



**Governance and Human Resources  
Town Hall, Upper Street, London, N1 2UD**

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## AGENDA FOR THE PENSIONS SUB COMMITTEE

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Members of the Pensions Sub Committee are summoned to a meeting which will be held in Committee room 1, Islington Town Hall, on **12 September 2018 at 7.30 pm.**

**Yinka Owa  
Director of Law and Governance**

Enquiries to : Mary Green  
Tel : (0207 527 3005  
E-mail : [democracy@islington.gov.uk](mailto:democracy@islington.gov.uk)  
Despatched : 4 September 2018

### Membership 2017/18

Councillor Dave Poyser (Chair)  
Councillor Andy Hull (Vice-Chair)  
Councillor Sue Lukes  
Councillor Michael O'Sullivan

### Substitute Members

Councillor Mouna Hamitouche MBE  
Councillor Jenny Kay  
Councillor Angela Picknell  
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.

4. Minutes of the previous meeting 1 - 4

## **B. Non-exempt items**

1. Decarbonisation and Responsible Investment Policy review 5 - 8
2. Pension Fund performance - April to June 2018 9 - 44
3. Annual review and progress on the 2016 - 2020 Pension Business Plan 45 - 52

4.	Infrastructure procurement update	53 - 56
5.	London CIV update	57 - 62
6.	Pensions Sub-Committee 2018/19 Forward Plan	63 - 66
7.	Listed equity portfolio review - LCIV Allianz and Newton	67 - 70

**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**

1.	Decarbonisation and Responsible Investment Policy - exempt appendix	71 - 98
2.	London CIV update - exempt appendix	99 - 108
3.	Listed equity portfolio review - LCIV Allianz and Newton - exempt appendix	109 - 146

**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 26 November 2018

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London Borough of Islington

## **Pensions Sub Committee - 26 June 2018**

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

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

**Also Present:**                       Nikeeta Kumar, Alex Pearce and Tony English, Mercer Limited  
John Arthur – MJ Hudson Allenbridge  
Marion Oliver, Maggie Elliott and George Sharkey-  
Pension Board members and observers  
David Cullinan, PIRC

### **Councillor Dave Poyser in the Chair**

For the benefit of members of the public in particular who were present, Councillor Poyser advised the meeting that the Pensions Sub-Committee would consider a report at their September meeting on divestment. The Sub-Committee intended to divest the Fund from fossil fuel companies over a four year period.

He extended congratulations to Karen Shackleton, MJ Hudson Allenbridge, and adviser to the Sub-Committee, who was attending the Women in Pensions awards dinner, having been shortlisted for "Adviser of the Year".

**1**           **APOLOGIES FOR ABSENCE (Item A1)**  
Received from Karen Shackleton, MJHudson Allenbridge.

Apologies for lateness received from Councillor Hull.

**2**           **DECLARATION OF SUBSTITUTES (Item A2)**  
None.

**3**           **DECLARATION OF INTERESTS (Item A3)**  
None.

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

#### **RESOLVED:**

That the minutes of the meeting held on 5 March 2018 be confirmed as a correct record and the Chair be authorised to sign them.

**5 PENSION FUND PERFORMANCE - JANUARY TO MARCH 2018 (Item B1)**

**RESOLVED:**

(a) That the performance of the Fund from 1 January to 31 March 2018, as per the BNY Mellon interactive performance report, detailed in the report of the Corporate Director of Resources, be noted.

(b) That the report by MJHudson Allenbridge Advisers on fund managers' quarterly performance, detailed in Appendix 1 to the report, their presentation and the amendment to line 1 in the Headline Comments for BMO/LGM by the substitution of the figure "-3.37%" for "+3.37%" be noted.

(c) That the LGPS Current Issues – May 2018 leaflet, also attached to the report, be noted.

(d) That Hearthstone be informed of the Sub-Committee's critical view of their failure to engage and communicate with Islington about their plans to rebrand at the EGM on 15 June 2018, especially given that Islington's investment represented 49% of the Hearthstone Fund.

**7 ANNUAL FUND PERFORMANCE - PRESENTATION (Item B2)**

David Cullinan, PIRC, gave an annual performance review for the Pension Fund in 2018. Copies of the presentation were supplied to members.

He noted that the latest year's results showed that most Funds had outperformed their benchmarks by a small margin, averaging 4.5%. He described the reasons for the rise and fall in various major asset classes, with property the best performing of the major asset classes, returning 10% for the year and UK equities underperforming all major overseas markets for sterling investors.

In Islington's Fund structure, asset allocation was close to the universe average, with the notable exception of the relatively high allocation to property and the lower exposure to alternatives. This structure had a broadly neutral impact on relative performance in the latest year. However, in relation to its peers, the Fund had been behind the sector average over most periods.

In summary, the sector had delivered excellent returns over all periods, although the Fund's near term performance had been disappointing. Longer term returns were trailing the LGPS average but the Fund had experienced less volatility. Most importantly, performance over all meaningful timeframes had outpaced inflation and actuarial assumptions for asset growth.

**8 PENSIONS SUB-COMMITTEE MEMBERS' TRAINING (Item B3)**

**RESOLVED:**

That the pensions training opportunities detailed in Appendices A and B of the report of the Corporate Director of Resources be noted and that members contact the Pensions Manager if they wish to participate.

**9 PENSIONS SUB-COMMITTEE FORWARD PLAN (Item B4)**

**RESOLVED:**

(a) That an item on "Divestment" be added as an item on the agenda for 18 September 2018 and an item on "Engagement with shareholders" as a possible item for 26 November 2018.

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

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

**RESOLVED:**

- (a) That the contents of the report of the Corporate Director of Resources and the accompanying exempt appendices 1 and 2 from Mercer be noted.
- (b) That investment in LCIV Allianz continue for the time being.
- (c) That officers and Mercer prepare further analyses of LCIV sub funds for the possible transfer of the Allianz and Newton portfolios.

**11** **LONDON CIV UPDATE (Item B6)**

The Sub-Committee noted that the decision on the dissolution of the old governance arrangements and approval to the new would have to be approved by the Executive.

**RESOLVED:**

- (a) That the progress and news on the London CIV to May 2018, detailed in the report of the Corporate Director of Resources, be noted.
- (b) That the arrangements for the next phase of implementing the new governance structure, terms of reference and notice of dissolution of the Pension CIV Sectoral Joint Committee, and that these were matters for consideration and approval by the Executive, be noted.
- (c) That the London CIV be asked to address the Sub-Committee's concerns about engagement and shareholder voting issues.

**12** **EQUITY PROTECTION STRATEGY - QUARTERLY MONITORING (Item B7)**

Alex Pearce, Mercer, gave a presentation on the equity protection strategy. Copies of the presentation were laid around. To date, it seemed that equity risk management had protected the Fund through the recent equity market volatility experienced in February/March 2018.

**RESOLVED:**

- (a) That the options value as at March 2018 be noted.
- (b) That Mercer's presentation highlighting the main features and activities of the strategy to May 2018, detailed in the exempt appendix, be noted.
- (c) That, for the future, monitoring reports be submitted to the Sub-Committee every six months.

**13** **EXCLUSION OF PRESS AND PUBLIC (Item )**

**RESOLVED:**

That the press and public be excluded during consideration of the following items as the presence of members of the public and press would result in the disclosure of exempt information within the terms of Schedule 12A of the Local Government Act 1972, for the reasons indicated:

<u>Agenda Item</u>	<u>Title</u>	<u>Reason for Exemption</u>
E1	Mercer report -exempt appendix – Listed equity	<u>Category 3</u> – Information relating to the financial or business affairs of any

## Pensions Sub Committee - 26 June 2018

	portfolio review – LCIV Allianz	particular person (including the authority holding that information).
E2	Mercer report – exempt appendix – Equity protection strategy – quarterly monitoring	<u>Category 3</u> – Information relating to the financial or business affairs of any particular person (including the authority holding that information).
E3	London Councils communications – exempt appendices – London CIV update	<u>Category 3</u> – Information relating to the financial or business affairs of any particular person (including the authority holding that information).

- 14 **LISTED EQUITY PORTFOLIO REVIEW - LCIV ALLIANZ - EXEMPT APPENDIX (Item E1)**  
Noted.
- 15 **EQUITY PROTECTION STRATEGY - QUARTERLY MONITORING - EXEMPT APPENDIX (Item E2)**  
Noted.
- 16 **LONDON CIV UPDATE - EXEMPT APPENDIX (Item E3)**  
Noted.

The meeting ended at 9.45 pm

**CHAIR**





Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	12 September 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: DECARBONISATION AND RESPONSIBLE INVESTMENT POLICY REVIEW

### 1. Synopsis

- 1.1 This report and exempt appendix provides information on the Fund to enable and better understand its exposure to climate risk and opportunities, action taken by the Fund.
- 1.2 It also looks at peer case studies and climate risk policy implementations and proposes next steps to establish beliefs and formulate responsible investment policy
- 1.3 Mercer, our investment advisors have prepared a briefing paper covering the above attached as Exempt Appendix 1 for consideration.

### 2. Recommendations

- 2.1 To receive the presentation by Mercer, our investment advisors
- 2.2 To develop existing climate policies to establish clear beliefs on sustainable investments and update the existing Investment Strategy Statement
- 2.3 As part of next steps of implementation to agree to:
  - integrate ESG in investment policy
  - consider positive allocations to sustainable opportunities
  - formulate a regular monitoring and reporting regime on progress

### **3. Background**

3.1 The Committee believes that Environmental, Social and Governance (“ESG”) risks should be taken into account on an ongoing basis and are an integral part of the Fund’s strategy and objective of being a long term investor.

#### **3.2 Action to date**

Members agreed at November 2016 pension sub- committee meeting that the carbon footprint level of equities in the In-House UK Passive Fund be reduced with immediate effect, with 50% of assets allocated to Legal and General Investment Management’s MSCI World Low Carbon Target Index Fund and the remaining 50% of assets managed in house to track the FTSE UK Low Carbon Optimised index and that officers investigate how a low carbon approach could be realised for the rest of the Fund, which does not comprise equities.

3.3 Officers implemented the low carbon indices for passive global and UK by May 2017, covering 25% of the whole fund. The existing active global equities managed by Newton and Allianz on the LCIV platform had a low carbon footprint and did not require amendments

3.4 Mercer has completed analysis to identify ways in which the Fund can reduce ESG risk and has conducted a review of ESG ratings for the Fund’s underlying investment managers. 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 the Fund’s 9 strategies across equities, fixed income, DGFs, property and private equity.

3.5 Members now want to consider decarbonisation and it is important that they define their beliefs and investment policy and then identify how to implement their policy. Some of the issue that needs to be considered include:

- Defining carbon exposure and measuring a company’s carbon reserve
- Investment risks of companies with high fossil fuel exposure
- The missed opportunities of total divestment during transitions of companies

3.6 Members are asked to consider the presentation, and develop investment beliefs and a strategic approach to climate risk and then agree next steps to implement their investment policy.

### **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 LGPS (Management and Investment of Funds) Regulation 2016, Regulation7(1) requires an administering authority to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State. The ISS must include:

The authority’s policy on how social environmental or corporate governance considerations are taken into account in the selection, non- selection, retention and realisation of investments

The Sub-Committee holds a key fiduciary responsibility to manage the Fund’s investments in the best interests of the beneficiary members and the council tax payers, where the primary focus must be on

generating an optimum risk adjusted return. It is vital that any investment decisions or strategies developed, such as a carbon strategy, must not negatively impact on this primary responsibility.

The precise choice of investments can be influenced by ethical and environmental, social and governance (ESG) considerations, so long as that does not risk material financial detriment to the fund. Whilst deliberating on such issues, Queen's Counsel (Nigel Giffin) advice, commissioned by the LGPS Scheme Advisory Board and published in 2014, states that the administering authority may not prefer its own specific interests to those of other scheme employers, and should not seek to impose its particular views where those views would not be widely shared by scheme employers and members (nor may other scheme employers impose their views upon the administering authority).

#### 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 Members are asked receive the Mercer briefings and presentation attached as exempt appendix 1 and 2 and consider the recommendations.

#### **Background papers:**

None

Final report clearance:

#### **Signed by:**

**Received by:** Corporate Director of Resources Date

Head of Democratic Services Date

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





Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	12 September 2018		

Delete as appropriate	Exempt	Non-exempt
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## Subject: PENSION FUND PERFORMANCE 1 APRIL TO 30 JUNE 2018

<b>1.</b>	<b>Synopsis</b>
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.
<b>2.</b>	<b>Recommendations</b>
2.1	To note the performance of the Fund from 1 April to 30 June 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 the LGPS Current Issues- August 2018 Appendix 2.
<b>3.</b>	<b>Fund Managers Performance for 1 April to June 2018</b>
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 (Apr-June'18) Gross of fees		12 Months to June 2018-Performance Gross of fees	
					Portfolio	Benchmark	Portfolio	Bench Mark
	LBI-In House	14%	UK equities	N	8.8%	9.20%	9.06%	9.02%
	London CIV Allianz	8%	Global equities	2	6.91%	8.30%	12.2%	9.89%
	LCIV -Newton	15%	Global equities	2	8.3%	7.01%	8.35%	9.51%
	Legal & General	11.3%	Global equities	1	5.17%	5.37%	8.23%	8.54%
	Standard Life	17%	Corporate bonds	3	-0.15%	-0.15%	0.49%	0.61%
	Aviva (1)	6.5%	UK property	2	2.0%	0.19% 2.18%	8.27%	2.52% 10.93%
	Columbia Threadneedle Investments (TPEN)	6.3%	UK commercial property	2	1.69%	1.96%	10.3%	9.67%
	Hearthstone	2%	UK residential property	N	0.07%	2.18%	2.26%	10.93%
	Schroders	9.5%	Diversified Growth Fund	4	0.05%	2.36%	4.3%	8.4%
	BMO Investments-LGM	5.7%	Emerging/ Frontier equities	2	1.96%	-2.09%	3.6%	6.8%
	0.19% & 2.52% = original Gilts benchmark; 2.18% and 10.93% 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 June 2018 is shown in the table below.							
		Latest Quarter Performance <b>Gross</b> of fees			12 Months to June 2018 Performance Gross of fees			
	Combined Fund Performance ex-hedge	Portfolio %	Benchmark %	Portfolio %	Benchmark %			
		4.49	4.30	6.96	6.22			
3.4	Copies of the latest quarter fund manager's reports are available to members for information if required.							
3.5	<b>Total Fund Position</b> The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years' period to June 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	6.92%	8.40%	8.7%
	Customised benchmark	6.19%	8.31%	8.54%
<b>3.6</b>	<b>AllianzGI (RCM)</b>			
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 6.9% against a benchmark of 8.3%. Since inception with the London CIV in December 2015, there is a relative over performance of 1.7% while since January 2009 the original inception date, relative outperformance is 1.3% per annum. The main drivers were sector weightings rather than stock selection. The portfolio holds 49 stocks.			
<b>3.7</b>	<b>Newton Investment Management</b>			
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 8.3% gross of fees against a benchmark of 7.01% for the June quarter. Since inception the fund has delivered an absolute return of 12.3% but relative under performance of -0.85% gross of fees per annum			
3.7.4	The out performance this quarter was driven mainly by stock selection in Consumer Staples, Financial and Information Technology sectors. Fund's underweight positions in oil sector weighted on returns.			
<b>3.8</b>	<b>In House Tracker</b>			
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 8.8% against FTSE All Share Index benchmark of 9.2 % for the June quarter and a relative over performance of 0.27% over the five- year period. The portfolio is now mirroring the low carbon index.			

3.9	<p><b>Standard Life</b></p> <p>3.9.1 Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the June quarter, the fund returned -0.15% against a benchmark of -0.15% and an absolute return of 6.08% per annum since inception.</p> <p>3.9.2 The main driver behind the under- performance in this quarter was due to asset allocation with overweight positions in financials including subordinates and underweight exposure to supra nationals There was a drawdown of £20m to purchase units in the Aviva Lime fund as part of our extra £50m commitment.</p> <p>3.9.3 The forward strategy is to move up the credit quality and maintain a healthy exposure to gilts</p>
3.10	<p><b>Aviva</b></p> <p>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.</p> <p>3.10.2 The fund for this quarter delivered a return of 2.0% against a gilt benchmark of 0.19%. The All Property IPD benchmark returned 2.18% for this quarter. Since inception, the fund has delivered an absolute return of 6.8% net of fees.</p> <p>3.10.3 This June quarter the fund's unexpired average lease term is now 19.3years. The Fund holds 80 assets with 47 tenants and cash of £71.9 m.</p> <p>3.10.4 The fund also has £530m of investor cash of which £280m is committed to developments and close to completion. The current queue period to invest is around 18months.</p>
3.11	<p><b>Columbia Threadneedle Property Pension Limited (TPEN)</b></p> <p>3.11.1 This is the fund's UK commercial pooled property portfolio that was fully funded on 14 October 2010 with an initial investment of £45 million. The net asset value at the end of June was £86.2million.</p> <p>3.11.2 The agreed mandate guidelines are as listed below:</p> <ul style="list-style-type: none"> <li>• Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 April 2014.</li> <li>• Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods.</li> <li>• Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term.</li> <li>• Income yield on the portfolio at investment of c.8.5% p.a.</li> <li>• 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.</li> </ul>
3.11.3	<p>The fund returned a relative under performance of -0.3% against its benchmark 2% for the June quarter and a 0.1% three - year relative return. The cash balance now stands at 6.3% compared to 4.7% last quarter. During the quarter there were three acquisitions totalling £19.6m and sales totalling £55.8m There is a strong asset diversification at portfolio level with a total of 276 properties.</p>



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	<b>Passive Hedge</b>												
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 June quarter, the hedged overseas equities were valued at £6.8m.												
3.13	<b>Franklin Templeton</b>												
3.13.1	<p>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:</p> <ul style="list-style-type: none"> <li>• Benchmark: Absolute return</li> <li>• 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.</li> <li>• Bulk of capital expected to be invested between 2 – 4 years following fund close.</li> <li>• Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.</li> </ul>												
3.13.2	<p>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:</p> <table border="1" data-bbox="204 1149 1158 1294"> <thead> <tr> <th>Commitments</th> <th>Region</th> <th>% of Total Fund</th> </tr> </thead> <tbody> <tr> <td>5</td> <td>Americas</td> <td>36</td> </tr> <tr> <td>4</td> <td>Europe</td> <td>26</td> </tr> <tr> <td>5</td> <td>Asia</td> <td>38</td> </tr> </tbody> </table> <p>The total distribution received to the end of the June quarter is \$48m.</p>	Commitments	Region	% of Total Fund	5	Americas	36	4	Europe	26	5	Asia	38
Commitments	Region	% of Total Fund											
5	Americas	36											
4	Europe	26											
5	Asia	38											
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.	<b>Legal and General</b>												
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.												
3.14.2	<p>The components of the new mandate as at the end of June inception was £115m benchmarked against MSCI World Low Carbon Index and £31m benchmarked against RAFI emerging markets.</p> <p>For the June quarter, the fund totalled £154m with a performance of 5.17% and relative return of -0.20%.</p>												

3.15	<b>Hearthstone</b>
3.15.1	<p>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:</p> <ul style="list-style-type: none"> <li>• Target performance: UK HPI + 3.75% net income.</li> <li>• Target modern housing with low maintenance characteristics, less than 10 years old.</li> <li>• Assets subject to development risk less than 5% of portfolio.</li> <li>• Regional allocation seeks to replicate distribution of UK housing stock based on data from Academics. Approximately 45% London and South East.</li> <li>• 5-6 locations per region are targeted based on qualitative and quantitative assessments and data from Touchstone and Connells.</li> <li>• Preference is for stock which can be let on Assured Shorthold Tenancies (ASTs) or to companies.</li> <li>• 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.</li> <li>• The fund benchmark is the LSL Academetrics House Price Index</li> </ul>
3.15.2	<p>For the June, quarter the value of the fund investment was £27.7m and total funds under management is £54million. Performance net of fees was 0.07% compared to the LSL benchmark of -1.20%.</p> <p>The income yield after cost was 3.1%. The portfolio has 201 properties and 1set of parking spaces (18 properties have been sold since launch). 5 are let on licence and leaseback agreement to house builders and 181 properties let on assured short- term agreements.</p>
3.15.3	<p>There are 15vacant properties, 3 of which are being sold, and the rest being marketed for rent.</p>
3.16	<b>Schroders-</b>
3.16.1	<p>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:</p> <ul style="list-style-type: none"> <li>• Target performance: UK RPI+ 5.0% p.a.,</li> <li>• Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).</li> <li>• Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.</li> <li>• The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.</li> <li>• <b>Permissible asset class ranges (%):</b> <ul style="list-style-type: none"> <li>• 25-75: Equity</li> <li>• 0- 30: Absolute Return</li> <li>• 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash</li> <li>• 0-20: Commodities, Convertible Bonds</li> <li>• 0- 10: Property, Infrastructure</li> <li>• 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.</li> </ul> </li> </ul>
3.16.2	<p>This is the twelveth quarter since funding and the value of the portfolio is now £128m including an additional cash injection of £15m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The June quarter performance before fees was 0.05% against the benchmark of 2.56% (inflation+5%). The one -year performance is 4.3% against benchmark of 8.3% before fees.</p>
3.16.3	<p>The underperformance was attributed to market falls in emerging market equities and currencies. However, losses were cushioned by gains in selected alternative strategies.</p>

3.17	<p><b>BMO Global Assets Mgt</b> 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:</p> <ul style="list-style-type: none"> <li>• A blended portfolio with 85% invested in emerging market and 15% in frontier markets</li> <li>• Target performance MSCI Emerging Markets Index +3.0% (for the global emerging markets strategy)</li> <li>• Expected target tracking error 4-8% p.a</li> <li>• The strategy is likely to have a persistent bias towards profitability, and invests in high quality companies that pay dividend</li> </ul>
3.17.1	<p>The June quarter saw a combined performance of 1.96% against a benchmark of -2.1% before fees. The performance is mainly due to stock selection.</p> <p>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.</p>
<b>4.</b>	<b>Implications</b>
4.1	<p><b>Financial implications:</b> The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.</p> <p>Fund management and administration fees and related cost are charged to the pension fund.</p>
4.2	<p><b>Legal Implications:</b> 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.</p>
4.3	<p><b>Resident Impact Assessment:</b> 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”.</p> <p>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.</p>
4.4	<p><b>Environmental Implications</b> None applicable to this report.</p>

## 5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending June 2018 as part of the regular monitoring of fund performance. Members are also asked to note for information LGPS News update to August.

**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:**

**Received by:** Corporate Director of Resources Date

Head of Democratic Services Date

Report Author: Joana Marfoh  
Tel: 0207-527-2382  
Fax: 0207-527 -2056  
Email: [joana.marfoh@islington.gov.uk](mailto:joana.marfoh@islington.gov.uk)



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# London Borough of Islington Report to 30<sup>th</sup> June 2018

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**AUGUST 2018**

This document is issued by MJ Hudson Allenbridge. MJ Hudson Allenbridge is a trading name of MJ Hudson Allenbridge Holdings Limited (No. 10232597), MJ Hudson Investment Advisers Limited (04533331), MJ Hudson Investment Consulting Limited (07435167) and MJ Hudson Investment Solutions Limited (10796384). All are registered in England and Wales. MJ Hudson Investment Advisers Limited (FRN 539747) and MJ Hudson Investment Consulting Limited (FRN 541971) are Appointed Representatives of MJ Hudson Advisers Limited (FRN 692447) which is Authorised and Regulated by the Financial Conduct Authority. The Registered Office of MJ Hudson Allenbridge Holdings Limited is 8 Old Jewry, London EC2R 8DN.

# 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
<b>London CIV - Allianz (active global equities)</b>	Monitored by London CIV who confirmed there were no changes.	Underperformed in the quarter to June 2018, by -1.39%. Outperformed by +1.50% p.a. over 3 years to end June 2018 but trailing the target of +2.0% p.a.	London CIV sub fund significantly dropped in value following exits by other member funds. As at end June the sub fund's value was £114.2 million and was 100% owned by London Borough of Islington.		
<b>London CIV – Newton (active global equities)</b>	Monitored by London CIV who confirmed there were no changes.	Outperformed the Index by +1.31% in the quarter. Behind the benchmark over three years by -1.95% per annum.	London CIV sub fund had £206.9 million of assets under management as at end June 2018. London Borough of Islington owns 35.98% of the sub fund.		London CIV had put this fund on "Watch" following the FCA investigation into IPO practices on the UK equity desk but are now comfortable with findings.
<b>BMO/LGM (emerging and frontier equities)</b>	Two leavers and one joiner in Q2, within LGM.	Outperformed the benchmark by +4.06% in the quarter to June 2018.	Not reported.		

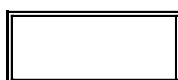


Manager	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY /RISK	MANAGER SPECIFIC CONCERNS
<b>Standard Life (corporate bonds)</b>	No joiners, but 28 leavers (including five from fixed income).	In line with the Index return of -0.15% in Q2 2018. Over three years the Fund is +0.46% p.a. ahead of the benchmark return but behind the performance target of +0.8% p.a.	Fund value fell to £3,088 million in Q2 2018, a fall of £94.6 million. Islington's holding stood at 7.4% of the Fund's value.		
<b>Aviva (UK property)</b>	<p>12 new joiners and 5 leavers across the firm, but no changes to the Lime Fund team.</p> <p>Mark Versey appointed CIO of the new real assets platform in which the Lime Fund now sits. Ed Casal, CEO of global real estate stepped down.</p> <p><b>Heather Brown is the new client relationship manager.</b></p>	Underperformed the gilt benchmark by -0.55% for the quarter to June 2018 and by -0.10% p.a. over three years. Ahead over five years by +0.26% p.a.	Fund was valued at £2.08 billion as at end Q2 2018. London Borough of Islington owns 4.2% of the Fund after successfully purchasing some additional units in the secondary market.		<p>London Borough of Islington's additional allocation is behind a £390 million queue of new money waiting to be invested. Aviva expects to start drawing London Borough of Islington's investment by Q2 2019.</p>
<b>Columbia Threadneedle (UK property)</b>	Six leavers and two joiners in Q2 2018, including Don Jordison, Managing Director of real estate, who has retired.	Underperformed the benchmark return by -0.27% in Q2 2018 but ahead of the benchmark by +0.31% per annum over three years. Trailing the performance target of 1% p.a. outperformance.	Pooled fund has assets of £1.96 billion. London Borough of Islington owns 4.41% of the fund.		

Manager	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY /RISK	MANAGER SPECIFIC CONCERNS
<b>Legal and General (passive equities)</b>	Mark Zinkula announced that he will retire as CEO of LGIM in August 2019.	Funds are tracking as expected.	Assets under management of £983.3 billion at end December 2017.		
<b>Franklin Templeton (global property)</b>	None reported.	Portfolio return over three years was +19.95% p.a., well ahead of the target of 10% p.a.	\$2.4 billion of assets under management as at end June 2018.		
<b>Hearthstone (UK residential property)</b>	One departure and two joiners, during Q2 2018.	Underperformed the IPD UK All Property Index by -2.05% in Q2. Trailing the IPD benchmark over three years by -4.09% p.a. to end June 2018.	Fund was valued at £54.279 m at end Q2 2018. London Borough of Islington owns 51.1% of the fund.		
<b>Schroders (multi asset diversified growth)</b>	75 joiners and 63 leavers in the UK business but no changes to the DGF team.	Fund returned +0.05% during the quarter and +4.03% per annum over 3 years, -3.81% behind the target return.	Total AUM fell to £389.3 billion as at end June 2018. Inflows of £48.9bn from institutional clients were offset by outflows on the intermediary side.		

Source: MJ Hudson Allenbridge

1Note:



Minor Concern



Major Concern

# Individual Manager Reviews

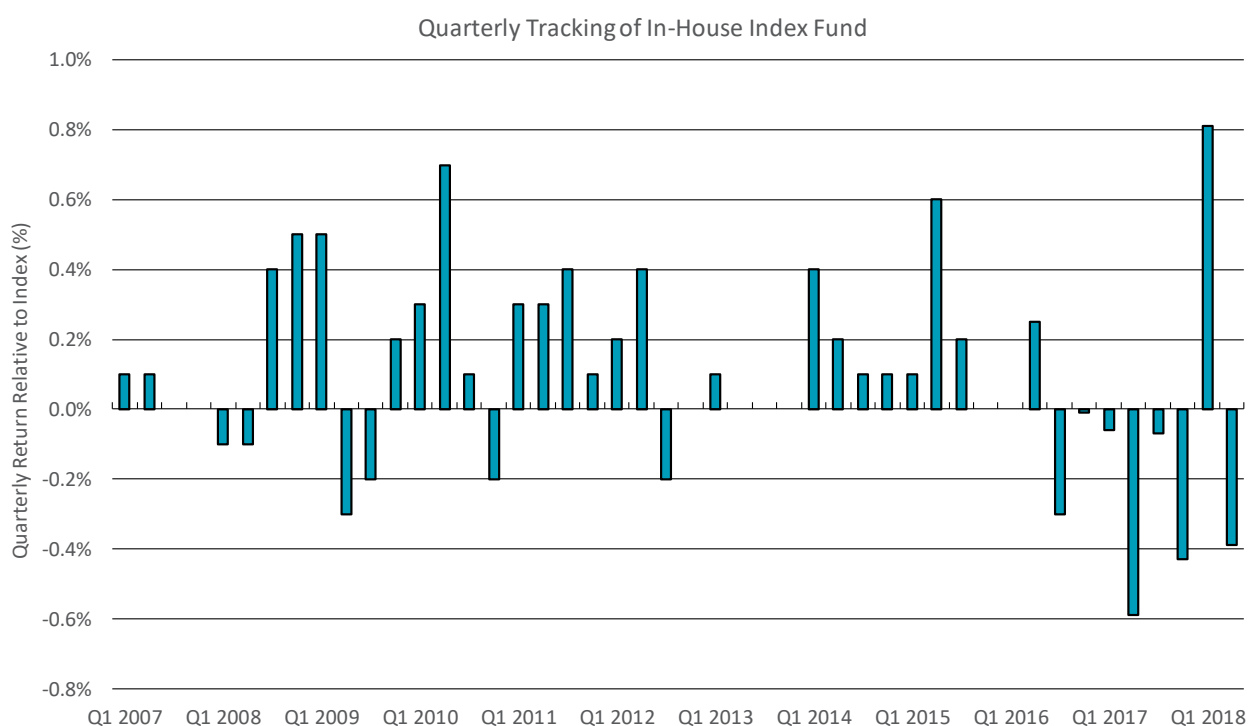
## In-house – Passive UK Equities – FTSE All Share Index Fund

**Headline Comments:** The portfolio continues to meet its objectives. The fund delivered a quarterly return of +8.81%, which was -0.39% behind the index benchmark return of +9.20%. Over three years the fund has underperformed the index by -0.13% p.a. and delivered a return of +9.47% 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 MSCI Low Carbon Target Index. 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, for the first time in quite a while, the portfolio underperformed its three-year benchmark by -0.13% 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 0.27% against the MSCI Low Carbon Target Index. The largest underweight sector was Consumer Staples. The portfolio held 13.94% in Consumer Staples at quarter end, compared with 14.5% in the benchmark, a difference of -0.56%. The most overweight sector was Industrials: the portfolio weight was 9.68% versus the index at 9.25%, a difference of +0.43%.

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

## London CIV – Global Equity Alpha Fund – Allianz

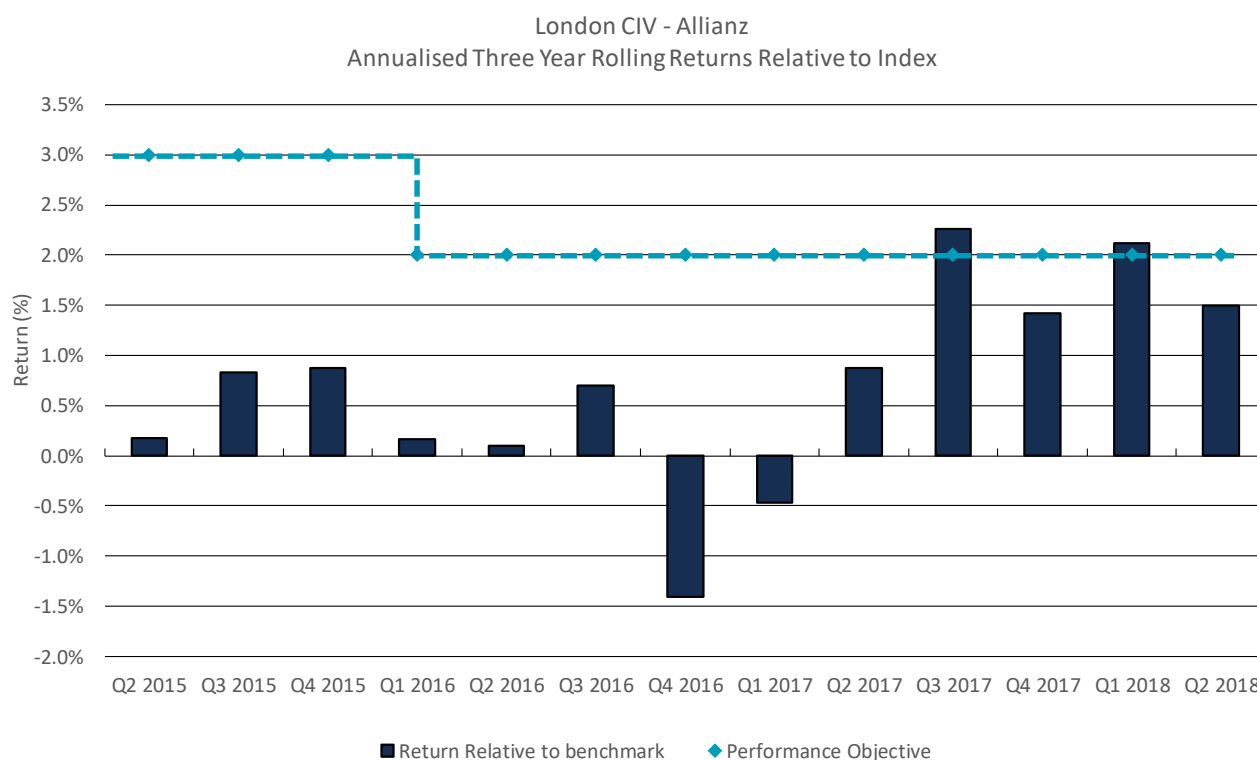
**Headline Comments:** After a strong quarter to March, the London CIV – Allianz sub fund underperformed in the quarter to June 2018, as markets rallied. The fund delivered a return of +6.91%, underperforming the benchmark return by -1.39%. Over three years the fund is outperforming the benchmark by +1.50% per annum but it is disappointing to see it falling back behind the performance target of +2% per annum over benchmark.

**Mandate Summary:** An active global equity portfolio, with a bottom-up global stock selection approach. A team of research analysts identifies undervalued stocks in each geographical region (Europe, US, Asia Pacific). A global portfolio team is responsible for constructing the final portfolio. The objective of the fund (since Q4 2015) is to outperform the MSCI World Index by 2.0% per annum over rolling 3-year periods net of fees.

**Performance Attribution:** For the three years to June 2018, the AllianzGI portfolio was ahead of the benchmark by +1.50% per annum, but trailing the performance target of +2% per annum, shown by the dotted line in Chart 2. Note that the dotted line drops in Q4 2015 when the mandate transferred to the London CIV sub fund, which has a lower performance objective than when Allianz ran a bespoke mandate for London Borough of Islington.

The portfolio's underperformance, for the quarter to end June 2018, was attributed by the London CIV to overweight allocations to China and Switzerland, and to the sector overweight allocation to European financials. Stock selection was neutral for the quarter. UnitedHealth and Microsoft were the biggest contributors to relative performance during the quarter, adding +0.62% and +0.54% to returns, respectively, whilst Keyence was the largest detractor at -0.13%.

### 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 June was +2.72% and the beta was 0.98 (if the market rises 10%, the fund is expected to risk 9.8%).

**Portfolio Characteristics:** as at end Q2 2018, the portfolio held 49 stocks (compared to 48 last quarter).

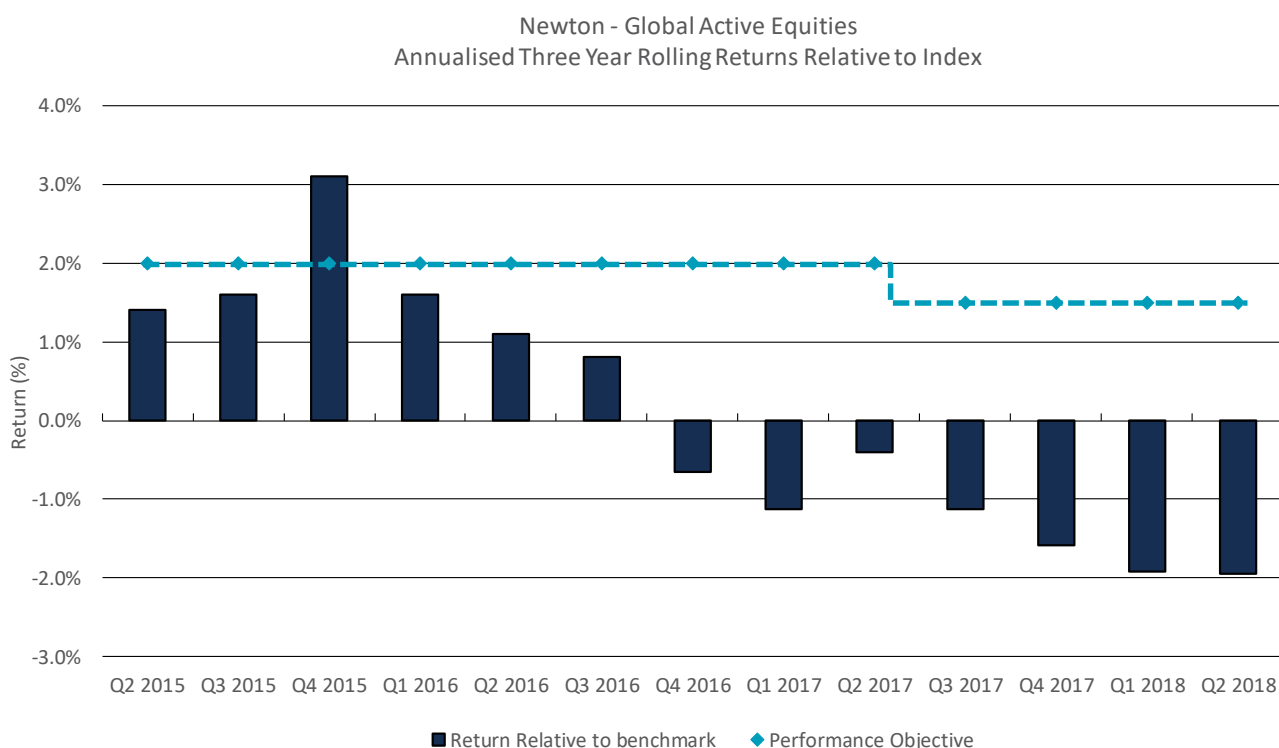
## London CIV - Newton – Global Active Equities

**Headline Comments:** The London CIV - Newton sub-fund outperformed its benchmark by +1.31% during Q2 2018, with a fund return of +8.33% compared with the benchmark index return of +7.01%. Over three years the portfolio has underperformed the benchmark by -1.95% per annum, well behind the target of +2% 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 3-year periods, net of fees.

**Performance Attribution:** Chart 3 shows the three year rolling returns of the portfolio relative to the Index (the black bars) and compares this with the performance target, shown by the dotted line.

**CHART 3:**



Source: MJH Allenbridge; BNY Mellon

For the three-year period to the end of Q2 2018, the fund (shown by the right hand black bar) has trailed the benchmark by -1.95% per annum. This means it is trailing the performance objective by -3.45% (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 June 2018 to the oil price increase, which had a positive impact on ConocoPhillips and Suncor Energy, and to an overweight position in the Information Technology sector, as well as an underweight allocation to emerging markets. Microsoft and Apple were the largest contributors to the relative return in Q2 (+0.67% and +0.54% respectively). Deutsche Post was the largest detractor (-0.32%).

**Portfolio Risk:** the active risk on the portfolio stood at 2.44% as at quarter end. The beta on the portfolio was 0.91 (if the market increases by +10% the portfolio can be expected to rise +9.1%).

At the end of Q2 2018, the London CIV sub fund's assets under management were £206.9 million, compared with £530.6 million last quarter. London Borough of Islington now owns 35.98% of the sub fund.

**Portfolio Characteristics:**

The number of stocks in the portfolio stood at 59 as at quarter end (compared with 63 at the end of last quarter).

**Staff Turnover:** The London CIV reported that there were no personnel changes.

## BMO/LGM – Emerging Market Equities

**Headline Comments:** The total portfolio delivered a return of +1.96% in Q2 2018, compared with the benchmark return of -2.09%, an outperformance of +4.06%. The emerging market component of this portfolio returned -2.97% (source: BMO) compared with the index return of -7.96%. The frontier markets portfolio was well ahead of the index return of -17.13%, but still delivered a negative absolute return of -9.40% (source: BMO).

**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 British American Tobacco (+0.6%, partially offsetting last quarter's -0.9%), and Foshan Haitan Flavouring (+0.6%). Companies which detracted most from performance included Mr Price (-1.2% having contributed +0.7% last quarter), Universal Robina (-0.9%), Bank Mandiri Persero (-0.7%) and Bank Rakyat Indonesia Perser (-0.7%). The manager noted that this was the worst quarter's performance for the benchmark Index since Q3 2015, at -7.96%.

In the frontier market portfolio, positive contributors included Evertec (+1.2%) and Delta Corporation (+0.3%). Companies which detracted from performance included BBVA Banco Frances (-2.5% having also detracted -0.5% last quarter) and Phu Nhuan Jewelry (-1.2%, offsetting last quarter's positive contribution of +1.1%). The frontier market portfolio total return of -9.40% was the largest absolute loss since the strategy's inception in 2011. However, the manager pointed to the outperformance of the portfolio relative to the benchmark Index which suffered badly, delivering a return of -17.13%.

**Portfolio Risk:** Within the emerging markets portfolio, 6.4% was allocated to developed or frontier markets, and cash stood at 3.7% as at quarter end. Turnover for the previous 12 months was 32.8%. The largest overweight country allocation in the emerging markets portfolio remained India (+9.5% overweight). The most underweight country allocation remained South Korea (-14.6%).

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 (+13.2%) and the most underweight was Argentina (-15.9%).

**Portfolio Characteristics:** The frontier markets portfolio held 38 stocks as at end June compared with the benchmark which had 114. The emerging markets portfolio also held 35 stocks as at end June compared with the benchmark which had 1,138.

**Organisation:** during the quarter, Gareth Morgan, a portfolio manager for Eastern Europe, and Anders Heegaard, a portfolio manager for Asia and Asia Small Cap, left the firm. Liam Li joined the Hong Kong office in April 2018 as a junior dealer and analyst.

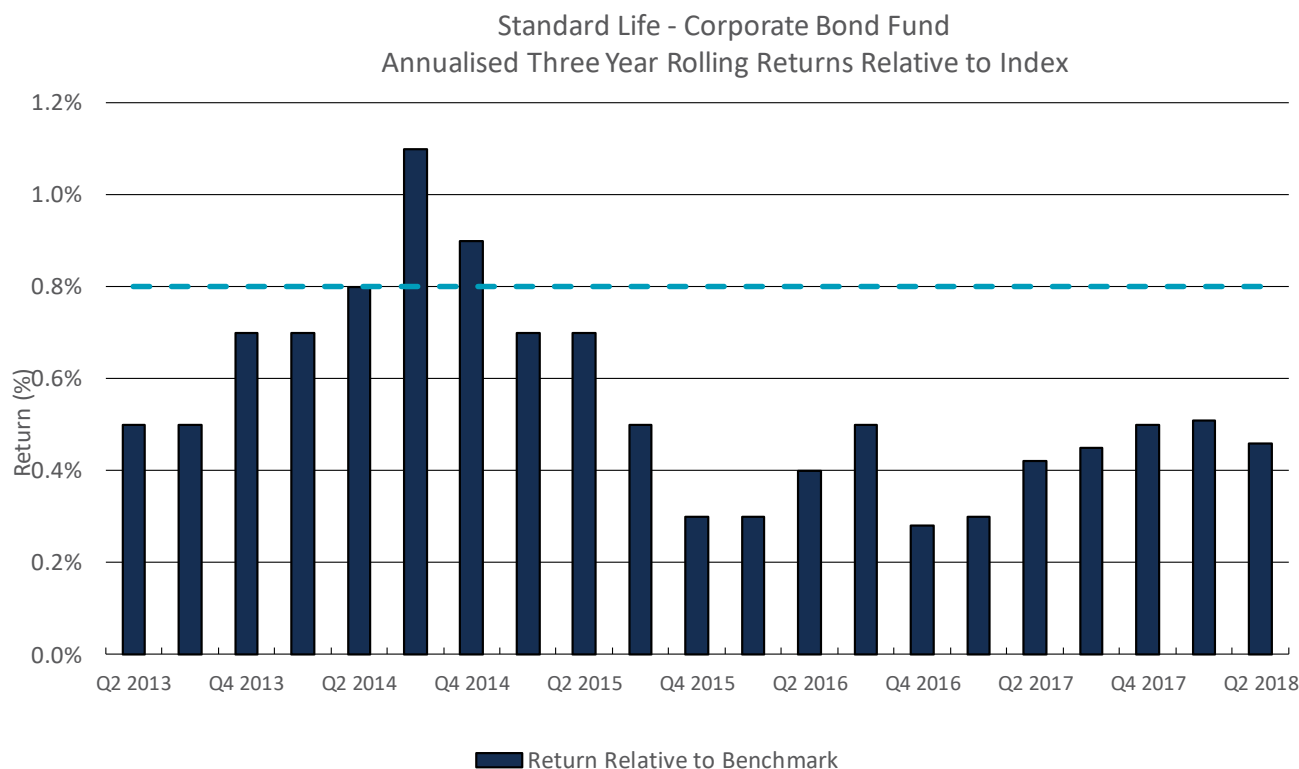
## Standard Life – Fixed Income

**Headline Comments:** The portfolio was in line with the benchmark return during the quarter, delivering a return of -0.15%. Over three years, Standard Life’s return was +0.46% p.a. ahead of the benchmark return of +4.92% p.a., but behind the performance target of +0.8% per annum.

**Mandate Summary:** An actively managed bond portfolio, invested in Standard Life’s Corporate Bond Fund. The objective of the fund is to outperform the 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 ahead of the benchmark over three years (right hand bar), but trailing the performance objective (shown by the dotted line in Chart 4).

**CHART 4:**



Source: MJH Allenbridge; BNY Mellon

Over three years, the portfolio has returned +5.38% p.a. compared to the benchmark return of +4.92% p.a. Over the past three years, stock selection has added 0.29% value, followed by asset allocation (+0.14%) and curve plays (+0.07%).

**Portfolio Risk:** The largest holding in the portfolio at quarter end remained EIB 5.625% 2032 at 1.5% of the portfolio. The largest overweight sector position remained Financials (+7.8%) and the largest underweight position remained sovereigns and sub-sovereigns (-13.3%). The overweight allocation to Financials detracted from performance in Q2.

The fund holds 3.5% of the portfolio in non-investment grade (off-benchmark) bonds.

**Portfolio Characteristics:** The value of Standard Life’s total pooled fund at end June 2018 stood at £3,088 million, £94.6 million lower than at the end of Q1 2018. London Borough of Islington’s holding of £228.2 million stood at 7.4% of the total fund value (compared to 7.8% last quarter).

**Staff Turnover:** there were no joiners, but the firm saw and 28 people leave the firm, reflecting the ongoing rationalisation of the merged Aberdeen and Standard Life teams. Of the 28 leavers, five were from the fixed income team, including Richard Marshall, and Investment Director, and Ross Crawford, a Senior Portfolio Manager.

## Aviva Investors – Property – Lime Property Fund

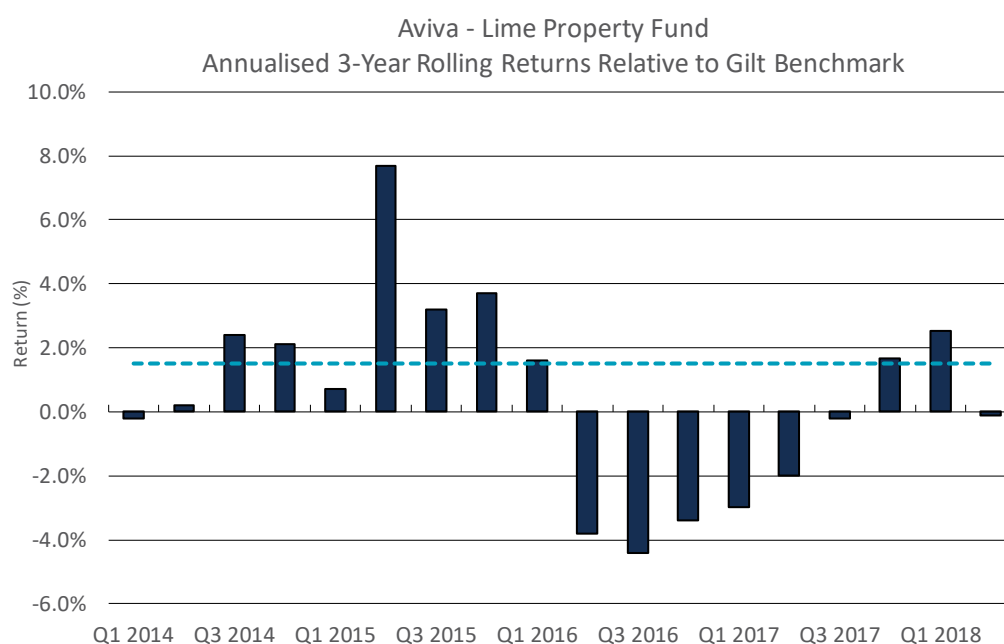
**Headline Comments:** Following a purchase of some secondary units, the residual allocation is expected to be invested by the end of Q2 2019. The portfolio delivered a return of -0.36% compared to the gilt benchmark return of +0.19%. Over three years, the portfolio delivered a return of +5.91% compared with the benchmark return of +6.01%.

**Mandate Summary:** An actively managed UK pooled property portfolio, the Lime Fund invests in a range of property assets including healthcare, education, libraries, offices and retail. The objective of the fund is to outperform a UK gilt benchmark, constructed of an equally weighted combination of the FTSE 5-15 Years Gilt Index and the FTSE 15 Years+ Gilt Index, by +1.5% per annum, over three year rolling periods.

**Performance Attribution:** The Fund's Q2 2018 return was attributed by Aviva equally between income and capital return.

Over three years, the fund has returned +5.91% p.a. compared to the gilt benchmark of +6.01% p.a., an underperformance of -0.10% per annum. This is the first time the three-year annualised return has dipped below 6% p.a. since Q3 2011. The **portfolio is trailing its performance objective of +1.5% per annum outperformance over three years**, 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 purchased a £74 million development in Coventry in Q2. This has long dated, inflation linked income which means it was aligned to the Fund's objectives. The manager also completed a review of one of the Premier Inn investments and extended the lease from 14 to 25 years, maintained the CPI reviews and agreeing to convert the retail units into more bedrooms.



The average unexpired lease term was 19.4 years as at end June 2018. 11.6% of the portfolio's lease exposure in properties is in 30-35 year leases, the largest sector exposure remains offices at 28.6%, and the number of assets in the portfolio remains stood at 80 as at end June. The weighted average unsecured credit rating of the Lime Fund remained A-.

During the quarter, £24.2 million of secondary units were purchased, allowing the pension fund to deploy half of its additional allocation of £50 million immediately. The residual £26 million remains in the queue, behind £390 million of other investors' allocations. Aviva have indicated that they expect to draw on this capital by Q2 2019.

**Portfolio Characteristics:** As at end June 2018, the Lime Fund was valued at £2.083 billion, an increase of £18.21 million from the previous quarter end. London Borough of Islington's investment represents 4.2% of the total fund. This was an increase of some 1% compared with last quarter, reflecting the additional £24.2 million of units purchased in the secondary market. The Fund had 67.0% allocated to inflation-linked rental uplifts as at end June 2018.

**Staff Turnover/Organisation:** There were twelve new joiners and five leavers from the real assets team during Q2. There were no changes to the Lime Property Fund portfolio management team; however, Matthew Graham has handed over the client relationship role for London Borough of Islington to Heather Brown. Heather joined Aviva from Pictet during Q2.

Aviva also announced the formation of a new real assets business, covering real estate, infrastructure, structured finance and private debt. Mark Versey has been appointed Chief Investment Officer for this business. As part of this restructuring, Aviva also announced the sale of its real estate multi-manager business to LaSalle Investment Management, with Ed Casal, the former CEO of Aviva Global Real Estate, joining LaSalle as part of that transaction.

The Lime Fund remains under Aviva's remit, within the new real assets business so there is no change to London Borough of Islington's contract with the firm.

## Columbia Threadneedle - Pooled Property Fund

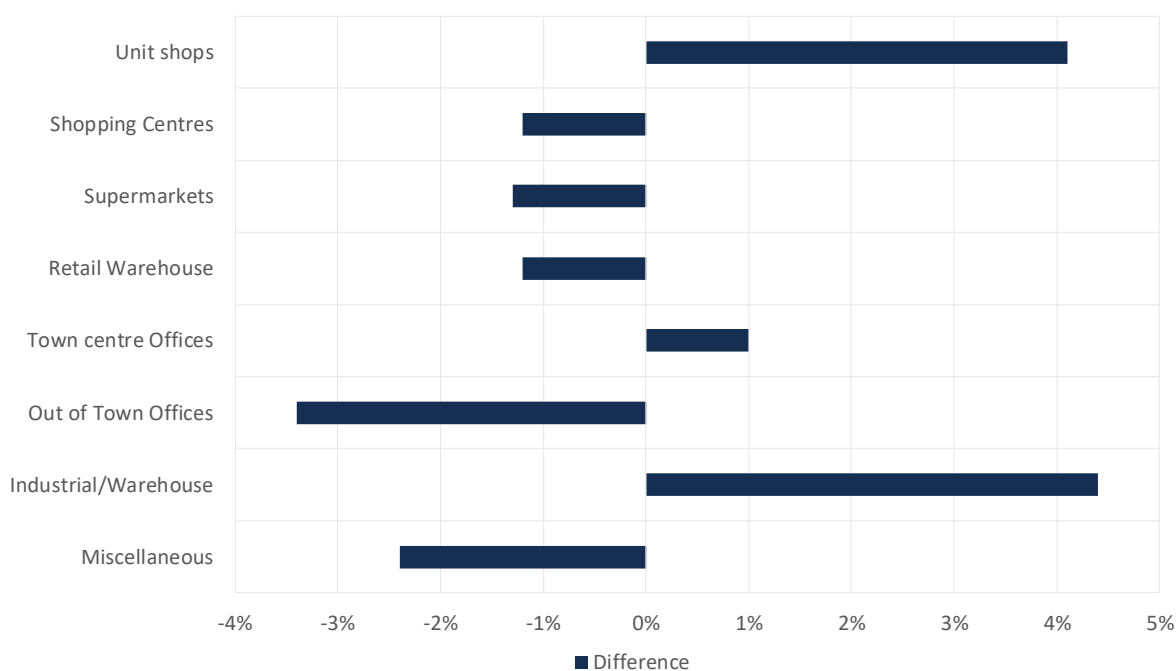
**Headline Comments:** The Fund delivered a return of +1.69% in Q2 2018, behind the benchmark return of +1.96%. Over three years, the Fund has outperformed the benchmark by +0.31% per annum, although this is behind the performance target of 1% p.a. above benchmark.

**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:

Columbia Threadneedle Property Fund Positions Relative to IPD Index at End Jun-2018



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 invested in three new assets. The first was an acquisition of six units on an industrial estate in Plymouth, purchased for £9.5 million. The second was an industrial asset in Bellshill (£1.65 million) and the third was a retail warehouse in St Albans (£8.5 million). The fund also sold a prime Mayfair mixed use retail/office asset for £55.8 million, crystallising a profit of £5.3 million.

**Performance Attribution:** The portfolio underperformed the benchmark by -0.27% in Q2 2018, delivering a return of +1.69%. The manager pointed to a challenging market environment with wide deviation in performance between different sectors. The retail sector, for example, delivered a return of +0.5% in Q2, compared with the industrial sector which returned +5.1%.

Over three years, the Fund is ahead of its benchmark by +0.31% per annum, with a return of +7.91% per annum, but it is still trailing the performance target of +1% per annum.

**Portfolio Characteristics:** As at 31<sup>st</sup> March 2018, the Threadneedle Property Fund was valued at £1.956 billion, an increase of £14.6 million compared with March 2018. London Borough of Islington's investment represented 4.41% of the Fund as at end June 2018.

**Staff Turnover:** There were six leavers and two joiners across the firm in Q2 2018. This includes Don Jordison, Managing Director of real estate, who has retired. John Willcock has taken over his role. He reports to Michelle Scrimgeour, Chief Executive.

## 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 -0.05%. The FTSE-RAFI Emerging Markets index fund underperformed its low carbon benchmark index by -0.14%.

**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:

	Q2 2018 FUND	Q2 2018 INDEX	TRACKING
FTSE-RAFI Emerging Markets	-4.94%	-4.81%	-0.14%
MSCI World Low Carbon Target	+7.93%	+7.97%	-0.05%

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 index fund.

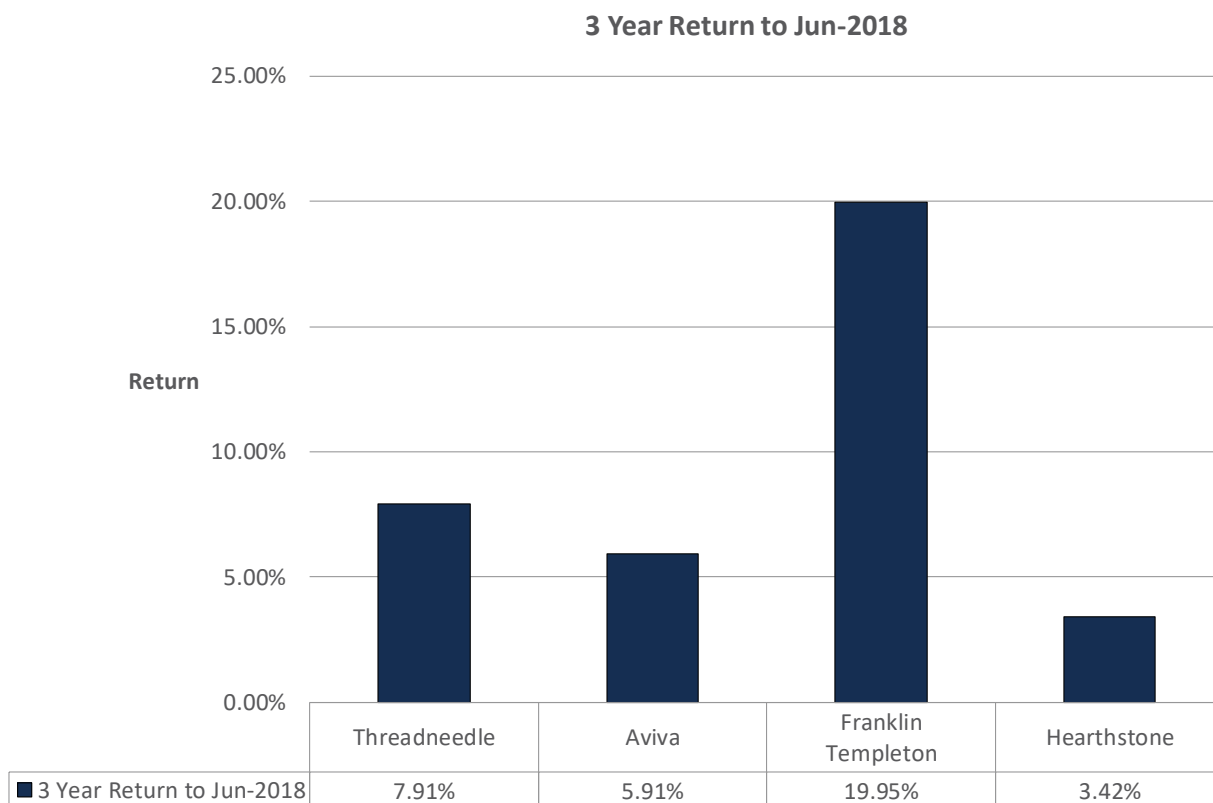
## Franklin Templeton – Global Property Fund

**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 +19.95% per annum over the three years to end June 2018, outperforming the absolute return benchmark of 10% per annum by +9.95% 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 March 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 +0.13% net of fees, compared to the IPD Property Index return of +2.18% for the quarter ending June 2018. Over three years, the Fund delivered a return of +3.42% p.a. compared with the IPD Index return of +7.51% p.a. and compared with the LSL Acadata House Price Index return of +4.7% 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 Bank of New York is the IPD UK All Property Monthly Index.

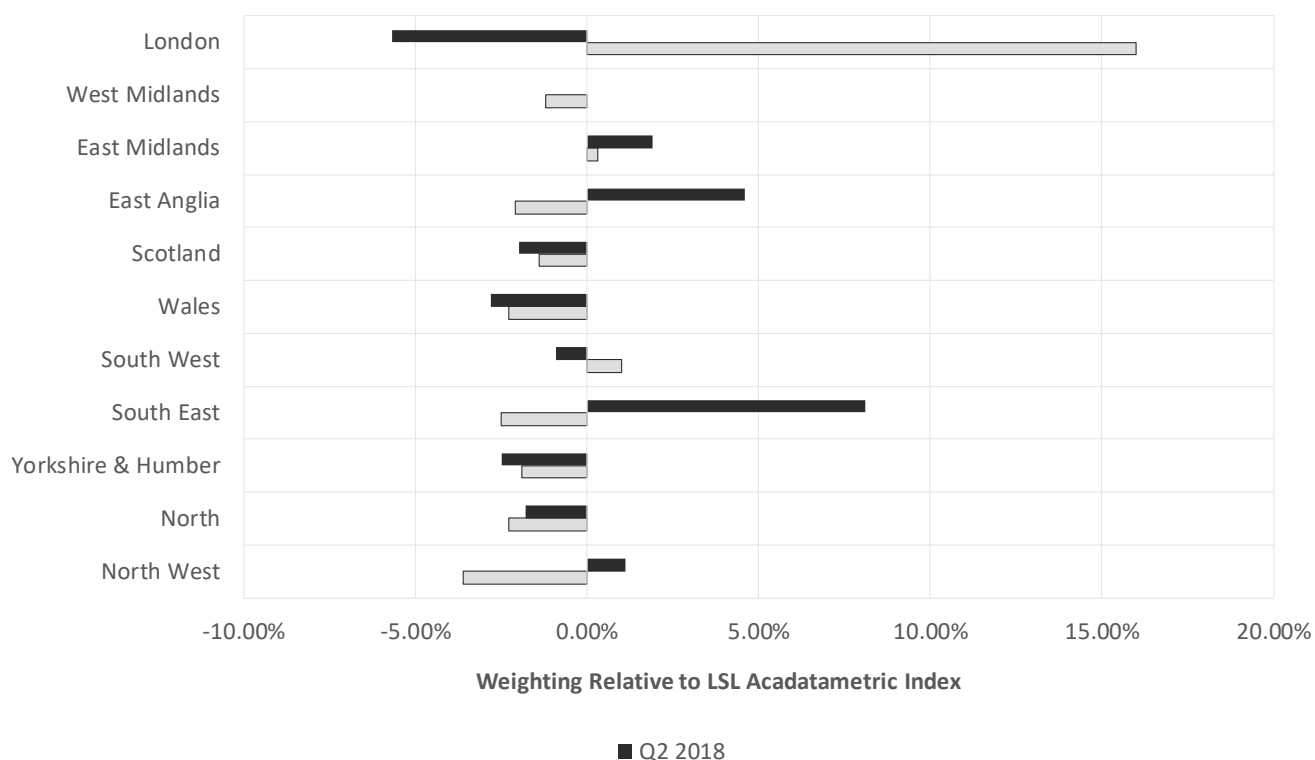
**Performance Attribution:** The Fund returned +3.42% p.a. compared to the return on the IPD index of +7.51% p.a. over the three years to June 2018, an underperformance of -2.05% p.a. The gross yield on the portfolio as at 30<sup>th</sup> June 2018 was 4.82%. Adjusting for voids, however, the gross yield on the portfolio falls to 4.46%.

**Portfolio Risk:** The cash and liquid instruments on the fund stood at 8.79%, back within the target level of 15% following the property purchases mentioned in last quarter’s report.

The regional allocation, shown in Chart 7 relative to the benchmark Index, continues to have a heavy overweighting to the South East. It remains Hearthstone’s long-term intention to run the portfolio on a region-neutral basis. Chart 8 compares the regional bets in the portfolio in Q2 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:**

Geographic Positioning of Hearthstone Portfolio Q3 2013 vs Q2 2018



Source: MJH Allenbridge; Hearthstone

**Portfolio Characteristics:** The Fund has a 12% allocation to detached houses, 45% allocated to flats, 23% in terraced accommodation and 20% in semi-detached. The allocation to flats remains a significant overweight position relative to the Index (45% for the Fund compared to 17% for the Index). As at end June there were 201 properties in the portfolio.

As at end June 2018, the Fund stood at £54.3 million. London Borough of Islington’s investment now represents 51.1% of the Fund. This compares with 72% at the start of this mandate in 2013.

**Organisation and Staff Turnover:** During the quarter, John Coles joined as an asset manager, and Dave Hall joined the firm as Business Development Manager in the South West. David Chapman, a telephone account manager, left the firm.

## Schroder – Diversified Growth Fund (DGF)

**Headline Comments:** The Diversified Growth Fund delivered a return of +0.05% in Q2 2018. This compared with the RPI plus 5% p.a. target return of +2.36% for Q1. The portfolio now has its first three-year track record: the Fund delivered a return of +4.03% per annum compared with the target return of +7.84%, behind the target over one year by -3.81% 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 Q2 2018, equity positions added +0.4%, alternatives added +0.2%, credit and government debt added +0.3% and cash and currency detracted -0.2% (figures are gross of fees).

The return on global equities was +7.0% for the 3-years to June 2018 compared with the portfolio return of +4.03% (a 57% 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 4.7% compared to the three-year volatility of 8.3% in equities (i.e. 54% of the volatility of the Index) so is slightly below expectations.

**Portfolio Characteristics:** The Fund had 16% in internally managed funds (significantly down on last quarter's 25% allocation), 37% in internal bespoke solutions (up from 33% last quarter), 8% in externally managed funds (up from 7%), and 37% in passive funds (an increase on last quarter's 30% allocation) with 2% in cash, as at end June 2018. In terms of asset class exposure, 47.0% was in equities, 28.3% was in alternatives and 22.1% in credit and government debt, with the balance in cash.

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

**Organisation:** During the quarter, there were 75 joiners and 63 leavers within the UK business. There were no changes to the team responsible for the Diversified Growth Fund.

**Karen Shackleton**

**Senior Adviser, MJ Hudson Allenbridge**

**16<sup>th</sup> August 2018**



8 Old Jewry, London EC2R 8DN, United Kingdom | +44 20 7079 1000 | [london@MJHudson.com](mailto:london@MJHudson.com) | [mjhudson.com](http://mjhudson.com) | [mjhudson-allenbridge.com](http://mjhudson-allenbridge.com)

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# LGPS CURRENT ISSUES

## NEWS IN BRIEF

### HOT TOPICS

**PENSIONS TAXATION SEMINARS 2018** – For LGPS officers and administrators, it will soon be pension saving statements season again (with deadlines of 31 August and 6 October respectively). This brings with it the usual raft of queries from members expecting to be provided with information, not least so they can fill in their HMRC self-assessment correctly. Not only can the **line between providing information and advice be sometimes blurred** depending on the questions being asked, from discussions we've had with officers and feedback from seminars, it's clear that queries from members and employers regarding the Annual Allowance, Tapered Annual Allowance and Lifetime Allowance have become an onerous burden for LGPS Funds at this time of year.

To assist funds deal with these challenges and the associated risks, we are again running information sessions for individuals potentially affected. These include a full range of assistance from general educational sessions, triage sessions through to one on one individual financial advice.

The sessions will run throughout Q4 and to express your interest, please contact Clive Lewis (0151 242 7297) or your usual Mercer consultant.

**NEW "S3" SERIES MORTALITY TABLES** – In the last edition of current issues we reported that life expectancy improvements were slowing down and that LGPS funds could expect to see reductions in liabilities of around 2% as a result. Since then the Institute and Faculty of Actuaries' (IFoA's) Continuous Mortality Investigation (CMI) is currently consulting on its proposed new "S3" Series mortality tables for pension schemes. The "S1", "S2" and "S3" tables are based on the experience of occupational pension schemes with "S3" being the most recent.

In the absence of any Fund specific mortality analysis, the impact of moving to the "S3" tables will be an increase in male life expectancy at 65 of 1.5% and an increase in female life expectancy of 3%. At a headline level, the improvement in life expectancy suggested by the new "S3" tables would appear to conflict with the comments made in the last edition that life

### IN THIS ISSUE

- News in Brief
- Other Developments on Regulations and Consultation
- Dates to Remember
- Meet the Team
- Contacts



expectancy improvements are slowing down, leading to lower LGPS liabilities. However, due to differences in the underlying data used to produce them, the “S3” tables are not derived consistently with the “S2” tables and are, therefore, not directly comparable.

Crucially, it appears that that increases in life expectancy improvements being evidenced in the S3 tables are due to the public sector data from outside the LGPS sector (i.e. a greater portion of NHS, TPS and Civil Service data is being used in the analysis than previously). LGPS funds therefore need to be careful to avoid automatically reflecting this inflation without scheme-specific consideration; doing so would be most likely to over-stating the value placed on liabilities.

**COMPETITION AND MARKETS AUTHORITY PROBE** – On 18 July 2018, the Competition and Markets Authority (CMA) published provisional findings from its Market Investigation into the UK’s investment consultancy and fiduciary management markets. The CMA’s report, whilst recognising the markets’ many positive features, proposes remedies to address some concerns it has identified. These include:

- an obligation on pension scheme trustees to run a competitive tendering process when first moving to fiduciary management, and
- introducing disclosure requirements on firms relating to fees and performance.

The CMA has invited feedback on its proposals, by 24 August 2018 with a final report due in March 2019.

**EXIT CREDITS TAX POSITION CONFIRMED** - Until now there had been some uncertainty over the potential tax treatment of an exit credit payment to an employer where at the exit date, that employer’s assets in the Fund exceeded its liabilities. On 23 July 2018, MHCLG received confirmation from HMRC there will be no tax charge on the payment and that there is no requirement for the scheme administrator of the pension scheme to report the payment to HMRC.

This announcement was somewhat surprising as it does not mirror the position for private sector occupational DB schemes (where refunds are subject to a free standing tax charge of 35%). It does also seem slightly anomalous in some cases, because a tax-paying body such as a private sector contractor will benefit from tax relief on its contributions to the Fund but will not have to pay a tax charge on any exit credit it receives. There is therefore an extra reason for the announcement to be welcomed by some LGPS employers who may benefit from the new exit credits provisions.

**£95K EXIT PAYMENT CAP** – The issue of exit payment caps in the public sector continues to drag on....The proposed £95k exit payment cap would apply to redundancy payments that are paid to the employee and also the additional cost to the employer of early payment of retirement benefits. Quantifying the value of the enhanced pension is presenting MHCLG with the biggest headache as there is currently no standardised way of doing this across all LGPS funds. Currently MHCLG are gathering information from across the sector to examine the various methods in use, with a view to potentially recommending a standardised process in future.

**DATA QUALITY** – This continues to be a hot topic and one that is receiving lots of attention from The Pensions Regulator (TPR) under its new public sector governance remit. This is the first year that funds will have to record their common and scheme specific data scores on the annual scheme return. In addition TPR has confirmed that it will be “visiting” 23 LGPS funds with a view to assessing the data quality, seeking improvements in the quality of data available. Of course scheme data also relies on the level of engagement from the employers and we are currently using our data quality tool to work with our funds to facilitate better employer engagement in this regard.



**EQUITY RISK MANAGEMENT** – Most Funds have enjoyed a material increase in their funding levels in recent years, primarily as a result of strong equity returns versus their liabilities. We all know that equities are volatile and with equities being such a significant contribution to expected return (and risk) for LGPS Funds a reversal in markets from their record highs could undo all the recent gains very quickly. Managing equity risk is therefore important to help lock in recent funding level gains, improve stability and, perhaps most importantly, reduce the risk of unexpected increases in contribution rates. However, in managing this risk funds also need to make sure they continue to capture enough upside to keep the cost of future service benefits affordable.

Mercer has been working with a number of Funds to put in place equity protection strategies to help lock in these recent gains while allowing access to sufficient equity upside to keep accrual costs affordable. As well as the traditional methods, we have been pioneering some dynamic rolling strategies that adapt to market conditions to offer a potentially improved balance between risk reduction and access to upside on a longer term basis to help control employer contribution rates well into the future.

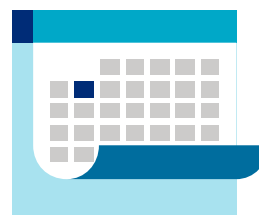
**INTEREST RATES** – The Bank of England recently raised interest rates by 0.25% to 0.75%. This should have come as good news to Fund's who value their liabilities on a gilt based discount rate. However, a combination of the markets anticipation of the rise and the dovish language used by the MPC resulted in a fall in long term yields and an increase in liabilities for those Funds who might have been expecting to make gains in funding levels and expected returns on assets. The move just goes to show the uncertainty and different moving parts (particularly trader sentiment) in market pricing and the need to think about the risks such changes have on Funds.

## REMINDERS

### LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018

– Our previous Newsalert summarised the LGPS Regulations that came into force on 14 May 2018, (noting that some of the Regulations have effect from 1 April 2014). As a reminder, it is now important for Funds to review their policies to ensure that they allow sufficiently for the introduction of exit credits, as well as communicate the changes to employers to alert them to the changes and highlight the importance of reviewing any commercial agreements in light of the new Regulations.

**LGPS AVC CLUB** – Many Funds have already expressed their interest in our new “**LGPS AVC Club**”, an independent monitoring and governance service set up by Mercer's specialist AVC team. The club is open to all LGPS funds who wish to reduce the cost and governance burden associated with these arrangements. Participation in this new club will avoid the unnecessary duplication of costs of undertaking AVC reviews and will therefore entitle member Funds to a material discount for our AVC monitoring reports due to the greater efficiencies coming through. For more information about joining the club, please contact [david.r.barker@mercer.com](mailto:david.r.barker@mercer.com) (0207 178 3392) or your usual Mercer consultant.



## OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATION

**SECTION 13** - The GAD is expected to publish its formal Section 13 report on the 2016 LGPS valuations in September. There is currently an ongoing dialogue on content between actuaries, GAD and some Funds who are mentioned in the report. It remains to be seen how many of these comments are taken on board by GAD when the final report is published.

**TIER 3 EMPLOYERS** – As mentioned in our previous Newsalert, having gathered the results of the surveys, Aon confirmed at the Scheme Advisory Board meeting in February that they are ready to analyse this and the interview data and provided an update on progress. A draft report was expected at the 27 June 2018 meeting for consideration by the Board. More information will be provided as it becomes available and further details on the project can be found [here](#).



## DATES TO REMEMBER

DATE	ISSUE	THE LATEST
31 August 2018	Benefit statements	Deadline for Benefits Statements
6 October 2018	Savings statements	Deadline for Pensions Saving Statements
1 January 2019	HMRC brief on VAT and treatment of pension fund management services provided by insurance companies.	Date by which, where an insurance company provides pension fund management and administration services, only the services for schemes classed as “special investment funds” will continue to be treated as VAT exempt.
1 January 2019	Plan Amendment, Curtailment or Settlement (IAS19)	Date after which member states must adopt the new EU directive covering occupational pensions.
13 January 2019	IORP II	Date by which member states must adopt the new EU directive covering occupational pensions
March 2019	Brexit	It is expected that the UK will formally leave the EU by the end of this month.
6 April 2019	Auto-enrolment	The minimum contribution rates for auto-enrolment will rise to 3% employer, 5% employee on this date.
2018	Tier 3 Employers	Outcome of the Tier 3 employers review
2018	Academies	Outcome of the academies review
2018/2019	Regulator powers	Consultation on changes to the Pensions Regulator’s Funding Code of Practice and strengthening its scheme funding and anti-avoidance powers has now started.
2019	Pensions Dashboard	These are expected to go live some time in 2019

## MEET SOME OF THE TEAM

### THINGS YOU MAYBE DIDN'T KNOW



**Name:** Peter Gent

**Role:** Senior Investment Consultant and Actuary

**Joined Mercer:** November 2017

**Place of Birth:** Wirral (it's not Liverpool)

**Favourite Film:** About Schmidt – Jack Nicholson playing an actuary – mind blown

**Dream Holiday Destination:** New Zealand – rugby and mountains – what's not to like?

**Favourite take away –** Sushi – 10+ years living in London and Surrey has changed me

**Best thing you did this summer so far:** Bought a fan and a paddling pool



**Name:** Ciaran Shanahan

**Role:** Wealth Analyst

**Joined Mercer:** September 2015 (it has gone fast!!)

**Place of Birth:** Northampton

**Favourite Film:** Law Abiding Citizen and as a child Toy Story

**Dream Holiday Destination:** Caribbean (I am going in December)

**Favourite take away –** Salt and Pepper Chicken, Salt and Pepper Chips, Fried Rice and Curry Sauce

**Best thing you did this summer so far:** Built a wardrobe (don't class myself as very DIY handy)



**Name:** Traci Bennett

**Role:** Wealth Analyst

**Joined Mercer:** July 2017

**Place of Birth:** Nova Scotia, Canada

**Favourite Film:** 10 Things I Hate About You and National Lampoons Christmas Vacation

**Dream Holiday Destination:** Ontario or Halifax, so I can see my family.

**Favourite take away –** Shake Shack - a wrap, chips and a milkshake

**Best thing you did this summer so far:** Bought a new house!



## CONTACTS



Paul Middleman  
[paul.middleman@mercer.com](mailto:paul.middleman@mercer.com)  
 0151 242 7402



Leanne Johnston  
[leanne.johnston@mercer.com](mailto:leanne.johnston@mercer.com)  
 0161 837 6649



Ian Kirk  
[ian.x.kirk@mercer.com](mailto:ian.x.kirk@mercer.com)  
 0151 242 7141



Nigel Thomas  
[nigel.thomas@mercer.com](mailto:nigel.thomas@mercer.com)  
 0151 242 7309



John Livesey  
[john.livesey@mercer.com](mailto:john.livesey@mercer.com)  
 0151 242 7324



Clive Lewis  
[clive.lewis@mercer.com](mailto:clive.lewis@mercer.com)  
 0151 242 7297



Charlotte Dalton  
[charlotte.dalton@mercer.com](mailto:charlotte.dalton@mercer.com)  
 0161 837 6660



Jonathan Perera  
[Jonathan.perera@mercer.com](mailto:Jonathan.perera@mercer.com)  
 0151 242 7434



Peter Gent  
[Peter.gent1@mercer.com](mailto:Peter.gent1@mercer.com)  
 0151 242 7050



Joanne Holden  
[Joanne.holden@mercer.com](mailto:Joanne.holden@mercer.com)  
 0151 242 7030

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	12 September 2018		n/a

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## SUBJECT: ANNUAL REVIEW AND PROGRESS ON THE 2016-2020 PENSION BUSINESS PLAN

### 1. Synopsis

- 1.1 To report to the Pensions Sub- committee progress made to date on some of the action plans in the agreed five year business plan and undertake an annual review of the plan

### 2. Recommendation

- 2.1 To consider and note Appendix A attached.
- 2.2 To review the business plan objectives and agree the required changes if any for the next 4 years

### 3. Background

- 3.1 CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5) publication, is based on ten principles proposed by the Myners review of Institutional Investment in the United Kingdom, and was adopted by the Government as a model for best practice in 2001.
- 3.2 The 10 Myners principles were reviewed by the NAPF in 2007 and after consultation a response document was published in October 2008 and adopted by CLG (government department responsible for the oversight of the LGPS). The LGPS administering authorities are required to prepare, publish and maintain a statement of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.
- 3.3 The Myners principles and compliance forms part of Islington Pension Fund's published Statement of Investment Principles. Myners Principle 1- Effective decision-making through a forward looking business plan is a key requirement. Members agreed a five- year business plan to April 2020 and to review the plan annually.

- 3.4 The key objectives of the five- year business plan agreed at the June 2017 Pensions sub-committee:
- To achieve best practice in managing our investments in order to ensure good long-term performance, sustainability of the Fund value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities
  - To continually improve our administration in order to deliver an excellent and cost effective service to all Fund Members
  - To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability.
  - To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact
  - To actively monitor and challenge poor performance in managers and to pursue new investment opportunities
  - To develop collaboration opportunities with other funds for sharing of services and pooling
- 3.5 The five- year business plan with progress to June 2018 is attached as Appendix A. Members are asked to consider and note progress made and undertake a review of the plan's objectives for any amendments for the next 4 years.

## **4. Implications**

### **4.1 Financial implications**

It is envisaged that a good business plan with effective actions as a whole will lead to efficiencies in running the fund and cost savings.

### **4.2 Legal Implications**

Elected members have fiduciary duty to the Fund, scheme members and local council tax payers in relation to the LGPS.

### **4.3 Environmental Implications**

None applicable to this report.

### **4.4 Equality 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 note progress made and review the agreed objectives the business plan make amendments if necessary.

**Background papers:**

None

Final report clearance:

**Signed by:**

**Received by:** Corporate Director of Finance & Resources Date

Head of Democratic Services Date

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

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## APPENDIX A

Action to be taken	Timescale	Details ( primary responsibility)	Progress to June 2016	Progress to May 2017	Progress to June 2018
1. "To achieve best practice in managing our investments in order to ensure good long- term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities"					
(a) Consider an interim valuation and LGPS scheme changes	Ongoing	Use results to review funding level and any potential effect of the scheme changes	Training sessions have been arranged in September to review assumptions and implications for 2016 Actuarial Review	2016 Actuarial Valuation was consulted on and signed off 31/3/17	Actuary presented an update on Equity gains and its impact on funding level
(b) Review investment strategy to reflect asset/liability position To commence as part of the 31 March 2016 actuarial valuation process	2016-2019	To use results and other analyses to set benchmark asset allocations and Fund outperformance targets and risk levels ( <i>Pensions sub-cttee, Investment advisers</i> ).	Members agreed to allocate 10% to bonds and 15% to infrastructure and social housing in November 2015	Members after consulting with the London CIV are now to agree a tendering plan on infrastructure	Members agreed to reallocate £50m from its bond portfolio to the HLV property
(c) Implement any resulting changes to asset allocation, portfolio and fund management structures.	Ongoing	Plan procurement and tendering process with transition of assets requirement to minimize cost and optimize value of assets	A proposal for an Emerging and Frontier market manager is being sought through an open tender process with a deadline of 20 June 2016.	An equities emerging market manager was appointed in September 2016 and was seeded in May'17	An equity protection strategy was implemented in February 2018 to March 2020 with the payment of a one off premium
(d) Review all contracts on a rolling basis including, actuary, voting services, investment advisers and custodial services.	2015-2019	Committee to agree conclusions of all reviews. Corporate Director of Resources to have delegated authority to review contracts and performance and fee levels when required. ( <i>Pensions Sub-Committee, Officers</i> ).	Fee reductions were negotiated with our UK commercial property manager and our Global property manager	BNY Mellon contract was reviewed and updated to conform to new regulations and combine all services including performance monitoring	The independent adviser service was retendered and an initial 5year contract awarded to Allenbridge MJ Hudson
(e) Closely monitor new legislation affecting the LGPS or pension provision.	Ongoing	Consider reports on the implications for the Fund and agree actions necessary to ensure full compliance when final legislation is enacted including meeting deadlines. ( <i>Pensions sub-committee, Officers, Actuary</i> ).	A further response on the consultation on pooling and investment regulation was sent in March 2016	The Investment Strategy Statement that replaces SIP was drafted, consulted and published by 1 April 2017  2016 Funding Strategy Statement was also consulted on and published by 1 April 2017	Members agreed to be elected for professional client status and complete the necessary application for MIFID II effective from 3 Jan 2018.
2. To continually improve our administration in order to deliver an excellent and cost effective service to all fund members					
(a) Agree key performance indicators for the administration of the Fund and continue to benchmark against similar funds.	Ongoing.	Development complete by Q2 2011 with regular reporting to schedule to Pension sub cttee thereafter. Continue ongoing CIPFA benchmarking. ( <i>Officers</i> ).	Ongoing	Pension Board on reviewing resources have recommended extra resources in order to deliver a high standard of services Deferred benefit statements are to be sent out in July 2017	A speaker from Carbon Trust presented at Annual meeting in Oct'17
(b) Carry out a survey to gain feedback from pensioners and active employees on customer satisfaction.	2012	Analyse survey results (pension sub cttee, officers)	2016 Annual benefit statement were sent out in October 2016	Annual benefit statements were sent out in September 2017	Annual benefit statements are due out before 31 August.

**APPENDIX A**  
**Actions to be taken**

	Timescale	Details (primary responsibility)	Progress to June 2016	Progress to May 2017	Progress to June 2018
<p>(c) Implement changes based on survey responses</p> <p>d) To devise a communication plan and consultation to stakeholders</p>	<p>Oct 2012-Mar 2013</p> <p>Ongoing</p>	<p>Changes required from survey to be implemented during 2012. <i>(Pensions sub cttee, Officers including LBI communications team)</i></p> <p>Newsletters, annual benefit statements, annual reports, AGM and employers' meetings to continue as previously <i>(Officers)</i>.</p>	<p>Members who contact the service are asked for feedback on the service received</p> <p>Communication on changes to LGPS are highlighted in staff bulletins and the intranet</p> <p><i>The Pension internal and external websites are regularly updated with fund policy information and any new regulations</i></p>	<p>Members who contact the service are asked for feedback on the service received</p> <p>Communications policy was reviewed by the Pension Board in September 2016</p> <p>AGM chaired by the Pension Board Chair person was held in October 2016 and copies of the Pension Annual Report for 2015/16 were distributed</p>	<p>Pension Board discussed bulk transfer commutation and requested further analyses on the data.</p> <p>Pension Board gave their comments on a frequently asked question (FAQ) page in the 2017 Annual report and received and noted the pension fund year end accounts</p>
<p>To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact.</p>					
<p>(a) Continue to engage with companies through active membership of LAPFF, IIGCC and other suitable bodies.</p> <p>(b) Develop improved monitoring of fund manager engagement activity.</p> <p>(c) Improve communication of engagement activities to stakeholders and public.</p> <p>(d) Integrate our responsible investment policy into the Fund's investment review</p>	<p>Ongoing.</p> <p>Ongoing.</p> <p>Review during 2012</p> <p>Ongoing</p>	<p>Key themes will be corporate governance especially relating to human rights, employment practices and protection of the environment. <i>(Pensions sub cttee, Investment advisers, PIRC, Officers.)</i></p> <p>To include engagement with managers on their own corporate governance as part of terms of reference on appointment. <i>(Pensions sub cttee, investment advisers, Officers)</i>.</p> <p>To include potential for publication of LBI voting record. <i>(Officers and PIRC)</i>.</p> <p>To include consideration of appropriate responsible investment funds. Manager policies on equalities, environment and corporate governance to form review criteria alongside performance and fee considerations.</p>	<p>Work with LAPFF and IIGCC continues</p> <p>Members have attended a number of AGMs of companies as shareholder to exercise our voting rights</p> <p>Voting records are published in the Annual Pension Fund report</p> <p>Members agreed to disinvest from SOCO International on the basis of its future returns, current human rights and environmental issues</p>	<p>Work with LAPFF and IIGCC continues</p> <p>Members have attended a number of AGMs of companies as shareholder to exercise our voting rights</p> <p>Voting records are published</p> <p>Members reviewed the carbon footprint of its equities portfolio and after a series of training and presentations agreed to lower its existing footprint by restructuring its passive equities to low carbon benchmarks. Implementation should complete by July with a up to 50% reduction.</p>	<p>Work with LAPFF and IIGCC, and the LCIV continues</p> <p>Members received a presentation from Mercer on ESG rating and climate risk assessment of our existing fund managers, this becoming a basis for monitoring and reporting.</p> <p>Received a presentation from PIRC on LAPFF engagement and governance</p>

**APPENDIX A**  
**Actions to be taken**

	Timescale	Details (primary responsibility)	Progress to June 2016	Progress to May 2017	Progress to June 2018
		<i>(Pensions sub cttee, Investment advisers, Officers).</i>		Low carbon alternatives on property and bonds are now being sought.	Low carbon property workplace fund manager presented to members in June 2017
4. To actively monitor and challenge poor performance in managers and to pursue new investment opportunities					
(a) Review current fund manager performance against agreed targets over three- to five year rolling periods	Ongoing	Use existing terms of reference for appointment and firing of managers as a guideline to monitor performance of fund managers <i>(Pensions sub cttee, Investment advisers, Officers).</i>	a)Members monitoring continues	a)Members monitoring continues	Ongoing
(b) Review current fund manager quarterly monitoring arrangements	Ongoing	Agree a forward plan for existing fund managers to meet the pensions sub- committee. The Corporate Director of Resources to continue monitoring managers between quarterly meetings <i>(Pensions sub cttee, Investment advisers, Officers).</i>	(b)The forward plan continues to schedule managers	A key man change triggered a review of our property manager Hearthstone mandate.	Alternative residential investment provider presented to Members in June 2017
(c) To consider new investment opportunities which can help improve the fund's financial performance	Ongoing	Pensions sub-committee have a long term objectives and clear investment policies to achieve them. <i>(Pensions sub cttee, Investment advisers, Officers).</i>	Joint training sessions are now scheduled with the Local Islington Pension Board to keep both members abreast with investment issues	Active Frontier and emerging market manager has been seeded to replace a passive emerging market manager	Members expressed interest in 3rd party fund of fund managers on infrastructure implementation and received a manager presentation as training
(d) To keep abreast of developments on pension and investment issues	Ongoing	Pensions sub-committee will agree a training plan and evaluate annually training undertaken and future needs <i>(Pensions sub cttee, Investment advisers, Officers).</i>	Training sessions are scheduled before each committee meeting and topics have included Emerging and frontier markets, infrastructure, social housing, and impact investing	Training sessions before and during and committee meetings continue.	Training sessions before and during and committee meetings continue.
5. Develop collaboration opportunities with other funds for sharing of services and pooling					
a) Seek to collaborate with other partners to achieve efficiencies and value for money	Ongoing	To agree to share services where it is beneficial to the fund	The London CIV received its FCA approval in	The Fund as an active member of the London CIV continues to work on policy and investment issues	Officers are collaborating with 3 other interested local

		<p>objectives of sustainability and performance</p>	<p>September 2015 and Islington moved its Allianz portfolio to the CIV platform on 2 December 2015</p> <p>The government has now agreed that all England and Wales LGPS will now pool their assets into six funds. A pathway response on pooling timetable and cost is due in July 2016</p>	<p>The passive LGIM mandates were pooled under a CIV negotiated lower fee even though it sits off the platform</p> <p>Newton mandate was transitioned to Newton London CIV platform in May 2017</p> <p>Another 5 new global equities sub funds have been appointed onto the London CIV platform to offer boroughs alternative investment managers</p>	<p>authorities in a joint tender for infrastructure</p> <p>The LCIV gave a presentation to Members on progress and outlined priorities for 2018. Members gave their comments on the consultation of the LCIV governance review and the new structure was agreed at their July AGM.</p>
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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	12 September 2018		n/a

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## SUBJECT: INFRASTRUCTURE PROCUREMENT UPDATE

### 1. Synopsis

- 1.1 This is a progress report on investment strategy review to consider changes to the asset allocation of the Fund's 25% defensive assets. This report updates members on progress made on the infrastructure procurement process.

### 2. Recommendations

- 2.1 To note progress made
- 2.2 To agree to continue to collaborate with 2 other local authorities to pursue the joint tender
- 2.3 To agree to meet with the London CIV to consider their infrastructure implementation update due in September

### 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 reports. 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 onto 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 A meeting is being schedule for the week beginning 4 September to discuss and select a shortlist of proposals for due diligence initial interviews before a beauty parade. Our investment advisors will be asked for their views on the shortlist as part of the due diligence. Members will be updated on progress and dates for the beauty parade.

3.7 The London CIV in a meeting in August confirmed that they had progressed with a tendering and shortlisting of infrastructure service providers. The final appointment by the executive board is due imminently. Officers have arranged a meeting to receive further details on their specifications to determine if they meet our requirements.

3.8 Members are asked to note progress to date and receive further updates on the shortlisting process with BFinance and the LCIV infrastructure meeting.

## **4. Implications**

### **4.1 Financial implications**

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

### **4.2 Legal Implications**

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

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

### **4.3 Environmental Implications**

Environmental considerations can lawfully be taken into account in investment decisions

### **4.4 Resident Impact Assessment**

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding

## **5. Conclusion and reasons for recommendation**

5.1 Members are asked to note the progress made on the procurement of infrastructure via collaboration with two other local authorities and receive further updates on progress on this process as well as discussions with the LCIV.

### **Background papers:**

None

Final report clearance:

**Signed by:**

**Received by:** Corporate Director of Resources Date

Head of Democratic Services Date

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



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	12 September 2018		

Delete as appropriate	Exempt	Non-exempt
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**Appendix A** 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: 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 May to July 2018.

### 2. Recommendations

- 2.1 To note the progress and news to July 2018
- 2.2 To note and consider the exempt Appendix A – the draft LCIV Responsible Investment Policy

### 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 in July – following the shareholder AGM on 12 July**

All the AGM resolutions were approved.

#### 3.5.1 **Financial Matters**

In summary, the company report and financial statements for the year ended 31 March 2018 were approved, as was the Regulatory Capital Statement.

#### **CEO and Chair's report**

The CEO and Chair's report included a report on performance against the Medium Term Financial Strategy and key issues facing London CIV.

The presentation by the Chair, Lord Kerslake and CEO, Mark Hyde-Harrison, included work to date, and expected to continue in the shareholder committee, to ensure that the product offer and services provided by London CIV met borough's expectations.

3.5.2 Other key highlights from the report were the work to:

- begin the process of implementing the new governance framework changes agreed in principle in March 2018, which was a separate item on the AGM agenda
- launch 5 new funds in the financial year
- the management and oversight of nearly £15bn of assets (active and passive) which represents around 40% of total assets under management across the 32 London Local Authorities (LLAs) and City of London.

- **approval from the Financial Conduct Authority (FCA) to manage Unauthorised Alternative Investment Funds (UAIF) as agreed by shareholders to allow London CIV to offer alternative and illiquid funds as part of the product range e.g. infrastructure**
- the stakeholder consultations and one-to-one meetings with individual LLAs to identify what product offer will best meet the requirements of pension strategies and inform London CIV's "road map"
- contract award for administration of the alternative funds platform to Northern Trust following an OJEU tender and commencement of the OJEU process for the Investment Oversight System

### 3.5.3 **New Governance Framework**

The new governance framework was approved. The new Shareholder Committee is expected to hold its first meeting in mid October, a slightly later date than first envisaged to ensure the maximum number of members can attend.

There was a consensus at the AGM that it would be helpful to appoint alternates and this is being followed up so that it can be put in place from the first meeting.

The first two Shareholder Committee meetings will provide a sounding board for work on the Medium Term Financial Strategy (MTFS) and Business Plan which comes to the next general meeting of all shareholders in late January.

The MTFS is essentially a rolling "road map" for the development of London CIV. This will make use of the work undertaken over the last few months to map LLA asset strategies onto a potential London CIV product offer.

**The final version of the Responsible Investment Strategy is also expected to be an item for the Shareholder Committee agenda.**

The meeting will also discuss corporate and financial performance and any significant financial matters.

As requested at the AGM we will be in contact with LLAs on an individual basis to progress signing the pension recharge and guarantee agreement in the meantime.

### 3.5.4 **Written Notice to approve dissolution of the PCSJC**

To implement the change all London Local Authorities need to sign the written notice agreeing to the dissolution of the PCSJC. The procedural arrangements for obtaining approval and signature vary from borough to borough and we recognise that in some cases Cabinet or even full Council approval may be required given that this is a constitutional matter. So far we have received signed written notices from about 1/3 of LLAs.

### 3.5.5 **Appointments**

#### ***London CIV Board***

Cllr Stephen Alambritis and Cllr Ravi Govindia CBE were appointed as Non Executive Directors of London CIV, subject to FCA approval.

The name of the Treasurer Observer on the Board is to be confirmed.

***The members of the Shareholder Committee are as follows:***

#### ***Councillors***

Cllr Antonia Cox (Westminster)

Cllr Robert Chapman (Hackney)

Cllr Yvonne Johnson (Ealing) - expected to be elected by the members of the Committee as Committee Chair

Cllr Elaine Norman (Redbridge)

Cllr Mark Shooter (Barnet)

Cllr Keith Onslow (Bromley)  
Cllr Jill Whitehead (Sutton)  
Andrew McMurtrie (City of London)

*Alternates*

Cllr Simon Hall (Croydon)  
Cllr Nitin Parekh (Harrow)  
Cllr Doug Taylor (Enfield)  
Nick Bensted-Smith (City of London)

*Treasurers, nominated via the Society of London Treasurers*

Caroline Holland (Merton)  
Ian Williams (Hackney)  
Gerald Almeroth (Sutton)  
Duncan Whitfield (Southwark)

*Trade Union Observer*

Chris Cooper

3.6 The LCIV Responsible Investment Policy

At a recent meeting with the LCIV they shared a draft Responsible Investment Policy that is yet to be ratified. The policy's belief and guiding principles is listed below:

**BELIEFS AND GUIDING PRINCIPLES**

The Pool's RI beliefs and guiding principles underpin its RI approach and are described below.

**1.1.1 Beliefs**

- a) We believe it is important that we accept and exercise the responsibilities of ownership of all the assets we manage.
- b) We believe that communication and engagement are integral to responsible investment.
- c) We believe that we should hold all our suppliers to account over how they exercise our ownership rights.
- d) We accept that there can be a conflict between the ability to exercise ownership rights when working with other third parties; we will manage this through communication and engagement.
- e) Sometimes assets will be sold over ESG issues; however the LCIV or its partners will only do this on a case by case basis when considering all the facts.
- f) *We believe pre-determined divestment on a rules-based approach is contrary to Government guidance and does not form part of this RI policy.*
- g) We believe our voice for responsible ownership is loudest when we own an asset.

**1.1.2 Guiding Principles**

- a) We should set out principles to which we aspire on subjects that all shareholders can agree, for example:

- Human rights
- Human slavery
- Cluster munitions
- Rule of law
- Equality
- Corporate governance
- Sustainability
- Climate change
- Fossil fuel risk

- b) We will require all Investment managers to have an RI policy if the LCIV is to invest with them.
- c) We will make clear to investment managers our consensus views on these matters and ask them to consider incorporating them into their RI policies.
- d) We will ensure that all investment managers operate their RI policies effectively and hold them to account.
- e) An Investment Manager's inability to operate effectively their RI Policy will be a factor in determining if the LCIV continues to use a manager.
- f) We will produce an Annual RI report for the London CIV.



g) The Pool also requires investment managers to vote in accordance with the Local Authority Pension Fund Forum (“LAPFF”), other than in exceptional cases, in which case they should explain their reasons for not doing so, preferably in advance of the meeting. This is monitored on a regular basis.

The full draft policy report is attached as exempt appendix A

3.7 Members are asked to note the progress to date on implementation of the new governance structure and consider the Pool’s Responsible Investment Policy.

### 3.8 **CIV Financial Implications- Implementation and running cost**

A total of 75,000 was contributed by, each London Borough, including Islington, towards the setting up and receiving FCA authorisation to operate between 2013 to 2015. All participating boroughs also agreed to pay £150,000 to the London CIV to subscribe for 150,000 non-voting redeemable shares of £1 each as the capital of the Company . After the legal formation of the London CIV in October 2015 , there is an agreed annual £25,000 running cost invoice for each financial year ..

The transfer of our Allianz managed equities to the CIV in December 2015 was achieved at a transfer cost of £7,241.

All sub-funds investors pay a management fee of .050% of AUM to the London CIV in addition to managers’ fees.

In April 2017 a service charge of 50k (+VAT) development funding was invoiced and a balance of £25k will be raised in December once the Joint Committee has reviewed the in-year budget.

Members agreed to the 0.005% of AUM option for charging fees on the LGIM passive funds that are held outside of the CIV and agreed that (depending on the outcome of discussions) the same will be applied to BlackRock passive funds.

The Newton transition cost the council 32k.

In a April 2018 annual service charge of 25k (+VAT) and 65k (split 43.3k and 16.6k ) 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 current implementation of the new governance structure, client communication and the draft responsible investment policy.

**Background papers:**

Final report clearance:

**Signed by:**

Corporate Director of Resources Date

**Received by:**

Head of Democratic Services Date

Report Author: Joana Marfoh  
Tel: 0207-527-2382  
Fax: 0207-527-2056  
Email: joana.marfoh@islington.gov.uk



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	12 September 2018		n/a

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## 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, the LCIV and equity protection.

### 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:**

**Received by:** Corporate Director of Resources Date

Head of Democratic Services Date

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

**Pensions Sub-Committee Forward Plan for June 2018 to March 2019**

Date of meeting	Reports
	<p>Please note: there will be a standing item to each meeting on:</p> <ul style="list-style-type: none"> <li>• Performance report- quarterly performance and managers' update</li> <li>• CIV update report</li> <li>• Equity protection- semi - annual monitoring</li> </ul>
12 September	Business plan update Infrastructure procurement update Listed equity portfolio review Decarbonisation and fossil fuel free policy
15 October	Pension annual meeting
26 November	Alternative products to corporate bond portfolio Review of Investment Strategy Statement and decarbonisation  Infrastructure procurement update  Actuarial funding update
25 March	

**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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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	12 September 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 & NEWTON

### 1. Synopsis

- 1.1 This report and exempt appendix provide updated information on the Fund's listed equities portfolio and considers next steps on the LCIV Allianz and LCIV Newton global equity portfolio.
- 1.2 Mercer, our investment advisors have prepared a presentation of our strategic and current equity allocation, existing equity styles, things to consider when constructing a global equity and current sub funds available on the LCIV platform (attached as exempt Appendix 1)

### 2. Recommendation

- 2.1 To receive and consider the presentation by Mercer, our investment advisors
- 2.2 To agree one or two of the below options
  - (i) to do nothing and do a full review of equity allocations, and style after the actuarial valuation in 2020 as part of a whole Fund strategic review
  - (ii) to terminate Allianz and Newton and transfer assets to alternative global equity LCIV sub fund(s) subject to due diligence and timing by Mercer and Officers
  - (iii) to terminate Allianz and transfer assets to alternative global equity LCIV sub fund(s) subject to due diligence by Mercer and Officers

(iv) to delay the review of Newton to late 2019 so it forms part of a whole Fund strategic review

2.3 Depending on recommendation 2.2; agree that Officers and Mercer conduct due diligence and evaluate expected transaction costs and identify the best fit to report back in November.

### **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 2<sup>nd</sup> 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 £110m 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 Mercer will discuss in their presentation attached as Exempt Appendix 1 more details about the portfolios and the options available for consideration.

### **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**

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 Members are asked receive the Mercer presentation attached as exempt appendix 1 and consider the recommendations.

**Background papers:**

None

Final report clearance:

**Signed by:**

<b>Received by:</b>	Corporate Director of Resources	Date
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	Head of Democratic Services	Date
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