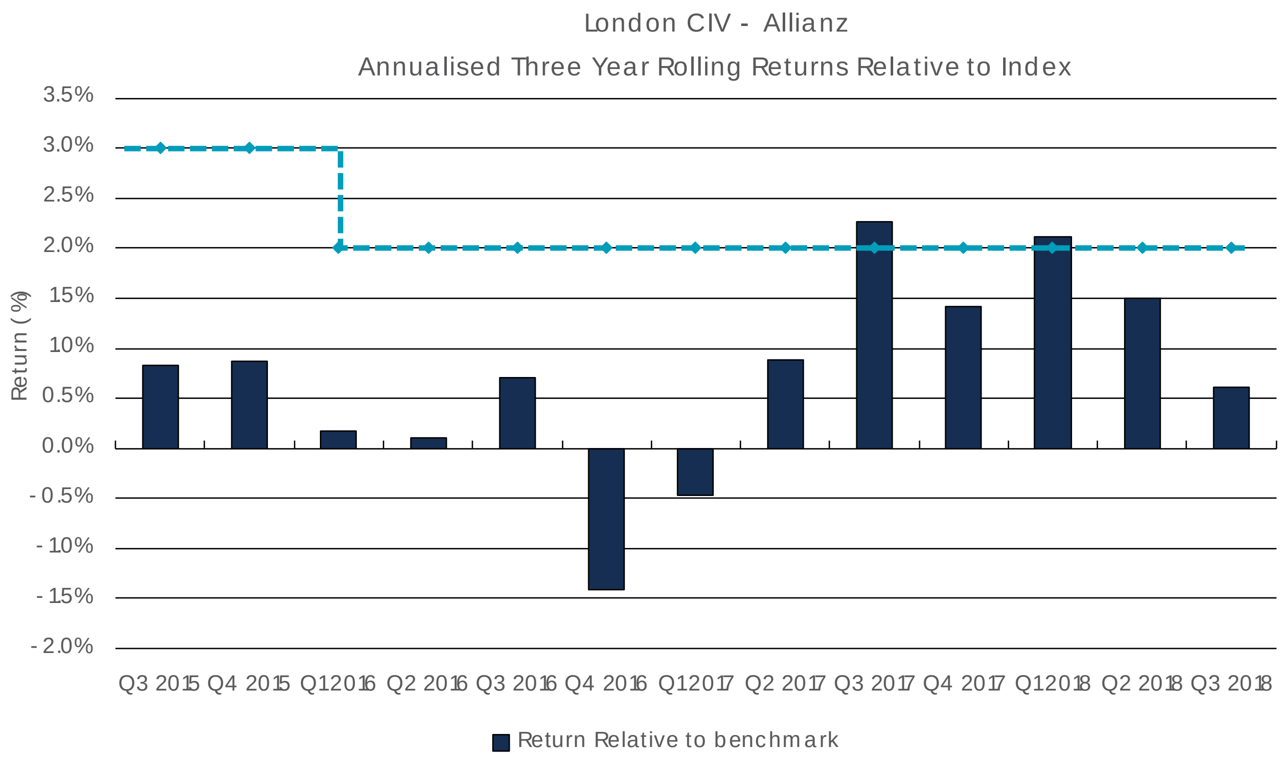
Performance Attribution: For the three years to September 2018, the AllianzGI portfolio was ahead of the benchmark by +0.61% per annum, but trailing the performance target of +2.0% per annum, shown by the dotted line in Chart 2. Note that the dotted line drops in Q4 2015 when the mandate transferred 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 underperformance, for the quarter to end September 2018, was attributed by the London CIV to poor stock selection within the Tech sector. Holdings in United Internet and Tencent were the biggest detractors from relative performance (detracting -0.32% and -0.27% respectively). This was exacerbated by not holding Apple, which performed well in Q3.

A zero allocation to Amazon also detracted from performance. This company returned +19.3% in Q3. Not holding Amazon and Apple contributed to 0.63% of the underperformance in Q3.

The main contributors to relative returns came from holdings in Microsoft (+0.68%), Amadeus (+0.49%) and Visa (+0.41%).

CHART 2:



Source: MJH Allenbridge; BNY Mellon

Portfolio Risk: a key concern for London Borough of Islington is that the two other London Boroughs invested in the LCIV Allianz sub fund have redeemed their units, leaving London Borough of Islington as the sole investor in the fund.

The active risk on the portfolio as at end September was +2.63% and the beta was 0.98 (if the market rises 10%, the fund is expected to risk 9.8%).

Portfolio Characteristics: as at end Q3 2018, the portfolio held 50 stocks (compared to 49 last quarter).

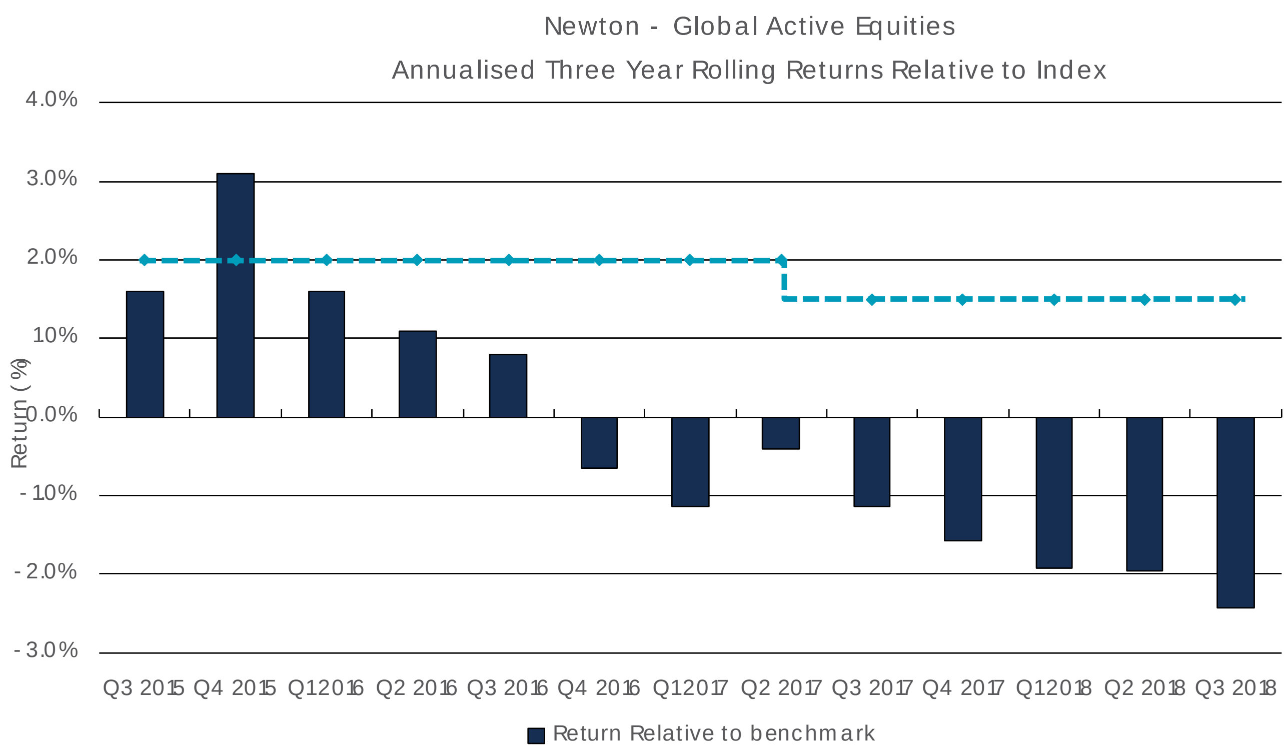
London CIV - Newton – Global Active Equities

Headline Comments: The London CIV - Newton sub-fund ouperformed its benchmark by +1.49% during Q3 2018, with a fund return of +7.19% compared with the benchmark index return of +5.70%. Over three years the portfolio has underperformed the benchmark by -2.43% per annum, well behind the target of +2.0% p.a. and below the performance that could be achieved with a passive mandate.

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 three-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: MJH Allenbridge; BNY Mellon

For the three-year period to the end of Q3 2018, the fund (shown by the navy blue bar) has trailed the benchmark by -2.43% per annum. This means it is trailing the performance objective by -3.93% (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

London CIV attributed the outperformance in the quarter to September 2018 to positive stock selection contributions from holdings such as Microsoft (+0.83%) and Apple (+0.67%). The fund was overweight the IT sector.

European stocks also contributed positive to returns, in particular the allocations to Switzerland, Netherlands and Germany.

UK equities were a drag on performance, with Associated British Foods being the biggest detractor (-0.32%).

The continued underperformance of this manager over a three year period remains a concern although it is worth noting that the one year performance has been much improved, with a fund return of +15.68% vs the Index return of +13.53, an outperformance of +2.16%.

Portfolio Risk: the active risk on the portfolio stood at 2.39% as at quarter end. The beta on the portfolio was 0.92 (if the market increases by +10% the portfolio can be expected to rise +9.2%).

At the end of Q3 2018, the London CIV sub fund's assets under management were £616.4 million, compared with £574.9 million last quarter. London Borough of Islington now owns 36.0% of the sub fund.

The London CIV has now taken this manager off "Watch", having been reassured that the FCA's scrutiny did not affect the team managing London Borough of Islington's portfolio.

Portfolio Characteristics: The number of stocks in the portfolio stood at 58 as at quarter end (compared with 59 at the end of last quarter).

Staff Turnover: The London CIV reported that Terry Brewer, one of the co-portfolio managers on the fund, has left the firm. However, the London CIV does not believe this is of immediate concern, but nonetheless will monitor the situation.

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of -3.35%% in Q3 2018, compared with the benchmark return of +0.28%, an underperformance of -3.63%. The emerging market component of this portfolio returned -4.43% (source: BMO) compared with the index return of -1.09%. The frontier markets portfolio was also behind the index return of -3.78%, delivering a negative absolute return of -5.09% (source: BMO). Over one year, the total fund is trailing the benchmark return by -1.32%.

Mandate Summary: the manager invests in a selection of emerging market and frontier market equities, with a quality and value, absolute return approach. The aim is to outperform a combined benchmark of 85% MSCI Emerging Markets Index and 15% MSCI Frontier Markets Index by at least 3% per annum over a 3-5 year cycle.

Performance Attribution: during the quarter, the largest positive contributors to performance for the emerging markets portfolio came from Walmart de Mexico (+0.7%), and Universal Robina (+0.6%). Companies which detracted most from performance included Yes Bank (-1.4%), Magnit PJSC (-0.8%), Sands China (-0.7%) and Tingyi (-0.5%).

In the frontier market portfolio, positive contributors included Delta Corporation (+0.8%) and ASA International (+0.6%). Companies which detracted from performance included Eastern Co (-1.8%), Tanzania Breweries (-0.9%) and Famous Brands (-0.6%).

Portfolio Risk: Within the emerging markets portfolio, 6.4% was allocated to developed or frontier markets, and cash stood at 4.4% as at quarter end. Turnover for the previous 12 months was 35.5%. The largest overweight country allocation in the emerging markets portfolio remained India (+8.6% overweight). The most underweight country allocation remained South Korea (-14.9%).

Within the frontier markets portfolio, it is worth noting that nearly half the portfolio was invested in countries that are not in the benchmark Index, including Zimbabwe, Costa Rica, South Africa, Puerto Rico, Peru and Pakistan. The most overweight country allocation remained Egypt (+11.1%) and the most underweight was Argentina (-14.9%).

Portfolio Characteristics: The frontier markets portfolio held 40 stocks as at end September compared with the benchmark which had 114. The emerging markets portfolio held 34 stocks as at end June compared with the benchmark which had 1,151.

Organisation: Jeff Chowdhry, Director of Emerging Markets Equities, has announced his retirement for October 2018. There were no other leavers or joiners.

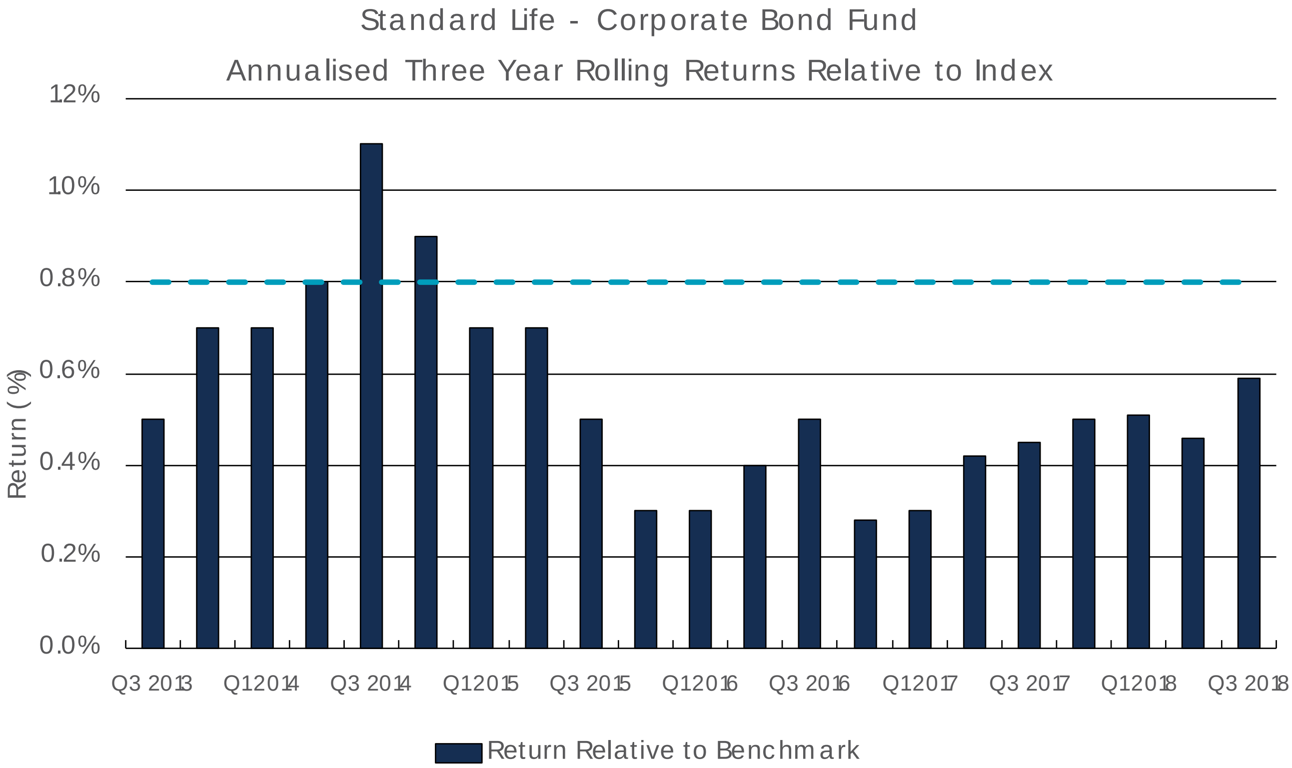
Standard Life – Fixed Income

Headline Comments: The portfolio was slightly ahead of the benchmark return during the quarter, delivering a return of -0.31% compared to -0.35%. Over three years, Standard Life's return was +0.59% p.a. ahead of the benchmark return of +4.46% p.a., net of fees, 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 iBoxx Sterling Non-Gilt 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 is ahead of the benchmark over three years, but trailing the performance objective (shown by the dotted line in Chart 4).

CHART 4:



Source: MJH Allenbridge; BNY Mellon

Over three years, the portfolio has returned +5.05% p.a. compared to the benchmark return of +4.46% p.a. Over the past three years, stock selection has added 0.33% value, followed by asset allocation (+0.17%) and curve plays (+0.07%).

Portfolio Risk: The largest holding in the portfolio at quarter end remained EIB 5.625% 2032 at 1.6% of the portfolio. The largest overweight sector position remained Financials (+7.1%) and the largest underweight position remained sovereigns and sub-sovereigns (-13.6%). Contiribution from asset allocations was broadly flat over the quarter.

The fund holds 3.7% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end September 2018 stood at £2,944 million, £144.6 million lower than at the end of Q2 2018. London Borough of Islington's holding of £197.6 million stood at 6.7% of the total fund value (compared to 7.4% last quarter).

Staff Turnover: there were 13 joiners, but the firm saw 25 people leave the firm, reflecting the continued rationalisation of the merged Aberdeen and Standard Life teams. Of the 25 leavers, six were from the fixed income team, including Graeme Caughey, Head of Pan European Macro; Jozef Szabo, Head of Global Macro; and Charles Tan, Head of US Investment-Grade Fixed Income. There were no changes to the team managing the London Borough of Islington fund.

Aviva Investors – Property – Lime Property Fund

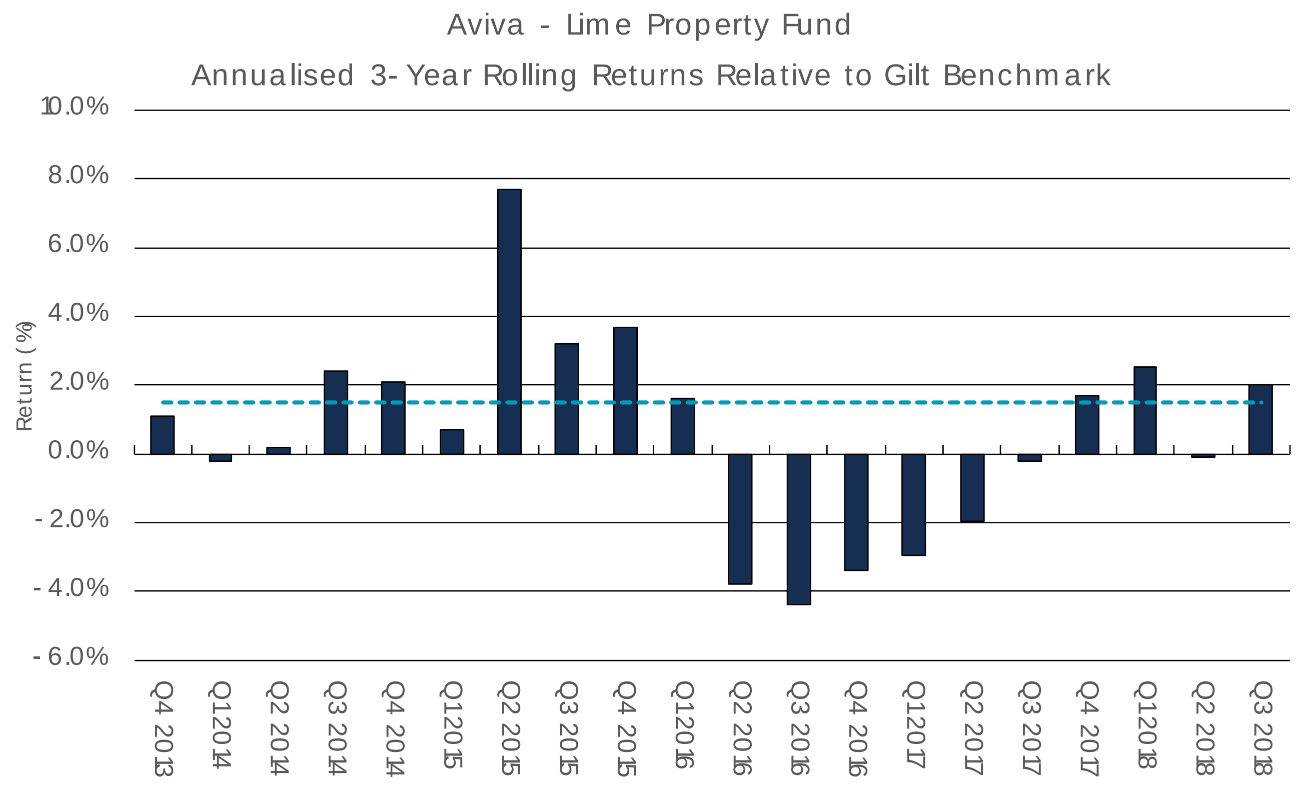
Headline Comments: Following a further purchase of £26 million of secondary units, the residual allocation to the Lime Fund was completed. The portfolio delivered a return of +0.06% compared to the gilt benchmark return of -2.11%. Over three years, the portfolio delivered a return of +5.86% compared with the benchmark return of +3.86%, net of fees.

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 Q3 2018 return was attributed by Aviva equally between income and capital return.

Over three years, the fund has returned +5.86% p.a. ahead of the gilt benchmark of +3.86% p.a. The portfolio is once again ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 5.

CHART 5:



Source: MJH Allenbridge; BNY Mellon

Over three years, 60% of the return came from income and 40% from capital gain.

Portfolio Risk: The manager sold an HSBC branch in Norwich in Q3 due to future risk of underperformance going forward. The sale was at a 13% premium above valuation aiding to asset return for the year.

The average unexpired lease term was 19.3 years as at end September 2018. 11.5% of the portfolio's lease exposure in properties is in 30-35 year leases, the largest sector exposure remains offices at 28.3%, and the number of assets in the portfolio is now 79 at the end of September. The weighted average unsecured credit rating of the Lime Fund remained A-.

During the quarter, £26 million of secondary units were purchased, allowing the pension fund to complete its additional allocation of £50 million. The residual £26 million was in a queue of some £550 million of other investors' capital and Aviva had indicated that they expected to draw on London Borough of Islington's capital by Q2 2019. The pension fund has therefore benefitted by investing significantly earlier than was being anticipated by the manager.

Portfolio Characteristics: As at end September 2018, the Lime Fund was valued at £2.139 billion, an increase of £56.10 million from the previous quarter end. London Borough of Islington's investment represents 5.3% of the total fund. This was an increase of some 1% compared with last quarter, reflecting the additional £26 million of units purchased in the secondary market. The Fund had 67.6% allocated to inflation-linked rental uplifts as at end September 2018.

Staff Turnover/Organisation: There were 22 new joiners and 8 leavers from the real assets team during Q3. There were no changes to the Lime Property Fund portfolio management team.

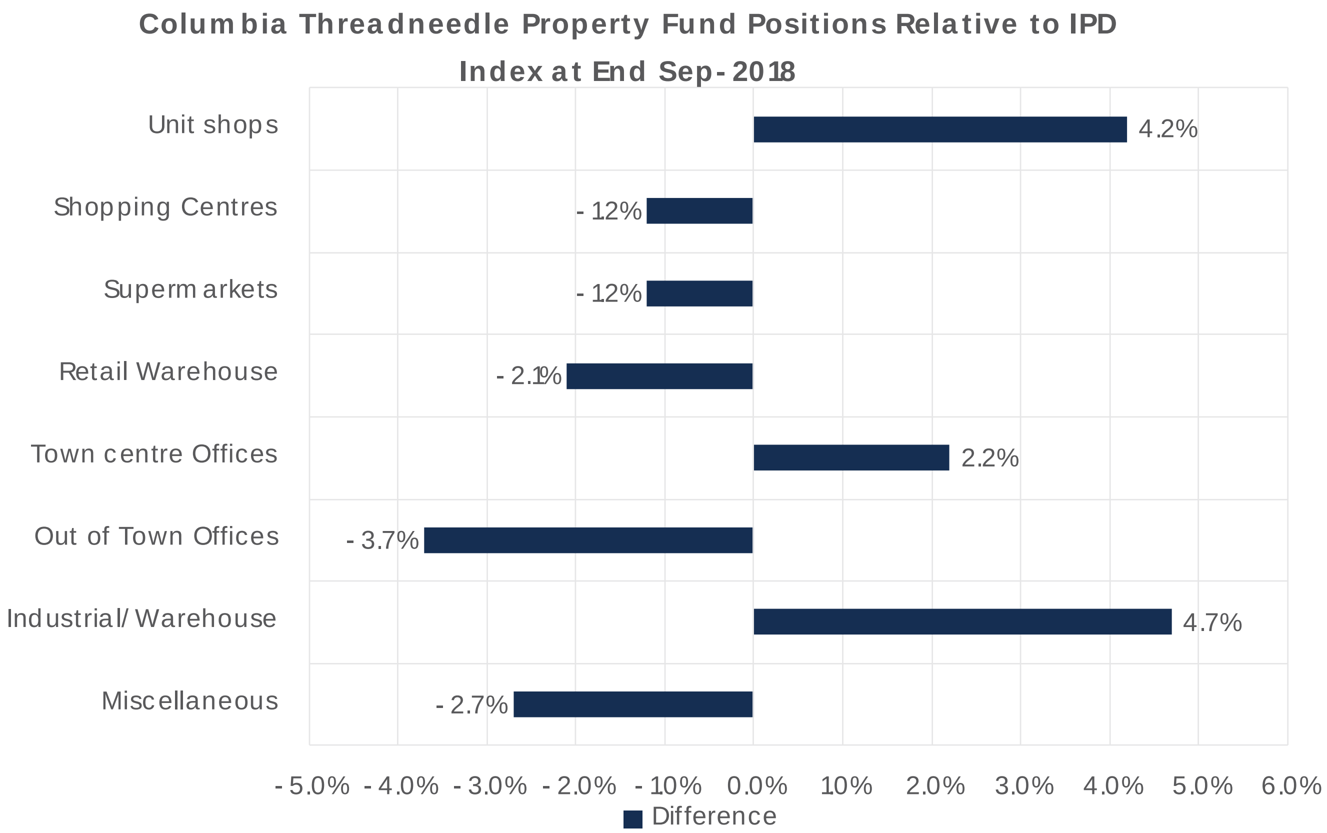
Columbia Threadneedle - Pooled Property Fund

Headline Comments: The Fund delivered a return of +1.30% in Q3 2018, behind the benchmark return of +1.57%. Over three years, the Fund has outperformed the benchmark by +0.13% per annum, although this is 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.

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

CHART 6:



Source: MJH Allenbridge; Columbia Threadneedle

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 agreed terms to invest collectively £48.8 million in two industrial assets and one leisure asset within the greater London area. The fund also sold a retail asset in Lewisham for £18.75 million, crystallising a profit of £1 million.

The fund has had a slightly higher than benchmark void rate but by the end of September this had fallen to 7%. Voids have been increasing over the market, generally. The fund has also had a higher cash balance than many peers, and this is creating a drag on performance. However, the manager considers this to be a prudent stance in light of potential Brexit implications.

Performance Attribution: The portfolio underperformed the benchmark by -0.27% in Q3 2018, delivering a return of +1.30%. The manager continued to note wide deviation in performance between different sectors. The retail sector, for example, delivered a return of +0.1% in Q3, compared with the industrial sector which returned +3.5%.

Over three years, the Fund is ahead of its benchmark by +0.13% per annum, with a return of +7.24% per annum, but it is still trailing the performance target of +1% per annum.

Portfolio Characteristics: As at 31st March 2018, the Threadneedle Property Fund was valued at £1.992 billion, an increase of £35.9 million compared with June 2018. London Borough of Islington's investment represented 4.38% of the Fund as at end September 2018.

The manager is continuing to look to buy smaller units in urban locations where supply is restricted. He is also looking to move the portfolio away from industrial properties in London to other locations.

Staff Turnover: There were 14 joiners and 2 leavers across the firm in Q3 2018. This includes Jenny Hewitt joining as a surveyor for the fund to replace Robin Jones.

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

Headline Comments: The two passive index funds were within the expected tracking range when compared with their respective benchmarks. The MSCI World Low Carbon index fund marginally underperformed the benchmark index by -0.02%. The FTSE-RAFI Emerging Markets index fund underperformed its fundamental benchmark index by -0.09%.

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 two index funds both tracked their benchmarks as expected, as shown in Table 2.

TABLE 2:

	Q3 2018 FUND	Q3 2018 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+5.35%	-5.44%	-0.09%
MSCI World Low Carbon Target	+6.42%	+6.44%	-0.02%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 80.6% to the MSCI World Low Carbon Target index fund, and 19.4% allocated to the FTSE RAFI Emerging Markets index fund.

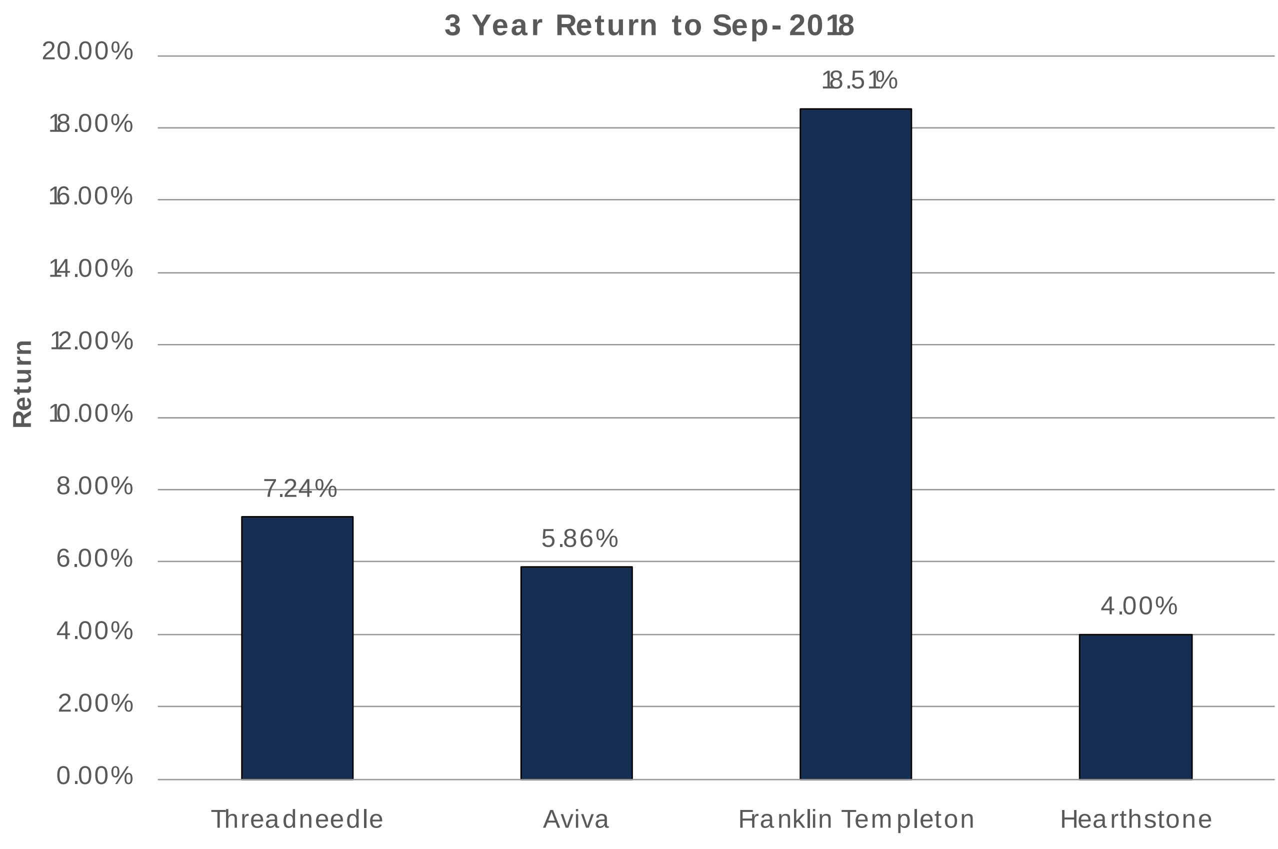
Franklin Templeton – Global Property Fund

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 +18.51% per annum over the three years to end September 2018, outperforming the absolute return benchmark of 10% per annum by +8.51% 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 September 2018, 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:



Source: MJH Allenbridge; Columbia Threadneedle

Staff Turnover/Organisation: not reported.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio returned +1.92% net of fees, compared to the IPD Property Index return of +1.71% for the quarter ending September 2018. Over three years, the Fund delivered a return of +4.00% p.a. compared with the IPD Index return of +7.57% p.a. and compared with the LSL Acadata House Price Index return of +3.8% p.a.

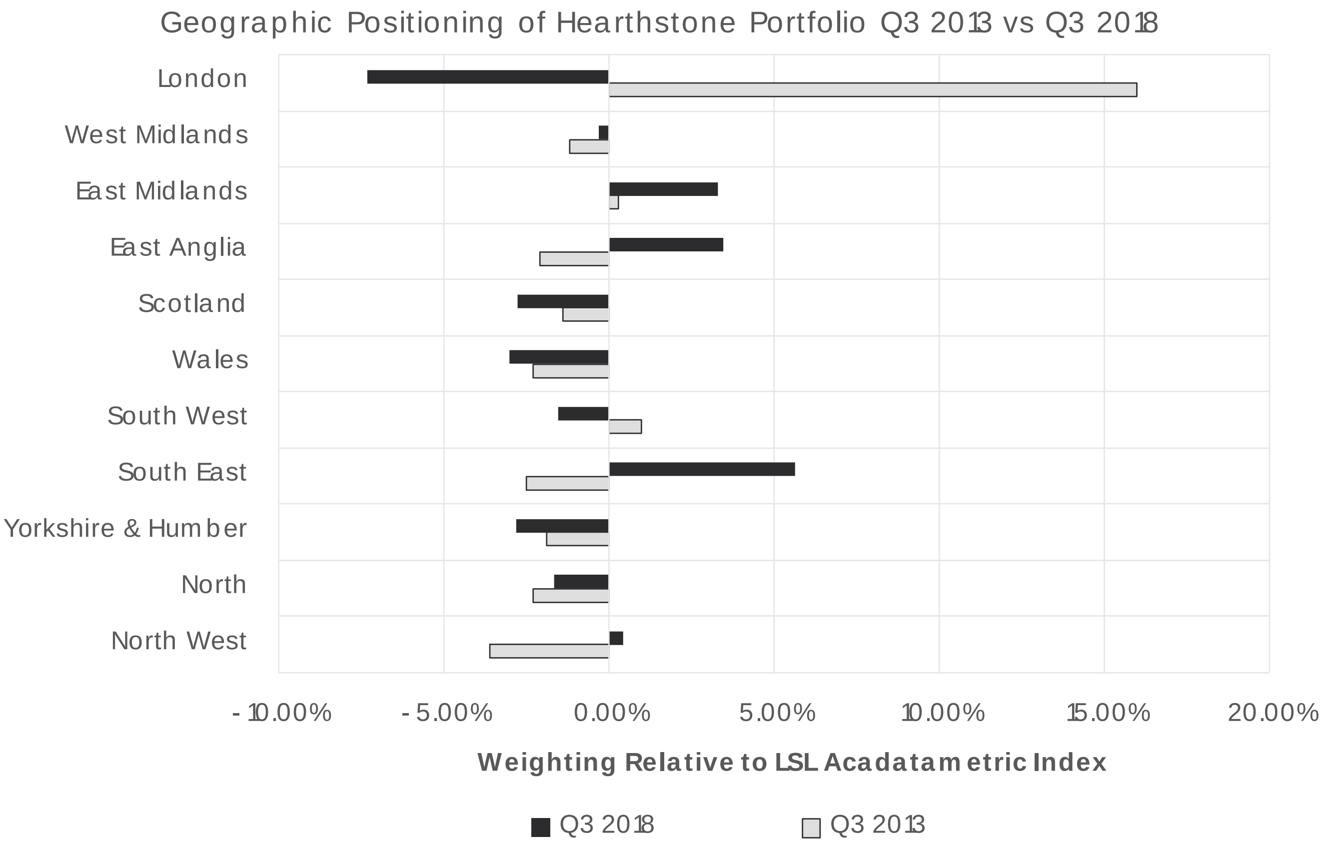
Mandate Summary: The Fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The Fund returned +4.00% p.a. compared to the return on the IPD index of +7.57% p.a. over the three years to September 2018, an underperformance of -3.57% p.a. The gross yield on the portfolio as at 30th September 2018 was 4.78%. Adjusting for voids, however, the gross yield on the portfolio falls to 4.49%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 6.59%.

The regional allocation, shown in Chart 7 relative to the benchmark Index, continues to have overweighting to the South East. It remains Hearthstone's long-term intention to run the portfolio on a region-neutral basis. Chart 8 compares the regional bets in the portfolio in Q3 2018 (black bars) with the regional bets at the start of the mandate, in Q3 2013 (light grey bars). The overweight allocation to the South East is shown by the large black bar on the right.

CHART 8:



Source: MJH Allenbridge; Hearthstone

Portfolio Characteristics: The Fund has a 12% allocation to detached houses, 44% allocated to flats, 24% in terraced accommodation and 20% in semi-detached. The allocation to flats remains a significant overweight position relative to the Index (44% for the Fund compared to 17% for the Index). As at end September there were 206 properties in the portfolio.

As at end September 2018, the Fund stood at £54.8 million. London Borough of Islington's investment now represents 51.5% of the Fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: During the quarter, Richard Smith and Iman Askari joined as Business Development Managers and Adrian Elford joined as Head of Marketing. There were no departures.

Schroder – Diversified Growth Fund (DGF)

Headline Comments: The Diversified Growth Fund delivered a return of +0.66% in Q3 2018. This compared with the RPI plus 5% p.a. target return of +2.13% for Q3. Over three years, the Fund delivered a return of +5.99% per annum compared with the target return of +8.06%, behind the target by -2.07% p.a.

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 Q3 2018, equity positions added +1.3%, alternatives added +0.1%, credit and government debt was flat at 0.0%, and cash and currency detracted -0.9% (figures are gross of fees).

The return on global equities was +12.3% for the 3-years to September 2018 compared with the portfolio return of +5.99% (a 48.7% 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 3 years, the volatility of the Fund was 4.1% compared to the three-year volatility of 8.3% in equities (i.e. 49% of the volatility of the Index) so is slightly below expectations.

Portfolio Characteristics: The Fund had 24% in internally managed funds (significantly up from last quarter's 16% allocation), 41% in internal bespoke solutions (up from 37% last quarter), 5% in externally managed funds (down from 78%), and 30% in passive funds (a decrease on last quarter's 37% allocation) with a residual balance in cash, as at end September 2018. In terms of asset class exposure, 47.7% was in equities, 28.5% was in alternatives and 23.4% in credit and government debt, with the balance in cash.

Alternative assets include absolute return funds, infrastructure, property, insurance-linked securities, commodities and private equity.

Organisation: During the quarter, there were no changes to the team responsible for the Diversified Growth Fund although one person left the Global Asset Allocation Committee and was replaced internally.

Karen Shackleton
Senior Adviser, MJ Hudson Allenbridge
2nd November 2018

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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	26 November 2018		n/a

Delete as appropriate	Exempt	~~Non-exempt~~

SUBJECT- EQUITY PROTECTION STRATEGY- SEMI ANNUAL MONITORING

1. Synopsis

1.1 This is a semi-annual monitoring report on the implemented equity protection strategy to allow Pensions Sub-Committee to review the performance of the strategy regularly. The end of period market to market exposure and option gain or loss position will be discussed and noted for information.

1.2 Mercer our investment advisor, has prepared a presentation to highlight the main features of activities to September 2018 and performance during the March to September 2018.

2. Recommendations

2.1 To note the options value as at September 2018

2.2 To receive Mercer's presentation highlighting the main features and activities of the strategy to September 2018- attached as Appendix 1-Equity Protection Monitoring

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 22-year recovery plan was agreed with projected contributions over this period to achieve a 100% funding level.

3.2 Members agreed at the October 2017 special meeting to implement an equity protection strategy aiming to protect 50% of the portfolio (total equities exposure is 65%). They agreed the protection will initially be to 31 March 2020, the next actuarial valuation, and then reviewed.

3.3 The protection strategy was implemented on 2nd February and was based on an equity notional value of £734m (equity value at 31 December 2017 less premium of £25m). The premium was sourced from our LGIM MSCI Global Low Carbon Fund. The target maturity is March 2020 except for Japan that expires in June 2020. The actual premium for the structure was £24.7m. The weighted average upper and lower strike were 94.9% and 78.3% respectively.

3.4 Members agreed to receive six monthly monitoring reports to track our equity exposure and the market to market value of our protection. As at September 2018 our equities exposure had increased by £26m but our option was valued £21.8m. Members should note that as the strategy is for a fixed term any gains and losses will only be realised at the end of the contract.

3.5 Mercer will be presenting in more detail activities during the April to September 2018 period and how the protection has performed.

4. Implications

4.1 **Financial implications**

4.1.1 The cost of providing independent investment advice and fund management 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 are asked to note the Fund's market to market equity exposure position and receive a presentation from Mercer highlighting the equity protection strategy performance and activities during the six months to September 2018, attached as Appendix 1 – Equity Protection Monitoring.

Background papers:
None

Final report clearance:

Signed by:

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

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HEALTH WEALTH CAREER

LONDON BOROUGH OF ISLINGTON PENSION FUND

EQUITY PROTECTION QUARTERLY MONITORING REPORT AS AT 30 SEPTEMBER 2018

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NOVEMBER 2018

Peter Tornkvist
Tony English

MAKE TOMORROW, TODAY MERCER

EQUITY PROTECTION
INTRODUCTION

- Given the improvement in the funding position since the 2016 valuation, it was agreed at the Committee meeting in November 2017 to implement an equity protection strategy. The Committee stated a preference for “paying a premium” to finance the protection strategy as opposed to “not paying a premium” and giving up equity market gains above a certain threshold. The implementation of the protection strategy was then delegated to the Officers to implement on behalf of the Committee.

- The guiding objectives for this strategy were as follows:

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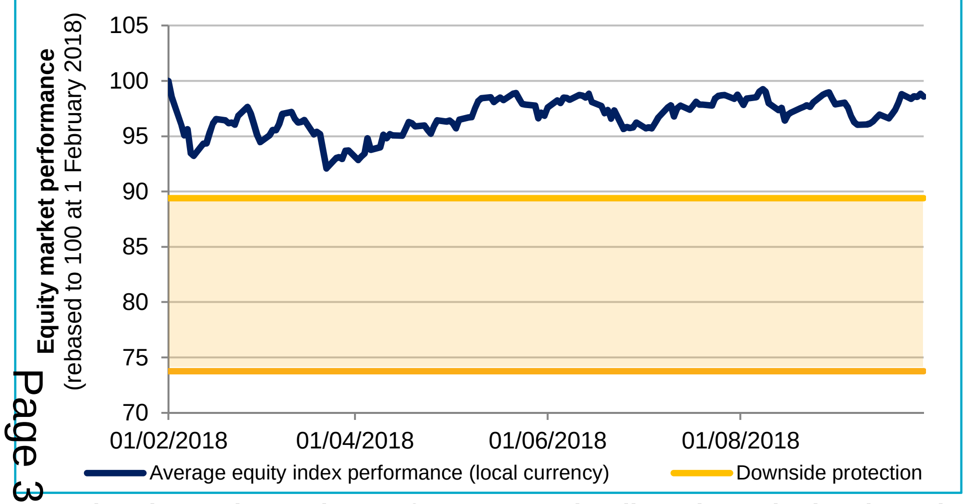
OBJECTIVE 1	OBJECTIVE 2	OBJECTIVE 3
Maintain sufficient equity market upside to (at least) close the current funding deficit	Seek downside protection to (at least) avoid falling behind the recovery plan at the next valuation	Align protection strategy with cash funding negotiations of the 2019 valuation

- The equity protection strategy was implemented at the start of February 2018.

EQUITY PROTECTION MONITORING (I)

Equity protection to 30 September 2018



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Comments

An equity option strategy has been implemented to protect the Fund against falls in equity market values over a c. two year period.

The chart opposite shows the equity market performance from inception to 30 September 2018 (the **blue line**) and the **orange shaded region** shows the range in which the Fund is protected against equity market falls. As market levels get nearer to the shaded region, the value of the option strategy increases as it is more likely that the options will expire "in-the-money" and the Fund will receive a payoff at maturity.

Over the period since inception to 30 September 2018, the Fund's equity exposure increased by c. £26m and the mark-to-market value of the equity options decreased by c. £3m. We will continue to monitor this position.

Note that the equity market performance and strikes shown in the chart above are based on price indices (as the options were traded on these indices) and hence the initial protection level shown differs from that shown in the Appendix on a total return basis.

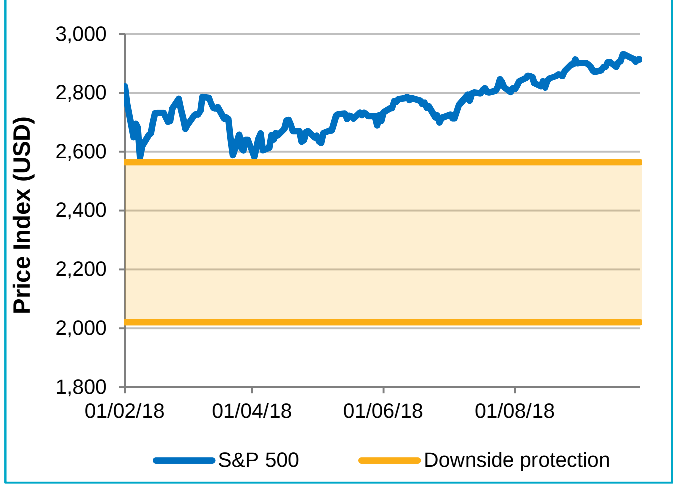
Market index	Market exposure		Value of options	
	30-Sep-18	Change since inception of option strategy	30-Sep-18	Change since inception of option strategy
S&P 500	£330.9m	£37.3m	£7.2m	(£3.2m)
FTSE 100	£219.4m	(£0.8m)	£5.0m	(£2.2m)
Euro Stoxx 50	£77.3m	(£3.4m)	£2.6m	£0.0m
Topix	£45.3m	£1.2m	£1.3m	(£0.1m)
Emerging Markets	£87.1m	(£8.4m)	£5.6m	£2.4m
Total	**£760.0m**	**£26.0m**	**£21.8m**	**(£3.0m)**

Source: LGIM. Figures may not sum due to rounding. Does not include transaction costs or manager fees.

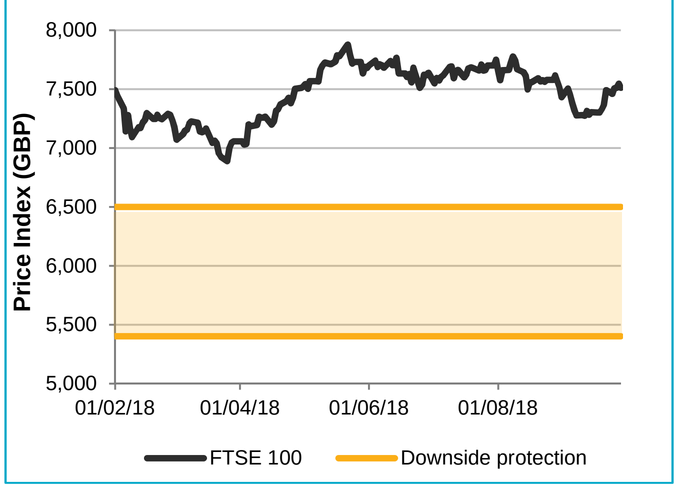
EQUITY PROTECTION MONITORING (II)

- The charts show the current market level as at 30 September 2018 and the market level when the options were implemented on 1/2 February 2018. The closer the market is to the option strike, the more valuable the protection.
- The MSCI Emerging Markets put option is “in the money” as at 30 September 2018, i.e. the Fund will receive a payoff of c.£7.7m at maturity if the index remains at the current level.

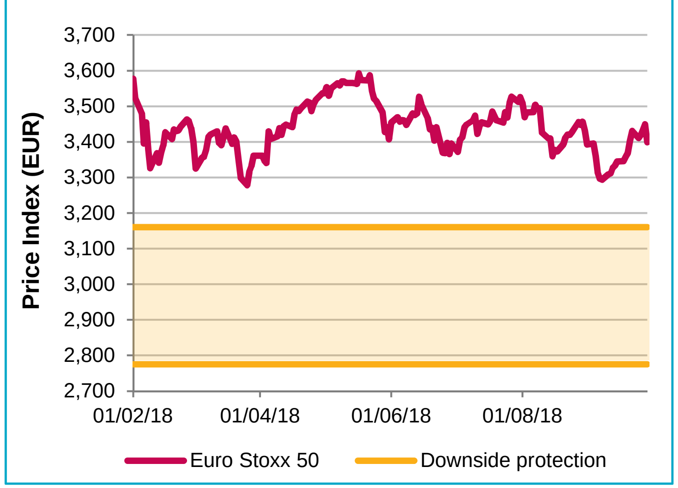
S&P 500



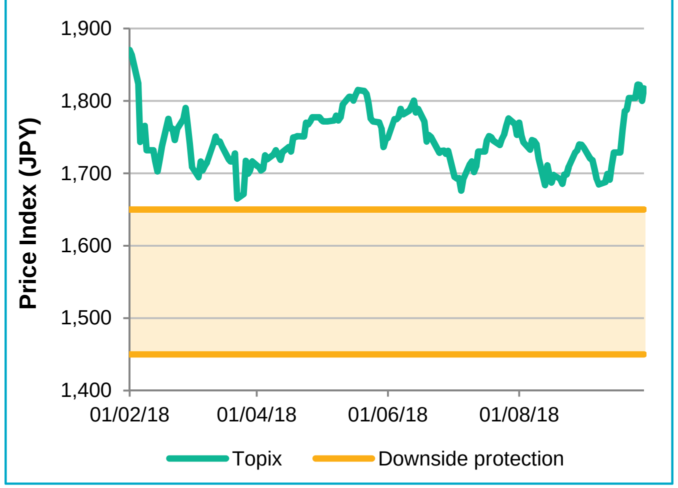
FTSE 100



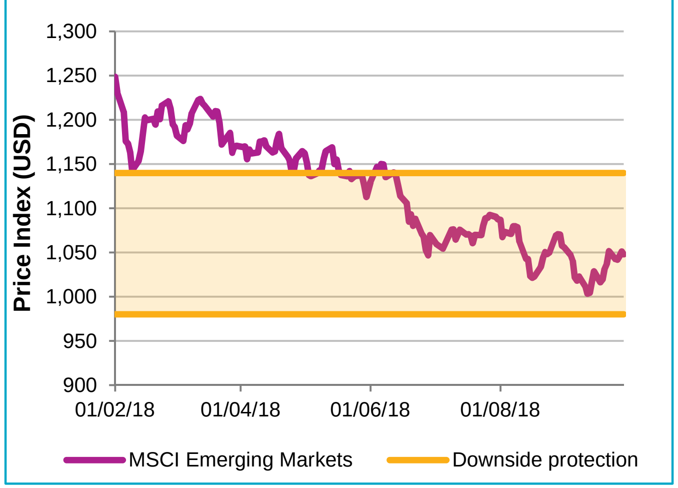
Euro Stoxx 50



Topix



MSCI Emerging Markets



EQUITY PROTECTION
SUMMARY

- The Fund’s equity protection strategy was implemented on 1st/2nd February 2018 before the equity market sell off in February. Although there has been some recovery since then, on average markets are still slightly down compared to levels at inception.

- The exceptions to the above are the S&P 500 index which is now c. 3.3% higher than at inception and the FTSE 100 index which is now c. 0.3% higher (as at 30 September 2018) than at implementation. In addition, the MSCI Emerging Markets index has continued to fall over Q3 2018 (c. 16.0% lower as at 30 September 2018 than at inception) and is now materially below the put option strike, meaning that if the index remains at this level at expiry, the Fund will receive a c. £7.7m payout.

- The value of an option is impacted by many factors including the volatility of the market, the current market level against the strike level of the option and the time remaining until the option expires.

- At implementation, the Fund paid £24.7m to purchase the protection. As at 30 September 2018, the value of the protection has decreased to £21.8m, largely due to strong returns from the S&P 500 over Q3 2018.

APPENDIX

EQUITY PROTECTION
KEY DETAILS OF THE STRATEGY

Investment manager

After a competitive tender exercise, the Officers selected **Legal & General Investment Management (“LGIM”)** to manage the equity protection strategy for the Fund.

Investment strategy

Agreed to “pay a premium” of £25m to achieve the following protection:

- Purchasing financial contracts to protect c. 95% of the value of the equity portfolio to March 2020;
- Selling financial contracts to cheapen the above premium by exposing the equity portfolio to falls in markets should they fall by more than c. 19%.

An overview of what was achieved is shown below (source: LGIM). Note that the strikes shown are on a total return basis, i.e. allowing for dividends.

Equity region	Index	Weighting	Notional	Upper strike	Lower strike
North America	S&P 500	40%	£294m	94.8%	74.7%
UK	FTSE 100	30%	£220m	95.2%	79.1%
Europe	Euro Stoxx 50	11%	£81m	95.1%	83.6%
Japan	Topix	6%	£44m	93.6%	82.2%
Emerging Markets	MSCI Emerging Markets	13%	£95m	94.9%	81.6%
	Total	**100%**	**£734m**	**94.9%**	**78.3%**

Costs

Cost of protection	=	£24.7m (vs. £25.0m expected)
Transaction costs	=	£0.15m (vs. £0.73m expected)
Manager fees	=	£0.44m (vs. £0.73m undiscounted fees)
Total	**=**	**£25.29m (saving of c. £1.17m before advisory fees)**

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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	26 November 2018		n/a

Delete as appropriate	Exempt	~~Non-exempt~~

Appendix 1 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: LISTED EQUITY PORTFOLIO REVIEW- LCIV ALLIANZ TRANSFER

1. Synopsis

1.1 This report and exempt appendix provide updated information on the due diligence review of global equities sub funds available on the LCIV platform.

1.2 Mercer, our investment advisors have also prepared a terms of reference and the recommended replacement sub fund available on the LCIV platform (attached as exempt Appendix 1)

2. Recommendations

2.1 To note the process of reviewing the global equities' managers currently available on the LCIV platform

2.2 To consider to results of the due diligence process

2.3 To agree to appoint the recommended Manager A to replace Allianz sub fund

2.4 To delegate to the Corporate Director of Resources, in consultation with the Assistant Chief Executive, Governance and HR, authority to negotiate and agree with the LCIV

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

3. Background

Allianz

3.1 The Committee agreed to transfer our global equity assets with Allianz to the LCIV Allianz sub fund as part of the Phase 1 funding in December 2015. We were part of 3 boroughs who completed this transition at the time. As of the 2nd quarter of this year, the other 2 boroughs terminated their mandate with Allianz due to changes in asset allocation and requirements.

3.2 The LCIV will not terminate the Allianz sub fund because asset under management c £120m still makes it viable. Members are being asked to reconsider the portfolio because we are the only investors now and the fund has underperformed over the long term not achieving its target outperformance since inception in January 2009 and their Mercer rating is now a 'B'. Members asked for further analysis on both our global equities on the LCIV platform (that is Allianz and Newton)

Newton

3.3 Newton was a segregated global equity manager appointed in January 2009 and transferred to the London CIV platform in May 2017. Three boroughs were still invested as at August with an AUM of £571m. The long term performance since inception is below the target outperformance. The Mercer rating is B+. Members will also recall they agreed a separate proposal regarding credit accrued from performance fee.

3.4 Members agreed in September that Mercer and officers conduct due diligence and identify possible alternatives available in principle to replace Allianz in the first instant.

3.5 **The selection process**

The LCIV currently has 7 global equity managers and this long list was narrowed to 3 excluding Newton and Allianz based on their Mercer ratings from A+ to B-, capacity and alignment to investment style and best fit. The 3 proposed managers were visited on site and presented on investment team, idea generation, process, ESG integration, risk, and performance on 24th October 2018.

The presentation was attended by

Nikeeta Kumar	Mercer
Tony English	Mercer
Joana Marfoh	Islington
William Mcbean(observers) Rob Hall (observers)	LCIV LCIV

3.5.1 The recommendation and terms of reference report has been prepared by Mercer and attached as Exempt Appendix 1. Members are asked to consider the report and agree to appoint Manager A to replace Allianz.

3.5.2 The transition and cost of termination will be negotiated and agreed with LCIV before any transfer of assets. The objective will be to achieve a best value for money to the Islington Fund.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

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.

4.2.2 The sub- committee must

(i) reasonably believe that the recommended investment manager's ability in and practical experience of financial matters makes them suitably qualified to make investment decisions for the Council

(ii) be satisfied that the fund (or relevant part of it) is managed by an adequate number of investment managers and that where there is more than one investment manager, the value of fund money to be managed by any one of them will not be disproportionate (in their view) in comparison with the value of fund money managed by other investment managers

(iii) have proper regard to the advice of the Interim Corporate Director of Resources and its external advisers, in relation to the proposed appointment

In considering the recommendations in this report, members must take into account the information contained in the Exempt Appendix 1 to this report

4.3 **Environmental Implications**

The environmental impacts were considered as part of the presentations where managers were asked to demonstrate how they took environmental and social governance issues in their portfolio construction. it was identified that the proposals in this report would have no adverse impacts.

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 are asked consider the Mercer report attached as Exempt Appendix 1 and agree to appoint the recommended Manager A to replace Allianz on the LCIV platform and also delegate authority to the Interim Director of Corporate Resources in consultation with the Assistant Chief Executive, Governance and HR, authority to negotiate and agree with the LCIV the implementation process and fund management agreements.

Background papers:
Exempt Appendix 1 .

Final report clearance:

Signed by:

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

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Email: Joana.marfoh@islington.gov.uk

ISLINGTON

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7 Newington Barrow Way
London N7 7EP

Report of: **Interim Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	26 November 2018		n/a

Delete as appropriate	~~Exempt~~	Non-exempt

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: CONTRACT AWARD FOR INFRASTRUCTURE MANAGER(S)

1. Synopsis

1.1 This report sets out the final stage in the tendering and award process for infrastructure manager(s). This follows on from the Fund's investment strategy review to consider changes to the asset allocation of the Fund's 25% defensive assets. Members are being asked to agree and award contracts to the recommended infrastructure managers.

2. Recommendations

2.1 To note the outcome of the tender process to procure an infrastructure manager(s)

2.2 To agree the appointment of Fund Manager A and B, as the Islington Pension Fund Infrastructure preferred managers as recommended in Appendix 1 (private and confidential)

Subject to 2.2

2.2.1 To agree the allocated percentages of 40% to Fund Manager A and 60% to Fund Manager B.

2.2.2 To agree the appointment of Fund Manager C as the Islington Pension Fund Infrastructure reserve manager as recommended in Appendix 1 (private and confidential)

2.2.3 To delegate to the Corporate Director of Resources, in consultation with the Assistant Chief Executive, Governance and HR, authority to negotiate and agree the fund management agreement with Fund Manager A and B.

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 sought. Nothing has been forthcoming from the LCIV up to 2017 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 agreed at November meeting to commence the procurement process and receive a progress report. After joining the LCIV infrastructure working group to collaborate and expedite the process, we were informed in February 2018 that the process was now on hold subject to governance review. Members agreed to collaborate with other interested local authorities in a joint tender for infrastructure.

3.3 Officers discussed with 2 other London local authorities the possibility of a joint tender to procure infrastructure within our time line. We engaged bfinance to lead on the tendering process as we could piggyback unto the last tender exercise they undertook for Havering and Newham.

3.4 The bfinance solution was preferred because they would

- Utilise LGPS search activity that is already ongoing, thus avoiding the need to commission something new.
- Provide all the research and analysis we need to support a manager selection.

- Deliver the benefits of collaboration and pooling, while allowing you to keep control of the decision making process.

The agreed approach with bfinance was to:

3.5
- Confirm our investment objectives and constraints and the appropriateness of the recent searches for those requirements.
- Prepare a report detailing the landscape of investment proposals together with their relative strengths and weaknesses.
- Present report and assist us in selecting a shortlist of proposals for interview / due diligence.
- Organise interviews and support us in conducting targeted meetings
- Assist in negotiations of fees and terms, taking into account the LGPS collaboration / pooling agenda.
- bfinance are remunerated if we appoint a manager and allocate funds

3.6 The timetable for the above approach initially for all 3 boroughs were as follows

Activity	Date
Agree fund objectives at high level	Last week in June 2018
Review 21 proposals received from 18 managers (summarised by bfinance)	August 2018
Individual Funds agree long list of managers	Week beginning 4th September
Initial due diligence meeting of 7 long listed managers	17 -18 September

3.7 The process was conducted in collaboration with 2 other boroughs as a joint tender and met together with bfinance for the first round of due diligence meetings with seven long listed managers. The individual boroughs then agreed a short list of managers to conduct interviews with their members/officers and advisors to agree and appoint recommended infrastructure managers.

3.8 Members agreed at the 12 September meeting to delegate authority to the interim Corporate Director of Resources to proceed with interviews for the shortlisting and submit a report to the next sub-committee meeting to seek appointment of an infrastructure manager(s). The shortlisting and beauty parade presentations was conducted by the following group on 12 October 2018:

Anish Butani Sam Gervaise-Jones	bfinance- Head of Infrastructure - Head of Client consulting
Alan Layton	Service Director Financial and Asset Management
Karen Shackleton	Senior Advisor- MJ Hudson Allenbridge
Joana Marfoh	Head of Treasury and Pension Fund Mgt

3.9 Five managers and LCIV were invited to make a presentation covering people, investment process idea generation, implementation, ESG, deployment of funds and fees. The outcome of the evaluation is set out in exempt Appendix 1 attached to this report.

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.

The revised investment strategy agreed is to make a **15%** flexible allocation to infrastructure and social housing. The fund is currently valued at £1.3bn. making the allocation to infrastructure and social housing in the region of £195m.

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.

4.2.2 In deciding which manager to appoint, the Pensions Sub-committee will need to consider fully and carefully the outcome of the tender evaluation and determine whether or not to accept the recommendation of the tender evaluation group.

4.2.3 The sub- committee must

(i) reasonably believe that the recommended investment manager's ability in and practical experience of financial matters makes them suitably qualified to make investment decisions for the Council

(ii) be satisfied that the fund (or relevant part of it) is managed by an adequate number of investment managers and that where there is more than one investment manager, the value of fund money to be managed by any one of them will not be disproportionate (in their view) in comparison with the value of fund money managed by other investment managers

(iii) have proper regard to the advice of the Interim Corporate Director of Resources and its external advisers, in relation to the proposed appointment

In considering the recommendations in this report, members must take into account the information contained in the exempt Appendix 1 to this report

4.3 **Environmental Implications**

The environmental impacts were considered as part of the tender submissions and presentations where managers were asked to demonstrate how they took environmental and social governance issues in their portfolio construction. it was identified that the proposals in this report would have no adverse impacts.

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

A Resident Impact Assessment has not been completed because the contents of this report relate to the statutory Local Government Pension Scheme Regulations. The LGPS Regulations are made under the Superannuation Act 1972.

5. Conclusion and reasons for recommendation

5.1 The evaluation group consider that the recommended Manager A and B will be able to add value to the fund through their investment strategy and skill.
Members are asked to agree to award the contract to Manager A and B subject to agreeing terms and conditions and to keep Manager C as a reserve manager.

Background papers:
None

Final report clearance:

Signed by:

Interim Corporate Director of Resources Date

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ISLINGTON

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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	26 November 2018		

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, running of portfolios and reviewing governance and investment structure, over the period August to November 2018.

2. Recommendations

2.1 To note the progress and news to November 2018

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 **Update to October**

3.5.1 Assets growth- the third quareter saw asset under active management grow to £7.5bn through the ACS platform. Passive assets managed by LGIM and blackrock aided by strong flow to low carbon tracker strategies reached £9.7bn. his means in total 47% of London boroughs pension asseta have now been pooled.

3.5.2 Fund Launch
a)The LCIV Multi asset credit launched inMay and now has 6 London boroughs investing £500m.

b) The LCIV infrastructure forum was held on 8th Novemeber, and launch is planned for January 2019.
The main proposal being offered is as follows
Infrastructure Objectives:
Target net returns of 8% -10% p.a.
Target cash yield of 4% -6% p.a.

Model Portfolio:
80-100% Brownfield Investments
0-20% Greenfield Investments
50-70% Europe with a UK focus
30-50% Rest of the world
80-100% Primary & Secondary Partnerships
0-20%Co-Investment
0-20%Direct Investment
10-30 General Partners (manager diversification) + co-investment and direct holdings

3.5.3 People
Maggie Abrahams is back as Deputy Chief Operating Officer. Will MacBean joined the client relations team, and Umer Nazir and Pruthvi Odedra joined as investment analyst.
LCIV will be relocating to new offices from 19 November and the new address is 4th Floor, 22 Lavington St, SE! 0NX.

3.6 **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..

The transfer of our Allianz managed equities to the CIV in December 2015 was achieved at a transfer cost of £7,241. 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
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.
In a April 2018 annual service charge of 25k (+VAT) and 65k (split 43.3k and16.6k) development fund was invoiced to all members

4. Implications

4.1 **Financial implications:**
4.1.1 Fund management and administration fees are charged directly to the pension fund.

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

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

4.3 **Environmental Implications:**
4.3.1 None specific to this report

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

An equalities impact assessment has not been conducted because this report is updating members on the implementation of a fund structure by external managers. There are therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendations

5.1 The Council is a shareholder of the London CIV and has agreed in principle to pool assets when it is in line with its Fund strategy and will be beneficial to fund members and council tax payers. This is a report to allow Members to review progress at the London CIV and note the progress to date.

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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Agenda Item B8

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Interim Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	26 November 2018		n/a

Delete as appropriate		Non-exempt

SUBJECT: PENSIONS SUB-COMMITTEE 2018/19– 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 and the LCIV.

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:

Interim Corporate Director of Resources Date

Received by:

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

APPENDIX A

Pensions Sub-Committee Forward Plan for November 2018 to June 2019

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 • Equity protection- semi - annual monitoring
26 November	Review of Investment Strategy Statement and decarbonisation Global Equities Review- LCIV Allianz Infrastructure procurement update-Award report Actuarial funding update- training
25 March 2019	Alternative products to corporate bond portfolio Review of Hearthstone Fund
June 2019	Investment Strategy Review

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

November 2018	Actuarial update

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of the Local Government Act 1972.

Agenda Item E1

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of the Local Government Act 1972.

Agenda Item E2

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of the Local Government Act 1972.

Agenda Item E3

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