



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 **10 September 2019 at 7.30 pm.**

Enquiries to : Mary Green
Tel : (0207 527 3005
E-mail : democracy@islington.gov.uk
Despatched : 2 September 2019

Membership 2019/20

Councillor Paul Convery (Chair)
Councillor Andy Hull (Vice-Chair)
Councillor Sue Lukes
Councillor Michael O'Sullivan

Substitute Members

Councillor Dave Poyser
Councillor Mouna Hamitouche MBE
Councillor Roulin Khondoker

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 - 8

B. Non-exempt items

1. Pension Fund performance 9 - 48
2. Presentation from Quinbrook Infrastructure Low Carbon -
3. Multi-asset credit and private debt briefing - training presentation by Mercer - please see agenda item E3 available to members of the Sub-Committee only. -

4.	Listed equity portfolio - update on transition of assets from LCIV Allianz to LCIV RBC Sustainable Fund	49 - 54
5.	Actuarial valuation timeline 2019	55 - 58
6.	Annual review and progress on the 2017-2021 Pension Business Plan	59 - 66
7.	The Pension Regulator's draft guides to trustees on setting objectives for providers of investment consultancy	67 - 78
8.	London CIV update	79 - 84
9.	Forward Plan 2019/21	85 - 88

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.	Listed equity portfolio - update on transition of assets from LCIV Allianz to LCIV RBC Sustainable Fund - exempt appendix	89 - 94
2.	The London CIV update - exempt appendix	95 - 102
3.	Multi-asset credit and private debt briefing - training presentation by Mercer - exempt appendix	103 - 146

F. Urgent exempt items

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

The next meeting of the Pensions Sub Committee is scheduled for 3 December 2019

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London Borough of Islington

Pensions Sub Committee - 17 June 2019

Non-confidential minutes of the meeting of the Pensions Sub Committee held at Islington Town Hall, Upper Street, N 2UD, on 17 June 2019 at 7.30 pm.

Present: Councillors: David Poyser (Chair), Andy Hull (Vice-Chair) and Paul Convery

Also Present: Observers: Alan Begg and Valerie Easmon-George – Pension Board observers

Tony English and Vladimir Djuric, Mercer Limited
Karen Shackleton and Norbert Fullerton – MJ
Hudson Allenbridge

Councillor Dave Poyser in the Chair

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

Received from Councillor Sue Lukes.

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

None.

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

None from Councillors.

Karen Shackleton declared that, with regard to agenda item B6 "Islington Pension Fund affiliations", she was one of the founder members of "Pensions for Purpose".

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

RESOLVED:

That the minutes of the meeting held on 25 March 2019 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

65 **MEMBERSHIP, TERMS OF REFERENCE AND DATES OF MEETINGS OF ISLINGTON PENSIONS SUB-COMMITTEE AND PENSIONS BOARD 2019/20 (Item A5)**

RESOLVED:

(a) That 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 of the report of the Director of Financial Management and S151 Officer, be noted.

(b) That the membership of the Pensions Board, also as 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 of the report of the Director of Financial Management and S151 Officer, be noted.

66 **MEMBERS' REPORTS ON ATTENDANCE AT MEETINGS/EVENTS/ CONFERENCES ETC ON THE SUB-COMMITTEE'S BEHALF (VERBAL REPORT(S)) (Item A6)**

Councillor Convery reported that he had attended Tesco's well organised annual shareholder meeting, with the assistance of Shareaction. He had asked questions about the real Living Wage, to which the Chief Executive of Tesco had given a positive reply. Tesco did not operate zero hours contracts and understood that some of their employees wanted to work part-time.

67 **PENSION FUND PERFORMANCE - 1 JANUARY TO 31 MARCH 2019 (Item B1)**

RESOLVED:

(a) That the performance of the Fund from 1 January to 31 March 2019, 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 exempt Appendix 2 to the report from MJ Hudson Allenbridge Advisers be noted.

68 **PRESENTATION FROM PIRC - ANNUAL FUND PERFORMANCE (Item B2)**

A representative from PIRC gave a presentation on the annual performance of the Fund. The following points were noted:

- The latest year's results were satisfactory across most asset classes
- Private equity, infrastructure, US equities and ethical/green/environmental investment had all performed well
- Emerging market equities, absolute return funds, equity protection and cash had not performed as well
- High level asset allocation changes slowed as funds were absorbed by pooling and waiting for the results of the actuarial valuation
- In the longer term, thirty year return averaged 8.4%pa, which was almost 6% above inflation. Only five of the last thirty years ad produced negative returns
- Equities had driven the excellent long term performance of the LGPS. Funds with diversified growth assets and absolute return investments had seen results well below other asset classes over the medium term

- On the Fund structure, asset allocation was close to the Universe average, except for the relatively high allocation to property and diversified growth and the lower exposure to alternatives and bonds
- Fund managers had mixed results through the year, with Newton still trailing the benchmark over the medium term. Newton had, however, performed well over the year. Diversified growth performance through the year had been poor
- Relative to its peers, the Fund had been behind the sector over the medium term, but in line over the last decade. Poor relative returns in 2016 and 2017 had influenced this. It was thought that the poor performance in 2016/17 could be attributed to poor performance by active managers and poor stock selection
- Risk and return across funds had been mixed, but the riskiest funds had considerably outperformed the least risky. Islington had delivered a lower than average return over the past five years, but at a lower than average risk.
- Over ten years, the Fund had delivered a lower level of return than average, at a lower level of risk
- In summary, the sector had delivered excellent returns over all periods, but the Fund's near-term performance had been disappointing, due in part to below average equity performance. Longer terms were trailing the LGPS average, but the Fund had experienced less volatility. Performance over all timeframes had outpaced inflation and actuarial assumptions for asset growth.

RESOLVED:

That the above points be noted.

69

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

RESOLVED:

(a) That the progress on the issue of withholding tax accrued to the Islington fund only, as detailed in the report of the Interim Corporate Director of Resources, be noted.

(b) That the units owned from LCIV Allianz be transitioned to LCIV RBC

(c) That the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, be authorised 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 of tax accrued

70

LONDON CIV UPDATE (Item B4)

RESOLVED:

That the progress and news to May 2019 in the new LCIV briefing "Collective Voice" (exempt appendix 1 to the report of the Interim Corporate Director of Resources) be noted.

71 **EQUITY PROTECTION STRATEGY - SEMI-ANNUAL MONITORING (Item B5)**

Mercer's representative highlighted the fact that the Fund's protection strategy was due to expire in March 2020. Officers were asked to programme a report on options for the Pensions Sub-Committee to consider at its meeting on 3 December 2019.

He noted that the Fund's equity exposure had increased by c£3.2m since inception, though the value of equity options had decreased by c£2.4m.

At implementation, the Fund paid £24.7m to purchase the protection. By 31 December 2018, the value of the protection had increased to £46.0m due to negative returns over Q4 2018. However, the value had fallen to £22.4m at 31 March 2019, due to positive returns over Q1 2019.

RESOLVED:

- (a) That the options value as at March 2019, as detailed in the report of the Interim Corporate Director of Resources, be noted.
- (b) That Mercer's presentation highlighting the main features and activities of the strategy to March 2019 (exempt Appendix 1) be noted.
- (c) That officers submit a report to the meeting on 3 December 2019 on options for renewal.

72 **PENSION FUND AFFILIATIONS (Item B6)**

RESOLVED:

That the report of the Interim Corporate Director of Resources, detailing the Fund's association with certain organisations for collaboration on pensions issues, be noted.

73 **INVESTMENT STRATEGY REVIEW - MERCER PRESENTATION (Item B7)**

Members considered the exempt presentation prepared by Mercer, reviewing and evaluating the investment strategy. Analysis in the presentation sought to determine whether the desired contribution could be supported through the existing strategy and investment returns. Risk and return target options were also presented, culminating in a proposed new target investment return of CPI + 3.2%.

Members expressed concerns about risks associated with any increase in property in the proposed revised portfolios and requested that a limit be applied to any investment in Private Debt and that potential assets in that class be restricted to outside the UK. Members also expressed a wish to support small businesses.

RESOLVED:

- (a) That the presentation from Mercer attached as exempt Appendix 1 to the report of the Interim Corporate Director of Resources, be noted.
- (b) That the 2019 Actuarial valuation update position, as set out in the exempt Appendix, be noted

- (c) That the target best estimate return of CPI + 3.2% be approved to support the desired contribution level.
- (d) That, in order to deliver the agreed investment return, portfolio 2 in Mercer's exempt Appendix be approved.

74 DECARBONISATION POLICY MONITORING PLAN (Item B8)

Members discussed a proposed monitoring plan from Mercer to achieve the targets set in the Fund's decarbonisation policy.

With regard to the 12-month Project Plan proposed by Mercer on page 80 of the agenda, it was agreed that:

- "Integrate any conclusions in the broader investment strategy review" - to be moved to 3 December 2019
- Climate change scenario analysis on the Fund's current investment strategy – be moved to 3 December 2019
- Rather than a bi-annual analysis of the carbon footprint of the Fund's portfolio, the analysis be produced annually (at 31 March) and presented to the Annual Meeting in October each year, including the figure of total carbon output, compared to 2016 figures.

RESOLVED:

- (a) That the monitoring plan produced by Mercer and detailed in Appendix 1 of the report of the Interim Corporate Director of Resources be agreed, with the amendments set out above.
- (b) That the briefing paper "Investing in Time of Change", attached as Appendix 2 to the report, be noted.
- (c) That the updated ESG ratings of the current portfolio managers, detailed in exempt Appendix 3 to the report, be noted.

75 FORWARD PLAN (Item B9)

RESOLVED:

- (a) That Quinbrook be invited to present to the Sub-Committee, as part of the infrastructure managers' presentation, on 10 September 2019.
- (b) That training from the Actuary in preparation for the Fund valuation take place on 10 September 2019.
- (c) That an item on "Equity protection" be added to the agenda for 3 December 2019

EXCLUSION OF PRESS AND PUBLIC

RESOLVED:

That the press and public be excluded during consideration of the following items as the presence of members of the public and press would result in the disclosure of

exempt information within the terms of Schedule 12A of the Local Government Act 1972, for the reasons indicated:

<u>Agenda item E1</u>	<u>Title</u>	<u>Reasons for exemption</u>
	Pension Fund performance – exempt appendix	<u>Category 3 –</u> Information relating to the financial or business affairs of any particular person (including the authority holding that information)
<u>Item E2</u>	Listed equity portfolio – update on transfer of assets from LCIV Allianz to LCIV RBC Sustainable Fund – exempt appendix	Ditto
<u>Item E3</u>	London CIV update – exempt appendix	Ditto
<u>Item E4</u>	Investment strategy review – exempt appendix	Ditto
<u>Item E5</u>	Decarbonisation policy monitoring plan – exempt appendix	Ditto

76 **PENSION FUND PERFORMANCE - JANUARY TO MARCH 2019 - EXEMPT APPENDIX (Item E1)**

Noted.

77 **LISTED EQUITY PORTFOLIO - UPDATE ON TRANSFER OF ASSETS FROM LCIV ALLIANZ TO LCIV RBC SUSTAINABLE FUND - EXEMPT APPENDIX (Item E2)**

Noted.

78 **LONDON CIV UPDATE - EXEMPT APPENDIX (Item E3)**

Noted.

79 **INVESTMENT STRATEGY REVIEW - MERCER PRESENTATION - EXEMPT APPENDIX (Item E4)**

Noted.

80 **DECARBONISATION POLICY MONITORING PLAN - EXEMPT APPENDIX (Item E5)**

Noted.

81 **ALAN LAYTON - DIRECTOR OF FINANCIAL MANAGEMENT AND S151 OFFICER**

The Chair noted that this would be the last attendance of Alan Layton at the Pensions Sub-Committee, prior to his retirement in July 2019.

On behalf of the Sub-Committee, he thanked Alan for his valuable service and contribution to the Sub-Committee meetings and wished him well for the future.

RESOLVED:

Accordingly.

The meeting ended at 10.00 pm

CHAIR

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	10 September 2019		

Delete as appropriate	Exempt	Non-exempt
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Subject: PENSION FUND PERFORMANCE 1 APRIL TO 30 JUNE 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 April to 30 June 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.
- 2.3 To note the LGPS Current Issues for August attached as Appendix 2.

3. Fund Managers Performance for 1 April to June 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 latest ESG ratings for the Fund's 9 strategies across equities, fixed income, DGFs, property and private equity.

Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (Apr-June'19) Gross of fees		12 Months to June 2019-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Bench Mark
LBI-In House	13%	UK equities	N	3.25%	3.26%	1.39%	0.57%
London CIV Allianz	9%	Global equities	2	8.0%	6.68%	12.2%	10.9%
LCIV -Newton	16.4%	Global equities	2	6.3%	6.3%	12.05%	10.3%
Legal & General	11.8%	Global equities	1	6.60%	6.45%	11.7%	11.6%
Standard Life	11.6%	Corporate bonds	2	2.24%	1.98%	5.93%	5.90%
Aviva (1)	9%	UK property	3	1.5%	1.67% 0.63%	4.71%	6.3% 3.9%
Columbia Threadneedle Investments (TPEN)	6.5%	UK commercial property	2	0.35%	0.59	3.2%	3.4%
Hearthstone	2%	UK residential property	4	0.56%	0.63%	3.28%	3.97%
Schroders	8.1%	Diversified Growth Fund	4	1.75%	2.78%	1.74%	7.88%
BMO Investments-LGM	5.6%	Emerging/ Frontier equities	2	3.97%	3.14%	3.9%	5.4%

1.67% & 6.3% = original Gilts benchmark; 0.6% and 3.9% are the IPD All property index; for information

- 3.2 BNY Mellon our new performance monitoring service provider now provides our quarterly interactive performance report. Performance attributions can be generated via their portal if required.
- 3.3 The combined fund performance and benchmark for the last quarter ending June 2019 is shown in the table below.

		Latest Quarter Performance Gross of fees		12 Months to June 2019 Performance Gross of fees	
Combined Fund Performance ex-hedge		Portfolio %	Benchmark %	Portfolio %	Benchmark %
			4.16	3.67	6.8

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 June 2019 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	6.8%	9.1%	7.8%
Customised benchmark	5.9%	8.0%	7.5%

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 8.0% against a benchmark of 6.7%. Since inception with the London CIV in December 2015, there is a relative over performance of 1.75% while since January 2009 the original inception date, relative outperformance is 0.25% per annum and absolute performance of 12.7%. The main drivers for outperformance was high conviction stock selection holding in consumer discretionary, financials and industrial sectors. The main detractors were healthcare, IT and communication services. The portfolio holds 51 stocks.

3.6.4

Following Members agreement at the last committee meeting in June, the transition of assets to LCIV RBC Sustainability Fund was completed on 5th August. A detailed report of the transition and the WHT liability position 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

- 3.7.4 The fund returned 6.3% net of fees against a benchmark of 6.3% for the June quarter. Since inception the fund has delivered an absolute return of 12.4% but relative under performance of -0.18% gross of fees per annum

The performance this quarter was driven mainly by sector positions in Information Technology, Industrials and Healthcare whilst Real Estate and Communications were detractors.

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 3.25% against FTSE All Share Index benchmark of 3.26% for the June quarter and a relative over performance of 0.30% since inception in 1992. The portfolio is now mirroring the low carbon index.

3.9 **Standard Life**

- 3.9.1 Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the June quarter, the fund returned 2.2% against a benchmark of 2.0 % 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 are 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 1.5% against a gilt benchmark of 1.7%. The All Property IPD benchmark returned 0.6% for this quarter. Since inception, the fund has delivered an absolute return of 6.8% net of fees.

- 3.10.3 This June quarter the fund's unexpired average lease term is now 19.1years. The Fund holds 81 assets with 50 tenants. One acquisition of a portfolio of care homes was completed during

- 3.10.4 the quarter.

The fund also has £460m of investor cash of which £420m is legally committed.

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 June was £88.9million.

3.11.2

The agreed mandate guidelines are as listed below:

- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 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 0.35% against its benchmark 0.6% for the June quarter and a 1.09% relative return since inception. The cash balance now stands at 7.6% compared to 9.1% last quarter. During the quarter, there were 3 acquisitions and 1 disposal. There is a strong asset diversification at portfolio level with a total of 277 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 June 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 June quarter is \$55.7m.

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 \$28.8m and a distribution of \$9.4m. There was no calls or distributions during the quarter

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 £138m benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets.

For the June quarter, the fund totalled £72m with a performance of 6.6% and relative return of 0.15%.

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 Acadometrics House Price Index

3.15.2 For the June, quarter the value of the fund investment was £28.6m and total funds under management is £57.4m Performance net of fees was 0.56% compared to the LSL benchmark of 0.79%. The portfolio has 198 properties 2 less than the March quarter. Average annual occupancy 94.5%. 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 sixteenth quarter since funding and the value of the portfolio is now £115.6m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The June quarter performance before fees was 1.75% against the benchmark of 2.78% (inflation+5%). The one -year performance is 1.74% against benchmark of 7.8% before fees.

3.16.3 The underperformance was cushioned by equities, but largely by government bonds, gold and currency. The outlook is to run reduced levels of risk with emphasis on yield to generate returns.

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 June quarter saw a combined performance of 3.9% against a benchmark of 3.1% before fees. The outperformance is mainly due to stock selection in China/Hong Kong, Indonesia and South Africa added most value while positions in Malaysia, Russia and Brazil detracted from relative returns versus the index.

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 June 2019 is \$35.3m

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 June 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.

A resident 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 June 2019 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers. Members are also asked to note Appendix 2- LGPS Current Issues August 2019.

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

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

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London Borough of Islington

Report to 30th June 2019

MJ Hudson Allenbridge

AUGUST 2019

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Contacts

Karen Shackleton

Senior Adviser

+44 20 7079 1000

karen.shackleton@mjhudson.com

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Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
London CIV – Allianz (global equity alpha)	Monitored by London CIV. No changes reported.	Outperformed the benchmark in the quarter to June 2019, by +1.31%. Outperformed by +2.03% p.a. over three years to end June 2019, just above the target of +2.0% p.a.	As at end June the sub- fund’s value was £128 million and was 100% owned by London Borough of Islington.		This mandate is being switched to the LCIV Sustainable Equity Fund managed by RBC.
London CIV – Newton (active global equities)	Iain Stewart (who was the founder and originally the lead manager for the fund) will be retiring at the end of December 2019.	Outperformed the benchmark by +0.05% in the quarter. Over three years the fund is behind the benchmark return by -1.99% and failing to achieve the performance target of +1.5% p.a.	As at end June the sub- fund’s value was £639.1 million. London Borough of Islington owns 36.4% of the sub-fund.		

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
BMO/LGM (emerging and frontier equities)	There were no changes to the investment team during Q2 2019.	Outperformed the benchmark by +0.83% in the quarter to June 2019. Behind over one year by -1.48%.	Not reported.		
Standard Life (corporate bonds)	17 joiners, 21 leavers (including two from fixed income).	The fund was ahead of the benchmark by +0.28% in the quarter to June 2019. Over three years the fund is 0.54% 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 £2,429.7 million in Q2 2019, a fall of £425.3 million. London Borough of Islington's holding stood at 6.6% of the fund's value.		
Aviva (UK property)	9 new joiners and 13 leavers across the firm. On the Lime Fund team there were no changes.	Underperformed the gilt benchmark by -0.16% for the quarter to June 2019 but outperformed by +3.3% p.a. over three years, net of fees.	Fund was valued at £2.32 billion as at end Q2 2019. London Borough of Islington owns 5.1% of the fund.		

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
Columbia Threadneedle (UK property)	Six joiners and ten leavers in Q2 2019, but no changes to the team managing the Islington portfolio.	Underperformed the benchmark return by -0.24% in Q2 2019. However, outperformed the benchmark by +1.86% p.a. over three years as well as 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.		
Legal and General (passive equities)	Michelle Scrimgeour took over as CEO in July 2019, taking over from Mark Zinkula who retired.	Funds are tracking as expected. Both index funds marginally underperformed their benchmark indices.	Assets under management of £1.1 trillion at end June 2019. Net flows of +£60.3 billion in first six months of 2019.		
Franklin Templeton (global property)	Tyler Brown joined as a Vice President. Three leavers, Michael Davis an Associate, Chris Orr and Adam Lees. Recruitment to replace Chris Orr is ongoing.	Portfolio return over three years was +22.18% p.a., well ahead of the target of 10% p.a.	\$715 billion of assets under management as at end June 2019.		

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/ RISK	MANAGER SPECIFIC CONCERNS
Hearthstone (UK residential property)	In Q2 Cristoforo Rocco left as Director of Investor Relations, Marie Cooper left as an Asset Manager. No new joiners reported.	Underperformed the IPD UK All Property Index by -0.01% in Q2. Trailing the IPD benchmark over three years by -3.27% p.a. to end June 2019.	Fund was valued at £57.5m at end Q2 2019. London Borough of Islington owns 49.9% of the fund.		Due diligence being undertaken by James Walton of MJ Hudson Allenbridge.
Schroders (multi-asset diversified growth)	During Q2, no changes to investment team.	Fund returned +1.75% during the quarter and +4.88% p.a. over 3 years, -3.37% behind the target return.	Total AUM stood at £444.4 billion as at end June 2019. Net outflows of £1.2 bn in six months to end of June were balanced by equal levels of inflows.	The volatility of the fund is lower than expected at present. At end June it was 43% of equity market volatility compared with an expected 66%.	
Quinbrook (renewable energy infrastructure)	None reported	Over Q2 2019 the fund returned +1.89%, underperforming the benchmark return of +2.87%.			

Source: MJ Hudson Allenbridge

Minor Concern

Major Concern

Individual Manager Reviews

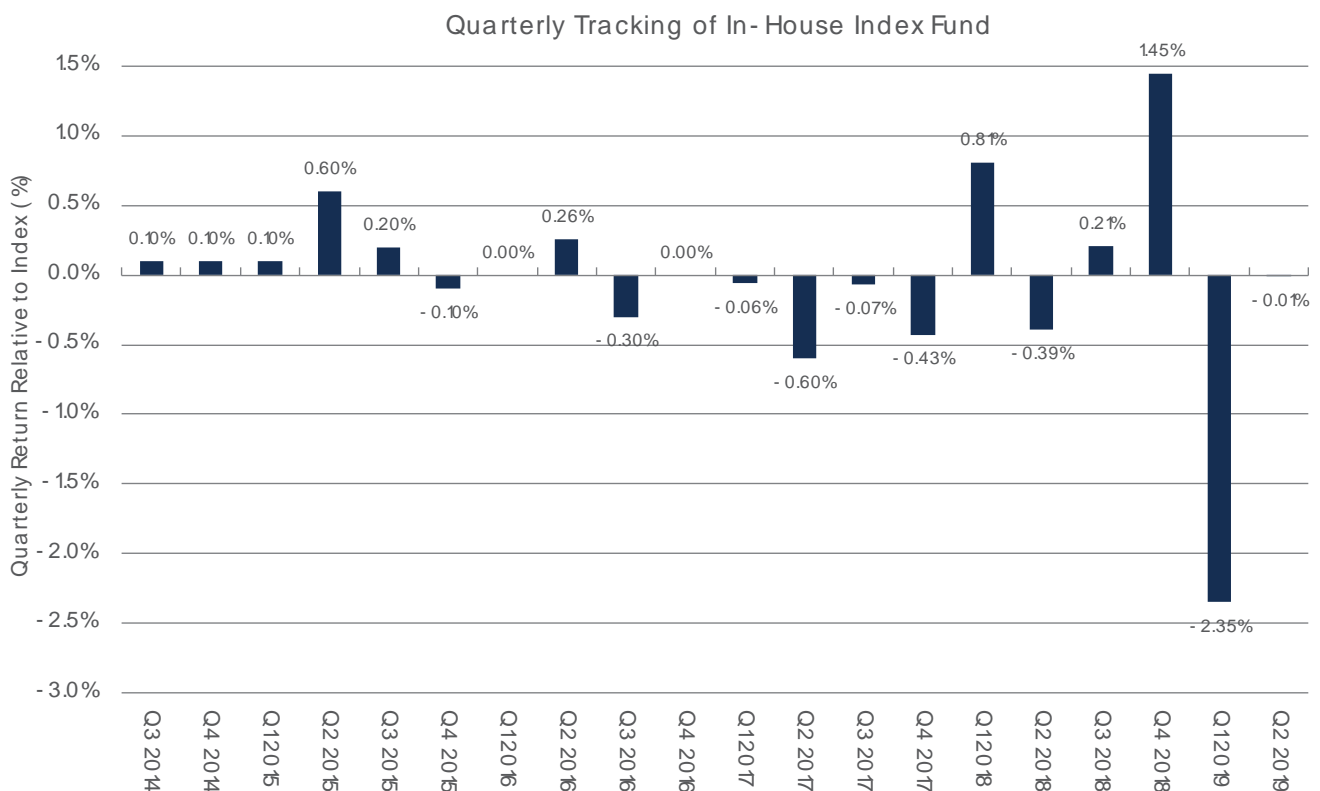
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q2 2019 the fund returned +3.25%, this was slightly behind the FTSE All-Share index return of +3.26%. Also, over three years the fund has returned +8.98% p.a., underperforming against the FTSE All-Share Index by -0.03%.

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 -0.03% p.a.

CHART 1:



Source: MJH Allenbridge; BNY Mellon

Portfolio risk: 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 Q2 2019 the London CIV – Allianz sub-fund outperformed the benchmark by 1.31%. Over three years the fund is outperforming the benchmark by +2.03% p.a. slightly above the performance target of +2.0% p.a.

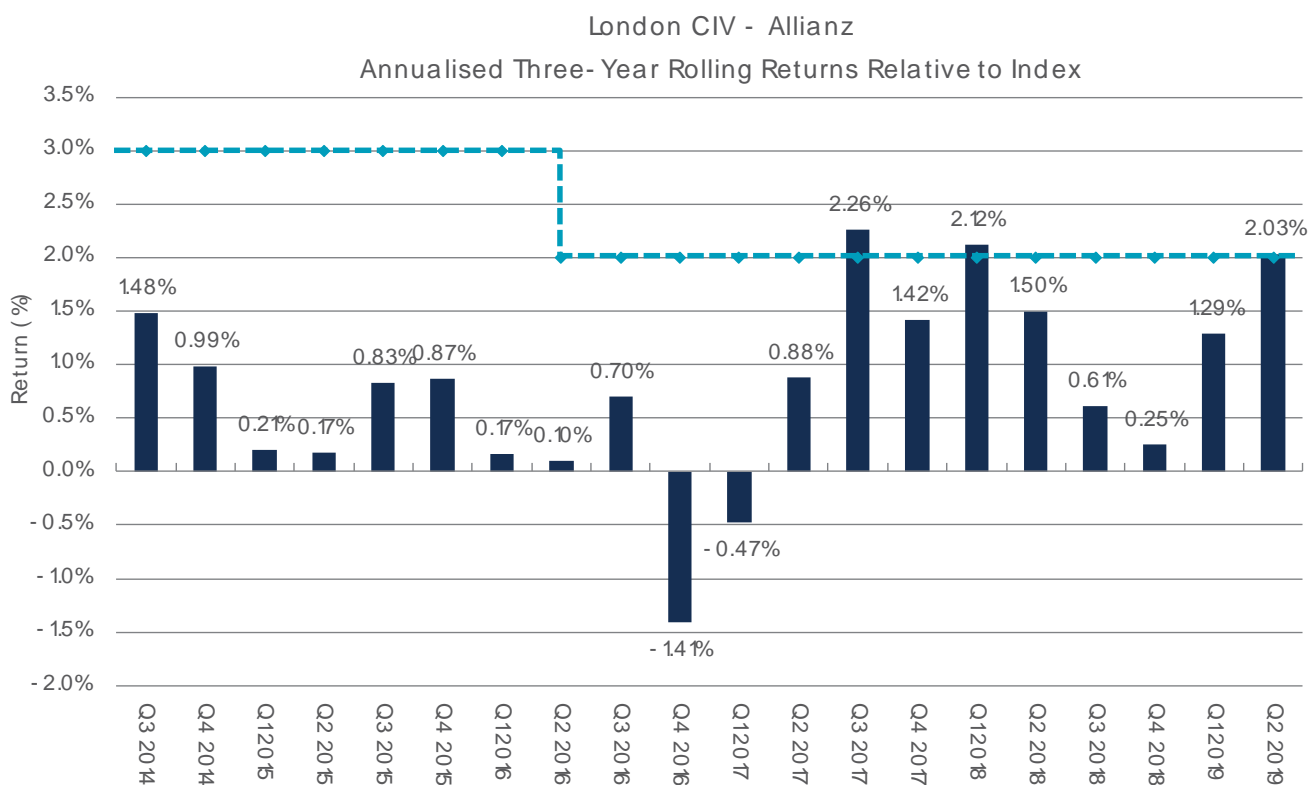
Mandate Summary: An active global equity portfolio, with a bottom-up global stock selection approach. A team of research analysts identifies undervalued stocks in each geographical region (Europe, US, Asia Pacific). A global portfolio team is responsible for constructing the final portfolio. The objective 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 June 2019, the Allianz portfolio was ahead of the benchmark and 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 June 2019, was attributed by the London CIV to gains in consumer discretionary, financials and industrials. The largest contributors to returns came from holdings in Microsoft (+0.74%) and Ecolab (+0.48%).

Holdings in Agilent Technologies and Walgreens Boots Alliance were the biggest detractors from performance (detracting -0.15% and -0.14% respectively).

CHART 2:



Source: MJH Allenbridge; BNY Mellon

Portfolio Risk: London Borough of Islington is now the sole investor in the fund, so this mandate is being transferred to LCIV's Sustainable Equity Fund managed by RBC. The transition was completed after the quarter end, between 23rd July and 5th August.

The active risk on the portfolio as at end June was +2.88% and the beta was 0.97 (if the market rises 10%, the fund is expected to rise 9.7%).

Portfolio Characteristics: as at end Q2 2019, the portfolio held 51 stocks, the same number as the previous quarter.

Staff Turnover: In April Michael Pratten joined London CIV as Interim Chief Investment Officer. Mark Thompson was appointed as the permanent Chief Investment Officer, from September 2019.

The London CIV did not report any staff changes during the quarter at Allianz.

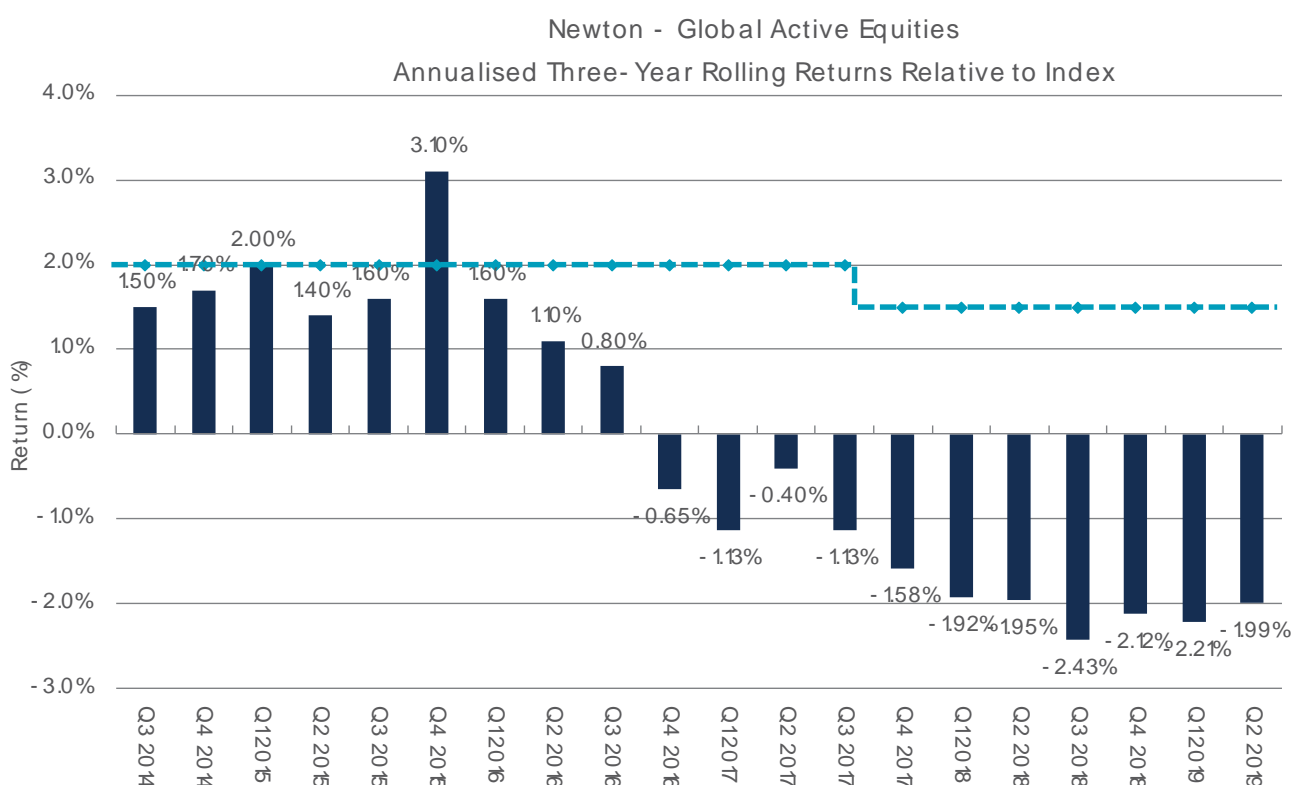
London CIV – Newton – Global Active Equities

Headline Comments: The London CIV – Newton sub-fund outperformed its benchmark during Q2 2019 by +0.05%. However, 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 Q2 2019, the fund has trailed the benchmark by -1.99% p.a. This means it is trailing the performance objective by -3.49% (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

London CIV attributed the outperformance in the quarter to June 2019 to the positive attribution it added in the UK despite political uncertainty surrounding Theresa May's resignation as Prime Minister and the ensuing leadership contest. However, US markets rallying in reaction to a dovish Federal Reserve meant that the fund's underweight US position was a relative detractor from performance.

Positive contributions to the total return came from holdings such as Microsoft (+0.74%) and SAP SE (+0.52%). Meanwhile, Altria Group was the biggest detractor (-0.30%) from the fund's quarterly return of +6.33% followed by Deutsche Wohnen SE (-0.26%).

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 +12.05% vs the Index return of +10.30%, an outperformance of +1.75%.

Portfolio Risk: the active risk on the portfolio stood at 3.34% as at quarter end, higher than as at end March when it stood at 2.53%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.88, a reduction on the previous quarter when it stood at 0.92 (if the market increases by +10% the portfolio can be expected to rise +8.8%).

At the end of Q2 2019, the London CIV sub-fund's assets under management were £639m, compared with £606m last quarter. London Borough of Islington now owns 36.4% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 58 as at quarter-end (down from 60 last quarter). The fund added two positions, Swedbank and Alcon, and completed sales of four positions, Infineon Technologies, eBay, Vodafone Group, and BNP Paribas.

Staff Turnover: Newton announced that Iain Stewart will be retiring at the end of December 2019. Iain was the founder of the strategy and was lead manager for some time. His retirement had, however, been planned for and his roles and responsibilities have gradually been handed onto other colleagues over recent years.

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of +3.97% in Q2 2019, compared with the benchmark return of +3.14%, an outperformance of +0.83%. The emerging market component of this portfolio returned +2.43% (source: BMO) compared with the index return of +0.61%. The frontier markets portfolio was, however, behind the index return of 3.47%, delivering a negative return of -3.90% (source: BMO). Over one year, the total fund is behind the benchmark return by -1.48%.

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 Inner Mongolia Yili Indus (+0.5%), Bank Mandiri

Persero (+0.5%) and ICICI Bank (+0.4%). Companies which detracted most from performance included British American Tobacco (-0.8%), Emami (-0.6%) and Ping An Healthcare and Technology (-0.3%).

In the frontier market portfolio, positive contributors included BBVA Banco Frances (+0.8%) and Evertec Inc (+0.7%). Companies which detracted from performance included Delta Corporation (-1.2%), Eastern Co (-1.1%) and Abbott Laboratories Pakistan (-0.6%).

It is worth noting that, over one year, the frontier market portfolio return was -15.88% versus the benchmark return of 0.03%. This is of some concern, however, BMO LGM have commented that “we haven’t seen any material erosion in the fundamentals of the companies we invest in” and they note that “the fund’s price to earnings ratio is now at a discount to the benchmark—something that hasn’t happened for a very long time.” The level of underperformance is something to monitor closely over coming months.

Portfolio Risk: Within the emerging markets portfolio, 15.7% was allocated to developed or frontier markets, and cash was at 4.0% as at quarter-end. Turnover for the previous 12 months was 22.9%. The largest overweight country allocation in the emerging markets portfolio remained India (+7.8% overweight). The most underweight country allocation remained South Korea (-12.4%) where the fund has no allocation.

Within the frontier markets portfolio, it is worth noting that 70% of the portfolio was invested in countries that are not in the benchmark index, including Egypt, Costa Rica and Peru. This explains the high tracking error of returns versus the benchmark (7.2% as at end June). The most overweight country allocation remained Egypt (+12.0%) and the most underweight was Vietnam (-17.2%).

Portfolio Characteristics: The frontier markets portfolio held 39 stocks as at end June compared with the benchmark which had 95. The emerging markets portfolio held 38 stocks as at end June compared with the benchmark which had 1,193.

Organisation: During Q2 2019 there were no changes to the investment team.

Standard Life – Corporate Bond Fund

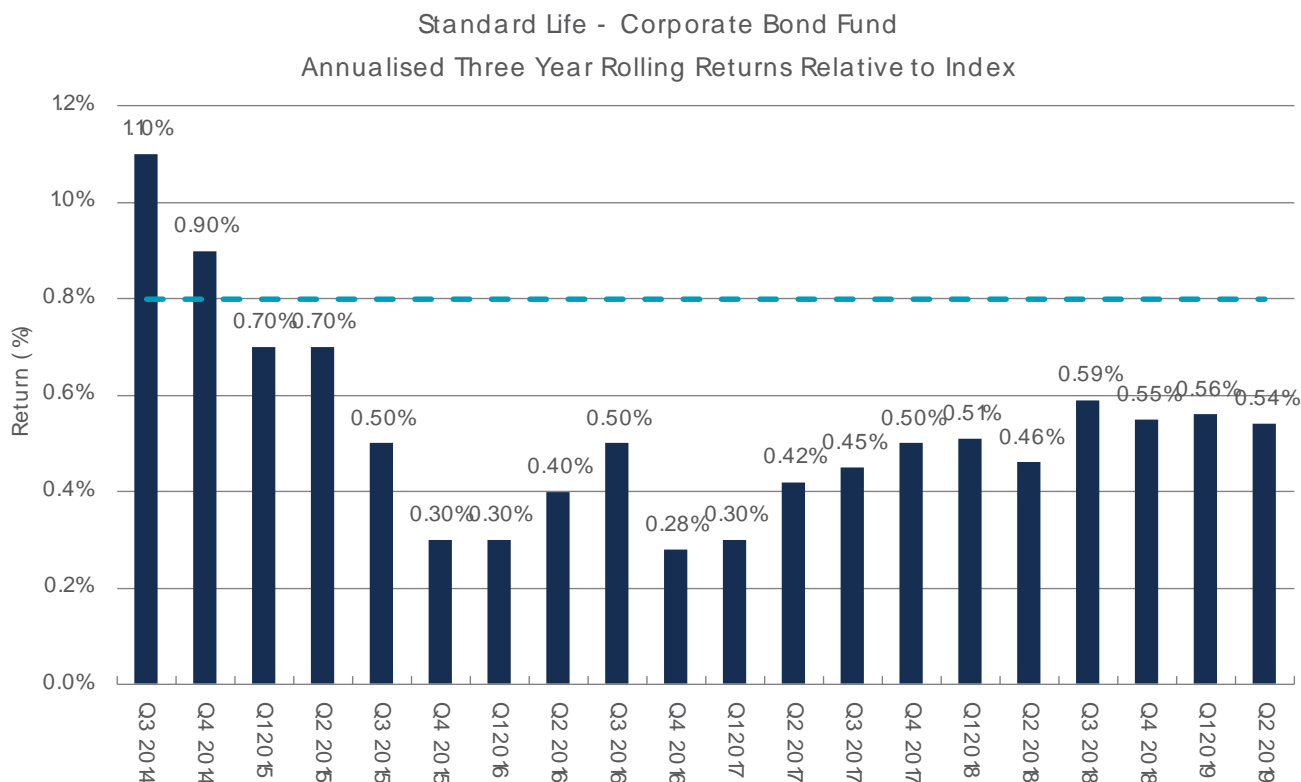
Headline Comments: The portfolio was ahead of the benchmark return during the quarter by +0.28%. Over three years, the fund was ahead of the benchmark return but behind the performance target of benchmark +0.8% p.a.

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 +4.49% p.a. net of fees, compared to the benchmark return of +3.95% p.a. Over the past three years, stock selection has added +0.25% value, followed by asset allocation (+0.17%) and curve plays (+0.09%).

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK (Govt of) 4.25% 2055 at 1.8% of the portfolio. The largest overweight sector position remained Financials (+5.7%) and the largest underweight position remained sovereigns and sub-sovereigns (-12.6%). Contribution from the curve effect was negative this quarter.

The fund holds 2.6% 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 June 2019 stood at £2,429.7m, £425.3m lower than at the end of March 2019. London Borough of Islington’s holding of £161.4m stood at 6.6% of the total fund value (compared to 5.5% last quarter).

Staff Turnover: there were 17 joiners, but 21 people left the firm during the quarter. Of the 21 leavers, two were from the fixed income team, an investment analyst in Tokyo and an investment manager in Boston.

Aviva Investors – Property – Lime Property Fund

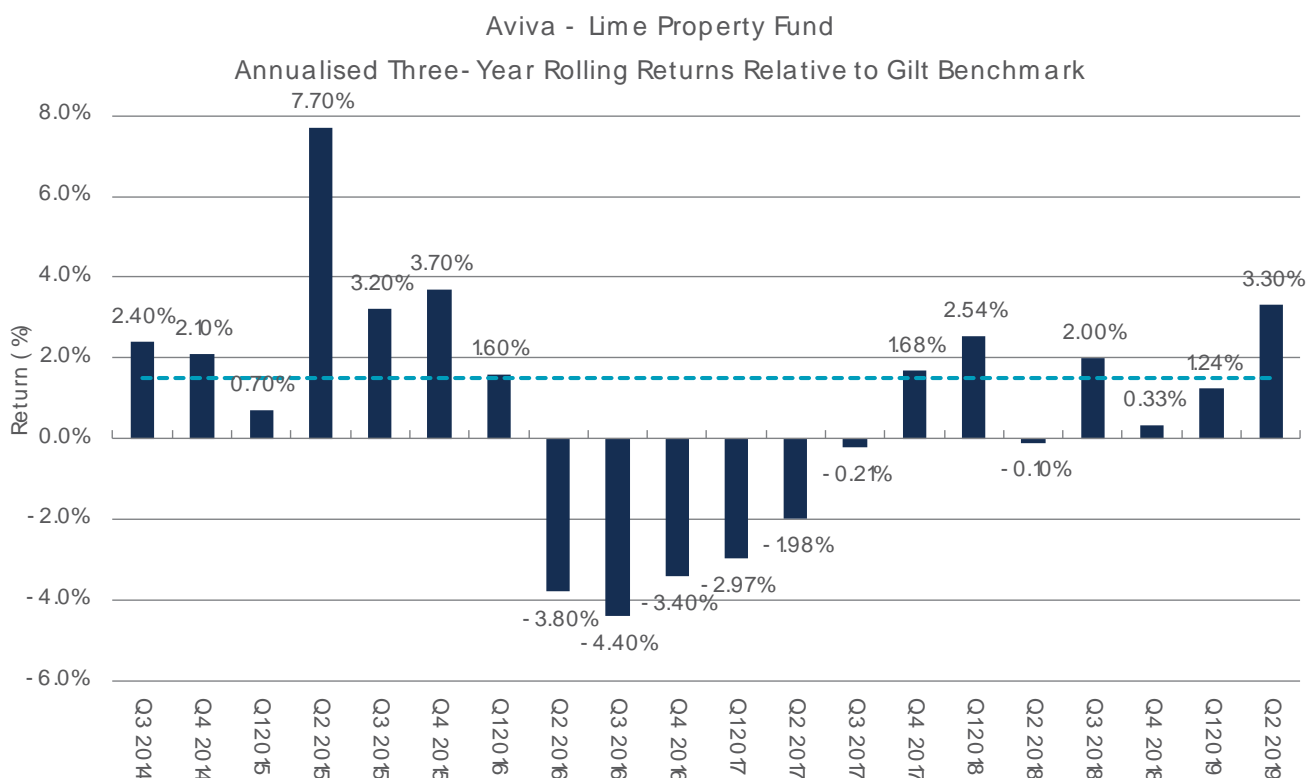
Headline Comments: The Lime Fund delivered another quarter of steady returns though slightly behind the gilt benchmark return. Over three years, the fund is ahead of the benchmark return.

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 Q2 2019 return was attributed by Aviva to 0.64% capital return and 0.95% income return.

Over three years, the fund has returned +5.85% p.a. ahead of the gilt benchmark of +2.55% p.a., by +3.3% p.a., ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 5.

CHART 5:



Source: MJH Allenbridge; BNY Mellon

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

Portfolio Risk: This quarter the fund added a new investment by acquiring a range of high-quality care homes from Anchor Hanover Group. The investment provides 35-year RPI linked cashflow as well as being part of the fund's commitment to creating a positive social impact through its investments.

The fund has £460 million of investible capital, £420 million of which is committed for investment and over the next two years will be drawn. This has meant that any new commitments should be able to be drawn by Q1 2020.

The average unexpired lease term was 19.1 years as at end June 2019. 11.6% 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 remained at 81. The weighted average unsecured credit rating of the Lime Fund remained A-.

Portfolio Characteristics: As at end June 2019, the Lime Fund was valued at £2.32bn, an increase of £91.3m from the previous quarter end. London Borough of Islington's investment represents 5.1% of the total fund. The fund had 71.4% allocated to inflation-linked rental uplifts as at end June 2019.

Staff Turnover/Organisation: Overall there were 13 leavers and 9 joiners across the whole Real Assets franchise. Regarding the Lime Fund in particular, there were no changes to the team.

There was one change at the senior management level. The People Director, Liz Ashford, left the firm in May 2019 and Peter Reilly placed her as Interim People Director.

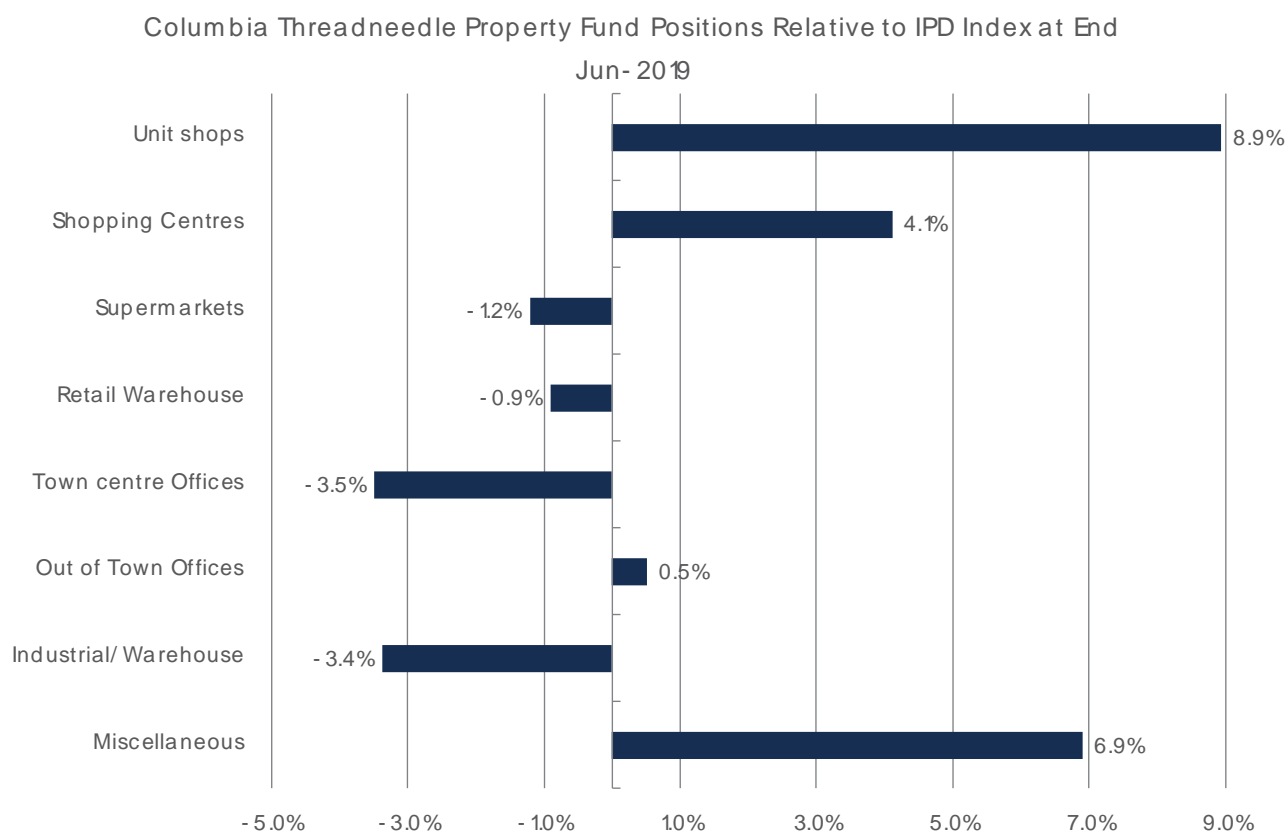
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund was behind the benchmark return in Q2 2019. Over three years, the fund has outperformed the benchmark, and as such is ahead of 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 increased its weighting to the industrial sub-sector through three investments. The fund acquired a £10.4 million distribution facility in South Ockendon that will be let out to Next for two and a half years. It also acquired an industrial estate in Aldershot for £5.8 million that has been fully let to six tenants. As well as this it acquired a distribution facility in Normanton for £6 million that has been let to DHL for three years.

The fund's void rate has fallen from 9.7% as at end March to 7.9% at end June, versus the benchmark's 7.6%. This has been monitored because a higher-than-benchmark void rate could pull the performance down on a relative basis. The cash balance at end June was 7.6%.

Performance Attribution: The portfolio underperformed the benchmark by -0.24% in Q2 2019, delivering a return of +0.35%. The manager continued to note wide deviation in performance between different sectors. For example, the industrial sector delivered a return of +1.7%, compared with the retail sector which returned -0.9%.

Over three years, the fund is now ahead of its benchmark by +1.86% p.a., with a return of +8.17% p.a., and is therefore also beating the outperformance target of +1.0% p.a.

Portfolio Characteristics: As at end June 2019, the fund was valued at £2.03bn, a decrease of £3m compared with March 2019. London Borough of Islington’s investment represented 4.39% of the fund.

Staff Turnover: There were six joiners and ten leavers across the firm in Q2 2019. No one directly involved with the London Borough of Islington portfolio was among these, although Rose Beale, a responsible investment analyst, was one of the departures.

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:

	Q2 2019 FUND	Q2 2019 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+5.34%	5.37%	-0.03%
MSCI World Low Carbon Target	+6.88%	+6.92%	-0.04%

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: In July 2019 Michelle Scrimgeour took over the role of CEO, replacing Mark Zinkula who retired. She was previously the chief executive officer for Europe, Middle East and Africa (EMEA) at Columbia Threadneedle.

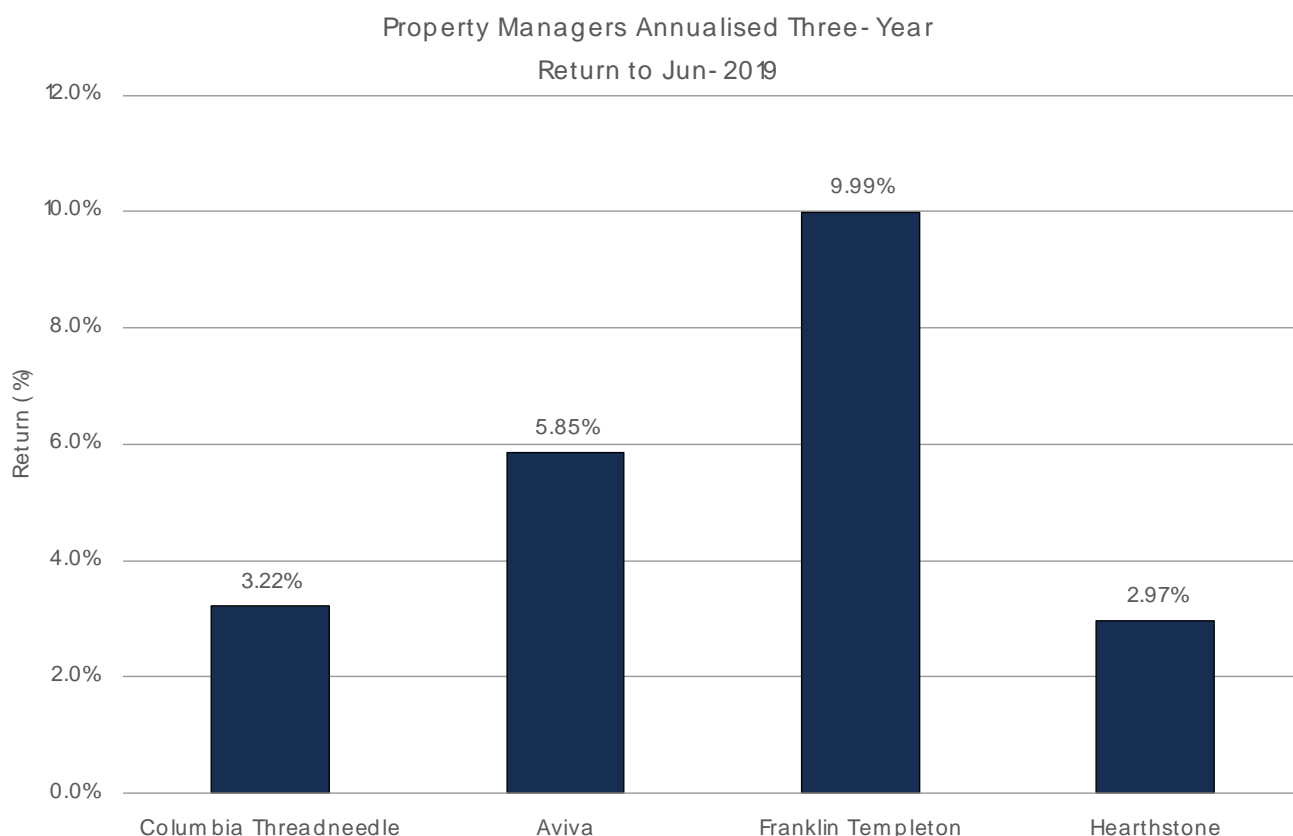
Franklin Templeton – Global Property Fund

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 June 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 149.8% of the initial commitment. Leverage stood at 54% as at end Q2 2019.

The largest allocation in Fund I is to Sweden (50% of funds invested), followed by the US (20%) and Spain (17%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

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 June 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 (35%) and Spain (12%).

Two of the underlying funds are performing well ahead of expectations, one is above expectations, and seven are on target.

Staff Turnover/Organisation: There was one new joiner in the Americas Investment Team in Q2, Tyler Brown who joined as a Vice President at Franklin Real Asset Advisors. Meanwhile, Michael Davis left as an Associate, Jennifer Ockwell also left the firm, as did Chris Orr. Chris Orr was briefly replaced by Adam Lees, however Adam Lees then also left the firm, meaning that a replacement is still being recruited and the firm expect this to be completed in the Autumn.

Further discussion with the manager has clarified that Chris Orr and Adam Lees left for unrelated reasons, and there is no suggestion at this stage of a systemic problem within the firm.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending June 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 June 2019 by -3.28% p.a., returning +3.34% p.a. versus the index return of +6.61% p.a. The gross yield on the portfolio as at June 2019 was 4.83%. Adjusting for voids, however, the yield on the portfolio falls to 4.55%.

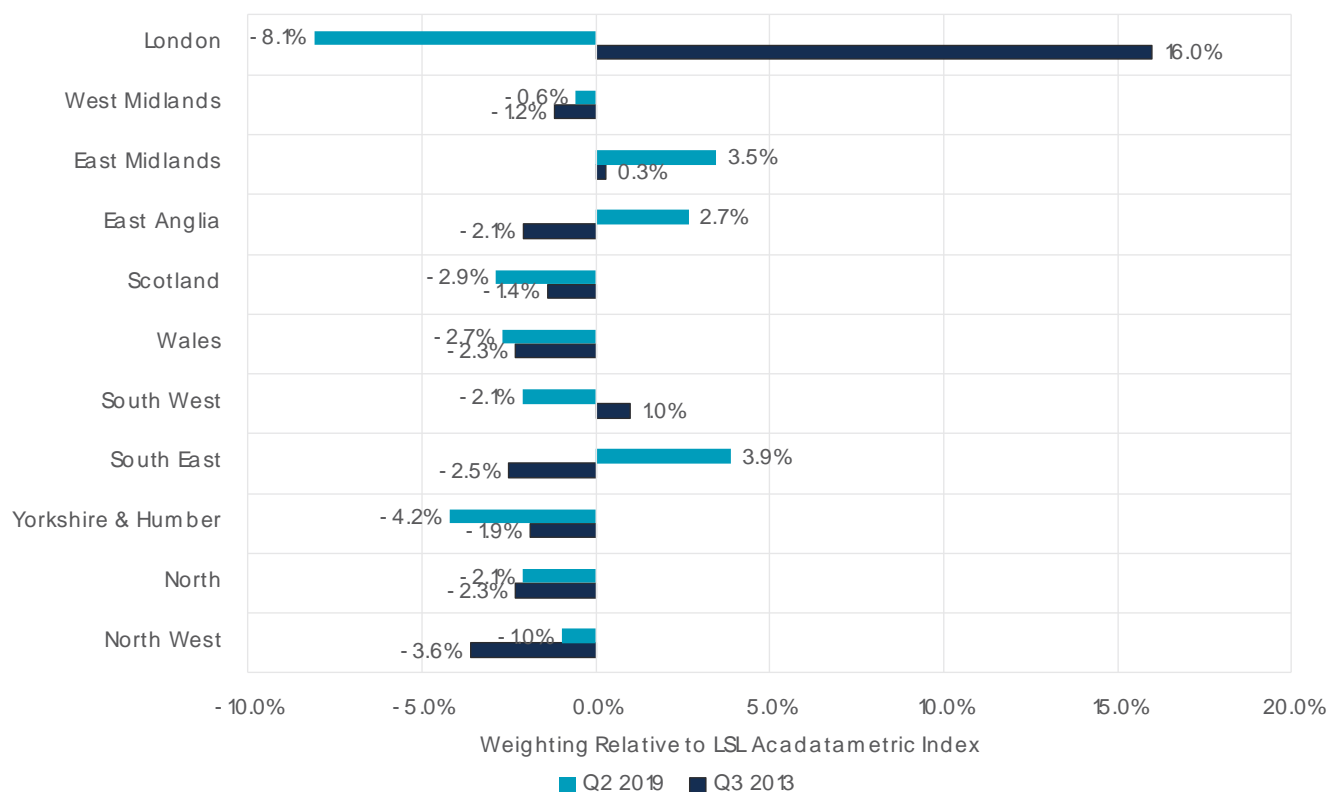
Portfolio Risk: The cash and liquid instruments on the fund stood at 13.72%.

James Walton, Senior Adviser and property specialist, of MJ Hudson Allenbridge, is currently undertaking detailed due diligence on the manager.

Chart 8 compares the regional bets in the portfolio in Q2 2019 (turquoise bars) with the regional bets at the start of the mandate, in Q3 2013 (navy bars).

CHART 8:

Geographic Positioning of Hearthstone Portfolio Q3 2013 vs Q2 2019



Source: MJH Allenbridge; Hearthstone

Portfolio Characteristics: By value, the fund has a 11% allocation to detached houses, 44% allocated to flats, 25% in terraced accommodation and 21% in semi-detached.

As at end June there were 198 properties in the portfolio and the fund stood at £57.5m. London Borough of Islington's investment represents 49.9% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: During the quarter, Cristoforo Rocco left as Director of Investor Relations and Marie Cooper left as an Asset Manager. No new joiners were reported.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a positive return in Q2 2019, however it was behind its benchmark. 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 +1.75% in Q2 2019. This is -1.02% below the RPI plus 5% p.a. target return of +2.78% for Q2. Over three years, the DGF delivered a return of +4.88% p.a. compared with the target return of +8.25% p.a., behind the target by – 3.37% 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 -3.37% p.a. as at end Q2 2019 so there has been some improvement since the end of last year despite Q2's relative underperformance.

In Q2 2019, equity positions added +0.1%, alternatives added +0.5%, credit and government debt added +1.0%, and cash and currency added +0.4% (figures are gross of fees).

The return on global equities was +10.6% p.a. for the three years to June 2019 compared with the portfolio return of +4.88% (a 46% 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 4.6% compared to the three-year volatility of 10.6% in global equities (i.e. 43% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 29% in internally managed funds (down from last quarter's 32% allocation), 35% in internal bespoke solutions (same as last quarter), 3% in externally managed funds (same as last quarter), and 26% in passive funds (down from 27% last quarter) with a residual balance in cash, as at end June 2019. In terms of asset class exposure, 36% was in equities, 23.5% was in alternatives and 33.9% 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, there were no changes to the investment team.

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 March 31st to June 30th 2019 was positive at 1.89%, however it was behind the benchmark return of 2.87%.

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 \$322.5 million into 44 projects ranging from onshore wind farms, solar power plants, battery storage and natural gas distribution.

Karen Shackleton

Senior Adviser, MJ Hudson Allenbridge

22nd August 2019



8 Old Jewry, London, EC2R 8DN, United Kingdom | +44 20 7079 1000 | london@mjhudson.com | mjhudson.com | mjhudson-allenbridge.com

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LGPS CURRENT ISSUES

NEWS IN BRIEF

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- [Dates to Remember](#)
- [Meet some of the Team](#)
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ACTUARIAL VALUATION - UPDATE

As you will be aware, work is now in full swing for the 31 March 2019 actuarial valuations. Membership data has been received and most Funds will now have received snapshot figures providing an indication of what lies ahead.

Generally, we are seeing improved funding levels, reflecting strong investment returns since the 2016 valuations and a slowdown in the rate of future improvements in life expectancy. However, the indications for lower expected investment returns going forwards, combined with the impact of the McCloud Judgment have tempered this and are likely to lead to a higher rate of primary (future benefit accrual) contributions, all else remaining equal. The actual position will depend on the specific circumstances of the Fund including any investment strategy changes and membership movements.

Whilst there have been further developments in relation to the McCloud Judgment (see article below), considerable uncertainty remains and a definitive conclusion on what this means for Scheme benefits and the impact on Cost Management is not expected ahead of the 2020 deadline for completing the 2019 valuations. The SAB's view remains that the current benefit design as set out under the existing LGPS Regulations should be used to set employer contribution rates, but that Funds and employers should be mindful of the potential extra liabilities when setting their contribution rates at the 2019 valuation. The full impact of McCloud/Cost Management would then be reflected in the next valuations (expected to be 2022). Funds will therefore need to consider their policy for dealing with the uncertainty and document this. In order to support Funds, your Mercer Actuary will be preparing figures showing the impact of a McCloud scenario in addition to providing results based on the current Scheme.

A key feature of the 2019 valuations will be one of uncertainty (particularly in light of Brexit and McCloud issues) and this serves to highlight the importance of considering overall risk as part of the valuation process. One area for consideration by Funds will be whether improved funding levels could provide an opportunity to reduce investment risk, leaving the Fund better protected going forwards. Any investment strategy changes would need to be fully integrated with the funding strategy and your Mercer Consultant would work with you to achieve this.

There is a busy period ahead as we work with Funds to complete the 2019 valuations. As a reminder, the key next steps will be to:

- arrange preliminary results meetings in September/October to discuss the preliminary valuation results and book meeting(s) for the Employer consultation exercise;
- draft updated Funding Strategy Statements (incorporating admission/termination/McCloud policies, etc.) and plan the forthcoming consultation exercise;
- review/develop the risk management framework, gather information and carry out additional analysis as needed, e.g. covenant assessments, asset/liability modelling, investment strategy reviews, etc.



MCCLLOUD AND COST MANAGEMENT – FURTHER DEVELOPMENTS

On 27 June the Supreme Court denied the Government's request for an appeal in the McCloud and Sargeant age discrimination case ("McCloud") and the Government subsequently confirmed on 15 July that remedies relating to the McCloud judgment will need to be made in relation to all public service pension schemes. The SAB Q&A relating to the McCloud Judgment can be found [here](#). Whilst this is no surprise, the details of how the LGPS will need to be changed are yet to be confirmed (it will go back to the Employment Tribunal for remedy) and this will take time.

As stated above, Fund's will need to consider their policy on how the effects of McCloud will be taken into account for the ongoing valuations. Further considerations relate to the treatment for accounting (FRS/IAS) figures and any employer exits that arise in the interim until the remedy is confirmed. With regards to accounting, audit firms are now requiring some allowance for the potential impact of McCloud for all but the minority of cases (where the impact can be argued to be immaterial). Mercer has devised a tiered approach for undertaking the additional calculations for Employers, depending on the level of detail required. Full details have been circulated to Funds, please ask your usual Mercer consultant if you require further information.

For Employer exits, in determining their policy on the allowance for McCloud, Funds will need to consider wider issues including the covenant of the Employer in question and whether the termination involves a refund to the Employer or a payment to the Fund. Your Mercer consultant will work with you to advise you on your options and areas of risk. Our overarching view is that the impact of the potential McCloud liabilities should be allowed for in some way that is appropriate.

CMA ORDER ON FIDUCIARY MANAGEMENT AND INVESTMENT CONSULTANTS

On 10 June the Competition and Market's Authority (CMA) published the Investment Consultancy and Fiduciary Management Market Investigation Order 2019. In summary, the Order defines Fiduciary Management (FM) services and obliges pension schemes to formally tender for such services. It also obliges pension schemes to set objectives for their Investment Consultancy (IC) providers as well as placing a variety of new obligations on FM and IC service providers.

It potentially has consequences for LGPS pools, however on 29 July the DWP published a consultation on regulations to enact the provisions of the CMA Order which explicitly rules out the LGPS as falling under scope of the obligations in relation to FM service providers. The requirement to set objectives for IC providers remains, with a deadline for doing so of 10 December 2019.

On 31 July 2019 TPR published guidance on the implementation of the CMA order which similarly seems to reflect the position that the LGPS is within scope only of the IC strategic objectives requirement. Administering Authorities should take note of the DWP consultation and TPR's guide "Setting Objectives for the Providers of Investment Consultancy Services" available [here](#) and consider whether to respond.

The SAB has published a briefing note providing further information regarding the order, available [here](#).

DATA COLLECTION FOR GAD SECTION 13 REVIEW

GAD's data collection requirements are now finalised and include some additional items from those requested 3 years ago. Administering Authorities should expect to receive confirmation shortly (if they haven't already done so) of the spreadsheet that needs to be completed and will be asked to request the information from their Actuary. The deadline for providing the information (including the funding position on the standardised Section 13 basis) is not until 30 April 2020. Membership data is also being requested by GAD directly.

UPDATE ON MHCLG CONSULTATIONS

It's been a busy spring and summer so far with consultations on exit payments, New Fair Deal and valuation cycles. We will provide an update on developments in future Current Issues, for now a brief recap of the proposals is set out below (if you would like further information please contact your usual Mercer Consultant).

- **£95K cap on exit payments:** the proposed limit to the value of settlement payments that are made to employees when they leave an employer. Payments are normally a lump sum cash payment or shares/share options, but for employers participating in the LGPS, settlement payments will also include the value or "strain" of taking an unreduced pension for members over age 55.
- **New Fair Deal:** Employees whose employment is outsourced from a "Fair Deal employer" will be guaranteed to be able to access the LGPS. The option of the new employer establishing a "broadly comparable" scheme as an alternative will, in effect, become redundant.
- **4-year valuation cycle:** not just as it says on this tin, this consultation also includes proposals for interim valuations, more flexibility for dealing with termination payments, modifications to exit credits and removing the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff for new entrants.

FOCUS ON GOVERNANCE

TPR REPORT ON PUBLIC SERVICE PENSION SCHEMES

In July, the Pension Regulator (TPR) published its report on its fourth annual governance and administration survey, undertaken in November and December 2018. 195 of the 207 public service pension schemes completed the survey. This response rate of 94% covers 99% of total membership. TPR's detailed report is available [here](#) and commentary on results [here](#).

TPR has concluded that the survey findings support its assessment that the top risks in the public service pension schemes landscape are around governance, record keeping and member communications. Cyber security is also identified as a significant issue requiring attention. TPR further comments that the locally administered schemes appear to find it particularly hard meeting their governance and administration responsibilities. It suggests that pension boards, scheme managers and scheme advisory boards examine ways in which collaboration and sharing of resources can deliver better governance and administration.

TPR has also released its 2019-2022 corporate plan. This includes further comment that administration is a particular issue among public service schemes, potentially driven by poor data, with the complexity of the Scheme and time and resources indicated as barriers to improvements. TPR will focus on administration and data management among public service schemes, aiming to strike the right balance of support and education, but notes it will use its powers where there is persistent failure to improve.



SAB PUBLISHES GOOD GOVERNANCE REPORT

The SAB commissioned the governance report to examine the effectiveness of current LGPS governance models and alternatives or enhancements to existing models to strengthen LGPS governance.

The key proposals from the report were for an approach which specifies minimum standards including robust conflict management, assurances on administration/other resources, explanation of policy on employer/scheme member engagement and regular independent review of governance. Enhanced training requirements for S151s and S101 committee members, updated guidance and better signposting to requirements were also proposed.

The project team are now working on a plan to implement the proposals which will be presented to the SAB in November. Scheme stakeholders will be given the opportunity to comment on the Board's recommended implementation plan before any formal approach is made to MHCLG Ministers for changes to the Schemes' regulations or guidance.

PASA LAUNCHES DB TRANSFER GUIDANCE

On 8 July 2019 the Pensions Administration Standards Agency (PASA) launched DB transfer guidance. The guidance includes templates for documents to use at different stages of the transfer process and aims to:

- improve member experience through quicker, safer transfers;
- improve efficiency for administrators; and
- improve communications and transparency in processing transfers.

Although compliance is voluntary, it is anticipated that the pensions ombudsman will reference it when reviewing complaint cases as a source of what 'good practice' looks like.

EQUITABLE LIFE UPDATE

In last time's Current Issues, we provided details of Equitable Life's intention to transfer all policies to Utmost Life and Pensions Limited (formerly Reliance Life), with the transfers taking place during the latter part of 2019. As part of the transfer deal, the Equitable Life With-Profits Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds.

Funds should have by now received their voting packs on the transfer to Utmost Life and conversion of the With-Profits fund to unit linked multi-assets funds. LGPS Funds with a large amount of Equitable Life With-Profits Fund investments will have a large voting representation. Administering Authorities, as the policyholders, will need to assess which way to vote based on their membership profile. Following the result, regulated investment advice will need to be taken to determine where members' funds should be invested (this may be Utmost but alternative providers should also be considered as part of this). Administering Authorities will also need to consider how changes will be communicated to members and the timing of the communications.

We would be happy to support LGPS Funds in making the necessary decisions in relation to the above, including the provision of regulated investment advice where appropriate.

LATE RETIREMENT FACTORS

MHCLG has issued revised late retirement guidance and factors, effective from 1 September 2019. The new methodology removes the 'cliff edge' effect which reduced the value of LGPS benefits held by members who were over their Normal Pension Age (NPA) when the factors last changed in January 2017. The new guidance and updated factor spreadsheet that includes the new factors is set out on the [actuarial guidance](#) page of <http://www.lgpsregs.org/>.

SURVIVOR GUIDE PUBLISHED

The LGPC have published a technical guide covering survivor benefits in the LGPS, reflecting changes in survivor benefits for civil partners and the spouses of same-sex marriages, brought about by the LGPS (Miscellaneous Amendment) Regulations 2018. The guide can be found on the [guides and sample documents](#) page of <http://www.lgpsregs.org/>.

MHCLG plans to introduce statutory guidance for Administering Authorities, in respect of past trivial commutation and transfer payments that are affected by the change in survivor benefits for civil partners and same sex spouses.



DATES TO REMEMBER

DATE	ISSUE	THE LATEST
Summer 2019	UK Stewardship Code	Final version of the code expected to be published
31 August 2019	Benefit Statements	Deadline for Funds to issue annual benefits statements to members
6 October 2019	Pension Savings Statements	Deadline for issue to members
October 2019	Equitable Life	Voting on transfer decisions by eligible policyholders
October/November 2019	4 year valuation cycle consultation	Government response to consultation expected
2019	Pensions Dashboard	Expected to go live in 2019 (under review)
31 March 2020	2019 Actuarial Valuation	Deadline for formal reports and rates and adjustments certificate to be signed off by Fund Actuary
6 April 2020	Lifetime Allowance indexed in line with CPI	The LTA for 2020/21 to increase from £1,055,000 in line with CPI increases
30 April 2020	GAD data collection	Deadline for providing information to GAD for the Section 13 review
5 April 2021	Abolition of DB contracting out	End of the 5 year period during which an employer may use its overriding power to amend a scheme to reflect the abolition of contracting out.

MEET SOME OF THE TEAM

THINGS YOU MAYBE DIDN'T KNOW



Name: James Hunter

Role: Fund Actuary

Joined Mercer: 2006

Place of Birth: Nottingham

What do you enjoy most about your role? Working with clients and colleagues (although I am also partial to a spreadsheet).

Favourite film: Always used to be the Godfather, but my kids are gradually converting me into a Marvel movies fan.

What is your favourite holiday destination and why? Hmm... either a Greek island or a nice ski resort, depending on how energetic I'm feeling. Both provide a total contrast to the stresses of daily life!



Name: Karen Scott

Role: Market development manager

Joined Mercer: 2017

Place of Birth: Leeds

What do you enjoy most about the role? The diverse nature of it - no two days are the same. Also the broad spectrum of colleagues and clients that I work with.

Favourite film? Point Break

What is your favourite holiday destination and why? Lagos, Portugal. Authentic Portuguese town, incredibly welcoming people, gorgeous beaches, amazing food and wine – what's not to love!



Name: David Morrison

Role: Actuarial Analyst

Joined Mercer: 2014

Place of Birth: Liverpool

What do you enjoy most about your role? The challenge. I'm a problem solver at heart and there's always something to solve!

What is your favourite film? Shrek (the first one). Loved it since I was a kid. I can pretty much recite the whole film off by heart.

What is your favourite holiday destination and why? California – in 2016 I went on a road trip from San Diego up to San Francisco, onto Yosemite National Park and then finishing in Las Vegas. Some of the highlights included seeing Humpback whales breaching in Monterey, Sky Diving in Las Vegas and seeing the famous sunset over Santa Monica beach. Needless to say, I'd do it all again in a heartbeat!

CONTACTS



Paul Middleman
paul.middleman@mercer.com
0151 242 7402



Leanne Johnston
leanne.johnston@mercer.com
0161 837 6649



Steve Turner
steve.j.turner@mercer.com
01483 777035



Nigel Thomas
nigel.thomas@mercer.com
0151 242 7309



Kieran Harkin
kieran.harkin@mercer.com
0161 957 8016



Peter Gent
peter.gent1@mercer.com
0151 242 7050



Nick Buckland
nick.buckland@mercer.com
020 7528 4188



Clive Lewis
clive.lewis@mercer.com
0151 242 7297



John Livesey
john.livesey@mercer.com
0151 242 7324



Karen Scott
karen.scott@mercer.com
07584 187645



Susan Greenwood
susan.greenwood@mercer.com
0151 242 7220



Jonathan Perera
jonathan.perera@mercer.com
0151 242 7434

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	10 September 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 TRANSITION 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 a briefing note on transition process commenced on 23rd August and the withholding tax final position (attached as Exempt Appendix 1)

2. Recommendations

- 2.1 To note transition process of the units owned from LCIV Allianz to LCIV RBC and consider progress on the issue of withholding tax accrued to the Islington Fund
- 2.2 To note the withholding tax accrued final position and estimated receipt period.
- 2.3 To delegate to the Corporate Director of Resources, in consultation with the Assistant Chief Executive, Governance and HR, authority to negotiate and agree with the LCIV
 - 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. Letters were exchanged and the LCIV agreed to amend wording in the SLA document, to notify the last 2 unitholders in a sub-fund if others were to seek redemption.
- 3.6 Members agreed at the June meeting to go ahead and transition to LCIV RBC fund. The sub-fund currently has 2 investors and Islington could face the same conundrum of being the last member to exit with a withholding tax accrual if the other investors exited before us. Members agreed to continue to negotiate a fair way forward with LCIV, on receiving withholding accrued tax as agreed in the region of £ 1.6m.

The Transition

- 3.7 MJ Hudson our advisors have a prepared a detailed report on the transition process attached as Exempt Appendix 1.
An executive summary is as follows:

- £130m was transitioned from Allianz to RBC funds between 23rd July and 5th August.
- The fixed spread costs were £78k (6bps of subscription proceeds)
- All unit selling and buying was pre-invested in order to trade at the same point in time
- Trading was capped in each phase, so as not to impose additional Anti-Dilution Levies
- The transition was delayed from earlier in the year, in order for LCIV to make changes to the SLA
- The total saving achieved by the optimal versus standard transition approach was in excess of £1m.
- A retained value of £2.7m remains in the Allianz Fund, representing income due, fees and un-recovered WHT. £1.7m is WHT, £108k is accrued expenses, £886k is income withheld that will be refunded at the end of September.
- MJ Hudson's fee for advise on transition and WHT work with LCIV is £15.6k.

3.8 **The Withholding Tax Accrued Liability**

The most up to date schedule of withholding tax accrued amount and estimated year of receipt is shown below, even though the total figure has increased to £1.736m, due to currency fluctuations. The risks to note are that the amounts are only estimates, any changes in tax regulations could impact amounts, there is also currency risk as LCIV do not have a hedge in place.

Table - WHT recovery Schedule (August 2019)

Year	Esimated Recovery (£)
2019	466,091
2020	293,262
2021	518,306
2022	316,913
2023	70,361
Grand Total	1,664,934

The equivalent in local currencies is Euros- 431,082.89, Swiss Francs- 1,403,639.19 and Swedish Korona-1,758,244.39.

- 3.9 Members are asked to note the transition process, led by our advisors MJ Hudson, and cost incurred and the potential savings made through the units buying and selling process at the same time to minimise any out of market price fluctuations. There has been an opportunity cost to the fund on performance for the six months' delay before transition (moving to a better performing fund). The WHT liability is yet to be resolved as the figures are estimates and there are risks to a100% recovery. Members are therefore asked to give delegated authority to Officers to monitor the LCIV during this recovery period and take a fair recourse to protect the Funds interest.

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 recommendations

- 5.1 Members are asked to note the transition report and cost and fee incurred to date, and agree the Director of Corporate Resources in consultation with the Assistant Chief Executive, Governance and HR, delegated 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:

None

Final report clearance:

Signed by:

Corporate Director of Resources

Date

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

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	10 September 2019		n/a

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SUBJECT: 2019 ACTUARIAL VALUATION TIMELINE

1. Synopsis

- 1.1 This is an information report on 2019 Actuarial review timetable of the events and processes before 31st March 2020.

2. Recommendation

- 2.1 To review and note the timeline table in para 3.1.2

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 actuarial review covers three main elements; processing and validation of data, funding strategy review and covenant assessment, communications and training.
- 3.1.2 The table below outlines the timeline of further processes before the actuarial valuation is finalised and the report published by 31st March 2020.

		<u>Islington Pension Fund 2019 Actuarial Valuation Review – Timetable of Events</u>
	Date	Activity
1.	August	Provision of preliminary valuation data to Actuary-completed
2.	10 September	Valuation / FSS training for Pensions Committee / Local Board
3.	End of September	Discussions with officers regarding indicative approximate results.
4.	November	Workshop for employers to discuss high level valuation issues and impacts
5.	3 December	Discussion of draft funding strategy review
6.	December	Letters of results to employers and FSS consultation
7.	February	Responses to consultations and finalise FSS
8.	3 March	Presentation of final results to committee and instruct employer rates.

3.1.3 Members are asked to review and note the timeline for the valuation process

4. Implications

4.1 Financial implications

4.1.1 The cost of providing actuarial 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.

4.4.1 A resident impact assessment has not been conducted because this report is an update on existing exercise and the consultation of employers will mitigate any inequality issues.

5. Conclusion and reasons for recommendation

5.1 Members asked to review and note the events and dates outlined in table 3.1.2

Background papers:

None

Final report clearance:

Signed by: Corporate Director of Resources Date

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

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	10 September 2019		n/a

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SUBJECT: ANNUAL REVIEW AND PROGRESS ON THE 2017-2021 PENSION BUSINESS PLAN

1. Synopsis

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

2. Recommendation

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

3. Background

- 3.1 CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5) publication, is based on ten principles proposed by the Myners review of Institutional Investment in the United Kingdom, and was adopted by the Government as a model for best practice in 2001.
- 3.2 The 10 Myners principles were reviewed by the NAPF in 2007 and after consultation a response document was published in October 2008 and adopted by CLG (government department responsible for the oversight of the LGPS). The LGPS administering authorities are required to

prepare, publish and maintain a statement of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.

3.3. The Myners principles and compliance forms part of Islington Pension Fund's published Statement of Investment Principles. Myners Principle 1- Effective decision-making through a forward looking business plan is a key requirement. Members agreed a five- year business plan to April 2021 and to review the plan annually.

3.4 The key objectives of the five- year business plan agreed at the June 2018 Pensions sub-committee:

- To achieve best practice in managing our investments in order to ensure good long-term performance, sustainability of the Fund value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities
- To continually improve our administration in order to deliver an excellent and cost effective service to all Fund Members
- To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact
- To actively monitor and challenge poor performance in managers and to pursue new investment opportunities
- To develop collaboration opportunities with other funds for sharing of services and pooling

3.5 The five- year business plan with progress to June 2019 is attached as Appendix A. Members are asked to consider and note progress made and undertake a review of the plan's objectives for any amendments for the next 4 years.

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

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

4.3 Environmental Implications

None applicable to this report.

4.4 Equality Impact Assessment

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant

protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding

5. Conclusion and reasons for recommendation

5.1 To note progress made and review the agreed objectives the business plan make amendments if necessary.

Background papers:

None

Final report clearance:

Signed by:

Corporate Director of Finance & Resources Date

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

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APPENDIX A

Action to be taken	Timescale	Details (primary responsibility)	Progress to May 2017	Progress to June 2018	Progress to June 2019
1. "To achieve best practice in managing our investments in order to ensure good long- term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities"					
(a) Consider an interim valuation and LGPS scheme changes	Ongoing	Use results to review funding level and any potential effect of the scheme changes	2016 Actuarial Valuation was consulted on and signed off 31/3/17	Actuary presented an update on Equity gains and its impact on funding level	Actuary presented an update on 2019 actuarial valuation since the last valuation in 2016
(b) Review investment strategy to reflect asset/liability position To commence as part of the 31 March 2016 actuarial valuation process	2016-2019	To use results and other analyses to set benchmark asset allocations and Fund outperformance targets and risk levels (<i>Pensions sub-cttee, Investment advisers</i>).	Members after consulting with the London CIV are now to agree a tendering plan on infrastructure	Members agreed to reallocate £50m from its bond portfolio to the HLV property	Members agreed to review its listed equity on the LCIV platform
(c) Implement any resulting changes to asset allocation, portfolio and fund management structures.	Ongoing	Plan procurement and tendering process with transition of assets requirement to minimize cost and optimize value of assets	An equities emerging market manager was appointed in September 2016 and was seeded in May'17	An equity protection strategy was implemented in February 2018 to March 2020 with the payment of a one off premium	Members agreed to appoint 2 infrastructure managers to be funded from its bond portfolio
(d) Review all contracts on a rolling basis including, actuary, voting services, investment advisers and custodial services.	2015-2019	Committee to agree conclusions of all reviews. Corporate Director of Resources to have delegated authority to review contracts and performance and fee levels when required. (<i>Pensions Sub-Committee, Officers</i>).	BNY Mellon contract was reviewed and updated to conform to new regulations and combine all services including performance monitoring	The independent adviser service was retendered and an initial 5year contract awarded to Allenbridge MJ Hudson	Members reviewed all the bodies it is affiliated to and agreed to continue its associations until the next review.
(e) Closely monitor new legislation affecting the LGPS or pension provision.	Ongoing	Consider reports on the implications for the Fund and agree actions necessary to ensure full compliance when final legislation is enacted including meeting deadlines. (<i>Pensions sub-committee, Officers, Actuary</i>).	The Investment Strategy Statement that replaces SIP was drafted, consulted and published by 1 April 2017 2016 Funding Strategy Statement was also consulted on and published by 1 April 2017	Members agreed to be elected for professional client status and complete the necessary application for MIFID II effective from 3 Jan 2018.	Members have responded to MHCLG consultations on the LGPS pooling, 4 year cycle valuation and fair deal .
2. To continually improve our administration and governance in order to deliver an excellent and cost effective service to all fund members					
(a) Agree key performance indicators for the administration of the Fund and continue to benchmark against similar funds.	Ongoing.	Pension Board now monitors the administration and governance of the Fund. Continue ongoing CIPFA benchmarking. (<i>Officers</i>).	Pension Board on reviewing resources have recommended extra resources in order to deliver a high standard of services. Deferred benefit statements are to be sent out in July 2017	A speaker from Carbon Trust presented at Annual meeting in Oct'17 Annual benefit statements are due out before 31 August.	Pension Board agreed to meet 4 times a year instead 2.
(b) Carry out a survey to gain feedback from pensioners and active employees on customer satisfaction and implement changes	Ongoing	Analyse survey results (pension board, officers)	Annual benefit statements were sent out in September 2017	Pension Board discussed bulk transfer commutation and requested further analyses on the data.	After further review of Bulk transfer data action was deferred. Feed back results are feed back to the pension board every quarter.

APPENDIX A
Actions to be taken

	Timescale	Details (primary responsibility)	Progress to May 2017	Progress to June 2018	Progress to June 2019
c) Ensure governance of the admin	Ongoing	Changes required from survey to be implemented. (<i>Pensions sub cttee, Officers including LBI communications team</i>)	Members who contact the service are asked for feedback on the service received		Pension board have an agreed workplan and forward plan to decide committee agenda
d) To devise a communication plan and consultation to stakeholders	Ongoing	Newsletters, annual benefit statements, annual reports, AGM and employers' meetings to continue as previously (<i>Officers</i>).	Communications policy was reviewed by the Pension Board in September 2016	Pension Board gave their comments on a frequently asked question (FAQ) page in the 2017 Annual report and received and noted the pension fund year end accounts	Board agreed to include death benefits in annual statement and publish death benefits online
		AGM chaired by the Pension Board Chair person was held in October 2016 and copies of the Pension Annual Report for 2015/16 were distributed			
3. To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact.					
a) Continue to engage with companies through active membership of LAPFF, IIGCC and other suitable bodies.	Ongoing.	Key themes will be corporate governance especially relating to human rights, employment practices and protection of the environment. (<i>Pensions sub cttee, Investment advisers, PIRC, Officers.</i>)	Work with LAPFF and IIGCC continues	Work with LAPFF and IIGCC, and the LCIV continues	Work with LAPFF and IIGCC, and the LCIV continues
(b) Develop improved monitoring of fund manager engagement activity.	Ongoing.	To include engagement with managers on their own corporate governance as part of terms of reference on appointment. (<i>Pensions sub cttee, investment advisers, Officers</i>).	Members have attended a number of AGMs of companies as shareholder to exercise our voting rights	Members received a presentation from Mercer on ESG rating and climate risk assessment of our existing fund managers, this becoming a basis for monitoring and reporting.	Members have restated their ESG beliefs and revised their ISS restating their policy on decarbonisation detailing their targets and monitoring plan.
(c) Improve communication of engagement activities to stakeholders and public.	Review during 2012	To include potential for publication of LBI voting record. (<i>Officers and PIRC</i>).	Voting records are published		Voting records are published
(d) Integrate our responsible investment policy into the Fund's investment review	Ongoing	To include consideration of appropriate responsible investment funds. Manager policies on equalities, environment and corporate governance to form review criteria alongside performance and fee considerations. (<i>Pensions sub cttee, Investment advisers, Officers</i>).	Members reviewed the carbon footprint of its equities portfolio and after a series of training and presentations agreed to lower its existing footprint by restructuring its passive equities to low carbon benchmarks. Implementation should complete by July with a up to 50% reduction.	Received a presentation from PIRC on LAPFF engagement and governance	Appointed a renewable infrastructure manager and sustainable global equity manager
				Low carbon property workplace fund manager presented to members in June 2017	Members agreed and signed up to join Pension for Purpose a free affiliation to promote impact investing

APPENDIX A
Actions to be taken

Actions to be taken	Timescale	Details (primary responsibility)	Progress to May 2017	Progress to June 2018	Progress to June 2019
			Low carbon alternatives on property and bonds are now being sought.		
4. To actively monitor and challenge poor performance in managers and to pursue new investment opportunities					
(a) Review current fund manager performance against agreed targets over three- to five year rolling periods	Ongoing	Use existing terms of reference for appointment and firing of managers as a guideline to monitor performance of fund managers (<i>Pensions sub cttee, Investment advisers, Officers</i>).	Members monitoring continues	Ongoing	Ongoing
(b) Review current fund manager quarterly monitoring arrangements	Ongoing	Agree a forward plan for existing fund managers to meet the pensions sub- committee. The Corporate Director of Resources to continue monitoring managers between quarterly meetings (<i>Pensions sub cttee, Investment advisers, Officers</i>).	A key man change triggered a review of our property manager Hearthstone mandate.	Alternative residential investment provider presented to Members in June 2017	Reviewed Schroder (DGF) manager performance against its peer groups. Regular monitoring of Hearthstone property manager due to AUM.
(c) To consider new investment opportunities which can help improve the fund's financial performance	Ongoing	Pensions sub-committee have a long term objectives and clear investment policies to achieve them. (<i>Pensions sub cttee, Investment advisers, Officers</i>).	Active Frontier and emerging market manager has been seeded to replace a passive emerging market manager	Members expressed interest in 3rd party fund of fund managers on infrastructure implementation and received a manager presentation as training	Members have requested training briefs on private debt and multi asset credit.
(c) To keep abreast of developments on pension and investment issues	Ongoing	Pensions sub-committee will agree a training plan and evaluate annually training undertaken and future needs (<i>Pensions sub cttee, Investment advisers, Officers</i>).	Training sessions before and during and committee meetings continue.	Training sessions before and during and committee meetings continue.	New members have been enrolled to attend LGA trustee pension course. Training sessions before and during committee meetings continue. Members attend seminars and LCIV AGMs as shareholder
5. Develop collaboration opportunities with other funds for sharing of services and pooling					
a) Seek to collaborate with other partners to achieve efficiencies and value for money	Ongoing	To agree to share services where it is beneficial to the fund objectives of sustainability and performance	The Fund as an active member of the London CIV continues to work on policy and investment issues	Officers are collaborating with 3 other interested local authorities in a joint tender for infrastructure	Officers collaborated for joint legal advice with 2 other LA authorities in the

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			<p>The passive LGIM mandates where pooled under a CIV negotiated lower fee even though it sits off the platform</p> <p>Newton mandate was transitioned to Newton London CIV platform in May 2017</p> <p>Another 5 new global equities sub funds have been appointed unto the London CIV platform to offer boroughs alternative investment managers</p>	<p>The LCIV gave a presentation to Members on progress and outlined priorities for 2018. Members gave their comments on the consultation of the LCIV governance review and the new structure was agreed at their July AGM.</p>	<p>review of legal documents for new infrastructure mgrs</p> <p>Members reviewed global equity sub funds on the LCIV platform to appoint RBC to replace Allianz.</p> <p>Members attend seminars and LCIV AGMs as shareholder</p>



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	10 September 2019		n/a

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SUBJECT: TPR DRAFT GUIDES TO TRUSTEES ON SETTING OBJECTIVES FOR PROVIDERS OF INVESTMENT CONSULTANCY

1. Synopsis

- 1.1 This is an information report to consider guidance from The Pension Regulator (TPR) in response to the Competition and Markets Authority (CMA) investigation into the investment consultancy market. The guidance aims to provide trustees with practical information and key matters to consider when setting objectives for your provider of investment consultancy services and monitoring performance.

2. Recommendations

- 2.1 To consider practical case study guidance for setting objectives for investment consultancy provided by TPR
- 2.2 To note that the legal requirement for trustees of occupational pensions (including LGPS) to set objectives comes into effect from 10 December 2019
- 2.3 To note that this guidance is part of a consultation by the TPR

3. Background

- 3.1 The Pensions Regulator (TPR) is the UK regulator of occupational pension schemes. They are a non-departmental public body established under the Pensions Act 2004. Their

sponsoring body is the Department for Work and Pensions (DWP) and Parliament sets the legislative and regulatory framework within which they work.

- 3.1.1 Following an investigation into the investment consultancy and fiduciary management market, the Competition and Markets Authority (CMA) has introduced new duties for trustees and managers of occupational pension schemes, which will take effect from 10 December 2019.
- 3.1.2 The DWP is currently consulting on bringing these new duties into pensions legislation, after which TPR will be tasked with regulating compliance with the requirements. The CMA made recommendations in its final report for TPR to produce guidance to support trustees in complying with these new duties. TPR consultation is in respect of the guidance they have produced to support those recommendations covering tendering for fiduciary management and investment consultancy and setting objectives for providers of investment consultancy. The link to the full consultancy document is <https://www.thepensionsregulator.gov.uk/en/document-library/consultations/draft-guidance-consultation-in-response-to-cma-recommendation>
- 3.1.3 It appears that the only Remedy applicable to the LGPS is the requirement for Administering Authorities to set strategic objectives for their IC provider. Whilst we await the MHCLG guidance and legislation, the TPR `s consultation on guidance contains roles of an investment consultant and a case study of a pension fund setting objectives and agreeing a performance monitoring scorecard.
- 3.1.4 A copy of the relevant parts of the case study is attached as Appendix 1 for information. This is an example that intends to help members begin to think of the advice, activities, special projects, relationship and communications with their investment consultants and how they would measure performance. The objectives set in the case study include the following:
1. Demonstration of value added.
 2. Delivery of specialist processes.
 3. Proactivity of advice.
 4. Support with scheme management and compliance.
 5. Relationship and service standards.
 6. Support with additional matters arising.
- 3.2 Members are asked to consider the TPR guidance part covering setting and monitoring objectives for investment consultants attached as Appendix 1 and discuss their views that should help to formulate ideas of how and what they value and will measure to be compliant with the pension order by the CMA.

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

None applicable to this report.

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

4.4 **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 the recommendations in this report seek responses to a consultation paper from the Pension Regulator.

5. Conclusion and reasons for recommendations

5.1 Members are asked to consider the relevant parts of the TPR guidance and discuss their views that can be used to formulate their objectives setting for investment consultancy.

Background papers:

None

Final report clearance:

Signed by:

Corporate Director of Resources

Date

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

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Appendix 1-

Investment consultancy services

A wide range of investment consultancy services are available to trustees of occupational pension schemes. Depending on whether your scheme is DC or DB and the circumstances of your scheme, these services will differ.

In order to set strategic objectives for your adviser, you will first need to understand the services to which the objectives relate. As outlined in the introduction, only those areas that come within the legal definition⁴ of investment consultancy services trigger the requirement for you to set strategic objectives, but as a matter of good governance we would encourage you to consider setting objectives for any additional services you receive.

Below we have listed some examples of investment consultancy services that trustees can receive for DB and DC schemes, together with a brief explanation of what these typically involve. These lists are not exhaustive and the requirements for the level of service provided will vary between schemes, trustee boards and the individual governance and support arrangements for those schemes

⁴ The definition of investment consultancy services as set out in the CMA's Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

Typical services available for DB schemes

Defining investment beliefs

This often involves a review of the trustee's investment preferences, informed by appropriate evidence and knowledge such as whether the trustee(s) prefer active or passive fund management, illiquid investments over liquid investment etc, and using these findings to agree a set of core investment beliefs that represent the trustee(s) preferences.

Investment strategy review

This involves a review of the nature and term structure of the pension scheme liabilities and advice on an appropriate asset allocation to adopt in order to best meet those liabilities, in light of objectives set by the trustees and considering the financial support that is available from the scheme's employer(s).

Risk modelling

This can involve the analysis of risk using a range of different tools and metrics, for example asset liability modelling and scenario/sensitivity analysis. It is frequently included as part of the investment strategy review service but can be tendered for and provided separately. In large schemes, a risk review by an independent third

Setting investment performance and risk targets

This involves taking the output from the investment strategy review and any associated risk modelling to set the performance and risk targets for the scheme.

Portfolio construction

This involves advice on how a portfolio of investments or investment funds could be constructed to best align with the proposed asset allocation strategy and the trustees' investment beliefs, allowing for the investment performance and risk targets set.

Investment manager selection

This process would aim to identify a list of managers, based on research and due diligence completed, that might be appropriate to include within the portfolio, individually or in combination, to meet the performance and risk targets set for all or part of the portfolio. This work would also include preparation and submission of appropriate due diligence materials and could include assistance with the tender

process, from drafting the invitation to tender, to reviewing the submissions made and attending manager interviews (and manager site visits).

[Appointment of investment manager](#)

The degree of service required is likely to depend to an extent on the type and structure of investment fund offered and the degree of discretion allowed. However, the service could involve advice (in relation to the investment elements) on the structure and terms and conditions of the fund mandates. In addition, it could involve advice in relation to the level and structure of any investment fees, the design of any performance fee elements and advice on the mandate guidelines, tolerances and restrictions to be applied.

[Transition management](#)

This would involve advice on any portfolio re-organisation or changes to investment managers to help ensure that the assets can be moved efficiently, with minimum costs and to limit 'out of market' exposure. This service could include advice on the use of derivatives to optimise the transition process.

[Risk mitigation and risk transfer](#)

This would involve advice on how different risks the scheme is exposed to could be mitigated, managed and/or transferred to another party.

[Investment risk and performance monitoring](#)

This would often include preparation of regular reports and information in relation to the performance of the investment managers invested in by the scheme and the risk exposures arising. This would also include advice in relation to the ongoing suitability of the investment strategy and the individual investment management arrangements. This could also include periodic reviews of whether the fees being paid continue to be appropriate.

[Fiduciary manager selection](#)

This process would aim to identify a list of fiduciary managers, based on research and due diligence completed, that might be appropriate to meet the trustees' requirements for the management and governance of all or part of the scheme's assets. This work would also include preparation and submission of appropriate due diligence materials and could include assistance with the tender process, from drafting the invitation to tender, to reviewing the submissions made and attending fiduciary manager interviews (and fiduciary manager site visits).

[Fiduciary management monitoring](#)

This would involve providing oversight of the performance of any fiduciary manager appointed by the trustees and considering their ongoing suitability to meet the requirements of the scheme. This would also include advice on whether any changes in the fiduciary manager or the remit of their mandate were necessary.

[Provision of regulated advice](#)

This would include the provision of written advice in relation to investments (as required under s36 of the Pensions Act 1995) and the review and preparation of the scheme's statement of investment principles (required under s35 of the Pensions Act 1995).

[Governance structures](#)

This would involve advice on the alternative ways in which investment and risk management might be governed, and the terms of reference and delegated responsibilities that might apply to each element of the governance structure.

[Additional investment advice](#)

This could be in relation to the selection and appointment of investment platform providers, custodians or sub-custodians or advice in relation to tactical asset allocation, structured equity or option strategies.

[Trustee training](#)

This could include a range of training from basic investment training on investment

duties and investment structures through to training on the implementation of complex derivative and risk management strategies.

Objectives for investment consultancy services

Setting adviser objectives

When in receipt of investment consultancy services, unless exempt, you must set objectives for the provider of this service. When setting these objectives, you should include how these will contribute to achieving the scheme's overall investment objectives. Where you engage with more than one adviser in respect of investments, you must set objectives for each respective adviser. You are not limited in the number of objectives you may set. It will likely be proportionate to set multiple objectives for your adviser, in accordance with the range of services you receive.

Trustees should also be aware that when they retain a fiduciary manager, they should be aware of the extent of investment services they receive from them as part of the overall engagement and they should set objectives for the investment services provided. You may also wish to set a combination of short and long-term objectives, ensuring that the objectives are appropriate and achievable for the given time frame.

Adviser objectives can be quantitative and qualitative in their nature, for example these could be set in relation to investment performance delivered relative to the liabilities, adviser performance against service level agreements, communication skills, value for money and performance against specific tasks, such as asset transitions or investment manager selection exercises. Examples of the areas that objectives may cover are outlined in the DB and DC case studies later in this guidance.

In setting objectives for your investment adviser, you will want to receive their input to ensure that the objectives being set are consistent with the service being offered and are realistic. In obtaining your adviser's input, you should be aware of the potential for their input to be subject to conflicts of interest and you should be prepared to challenge their input. You should also consider whether to involve a third party to help you set those objectives.

Once objectives have been agreed, we would expect these to be signed off in accordance with your existing governance framework, ensuring that all members of the trustee board have sight of and, if relevant, agree with the adviser objectives that have been set and the ongoing monitoring process of these

Monitoring objective progress

When putting in place a set of performance objectives with your adviser, you should also consider the method and regularity for assessing your adviser's performance against these objectives. You should conduct reviews at least triennially and after any significant change to your scheme's investment strategy and objectives. Where you have set multiple objectives for your adviser and the timeframes for meeting them vary, you may also wish to consider ad-hoc reviews when you complete any significant pieces of work.

While you remain ultimately responsible for your scheme's overall investment objectives, it is important to acknowledge and understand the roles that you and your adviser(s) can have in determining whether or not these objectives are met. For example, trustees may decide not to act on advice received or delay acting on advice received, which could result in the value of the investment opportunity presented diminishing. Performance review sessions should be objective and consider evidence of how the adviser is meeting their

objectives with appropriate allowances for the impact of trustee decision-making and governance structures and the interaction with the trustees, alongside any other relevant external factors, on the outcome actually achieved.

You may wish to incorporate the review of your investment consultant's performance with the effectiveness review of your board.

Case studies

We have developed the following case studies to assist you in identifying the areas of investment consultancy services you should consider when setting objectives for your adviser.

Investment consultant objectives and performance measurement (DB)

The trustees of the XYZ DB pension scheme had retained ABC Investment Consultants as their investment advisers for many years. XYZ was a full service client of ABC and any investment-related issues the scheme had were dealt with by ABC. Fees were generally charged on a time-cost basis but the fees for more significant items, like manager selection exercises and asset-liability modelling, were based around an agreed fixed fee scale or agreed separately in advance. The trustees acknowledged the following:

- Appropriate investment and risk management advice, in the absence of unlimited employer contributions, was the key driver in ensuring that members received their benefits in full and recognised that the service was of significant value to their scheme.
- The balance between an adviser providing advice and the trustee being the decision-maker added complexity to any assessment of "value added".
- There was a risk that the "potential value" of good advice could be lost due to the trustees being unable to make effective decisions in a timely manner or being unwilling to make a decision to the full extent of the advice provided.
- It was important to distinguish between the difference made by process driven improvements (arising, for example, from the impact on the funding level from employer deficit repair contributions) and value add driven improvements (arising, for example, from recommendation of investment managers that out-performed).
- It was difficult to define an appropriate period to measure and attribute performance given the potential for investment market volatility and general market noise to distort.
- It would be challenging to develop a robust framework that could work in all environments.
- They would also need to consider how the trustees' governance and decision making structures contributed to (investment) outcomes.
- Changes to their current governance arrangements should also be considered (for example, appointment of a professional trustee, creation of an investment committee or increasing the number and frequency of trustee meetings).

The trustees agreed to adopt a balanced scorecard approach, where performance against a number of clear objectives set for their investment consultant would be assessed using a combination of quantitative and qualitative measures.

The trustees looked at the services outlined as part of ABC’s response to the invitation to tender that they had submitted a number of years previously and decided to group them under six key objectives that they would monitor:

1. Demonstration of value added.
2. Delivery of specialist processes.
3. Proactivity of advice.
4. Support with scheme management and compliance.
5. Relationship and service standards.
6. Support with additional matters arising.

The trustees acknowledged that short-term market movements and the trustees’ and employer’s business planning cycles could both distort and influence activity undertaken and agreed to monitor performance over both a one and three-year horizon, using different weights against each key objective.

The trustees were mindful that the investment activity required varied from time to time. They set out under each key objective the individual services they felt should be considered in forming a view on the investment adviser’s performance against the main objective. The trustees did not assign weightings to the individual services under each objective as they recognised that not all services were required within each monitoring period.

The trustees shared their proposed performance monitoring framework with their investment consultant and included their proposal that the effectiveness of the trustees’ governance and decision-making framework over the performance period, would also form part of the assessment. Following discussion and some revisions, the template set out in the table below was agreed.

The investment consultancy firm also outlined an offer to the trustees whereby an element of their fees (10%) would not be paid if their service did not meet a particular level and that a “bonus” fee (5%) would be paid if their service exceeded a particular higher level. The trustees were interested in this concept but were concerned about their ability to apply a consistent approach when assessing objectives qualitatively.

The trustees asked their consultant to prepare a further version of their template against which they set out what they believed “good” and “bad” service looked like.

Following further discussion and some revisions, the trustees agreed the template and the date at which the first assessment would take place. As part of their ongoing annual assessment cycle, the trustees and the investment adviser also agreed to consider whether any changes to the template or their investment governance structure were necessary.

Example scorecard

Case studies: Investment consultant objectives and performance measurement (DB)

Objective	1 year	3 year
1. Demonstration of value added	30%	30%
• Help the trustees to deliver an investment return of liabilities + x% per annum measured over rolling N- year periods		

<ul style="list-style-type: none"> • Help the trustees to stabilise and improve the scheme's funding level over time • Increase the asset value of the scheme through their investment manager selection, research and recommendations and through their portfolio construction • Increase the asset value of the scheme through tactical and medium-term asset allocation • Enable the trustees to implement their scheme's investments on a more competitive fee basis through negotiation on implementation and periodic benchmarking of fees • Help the trustees to transition any assets between investment managers on a cost-effective basis • Help the trustees to implement an investment strategy which adds value through the integration of ESG (including climate change) and stewardship considerations in their investment manager appointments • Enable the trustees to access a wider range of opportunities and portfolios of assets (and/or build portfolios of assets) • Help the trustees to manage their scheme cashflows needs in a more cost-effective manner 		
2. Delivery of specialist processes	20%	30%
<ul style="list-style-type: none"> • Complete asset liability modelling and scenario/sensitivity modelling using their in-house models (or proprietary modelling tools) • Help the trustees to decide on an appropriate risk and performance objective for the scheme • Help the trustees to develop and define their investment beliefs • Help the trustees to review their investment governance arrangements and terms of reference for any sub-committees or delegated authorities • Help the trustees to develop and maintain an appropriate framework to track progress against strategic objectives 		
3. Proactivity of advice	15%	5%
<ul style="list-style-type: none"> • Advise the trustees on new investment opportunities or emerging risks • Advise the trustees on market pricing opportunities to mitigate or transfer risk • Deliver training to enable the trustees to engage with new investment opportunities, emerging risks or opportunities to transfer risk • Advise on any changes in the investment governance arrangements or delegated authorities which are necessary to enable the trustees to best access the emerging opportunities 		
4. Support with scheme management and compliance.	20%	20%
<ul style="list-style-type: none"> • On a regular (quarterly) basis, monitor the performance of the scheme's investments relative to the liabilities and also the performance of the scheme's investment managers and any direct investment 		

<ul style="list-style-type: none"> • Produce investment reports, briefing papers and investment advice in advance of trustee meetings and on a timely basis • Review and update as appropriate the scheme's statement of investment principles • Provide periodic written advice on direct investments held • Provide trustee training as required • Ensure compliance of the scheme's investment arrangements with developments in regulation and all legislation 		
5. Relationship and service standards.	10%	10%
<ul style="list-style-type: none"> • Agree any changes of (named) investment consultant(s) and meeting cover with the trustees in advance • Maintain fees in line with tender submission • Agree fee budget with trustees for any significant piece of work • Clear understanding of the scheme's goals and objectives • Appropriate quality and quantity of resourcing to meet the needs and requirements of the scheme • Strong positive working relationship with the trustees • Work collaboratively with other advisers and provide effective support to trustees when engaging with other stakeholders • Appropriate management and mitigation of any conflicts of interest <p>continued</p>		
6. Support with additional matters arising	5%	5%
Provide advice and assistance to the trustees on any other issues arising (for example, following corporate transaction or significant corporate event impacting the pension scheme)		
Scheme's governance and decision-making framework	Y/N	Y/N
Has the governance structure and the level of engagement by the trustees helped or hindered the delivery of improved investment and funding outcomes?		

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	10 September 2019		

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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: 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 June to August 2019.

2. Recommendations

- 2.1 To note the letter from LCIV on the remuneration policy review attached as Appendix 1(private and confidential)
- 2.2 To note the progress and news to August 2019 in the news briefing Collective Voice attached as Appendix 2 (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 August 2019**

3.5.1 **Fund launch timeline**

The LCIV Global Equity Core Fund and the LCIV Private Debt Fund have both been approved by the FCA and are now open for subscription. The LCIV Infrastructure Fund was submitted to the FCA last week and we expect it will be open for subscriptions in early September. This means their next steps involve moving forward with the LCIV Liquid Loans Fund and the LCIV Inflation Plus Fund.

3.5.2 **London CIV Remuneration Policy Review for Information**

This is an update on the Board's proposed way forward in respect of the London CIV staff pension scheme and seeks shareholders views before the Board formally agrees the way forward at its 2nd October meeting.

3.5.2.1 Progress to date

The Board committed to a review of London CIV's Remuneration Policy in the 2019/20 MTFS and budget. A Remuneration and Nomination Committee sub-group reported to the Board on 8 July and the Shareholder Committee provided its feedback on 18 July 2019 informed by a detailed report (available for circulation to members only if required)

The Remuneration Policy review recognises the challenges of recruiting and retaining specialist staff and also shareholder concerns about the liabilities represented by the pension scheme which were raised several times in the process of seeking signature of the pension guarantee agreements.

The Board's proposed way forward following the 8 July 2019 meeting in respect of the pension scheme was to:

- recognise that continuing with the status quo is unlikely to be appropriate in the longer term
- keep the LGPS for existing staff and close it to new hires
- recognise that to make the package competitive to new hires (given our current remuneration package) we will need to offer higher salaries (or a combination of a DC scheme and higher salary)
- explore the options for an appropriate DC scheme in more detail, bearing in mind that the current DC scheme is a "basic" NEST auto-enrolment scheme.
- complete the outstanding formal processes of setting up the LGPS scheme begun in 2015. This requires boroughs to sign the existing guarantee agreement so that the Admission Agreement can be signed. This must be done before the scheme can be closed to new entrants.

As regards the overall remuneration package the review showed that the policy needs updating to ensure that it provides a framework which is sufficiently competitive to meet its objectives of recruiting, retaining and developing the talented staff required to deliver London CIV's plans for the future. This includes providing the CEO with delegated authority to make targeted increases (within agreed budgets) where this is justified by roles and responsibilities, the benchmarking exercise and business requirements. Responses to the questionnaire is expected by 16th September 2019.

- 3.5.4 A copy of the letter with a questionnaire is attached as Appendix 1(private and confidential) Members should note that officers will complete the questionnaire but will only sign the guarantee subject to the Admission Agreement being amended to reflect the review.
- 3.5.5 The LCIV now publish a monthly news bulletin called the Collective Voice- a copy attached for information as Appendix 2(private and confidential). Highlights include;the new fund launch, breadth of information on the recent happenings at LCIV, including a write up of the AGM's key discussions covering strategy.

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 pay £150,000 to the London CIV to subscribe for 150,000 non-voting redeemable shares of £1 each as the capital of the Company . After the legal formation of the London CIV in October 2015 , there is an agreed annual £25,000 running cost invoice for each financial year

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

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

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

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

The Newton transition cost the council £32k.

In a April 2018 annual service charge of £25k (+VAT) and £65k (split £43.3k and £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) was invoiced

4. Implications

4.1 Financial implications:

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

4.2 Legal Implications:

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

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

4.3 Environmental Implications:

4.3.1 None specific to this report

4.4 Resident Impact Assessment:

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

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

5. Conclusion and reasons for recommendations

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

Background papers:

Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	10 September 2019		n/a

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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

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

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

Date of meeting	Reports
	<p><u>Please note:</u> there will be a standing item to each meeting on:</p> <ul style="list-style-type: none"> • Performance report- quarterly performance and managers' update • CIV update report
10 September 2019	<p>Infrastructure managers' presentation Investment strategy – Multi Asset credit and private debt briefing 4 year business plan update Update Report - Allianz Transition to RBC on LCIV platform Timeline for actuarial valuation process and consultation. TPR guidance for setting and monitoring objectives investment consultancy</p>
3 December 2019	<p>Investment Strategy Review update Whole fund climate change scenario analysis Equity protection monitoring Draft objectives and performance monitoring of investment consultancy</p>
24 March 2020	<p>Employer consultation results on FSS , draft FSS and Actuarial valuation</p>
15 June 2020	<p>Final position report on equity protection</p>

Past training for Members before committee meetings-

Date	Training
16 September 2014	<p>Investment in Sub Saharan Africa - 6.20-.6.50pm Infrastructure - 6.55- 7.25pm</p>
25 November 2014	<p>Multi asset credit- 6.15-6.45pm Real estate including social housing- 6.50-7.20pm</p>
Date	Training
9 March 2015	<p>Frontier Market public equity- 6.15 -6.45pm Emerging market debt- 6.50- 7.20 pm</p>

11 June 2015	Impact investing
14 September 2015-	Social bonds- 4.45pm
21 September 2016	Actuarial review training
November 2018	Actuarial update

Proposed Training before committee meetings

June 2019-4pm	Actuarial review

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