

London Borough of Islington

**Pensions Sub Committee - 25 March 2019**

Non-confidential minutes of the meeting of the Pensions Sub Committee held at the Town Hall, Upper Street, N1 2UD on 25 March 2019 at 7.30 pm.

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

**Also Present:** Nikeeta Kumar and Tony English, Mercer Limited

Karen Shackleton and Steve Webster, MJ Hudson Allenbridge

**Observers:** Alan Begg and Valerie Easmon-George – prospective appointees to Pension Board

**Councillor Dave Poyser in the Chair**

**48 APOLOGIES FOR ABSENCE (Item A1)**

Received from Councillor Sue Lukes.

**49 DECLARATION OF SUBSTITUTES (Item A2)**

None.

**50 DECLARATION OF INTERESTS (Item A3)**

Councillor O'Sullivan declared a personal interest, having attended a meeting of "Pensions for Purpose" to which the Fund had just affiliated.

Councillor Poyser declared that he had made a contribution to the Mayor's Charity in lieu of a gift from Mercers Limited.

Karen Shackleton stated that she was a founder member of "Pensions for Purpose".

**51 MINUTES OF THE PREVIOUS MEETING (Item A4)**

**RESOLVED:**

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

Matters arising

Minute 47 - Pensions for Purpose

The Head of Pension Fund and Treasury Management stated that confirmation had been received of the Fund's affiliation to "Pensions for Purpose".

The Chair requested the Head of Pension Fund Treasury Management to produce a list of organisations to which the Fund was affiliated, together with information on any subscription costs and background information.

Members' reports

Councillor O'Sullivan reported that, on the Sub-Committee's behalf, he had attended AON Pension Conferences in January and February 2018 and had information to share for those who wished to receive it. He had also attended a sustainable investment forum where discussions had taken place about tobacco companies and the potential risks of investing in those companies. He noted that other Pension Funds were moving to exclude plastics from their portfolios and were also addressing air pollution issues.

**52** **PENSION FUND PERFORMANCE (Item B1)**

Karen Shackleton, MJ Hudson Allenbridge, reported that she had visited Hearthstone in early March to discuss the Sub-Committee's concerns about the London Borough of Islington being 'locked in' to the investment in Hearthstone. Although Hearthstone were attempting to raise new investments, those investments had not yet materialised due to uncertainty around Brexit and its impact on the UK housing sector. Hearthstone realised that their fund might not now be an ideal fit for the London Borough of Islington and hoped that crossing opportunities might arise in the future. She highlighted the fact that Hearthstone did not invest in social or affordable housing. She undertook to contact Hearthstone again to discuss the timescales for liquidation of units. On the basis of her investigations, she had no immediate concerns about retaining the Fund's mandate in Hearthstone at the present time.

**RESOLVED:**

- (a) That the performance of the Fund from 1 October to 31 December 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 of 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 for February 2019, attached as Appendix 2 to the report, be noted.
- (d) That BMO/LGM be asked about their holding in British American Tobacco Kenya, on the basis that smoking and its associated health hazards is not sustainable in the long term.

**53** **LGPS STATUTORY GUIDANCE ON ASSET POOLING (Item B2)**

Members welcomed in particular the proposal that "Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns", given the Sub-Committee's concerns about performance of the LCIV to date.

**RESOLVED:**

- (a) That the LGPS statutory guidance attached as Appendix 1 to the report of the Interim Corporate Director of Resources be noted.
- (b) That the draft comments of the Head of Pension Fund and Treasury Management in response to the consultation document from the Ministry of Housing, Communities and Local Government, set out in paragraphs 3.2.1 to 3.3.4, be approved as Islington Pension Fund's response to the consultation.

**54** **LISTED EQUITY PORTFOLIO - UPDATE ON TRANSFER OF ASSETS FROM LCIV ALLIANZ TO LCIV RBC SUSTAINABLE FUND (Item B3)**

Members considered the current position as described in the report of the Interim Corporate Director of Resources, whereby as part of the options provided by the LCIV to Islington for the transfer the Fund's global equity assets to LCIV's RBC Sustainable Fund, the issue of accrued withholding tax of £1.5m was raised. This was accrued income for the whole fund not available to invest as the last fund to exit, whilst Wandsworth and Ealing had been prepaid on exit. The LCIV had advised that recovery of the withholding tax could take up to three years, creating an excess cash drag for Islington.

Members were most concerned at the position they had been left in and were keen to see an undertaking from LCIV that they would review their procedures to ensure that such an occurrence could not happen again in the future.

Members noted that the LCIV had been asked by Islington Pension Fund to pursue refunds from Wandsworth and Ealing.

**RESOLVED:**

(a) That progress to date with LCIV on the transfer of assets, as detailed in the report of the Interim Corporate Director of Resources, be noted.

(b) That the units owned by Islington in the LCIV Allianz Fund be transferred to the RBC Sustainable Fund

(c) That an assurance be sought from the LCIV that they will review their processes with regard to redemption of funds, to ensure that in those cases where only one or two funds are left in a fund they are not left to bear closure costs and the full withholding tax credit in the fund. The Sub-Committee wished to be reassured on this before making any future investments in the LCIV.

(d) That the Interim Corporate Director of Resources, in consultation with the Director of Law and Governance, be authorised to negotiate with the LCIV:

(i) any costs associated with the termination of the Allianz sub fund mandate

(ii) fair recourse to dealing with the withholding tax accrued.

**55** **LONDON CIV UPDATE (Item B4)**

**RESOLVED:**

That the progress made at the London CIV in launching funds, running portfolios, reviewing governance and investment structure, from the period from December 2018 to March 2019, and detailed in the report of the Interim Corporate Director of Resources, together with the minutes of the LCIV General Meeting held in January 2019, be noted.

**56** **PENSIONS SUB-COMMITTEE FORWARD PLAN (Item B5)**

**RESOLVED:**

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

17 June 2019 – Equity protection – semi-annual monitoring  
New green investment strategy  
LCIV update

PIRC – annual fund performance compared to LA peer group

3 December 2019 – Carbon monitoring

(b) That a standing item be included on each agenda for members' reports of their attendance at meetings/events/conferences etc on the Sub-Committee's behalf.

**57 UK EQUITY PORTFOLIO DECARBONISATION (Item B6)**

Members of the Sub-Committee considered options from Mercer on alternative low carbon indices to the current In-House passive equity mandate. The Head of Pension Fund and Treasury Management highlighted the fact that the In-House Fund performed additional functions, with its dividend income being used to supplement the cash flow needs of the Pension Fund back account (- a total of £15m in 2018/19), so alternative arrangements would need to be organised before any transfer took place. An immediate decision was not required from the Sub-Committee since the existing In-House mandate could be managed up until March 2020.

It was noted that it had not yet been possible to carry out a direct comparison of costs of managing the In-House mandate against transfer to one of the alternatives proposed by Mercer.

The issues of fees, transition, timing and the fact that a transfer would mean that 25% of the Pension Fund could be in the new proposed index were all factors for the Sub-Committee to consider.

**RESOLVED:**

(a) That approval in principle be granted to the transfer of the In-House passive equity fund to a low carbon index (- as proposed by Mercer, option 2 on page 5 of their presentation), within a year.

(b) That the Investment Strategy Statement be submitted annually to the Sub-Committee for review, including as much information as possible to be available to the public.

(c) That, with a view to investment opportunities in other asset classes, a report be submitted to the next meeting on investment in the environment.

**58 LISTED EQUITY PORTFOLIO - UPDATE ON TRANSFER OF ASSETS FROM LCIV ALLIANZ TO LCIV RBC SUSTAINABLE FUND - EXEMPT APPENDIX (Item E1)**

Noted.

**59 LONDON CIV UPDATE - EXEMPT APPENDIX (Item E2)**

Noted.

**60 UK EQUITY PORTFOLIO DECARBONISATION - EXEMPT APPENDIX (Item E3)**

Noted.

The meeting ended at 9.40 pm

**CHAIR**