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

AGENDA FOR THE PENSIONS SUB COMMITTEE

Members of the Pensions Sub Committee are summoned to a meeting which will be held in Committee room 4, Islington Town Hall, Upper Street, N1 2UD, on **17 June 2019 at 7.30 pm.**

Enquiries to : Mary Green
Tel : (0207 527 3005
E-mail : democracy@islington.gov.uk
Despatched : 5 June 2019

Membership 2019/20	Substitute Members
Councillor Dave Poyser (Chair)	Councillor Mouna Hamitouche MBE
Councillor Andy Hull (Vice-Chair)	Councillor Roulin Khondoker
Councillor Paul Convery	Councillor Michael O'Sullivan
Councillor Sue Lukes	

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

5. Membership, Terms of Reference and dates of meetings of Islington Pensions Sub-Committee and Pensions Board 2019/20 — 5 - 10

6. Members' reports on attendance at meetings/events/conferences etc on the Sub-Committee's behalf (verbal report(s)) — -

B. Non-exempt items

1.	Pension Fund performance - 1 January to 31 March 2019	11 - 42
2.	Presentation from PIRC - Annual Fund performance	-
3.	Listed equity portfolio - update on transfer of assets from LCIV Allianz to LCIV RBC Sustainable Fund	43 - 46
4.	London CIV update	47 - 50
5.	Equity protection strategy - semi-annual monitoring	51 - 70
6.	Pension Fund affiliations (to follow)	-
7.	Investment Strategy review - Mercer presentation	71 - 74
8.	Decarbonisation policy monitoring plan	75 - 102
9.	Forward Plan	103 - 106

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.	Pension Fund performance - January to March 2019 - exempt appendix	107 - 110
2.	Listed equity portfolio - update on transfer of assets from LCIV Allianz to LCIV RBC Sustainable Fund - exempt appendix	111 - 114
3.	London CIV update - exempt appendix	115 - 118

4. Investment Strategy review - Mercer presentation - exempt appendix 119 - 184

5. Decarbonisation policy monitoring plan - exempt appendix 185 - 202

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 10 September 2019

London Borough of Islington

Pensions Sub Committee - 25 March 2019

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

Present:	**Councillors:**	David Poyser (Chair), Andy Hull (Vice-Chair) and Michael O'Sullivan
Also Present:		Nikeeta Kumar and Tony English, Mercer Limited Karen Shackleton and Steve Webster, MJ Hudson Allenbridge
	Observers:	Alan Begg and Valerie Easmon-George – prospective appointees to Pension Board

Councillor Dave Poyser in the Chair

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

Received from Councillor Sue Lukes.

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

None.

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

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

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

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

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

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

Matters arising
Minute 47 - Pensions for Purpose
The Head of Pension Fund and Treasury Management stated that confirmation had been received of the Fund's affiliation to "Pensions for Purpose".

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

Members' reports

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

52 PENSION FUND PERFORMANCE (Item B1)

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

RESOLVED:
(a) That the performance of the Fund from 1 October to 31 December 2018, as set out in the BNY Mellon interactive performance report, and detailed in the report of the Interim Corporate Director of Resources, be noted.
(b) That the report of MJ Hudson Allenbridge Advisers on fund managers' quarterly performance, detailed in Appendix 1 to the report and their presentation, be noted.
(c) That the LGPS Current Issues for February 2019, attached as Appendix 2 to the report, be noted.
(d) That BMO/LGM be asked about their holding in British American Tobacco Kenya, on the basis that smoking and its associated health hazards is not sustainable in the long term.

53 LGPS STATUTORY GUIDANCE ON ASSET POOLING (Item B2)

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

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

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

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

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

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

RESOLVED:

(a) That progress to date with LCIV on the transfer of assets, as detailed in the report of the Interim Corporate Director of Resources, be noted.
(b) That the units owned by Islington in the LCIV Allianz Fund be transferred to the RBC Sustainable Fund
(c) That an assurance be sought from the LCIV that they will review their processes with regard to redemption of funds, to ensure that in those cases where only one or two funds are left in a fund they are not left to bear closure costs and the full withholding tax credit in the fund. The Sub-Committee wished to be reassured on this before making any future investments in the LCIV.
(d) That the Interim Corporate Director of Resources, in consultation with the Director of Law and Governance, be authorised to negotiate with the LCIV:
(i) any costs associated with the termination of the Allianz sub fund mandate
(ii) fair recourse to dealing with the withholding tax accrued.

55 LONDON CIV UPDATE (Item B4)

RESOLVED:

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

56 PENSIONS SUB-COMMITTEE FORWARD PLAN (Item B5)

RESOLVED:

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

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

PIRC – annual fund performance compared to LA peer group

3 December 2019 – Carbon monitoring

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

57 UK EQUITY PORTFOLIO DECARBONISATION (Item B6)

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

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

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

RESOLVED:
(a) That approval in principle be granted to the transfer of the In-House passive equity fund to a low carbon index (- as proposed by Mercer, option 2 on page 5 of their presentation), within a year.
(b) That the Investment Strategy Statement be submitted annually to the Sub-Committee for review, including as much information as possible to be available to the public.
(c) That, with a view to investment opportunities in other asset classes, a report be submitted to the next meeting on investment in the environment.

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

Noted.

59 LONDON CIV UPDATE - EXEMPT APPENDIX (Item E2)

Noted.

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

Noted.

The meeting ended at 9.40 pm

CHAIR

ISLINGTON

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

Report of: **Director of Financial Management and S151 Officer**

Meeting of	**Date**	**Agenda Item**	**Ward(s)**
Pensions Board/ Pensions Sub-Committee	17 June 2019		n/a

Delete as appropriate		**Non-exempt**

Subject: MEMBERSHIP, TERMS OF REFERENCE AND DATES OF MEETINGS OF PENSIONS SUB-COMMITTEE AND THE PENSIONS BOARD in 2019/20

1. Synopsis

To inform members of the remit and administrative arrangements for the Pensions Sub-Committee and the Pensions Board for the municipal year 2019 - 2020.

2. Recommendations

2.1 To note the membership of the Pensions Sub-Committee, appointed by the Audit Committee on 3 June 2019, its terms of reference and dates of meetings for the municipal year 2019/20, as set out at Appendix A.

2.2 To note the membership of the Pensions Board, appointed by the Audit Committee on 3 June 2019, its terms of reference and dates of meetings for the municipal year 2019/20, as set out at Appendix A.

3. Background

3.1 The terms of reference of the Pensions Sub-Committee (as contained in Part 5 of the Council's Constitution) are set out at Appendix A. The quorum of the Sub-Committee is two Councillors.

3.2 The terms of reference of the Pensions Board are also detailed in Appendix A. The quorum for meetings of the Board is three, including at least one employer representative and one member representative

3.2 The membership and dates of meetings in 2019/20 are also set out at Appendix A for information.

4. Implications

4.1 Financial Implications

None.

4.2 Legal Implications

None.

4.3 Resident impact assessment

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

A resident impact assessment has not been carried out since this report relates solely to the administrative arrangements for the Committee and will not impact upon residents.

4.4 Environmental Implications

Papers are circulated electronically where possible and consideration is given to how many copies of the agenda might be required on a meeting by meeting basis with a view to minimising numbers. Any agenda not used at the meeting are recycled.

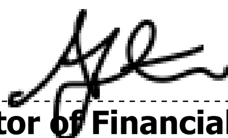
5. Conclusion and reasons for recommendation

The report is submitted to inform members of the remit of the Committee.

Background papers:
None.

Final Report Clearance

Signed by



3.6.2019

Director of Financial Management and S151 Officer Date

Report author Mary Green
Tel 020 7527 3005
E-mail mary.green@islington.gov.uk

1. PENSIONS SUB-COMMITTEE MEMBERSHIP 2019/20

Members	**Substitutes**
Councillor David Poyser (Chair)	Councillor Mouna Hamitouche MBE
Councillor Paul Convery	Councillor Roulin Khondoker
Councillor Andy Hull	Councillor Michael O'Sullivan
Councillor Sue Lukes	

2. MEETING DATES

PENSIONS BOARD MEETS AT 6.00PM AND PENSIONS SUB-COMMITTEE MEETS AT 7.30PM ON THE FOLLOWING DATES:

17 June 2019
10 September 2019
3 December 2019
24 March 2020
15 June 2020

The AGM will take place on 7 October 2019 at 1.00pm

3. TERMS OF REFERENCE OF THE PENSIONS SUB-COMMITTEE

Terms of Reference

1. To consider policy matters in relation to the pension scheme, including the policy in relation to early retirements.

2. To administer all matters concerning the Council's pension investments in accordance with the law and Council policy.

3. To establish a strategy for disposition of the pension investment portfolio.

4. To determine the delegation of powers of management of the fund and to set boundaries for the managers' discretion.

5. To review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the investment managers. (Note: The allocation of resources to the Pension Fund is a function of the Executive).

6. To consider the overall solvency of the Pension Fund, including assets and liabilities and to make appropriate recommendations to the Executive regarding the allocation of resources to the Pension Fund.

7. The Chair of the Pensions Sub-Committee will represent Islington Council at shareholder meetings of the London Collective Investment Vehicle (London LGPS CIV Limited). In the absence of the Chair a deputy may attend.

PENSIONS BOARD MEMBERSHIP 2019-2020

Employer representatives:
Maggie Elliott (Vice-Chair) (for a three year term from 3 June 2019)
Councillor Paul Smith (Chair)
(vacancy)

Scheme member representatives:
Mike Calvert (for a three year term from 3 June 2019)
Valerie Easmon-George (for a four year term, from 3 June 2019) (+ vacancy for substitute)
George Sharkey (for a four year term, with effect from 26 May 2017)

Independent member
Alan Begg (for a four year term, from 3 June 2019)

3.1 **Terms of Reference**

1.To assist the London Borough of Islington as scheme manager in securing compliance with:

a. the Local Government Pension Scheme Regulations 2013;
b. any other legislation relating to the governance and administration of the Local Government Pension Fund Scheme (LGPS);
c. requirements imposed by the Pensions Regulator in respect of the LGPS;
d. such other matters as the LGPS regulations may specify

2. To assist the London Borough of Islington in securing the effective and efficient governance and administration of the scheme;

3. To consider cases that have been referred to the Pension Regulator and/or the Pension Ombudsman; recommending changes to processes, training and/or guidance where necessary;

4. To produce an annual report outlining the work of the Board throughout the financial year.

5. To make recommendations to the Pension Sub-Committee.

Composition
The membership of the Board shall consist of:

- 3 Islington Council Pension Fund employer representatives
- 3 Islington Council Pension Fund member representatives
- 1 independent member (non-voting)

No substitutes are permitted, with the exception of the member of the Board who is appointed to represent pensioner members of the LGPS

All members of the Board shall be appointed by full Council or its Audit Committee which shall also appoint a chair from among the members of the Board.

Any person who is applying for or appointed as a member of the Pension Board must provide the Scheme Manager with such information as and when the Scheme Manager requires to ensure that any member of the Board or person to be appointed to the Board does not have a conflict of interest.

No officer or elected member of the Council who is responsible for the discharge of any function in relation to the LGPS.

Members of the Pension Sub-Committee shall be invited to attend meetings of the Board as observers.

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	17 June 2019		

Delete as appropriate	~~Exempt~~	Non-exempt

Appendix 2 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Subject: PENSION FUND PERFORMANCE 1 JANUARY TO 31 MARCH 2019

1. Synopsis

1.1 This is a quarterly report to the Pensions Sub-Committee to allow the Council as administering authority for the Fund to review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.

2. Recommendations

2.1 To note the performance of the Fund from 1 January to 31 March 2019 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 and exempt Appendix 2.

3. Fund Managers Performance for 1 January to March 2019

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 (Jan-Mar'19) Gross of fees		12 Months to March 2018-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Bench Mark
LBI-In House	13%	UK equities	N	7.06%	9.4%	-7.36%	-9.47%
London CIV Allianz	9%	Global equities	2	11.3%	10.1%	11.0%	12.6%
LCIV -Newton	16%	Global equities	2	8.6%	9.7%	14.2%	11.1%
Legal & General	11.8%	Global equities	1	9.2%	9.3%	10.3%	10.5%
Standard Life	11.6%	Corporate bonds	3	4.05%	4.08%	3.46%	3.68%
Aviva (1)	9%	UK property	2	1.86%	4.13% 0.52%	2.78	4.7% 5.6%
Columbia Threadneedle Investments (TPEN)	6.5%	UK commercial property	2	0.4%	0.28	4.6%	4.7%
Hearthstone	2%	UK residential property	N	0.42%	0.52%	2.8%	5.6%
Schroders	8.3%	Diversified Growth Fund	4	4.9%	1.03%	0.04%	7.4%
BMO Investments-LGM	5.6%	Emerging/ Frontier equities	2	5.3%	7.5%	1.9%	0.05%

4.13% & 4.7% = original Gilts benchmark; 0.52% and 5.6% 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 March 2019 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to Mar' 2019 Performance Gross of fees	
Combined Fund Performance ex-hedge	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	5.6	6.0	7.0	6.5

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

3.5 **Total Fund Position**

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

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	7.0%	8.95%	7.6%
Customised benchmark	6.5%	8.3%	7.3%

3.6 **AllianzGI (RCM)**

3.6.1 AllianzGI (formerly known as RCM) is the fund's global equity manager and was originally appointed in December 2008. There have been amendments to the mandate, the last being a transfer to the CIV platform.

3.6.2 On 2 December, the portfolio was transferred to the London CIV platform to Allianz sub fund as agreed by Members at the November 2015 meeting. The new benchmark is to outperform the MSCI World Index. The outperformance target is MSCI World +2% per annum over 2 years' net of fees.

3.6.3 This quarter the fund returned 11.3% against a benchmark of 10.1%. Since inception with the London CIV in December 2015, there is a relative over performance of 1.3% whiles since January 2009 the original inception date, relative outperformance is 0.12% per annum. The main drivers for outperformance was due to overweight holding in IT , consumer staples and industrial sectors. The portfolio holds 51 stocks.

3.6.4 Members agreed in November to replace Allianz with RBC Sustainability fund on the LCIV platform and the issue about withholding tax liabilities was discussed at the march meeting. A discuss on progress to date is another agenda item.

3.7 **Newton Investment Management**

3.7.1 Newton is the Fund's other global equity manager with an inception date of 1 December 2008. There have been amendments to the mandate the latest being a transfer to the London CIV platform.

3.7.2 The inception date for the LCIV NW Global Equity Fund was 22 May 2017. The new benchmark is the MSCI All Country World Index Total return. The outperformance target is MSCI All Country Index +1.5% per annum net of fees over rolling three- year periods.

3.7.3 The fund underperformed by returning 8.6% net of fees against a benchmark of 9.7% for the March quarter. Since inception the fund has delivered an absolute return of 11.9% but relative under performance of -0.19% gross of fees per annum

3.7.4 The under performance this quarter was driven mainly by underweight sector positions in Information Technology and Financials sectors but stock selection helped to negate the losses.

3.8 **In House Tracker**

3.8.1 Since 1992, the UK equities portfolio of the fund has been managed in-house by officers in the Loans and Investment section by passive tracking of the FTSE 350 Index. The mandate was amended as part of the investment strategy review to now track the FTSE All Share Index within a +/- 0.5% range per annum effective from December 2008. After a review of the fund's equities, carbon footprint Members agreed to track the FTSE UK All Share Carbon Optimised Index and this became effective in September 2017.

3.8.2 The fund returned 7.1% against FTSE All Share Index benchmark of 9.4% for the March quarter and a relative over performance of 0.25% since inception in 1992. The portfolio is now mirroring the low carbon index and its dividend income is continued to use to supplement cash flow needs of the pension fund bank account, a total of £15m for 2018/19.

3.9 **Standard Life**

3.9.1 Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the March quarter, the fund returned 4.05% against a benchmark of 4.08 % and an absolute return of 6.8% per annum since inception.

3.9.2 The drivers behind the out performance in this quarter were due to strong stock selection and good asset allocation.The forward strategy is to reduce risk while market volatility remains.

3.9.3 The agreed infrastructure mandates is being funded from this portfolio and to date 5% has been drawn down .

3.10 **Aviva**

3.10.1 Aviva manages the fund's UK High Lease to Value property portfolio. They were appointed in 2004 and the target of the mandate is to outperform their customised gilts benchmark by 1.5% (net of fees) over the long term. The portfolio is High Lease to Value Property managed under the Lime Property Unit Trust Fund.

3.10.2 The fund for this quarter delivered a return of 1.8% against a gilt benchmark of 4.1%. The All Property IPD benchmark returned 0.52% for this quarter. Since inception, the fund has delivered an absolute return of 6.8% net of fees.

3.10.3 This March quarter the fund's unexpired average lease term is now 19.4years. The Fund holds 81 assets with 50 tenants. One acquisition of student accommodation and a lease extension were completed during the quarter.

3.10.4 The fund also has £505m of investor cash of which £320m is committed to developments and close to completion.

3.11 **Columbia Threadneedle Property Pension Limited (TPEN)**

3.11.1 This is the fund's UK commercial pooled property portfolio that was fully funded on 14 October 2010 with an initial investment of £45 million. The net asset value at the end of March was £88.6million.

3.11.2 The agreed mandate guidelines are as listed below:

- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since I April 2014.
- Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods.
- Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term.
- Income yield on the portfolio at investment of c.8.5% p.a.
- Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.

3.11.3 The fund returned a relative out performance of 0.1% against its benchmark 0.3% for the March quarter and a 0.2% five - year relative return. The cash balance now stands at 9.1% compared to 8.7% last quarter. During the quarter, there was £16.4m acquisitions and £34m sales There is a strong asset diversification at portfolio level with a total of 276 properties.

3.11.4 The medium to long term prospects of commercial property post referendum are likely to be a catalyst for moderate capital value declines but the fund is cushioned by its high relative income return and maximum diversification at both portfolio and client level.

3.12 **Passive Hedge**

3.12.1 The fund currently targets to hedge 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is run by BNY Mellon our custodian. At the end of the March quarter, the hedged overseas equities were valued at £6.8m.

3.13 **Franklin Templeton**

3.13.1 This is the fund's global property manager appointed in 2010 with an initial investment commitment of £25million. Members agreed in September 2014 to re-commit another $40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. The agreed mandate guidelines are listed below:

- Benchmark: Absolute return
- Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point.
- Bulk of capital expected to be invested between 2 – 4 years following fund close.

- Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.

3.13.2 Fund I is now fully committed and drawn down, though $7.1m can be recalled in the future as per business plans. The final portfolio is comprised of nine funds and five co-investments. The funds is well diversified as shown in table below:

Commitments	Region	% of Total Fund
5	Americas	36
4	Europe	26
5	Asia	38

The total distribution received to the end of the March quarter is $55m.

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 $28.8.m and a distribution of $9.4m.

3.14. **Legal and General**

3.14.1 This is the fund's passive overseas equity index manager. The fund inception date was 8 June 2011 with an initial investment of £67million funded from transfer of assets from AllianzGI (RCM). The funds were managed passively against regional indices to formulate a total FTSE All World Index series. Member agreed restructuring in 2016, that is now complete and the funding of BMO (our emerging market manager and restructuring of the fund to the MSCI World Low Carbon was completed on 3rd July 2017.

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

For the March quarter, the fund totalled £162m with a performance of 9.2% and relative return of -0.1%.

3.15 **Hearthstone**

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

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

3.15.2 For the March, quarter the value of the fund investment was £28.5m and total funds under management is £56.3m Performance net of fees was 0.4% compared to the LSL benchmark of 0.79%. The portfolio has 200properties 4 less than the December quarter. Average annual occupancy 94.8%. Officers continue to monitor the fund on a quarterly basis.

3.16 **Schroders-**

3.16.1 This is the Fund's diversified growth fund manager. The fund inception date was 1 July 2015, with an initial investment of £100million funded by withdrawals from our equities portfolios**.** The agreed mandate guidelines are as follows:

- Target performance: UK RPI+ 5.0% p.a.,
- Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).
- Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.
- The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.
- **Permissible asset class ranges (%):**
  - 25-75: Equity
  - 0- 30: Absolute Return
  - 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash
  - 0-20: Commodities, Convertible Bonds
  - 0- 10: Property, Infrastructure
  - 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.

3.16.2 This is the fifteen quarter since funding and the value of the portfolio is now £113.6m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The March quarter performance before fees was 4.9% against the benchmark of 1.03% (inflation+5%). The one -year performance is 0.4% against benchmark of 7.40% before fees.

3.16.3 The underperformance was mainly cushioned by equities . Fixed income and alternatives was also a positive contributor.

3.17 **BMO Global Assets Mgt**

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

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

3.17.1 The March quarter saw a combined performance of 5.3% against a benchmark of 7.4% before fees. The underperformance is mainly due to stock selection in India, South America and Malaysia while security selection in China, Hong Kong, Philippines and Egypt were positive contributors.

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.

3.18 **Quinbrook Infrastructure**

This one of the infrastructure managers appointed in November 2018. The total fund allocation infrastructure was 10% circa £130m. 40% of the allocation equivalent to $67m was allocated to low carbon strategy. Merits of Quinbrook include:

- Low carbon strategy, in line with LB Islington’s stated agenda
- Very strong wider ESG credentials
- 100% drawn in 12-18 months
- Minimal blind pool risk
- Estimated returns 7%cash yield and 5% capital growth

Risks: Key Man risk

Drawdown to May 2019 is $29m

Pantheon Access- is the other infrastructure manager also appointed in November 2018. Total allocation was $100m and merits of allocation included:

- 25% invested with drawdown on day 1
- Expect fully drawn within 2-3 years
- Good vintage diversification between secondaries and co-investments
- Exposure to 150 investments
- Estimated return 5% cash yield and 6% capital growth

Risks: No primary fund exposure.

Drawdown to May 2019 is $23.5m

4. Implications

4.1 **Financial implications:**

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

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

4.2 **Legal Implications:**

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

4.3 **Resident Impact Assessment:**

The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled

persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding".

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

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

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending March 2019 as part of the regular monitoring of fund performance. Members are also asked to note Appendix 1- MJ Hudson commentary on managers.

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:

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

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MJ HUDSON
Allenbridge

London Borough of Islington

Report to 31st March 2019

MJ Hudson Allenbridge

MAY 2019

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Fund Manager Overview

Table 1 provides an overview of the external managers, in accordance with the Committee's terms of reference for monitoring managers.

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE-MENT	CHANGE IN STRATEGY /RISK	MANAGER SPECIFIC CONCERNS
London CIV –Allianz (active global equities)	Monitored by London CIV. No changes reported.	Outperformed the benchmark in the quarter to March 2019, by +1.21%. Outperformed by +1.29% p.a. over three years to end March 2019 but trailing the target of +2.0% p.a.	As at end March the sub- fund's value was £118.5 million and was 100% owned by London Borough of Islington.		Withholding tax issue continues to be a point of discussion with the London CIV.
London CIV – Newton (active global equities)	Monitored by London CIV. No changes reported.	Underperformed against the index by -1.17% in the quarter. Over three years the fund is behind the benchmark return by -2.22% and failing to achieve the performance target of +1.5% p.a.	As at end March the sub- fund's value was £605.9 million. London Borough of Islington owns 36.0% of the sub-fund.		

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MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE-MENT	CHANGE IN STRATEGY /RISK	MANAGER SPECIFIC CONCERNS
BMO/LGM (emerging and frontier equities)	Two new analysts joined in January 2019.	Underperformed the benchmark by -2.20% in the quarter to March 2019. Ahead over one year by +1.86%.	Not reported.		
Standard Life (corporate bonds)	19 joiners, but 42 leavers (including seven from fixed income).	The fund was in-line with the benchmark in the quarter to March 2019. Over three years the fund is 0.56% p.a. ahead of the benchmark return net of fees, but behind the performance target of +0.8% ahead p.a.	Fund value fell to £2,855 million in Q1 2019, a fall of £18.8 million. London Borough of Islington's holding stood at 5.5% of the fund's value.		Press reports of staff being unhappy about bonus cuts, and the higher than average turnover, present minor concerns.
Aviva (UK property)	17 new joiners and 6 leavers across the firm. On the Lime Fund team Michael Maddox joined as a Long Income Origination Manager.	Underperformed the gilt benchmark by -2.27% for the quarter to March 2019 but outperforming by +1.24% p.a. over three years, net of fees.	Fund was valued at £2.23 billion as at end Q1 2019. London Borough of Islington owns 5.3% of the fund.		
Columbia Threadneedle (UK property)	Four joiners and one leaver in Q1 2019, but no changes to the team managing the Islington portfolio.	Outperformed the benchmark return by +0.12% in Q1 2019. Underperformed by -0.03% p.a. over three years. Trailing the target of 1% p.a. outperformance.	Pooled fund has assets of £2.03 billion. London Borough of Islington owns 4.4% of the fund.		

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE-MENT	CHANGE IN STRATEGY /RISK	MANAGER SPECIFIC CONCERNS
Legal and General (passive equities)	Mark Zinkula announced that he will retire as CEO of LGIM in August 2019.	Funds are tracking as expected. Both index funds marginally underperformed their benchmark indices.	Assets under management of £1.02 trillion at end December 2019. Net flows of +£42.6 bn in 2018		
Franklin Templeton (global property)	One new joiner in Q1 2019. Chris Orr, London Borough of Islington's CRM, left the firm just after the quarter end.	Portfolio return over three years was +20.39% p.a., well ahead of the target of 10% p.a.	$714 billion of assets under management as at end February 2019.		
Hearthstone (UK residential property)	One leaver and one joiner in Q1 2019.	Underperformed the IPD UK All Property Index by -0.04% in Q1. Trailing the IPD benchmark over three years by -3.51% p.a. to end March 2019.	Fund was valued at £56.3m at end Q1 2019. London Borough of Islington owns 50.6% of the fund.		Meeting held with Hearthstone to discuss the practicalities of exiting the fund.
Schroders (multi-asset diversified growth)	During Q1 one new member joined the DGF team as a multi-asset fund manager.	Fund returned +4.94% during the quarter and +5.20% p.a. over 3 years, -2.77% behind the target return.	Total AUM stood at £421.4 billion as at end December 2018. Schroders reported net outflows of £9.5 bn in 2018 leading to a 6% drop in AUM.	The volatility of the fund is lower than expected at present.	

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE-MENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
Quinbrook (renewable energy infrastructure)	None reported	Too early to assess		A new infra-structure private markets fund	

Source: MJ Hudson Allenbridge

Minor Concern

Major Concern

Individual Manager Reviews

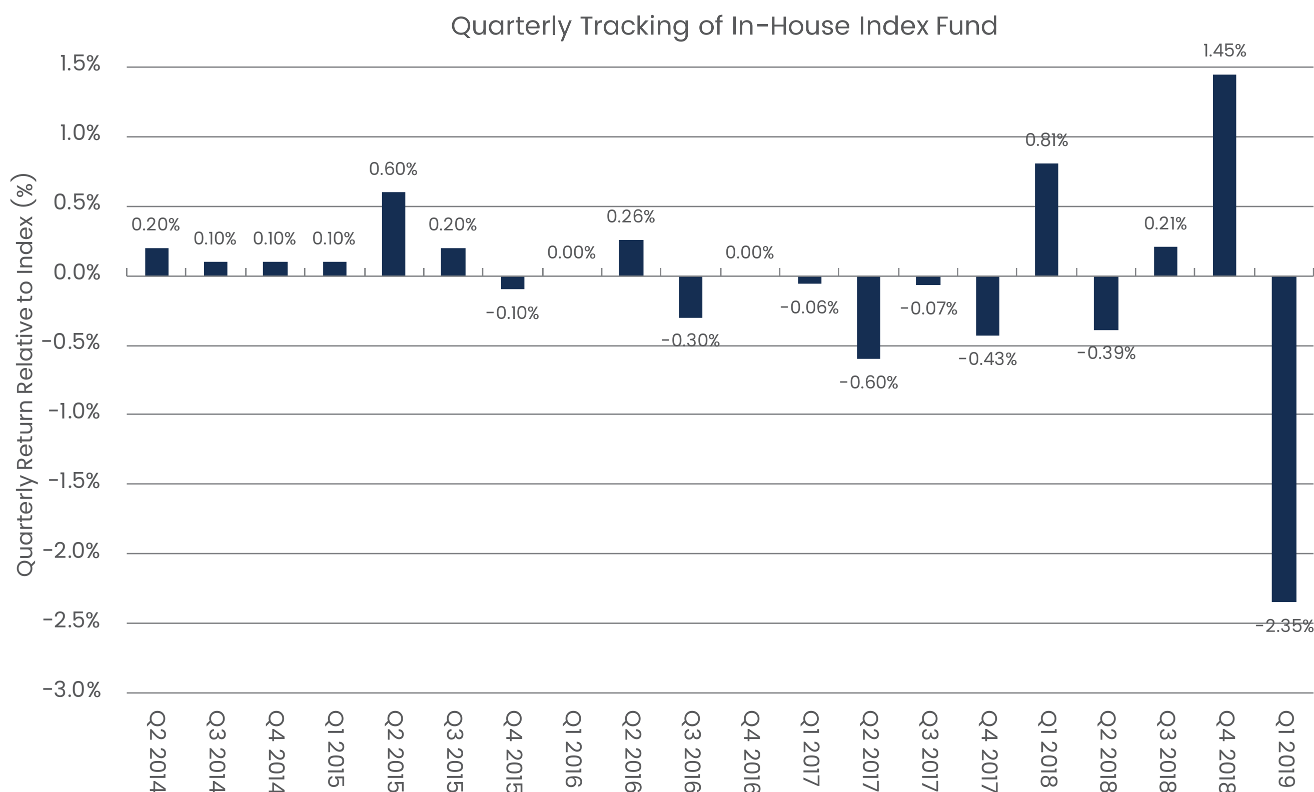
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q1 2019 the fund returned +7.06%, this was behind the FTSE All-Share index return of +9.41%. Also, over three years the fund has returned +9.14% p.a., underperforming against the FTSE All-Share Index by -0.37%.

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

Performance Attribution: Chart 1 shows the quarterly tracking error of the in-house index fund against the FTSE All-Share Index over the last five years. There are no performance issues although the new mandate is resulting in wider deviations quarter-on-quarter since the transition to the low carbon fund. Over three years, the portfolio underperformed its three-year benchmark by -0.37% p.a.

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 0.4% against the FTSE UK Low Carbon Optimisation Index.

London CIV – Allianz – Global Equity Alpha Fund

Headline Comments: In Q1 2019 the London CIV – Allianz sub-fund outperformed the benchmark by 1.21%, the first time it has done so since Q1 2018. Over three years the fund is outperforming the benchmark by +1.29% p.a. however it is still behind the performance target of +2.0% p.a.

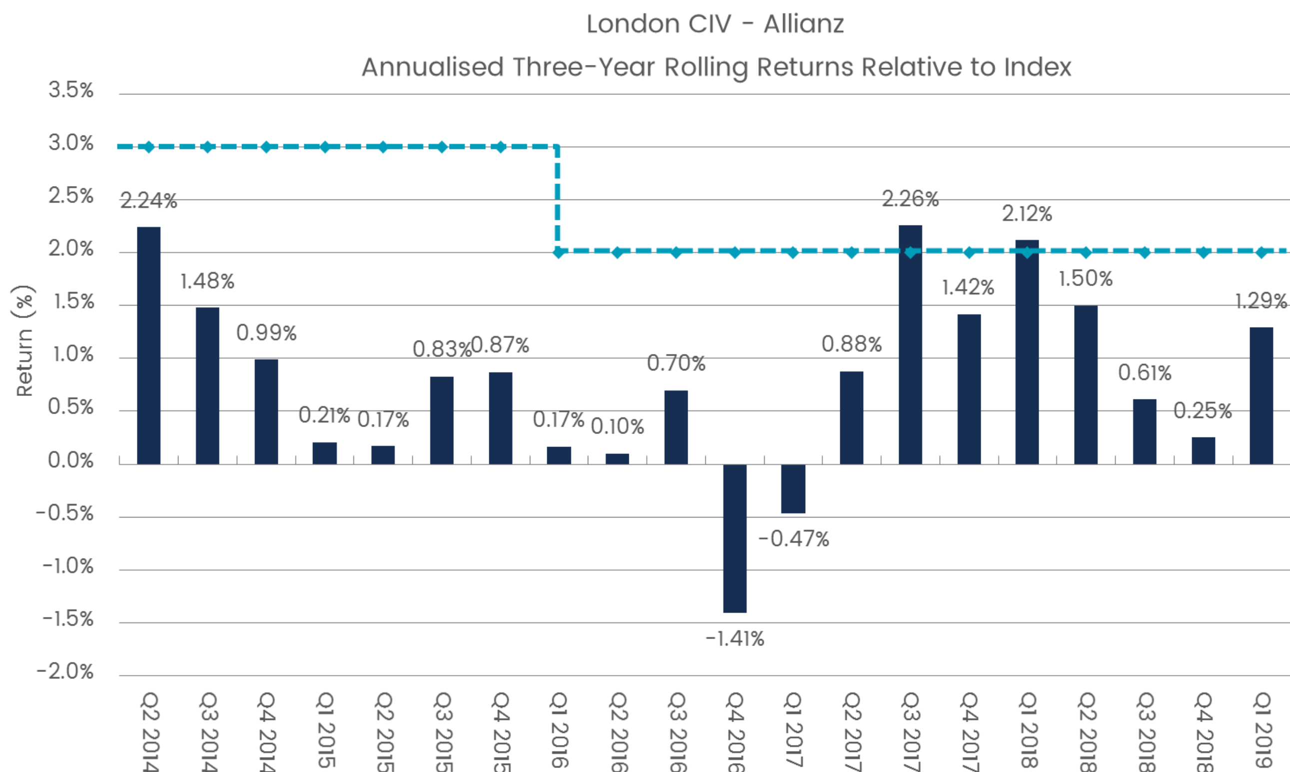
Mandate Summary: An active global equity portfolio, with a bottom-up global stock selection approach. A team of research analysts identifies undervalued stocks in each geographical region (Europe, US, Asia Pacific). A global portfolio team is responsible for constructing the final portfolio. The objective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

Performance Attribution: For the three years to March 2019, the Allianz portfolio was ahead of the benchmark, but trailing the performance target of +2.0% p.a., 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 outperformance, for the quarter to end March 2019, was attributed by the London CIV to gains in the IT, consumer staples and industrial sectors. The largest contributors to returns came from holdings in Microsoft (+0.68%) and Amadeus IT (+0.49%).

Holdings in United Internet and Tencent were the biggest detractors from performance (detracting -0.32% and -0.27% respectively).

CHART 2:



Source: MJH Allenbridge; BNY Mellon

Portfolio Risk: since London Borough of Islington became the sole investor in the fund, cost effective options for transitioning assets to the new manager have been explored and the problems around withholding tax have been discussed with the London CIV (LCIV). At the time of writing, LCIV remained in discussion with their lawyers and custodian to find a longer-term solution for this issue.

The active risk on the portfolio as at end March was +2.82% and the beta was 1.01 (if the market rises 10%, the fund is expected to rise 10.1%).

Portfolio Characteristics: as at end Q1 2019, the portfolio held 51 stocks (one new position from last quarter).

Staff Turnover: The London CIV did not report any staff changes during the quarter.

London CIV – Newton – Global Active Equities

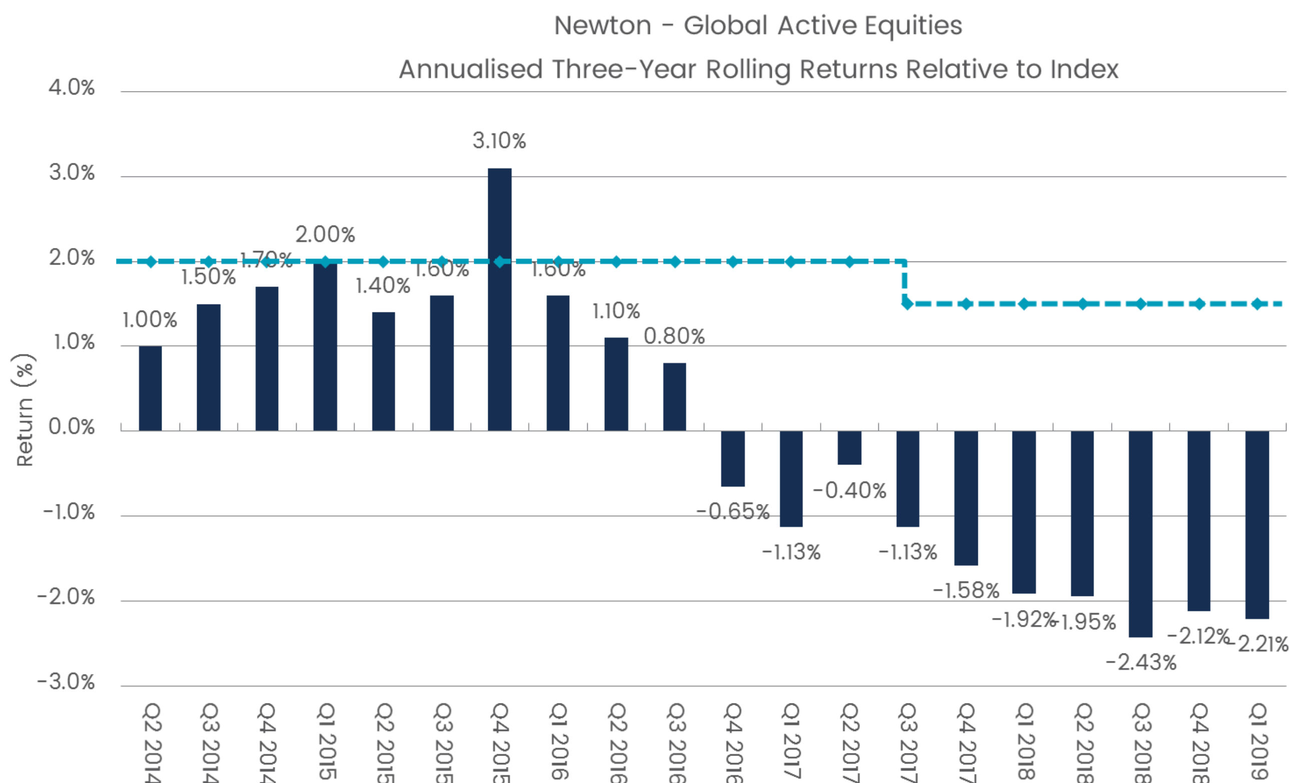
Headline Comments: The London CIV – Newton sub-fund underperformed its benchmark during Q1 2019 by -1.17%. In addition, over three years the portfolio continues to underperform the performance target of benchmark +1.5% p.a. and remains well below the performance that could be achieved with a passive mandate.

Mandate Summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that they believe will 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% p.a. over rolling three-year periods, net of fees.

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

CHART 3:



Source: MJH Allenbridge; BNY Mellon

For the three-year period to the end of Q1 2019, the fund has trailed the benchmark by -2.21% p.a. This means it is trailing the performance objective by -3.71% (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 underperformance in the quarter to March 2019 to the equity markets bouncing back after the fund had increased allocations to defensive areas of the market. Also, the fund was underweight in financials, which was the strongest performing sector in the quarter.

Positive contributions to the total return came from holdings such as Cisco (+0.66%) and Microsoft (+0.58%). Meanwhile, Sonoco was the biggest detractor (-0.23%) from the fund's quarterly return of +8.62% followed by Suzuki (-0.22%).

The continued underperformance of this manager over a three-year period remains a concern although it is worth noting that the one-year performance is positive, with a fund return of +14.16% vs the Index return of +11.06%, an outperformance of +3.09%.

Portfolio Risk: the active risk on the portfolio stood at 2.53% as at quarter end. The portfolio remains defensive, with the beta on the portfolio at end March standing at 0.92 (if the market increases by +10% the portfolio can be expected to rise +9.2%).

At the end of Q1 2019, the London CIV sub-fund's assets under management were £606m, compared with £557m last quarter. London Borough of Islington now owns 36.1% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 60 as at quarter-end (up from 58 last quarter). The two positions added were Goldman Sachs and Bayer.

Staff Turnover: The London CIV did not report any staff changes during the quarter.

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of +5.28% in Q1 2019, compared with the benchmark return of +7.48%, an underperformance of -2.20%. The emerging market component of this portfolio returned +8.74% (source: BMO) compared with the index return of +9.92%. The frontier markets portfolio was also behind the index return of 5.45%, delivering a positive return of +1.73% (source: BMO). Over one year, the total fund is ahead of the benchmark return by +1.86%.

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% p.a. over a three-to-five-year cycle.

Performance Attribution: during the quarter, the largest positive contributors to performance for the emerging markets portfolio came from Yum China Holdings Inc (+1.1%), Tingyi (+0.9%) and Inner Mongolia Yili Indus A (+0.9%). Companies which detracted most from performance included Mr Price Group (-0.8%), Discovery (-0.3%) and AVI (-0.2%).

In the frontier market portfolio, positive contributors included Eastern Co (+1.2%) and Sonatel (+0.8%). Companies which detracted from performance included Delta Corporation (-1.4%), BBVA Banco Frances (-0.6%) and Famous Brands (-0.4%).

Portfolio Risk: Within the emerging markets portfolio, 16% was allocated to developed or frontier markets, and cash stood at 2.4% as at quarter-end. Turnover for the previous 12 months was 31.3%. The largest overweight country allocation in the emerging markets portfolio remained India (+8.5% overweight). The most underweight country allocation remained South Korea (-13.0%) where the fund has no allocation.

Within the frontier markets portfolio, it is worth noting that 63% of the portfolio was invested in countries that are not in the benchmark index, including Egypt, Costa Rica and Peru. The most overweight country allocation remained Egypt (+12.7%) and the most underweight was Argentina (-13.9%), closely followed by Vietnam (-13.5%).

Portfolio Characteristics: The frontier markets portfolio held 40 stocks as at end March compared with the benchmark which had 115. The emerging markets portfolio held 38 stocks as at end March compared with the benchmark which had 1,138.

Organisation: Two new analysts joined LGM in January 2019.

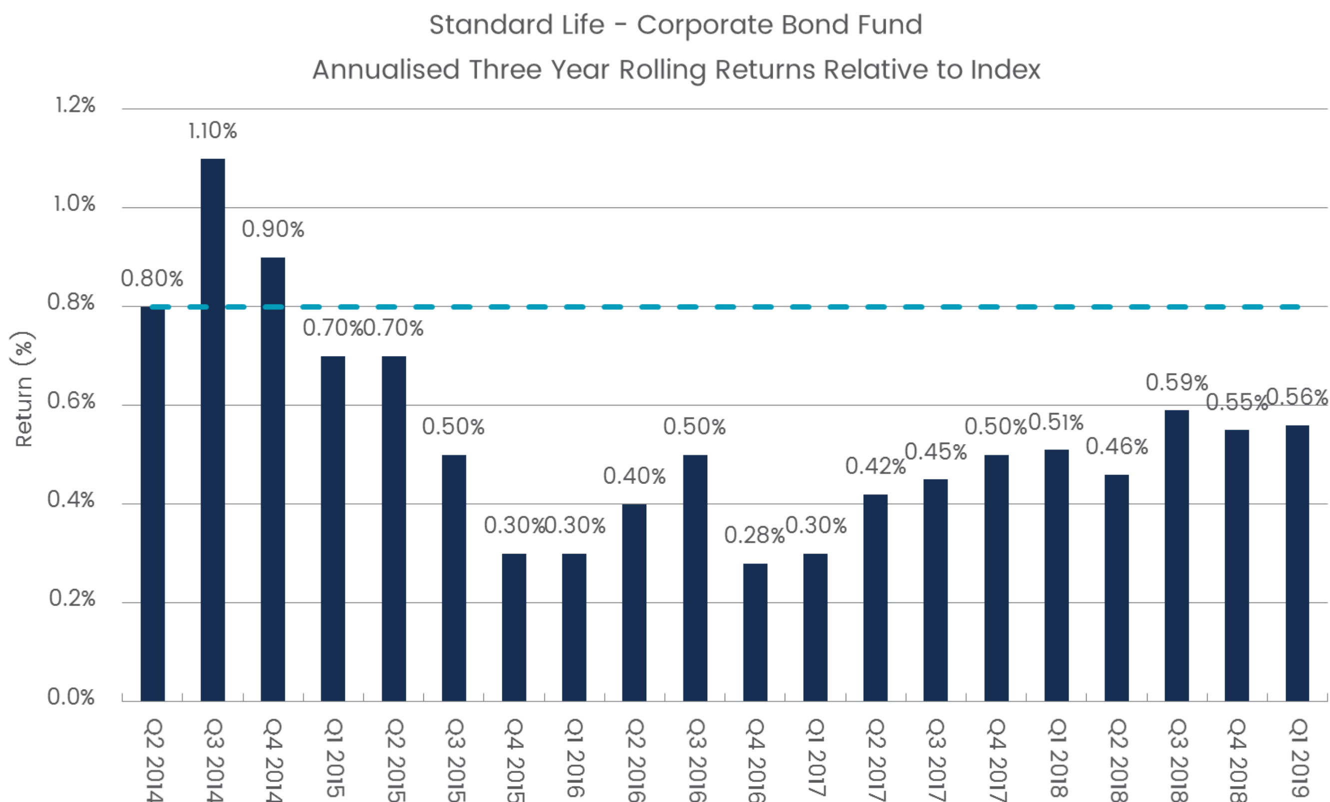
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was exactly on target with the benchmark return during the quarter. Over three years, the fund was ahead of the benchmark return but behind the performance target of benchmark +0.8% p.a.

Mandate Summary: The objective of the fund is to outperform the iBoxx Sterling Non-Gilt Index (a UK investment grade bond index) by +0.8% p.a. over rolling three-year periods.

Performance Attribution: Chart 4 shows the three-year performance of the Corporate Bond Fund compared to the Index, over the past five years. This shows the fund is ahead of the benchmark over three years but trailing the performance objective (shown by the dotted line in Chart 4).

CHART 4:



Source: MJH Allenbridge; BNY Mellon

Over three years, the portfolio has returned +5.24% p.a. net of fees, compared to the benchmark return of +4.68% p.a. Over the past three years, stock selection has added +0.34% value, followed by asset allocation (+0.19%) and curve plays (+0.09%).

Portfolio Risk: The largest holding in the portfolio at quarter-end remained EIB 5.625% 2032 at 1.6% of the portfolio. The largest overweight sector position remained Financials (+5.6%) and the largest underweight position remained sovereigns and sub-sovereigns (-14.2%). Contribution from the curve effect was negative this quarter.

The fund holds 3.3% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end March 2019 stood at £2,855m, £18.8m lower than at the end of December 2018. London Borough of Islington's holding of £157.8m stood at 5.5% of the total fund value (compared to 6.9% last quarter). The drop for London Borough of Islington's holding reflects the transfer of £46 million into the new infrastructure managers' funds.

Staff Turnover: there were 26 joiners, but there were 22 people who left the firm, reflecting the ongoing rationalisation of the merged Aberdeen and Standard Life teams. Of the 22 leavers, six were from the fixed income team, including two investment directors, two investment managers, an investment analyst and the head of Australian fixed income.

Meghan Hughes has replaced Emma Andhagen as the client manager for London Borough of Islington. Frances Smyth remains the client director.

Aviva Investors – Property – Lime Property Fund

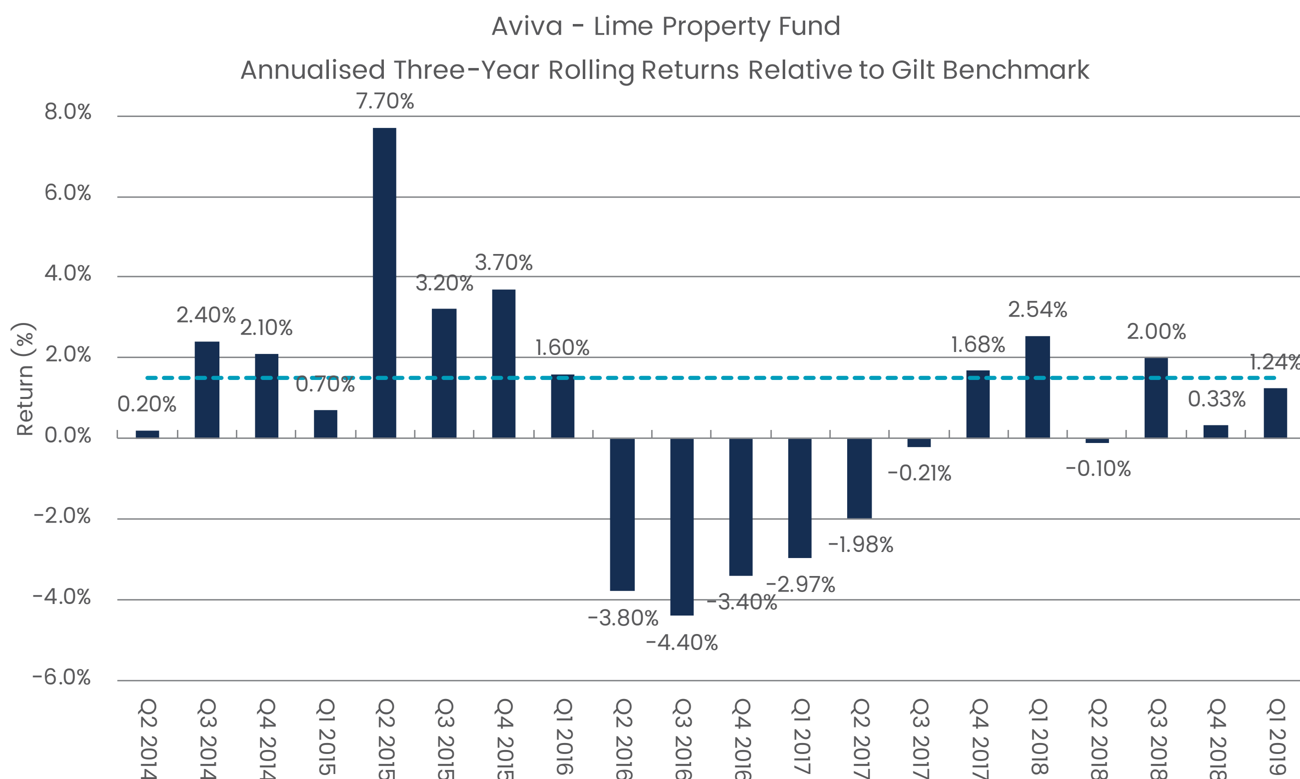
Headline Comments: The Lime Fund delivered another quarter of steady returns though behind the gilt benchmark return. Over three years, the fund is ahead of the benchmark return.

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% p.a., over three-year rolling periods.

Performance Attribution: The fund's Q1 2019 return was attributed by Aviva to 0.84% capital return and 0.95% income return.

Over three years, the fund has returned +5.84% p.a. ahead of the gilt benchmark of +4.60% p.a., by +1.24% p.a., but the portfolio is slightly behind its outperformance target of +1.5% p.a., as can be seen in Chart 5.

CHART 5:



Source: MJH Allenbridge; BNY Mellon

Over three years, 57% of the return came from income and 43% from capital gain.

Portfolio Risk: This quarter the fund completed an "asset management initiative" on Carnival House in Southampton whereby it agreed a rent reduction, in return for an increased lease from 10 to 20 years. It also replaced the open market rent reviews with RPI linked rent reviews.

The fund also completed on a transaction with Bouygues/John Laing and the University of Brighton to fund the development of new student accommodation on the main campus. This is scheduled to complete in September 2021.

The average unexpired lease term was 19.5 years as at end March 2019. 11.8% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 27.1%, and the number of assets in the portfolio is now 81, up from 80. The weighted average unsecured credit rating of the Lime Fund remained A-.

Portfolio Characteristics: As at end March 2019, the Lime Fund was valued at £2.23bn, an increase of £31.3m from the previous quarter end. London Borough of Islington's investment represents 5.3% of the total fund. The fund had 70.9% allocated to inflation-linked rental uplifts as at end March 2019.

Staff Turnover/Organisation: Overall there were 6 leavers and 17 joiners across the whole Real Assets franchise. Regarding the Lime Fund in particular, there was one change to the team, Michael Maddox joined as a Long Income Origination Manager.

There were also some changes at the senior management level. Susan Ebenston has been appointed President and Chief Operating Officer, and as part of that role she heads the non-investment teams, including "Operations", "Global Client Solutions", and "People".

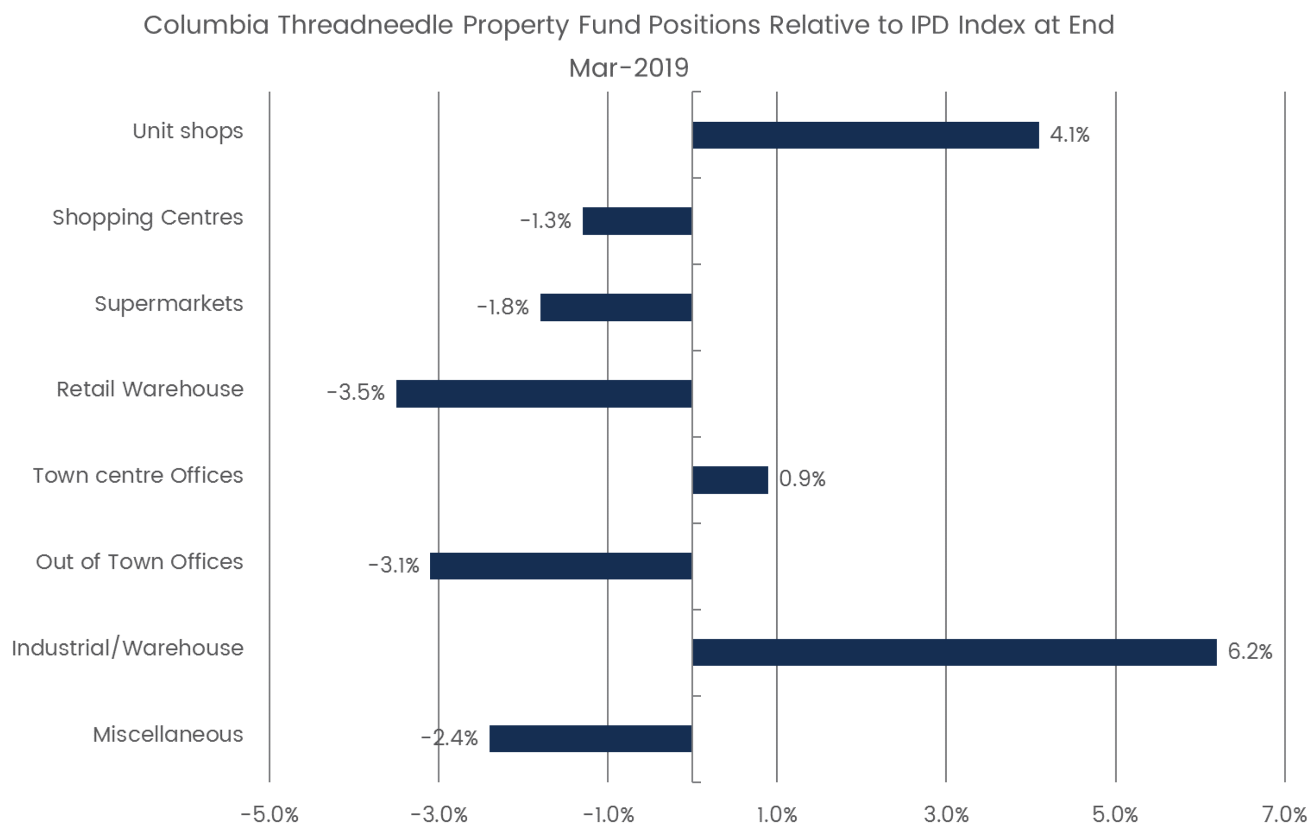
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund was ahead of the benchmark return in Q1 2019. Over three years, the fund has marginally underperformed the benchmark, and as such is behind the performance target of +1.0% 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 1.0% p.a., net of fees, on a rolling three-year basis.

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

CHART 6:



Source: MJH Allenbridge; Columbia Threadneedle

The overweight allocation to unit shops is skewed because IPD (against which the portfolio is measured) classifies two of the largest properties in Columbia 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 completed £16.4m worth of acquisitions including two industrial estates, one retail warehouse and one office, and disposed of £34.4 million of sales.

The fund has a higher than benchmark void rate at 9.7% versus 7.7%. This is something to monitor because it will pull the performance down on a relative basis. The fund has also had a higher cash balance, at 9.1%, than many peers, which has a similar effect.

Performance Attribution: The portfolio outperformed the benchmark by +0.12% in Q1 2019, delivering a return of +0.4%. The manager continued to note wide deviation in performance between different sectors. The retail sector, for example, delivered a return of -1.3% in Q1, compared with the industrial sector which returned +1.2% and the office sector which returned +1.1%.

Over three years, the fund is now behind of its benchmark by -0.03% p.a., with a return of +6.12% p.a., and is therefore also trailing the outperformance target of +1.0% p.a.

Portfolio Characteristics: As at end March 2019, the fund was valued at £2.02bn, a decrease of £22m compared with December 2018. London Borough of Islington's investment represented 4.37% of the fund.

Staff Turnover: There were four joiners and one leaver across the firm in Q1 2019. No one directly involved with the London Borough of Islington portfolio was among these.

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. Both index funds marginally underperformed their benchmark indices.

Mandate Summary: Following a change in mandate in June 2017, the London Borough of Islington 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:

	Q1 2019 FUND	Q1 2019 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+5.74%	5.77%	-0.03%
MSCI World Low Carbon Target	+10.14%	+10.16%	-0.02%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 80% to the MSCI World Low Carbon Target index fund, and 20% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: LGIM's CEO, Mark Zinkula announced that he will retire from LGIM in August 2019. After the quarter end, LGIM announced that Michelle Scrimgeour has been appointed as his replacement. She was previously the chief executive officer for Europe, Middle East and Africa (EMEA) at Columbia Threadneedle.

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 outperformed the absolute return benchmark of 10% p.a. over three years.

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% p.a.

Performance Attribution: Over the three years to March 2019, 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

Portfolio Risk: Fund I is now in its distribution phase. Distribution activity has been strong, and the fund has paid across 142.5% of the initial commitment. Leverage stood at 53% as at end Q1 2019.

The largest allocation in Fund I is to Sweden (46% of funds invested), followed by the US (21%) and Spain (17%).

Three of the underlying funds are performing well ahead of expectations, five are above expectations, four are on target and two are below expectations (Sveafastigheter III and Lotus Co-Investment, the latter now having been fully liquidated).

Fund II is now fully invested and is beginning to make distributions. As at end March 2019, 42.2% of committed capital had been distributed. Leverage stood at 55%.

The largest allocation in Fund II is to Italy (46% of funds invested), followed by the US (33%) and Spain (12%).

Two of the underlying funds are performing well ahead of expectations, one is above expectations, five are on target and, for the remaining two, it is too soon to assess.

Staff Turnover/Organisation: There was one new joiner in the team during Q1 to the California office: Timothy Smolarski joined as an impact research analyst. London Borough of Islington's relationship director, Chris Orr, left the team just after quarter end. Adam Lees has taken over as the primary point of contact.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending March 2019 and over three years.

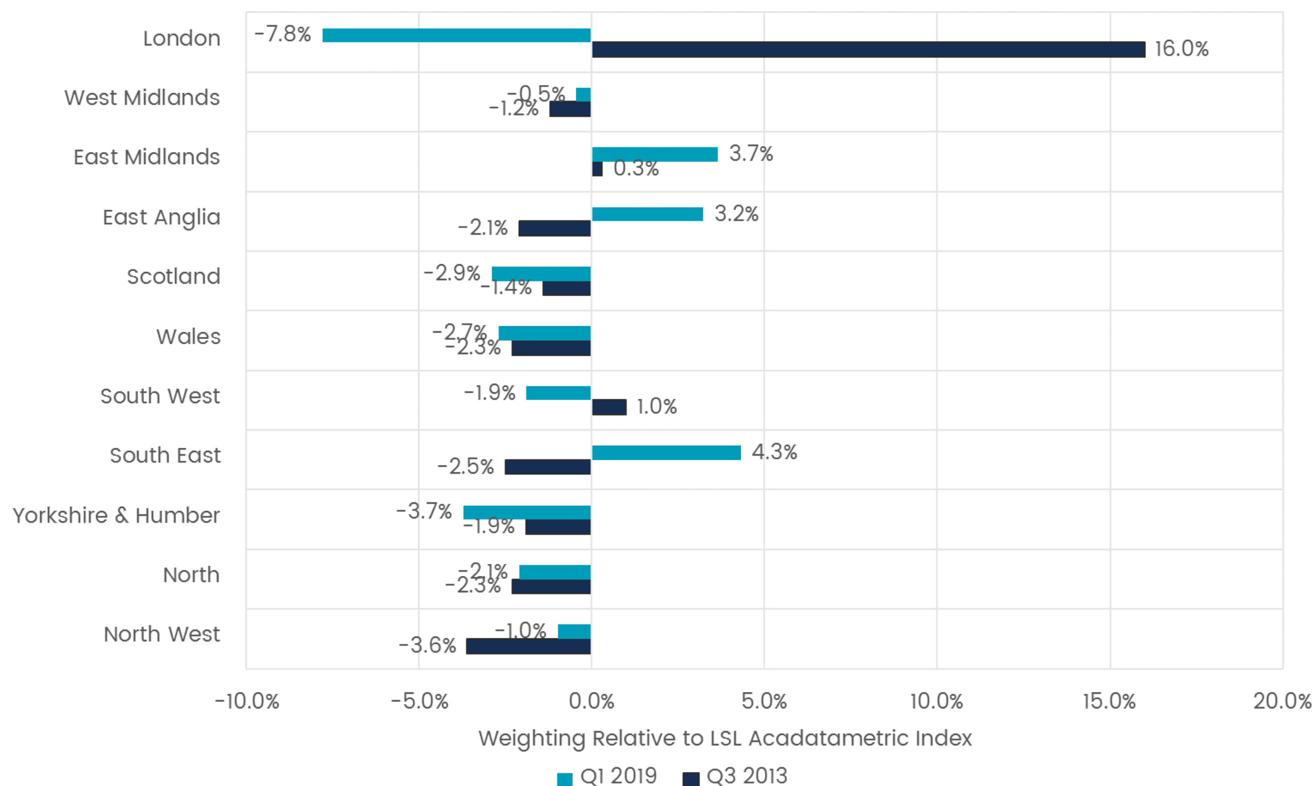
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to March 2019 by -3.51% p.a., returning +3.33% p.a. versus the index return of +6.84% p.a. The gross yield on the portfolio as at March 2019 was 4.81%. Adjusting for voids, however, the yield on the portfolio falls to 4.70%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 11.43%.

It remains Hearthstone's long-term intention to run the portfolio on a region-neutral basis. However, they do not wish to be overweight in central London at the present time and are also looking to decrease their overweight allocation to the South East. Chart 8 compares the regional bets in the portfolio in Q1 2019 (turquoise bars) with the regional bets at the start of the mandate, in Q3 2013 (navy bars).

CHART 8:



Source: MJH Allenbridge; Hearthstone

Portfolio Characteristics: By value, the fund has a 12% allocation to detached houses, 44% allocated to flats, 24% in terraced accommodation and 21% in semi-detached.

As at end March there were 200 properties in the portfolio and the fund stood at £56.3m. London Borough of Islington's investment represents 50.6% of the fund. This compares with 72% at the start of this mandate in 2013.

There have been no changes to the investment process since London Borough of Islington invested. Hearthstone continue to focus on mainstream homes with regional diversification, although they currently have no allocation to prime locations such as Central London. A point to note is that Hearthstone does not invest in social housing, or affordable housing, and they have no plans to do this.

The Touchstone contract (as the residential property manager) has been put on hold until the new asset manager has been in situ for at least six months. Hearthstone had already asked an external consultant to scan the market which revealed that four firms had the necessary criteria to deliver to the contract. Three of these had quoted similar fees, but none of them (including Touchstone) could provide the superior ESG reporting being requested by Hearthstone.

Organisation and Staff Turnover: During the quarter, one business development manager left the team following a period of performance management. Chris Reynolds has replaced

MJ HUDSON Allenbridge

him. After the quarter end, Marie Cooper, the asset manager, announced that should would be leaving the firm. Hearthstone have already found a replacement, and the new person will combine asset management and fund management, reporting to Alan Collett. Until they start, however, Alan will run the fund on a full-time basis.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a positive return in Q1 2019. Over three years, the fund is behind the target return of RPI plus 5% 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% p.a. over a full market cycle, with two-thirds the volatility of equities.

Performance Attribution: The DGF delivered a return of +4.94% in Q1 2019. This is +3.91% above the RPI plus 5% p.a. target return of +1.03% for Q1. In a quarter when all major asset classes produced a positive return, this fund should be expected to deliver a strong return against its benchmark. Over three years, the DGF delivered a return of +5.20% p.a. compared with the target return of +7.97% p.a., behind the target by −2.78% p.a. This underperformance remains a concern, but the bounce back in Q1 has reduced the underperformance over three years from -4.89% p.a. as at end Q4 2018, to -2.78% p.a. as at end Q1 2019 so there has been some improvement since the end of last year.

In Q1 2019, equity positions added +3.4%, alternatives added +0.5%, credit and government debt added +1.1%, and cash and currency was negative -0.3% (figures are gross of fees).

The return on global equities was +10% p.a. for the three years to March 2019 compared with the portfolio return of +5.20% (a 50% capture of the equity return, somewhat lower than expected). Over a full three-to-five-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 three to five-year market cycle. Over the past three years, the volatility of the fund was 4.3% compared to the three-year volatility of 9.3% in global equities (i.e. 46% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 32% in internally managed funds (up from last quarter's 27% allocation), 35% in internal bespoke solutions (down from 39% last quarter), 3% in externally managed funds (same as previous quarter), and 27% in passive funds (down from 30% last quarter) with a residual balance in cash, as at end March 2019. In terms of asset class exposure, 42.6% was in equities, 22.8% was in alternatives and 30.5% in credit and government debt, with the balance in cash.

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

Organisation: During the quarter, one person joined the DGF team as a multi-asset fund manager.

Quinbrook – Low Carbon Power Fund

Headline Comments: A new investment made by London Borough of Islington of $67 million made at the end of December 2018. Performance from 31 January to end March 2019 was positive at 6.64%, reflecting the immediate uplift from the fund.

Mandate Summary: The fund invests in renewable energy and low carbon assets across the UK, US and Australia as well as selected OECD countries. The fund is expected to make between 10 and 20 investments in its lifetime and targets a net return of 12% per annum. The fund held a final closing in February 2019 with $730 million committed by 15 limited partners.

Portfolio Characteristics: The fund has currently invested $252 million into 12 assets ranging from onshore wind farms, solar power plants, battery storage and natural gas distribution.

Karen Shackleton
Senior Adviser, MJ Hudson Allenbridge
28th May 2019

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Agenda Item B3

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	17 June 2019		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 – UPDATE ON TRANSFER OF ASSETS FROM LCIV ALLIANZ TO LCIV RBC SUSTAINABLE FUND

1. Synopsis

1.1 This report and exempt Appendix 1 provide updated information on implementation of members decision to transfer global equities on LCIV platform from Allianz to RBC Sustainable fund

1.2 MJ Hudsons, our independent investment advisors have also prepared briefing note cataloguing progress to date, proposed options on transition and the proposed timeline attached as exempt Appendix 1)

2. Recommendation

2.1 To note and consider progress on the issue of withholding tax accrued to the Islington fund only

2.2 To agree to either transition the units owned from LCIV Allianz
(i) to LCIV RBC or

(ii) direct to RBC Sustainable Fund

2.3 To delegate to the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, authority to negotiate and agree with the LCIV
- Any costs associated with the termination of the Allianz sub fund mandate

- Fair recourse to dealing with the withholding tax accrued

3. Background

Allianz

3.1 The Committee agreed to transfer our global equity assets with Allianz to the LCIV Allianz sub fund as part of the Phase 1 funding in December 2015. We were part of 3 boroughs who completed this transition at the time. As of the 2nd quarter of this year, the other 2 boroughs terminated their mandate with Allianz due to changes in asset allocation and requirements. On the point of termination, the fund ownership was 15% Islington, Ealing-53% and Wandsworth 32%.

3.2 The LCIV in April 2018 gave the fund assurances they will not terminate the Allianz sub fund because asset under management c £120m still makes it viable. In October 2017 all three Boroughs notified the LCIV of our intention to divest from the Allianz sub fund and assurances were given that no one fund will be penalised for leaving at different times and any termination cost will be shared between all the previous unit holders.

3.3 Members then agreed in November 2018 ,after a due diligence process to transfer our assets to LCIV RBC Sustainable fund and delegated authority to Director of Corporate Resources in consultation with the Assistant Chief Executive, Governance and HR, to agree terms with the LCIV and appoint a transition manager if required to implement the transfer.

3.4 **Update on progress on transfer of assets**

The LCIV, was notified after Members' decision in November to initiate the process and terms and conditions to be agreed. As part of the options provided by the LCIV to Islington for the transfer, the issue of accrued withholding tax of £1.5m was raised. This was accrued income for the whole fund not available to invest as the last fund to exit, whilst the other 2 boroughs had been prepaid on exit. The Corporate Director of Resources then agreed to engage an advisor from MJ Hudson Allenbridge to provide oversight and advice to ensure the transfer of assets achieve best value for the Islington Fund.

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

3.6 Officers wrote to the LCIV seeking assurances and a time limit to implement any new processes with regard to redemptions of funds and withholding tax credit and the 2 letters received from the LCIV are attached as Exempt Appendix 1.
Members are asked to consider the responses and if deemed satisfactory agree to transfer Allianz assets to LCIV RBC Sustainable fund.

3.7 **Investing directly with RBC Sustainable Fund**

The current RBC fund on the LCIV platform has 2 investors, and from discussions with LCIV and other boroughs, the boroughs who have showed interest are seeking an exclusion policy. This may result in the LCIV creating another sustainable exclusion sub-fund. As Islington's agreed policy is to engage, seek to lower carbon footprint and emissions we may by default end up in a LCIV sub fund that has 2 to 3 members and face the same conundrum of being

the last member.to exit with a withholding tax accrual. Officers have therefore prepared a briefing on issues to consider investing directly with RBC Sustainable fund outside the LCIV. The briefing attached as Exempt Appendix 2 considers the pros and cons, cost comparison and legality of investing.
Members are asked to consider the briefing note and decide if this is an alternative to deliver value for money considering LCIV's current processes on fund termination.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

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

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

4.2.2 The sub- committee must

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

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

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

In considering the recommendations in this report, members must take into account the information contained in the Exempt Appendix 1 and 2 to this report.

4.3 **Environmental Implications**

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

4.4 **Resident Impact Assessment**

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

.

5. Conclusion and reasons for recommendation

5.1 Members are asked consider the responses received from LCIV attached as Exempt Appendix 1 and also consider the briefing note Exempt Appdx 2 and either agree to transition our asset either to LCIV RBC fund or directly to RBC fund without the withholding tax and delegate to the Director of Corporate Resources in consultation with the Assistant Chief Executive, Governance and HR, authority to negotiate and agree with the LCIV any costs associated with the termination of the Allianz sub fund mandate and fair recourse to dealing with the withholding tax accrued.

Background papers:
Exempt Appendix 1 .and 2

Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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Finance Department
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Report of: **Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	17 June 2019		

Delete as appropriate	Exempt	Non-exempt

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

SUBJECT: 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 March to June 2019.

2. Recommendations

2.1 To note the progress and news to May 2019 in the new briefing Collective Voice attached as Appendix 1 (private and confidential)

3. Background

3.1 **Setting up of the London CIV Fund**
Islington is one of 33 London local authorities who have become active participants in the CIV programme. The CIV has been constructed as a FCA regulated UK Authorised Contractual Scheme (ACS). The ACS is composed of two parts: the Operator and the Fund.

3.2 A limited liability company (London LGPS CIV Ltd) has been established, with each participating borough holding a nominal £1 share. The company is based in London Councils' building in Southwark Street. A branding exercise has taken place and the decision was taken to brand the company as 'London CIV.' The London CIV received its ACS authorisation in November 2015.

3.3 **Launching of the CIV**

It was noted that a pragmatic starting point was to analyse which Investment Managers (IM) boroughs were currently invested through, to look for commonality (i.e. more than one borough invested with the same IM in a largely similar mandate), and to discuss with boroughs and IMs which of these 'common' mandates would be most appropriate to transition to the ACS fund for launch. Each mandate would become a separate, ring-fenced, sub-fund within the overall ACS fund. Boroughs would be able to move from one sub-fund to another relatively easily, but ring-fencing would prevent cross contamination between sub-funds.

3.3.1 Further discussions have been held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers have now been identified as offering potential opportunities for the launch of the CIV. These managers would provide the CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds will consist of 6 'passive' equity sub-funds covering £4.2bn of assets, 2 Active Global Equity mandates covering £1.6bn and 1 Diversified Growth (or multi-asset) Fund covering just over £300m. Those boroughs that do not have an exact match across for launch are able to invest in these sub-funds from the outset at the reduced AMC rate that the CIV has negotiated with managers.

3.4 The Phase 1 launch was with Allianz our global equity manager and Ealing and Wandsworth are the 2 other boroughs who hold a similar mandate. The benefits of transfer include a reduction in basic fees and possible tax benefits because of the vehicle used. Members agreed to transfer our Allianz portfolio in Phase 1 launch that went ahead on 2 December.

3.5 **Update to May 2019**

3.5.1 The LCIV now publish a monthly news bulletin called the Collective Voice- a copy attached for information as Appendix 1 (private and confidential). Highlights include;the new interim CIO, the investment forum agenda for London Local authorities scheduled on 6th June, proposed fund launch ppipeline, investment funds performance, draft SLA, April shareholder meeting summary, and a general meeting scheduled for 18th July.

3.6 **CIV Financial Implications- Implementation and running cost**

A total of 75,000 was contributed by, each London Borough, including Islington, towards the setting up and receiving FCA authorisation to operate between 2013 to 2015. All participating boroughs also agreed to..

The transfer of our Allianz managed equities to the CIV in December 2015 was achieved at a transfer cost of £7,241. pay £150,000 to the London CIV to subscribe for 150,000 non-voting redeemable shares of £1 each as the capital of the Company . After the legal formation of the London CIV in October 2015 , there is an agreed annual £25,000 running cost invoice for each financial year

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

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

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

The Newton transition cost the council 32k.

In a April 2018 annual service charge of 25k (+VAT) and 65k (split 43.3k and 21.6k) development fund was invoiced to all members.
In April 2019 annual service charge of 25k(+VAT) and 65k(split 43.3k and 21.6k)

4. Implications

4.1 **Financial implications:**

4.1.1 Fund management and administration fees are charged directly to the pension fund.

4.2 **Legal Implications:**

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

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

4.3 **Environmental Implications:**

4.3.1 None specific to this report

4.4 **Resident Impact Assessment:**

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

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

5. Conclusion and reasons for recommendations

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

Background papers:
Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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Report of: **Corporate Director of Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	17 June 2019		n/a

Delete as appropriate	Exempt	Non-exempt

SUBJECT- EQUITY PROTECTION STRATEGY- SEMI ANNUAL MONITORING

1. Synopsis

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

1.2 Mercer our investment advisor, has prepared a presentation to highlight the main features of activities to March 2019 and performance during the October to March 2019.

2. Recommendations

2.1 To note the options value as at March 2019

2.2 To receive Mercer's presentation highlighting the main features and activities of the strategy to March 2019- attached as Appendix 1-Equity Protection Monitoring

3. Background

3.1 **March 2016 valuation**
The triennial valuation was completed in March 2017 with a calculated funding level of 78% and a deficit of £299m. A 22-year recovery plan was agreed with projected contributions over this period to achieve a 100% funding level.

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

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

3.4 Members agreed to receive six monthly monitoring reports to track our equity exposure and the market to market value of our protection. As at March 2019 our equities exposure had increased by £3.2m but our option was valued £22.4m. Members should note that as the strategy is for a fixed term any gains and losses will only be realised at the end of the contract.

3.5 Mercer will be presenting in more detail activities during the October to March 2019 period and how the protection has performed.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

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

4.3 **Environmental Implications**

Environmental considerations can lawfully be taken into account in investment decisions

4.4 **Resident Impact Assessment**

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

.

5. Conclusion and reasons for recommendation

5.1 Members are asked to note the Fund's market to market equity exposure position and receive a presentation from Mercer highlighting the equity protection strategy performance and activities during the six months to March 2019, attached as Appendix 1 – Equity Protection Monitoring.

Background papers:
None

Final report clearance:

Signed by:

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

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

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LONDON BOROUGH OF ISLINGTON PENSION FUND

EQUITY PROTECTION QUARTERLY MONITORING REPORT AS AT 31 MARCH 2019

MAY 2019

Peter Tornkvist
Tony English

AGENDA

- Recap on equity options
  - What is the strategic rationale?
  - Governance considerations
- Quarterly monitoring

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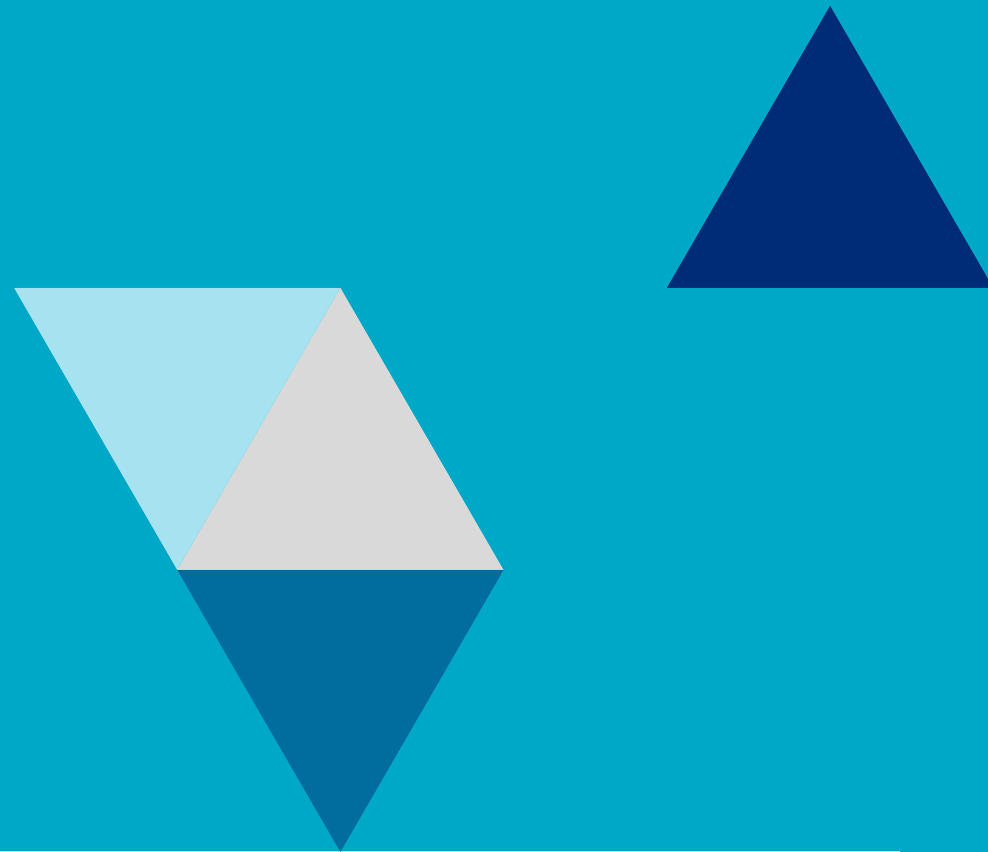
RECAP ON EQUITY OPTIONS



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RECAP ON EQUITY OPTIONS
RETURNS REQUIRE RISK – RISK NEEDS TO BE MANAGED

Stable and affordable contribution rate

versus

Achieve returns in excess of CPI required under funding arrangements

Objectives are two-fold but conflicting

- Risk needs to be taken in order to target returns but risk does not guarantee returns

Need to ensure a reasonable balance between the two objectives

- No need to take the same level of risk when 100% funded (say) than when 78% funded

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RECAP ON EQUITY OPTIONS
KEY OBJECTIVES

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

Original rationale for equity options (late 2017) described below:

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Based on the position at 30 June 2017, if equity markets increased by c.14 % the deficit would be eliminated. Any further increase would lead to a surplus **(all else being equal)**	Based on the position at 30 June 2017 if equity markets fell by c.28% the Fund would fall behind the deficit recovery plan and more cash contributions would be required (again **all else being equal**)	The next actuarial valuation is as at 31 March 2019. In practice valuation negotiations take place over the year following this date. This implies looking for protection with a maturity of between 2 and 3 years.

Looking ahead:

Despite market volatility in 2019, equity market performance has been largely flat since the inception of the option strategy.	Equity options have provided protection in some markets but overall combined equity and options strategy is flat.	Expiry is March 2020 - this may remain appropriate – but longer term/rolling approach could be considered

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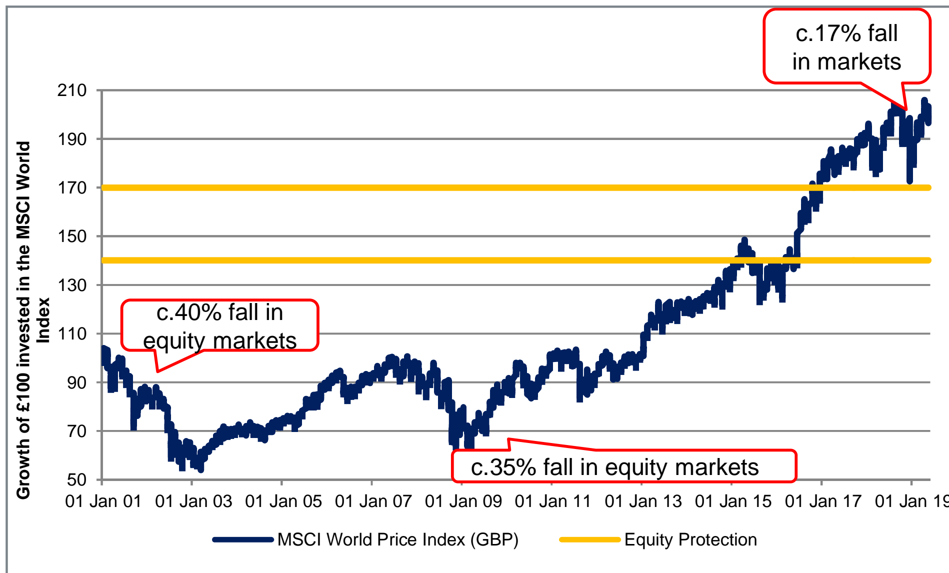
RECAP ON EQUITY OPTIONS
STRONGER THAN EXPECTED GROWTH

Performance of MSCI World (GBP) since 2000



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Comments

- Global equity markets are at or close to all time highs – the MSCI World has returned 6.2% p.a since December 2000.
- We expect to be rewarded for investing in equities over the long term, and accept that this comes with capital risk. This risk is highlighted by material market falls observed over various periods since 31 December 2000.
- Since the 2016 valuation, the Fund has benefited significantly from strong positive equity market performance.

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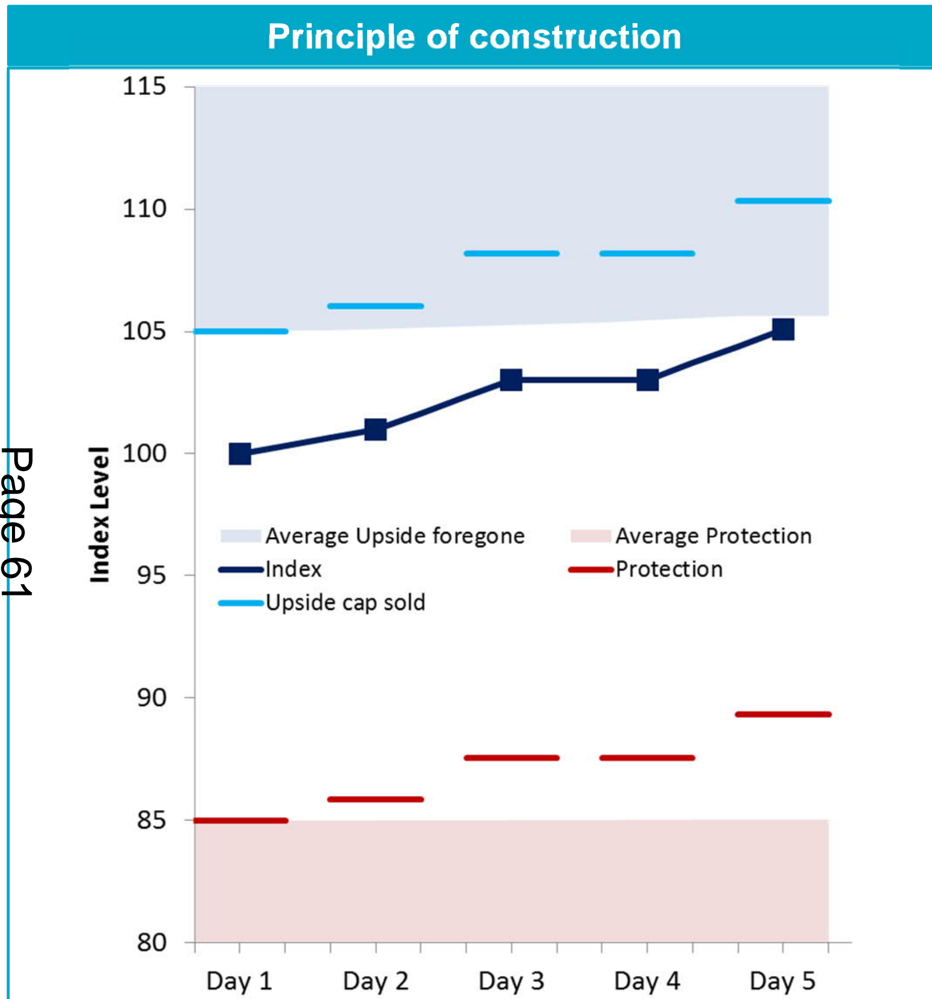
ALTERNATIVE APPROACH
DYNAMIC HEDGING – RISING MARKETS

Principle of construction



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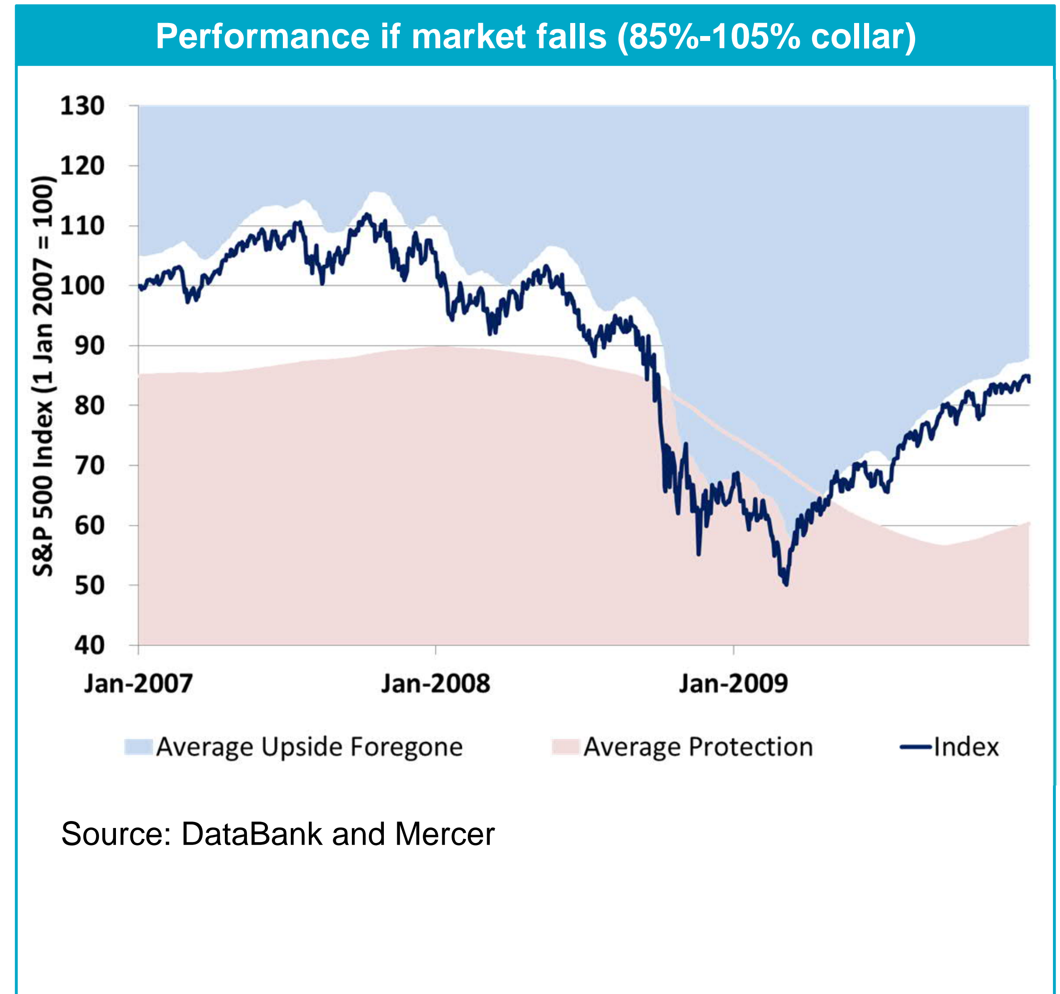
Performance if market falls (85%-105% collar)



Source: DataBank and Mercer

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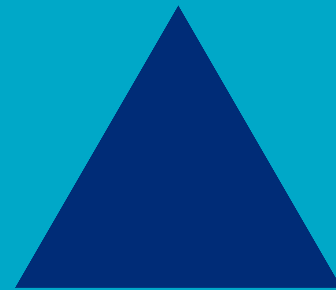
MONITORING

QUARTER TO 31 MARCH 2019



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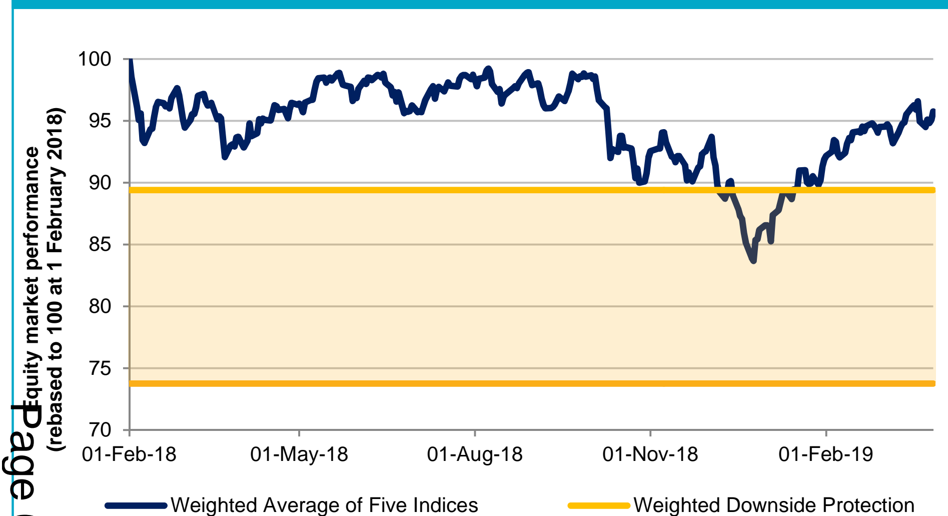
EQUITY PROTECTION MONITORING (I)

Equity protection to 31 March 2019



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Comments

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

The chart opposite shows the equity market performance from inception to 31 March 2019 (the **blue line**) and the **orange shaded region** shows the range in which the Fund is protected against equity market falls. As market levels get nearer to the shaded region, the value of the option strategy increases as it is more likely that the options will expire "in-the-money" and the Fund will receive a payoff at maturity.

Over the period since inception to 31 March 2019, the Fund's equity exposure increased by c. £3.2m and the mark-to-market value of the equity options decreased by c. £2.4m. We will continue to monitor this position.

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

Market index	Market exposure		Value of options	
	31-Mar-19	Change since inception of option strategy	31-Mar-19	Change since inception of option strategy
S&P 500	£322.1m	£28.5m	£7.2m	(£3.2m)
FTSE 100	£212.6m	(£7.6m)	£4.7m	(£2.5m)
Euro Stoxx 50	£73.8m	(£7.0m)	£2.1m	(£0.5m)
Topix	£40.7m	(£3.3m)	£2.3m	£0.9m
Emerging Markets	£88.0m	(£7.4m)	£5.9m	£2.7m
Total	**£737.2m**	**£3.2m**	**£22.4m**	**(£2.4m)**

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

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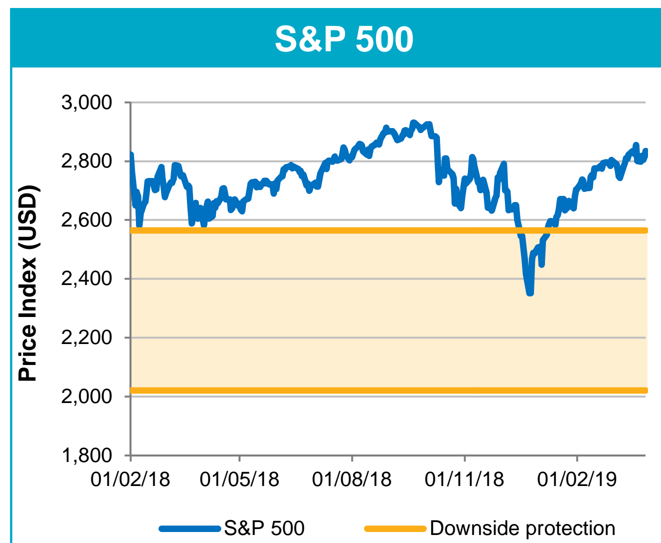
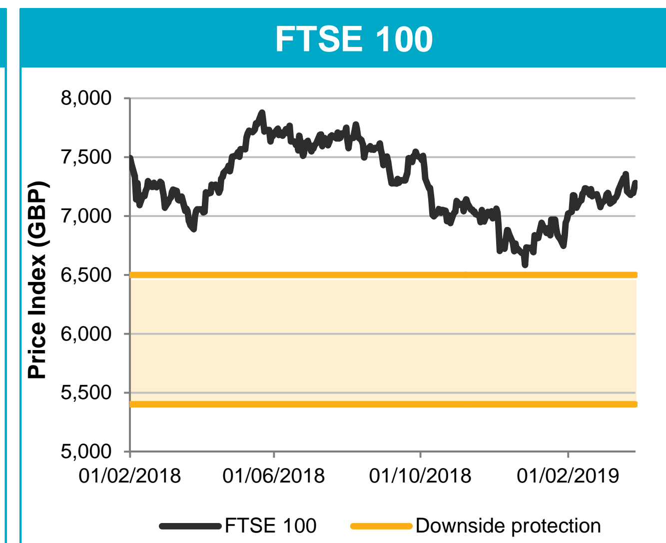
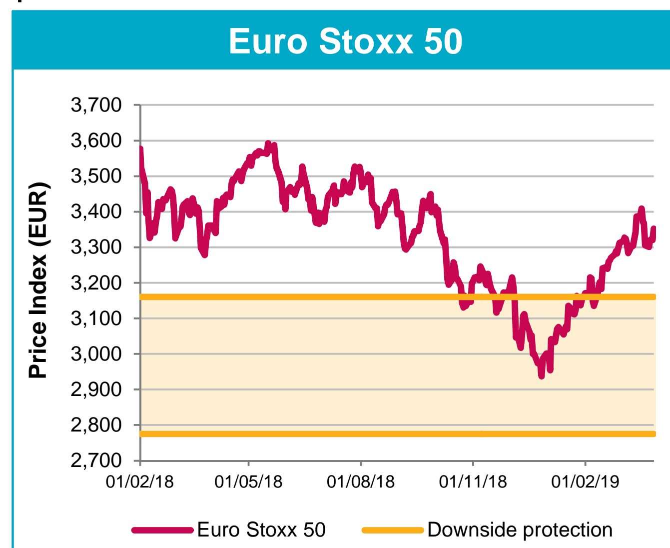
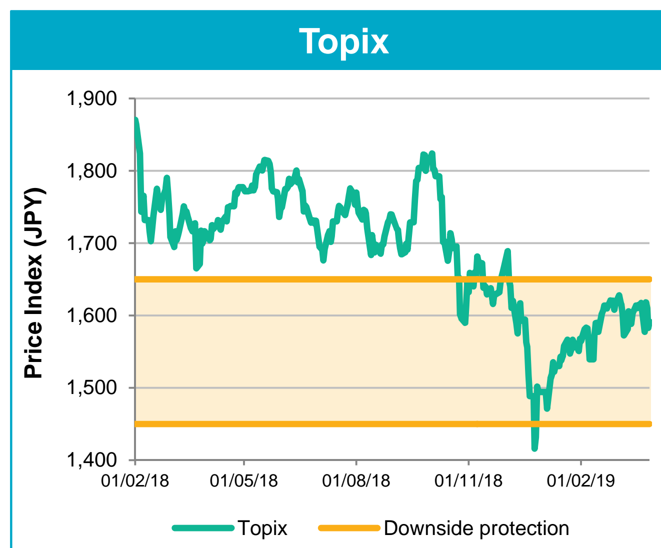
EQUITY PROTECTION MONITORING (II)

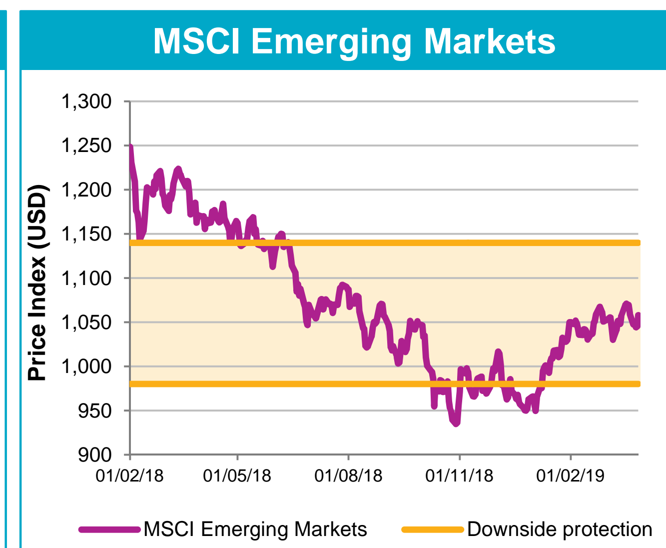
- The charts show the current market level as at 31 March 2019 and the market level when the options were implemented on 1st/2nd February 2018. The closer the market is to the option strike, the more valuable the protection.
- The Topix and MSCI Emerging Markets **long** put options were both "in the money" as at 31 March 2019, i.e. the Fund will receive a total payoff of c.£8.3m at maturity if the respective indices remain at their current levels. The Fund will not need to make any payouts if the respective indices remain at their current levels.











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EQUITY PROTECTION
SUMMARY

- The Fund's equity protection strategy was implemented on 1st/2nd February 2018 before the equity market sell off in February. All five of the indices on which the options are bought and sold have recovered from their falls in the fourth quarter of 2018. However the S&P 500 index was the only index to end the first quarter of 2019 above its level at inception of the strategy.
- Over Q1 2019, the worst performing index was the Topix, which returned c. 6.5% in Japanese Yen terms, while the index with the strongest returns was the S&P 500 Index, which returned c. 13.1% in US Dollar terms. The FTSE 100 index, which the strategy has the second greatest notional exposure to after the S&P 500 index, returned c. 8.1% in Sterling terms. The Euro Stoxx 50 index and MSCI Emerging Markets index returned 11.7% in Euro terms and 9.6% in US Dollar terms respectively.
- The value of an option is impacted by many factors including the volatility of the market, the current market level against the strike level of the option and the time remaining until the option expires.
- At implementation, the Fund paid £24.7m to purchase the protection (excluding fees). By 31 December 2018 the value of the protection had increased to £46.0m due to negative returns over Q4 2018. However, this value has fallen to £22.4m as at 31 March 2019, largely due to all five indices producing positive returns over Q1 2019.

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APPENDIX

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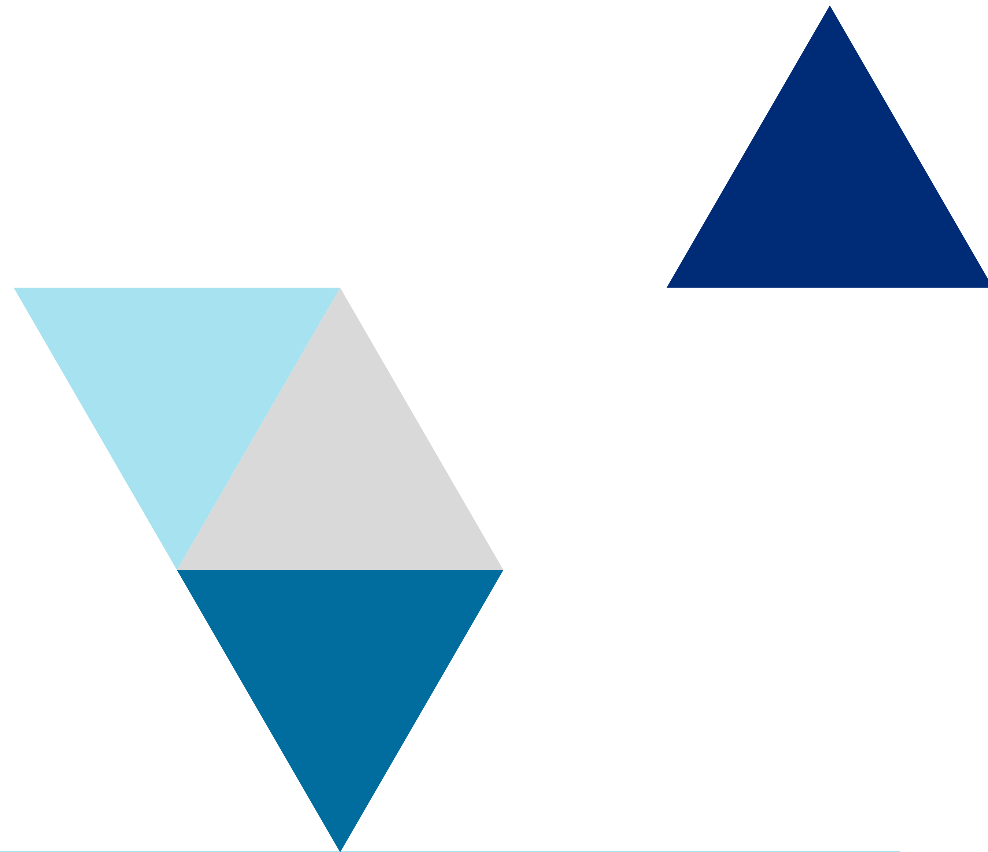

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EQUITY PROTECTION
KEY DETAILS OF THE STRATEGY

Investment manager

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

Investment strategy

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

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

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

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

Costs

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

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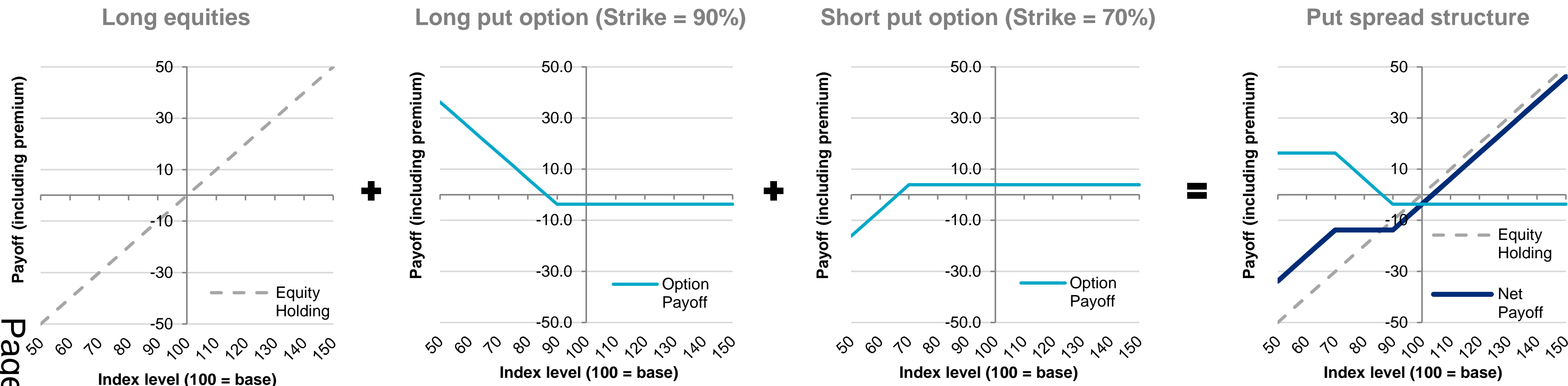
EQUITY PROTECTION
WHAT IS A PUT SPREAD?



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- A put spread is an equity protection strategy where a put option on a given equity index is bought to protect downside losses, and another put option is written at the same time (i.e. sold) in order to forgo a portion of that downside protection in return for a premium.
- This is typically done to reduce the cost of the overall structure, as put options tend to be expensive to purchase, and the premium received from selling the put offsets that cost to an extent (but not fully).
- The difference between the strikes of the put options being bought and sold dictates the level of protection. In the example above, a put option is bought with a strike of 90% relative to market levels at inception of the option, while a put option with a strike of 70% is sold.
- In the event that the equity index were to fall 10% from its levels at inception of the strategy (i.e. to 90%), the structure would not provide any protection. If the index fell a further 20%, from 90% of levels at inception to 70% of levels at inception, the long put option would be “in the money” and the option buyer could exercise the option at the agreed 90% strike rate to protect themselves from any losses incurred.
- However, if the index were to fall even further (i.e. more than 30% of levels from inception), the buyer of the short put option would choose to exercise their option for the same reasons outlined above and the structure would no longer provide downside protection. This resulting net payoff of the put spread structure can be shown by the dark blue line on the chart.

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Finance and Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	17 June 2019		n/a

Delete as appropriate	Exempt	~~Non-exempt~~

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

SUBJECT: INVESTMENT STRATEGY REVIEW

1. Synopsis

1.1 This is a report on 2019 Actuarial review update position and review of investment returns required to keep contributions to the fund sustainable and the investment strategy implications on asset allocation.

2. Recommendations

2.1 To receive the presentation from Mercer attached as Exempt Appendix 1

2.2 To consider the 2019 Actuarial valuation update position

2.3 To consider and agree the target best estimate return of CPI +3.2% could support the desired contribution level, the current target is CPI + 3%.

2.4 Subject to 2.3 consider the asset allocation and investment strategy that can deliver the agreed investment return

2.5 To agree next steps

3. Background

Introduction

3.1 The 2019 actuarial valuation is now underway and as part of the process preparatory work is being undertaken to determine the funding position and investment strategy review that can support sustainable contributions from employers.

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 and this strategy has now been implemented.

3.1.2 The presentation prepared by Mercer is to review and evaluate this strategy and perform some analysis to determine if the desired contribution can be support through the existing strategy and investment returns. The risk and return target options are also discussed and Members after consideration are asked to agree new target investment return of CPI + 3.2%.

3.1.3 If the new target return is agreed, then members are asked to look at options of risk and return portfolios to deliver this return and asset allocation changes.

3.1.4 Members are also asked to review the current DGF and the rational for UK property and the next steps.

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

No legal implications

4.3 Environmental Implications

Environmental considerations can lawfully be taken into account in investment decisions

4.4 Resident Impact Assessment

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

5. Conclusion and reasons for recommendation

5.1 Members asked consider the Mercer presentation and agree a new target investment return rate and implications on asset allocation, and the review of UK housing and DGF and the next steps.

Background papers:
None

Final report clearance:

Signed by:

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

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

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	17 June 2019		n/a

Delete as appropriate	Exempt	Non-exempt

Appendix 3 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 POLICY MONITORING PLAN

1. Synopsis

1.1 This report discusses a proposed monitoring plan to achieve the targets set in the fund's decarbonisation policy.

1.2 Mercer, our investment advisors have prepared the following:

1.3

- I) a monitoring plan attached as Appendix1 for discussion and agreement
- II) shared the document Investing in Time of Climate Change attached as Appendix 2 for information, and
- III) an update on the fund's portfolio ESG ratings attached as Exempt Appendix 3 for discussion and proposed next steps

2. Recommendation

2.1 To receive and consider the monitoring plan attached as Appendix1

2.2 Note the briefing paper Investing in Time of Climate Change- Appendix 2

2.3 Consider the updated ESG ratings of our current portfolio fund managers attached as Exempt Appendix 3 and agree the next steps

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 agreed a decarbonisation policy as part of its Investment strategy statement and sets targets to achieve further decarbonisation across its entire investment assets. The policy defines their beliefs and take account of sustainable opportunities, and agree a monitoring regime and progress measurement.

3.6 The agreed targets are as follows

3.6.1 **The Fund seeks to achieve the following targets by May 2022 through**:

1) Reducing future emissions by focussing on absolute potential emissions (tons of CO_2e), a reserves based measure that focusses on emissions that could be generated if the proven and probable fossil fuel reserves owned by the companies in the portfolio were burned, in the public equity allocation by more than three quarters compared to the exposure at June 2016, the date of the Fund's latest carbon foot-printing exercise.

2) Reducing "exposure to carbon intensive companies" as measured by Weighted Average Carbon Intensity [1], an indicator of current climate-related risks facilitating comparison across asset classes and across industry sectors in the public equity allocation by more than half compared to the exposure at June 2016, the date of the Fund's latest carbon foot printing exercise.

3) Investing at least 15% per cent of the Fund in sustainability-themed investment - for example in climate change mitigation, low carbon technology, social housing, sustainable infrastructure, energy efficiency and other opportunities.

3.6.2 **Measures agreed to monitor and guide decarbonisation and allocation to sustainability include: :**

1) The Fund adopting TCFD supplemental guidance for asset owners where applicable.

2) The Fund reviewing targets annually.

3.) The Fund forming a view on decarbonisation of all asset classes beyond public equities by 2022 and will develop mechanisms to evaluate the progress.

4) The Fund monitoring ESG (including climate change) risks annually and set targets to mitigate these risks. Monitoring will include bi-annual analysis of the carbon footprint of the Fund's portfolio, as well as conducting a periodic scenario analysis based on multiple climate change scenarios ranging from 2ºC to 4ºC.

3.6.3 Members are asked to consider the proposed monitoring plan and agree any amendments if required and note for information the briefing paper. Members are also asked to note the updated ESG ratings and agree the next steps of engaging with manager who have a lower rating and highlight the better mangers best practise.

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 taxpayers, 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 influence 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 to consider the Mercer briefings monitoring plan and updated ESG ratings of our portfolio managers.

Background papers:
None

Final report clearance:

Signed by:

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

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

MERCER

MAKE TOMORROW, TODAY

LONDON BOROUGH OF ISLINGTON PENSION FUND

ENVIRONMENT, SOCIAL AND GOVERNANCE ("ESG") CONSIDERATIONS NEXT STEPS –CONTINUED IMPROVEMENT

INTRODUCTION

The Fund seeks to achieve the following targets[1] by May 2022:

1. **Reducing future emissions** by focussing on absolute potential emissions (tons of CO2e), a reserves based measure that focusses on emissions that could be generated if the proven and probable fossil fuel reserves owned by the companies in the portfolio were burned, in the public equity allocation by more than three quarters compared to the exposure at June 2016, the date of the Fund's latest carbon footprinting exercise.

2. **Reducing "exposure to carbon intensive companies"** as measured by Weighted Average Carbon Intensity[2], an indicator of current climate-related risks facilitating comparison across asset classes and across industry sectors in the public equity allocation by more than half compared to the exposure at June 2016, the date of the Fund's latest carbon footprinting exercise.

3. **Will invest at least 15% per cent of the Fund in sustainability-themed investment** - for example in climate change mitigation, low carbon technology, social housing, sustainable infrastructure, energy efficiency and other opportunities.

The Fund will review targets annually. The Fund will form a view on decarbonisation of all assets classes beyond public equities by 2022 and will develop mechanisms to evaluate the progress.

In terms of monitoring, the Fund has agreed to:

- Adopt TCFD supplemental guidance for asset owners where applicable.

- Monitor ESG (including climate change) risks annually and set targets to mitigate these risks.

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[1] The targets were adopted in 2018.

[2] Weighted Average Carbon Intensity (tons CO2e / $M sales). Calculated based on Scope 1 and 2 emissions. Does not relate to the Fund's ownership share and hence serves as an indicator of potential climate-related risks. Importantly facilitates comparison with non-equity assets. FSB Taskforce for Climate-related Disclosures (TCFD) recommended metric for asset owners indicating portfolios exposure to carbon-intensive companies.

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MARSH & McLENNAN COMPANIES

- Complete bi-annual analysis of the carbon footprint of the Fund's portfolio.
- Conduct a periodic scenario analysis based on multiple climate change scenarios ranging from 2ºC to 4ºC.

With the above objectives and monitoring requirements agreed, we have set out below an indicative project plan for the coming twelve months for the Committee to consider.

PROJECT PLAN (OVER THE NEXT TWELVE MONTHS)

MEETING DATE	PROPOSED ITEMS TO BE DISCUSSED
17 June 2019	• Committee to review of the proposed project plan as set out herein. • Discussion of Mercer's paper "Investing in a time of climate change – the sequel". • Annual review of ESG manager ratings.
10 September 2019	• Mercer to potentially present climate change scenario analysis on the Fund's current investment strategy. • Decarbonisation of non-equity assets– consideration and next steps. • Integrate any conclusions in the broader investment strategy review.
3 December 2019	• Review other sustainable opportunities/ asset classes.
3 March 2020	• Mercer to review the Fund's carbon footprint analysis in 2020 (compared to 2016) and present to the Committee at the March or June Pensions Sub-Committee meeting[4]. • Update on the implementation of moving assets from the in-house UK passive equity mandate to the LGIM MSCI Low Carbon Target Index fund.

[4] The Committee should decide when they would next want to review the Fund's carbon footprint analysis. As such, the timescale shown here is for illustrative purposes.

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Tomi Nummela

May 2019

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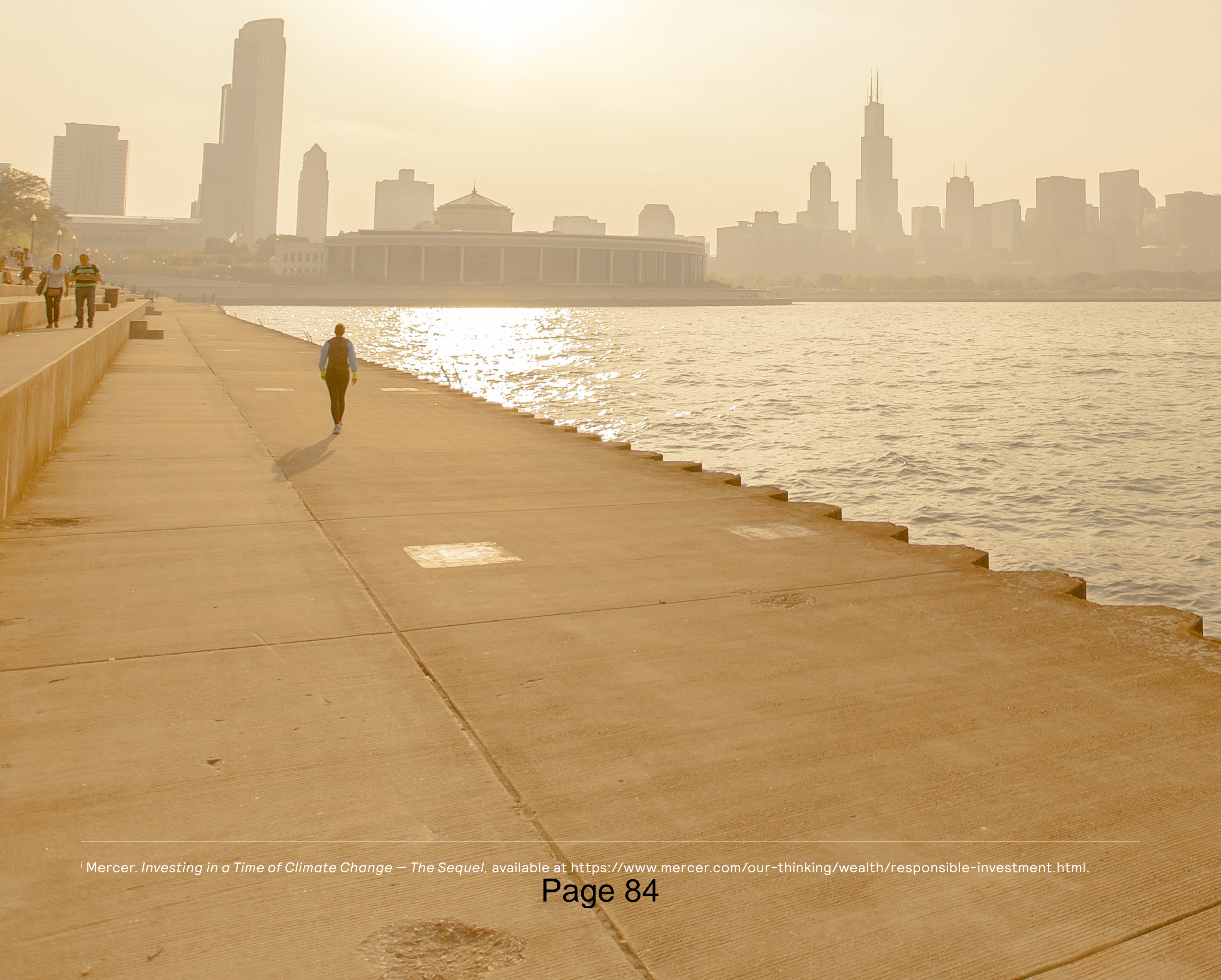
GLOBAL WEALTH

Investing in a Time of Climate Change

The Sequel 2019 — Executive Summary

MAKE TOMORROW, TODAY

Investing in a Time of Climate Change — The Sequel ("the Sequel") is Mercer's latest climate scenario research and modeling for institutional investors with diversified portfolios to assess the "climate impact on investment return." For more information, see the full report.[i]



[i] Mercer. *Investing in a Time of Climate Change — The Sequel*, available at https://www.mercer.com/our-thinking/wealth/responsible-investment.html.

Why Is Climate Change Important to Investors?

It Needs to Be Addressed Now, Not Later

We have already experienced around 1°C of average warming above preindustrial levels,[1] and extraordinary weather events with significant financial and human consequences are increasing in frequency.[2] Humans have never lived in a world much warmer than today; yet the current trajectory of at least 3°C above the preindustrial average by 2100 could put us beyond the realm of human experience sometime in the next 30 years.[3]

In October 2018, the Intergovernmental Panel on Climate Change (IPCC) released a new report highlighting the difference between a 1.5°C and a 2°C scenario to illustrate the additional impact that 0.5°C is expected to have.[4] This report reinforces why the Paris Agreement ambition agreed upon by the world's governments is for "well below" 2°C, and we have less than 12 years before the window of opportunity to achieve that ambition closes.

Business leaders are also acknowledging the risks posed by climate change, as reflected in the 2019 World Economic Forum *Global Risks Report,*[5] which displays the heightened focus on environmental and social risks over time.

The Risks of Physical Damages and the Transition to a Low-Carbon Economy

There are three scenarios modeled in the Sequel — 2°C, 3°C and 4°C. The following table summarizes the key milestones and assumptions in the Mercer scenarios and compares these to the current situation. This summary highlights the different degrees of physical damages risks and the changes required to transition to a low-carbon economy and reduce fossil fuel emissions, consistent with each temperature outcome.

The Sequel Scenarios in Summary

(carbon emissions — $GtCO_2$ — fossil fuel and industrial only)

	Transition milestones and commentary	Physical damage milestones and commentary
Current	• 2017 emissions reached 37 $GtCO_2$.[6] • Fossil fuels are 80% of the energy mix. • 80% of emissions are not covered by carbon pricing. • 59% of 2017 energy supply investment went to fossil fuels. • 3.3 million electric vehicles were on the road in 2017.[7]	• Temperature has increased 1.1°C relative to preindustrial levels. • CO_2 concentration is over 400 ppm (last occurred three million years ago).[8] • Sea-level rise is at 22 cm.[9] • Half of the Great Barrier Reef has bleached to death since 2016,[10] which has significant biodiversity and flood protection implications.[11]
2°C	Aggressive* climate action: • Emissions peak in 2020. • Emissions fall to 16 $GtCO_2$ by 2050 (57% decrease versus 2017). • Net-zero emissions are reached by 2080–2100. By 2050 (relative to 2015): • Total energy demand is down by 12%. • Coal is aggressively phased out. • The energy sector is electrified. • Power generation increases by 60% (with 55% of generation from renewables and 8% nuclear). • Oil and gas supply is down by 10% (oil demand down by 33%; gas supply up by 20%). • New vehicle sales are 50% electric vehicles (EV) and 25% liquefied petroleum gas (LPG).	• There is a 50% chance of keeping temperature increase below 2°C. • By 2050, temperature rises 1.7°C. Physical damage examples at 2°C of warming include[12]: • Average sea level rises around 50 cm. • Annual maximum daily temperature is 2.6°C higher; the number of hot days increases by 25%. • Frequency of rainfall extremes over land increases by 36%. • Average drought length increases by four months. • Suitability of drylands for malaria transmission goes up 27%. • Average crop yields for maize and wheat decrease by 9% and 4%, respectively.

** "Drastic" action would be required to stay below 1.5 °C of warming relative to preindustrial levels.*

3°C

Transition milestones and commentary

Some climate action but not transformative, and we fail to achieve a 2°C outcome:

- Global emissions are essentially flat to 2050 and rise slighter after.
- Emissions reach 41 $GtCO_2$ in 2050.

By 2050 (relative to 2015):

- Total energy demand is up 18%.
- Fossil fuels represent 80% of primary energy.
- Coal use is down but only by 7%.
- Power generation increases by 85% (with 27% of generation from renewables and 3% nuclear).
- New vehicle sales are 37% EV and 35% LPG.

Physical damage milestones and commentary

- In 2050: Temperature increases by 1.9°C.
- By 2100: Temperature increases by 3.2°C.

By 2100, example physical damages are largely considered irreversible (permanent loss of arctic sea ice) and include:

- Sea levels rise approximately 58 cm on average.[13]
- Average drought length increases by four months.
- There is 30% less water availability.
- Heat waves and forest fires are greater than recent years.
- Risk to marine fisheries and negative aggregate impact on agriculture and food production increases chance of famine.

4°C

Transition milestones and commentary

Business as usual pathway:

- Global annual emissions increase by 49% by 2050 relative to 2015.
- Emissions reach 91 $GtCO_2$ by 2100.

By 2050 (relative to 2015):

- Total primary energy is up by 28%.
- Fossil fuels represent 84% of primary energy at 2050.
- Power generation is 25% renewable (plus 5% nuclear).

Physical damage milestones and commentary

- In 2050: Temperature increases by 2.0°C.
- By 2100: Temperature increases by 3.9°C (heading higher).

By 2100, example physical damages are largely considered irreversible (permanent loss of arctic sea ice) and include:

- Sea level rise of approximately 70 cm on average.
- There is 50% less water availability.
- The strongest Northern Atlantic cyclones increase by 80%.
- Heat wave and forest fire risk is very high and compromises normal outdoor activities.
- Risk to marine fisheries and ecosystems and medium-to-high risk of decline in fish stocks, plus negative aggregate impact on agriculture and food production, increases chance of famine and reductions in food supplies and employment.

Source: Mercer

It’s a Fiduciary Issue

For many years, Mercer has held the investment belief that climate change is a “systemic risk,” and investors are therefore encouraged to “consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts under different climate outcomes.”[14] Financial regulators, particularly for pension funds, are also increasingly asking investors to consider the materiality of climate-related risks and manage them accordingly, consistent with their fiduciary duties.[15]

There has been recent pension-fund guidance and legislation, particularly in Europe[16] but also across the Atlantic, with the provincial government in Ontario, Canada, requiring pensions to disclose in their statements of investment policies and procedures whether environmental, social and governance (ESG) factors are considered and, if so, how[17] and the insurance regulator in California requiring insurers to disclose their fossil-fuel-related holdings.[18] These requirements recognize at least the potential for financial materiality and require climate change to be considered in investment decision-making processes, consistent with the timeframes of beneficiaries.

Laws and litigation related to climate change also continue to develop.[19] Litigation is primarily aimed at companies failing to mitigate, adapt or disclose, but there are examples of litigation against governments[20] and, most recently, pension funds.[21] As signals from regulators become stronger and/or more investors take action, those that fail to consider, manage and disclose their potential portfolio-specific risks may be at risk of attracting legal challenges in the future.

In this context, investors with multidecade time horizons and exposure across the global economy are considering how to develop climate resilience in their portfolios with heightened urgency.

How Can Climate Scenario Modeling Help Investors?

Climate Change Scenarios and Risk Factors

Investors often use scenario analysis to support strategic asset allocation and portfolio construction decisions, as it helps to test portfolio resilience under multiple potential future outcomes. Climate scenario analysis was a key element of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[22] recommendations released in 2017.

Mercer believes it is valuable to ensure climate change considerations are integrated into every stage of the investment process, including setting strategic asset allocation and portfolio construction decisions, which then inform mandate creation and, ultimately, exposures. Understanding the relative implications for different asset classes and sub-asset classes under different scenarios helps to identify priority risks and opportunities as part of strategic decision-making. This top-down, portfolio-wide scenario analysis can then be combined with further insights from bottom-up analytical tools that assess climate exposures of sectors and companies.

The Sequel models three climate change scenarios, a 2°C, 3°C and 4°C average warming increase on preindustrial levels, over three timeframes — 2030, 2050 and 2100. For each scenario, we assess the relative asset class and industry sector sensitivities to climate risk factors over this timeframe.

The following two modeling approaches are used to calculate an additional climate impact on return, which we don't believe is currently captured in return expectations relying primarily on historical data.

Modeling Approach 1: Long-Term Return Impact Analysis

Portfolio implications are generated by calculating the average annual climate impact on return for different asset classes and industry sectors across the three scenarios over different time periods (for example, to 2030, 2050 and 2100).

Figure 1. Annual Return Impact Analysis Inputs and Outputs

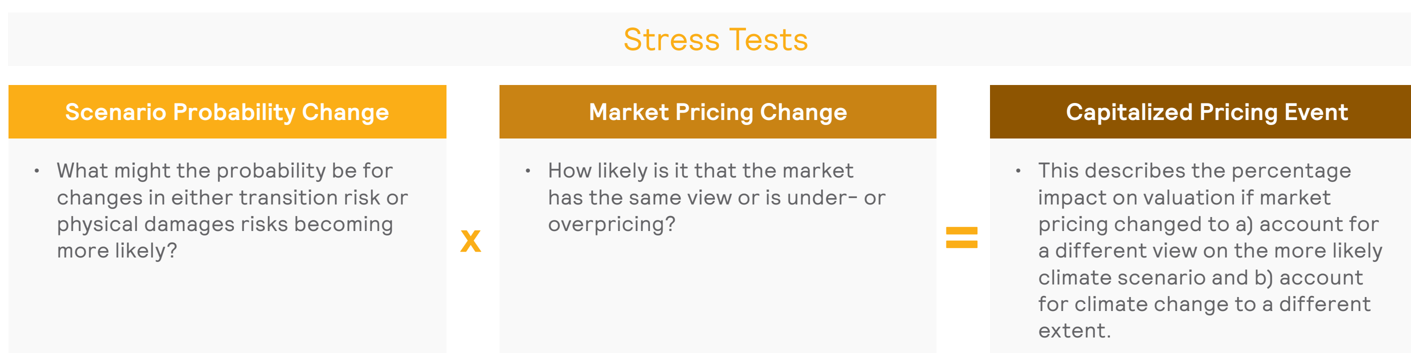
Source: Mercer

Modeling Approach 2: Short-Term Stress-Testing Analysis

Many clients requested that we consider how longer-term return impacts could manifest as shorter-term climate-related market repricing events (for example, reflecting short-term changes in how the market prices climate change risks and opportunities, including changing views on the probabilities of different climate scenarios).

As a result, we have developed a climate stress-testing addition to the model, which immediately capitalizes expected future impacts in present-value terms using a dividend discount modeling (DDM) approach, driven by a change in view on scenario probabilities, market awareness and/or physical damages.

Figure 2. Stress Test Inputs and Outputs



Source: Mercer

What Does the Sequel Modeling Tell Investors?

The modeling results have evolved from the 2015 *Investing in a Time of Climate Change* report ("the 2015 Report") given there have been many environmental, scientific, political and technological developments that continue to evolve both our understanding and the climate change modeling data. However, the headline messages remain consistent, reinforce the recommendations made at that time and support greater urgency for action to achieve a well-below 2°C scenario. The relative impacts across asset classes and sectors convey a number of key signals for investors to consider in portfolio construction and asset allocation decisions. The new stress-test modeling is also beneficial to demonstrate the potential magnitude of return impacts in the short term if changes in policy, market awareness or physical damages are greater than currently anticipated.

A key conclusion is that investing for a 2°C scenario is both an imperative and an opportunity:

- An imperative, since, for nearly all asset classes, regions and timeframes, a 2°C scenario leads to enhanced projected returns versus 3°C or 4°C and therefore a better outcome for investors
- An opportunity, since, although incumbent industries can suffer losses in a 2°C scenario, there are many notable investment opportunities enabled in a low-carbon transition

The Sequel's highlights include the following[ii]:

1. **The results emphasize the physical damages risks and why a below 2°C scenario is most beneficial**, and the 4°C and 3°C scenarios are to be avoided, from a long-term investor perspective.

2. **Transition opportunities emerge from a 2°C scenario, with transition now expected to be a benefit from a macroeconomic perspective**,[23] including the potential to capture a "low-carbon transition (LCT) premium."[24] Although a 2°C scenario definitely still presents transition risk (especially for portfolios aligned to a 3°C or 4°C+ world), opportunistic investors can target investment in the many mitigation and adaptation solutions required for a transformative transition. In the two sample portfolios, the sustainability-themed version is nearly 0.20% p.a. better off to 2030.

3. **Expected annual return impacts remain most visible at an industry-sector level, with significant variations by scenario, particularly for energy, utilities, consumer staples and telecoms.** Asset class returns can also vary significantly by scenario, with infrastructure, property and equities being the most notable. Variations in results between asset classes and across regions, cumulative impacts, and the emphasis on sustainable opportunities provide multiple portfolio construction possibilities for investors.

4. **In reality, sudden changes in return impacts are more likely than neat, annual averages, so stress testing is an important tool in preparing for this eventuality.** Stress testing portfolios for changes in view on scenario probability, market awareness and physical damages can help investors to consider how longer-term return impacts that may appear small on an annual basis could emerge as more-meaningful shorter-term market repricing events. Testing an increased probability of a 2°C scenario with increased market awareness can result in sector-level returns where renewables increase by more than 100% and coal decreases by nearly 50%. Positive asset class impacts include infrastructure at almost 23% and sustainable equity at more than 5%. Testing an increased probability of a 2°C scenario or a 4°C scenario with greater market awareness, even for the modeled diversified portfolios, results in +3% to -3% return impacts in less than a year.

[ii] In the Sequel, two sample asset allocations were used to illustrate the key findings: 1) the same diversified growth asset allocation introduced in the 2015 Report and 2) a 2019 portfolio that is equivalent to the 2015 portfolio but with explicit allocations to sustainability-themed investments in multiple asset classes. Current limitations in data and methodology available for modeling physical damages, together with the myriad of factors not yet captured and multidecade timeframes, mean the resulting magnitudes are likely to be significantly underestimated and invariably relatively small in absolute terms. The Sequel outlines more on these additional considerations when assessing quantitative results.

Figure 3. Annualized Total Portfolio Results

Source: Mercer

How Can Investors Apply the Sequel?

The Sequel provides investors with a clear framework and tools to start actively supporting the transition to a 2°C scenario — as "Future Makers."[25] Fiduciaries, motivated by the economic and social interests of their beneficiaries and clients, have the opportunity — and, arguably, the obligation — to use their portfolios and their influence to help guide us toward this more economically secure outcome.

The Sequel provides investors with recommendations to help integrate climate change when setting investment beliefs, policies and processes, and when constructing and managing portfolios. Mercer's *Responsible Investment Pathway* shows you how.

Mercer is actively working to ensure that climate scenarios are integrated within the standard stress tests for all Mercer clients undertaking strategy reviews. Mercer's global consulting team can also help apply Mercer's climate scenario model to conduct more-detailed, tailored analysis for clients at a total portfolio, asset class and sector level, including comparing different asset allocations and undertaking stress tests, to then support recommended actions and implementation.

We look forward to the opportunity to support investors in incorporating climate change throughout the investment process and to build climate-resilient portfolios.

1 Beliefs	2 Policy	3 Process	4 Portfolio

Integration

Include ESG factors in investment decisions, with an explicit approach to climate change transition and physical risks, which are portfolio-wide.

AIM:
Financial objectives
+ risk management improvement

Stewardship

Exercise active ownership/stewardship through voting and engagement with underlying companies and by engaging with policymakers.

AIM:
Financial objectives
+ financial system improvement

Investment

Allocate to sustainability themes or impact investments for new opportunities — for example, renewable energy, water and social housing.

AIM:
Financial objectives
+ positive social and environmental impact

Screening

Screen out sectors or companies deemed to be irresponsible or not acceptable to profit from.

AIM:
Alignment with values/reputation/risk management or longer-term financial expectations

Source: Mercer

Contacts

For the complete report, *Investing in a Time of Climate Change — The Sequel,* and for more information and related content, please visit: https://www.mercer.com/our-thinking/wealth/responsible-investment.html.

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End Notes

[1] For the purposes of this report, "preindustrial levels" refer to the period 1850–1900. Example resources include: NASA data and charts, available at https://data.giss.nasa.gov/gistemp/maps; Ed Hawkins' *Climate Lab Book,* available at https://www.climate-lab-book.ac.uk/2018/warming-stripes/; and Resource Watch, available at https://resourcewatch.org/topics/climate.

[2] Centre for Research on the Epidemiology of Disasters. "EM-DAT: The International Disaster Database," available at https://emdat.be/.

[3] Homo sapiens evolved from the genus Homo about 200,000 years ago. The penultimate interglacial period (the Eemian) likely reached temperatures 1.5ºC–2.0ºC warmer than preindustrial levels about 125,000 years ago. Source: National Centers for Environmental Information. "Penultimate Interglacial Period — About 125,000 Years Ago," available at https://www.ncdc.noaa.gov/global-warming/penultimate-interglacial-period. Mercer's 3ºC scenario has warming reaching 1.9ºC by 2050.

[4] The Intergovernmental Panel on Climate Change. *Global Warming of 1.5ºC,* 2018, http://www.ipcc.ch/report/sr15/.

[5] World Economic Forum. *Global Risks Report 2019,* available at https://www.weforum.org/reports/the-global-risks-report-2019. Rooted in a survey that tapped into approximately 900 experts from across the world over ten years, the report has adjusted the list of global risks and moved risks between categories. The depiction here assigns a consistent category for risks.

[6] Global Carbon Project. "Global Carbon Budget," 2018, available at https://www.globalcarbonproject.org/carbonbudget.

[7] By the end of 2018, the global fleet of light vehicle plug-ins was 5.4 million plus another 600,000 in medium and heavy commercial. Source: Irle R. "Global EV Sales for 2018 — Final Results," EV-Volumes.com, available at http://www.ev-volumes.com/country/total-world-plug-in-vehicle-volumes/.

[8] Further, if greenhouse gas concentrations were stabilized at their current level, existing concentrations would commit the world to at least an additional 0.6ºC of warming over this century. Source: US Global Change Research Program. "Climate Models, Scenarios, and Projections" in *Climate Science Special Report,* 2017, available at https://science2017.globalchange.gov/downloads/CSSR_Ch4_Climate_Models_Scenarios_Projections.pdf.

[9] NASA. "Global Cimate Change: Vital Signs of the Planet," available at https://climate.nasa.gov/vital-signs/sea-level/.

[10] James LE. "Half of the Great Barrier Reef Is Dead," *National Geographic* (August 2018), available at https://www.nationalgeographic.com/magazine/2018/08/explore-atlas-great-barrier-reef-coral-bleaching-map-climate-change/.

[11] Beck MW, Losada IJ et al. "The Global Flood Protection Savings Provided by Coral Reefs," *Nature Communications,* Volume 9, Article Number 2186 (2018), available at https://www.nature.com/articles/s41467-018-04568-z.

[12] Carbon Brief. "The Impacts of Climate Change at 1.5C, 2C and Beyond," available at https://www.carbonbrief.org/the-impacts-of-climate-change-at-1-point-5-2c-and-beyond.

[13] Rasmussen DJ, Bittermann et al. "Extreme Sea Level Implications of 1.5ºC, 2.0ºC, and 2.5ºC Temperature Stabilization Targets in the 21st and 22nd Centuries," *Environmental Research Letters,* Volume 13, Number 3 (2018), pp. 034040, available at http://iopscience.iop.org/article/10.1088/1748-9326/aaac87

[14] Mercer. *Mercer Investments Beliefs,* 2018, available at https://www.mercer.com/our-thinking/wealth/mercer-investments-beliefs.html.

[15] Official Journal of the European Union. *Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORPs),* available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016L2341&rid=9.

[16] Ibid.

[17] Government of Ontario. *Pension Benefits Act, R.S.O. 1990, c. P.8,* Regulation 909, Section 78(3), available at https://www.ontario.ca/laws/regulation/900909: "The statement of investment policies and procedures shall include information as to whether environmental, social and governance factors are incorporated into the plan's investment policies and procedures and, if so, how those factors are incorporated."

[18] California Department of Insurance. "Climate Risk Carbon Initiative," available at http://www.insurance.ca.gov/0250-insurers/0300-insurers/0100-applications/ci/.

[19] The London School of Economics and Political Science's Grantham Institute on Climate Change and the Environment has partnered with the Columbia Law School's Sabin Center for Climate Change Law to create a database tracking "Climate Change Laws of the World" and "Climate Change Litigation of the World," available at http://www.lse.ac.uk/GranthamInstitute/climate-change-laws-of-the-world/.

[20] Urgenda. "The Urgenda Climate Case Against the Dutch Government," available at http://www.urgenda.nl/en/themas/climate-case/.

[21] Mather J. "REST Fights Claim It Failed to Consider Climate Change," *The Australian Financial Review* (2018), available at https://www.afr.com/personal-finance/superannuation-and-smsfs/rest-fights-claim-it-failed-to-consider-climate-change-20181003-h165w1.

[22] Task Force on Climate-related Financial Disclosures (TCFD), available at https://www.fsb-tcfd.org/about/

[23] In addition to this research, see the following for further support regarding the likely stimulative benefits of a low-carbon transition: Organisation for Economic Co-operation and Development. *Investing in Climate, Investing in Growth,* 2017, available at http://www.oecd.org/environment/cc/g20-climate/synthesis-investing-in-climate-investing-in-growth.pdf.

[24] For more details on this sustainable investment thesis, refer to the following report: Mercer. *Assessing the Prospective Investment Impacts of a Low Carbon Economic Transition,* 2017, available at https://www.mercer.com/our-thinking/assessing-the-prospective-investment-impacts-of-a-low-carbon-economic-transition.html.

[25] BRINK. "The Future Makers: Long Term Investors as Climate Change 'Cops,'" December 4, 2015, available at http://www.brinknews.com/the-future-makers-long-term-investors-as-climate-change-cops/.

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Finance Department
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Report of: **Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	17 June 2019		n/a

Delete as appropriate		Non-exempt

SUBJECT: PENSIONS SUB-COMMITTEE 2019/20– FORWARD PLAN

1. Synopsis

1.1 The Appendix to this report provides information for Members of the Sub-Committee on agenda items for forthcoming meetings and training topics.

2. Recommendation

2.1 To consider and note Appendix A attached.

3. Background

3.1 The Forward Plan will be updated as necessary at each meeting, to reflect any changes in investment policy, new regulation and pension fund priorities after discussions with Members.

3.2 Details of agenda items for forthcoming meetings will be reported to each meeting of the Sub-Committee for members' consideration in the form of a Forward Plan. There will be a standing item to each meeting on performance and the LCIV.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

None applicable to this report

4.3 **Environmental Implications**

None applicable to this report. Environmental implications will be included in each report to the Pensions Sub-Committee as necessary.

4.4 **Resident Impact Assessment**

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

.

5. Conclusion and reasons for recommendation

5.1 To advise Members of forthcoming items of business to the Sub-Committee and training topics

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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APPENDIX A

Pensions Sub-Committee Forward Plan for March 2019 to March 2020

Date of meeting	Reports
	Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update • CIV update report
17 June 2019	Investment Strategy Review and update Actuarial position 31 March 2019 PIRC presentation of annual fund performance LBI Affiliations Update LCIV Allianz transfer to LCIV RBC ESG monitoring plan Equity protection- semi - annual monitoring
10 September 2019	Infrastructure managers' presentation Investment strategy Update 4 year business plan update
3 December 2019	Investment Strategy Review implementation EGS monitoring
24 March 2020	Employer consultation results on FSS and draft FSS Actuarial valuation final
15 June 2020	Final position report on equity protection

Past training for Members before committee meetings-

Date	**Training**
16 September 2014	Investment in Sub Saharan Africa - 6.20-.6.50pm Infrastructure - 6.55- 7.25pm
25 November 2014	Multi asset credit- 6.15-6.45pm Real estate including social housing- 6.50-7.20pm
9 March 2015	Frontier Market public equity- 6.15 -6.45pm Emerging market debt- 6.50- 7.20 pm
11 June 2015	Impact investing
14 September 2015- 4.45pm pm	Social bonds
13 June 2016	
21 September 2016	Actuarial review training

Proposed Training before committee meetings

November 2018	Actuarial update

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of the Local Government Act 1972.

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